GENERAL FINANCE

INC. 1997

General Finance Limited

Financial Statements

For the year ended 31 March 2021

General Finance Limited

Index to Financial Statements

General Finance Limited

Business Profile
As at 31 March 2021

Nature of Business	Non-Bank Deposit Taker and Mortgage Lending Company	
Business Address	Level 8, 115 Queen Street Auckland CBD	
Postal Address	PO Box 1314 Shortland Street, Auckland 1010	
Telephone	09 526 5000	
IRD Number	68-422-167	
Share Capital	4,514,341 Ordinary Shares	
		Ordinary
Shareholder	Corporate Holdings Limited	4,514,341
	Total Shares	4,514,341
Directors	Donald F Hattaway *(Independent Non-Executive Chair)* Robert G Hart *(Independent Non-Executive Director)* Gregory J Pearce *(Independent Non-Executive Director)* Brent D King *(Managing Director)*	
Registered Office	Level 8, 115 Queen Street Auckland CBD	
Company Number	AK 860336	
Date of Incorporation	13 June 1997	
Bankers	Bank of New Zealand Limited Westpac New Zealand Limited	
Auditor	Baker Tilly Staples Rodway Auckland	

General Finance Limited

Background Information

General Finance was incorporated in 1997 and commenced business in 2001, initially writing and managing prime residential mortgages for an Australasian wholesaler, in competition with the trading banks.

In 2002 we widened our product range, to include non-conforming residential mortgages and in 2003 began offering short term residential loans, as we found that there was a demand not being satisfied through traditional sources.

These short-term loans were secured by first and second mortgages over residential property and the loans were initially funded from our own resources.

Due to the success experienced for this short-term residential mortgage product, we decided, in 2004, to fund part of this growth through the issue of term deposits. We registered our first prospectus for this purpose on 9 November 2004 and were issued with a Non-bank Deposit Taker licence by the Reserve Bank of New Zealand on 13 February 2015.

General Finance Limited has been a survivor of the finance company sector collapse in the mid to late 2000's and traded profitably throughout this period. The latest Product Disclosure Statement was released in May 2021.

In 2018, General Finance Limited became part of General Capital Limited, a listed financial services group. The General Capital Limited group comprises a financial services arm, and a research and advisory arm, Investment Research Group (IRG). General Capital Limited migrated its listing from the NZAX to the NZX Main Board on 1 July 2019.

The Company continues as a specialist lender secured by short term mortgages over residential property and in 2020 expanded its lending to include commercial properties.

Over the past three financial years, business has been strong with the balance sheet growing significantly from active demand on both the deposit and lending sides of the business. Under General Finance's business model, growth in the balance sheet is expected to drive an increase in revenue and profitability, but this was impacted by the Covid-19 pandemic in the 2021 financial year. The Company's risk management responses to the uncertain economic environment caused by the Covid-19 pandemic included moving to higher cash reserves and to longer dated fixed interest investments, both of which had a negative impact on the Company's profitability in the 2021 financial year.

Late in the 2021 financial year, the Company's lending activity has increased and accordingly the loan book has grown to a new record high level. This increase in the loan book was funded by strong growth in term deposits along with a reduction in the high cash reserves. The growth in the loan book has resulted in increased revenue and profitability towards the end of the financial year and this is expected to continue favourably post 31 March 2021 balance date.

General Finance Limited

Directors' Statement
For the year ended 31 March 2021

In accordance with Section 208 and 211 of the Companies Act 1993, the Directors present the Annual Report for the Company, including the attached Financial Statements and Independent Auditor's Report thereon.

The Directors are responsible for the preparation of financial statements, in accordance with generally accepted accounting practice in New Zealand, 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.

The Directors consider that the financial statements have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgments and estimates and that all the relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The shareholders of the Company have exercised their right under Section 211(3) of the Companies Act 1993 and have agreed that this Annual Report need not include disclosure of the information specified in paragraphs (a) and (e) to (j) of Section 211(1) of the Act.

The Directors of the company authorise the financial statements set out on pages 11 to 44 for issue.

For and on behalf of the Board

Director	**Director**
Date: 24 June 2021	Date: 24 June 2021

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bakertilly
STAPLES RODWAY

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of General Finance Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of General Finance Limited ('the Company') on pages 11 to 45, which comprise the statement of financial position as at 31 March 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies.

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

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

Basis for Opinion

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

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

Key Audit Matters

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

Key Audit Matter	How our audit addressed the key audit matter
Valuation of loan receivables As disclosed in Note 7 of the Company's financial statements, the Company has loan receivable assets of $54.5m consisting of short and long-term loans secured by residential *(including apartments)* and commercial property. Loan receivable assets were significant to our audit due to the size of the assets and the subjectivity, complexity and uncertainty inherent in the timing of the recognition of impairment in respect of loan receivables and the amount of that impairment. Management has prepared impairment models to complete its assessment of impairment for the Company's loan receivables as at 31 March 2021. This assessment involves complex and subjective estimation and judgement by Management on credit risk and the future cash flows of the loan receivables.	Our audit procedures among others included: • Understanding and evaluating the Company's internal controls relevant to the accounting estimates used to determine the recoverable value of the Company's finance receivables; • Evaluating the design and operating effectiveness of the key controls over loan receivable origination, ongoing administration and impairment model data and calculations; • Selecting a representative sample of loan receivables and agreeing these loan receivables to the loan agreement, client acceptance documents, mortgage documents, and valuations performed on acceptance; • Challenging and evaluating Management's logic, key assumptions, and calculation of its expected credit losses models against the requirements specified in NZ IFRS 9 for recognising expected credit losses on financial assets; • For individually assessed loan receivables, examining those finance receivables and forming our own judgements as to whether the expected credit losses provision recognised by Management was appropriate (including the consideration of the impact of the COVID-19 pandemic on the expected credit losses provision); • Testing the key inputs and the mathematical accuracy of the calculations of the loan to value ratio analysis used to individually assess the recoverability of loan receivables. We have specifically challenged the valuation of the underlying security and performed sensitivity analyses for reasonably possible changes to the key inputs (including the consideration of the impact of the COVID-19 pandemic on the valuation of the underlying security); • For the 12 months expected credit loss provision, challenging and evaluating the logic within Management's model and key assumptions used with our own experience (including the consideration of the impact of the COVID-19 pandemic on key assumptions used). Also, testing key inputs used in the collective impairment models and the mathematical accuracy of the calculations within the model; • Evaluating the changes made to the expected credit losses impairment model to capture the effect of the changing economic environment at 31 March 2021 compared to the economic environment at the date when the historical data used to determine the expected credit losses was collected; • Evaluating the selection of valuation methods, inputs and assumptions with a view to identifying Management bias; and • Evaluating the related disclosures (including the accounting policies and accounting estimates) about loan receivable assets, and the risks attached to them which are included in the Company's financial statements.

Other Information

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

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

In connection with our audit of the 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 to be materially misstated.

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Matters Relating to the Electronic Presentation of the Audited Financial Statements

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

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyper linked to or from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 24 June 2021 to confirm the information included in the audited financial statements presented on this website.

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

The engagement partner on the audit resulting in this independent auditor's report is G K Raniga.

Baker Tilly Staples Rodway

BAKER TILLY STAPLES RODWAY AUCKLAND

Auckland, New Zealand

24 June 2021

General Finance Limited

Statement of Comprehensive Income
For the year ended 31 March 2021

	Note	2021 $	2020 $
Interest income	**4**	3,535,620	2,842,352
Interest expense		(2,245,554)	(1,440,704)
Net interest income		1,290,066	1,401,648
Fee and commission income		933,176	638,156
Fee and commission expense		(257,997)	(128,699)
Net fee and commission income		675,179	509,457
Modification gain – loan receivables		49,770	-
Other revenue		39,996	12,761
Net revenue		2,055,011	1,923,866
Increase in allowance for expected credit losses	**7**	(27,372)	(54,998)
Personnel expenses		(649,118)	(661,330)
Depreciation and amortisation expense	**9, 10, 11**	(33,529)	(26,303)
Occupancy expenses		(79,230)	(99,722)
Realised losses on bonds sold	**5.1**	(190,085)	-
Other operating expenses	**5.2**	(792,660)	(578,905)
Profit before income tax		283,017	502,608
Income tax expense	**8**	(59,587)	(60,892)
Net profit attributable to the shareholders of the Company		**223,430**	**441,716**
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income attributable to the shareholders of the Company		**223,430**	**441,716**

The accompanying notes form part of and should be read in conjunction with the Financial Statements.

Statement of Changes in Equity
For the year ended 31 March 2021

	Note	Share Capital	Retained Earnings	Total
Balance at 1 April 2019		**4,650,000**	**440,978**	**5,090,978**
Profit for the period		-	441,716	441,716
Other comprehensive income		-	-	-
Total comprehensive income for the period		**-**	**441,716**	**441,716**
Transactions with owners in their capacity as owners:				
Contributions of equity	**13, 17**	300,000	-	300,000
		300,000	-	300,000
Balance at 31 March 2020		**4,950,000**	**882,694**	**5,832,694**
Profit for the period		-	223,430	223,430
Other comprehensive income		-	-	-
Total comprehensive income for the period		**-**	**223,430**	**223,430**
Balance at 31 March 2021		**4,950,000**	**1,106,124**	**6,056,124**

The accompanying notes form part of and should be read in conjunction with the Financial Statements.

General Finance Limited

Statement of Financial Position
As at 31 March 2021

	Note	2021 $	2020 $
Share capital	13	4,950,000	4,950,000
Retained earnings		1,106,124	882,694
Total equity		**6,056,124**	**5,832,694**
Assets			
Cash and cash equivalents	6	7,248,075	12,472,062
Other current assets		229,609	160,056
Related party receivables	17	9,720	110,538
Bank deposits	6	3,000,000	-
Loan receivables	7	53,775,191	34,855,849
Property, plant and equipment	9	309	2,665
Right of use assets	10	185,793	-
Intangible assets	11	5,868	29,299
Deferred tax asset	8	57,940	47,643
Total assets		**64,512,505**	**47,678,112**
Liabilities			
Accounts payable and accruals		314,811	265,882
Related party payables	17	28,058	119,258
Lease liabilities	10	194,470	-
Term deposits	12	57,863,184	41,450,497
Income tax payable	8	55,858	9,781
Total liabilities		**58,456,381**	**41,845,418**
Net assets		**6,056,124**	**5,832,694**

Authorised for issue on behalf of the Board:

Director

Date: 24 June 2021

Director

Date: 24 June 2021

The accompanying notes form part of and should be read in conjunction with the Financial Statements.

General Finance Limited

Statement of Cash Flows
For the year ended 31 March 2021

	Note	2021	2020
Cash flows from / (to) operating activities		**$**	**$**
Cash was provided from (applied to)			
Interest received		3,329,021	2,515,586
Other income		7,961	12,761
Loan fees, commission and other income		788,235	439,092
Payments to suppliers and employees		(1,698,398)	(1,564,830)
Interest paid		(2,155,363)	(1,242,146)
Income tax paid		(23,807)	(20,000)
Loan receivables (net advances)		(18,407,675)	(17,171,447)
Net cash inflow / (outflow) from / (to) operating activities	**23**	(18,160,026)	(17,030,984)
Cash flows to investing activities			
Cash was applied from / (applied to)			
Sales of bonds		4,334,514	-
Investments in bank deposits		(3,000,000)	-
Investments in bonds		(4,718,617)	-
Purchases of intangible assets	**11**	-	(4,444)
Net cash outflow to investing activities		(3,384,103)	(4,444)
Cash flows from / (to) financing activities			
Cash was provided from / (applied to)			
Shares issued		-	300,000
Term deposit (net receipts)		16,320,142	26,393,382
Net cash inflow from financing activities		16,320,142	26,693,382
Net cash and cash equivalents movement for year		(5,223,987)	9,657,954
Opening cash and cash equivalents balance		12,472,062	2,814,108
Closing cash and cash equivalents balance	**6**	**7,248,075**	**12,472,062**

The accompanying notes form part of and should be read in conjunction with the Financial Statements

1.0 Reporting and Accounting Basis

1.1 Reporting Entity

The financial statements presented here are for the entity General Finance Limited.

General Finance Limited (the "Company") is a finance and mortgage lending company incorporated in New Zealand. The Company's ultimate parent company is General Capital Limited, a NZX listed entity.

The Company, a profit-oriented entity, is a limited liability company registered under the Companies Act 1993. The address of its registered office is Level 8, 115 Queen Street, Auckland CBD, New Zealand.

1.2 Reporting Framework

The financial statements have been prepared in accordance with the Companies Act 1993. In accordance with the provisions of the Financial Reporting Act 2013 and the Financial Market Conducts Act 2013, the Company is an FMC Reporting Entity.

These financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to for-profit tier 1 entities. They comply with the International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations.

These financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business, in accordance with historical cost concepts, as modified by the revaluation of certain assets and liabilities as identified in the accounting policies below.

The presentation and functional currency used by the Company is New Zealand dollars. In presenting amounts in the financial statements these amounts have been rounded to the nearest dollar.

1.3 Specific Accounting Policies

The following particular accounting policies, which materially affect the measurement of profit and financial position, have been applied:

Interest revenue and expense recognition

Interest income and interest expense are recognised in profit or loss using the effective interest method. The effective interest method calculates the amortised cost of a financial asset or liability and allocates the interest income and directly related fees (including loan origination fees) and transaction costs (including commission expenses) that are an integral component of the effective interest rate over the expected life of the financial asset or liability.

Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in expenses except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Financial instruments

Initial recognition

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial Assets

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

Classification of financial assets

Financial assets that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

The Company assets measured at FVTOCI include listed corporate and local government bonds. The Company has no assets measured at FVTPL.

(i) Amortised cost and effective interest method

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

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses (ECL), through the expected life of the financial asset, or, where appropriate, a shorter period, to the gross carrying amount of the financial asset on initial recognition.

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

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

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

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

Modification of financial assets

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Company recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial assets.

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

For loan receivables, the Company applies a three-stage test to measuring ECLs. Assets may migrate through the following stages based on their change in credit quality.

Stage 1 12-month ECL (past due 30 days or less)
Where there has been no evidence of a significant increase in credit risk since initial recognition, ECLs that result from possible default events within 12 months are recognised.

Stage 2 Lifetime ECL not credit impaired (between 30 and 90 days past due)
Where there has been a significant increase in credit risk, ECLs that result from all possible default events over the life of the loan are recognised.

Stage 3 Lifetime ECL credit impaired (greater than 90 days past due)
Where loans are in default or otherwise credit impaired, ECLs that result from all possible default events over the life of the loan are recognised.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial asset at the reporting date with the risk of a default occurring on the financial asset at the date of initial recognition. In making this assessment, the Company considers its historical loss experience and adjust this for current observable data. This data includes any payment defaults by the borrower, known or expected defaults by the borrower on similar obligations (other loans), uninsured deterioration of the security property and any changes in the borrowers circumstances which could impact on their ability to repay either interest or principal amounts on their due date. The Company also considers changes or forecast changes to macroeconomic factors including property prices, unemployment, interest rates, gross domestic product and inflation.

The nature of the Company's loan receivables is property lending with a predominant focus on the underlying security value of the loan receivable (i.e. the residential property value) in the credit assessment. The loans are predominantly advanced on twelve-month terms but range between three-month and four-year terms. Credit risk information is updated and monitored regularly. Loan receivables are subject to ongoing scrutiny, as a key component of credit risk management, with reporting of summarised credit risk information to the Company's directors on at least a monthly basis.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise, for instance when the Company is made aware of a property sale and purchase agreement or refinancing agreement which provides sufficient evidence that all of the borrower's obligations including default interest will be met.

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

(ii) Definition of default

The Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate, for instance when the Company is made aware of a property sale and purchase agreement or refinancing agreement which provides sufficient evidence that all of the borrower's obligations including default interest will be met.

(iii) Credit-impaired financial assets

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

a) an increase in loan to valuation ratio caused by either declining property security values or increases in the loan balance;
b) significant financial difficulty of the borrower; and
c) a breach of contract, such as a default or past due event (see (ii) above).

(iv) Write-off policy

The Company writes off a financial asset when there is information indicating that the borrower is in severe financial difficulty and there is no realistic prospect of recovery, for example an unsecured financial asset whereby the borrower has no realistic ability to meet their financial obligations to the Company. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted for forward-looking information including macroeconomic factors as described above. Given the Company's loan book is all secured over property, the single most significant factor for loss given default is the value of the security property, any known or expected uninsured deterioration of the property, or any forecast reduction in property values.

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

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. In instances where the probability of default has increased significantly (a significant increase in credit risk), or where the loan is in default, the expected credit loss (or loss given default) may not increase significantly due to the Company's lending criteria which prohibits lending when the loan to valuation ratio (LVR) exceeds 75%. This means in general that the Company expects that the present value of expected cash flows from a loan in default to approximate the carrying value of the loan prior to the default event, except in cases where the LVR has increased considerably due to a reduction in the security property valuation or a significant increase in the loan balance.

If the Company has measured the loss allowance for a financial asset at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

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

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

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

Financial Liabilities

Classification of financial liabilities

Financial liabilities are measured at amortised cost.

(ii) Financial liabilities measured at amortised cost

At initial recognition financial liabilities are measured at fair value plus transaction costs that are directly attributable to the issue of the financial liabilities. The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

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

The Company's financial liabilities measured at amortised cost include trade and other payables and term deposits.

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

Leases

The Company leases an office premises and carparks. Rental contracts are typically made for fixed periods but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

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

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

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

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise mobile phones.

Extension options are included in the Company's leases and are exercisable only by the Company and not by the respective lessor.

The Company has applied judgement to determine the lease term for lease contracts which include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets.

A deferred tax asset is raised for the tax impact of the changes in recognised lease related assets and liabilities.

In the statement of cash flows, lessees present:
- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by NZ IAS 7 Statement of Cash Flows (the Company has opted to include interest paid as part of operating activities, consistent with its presentation of interest paid on financial liabilities); and
- Cash payments for the principal portion for a lease liability, as part of financing activities.

Goods and services tax (GST)

The Company is involved in exempt activities for Goods and Services Tax purposes. Accordingly, it is not required to account for GST on its revenues. Expenditure items are stated inclusive of GST where applicable. Receivables and Payables are stated inclusive of GST where applicable.

Cash and cash equivalents

Cash includes demand deposits with an original term of less than 183 days which are considered highly liquid investments that are readily convertible into cash and used by the Company as part of day-to-day cash management.

Statement of cash flows

The Statement of Cash Flows has been prepared using the direct method modified by the netting of certain cash flows, in order to provide more meaningful disclosure.

The advances to and repayments received from borrowers in relation to loan receivables are considered operating activities and are reported on a net basis in the Statement of Cash Flows.

Proceeds from deposits issued and repayments to deposit investors are considered financing activities and are also reported on a net basis in the Statement of Cash Flows.

1.4 Standards and interpretations to published standards that are not yet effective

A number of new standards and amendments to standards and interpretations are issued but not yet effective. None of these are expected to have a significant effect on the financial statements of the Company.

2. Significant accounting estimates and judgments

There are a number of significant accounting treatments which include complex or subjective judgments and estimates that may affect the reported amounts of assets in these financial statements. Estimates and judgments 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 judgments 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.

2.1 Increased level of inherent uncertainty in the significant accounting estimates and judgments arising from the ongoing global pandemic of coronavirus disease 2019

As disclosed in the 31 March 2020 financial statements, on 11 March 2020 the World Health Organization declared an ongoing global outbreak of a novel coronavirus, known as ‘coronavirus disease 2019’ (‘COVID-19’), a pandemic.

In response the New Zealand Government has implemented a range of:
- public health and social measures to prevent and contain the transmission of COVID-19; and
- economic responses to provide financial stimulus and welfare support to mitigate the economic impacts of the pandemic.

As a result of the pandemic, the Company anticipates that lowered levels of economic activity and confidence will continue for at least the short to medium term and may result in increased business failures and unemployment levels in New Zealand.

Consequently, the Company has concluded that there has been an increase in the level of inherent uncertainty in the significant accounting estimates and judgements applied by Management in the preparation of these financial statements (refer note 2.2 and 2.3).

These financial statements have been prepared based upon conditions existing as at 31 March 2021 and consider those events occurring subsequent to that date that provide evidence of conditions that existed at the end of the reporting period. As the outbreak of the COVID-19 pandemic occurred before 31 March 2021, its impacts are considered an event that is indicative of conditions that arose prior to reporting period. Accordingly, as at the date of signing these financial statements, all reasonably known and available information with respect to the COVID-19 pandemic has been taken into consideration in the critical accounting estimates and judgements applied by Management (refer note 2.2 and 2.3 below) and all reasonably determinable adjustments have been made in preparing these financial statements.

2.2 Applicability of the going concern basis of accounting

Whilst the COVID-19 pandemic and measures implemented have lowered overall economic activity and confidence (described above), Management have assessed and determined that the Company’s application of the going concern basis of accounting remains appropriate.

The Company has responded to the pandemic in the following ways:
- Undertook an analysis of its forecast cashflows to evaluate of the appropriateness of the Company’s continued application of the going concern basis of accounting. This forecast cashflows took into consideration the Company’s expectation of the impact of the pandemic on its earnings, cash flow and financial position.
- Assessed the direct and indirect financial impacts of the pandemic on the carrying value of reported amounts of assets, liabilities, revenues and expenses.
- Implemented and enacted appropriate health and safety responses.
- Implemented cost saving measures.

Cashflow forecast and going concern

When preparing the prior year (31 March 2020) financial statements, the Company determined the main potential downside impacts of the pandemic on the Company’s earnings, cash flows, financial position and application of the going concern basis of accounting to be the following:
1) A reduction in term deposit reinvestment rates.
2) A reduction in new term deposit investments.
3) The inability for borrowers to make loan payments on their contractual repayment dates.
4) A reduction in loan security values (residential property values).

The Company has performed much more favourably than the highly stressed scenarios which were assumed in the forecast prepared for the 31 March 2020 financial statements going concern consideration. This is detailed further below:

1) The Company forecasted a reduction in term deposit reinvestment rates from 79% actual for the March 2020 financial year to 25% for the 6 months ending 30 September 2020 and 50% for the 6 months ending 31 March 2021. The actual weighted average term deposit reinvestment rate was 43% in the 6-month period ended 30 September 2020 and 57% in the 6-month period ended 31 March 2021.

2) The Company forecasted a reduction in new term deposit investments from an average of $2.4 million actual per month for the 2020 financial year to $Nil. Actual new term deposit investments for the year ended 31 March averaged $2.6 million monthly.

3) The Company assumed that 50% of maturing loans would not be repaid on their expected repayment date including expected delays due to the Covid-19 government restrictions. Whilst there were some delays encountered due mostly to government restrictions, the gross loan book decreased from its 31 March 2020 balance of $35.2 million to a low point of $24.0 million at 31 July 2020 due to loan repayments and a conservative risk management approach taken by the Company to increase cash reserves. Since then, the Company's lending activity has increased and accordingly the loan book has grown to a new record high level of $54.5m at 31 March 2021. This increase in the loan book was funded by growth in term deposits along with a reduction in the high cash reserves. The growth in the loan book has resulted in increased profitability towards the end of the financial year and post 31 March 2021 balance date.

   Loans in arrears reduced to $2.0m at 31 March 2021 (from $5.4 million at 31 March 2020) with $nil loans past due by greater than 90 days at 31 March 2021 (down from $0.9 million at 31 March 2020).

   There were no loan write-offs in the year ended 31 March 2021 (March 2020: $nil).

4) The Company forecasted a reduction in loan security values (residential property values) by 25%. The March 2021 monthly property report dated 15 April 2021 published by the Real Estate Institute of New Zealand (REINZ) showed that the median house price had increased by 24.3% nationally year on year with the REINZ House Price Index increasing by 24.0% nationally year on year.

Based on the current pandemic and economic conditions in New Zealand, the Company currently expects the favourable trends above to continue including:

1. Term deposit reinvestment rates to gradually return to historical averages of 70-80%.
2. New term deposit investments to continue growing.
3. Loans will be repaid on or close to their maturity date (with the exception of loans rolled over in line with the Company's lending policies).
4. No significant reduction in loan security values.

Accordingly, Management have assessed and determined based on forecasts prepared for greater than 12 months from the date of signing, that the Company's application of the going concern basis of accounting remains appropriate.

Direct and indirect financial impacts of the pandemic on the carrying value of reported amounts of assets and liabilities

Consistent with 31 March 2020 disclosures, there have been no material direct or indirect impacts on the reported amount of assets and liabilities. Refer to note 2.3 below for further information on expected credit losses on loans receivable.

Cost saving measures

1. Term deposit interest rates were reduced throughout the year in line with the global interest rate trends.
2. Other cost savings initiatives have been implemented where possible.

2.3 Allowance for expected credit losses

Significant increase in credit risk

Expected credit losses ('ECL') are measured as an allowance equal to 12-month ECL, or lifetime ECL for assets with a significant increase in credit risk or in default or otherwise credit impaired. An asset moves to doubtful when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has increased significantly, the Company considers its historical loss experience and adjust this for current observable data. This data includes any payment defaults by the borrower, known or expected defaults by the borrower on similar obligations (other loans), uninsured deterioration of the security property and any changes in the borrowers circumstances which could impact on their ability to repay either interest or principal amounts on their due date. The Company also considers changes or forecast changes to macroeconomic factors including property prices, unemployment, interest rates, gross domestic product and inflation.

Calculation of loss allowance

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

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

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

The ECL is calculated on an individual loan basis by applying an expected loss factor to the loan balance. The expected loss factor is determined from the Company historical loss experience data.

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

In instances where the probability of default has increased significantly (a significant increase in credit risk), or where the loan is in default, the expected credit loss (or loss given default) may not increase significantly due to the Company's lending criteria which prohibits lending when the loan to valuation ratio (LVR) exceeds 75%. This means in general that the Company expects that the present value of expected cash flows from a loan in default to approximate the carrying value of the loan prior to the default event, except in cases where the LVR has increased considerably due to a reduction in the security property valuation or a significant increase in the loan balance.

Management regularly reviews and adjusts its ECL estimates, judgements, assumptions, and methodologies as data becomes available. Changes in these estimates, judgements, assumptions, and methodologies could have a direct impact on the level of credit provision and credit impairment charge recorded in the financial statements (refer Note 7 Loan Receivables).

If the 12-month ECL rate for loans without a significant increase in credit risk increased/(decreased) by 0.2% higher/(lower) as at 31 March 2021, the loss allowance on loan receivables would have been $106,313 higher/(lower) (March 2020: $67,347 higher/(lower)).

If the lifetime ECL rate for loans with a significant increase in credit risk and credit impaired loans increased/(decreased) by 1.0% higher/(lower) as at 31 March 2021, the loss allowance on loan receivables would have been $13,023 higher/(lower) (March 2020: $15,163 higher/(lower)).

<u>Impact of COVID-19 on loan receivables / expected credit losses</u>

The COVID-19 Alert Level 4 and Level 3 restrictions impacted negatively on borrowers' ability to pay monthly interest and/or to repay their loans by the due date because of the following:

1) Delays by banks in processing refinancing applications from our borrowers.
2) Borrowers were unable to effectively market their properties for sale.
3) In some cases, borrower income had reduced and impacted on their ability to service their loans.

These factors have improved since COVID-19 restrictions were reduced. Loans in arrears reduced to $2.0 at 31 March 2021 (from $5.4 million at 31 March 2020) with $nil loans past due by greater than 90 days at 31 March 2021 (down from $0.9 million at 31 March 2020). There were no loan write-offs in the year ended 31 March 2021 (March 2020: $nil).

The highest loan to valuation ratio (LVR) of the Company's loan book as at 31 March 2021 was 75.0% (March 2020: 77.0%) and the weighted average LVR of the loan book was 54.6% (March 2020: 55.8%), based on loan security valuations on origination of the loan.

According to sensitivity analysis performed on the property security valuations underlying the Company's loan receivables as at 31 March 2021:

1) A 10% drop in residential property values would result in no loan losses (March 2020: $nil).
2) A 20% drop in residential property values would result in no loan losses (March 2020: $10,000 – $20,000).
3) A 25% drop in residential property values would result in a loss in the range of $150,000 - $200,000 (March 2020: $200,000 – $250,000).
4) A 25% drop in commercial property values would result in no loan losses (March 2020: $nil).

The above sensitivity analysis factors in the expected selling costs of the property as well as the time value of money over the expected time to sell (or to refinance) the property (expected to be no greater than six-months based on the Company's experience). The sensitivity analysis does not factor in potential increases in underlying security value since the origination of the loan. Residential property prices in New Zealand have increased on average year on year to 31 March 2021 (refer to further comments on residential property value trends in section 2.2).

Expected credit losses:

1) Based on the history of the Company's loan book over the last eight years, the average annual write-offs as a percentage of the average loan receivable balance over the same period was 0.10%. This would be an appropriate basis for 12-month expected credit losses in 'normal' economic conditions.
2) The Company recognises that New Zealand's economic forecast for the next 12 months is uncertain due to the impacts of the COVID-19 pandemic as described above. As a result, the Company has concluded that the probability of default has increased. However due to the Company's well secured loan book (as described above), the loss given default and expected credit losses have increased but not by a material amount. As such, the Company has determined that 0.25% (March 2020: 0.31%) of the gross loan balance is a more appropriate expectation of losses for the next 12 months.
3) Lifetime ECL's for loans with a significant increase in credit risk and for loans in default have been calculated based on the Company's expectations for discounted net cash flows from the respective loan receivables over the expected remaining life of the loans in light of COVID-19.

3. Management of capital

The Company's capital includes share capital and retained earnings as disclosed in the Statement of Changes in Equity.

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. In accordance with its Trust Deed, and the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010, and the Non-Bank Deposit Takers Act 2013, the Company has a minimum capital ratio requirement of 8% of capital against risk weighted assets which it is required to maintain. The minimum capital ratio requirement reduced from 15% on 16 September 2019 when the Company published its first credit rating.

The Company has complied with this ratio requirement during the year. As at 31 March 2021, the capital ratio of the Company was 16.3% (2020: 19.6%).

The Company maintains an appropriate buffer above these ratios and reports these to its Board of Directors monthly.

4. Interest income

	2021 $	2020 $
Loan receivables	3,375,428	2,705,791
Other interest income	160,193	136,562
Total interest income	**3,535,620**	**2,842,352**

5. Other expenses

5.1 Realised losses on bonds sold

During the year the Company purchased listed corporate and local government bonds totaling $4,718,617 to diversify the liquid assets held by the Company into longer term fixed interest investments. The bonds were designated at fair value through other comprehensive income upon initial recognition. When worldwide inflation expectations and long-term interest rates started to increase, the Company then determined to divest from these investments. A loss of $190,085 was realised from the bonds sold during the 2021 Financial Year due to the bond value movements. Interest income of $35,267 was earned from the bonds during the year ended 31 March 2021. The bonds were all sold by 31 March 2021 with an outstanding settlement amount receivable of $194,018 as at 31 March 2021. There were no bond investments made during the prior year ended 31 March 2020.

5.2 Other operating expenses

	2021 $	2020 $
Auditors Remuneration		
Audit of financial statements		
- Audit of financial statements	108,675	96,600
- Audit of quarterly trustee certificates	3,623	3,623
Other services		
- Tax compliance fees	8,012	3,447
Total Fees Paid to the Auditors	**120,310**	**103,670**
Directors fees *(note 17)*	62,833	57,058
Subvention payment *(note 17)*	26,786	113,340

The above items are included within other operating expenses in the Statement of Comprehensive Income

6. Cash and cash equivalents and bank deposits

	2021 $	2020 $
Cash	-	20,000
Bank call deposits	3,798,075	6,752,062
Bank term deposits (original maturity of less than 183 days)	3,450,000	5,700,000
Total cash and cash equivalents	**7,248,075**	**12,472,062**
Bank term deposits (original maturity of greater than 183 days)	3,000,000	-
Total bank deposits	**3,000,000**	**-**

Interest Rates: Bank call deposits: 0.00%-0.05% per annum (March 2020: 0.00%-0.10% per annum).
Bank term deposits:
- Less than 183 days: 0.80%-1.05% per annum (March 2020: 2.40%- 2.75% per annum).
- Greater than 183 days: 1.60%-1.85% per annum (March 2020: None).

7. Loan receivables

	2021 $	2020 $
First mortgage advances	54,351,134	33,806,493
Second mortgage advances	107,822	349,917
Combined first and second mortgage advances[1]	-	1,033,456
	54,458,956	35,189,866
Less deferred fee income and expenditure	(547,736)	(225,360)
Less impairment allowance	(136,029)	(108,657)
Net carrying value	**53,775,191**	**34,855,849**
Current portion	40,356,443	31,009,328
Non-current portion	13,418,748	3,846,521
	53,775,191	**34,855,849**
Primary Loan Security		
Residential housing	46,751,105	29,382,682
Residential bare land	4,607,409	1,902,826
Residential development property	-	3,904,358
Commercial property[2]	3,100,442	-
	54,458,956	**35,189,866**

[1] Loan advance secured by first mortgage over one property and second mortgage over another property. Classified as a second mortgage for the purposes of calculating the Company's capital ratio in accordance with the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010 (refer to note 3).

[2] The Company commenced lending on commercial properties during the current financial year ended March 2021. The Company's lending policy allows for a maximum of 30% of total lending to be secured over commercial properties (5.7% at 31 March 2021).

Loan receivables represent loans at commercial interest rates. Current loan receivables are contractually repayable within 12 months. Non-current loan receivables are contractually repayable within 12 months to 3 years of balance date.

At year end there was $1,316,486 in outstanding loan commitments including future capitalised interest (March 2020: $742,412).

Interest rate: Between 5.45% and 16.50% (2020: Between 7.05% and 16.50%).
Effective interest rate: Between 5.79% and 18.73% (2020: Between 7.85% and 19.71%).
For loans that are in default, additional interest of up to 10% is charged.

The core lending activity of the Company is providing, through a broker network, short term and bridging finance secured by mortgage over property. The majority of loans are entered into with a maturity date within 12 months, with a proposal that repayment will be funded by the sale of the secured property or through refinancing by the borrower. The Company's lending policy allows for a maximum "loan to security value" of 70% (excluding fees and charges) on advances.

Sometimes loan repayments do not occur on the contractual maturity date and the term of the loan is extended i.e. rollover occurs. Before a loan is rolled over, the Company's standard credit checking and approval processes are re-applied. The current "loan to security value" position will be re-assessed and updated valuations are obtained where the Directors consider this appropriate. Loan application fees are charged and evidence is obtained of the borrower's agreement to the contractual terms and conditions of the extended loan.

At balance date, 25.0% (March 2020: 37.1%) of loans by number and 29.2% (March 2020: 31.6%) by value represent loans that have been rolled over and are into their second or subsequent credit periods.

Where loans have been rolled over, their classification in these financial statements as current or non-current, or as past due, is based on payment due dates as per the terms of the extended contract, and not as per the original or preceding contract.

Borrower payment terms are profiled as follows:

	2021 $	2020 $
Interest only paid monthly	44,299,684	29,098,627
Interest capitalised	10,159,272	6,091,239
Total loan receivables	54,458,956	35,189,866

Loan fees (for all loans) and interest (for capitalised interest loans) are capitalised to the loan balances when charged and recognised over the life of the loans using the effective interest method. The associated cash is received when the loans are repaid (or partially repaid). Income recognised during the financial year from amounts capitalised to loan receivables were as follows:

	2021 $	2020 $
Interest income	537,839	282,068
Loan fees	795,481	427,987
Total	1,333,320	710,055

Reconciliation of gross loan receivable balance movements through ECL stages:

	12 month ECL	Lifetime ECL Not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 31 March 2019	**17,377,959**	**-**	**-**	**17,377,959**
New loan advances	30,848,719	-	-	30,848,719
Repayments	(13,036,812)	-	-	(13,036,812)
Transfer to lifetime not credit impaired	(610,369)	610,369	-	-
Transfer to lifetime credit impaired	(905,956)	-	905,956	-
Balance as at 31 March 2020	**33,673,541**	**610,369**	**905,956**	**35,189,866**
New loan advances	52,166,464	-	-	52,166,464
Repayments	(31,381,049)	(610,369)	(905,956)	(32,897,374)
Transfer to lifetime not credit impaired	(1,302,341)	1,302,341	-	-
Balance as at 31 March 2021	**53,156,615**	**1,302,341**	**-**	**54,458,956**

Reconciliation of movements in impairment allowance by stage:

	12 month ECL	Lifetime ECL Not credit impaired	Lifetime ECL credit impaired	Total
Impairment allowance as at 31 March 2019	**53,659**	**-**	**-**	**53,659**
Movement due to new loan advances	95,252	-	-	95,252
Movement due to loan repayments	(40,254)	-	-	(40,254)
Transfer to lifetime not credit impaired	(1,885)	1,885	-	-
Transfer to lifetime credit impaired	(2,797)	-	2,797	-
Impairment allowance as at 31 March 2020	**103,975**	**1,885**	**2,797**	**108,657**
Movement due to new loan advances	161,076	-	-	161,076
Movement due to loan repayments	(96,896)	(1,885)	(2,797)	(101,578)
Transfer to lifetime not credit impaired	(3,256)	3,256	-	-
Movement due to reduction in ECL %	(32,126)	-	-	(32,126)
Impairment allowance as at 31 March 2021	**132,773**	**3,256**	**-**	**136,029**

In instances where the probability of default has increased significantly (a significant increase in credit risk), or where the loan is in default, the expected credit loss (or loss given default) may not increase significantly due to the Company's lending criteria which prohibits lending when the loan to valuation ratio (LVR) exceeds 75%. This means in general that the Company expects that the present value of expected cash flows from a loan in default to approximate the carrying value of the loan prior to the default event, except in cases where the LVR has increased considerably due to a reduction in the security property valuation or a significant increase in the loan balance.

The LVR of loans with a significant increase in credit risk or in default was in a range of 53.9% - 63.0% as at 31 March 2021 (44.9% - 64.3% as at 31 March 2020), based on the security property valuation at origination.

8. Income Tax

	2021 $	2020 $
Profit Reconciliation		
Operating surplus before income tax	283,017	502,608
Temporary differences / permanent differences	(1,326)	6,309
Tax loss offset from related parties *(refer below)*	(68,879)	(291,445)
Imputation credits attached to dividends received	-	-
Taxable income	212,812	217,472
Prima facie tax – 28% (2019: 28%)	59,587	60,892
	59,587	60,892
Current tax	69,884	75,231
Deferred tax	(10,297)	(14,339)
Income tax expense	59,587	60,892
Opening income tax payable / (receivable)	9,781	(45,450)
Current tax @ 28%	69,884	75,231
Resident withholding tax paid	(4,866)	-
Provisional tax payments	(18,942)	(20,000)
Income tax payable / (receivable)	**55,858**	**9,781**

Tax loss offset from related parties
Losses totalling $95,665 (March 2020: $404,785) have been offset against the Company's taxable profits by related companies General Capital Limited and Investment Research Group Limited. Subvention payments totalling $26,786 (March 2020: $113,340) (i.e. the tax effect of the loss offset) have been charged to the Company by the related companies, and the difference of $68,879 (March 2020: $291,445) is shown as a reduction in taxable income in the profit reconciliation above. Further details on related parties can be found in note 17.

Imputation Credits
As at balance date imputation credits totalled $117,040 (March 2020: $93,232). Subject to the provisions of the Income Tax Act 2007, the benefit of these credits may be passed to the shareholder as imputed tax paid on future dividends.

Movements through the Imputation Credit account were as follows:

	2021 $	2020 $
Balance at beginning of year	93,232	73,232
Income tax payments / (refunds)	18,942	20,000
Resident withholding tax credits received	4,866	-
Balance at end of year	**117,040**	**93,232**

Deferred Tax Reconciliation	2021 $	2020 $
Balance at beginning of year	47,643	33,304
Increase / (decrease) in accrued expenses	203	(1,061)
Increase / (decrease) in impairment loss provision	7,664	15,400
Increase / (decrease) in lease liabilities	54,452	-
(Increase) / decrease in right of use assets	(52,022)	-
Balance at end of year	**57,940**	**47,643**

Deferred tax attributed to:

Deferred tax assets:		
Accrued expenses	17,422	17,219
Impairment loss provision	38,088	30,424
Lease liabilities	54,452	-
	109,962	47,643
Deferred tax liabilities:		
Right of use assets	52,022	-
	52,022	-
Net deferred tax assets	**57,940**	**47,643**

9. Property, plant and equipment

	Office Equipment $
Cost	
At 1 April 2019	9,394
At 31 March 2020	9,394
At 31 March 2021	9,394
Accumulated depreciation	
At 1 April 2019	(3,218)
Depreciation charge for the year	(3,511)
At 31 March 2020	(6,729)
Depreciation charge for the year	(2,356)
At 31 March 2020	(9,085)
Net book value	
At 31 March 2020	**2,665**
At 31 March 2021	**309**

Office equipment held by the Company includes computer equipment and other office equipment. Office equipment is depreciated on a straight-line basis at depreciation rates between 30% and 40% per annum.

10. Leases

Right of use assets

	Office Premises and Carparks $
At 1 April 2019	-
At 31 March 2020	-
Additions	193,535
Depreciation	7,742
At 31 March 2021	185,793

Lease Liabilities

	2021 $	2020 $
Balance at beginning of the year	-	-
Additions	193,535	-
Accretion of interest	935	
Payments	-	-
Balance at end of year	**194,470**	**-**
Current	94,444	-
Non-current	100,026	-
	194,470	**-**

The Company's ultimate parent company, General Capital Limited, entered into a two-year office premises and carpark lease agreement with a commencement date of 1 March 2021. The Company was allocated 60% of the obligations of the lease under terms which mirrored General Capital Limited's lease agreement.

The lease is for a term of two years and includes four further rights of renewal of six months each. Management do not expect the renewal rights to be exercised as the Company is expected to grow in size and headcount over the next two years and as such will require a larger office premises. Accordingly, the extension periods have not been included in the lease term in the calculation of the lease liability. The undiscounted potential future rental payments relating to these extension periods which are not included in the lease term total $206,393.

The Company had a lease obligation from 1 March 2021. In the period up to 28 February 2021 and in the prior year ended 31 March 2020, the Company paid a share of office premises lease costs to Moneyonline Limited, a related company, via General Capital Limited the ultimate parent company. There was no formal agreement in place in relation to this arrangement. Costs were allocated monthly based on the office space utilised by the Company. The costs are included in occupancy costs in the statement of comprehensive income, and further information on related party transactions can be found in note 17.

Also refer to note 20 for further details on the contractual and expected liquidity profile of financial assets and financial liabilities.

11. Intangible assets – software

	Software system $
Cost	
At 1 April 2019	65,849
Additions	4,444
At 31 March 2020	70,293
At 31 March 2021	70,293
Accumulated amortisation	
At 1 April 2019	(18,201)
Amortisation charge for the year	(22,793)
At 31 March 2020	(40,994)
Amortisation charge for the year	(23,431)
At 31 March 2021	(64,425)
Net book value	
At 31 March 2020	**29,299**
At 31 March 2021	**5,868**

Intangible assets - software comprise purchased licenses and customisation costs relating to a new loan software system. The loan system and customisation costs have an expected useful life of 3 years and is being amortised on a straight-line basis over that period.

12. Term Deposits

	2021 $	2020 $
Gross term deposit liability	57,929,500	41,520,102
Less deferred commission expenditure	(66,316)	(69,605)
Net carrying value	**57,863,184**	**41,450,497**
Contractual repayment terms:		
On call	30,151	364,006
Within 12 months	37,888,692	26,053,028
Greater than 12 months	19,944,341	15,033,463
	57,863,184	**41,450,497**

Repayment Terms:	On call up to 5 years
Interest Rate:	2.40% - 6.75% and 0.15% on call (March 2020: 3.10% - 6.75% and 1.00% on call)
Effective Interest Rate:	2.40% - 6.75% and 0.15% on call (March 2020: 3.10% - 6.75% and 1.00% on call)
Security:	First ranking security interest over the assets and undertakings of General Finance Limited in favour of the Trustee (subject only to any prior security interests permitted by the Trust Deed and preferential claims given priority by operation of law).

The Company has a total of 545 depositors as at 31 March 2021 (March 2020: 471). As at balance date, the largest deposit the Company has is $3,030,499 (March 2020: $1,401,819) which represents 5.23% (March 2020: 3.38%) of total deposits. As at balance date the largest aggregate deposits under a single deposit holder totals $4,057,508 (March 2020: $4,763,337) which represents 7.00% (March 2020: 11.47%) of total deposits and have a weighted average maturity date of 3.74 months from balance date (March 2020: 3.10 months from balance date). The largest deposit holder at 31 March 2021 and 31 March 2020 is a director of General Capital Limited (refer to note 17).

Further analysis of gross deposit funding is as follows:

a) Concentration of funding

	2021 $	2020 $
Northland	1,263,690	1,331,034
Auckland	28,588,679	17,905,252
Waikato	4,375,175	3,350,350
Bay of Plenty	5,519,679	4,259,303
Wellington	5,261,156	2,696,853
Other North Island	3,310,551	2,892,174
South Island	4,654,659	3,496,951
Overseas *	4,955,911	5,588,185
Total gross term deposit liability	**57,929,500**	**41,520,102**

*The largest deposit holder resides overseas and is a director of General Capital Limited (refer to note 17).

b) Contractual maturity of funding

	2021 $	2020 $
Maturing in 0 - 6 months	17,701,862	12,872,122
Maturing in 6 - 12 months	20,238,363	13,561,058
Maturing in 12 - 24 months	17,850,727	11,171,206
Maturing after 24 months	2,138,548	3,915,716
Total gross term deposit liability	57,929,500	41,520,102

Also refer to note 20 for further details on the contractual and expected liquidity profile of financial assets and financial liabilities

c) Profile of deposit holders

	2021	2021 $	2020	2020 $
Deposits over $200,000	63	34,500,730	38	19,755,073
Deposits $100,000 - $200,000	58	8,322,533	62	8,892,406
Deposits $50,000 - $100,000	121	8,527,002	102	7,040,426
Deposits $20,000 - $50,000	153	4,987,325	135	4,360,750
Deposits $10,000 - $20,000	77	1,109,070	70	1,017,019
Deposits under $10,000	73	482,840	64	454,428
Total gross term deposit liability	545	57,929,500	471	41,520,102

d) Reconciliation of liabilities arising from financing activities

	Opening Balance 1 April $	Financing Cash Flows $	Non-cash Changes[1] $	Closing Balance 31 March $
For the year ended 31 March 2021				
Term deposits	41,520,102	16,320,142	89,256	57,929,500
Total	**41,520,102**	**16,320,142**	**89,256**	**57,929,500**
For the year ended 31 March 2020				
Term deposits	14,928,161	26,393,382	198,559	41,520,102
Total	**14,928,161**	**26,393,382**	**198,559**	**41,520,102**

[1]Non-cash changes relate to the movement in unpaid interest in the term deposit balance.

13. Share capital

	Number of ordinary shares	Value $
Opening balance as at 1 April 2019	4,342,913	4,650,000
Issue of fully paid ordinary shares	171,428	300,000
Balance as at 31 March 2020	**4,514,341**	**4,950,000**
Balance as at 31 March 2021	**4,514,341**	**4,950,000**

The Company issued 171,428 ordinary shares on 30 September 2019 to the parent company (Corporate Holdings Limited) for an issue price of $1.75 per share resulting in an increase in capital of $300,000.

All ordinary shares are fully paid, have no par value and rank pari passu (equally) in all respects. An ordinary share confers on the holder the right to one vote on a poll.

14. Unrecognised Assets and Liabilities

The Company has not entered into any contractual arrangements which would lead to off Statement of Financial Position assets or liabilities. (March 2020: Nil)

15. Capital Commitments

There were no material commitments for capital expenditure outstanding at balance date. (March 2020: Nil)

16. Contingencies

There were no material contingent assets or liabilities at balance date. (March 2020: Nil)

17. Related Party Transactions and Balances

Major shareholders, directors, directors of subsidiaries and closely related persons or entities to them are considered related parties of the Company.

Related parties that the Company transacts with:

Related Party	**Relationship**
Donald Hattaway	Non-executive Chair
Robert Hart	Non-executive Director
Alistair Ward	Non-executive Director *(resigned effective 16 September 2019)*
Brent King	Managing Director
Greg Pearce	Executive Director
Rewi Bugo	Director of Ultimate Parent Company
Garth Ward	Director of Parent Company *(resigned effective 14 September 2019)*
Beaconsfield Nominees Limited	Common Director with General Capital Limited
Casrom Trustee Company Limited	Common Director
Corporate Holdings Limited	Parent Company
Ellis Tanner Hart Limited	Common Director
Equity Investment Advisers Limited	Common Director
General Capital Limited	Ultimate Parent Company
Investment Research Group Limited	Common Shareholder / Director
Moneyonline Limited	Common Director
Pegasus Golf Limited	Common Director with Sports & Education Corporation Limited (parent company of Pegasus Golf Limited)[1]

[1] Sports & Education Corporation Limited was a related party by virtue of common directorship between 30 November 2018 and 10 October 2019.

Related party balances at period end:	**2021** **$**	**2020** **$**
Included in related party payables:		
Equity Investment Advisers Limited	5,084	3,946
General Capital Limited	22,974	113,063
Investment Research Group Limited	-	2,249
	28,058	**119,258**
Included in related party receivables:		
General Capital Limited	-	68,394
Investment Research Group Limited	9,720	42,144
	9,720	**110,538**
Term deposits held by related parties[2]	**4,708,940**	**5,623,275**

[2] Includes term deposits held by Key Management Personnel, Directors of the ultimate parent company, their families and their controlled entities.

Related party transactions during the period:

Related Party	Type	Transaction	2021	2020
Key Management Personnel[1]	Expense	Short-term Remuneration[2]	409,271	454,920
	Expense	Expense reimbursement	28,148	32,913
Equity Investment Advisers Limited	Expense	Brokerage	62,241	79,984
	Expense	Personnel expenses	6,500	-
	Contra Expense	Personnel expenses recharged	2,643	-
	Contra Expense	Other expenses recharged	-	4,830
Ellice Tanner Hart Limited	Expense	Legal expenses	3,510	7,692
General Capital Limited	Expense	Personnel expenses	42,393	22,590
	Expense	Occupancy expenses	74,608	98,564
	Expense	Other expenses	13,139	77,980
	Expense	Subvention payment (note 8)	26,786	111,091
	Revenue	Allocation of Covid-19 subsidy	2,246	-
	Contra Expense	Personnel expenses recharged	65,783	43,183
	Contra Expense	Other expenses recharged	809	69,164
Investment Research Group Limited	Expense	Loan fees[6]	11,500	-
	Expense	Other expenses	-	-
	Expense	Advertising expense	8,663	2,875
	Expense	Subvention payment (note 8)	-	2,249
	Asset	Prepaid advertising[5]	-	115,000
	Contra Revenue	Allocation of Covid-19 subsidy	2,529	-
	Contra Expense	Personnel expenses recharged	74,566	41,776
	Contra Expense	Other expenses recharged	1,618	37,431
Moneyonline Limited	Expense	Other expenses	-	165
	Expense	Personnel expenses	2,625	-
Pegasus Golf Limited[4]	Revenue	Fees and interest on loan[4]	-	10,227
Various related parties[3]	Expense	Interest expense on term deposits[3]	165,939	177,415

[1]Key Management Personnel includes Directors and the Chief Financial Officer.
[2]Net of amounts recharged to related companies.
[3]Includes term deposits held by Key Management Personnel, Directors of the ultimate parent company, their families and their controlled entities.
[4]The loan was repaid in full on 22 July 2019.
[5]Prepaid advertising spend with major NZ media company which Investment Research Group Limited on-charged to the Company. At year end there is a balance of $nil (2020: $98,960) left to spend. The balance is included in other current assets.
[6]Advisory fees paid to Investment Research Group Limited in relation to loan receivable advanced and repaid during the period. Recognised in fee and commission income in profit or loss using the effective interest method (forms part of the transaction costs of the loan).

Other Related Party Transactions

171,428 ordinary shares were issued to the parent entity on 30 September 2019 for an issue price of $1.75 per share resulting in an increase of share capital of $300,000 (refer to note 13).

During the year ended 31 March 2021, the Company purchased listed corporate and local government bonds totaling $4,718,617 (March 2020: $nil) and sold listed corporate and local government bonds for net proceeds totaling $4,545,768 (March 2020: $nil) via Equity Investment Advisers Limited. Brokerage of $7,188 was charged by Equity Investment Advisers Limited in relation to these trades (March 2020: $nil).

During the year ended 31 March 2021, Investment Research Group Limited charged a customer loan structuring fees totaling $210,528 in relation to a loan facility that was provided by the Company. The borrower instructed the Company to advance the fees to Investment Research Group Limited and for the amount to be added to the borrower's loan principal balance. The borrower is not a related party of General Finance Limited or Investment Research Group Limited. There were no similar transactions in the year ended 31 March 2020.

During the year ended 31 March 2021, a third party paid Investment Research Group Limited loan structuring fees totaling $35,957. The fees were charged in relation to loans that were advanced by the Company. The fees were not incurred by General Finance Limited nor were they paid or advanced by General Finance Limited (i.e. the transaction was between the third party and Investment Research Group Limited). There were no similar transactions in the year ended 31 March 2020.

18. Lending Industry Segments and Concentration of Credit

Credit exposures are concentrated in the property sector, particularly in the North Island and the Auckland Market. As at 31 March 2021, advances by General Finance in the North Island residential property sector represented 93.5% (March 2020: 94.9%) of its total exposure, with 72.1% (March 2020: 51.2%) being in the Auckland market. The geographical profile of loan receivables is analysed further as follows:

Credit risk concentration

	2021	**2020**
	$	**$**
Northland	1,998,048	2,068,544
Auckland	39,195,570	18,012,270
Waikato	2,691,087	4,189,996
Bay of Plenty	102,093	2,037,576
Wellington	5,037,443	4,398,852
Other North Island	1,878,632	2,672,401
Canterbury	1,315,784	1,810,227
Otago	2,240,299	-
Total	**54,458,956**	**35,189,866**

As at 31 March 2021 the Company's loan advances are secured as follows: first mortgages 99.8% (March 2020: 96.1%), second mortgages 0.2% (March 2020: 1.0%), combined first and second mortgages 0.0% (March 2020: 2.9%). There were no unsecured loans as at 31 March 2021 (March 2020: none).

The Company's loan advances were primarily secured over properties which are categorised as follows: residential housing 85.8% (March 2020: 83.5%), residential bare land 8.5% (March 2020: 5.4%), residential development property 0.0% (March 2020: 11.1%) and commercial property 5.7% (March 2020: 0.0%). In some cases, secondary securities may be taken over other property types.

The Company is also exposed to credit risk from deposits held with banks. As at balance date, the Company's cash and cash equivalents are held in Bank of New Zealand (representing 169.2% (March 2020: 213.5%) of total equity of the Company at 31 March 2021) and Westpac (representing 0.0% (March 2020: 0.0%) of total equity of the Company at 31 March 2021) who both have AA- credit ratings from Standard & Poor's.

The maximum credit exposure of the Company, assuming a zero value for collateral is $66,033,237 (March 2020: $48,494,878). This includes loan receivables of $54,458,956 (March 2020: $35,189,866), undrawn loan commitments of $1,316,486 (March 2020: $742,412), related party receivables of $9,720 (March 2020: $110,538) and bank deposits of $10,248,075 (March 2020: $12,452,062). Of this exposure, 84.5% is covered by collateral over properties as disclosed in note 7 (March 2020: 74.1%) and 15.5% is deposited with registered New Zealand banks (March 2020: 25.7%).

The Company has no foreign exchange exposure.

As at 31 March 2021 the Company had the following concentration of credit exposures on loan advances as a percentage of equity.

Equity Percentage	2021 No of Exposures	2021 Average Value $	2020 No of Exposures	2020 Average Value $
0% to 5%	17	201,693	21	175,593
5% to 10%	35	452,481	26	398,386
10% to 15%	14	756,425	10	741,748
15% to 20%	7	1,042,435	7	1,003,529
20% to 25%	1	1,414,560	4	1,249,538
25% to 30%	5	1,667,322	1	1,704,041
30% to 35%	1	2,084,619	-	-
40% to 45%	1	2,514,303	-	-
45% to 50%	1	2,956,246	-	-
Total no. of exposures	**82**		**69**	

The concentration of the credit exposure to the six largest exposures is 23.2% (March 2020: 22.2%) of the total loan portfolio. The Company has elected to disclose the largest six exposures as this is considered to provide a meaningful indication of concentration of credit risk. An exposure is calculated as the total of all loan exposures to a single borrower or group of linked borrowers.

19. Asset Quality

The provision for expected credit losses is detailed and explained in note 7. Gross past due loan receivables total $2,008,761 (March 2020: $5,422,214) which equates to 3.7% (March 2020: 15.4%) of total loan receivables.

As shown in the aging analysis of past-due loans below, the balance comprises:

Stage 1 *12-month ECL*
Gross loans receivable totalling $706,420 (March 2020: $3,905,889) were past due and the Company has concluded there has not been a significant increase in credit risk.

Stage 2 *Lifetime ECL not credit impaired*
Gross loans receivable totalling $1,302,341 (March 2020: $610,369) were past due by between 30 and 90 days and the Company has concluded there has been a significant increase in credit risk.

Stage 3 *Lifetime ECL credit impaired*
Gross loans receivable totalling $nil (March 2020: $905,956) were past due by greater than 90 days and the Company has concluded there has been a significant increase in credit risk.

Aging analysis of past-due loans	2021 $	2020 $
Up to 30 Days		
31 - 60 Days	706,420	3,905,889
61 - 90 Days	1,302,341	610,369
91 - 120 Days	-	-
120+ Days	-	546,788
Total	-	359,168
	2,008,761	**5,422,214**

20. Liquidity Profile

The following tables set out the undiscounted contractual cash flows, and the undiscounted expected cash flows, of the Company's financial assets and liabilities.

		Contractual Cash Flows			
March 2021	**Total**	**0 – 6 Months**	**7 - 12 Months**	**13 - 24 Months**	**24+ Months**
	$	**$**	**$**	**$**	**$**
Financial assets					
Cash and cash equivalents	7,256,277	7,256,277	-	-	-
Bank deposits (>183 days)[1]	3,019,773	3,019,773			
Other receivables	204,187	204,187	-	-	-
Loan receivables	57,904,712	18,598,749	24,593,585	9,802,023	4,910,355
Totals	**68,384,949**	**29,078,986**	**24,593,585**	**9,802,023**	**4,910,355**
Financial liabilities					
Other payables	99,240	99,240	-	-	-
Lease liability	206,392	51,598	51,598	103,196	-
Term deposit	60,177,665	18,460,422	20,981,517	18,473,850	2,261,876
Totals	**60,483,297**	**18,611,260**	**21,033,115**	**18,577,046**	**2,261,876**
Net cashflow	**7,901,652**	**10,467,726**	**3,560,470**	**(8,775,023)**	**2,648,479**

March 2020	**Total**	**0 – 6 Months**	**7 - 12 Months**	**13 - 24 Months**	**24+ Months**
	$	**$**	**$**	**$**	**$**
Financial assets					
Cash and cash equivalents	12,496,761	12,496,761	-	-	-
Other receivables	111,010	111,010	-	-	-
Loan receivables	36,794,218	20,544,067	12,085,213	2,720,171	1,444,767
Totals	**49,401,989**	**33,151,838**	**12,085,213**	**2,720,171**	**1,444,767**
Financial liabilities					
Other payables	172,110	172,110	-	-	-
Term deposit	43,366,922	13,544,847	14,189,421	11,776,984	4,155,670
Totals	**43,839,032**	**13,716,957**	**14,189,421**	**11,776,984**	**4,155,670**
Net cashflow	**5,562,957**	**19,434,881**	**(2,104,208)**	**(9,056,813)**	**(2,710,903)**

[1]*Bank deposits with an original term of greater than 183 days.*

Expected Cash Flows

March 2021	Total	0 - 6 Months	7 - 12 Months	13 - 24 Months	24+ Months
	$	$	$	$	$
Financial assets					
Cash and cash equivalents	7,263,046	7,263,046	-	-	-
Bank deposits (>183 days)[1]	3,026,500	3,026,500			
Other receivables	204,187	204,187	-	-	-
Loan receivables	60,052,839	10,200,816	13,243,507	26,687,091	9,921,425
Totals	**70,546,572**	**20,694,549**	**13,243,507**	**26,687,091**	**9,921,425**
Financial liabilities					
Other payables	99,240	99,240	-	-	-
Lease liability	206,392	51,598	51,598	103,196	-
Term deposit	62,233,207	7,918,102	8,995,915	19,268,522	26,050,668
Totals	**62,538,839**	**8,068,940**	**9,047,513**	**19,371,718**	**26,050,668**
Net cashflow	**8,007,733**	**12,625,609**	**4,195,994**	**7,315,373**	**(16,129,243)**

Expected Cash Flows

March 2020	Total	0 - 6 Months	7 - 12 Months	13 - 24 Months	24+ Months
	$	$	$	$	$
Financial assets					
Cash and cash equivalents	12,530,768	12,530,768	-	-	-
Other receivables	111,010	111,010	-	-	-
Loan receivables	38,437,399	10,990,318	6,819,638	17,822,591	2,804,852
Totals	**51,079,177**	**23,632,096**	**6,819,638**	**17,822,591**	**2,804,852**
Financial liabilities					
Other payables	172,110	172,110	-	-	-
Term deposit	44,968,870	11,235,268	7,439,464	7,856,748	18,437,390
Totals	**45,140,980**	**11,407,378**	**7,439,464**	**7,856,748**	**18,437,390**
Net cashflow	**5,938,197**	**12,224,718**	**(619,826)**	**9,965,843**	**(15,632,538)**

[1]*Bank deposits with an original term of greater than 183 days.*

The table above shows management's expected maturities of existing financial assets and liabilities. In determining the expected cash flow, the following assumptions have been made based on management's best estimate having regard to past experience, current market conditions and the future outlook including COVID-19 estimated impacts:

- 60% term deposit reinvestment rate for March 2021.
- March 2020 term deposit reinvestment rates assumptions:
  - 25% for maturities up to 30 September 2020;
  - 50% for maturities up to 31 March 2021; and
  - 60% for maturities after 31 March 2021.
- Term deposit reinvestments are made for a weighted average 18-month term (March 2020: 18-month term).
- 50% of loans (March 2020: 50%) not past due repay on existing contractual maturity date, with the balance rolled over at their existing interest rates and repaid after a further 12 months.

21. Fair Value

Fair value of assets

The fair value of the Company's loan receivables and other assets is considered to closely approximate their carrying value. As loan receivables are not traded in an active market, fair values are estimated by discounting the future contractual cash flows using interest rates applicable for an instrument with similar terms and conditions.

Fair value of liabilities

The fair value of the Company's deposits and of other liabilities is considered to closely approximate their carrying value.

22. Risk Management Policies

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.

The Company has a Risk Management Programme pursuant to the requirements of the Non-bank Deposit Takers Act 2013. The Risk Management Programme identifies risks to be managed and describes the processes to measure, monitor and control those risks.

* *Credit risk*, applicable to loan receivables and bank deposits, is the risk of potential loss arising from the under-performance by the counterparty to an instrument or facility. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual agreements. Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures which are carried out on a regular basis, the frequency of which is dependent on the level of risk. The Directors oversee credit policy and asset quality.

Loan receivables are subject to regular scrutiny, as a key component of credit risk management. This includes a review of the borrower's repayment history and any interest arrears; any changes in the borrowers circumstances which could impact on their ability to repay either interest or principal amounts on their due date; and any movement in the security value.

* *Interest rate risk* management focuses on two principal factors; mismatches between the repricing dates of interest-bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. Management's objective is to produce a strong and stable net interest income over time.

At 31 March 2021 bank deposits (including cash and cash equivalents and bank deposits with an original maturity date greater than 183 days) attracted a weighted average interest rate of 0.81% (March 2020: 1.26%). A 1% increase / decrease in the weighted average interest rate would increase / decrease annual interest income by $102,481 (March 2020: $124,521) based on the deposits held at reporting date. All term deposits have fixed interest rates for their terms, as do loan receivables, so the Company is not exposed to interest rate risk on these items.

* *Liquidity risk* is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. The Trust Deed requires us to have a liquidity cover ratio of at least 1.25 times which is measured based on the total expected cash position from loans and deposits expected to mature over the next three-month period. The Company closely monitors and forecasts its liquidity and ensures that sufficient funds are available to meet the repayment requirements for deposits as they fall due, by both holding cash on hand and by collections of loan receivables.

* *Indirect price risk* relates to the risk arising from the link between the Company's mortgage securities and the property market, which may vary from time to time. The Company assesses the risk of loss in fair value from the effect of hypothetical changes in property values. The Company's weighted average loan to asset ratio is not to exceed 70% (first mortgages) or 65% (second mortgages) of market value.

As at 31 March 2021 the weighted average loan to asset ratio was 54.6% (March 2020: 58.5%). Based on sensitivity testing of the loan portfolio at 31 March 2021 the Company estimates it has a $183,283 (31 March 2020: $202,797) exposure on secured mortgages to a property downturn of up to 25% (including the cost of realisation) from most recent valuations. A total of $136,029 (March 2020: $108,657) has been provided for expected credit losses in the financial statements (refer note 7).

Other material business risks to which the Company is exposed consist of operating risks that are inherent in day to day operations. These risks include natural disaster, criminal activity including fraud and forgery, systems failure, personnel failure and non-compliance with legislation and regulations. In accordance with Company Policy, operating risks are managed as part of the day to day running of all business activities. Operating risks are managed by setting standards and policies, providing advisory and investigation services, and monitoring compliance.

23. Reconciliation of Net Profit after Tax with Cash Inflow from Operating Activities

	2021 $	2020 $
Reported Profit after Tax	**223,430**	**441,716**
Add/(deduct) non-cash items		
Movement in allowance for expected losses (loan receivables)	27,372	54,999
Depreciation and amortisation	33,529	26,303
Realised losses on bonds sold	190,085	-
Modification gain – loans receivable	(49,770)	-
Deferred tax movement	(10,297)	(14,339)
	190,919	66,963
Movements in other working capital items		
(Increase) / Decrease in loan receivables (net advances)	(18,407,675)	(17,171,447)
(Increase) / Decrease in accrued interest on loan receivables	(11,451)	(112,604)
(Increase) / Decrease in capitalised loan fees	(501,550)	(308,599)
(Increase) / Decrease in capitalised interest	(293,661)	(214,162)
(Increase) / Decrease in other current assets	119,482	(151,347)
(Increase) / Decrease in related party receivable	100,818	(110,538)
(Increase) / Decrease in prepaid commission	3,289	(41,901)
Increase / (Decrease) in income tax payable	46,077	55,231
Increase / (Decrease) in deferred income	322,376	97,265
Increase / (Decrease) in interest payable	90,191	198,558
Increase / (Decrease) in related party payable	(91,200)	106,766
Increase / (Decrease) in accounts payable and accruals	48,929	113,114
	(18,574,375)	(17,539,664)
Total movement – inflow / (outflow)	**(18,383,456)**	**(17,472,701)**
Net cash inflow / (outflow) from operating activities	**(18,160,026)**	**(17,030,985)**

24. Post Balance Date Events

Global pandemic of coronavirus disease 2019

Note 2.1 of these financial statements described the impact of the ongoing outbreak of COVID-19 pandemic which occurred before 31 March 2021 and continues as at the date of the signing of these financial statements.

Other

There have been no other material post balance date events that would materially impact the Company's financial statements (March 2020: None).