Appendix 4E [Rule 4.3A]

Preliminary Final Report
For the year ended 30 June 2023

Name of entity:	Solvar Limited (formerly Money3 Corporation Limited)
ABN:	63 117 296 143
Reporting period:	Year ended 30 June 2023
Previous corresponding period:	Year ended 30 June 2022

Results for Announcement to the Market

Key financial information		2023 $'000	2022 $'000
Revenue from operations	Up 11.4% to	209,342	187,878
Profit from ordinary activities after tax attributable to members	Down 7.7% to	47,632	51,632
Net profit for the period attributable to members	Down 7.7% to	47,632	51,632

Dividend information	Amount per security	Franked amount per security at 30% tax
Current period		
– Interim dividend	7.50 cents	7.50 cents
– Final dividend	9.00 cents	9.00 cents
Total FY23 dividend	**16.50 cents**	**16.50 cents**
Previous corresponding period		
– Interim dividend	6.00 cents	6.00 cents
– Final dividend	7.00 cents	7.00 cents
Total FY22 dividend	**13.00 cents**	**13.00 cents**

Dividend dates	
Ex-dividend date	1 September 2023
Record date	4 September 2023
Payment date	9 October 2023

Commentary on "Results for Announcements to the Market"

Review of operations

	2023 $'000	2022 $'000	% Change
Revenue	209,342	187,878	11.4%
EBITDA	110,761	99,014	11.9%
NPAT	47,632	51,632	(7.7%)
Gross written loans	**910,059**	**733,370**	**24.1%**
Loans receivable	**848,027**	**683,714**	**24.0%**

Solvar Limited ("the Group") results for FY23 are noted below:

- 11.4% growth in Revenue to $209.3m;
- 11.9% growth in Earnings Before Interest Tax Depreciation and Amortisation ("EBITDA") to $110.8m;
- 7.7% decrease in Net Profit After Tax ("NPAT") to $47.6m; and
- 24.1% growth in Gross Written Loans over prior comparative period ("PCP") to $910.1m.

Business Unit performance

The Group has three business units – Money3 ("M3"), Automotive Financial Services ("AFS") and Go Car Finance ("GCF"). M3 and AFS business units operate in Australia with broker networks and direct as primary distribution channels. GCF business unit operates in New Zealand with dealer networks as the primary distribution channel. During the year,

- M3 – achieved revenue growth of 9.9% to $139.9m and gross written loans growth of 25.9% to $540.3m;
- AFS – achieved revenue growth of 76.1% to $17.1m and gross written loans growth of 50.8% to $171.1m; and
- GCF – achieved revenue growth of 3.0% to 52.3m and gross written loans growth of 4.1% to $198.7m.

Debt facilities

During the year, the Group increased its debt facility limits to $940.4m (2022: $661.1m) with unused limits of $323.3m at reporting date. The Group has warehouse facilities in each of the three business units supported by six funding partners.

Operating environment

The Group experienced solid loan book growth in FY23 and continued to execute its strategy towards improving credit quality by focusing on lower credit risk customer profiles.

The Group was impacted by macroeconomic headwinds in both Australia and New Zealand, with the rapid rise in interest rates effected by Australia's and New Zealand's central banks to curb inflationary pressures. This was further exacerbated in New Zealand with extreme weather events and a recessionary environment. As a result, GCF's Profit Before Tax reduced by 39.1% to $13.0m. The combination of interest rate rises and the growth in borrowings resulted in the Group's interest expenses increasing by 81.1% to $41.9m (FY22: $23.1m).

Regulatory action

In one of the subsidiaries (Money3 Loans Pty Ltd), the Australian Securities and Investments Commission commenced civil proceedings in the Federal Court, alleging that Money3 Loans Pty Ltd has breached its responsible lending obligations in respect of four loans written in 2019 and one loan written in 2021. As the matter is before the courts, we are unable to comment specifically apart from noting our intent to defend the action and note that Solvar takes its responsible lending obligations seriously and continually looks to enhance its products and services to ensure we remain a best-in-class service provider.

Results for Announcement to the Market (Continued)

A consolidated statement of profit or loss and other comprehensive income

A consolidated statement of profit or loss and other comprehensive income together with notes to the financial statements is contained in the attached Financial Statements for the year ended 30 June 2023.

A consolidated statement of financial position

A consolidated statement of financial position together with notes to the financial statements is contained in the attached Financial Statements for year ended 30 June 2023.

A consolidated statement of cash flows

A consolidated statement of cash flows together with notes to the financial statements is contained in the attached Financial Statements for the year ended 30 June 2023.

A consolidated statement of changes in equity

A consolidated statement of changes in equity showing movements is contained in the attached Financial Statements for the year ended 30 June 2023.

	30 June 2023	30 June 2022
Net tangible assets per security	$1.67	$1.58

Control gained or lost over entities in the financial year

There was no control lost over entities during the 2023 financial year; details on the entities over which control was gained during the year are disclosed in Note 20 in the attached Financial Statements for the year ended 30 June 2023.

Investments in associates and joint ventures

No investments in associates and joint ventures are held by the group.

Other significant information

Please refer to the FY23 Results Investor Presentation and the attached Financial Statements.

Foreign entities, applicable accounting standards used

Not applicable as Solvar Limited is not a foreign entity.

Statement as to whether the financial statements have been audited

This report is based on accounts that are in the process of being audited. There is currently no likely audit dispute or qualification.

Contents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2023

	Note	Consolidated 2023 $'000	Consolidated 2022 $'000
Revenue	3	**209,342**	**187,878**
Expenses			
Bad debts expense (net of recoveries)		33,433	27,218
Movement in allowance for impairment losses		4,432	5,303
Loan origination and servicing costs		16,369	11,946
Employee related expenses		32,005	31,209
Professional fees		3,254	1,792
Technology expenses		6,710	6,469
Advertising expenses		1,294	1,367
Loss on disposal of assets and lease modification		13	150
Finance costs, net		41,893	23,142
Depreciation and amortisation		2,300	2,231
Other expenses		1,071	3,410
Total expenses		**142,774**	**114,237**
Profit before income tax		**66,568**	**73,641**
Income tax expense	4(a)	18,936	22,009
Profit for the year		**47,632**	**51,632**
Profit is attributable to:			
Owners of Solvar Limited		47,632	51,632
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		628	(981)
Other comprehensive income/(loss) for the year, net of tax		**628**	**(981)**
Total comprehensive income for the year		**48,260**	**50,651**
Total comprehensive income for the year is attributable to:			
Owners of Solvar Limited		48,260	50,651
Earnings per share for profit attributable to the ordinary equity holders of the Company			
Basic earnings per share (cents)	17	22.55	24.40
Diluted earnings per share (cents)	17	22.38	24.18

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes to the financial statements.

Consolidated Statement of Financial Position

As at 30 June 2023

	Note	Consolidated 2023 $'000	Consolidated 2022 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5	145,867	122,499
Loans receivable, net	6	251,697	216,456
Current tax receivable		514	–
Other assets	9	6,443	3,886
		404,521	**342,841**
Non-current assets			
Loans receivable, net	6	552,666	428,190
Property, plant & equipment	7(a)	1,528	1,694
Right-of-use assets	7(b)	2,761	2,090
Investments in equities		1,200	–
Intangible assets	8	30,723	31,598
Deferred tax assets	4(b)	12,588	11,740
Other assets	9	9,509	4,017
		610,975	**479,329**
Total assets		**1,015,496**	**822,170**
LIABILITIES			
Current liabilities			
Trade and other payables	10	13,305	15,718
Borrowings	12	109,921	32,229
Current tax payable		–	4,720
Lease liabilities	7(b)	998	891
Employee benefit obligations	11	3,081	2,796
		127,305	**56,354**
Non-current liabilities			
Trade and other payables	10	2,644	3,804
Borrowings	12	505,848	391,240
Employee benefit obligations	11	332	220
Lease liabilities	7(b)	2,080	1,474
Provisions		160	160
		511,064	**396,898**
Total liabilities		**638,369**	**453,252**
Net assets		**377,127**	**368,918**
EQUITY			
Share capital	13	229,981	238,848
Reserves	14(a),(b)	2,000	1,789
Retained earnings	15	145,146	128,281
Total equity		**377,127**	**368,918**

The consolidated statement of financial position is to be read in conjunction with the accompanying notes to the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2023

	Note	Share Capital $'000	Retained Earnings $'000	Reserves $'000	Total $'000
Total equity at 1 July 2021		**229,349**	**104,178**	**2,992**	**336,519**
Profit after income tax expense for the year		–	51,632	–	51,632
Other comprehensive income		–	–	(981)	(981)
Total comprehensive income for the year		**–**	**51,632**	**(981)**	**50,651**
Transactions with owners in their capacity as owners:					
Issue of shares, net of share buybacks	13	5,665	–	–	5,665
Share based payment expenses, net	23	–	–	1,736	1,736
Transfer from reserves to share capital on exercise	13,14	1,958	–	(1,958)	–
Dividends	13,16	*1,876	(27,529)	–	(25,653)
Closing balance as at 30 June 2022		**238,848**	**128,281**	**1,789**	**368,918**
Total equity at 1 July 2022		**238,848**	**128,281**	**1,789**	**368,918**
Profit after income tax expense for the year		–	47,632	–	47,632
Other comprehensive income		–	–	628	628
Total comprehensive income for the year		**–**	**47,632**	**628**	**48,260**
Transactions with owners in their capacity as owners:					
Share buybacks, net of share issues	13	(13,445)	–	–	(13,445)
Share based payment expenses, net	23	–	–	949	949
Transfer from reserves to share capital on exercise	13,14	1,154	–	(1,154)	–
Forfeiture of employee options and rights	23	–	–	(212)	(212)
Dividends	13,16	*3,424	(30,767)	–	(27,343)
Closing balance as at 30 June 2023		**229,981**	**145,146**	**2,000**	**377,127**

* Shares issued to shareholders that elected to participate in the Dividend Reinvestment Plan.

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes to the financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2023

	Note	Consolidated 2023 $'000	Consolidated 2022 $'000
Cash flows from operating activities			
Interest, fees and charges from customers		209,860	187,997
Recoveries		11,862	10,332
Payments to suppliers and employees (GST inclusive)		(66,795)	(47,209)
Interest received from banks		3,009	60
Finance costs		(43,408)	(21,964)
Income tax paid		(24,691)	(19,711)
Net cash provided by operating activities before changes in operating assets		**89,837**	**109,505**
Loan principal advanced to customers net of repayments		(214,031)	(175,284)
Net cash outflows from operating activities	18	**(124,194)**	**(65,779)**
Cash flows from investing activities			
Payment for property, plant and equipment		(327)	(794)
Proceeds from sale of property, plant and equipment		–	18
Payments for investments/purchase of business		(1,200)	(2,329)
Net cash outflows from investing activities		**(1,527)**	**(3,105)**
Cash flows from financing activities			
Share buyback (payments)/proceeds from share issues		(13,474)	990
Proceeds from borrowings		351,825	273,021
Repayment of borrowings		(161,018)	(111,320)
Repayment of lease liabilities		(903)	(861)
Dividends paid		(27,343)	(25,653)
Net cash inflows from financing activities		**149,087**	**136,177**
Net increase/(decrease) in cash held		**23,366**	**67,293**
Cash and cash equivalents at the beginning of the year		122,499	55,220
Effects of exchange rate changes on cash and cash equivalents		2	(14)
Cash and cash equivalents at end of the year	5	**145,867**	**122,499**

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes to the financial statements.

Notes to the Financial Statements

For the year ended 30 June 2023

Introduction

The financial statement covers Solvar Limited ("Solvar" or "the Company") and its controlled entities ("the Group"). Solvar is a company limited by shares whose shares are publicly traded on the Australian Securities Exchange (ASX). Solvar is incorporated and domiciled in Australia. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Australian dollars which is the functional and presentation currency of Solvar Limited and amounts are rounded to the nearest thousand dollars, unless otherwise indicated.

1. Summary of Significant Accounting Policies

(a) Basis of accounting

The financial statement has been prepared in accordance with Australian Accounting Standards and Interpretations as appropriate for profit oriented entities. The financial statement comprises the consolidated financial statements of the Group.

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. Where necessary, comparative figures have been adjusted to conform to changes in presentation for the financial year ended 30 June 2023.

The financial statements have been prepared in accordance with Australian Accounting Standards, which are based on the Group continuing as a going concern which assumes the realisation of assets and the extinguishment of liabilities in the normal course of business and at the amounts stated in the financial statements.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 30 June 2023 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Company has control. The Company controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless a transaction provides evidence of impairment to the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) New standards adopted by the Group

There were no new standards adopted by the Group for the year ended 30 June 2023.

(d) Critical accounting estimates, assumptions and judgements

In the application of Australian Accounting Standards, management is required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revisions affect both current and future periods.

Judgements and estimates which are material to the financial statements are found in the following notes:

Note 3	Revenue	Note 8	Intangible assets
Note 6	Loans receivable		

(e) Notes to the financial statements

The notes to the financial statements have been structured to make the financial statements relevant and readable, with a focus on information that is material to the operations, financial position and performance of the Group. Additional information has also been included where it is important for understanding the Group's performance.

Notes relating to individual line items in the financial statements include accounting policy information where it is considered relevant to an understanding of these items, as well as information about critical accounting estimates and judgements. Details of the impact of new accounting policies and other accounting policy information are disclosed in Note 29.

(f) Rounding of amounts

The Group and the Company are of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest thousand dollars, unless otherwise indicated.

2. Segment Information

The Group has identified its operating segments based on internal reports and components of Solvar that are regularly reviewed by the chief operating decision makers in order to allocate resources to the segments and to assess their performance.

(a) Australia

This segment provides lending facilities in Australia generally based on the provision of an underlying asset as security, generally referred through a broker or distributed directly through digital channels.

(b) New Zealand

This segment provides lending facilities in New Zealand generally based on the provision of an underlying asset as security, generally referred through a dealer.

Consolidated – 2023	Australia $'000	New Zealand $'000	Unallocated $'000	Total $'000
Segment revenue	157,069	52,273	–	209,342
EBITDA/Segment result	93,765	23,385	(6,389)	110,761
Depreciation and amortisation	(680)	(517)	(1,103)	(2,300)
Net finance costs	(34,748)	(9,820)	2,675	(41,893)
Profit before tax	**58,337**	**13,048**	**(4,817)**	**66,568**
Income tax expense				**(18,936)**
Profit after tax				**47,632**
Loans receivable	661,421	186,606	–	848,027

Consolidated – 2022	Australia $'000	New Zealand $'000	Unallocated $'000	Total $'000
Segment revenue	137,093	50,766	19	187,878
EBITDA/Segment result	78,195	28,539	(7,720)	99,014
Depreciation and amortisation	(644)	(518)	(1,069)	(2,231)
Net finance costs	(16,568)	(6,588)	14	(23,142)
Profit before tax	**60,983**	**21,433**	**(8,775)**	**73,641**
Income tax expense				(22,009)
Profit after tax				**51,632**
Loans receivable	504,135	179,579	–	683,714

3. Revenue

	Consolidated 2023 $'000	Consolidated 2022 $'000
Interest, fees and charges	207,584	183,102
Other income	1,758	4,776
Total revenue	**209,342**	**187,878**

Key Estimate

The deferral of loan fees and charges assumes that the loan will be repaid in line with the agreed repayments schedule. This key estimate is regularly reviewed, and it is unlikely any change in the estimate will have a material impact.

Recognition and Measurement

Revenue is measured at the fair value of the consideration received or receivable and recognised to the extent that it is probable that the economic benefits will flow to the economic entity and the revenue can be reliably measured.

The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and specifics of each arrangement and contract. Interest, fees and charges include interest on loan products, application and credit fees, and other period fees including arrears, default and variation fees. Revenue associated with loans is deferred and recognised over the life of the loans using the effective interest rate method over the loan term.

4. (a) Income Tax Expense

	Consolidated 2023 $'000	Consolidated 2022 $'000
Income tax expense		
Current tax	19,600	22,057
Deferred tax	212	(509)
Prior year adjustments	(876)	461
Income tax expense	**18,936**	**22,009**
Deferred tax expense		
Increase in deferred tax assets	(1,030)	(761)
Increase in deferred tax liabilities	1,242	252
Deferred tax expense/(benefit)	**212**	**(509)**
Income tax expense is attributable to:		
Profit from operations	18,936	22,009
	18,936	**22,009**
Reconciliation of income tax expense to prima facie tax payable		
Profit from operations before income tax expense	66,568	74,361
Tax at the Australian tax rate of 30%	19,970	22,308
Tax effect of amounts which are not deductible/(taxable)		
Share based payments	–	23
Other non-deductible income/(non-assessable income)	25	(256)
Adjustments recognised in the current year in relation to tax of prior years	(876)	461
Adjustments recognised in the current year in relation to deferred tax of prior years	3	(165)
Difference in overseas tax rates	(186)	(362)
Income tax expense	**18,936**	**22,009**

4. (b) Deferred Tax Assets, Net

	Consolidated 2023 $'000	Consolidated 2022 $'000
Deferred tax balance comprises temporary differences attributable to:		
Employee leave benefits	1,175	1,860
Allowance for impairment losses	12,889	11,548
Accruals and lease incentives	990	577
Share issue costs	234	350
Foreign exchange loss/(gain)	526	–
Share based payments	(154)	(493)
Borrowing costs	(200)	(63)
Dealer commissions capitalised	(1,899)	(1,056)
Intangibles	(973)	(983)
Net balance disclosed as deferred tax assets	**12,588**	**11,740**

There are no unutilised tax losses in the current financial year (2022: Nil).

Recognition and Measurement

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances, they relate to are levied by the same taxation authority.

On 1 July 2010, Solvar Limited ("the head entity") and its wholly owned Australian controlled entities formed a tax consolidated group under the tax consolidation regime. Any entities subsequently acquired in Australia were added to the tax consolidation group from the acquisition date. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the group allocation approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the inter-company charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by subsidiaries to the head entity.

5. Cash and Cash Equivalents

	Consolidated 2023 $'000	Consolidated 2022 $'000
Cash at bank and on call*	105,867	122,499
Term deposit	40,000	–
Total cash and cash equivalents	**145,867**	**122,499**

*The deposits on call have an effective interest rate of 4.00% (2022: 0.77%)

Reconciliation to cash flow statements	Consolidated 2023 $'000	Consolidated 2022 $'000
Cash at bank and on call*	145,867	122,499
Cash and cash equivalents as per cashflows	**145,867**	**122,499**

Recognition and Measurement

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to cash and are subject to an insignificant risk of changes in value.

Restricted cash

The cash and cash equivalents disclosed above and in the statement of cash flows include $67.6m (2022: $58.0m) which are held by the trust manager of the debt facilities. These deposits are subject to funding related restrictions and are therefore not available for general use by the Group.

6. Loans Receivable

	Consolidated 2023 $'000	Consolidated 2022 $'000
Loans receivable	848,027	683,714
Allowance for impairment losses	(43,664)	(39,068)
Loans receivable, net	**804,363**	**644,646**
Loans receivable – Current	251,697	216,456
Loans receivable – Non-current	552,666	428,190
Loans receivable, net	**804,363**	**644,646**

Gross written loans represent cash to be received at reporting date. Deferred revenue represents interest, fees and charges accumulated on individual loans which will be recognised as revenue in future periods using the effective interest rate method. Gross written loans less deferred revenue represents the loans receivable calculated in accordance with the accounting policy.

	Consolidated 2023 $'000	Consolidated 2022 $'000
Gross written loans	910,059	733,370
Deferred revenue	(62,032)	(49,656)
Loans receivable	**848,027**	**683,714**

Key Estimate

Recognition of income and classification of current and non-current is in line with the expected repayment profile of loans. Also refer Note 19(b).

Recognition and Measurement

Loans and other receivables are non-derivative financial assets, with fixed and determinable payments that are not quoted in an active market. Loans and other receivables are initially recognised at fair value, including direct transaction costs and are subsequently measured at amortised cost using the effective interest method.

Loans and other receivables are due for settlement at various times in line with the terms of their contracts.

The Group applies a three-stage approach to measuring expected credit losses (ECLs) for loans receivable measured at amortised cost. Loans receivable move through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-months ECL

The Group collectively assesses ECLs on loans receivable where there has not been a significant increase in credit risk since initial recognition and that were not credit impaired upon origination. For these loans receivable, the Group recognises as a collective provision the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months. The Group does not conduct an individual assessment of exposures in Stage 1 as there is no evidence of one or more events occurring that would have a detrimental impact on estimated future cash flows.

Stage 2: Lifetime ECL – not credit impaired

The Group collectively assesses ECLs on loans receivable where there has been a significant increase in credit risk since initial recognition but are not credit impaired. For these loans receivable, the Group recognises as a collective provision a lifetime ECL (i.e. reflecting the remaining term of the loans receivable). Like Stage 1, the Group does not conduct an individual assessment on Stage 2 loans receivable as the increase in credit risk is not, of itself, an event that could have a detrimental impact on future cash flows.

Stage 3: Lifetime ECL – credit impaired

The Group identifies, both collectively and individually, ECLs on those exposures that are assessed as credit impaired based on whether one or more events that a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised as a collective or specific provision.

A loan receivable balance is written off when the customer is unlikely to pay their obligation and the Group determines there is no reasonable expectation of recovery. In assessing whether reasonable expectation of recovery exists, multiple factors are considered including days past due without repayment, recourse available to the Group such as realisability of security, insurance payout and other related factors.

Determining the stage for impairment

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for loans receivable since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date. This includes quantitative and qualitative information. Refer to Note 19. Loans receivable will move through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and reverses any previously assessed significant increase in credit risk since origination, then the allowance for impairment losses reverts from lifetime ECL to 12-months ECL. Loans receivable that has not deteriorated significantly since origination are considered to have a low credit risk. The allowance for impairment losses for these loans receivable is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

Measurement of Expected Credit Losses (ECLs)

ECLs are derived from unbiased and probability-weighted estimates of expected loss and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at reporting date.

The Group calculates ECL using three main components, a probability of default (PD), a loss given default (LGD) and the exposure at default (EAD).

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. The EAD represents the total value the Group is exposed to when the loan receivable defaults. The LGD represents the unrecovered portion of the EAD considering mitigating effect of realisable value of security. For further details on how the Group calculates ECLs including the use of forward-looking information, refer to the credit quality of financial assets section in Note 19.

7. (a) Property, Plant and Equipment

Year Ended 30 June 2023	Motor Vehicles $'000	Leasehold Improve-ments $'000	Furniture & Equipment $'000	Work-in-progress $'000	Total $'000
Gross carrying amount					
Balance at 1 July 2022	51	8	5,660	384	6,103
Exchange differences	1	–	19	7	27
Additions	–	–	402	308	710
Disposals	(10)	–	(28)	(391)	(429)
Balance at 30 June 2023	**42**	**8**	**6,053**	**308**	**6,411**
Accumulated depreciation					
Balance at 1 July 2022	12	2	4,395	–	4,409
Exchange differences	1	–	12	–	13
Depreciation expense	6	4	470	–	480
Disposals	(3)	–	(16)	–	(19)
Balance at 30 June 2023	**16**	**6**	**4,861**	**–**	**4,883**
Net carrying amount at 30 June 2023	**26**	**2**	**1,192**	**308**	**1,528**

Year Ended 30 June 2022	Motor Vehicles $'000	Leasehold Improve-ments $'000	Furniture & Equipment $'000	Work-in-progress $'000	Total $'000
Gross carrying amount					
Balance at 1 July 2021	57	8	5,534	405	6,004
Exchange differences	(2)	–	(33)	(2)	(37)
Additions	14	–	395	385	794
Disposals	(18)	–	(236)	(404)	(658)
Balance at 30 June 2022	**51**	**8**	**5,660**	**384**	**6,103**
Accumulated depreciation					
Balance at 1 July 2021	10	2	4,010	–	4,022
Exchange differences	–	–	(14)	–	(14)
Depreciation expense	6	–	500	–	506
Disposals	(4)	–	(101)	–	(105)
Balance at 30 June 2022	**12**	**2**	**4,395**	**–**	**4,409**
Net carrying amount at 30 June 2022	**39**	**6**	**1,265**	**384**	**1,694**

Recognition and Measurement

Property, Plant and Equipment at Cost

Property, plant and equipment is recorded at cost less accumulated depreciation and cumulative impairment charges. Cost includes those costs directly attributable to bringing the assets into the location and working condition necessary for the asset to be capable of operating in the manner intended by management. Additions, renewals and improvements are capitalised, while maintenance and repairs are expensed.

The carrying values of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

Depreciation

Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain plant and equipment, the shorter lease term.

Estimates of remaining useful life are made on a regular basis for all assets, with annual reassessments for major items. The expected useful life of plant and equipment is as follows:

Leasehold Improvements	2 to 10 years
Furniture, fittings and equipment	3 to 10 years
Motor vehicles	4 to 5 years

7. (b) Leases

This note provides information for leases where the Group is lessee.

(a) Amounts recognised in the statement of financial position:

	Consolidated 2023 $'000	Consolidated 2022 $'000
Right-of-use-assets		
Buildings	2,761	2,090
	2,761	**2,090**
Lease liabilities		
Current	998	891
Non-current	2,080	1,474
	3,078	**2,365**

Additions to the right-of-use assets during the financial year ended 30 June 2023 were $1.6m (2022: 1.7m).

(b) Amounts recognised in the statement of profit or loss. The statement of profit or loss shows the following amounts relating to leases:

	Consolidated 2023 $'000	Consolidated 2022 $'000
Depreciation charge right-of-use-assets-buildings	945	835
Interest expense (included in finance cost)	293	94
	1,238	**929**

The total cash outflow for leases in for the financial year ended 30 June 2023 is $0.9m (2022: $0.9m).

Recognition and Measurement

The Group leases various offices. Rental contracts are typically made for fixed periods of 3 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable, and
- variable lease payments that are based on an index or a rate.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Potential future cash outflows of $5.2m have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not exercise a termination option). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

8. Intangible Assets

Year ended 30 June 2023	Goodwill $'000	Brand $'000	Dealer/broker relationship $'000	Internally generated software $'000	Total $'000
Cost	27,202	1,055	5,064	973	34,294
Accumulated amortisation	–	–	(2,832)	(739)	(3,571)
Net book amount	**27,202**	**1,055**	**2,232**	**234**	**30,723**
Balance at 1 July 2022	27,202	1,055	2,940	401	31,598
Amortisation charge	–	–	(708)	(167)	(875)
Balance at 30 June 2023	**27,202**	**1,055**	**2,232**	**234**	**30,723**

Year ended 30 June 2022	Goodwill $'000	Brand $'000	Dealer/broker relationship $'000	Internally generated software $'000	Total $'000
Cost	27,202	1,055	5,064	973	34,294
Accumulated amortisation	–	–	(2,124)	(572)	(2,696)
Net book amount	**27,202**	**1,055**	**2,940**	**401**	**31,598**
Balance at 1 July 2021	27,202	1,055	3,649	568	32,474
Amortisation charge	–	–	(709)	(167)	(876)
Balance at 30 June 2022	**27,202**	**1,055**	**2,940**	**401**	**31,598**

Recognition and Measurement

All intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

Goodwill represents the excess of the cost of acquisition over the fair value of the entity's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill and Brand are considered to be indefinite life intangible assets, considering that each of the Brands has a long history and strong brand equity in the market. Goodwill and Brand and are not amortised, instead, they are tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

Acquired brands and dealer relationships represent separately identifiable intangible assets from goodwill and are recognised at their fair value at acquisition date. Subsequently, all definite life intangible assets are carried at cost less accumulated amortisation and impairment losses.

The Group amortises intangible assets with a finite useful life using the straight-line method over the following periods:

Dealer/broker relationships	7 to 10 years
Internally generated software	5 to 8 years

Cash generating units

Goodwill and Brand are allocated to the Cash Generating Units (CGUs) as given below for impairment testing purposes.

	2023 $'000	2022 $'000
M3	10,295	10,295
AFS	9,345	9,345
GCF	8,617	8,617
Total Goodwill and Brand	**28,257**	**28,257**

Impairment testing and key assumptions

Goodwill and Brand are tested annually as to whether it has suffered impairment. The recoverable amounts of CGUs have been determined based on value in use calculations. These calculations require the use of assumptions.

The recoverable amount of the CGU is based on several key assumptions as detailed below.

The Group tests at least annually whether goodwill and intangible assets with indefinite useful lives have suffered any impairment, and when there is an indication of impairment. The tests incorporate assumptions regarding future events which may or may not occur, resulting in the need for future revisions of estimates. There are also judgements involved in determination of CGUs.

The recoverable amount of Australia and New Zealand CGUs was determined based on a value in use discounted cash flow ("DCF") model. The 'value in use' calculations use cash flow projections based on the FY24 financial budgets and projections over the subsequent four-year period ("Forecast Period") and applies a terminal value calculation using estimated growth rates approved by the Board for the business relevant to each CGU. The following are the key assumptions used in determining the recoverable value:

	M3	AFS	GCF
FY24 Budget revenue growth	7%	33%	-5%
FY24 Budget expense growth	30%	27%	11%
Revenue growth > 1 year	11%	30%	21%
Expense growth > 1 year	5%	5%	4%
Perpetual growth rate > 5 years	2%	2%	2%
Pre-tax discount rate applied to cash flows	15%	8%	16%

The table below sets out the key assumptions for

Assumptions	Approach to assumptions
Revenue growth > 1 year	Management forecasts the revenue growth rate based on past performance and management's expectation of market development.
Expense growth > 1 year	Management forecasts these costs based on the current structure of the business, adjusting for inflationary increases but not reflecting any future restructurings or cost-saving measures.
Perpetual growth rate	Cash flow beyond five years are extrapolated using the perpetual growth rate. This rate is determined based on long term inflation rate.

The Directors concluded that, based on these assumptions, the recoverable amount exceeds the carrying amount and as such, there is no impairment of goodwill in the financial year ended 30 June 2023 (2022: Nil).

Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed the recoverable amount of the CGUs.

9. Other Assets

	Consolidated 2023 $'000	Consolidated 2022 $'000
Deferred customer acquisition costs	13,233	5,564
Prepayments	923	718
Foreign tax credits	357	644
Other	1,439	977
Total other assets	**15,952**	**7,903**

	Consolidated 2023 $'000	Consolidated 2022 $'000
Other assets – Current	6,443	3,886
Other assets – Non-current	9,509	4,017
Total other assets	**15,952**	**7,903**

Recognition and Measurement

Deferred customer acquisition costs relate to payments made to introducers or distribution channel partners in acquiring customers. These costs are amortised over the loan term using the effective rate implicit in the loan.

10. Trade and Other Payables

	Consolidated 2023 $'000	Consolidated 2022 $'000
Trade payables	4,084	3,260
Accrued expenses	5,840	6,554
Taxes payable	593	490
Derivative financial instruments	(33)	69
Commission retention	4,654	8,514
Other liabilities	811	635
Total trade and other payables (Unsecured)	**15,949**	**19,522**

	Consolidated 2023 $'000	Consolidated 2022 $'000
Trade and other payables – Current	13,305	15,718
Trade and other payables – Non-current	2,644	3,804
Total other assets	**15,949**	**19,522**

Recognition and Measurement

Trade and other payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. The amounts are unsecured and are usually paid within 30 days of recognition. All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

Commission retention relates to risk share arrangements with dealers in New Zealand operations which are payable based on performance the underlying loan portfolio. The liability is initially recognised at fair value and subsequently measured at amortised cost in accordance with AASB 9.

11. Employee Benefit Obligations

	Consolidated 2023 $'000	Consolidated 2022 $'000
Employee leave obligations – Current	3,081	2,796
Employee leave obligations – Non-current	332	220
Total employee benefit obligations	**3,413**	**3,016**

Recognition and Measurement

The leave obligations cover the Group's liability for long service and annual leave.

The current portion of this liability includes all the accrued annual leave, the unconditional entitlements to long service leave where employees have completed the required period of service and those where employees are entitled to pro-rata payments in certain circumstances.

Liabilities for unpaid salaries, salary related costs and provisions for annual leave are recorded in the statement of financial position at the salary rates which are expected to be paid when the liability is settled. Obligations for long service leave and other long-term benefits are recognised at the present value of expected future payments to be made. In determining this amount, consideration is given to expected future salary levels and employee service histories. Expected future payments are discounted to their net present value using Milliman corporate bond rates.

Other Employee Obligations – Defined Contribution Superannuation Benefits

Eligible employees of the Group receive defined contribution superannuation entitlements, for which the Group pays the fixed contribution to the employee's superannuation fund of choice or the New Zealand Inland Revenue (for NZ operations). All contributions in respect of employees' defined contribution entitlements are recognised as an expense when they become payable. The Group's obligation with respect to employees' defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the Group's statement of financial position. The defined contribution plan expense for the year was $2,103,963 (2022: $1,738,234) and is included in employee expenses.

12. Borrowings

	Consolidated 2023 $'000	Consolidated 2022 $'000
Current		
Finance facility	111,037	33,821
Unamortised borrowing costs	(1,116)	(1,592)
	109,921	**32,229**
Non-current		
Finance facility	505,982	391,744
Unamortised borrowing costs	(134)	(504)
	505,848	**391,240**
Total borrowings	**615,769**	**423,469**

Recognition and Measurement

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method including the borrowing costs.

Finance Facility

In November 2020, the Company entered into a variable rate $250.0m revolving facility for the Australian operations led by a large international bank. In December 2021, the limit on this facility was increased to $300.0m. Subsequently in June 2022, $64.3m mezzanine facility was introduced into this facility, aggregating the facility limits to $364.3m at reporting date. This facility has a two-year availability period ending in December 2023. Additionally, the FY22 acquisition of AFS introduced a variable rate revolving facility led by a major bank in Australia. The limits from lenders for this facility at reporting date is $237.5m. This revolving facility is subject to an annual review and has a maturity in June 2025.

In New Zealand operations, the Group has three debt facilities, with limits aggregating to $338.6m at variable interest rates. The facilities have maturity dates of April 2024, August 2023 and October 2024.

Financing Facilities Available

	Consolidated 2023 $'000	Consolidated 2022 $'000
Finance facility	940,350	661,122
Used at reporting date	(617,019)	(425,565)
Unused at reporting date	**323,331**	**235,557**

Assets Pledged as Security

Under the terms of the financing facilities, there are general security agreements (fixed and floating charges) over all present and after acquired assets of the Group. The carrying amounts of assets pledged as security for borrowings are:

	Consolidated 2023 $'000	Consolidated 2022 $'000
Current assets		
Cash and cash equivalents	4,066	2,530
Receivables	240,093	209,646
Total current assets pledged as security	**244,159**	**212,176**
Non-current assets		
Receivables	530,451	415,769
Property, plant and equipment	410	791
Intangible assets	20,428	21,303
Total non-current assets pledged as security	**551,289**	**437,863**
Total assets pledged as security	**795,448**	**650,039**

Compliance with Loan Covenants

Solvar Limited has complied with the financial covenants of its borrowing facilities during the 2023 and 2022 reporting periods.

13. Share Capital

	Number of Shares 2023	Number of Shares 2022	Consolidated 2023 $'000	Consolidated 2022 $'000
Fully paid ordinary shares	207,995,558	212,939,758	229,981	238,848

Issued and paid-up capital is recognised at the fair value of the consideration received by the Company. Transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Movement in Shares on Issue

Movement in the shares on issue of the Company during the financial year are summarised below:

	Consolidated 2023		Consolidated 2022	
	Number of ordinary shares '000	Value $'000	Number of ordinary shares '000	Value $'000
Balance at the beginning of the financial year	212,940	238,848	208,676	229,349
Issued during the year:				
Issue of shares – acquisition of business	–	–	450	1,407
Issue of shares – exercise of options	–	–	3,550	5,770
Issue of shares – employee share scheme	574	29	410	47
Issue of shares – DRP	1,720	3,424	677	1,876
Buyback of shares	(7,238)	(13,474)	(823)	(1,559)
Transfer from reserves	–	1,154	–	1,958
Balance at end of the financial year	**207,996**	**229,981**	**212,940**	**238,848**

Recognition and Measurement

Ordinary Shares

Ordinary shares have the right to receive dividends as declared and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company. The Company does not have limited authorised capital and issued shares have no par value.

Dividend Reinvestment Plan

Solvar Limited has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by issue of new ordinary shares rather than being paid in cash.

Options

Information relating to the Solvar Employee Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the year is set out in Note 23.

Share Buy-Back

In FY23, the Company purchased 7,237,936 ordinary shares through an "on-market" buy-back program (2022: 823,237). The buy-back and cancellation were approved by the Board of Directors. The shares were acquired at an average price of $1.86 per share, with prices ranging from $1.61 to $2.30. The total cost of $13.5m, including transaction costs, was deducted from shareholder capital. The buy-back program concluded in Apr-23. Shares bought back are cancelled in the month following the buyback.

14. Reserves

(a) Options and rights reserve

	Consolidated 2023 $'000	Consolidated 2022 $'000
Balance at the beginning of the financial year	3,044	3,266
Share based payments expensed for the year	949	1,736
Transferred to share capital	(1,154)	(1,958)
Forfeitures	(212)	–
Balance at the end of the financial year	**2,627**	**3,044**

The share option reserve is used to recognise the grant date fair value of options and rights issued to employees and directors but not exercised.

(b) Foreign Currency translation reserve

	Consolidated 2023 $'000	Consolidated 2022 $'000
Balance at the beginning of the financial year	(1,255)	(274)
Translation differences	628	(981)
Balance at the end of the financial year	**(627)**	**(1,255)**

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

15. Retained Earnings

	Consolidated 2023 $'000	Consolidated 2022 $'000
Balance at the beginning of the financial year	128,281	104,178
Net profit for the year	47,632	51,632
Dividends	(30,767)	(27,529)
Balance at the end of the financial year	**145,146**	**128,281**

16. Dividends

	2023 $'000	2022 $'000
Recognised amounts		
Final dividend for the year ended 30 June 2022 of 7.00 cents (2021: 7.00 cents), fully franked at 30% tax rate	14,942	14,788
Interim dividend for the year ended 30 June 2023 of 7.50 cents (2022: 6.00 cents), fully franked at 30% tax rate	15,825	12,741
Total Dividend Paid	**30,767**	**27,529**
Unrecognised amounts		
Final dividend of 9.00 cents (2022: 7.00 cents) fully franked at 30% tax rate	18,720	14,906

On 14 August 2023, the Directors declared a fully franked final dividend of 9.00 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2023, to be paid to shareholders on 9 October 2023. The dividend will be paid to shareholders based on the Register of Members on 4 September 2023. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is $18.7m. The Group has $71.5m of franking credits at 30 June 2023 (2022: $67.7m).

17. Earnings Per Share

	Consolidated 2023 Cents	Consolidated 2022 Cents
(a) Basic earnings per share attributable to the ordinary equity holders of the Company	22.55	24.40
(b) Diluted earnings per share attributable to the ordinary equity holders of the Company	22.38	24.18

	Consolidated 2023 $'000	Consolidated 2022 $'000
(c) Profit attributable to the ordinary equity holders of the Company	47,632	51,632
	47,632	**51,632**

	2023 Quantity	2022 Quantity
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	211,257,077	211,633,362
Dilutive potential ordinary shares	1,577,450	1,896,694
Weighted average number of ordinary shares and potential ordinary shares used in calculation of diluted earnings per share	**212,834,527**	**213,530,056**

Recognition and Measurement

Basic Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted Earnings per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. Options granted to employees and directors are considered to be ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive.

18. Cash Flow Information

(a) Reconciliation of Operating Profit after Income Tax to Net Cash Flows used in Operating Activities.

	Consolidated 2023 $'000	Consolidated 2022 $'000
Net profit after tax	47,632	51,632
Non-cash items		
Depreciation and amortisation expense	2,300	2,231
Loss on sale of property, plant and equipment	13	150
Allowance for impairment losses	4,432	5,303
Amortisation of borrowing costs	1,495	1,046
Net exchange differences	(647)	1,628
Net fair value adjustments	–	267
Share based payments	733	1,596
Finance charge accruals (non cash)	–	75
Changes in movements in assets and liabilities:		
(Increase)/decrease in assets		
Loans receivable	(163,976)	(133,540)
Other assets	21	(472)
Other receivables	(8,355)	5,411
Foreign tax credit receivable	287	(308)
Deferred tax assets	(849)	(439)
Increase/(decrease) in liabilities		
Lease liabilities	42	(27)
Trade and other payables	175	(3,327)
Current tax payable	(5,193)	3,045
Provisions and employee entitlements	(2,304)	(50)
Net cash outflows from operating activities	**(124,194)**	**(65,779)**

Non-cash investing and financing activities disclosed in other notes are:

- Options and shares issued to employees under the Employee Share Plan for no cash consideration (note 13).
- Dividends satisfied by the issue of shares under the dividend reinvestment plan (note 13).
- Partial settlement of a business combination through the issue of shares (note 13).

(b) Net Debt Reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Consolidated 2023 $'000	Consolidated 2022 $'000
Cash and cash equivalents	145,867	122,499
Borrowings & lease liabilities – current	(112,035)	(34,712)
Borrowings & lease liabilities – non-current	(508,062)	(393,218)
Net debt	**(474,230)**	**(305,431)**
Cash and cash equivalents	145,867	122,499
Lease liabilities – fixed interest rates	(3,078)	(2,365)
Borrowings (Note 19(a)(ii))	(617,019)	(425,565)
Net debt	**(474,230)**	**(305,431)**

	Liabilities from financing activities				
	Borrowings $'000	Leases $'000	Subtotal $'000	Cash $'000	Total $'000
Net debt at 1 July 2021	(262,338)	(1,873)	(264,211)	55,220	(208,991)
Exchange differences	(1,526)	362	(1,164)	(14)	(1,178)
New leases	–	(1,715)	(1,715)	–	(1,715)
Cash flows	(161,701)	861	(160,840)	67,293	(93,547)
Net debt as at 30 June 2022	**(425,565)**	**(2,365)**	**(427,930)**	**122,499**	**(305,431)**
Exchange differences	(647)	4	(643)	2	(641)
New leases	–	(1,620)	(1,620)	–	(1,620)
Cash flows	(190,807)	903	(189,904)	23,366	(166,538)
Net debt as at 30 June 2023	**(617,019)**	**(3,078)**	**(620,097)**	**145,867**	**(474,230)**

19 Financial Risk Management

The Group is exposed to a variety of financial risks through its use of financial instruments. This note discloses the Group's objectives, policies and processes for managing and measuring these risks. The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

The Board ensures that the Group maintains a competent management structure capable of defining, analysing, measuring, and reporting on the effective control of risk inherent in the Group's underlying financial activities and the instruments used to manage risk. Key financial risks including interest rate risk and credit risk are reviewed by management on a regular basis and are communicated to the Board so that it can evaluate and impose its oversight responsibility. The Group does not enter or trade financial instruments, including derivative financial instruments, for speculative purposes.

Specific Risks

Market Risk

Credit Risk

Liquidity Risk

Financial Assets/Liabilities Used

The principal categories of financial assets/liabilities used by the Group are:

Financial assets

Cash and cash equivalents – Note 5.

Loans receivables – Note 6.

Financial liabilities

Trade and other payables – Note 10.

Borrowings – Note 12.

Objectives, Policies and Processes

The risk management policies of the Group seek to mitigate the above risks and reduce volatility on the financial performance of the Group. Financial risk management is carried out centrally by the Finance Department of the Group.

Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

In order to maintain or adjust the capital structure, the Group may adjust the dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Gearing Ratio

The Board reviews the capital structure on a semi-annual basis. As a part of this review the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

	Note	Consolidated 2023 $'000	Consolidated 2022 $'000
Financial assets			
Debt (long term and short term borrowings)	12	617,019	425,565
Cash and cash equivalents	5	(145,867)	(122,499)
Lease liabilities		3,078	2,365
Net debt		**474,230**	**305,431**
Total equity		377,127	368,918
Debt to equity ratio		**125.7%**	**82.8%**

(a) Market Risk

(i) Price Risk

The Group does not hold financial assets or liabilities that are subject to price risk.

(ii) Interest Rate Risk

The Group's exposure to market interest rates relates primarily to the Group's short-term deposits held, deposits at call and borrowings. The interest income earned or paid on these balances can vary due to interest rate changes.

The Group policy is to maintain its borrowings at floating rates. Where necessary, the Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. The gain or loss relating to the effective portion of the interest rate swaps, hedging variable rate borrowings, is recognised in the profit or loss within finance costs at the same time as interest expense on the hedged borrowings.

The exposure of the Group's borrowings to interest rate are given below:

	2023 $'000	% of total loans	2022 $'000	% of total loans
Variable rate borrowings	444,943	72.1%	315,241	74.1%
Fixed rate borrowings	172,076	27.9%	110,324	25.9%
Total*	**617,019**	**100.0%**	**425,565**	**100.0%**

* Gross of borrowing costs.

	Impact on post tax profit		Impact on equity	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Interest rates – increase by 100 bps (150 bps)	(3,298)	(3,182)	(3,298)	(3,182)
Interest rates – decrease by 25 bps (25 bps)	825	530	825	530

(iii) Foreign Exchange Risk

The Group operates in Australia and New Zealand but the exposure to foreign currency risk is not significant. The entities within the Group do not have any significant financial instruments that are denominated in a currency other than their functional currency. Translation related risks are not included in the assessment of the Group's exposure to currency risks. However, foreign currency denominated inter-company receivables and payables which do not form part of a net investment in a foreign operation are included in the sensitivity analysis for foreign currency risks.

	Impact on post tax profit		Impact on equity	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
NZD/AUD exchange rate increase by 5%	(1,763)	(1,362)	(1,763)	(1,362)
NZD/AUD exchange rate decrease by 5%	1,763	1,362	1,763	1,362

(b) Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and deposits with banks and financial institutions, as well as credit exposures to outstanding receivables, net of any allowance for impairment losses, as disclosed in the statement of financial position and notes to the financial statements.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Except for its dealings with core customers, the Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

(i) Credit Quality Analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost. Explanation of terms: 12-month ECL, lifetime ECL and credit impaired are included in Note 6.

Loans receivable	**Consolidated 2023 $'000**				**Consolidated 2022 $'000**
	12-month ECL	Lifetime ECL – not credit impaired	Lifetime ECL – credit impaired	Total	Total
Strong	476,756	–	–	476,756	397,438
Good	192,026	–	–	192,026	169,900
Watch list	51,929	87,602	–	139,531	94,264
Sub-standard	–	39,396	–	39,396	22,010
Credit impaired	–	–	318	318	102
Gross carrying amount, net of deferred revenue	**720,711**	**126,998**	**318**	**848,027**	**683,714**
Allowance for impairment	(23,410)	(19,936)	(318)	(43,664)	(39,068)
Carrying amount	**697,301**	**107,062**	**–**	**804,363**	**644,646**

Quality classification definitions

- 'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible to low probability of default.
- 'Good' exposures demonstrate a good capacity to meet financial commitments with low default risk.
- 'Watch list' exposures require closer monitoring and a reasonable capacity to meet financial instruments, with moderate default risk.
- 'Sub-standard' exposures require varying degree of attention and default risk is high.
- 'Credit impaired' exposures have been assessed as impaired.

The credit quality classifications defined above encompass a range of granular internal credit rating grades.

Cash and cash equivalents

The Group held cash and cash equivalents of $145.9m at 30 June 2023 (2022: $122.5m). The cash and cash equivalents are held with financial institutions that are rated A+ to A-, based on Fitch long term credit ratings.

(ii) Collateral held and other credit enhancements

The Group holds collateral and other credit enhancements against certain of its credit exposures. The nature of collateral held by the Group against loans receivable are motor vehicles and trailers. There were no significant changes in the quality of the collateral subject to normal wear and tear of the underlying vehicles. There are no financial assets where the Group has not recognised a loss allowance because of the collateral.

(iii) Amounts arising from Expected Credit Losses (ECL)

Expected credit loss is measured from the initial recognition of a financial asset. The maximum period considered when measuring ECL is the maximum contractual period over which the Group is exposed to credit risk.

Inputs, assumptions and techniques used for estimating impairment

The Group calculates ECL using three main components, a probability of default (PD), a loss given default (LGD) and the exposure at default (EAD).

PD estimates are determined using statistical models based on internally compiled data on performance, default information on exposures that are segmented into homogenous portfolios, generally by product. LGD is the magnitude of the likelihood of a loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates against defaulted counterparties. The EAD represents the exposure in the event of a default. The EAD of a financial asset is its gross carrying value less deferred revenue. There were no changes made to the estimation techniques or significant assumptions during the reporting period.

Significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis based on the Group's historical experience. Each loan receivable is assigned a credit rating at initial recognition. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition. Deterioration in credit rating is not only based on the number of payment dishonours but also considers other qualitative information about the customer such as status of employment, other sources of income and credit score from credit agencies in line with the Group's credit policies. A backstop approach based on delinquency is not used due to the nature of the customer segment the Group operates in.

Modified financial assets

The contractual terms of a loan may be modified for several reasons. The revised terms usually include extending the maturity, changes to interest rate and changes to the timing of interest and fee payments. A loan that is renegotiated is derecognised as if the existing agreement is cancelled and a new agreement is made on substantially different terms. Loan modifications that do not result in derecognition are considered to be a commercial restructure. The credit risk on these loans is considered to have increased significantly as such modifications are generally due to financial difficulties of the customer.

Forward looking economic inputs

The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. The Group incorporates forward looking information in the measurement of ECL as a management overlay. The economic factors that are considered include but are not limited to, gross domestic product, unemployment, interest rates and inflation.

The PD, LGD and EAD models which support these determinations are reviewed periodically to compare the loss estimates against actual loss experience. Having considered the future economic outlook and current inflationary pressures along with increase in interest rates, the Group took an additional provision of up to $4.6m (2022: $10.7m) in certain risk categories within the portfolio of loan receivables.

The following table shows the reconciliation from the opening to the closing balance of the loss allowance.

Loans receivable	Consolidated 2023 $'000			
	12-month ECL	Lifetime ECL – not credit impaired	Lifetime ECL – credit impaired	Total
Balance at 1 July 2022	**21,737**	**17,229**	**102**	**39,068**
New originations	16,216	17	–	16,233
Transfer to lifetime ECL – not credit impaired	(5,898)	5,898	–	–
Transfer to 12-month expected credit losses	222	(222)	–	–
Financial assets derecognised/written off	(2,545)	(11,110)	–	(13,655)
Net remeasurement of loss allowance	(6,322)	8,124	216	2,018
Loss allowance at 30 June 2023	**23,410**	**19,936**	**318**	**43,664**

For all trade receivables and contract assets, the Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. The expected loss rates are based on the payment profiles on the receivables, the historical loss experience, uncertainty over recoverability and forward-looking information on macroeconomic factors affecting the ability to settle the receivables.

(iv) Concentrations of credit risk

The Group operates across Australia and New Zealand, providing consumer loans. The Group monitors the concentrations of exposure such as geography, loan to value ratio, and product mix.

(c) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to pay its debts as and when they fall due. The Group has borrowings, and the Directors ensure that the cash on hand is sufficient to meet the commitments of the Company and Group at all times.

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

Liquidity risk includes the risk that the Group:

- will not have sufficient funds to settle a transaction on the due date;
- will be forced to sell financial assets at a value which is less than what they are worth; and
- may be unable to settle or recover a financial asset at all.

To help reduce these risks where possible, the strategy is to borrow long term and lend short term and maintain adequate cash reserves.

Maturity of Financial Liabilities

The Group holds the following financial instruments. Amounts presented below represent the contractual maturities of financial liabilities at their undiscounted cash flows and their carrying value at reporting date.

2023	Consolidated				
	< 1 year $'000	1-5 years $'000	> 5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
Financial liabilities:					
Borrowings*	237,003	397,388	15,105	649,496	617,019
Trade and other payables	13,338	2,644	–	15,982	15,982
Lease liabilities	1,188	2,238	–	3,426	3,078
Total financial liabilities	**251,529**	**402,270**	**15,105**	**668,904**	**636,079**

* Gross of borrowing costs.

2022	Consolidated				
	< 1 year $'000	1-5 years $'000	> 5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
Financial liabilities:					
Borrowings*	53,725	400,009	–	453,734	425,565
Trade and other payables	15,273	4,180	–	19,453	19,453
Lease liabilities	998	2,205	–	3,203	2,365
Total financial liabilities	**69,996**	**406,394**	**–**	**476,390**	**447,383**

* Gross of borrowing costs.

The contractual maturities in the table above reflect gross cash flows, which may differ to the carrying values of the liabilities at the reporting date.

Also, affecting liquidity are cash at bank and non-interest-bearing receivables and payables. Liquidity risk associated with these financial instruments is represented by the carrying amounts as shown above.

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their net fair values.

The net fair values of financial assets and financial liabilities are determined as follows:

- the net fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the net fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow theory.

20. Controlled Entities

The consolidated financial statements incorporate the assets, liabilities and results of subsidiaries in accordance with the accounting policy described in Note 1. The subsidiaries of the Company are:

Name	Country of incorporation	Equity held		Acquisition date	Investment	
		2023 %	2022 %		2023 $'000	2022 $'000
Money3 Loans Pty Ltd[1]	Australia	100	100	01-Nov-16	–*	–*
Bennji Pty Ltd^^[1]	Australia	100	100	16-Apr-07	–*	–*
M3 Group Services Pty Ltd[1]	Australia	100	100	13-Mar-08	–*	–*
Australian Car Leasing Pty Ltd[1]	Australia	100	100	03-May-13	–*	–*
Antein Pty Ltd[1]	Australia	100	100	01-Jul-06	2,362	2,362
Bellavita Pty Ltd[1]	Australia	100	100	01-Jul-06	2,314	2,314
Hallowed Holdings Pty Ltd[1]	Australia	100	100	01-Jul-06	2,262	2,262
Debt Resolutions Pty Ltd[1]	Australia	100	100	01-Jul-06	369	369
Nexia Pty Ltd[1]	Australia	100	100	01-Jul-06	1,268	1,268
Pechino Pty Ltd[1]	Australia	100	100	01-Jul-06	1,286	1,286
Happy.com.au Pty Ltd[1]	Australia	100	100	01-Jul-06	369	369
Tannaster Pty Ltd[1]	Australia	100	100	01-Jul-06	2,208	2,208
Tristace Pty Ltd[1]	Australia	100	100	01-Jul-06	1,327	1,327
Money3 Warehouse Trust No. 1[1]	Australia	100	100	28-Oct-20	–*	–*
Automotive Financial Services Pty Ltd[1]	Australia	100	100	04-Jan-21	14,286	14,286
AFS Auto-1 Trust[1]	Australia	100	100	04-Jan-21	–*	–*
M3 HOL Pty Ltd[1]	Australia	100	100	02-Feb-21	17,119	17,119
Finance Investment Group Limited[2]	New Zealand	100	100	12-Mar-19	21,637	21,637
Go Car Finance Limited[2]	New Zealand	100	100	12-Mar-19	–*	–*
Go Car Finance 2018 Limited[2]	New Zealand	100	100	12-Mar-19	–*	–*
Go Car Services Limited^[2]	New Zealand	100	100	12-Mar-19	–*	–*
My On Road Plan Limited[2]	New Zealand	100	100	12-Mar-19	–*	–*
Go Car Funding Limited[2]	New Zealand	100	100	12-Mar-19	–*	–*
Go Car Funding 2018 Limited[2]	New Zealand	100	100	12-Mar-19	–*	–*
Aqua Cars Limited[2]	New Zealand	100	100	12-Mar-19	–*	–*
Debt Resolutions Limited[2]	New Zealand	100	100	12-Mar-19	–*	–*
Go Car SPV Holding Limited[2]	New Zealand	100	100	8-Dec-20	–*	–*
Go Car Finance 2 Limited[2]	New Zealand	100	100	9-Dec-20	–*	–*
Go Car Finance 3 Limited[2]	New Zealand	100	100	19-Nov-21	–*	–*
Money3 NZ Warehouse Trust No.1[2]	New Zealand	100	–	21-Sep-22	–*	–*
Go Car Finance 4 Limited[2]	New Zealand	100	–	24-Feb-23	–*	–*
Total					**66,807**	**66,807**

* The investment in these entities is less than $1,000.

^ Formerly FIG Services Limited.

^^ Formerly Money3 Franchising Pty Ltd.

1 Part of a 'closed group' of companies that are parties to a deed of cross guarantee, as described in Note 25.

2 Part of the 'extended closed group' of companies which are controlled by Solvar Limited but are not party to the deed of cross guarantee.

21. Commitments

There are no commitments as at 30 June 2023 (2022: Nil). Non-cancellable operating leases are disclosed under Note 7(b) Leases.

22. Contingent Assets and Liabilities

There are no contingent assets or liabilities as at 30 June 2023 (2022: Nil).

23. Share based Payments

Options

Movement in the share options of the Group during the financial year are summarised below:

	2023 Number of options	2023 Weighted average exercise price $	2022 Number of options	2022 Weighted average exercise price $
Balance at the beginning of the financial year	1,000,000	2.5000	4,805,001	1.9162
Exercised during the financial year	–	–	(3,549,550)	1.7154
Forfeited during the financial year*	–	–	(255,451)	1.5000
Balance at the end of the financial year	**1,000,000**	**2.5000**	**1,000,000**	**2.5000**
Exercisable at the end of the financial year	1,000,000	2.5000	1,000,000	2.5000

* Forfeitures relate to cashless exercise of options.

Options on issue have the following conditions:

- The options vest in full when an event occurs which gives rise to a change in control of the Company;
- If the Company, after having granted these options, restructures its issued share capital, ASX Listing Rules will apply to the number of shares issued to the option holder on exercise of an option;
- Employee and director options will not be listed on the ASX, but application will be made for quotation of the shares resulting from the exercise of the options;
- On issue of the resulting shares, they will rank equally with ordinary shares on issue at that time; and
- Share options carry no rights to dividends and no voting rights. In accordance with the terms of the share option schemes, options may be exercised at any time from the date on which they vest to the date of their expiry, subject to any additional specific requirements of the allocation.

Consideration received on the exercise of options is recognised as contributed equity. No options expired during the periods covered by the above tables.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Grant Date	Expiry Date	Exercise Price	Share Options 2022	Share Options 2021
28-Nov-18	27-Nov-23	2.5000	1,000,000	1,000,000
Weighted average remaining contractual life of options outstanding at the end of the year			0.41 years	1.41 years

Performance Rights

Movement in performance rights during the financial year are summarised below:

	2023 Number of rights	2022 Number of rights
Balance at the beginning of the financial year	1,967,375	1,445,186
Granted during the financial year	1,022,560	919,082
Exercised during the financial year	(557,902)	(396,893)
Forfeited during the financial year	(305,969)	–
Balance at the end of the financial year	**2,126,064**	**1,967,375**
Exercisable at the end of the financial year	236,877	503,150

Performance rights granted during the year were subject to the following conditions:

- The performance rights vest in full when an event occurs which give rise to a change in control of the Company;
- If the Company, after having granted these performance rights, restructures its issued share capital, ASX Listing Rules will apply to the number of shares issued to the rights holder on exercise of a right;
- Employee and director performance rights will not be listed on the ASX, but application will be made for quotation of the shares resulting from the exercise of the rights;
- On issue of the resulting shares, they will rank equally with ordinary shares on issue at that time; and
- Performance rights carry no rights to dividends and no voting rights. In accordance with the terms of the performance rights schemes, rights are automatically issued on vesting.

No performance rights expired during the periods covered by the above tables.

Performance rights outstanding at the end of the year have the following vesting dates and expiry dates:

Grant Date	Vesting Date	Expiry Dates	Performance Rights 2023	Performance Rights 2022
01-Jul-19	30-Jun-22	30-Sep-22	–	150,000
10-Nov-20	30-Jun-23	30-Sep-23	365,010	474,513
01-Dec-20	30-Jun-22	30-Sep-22	–	423,780
04-Oct-21	30-Jun-24	30-Sep-24	492,720	644,544
01-Dec-21	30-Jun-24	30-Sep-24	274,538	274,538
26-Aug-22	30-Jun-25	30-Sep-25	537,128	–
07-Dec-22	30-Jun-25	30-Sep-25	456,668	–
Total			**2,126,064**	**1,967,375**
Weighted average remaining contractual life of rights outstanding at the end of the year			1.30 years	1.18 years

The fair value of the Performance Rights granted during the year has been determined in accordance with AASB 2 using the following inputs:

	Issue 24 2023	Issue 25 2023
Grant date	26-Aug-22	07-Dec-22
Vesting date	30-Jun-25	30-Jun-25
Expiry date	30-Sep-25	30-Sep-25
Share price at measurement date	1.96	1.96
Dividend yield	4.00%	4.00%

Recognition and Measurement

Options, restricted shares, and performance rights are granted under Solvar Limited's Share Option Plan for no consideration. The Board meets to determine eligibility for the granting of options, restricted shares and performance rights and to determine the quantity and terms of options, restricted shares and performance rights that will be granted. The valuation of options, restricted shares and performance rights are generally determined by an independent expert considering the terms and conditions upon which the instruments were granted. The expected price volatility is based on the historical volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2023 $	2022 $
Performance rights issued under employee share plan, net of forfeitures	732,804	1,736,223
Total	**732,804**	**1,736,223**

Employee Share Scheme

A scheme under which shares may be issued by the Company to employees for no cash consideration was approved. All Australian resident permanent employees (excluding executive directors, other key management personnel of the Group and the Group company secretary) who have been continuously employed by the Group for a period of at least one year are eligible to participate in the scheme. Employees may elect not to participate in the scheme.

24 Auditor's Remuneration

During the year, the following fees were paid or payable for services provided by the auditor of the Solvar Limited, its related practices and non-related audit firms.

	Consolidated 2023 $	Consolidated 2022 $
(a) BDO Audit Pty Ltd		
Audit and review of the financial statements (inclusive of GST)	326,700	265,320
(b) Network firm of BDO		
Audit and review of the financial statements (inclusive of GST)	102,075	94,215
Total services provided by BDO	**428,775**	**359,535**
(c) Other auditors		
Audit and review of the financial statements (inclusive of GST)	–	64,900
Other assurance services	–	4,950
Non-audit services		
Tax compliance services	–	14,484
Other	–	–
Total services provided by other auditors	**–**	**84,334**
Total remuneration of auditors	**428,775**	**443,869**

25. Deed of Cross Guarantee

Solvar Limited and its wholly owned subsidiaries in Australia are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and directors' report under ASIC Corporations (Wholly owned Companies) Instrument 2016/785. The companies that represent a 'closed group' for the purposes of the instrument are described in Note 20.

(a) Consolidated statement of profit or loss, statement of comprehensive income and summary of movements in consolidated retained earnings

Set out below is a consolidated statement of profit or loss, a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings for the year ended 30 June 2023 of the closed group.

Consolidated statement of comprehensive income	2023 $'000	2022 $'000
Revenue from continuing operations	**157,069**	**137,112**
Loan origination, servicing and employee costs	33,914	30,193
Impairment expense	26,514	25,920
Other expenses from ordinary activities	6,677	8,225
Finance costs, net	32,075	16,555
Profit before income tax	**57,889**	**56,219**
Income tax expense	16,515	17,148
Profit for the year	**41,374**	**39,071**
Total comprehensive income for the year	**41,374**	**39,071**

Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	109,682	98,138
Profit for the period	41,374	39,071
Dividends paid	(30,767)	(27,527)
Retained earnings at the end of the financial year	**120,289**	**109,682**

(b) Consolidated Balance Sheet

Set out below is a consolidated balance sheet as at 30 June 2023 of the closed group.

	2023 $'000	2022 $'000
ASSETS		
Current assets		
Cash and cash equivalents	141,802	119,967
Loans receivable	196,550	166,013
Current tax receivable	835	1,117
Other assets	3,884	1,429
	343,071	**288,526**
Non-current assets		
Loans receivable	431,735	307,638
Property, plant & equipment	1,118	901
Right-of-use assets	1,737	2,046
Intangible assets	20,332	20,486
Intercompany loans	47,899	35,102
Investment in subsidiaries	21,637	21,637
Investment in equities	1,200	–
Deferred tax assets	10,497	10,071
Other assets	5,369	3,555
	541,524	**401,436**
Total assets	**884,595**	**689,962**
LIABILITIES		
Current liabilities		
Trade and other payables	8,644	8,278
Borrowings	70,566	–
Lease liabilities	688	681
Employee benefit obligations	2,743	2,482
	82,641	**11,441**
Non-current liabilities		
Borrowings	447,250	325,092
Employee benefit obligations	332	220
Lease liabilities	1,314	1,474
Provisions	160	160
	449,056	**326,946**
Total liabilities	**531,697**	**338,387**
Net assets	**352,898**	**351,575**
EQUITY		
Share capital	229,982	238,849
Reserves	2,627	3,044
Retained earnings	120,289	109,682
Total equity	**352,898**	**351,575**

26. Parent Entity Financial Information

(a) Summary Financial Information

The financial position and results of Solvar Limited, the parent entity, are as follows:

	2023 $'000	2022 $'000
ASSETS		
Current assets		
Cash and cash equivalents	71,714	65,140
Current tax receivable	772	1,054
Other assets	1,809	2,053
	74,295	**68,247**
Non-current assets		
Property, plant & equipment	189	276
Right-of-use assets	1,436	1,914
Investments in subsidiaries	66,807	66,807
Investments in equities	1,200	–
Intercompany loans	201,980	204,795
Deferred tax assets	10,243	9,863
Other assets	169	169
	282,024	**283,824**
Total assets	**356,319**	**352,071**
LIABILITIES		
Current liabilities		
Trade and other payables	2,791	4,389
Lease liabilities	495	539
Employee benefit obligations	613	560
	3,899	**5,488**
Non-current liabilities		
Lease liabilities	1,158	1,474
Provisions	150	150
	1,308	**1,624**
Total liabilities	**5,207**	**7,112**
Net assets	**351,112**	**344,959**
EQUITY		
Share capital	231,282	240,149
Reserves	2,627	3,045
Retained earnings	117,203	101,765
Total equity	**351,112**	**344,959**

(b) Guarantees entered by the Parent Entity

The parent entity has not entered into guarantees for any of its subsidiaries (2022: Nil).

(c) Contingent Liabilities of the Parent Entity

The parent entity has no contingent liabilities at the time of the report (2022: Nil).

(d) Contractual Commitments by the Parent Entity

The parent entity has contractual commitments for leases of $3.1m covering the period from July 2023 to June 2026 (2022: $2.3m).

27. Related Party Transactions

(a) Parent and Ultimate Controlling Entity

The parent and ultimate controlling entity is Solvar Limited which is incorporated and domiciled in Australia.

(b) Key Management Personnel Remuneration

The aggregate compensation of the KMPs of the Group is set out below:

	Consolidated 2023 $	Consolidated 2022 $
Short term employee benefits	1,547,126	2,196,195
Post-employment benefits	98,515	94,193
Long term benefits	27,340	30,939
Share based payments	422,422	1,201,179
Total	**2,095,403**	**3,522,506**

(c) Loans to KMP

In FY22, Solvar entered into a 5-year Deferred Payment Arrangement ("DPA") with related entities to Scott Baldwin, Managing Director and CEO of the Group, to loan $3,270,000 for the exercise of 2,180,000 unlisted options. The allocated Shares shall be held in escrow and subject to a holding lock. The allocated shares shall only be released from escrow upon all obligations of the borrower having been satisfied under the DPA and discharged in full. The Directors have determined that the terms of the DPA are on a reasonable arm's length basis including the interest rate on the transaction. The initial recognition of the loan and the related exercise of the options was treated as a non-cash activity for the purposes of the Statement of Cash Flows. Monthly repayments are made in cash and the amount payable at 30 June 2023 was $2,686,547 (2022: $2,935,540). This loan is included as part of the Loans Receivable balance disclosed in Note 6.

(d) Other Transactions related to KMP

There were no other transactions to KMP during the current financial year or as at 30 June 2023 (2022: Nil).

All transactions with related parties are at arm's length on normal commercial terms and conditions at market prices.

28. Significant Matters Subsequent to the Reporting Date

No matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of Solvar, the results or the state of affairs of the Group.

29. Changes in Accounting Policies

Impact of Standards Issued but not yet applied

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2023 reporting period and have not been early adopted by the Group. The following standards apply to the group for the 30 June 2023 reporting period. As at the date of this report there are no new accounting standards that have been issued but not yet applied that have a material effect on the results of the Group.

AASB 2020-1 Amendments to Australian Accounting Standards – Classification of liabilities as current or non-current

Effective for annual reporting periods beginning on or after 1 January 2023, there are four main changes to the classification requirements within AASB 101 Presentation of financial statements:

1. The requirement for an 'unconditional' right has been deleted from paragraph 69(d) because covenants in banking agreements would rarely result in unconditional rights,
2. The right to defer settlement must exist at the end of the reporting period. If the right to defer settlement is dependent upon the entity complying with specified conditions (covenants), the right to defer only exists at reporting date if the entity complies with those conditions at reporting date,
3. Classification is based on the right to defer settlement, and not intention (paragraph 73), and
4. If a liability could be settled by an entity transferring its own equity instruments prior to maturity (e.g. a convertible bond), classification is determined without considering the possibility of earlier settlement by conversion to equity, but only if the conversion feature is classified as equity under IAS 32.

As these amendments only apply for the first time to the 30 June 2024 balance sheet (and 30 June 2023 comparative balance sheet), the company is not yet able to make an assessment of the impacts regarding the right to defer settlement, compliance with bank covenants, and intention to settle.

AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of accounting policies and definition of accounting estimates

Effective for annual reporting periods beginning on or after 1 January 2023, this new amendment introduces a definition of 'accounting estimate', i.e. monetary amounts in financial statements that are subject to estimation uncertainty, such as estimating expected credit losses for receivables, or estimating the fair value of an item recognised in the financial statements at fair value.

Accounting estimates are developed using measurement techniques and inputs. Measurement techniques comprise estimation techniques (such as used to determine expected credit losses or value in use) and valuation techniques (such as the income approach to determine fair value).

The amendments clarify that a change in an estimate occurs when there is either a change in a measurement technique or a change in an input.

There will be no impact on the financial statements when these amendments are first adopted because they apply prospectively to changes in accounting estimates that occur on or after the beginning of the first annual reporting period to which these amendments apply, i.e. annual periods beginning on or after 1 July 2023.

AASB 2021-5 Amendments to Australian Accounting Standards – Deferred tax related to assets and liabilities arising from a single transaction

Effective for annual reporting periods beginning on or after 1 January 2023, this amendments clarify that the 'initial recognition exemption' does not apply to transactions where an entity recognises an asset and a liability which give rise to equal taxable and deductible temporary differences. This could occur, for example, where lessees recognise a right-of-use asset and lease liability for lease transactions, or where an entity recognises decommissioning, restoration and other similar obligations, which form part of a related asset.

When these amendments are first adopted for the year ended 30 June 2024, they apply prospectively to all transactions that occur on or after the beginning of the earliest comparative period, i.e. from 1 July 2022.

In addition, at the beginning of the earliest comparative period, i.e. 1 July 2022, deferred tax assets (to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised) and deferred tax liabilities will be recognised for all deductible and temporary differences associated with:

- Right-of-use assets and lease liabilities, and
- Decommissioning, restoration and other similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.

The cumulative effect of initially applying these amendments will be recognised in opening balances of retained earnings on 1 July 2022.