UDC FINANCE LIMITED
ANNUAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2017

New Zealand's Finance Company

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2017

CONTENTS

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 the Company 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 2017 and the audit report on those financial statements.

For and on behalf of the Board of Directors:

____ Director

____ Director

4 December 2017

____ Date

DIRECTORY

Directors:	Stuart McLauchlan (Independent Director & Chairman) Dunedin Mark Hiddleston Auckland Paul Norris (Independent Director) Brisbane, Australia Antonia Watson Auckland
Registered Office:	UDC Finance Limited Ground Floor ANZ Centre 23-29 Albert Street Auckland
Auditor:	KPMG 18 Viaduct Harbour Avenue P O Box 1584 Auckland
Supervisor:	Trustees Executors Limited Level 7, 51 Shortland Street PO Box 4197 Auckland
Principal place of business:	UDC Finance Limited 107 Carlton Gore Road Newmarket Auckland

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Interest income		206,680	201,305
Interest expense		86,873	86,935
Net interest income	3	119,807	114,370
Fees and other income		4,259	6,088
Operating income		124,066	120,458
Operating expenses	4	32,427	31,623
Profit before credit impairment and income tax		91,639	88,835
Credit impairment charge	7	5,929	7,418
Profit before income tax		85,710	81,417
Income tax expense	5	24,064	22,880
Profit after income tax		61,646	58,537

There are no items of other comprehensive income.

STATEMENT OF CHANGES IN EQUITY

	Note	Ordinary share capital $000	Retained earnings $000	Total equity $000
As at 1 October 2015		20,752	344,710	365,462
Profit after income tax		-	58,537	58,537
As at 30 September 2016		20,752	403,247	423,999
Profit after income tax		-	61,646	61,646
Ordinary dividend paid	12	-	(31,600)	(31,600)
Ordinary share capital called	12	31,600	-	31,600
As at 30 September 2017		52,352	433,293	485,645

BALANCE SHEET

	Note	30/09/2017 $000	30/09/2016 $000
Assets			
Short-term deposits	11	59,173	79,994
Net loans and advances	6	2,911,594	2,573,030
Other assets		5,621	3,121
Deferred tax assets	5	8,265	8,874
Total assets		2,984,653	2,665,019
Liabilities			
Borrowings	8	2,424,160	2,186,711
Current tax liabilities		23,504	22,105
Payables and other liabilities	9	49,845	31,129
Employee entitlements		1,499	1,075
Total liabilities		2,499,008	2,241,020
Net assets		485,645	423,999
Equity			
Ordinary share capital	12	52,352	20,752
Retained profits		433,293	403,247
Total equity		485,645	423,999

For and on behalf of the Board of Directors

____ Director

____ Director

4 December 2017
____ Date of issue

CASH FLOW STATEMENT

	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Cash flows from operating activities		
Interest received	204,876	202,209
Other income received	4,259	6,088
Interest paid	(87,146)	(92,357)
Operating expenses paid	(13,312)	(29,809)
Income taxes paid	(22,056)	(22,343)
Cash flows from operating profits before changes in operating assets and liabilities	86,621	63,788
Change in loans and advances	(344,886)	(236,166)
Change in UDC secured investments	(552,578)	(144,315)
Net cash flows used in operating activities	(810,843)	(316,693)
Cash flows from investing activities		
Purchase of leasehold improvements and equipment	(5)	(5)
Net cash flows used in investing activities	(5)	(5)
Cash flows from financing activities		
Credit facilities drawn	1,104,031	535,000
Credit facilities settled	(314,004)	(220,000)
Ordinary dividend paid	(31,600)	-
Ordinary share capital called	31,600	-
Net cash flows provided by financing activities	790,027	315,000
Net decrease in cash and cash equivalents	(20,821)	(1,698)
Short-term deposits at beginning of the year	79,994	81,692
Cash and cash equivalents at end of the year	59,173	79,994

Reconciliation of profit after income tax to net cash flows provided by operating activities		
Profit after income tax	61,646	58,537
Non-cash Items:		
Depreciation of premises and equipment	14	5
Credit impairment charge	5,929	7,418
Discount unwind on individual provision	610	765
Deferrals or accruals of past or future operating receipts or payments:		
Change in net operating assets less liabilities	(897,464)	(380,481)
Change in interest receivable	50	38
Change in interest payable	47	(1,440)
Change in accrued expenses	32	(484)
Change in deferred fee revenue and expenses	(2,464)	101
Change in income tax assets and liabilities	2,008	537
Change in employee entitlements	424	(6)
Change in other assets and liabilities	18,325	(1,683)
Net cash flows used in operating activities	(810,843)	(316,693)

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013, and comply with:

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities
- International Financial Reporting Standards (IFRS).

The immediate parent company is ANZ Bank New Zealand Limited (ANZ Bank), which is incorporated in New Zealand. The ultimate parent company is Australia and New Zealand Company 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 conform with current period financial statement presentations.

(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.

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

NOTES TO THE FINANCIAL STATEMENTS

(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
- 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 any of 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
- 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
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(iii) Cash flow statement

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 excluding the amount of goods and services tax (GST) recoverable from the Inland Revenue Department (IRD). Receivables and payables are stated with the amount of GST included. The net amount of GST payable to the IRD is included in payables and other liabilities in the balance sheet.

Cash flows are included in the cash flow statement excluding non-recoverable GST, with the net amount of GST paid to the IRD included in operating expenses paid.

(i) Other

(i) Contingent liabilities

Contingent liabilities are not recognised in the balance sheet but are disclosed in note 15 unless it is considered remote that the Company will be liable to settle the possible obligation.

(ii) Accounting standards not early adopted

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2017, and have not been applied by the Company in preparing these financial statements.

The Company has identified two standards where this applies to the Company and further details are set out below.

NZ IFRS 9 *Financial Instruments* (NZ IFRS 9)

NZ IFRS 9 was issued in September 2014. When operative, this standard will replace NZ IAS 39 Financial Instruments: Recognition and Measurement (NZ IAS 39) and includes requirements for impairment, classification and measurement and general hedge accounting.

Impairment

NZ IFRS 9 replaces the incurred loss model under NZ IAS 39 with a forward-looking expected loss model. This model will be applied to financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, and certain loan commitments and financial guarantees. Under NZ IFRS 9, a three stage approach is applied to measuring expected credit losses (ECL) based on credit migration between the stages as follows:

- Stage 1: At initial recognition, a provision equivalent to 12 months ECL is recognised.

NOTES TO THE FINANCIAL STATEMENTS

- Stage 2: Where there has been a significant increase in credit risk since initial recognition, a provision equivalent to full lifetime ECL is required.
- Stage 3: Similar to the current NZ IAS 39 requirements for individual impairment provisions, lifetime ECL is recognised for loans where there is objective evidence of impairment.

ECL are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Classification and measurement

There are three measurement classifications under NZ IFRS 9: amortised cost, fair value through profit or loss and, for financial assets, fair value through other comprehensive income. Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics.

The classification and measurement requirements for financial liabilities under NZ IFRS 9 are largely consistent with NZ IAS 39 with the exception that for financial liabilities designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income.

Transition and impact

NZ IFRS 9 has a date of initial application for the Company of 1 October 2018.

The classification and measurement, and impairment requirements will be applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirements to restate comparative periods. The Company does not intend to restate comparatives.

The Company is in the process of assessing the impact of the application of NZ IFRS 9 and is not yet able to reasonably estimate the impact on its financial statements.

NZ IFRS 16 *Leases* (NZ IFRS 16)

The final version of NZ IFRS 16 Leases was issued in February 2016 and is not effective for the Company until 1 October 2019. NZ IFRS 16 requires a lessee to recognise its right to use the underlying leased asset, as a right-of-use asset, and obligation to make lease payments as a lease liability. NZ IFRS 16 substantially carries forward the lessor accounting requirements in NZ IAS 17 Leases.

The Company is in the process of assessing the impact of the application of NZ IFRS 16 and is not yet able to reasonably estimate the impact on its financial statements.

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. 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.

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 deferred tax assets.

3. NET INTEREST INCOME

	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Interest income		
Short-term deposits	1,157	1,964
Revolving credit facilities and term loans	113,582	116,769
Hire purchase contracts	85,478	76,156
Finance leases	6,463	6,416
Total interest income	206,680	201,305
Interest expense		
UDC secured investments	48,214	68,533
Committed credit facility	38,655	18,398
Other interest	4	4
Total interest expense	86,873	86,935
Net interest income	119,807	114,370

NOTES TO THE FINANCIAL STATEMENTS

4. OPERATING EXPENSES

	Note	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Personnel costs		18,230	15,851
Operating expenses recharged by ANZ Bank	11	9,002	10,011
Auditor's remuneration			
- Audit or review of financial statements		248	244
- Supervisor and prospectus reporting		42	15
Depreciation of premises and equipment		14	5
Motor vehicle lease expenses		355	348
Other operating expenses		4,536	5,149
Total operating expenses		32,427	31,623

5. INCOME TAX

	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	85,710	81,417
Prima facie income tax at 28%	23,999	22,797
Tax impact of non-deductible expenses	90	81
Income tax under / (over) provided in prior periods	(25)	2
Total income tax expense	24,064	22,880
Amounts recognised in the statement of comprehensive income		
Current tax	23,455	22,138
Deferred tax	609	742
Total income tax expense recognised in Statement of Comprehensive Income	24,064	22,880

	30/09/2017 $000	30/09/2016 $000
Deferred tax assets comprise the following temporary differences:		
Provision for credit impairment	8,198	8,095
Equipment and software	260	261
Provisions and other liabilities	397	316
Finance leases	(693)	(411)
Interest on non-performing loans	103	613
Total deferred tax assets	8,265	8,874
Imputation credits available ($ millions)	4,166	3,465

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

NOTES TO THE FINANCIAL STATEMENTS

6. NET LOANS AND ADVANCES

	Note	30/09/2017 $000	30/09/2016 $000
Revolving credit facilities		282,851	268,960
Term loans		1,348,180	1,273,953
Hire purchase contracts		1,372,041	1,098,827
Finance leases		114,251	108,879
Gross loans and advances		3,117,323	2,750,619
Provision for credit impairment	7	(29,278)	(28,909)
Unearned income		(169,965)	(139,730)
Deferred fee revenue and expenses		(6,486)	(8,950)
Total net loans and advances		2,911,594	2,573,030
Non-current portion of Net Loans and Advances		1,765,828	1,541,481

	30/09/2017		30/09/2016	
	Hire purchase contract receivables $000	Finance lease receivables $000	Hire purchase contract receivables $000	Finance lease receivables $000
Gross receivables				
- Less than one year	499,998	40,285	417,768	37,342
- One year to five years	871,726	73,966	680,949	71,537
- Later than five years	317	-	110	-
Total gross receivables	1,372,041	114,251	1,098,827	108,879
Less: unearned income	(159,332)	(10,633)	(128,897)	(10,833)
Present value of minimum lease payments	1,212,709	103,618	969,930	98,046
Present value of minimum lease payments				
- Less than one year	423,401	34,942	353,912	32,005
- One year to five years	789,016	68,676	615,912	66,041
- Later than five years	292	-	106	-
Present value of minimum lease payments	1,212,709	103,618	969,930	98,046
Residual value of finance leases included in gross receivables	-	50,594	-	45,551
Provision for credit impairment	(13,684)	(1,001)	(10,712)	(1,071)

NOTES TO THE FINANCIAL STATEMENTS

7. PROVISION FOR CREDIT IMPAIRMENT

	30/09/2017	30/09/2016
	$000	$000
Collective provision		
Balance at beginning of the year	20,558	21,855
Charge / (release) to Statement of Comprehensive Income	2,860	(1,297)
Balance at end of the year	23,418	20,558
Individual provision		
Balance at beginning of the year	8,351	9,674
New and increased provisions net of write-backs	5,817	10,497
Bad debts written off	(7,698)	(11,055)
Discount unwind[1]	(610)	(765)
Balance at end of the year	5,860	8,351
Total provision for credit impairment	29,278	28,909

[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.

	Year to	Year to
	30/09/2017	30/09/2016
	$000	$000
Provision movement analysis		
New and increased provisions	13,382	17,717
Write-backs	(7,565)	(7,220)
Recoveries of amounts written off previously	(2,748)	(1,782)
Individual provision charge	3,069	8,715
Collective provision charge / (release)	2,860	(1,297)
Total credit impairment charge	5,929	7,418

	30/09/2017	30/09/2016
	$000	$000
Individually impaired loans and advances		
Balance at beginning of the year	17,657	18,919
Transfers from productive	29,450	37,785
Transfers to productive	(5,996)	(5,740)
Assets realised or loans repaid	(22,170)	(22,252)
Write offs	(7,698)	(11,055)
Balance at end of the year	11,243	17,657

NOTES TO THE FINANCIAL STATEMENTS

8. BORROWINGS

	30/09/2017 $000	30/09/2016 $000
UDC secured investments	1,039,133	1,591,711
Committed credit facility	1,385,027	595,000
Total borrowings	2,424,160	2,186,711
Non-current portion of Borrowings	1,532,021	838,058

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 of $1,800 million (30 September 2016: $1,000 million), of which $1,385 million was utilised as at 30 September 2017 (30 September 2016: $595 million). The interest rate on the committed credit facility at 30 September 2017 was 3.08% (30 September 2016: 3.07%). The current credit facility expires on 30 September 2019. The Company can extend the term of the credit facility subject to agreement with ANZ Bank.

The amount of committed facility was increased to $2,700 million on 13 November 2017.

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

On 11 January 2017, ANZ Bank announced that it had entered into a conditional agreement to sell the Company to HNA Group. The sale is subject to certain conditions (including regulatory approvals) and ANZ Bank is working with HNA Group towards completion of the sale.

9. PAYABLES AND OTHER LIABILITIES

	30/09/2017 $000	30/09/2016 $000
Accrued interest payable	20,298	20,251
Withholding taxes payable	1,172	1,492
Other liabilities	28,375	9,386
Total payables and other liabilities	49,845	31,129

NOTES TO THE FINANCIAL STATEMENTS

10. 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 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 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 Bank'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 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 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.

	30/09/2017			30/09/2016		
	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
	$000	$000	$000	$000	$000	$000
Short-term deposits	59,173	-	59,173	79,994	-	79,994
Net loans and advances	2,911,594	2,842,837	68,757	2,573,030	2,524,769	48,261
Other financial assets	5,014	-	5,014	2,817	-	2,817
Total financial assets	2,975,781	2,842,837	132,944	2,655,841	2,524,769	131,072
Contingent liabilities and credit related commitments	442,704	368,519	74,185	380,071	371,612	8,459
Total exposure to credit risk	3,418,485	3,211,356	207,129	3,035,912	2,896,381	139,531

b. Distribution of financial assets by credit quality

	30/09/2017			30/09/2016		
	Corporate Exposures	Retail Exposures	Total	Corporate Exposures	Retail Exposures	Total
	$000	$000	$000	$000	$000	$000
Neither past due nor impaired	1,574,090	1,364,167	2,938,257	1,426,281	1,193,980	2,620,261
Past due but not impaired:						
1 to 90 days	4,234	48,897	53,131	4,678	40,924	45,602
over 90 days	61	2,367	2,428	6	1,224	1,230
Net individually impaired assets	174	5,209	5,383	4,711	4,595	9,306
Collective provision for impairment	(8,456)	(14,962)	(23,418)	(7,437)	(13,121)	(20,558)
Total financial assets	1,570,103	1,405,678	2,975,781	1,428,239	1,227,602	2,655,841

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	30/09/2017	30/09/2016
Auckland	24.9%	23.8%
Rest of North Island	45.6%	45.1%
Canterbury	14.4%	14.5%
Rest of South Island	15.1%	16.6%

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%	1	1

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:

	30/09/2017 $000	30/09/2016 $000
Agriculture, forestry and fishing	547,780	494,192
Mining	15,091	11,428
Manufacturing	59,203	66,429
Electricity, gas and water	11,828	9,525
Construction	408,987	355,757
Retail and wholesale	367,356	342,734
Accommodation, cafes and restaurants	13,904	11,925
Transport and storage	442,523	460,450
Communications	9,152	10,140
Finance, investment and insurance	70,125	88,535
Property and business services	171,163	133,353
Government administration and defence	566	450
Education	7,487	5,344
Health and community services	21,401	16,941
Entertainment, leisure and tourism	8,833	8,117
Personal and other services	820,382	640,521
Total financial assets	2,975,781	2,655,841

d. Concentrations of credit risk by internal risk grading

	30/09/2017 $000	30/09/2016 $000
0 - 2	104,214	109,373
3 - 4	197,284	215,304
5	1,356,405	1,118,012
6	1,201,747	1,127,677
7 - 8	133,791	96,727
Default	11,618	17,657
Gross exposure to credit risk	3,005,059	2,684,750
Less: Provision for credit impairment	(29,278)	(28,909)
Total financial assets	2,975,781	2,655,841

Exposures to credit risk are graded by an ANZ Bank 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 group. As the Company is a wholly owned subsidiary of ANZ Bank, all interest rate sensitivity analysis is managed at a group level.

The Company's interest rate risk has been transferred to ANZ Bank through the adoption of ANZ Bank's funds transfer pricing system, with charges and receipts based on market rates. ANZ Bank 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
- 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 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.

	Total Carrying Value $000	At Call Or Within 3 Months $000	3-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	Beyond 5 Years $000	Not Interest Bearing $000
30/09/2017								
Financial assets								
Short-term deposits	59,173	59,173	-	-	-	-	-	-
Net loans and advances	2,911,594	1,492,444	150,764	264,565	451,122	575,728	389	(23,418)
Other financial assets	5,014	-	-	-	-	-	-	5,014
Total financial assets	2,975,781	1,551,617	150,764	264,565	451,122	575,728	389	(18,404)
Financial liabilities								
Borrowings	2,424,160	1,821,570	222,541	233,055	79,726	67,268	-	-
Other financial liabilities	46,538	-	-	-	-	-	-	46,538
Total financial liabilities	2,470,698	1,821,570	222,541	233,055	79,726	67,268	-	46,538
30/09/2016								
Financial assets								
Short-term deposits	79,994	79,994	-	-	-	-	-	-
Net loans and advances	2,573,030	1,417,736	128,534	221,695	371,143	454,378	102	(20,558)
Other financial assets	2,817	-	-	-	-	-	-	2,817
Total financial assets	2,655,841	1,497,730	128,534	221,695	371,143	454,378	102	(17,741)
Financial liabilities								
Borrowings	2,186,711	1,221,164	339,435	383,053	131,547	111,512	-	-
Other financial liabilities	27,534	-	-	-	-	-	-	27,534
Total financial liabilities	2,214,245	1,221,164	339,435	383,053	131,547	111,512	-	27,534

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 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.

	Total $000	At Call Or Within 3 Months $000	3-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	Beyond 5 Years $000
30/09/2017							
Assets							
Short-term deposits	59,173	59,173	-	-	-	-	-
Loans and advances	3,252,707	547,648	263,773	494,548	841,006	1,085,579	20,153
Other financial assets	4,933	4,933	-	-	-	-	-
Total financial assets	3,316,813	611,754	263,773	494,548	841,006	1,085,579	20,153
Liabilities							
Secured debenture stock	1,074,572	455,034	224,619	237,408	82,704	74,807	-
Committed credit facility utilised	1,470,345	10,665	10,665	21,329	1,427,686	-	-
Other financial liabilities	26,240	26,240	-	-	-	-	-
Total financial liabilities	2,571,157	491,939	235,284	258,737	1,510,390	74,807	-
30/09/2016							
Assets							
Short-term deposits	79,994	79,994	-	-	-	-	-
Loans and advances	2,878,153	504,919	234,849	435,905	737,643	939,736	25,101
Other financial assets	2,686	2,686	-	-	-	-	-
Total financial assets	2,960,833	587,599	234,849	435,905	737,643	939,736	25,101
Liabilities							
Secured debenture stock	1,625,009	631,963	342,578	390,147	136,419	123,902	-
Committed credit facility utilised	631,534	4,567	4,567	9,133	613,267	-	-
Other financial liabilities	7,283	7,283	-	-	-	-	-
Total financial liabilities	2,263,826	643,813	347,145	399,280	749,686	123,902	-

NOTES TO THE FINANCIAL STATEMENTS

11. 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 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 on behalf of the Company. It is not possible to identify separately the amount relating to key management personnel compensation.

	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Key management personnel compensation		
Salaries and short-term employee benefits	1,099	967
Post-employment benefits	11	14
Other long-term benefits	4	2
Share-based payments	1	2
Total compensation of key management personnel	1,115	985

Transactions with other related parties	Year to 30/09/2017 $000	Year to 30/09/2016 $000
ANZ Bank		
Interest income	1,157	1,952
Interest expense	38,655	18,398
Operating expenses	8,754	9,502
Ordinary dividends paid	31,600	-
Ordinary share capital called	31,600	-
Other related parties		
Operating expenses	248	509

Balances with related parties	30/09/2017 $000	30/09/2016 $000
ANZ Bank		
Short-term deposits	59,173	79,994
Interest receivable on short-term deposits	81	131
Total due from related parties	59,254	80,125
ANZ Bank		
Committed credit facility	1,385,027	595,000
Interest payable on committed credit facility	6,017	1,442
Payables and other liabilities	25,465	6,951
Other related parties		
Payables and other liabilities	-	50
Total due to related parties	1,416,509	603,443

NOTES TO THE FINANCIAL STATEMENTS

12. ORDINARY SHARE CAPITAL

	Number of issued shares		$000	
Ordinary share capital	**30/09/2017**	**30/09/2016**	**30/09/2017**	**30/09/2016**
Issued ordinary shares	52,352,000	52,352,000	52,352	52,352
Uncalled ordinary shares	-	(31,600,000)	-	(31,600)
Ordinary share capital at beginning and end of the year	52,352,000	20,752,000	52,352	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 2017, the Company paid an ordinary dividend of $31,600,000, equivalent to $0.60 per share.

On 31 August 2017, the uncalled ordinary shares of 31,600,000 were called and paid for by ANZ Bank.

Capital management policy

The Company considers share capital and retained earnings to be capital for management purposes. 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 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 (the Regulations). The Company has complied with all Trustee and RBNZ imposed capital requirements throughout the year.

Capital ratios

	30/09/2017	**30/09/2016**
Capital ratio	10.0%	9.9%
RBNZ minimum requirement	8%	8%

NOTES TO THE FINANCIAL STATEMENTS

13. 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).

	30/09/2017		30/09/2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	$000	$000	$000	$000
Financial assets				
Net loans and advances	2,911,594	2,931,013	2,573,030	2,590,728
Financial liabilities				
Borrowings	2,424,160	2,427,731	2,186,711	2,194,790

14. LEASE COMMITMENTS

	30/09/2017	30/09/2016
	$000	$000
Future minimum lease payments under non-cancellable operating leases		
Less than one year	40	67
One year to five years	395	398
Total lease commitments	435	465

15. CONTINGENT LIABILITIES AND CREDIT RELATED COMMITMENTS

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

	30/09/2017	30/09/2016
	$000	$000
Contingent liabilities		
Standby letters of credit	2,681	1,703
Commitments to extend credit		
Undrawn facilities available to customers	295,869	254,928
Conditional commitments to fund at future dates	144,154	123,440
Total contingent liabilities and commitments to extend credit	442,704	380,071

NOTES TO THE FINANCIAL STATEMENTS

[PLACEHOLDER FOR AUDIT REPORT]

Independent Auditor's Report

To the shareholder of UDC Finance Limited

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of UDC Finance Limited (the "Company") on pages 3 to 23:

i. present fairly in all material respects the Company's financial position as at 30 September 2017 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the balance sheet as at 30 September 2017;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the Company in relation to reasonable assurance engagements on the Company's register of UDC secured investments and supervisor 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.

Other Information

The directors, on behalf of the company, are responsible for the other information included with the financial statements. Other information includes the annual report disclosures. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

KPMG

Use of this independent auditor's report

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

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Company, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent 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. They 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 financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/

This description forms part of our independent auditor's report.

KPMG

Jamie Munro

For and on behalf of

KPMG

Auckland

4 December 2017