



# ANNUAL REPORT

For the year ended 31 March 2021

## Geneva Finance Limited

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## ABOUT THE COMPANY

Geneva Finance Ltd (Geneva) is a New Zealand-owned finance company that provides finance and financial services to the consumer credit markets. Geneva commenced business on 7 October 2002. The company's loans are originated through three distribution channels (Direct, Broker and Dealer), processed by the central sales desk and administered through a national operations centre located at Mt Wellington, Auckland.

Geneva has two principal activities:

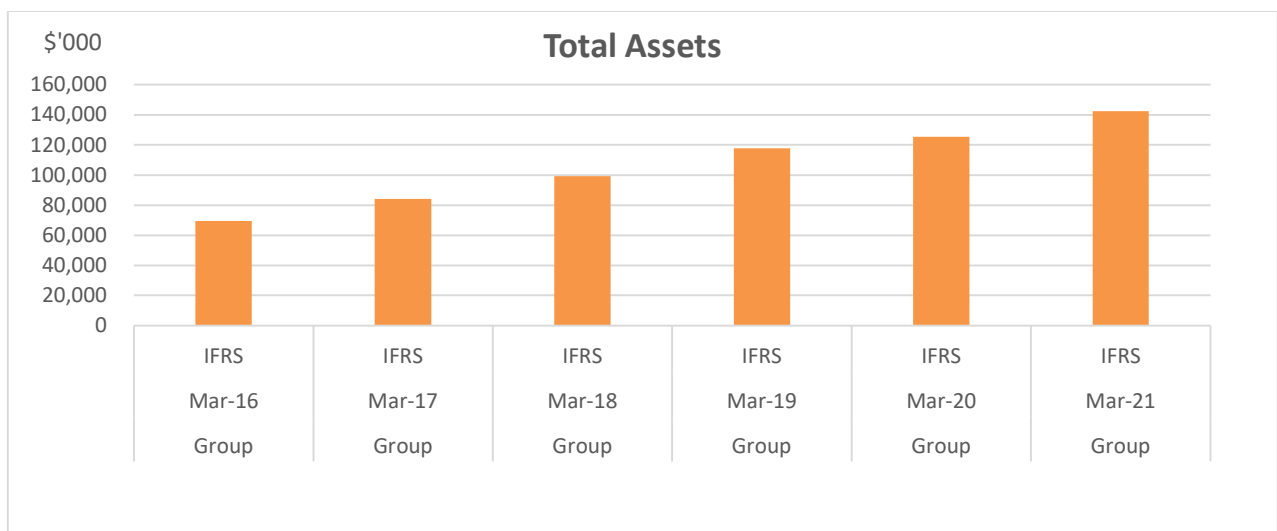
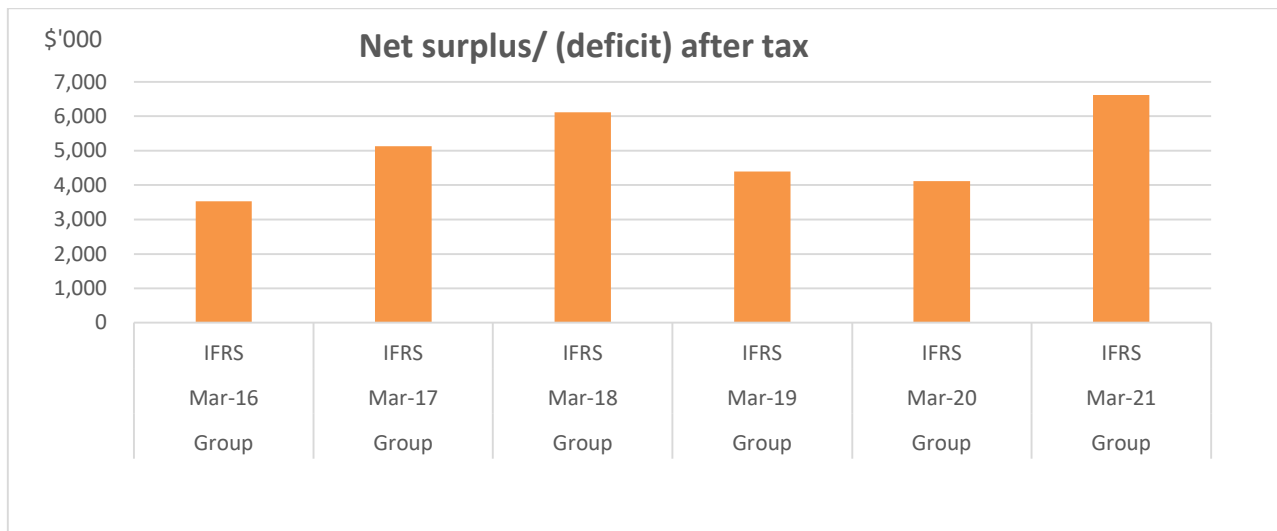
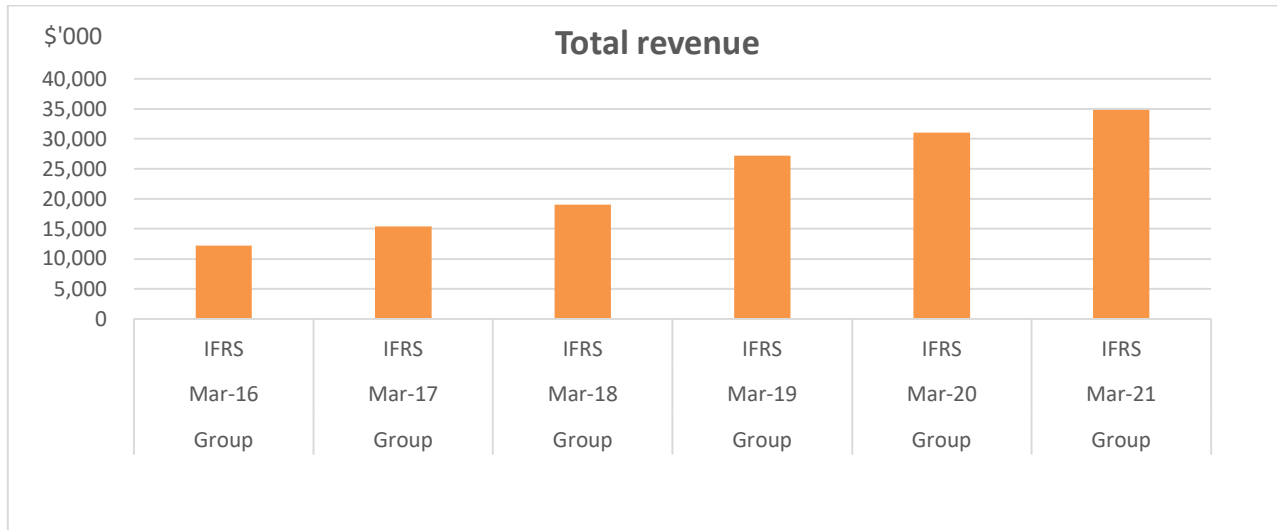
Firstly, the provision of finance to individuals, to assist them in purchasing a motor vehicle. Approximately 90% of lending is for this purpose with a further 10% being unsecured personal loans. The majority of lending being to tier 1 customers. The finance products offered comprise: hire purchase finance, and personal loans secured by registered security interests over personal assets such as motor vehicles, and mortgages of residential property. As at 31 March 2021, the New Zealand Receivables Ledger was \$101.2 million (prior to provisions for deferred revenue and doubtful debts and includes receivables held by the Geneva Warehouse A Trust and Prime Asset Trust gross receivables) spread over 10,048 loans, with an average loan size of \$10.1k. The Tongan operations receivable ledger was NZD \$4.98 million (prior to provisions) spread over circa 1,578 loans with an average balance of NZD \$3.1k. This represents a wide spread of risk due to the large number and relatively small size of each loan. The combined net book value (including the invoice factoring business) as at 31 March 2021 after provisions for deferred revenue and doubtful debts was \$92.2 million.

Secondly, Provision of motor vehicle insurance products to individuals, irrespective of whether we have provided the finance, the largest by volume of which are comprehensive motor vehicle insurance, mechanical breakdown insurance. During the year premiums written totaled \$21.5m and as at 31 March 21 there were circa 59,000 active policies. Our insurance operation (Quest Insurance Group Limited) holds an A&M Best Financial Strength Rating of B (Outlook stable) and an Issuer credit rating of bb+ (Outlook stable).

In addition to the above, the Group also provides invoice financing, debt collection and debt litigation services to New Zealand based commercial businesses. The invoice factoring ledger balance was \$9.7m as at 31 March 2021.

The Geneva group of companies employs approximately 58 staff, based at its Mt Wellington Head office.

## FINANCIAL GRAPHS



# FINANCIAL SUMMARY

## ANNUAL RESULTS

	Group	Group	Group	Group	Group	Group
	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
	\$000	\$000	\$000	\$000	\$000	\$000
Total revenue	12,230	15,419	18,992	27,212	31,060	34,822
Net surplus/(deficit) before tax	2,379	3,815	4,524	5,434	4,102	6,766
Net surplus/(deficit) after tax	3,529	5,133	6,123	4,394	4,115	6,620
Number of share on issue *	70,435	70,435	70,435	72,935	72,935	72,935
Earnings/(loss) per ordinary share (\$)	0.051	0.073	0.087	0.062	0.056	0.091
Total assets	69,628	84,177	99,321	117,743	125,474	142,499
Net assets	20,256	24,862	29,168	29,591	31,349	34,220
Total equity and shareholders' subordinated loans	20,256	24,862	29,168	29,591	31,349	34,220
Net assets per ordinary share (Dollars)	0.29	0.35	0.41	0.41	0.43	0.47
Net assets per share (Dollars)	0.29	0.35	0.41	0.41	0.43	0.47
Return on shareholders equity	17.42%	20.65%	20.99%	14.85%	13.13%	19.35%

\* 7 for 1 share consolidation was completed on 6 July 2016. Prior year values were restated.

# CHAIRMAN & MANAGING DIRECTOR'S REPORT

## Trading Performance

The group pre-tax profit of \$6.8m is up \$2.7m (65%) on last year, as a result of improved contributions from all business segments; most notably, Quest Insurance up \$1.5m, Invoice factoring up \$0.7m and Geneva Financial Services up \$0.6m.

**Geneva Financial Services (the lending business) pretax profit result of \$4.8m was up on last year by 14%.**

The increased focus on growing the tier-1 lending business delivered a 21% increase in lending volumes for the year. This has had a positive effect on the growth in the receivables ledger, up \$6.6m (10%) and the lower impaired asset expense. Asset quality has continued to improve both as a result of the above and operational changes made in the March 20 year.

**Quest Insurance Group Limited (Quest) reported profit of \$3.2m, 89% up on prior period.**

The trading result (excluding a one-off \$0.9m increase in distribution income from an investment), was a credible \$0.9m (67%) increase over last year. During the year, premiums written continued to grow and total \$21.5m (up 53.2%) on what was a record year last year. The Quest direct channel delivered the biggest increase (107%), and it is pleasing to see an increasing proportion of premium sales being derived by group owned distribution channels. Looking at the balance sheet, the proceeds from the investment referred to above generated \$3.5m in cash, which further strengthened and improved the liquidity position of the company. A good result for this operation, which is well positioned to further improve on what has been a very good year.

**Pacific Tonga (60% owned by the group) reported a pre-tax profit of NZD \$1.4m, level with the previous year.**

The group's share amounted to \$0.8m pre-tax profit (\$0.7m after tax). The Tonga business is managed in Tonga and is performing within expectations, and it is pleasing to see this operation returning net dividends to the group, NZ\$0.4m in the current year.

**Stellar Collections (Stellar) has had a positive year with a consolidated profit of \$0.3m, up \$0.2m on previous year.**

Both the consumer collections business and the business to business debt litigation company benefited from the structural changes referred to in last year's report. Our expectation is that this operation will now continue to improve and deliver increased returns to the group.

**Geneva Capital (invoice factoring), reported a modest profit of \$0.1m but more importantly, moved into profit following two consecutive years of \$0.6m losses.**

This operation directly benefited from the changes made in the March 20 year and is now well positioned to deliver sustainable profit growth.

## COVID-19

COVID severely impacted the Company's ability to write new business during April 20 resulting in the new business during the lockdown period being down by more than 70% on the previous year. However as evidenced by the published result, the recovery was better than expected. Nevertheless, these are uncertain times and there remains a level of uncertainty on the full impact of COVID and potential future outbreaks. Accordingly, the board has been appropriately conservative in ensuring our balance sheet receivables are correctly provisioned and at this juncture has chosen to not reduce the additional COVID-provisioning taken up in the March 20 year.

## After tax profit

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The after tax audited financial result for the period was a profit of \$6.6m up \$2.5m (61%). The after tax profit attributable to Geneva shareholders was \$6.2m up \$2.5m (67%).

## Total group assets

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Total assets increased to \$142m (14% increase). The company's equity to total assets ratio is 24% vs 25% prior year.

## Revenues

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Revenue totalled \$34.8m an increase of \$3.8m (12%).

## Operating costs

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Operating costs increased by 5% to \$16.7m. This is largely a result of higher lending acquisition costs incurred and costs associated with the increased premiums sales.

## Funding

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The lending and invoice financing businesses are funded via a securitisation facility of \$70m, currently drawn to \$63.6m. Stellar's banking facility remained unchanged at \$3.4m; the facility's term will mature on 30 June 2022. Management is in discussions with the funder to extend the maturity date. Professional investor debt funding of \$13.9m. This debt funding includes loans from directors.

## Credit Rating

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The group's insurance company, Quest Insurance Group Limited credit rating issued by AM Best was affirmed at current ratings being a Financial Strength Rating of B outlook stable and an issuer credit rating of bb+ outlook stable.

## Highlights / Key Events

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- Group pre-tax profit up \$2.7m. +65%.
- After tax profit attributable to Group was \$6.2m up \$2.5m (67%).
- Geneva earnings per share increases to 8.48cps (up 67%).
- Quest premium sales up 53% to \$21.5m.
- GFSL lending volumes up 21% to \$60m.
- The turnaround into profit of the invoice factoring and debt litigation operations.
- Received a cash distribution from Quest's investment in AMPL of \$3.5m.
- Total group assets increased by 14% to \$142m.
- Group equity increased by 9.2% to \$34.2m.

## Dividends

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On 10th May 21 the board announced an increase in the final dividend for March 21, lifting that dividend to 2.50 cps. This gives a total dividend relating to the March 21 year of 3.75 cps.

## Events Subsequent to Balance Date

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The full impact of COVID is still unknown however the board considers that Geneva is in the right shape to be able to deal with the challenges the company may face.

## Strategic Direction

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The Group remains focused on the core trading operations and continues to invest in its IT systems to improve its origination processes.

## Summary and Outlook

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It has been a challenging and rewarding year. Despite COVID's impact, the structural changes made in the March 20 year have impacted the business positively and have delivered profit improvements. As a consequence the group has returned to delivering profit growth. The company has a strong balance sheet, the receivables ledgers are well provisioned and the board is looking forward to taking advantage of the opportunities the coming market will offer.

Yours sincerely,

**Robin King**

Chairman

**David O'Connell**

Managing Director



# BOARD PROFILES

## **Ronald Robin King (Robin)** **(Independent Chairman)**

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Robin was the founder and director of the successful building services firm Robin King & Associates, which operated for more than 20 years and remained company accountant after selling out in 1997. He has extensive experience in investment and management, and has held directorships with a number of companies in both New Zealand and Australia. As a result of the capital reconstruction, Robin has a shareholding in Geneva, accordingly, he has a strong affinity with the position of all shareholders and is committed to see Geneva through the current challenges. Robin is chairman of the Audit Committee and also serves on the Executive Remuneration Committee. Robin does not hold any other public company directorships. Robin has been on the Board since June 2008.

## **Alan Leighton Maiai Hutchison (Non-executive)**

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Alan is the board representative of FedPac. Alan currently holds directorships in New Zealand and a number of overseas companies including Ireland, Singapore, Australia, and Samoa. Alan holds a Bachelor of Commerce and a LLB from Auckland University and has been admitted as a barrister and solicitor to both the high court of New Zealand and Supreme Court of Samoa. Alan has been on the Board since November 2013.

## **Daran Nair (Independent Non-executive)**

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Daran is a Chartered Accountant and holds a public practicing certificate from the Chartered Accountants Australia and New Zealand and operates a Chartered Accounting practice "Greenlane Chartered Accountants Limited". He has been in public practice in New Zealand for over twenty-five years and as a result has extensive knowledge and experience in business advisory, accounting, taxation, trust and insolvency. Over the years Daran has been assisting clients in numerous complex commercial matters. Daran also holds multiple other directorships. Daran has been on the Board since August 2020.

## **David Gerard O'Connell** **(Managing Director)**

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David joined Geneva as the Chief Financial Officer in July 2006. He was appointed as Managing Director on 2 May 2008. He is a member of the NZ Institute of Chartered Accountants and has been an executive director of Geneva since June 2007. Over the last 20 years David has held senior management roles and directorships in major New Zealand companies and has been involved in a number of successful company turnaround situations. David holds a BCA from Victoria University, Wellington. David does not hold any other public company directorships.

## **Malcolm Cliff Johnston (Non-executive)**

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Malcolm has an extensive background in lending and financial services. He is currently the General Manager – Pacific Region for the Federal Pacific Group and has held senior executive roles in the commercial banking and Insurance industry. Malcolm attended Auckland University and Auckland Grammar school and has held membership of the Chartered Accountants Australia and New Zealand (CAANZ) since 1990. Malcolm has been on the Board since February 2020.

# CORPORATE GOVERNANCE

## The Board of Directors

The Board's primary responsibility is to formulate the strategic direction of the company, oversee the financial and operational controls of the business and manage appropriate risk management strategies and policies. The Board is also responsible for fostering the business culture, appointment and remuneration of senior executives, adoption of plans and policies, the approval of major transactions and review of the business risks.

## Ethical Conduct

The Board is committed to behaving in an ethical manner at all times. This includes, but is not limited to:

Disclosure of conflicts of interest, Disclosure of receipts of any gifts and/or entertainment, behaving fairly in all business dealings and employment contracts.

## Selection and Role of Chairman

The Chairman is selected by the Board from the non-executive directors. The Chairman's role is to manage the board effectively, provide leadership and facilitate the Board's interaction with the Managing Director.

## Board Membership

The Board currently consists of the Non-executive Chairman Ronald Robin King, three Non-executive Directors Alan Hutchison, Daran Nair and Malcolm Johnston and one Executive Director David O'Connell.

## Director Independence

Each of the directors has confirmed that they do not have any conflicts of interest in respect of their obligations as a director of Geneva Finance Limited. Should any conflict arise out of a particular transaction, the directors have undertaken that they will disclose such conflict of interest. Independent Directors consist of Robin King and Daran Nair.

## Nomination and Appointment of directors

The Board is responsible for identifying and recommending candidates. Directors may also be nominated by shareholders under Listing Rule 2.3.1. A director may be appointed by an ordinary resolution or the Board. A person so appointed as a director shall retire from office at the next annual meeting of the company, but shall be eligible for re-election at that meeting. One third of directors shall retire from office at the annual meeting of the company each year, but shall be eligible for reelection at that meeting. The directors to retire shall be those who have been longest in office since they were last elected or deemed elected.

## Diversity

As at 31 March 2021, the gender balance of Geneva Finance Limited directors and senior managers was as follows:

DIRECTORS	31 MARCH 2021	31 MARCH 2020
Female	0	0
Male	5	5
SENIOR MANAGERS		
Female	1	1
Male	4	4

**Directors Meetings**

In the normal course of events the directors meet to review the financial results at least once every 2 months. The exception to this being December and January each year where Board meetings are not normally scheduled. In addition the Board will meet on an ad hoc basis where it is considered necessary to discuss matters that need attention prior to a scheduled meeting.

The table below sets out Directors' attendance at board and committee meetings during the year ended 31 March 2021:

DIRECTOR	BOARD MEETINGS	AUDIT AND RISK MANAGEMENT MEETINGS
David Smale (Chair retired 03/08/2020) *	5	-
Ronald Robin King (Chair appointed 03/08/2020)	4	-
David O'Connell	6	-
Alan Hutchison	6	1
Malcolm Johnston	6	1
Daran Nair (appointed 03/08/2020)	3	1

\* Attended 3 meetings as Attendee

**Indemnification and Insurance of Directors and Officers**

The Company has a policy of providing directors and senior officers' liability insurance. These policies are provided by QBE.

**Securities trading**

The company has implemented a Securities Trading Policy for directors and staff. The policy follows the recommendations contained in the guidelines issued by the Listed Companies Association.

**Disclosure**

The company adheres to the NZX policy of Continuous Disclosure requirements which govern the release of all material information that may affect the value of the company's shares. The Board and senior management team have processes in place to ensure that all material information flows up to the Managing Director to be viewed by the Board and disclosed where appropriate.

**Auditor's independence**

There is no relationship between the auditors and the company or any related person that could compromise the independence of the auditors. In addition to the audit, Baker Tilly Staples Rodway was paid fees for other services (comprises taxation compliance services and other assurance services) totaling \$26k.

## BOARD COMMITTEES

### ***Audit Committee:***

The role of the audit committee is to assist the board in carrying out its responsibilities under the Companies Act 1993 and the Financial Markets Conduct Act 2013, regarding accounting practices, policies and controls relative to the company's financial position and make appropriate enquiry into the audits of the company's financial statements. This responsibility includes providing the Board with additional assurance about the quality and reliability of the financial information issued publicly by the company. This committee comprises of three company directors at 31 March 2021 of which two are independent.

### ***Remuneration Committee:***

The Remuneration Committee comprises the non-executive directors. This committee meets annually to determine and approve the remuneration of the Managing Director and selected key executives.

### ***Lending and Credit Committee:***

Historically the Lending Committee has comprised the full board who review the findings of the Asset Quality committee, a committee chaired by the CFO and comprising the Head of lending, Head of collections and the Managing Director. Effective 1 April 2021 the board have established a separate board lending subcommittee that will address these issues and report back to the full board as required. This committee will meet twice a year.

### ***Audit and Risk Management Committee:***

The Audit and Risk Management Committee oversees the insurance financial reporting, internal and external audits, the appointment of the approved auditor and approved actuary and assist the board in providing an objective, non-executive review of the effectiveness of the insurer's financial reporting and risk management and control processes. This committee and the Audit Committee was merged.

### ***Managing risk***

The Board has overall responsibility for the company's system of risk management and internal control and has procedures in place, i.e. Risk Management Program to provide effective control of the management and reporting structure.

The financial statements are prepared with full supporting schedules providing analysis of all risk areas on a monthly basis. As set out above, the Board meets at least once every 2 months (excluding December and January) to formally review these reports and receive appropriate explanations from management.

All capital expenditure is controlled and monitored under a structured framework.

The Board maintains an overall view of the risk profile of the company and is responsible for the overall risk assessment processes.

# **GENEVA FINANCE LIMITED**

**AND ITS SUBSIDIARIES**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2021**

# GENEVA FINANCE LIMITED

## CONSOLIDATED FINANCIAL STATEMENTS

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## INDEPENDENT AUDITOR'S REPORT

### To the Shareholders of Geneva Finance Limited

#### Report on the Audit of the Consolidated Financial Statements

##### Opinion

We have audited the consolidated financial statements of Geneva Finance Limited and its subsidiaries ('the Group') on pages 7 to 57, which comprise the consolidated statement of financial position as at 31 March 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Our report is made solely to the Shareholders of the Group. Our audit work has been undertaken so that we might state to the Shareholders of the Group those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Shareholders of the Group as a body, for our audit work, for our report or for the opinions we have formed.

##### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor and provider of other assurance services, our firm carries out other assignments for Geneva Finance Limited and its subsidiaries in the area of taxation compliance services. The provision of these other services has not impaired our independence.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
<p><b>Valuation of Finance Receivables</b></p> <p>As disclosed in Note 16 of the Group's consolidated financial statements, the Group has finance receivable assets of \$92.2m. Finance receivable assets were significant to our audit due to the size of the assets and the subjectivity, complexity and uncertainty inherent in the recognition of impairment in respect of finance receivables and the amount of that impairment.</p> <p>Management has prepared impairment models to complete its assessment of impairment for the Group's finance receivables as at 31 March 2021.</p> <p>This assessment involved complex and subjective estimation and judgement by Management on credit risk and the future cash flows of the finance receivables.</p>	<p>Our audit procedures among others included:</p> <ul style="list-style-type: none"> <li>▪ Understanding and evaluating the Group's internal controls relevant to the accounting estimates used to determine the recoverable value of the Group's finance receivables.</li> <li>▪ Evaluating the design and operating effectiveness of the key controls over finance receivable origination, ongoing administration and expected credit loss model data and calculations;</li> <li>▪ Selecting a representative sample of finance receivables and agreeing these finance receivables to the signed loan agreement and client acceptance documents on origination.</li> <li>▪ Evaluating and challenging the logic, key assumptions, and calculation of Management's expected credit losses provision models for, examining those finance receivables and forming our own judgements as to whether the expected credit losses provision for impairment recognised by Management is appropriate (including the consideration of the impact of the COVID-19 pandemic).</li> <li>▪ For individually assessed finance receivables, examining those finance receivables and forming our own judgements as to whether the expected credit loss provisions recognised by Management were appropriate (including the consideration of the impact of the COVID-19 pandemic on the expected credit loss provision);</li> <li>▪ For the collectively assessed finance receivables, challenging and evaluating the logic of Management's expected credit loss models and the key assumptions used with our own experience (including the consideration of the impact of the COVID-19 pandemic on key assumptions). Also, testing key inputs used in the expected credit loss models and the mathematical accuracy of the calculations within the models;</li> <li>▪ Evaluating the changes made to the expected credit losses impairment model to capture the effect of the changing economic environment at 31 March 2021 compared to the economic environment at the date when the historical data used to determine the expected credit losses was collected.</li> <li>▪ Evaluating the disclosures related to finance receivable assets, and the risks attached to them which are included in Note 4, 16, 17 and 33 of the Group's consolidated financial statements.</li> </ul>



Key Audit Matter	How our audit addressed the key audit matter
<p><b>Valuation of Insurance Contract Liabilities</b></p> <p>As disclosed in Notes 25 and 26 of the Group's consolidated financial statements, the Group has total insurance contract liabilities of \$20.7m (outstanding claims liabilities of \$1.7m as disclosed in note 25 and unearned premium liabilities of \$19.0m disclosed in note 26). The Group's insurance contract liabilities were significant to our audit due to the size of the liabilities and the subjectivity, complexity and uncertainty inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain.</p> <p>Management has engaged an external actuarial expert to estimate the Group's insurance contract liabilities as at 31 March 2021.</p>	<p>Our audit procedures among others included:</p> <ul style="list-style-type: none"> <li>▪ Understanding and evaluating the Group's internal controls relevant to the accounting estimates used to determine the valuation of the Group's insurance policyholder liabilities.</li> <li>▪ Evaluating the design and operating effectiveness of the key controls over insurance contract origination, ongoing administration, integrity of data provided to Management's external actuarial expert used in the estimation process and Management's review of the estimates;</li> <li>▪ Evaluating the competence, capabilities, objectivity and expertise of Management's external actuarial expert and the appropriateness of the expert's work as audit evidence for the relevant assertions;</li> <li>▪ Testing on a sample basis the data provided to Management's external actuarial expert to the Group's records;</li> <li>▪ Engaging our own actuarial expert to assist in understanding and evaluating:             <ul style="list-style-type: none"> <li>○ the work and findings of the Group's external actuarial expert engaged by Management;</li> <li>○ the Group's actuarial methods and assumptions to assist us in challenging the appropriateness of actuarial methods and assumptions used by Management;</li> </ul> </li> <li>▪ Assessing the selection of methods and assumptions with a view to identify management bias; and</li> <li>▪ Evaluating the related disclosures about insurance contract liabilities, and the risks attached to them which are included in Note 5, 25, and 26 of the Group's consolidated financial statements.</li> </ul>

## Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 March 2021 (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Directors for the Consolidated Financial Statements**

The Directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related

disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent fairly the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Matters Relating to the Electronic Presentation of the Audited Consolidated Financial Statements**

This audit report relates to the consolidated financial statements of Geneva Finance Limited and its subsidiaries for the year ended 31 March 2021 included on Geneva Finance Limited's website. The Directors of Geneva Finance Limited are responsible for the maintenance and integrity of Geneva Finance Limited's website. We have not been engaged to report on the integrity of Geneva Finance Limited's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website.

The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyper linked to or from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements

and related audit report dated 30 June 2021 to confirm the information included in the audited consolidated financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of consolidated financial statements may differ from legislation in other jurisdictions.

The engagement partner on the audit resulting in this independent auditor's report is D I Searle.



**BAKER TILLY STAPLES RODWAY AUCKLAND**

**Auckland, New Zealand**

30 June 2021

GENEVA FINANCE LIMITED

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2021

	<u>Note</u>	2021 \$000's	2020 \$000's
Interest income	(6)	15,279	15,052
Interest expense	(7)	(3,975)	(4,383)
<b>Net interest income</b>		<b>11,304</b>	<b>10,669</b>
Net premium revenue	(8)	14,709	11,258
Net claims expense	(9)	(6,590)	(4,861)
<b>Underwriting profit</b>		<b>8,119</b>	<b>6,397</b>
Other revenue	(10)	4,834	4,750
<b>Operating revenue</b> (net of interest expense and claim expense)		<b>24,257</b>	<b>21,816</b>
Operating expenses		(16,666)	(15,860)
<b>Operating profit</b>		<b>7,591</b>	<b>5,956</b>
Impaired asset expense	(12)	(825)	(1,854)
<b>Net profit before taxation</b>		<b>6,766</b>	<b>4,102</b>
Taxation (expense)/benefit	(13)	(146)	13
<b>Net profit after taxation</b>		<b>6,620</b>	<b>4,115</b>
Attributable to Group		6,185	3,705
Non-controlling interest	(20)	435	410
		<b>6,620</b>	<b>4,115</b>
<b>Profit per share</b>			
Basic profit per share (cents)	(32)	8.48	5.08

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2021

	<u>Note</u>	2021 \$000's	2020 \$000's
<b>Net profit after taxation</b>		<b>6,620</b>	<b>4,115</b>
<b>Other comprehensive income:</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Movement in financial assets at fair value through other comprehensive income	(31)	(914)	65
Exchange differences on translation of foreign operations - Group		(530)	397
Cash flow hedge, net of tax	(27)	303	(266)
<b>Other comprehensive income, net of tax</b>		<b>(1,141)</b>	<b>196</b>
<b>Total comprehensive income</b>		<b>5,479</b>	<b>4,311</b>
Attributable to Group		5,044	3,901
Non-controlling interest	(20)	435	410
		<b>5,479</b>	<b>4,311</b>

The attached notes form part of and are to be read in conjunction with these financial statements.

**GENEVA FINANCE LIMITED**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**AS AT 31 MARCH 2021**

	<u>Note</u>	2021 \$000's	2020 \$000's
<b>Assets</b>			
Cash and cash equivalents	(14)	27,802	20,625
Trade and other receivables, and prepayments	(34)	9,139	5,884
Taxation receivable		8	12
Finance receivables	(16)	92,152	82,868
Financial assets at fair value through other comprehensive income	(15)	203	3,684
Deferred insurance contract acquisition costs	(21)	5,226	4,102
Deferred taxation	(22)	4,910	4,712
Plant and equipment	(24)	857	1,217
Intangible assets	(23)	2,202	2,371
<b>Total assets</b>		<b>142,499</b>	<b>125,475</b>
<b>Liabilities</b>			
Accounts payables and accruals	(34)	5,295	4,351
Outstanding claims liability	(25)	1,657	962
Employee benefits	(34)	563	435
Unearned premium liability	(26)	19,008	12,706
Derivative financial instruments	(27)	248	551
Bank facilities	(28)	66,985	60,598
Other borrowings	(29)	13,942	13,684
Lease Liabilities	(30)	581	839
<b>Total liabilities</b>		<b>108,279</b>	<b>94,126</b>
<b>Equity</b>			
Share capital	(31)	52,779	52,779
Treasury stock	(31)	(342)	-
Reserves	(31)	(2,317)	(1,176)
Retained earnings		(17,523)	(21,725)
Non-controlling interest	(20)	1,623	1,471
<b>Total equity</b>		<b>34,220</b>	<b>31,349</b>
<b>Total equity and liabilities</b>		<b>142,499</b>	<b>125,475</b>

For and on behalf of the board, dated 30 June 2021

*Director*

*Director*

The attached notes form part of and are to be read in conjunction with these financial statements.

GENEVA FINANCE LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2021

		Equity attributable to the equity holders of the						
		Share Capital	Treasury Stock	Reserves	Retained earnings	Attributable to owners of the parent	Non Controlling Interest	Total equity
	Note	\$000's	\$000's	\$000's	\$000's			\$000's
<b>Balance at 31 March 2019</b>		<b>52,779</b>	<b>-</b>	<b>(1,372)</b>	<b>(22,877)</b>	<b>28,530</b>	<b>1,061</b>	<b>29,591</b>
Net profit for the period		-	-	-	3,705	3,705	410	4,115
<b>Other comprehensive income</b>								
Increase in financial assets at FVTOCI	(31)	-	-	65	-	65	-	65
Exchange differences on translation of foreign operations	(31)	-	-	397	-	397	-	397
Change in cash flow hedge reserve, net of tax	(31)	-	-	(266)	-	(266)	-	(266)
<b>Total other comprehensive income</b>		<b>-</b>	<b>-</b>	<b>196</b>	<b>-</b>	<b>196</b>	<b>-</b>	<b>196</b>
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>196</b>	<b>3,705</b>	<b>3,901</b>	<b>410</b>	<b>4,311</b>
<b>Transaction with owners</b>								
Dividends paid	(31)	-	-	-	(2,553)	(2,553)	-	(2,553)
<b>Total transactions with owners</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,553)</b>	<b>(2,553)</b>	<b>-</b>	<b>(2,553)</b>
<b>Balance at 31 March 2020</b>		<b>52,779</b>	<b>-</b>	<b>(1,176)</b>	<b>(21,725)</b>	<b>29,878</b>	<b>1,471</b>	<b>31,349</b>
Net profit for the period		-	-	-	6,185	6,185	435	6,620
<b>Other comprehensive income</b>								
Decrease in financial assets at FVTOCI	(31)	-	-	(914)	-	(914)	-	(914)
Exchange differences on translation of foreign operations	(31)	-	-	(530)	-	(530)	-	(530)
Change in cash flow hedge reserve, net of tax	(31)	-	-	303	-	303	-	303
<b>Total other comprehensive income</b>		<b>-</b>	<b>-</b>	<b>(1,141)</b>	<b>-</b>	<b>(1,141)</b>	<b>-</b>	<b>(1,141)</b>
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>(1,141)</b>	<b>6,185</b>	<b>5,044</b>	<b>435</b>	<b>5,479</b>
<b>Transaction with owners</b>								
Shares held by Geneva		-	(342)	-	-	(342)	-	(342)
Dividends paid	(31)	-	-	-	(1,983)	(1,983)	(283)	(2,266)
<b>Total transactions with owners</b>		<b>-</b>	<b>(342)</b>	<b>-</b>	<b>(1,983)</b>	<b>(2,325)</b>	<b>(283)</b>	<b>(2,608)</b>
<b>Balance at 31 March 2021</b>		<b>52,779</b>	<b>(342)</b>	<b>(2,317)</b>	<b>(17,523)</b>	<b>32,597</b>	<b>1,623</b>	<b>34,220</b>

The attached notes form part of and are to be read in conjunction with these financial statements.

**GENEVA FINANCE LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31 MARCH 2021**

	<u>Note</u>	2021 \$000's	2020 \$000's
<b>Cash flow from operating activities:</b>			
Cash was provided from:			
Interest received		14,175	11,474
Dividends received		-	340
Receipts from insurance policy sales, collections activities and other sources		25,185	18,406
Covid-19 wages subsidy		351	-
		<u>39,711</u>	<u>30,220</u>
Cash was applied to:			
Net movement in finance receivables		(7,487)	3,264
Interest paid		(3,975)	(4,383)
Payments to suppliers and employees		<u>(28,130)</u>	<u>(22,721)</u>
		<u>(39,592)</u>	<u>(23,840)</u>
Net cash inflow / (outflow) from operating activities	(35)	<u>119</u>	<u>6,380</u>
<b>Cash flows from investing activities:</b>			
Cash was provided from:			
AMPL Investment Proceeds	(33)	3,499	-
Sale of plant and equipment		7	-
		<u>3,506</u>	<u>-</u>
Cash was applied to:			
Purchase of plant and equipment		-	(243)
Purchase of intangible assets		(209)	(380)
Purchase of third-party debt ledger		-	(1,850)
		<u>(209)</u>	<u>(2,473)</u>
Net cash inflow / (outflow) from investing activities		<u>3,297</u>	<u>(2,473)</u>
<b>Cash flows from financing activities:</b>			
Cash was provided from:			
Net movement of bank facilities: Westpac	(36)	6,387	907
Net movement of other borrowings	(36)	258	366
		<u>6,645</u>	<u>1,273</u>
Cash was applied to:			
Share buyback			
Net movement of other borrowings		(342)	-
Principal elements of lease payments		(276)	(255)
Dividends paid to company shareholders	(31)	(1,983)	(2,553)
Dividends paid to NCI		(283)	-
		<u>(2,884)</u>	<u>(2,808)</u>
Net cash inflow / (outflow) from financing activities	(36)	<u>3,761</u>	<u>(1,535)</u>
<b>Net increase in cash and cash equivalents held</b>		<b>7,177</b>	<b>2,372</b>
Add: Opening cash and cash equivalents balance at the beginning of the year		20,625	18,253
<b>Cash and cash equivalents at the end of the year</b>	(14)	<b><u>27,802</u></b>	<b><u>20,625</u></b>
<b>Represented by:</b>			
Cash at bank		27,802	20,625
<b>Cash and cash equivalents at the end of the year</b>	(14)	<b><u>27,802</u></b>	<b><u>20,625</u></b>

The attached notes form part of and are to be read in conjunction with these financial statements.



## GENEVA FINANCE LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 MARCH 2021

##### 1. Reporting entity

Geneva Finance Limited (the 'Company') is incorporated and domiciled in New Zealand. Geneva Finance Limited is registered under the Companies Act 1993 and is listed on the New Zealand Stock Exchange ('NZX Main Board').

Geneva Finance Limited is a FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013.

The consolidated financial statements of Geneva Finance Limited and its subsidiaries (together "the Group") have been prepared in accordance with the Companies Act 1993, the Financial Reporting Act 2013, and the Financial Market Conduct Act 2013.

The Company's subsidiaries are listed in note 20.

The Group is a for-profit entity.

The Group's primary activities are to lend money to individuals, companies and other entities, issue temporary insurance contracts covering death, disablement and redundancy risk and short term motor vehicle insurance contracts covering comprehensive, third party, mechanical breakdown and guaranteed asset protection, provide debt collection services and invoice factoring services.

The financial statements were authorised for issue by the directors on 30 June 2021.

##### 2. Basis of preparation

###### a) Statement of compliance

The Company's reporting date is 31 March. These financial statements have been prepared for the year ended 31 March 2021. The comparative period is for the year ended 31 March 2020. The financial statements ('financial statements') have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for-profit entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

###### b) Basis of measurement

These financial statements have been prepared under the historical cost basis, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies detailed in note 3.

###### c) Functional and presentation currency

The functional currency of each entity within the Group is New Zealand Dollars (\$). The presentation currency of and Group is New Zealand Dollars (\$) and all amounts are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

##### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

###### a) New and amended standards and interpretations

###### i) *New standards and amendments and interpretations to existing standards that came into effect during the current accounting period:*

Except for the early adoption of COVID19 Rent Concessions (Amendment to NZ IFRS 16), no new standards and amendments and interpretations to existing standards that came into effect during the current accounting period have been adopted in the current year. None of these have had a material impact on the Group.

###### ii) *New standards and amendments and interpretations to existing standards that are not yet effective for the current accounting period:*

The Group has not early adopted any new standards, amendments and interpretations that have been issued but are not yet effective. There are a number of new standards and amendments to standards and interpretations that are not yet effective for the year beginning 1 April 2021.

The new standards, amendments and interpretations that will have an impact on the Group are discussed below and the Group intends to adopt these new standards, amendments and interpretations when they become mandatory.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2021

#### 3. Significant accounting policies (continued)

##### **NZ IFRS 17 Insurance Contracts**

NZ IFRS 17, 'Insurance Contracts', will replace NZ IFRS 4, 'Insurance Contracts'. Under the NZ IFRS 17, insurance contract liabilities will be calculated at the present value of future insurance cash flows with a provision for risk. The discount rate applied will reflect current interest rates. If the present value of future cash flows would produce a gain at the time an insurance contract is issued, the model would also require a "contractual service margin" to offset the day 1 gain. The contractual service margin would be amortized over the life of the insurance contract. There would also be a new income statement presentation for insurance contracts, including a revised definition of revenue and additional disclosure requirements. NZ IFRS 17 will also have accommodations for certain specific types of insurance contracts. Short-duration insurance contracts will be permitted to use a simplified unearned premium liability model until a claim is incurred. For some contracts, in which the cash flows are linked to underlying items, the liability value will reflect that linkage.

The effective date is annual reporting periods beginning on or after 1 January 2023.

The Group is yet to assess the impact of NZ IFRS 17. The Group intends to adopt NZ IFRS 17 no later than the financial year beginning 1 April 2023.

##### **b) Basis of consolidation**

These financial statements consolidate the financial statements of Geneva Finance Limited and its subsidiaries (together "the Group"). Further details of Group entities are disclosed in note 20. The Company and each its subsidiaries have the same financial reporting period end, being 31 March.

##### *i) Subsidiaries*

Subsidiaries are all entities controlled by the Group. The financial statements of subsidiaries are included in consolidated financial statements from the date that control commences until the date that control ceases.

##### *ii) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

##### *iii) Acquisition method of accounting for common control business combinations*

The consolidated financial statements, incorporate the financial statements of the combining businesses under common control from acquisition date.

The net assets of the combining businesses are combined using the existing book values (predecessor book values) from the controlling parties' perspective (and not adjusted to fair value upon combining). No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control. Any difference between the cost of investment recognised by the controlling entity and the existing book value of the net assets of the combining businesses on acquisition date results in the recognition of a merger reserve.

The merger reserve is released to profit and loss when there is a disposal or impairment charge or amortisation charge posted in respect of the investment that created it.

##### *iv) Non-controlling interests*

The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets (as described above). Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity, and statement of financial position. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

### 3. Significant accounting policies (continued)

#### c) Revenue recognition

##### i) Revenue from contracts with customers

##### - Revenue from debt collection services

The Group provides credit management and debt recovery services to companies and individuals in New Zealand and Australia. Services include debt collection, legal, investigation and tracing services. Such services are recognised as a performance obligation satisfied at a point in time when the service is provided.

Revenue is recognised for these services either:

- on recovery of debt when the Group has an enforceable right to payment for performance completed to date, or
- upon provision of the legal, and investigation and tracing services.

Revenue is measured based on the consideration to which the Group expects to be entitled to and excludes amounts collected on behalf of third parties. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. Payment is typically due within 30 - 60 days from the invoicing of the contract. There is no significant financing component in these contracts.

##### - Revenue from the administration and servicing of loan receivables

The Group earns fee revenue for the ongoing administration and servicing of loans made to companies and individuals in New Zealand and Australia. Services include weekly, fortnightly or month loan fees for the ongoing administration loans, fees for enforcement actions taken upon event of default (i.e. communication fees for letters, phone calls, SMS, visits; repossession related fees). Such services are recognised as a performance obligation satisfied at a point in time when the service is provided.

Revenue is measured based on the consideration to which the Group expects to be entitled to and excludes amounts collected on behalf of third parties. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. Service charges are accrued onto the related loans receivables. There is a significant financing component in these contracts and interest income is recognised using the effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period.

##### ii) Other revenue and income

##### - Interest income from the financial assets - financial receivables and cash and term deposit

Interest income is recognised in profit or loss as it accrues, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset and allocates the interest income, including any fees (including loan origination fees) and directly related transaction costs (including commission expenses) that are an integral part of the effective interest rate, over the expected life of the financial asset. The application of the method has the effect of recognising income on the financial asset or liability evenly in proportion to the amount outstanding over the period to maturity or repayment.

##### - Premium revenue from insurance contracts

Premium revenue comprises amounts charged to policyholders and excludes taxes and duties collected on behalf of statutory parties.

The earned portion of premium received, and receivable is recognised as revenue. Premium revenue is recognised as earned from the date of attachment of risk, over the period related to the insurance contract in accordance with the pattern of the risk expected under the contract.

The unearned portion of premiums not earned at the reporting date is recognised in the Statement of Financial Position as unearned premium liabilities.

##### - Reinsurance recoveries relating to reinsurance contracts and other recoveries related to insurance contracts

Reinsurance and other recoveries receivable on paid claims and reported claims not yet paid are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable are measured at the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. Reinsurance does not relieve the originating insurer of its liabilities to policyholders.

##### - Dividend income

Dividends from investments in equity instruments are recognised in profit or loss when the right to receive payment is established. In this case, the dividend is recognised in other comprehensive income (OCI) if it relates to an investment measured at fair value through other comprehensive income (FVTOCI).

##### - Other revenue and income

All other revenue and income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured and the right to receive the revenue has been established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

3. Significant accounting policies (continued)

d) Expense recognition

i) Interest expense from financial liabilities – bank and other borrowings

Interest expense and borrowing costs are recognised in profit or loss as they accrue, using the effective interest method.

The effective interest method calculates the amortised cost of a financial liability and allocates the interest expense, including any fees (including loan origination fees) and directly related transaction costs (including commission expenses) that are an integral part of the effective interest rate, over the expected life of the financial liability. The application of the method has the effect of recognising expense on the financial liability evenly in proportion to the amount outstanding over the period to maturity or repayment.

ii) Reinsurance expense for reinsurance contracts

Outwards reinsurance expense comprises premium ceded to reinsurers.

The incurred portion of outwards reinsurance premium paid or payable is recognised as an expense. Outwards reinsurance expense is recognised as incurred from the date of attachment of risk, over the period related to the reinsurance contract in accordance with the pattern of the risk expected under the contract.

The unearned portion of outwards reinsurance premium not incurred at the reporting date is recognised in the statement of financial position as deferred reinsurance premiums.

iii) Claims expense from insurance contracts

Claims expense represents claim payments adjusted for movement in the outstanding claims liability.

General Insurance claims expenses are recognised when claims are notified with the exception of claims incurred but not reported ('IBNR'), and claims incurred but not enough reported ('IBNER'), for which a provision is estimated.

iv) Costs relating to insurance contracts

Commission and operating expenses are recognised in the consolidated statement of financial performance on an accruals basis, unless otherwise stated.

Expenses are categorised into acquisition and maintenance on the basis of a detailed functional analysis of activities carried out by the Group.

Expenses are further categorised into general insurance based on new business volumes (acquisition costs) and in-force volumes (maintenance costs).

- Acquisition costs

Policy acquisition costs comprise the costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs.

Where the overall product profitability of new insurance business written during the year is expected to support the recovery of acquisition costs incurred in that year, these costs are deferred as an element of life insurance contract assets and amortised over the life of the policies written.

Unamortised acquisition costs are a component of insurance assets. Amortisation of acquisition costs is recognised in profit or loss as a component of net change in insurance contract assets at the same time as policy margins are released.

Commission that varies with and is directly related to securing new life investment contracts is capitalised as a deferred acquisition cost asset along with an administration and marketing allowance.

All other acquisition costs are recognised as expenses in the statement of financial performance when incurred.

The deferred acquisition cost asset is subsequently amortised over the life of the contracts and is recognised in the statement of financial performance as part of net change in life investment contract assets.

- Maintenance costs

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale. These include general growth and development costs.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

**3. Significant accounting policies (continued)**

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods.

Deferred insurance contract acquisition costs are subject to a loss recognition test as to their recoverability.

*v) Other expenses*

All other expenses are recognised as incurred in profit and loss on an accruals basis.

*vi) Covid-19 wage subsidy*

The Group met the requirements and received the Covid-19 wage subsidy in April 2020 for the four weeks lockdown commenced on 26th March 2020. The grant has been fully applied against salaries and wages in FY2021.

**e) Income tax expense**

Income tax expense comprises current and deferred tax. Current and deferred tax is recognised as an expense or income in profit and loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that the timing of the reversal is controlled by the Group. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences and unutilised tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

**f) Goods and services tax**

The Group provides financial services. Revenues, expenses, assets, receivables and payables are stated with the amount of goods and services tax ("GST") included. The net amount of GST recoverable from, or payable to, the Inland Revenue Department ("IRD") is included as 'accounts payable and accruals' or 'prepayments and sundry debtors' in the statement of financial position.

Cash flows are included in the cash flow statement inclusive of GST. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the IRD are classified as operating cash flows.

**g) Financial instruments**

**Initial recognition**

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**Financial assets**

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2021

#### 3. Significant accounting policies (continued)

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

##### Classification of financial assets

- Financial assets that meet the following conditions are measured subsequently at amortised cost:
  - the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):
  - the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (ii) below); and
- the Group may irrevocably designate a financial asset that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iii) below).

##### *i) Amortised cost and effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the financial asset, or, where appropriate, a shorter period, to the gross carrying amount of the financial asset on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below).

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Financial assets measured at amortised cost include, trade receivables, finance receivables, and other receivables.

##### *ii) Financial assets at FVTOCI*

The Group has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9 Financial Instruments (see note 15).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2021

#### 3. Significant accounting policies (continued)

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the financial assets at FVTOCI reserve. The cumulative gain or loss is not be reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to reserves. Fair value is determined in the manner described in note 3(t).

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'other income' line item (note c) in profit or loss.

The Group's financial assets measured at FVTOCI include an investment in an unlisted property company.

#### iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Financial assets that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, financial assets that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any financial assets as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). Fair value is determined in the manner described in note 3(t).

The Group had no financial assets measured at FVTPL.

#### Impairment of financial assets

The Group recognises a loss allowance for expected credit losses (ECL) on financial assets that are measured at amortised cost and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes since initial recognition of the respective financial assets.

The Group recognises lifetime ECL for trade and other receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial assets (such as finance receivables), the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial assets has not increased significantly since initial recognition, the Group measures the loss allowance for that financial assets at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial asset. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial asset that are possible within 12 months after the reporting date. Homogeneous loans are assessed on a collective basis (collective impairment provision) and non-homogeneous loans are assessed individually (specific impairment provision).

#### - Significant increase in credit risk

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial asset at the reporting date with the risk of a default occurring on the financial asset at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, such as:

- actual or expected changes in economic indicators (i.e. change in employment rates); and
- for non-homogeneous loans significant changes in the value of the collateral supporting the loan or changes in the operating results of the borrower.

The nature of the Group's finance receivables (second tier retail and commercial lending) means there is little or no updated credit risk information that is routinely obtained and monitored on an individual asset until a customer breaches the contractual terms. However, forward looking information relating to key economic indicators that could affect customers ability to meet their repayment obligations is also assessed and if there are any declining trends, then this is factored into the assessment.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2021

#### 3. Significant accounting policies (continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

##### - Definition of default

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that another default criteria is more appropriate.

##### - Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or past due event (see (ii) above); and
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

##### - Write-off policy

The Group writes off a financial asset when there is information indicating that the borrower is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the borrower has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

##### - Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. then magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. If the Group has measured the loss allowance for a financial asset at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

#### Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

#### **Financial liabilities**

##### Classification of financial liabilities

Financial liabilities are classified into one of the following measurement categories:

- those to be measured subsequently at fair value through profit or loss ('FVTPL'); and
- those to be measured at amortised cost.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies are measured in accordance with the specific accounting policies set out below.

##### *i) Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

**3. Significant accounting policies (continued)**

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship (see Hedge accounting policy).

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Fair value is determined in the manner described in note 3(t).

Financial liabilities measured at FVTPL include derivatives.

*ii) Financial liabilities at amortised cost*

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Financial liabilities measured at amortised cost include trade and other payables, related party balances, and bank and professional investor facilities and debt securities.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

**h) Derivative financial instruments**

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps. Further details of derivative financial instruments are disclosed in note 27.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2021

#### 3. Significant accounting policies (continued)

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

##### i) Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Group designates the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

Note 27 sets out details of the fair values and movement of the derivative instruments used for hedging purposes.

##### - Cash flow hedges

Hedge effectiveness is determined using the critical terms method ('CTM'). Under the CTM, the critical terms of the derivative instruments must match or be closely aligned with the critical terms of the hedged item. Hedge ineffectiveness is measured by using the hypothetical derivative method. This method compares the hedging instrument to a hypothetical derivative (in which the fair value is determined by the credit-risk free benchmark rate) and the ineffective portion is measured by the extent to which the cumulative change in fair value of the hedging instrument exceeds the change in fair value of the hypothetical derivative (in absolute terms).

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

**3. Significant accounting policies (continued)**

The Group has classified all of its derivatives as cashflow hedges.

**j) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, bank current accounts, deposits held on call with banks and other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown in current liabilities on the statement of financial position.

**k) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**l) Employee benefits**

- Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, statutory days in lieu, annual leave and sick leave expected to be wholly settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

- Superannuation plans

The Group pays contributions to superannuation plans, such as Kiwisaver. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**m) Insurance business**

- Principle of insurance business

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The insurance activities of the Group consist of all transactions arising from writing general and life insurance contracts, through its subsidiary Quest Insurance Group Limited.

The Group issues the following insurance contracts:

- Temporary life insurance contracts covering death disablement, disability and redundancy risks.
- Short term motor vehicle contracts covering comprehensive, third party and mechanical breakdown risks.
- Short term motor vehicle contracts provides financial protection from certain types of loss that are not covered by standard automobile insurance.

- Assets backing insurance contract liabilities

The Group has determined that all assets of the Group's subsidiary, Quest Insurance Group Limited, are assets backing policy liabilities and are managed and reported in accordance with a mandate approved by the Quest Insurance Group Limited's Board of Directors.

Financial assets are held to back the insurance liabilities on the basis that these assets are valued at fair value in the Statement of Financial Position.

Financial assets backing insurance liabilities consist of liquid and high-quality investments such as cash and cash equivalents and fixed interest securities held by the Company.

Financial assets backing insurance liabilities are invested to reflect the nature of the insurance liabilities.

The financial assets that provide backing for the insurance liabilities are closely monitored to ensure that investments are appropriate given the expected pattern of future cash flows arising from insurance liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2021

#### 3. Significant accounting policies (continued)

Financial assets backing insurance liabilities are managed on a fair value basis and are reported to the Board on this basis, they have been measured at fair value through profit or loss wherever the applicable standard allows.

Fair value is determined as follows:

- cash assets are carried at face value at reporting date, which approximates fair value;
- fixed interest securities are valued at their fair value at the quoted bid price of the instrument at reporting date;
- investments in equity instruments are valued at their fair value at reporting date.

#### - Insurance contract liabilities

The liability for insurance contracts has been determined in accordance with Appendix C of NZ IFRS 4 Insurance Contracts, and the valuation of any general insurance claims is performed in accordance with PS 30 Valuations of General Insurance Claims issued by the New Zealand Society of Actuaries ('NZSA'), and the valuation of any life insurance policy liabilities is performed in accordance with PS 20 Determination of Life Insurance Policy Liabilities issued by the NZSA.

In terms of these standards, insurance contract liabilities are determined:

- For short term general insurance contracts - using the 'Margin or Services' principle. Under Margin of Services profits emerge evenly over the life of the contract as services are provided in a manner that reflects the pattern of risk accepted from the policyholder 'the service'.

General insurance contract liabilities include outstanding claims liability and the provision for unearned premium (recognised and measured as described in policy 3(h) above).

The outstanding claims liability is measured as the central estimate of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid in full, IBNR, and IBNER. Delays can be experienced in the notification and settlement of claims, therefore the ultimate cost of these cannot be known at reporting date and are estimated based on past experience. The expected future payments are discounted to present value using a risk-free rate.

- For shorter-term life and longer-term life contracts written on yearly renewable premiums - using the accumulation method. Under the accumulation method for risk policies the policy liability is the sum of the unearned premiums, outstanding claims plus an allowance for claims incurred but not yet reported. For investment policies, the policy liability is determined as the policy account balance including accrued interest to the balance date, plus investment fluctuation reserves subject to a minimum of the current surrender value.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates impact profit and loss in the year in which the estimates are changed.

#### - Liability adequacy test

The liability adequacy test is an assessment of whether the carrying amount of the insurance liabilities net of deferred acquisition costs is adequate and is conducted at each reporting date. If current estimates of the expected insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability then the unearned premium liability is deemed to be deficient. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. Any deficiency arising from the test is recognised in profit or loss, with the corresponding impact on the Statement of Financial Position.

No deficiency was identified in the current or comparative reporting periods.

The Directors are confident that the assets held by the Quest Insurance Group Limited are sufficient to meet the estimated outstanding liabilities as at the reporting date.

#### n) **Property, plant and equipment**

All property, plant and equipment are initially recognised at cost.

Property (land and buildings) are subsequently carried at revalued amounts less subsequent accumulated depreciation and impairment losses. The valuation is determined by an independent valuer. Land and buildings are revalued with sufficient frequency to ensure that the carrying value of the item does not differ materially from its fair value. Land is not depreciated. Depreciation on buildings, plant and equipment is provided on the straight line method at rates calculated to allocate the cost less estimated residual value over the estimated economic lives of the assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2021

## 3. Significant accounting policies (continued)

The depreciation rates used for each class of assets are:

Class of plant and equipment	Depreciation rate basis	Depreciation method
Computer equipment	20%	Straight Line
Furniture and fittings	20%	Straight Line
Office equipment	20%	Straight Line
Leasehold improvements	10%	Straight Line
Motor vehicles	20%	Straight Line

The carrying amount of property, plant and equipment is reviewed annually by the directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount, the higher of fair value less cost to sell and value in use, is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to present values in determining recoverable amounts.

When an item of property, plant and equipment is disposed of, any gain or loss is recognised through profit or loss and is calculated on the difference between the sale price and the carrying value of the asset.

## o) Intangible assets

Intangible assets comprise costs incurred in acquiring and building software applications and computer systems (referred to as software), goodwill and acquired customer relationships.

- Computer software

Computer software is recognised in the statement of financial position at cost less accumulated amortisation and impairment losses.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives of 3 to 5 years. Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

Direct costs attributed to the computer software under development for internal use are recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

At each reporting date, the software assets are reviewed for impairment against impairment indicators. If any indication of impairment exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the profit and loss.

- Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint arrangements and represents the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the Group's interest in net identifiable assets acquired, liabilities assumed and contingent liabilities of the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the CGU level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

- Customer relationships

Customer relationship related intangible assets are initially recorded at their purchase price and subsequently amortised on a straight line basis over their expected useful life (6 years). All customer relationships related intangible assets balances are reviewed annually for indicators of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

**3. Significant accounting policies (continued)**

**p) Impairment of non-financial assets**

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired. Intangible assets not yet available for use are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired.

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

Non-financial assets other than goodwill that suffer an impairment are reviewed for possible reversal of the impairment at each reporting date.

**q) Right of use assets and lease liabilities**

The Group leases property (offices) and printers. Property lease contracts are typically made for fixed periods of 3 to 10 years but may have extension options as described below. Printers leases are typically made for fixed periods of 1 to 5 years with extension options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

Costs included in the measurement of the right-of-use asset comprise 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; and
- any initial direct costs incurred by the lessee.

Depreciation is charged so as to write off the cost of assets, over the lease term using the straight-line method where shorter than the useful life of the right of use asset.

The lease liability is initially measured at the present value of the future lease payments over the lease term that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment with similar terms and conditions.

Generally, the Group uses the lessee's incremental borrowing rate as the discount rate.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

**3. Significant accounting policies (continued)**

None of the Group's leases include variable lease payments that depend on an index or a rate.

Payments associated with short-term leases and leases of low-value assets 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. Low-value assets comprise IT-equipment.

**r) Share capital**

Share capital is classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

**s) Distributions**

Dividends to the Group's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved but not distributed at reporting date.

**t) Fair value estimates**

Financial instruments classified as fair value through profit or loss or available for sale are presented in the Group's statement of financial position at their fair value. For other financial assets and financial liabilities, fair value is estimated as follows:

- Cash and cash equivalents

These assets are short term in nature and the carrying value is equivalent to their fair value.

- Trade and other receivables

These assets are short term in nature and are reviewed for impairment; the carrying value approximates their fair value.

These assets are short term in nature and the carrying value is equivalent to their fair value.

- Finance receivables

Finance receivables have fixed interest rates. Fair value is estimated using a discounted cash flow model based on a current market interest rate for similar products after making allowances for impairment; the carrying value approximates their fair value.

- Other borrowings

These liabilities are long term in nature and the carrying value approximates their fair value.

- Other payables

These liabilities are short term in nature and the carrying value approximates their fair value.

- Borrowings, bank and professional investor facilities and debt securities

Borrowings, bank and professional investor facilities and debt securities have fixed interest rates. Fair value is estimated using a discounted cash flow model based on a current market interest rate for similar products; the carrying value approximates their fair value.

**u) Non current assets held for sale**

Non current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

**v) Segment reporting**

The Group's operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments on an entity. The Group has determined the Group's Board of Directors as its chief operating decision-maker as the Board is responsible for allocating resources and assessing the performance of the operating segments and making strategic and operating decisions.

Income and expenses directly associated with each segment are included in determining each segment's performance.

The Group's reportable operating segments are the following: corporate, new business consumer finance, insurance, old business consumer finance (including debt collections), and invoice factoring services and overseas. Refer note 38 for further details on the Group's operating segments.

The Group operates in primarily in two geographic areas, New Zealand and Tonga.

**w) Statement of cash flows**

The statement of cash flows has been prepared using the direct approach. Cash flows from finance receivables, debentures, bank facilities and professional investor facilities have been netted to provide meaningful disclosure as many of the cash flows are on behalf of the Group's customers or providers of funding and do not reflect the activities of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

**3. Significant accounting policies (continued)**

- Investing activities

Investing activities are those activities relating to the acquisition of property, plant and equipment and computer software and investments in related party receivables.

- Financing activities

Financing activities are those activities relating to changes in the size and composition of the capital structure of the Group and the payment of dividends (if any).

- Operating activities

Operating activities include all transactions and other events that are not investing or financing activities. Cash flows arising from movements in finance receivables are classified as operating activities. Operating activities are the main trading activities of the Group.

**x) Changes in accounting policies**

Except as outlined in note 3 (b), all policies have been applied on a basis consistent with those used in the previous reporting period.

**y) Comparatives**

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

**4. Critical estimates and judgements used in applying accounting policies**

These financial statements are prepared in accordance with NZ IFRS and applicable financial reporting standards. Notwithstanding the existence of relevant accounting standards, there are a number of critical accounting treatments which include complex or subjective judgements and estimates that may affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgements are continually reviewed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

An explanation of the judgements and estimates made by the Group in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements are set out below:

**a) COVID-19**

In March 2020, the World Health Organization declared an ongoing global outbreak of a novel coronavirus ('COVID-19') as a pandemic. In response, the New Zealand Government implemented a range of public health and economic measures to mitigate the impact of the COVID-19 pandemic. The COVID-19 pandemic continues to inhibit general activity and confidence levels within the community, and the economy. The Group continues to monitor developments and initiate plans to mitigate adverse impacts and maximise opportunities.

While actual results achieved in the 31 March 2021 financial statements have been better than expected in the COVID-19 environment, residual market uncertainty regarding the economic impact of the pandemic remains. In the reporting period ended 31 March 2020, the Group had increased its expected credit loss allowance for finance receivables, by \$0.625m for the potential future impact of COVID-19. Due to the ongoing presence and impacts of the COVID-19 pandemic, the Group has retained the additional expected credit loss allowance recorded at 31 March 2020, in the current year.

It is not possible to estimate the full impact of the COVID-19 pandemic's short and long-term effects. As at the date of the signing of these consolidated financial statements, all reasonably known and available information with respect to the COVID-19 pandemic, has been taken into consideration and all reasonably determinable adjustments have been made in preparing these consolidated financial statements.

**b) Liabilities arising from claims under insurance contracts**

Liabilities arising from claims under insurance contracts are estimated based on the terms of the cover provided under the insurance contract.

The estimation of the ultimate liability arising from claims made under insurance contracts is based on a number of actuarial techniques that analyse experience, trends and other relevant factors. The actuarial methodologies used are noted in note 5 below.

**c) Credit provisioning**

Provision for impairment on financial receivables

- Significant increase in credit risk

As explained in note 3(g), ECL are measured as an allowance equal to 12 month ECL for performing assets, or lifetime ECL for doubtful or in default assets. An asset moves to doubtful when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

**4. Critical estimates and judgements used in applying accounting policies (continued)**

- Calculation of loss allowance

Provisions for impairment in customer loans and advances are raised by management to cover actual losses arising from past events. Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on loans assessed collectively. Losses expected from future events, no matter how likely, are not recognised. The amount of the impairment loss is recognised as an expense through profit or loss.

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

The ECL is calculated on homogeneous or portfolio of loans by applying an expected loss factor to the outstanding balances in each loan portfolio. The loan portfolios are based on when lending was undertaken and further split by days past due and days no pay. The expected loss factor is determined from the Group historical loss experience data, adjusted for forward-looking information that is available without undue cost or effort.

Historical loss experience data is reviewed by management and adjustments made to reflect current and forward looking economic and credit conditions as well as taking into account such factors as concentration risk in an individual portfolio. In addition, management recognise that a certain level of imprecision exists in any model used to generate risk grading and provisioning levels. As such an adjustment is applied for model risk.

Management regularly reviews and adjusts its ECL estimates, judgements, assumptions, and methodologies as data becomes available. Changes in these estimates, judgements, assumptions, and methodologies could have a direct impact on the level of credit provision and credit impairment charge recorded in the financial statements (refer Note 17. Provision for credit impairment).

If the ECL rates on performing finance receivables increased/(decreased) by 1% higher (lower) as at 31 March 2021, the loss allowance on finance receivables would have been \$0.88million higher/(lower) (2020: \$0.76m).

If the ECL rates on doubtful or in default finance receivables increased/(decreased) 1% higher (lower) as at 31 March 2020, the loss allowance on finance receivables would have been \$0.22million higher/(lower) (2020: \$0.28m).

**d) Suspended income**

To the extent that it is not probable that economic benefits will flow to the Group from revenue, the revenue is not recognised in the income statement but transferred to a suspended income account in the statement of financial position and offset against gross receivables (refer Note 16. Finance receivables and Note 17. Provision for credit impairment).

**e) Deferred tax asset**

The Group has recognised a deferred tax assets (relating to temporary differences and tax losses) on its statement of financial position as at reporting date. Significant judgement is required in determining if the utilisation of deferred tax assets is probable. The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted or tax losses can be utilised. To determine the future taxable profits, reference is made to the latest forecasts of future earnings of the Group. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. Maintenance of shareholder continuity in the future is also taken into consideration when determining the extent to which deferred tax relating to tax losses is recognised (refer Note 13. Tax reconciliation and Note 22. Taxation).

**f) Impairment testing of non-financial assets**

- Goodwill

The recoverability of the carrying value of goodwill assessed at least annually to ensure that it is not impaired. With respect to goodwill, this assessment generally requires management to estimate future cash flows to be generated by the related investment or cash generating unit (CGU), which entails making judgements, including the determination of the CGU itself, the expected rate of growth of revenues, margins expected to be achieved, the level of future capital expenditure required to support these outcomes and the appropriate discount rate to apply when valuing future cash flows. (refer Note 23. Intangible assets).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2021

#### 4. Critical estimates and judgements used in applying accounting policies (continued)

##### - Customer relationships

Customer relationships are amortised over their estimated useful life of 3 to 7 years. Customer relationships are also assessed for impairment indicators. If any indication of impairment exists, the recoverability of the carrying value of customer relationships is assessed to ensure that it is not impaired. This assessment involves management to comparing current year trading volumes for those customers with those trading volumes on acquisition date. Any non-temporary reduction in trading volumes will result in an impairment of the carrying value of the intangible relating to that particular customer. (refer Note 23. Intangible assets).

##### g) Common control reserve

Where the Board of Directors and Management have determined that an acquisition represented a business combination under common control, there is no New Zealand International Financial Reporting Standards ('NZ IFRS') or International Financial Reporting Standards ('IFRS') that specifically applies to an acquisition and consolidation under common control. As such the Board of Directors and Management have followed the requirements of NZ IAS 8 and IAS 8 'Accounting policies, accounting estimates and errors', which requires management to use its judgement in developing and applying an accounting policy that results in information that is: relevant to the economic decision-making needs of users; and reliable, in that the financial statements, represent faithfully the financial position, financial performance and cash flows of the entity; reflect the economic substance of transactions, other events and conditions, and not merely the legal form; are neutral, i.e. free from bias; are prudent; and are complete in all material respects.

In making this judgement, the Board of Directors and Management have referred to, and considered the applicability of, the following sources in descending order: the requirements in NZ IFRSs dealing with similar and related issues; and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the New Zealand Conceptual Framework for Financial Reporting ('New Zealand Framework'). Board of Directors and Management have also considered the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the requirements in NZ IFRSs dealing with similar and related issues; and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the New Zealand Framework.

##### h) Right Of Use Assets And Leases Liabilities - Determining lease term

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

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).

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.

#### 5. Actuarial assumptions and methods

The liability for insurance contracts has been determined by Group's consulting Actuary, Peter Davies, ('the Actuary'), B.Bus.Sc., FIA, a Fellow of the New Zealand Society of Actuaries in accordance with NZ IFRS 4 'Insurance Contracts' issued by the External Reporting Board, and Professional Standard no. 20 of the New Zealand Society of Actuaries – Valuation of Life Insurance Policy Liabilities and no. 30 Valuation of General Insurance Claims. The liability equals the initial single premium, net of acquisition costs, written down on a straight line basis over the life of the policy.

The actuary is satisfied as to the nature and extent of the data used for the valuation.

The life insurance contract liabilities are subject to a loss recognition test, which has been carried out on the following basis:

<b>2021</b>	Mortality:	Population mortality NZ2000 – 2002.
	Deaths:	15% of net unearned premium
	Disability:	15% of net unearned premium
	Redundancy:	15% of net unearned premium
	Expenses:	40% of future claims
	Interest:	Nil
	Cancellations:	Consumer credit contracts
	Future Surrenders:	Nil
	Surrender value:	Generally no refunds paid

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

## 5. Actuarial assumptions and methods (continued)

<b>2020</b>	Mortality:	Population mortality NZ2000 – 2002.
	Deaths:	15% of net unearned premium
	Disability:	15% of net unearned premium
	Redundancy:	15% of net unearned premium
	Expenses:	40% of future claims
	Interest:	Nil
	Cancellations:	Consumer credit contracts
	Future Surrenders:	Nil. Surrender values are lower than unearned premiums
	Surrender value	Rule of 78 less \$35 processing fee

Claim provisions for notified claims have been determined using case estimates provided by the claims manager.

The provision for claims incurred but not reported (IBNR) has been determined by applying the chain ladder method to past claim reporting patterns.

Insurance contract liabilities for motor vehicle business have been calculated as the unearned premium net of deferred acquisition costs.

The basis for the loss recognition test in respect of motor insurance business is as follows:

<b>2021</b>	Premium liability before risk margin and expenses:	69% of net unearned premium
	Risk margin:	10% of future claims plus expenses
	Expense allowance:	10% of future claims
	Future Surrenders:	Nil
	Surrender value:	Straight line basis
	Earned premium:	
	Mechanical Breakdown	60% Rule of 78, 40% straight line
	Comprehensive Motor, GAP	Straight line amortisation
<b>2020</b>	Premium liability before risk margin and expenses:	69% of net unearned premium
	Risk margin:	10% of future claims plus expenses
	Expense allowance:	13% of future claims
	Future Surrenders:	Nil. Surrender values are lower than unearned premium
	Surrender value:	Straight line basis
	Earned premium:	
	Mechanical Breakdown	60% Rule of 78, 40% straight line
	Comprehensive Motor, GAP	Straight line amortisation

Claim provisions for notified motor claims have been based on case estimates provided by the claim manager.

The provision for IBNR in respect of motor claims has been determined by applying the chain ladder method to past claim reporting patterns.

Under the accumulation method, insurance contract liabilities do not vary with changes in the valuation assumptions, unless a variation in the assumption would lead to the recognition of future losses. The sensitivity of changes in the valuation assumptions on the best estimate liability calculations, carried out as part of the loss recognition tests, is indicated in the following table.

## Sensitivity Disclosure

Policy liabilities (unearned premium liability), net of deferred acquisition costs (in dollars).

Group	31 March 2021	Payment Protection & Lifestyle		Motor		Combined	
	Policy liability *	1,987,362		11,793,967		13,781,329	
		Best estimate liability	Variation	Best estimate liability	Variation	Best estimate liability	Variation
	Base assumptions	417,346		8,951,621		9,368,967	
	Discount rate +1%	417,346	-	8,951,621	-	9,368,967	-
	Discount rate -1%	417,346	-	8,951,621	-	9,368,967	-
	Claims frequencies x 1.1	447,156	(29,810)	9,765,404	(813,783)	10,212,560	(843,593)
	Claims frequencies x 0.9	387,536	29,810	8,137,837	813,784	8,525,373	843,594
	Admin costs x 1.1	429,270	(11,924)	9,032,999	(81,378)	9,462,269	(93,302)
	Admin costs x 0.9	405,422	11,924	8,870,242	81,379	9,275,664	93,303
	Cancellation rate x 1.1	417,346	-	8,951,621	-	9,368,967	-
	Cancellation rate x 0.9	417,346	-	8,951,621	-	9,368,967	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

## 5. Actuarial assumptions and methods (continued)

31 March 2020	Payment Protection & Lifestyle		Motor		Combined	
Policy liability *	797,421		7,806,568		8,603,989	
	Best estimate liability	Variation	Best estimate liability	Variation	Best estimate liability	Variation
Base assumptions	400,704		6,086,781		6,487,485	
Discount rate +1%	400,704	-	6,086,781	-	6,487,485	-
Discount rate -1%	400,704	-	6,086,781	-	6,487,485	-
Claims frequencies x 1.1	412,665	(11,961)	6,625,434	(538,653)	7,038,099	(550,614)
Claims frequencies x 0.9	388,743	11,961	5,548,128	538,653	5,936,871	550,614
Admin costs x 1.1	428,813	(28,109)	6,156,806	(70,025)	6,585,619	(98,134)
Admin costs x 0.9	372,595	28,109	6,016,756	70,025	6,389,351	98,134
Cancellation rate x 1.1	400,704	-	6,086,781	-	6,487,485	-
Cancellation rate x 0.9	400,704	-	6,086,781	-	6,487,485	-

\* Net of deferred acquisition costs

The best estimate is calculated on the basis of the "best estimate" of the net future cash-flows under insurance policies and exclude future profit. These profits are released to the statement of financial performance over the life of the policies and are included in the carrying amount of liabilities disclosed on the statement of financial position. The "best estimate" assumptions have been calculated using the assumptions set out above.

Group	2021 \$000's	2020 \$000's
Unearned premium liability (note 26)	(19,008)	(12,706)
Less: Deferred acquisition costs (note 21)	(5,226)	(4,102)
	<u>(24,234)</u>	<u>(16,808)</u>

## 6. Interest income

	2021 \$000's	2020 \$000's
Bank accounts	159	204
Finance receivables	14,906	14,154
Finance receivables - impaired	214	694
Total interest revenue	<u>15,279</u>	<u>15,052</u>

## 7. Interest expense

	2021 \$000's	2020 \$000's
Bank facilities	2,754	3,109
Other borrowings	1,188	1,231
ROU Interest	33	43
Total interest expense	<u>3,975</u>	<u>4,383</u>

## 8. Net premium revenue

	2021 \$000's	2020 \$000's
Premium revenue	21,283	13,657
Movement in unearned premium reserve	(6,301)	(2,246)
	<u>14,982</u>	<u>11,411</u>
Reinsurance expense	(273)	(153)
Net premium revenue	<u>14,709</u>	<u>11,258</u>

## 9. Net claims expense

	2021 \$000's	2020 \$000's
Claims expense	7,589	5,396
Recoveries	(999)	(535)
Net claims expense	<u>6,590</u>	<u>4,861</u>

GENEVA FINANCE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

10. Other revenue

	2021 \$000's	2020 \$000's
<b>Revenue from contracts with customers</b>		
<i>At a point in time</i>		
Collection services	851	1,169
Commission income	488	531
Other fees and finance charges	2,390	2,269
<b>Other income</b>		
Dividends received	-	340
FVTOCI reserve reclassified through profit or loss (33)	932	-
Other Revenue	173	441
<b>Total other revenue</b>	<b>4,834</b>	<b>4,750</b>

Timing of recognition of revenue from contracts with customers

At a point in time	3,729	3,969
Overtime	-	-
<b>Total revenue from contracts with customers</b>	<b>3,729</b>	<b>3,969</b>

11. Operating expenses

	2021 \$000's	2020 \$000's
<i>Other operating expenses includes the following:</i>		
Auditor's remuneration		
Audit of financial statements		
- Audit of financial statements	264	261
- Audit of financial statements - prior year	-	119
- Audit of Quest Insurance Group Limited's solvency return	4	4
Other services		
- Tax compliance fees	20	18
- Tax compliance fees - prior year	-	30
Total fees paid to auditor	<b>288</b>	<b>432</b>
Insurance contract acquisition costs	3,998	4,254
Depreciation (24)	371	358
Amortisation (23)	378	383
Directors fees	205	147
Employee benefits	4,750	4,706
(Profit) / Loss on sale of fixed assets	(4)	(9)

12. Impaired asset (reversal) / charge

	2021 \$000's	2020 \$000's
Bad debts written off	132	9
Increase / (decrease) in collective provision	680	1,797
Increase / (decrease) in specific provision (17)	13	48
	693	1,845
<b>Total impaired asset charge</b>	<b>825</b>	<b>1,854</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

13. Tax reconciliation

	2021 \$000's	2020 \$000's
Net profit before taxation	6,766	4,102
Prima facie taxation @ 28%	1,894	1,149
Non-deductible expenses	45	33
Non-taxable income	(105)	(48)
Reversal of deferred tax not recognised		
Movement in deferred tax recognised	(198)	(401)
Deferred tax not recognised	(689)	943
Deferred tax recognised	(887)	542
Tax losses not recognised / (utilised)	(801)	(1,689)
	<u>146</u>	<u>(13)</u>
Comprising:		
Current	344	388
Deferred	(198)	(401)
	<u>146</u>	<u>(13)</u>

14. Cash and cash equivalents

	2021 \$000's	2020 \$000's
Cash at bank	24,842	17,340
Cash at bank (professional investor scheme) *	361	325
Cash at bank (securitisation arrangement) **	2,599	2,960
Cash and cash equivalents	<u>27,802</u>	<u>20,625</u>

\* Cash at bank relating to the professional investor scheme is cash held within the Prime Asset Trust Limited (refer note 19 and 20). This cash relates to receipts made from receivables that were sold to Prime Asset Trust Limited and do not meet the criteria for derecognition as outlined in note 16 and is held to meet the repayment obligation Prime Asset Trust Limited has in relation to the professional investor scheme and is not available to the Group for any other use.

\*\* Cash at bank relating to the securitisation arrangement is cash held within The Geneva Warehouse A Trust (refer note 18,19 and 20). This cash relates to receipts made from receivables that were sold into the Securitisation trust and do not meet the criteria for derecognition as outlined in note 16 and is held and distributed as per The Geneva Warehouse A Trust deed, which requires Trustee approval for distribution purposes, and such is not available to the Group.

15. Financial assets at FVTOCI

	2021 \$000's	2020 \$000's
<b>Financial assets at FVTOCI - Equity securities</b>		
Unlisted medical property investment company	<u>203</u>	<u>3,684</u>

The 10.85% stake in this company is held by Quest Insurance Group Limited. The investment in the unlisted medical property company is held for sale financial assets at FVTOCI. This investment is denominated in NZ dollars. The Directors have disclosed their intention to sell this investment. This equity security is not quoted in an active market. The fair value of this equity security is based on the Group's share of the entity's net assets at reporting date as reported in the entity's financial statements (valuation technique). The entity is a property investment company that is solely in the business of holding and leasing investment property under operating leases and is involved in the development of investment property. The majority of the entity's assets and liabilities are reported in their financial statements at either their fair value or their carrying value which approximates their fair value (the significant unobservable inputs). The inter-relationship between key unobservable inputs and fair value measurement is that an increase / (decrease) in the net assets would decrease / (increase) the fair value of the investment.

During the current year, an underlying asset in the AMPL investment, being an investment property was sold, resulting in Quest receiving circa \$3.7m distributions from this investment. The carrying value noted above of \$203k is the fair value of Quest's share of the AMPL net assets as at 31 March 2021.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2021

## 16. Finance receivables

	2021 \$000's	2020 \$000's
Gross finance receivables	30,772	28,805
Gross finance receivables (The Geneva Warehouse A Trust)	78,499	71,548
Gross finance receivables (Prime Asset Trust Limited)	403	913
Total gross finance receivables	109,674	101,266
Less: Unearned interest	7	4
Deferred fee revenue and expenses	(2,779)	(1,262)
Less: Provision for credit impairment (17)	20,294	19,656
Net finance receivables	92,152	82,868
Maturity profile of net finance receivables		
	2021 \$000's	2020 \$000's
Current:		
Within 1 month	4,135	3,311
2 - 3 months	7,088	8,196
4 - 6 months	10,219	9,577
7 - 12 months	17,475	16,412
	38,917	37,495
Non - Current:		
13 - 24 months	25,977	24,555
25 - 60 months	27,258	20,818
	53,235	45,373
Total	92,152	82,868

During the year ended 31 March 2021, finance receivables totalling approximately \$55.5m were sold to the Trust (2020: \$47.8m). As there has been no change in the management of the receivables and because there were no significant changes in the cash flows before and after the sale, the sold receivables did not meet the derecognition criteria. Furthermore, as the sales constitute legally enforceable transfer of equitable interest in the transferred receivables, the carrying values of these receivables at reporting date of \$68.6m are subject to limitations on disposal (2020: \$63.4m).

While the sale of the finance receivables to the Geneva Warehouse A Trust (the Trust) from Geneva Financial Services Limited constitute a legally enforceable sale and purchase transaction, it does not meet the criteria for the derecognition of financial assets under NZ IFRS 9, 'Financial Instruments: Recognition and Measurement' (NZ IFRS 9) and thus at the time of the sale does not meet the Group's accounting policy for derecognition of a financial asset. NZ IFRS 9 establishes specific guidance for the derecognition of financial assets, such that a financial asset can only be de-recognised when substantially all of the risks and rewards of ownership, measured by the change in the variability of the cash flow arising from the financial assets before and after the transfer, is transferred. Please refer to note 18 for further information on treatment of finance receivables sold to the Trust.

During the year ended 31 March 2021, no finance receivables were sold to or repurchased from the Prime Asset Trust Limited ('PATL') (2020: \$Nil sold and \$Nil repurchased). As there has been no change in the management of the receivables and because there were no significant changes in the cash flows before and after the sale, the sold receivables did not meet the derecognition criteria. Furthermore, as the sales constitute legally enforceable transfer of equitable interest in the transferred receivables, the carrying values of these receivables at reporting date of \$0.4m are subject to limitations on disposal (2020: \$0.9m).

While the sale of finance receivables to PATL from Geneva Financial Services Limited ('GFSL') constitutes a legally enforceable sale and purchase transaction, it does not meet the criteria for the derecognition of financial assets under NZ IFRS 9 (refer note 3 (g) 'financial assets') and thus at the time of sale does not meet the GFSL's accounting policy for derecognising of financial asset. Under NZ IFRS 9, GFSL retains substantially all of the risks and rewards of ownership of the loan receivables transferred to the PATL. This is on the basis that in substance, the arrangement is simply a funding mechanism and effectively there has been no change in the ownership or risk exposure in relation to the underlying loan receivable portfolio. GFSL is exposed to the residual cash flows arising from the transferred portfolio (by virtue of its status as the sole shareholder of PATL) and the fact that the Company has contributed a subordinated loan to the PATL that serves as a first loss piece within the cashflow allocation methodology to the funding providers of PATL ('being Quest Insurance Group Limited). Consequently, GFSL and the Company, together, retain substantially all of the risks and rewards of ownership of the loan receivables transferred to the Trust and the loan receivables do not qualify for derecognition under NZ IFRS 9. The loan receivables transferred continue to be recognised in the statement of financial position of GFSL.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2021

## 17. Provision for credit impairment

		2021 \$000's	2020 \$000's
Opening Balance		19,656	17,793
Increase / (decrease) in provisions	(12)	561	1,836
Other movement		77	27
Closing balance	(16)	20,294	19,656

## Fair value and credit risk

Due to the short-term nature of trade receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk from trade receivables at the reporting date is the carrying amount of trade receivables. The Group lending consists of consumer lending (including personal loans) and commercial lending spread across a large number of borrowers in New Zealand. As such there is no material concentration of credit risk to individual borrowers.

Refer to note 33 for more information on the risk management policies of the Group.

## 18. Securitisation

Geneva Financial Services Limited (GFSL) a wholly owned subsidiary of the Company has a wholesale funding arrangement with Westpac New Zealand Limited (Westpac) under which it securitised loan receivables through The Geneva Warehouse A Trust (the Trust). Under the facility, Westpac provided funding to the Trust secured by loan receivables transferred to the Trust from GFSL. The facility annual review was completed during December 2020 (2020: December 2019) and was extended to 31 October 2022 (2020: 30 September 2021). The current facility is \$70,000,000 (2020: \$70,000,000). The Trust is a special purpose entity set up solely for the purpose of receiving loans from GFSL with Westpac funding up to 83% of the purchase and the remainder being funded by a subordinated loan from the Company. The NZ Guardian Trust Limited (NZGT), via NZGT (GF) Trustee Limited, has been appointed as Trustee for the Trust with GFSL as the sole beneficiary.

Under NZ IFRS 9, Financial Instruments: Recognition and Measurement, GFSL retains substantially all of the risks and rewards of ownership of the loan receivables transferred to the Trust. This is on the basis that in substance, the arrangement is simply a funding mechanism and effectively there has been no change in the ownership or risk exposure in relation to the underlying loan receivable portfolio. GFSL is exposed to the residual cash flows arising from the transferred portfolio (by virtue of its status as the beneficiary of the Trust) and the fact that the Company has contributed a subordinated loan (described above) to the Trust that serves as a first loss piece within the cashflow allocation methodology to the Trustee on behalf of Westpac. Consequently, GFSL and the Company, together, retain substantially all of the risks and rewards of ownership of the loan receivables transferred to the Trust and the loan receivables do not qualify for derecognition under NZ IFRS 9. The loan receivables transferred continue to be recognised in the statement of financial position of GFSL. In addition under, NZ IFRS 10: Consolidated Financial Statements, GFSL controls the financing and operating activities of the Trust and GFSL continues to administer the loans and collect loan instalments as they fall due, as a result the Trust is controlled by GFSL and is consequently consolidated into the Group financial statements.

During year ended 31 March 2021 GFSL transferred \$55.5m gross value of loans receivables to the Trust (2020: \$47.8m). As at 31 March 2021 the carrying value of these assets were \$69.1m (2020: \$63.4m).

## 19. Related parties

The Company listed on the NZAX on 1 May 2008, migrated to NZX Main Board on 30 April 2019 and its shares are widely held. The Group has related party transactions with its key management personnel and parties associated with these key management personnel.

## - Loans and advances to related parties

	Directors and other key management	
	2021 \$000's	2020 \$000's
Finance receivables		
Loans receivables	274	274
Impairment provision	(274)	(274)
Net loans receivable	-	-

## - Loans and advances from related parties

	Directors and other key management	
	2021 \$000's	2020 \$000's
Other borrowings, secured debt and subordinated debt.		
Subordinated debt	9,150	8,150
Other borrowings	1	6
Total	9,151	8,156

The balance of \$9.151m (2020: \$8.156m) has been included in the balance of other borrowings (refer to note 29).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2021

## 19. Related parties (continued)

	2021 \$000's	2020 \$000's
<i>Movement in debentures, subordinated debt and deposits</i>		
Opening balance as at 1 April	8,150	7,650
Additional deposits received from existing depositors during the year	1,000	1,200
Withdrawal of deposits by existing depositors during the year	-	(700)
	<u>9,150</u>	<u>8,150</u>
Interest expense on subordinated debt	<u>693</u>	<u>590</u>

The related party deposits carry interest rates of 8.2% (2020: 8.8%).

On 1 April 2018, the Group acquired 60% of the shares and voting interests in Federal Pacific Finance Limited (Tonga) ('FPFLT'), 20% from Federal Pacific Finance Limited (Samoa) and 40% from Federal Pacific Insurance Limited (Tonga) (refer note 20). Federal Pacific Finance Limited (Samoa) and Federal Pacific Insurance Limited (Tonga) are controlled (in accordance with the definition of the Accounting standard within NZ IFRS 10 Consolidated Financial Statements) by Alistair and Alan Hutchison as Directors of those entities. FPFLT has related party transactions with other entities associated with Alistair and Alan Hutchison.

## - Loans and advances from related parties

	2021 \$000's	2020 \$000's
<u>Federal Pacific Insurance Ltd</u>		
Opening balance as at 1 April 2020	6	214
Repayments	(5)	(208)
	<u>1</u>	<u>6</u>
Interest Expense	<u>1</u>	<u>12</u>

## - Other Operating expenses from related parties

	2021 \$000's	2020 \$000's
Management fees	93	95
Rent	22	24
Secretarial	2	3
Other expenses	6	14
	<u>123</u>	<u>136</u>
Total related party expenses	<u>124</u>	<u>148</u>

## - Key management personnel compensation

	2021 \$000's	2020 \$000's
Salaries short term employee benefits during the period		
Salaries	1,480	1,389
Directors Fees	205	147
	<u>1,685</u>	<u>1,536</u>

Key management personnel is defined as directors and the chief executive whom are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

## - Investments

	2021 \$000's	2020 \$000's
Prime Asset Trust Limited ('PATL')	-	538
	<u>-</u>	<u>538</u>

Geneva Financial Services Limited contributed approximately 15% of the funds to scheme created in July 2016. These amounts are eliminated upon consolidation.

## - Others

	2021 \$000's	2020 \$000's
Revenue from Fexco (NZ)	-	53
	<u>-</u>	<u>53</u>
Accounts payable to Fexco (NZ)	-	3
	<u>-</u>	<u>3</u>

# GENEVA FINANCE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2021

#### 19. Related parties (continued)

Fexco (NZ) is an entity related via common directorship and shareholding. The revenue and accounts payable balances relates to debt collections services offered to Fexco (NZ) which was terminated in April 2020.

#### 20. Group entities

##### Subsidiaries

Name	Nature of business	Country of incorporation	Ownership interest (%)	
			2021	2020
Geneva Finance NZ Limited	Consumer finance	New Zealand	100	100
Quest Insurance Group Limited	Insurance	New Zealand	100	100
Geneva Capital Limited	Invoice factoring	New Zealand	100	100
Stellar Collections Limited	Debt collection	New Zealand	100	100
Geneva Financial Services Limited	Consumer finance	New Zealand	100	100
Prime Asset Trust Limited	Trustee / nominee company	New Zealand	100	100
Federal Pacific Finance Limited (Tonga)	Consumer finance	Tonga	60	60
Geneva Nominees Limited	Dormant	New Zealand	100	100
The Geneva Warehouse A Trust *	Securitisation Trust	New Zealand	N/A *	N/A *

The reporting date of all companies is 31 March.

\* The Geneva Warehouse A Trust is a special purpose entity set up solely for the purpose of the securitisation facility, (refer note 19).The NZ Guardian Trust Limited, via NZGT (GF) Trustee Limited, has been appointed as Trustee for the Trust with Geneva Financial Services Limited as the sole beneficiary.

##### Details of non-wholly owned subsidiaries that have material non-controlling interests

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interest is set out below. The summarised financial information below represents amounts before intragroup eliminations.

-	Federal Pacific Financial Limited (Tonga) (FPFLT)	2021	2020
		\$000's	\$000's
	Current assets	4,377	4,520
	Non-current assets	57	86
	Current liabilities	(558)	(527)
	Non-current liabilities	(1)	(6)
	Equity attributable to owners of the Group	(3,440)	(3,662)
	Non-controlling interest	(435)	(410)
	Revenue	1,904	1,817
	Expense	(472)	(404)
	Profit (loss) for the year before tax	1,432	1,413
	Profit (loss) attributable to owners of the Group	652	615
	Profit (loss) attributable to owners of the non-controlling interests	435	410
	Profit (loss) for the year	1,087	1,025
	Dividends paid to non-controlling interest	283	-
	Net cash inflow (outflow) from operating activities	(48)	584
	Net cash inflow (outflow) from investing activities	11	(43)
	Net cash inflow (outflow) from financing activities	(5)	(207)
	Net cash inflow/(outflow)	(42)	334
	<b>Non-controlling interest</b>	<b>2021</b>	<b>2020</b>
		<b>\$000's</b>	<b>\$000's</b>
	Balance at beginning of year	1,471	1,061
	Share of profit for year - FPFLT	435	410
	Dividends paid out	(283)	-
	Balance at end of year	1,623	1,471

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2021

## 21. Deferred insurance contract acquisition costs

	2021 \$000's	2020 \$000's
Opening balance	4,102	3,652
Deferral of insurance contract acquisition costs incurred during the year	5,582	4,645
Expense of insurance contract acquisition costs incurred during prior years	(4,458)	(4,195)
Closing balance	5,226	4,102

## 22. Taxation

## a) Deferred income tax

	2021 \$000's	2020 \$000's
Deferred tax assets		
To be recovered within one year	2,449	1,480
Later than one year	2,461	3,232
	4,910	4,712

The gross movement on the deferred income tax account is as follows:

	Intangible Assets \$'000	Provisions \$'000	Tax losses \$'000	Deferred Expenses \$'000	Total \$'000
<b>Balance at 31 March 2019</b>	(115)	3,455	1,993	(1,022)	4,311
(Charged) / Credited to profit or loss	25	646	(144)	(126)	401
<b>Balance at 31 March 2020</b>	(90)	4,101	1,849	(1,148)	4,712
(Charged) / Credited to profit or loss	25	(418)	906	(315)	198
<b>Balance at 31 March 2021</b>	(65)	3,683	2,755	(1,463)	4,910

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As the Group has generated taxable profits for the current year and is forecasting profits for the foreseeable future, the Directors considered it probable that a deferred tax asset would be realised.

	2021 \$'000 Gross	2021 \$'000 Tax Effectuated	2020 \$'000 Gross	2020 \$'000 Tax Effectuated
<b>Tax Losses</b>				
Recognised	9,839	2,755	6,604	1,849
Not recognised	110	31	6,333	1,773
	<b>9,949</b>	<b>2,786</b>	<b>12,937</b>	<b>3,622</b>

Tax losses available to carry forward for the group total \$9.949m, (2020: \$12.937m), tax effect \$2.786m (2020: \$3.622m). Of this balance, tax losses with a value of \$9.839m (2020: \$6.604m), tax effect \$2.755m (2020: \$1.849m) have been recognised at reporting date. These tax losses can be carried forward, with no expiry, for use against future taxable profits of the Group's New Zealand entities, subject shareholder continuity being maintained as required by New Zealand tax legislation.

## b) Imputation credits

The balance of imputation credit at reporting date is Nil (2020: Nil).

## 23. Intangible assets

	2021 \$000's	2020 \$000's
Computer software		
At cost	3,603	3,414
Accumulated amortisation	(3,010)	(2,740)
Closing balance	593	674
Goodwill		
At cost	1,338	1,338
Accumulated amortisation / impairment	-	-
Closing balance	1,338	1,338
Customer Relationships		
At cost	570	570
Accumulated amortisation / impairment	(299)	(211)
Closing balance	271	359
<b>Total intangible assets</b>	<b>2,202</b>	<b>2,371</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

## 23. Intangible assets (continued)

The reconciliations of the carrying value for Intangible assets are set out below:

	2021 \$000's	2020 \$000's
<b>Computer software</b>		
Opening balance	628	414
Additions	246	508
Amortisation	(290)	(294)
Disposals/write offs	-	-
Closing balance	<u>584</u>	<u>628</u>
<b>Computer software in progress</b>		
Opening balance	46	173
Additions	232	529
Transfers/Disposals	(269)	(656)
Closing balance	<u>9</u>	<u>46</u>
<b>Goodwill</b>		
Opening Balance	1,338	1,338
Additions through business combinations	-	-
Amortisation	-	-
Closing balance	<u>1,338</u>	<u>1,338</u>
<b>Customer Relationships</b>		
Opening Balance	359	448
Additions through business combinations	-	-
Amortisation	(88)	(89)
Closing balance	<u>271</u>	<u>359</u>
<b>Total intangible assets</b>	<u>2,202</u>	<u>2,371</u>

*Acquisition of invoice factoring business*

On 1 April 2018, invoice factoring business (IF) was acquired as part of a business combination. The excess consideration over the fair value of the net identifiable assets acquired being goodwill of \$0.58m is tested for impairment annually.

Goodwill arose in the acquisition because the consideration paid included amounts in relation to the benefit of expected synergies from combining operations of IF to the Group's existing debt collection, finance and revenue growth, future market development and the assembled workforce of IF. Management have assessed that there is no foreseeable limit to the period of time over which the goodwill is expected to generate net cash inflows for the Group, and as such goodwill have been assessed as having an indefinite useful life.

*Acquisition of MFL Services business operations*

On 1 December 2017, the MFL Services business was acquired as part of a business combination. Non-contractual customer relationships arising on acquisition of \$0.53m have been identified and recognised as an intangible asset and will be amortised over its expected useful life of 7 years. The excess consideration over the fair value of the net identifiable assets acquired being goodwill of \$0.76m is tested for impairment annually.

Goodwill arose in the acquisition because the consideration paid included amounts in relation to the benefit of expected synergies from combining operations of the MFL Services business to the Group's existing debt collection, finance and insurance businesses, revenue growth, future market development and the assembled workforce of MFL. Management have assessed that there is no foreseeable limit to the period of time over which the goodwill is expected to generate net cash inflows for the Group, and as such goodwill have been assessed as having an indefinite useful life.

*Goodwill*

	2021 \$000's	2020 \$000's
Allocated to MFL Services collections business CGU	758	758
Allocated to the Geneva Capital invoice factoring CGU	580	580
	<u>1,338</u>	<u>1,338</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2021

## 23. Intangible assets (continued)

*Impairment testing for cash-generating units (CGU) containing goodwill*

The aggregate carrying amounts of goodwill allocated to the cash generating units are outlined below. Goodwill primarily relates to growth expectations, expected future profitability and the substantial skill and expertise of the work force of the cash generating unit. Management have assessed that there is no foreseeable limit to the period of time over which the goodwill is expected to generate net cash inflows for the Group, and as such goodwill have been assessed as having an indefinite useful life.

The recoverable amount of all CGUs has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated long term growth rates stated below. The growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the CGU operates. For each of the CGUs with goodwill the key assumptions, long term growth rate and discount rate used in the value-in-use calculations are as follows.

- *MFL Services collections business CGU*

The year 1 forecast cash flows were extrapolated using the following growth rates; year 2: 0%, year 3: 21%, years 4: 7%, year 5: 0% and 1% terminal rate (2020: year 2: 24%, year 3: 9%, years 4: 9%, year 5: 9% and 1% terminal rate). A pre-tax discount rate of 20.0% (2020: 20.0%) was applied in determining the recoverable amount. The discount rate was established based on weighted average cost of capital taking into account the specific attributes and size of the CGU.

In assessing the impairment of the goodwill in the collections business CGU, a sensitivity analysis for reasonably possible changes in key assumptions was performed. This included increasing and reducing the terminal growth rate by 1% (2020: increasing and reducing the terminal growth rate by 1%) and increasing and decreasing the discount rate by 1% (2020: 1%). These reasonably possible changes in rates did not cause any impairment.

- *Geneva Capital invoice factoring CGU*

The year 1 forecast cash flows were extrapolated using the following growth rates; year 2: 49%, year 3: 46%; years 4: 2%, year 5: 1% and 1% terminal rate (2020: year 2: 39%, year 3: 7%, year 4: -5%, year 5: -5% and 1% terminal rate). A pre-tax discount rate of 15% (2020: 15%) was applied in determining the recoverable amount. The discount rate was established based on weighted average cost of capital taking into account the specific attributes and size of the CGU.

In assessing the impairment of the goodwill in the invoice factoring CGU, a sensitivity analysis for reasonably possible changes in key assumptions was performed. This included increasing and reducing the terminal growth rate by 1% and increasing and decreasing the discount rate by 1%. These reasonably possible changes in rates did not cause any impairment.

## 24. Plant and equipment

	2021 \$000's	2020 \$000's
<b>Computer equipment</b>		
At cost	2,012	2,002
Accumulated depreciation	(1,982)	(1,965)
	<u>30</u>	<u>37</u>
<b>Furniture and fittings</b>		
At cost	784	798
Accumulated depreciation	(755)	(756)
	<u>29</u>	<u>42</u>
<b>Office equipment</b>		
At cost	271	271
Accumulated depreciation	(262)	(260)
	<u>9</u>	<u>11</u>
<b>Leasehold improvements</b>		
At cost	1,466	1,453
Accumulated depreciation	(1,451)	(1,450)
	<u>15</u>	<u>3</u>
<b>Motor vehicles</b>		
At cost	388	440
Accumulated depreciation	(162)	(133)
	<u>226</u>	<u>307</u>
<b>Right of use assets - Property</b>		
At cost	1,053	1,053
Accumulated depreciation	(527)	(258)
	<u>526</u>	<u>795</u>

GENEVA FINANCE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

24. Plant and equipment (continued)

	2021 \$000's	2020 \$000's
<b>Right of use assets - Equipment</b>		
At cost	59	41
Accumulated depreciation	(37)	(19)
	<u>22</u>	<u>22</u>
<b>Total plant and equipment</b>	<u>857</u>	<u>1,217</u>

The reconciliations of the carrying value for fixed assets are set out below:

	2021 \$000's	2020 \$000's
<b>Computer equipment</b>		
Opening balance	37	93
Additions	10	20
Disposals/write offs	-	(65)
Depreciation	(17)	(11)
Closing balance	<u>30</u>	<u>37</u>
<b>Furniture and fittings</b>		
Opening balance	42	3
Additions	-	47
Disposals/write offs	(4)	-
Depreciation	(9)	(8)
Closing balance	<u>29</u>	<u>42</u>
<b>Office equipment</b>		
Opening balance	11	11
Additions	-	-
Disposals/write offs	-	-
Depreciation	(2)	-
Closing balance	<u>9</u>	<u>11</u>
<b>Leasehold improvements</b>		
Opening balance	3	4
Additions	13	-
Disposals/write offs	-	-
Depreciation	(1)	(1)
Closing balance	<u>15</u>	<u>3</u>
<b>Motor vehicles</b>		
Opening balance	307	127
Additions	45	302
Disposals/write offs	(71)	(61)
Depreciation	(55)	(61)
Closing balance	<u>226</u>	<u>307</u>
<b>Right of use assets - Property</b>		
Opening balance	795	-
Additions	-	1,053
Disposals/write offs	-	-
Depreciation	(269)	(258)
Closing balance	<u>526</u>	<u>795</u>
<b>Right of use assets - Equipment</b>		
Opening balance	22	-
Additions	18	41
Disposals/write offs	-	-
Depreciation	(18)	(19)
Closing balance	<u>22</u>	<u>22</u>
<b>Total plant and equipment</b>	<u>857</u>	<u>1,217</u>

# GENEVA FINANCE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2021

#### 25. Outstanding claims liability

	2021 \$000's	2020 \$000's
Gross claims undiscounted	1,351	717
Third party recoverable	(38)	(26)
IBNR provision	344	271
Closing balance	<u>1,657</u>	<u>962</u>

#### Reconciliation of movement in outstanding claims liability

	2021 \$000's	2020 \$000's
Gross claims undiscounted	1,351	717
Opening balance	717	659
Movement in ultimate incurred costs	(5,957)	(4,803)
Payments	6,591	4,861
Closing balance	<u>1,351</u>	<u>717</u>

Third party recoverable		
Opening balance	(26)	(32)
Movement	(12)	6
Closing balance	<u>(38)</u>	<u>(26)</u>

IBNR provision		
Opening balance	271	206
Movement	73	65
Closing balance	<u>344</u>	<u>271</u>

#### Solvency disclosure - Quest Insurance Group Limited

The solvency position of the Company as at 31 March 2021 has been calculated by the Company's actuary, under the Reserve Bank of New Zealand solvency standard (Section 55 of the Insurance (Prudential Supervision) Act 2010). The actual solvency capital of the Company under this standard as at 31 March 2021, net of related party investments and unrecoverable deferred acquisition costs amounted to \$6.72m (2020:\$6.47m). Quest Insurance Group Limited is required to hold minimum solvency capital of \$5.0 million and have a solvency margin of at least \$1.

2021	Non Life \$'000	Life \$'000	Total \$'000
Actual Solvency Capital	4,612	2,107	6,719
Minimum solvency requirement	3,720	15	5,000
Solvency Margin	<u>892</u>	<u>2,092</u>	<u>1,719</u>
Solvency Cover Ratio	124%	14359%	134%

2020	Non Life \$'000	Life \$'000	Total \$'000
Actual Solvency Capital	5,080	1,393	6,473
Minimum solvency requirement	4,718	0	5,000
Solvency Margin	<u>362</u>	<u>1,393</u>	<u>1,473</u>
Solvency Cover Ratio	108%	n/a	129%

The liabilities recorded on the Statement of Financial Position are \$23.4m (2020: \$15.2m) and total assets equal \$31.8m (2020: \$27.7m).

#### 26. Unearned insurance contract premium liabilities

	2021 \$000's	2020 \$000's
Opening balance	(12,706)	(10,460)
Deferral of premium on contracts written during the year	(21,453)	(13,999)
Earnings of premiums deferred in prior year	15,151	11,753
Closing balance	<u>(19,008)</u>	<u>(12,706)</u>

#### 27. Derivative financial instruments

The Group uses interest rate swap contracts to convert a portion of its variable rate debt to fixed rate debt. No exchange of principal takes place. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on observable yield curves.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

## 27. Derivative financial instruments (continued)

**Derivatives designated as cash flow hedges**

	2021 \$000's	2020 \$000's
Interest rate swap (at fair value) entered into		
Opening Balance	(551)	(285)
Movement	303	(266)
Closing Balance	(248)	(551)
Contract / notional amount - (Swap)	31,267	26,576

**Hedging activities**

The Group's hedging practices and accounting treatment are disclosed in Note 3 (i).

**Cash flow hedges**

The Group hedges a portion of interest rate risk that it has assumed as a result of entering into a floating rate bank facility agreement as part of the securitisation agreement refer note 18.

There were no ineffectiveness recognised in profit or loss during the period (2020: Nil).

Notional amounts and applicable interest rates

2021		2020	
Notional Amount	Interest Rate	Notional Amount	Interest Rate
\$000's	%	\$000's	%
55	2.17	1,449	2.17
15,212	2.05	25,126	2.05
14,620	0.41		
1,380	0.61		
<b>31,267</b>		<b>26,576</b>	

## 28. Bank facilities

	2021 \$000's	2020 \$000's
Bank facility: Westpac	63,664	57,234
Capitalised transaction costs: Westpac	(73)	(35)
Bank facility: Kiwi Bank	3,400	3,400
Capitalised transaction costs: Kiwi Bank	(6)	(1)
	<b>66,985</b>	<b>60,598</b>
	2021 \$000's	2020 \$000's
Maturity profile of bank facilities		
Current - within 12 months		
- Bank facility: Westpac	972	1,160
- Bank facility: Kiwi Bank	170	218
	<b>1,142</b>	<b>1,378</b>
Non - Current - more than 12 months		
- Bank facility: Westpac	62,619	56,039
- Bank facility: Kiwi Bank	3,224	3,181
	<b>65,843</b>	<b>59,220</b>
Total	<b>66,985</b>	<b>60,598</b>

The financing arrangement with Westpac New Zealand Limited (Westpac) as described in note 18.

Stellar Collections Limited entered into a term loan facility of \$3.4m with Kiwi Bank during June 2015 (for an initial term of 2 years to 15 June 2017), the facility was then further extended in August 2016 to 15 June 2018; in July 2017 to 15 June 2019; in July 2018 to 15 June 2020; in July 2020 to 30 June 2022. The term loan is secured by the present and future assets of Stellar Collections Limited with Geneva Finance Limited as the guarantor of the loan.



# GENEVA FINANCE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2021

#### 29. Other borrowings

	2021 \$000's	2020 \$000's
Unsecured	13,942	13,684
Total other borrowings	<u>13,942</u>	<u>13,684</u>
Maturity profile of other borrowings:		
Current - within 12 months		
- Unsecured	<u>10,425</u>	<u>6,937</u>
	<u>10,425</u>	<u>6,937</u>
Non-current - more than 12 months		
- Unsecured	<u>3,517</u>	<u>6,747</u>
	<u>3,517</u>	<u>6,747</u>
Total	<u>13,942</u>	<u>13,684</u>
Small offer investor	1,275	1,275
Wholesale investor	<u>12,667</u>	<u>12,409</u>
	<u>13,942</u>	<u>13,684</u>

The other borrowings relate to small offer investor and wholesale investor funding. The current portion of other borrowings is comprised of \$10.43m at an interest rate of 8.69% (2020: \$6.94m at an interest rate of 8.81%). The non-current portion of other borrowings is comprised of \$3.52m at an interest rate of 7.11% (2020: \$6.75m at an interest rate of 8.34%).

During the current period the Group settled \$1.2m investors funding (2020: Nil).

Subsequent to balance date, \$9.1m due to mature within 12 month has been re-invested with new terms which are more than 12 months to maturity (2020: Nil).

#### 30. Lease liabilities

The reconciliations of the carrying value for lease liabilities are set out below:

	2021 \$000's	2020 \$000's
Printer	23	24
Property	558	815
Total lease liabilities	<u>581</u>	<u>839</u>

Lease liabilities have an incremental borrowing rate of 4.68% (2020: 4.68%).

During the year the Group received Covid 19 rent concession of \$8k (2020: nil).

Amounts recognised in Statement of Comprehensive Income

Interest on lease liabilities	33	43
Expenses related to short term leases	<u>1</u>	<u>1</u>
Total Amount recognised in Statement of Comprehensive Income	<u>34</u>	<u>44</u>

#### 31. Capital and reserves

##### Capital:

Capital comprises share capital, other reserves and retained earnings.

Share capital (comprised of ordinary shares only):

	2021 000's	2020 000's
Opening balance	72,935	72,935
Closing balance	<u>72,935</u>	<u>72,935</u>

Share capital (comprised of ordinary shares only):

	2021 \$000's	2020 \$000's
Opening balance	52,779	52,779
Closing balance	<u>52,779</u>	<u>52,779</u>

# GENEVA FINANCE LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2021

#### 31. Capital and reserves (continued)

Shares held by Geneva	Ordinary shares (in thousands)	
	2021 000's	2020 000's
Opening Balance	-	-
Share buy back	805	-
Closing Balance	805	-
	2021 \$000's	2020 \$000's
Opening Balance	-	-
Share buy back	342	-
Closing Balance	342	-

All issued shares are authorised and fully paid. The holders of ordinary shares rank equally amongst themselves, are entitled to receive dividends from time to time and are entitled to one vote per share at shareholder meetings of the Company and rank equally with regard to the Company's residual assets.

#### Dividends:

Recognised amounts:

	Declared on	Paid on	Cents per share	Total \$'000
<b>2021</b>				
The Company				
Prior year final dividend	24/07/2020	29/07/2020	1.50	1,081
Interim dividend	30/11/2020	15/12/2020	1.25	902
				<u>1,983</u>
FPFLT's net dividend paid				283
Total dividend paid				<u>2,266</u>
Final dividend declared	10/05/2021	10/06/2021	2.50	1,803
<b>2020</b>				
Prior year final dividend	14/06/2019	11/07/2019	2.25	1,641
Interim dividend	2/12/2019	30/12/2019	1.25	912
				<u>2,553</u>
Final dividend declared	24/07/2020	29/07/2020	1.50	1,081

#### Reserves:

	2021 000's	2020 000's
Cash flow hedge reserve	(248)	(551)
Financial assets at FVTOCI reserve	536	1,450
Common control reserve	(2,468)	(2,468)
Foreign currency translation reserve	(137)	393
Total	<u>(2,317)</u>	<u>(1,176)</u>

#### Reconciliation:

	2021 000's	2020 000's
Opening Balance	(1,176)	(1,372)
Movement	(1,141)	196
Closing Balance	<u>(2,317)</u>	<u>(1,176)</u>

#### Summary of movement

Cash flow hedge reserve	(i)	303	(266)
Financial assets at FVTOCI reserve	(ii)	(914)	65
Common control reserve	(iii)	-	-
Foreign currency translation reserve	(iv)	(530)	397
Total Movement		<u>(1,141)</u>	<u>196</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

31. Capital and reserves (continued)

(i) Cash flow hedging reserve:

The hedging reserve relates to the fair value of the effective portion of cash flow hedges (Refer note 27).

	2021 000's	2020 000's
Opening balance	(551)	(285)
Movement	303	(266)
Closing balance	(248)	(551)

(ii) Financial assets at FVTOCI reserve:

The financial assets at FVTOCI reserve related to revaluation of an equity investment held by the subsidiary company Quest Insurance Group Limited (Refer Note 15).

The equity investment was initially acquired for a cost of \$2.2m. The FVTOCI reserve represents the difference between the initial cost, capital distributions received during the year and the fair value at reporting date of \$0.2m (2020: \$3.7m).

	2021 000's	2020 000's
Opening balance	1,450	1,385
Movement	(914)	65
Closing balance	536	1,450

(iii) Common control reserve:

The common control reserve arose upon the acquisition of Federal Pacific Finance Limited (Tonga).

The Board of Directors and Management have determined that the acquisition represents a business combination under common control (in accordance with definitions within NZ IFRS 10 Consolidated Financial Statements) on the basis that the Group and FPFLT are controlled by the same party being Alistair and Alan Hutchinson via a series of intermediary entities. There is no NZ IFRS or IFRS that specifically applies to an acquisition and consolidation under common control and therefore outside of the scope of NZ IFRS, the predecessor value ('pooling of interests') method has been adopted. In this case the net assets of the combining entities or businesses are combined using the existing book values (predecessor book values) from the controlling parties' perspective (and not adjusted to fair value upon combining). No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control, to the extent of the continuation of the controlling party's interest. Any difference between the cost of investment recognised by the controlling entity and the nominal value of the net assets of the combining entities or businesses on the date at which the combining entities or businesses first came under the control of the controlling entity results in the recognition of a common control reserve.

	2021 000's	2020 000's
Opening balance	(2,468)	(2,468)
Movement	-	-
Closing balance	(2,468)	(2,468)

(iv) Foreign currency translation reserve

	2021 000's	2020 000's
Opening balance	393	(4)
Movement	(530)	397
Closing balance	(137)	393

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2021

## 32. Profit / (Loss) per share

*Basic profit / (loss) per share*

The calculation of basic profit per share at 31 March 2021 was based on the profit attributable to ordinary shareholders of \$6,185,000 (2020: \$3,705,000) and a weighted average number of shares 72,935,275 (2020: 72,935,275) calculated as follows:

<i>Profit / (loss) attributable to ordinary shareholders</i>	2021 \$000's	2020 \$000's
Net profit / (loss) after taxation	6,185	3,705
Dividends on preference shares	-	-
Net profit / (loss) attributable to ordinary shareholders	<u>6,185</u>	<u>3,705</u>
 <i>Weighted average number of ordinary shares (thousands)</i>		
	2021	2020
Opening balance	72,935	72,935
Shares issued in the reporting period	0	0
Weighted average number of ordinary shares in issue	<u>72,935</u>	<u>72,935</u>
 Basic profit per share (in cents)	8.48	5.08

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

No diluted earnings per share was presented for in the prior year as the average share price of the Company's shares over the reported periods was lower than the exercise price of the share options on issue.

## 33. Management of financial, insurance and capital risk

**Financial Risk****(a) Credit risk**

Credit risk is defined as the risk that a loss will be incurred if a counter party to a transaction does not fulfil its financial obligations.

Credit risk is the potential loss to the Group arising from the non-performance of a counterparty to whom funds have been advanced. Financial instruments, which potentially subject the Group to credit risk principally, consist of bank balances, finance receivables, accounts receivable and interest rate swaps.

The board, audit and risk committees have the responsibility to oversee all aspects of credit risk assessment and management, and delegates authority to perform lending within approved lending policies and guidelines.

To control the level of credit risk taken, each customer's credit risk is individually evaluated on a case by case basis and the amount of collateral taken on the provision of financial facility is based on management's credit evaluation of the customer. The Group operates a lending policy with various levels of authority depending on the size of the loan. A lending and credit committee operates and overdue loans are assessed on a regular basis by this body. The Group requires collateral or other security to support financial instruments with credit risk. The collateral taken varies and as at reporting date was primarily in the form of motor vehicles and/or household chattels.

Loan agreements provide that if an event of default occurs, collateral can be repossessed. The repossessed collateral is either held until overdue payments have been received or sold in the secondary market. An asset quality committee operates and overdue loans are assessed and reviewed on a regular basis by this body.

To facilitate effective management of arrears accounts, loan receivables are grouped on the number of days in arrears and number of days without making a payment. All overdue accounts are managed by the collections team who have responsibility for securing the Group's position. Collection processes includes telephone contact, standard arrears letters, and if the arrears position deteriorates an escalation through the legal process.

The Group's credit risk to cash and cash equivalents represents the potential cost to the Group if counterparties fail to fulfil their obligation. To control the level of credit risk taken, the Group only banks with registered banks.

The Group's credit risk to interest rate swaps represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. To control the level of credit risk taken, the Group only enters into interest rate swaps with its bank facility provider.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2021

## 33. Management of financial, insurance and capital risk (continued)

## i) Concentrations of credit risk

The Group lending consists of consumer lending (including personal loans) and commercial lending spread across a large number of borrowers in New Zealand. As such there is no material concentration of credit risk to individual borrowers. All finance receivables net of provisions are considered to be fully recoverable.

## ii) Concentration of credit risk by 'sector' and by 'sector and then asset category'

Finance receivables consist of secured and unsecured business loans and secured and unsecured personal loans. The security on business loans is generally the assets being purchased, typically equipment. The security on personal loans is generally the assets being purchased, typically motor vehicles or chattels. It is impractical to determine the current fair value of the collateral held due to the large number of loans, average size, term to maturity, wide variety and condition of each collateral item.

<i>Concentration of credit risk by sector</i>	2021 \$000's	2020 \$000's
<i>Personal Loans</i>		
Gross finance receivables	109,028	100,616
Provision for credit impairment	(19,648)	(19,006)
	<u>89,380</u>	<u>81,610</u>
<i>Business loans</i>		
Gross finance receivables	646	650
Provision for credit impairment	(646)	(650)
	<u>-</u>	<u>-</u>
Gross finance receivables after provision for credit impairment	<u>89,380</u>	<u>81,610</u>
Less:		
Unearned interest	7	4
Deferred fee revenue and expenses	(2,779)	(1,262)
Net finance receivables	<u>92,152</u>	<u>82,868</u>
<i>Concentration of credit risk exposure by security</i>	2021 \$000's	2020 \$000's
<i>Personal loans</i>		
Secured	49,179	81,425
Unsecured	59,849	19,191
Total personal loan receivables	<u>109,028</u>	<u>100,616</u>
<i>Business loans</i>		
Secured	0	0
Unsecured	646	650
Total business loan receivables	<u>646</u>	<u>650</u>

The above amounts are gross of any allowances for impairment. Security is primarily in the form of vehicles and/or household chattels.

*Concentration of credit risk by sector and then asset category*

31 March 2021	Current \$000's	<30 \$000's	31-60 \$000's	61-90 \$000's	91-120 \$000's	>120 \$000's	Total \$000's
<i>Personal loans</i>							
Gross finance receivables - secured	36,697	2,476	260	155	177	9,414	49,179
Provision for credit impairment	(457)	(42)	(54)	(52)	(81)	(6,934)	(7,620)
Secured	<u>36,240</u>	<u>2,434</u>	<u>206</u>	<u>103</u>	<u>96</u>	<u>2,480</u>	<u>41,559</u>
<i>Personal loans</i>							
Gross finance receivables - unsecured	47,305	1,073	156	78	37	11,200	59,849
Provision for credit impairment	(737)	(20)	(46)	(43)	(18)	(11,164)	(12,028)
Secured	<u>46,568</u>	<u>1,053</u>	<u>110</u>	<u>35</u>	<u>19</u>	<u>36</u>	<u>47,821</u>
Gross finance receivables after provision for credit impairment	<u>82,808</u>	<u>3,487</u>	<u>316</u>	<u>138</u>	<u>115</u>	<u>2,516</u>	<u>89,380</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

## 33. Management of financial, insurance and capital risk (continued)

31 March 2020	Current \$000's	<30 \$000's	31-60 \$000's	61-90 \$000's	91-120 \$000's	>120 \$000's	Total \$000's
<b>Personal loans</b>							
Gross finance receivables - secured	61,587	7,618	1,502	811	342	9,565	81,425
Provision for credit impairment	(924)	(129)	(423)	(236)	(130)	(7,251)	(9,093)
Secured	60,663	7,489	1,079	575	212	2,314	72,332
Gross finance receivables - unsecured	6,672	262	528	198	153	11,378	19,191
Provision for credit impairment	(29)	(4)	(703)	(58)	(64)	(9,055)	(9,913)
Unsecured	6,643	258	(175)	140	89	2,323	9,278
Gross finance receivables after provision for credit impairment	67,306	7,747	904	715	301	4,637	81,610

## iii) Maximum credit risk

The maximum exposures are gross of any provisions for losses on the financial instruments:

	2021 \$000's	2020 \$000's
Cash and cash equivalents	27,802	20,625
Finance receivables	109,674	101,266
Prepayments & receivables	9,139	5,884

Prepayments & receivables are aged in note 33 (b) as other receivables. They are considered current unless otherwise stated.

The Group has no off balance sheet credit exposures.

## iv) Ageing analysis of loan receivables

	Days past due						
2021	TOTAL	Current	<30	31-60	61-90	91-120	>120
Expected credit loss rate		1.42%	1.75%	24.04%	40.77%	46.48%	88.17%
Gross Finance Receivables	109,674	84,002	3,549	416	233	213	21,261
Provision for Credit Impairment	20,294	1,193	62	100	95	99	18,745
Net Finance Receivables	89,380	82,809	3,487	316	138	114	2,516
2020	TOTAL	Current	<30	31-60	61-90	91-120	>120
Expected credit loss rate		1.39%	1.69%	55.47%	29.14%	39.19%	78.53%
Gross Finance Receivables	101,266	68,259	7,880	2,030	1,009	495	21,593
Provision for Credit Impairment	19,656	952	133	1,126	294	194	16,957
Net Finance Receivables	81,610	67,307	7,747	904	715	301	4,636

## b) Interest rate risk and liquidity risk

## Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank facility and other borrowing debt obligations and the Group's finance receivables. Changes to interest rates can impact on the Group's financial results by affecting the spread earned on the interest-earning assets and the cost of interest-bearing liabilities.

The expected maturity periods and effective interest rates of debt securities are set out in the liquidity gap and interest rate sensitivity analysis. The interest rates are fixed depending on the term and value of the professional investor loans.

Interest rates are managed by assessing the demand for funds, new lending, expected debt repayments and maintaining an adequate portfolio of financial assets and liabilities with a sufficient spread between interest rates on the Group's lending and borrowing. Interest rates on advances are normally fixed for the life of the advances. The Group's bank facilities have a floating interest rate. To protect the Group from interest rate volatility on this facility the Group enter into interest rate swaps to hedge at least 40% of the interest rate risk. The Group agrees with other parties to exchange, at specified intervals (monthly), the difference between floating contract rates and fixed rate interest amounts calculated by reference to the agreed notional principal amounts. The Group has not entered into any other derivative transactions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2021

## 33. Management of financial, insurance and capital risk (continued)

Interest rate risk is measured by the Executive Directors when establishing fixed rates of interest for issues of debt securities. When approving interest rates for individual loan advances, interest rate risk is either measured by the Executive Directors in accordance with the approved lending policy or by management in accordance with the approved lending policy. The Executive Directors monitor exposure to interest rates on a monthly basis.

*Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty to raise funds on short notice to support the subordinated requirement to sustain securitisation facility growth. The Group monitors its liquidity position on a continuous basis and plans its operating activities to ensure a balanced liquidity position. The key factors in managing liquidity are the timing of the payments of interest and principal on funding and the timing of receipts of interest and principal on finance receivables. The Group has also reduced its liquidity risk through:

- securing the securitisation facility;
- securing a bank facility with Kiwi Bank;
- sourcing debt from professional investors;
- actively searching for alternative funding sources; and
- managing its operations to operate within available resources.

## i) Liquidity gap

The following maturity analysis of financial assets and financial liabilities is based on the remaining period to contractual maturity. Managements' expected maturities of the financial assets and financial liabilities are in line with the contractual maturities unless otherwise noted below.

The Group monitors its liquidity position on a continuous basis and plans its operating activities to ensure a balanced liquidity position. If necessary the Group will build up cash reserves to meet longer term liabilities.

## 31 March 2021

\$'000's

	Carrying amount	Gross nominal inflow/ (outflow)	0-3 months	4-6 months	7-12 months	13-24 months	25-60 months
<b>Financial assets</b>							
Cash and cash equivalents	27,802	27,802	27,802	-	-	-	-
Finance receivables	92,152	105,948	12,952	11,701	20,093	29,868	31,334
Financial assets at FVTOCI*	203	203	-	-	203	-	-
Other receivables	9,139	9,139	7,626	1,441	72	-	-
<b>Total finance assets</b>	<b>129,296</b>	<b>143,092</b>	<b>48,380</b>	<b>13,142</b>	<b>20,368</b>	<b>29,868</b>	<b>31,334</b>
<b>Financial liabilities</b>							
Bank facilities **	(66,985)	(67,275)	(8,601)	(6,153)	(11,307)	(21,813)	(19,401)
Professional investor scheme	(13,942)	(16,647)	(1,244)	(3,552)	(6,609)	(2,105)	(3,137)
Other payables	(563)	(562)	(562)	-	-	-	-
<b>Total financial liabilities</b>	<b>(81,490)</b>	<b>(84,484)</b>	<b>(10,407)</b>	<b>(9,705)</b>	<b>(17,916)</b>	<b>(23,918)</b>	<b>(22,538)</b>
Derivative gross outflow	(248)	(248)	(42)	(41)	(66)	(77)	(22)
<b>Net liquidity gap</b>	<b>47,558</b>	<b>58,360</b>	<b>37,931</b>	<b>3,396</b>	<b>2,386</b>	<b>5,873</b>	<b>8,774</b>

\* The realisation of these cashflows is not contractual and is based on management's expectation.

\*\* Management's expectations are that the facilities would be extended (Refer note 18 & 28) otherwise the amounts presented in '25-60 months' would appear in '13-24 months'.

## 31 March 2020

\$'000's

	Carrying amount	Gross nominal inflow/ (outflow)	0-3 months	4-6 months	7-12 months	13-24 months	25-60 months
<b>Financial assets</b>							
Cash and cash equivalents	20,625	20,625	20,625	0	0	0	0
Finance receivables	82,868	96,449	13,515	11,028	19,106	28,587	24,214
Financial assets at FVTOCI*	3,684	3,684	0	0	3,684	0	0
Other receivables	5,884	5,884	4,342	1,508	34	0	0
<b>Total finance assets</b>	<b>113,061</b>	<b>126,642</b>	<b>38,482</b>	<b>12,536</b>	<b>22,824</b>	<b>28,586</b>	<b>24,214</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

## 33. Management of financial, insurance and capital risk (continued)

	Carrying amount	Gross nominal inflow/ (outflow)	0-3 months	4-6 months	7-12 months	13-24 months	25-60 months
<b>Financial liabilities</b>							
Bank facilities **	(60,598)	(57,523)	(8,693)	(5,790)	(10,765)	(17,533)	(14,742)
Professional investor scheme	(13,684)	(16,477)	(250)	(657)	(7,046)	(6,511)	(2,013)
Other payables	(435)	(435)	(435)	-	-	-	-
Total financial liabilities	(74,717)	(74,435)	(9,378)	(6,447)	(17,811)	(24,044)	(16,755)
Derivative gross outflow	(551)	(551)	(101)	(90)	(144)	(168)	(48)
Net liquidity gap	37,793	51,656	29,003	5,999	4,868	4,374	7,410

\* The realisation of these cashflows is not contractual and is based on management's expectation.

\*\* Management's expectations are that the facilities would be extended (Refer note 18 & 28) otherwise the amounts presented in '25-60 months' would appear in '13-24 months'.

## ii) Interest rate reset analysis

The following tables include the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. Interest rates on finance receivables and debentures are fixed for their term at the time they were issued.

31 March 2021	Effective Interest Rate	0-3 Months	4-6 Months	7-12 Months	13-24 Months	25-60 Months	Total
\$'000's	%						
<b>Financial assets</b>							
Cash and cash equivalents	0.05 - 1.80	27,802	-	-	-	-	27,802
Finance receivables	6.35 - 37	11,223	10,219	17,475	25,977	27,258	92,152
Total interest bearing finance assets		39,025	10,219	17,475	25,977	27,258	119,954

<b>Financial liabilities</b>							
Bank facilities	2.01 - 4.65	(331)	(811)	-	-	(65,843)	(66,985)
Other borrowings	6.5 - 9.25	(1,000)	(3,300)	(6,142)	(1,200)	(2,300)	(13,942)
Total interest bearing financial liabilities		(1,331)	(4,111)	(6,142)	(1,200)	(68,143)	(80,927)
Effect of derivatives held for risk management	0.41 - 2.17	(42)	(41)	(66)	(77)	(22)	(248)
Total		37,651	6,067	11,267	24,700	(40,907)	38,779

<b>31 March 2020</b>	Effective Interest Rate	0-3 Months	0-6 Months	7-12 Months	13-24 Months	25-60 Months	Total
\$'000's	%						
<b>Financial assets</b>							
Cash and cash equivalents	0.00 - 1.25	20,625	-	-	-	-	20,625
Finance receivables	6.35 - 37	11,506	9,577	16,412	24,555	20,818	82,868
Total interest bearing finance assets		32,130	9,576	16,411	24,554	20,817	103,493

<b>Financial liabilities</b>							
Bank facilities	2.75 - 7.05	(405)	(973)	-	-	(59,220)	(60,598)
Professional investor scheme	7.5 - 9.25	-	(400)	(6,559)	(5,575)	(1,150)	(13,684)
Total interest bearing financial liabilities		(405)	(1,373)	(6,559)	(5,575)	(60,370)	(74,282)
Effect of derivatives held for risk management	2.05 - 4.37	(101)	(90)	(144)	(168)	(48)	(551)
Total		31,624	8,113	9,708	18,811	(39,601)	28,660

## iii) Interest rate sensitivity analysis

The following tables summarise the sensitivity of the Group's financial assets and financial liabilities to interest rate risk. The analysis shows the annualised impact on the profit before tax and equity of a reasonably possible movement of +/- 0.5% movement in interest rates. The equity impact takes into account the tax effect of the profit impacts. The tax effect is \$Nil for the year ended 31 March 2021 (2020: \$Nil) due to the fact that the Group has sufficient accumulated tax losses available for utilisation against future taxable income (provided the Group generates sufficient assessable income, and the statutory requirement for shareholder continuity being met, also refer note 22).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

## 33. Management of financial, insurance and capital risk (continued)

## 31 March 2021

		Interest rate risk				
		Carrying Amount \$'000	-0.5% Profit \$'000	-0.5% Equity \$'000	+0.5% Profit \$'000	+0.5% Equity \$'000
<b>Financial assets</b>						
Cash and cash equivalents	(14)	27,802	(139)	(139)	139	139
Finance receivables	(16)	92,152	(461)	(461)	461	461
<b>Financial liabilities</b>						
Bank facilities	(28)	(66,985)	335	335	(335)	(335)
Other borrowings	(29)	(13,942)	70	70	(70)	(70)
Derivative financial instruments	(27)	(248)	1	1	(1)	(1)
<b>Total increase/(decrease)</b>			(194)	(194)	194	194

## 31 March 2020

		Interest rate risk				
		Carrying Amount \$'000	-0.5% Profit \$'000	-0.5% Equity \$'000	+0.5% Profit \$'000	+0.5% Equity \$'000
<b>Financial assets</b>						
Cash and cash equivalents	(14)	20,625	(103)	(103)	103	103
Finance receivables	(16)	82,868	(414)	(414)	414	414
<b>Financial liabilities</b>						
Bank facilities	(28)	(60,598)	303	303	(303)	(303)
Other borrowings	(29)	(13,684)	68	68	(68)	(68)
Derivative financial instruments	(27)	(551)	3	3	(3)	(3)
<b>Total increase/(decrease)</b>			(143)	(143)	143	143

## c) Fair value financial assets and liabilities

## i) Fair values

The fair value of assets and liabilities carried at fair value as well as the methods used to calculate fair value are summarised in the table below.

## ii) Fair value hierarchy

NZ IFRS 13 specifies a hierarchy of valuation measurements based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, New Zealand Stock Exchange) and exchange traded derivatives like futures (for example, Nasdaq, S&P 500).
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of over the counter derivative contracts, traded loans and issued structured debt. The sources of input parameters for yield curves or counterparty credit risk are Bloomberg or Reuters.
- Level 3 - Inputs for assets and liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

## iii) Assets and liabilities measured at fair value

## 31 March 2021

	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at FVTOCI	(15)	-	-	203	203
Total Assets		-	-	203	203
Derivative financial instruments	(27)	-	(248)	-	(248)
Total liabilities		-	(248)	-	(248)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2021

## 33. Management of financial, insurance and capital risk (continued)

## 31 March 2020

		Level 1	Level 2	Level 3	Total
	Note	\$'000	\$'000	\$'000	\$'000
Financial assets at FVTOCI	(15)	-	-	3,684	3,684
Total assets		-	-	3,684	3,684
Derivative financial instruments	(27)	-	(551)	-	(551)
Total liabilities		-	(551)	-	(551)

Refer to the notes annotated above for more detail on the valuation methodology for each fair value instrument.

## iv) Reconciliation of level 3 items

		Financial Assets at FVTOCI	Total
		\$'000	\$'000
31 March 2021			
Financial assets at FVTOCI			
At 1 April 2020		3,684	3,684
Decrease in fair value in financial assets at FVTOCI	(31)	(914)	(914)
Investment proceeds		(3,499)	(3,499)
FVTOCI reserve reclassified through profit or loss	(10)	932	932
At 31 March 2021		203	203
Total FVTOCI reserve reclassified through profit or loss for the period included in other revenue			932

		Financial Assets at FVTOCI	Total
		\$'000	\$'000
31 March 2020			
Financial assets at FVTOCI			
At 1 April 2019		3,619	3,619
Increase in fair value in financial assets at FVTOCI		65	65
At 31 March 2020		3,684	3,684
Total FVTOCI reserve reclassified through profit or loss for the period included in other revenue			-

## d) Foreign exchange risk

Foreign exchange risk is the risk that the Group may suffer a loss through adverse movement in the exchange rate. The Group has no material exposure to foreign exchange risk.

## e) Insurance risk

The Group defines insurance risk as the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to the expectations at the time of underwriting. The risks inherent in any single insurance contract are the possibility of the insured event occurring and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, these risks are random and unpredictable. In relation to the pricing of individual insurance contracts and the determination of the level of outstanding claims provision in relation to a portfolio of insurance contracts, the principal risk is that the ultimate claims payment will exceed the carrying amount of the provision established.

The Group is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty. The risk attachment periods under these products are short to mid term and usually between 12 and 36 months.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by strong underwriting discipline and the implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. The Company also uses the services of the appointed Actuary and insurance advisers and brokers to provide advice and assistance on managing insurance risk. In addition, the Company maintains a detailed analysis of historical claims and a detailed knowledge of the current developments in the specific market that the Group operates in. The Group has also maintained a significant reserve of liquid assets to better.

The primary objective in managing insurance risk is to enhance the financial performance of the Group, to reduce the magnitude and volatility of claims and to ensure funds are available to pay claims and maintain the solvency of the business if there is a negative deviation from historical performance.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2021

**33. Management of financial, insurance and capital risk (continued)**

Initial claims determination is managed by the Group's claims department with the assistance of the Group's loss adjuster and claims manager. It is the Group's policy to respond to and settle all genuine claims in a timely manner and to pay claims fairly, based on policyholders' full entitlements. Claims provisions are established using valuation models and include a risk margin for uncertainty, refer to note 5.

To further reduce the risk exposure of the Group there are strict claim review policies in place to assess all new and ongoing claims and processes to review claims handling procedures regularly. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

Policies, processes and methods for managing insurance risk are as follows:

- the use of reinsurance policies to limit the Group's exposure;
- pricing of policy premiums to ensure alignment with the underlying risk; and
- regular monitoring of the financial results to ensure the adequacy of policies.

The financial results of the Group are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims liability and the liability adequacy test directly affect the level of estimated claims incurred.

The scope of insurance risk is managed by the terms and conditions of the policies. The level of benefits specified is the key determinant of the amount of future claims although the exact level of claims is uncertain.

**f) Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for investors and benefits for the other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The components of Capital that are managed by the Group are share capital, retained earnings and other reserves.

Being in the finance sector the Group assesses the sufficiency of capital to remain a going concern against the risk expected or unexpected losses arising from lending and insurance operations on a regular basis. In order to maintain or adjust the required capital structure the Group may issue new shares or sell assets to reduce debt.

Group company Quest Insurance Group Limited has a minimum solvency requirement of greater than zero (2020: Greater than zero). Quest Insurance Group Limited also have a minimum qualifying capital of \$5.0m. The Group has complied with these externally imposed capital requirement during the period.

There are no other externally imposed capital requirements that the Group is required to adhere to.

**34. Trade and other receivables, prepayments and accounts payables, accruals and employee benefits**

	2021 \$000's	2020 \$000's
<b>Trade and other receivables and prepayment</b>		
Collections	155	340
Insurance	8,695	5,003
Other receivables	-	1
Prepayments	289	540
	<u>9,139</u>	<u>5,884</u>

The Group recognises lifetime credit loss for trade receivables. Due to the nature of the Group's trade and other receivables, the expected credit loss rate is 0%.

**Fair value and credit risk**

The carrying value of these receivables is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the fair value of the financial assets in other receivables. There is no concentration of credit risk to any individual customers or sectors.

	2021 \$000's	2020 \$000's
<b>Accounts Payables and accruals</b>		
Accounts Payable	1,167	981
Accruals	3,136	2,359
Other Payables	992	1,011
	<u>5,295</u>	<u>4,351</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

34. Trade and other receivables, prepayments and accounts payables, accruals and employee benefits (continued)

	2021	2020
	\$000's	\$000's
<b>Employee entitlements</b>		
Salaries and Wages	145	116
Annual leave	316	214
Long service leave	102	105
	<u>563</u>	<u>435</u>
(i) Reconciliation of annual leave		
Opening Balance	214	177
Movement	102	37
Closing Balance	<u>316</u>	<u>214</u>
(ii) Reconciliation of long service leave		
Opening Balance	105	73
Movement	(3)	32
Closing Balance	<u>102</u>	<u>105</u>

35. Reconciliation of profit or loss after taxation with cash flow from operating activities

	2021	2020
	\$000's	\$000's
Net profit / (loss) after taxation	6,620	4,115
Add/(Less) Non-cash adjustments		
Depreciation	(24) 371	358
Amortisation	(23) 378	383
Profit on sale of fixed assets and fixed asset written off	4	9
Movement in finance receivables provision	693	1,845
Bad debts	132	9
FVTOCI reserve reclassified through profit or loss	(10) (932)	-
Deferred taxation	146	(13)
Capitalised transaction costs	(43)	3
Add/(Less) Movements in other working capital items		
(Increase) / decrease in finance receivables	(8,591)	1,854
(Increase) / decrease in other receivables and prepayments	(3,256)	(1,893)
(Increase) / decrease in tax receivable	(430)	-
Increase / (Decrease) in trade and other payables	1,367	(994)
(Increase) / Decrease in insurance policyholder liability	6,301	2,375
Increase / (Decrease) in deferred revenue and expenses	<u>(2,641)</u>	<u>(1,671)</u>
Net cash inflow from operating activities	<u>119</u>	<u>6,380</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2021

## 36. Reconciliation of liabilities arising from financing activities

## Summary as at 31 March 2021

	Opening balance	Financing Cash Flows	Acquisition of subsidiary	Disposal of subsidiary	Fair value adjustments	New Finance Leases	Other changes	Closing Balance
Derivate financial instruments	551	-	-	-	(303)	-	-	248
Bank facilities	60,598	6,387	-	-	-	-	-	66,985
Other Borrowing advances	13,684	258	-	-	-	-	-	13,942
Issue of new shares	52,779	-	-	-	-	-	-	52,779
Leased liability	839	(276)	-	-	-	-	18	581
Share buyback	-	(342)	-	-	-	-	-	(342)
Dividends paid to Company shareholders		(1,983)						
Dividends paid to NCI	-	(283)	-	-	-	-	-	(283)
	128,451	3,761	-	-	(303)	-	18	131,927

## Summary as at 31 March 2020

	Opening balance	Financing Cash Flows	Acquisition of subsidiary	Disposal of subsidiary	Fair value adjustments	New Finance Leases	Other changes	Closing Balance
Derivate financial instruments	285				266			551
Bank facilities	59,691	907						60,598
Other Borrowing advances	13,318	366					-	13,684
Issue of new shares	52,779	(0)						52,779
Leased liability	-	(255)					1,094	839
Dividends paid to Company shareholders	-	(2,553)						(2,553)
	126,073	(1,536)	-	-	266	-	1,094	125,897

## 37. Current and term aggregates

	2021 \$000's	2020 \$000's
Aggregate current assets	76,069	67,697
Aggregate term assets	66,430	57,778
Aggregate current liabilities	19,330	14,614
Aggregate term liabilities	88,949	79,512

## 38. Segment analysis

## a) By operating segment

The Group's reportable operating segments are as follows:

- Corporate: The operations of this segment include the raising of debt and the advancing loans to other operating segments within the Group.
- New Business: The operations of this segment include the lending of money to individuals, companies and other entities and have a wholesale funding arrangement with Westpac New Zealand Limited (Westpac) under which it securitised loan receivables.
- Insurance: The operations of this segment include the issuing of temporary insurance contracts covering death, disablement and redundancy risks and short term motor vehicle contracts covering comprehensive, third party, mechanical breakdown risk and guaranteed asset protection.
- Old Business: The operations of this segment include the collection and management of money lent to individuals, companies and other entities originally originated by the Group and external debt collection.
- Invoice Factoring: This segments was purchased on 1 April 2018. The operations of this segments include providing debtor finance to companies and collection and management of trade receivables factored.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2021

## 38. Segment analysis (continued)

- Overseas: This segment was acquired on 1 April 2018. The operation of this segments include lending, collection and management of money to individuals, companies and other entities originally originated in Tonga.

Each Group operating segment is operated as a discrete business unit and transactions between segments are on normal commercial terms and conditions. The eliminations arise from transactions between the Group segments and are predominantly interest, commission/brokerage, marketing subsidy and debt collection charges.

None of the Group's operating segments place any reliance on a single major customer amounting to 10% or more of the applicable segments revenue.

**Group summary revenues and results for the year 31 March 2021**

\$'000	Corporate	New Business	Insurance	Old Business	Invoice Factoring	Overseas	Eliminations	Group
External revenues	-	13,912	15,785	1,408	1,813	1,904	-	34,822
Revenue - other segments	14,550	1,306	29	158	-	-	(16,043)	-
Total	14,550	15,218	15,814	1,566	1,813	1,904	(16,043)	34,822
Segment profit/(loss)	9,567	4,778	3,208	339	101	1,432	(12,659)	6,766
Taxation expense	790	-	(591)	-	-	(345)	-	(146)
Non controlling interest profit	-	-	-	-	-	(435)	-	(435)
Net profit/(loss) after taxation	10,357	4,778	2,617	339	101	652	(12,659)	6,185
Interest income	1,892	13,514	173	242	1,280	1,562	(3,384)	15,279
Interest expense	2,713	3,652	-	173	820	1	(3,384)	3,975
Depreciation	287	28	22	10	6	18	-	371
Amortisation	-	180	70	101	27	-	-	378
Other material non-cash items:								
Impaired assets expense	(637)	1,380	-	(709)	59	95	637	825

**Group summary assets and liabilities as at 31 March 2021**

\$'000	Corporate	New Business	Insurance	Old Business	Invoice Factoring	Overseas	Eliminations	Group
Segment assets								
Total assets	34,970	91,932	30,632	9,380	14,300	4,434	(43,149)	142,499
Additions / (Deletions) to non current assets	(7)	191	16	7	-	2	-	209
Segment liabilities								
Total liabilities	12,722	71,203	22,343	3,777	12,423	559	(14,748)	108,279

**Group summary revenues and results for the year 31 March 2020**

\$'000	Corporate	New Business	Insurance	Old Business	Invoice Factoring	Overseas	Eliminations	Group
External revenues	(184)	13,981	11,765	2,007	1,674	1,817	-	31,060
Revenue - other segments	1,103	1,038	70	167	-	-	(2,378)	-
Total	919	15,019	11,835	2,174	1,674	-	(2,378)	31,060
Segment profit/(loss)	(3,733)	4,201	1,700	109	(609)	1,413	1,021	4,102
Taxation benefit	401	-	-	-	-	(388)	-	13
Non controlling interest profit	-	-	-	-	-	(410)	-	(410)
Net profit/(loss) after taxation	(3,332)	4,201	1,700	109	(609)	615	1,021	3,705
Interest income	2,125	13,182	237	309	1,179	1,419	(3,399)	15,052
Interest expense	2,505	3,954	-	231	1,079	13	(3,399)	4,383
Depreciation	277	37	17	1	5	21	-	358
Amortisation	-	215	47	96	25	-	-	383
Other material non-cash items:								
Impaired assets expense	1,021	2,497	-	(669)	21	5	(1,021)	1,854

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

## 38. Segment analysis (continued)

**Group summary assets and liabilities as at 31 March 2020**

\$'000	Corporate	New Business	Insurance	Old Business	Invoice Factoring	Overseas	Eliminations	Group
Segment assets								
Total assets	30,988	89,681	27,235	9,060	7,309	4,606	(43,404)	125,475
Additions / (Deletions) to non current assets	(95)	384	38	181	23	70	22	623
Segment liabilities								
Total liabilities	16,895	68,035	14,650	3,795	8,533	534	(18,316)	94,126

**b) By geographical segment**

The Group operated predominantly in New Zealand and Tonga. \$33.0m in revenue is derived from New Zealand (2020: \$29.2m) and \$1.9m revenue from Tonga (2020: \$1.8m).

## 39. Credit ratings

Credit rating agency AM Best confirmed Quest Insurance Group Limited's on 30 April 2020 with a Financial Strength rating of B and an Issuer Credit rating of bb. Both ratings came with a stable outlook. Subsequent to reporting date, on 21 May 2021 AM Best confirmed Quest Insurance Group Limited's credit rating with a Financial Strength rating of B and an Issuer Credit rating of bb+. Both ratings came with a stable outlook.

## 40. Contingent liabilities

There are no material contingent liabilities at 31 March 2021 (2020: none).

## 41. Subsequent events

No significant events subsequent to reporting date.

## GENEVA FINANCE LIMITED

### SHAREHOLDER AND STATUTORY INFORMATION

#### Stock exchange listing

The Company's ordinary shares are listed on the New Zealand Stock Exchange.

#### Registered principal security holders at 26 May 2021

Rank	Name	Units	% of issued capital
1	Federal Pacific Group Nominees Limited	46,007,267	63.08%
2	Peter Edward Francis & Viaduct Trustee Services	2,432,933	3.34%
3	Charles Paul Telford Hutchison & Gregory Rex Eden	1,403,000	1.92%
4	David Gerard O'Connell & Vivienne Ellen O'Connell & Liston Trustee Services Ltd	1,146,141	1.57%
5	Robin King & Lynn King	1,126,005	1.54%
6	Ronald Robin King & Lynn Barbara King (Robin & Lynn King Family Trust)	925,201	1.27%
7	David W Smale & E M Smale (D W & E M Smale Partnership)	910,966	1.25%
8	Geneva Finance Limited	805,286	1.10%
9	New Zealand Depository Nominee	737,221	1.01%
10	Jack Wakelin & Margo Wakelin	525,359	0.72%
11	Clinton Garwin Hartley & Jillian Leah Hartley & Aswan Hartley Trustees Limited	500,000	0.69%
12	Brookes Lands Limited	460,100	0.63%
13	John G Webber Limited	450,000	0.62%
14	Suvira Rani Gupta	376,769	0.52%
15	William Evans McCreedy & Gillian McCreedy & Lee Trustee Services Limited	353,406	0.48%
16	Forthbank Trustees Limited	338,926	0.46%
16	William Alexander A Cairns & Terence Stanley Nowland	338,926	0.46%
18	Albert Boy & Lizel Boy	285,715	0.39%
19	Fulong Liu	284,211	0.39%
20	Hoon Choo Merlyn Yin	265,000	0.36%

#### Spread of security holders at 26 May 2021

Range	Number of shareholders	Units	% of issued capital
1 - 1,000	3	944	0.00%
1,001 - 5,000	264	872,145	1.20%
5,001 - 10,000	172	1,211,801	1.66%
10,001 - 50,000	160	3,572,287	4.90%
50,001 - 100,000	34	2,541,253	3.48%
100,001 and Over	48	64,736,845	88.76%
<b>TOTAL</b>	<b>681</b>	<b>72,935,275</b>	<b>100.00%</b>

Country	Number of Shareholders	%	Units	% of issued capital
New Zealand	649	95.30%	72,451,608	99.3%
Australia	17	2.50%	136,304	0.2%
United Kingdom	7	1.03%	100,494	0.1%
Other	8	1.17%	246,869	0.3%
	<b>681</b>	<b>100.0%</b>	<b>72,935,275</b>	<b>100.0%</b>

#### Substantial security holders

Pursuant to Section 35F of the Securities Market Amendment Act 2006, the substantial security holders as at 14 April 2021 were as follows:

	Number of Shares	%
Federal Pacific Group Nominees Limited	46,007,267	63.08%

The total number of voting securities of the company on issues on 26 May 2021 was 72,935,275 paid ordinary shares.



## GENEVA FINANCE LIMITED

### SHAREHOLDER AND STATUTORY INFORMATION

#### Statement of Directors security holdings

As at 26 May 2021 directors held the following securities in the Company:

	<b>Units</b>
R R King	2,051,206
D G O'Connell	1,146,141
D W Smale	910,966

Share transactions disclosed to the board and entered into the Company's Interest Register for the year ended 31 March 2021 were:

	<b>Date of Transaction</b>	<b>Shares Acquired / (Disposed)</b>	<b>Consideration Paid / (Received) \$</b>	<b>Nature of relevant interest</b>
R R King	02/04/2020 & 20/04/2020	23,607	10,029	Beneficial Owner

#### Share transactions and holdings

The share transactions effected by directors as noted above have been recorded in the Interest Register.

#### Directors' remuneration and other benefits

The names of Directors of the Company during the year ended 31 March 2021 and the details of the remuneration and other benefits received for their services to the Company for the period ended on that date are:

	<b>Fees \$'000</b>	<b>Salary \$'000</b>	<b>Bonus \$'000</b>	<b>Other \$'000</b>	<b>Total \$'000</b>
D S Smale	40,108				40,108
R R King	58,000				58,000
A L M Hutchison	36,000				36,000
MC Johnston	47,631				47,631
D Nair	23,710				23,710
D G O'Connell		528,215			528,215
	205,448	528,215	-	-	733,663

#### Entries recorded in the interests register

##### Loans

The following director has been granted a loan. The loan carried an interest rate of 8% up to the 30 September 2007, from 1 October 2007 the loan is interest free. The loans was advanced to purchase shares in Financial Investment Holdings Limited. This loan was fully provided for at 31 March 2021. Refer to note 19.

	<b>Original loan \$'000</b>	<b>\$'000</b>
D G O'Connell <i>THL No 2 Limited</i>	274	274

## GENEVA FINANCE LIMITED

### SHAREHOLDER AND STATUTORY INFORMATION

#### Other directorships

The following represents the interests of directors in other companies as disclosed to the Company and entered into the Interest Register:

##### David Smale

DWEM Limited

##### Robin King

CQ Hotels Wellington Limited

##### David O'Connell

The Warrington Group Limited

WGL - Mitchelson St Limited

Haast Trustee Services Limited

Haast Investment Limited

Anglesea Medical Properties Limited

Architectural Interiors Construction Limited

##### Alan Hutchison

Fexco (NZ) Limited

Federal Pacific Group Limited

Federal Pacific Group Nominees Limited

##### Daran Nair

Beagledata New Zealand Limited

Darvaga Limited

Dn Trustee One Limited

Dn Trustee Two Limited

Dn Trustee Three Limited

Dn Trustee Four Limited

Dn Trustee Five Limited

Dn Trustee Six Limited

Dn Trustee Nine Limited

Dn Trustee Twelve Limited

Dn Trustee Twenty One Limited

Dn Trustee Twenty Two Limited

Geet'S Limited

Gerald Hunt Trustee Company Limited

Glca Limited

Glca Tax Agency Limited

Glca Trustee ( Tobem) Limited

Glca Trustee One Limited

Glca Trustee Two Limited

Glca Trustee Three Limited

Glca Trustee Four Limited

Glca Trustee Five Limited

Glca Trustee Six Limited

Glca Trustee Seven Limited

Glca Trustee Eight Limited

Glca Trustee Nine Limited

Glca Trustee Ten Limited

Glca Trustee Twelve Limited

Glca Trustee Fourteen Limited

Glca Trustee Fifteen Limited

Glca Trustee Sixteen Limited

Glca Trustee Seventeen Limited

Glca Trustee Eighteen Limited

Glca Trustee Nineteen Limited

Glca Trustee Twenty Limited

Greenlane Ca Limited

Greenlane Insolvencies Limited

Naccal Limited

Nair & Associates Trustee Company Limited

Nair Draht Limited

Power Point Investments Limited

Raffles Limited

Saffron Incorporation Nz Limited

Sbc Administration Limited

Shut The Front Door (Nz) Limited

Trident Autonomous Limited

#### Employees' remuneration

The number of employees or former employees of the Group, not being directors of Geneva Finance Limited, who received remuneration and other benefits in their capacity as employees, the value of which exceeded \$100,000 for the year ended 31 March 2021, is set out below:

Remuneration range	No. of employees
<b>Geneva Finance Limited</b>	
\$100,001 - \$110,000	2
\$110,001 - \$120,000	2
\$130,001 - \$140,000	1
\$140,001 - \$150,000	1
\$220,001 - \$230,000	1
\$230,001 - \$240,000	1
\$260,001 - \$270,000	1

CORPORATE DIRECTORY AND SHAREHOLDER INFORMATION

**Corporate directory**

*Directors*

David W Smale (*Chairman*)  
Appointed 12 November 2008  
Retired 3 August 2020

Ronald R King (Independent Non- executive Chairman)  
Appointed 13 June 2008

Daran Nair (Independent Non-executive director)  
Appointed 3 August 2020

Alan Leighton Maia Hutchison (Non-executive director)  
Appointed 20 November 2013

David G O'Connell (Executive director)  
Appointed 19 June 2007

Malcolm Cliff Johnston (Non-executive director)  
Appointed 11 February 2020

*Registered office and address for service*

6B Pacific Rise, Mt Wellington  
PO Box 14923, Panmure, Auckland  
Telephone: 0800 800 133  
Facsimile: (09) 573 5597  
Email: [investments@genevafinance.co.nz](mailto:investments@genevafinance.co.nz)  
Web: [www.genevafinance.co.nz](http://www.genevafinance.co.nz)

*Auditor*

Baker Tilly Staples Rodway

*Bankers*

Westpac NZ Limited  
Kiwi Bank Limited  
ASB Bank Limited

*Solicitor*

Dermot Ross & Co

**Shareholder information**

*Company publications*

*Financial calendar*

Half year results announced	November
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Half year report	November
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End of financial year	31 March
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Annual results announced	June
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Annual report	August
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Annual dividend payment	N/A
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*Enquiries*

Shareholders with enquiries about transactions, change of address or dividend payments should contact Link Market Services on +64 9 375 5998. Other questions should be directed to the Company at the registered address.

*Share registrar*

Link Market Services Limited

Level 30, PWC Tower, 15 Customs Street West, Auckland 1010  
PO Box 91976, Auckland, 1142  
Telephone: +64 9 375 5998  
Facsimile: +64 9 375 5990  
Email: [enquiries@linkmarketservices.co.nz](mailto:enquiries@linkmarketservices.co.nz)

The financial statements are dated 30 June 2021 and are signed on behalf of the board.

**Director**

**Director**