

UDC Finance Limited Annual Report

FOR THE YEAR ENDED 30 SEPTEMBER 2015

Financial Statements

For the year ended 30 September 2015

Contents


Directory	2
Statement of Comprehensive Income	3
Statement of Changes in Equity	3
Balance Sheet	4
Statement of Cash Flows	5
Notes to the Financial Statements	6
Independent Auditor's Report	23

Annual Report

UDC Finance Limited (the Company) operates predominantly in New Zealand, and provides asset based secured finance to a wide range of industries, including transport, agriculture, manufacturing, construction and government. The types of assets that are financed include plant, motor vehicles, aircraft and construction machinery. The Company also offers personal secured finance for motor vehicles. The Company raises funds through a range of secured term and call debentures.

Pursuant to section 211(3) of the Companies Act 1993, the shareholder of the Company has agreed that the Annual Report of UDC Finance Limited need not comply with any of the paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be provided in this Annual Report other than the Financial Statements for the year ended 30 September 2015 and the Independent Auditor's Report thereon, which are enclosed.



Director



Director

25 November 2015

Date

Directory

Directors:	<p>S J McLauchlan (Independent Director & Chairman) Dunedin</p> <p>A M Watson Auckland</p> <p>P J Norris (Independent Director) Brisbane, Australia</p> <p>G D Turley Auckland</p> <p>M T Hiddleston Auckland</p>
Registered Office:	<p>UDC Finance Limited Ground Floor ANZ Centre 23-29 Albert Street Auckland</p>
Auditor:	<p>KPMG 18 Viaduct Harbour Avenue P O Box 1584 Auckland</p>
Trustee:	<p>Trustees Executors Limited Level 5 10 Customhouse Quay Wellington</p>
Principal place of business:	<p>UDC Finance Limited 107 Carlton Gore Road Newmarket Auckland</p>

Statement of Comprehensive Income

\$ thousands	Note	Year to 30/09/2015	Year to 30/09/2014
Interest income	3	211,014	194,743
Interest expense	4	94,770	84,480
Net interest income		116,244	110,263
Fees and other income		5,784	4,544
Operating income		122,028	114,807
Operating expenses	4	32,278	31,306
Profit before credit impairment and income tax		89,750	83,501
Credit impairment charge	7	10,427	11,733
Profit before income tax		79,323	71,768
Income tax expense	5	22,273	20,225
Profit after income tax		57,050	51,543

Statement of Changes in Equity

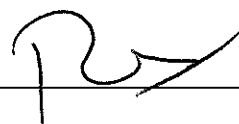
\$ thousands	Note	Share capital	Retained earnings	Total equity
As at 1 October 2013		20,752	294,117	314,869
Profit after income tax		-	51,543	51,543
Ordinary dividend paid	13	-	(25,000)	(25,000)
As at 30 September 2014		20,752	320,660	341,412
Profit after income tax		-	57,050	57,050
Ordinary dividend paid	13	-	(33,000)	(33,000)
As at 30 September 2015		20,752	344,710	365,462

Balance Sheet

\$ thousands	Note	30/09/2015	30/09/2014
Assets			
Short-term deposits	12	81,692	71,169
Net loans and advances	6	2,347,163	2,272,081
Other assets	8	2,142	1,527
Deferred tax assets	5	9,616	9,671
Total assets		2,440,613	2,354,448
Liabilities			
Borrowings	9	2,016,026	1,964,247
Current tax liabilities		22,310	19,157
Payables and other liabilities	10	35,734	28,803
Provisions		1,081	829
Total liabilities		2,075,151	2,013,036
Net assets		365,462	341,412
Equity			
Ordinary share capital	13	20,752	20,752
Retained profits		344,710	320,660
Total equity		365,462	341,412

For and on behalf of the Board of Directors

 Director

 Director

25 November 2015 Date of issue

Statement of Cash Flows

\$ thousands

	Year to 30/09/2015	Year to 30/09/2014
Cash flows from operating activities		
Interest received	211,740	197,014
Other income received	5,784	4,544
Interest paid	(93,397)	(82,208)
Operating expenses paid	(31,649)	(31,372)
Income taxes paid	(19,065)	(16,806)
Cash flows from operating profits before changes in operating assets and liabilities	73,413	71,172
Change in loans and advances	(86,200)	(220,969)
Change in other assets	(655)	(670)
Change in UDC secured investments	166,779	77,197
Change in payables and other liabilities	5,187	(803)
Net cash flows provided by/(used in) operating activities	158,524	(74,073)
Cash flows from investing activities		
Purchase of leasehold improvements and equipment	(1)	(1)
Net cash flows used in investing activities	(1)	(1)
Cash flows from financing activities		
Credit facilities drawn	250,000	465,000
Credit facilities settled	(365,000)	(390,000)
Dividends paid	(33,000)	(25,000)
Net cash flows provided by / (used in) financing activities	(148,000)	50,000
Net increase / (decrease) in cash and cash equivalents	10,523	(24,074)
Short-term deposits at beginning of the year	71,169	95,243
Cash and cash equivalents at end of the year	81,692	71,169

Reconciliation of profit after income tax to net cash flows provided by operating activities

Profit after income tax	57,050	51,543
Non-cash Items:		
Depreciation of premises and equipment	6	6
Provision for credit impairment	10,427	11,733
Amortisation of software	-	313
Amortisation of discount	806	747
Deferrals or accruals of past or future operating receipts or payments		
Change in net operating assets less liabilities	85,111	(145,245)
Change in interest receivable	35	(1)
Change in interest payable	1,373	2,272
Change in accrued expenses	371	(378)
Change in deferred fee revenue and expenses	(115)	1,525
Change in income tax assets and liabilities	3,208	3,419
Change in provisions	252	(7)
Net cash flows provided by / (used in) operating activities	158,524	(74,073)

Notes to the Financial Statements

1. Accounting Policies

A. Basis of Preparation

(i) Statement of compliance

These financial statements for UDC Finance Limited (the Company) have been prepared in accordance with the requirements of the Financial Reporting Act 1993 (which remains applicable to the Company during the relevant transitional period of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013), and the Companies Act 1993.

These financial statements comply with

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 1993;
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable profit-oriented entities; and
- International Financial Reporting Standards (IFRS).

The immediate parent company is ANZ Bank New Zealand Limited (ANZ Bank NZ), which is incorporated in New Zealand. The ultimate parent company is Australia and New Zealand Banking Group Limited (the Ultimate Parent Bank), which is incorporated in Australia.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(ii) Use of estimates and assumptions

Preparation of financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates. Discussion of the critical accounting treatments, which include complex or subjective decisions or assessments, is covered in Note 2. Such estimates will require review in future periods.

(iii) Measurement base

The financial statements have been prepared on a going concern basis in accordance with historical cost concepts.

(iv) Changes in accounting policies and application of new accounting standards

The accounting policies adopted by the Company are consistent with those adopted and disclosed in the prior year.

(v) Rounding and comparatives

The amounts contained in the financial statements have been rounded to the nearest thousand dollars, except where otherwise stated. Certain amounts in the comparative information have been reclassified to ensure consistency with the current period's presentation.

(vi) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The Company's financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency.

B. Income Recognition

Income is recognised to the extent that it is probable that economic benefits will flow to the Company and that revenue can be reliably measured.

(i) Interest income

Interest income is recognised as it accrues, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability so as to achieve a constant yield on the financial asset or liability.

For assets subject to prepayment, expected life is determined on the basis of the historical behaviour of the particular asset portfolio, taking into account contractual obligations and prepayment experience assessed on a regular basis.

(ii) Fee income

Fees received that are integral to the effective interest rate of a financial asset are recognised using the effective interest method. For example, loan commitment fees, together with related direct costs, are deferred and recognised as an adjustment to the effective interest rate on a loan once drawn. Commitment fees to originate a loan which is unlikely to be drawn down are recognised as fee income as the service is provided.

Fees that relate to the execution of a significant act are recognised when the significant act has been completed.

Notes to the Financial Statements

Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

(iii) Leasing income

Finance income on finance leases is recognised on a basis that reflects a constant periodic return on the net investment in the finance lease.

C. Expense Recognition

Expenses are recognised in the Statement of Comprehensive Income on an accruals basis.

(i) Interest expense

Interest expense on financial liabilities measured at amortised cost is recognised in the Statement of Comprehensive Income as it accrues using the effective interest method.

(ii) Origination expenses

Certain origination expenses are an integral part of the effective interest rate of a financial instrument measured at amortised cost. These origination expenses include:

- fees and commissions payable to brokers in respect of originating business; and
- other expenses of originating business, such as external legal costs and valuation fees, provided these are direct and incremental costs related to the issue of a financial instrument.

Such origination expenses are initially recognised as part of the cost of acquiring the financial instrument and amortised as part of the expected yield of the financial instrument over its expected life using the effective interest method.

(iii) Lease payments

Leases entered into by the Company as lessee are operating leases, and the operating lease payments are recognised as an expense on a straight-line basis over the lease term.

D. Income Tax

(i) Income tax expense

Income tax on earnings for the year comprises current and deferred tax and is based on the applicable tax law. It is recognised in the Statement of Comprehensive Income as tax expense, except when it relates to items credited directly to equity or other comprehensive income, in which case it is recorded in equity or other comprehensive income.

(ii) Current tax

Current tax is the expected tax payable on taxable income, based on tax rates and tax laws which are enacted or substantively enacted by the reporting date, including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(iii) Deferred tax

Deferred tax is accounted for using the comprehensive tax balance sheet method. It is generated by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Company, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

E. Assets

Financial assets

All financial assets are classified as loans and receivables.

(i) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money to a debtor with no intention of trading the loans and advances. The loans and advances are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the loan or advance. They are subsequently measured at amortised cost using the effective interest method, less any impairment loss.

All loans are graded according to the level of credit risk.

Net loans and advances include direct finance provided to customers such as current accounts, term loans, finance lease receivables and commercial bills.

Notes to the Financial Statements

Impairment of loans and advances

Loans and advances are regularly reviewed for impairment. Credit impairment provisions are raised for exposures that are known to be impaired. Exposures are impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date, and that loss event or events, has had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated.

Impairment is assessed for assets that are individually significant (or on a portfolio basis for small value loans) and then on a collective basis for those exposures not individually known to be impaired.

Exposures that are assessed collectively are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data such as changed economic conditions.

The estimated individual impairment losses are measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value. As this discount unwinds during the period between recognition of impairment and recovery of the cash flow, it is recognised in interest income. The process of estimating the amount and timing of cash flows involves considerable management judgement. These judgements are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The provision for impairment loss (individual and collective) is deducted from loans and advances in the Balance Sheet and the movement for the reporting period is reflected in the Statement of Comprehensive Income.

When a loan is uncollectible, either partially or in full, it is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off are taken to the Statement of Comprehensive Income.

Where impairment losses recognised in previous periods have subsequently decreased or no longer exist, such impairment losses are reversed in the Statement of Comprehensive Income.

A provision is also raised for off-balance sheet items such as commitments that are considered likely to result in an expected loss.

(ii) Finance lease receivables

Contracts to lease assets and hire purchase agreements are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party.

The gross amount of contractual payments expected from customers is recorded as gross lease receivables and the unearned interest component is recognised as income yet to mature.

The finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease payments are allocated between interest revenue and a reduction in the lease receivable over the term of the finance lease, reflecting a constant periodic rate of return on the net investment outstanding in respect of the lease.

F. Liabilities

Financial liabilities

All financial liabilities are carried at amortised cost.

(i) Borrowings

Borrowings include interest bearing deposits, UDC secured investments, and other related interest bearing financial instruments. They are measured at amortised cost. The interest expense is recognised using the effective interest rate method.

(ii) Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Non-financial liabilities

(iii) Provisions

The Company recognises provisions when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at the reporting date. 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.

Notes to the Financial Statements

G. Equity

Issued shares

Issued shares are recognised at the amount paid per share net of directly attributable issue costs.

H. Presentation

(i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses;
- where amounts are collected on behalf of third parties, where the Company is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Company is reimbursed.

(ii) Offsetting of financial assets and liabilities

Assets and liabilities are offset and the net amount reported in the Balance Sheet only where there is:

- a current enforceable legal right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(iii) Statement of cash flows

For cash flow statement presentation purposes, cash and cash equivalents includes short-term bank deposits with original terms of maturity of three months or less that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

(iv) Segment reporting

Business segments are distinguishable components of the Company that provide products or services that are subject to risks and rewards that are different to those of other operating segments.

Geographical segments provide products or services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments.

The Company operates in New Zealand, and for management purposes is organised into one business segment, as there are no distinguishable components providing related products and services that are subject to differing risks and returns. This approach is consistent with internal reporting provided to the chief operating decision maker, being the Company's Chief Executive Officer.

(v) Goods and services tax

Income, expenses and assets are recognised net of the amount of goods and services tax (GST) except where the amount of GST incurred is not recoverable from the Inland Revenue Department (IRD). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the IRD is included as other assets or other liabilities in the Balance Sheet.

Cash flows are included in the Statement of Cash Flows on a net basis. 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.

I. Other

(i) Contingent liabilities

Contingent liabilities are not recognised in the balance sheet but are disclosed in Note 16 unless it is considered remote that the Company will be liable to settle the possible obligation.

(ii) Accounting standard not early adopted

The following standard is available for early adoption but has not been applied by the Company in these financial statements. The Company currently does not intend to apply this pronouncement until its effective date and is assessing its impact on its financial statements.

NZ IFRS 9 Financial Instruments (effective for periods commencing after 1 January 2018)

- Specifies a simpler methodology for classifying and measuring financial assets, with two primary measurement categories: amortised cost and fair value.
- Requires the amount of change in the fair value attributable to changes in credit risk of certain liabilities designated under the fair value option to be presented in other comprehensive income.

Notes to the Financial Statements

2. Critical Estimates and Judgements Used in Applying Accounting Policies

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 evaluated 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 Company 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.

Credit provisioning

The accounting policy relating to measuring the impairment of loans and advances requires the Company to assess impairment at least at each reporting date. The credit provisions raised (collective and individual) represent management's best estimate of the losses incurred in the loan portfolio at balance date based on their experienced judgement.

The collective provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The provision also takes into account the impact of large concentrated losses within the portfolio and the economic cycle.

The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on the reliability of the provision.

Individual provisioning is applied when the full collectability of one of the Company's loans is identified as being doubtful. Individual and collective provisioning involves the use of assumptions for estimating the amount and timing of future cash flows, which involves considerable management judgement. These judgements are revised regularly to reduce any differences between loss estimates and actual loss experience.

Management regularly reviews and adjusts the estimates and methodologies used as improved analysis becomes available. In the year ended 30 September 2014, Management changed the method that is used to estimate losses on impaired loans to determine the collective provision requirement. This methodology refinement resulted in a decrease in the collective provision requirement of \$4 million.

Further changes in these assumptions and methodologies could have a direct impact on the level of provision and impairment charge recorded in the financial statements.

Refer to Note 7 for details of credit impairment provisions.

Other judgements

Deferred tax assets

The Company has determined that there will be sufficient taxable income in the future to utilise taxable differences that are expected to reverse in the foreseeable future and has therefore recognised a deferred tax asset.

3. Interest Income

	Year to 30/09/2015	Year to 30/09/2014
\$ thousands		
Short-term deposits	2,867	2,488
Revolving credit facilities and term loans	130,201	121,544
Hire purchase contracts	71,627	63,086
Finance leases	6,319	7,625
Total Interest Income	211,014	194,743

Notes to the Financial Statements

4. Expenses

		Year to 30/09/2015	Year to 30/09/2014
\$ thousands	Note		
Interest expense			
UDC secured investments		75,798	67,691
Committed credit facility		18,951	16,783
Other interest		21	6
Total interest expense		94,770	84,480
Operating expenses			
Personnel costs		15,542	14,964
Pension costs - defined contribution schemes		446	441
Operating expenses recharged by ANZ Bank NZ	12	10,464	9,979
Auditor's remuneration			
- in respect of auditing or reviewing the financial statements		240	234
- in respect of trustee and prospectus reporting		15	15
Depreciation of premises and equipment		6	6
Amortisation of software		-	313
Motor vehicle lease expenses		356	391
Other operating expenses		5,209	4,963
Total operating expenses		32,278	31,306

5. Income Tax

		Year to 30/09/2015	Year to 30/09/2014
\$ thousands			
Reconciliation of the prima facie income tax payable on profit			
Profit before income tax		79,323	71,768
Prima facie income tax at 28%		22,210	20,095
Tax impact of non-deductible expenses		55	51
		22,265	20,146
Income tax under provided in prior periods		8	79
Total income tax expense		22,273	20,225
Amounts recognised in the statement of comprehensive income			
Current tax		22,218	19,774
Deferred tax		55	451
Total income tax expense recognised in Statement of Comprehensive Income		22,273	20,225
Imputation credits available (\$ millions)		2,882	2,224
\$ thousands		30/09/2015	30/09/2014
Deferred tax assets comprise the following temporary differences:			
Provision for credit impairment		8,828	8,905
Equipment and software		176	45
Provisions and other liabilities		317	356
Finance leases		(56)	53
Interest on non-performing loans		351	312
Total deferred tax assets		9,616	9,671

The Company is a member of the ANZ Bank NZ resident imputation subgroup which maintains an imputation credit account. Imputation credits held by the ANZ Bank NZ resident subgroup are available for use by the Company.

Notes to the Financial Statements

6. Net Loans and Advances

\$ thousands	Note	30/09/2015	30/09/2014
Revolving credit facilities		225,783	240,207
Term loans		1,246,581	1,253,275
Hire purchase contracts		946,245	837,325
Finance leases		98,518	97,353
Gross loans and advances		2,517,127	2,428,160
Provision for credit impairment	7	(31,529)	(31,805)
Unearned income		(129,586)	(115,310)
Deferred fee revenue and expenses		(8,849)	(8,964)
Total net loans and advances		2,347,163	2,272,081
Non-current portion of Net Loans and Advances		1,411,212	1,344,592

	30/09/2015		30/09/2014	
\$ thousands	Hire purchase contract receivables	Finance lease receivables	Hire purchase contract receivables	Finance lease receivables
Gross receivables				
- Less than one year	374,342	35,510	338,953	45,499
- One year to five years	571,803	62,964	498,263	51,854
- Later than five years	100	44	109	-
Total gross receivables	946,245	98,518	837,325	97,353
Less: unearned income	(118,830)	(10,756)	(105,841)	(9,469)
Present value of minimum lease payments	827,415	87,762	731,484	87,884
Present value of minimum lease payments				
- Less than one year	383,203	38,208	284,132	40,481
- One year to five years	444,150	49,526	447,249	47,403
- Later than five years	62	28	103	-
Present value of minimum lease payments	827,415	87,762	731,484	87,884
Residual value of finance leases included in gross receivables	-	39,144	-	39,814
Provision for credit impairment	(9,962)	(1,210)	(8,153)	(1,089)

Notes to the Financial Statements

7. Provision for Credit Impairment

\$ thousands	30/09/2015	30/09/2014
Collective provision		
Balance at beginning of the year	21,196	24,496
Charge / (release) to Statement of Comprehensive Income	659	(3,300)
Balance at end of the year	21,855	21,196
Individual provision		
Balance at beginning of the year	10,609	12,964
New and increased provisions net of write-backs	12,033	17,025
Bad debts written off	(12,162)	(18,633)
Discount unwind ¹	(806)	(747)
Balance at end of the year	9,674	10,609
Total provision for credit impairment	31,529	31,805

¹ The Impairment loss on an impaired asset is calculated as the difference between the asset's carrying value and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

\$ thousands	Year to 30/09/2015	Year to 30/09/2014
Provision movement analysis		
New and increased provisions	15,841	23,884
Write-backs	(3,808)	(6,859)
Recoveries of amounts written off previously	(2,265)	(1,992)
Individual provision charge	9,768	15,033
Collective provision charge / (release)	659	(3,300)
Total credit impairment charge	10,427	11,733

\$ thousands	30/09/2015	30/09/2014
Individually impaired loans and advances		
Balance at beginning of the year	19,436	24,814
Transfers from productive	34,446	38,669
Transfers to productive	(4,052)	(1,775)
Assets realised or loans repaid	(18,749)	(23,639)
Write offs	(12,162)	(18,633)
Balance at end of the year	18,919	19,436

8. Other Assets

\$ thousands	30/09/2015	30/09/2014
Accrued interest receivable	169	204
GST receivable	1,284	623
Premises and equipment	18	23
Other assets	671	677
Total other assets	2,142	1,527

Accrued interest is receivable from ANZ Bank NZ. Accrued interest on gross loans and advances is included with the value of the principal in Note 6.

Notes to the Financial Statements

9. Borrowings

\$ thousands	30/09/2015	30/09/2014
UDC secured investments	1,736,026	1,569,247
Committed credit facility utilised	280,000	395,000
Total borrowings	2,016,026	1,964,247
Non-current portion of Borrowings	584,538	741,899

UDC secured investments are constituted and secured by a trust deed between the Company and its independent trustee, Trustees Executors Limited. The Company has granted a charge over all its assets and undertakings, primarily net loans and advances, in favour of the Trustee.

The Company has a committed credit facility available on demand with ANZ Bank NZ of \$800 million (30 September 2014: \$800 million), of which \$280 million was utilised as at 30 September 2015 (30 September 2014: \$395 million). The interest rate on the committed credit facility at 30 September 2015 was 3.95% (30 September 2014: 4.80%). The current credit facility expires on 30 September 2017. The Company can extend the term of the credit facility subject to agreement with ANZ Bank NZ.

The committed credit facility and UDC secured investments would rank equally in the event of priority claims over the assets of the Company.

10. Payables and Other Liabilities

\$ thousands	30/09/2015	30/09/2014
Accrued interest payable	21,691	20,318
GST and withholding taxes payable	2,009	1,696
Other liabilities	12,034	6,789
Total payables and other liabilities	35,734	28,803

Notes to the Financial Statements

11. Financial Risk Management

The Company manages risk through an approval, delegation and limits structure. Regular reviews of the policies, systems and risk reports are conducted within the Company and also by ANZ Bank NZ and by the Ultimate Parent Bank. Throughout this document, references to Risk Management implicitly involve oversight by both related entities.

Credit risk

Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual obligations. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual agreements, and encompasses both on and off-balance sheet instruments.

The Company has an overall lending objective of sound growth for appropriate returns. The credit risk objectives of the Company are set by the Board, and by ANZ Bank NZ and the Ultimate Parent Bank, and are implemented and monitored within a tiered structure of delegated authorities, designed to oversee multiple facets of credit risk, including business writing strategies, credit policies/controls, single exposures, portfolio monitoring and risk concentrations.

Credit risk management

A credit risk management framework is in place across the Company with the aim of ensuring a structured and disciplined approach is maintained in achieving the objectives set by the Board. The framework focuses on policies, people, skills, vision, values, controls, risk concentrations and portfolio balance. It is supported by portfolio analysis and business writing strategies, which guide lending decisions and identify segments of the portfolio requiring attention. The effectiveness of the framework is monitored through a series of compliance and reporting processes.

An independent Risk Management function is staffed by risk specialists. In regard to credit risk management, the objective is for Risk Management to provide robust credit policies, to make independent credit decisions, and to provide strong support to front line staff in the application of sound credit practices. In addition to providing independent credit assessment on lending decisions, Risk Management also performs key roles in portfolio management by development and validation of credit risk measurement systems, loan asset quality reporting, and development of credit standards and policies.

The credit risk management framework is top down. Where required, the framework is defined firstly by ANZ's values and vision, and secondly, by credit principles and policies. The effectiveness of the credit risk management framework is validated through compliance and monitoring processes.

Risk Management's responsibilities for credit risk policy and management are executed through dedicated departments, which support the business units. All major credit decisions require approval from both business writers and independent risk personnel.

The credit quality of financial assets is assessed by the Company using internal ratings which aim to reflect the relative ability of counterparties to fulfil, on time, their credit-related obligations, and is based on their current probability of default.

Customer risk grades are reviewed periodically (at least annually for large customers) to ensure the risk grade accurately reflects the credit risk of the customer and the prevailing economic conditions. Similarly, the performance of risk grading tools used in the risk grading process is reviewed regularly to ensure the tools remain statistically valid.

Collateral management

The Company's credit principles specify lending only what the counterparty has the capacity and ability to repay, and the Company and ANZ Bank NZ set limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on the counterparty's assessed capacity to meet contractual obligations (i.e. interest and capital repayments). Obtaining collateral is only used to mitigate credit risk. Procedures are designed to ensure collateral is managed, legally enforceable, conservatively valued and adequately insured where appropriate. The Company and ANZ Bank NZ policy sets out the types of acceptable collateral, including:

- Charges over business assets, e.g. plant and equipment, premises, stock and debtors;
- Charges over financial instruments, e.g. debt securities and equities in support of trading facilities;
- Financial guarantees;
- Cash; and
- Mortgages over property.

In the event of customer default, any loan security is usually held as mortgagee in possession while action is taken to realise it. Therefore, the Company does not usually hold any assets acquired through the enforcement of security.

Notes to the Financial Statements

a. Maximum exposure to credit risk

The following tables present the maximum exposure to credit risk of financial instruments before taking account of any collateral held or other credit enhancements, unless such collateral meets the offsetting criteria in *NZ IAS 32 Financial Instruments: Presentation*, and after deductions such as provisions for credit impairment.

The tables also provide a quantification of the value of charges the Company holds over a borrower's specific asset (or assets) where the Company is able to enforce the collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations. Estimates of fair value are based on the value of the collateral assessed at the time of the borrowing, and generally are not updated except when a loan is individually assessed as impaired. For the purposes of this disclosure, where security held is valued at more than the corresponding credit exposure, coverage is capped at the value of the credit exposure.

The Company also manages its credit risk by accepting other types of collateral such as guarantees and security interests over the assets of a customer's business. The assignable value of such credit mitigants is less certain and their financial effect has not been quantified for disclosure purposes. Loans and advances shown as not fully secured may benefit from such credit mitigants.

\$ thousands	30/09/2015			30/09/2014		
	Maximum exposure to credit risk	Financial effect of collateral	Unsecured portion of credit exposure	Maximum exposure to credit risk	Financial effect of collateral	Unsecured portion of credit exposure
On-balance sheet credit exposure						
Short-term deposits	81,692	-	81,692	71,169	-	71,169
Net loans and advances	2,347,163	2,304,599	42,564	2,272,081	2,266,704	5,377
Other financial assets	840	-	840	881	-	881
Total financial assets	2,429,695	2,304,599	125,096	2,344,131	2,266,704	77,427
Off-balance sheet credit exposure						
Contingent liabilities	883	883	-	1,050	1,050	-
Credit related commitments	308,828	303,228	5,600	282,209	281,541	668
Total off-balance exposures	309,711	304,111	5,600	283,259	282,591	668

b. Distribution of financial assets by credit quality

\$ thousands	30/09/2015			30/09/2014		
	Corporate Exposures	Retail Exposures	Total	Corporate Exposures	Retail Exposures	Total
Neither past due nor impaired	1,315,136	1,066,883	2,382,019	1,321,669	977,073	2,298,742
Past due but not impaired:						
1 to 90 days	11,039	42,878	53,917	13,578	39,008	52,586
over 90 days	1,020	5,349	6,369	646	4,526	5,172
Net Individually Impaired assets	6,235	3,010	9,245	7,093	1,734	8,827
Collective provision for Impairment	(7,622)	(14,233)	(21,855)	(7,516)	(13,680)	(21,196)
Total financial assets	1,325,808	1,103,887	2,429,695	1,335,470	1,008,661	2,344,131

Notes to the Financial Statements

c. Concentrations of credit risk

The Company monitors concentrations of credit risk by industry and geographic location. The following geographic concentrations exclude related party exposures.

Concentrations by geographic region	30/09/2015	30/09/2014
Auckland	23.2%	23.5%
Rest of North Island	43.1%	43.1%
Canterbury	15.1%	14.5%
Rest of South Island	18.6%	18.9%

Concentrations of credit risk to individual counterparties or groups of closely related counterparties that exceed 10% of total equity

Number of counterparties whose net loans and advances exceeds 10% of total equity		
10%-19%	2	2

Concentrations of credit risk by industry

The analysis of financial assets by industry sector was prepared using Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes:

\$ thousands	30/09/2015	30/09/2014
Agriculture, forestry and fishing	456,195	445,299
Mining	9,183	11,000
Manufacturing	78,327	90,962
Electricity, gas and water	9,038	8,503
Construction	344,072	340,228
Retail and wholesale	292,686	277,662
Accommodation, cafes and restaurants	8,513	7,257
Transport and storage	425,302	412,633
Communications	9,480	9,977
Finance, investment and insurance	87,179	76,220
Property and business services	130,419	120,881
Government administration and defence	487	3,132
Education	5,130	10,193
Health and community services	13,188	8,520
Entertainment, leisure and tourism	8,435	11,180
Personal and other services	552,061	510,484
Total financial assets	2,429,695	2,344,131

d. Concentrations of credit risk by internal risk grading

\$ thousands	30/09/2015	30/09/2014
0 - 2	99,583	86,119
3 - 4	255,927	352,368
5	1,087,580	998,500
6	904,338	811,700
7 - 8	81,156	92,366
Default	32,640	34,883
Gross exposure to credit risk	2,461,224	2,375,936
Less: Provision for credit impairment	(31,529)	(31,805)
Total financial assets	2,429,695	2,344,131

Exposures to credit risk are graded by an ANZ Bank NZ risk grade mechanism. Grade 0 is the highest quality credit risk. Grades 1-8 represent the ascending steps in management's assessment of exposure at risk.

Notes to the Financial Statements

Market risk

Interest rate risk

Interest rate risk for the Company is managed within the wider ANZ Bank NZ group. As the Company is a wholly owned subsidiary of ANZ Bank NZ, all interest rate sensitivity analysis is managed at a group level.

The Company's interest rate risk has been transferred to ANZ Bank NZ through the adoption of ANZ Bank NZ's funds transfer pricing system, with charges and receipts based on market rates. ANZ Bank NZ uses simulation models to quantify the potential impact of interest rate changes on earnings and the market value of the balance sheet. Interest rate risk management focuses on three principal sources of risk:

- mismatches between repricing dates of interest bearing assets and liabilities;
- the investment of capital and other non-interest bearing liabilities in interest bearing assets; and
- the potential risk to earnings or market value from differences between customer pricing and wholesale market pricing.

Interest rate sensitivity analysis

The cash flows relating to the Company's fixed rate assets and liabilities are not sensitive to changes in interest rates as they are at fixed rates and are measured at amortised cost. The Company's other financial assets and other financial liabilities are non interest bearing.

There is no material impact on total comprehensive income from a 1% change in interest rates on floating rate assets and liabilities.

ANZ Bank NZ uses a combination of pricing initiatives and off-balance sheet instruments in the management of interest rate risk. For example, where a strong medium to long term rate view is held, hedging and pricing strategies are used to modify the profile's rate sensitivity so that it is positioned to take advantage of the expected movement in interest rates. However, such positions are taken within the overall risk limits specified by policy.

The following tables represent the interest rate sensitivity of the Company's financial assets, financial liabilities and off balance sheet instruments by showing the periods in which these instruments may reprice (that is, when interest rates applicable to each asset or liability can be changed). The repricing gaps are based upon contractual repricing information except where the contractual terms are not considered to be reflective of actual interest rate sensitivity, for example, those assets and liabilities priced at the Company's discretion. In such cases, the rate sensitivity is based upon historically observed and/or anticipated rate sensitivity.

\$ thousands	Total Carrying Value	At Call Or Within 3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Beyond 5 Years	Not Interest Bearing
30/09/2015								
Financial assets								
Short-term deposits	81,692	81,692	-	-	-	-	-	-
Net loans and advances	2,347,163	1,314,312	120,997	214,441	341,351	377,769	148	(21,855)
Other financial assets	840	-	-	-	-	-	-	840
Total financial assets	2,429,695	1,396,004	120,997	214,441	341,351	377,769	148	(21,015)
Financial liabilities								
Borrowings	2,016,026	877,712	379,553	454,223	159,484	145,054	-	-
Other financial liabilities	31,138	-	-	-	-	-	-	31,138
Total financial liabilities	2,047,164	877,712	379,553	454,223	159,484	145,054	-	31,138
30/09/2014								
Financial assets								
Short-term deposits	71,169	71,169	-	-	-	-	-	-
Net loans and advances	2,272,081	1,333,080	113,139	197,875	322,552	326,444	187	(21,196)
Other financial assets	881	-	-	-	-	-	-	881
Total financial assets	2,344,131	1,404,249	113,139	197,875	322,552	326,444	187	(20,315)
Financial liabilities								
Borrowings	1,964,247	972,960	286,424	357,964	228,524	118,360	15	-
Other financial liabilities	24,891	-	-	-	-	-	-	24,891
Total financial liabilities	1,989,138	972,960	286,424	357,964	228,524	118,360	15	24,891

Notes to the Financial Statements

Foreign currency risk

The Company does not have any assets or liabilities denominated in foreign currencies and therefore is not exposed to foreign currency risk.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations as they fall due. The timing mismatch of cash flows and the related liquidity risk is inherent in all finance company operations and is closely monitored by the Company and its Board.

The Company's liquidity and funding risks are governed by a detailed policy framework which is approved by the Board. The core objective of the Company's framework is to manage liquidity to meet obligations as they fall due, without incurring unacceptable losses.

The Company manages liquidity risk through its daily cash forecast. This forecast takes into consideration a number of factors including the contractual maturities for financial liabilities and assets. The Company also maintains committed credit facilities with ANZ Bank NZ to cover liquidity risks.

Contractual maturity analysis of financial assets and liabilities

The following tables present the Company's financial assets and liabilities within relevant contractual maturity groupings, based on the earliest date on which the Company may be required to realise an asset or settle a liability. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows and may differ to the amounts reported on the balance sheet.

The Company does not manage its liquidity risk on the basis of the information below.

\$ thousands	Total	At Call Or Within 3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Beyond 5 Years
30/09/2015							
Assets							
Short-term deposits	81,692	81,692	-	-	-	-	-
Loans and advances	2,655,849	443,761	222,347	416,713	686,170	866,803	20,055
Other financial assets	671	671	-	-	-	-	-
Total financial assets	2,738,212	526,124	222,347	416,713	686,170	866,803	20,055
Liabilities							
Secured debenture stock	1,782,827	604,272	383,719	464,193	166,485	164,158	-
Committed credit facility utilised	280,000	-	-	-	280,000	-	-
Other financial liabilities	9,447	9,447	-	-	-	-	-
Total financial liabilities	2,072,274	613,719	383,719	464,193	446,485	164,158	-
30/09/2014							
Assets							
Short-term deposits	71,169	71,169	-	-	-	-	-
Loans and advances	2,586,346	458,562	216,763	400,163	661,572	827,192	22,094
Other financial assets	677	677	-	-	-	-	-
Total financial assets	2,658,192	530,408	216,763	400,163	661,572	827,192	22,094
Liabilities							
Secured debenture stock	1,615,306	585,131	289,775	366,305	239,173	134,907	15
Committed credit facility utilised	395,000	-	-	-	395,000	-	-
Other financial liabilities	4,573	4,573	-	-	-	-	-
Total financial liabilities	2,014,879	589,704	289,775	366,305	634,173	134,907	15

Notes to the Financial Statements

12. Related Party Disclosures

Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including directors and the Company's leadership team (whether executive or otherwise).

The key management personnel compensation detailed below comprises only amounts paid by the Company.

Compensation of the Company's other key management personnel, who are contracted to ANZ Bank NZ and the Ultimate Parent Bank and paid by those entities, is recharged to the Company as part of a management charge. This management charge, shown in the transactions with other related parties table below, includes a recharge of personnel, premises, technology and other costs borne by ANZ Bank NZ on behalf of the Company. It is not possible to identify separately the amount relating to key management personnel compensation.

Deposits held by key management personnel (including personally related parties) are made in the course of ordinary business on normal commercial terms and conditions no more favourable than those given to other employees or customers.

	Year to 30/09/2015	Year to 30/09/2014
\$ thousands		
Key management personnel compensation		
Directors' fees	120	124
Salaries and short-term employee benefits	730	762
Post-employment benefits	2	-
Other long-term benefits	3	3
Share-based payments	2	67
Total compensation of key management personnel	857	956
Loans to key management personnel	-	35
Deposits from key management personnel	-	109

Transactions with other related parties

	Year to 30/09/2015	Year to 30/09/2014
\$ thousands		
ANZ Bank NZ		
Interest income	2,601	2,394
Interest expense	18,951	16,783
Operating expenses	10,006	9,489
Ultimate Parent Bank		
Operating expenses	458	490

Balances with related parties

	30/09/2015	30/09/2014
\$ thousands		
ANZ Bank NZ		
Short-term deposits	81,692	71,169
Interest receivable on short-term deposits	169	204
Total due from related parties	81,861	71,373
Due to ANZ Bank NZ		
Committed credit facility	280,000	395,000
Interest payable on committed credit facility	800	1,409
Payables and other liabilities	9,130	4,011
Due to Ultimate Parent Bank		
Payables and other liabilities	109	60
Total due to related parties	290,039	400,480

Notes to the Financial Statements

13. Ordinary Share Capital

	Number of issued shares		\$ thousands	
	30/09/2015	30/09/2014	30/09/2015	30/09/2014
Ordinary share capital				
Issued ordinary shares	52,352,000	52,352,000	52,352	52,352
Uncalled ordinary shares	(31,600,000)	(31,600,000)	(31,600)	(31,600)
Ordinary share capital at beginning and end of the year	20,752,000	20,752,000	20,752	20,752

The holders of ordinary shares have the rights and powers prescribed by Section 36 of the Companies Act 1993. During the year ended 30 September 2015, the Company paid an ordinary dividend of \$33,000,000, equivalent to \$0.63 per share (2014: \$25,000,000, \$0.48 per share).

Capital management policy

The Company considers share capital and retained earnings to be capital for management purposes. The Trustee sets and monitors capital requirements for the Company as a whole. The Trustee requires the Company to maintain the aggregate amount of "Shareholders Funds" and "Uncalled Capital", as defined in the Trust Deed, at a value of not less than \$40 million. The Company is also required to comply with certain minimum capital requirements under Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010 as introduced by the Reserve Bank of New Zealand (RBNZ). At 30 September 2015, the Company's capital ratio under this regime was 16.2% (30 September 2014: 16.2%). The RBNZ requires the Company's capital ratio to be at least 8% at all times.

The Company's policy is to maintain a strong capital base so as to maintain shareholder, creditor and market confidence and to sustain future development of the business. The level of capital also affects the shareholder's return and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Company has complied with all Trustee and RBNZ imposed capital requirements throughout the year.

14. Fair Value Measurements

Fair value is the amount for which an asset could be exchanged, or liabilities settled, between knowledgeable, willing parties in an arm's length transaction. No balance sheet items are carried at fair value.

Comparison of carrying amount to fair value

Below is a comparison of the carrying amounts as reported on the balance sheet and fair value of financial asset and liability categories other than those categories where the carrying amount is considered a reasonable approximation of fair value.

The fair values of net loans and advances and borrowings are calculated using discounted cashflow techniques. This involves discounting the contractual future cash flows for the instrument using discount rates incorporating wholesale market rates or market borrowing rates of debt with similar maturities or a yield curve appropriate for the remaining term to maturity (Level 2).

	30/09/2015		30/09/2014	
	Carrying amount	Fair value	Carrying amount	Fair value
\$thousands				
Financial assets				
Net loans and advances	2,347,163	2,364,348	2,272,081	2,278,412
Financial liabilities				
Borrowings	2,016,026	2,028,140	1,964,247	1,964,413

Notes to the Financial Statements

15. Lease Commitments

\$ thousands	30/09/2015	30/09/2014
Future minimum lease payments under non-cancellable operating leases		
Less than one year	349	299
One year to five years	461	520
Total lease commitments	810	819

16. Contingent Liabilities and Credit Related Commitments

The contractual values of contingent liabilities and commitments to extend credit are as follows:

\$ thousands	30/09/2015	30/09/2014
Contingent liabilities		
Standby letters of credit	883	1,050
Commitments to extend credit		
Undrawn facilities available to customers	237,440	200,205
Conditional commitments to fund at future dates	71,388	82,004
Total contingent liabilities and commitments to extend credit	309,711	283,259

Independent auditor's report

To the shareholder of UDC Finance Limited

Report on the financial statements

We have audited the accompanying financial statements of UDC Finance Limited ("the Company"), on pages 3 to 22. The financial statements comprise the balance sheet as at 30 September 2015, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the Company's shareholder those matters we are required to state to them in the 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 Company's shareholder as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the financial statements

The Directors are responsible on behalf of the Company for the preparation of statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial statements that give a true and fair view of the matters to which they relate 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the Company in relation to trustee and prospectus reporting. Subject to certain restrictions, partners and employees of our firm may also deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company. These matters have not impaired our independence as auditor of the Company. The firm has no other relationship with, or interest in, the Company.

Opinion

In our opinion the financial statements on pages 3 to 22:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Company as at 30 September 2015 and of its financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by UDC Finance Limited as far as appears from our examination of those records.



25 November 2015
Auckland