Credit Ratings & Research

Credit Rating Report
General Finance Limited

NZBN: 9429038072994

Credit Rating Report

Date: 31 Aug 21

Prepared for: General Finance Limited

Report prepared by: Equifax Australasia Credit Ratings Pty Limited ("Equifax")

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Currency used in this report:

This report is presented in New Zealand Dollars unless otherwise noted

Contents

1. Executive Summary

General Finance Limited ("GF", "the Company")

GF is a Non-Bank Deposit Taking (NBDT) organisation that is licenced by the Reserve Bank of New Zealand (the RBNZ) and domiciled in New Zealand. The Company offers secured loans and accepts customer deposits.

Equifax has affirmed GF's credit rating at 'BB-' with a 'Stable' outlook as of Mar21. As the impact of COVID19-induced market pressures on GF's earnings has waned off, the outlook on the Company's rating remains 'Stable'.

Overall, GF's credit rating benefits from its market position as a specialised bridging loans provider, growing scale, sound capital and funding profile, robust asset quality metrics (mainly conservative Loan to Value Ratios (LVRs)) and sound liquidity. The Company's credit rating is constrained by the market pressures on profitability, the broader business model risks (which include moderately high loan concentration, exposure to higher-risk borrowers, and market risks), and the operational risks associated with the continued growth in scale.

Strengths

- GF is a specialist bridging loans provider catering to a market underserved by many industry competitors. The Company's scale has steadily grown in recent years (total assets Jun21: $71.4m, Mar21: $64.6m, Mar20: $47.8m, Mar19: $20.2m), backed by an increase in customer deposits. While GF's loan book declined during 1HFY21 (Sep20: $32.2m, Mar20: $35.0m) - as the management adopted a measured approach in responding to external challenges induced by COVID19, the loan book has expanded significantly since then to $58.0m at Jun21 (Mar21: $53.8m) reflective of improved market conditions.

- GF's healthy asset quality and low impaired loan metrics are reflective of its conservative lending policies. The Company's healthy weighted average loan book LVR (relatively stable at ~55% as of Mar21), affords it ample capacity to absorb a decline in collateral value in a market downturn. Furthermore, a significant portion of the loan book is collateralised by general use residential properties, which reduces the risk of loss upon a credit event occurrence, as this asset class is prone to a relatively lower degree of liquidity and market price haircut.

- A sound capital ratio of 15.8% at Jun21 (Mar21: 16.4%, Mar20: 19.6%) enables GF to maintain adequate headroom above the regulatory minimum capital ratio threshold (8.0%). This, together with the Company's planned capital raising of $3.5m during FY22, is considered adequate to support the anticipated loan book growth in the near-term.

- GF's demonstrated capacity to attract deposits to aid its asset growth supports its funding profile. Additionally, the Company's liquidity profile is supported by a positive short-term asset liability duration gap as it uses longer-duration deposits to underwrite shorter-duration loans. The Company's capacity to withstand any pressure on liquidity is further supported by its consistently healthy short-term asset balance - 15.9% liquidity ratio at Mar21.

Constraints

- A low interest rate environment and increasing competitive pressures have significantly impacted GF's operating earnings; the yields on GF's loan portfolio in FY21 decreased to 7.8% (FY20: 9.3%). A significant growth in deposits and a decision to maintain elevated cash reserves (which yield lower returns) to better respond to uncertainties at the onset of COVID19 also contributed to a deterioration in NIMs (FY21: 1.6%, FY20: 2.5%, FY19: 3.4%) in FY21. As the slight increase in the average lending rates for new loans since Dec20 (8.2%) is expected to be partially offset by an increase in deposit rates Apr21 onwards, improvement in operating earnings and NIMs to pre FY21 level is expected to require a sustainable growth in scale of operations.

- Higher business model risks compared to traditional banks and large non-bank financial institutions constrain GF's rating. The Company's focus on collateral-based lending exposes it to a higher degree of market and credit risk, as recurring earnings of the borrower are not the primary source of the loan's principal repayments. Moreover, a major portion of GF's loan-book comprises interest only or interest capitalised advances to borrowers. As such, adverse developments in real estate markets, have the potential to expose the Company to an increase in credit and/or liquidity risks, and a reduced collateral cover. Furthermore, despite the recent increase in scale, the Company's exposure to individually significant loans has continued to rise, as the top-six loans accounted for 209% of its total capital base (Mar20: 131%) and 23.2% of the total loan book at Mar21 (Mar20: 21.9%).

- The change in GF's liquidity management strategy in Aug20 - permitting the investment of excess liquidity in listed bonds, is indicative of higher risk, in our view. GF's investment of ~$4.8m in long-term bonds during FY21 was impacted by adverse market movements and resulted in losses of ~$0.2m. Positively, the Company has since reviewed the strategy and exited all of its bond holdings.

- GF's growth plans and scalability are moderately constrained by its reliance on key executives' expertise and its operational capacity. Furthermore, an absence of formal financial and qualitative metrics for loan approval mean GF has a high reliance on its key executives' expertise for loan origination and approval, thereby exposing it to keyperson and business continuity risks. While the growth in the loan book would likely result in improved profitability, if the same is not accompanied by a corresponding increase in operational capacity to tend to a larger portfolio, it may lead to an increase ongoing operating risk.

The outlook for GF's credit rating is currently 'Stable', and a rating upgrade would require successful progress on GF's growth plans in a sustainable manner, and an appropriate improvement in operational capacity commensurate with growth.

The rating may be revised downward if competitive forces continue to weigh on GF's earnings, and/or if its pursuit of growth compromises risk management prudence.

Risk Rating

BB-

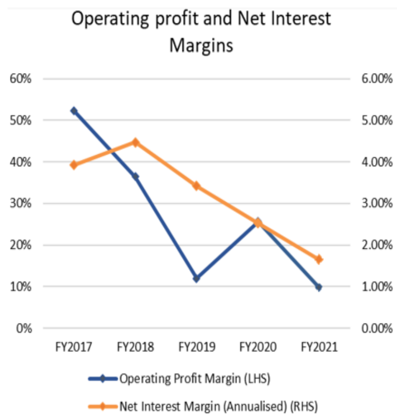
Outlook: Stable

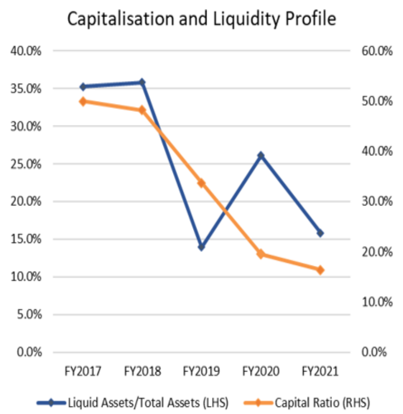
Type: Public, Monitored

Industry Percentiles

	Percentile
Scale:	
Total Assets	8%
Gross Loans	58%
Profitability:	
NIM	17%
ROE	42%
ROA	25%
Efficiency Ratio	17%
Capitalisation:	
Leverage (Gross loans to Equity)	0%
Capital Ratio	67%
Capital to Total Assets	0%
Funding and liquidity:	
Deposits to Loan Ratio	42%
Liquid Assets to Total Assets	33%
Asset Quality:	
Net Charge-offs	100%
Impaired Loans	100%
Provision for Loan Losses	83%

Key Trends





2. Scope of Report

The purpose of this report is to provide an overview of the credit rating and associated rationale of General Finance Limited (“GF”, “the Company”).

We have complied with our rating services guidelines in order to derive the credit rating on General Finance Limited. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. The details pertaining to this report are outlined below:

Report Details	
Date of Report	**31 Aug 21**
Request Type	**Issuer**
Assessment Type	**Under ongoing monitoring**
Rating Initiation	**Issuer based (solicited)**
Rating Distribution	**Public Rating**
Report Distribution	**Unrestricted**
Purchased by	**General Finance Limited**
Report Fee	**Fixed Price**
Ancillary fees	**Nil**
Issuer Name	**General Finance Limited**
Issue Name	**Not Applicable**
Issuer First Time Rated	**No**
Issue First Time Rated	**Not Applicable**
Financial Scope	**Standalone Entity**
Structure	**Limited Company**
Issuer Industry	**Financial Services**
Issuer Sector	**Non-Bank Deposit Takers (peers included on page 34)**

This report should be read within the context of Equifax’s Rating Services Guide. This report should be taken as a whole and cannot be abridged or excerpted for any reason.

We have conducted this assessment on the basis of the information provided to us by General Finance Limited, publicly available information, and from our own enquiries. We have derived a credit rating on the Company based on the understanding that General Finance Limited has no contingent liabilities, cross guarantees, or other liabilities to any other entity other than as disclosed to us or as detailed in the financial statements. Our duty does not include auditing the financial statements.

Information Sources	
Financial statements	**Audited Financial Statements for the years ended 31 Mar 2021, 2020, and 2019. Management accounts for the three-month interim period ended 30 Jun 2021.**
Name of auditor	**Baker Tilly Staples Rodway Auckland**
Other Information Sources	**The Company's response to our request for information, the Company website, industry and regulatory websites, management interviews, media articles, adverse searches, and internet searches.**
Subject participation	**Full**
Material financial adjustments	**None**
Limitations of assessment	**None noted**
Outsourced rating activities	**No**
Confidentiality agreement	**No**
Material client	**No**
Rating amended post issuer disclosure	**No**
Potential conflict of interest	**GF is also a user of other Equifax products which are procured on commercial terms.**
Rating methodology	**Financial Institution Rating Criteria**

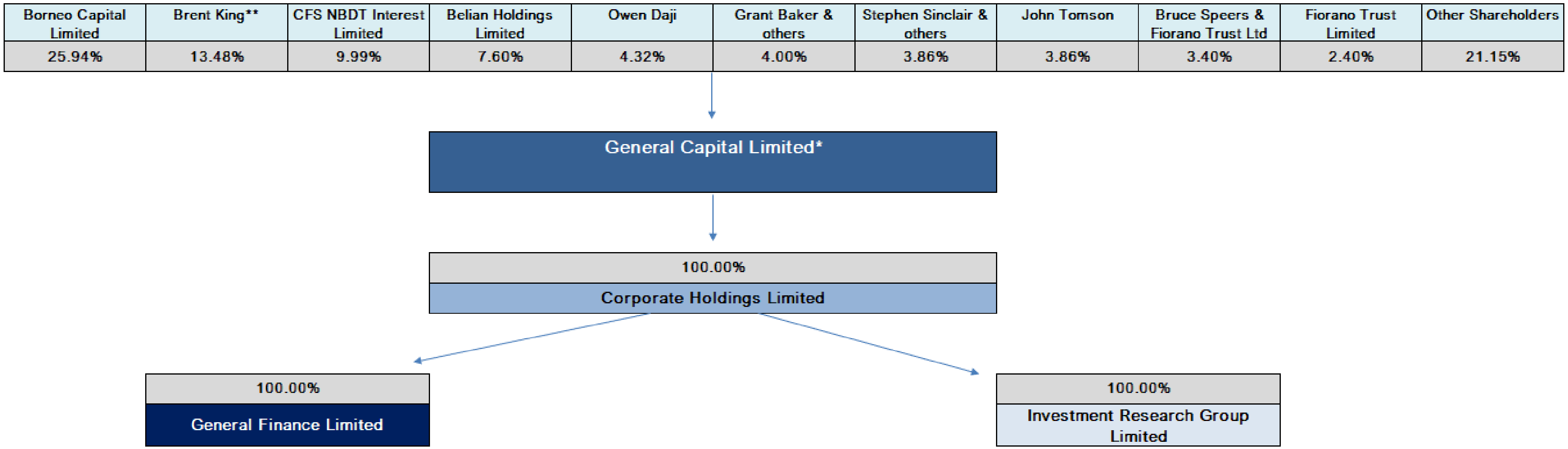
This report should be read within the context of Equifax's Ratings Services Guide.

3. General Background of the Subject

3.1 Subject Overview

Subject Name	General Finance Limited
Type of Entity	Licensed as a Non-Bank Deposit Taker (NBDT) with the Reserve Bank of New Zealand (the RBNZ)
Head Office Address	Level 8, 'General Capital House', 115 Queen Street, Auckland CBD, Auckland 1010, New Zealand.
Date of Incorporation	13 June 1997
Principal Activities	General Finance Limited is a finance company operating as a residential mortgage and a commercial lender. The Company provides loans for a variety of purposes, generally enabling borrowers to complete a short-term transaction (such as preparing a property for sale, bridging a property acquisition, enhancing, developing, subdividing, building, constructing on and improving a property), or funding a business purchase or expansion (including working capital).
History	Incorporated in 1997, General Finance Limited initially focused its offering as a second mortgage lender and later expanded to provide a range of secured loan products. In November 2004, the Company registered its first prospectus for the issuance of debenture stock (term deposits). In December 2017, Corporate Holdings Limited (CHL) acquired General Finance Limited and Investment Research Group Limited (IRG). CHL was then listed on the New Zealand stock exchange in Aug18 via a reverse listing transaction, whereby General Capital Limited (GC, previously named Mykco Limited) purchased all of the shares of CHL by issuing GC's shares to CHL's Shareholders.

3.2 Corporate Structure



** General Capital Limited shareholding as at Aug21.*
*** Brent King is currently the Managing Director of General Capital Limited, General Finance Limited, and Investment Research Group.*

4. Industry Risks

Systemic risk factors (GDP, unemployment, economic cycles, interest rates etc), level of competition and market structure, and the legal and regulatory framework are key sources of industry risks that determine the operating environment of financial institutions (FIs). A summary[1] of the above risk factors and their outlook in the context of the New Zealand economy is included in paragraphs below.

SYSTEMIC RISK FACTORS

COVID19

New Zealand has coped with the COVID19 pandemic better than initially feared.

The spread of COVID19 in New Zealand has been largely suppressed by border restrictions, and an effective public health response. Together with these public health measures, substantial domestic fiscal and monetary policy support has helped to prevent many business failures and a larger than anticipated rise in unemployment. Recent economic data suggest domestic demand is robust and that the economic recovery has broadened in recent months. While the recent emergence of new cases of COVID19 in the community and the consequent restrictions in movements will restrain activity, the impact will depend on the length of time the restrictions stay in place, and the responses of households and businesses. Whilst New Zealand's rate of vaccination has lagged other parts of the developed world to date, the roll-out is being accelerated in response to the current outbreak and should ultimately support the country's path toward normalcy.

The economy expanded 1.6% in the first three months of 2021, despite a lack of international visitors during what is usually the peak tourism season (figure 1). While activity in the retail, healthcare, and construction sectors has been particularly strong, activity in most sectors has been around pre-COVID19 levels - with the exception of mining and those most exposed to the loss in international visitors (figure 2).

Figure 1

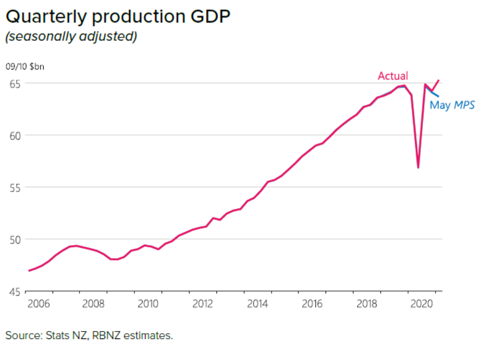
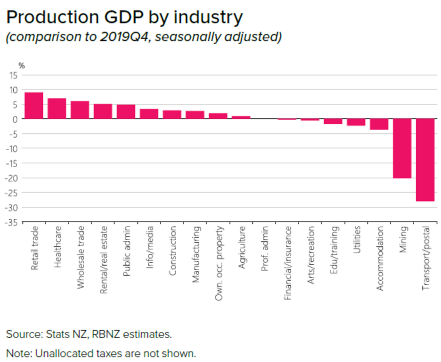


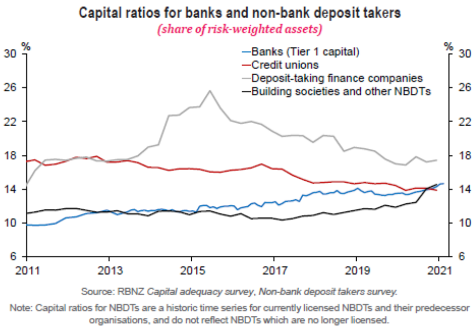
Figure 2



[1] The RBNZ Financial Stability Report May21, the RBNZ Monetary Policy Statement Aug21, the RBNZ Website and various Publications of RBNZ.

Substantial government support has helped to mitigate the economic impacts of the COVID19 pandemic. Banks' non-performing loans are at low levels and remain well below the peak seen after the global financial crisis. While the end of insolvency relief and other support measures may see non-performing loans increase in the near-term, the businesses most affected by the COVID19 pandemic have tended to rely less on borrowing, partly because capital intensity is lower in the service sector. Bank capital ratios have increased as bank profitability has recovered over the past six months and dividend restrictions have remained in place, albeit with some easing recently (figure 3). Banks are in a strong position to keep supporting their customers and the economy.

Figure 3

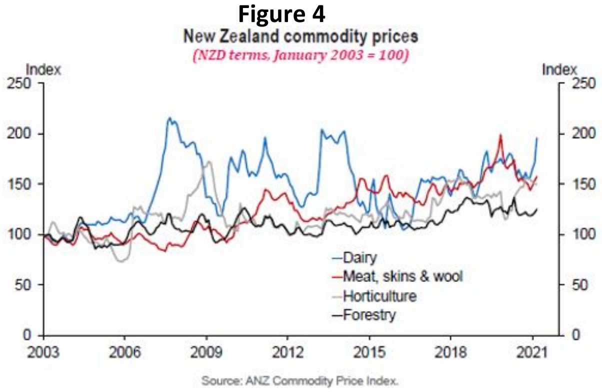


Market risk

Market risk refers to the risk of loss due to changes in currency, commodity, asset prices, interest rates, and other market traded instruments. Financial institutions that act as market makers are at greatest risk. NBDTs have a lower willingness and tolerance for market risk than larger banks but have exposure to interest rate risk due to interest rate duration mismatch between assets and liabilities. Other forms of market risk may arise in the form of loans secured by property assets, loans in currency other than that of the domicile country, direct exposure to resources, or loans to commodity producers.

Global monetary and fiscal settings remain at accommodative levels and are supporting international spending and investment. Rising vaccination rates across many countries have provided economic impetus. The rise in activity has continued to support demand and prices for New Zealand's export commodities. In particular, China's rapid recovery from the COVID19 pandemic has supported continued demand for New Zealand's key agricultural commodities. While demand for dairy has been the driving factor, stronger prices have recently also been recorded for meat and forestry products (figure 4). Although demand for agricultural commodities has remained robust throughout COVID19, the sector faces several longer-term headwinds including inherent climate variability as climate change intensifies.

Figure 4



The New Zealand dollar trade-weighted index (TWI) was stable in the Jun21 quarter at 74.7c (Mar21: 74.9c), despite a widening in interest rate differentials. This has further supported exporter returns.

The sustainability of asset prices is a key financial stability concern for New Zealand.

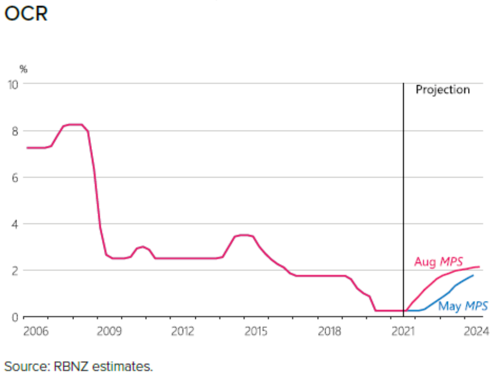
In New Zealand, low interest rates along with easier borrowing requirements, ongoing supply constraints, and a resilient labour market has contributed to a rise in house prices over the past year. The sustainability of this increase is in question as these factors could prove temporary. Nationwide house prices rose by ~24% in the fiscal year to Mar21, significantly outpacing house price rises in other advanced economies.

Underscoring concerns around house price sustainability, borrowers and the economy are vulnerable to a severe decline in house prices. A sharp contraction in households' wealth would dampen consumption spending, with adverse flow-on effects on the business sector and banks' business lending portfolios. The RBNZ has reinstated LVR restrictions to reduce the risk that large declines in house prices amplify a wider economic downturn. The Monetary Policy Committee (MPC) have also acknowledged that rising mortgage interest rates, as monetary stimulus is reduced, would also constrain house prices to a more sustainable level. Such restrictions from the RBNZ are likely to present opportunities for specialist loan providers like GF in the medium-term.

Interest Rate Movements

In Mar20, at the outset of COVID19, the RBNZ cut the Official Cash Rate (OCR) to a record low and began purchasing central and local government bonds in large scales through its Large-Scale Asset Purchase (LSAP) programme to support the economy. It also provided funding to banks when markets were volatile to ensure banks remained able to support customers. As alluded to above, this monetary stimulus has been playing a supporting role in the economic recovery. In Aug21, while keeping the Official Cash Rate (OCR) at 0.25%, the RBNZ advised that given the current and expected strength in the labour market, its economic projections imply that increases in the OCR over the next year (figure 5) will be necessary in order to meet its inflation and employment objectives. This followed the RBNZ's decision to halt additional purchases of government bonds under the LSAP programme at its Jul21 meeting.

Figure 5



Cyclicality

Cyclicality impacts household savings rates, corporate profitability, and asset valuations. Different stages in the economic cycle pose distinct risks. For instance, in a low-rate environment, financial institutions would find it challenging to attract funding through customer deposits as savings rates fall whilst in a high-interest rate environment asset quality deterioration is the main risk. Adverse economic shocks such as a rise in unemployment, deflation or declining wages, and an increase in interest rates can have an adverse impact on asset performance and give rise to credit impairments. NBDTs' strong reliance on retail deposits for funding, limited product range, geographically concentrated operations, and smaller scale makes them more susceptible to the adverse operating and financial impacts of cyclicality compared to systemically important banks and other tier-2 banks.

Domestic economic activity has been underpinned by strong household spending, high levels of construction, and strong demand for New Zealand's commodity exports. Recent data has also shown a pick-up in business investment, which broadens the base of aggregate demand and suggests businesses are responding to emerging capacity constraints.

Household consumption increased 5.4% in the Mar21 quarter, taking it above pre-COVID19 levels despite very low population growth (figure 6). Household incomes have increased significantly since the onset of the COVID19 pandemic. This reflects recovering employment – particularly in more recent quarters – and social support payments that remain higher than previously. Household savings rose sharply in 2020, aided by government policy measures, most notably the Wage Subsidy, which prevented a more significant decline in household incomes. The unemployment rate was 4.0% in the Jun21 quarter, after peaking at 5.3% in the Sep20 quarter. Across sex and ethnicities, except Pacific peoples, unemployment rates have returned to around pre-COVID19 levels (figure 7).

Figure 6

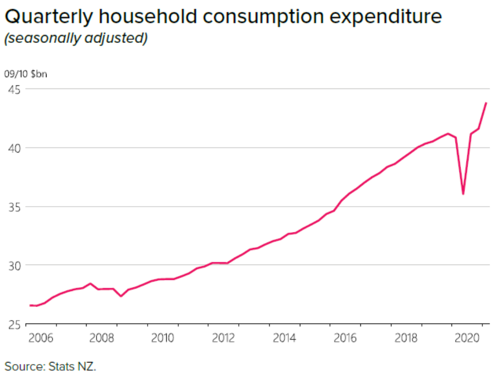
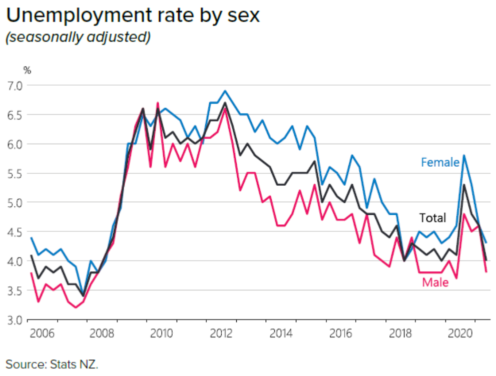


Figure 7



<u>Business investment is recovering.</u>

Reflecting the shape of the economic recovery over the second half of 2020, business revenue improved strongly in sectors linked to household durable goods consumption and construction. However, ongoing border restrictions and periodic restrictions in movements domestically continued to weigh on transport, tourism, and leisure-related industries. The RBNZ Financial Stability Report at May21 indicated a partial recovery in activity, with data showing that business intentions remained low given the overall uncertainty about the resolution of the COVID19 pandemic and the strength of the economic recovery. Firms appeared to be using cashflows to deleverage and reduce risk on their balance sheets, reflected in growing deposits and declining loan balances (figure 8).

However, as per the RBNZ Monetary Policy Statement of Aug21, recent data showing a sharp increase in business investment in the Mar21 quarter (figure 9) - after being weak for much of 2020, suggests an increase in business confidence. The RBNZ is expecting business investment to remain above pre-COVID19 levels over its projection horizon due to higher demand, lower uncertainty, and increased capacity pressures.

Figure 8

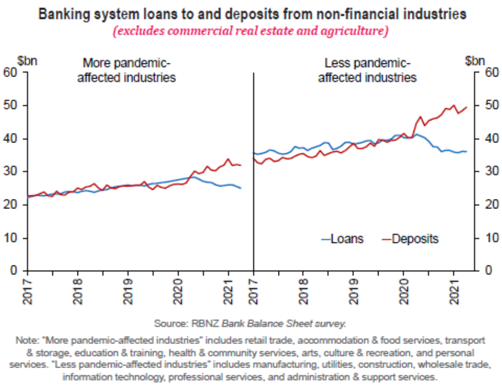
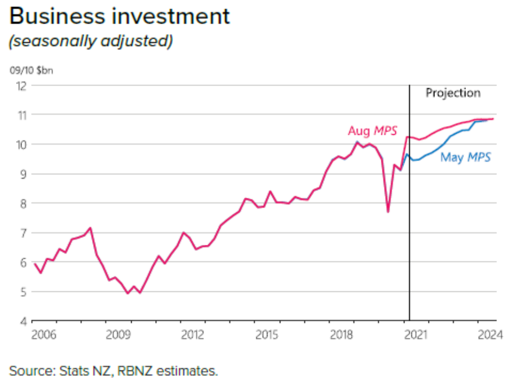


Figure 9



<u>Rising capacity pressures are underpinning high and increased consumer price inflation (CPI).</u>

There is significant pressure on available resources in the New Zealand labour market, where job vacancies remain high despite declines in unemployment. Border closures have reduced international labour mobility, creating capacity shortages in some industries that have traditionally been reliant on migrant labour, with employment assessed as being at or above its maximum sustainable level in the current environment. When combined with supply-chain disruptions and increases in global oil prices, these capacity pressures in the economy have resulted in annual CPI inflation increasing to 3.3%. As mentioned above, the RBNZ has advised that monetary stimulus measures are no longer warranted given the strength in employment and rising inflationary pressures and based on its central projections, monetary stimulus should be reduced to ensure the MPC meets its objectives, which include 1 to 3% CPI target band.

LEVEL OF COMPETITION AND MARKET STRUCTURE

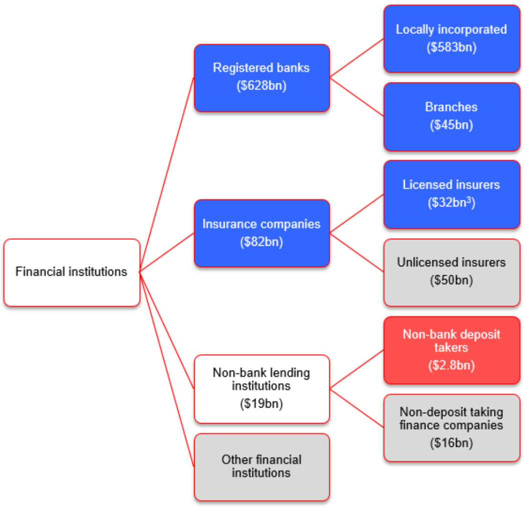
The financial institutions face stiff competition on an ongoing basis to attract capital and funding. In addition to peers, the financial institutions must compete with other finance intermediaries like managed funds, insurance companies, and other intermediaries that offer alternative avenues for households and businesses to save or borrow funds. Further, the advent of fintech, payment banks, and the rise of buy now pay later sector has heightened competition in the short-term lending segment.

<u>Overview of Competitive Landscape in New Zealand</u>

The New Zealand financial system is dominated by the banking sector, with banking assets accounting for a very large share of overall financial system assets (Figure 10). Structural entry barriers benefit the systemically relevant banks and offer them a competitive advantage in attracting customers, and pricing lending and savings products. These advantages allow these large scale financial institutions to access a diversity of liquidity pools including retail deposits and wholesale funding. This diversity offers them the flexibility to absorb shocks to funding costs and to partly insulate their earnings from capital market volatility. Moreover, top tier banks offer a broad range of products like savings, deposit and transaction accounts, superannuation, trading accounts, financial advice, wealth management, and a network of branch and ATM services providing a level of convenience, range, and quality.

Additionally, capital markets are relatively less developed in New Zealand, with total market capitalisation of equities at the New Zealand Stock Exchange around $173bn, while the domestic bond market is around $152bn (excluding government debt). The managed fund industry is also small compared to banks, with around $171bn of assets under management.

Figure 10 – Asset Size of Industry*



**As at 28 Feb 21*

Source: The RBNZ Bank Balance Sheet (BBS), the RBNZ Standard Statistical Return (SSR), the RBNZ Non-Bank Deposit Taker Prudential Return (NBDTPR), Individual Insurer Financial Statements.

Direct capital market funding (issuance of corporate bonds) and non-bank lending institutions (NBLIs) together account for only 6% of non-financial private sector borrowing. NBLIs account for under 3% of intermediated credit since they have a limited offering and specialise in raising deposits to lend to high-risk consumer and business segments underserved by the traditional banks. NBLIs include non-bank deposit-taking institutions (NBDTs) and non-deposit-taking finance companies. While the Reserve Bank of New Zealand regulates NBDTs it does not regulate or supervise non-deposit-taking finance companies.

As such NBDTs, such as GF compete by providing a value proposition to markets unserved or underserved by the larger players. However, a low interest rate regime and increased liquidity in response to the effects of the COVID19 pandemic means that NBDT’s are expected to face increased margins pressures competition from larger players to retain existing customers and win new business.

LEGAL AND REGULATORY FRAMEWORK

The financial institutions are highly regulated due to their vital role and high failure costs. The scope of regulations extends to various aspects of the FI's business including but not limited to capital and liquidity requirements, risk management, and governance controls.

Regulatory Landscape in New Zealand

Part 5 of the Reserve Bank of New Zealand Act 1989 (the Act) gives the Reserve Bank of New Zealand (the RBNZ) the powers to register and supervise banks for the purposes of promoting the maintenance of a sound and efficient financial system; and avoiding significant damage to the financial system that could result from the failure of a registered bank. The RBNZ has a responsibility to promote the integrity of the financial system as a whole, and, accordingly, also has responsibilities in relation to non-bank deposit takers, insurance companies and the payments system. While the RBNZ monitors registered banks' compliance with banking supervision policies, neither it nor the government guarantees that a registered bank will not get into difficulty or fail.

Macro Prudential Policy

The purpose of macroprudential policy is to reduce the risk that the financial system amplifies a severe downturn in the real economy. An unsustainable boom in credit and asset prices can result in a bust that creates losses for banks, businesses, and households, and hampers the ability of banks to continue lending to the economy. This is important because financial instability – a disruption to the supply of essential services provided by the financial system – can have significant and lasting economic and social costs. Macroprudential policy aims to reduce the likelihood and severity of these costs. To achieve objectives of its macro prudential policy the RBNZ uses tools like Countercyclical Capital Buffer, Sector Capital Requirement, Core Funding Ratio and Loan-to-value ratio (LVR) restrictions. The limits prescribed under above are revised from time to time.

Regulatory Actions in Response to COVID19

Recognising the impacts of COVID19 on the economy and financial institutions, the RBNZ, in addition to reducing the OCR and initiating LSAP, also took a number of steps to support the ongoing provision of credit to the economy and promote financial stability. These included relaxing a range of regulatory requirements, restricting dividend payments, and placing external-facing regulatory initiatives on hold, to allow entities to dedicate their resources to responding to the COVID19 pandemic.

Figure 9 - Regulatory Action for Banks in Response to COVID19

Action	Description	Current Status
Payment deferrals	Concessionary capital treatment for loans on payment deferral from 27 Mar 20.	Programme ended on 31 Mar 21.
Loan-to-value ratio restrictions	Removed on all residential mortgage lending from 30 Apr 20.	Since 1 May 21, a maximum of 5% of new lending to investors can be at LVRs above 60%. Additionally, a maximum of 20% of new lending to owner-occupiers can be at LVRs above 80%.
Dividend restrictions	No dividend payments permitted from 2 Apr 20.	Banks are now allowed to pay up to a maximum of 50% of their earnings as dividends to their shareholders until 1 Jul 22, at which point the RBNZ intends to normalise the dividend settings by removing the restrictions entirely.
Core funding ratio requirement	Minimum reduced from 75% to 50% from 2 Apr 20.	The RBNZ intends to increase the CFR minimum requirement to 75% on 1 Jan 22, subject to no significant worsening in economic conditions.
Capital Review	Implementation delayed to begin on 1 Oct 21, with higher capital requirements starting from 1 Jul 22.	Submissions on consultation closed on 31 Mar 21.
Outsourcing policy transition	On 18 Mar 20, the RBNZ announced that it would extend the transition period for its revised outsourcing policy by 12 months.	Extended the end of the transition period by one year from 30 Sep 22 to 30 Sep 23.

5. Prudential Framework

The RBNZ regulates non-bank deposit takers (NBDTs) in New Zealand for the purposes of promoting the maintenance of a sound and efficient financial system and avoiding significant damage to the financial system that could result from the failure of an NBDT. NBDTs are entities that make an NBDT regulated offer (as defined in section 5 of the Non-bank Deposit Takers Act 2013) and carry on the business of borrowing and lending money, or providing financial services, or both. The prudential regulation of NBDTs is provided under the Non-bank Deposit Takers Act 2013 and associated regulations. Trustee companies also have obligations under the Act. These include ensuring certain prudential content is included in licensed NBDTs' trust deeds. Trustees must report to the Bank any non-compliance with the Act and regulations by the licensed NBDT. Trustees are licensed by the Financial Markets Authority under the Financial Markets Supervisors Act 2011. The table summarises certain key prudential requirements [1]for NBDTs currently in force.

[1] The RBNZ

Credit Rating	Licensed NBDTs are required to have a local currency (New Zealand dollar), long-term, issuer rating given by approved rating agencies.
Governance	Licensed NBDTs that are companies or building societies must have a chairperson who is not an employee of either the licensed NBDT or a related party and must have at least two independent directors. Licensed NBDTs that are subsidiaries of another person are prohibited from including provisions in their constitutions that would allow directors to act otherwise than in the best interests of the NBDT.
Risk Management	Licensed NBDTs are required to have a risk management programme that outlines how the licensed NBDT identifies and manages its credit, liquidity, market, and operational risks. This programme is to be submitted to, and approved by, the licensed NBDT's trustee.
Capital Ratio	A minimum capital ratio (the level of capital in relation to the credit exposures and other risks of the NBDT or its borrowing group) is required to be included in licensed NBDTs' trust deeds. This ratio must be at least 8% for licensed NBDTs with a credit rating from an approved credit rating agency. For licensed NBDTs without a credit rating from an approved rating agency, the minimum capital ratio specified in the trust deed must be at least 10%.
Related party exposure limits	The exposures to related party, as defined in the Act, shall not exceed a maximum limit of 15% of capital.
Liquidity	Liquidity regulations require every licensed NBDT and its trustee to ensure that the licensed NBDT's trust deed include one or more quantitative liquidity requirements that are appropriate to the characteristics of the licensed NBDT's business, and that take into account the liquidity of the licensed NBDT and the liquidity of any borrowing group.
Suitability assessment of certain directors and senior officers	Licensed NBDTs must notify the RBNZ when one of its directors or senior officers (or a person who is proposed to be appointed as a director or senior officer) raises a "suitability concern".
Change in ownership	An application must be made to the RBNZ to approve a transaction that will result in a person: 1. having the direct or indirect ability to appoint 25% or more of a licensed NBDT's governing body; or 2. having a qualifying interest in 20% or more of the voting securities issued by the licensed NBDT.

The above regulations remain unmodified amidst the outbreak of COVID19.

6. Market Risk Exposure and Controls

GF's exposure to market risk is mainly in form of interest rate risk. The Company currently has no current exposure to foreign currencies or to equity investments.

Interest rate: Interest rate risk is the possibility that the value of an asset or liability will adversely change as a result of an unexpected change in market interest rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on the cash flows relating to its financial instruments. In managing interest rate risk, management focuses on 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.

GF's loan portfolio and product suite substantially consists of fixed interest rate loans which are secured by residential properties. The Company primarily offers funds for short-term requirements such as bridging finance for property purchase or renovation before sale. A majority of loans (Mar21: 81.0%, Mar20: 87.1%) will mature within the next 12 months, with renewal/extension at the sole discretion of management.

In FY21, GF's deposits with banks attracted a weighted average interest rate of 0.81% (FY20: 1.26%). The Company noted that a 1% decrease in the weighted average interest rate would reduce the annual interest income by $102k (FY20: $125k). All deposits and loans have fixed interest rates for their terms, and as such, the Company noted that it had minimal interest rate risk on these items.

In FY21, the Company updated its risk mandate to include investments in NZDX listed investment grade bonds as permitted use of excess liquidity, in addition to previously approved deposits with registered New Zealand banks. Investing in long term bonds exposed the Company to increased market risks through yield movements and in our view, does not bode well with the business's core strategy. During FY21, GF invested ~$4.8m in NZDX listed, investment grade bonds, which was subsequently impacted by adverse market movements, resulting in losses of ~$0.2m. We note, the Company has since reviewed the strategy and exited all of these holdings.

Repricing Gap Analysis at Mar21 (Undiscounted cashflows)

$000's	Total	0-6 months	6-12 months	12-24 months	24+ months
Assets					
Cash	10,248	10,248	1,000		
Other Assets	204	204			
Loans	54,206	17,138	23,531	8,780	4,757
Total	**64,658**	**25,590**	**24,531**	**8,780**	**4,757**
Liabilities					
Payables	99	99			
Leases	207	52	52	103	
Deposits	57,929	17,702	20,238	17,850	2,139
Total	**58,239**	**17,853**	**20,290**	**17,953**	**2,139**
Difference	**6,423**	**8,737**	**4,241**	**-9,173**	**2,618**

Repricing Gap Analysis at Dec20 (Undiscounted cashflows)					
$000's	Total	0-6 months	6-12 months	12-24 months	24+ months
Assets					
Cash	9,072	7,072	1,000	1,000	
Other Assets	117	117			
Loans	50,324	13,618	16,498	14,347	5,861
Bonds	1,698				1,698
Total	**61,211**	**20,807**	**17,498**	**15,347**	**7,559**
Liabilities					
Payables	93	93			
Deposits	54,988	21,308	11,725	19,415	2,540
Total	**61,211**	**20,807**	**17,498**	**15,347**	**7,559**
Difference	**6,130**	**-594**	**5,773**	**-4,068**	**5,019**

Repricing Gap Analysis at Mar20 (Undiscounted cashflows)					
$000's	Total	0-6 months	6-12 months	12-24 months	24+ months
Assets					
Cash	12,497	12,497			
Other Assets	111	111			
Loans	36,794	20,544	12,085	2,720	1,445
Total	**49,402**	**33,152**	**12,085**	**2,720**	**1,445**
Liabilities					
Payables	172	172			
Deposits	43,667	13,545	14,189	11,777	4,156
Total	**43,839**	**13,717**	**14,189**	**11,777**	**4,156**
Difference	**5,563**	**19,435**	**-2,104**	**-9,057**	**-2,711**

As illustrated above, GF’s short-term asset liability duration gap turned negative at Dec20, underpinned by increased competitive pressures in the market - given the low interest rate environment. COVID19 induced market pressures resulted in GF disbursing a sizeable portion of loans for a relatively longer duration. While a negative short-term asset liability duration gap increases the susceptibility of the Company’s earnings to a stressed liquidity scenario, this was offset by a corresponding improvement in liquidity ratio.

Favourably, GF returned to a positive short-term asset liability maturity gap at Mar21, reflective of improved market conditions. Further, as indicated by the RBNZ, interest rates are expected to increase in the near-term, which is likely to benefit the Company’s NIMs.

Liquidity Risk: Liquidity risk is the risk that the Company will encounter difficulty in meeting payment obligations associated with its financial liabilities when they fall due. It includes the risk that the Company may not have sufficient liquid funds or be able to raise sufficient funds at short notice, to meet its payment obligations associated with financial liabilities when they fall due. This situation can arise if there is a significant mismatch of its financial assets and financial liabilities. As per the Trust Deed, the Company must maintain a three-month liquidity cover ratio (LCR) of not less than 1.25 times[1] (Actual LCR at Mar21: 3.55 times).

In terms of cash flow management, the Company prepares a twelve-week cash flow projection on a weekly basis while projections for longer time frames (up to 2 years) are prepared on a monthly basis for the trustee. The statements include cash inflows indicating loan maturities, interest and principal receipts together with term deposit inflows. Cash outflows indicates proposed loan advances, term deposit repayments and other payments such as taxation or salaries.

The Company's primary funding source is term deposits from customers. The management monitors and reports on maturing deposits, reinvestment rates and new funding inflows monthly. The directors regularly review and adjust interest rates with reference to market rates and funding requirements while depositors are contacted by a director or a senior manager in the month preceding the maturity of their deposit.

7. Credit Risk Exposures and Controls

Credit risk is the risk that the counterparty will be unable to meet obligations to the Company under the terms of any loan or deposits (with banks). GF is exposed to credit risk on both, term deposits held with NZ registered banks and loans granted to customers.

Term deposits with banks – At Mar21, the Company's total cash holdings of $10.2m ($7.2m on call and $3.0m in short-term deposits) were all held with Bank of New Zealand. The deposits with Bank of New Zealand (BNZ) are expected to have a low counterparty risk, on account of BNZ's systemic importance in the New Zealand economy and investment grade rating from international credit rating agencies.

Loans to borrowers – GF's lending policy aims to manage and balance the Company's return on capital and counterparty risk on its loan receivables. All loans are made in accordance with GF's lending policy. Key features of this policy are,

- Advancing loans based on first or second mortgages – with a preference for first mortgage advances. The Company aims to extend 85%-100% of its overall portfolio as first mortgage loans. As at Mar21, first mortgage loans had increased to 99.8% of total loans from 96.1% at Mar20.

[1] Calculated as (Existing Liquid Assets + Expected loan receivables within 3 months)/expected gross deposit redemptions within 3 months

- Provision of regulated and unregulated loans to borrowers - regulated loans are loans are provided to individuals predominantly for personal, domestic, or household purposes. These loans are governed by the Credit Contracts and Consumer Finance Act 2003. At Mar21, 2.4% (Mar20: 7.0%) of the Company's loan book comprised of regulated loans.
- GF provides loans for all types of residential property including residential investment/rental property, rural and lifestyle blocks.
- The Company commenced lending on commercial properties during FY21. GF's lending policy allows for a maximum of 30% of total lending to be secured over commercial properties. At Mar21, 5.7% of GF's loan-book comprised of loans backed by commercial property. In line with the Company's conservative risk management, all lending is secured against property collateral.
- At Aug21, GF's maximum loan-to value ratios/lending margins for residential/commercial property were:

Residential	Commercial
Bare land: 65.0%	Bare land: 50.0%
Development property: 67.5%	Vacant: 60.0%
Apartments: 70.0%	Owner Occupied: 65.0%
House property: 75.0%	Leased: 70.0%
The maximum LVR's for locations with population under 20,000 were to be lower by at least 5%.	The maximum LVR's for locations with population under 50,000 were to be lower by at least 5%.

- Within these maximum LVR limits, management has the discretion to reduce the acceptable level of LVR at its discretion, based on market conditions.
- The Company noted that the highest LVR of the Company loan book at Mar21 was 75.0% (Mar20: 77.0%) while the overall weighted average LVR of the loan book was 54.6% (Mar20: 55.8%).
- Loan terms range from 1 day to 5 years. Longer terms are to be considered in specific circumstances. At Mar21, the weighted average tenure for the loan-book was within the approved terms, at 10.5 months.
- Loan sizes ranged from $20,000 up to 10% of Total Tangible Assets (TTA) - as specified in the Trust Deed. The trust deed also restricts maximum borrower group exposure at 10% of TTA. As at Mar21, the largest loan balance outstanding was 4.1% (Mar20: 3.6%) of TTA.
- GF's product suite included the following loans;
    - Interest only - interest advanced upfront at loan establishment
    - Interest only – interest paid monthly in arrears
    - Fully amortising – with principal and interest
    - Partially amortising - interest paid monthly and principal reductions made on specified dates
    - Interest capitalised loans - interest is capitalised monthly

As at Mar21, 81.3% (Mar20: 82.7%) of total loans were on interest-only basis while the remainder were interest-capitalised loans.

- All loans are approved by a credit committee which comprises the Managing Director and the Head of Lending and Credit. This committee also has the ability to determine lending rates and fees. If either of the credit committee members are unavailable - loans of up to $750,000 may be approved by one credit committee member or one Non-Executive Director if recommended by a Lending Manager. Loans over $750,000 may be approved by one credit committee member and one Non-Executive Director, or two Non-Executive Directors, if recommended by a Lending Manager.
- Loan rollovers are approved by one credit committee member or one Non-Executive Director, if recommended by a Lending Manager. The approver considers whether updated valuations, statements of position, credit reports or other information is necessary, prior to, or as a condition of approval.

8. Structure and Service Delivery Platform

Structure

General Finance Limited is governed by a four-member board consisting of three independent Non-Executive Directors and one Executive Director. In order to accept term deposits, the Company entered into a Trust Deed with Covenant Trustee Services Limited ("the Supervisor") on 2 November 2004, which has been amended and restated in a Deed of Amendment and Restatement dated 16 December 2015 and a Deed of Amendment of Debenture Trust Deed dated 19 December 2017 (together referred to as the "Trust Deed"). Under the terms of the Trust Deed, term deposits are secured by a security interest over all of the Company's present and future assets and undertakings, to Covenant Trustee Services Limited, as the Supervisor. The security interest secures all amounts payable by the Company on the term deposits and all other moneys payable under the terms of the Trust Deed. In the event of liquidation of General Finance Limited, the term deposits will rank behind all preferential creditors and any permitted prior securities. Customer term deposits will rank equally with all other term deposits from other investors.

The Supervisor reviews, on a monthly basis, the management accounts of General Finance Limited to determine whether the total value of the assets subject to the security interest are in excess of the amount of the liability secured by the security interest. The Company is also required to provide the Supervisor, on a monthly basis, with a liquidity report, a capital adequacy report, and a Trust Deed financial ratio compliance report.

The Company's Trust Deed covenants that its total liabilities will not exceed 95% of the value of total tangible assets, where total tangible assets are defined in the Trust Deed as the aggregate of;

a) 75% of the market value of any real property, and
b) the market value of any shares, or other equity securities or units in any company, or unit trust, and

c) the book values of all other tangible assets. At Mar21, GF did not carry any external debt and hence, there is minimal risk of structural subordination or double leverage to increase its asset portfolio.

Service Delivery Platform

The Company uses Computershare Investor Services Limited to manage its term deposit liabilities. This involves handling of inward and outward remittances and all correspondence with deposit holders. The system also manages calculations and records of principal, interest and withholding tax returns in relation to deposit liabilities. Computershare Investor Services Limited (NZ) is a subsidiary of the ASX-listed Computershare Limited - a specialist investor services provider operating across the world.

The Company provides its lending services through a broker network. Loan origination is done by an internal management team, as part of the loan approval process, and to adhere with AML-CFT, identification for the client is sought and verified according to the Company's policy on combating fraud arising from identity theft. The Company's AML-CFT Audit was conducted by William Buck Audit (NZ) Limited. Meanwhile, the Company utilises 'Finesse' – a cloud-based loan management system for loan origination, monitoring and reporting. This system records interest, payments, and other loan transactions.

9. Strategic Vision

GF's main strategic objective is to generate sustainable returns by providing services to an underserved market segment. This means that the Company has largely focused on short-term interest only loans secured by residential and commercial properties. The Company's depositor base primarily consists of investors focused on achieving consistent and above average deposit returns. The Company has continued to focus on building its depositor base through market outreach and to that effect has been successful in achieving an annual growth rate of 39.6% in FY21 (FY20: 178%), while total number of depositors increased to 545 at Mar21 (Mar20: 471).

10. Execution of Strategy

GF's business model fundamentally revolves around the provision of short-term mortgage-based loans for various customer requirements. The Company generates higher than average yields on its loan book while simultaneously reducing credit risks, by focusing on quality and adequacy of the underlying collateral relative to the loan exposure. While many traditional lenders may place greater focus on cash flow and serviceability metrics and serve customers' long-term funding requirements, the Company provides event or project specific funding solutions for customers. In line with its scale and limited franchise, the Company offers deposit rates that are higher than other larger, more established players.

While GF has incurred low levels of credit losses - due to prudent underwriting standards and the collateral coverage headroom on its loan portfolio, its NIMs have deteriorated in recent years. This has been impacted by a historically low interest rate environment and increasing competitive pressures. Growth in deposits and a decision to maintain elevated cash reserves (which yield lower returns) to better respond to uncertainties at the onset of COVID19 were also contributory factors to the deterioration in NIMs in FY21. Favourably, the slight increase in the average lending rates for new loans observed since Dec20 (8.2%), and the anticipated growth in scale together with relatively lower cash reserves, are expected to result in an improvement in NIMs in FY22 over FY21.

11. Management

Board Member	Position	Date Appointed
Donald Frederick Hattaway	Chairman and Independent Non-Executive Director	19 Dec 2017
Robert Garry Hart	Independent Non-Executive Director	19 Dec 2017
Brent Douglas King	Executive Director (Managing Director)	19 Dec 2017
Gregory John Pearce	Executive Director (Lending and Credit)	19 Dec 2017

Board of Directors:

Donald Frederick Hattaway CA, ACIS

Chairman and Independent Non-Executive Director

Don is a member of the Chartered Accountants Australia and New Zealand (CAANZ) and has practised as a Chartered Accountant since 1980. He retired as a Partner in Price Waterhouse in 1996 and has specialised in acting for small or medium sized enterprise businesses since then, often fulfilling the role of finance director for those companies. Don was the Chairman of listed banking software technology company Finzsoft Solutions Limited. Don is a previous Chairman of the Board of Directors of the Auckland Cricket Association. He has held a previous public company directorship with Cooks Global Foods Limited as well as directorships with a many private companies.

Robert Garry Hart LLB (Hons) Waikato University (1998), PG Dip Management

Independent Non-Executive Director

A director of Waikato law firm Ellice Tanner Hart, Rob has practised law for 16 years. In this role he has gained the experience of acting on finance and security related matters involving various tiers of lenders. He also advises clients on governance and insolvency related matters. Rob was previously a director of New Zealand Cricket Incorporated and is currently deputy chair of Balloons Over Waikato Trust which annually stages Waikato’s largest event. Rob is a member of the New Zealand Sports Tribunal and has held directorships with a number of private companies.

Gregory John Pearce B.Com.

Independent Non-Executive Director

Greg is a lending and credit specialist having held roles with large companies (Telecom and Air New Zealand) and a senior role with Dorchester Finance Limited, being General Manager Lending and Credit from 1997 to 2008. Since that time, he has consulted receivers in relation to loan recoveries.

Brent Douglas King B.Com., CA, CMA, RFA

Executive Director (Managing Director)

Brent was the founder and managing director of Dorchester Pacific Limited, and its subsidiary Dorchester Finance Limited, until he resigned in 2006. During this period, he was responsible for the company's growth to over $480m in assets. Dorchester Pacific Limited was a public issuer with a registered prospectus for more than 15 years. Mr King is a current director of several other New Zealand companies including Investment Research Group Limited (IRG), Equity Investment Advisers Limited and King Capital & Investment Corporation Limited. IRG is an NZX sponsor. Mr King has also held directorships with a number of private companies. As at Aug21, he is also the second largest shareholder of General Capital Limited, the ultimate parent of General Finance Limited.

Senior Management:

Jonathan Clark B.Com, C.A.

Chief Financial Officer

Jonathan is a Chartered Accountant and has been a member of the Chartered Accountants Australia and New Zealand (CAANZ) since 2013. He has over 10 years' experience, including several years working on statutory external audit engagements for a chartered accounting firm and other accounting and finance roles for listed and unlisted companies.

Brent Malcolm B.Com, C.A.

General Manager (Lending and Credit)

Brent has over 35 years' experience in the finance and banking sector, including several years as the Head of Corporate Banking for HSBC New Zealand. He has worked with several finance companies and assisted with the establishment of loan books, and the operating processes and procedures. He is a member of the Chartered Accountants Australia and New Zealand (CAANZ).

12. Governance and Oversight

Internal

GF adopts methodology consistent with the Risk Management Standard (AS/NZS ISO 31000:2009) for identifying, assessing, and managing risks. This methodology is the basis of the GF's risk management program. The program considers a broad range of operational, governance, and financial risks. The framework provides a structure for communicating, mitigating, and escalating risks, and incorporating risk management principles and objectives into strategic and resource planning activities. As part of the program, GF conducts risk assessments across the business. The assessments are undertaken at operational and management levels on a quarterly basis and involve an assessment of the extent, impact and likelihood of risk, and the development of risk mitigation strategies to address specific risks.

GF's Board of Directors have overall responsibility for risk management and delegates responsibility for oversight of risk management activities to its Audit and Risk Committee, and responsibility for the implementation of the risk management framework to the Managing Director.

The Audit and Risk Committee provides oversight to risk management activities across the Company, monitors the implementation of remedial actions to minimise or eliminate adverse risk, and reports at least quarterly to the Board of Directors on the performance of risk management activities.

The Managing Director is responsible for communicating significant risk issues to the Board of Directors and the Audit and Risk Committee as appropriate, and delegates responsibility for ensuring that risk management practices are established and maintained in accordance with this policy to the Chief Financial Officer.

The Chief Financial Officer is responsible for ensuring that risk management practices are established and maintained, and providing support and guidance to the organisation.

Management Team Members (Managing Director, General Manager – Lending and Credit, Chief Financial Officer, IT Manager) are responsible for:

- The recognition and disclosure of risks in their areas of responsibility.
- Maintaining and updating the applicable sections of the risk register in accordance with GF's risk management program and risk management systems.
- Reporting risk matters regularly to the Managing Director - immediately in instances where a significant new risk is identified.
- Ensuring that all major proposals (involving significant financial or reputational risk, for example) are submitted to the Board of Directors or any of its Committees for endorsement, and indicating if a risk

assessment has been undertaken (and if so whether contingency plans have been developed for any significant risk issues identified).

- Implementation of this policy within their respective areas of responsibility, specifically:
    - quarterly updates of Risk Registers;
    - undertaking risk assessments for all major ventures; and
    - making training opportunities in risk management available to staff as appropriate to their position and role.

- Specific responsibilities of management team members include:
    - Managing Director – Responsible for liquidity, market, and operational risks.
    - General Manager, Lending and Credit - Risks associated with lending and credit.
    - Chief Financial Officer – Financial risks and providing high quality financial information to other senior managers.
    - Information Technology Manager – Risks relating to information technology.
    - All other staff and contractors are accountable for the timely and proactive provision of information to all those mentioned above which will allow those responsible for recognising and disclosing risk in particular areas to carry out their tasks in the most informed manner possible.

External

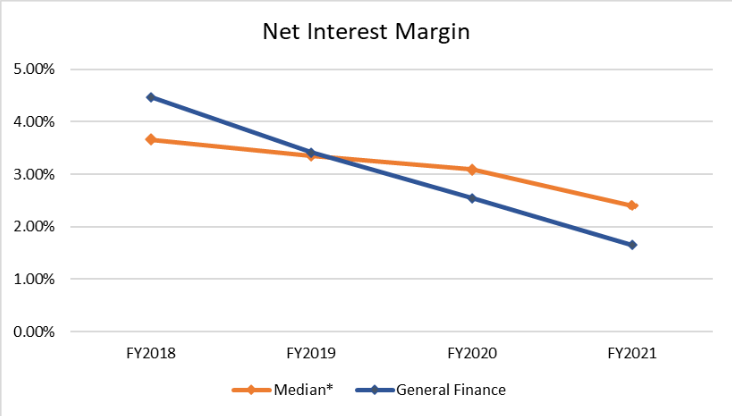
The Trust deed and the prudential norms prescribed by the RBNZ are key source of external governance measures which GF must comply with. The details of the RBNZ's prudential requirements are mentioned in Section 5 and the table below summarises GF's compliance with select requirements of the trust deed and the RBNZ's prudential norms.

Ratio	Calculation	Jun-21	Mar-21	Mar-20	Mar-19	Trust deed	Regulatory
Risk weighted capital ratio	Tier 1 capital as a percentage of risk weighted assets	15.8%	16.4%	19.6%	33.7%	8% or more if rated 15% or more if unrated	8% or more if rated 10% or more if unrated
Liquidity ratio	Liquidity + Expected loan receivables within the relevant quarterly period divided by Expected gross deposit redemptions within the relevant quarterly period.	5.12 times	3.55 times	3.80 times	22.54 times	>1.25 times	As appropriate
Related party ratio	Aggregate credit exposures to all the related parties as a percentage of tier 1 capital	2.3%	0.2%	1.9%	6.1%	<10%	<15%

Baker Tilly Staples Rodway Auckland (BTSRA) functions as GF's external auditor. The Company engages in semi-annual external audits as a part of its ongoing commitment to compliance and governance.

13. Profitability

Net Interest Margin



Source: Reported financial statements of Peer Group from FY18 – FY21.

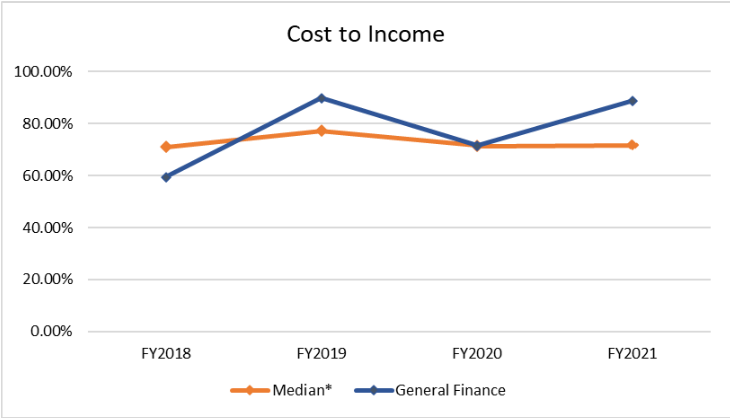
**Median figure for FY21 is based on entities for which financial statements were available at Aug21.*

Between FY18 and FY21, GF's net interest margin (NIM) has deteriorated as has the net interest margin of its peers'. A declining interest rate environment led to NIMs dropping steadily across the period. Participants that operate across higher risk segments (unsecured loans, personal loans, asset finance) have been able to generate higher NIMs in comparison to entities that primarily operate within secured mortgage lending segments.

Additionally, until FY20, GF's growth strategy and its focus on transitioning from higher risk/higher yield secondary mortgages to lower risk first mortgages while underwriting more unregulated loans at lower interest rates (but higher fees) led to a deterioration in NIM. Further, heightened competitive pressures, and growth in deposits together with a decision to maintain elevated cash reserves (which yield lower returns) to better respond to uncertainties at the onset of COVID19 were contributory factors to the deterioration in GF's NIM in FY21.

Going forward, as the slight increase in the average lending rates for new loans since Dec20 (8.2%) is expected to be partially offset by an increase in deposit rates Apr21 onwards, improvement in operating earnings and NIMs to pre FY21 level is expected to require a sustainable growth in scale of operations.

Operating Efficiency

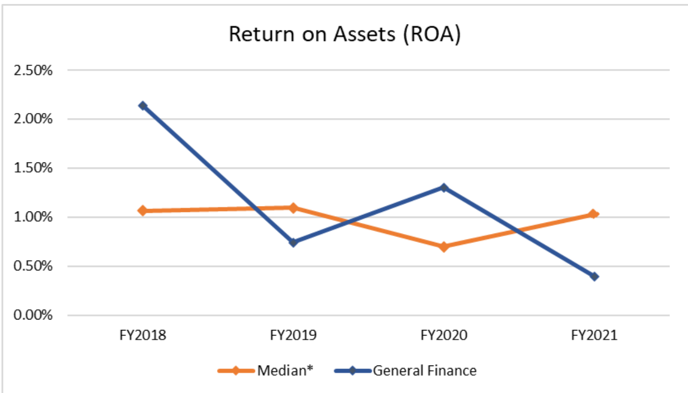


Source: Reported financial statements of Peer Group from FY18 – FY21.

**Median figure for FY21 is based on entities for which financial statements were available at Aug21.*

The Company's operating efficiency as measured by its cost to income ratio was better than peers' in FY18 as previous management opted to be primarily compensated through dividend payments. After a management restructure in FY19, GF focused on hiring additional full-time employees and compensated executive management and board directors through fee and salary payments. This meant that the cost to income ratio increased in FY19. In FY20, with an increase in scale and a 74.5% increase in operating income, cost to income declined to 71.5% (FY19: 89.8%). In FY21, GF's operating expenses increased by 27.7%. Combined with a subdued 2.8% increase in operating income, this led to a deterioration in overall cost to income ratio to 88.8% (FY20: 71.5%), despite the continued increase in scale. When adjusted for $191k of non-recurring losses on the sale of bonds, the Company's cost to income improves to 79.1%, however, remains worse than its peers and the prior year. While the cost to income ratio is reflective of the Company's relatively small scale, it has the potential to improve with an increase in loan volumes, going forward.

Return on Assets (ROA)



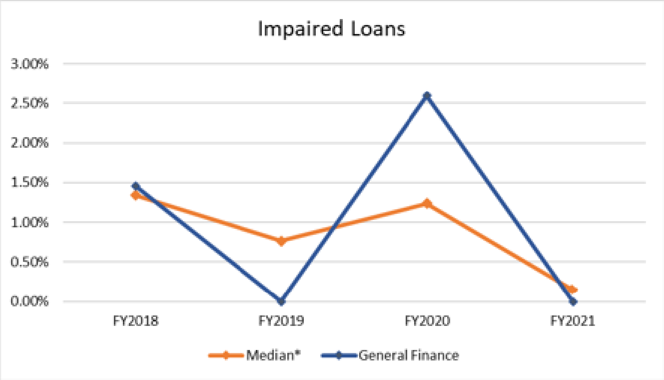
Source: Reported financial statements of Peer Group from FY18 – FY21.

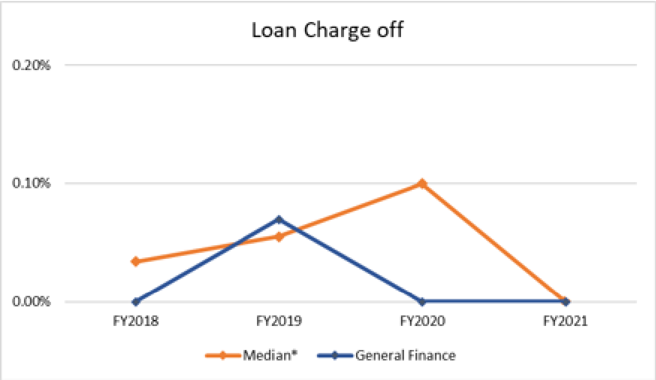
**Median figure for FY21 is based on entities for which financial statements were available at Aug21.*

While industry median ROAs have been relatively stable since FY18, General Finance was able to generate above average returns in FY18, due its smaller asset size and the relatively short tenor of its product offering. GF's ROA declined in FY19 and remained subdued in FY20 and FY21, due to the rapid growth of assets (asset growth in FY21: 35.3%, FY20: 136%, FY19: 49.3%) and the decline in NIMs.

14. Asset Quality

Impaired Loans



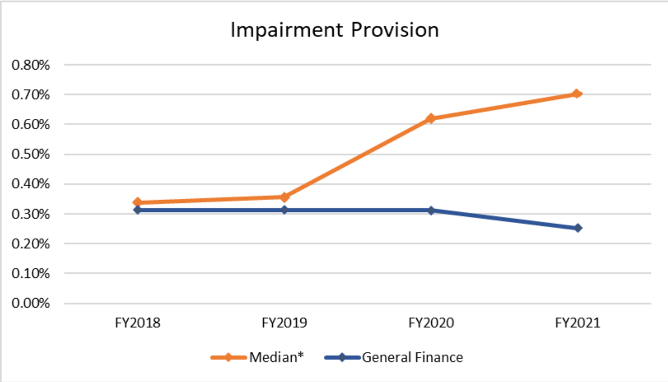


Source: Reported financial statements of Peer Group from FY18 – FY21.

**Median figure for FY21 is based on entities for which financial statements were available at Aug21.*

As a result of its underwriting standards and conservative loan to value ratios, GF's loan portfolio has exhibited low delinquency levels and high recovery rates. At Mar21, 99.8% (Mar19: 96.1%) of the total loan book was secured against first mortgages while 0.2% was secured against second mortgages (Mar20: 1.0% second mortgages and 2.9% combination of first and second mortgages). Historically, the Company has maintained low levels of loan losses and non-performing assets, as the focus has been on relatively short-term lending on evidence of strong LVR and collateral metrics. At Mar20, impaired loans increased to $0.9m (Mar19: nil, Mar18: $0.1m) or 2.6% of gross loans - driven by adverse circumstances faced by a few selected borrowers. However, the relevant loans were satisfactorily settled/serviced during FY21. With no further impairments booked, the impaired loans balance reduced to nil at Mar21 – reflecting the Company's conservative lending policies.

Provisioning

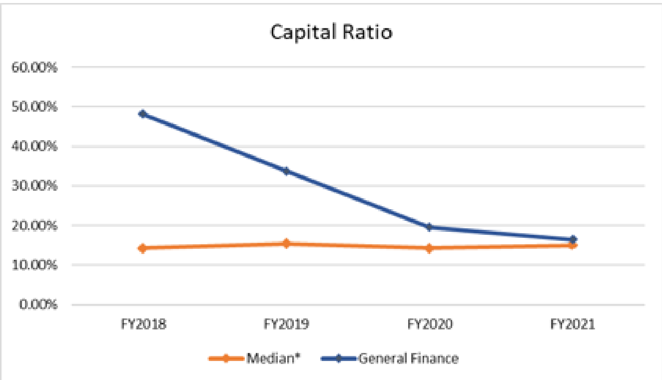


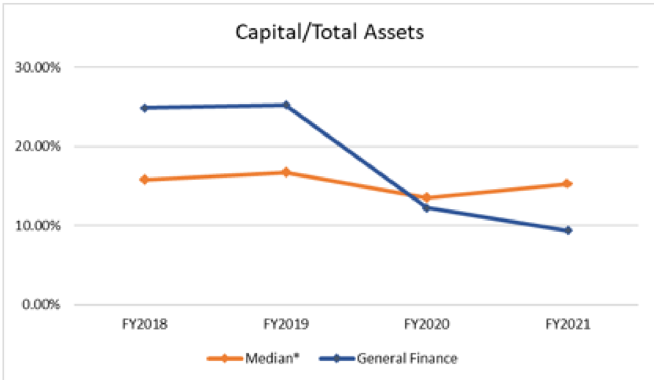
Source: Reported financial statements of Peer Group from FY18 – FY21.

**Median figure for FY21 is based on entities for which financial statements were available at Aug21.*

In response to market conditions, the industry's total impairment provisions to gross loans have tracked higher. GF noted that, based on historical evidence of its loan book over the past 8 years, average write offs were at 0.10%. While the Company recognised the potential unfavourable impacts of COVID19 on its loan portfolio, it has estimated that the loss given default (LGD) and expected credit loss have currently not increased materially due to the existing comfortable headroom in its collateral cover. Therefore, GF has determined that a loan provisioning of 0.25% (Mar20: 0.31%) is an appropriate expectation of losses in the near-term.

15. Capitalisation





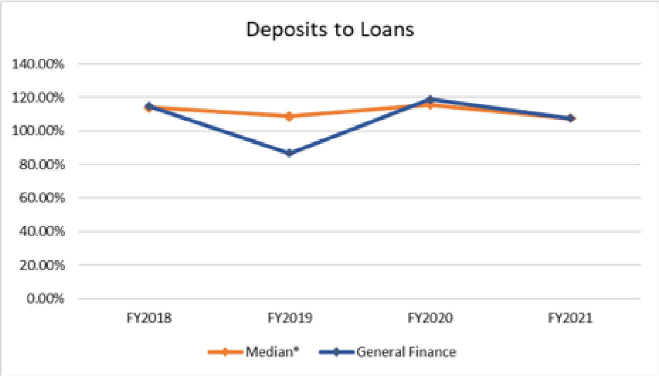
Source: Reported financial statements of Peer Group from FY18 – FY21.

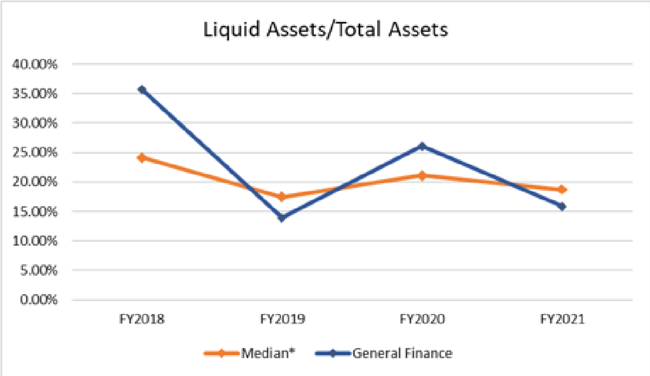
**Median figure for FY21 is based on entities for which financial statements were available at Aug21.*

In accordance with the Non-bank Deposit Takers Act 2013 and NZ capital regulations, licensed NBDTs with a credit rating from an approved rating agency are mandated to maintain a minimum capital ratio of 8.0%. The capital ratio is a function of gross capital to the Company's aggregated risk-weighted asset (RWA) portfolio which has been adjusted for credit, market, and operational risk. Between FY18 and FY21, the Company's capital ratio has declined to 16.4% (Mar20: 19.6%, Mar19: 33.7%, Mar18: 48.2%) at Mar21, which is still marginally better than the industry median. The reduction in the capital ratio has largely been due to an increase in the

Company’s loan book to $53.8m at Mar21 from $8.6m at Mar18. Despite a declining trend in the capital ratio, GF is deemed to have significant headroom above the minimum capital requirement. This, together with the Company’s planned capital raising of $3.5m during FY22, is expected to be adequate to support the anticipated loan book growth in the near-term.

16. Funding and Liquidity





Source: Reported financial statements of Peer Group from FY18 – FY21.

**Median figure for FY21 is based on entities for which financial statements were available at Aug21.*

GF’s deposits to loans ratio was 107.6% (Mar20: 118.9%) at Mar21, which is in-line with its peers. While the Company’s liquid assets to total assets ratio declined to 15.9% at Mar21 (Mar20: 26.1%) and became worse than its peers, its liquidity is well supported by a healthy 12-month average deposit renewal rate (Jun21: 63%, Mar21: 51%, Mar20: 79%). The deposit renewal rate decreased significantly in FY21 potentially due to the impact of COVID19 outbreak, as some depositors possibly opted for not locking in excessive funds in long-term deposits. Overall, GF’s demonstrated capacity to attract deposits to aid its asset growth supports its funding profile.

Additionally, the Company’s liquidity cover ratio (LCR) calculated according to its trust deed was acceptable at 3.6 times, against the stipulated minimum LCR of >1.25 times. As part of its liquidity policy, GF endeavours to maintain cash or short-term deposits equivalent to at least 10% of Total Tangible Assets. GF was assessed as having sufficient headroom within above metrics to enable the Company to withstand some level of funding volatility.

17. Financial Benchmarks

Description	Percentile	AF	CSL	CUB	FD	FCU	GB	HBS	LF	MCF	NBS	PFCU	WBS	GF
Financial Year		FY2021	FY2020	FY2020	FY2021	FY2020	FY2020	FY2021	FY2020	FY2021	FY2021	FY2020	FY2021	FY2021
Scale:														
Operating income ($ 000s)	8%	5,831	3,903	32,003	2,142	20,752	2,283	308	2340	2597	25346	5,001	4069	1,965
Total Assets ($ 000s)	50%	46,743	221,466	516,928	15,840	402,852	30,691	37,566	61148	41343	953322	144,441	158714	64,649
Gross loans ($ 000s)	58%	36,587	165,469	347,600	12,339	225,158	27,257	23,811	52970	39128	719623	42,517	107471	53,911
Profitability:														
Net Interest Margin (%)	17%	7.25%	0.53%	5.92%	7.01%	3.12%	5.03%	0.45%	3.07%	4.68%	2.40%	3.09%	2.16%	1.65%
Non Interest Income to total operating income (%)	75%	39.80%	9.84%	2.06%	48.51%	37.01%	21.11%	0.00%	3.97%	15.44%	4.16%	2.86%	6.41%	34.36%
ROE (%)	42%	7.87%	5.68%	-0.69%	-2.62%	1.31%	3.17%	7.14%	13.07%	13.86%	10.76%	2.63%	9.05%	3.76%
Return on assets (%)	25%	1.29%	0.66%	-0.08%	-0.42%	0.20%	0.82%	1.02%	1.59%	2.39%	0.98%	0.49%	1.21%	0.40%
Cost to Income (%)	17%	71.58%	59.26%	83.78%	103.97%	85.79%	45.51%	177.92%	31.71%	46.09%	48.17%	86.04%	69.92%	88.77%
Capitalisation:														
Leverage (Gross loans to Equity) (x)	0%	5.05	5.88	5.99	4.84	3.70	3.46	4.16	6.62	5.81	7.78	1.61	4.61	8.88
Capital ratio - risk adjusted (%)	67%	15.03%	14.30%	10.90%	13.02%	15.65%	22.19%	18.94%	20.20%	12.76%	13.92%	23.30%	15.80%	16.39%
Capital to total assets ratio (%)	0%	15.36%	12.71%	11.13%	15.68%	14.98%	24.81%	15.25%	13.08%	16.19%	9.70%	18.26%	14.61%	9.37%
Funding and liquidity:														
Gross loans as a % of total assets (%)	75%	77.60%	74.72%	66.64%	75.95%	55.89%	85.94%	63.38%	86.63%	93.98%	75.49%	29.44%	67.71%	83.18%
Deposits to gross loans (%)	42%	105.66%	115.68%	128.17%	100.58%	149.83%	80.30%	132.51%	99.44%	85.61%	118.29%	276.61%	124.76%	107.60%
Liquid assets to total assets (%)	33%	18.69%	23.95%	28.52%	14.60%	37.92%	9.79%	25.53%	12.33%	3.78%	23.69%	57.77%	26.26%	15.85%
Asset Quality:														
Write-offs to gross loans (%)	100%	8.90%	0.00%	2.53%	0.00%	0.87%	2.00%	0.00%	0.44%	0.00%	0.06%	0.02%	0.23%	0.00%
Impaired loans to gross loans (%)	100%	1.38%	0.00%	2.36%	2.75%	3.98%	0.00%	0.00%	4.24%	0.15%	0.03%	0.07%	0.17%	0.00%
Impairment provision to gross loans (%)	83%	0.86%	0.00%	1.43%	2.50%	1.31%	3.24%	0.00%	0.79%	0.70%	0.72%	0.27%	0.54%	0.25%

18. Summary Financial Data

General Finance Limited							
$000s	Trend	2016	2017	2018	2019	2020	2021
Income Statement							
Net Interest Income		627	648	792	883	1,402	1,290
Non interest income		160	172	198	212	509	675
Operating Income		787	820	990	1,095	1,911	1,965
Operating Expense		466	405	588	983	1,366	1,745
Pre-Provision Operating Profit		321	415	402	112	545	221
Credit impairment charge/(reversal)		9	-14	41	-19	55	27
Operating Profit Before Tax		312	429	361	131	490	193
Other non Operating Income/(Expense)		10	12	17	28	13	90
Net Profit		232	317	272	125	442	223
Financial Position							
Total Assets		11,613	11,949	13,537	20,210	47,787	64,649
Customer Deposits		8,213	8,681	9,854	14,900	41,450	57,863
Loans		7,401	8,277	8,584	17,196	34,856	53,775
Liquid assets		4,068	3,625	4,844	2,814	12,472	10,248
Ratios							
Operating Profit to Operating Income margin (%)		40%	52%	36%	12%	26%	10%
Net Interest Margin (%)		3.68%	3.92%	4.47%	3.42%	2.53%	1.64%
Cost to Income (%)		59.2%	49.4%	59.4%	89.8%	71.5%	88.8%
Return On Assets (%)		2.0%	2.7%	2.1%	0.7%	1.3%	0.4%
Return on Equity (%)		7.3%	10.1%	8.4%	3.0%	8.1%	3.8%
Capital Ratio (%)		47.9%	50.0%	48.2%	33.7%	19.6%	16.4%
Capital to Total Assets Ratio (%)		27.5%	25.9%	24.9%	25.2%	12.2%	9.4%
Leverage Ratio - Total loans to Equity (x)		2.32	2.68	2.55	3.38	5.98	8.88
Charge-offs/Total loans (%)		0.00%	0.78%	0.00%	0.07%	0.00%	0.00%
Non-Performing Loans to Gross Loans (%)		2.33%	0.23%	1.45%	0.00%	2.59%	0.00%
Non-Performing Assets & 90+ Days Past to Gross loans (%)		15.46%	3.45%	9.79%	0.00%	2.59%	0.00%
Loan Loss Provision/Loans (%)		1.31%	0.23%	0.31%	0.31%	0.31%	0.25%
Deposits to loans (%)		111.0%	104.9%	114.8%	86.6%	118.9%	107.6%
Liquid assets to total assets (%)		40.1%	35.2%	35.8%	13.9%	26.1%	15.9%

APPENDICES

1. Explanation of the Equifax's credit rating

1.1 What is a rating?

Credit ratings provide an Agency's opinion as to the capacity, viability and willingness of an entity, issuer, or counterparty to meet their respective financial commitments. As such, Equifax assigns ratings based on the credit worthiness of an entity, commitment, or product, and provides probabilistic assessments of default over the short, medium, and long-term.

Credit ratings are a critical measure used extensively in commercial, financial, and capital markets to support key business decisions. Equifax's credit ratings are used to support debt and bonding decisions, loan origination and recovery, insurance and warranty, funds management, portfolio management, tendering and procurement, counterparty risk assessments and other commercial contracts.

Equifax provides credit ratings on government and commercial agencies, international conglomerates, infrastructure consortia, financial institutions, publicly listed entities, private corporations, and small-to-medium sized enterprises across a range of industry sectors both domestically and internationally. As such, Equifax is also able to provide detailed industry intelligence, benchmarking reports and analysis across a wide range of sectors.

1.2 Equifax's credit rating

Equifax and other credit rating agencies all attempt to measure the probability of an entity being able to honour its financial commitments as and when they fall due. The most recognised credit rating is that based on Bond Rating Equivalents (BRE) used over the past eighty years to determine the proximity of an entity's securities to default (non-payment of interest or principal). The accuracy of this method has been extensively tested and is accepted worldwide.

The Equifax's database contains more than 100,000 financial years of information spanning more than twenty-five years. As such Equifax is in a unique position, having developed a large and empirical data source on entities across various industry sectors with long data histories covering a range of economic conditions and one or more complete business cycles. Equifax has therefore been able to use a variety of quantitative validation tools and comparisons using this information to adequately verify the stability, accuracy, and consistency of its rating models.

Equifax's rating models have been designed to assess the proximity of an entity to defaulting on its financial commitments and obligations. Proprietary risk analytics are used to evaluate the multivariate interrelationship of key risk indicators using scientifically based and empirically derived risk metrics. These models evaluate the financial performance, position, and profile of an entity in the context of its industry, size, and structure. They have been validated on Australian and international data with the assistance of Professor Edward Altman, an internationally recognised leader in the field of credit risk analysis and bankruptcy prediction.

Equifax uses its comprehensive benchmarking database to evaluate the financial position, performance and credit quality of an agency, institution, corporation, or entity relative to an industry and its peers. This enables the identification of key sensitivities, trends, cautionary alerts, and exception reports based on identified anomalies and/or outliers across key credit indicators of a select benchmarking group.

While there is no single method to discriminate unambiguously between firms that will default and those that will not, Equifax can make probabilistic assessments of default. This requires a large database of actual defaults to enable an assessment of default probabilities and actual default rates from empirical evidence. The Australasian market has a comparatively small number of corporate bond issues and a relatively benign credit climate over recent decades, and as such empirical data on Australian default rates is limited. Therefore, Equifax considers it is more appropriate to apply default probabilities using empirical data from international markets over several economic cycles.

Equifax's default statistics have been derived from nearly twenty years' experience analysing mainly US non-financial, non-utility corporate bond issuers. The analysis covered a relatively large number of companies (approximately 1,000 rated each year) and follows the well-established static pool approach used by Credit Rating Agencies to report their default experience. Static pools were created for bond issuers each year by both notch and grade, and the history of these bond issuers was then analysed over the period. The pools were then combined so that long-term average default experience by duration could be calculated, and both annual and cumulative default experience was calculated from the pools.

Equifax's risk analytics enable analysts to evaluate the most critical and sensitive financial and risk items through the Risk Assessment Platform by analysing key indicators to derive a definitive credit risk score and Bond Rating Equivalent (BRE), providing Probabilities of Default (PoD) over the short-, medium- and long-term horizon.

1.3 Rating Definitions

Credit ratings provide an Agency's opinion as to the capacity, viability, and willingness of an entity to meet their respective financial and contractual commitments. As such credit ratings are assigned in accordance with the entity, commitment, or product's proximity to default. Equifax adheres to internationally recognised grades and are similar to other agency classifications, providing ratings across twenty-two credit notches from 'D' (in default) to 'AAA' (extremely strong).

Moody's	Fitch	S&P	Rating	Default rates (5 years)	Classification	Risk Level
Aaa	AAA	AAA	AAA	0.17	High Grade	Negligible
Aa1	AA+	AA+	AA+	0.31		
Aa2	AA	AA	AA	0.44		
Aa3	AA-	AA-	AA-	0.55		
A1	A+	A+	A+	0.76	Investment Grade	Very Low
A2	A	A	A	0.81		
A3	A-	A-	A-	1.47		
Baa1	BBB+	BBB+	BBB+	2.08		Low
Baa2	BBB	BBB	BBB	3.19		
Baa3	BBB-	BBB-	BBB-	4.37		
Ba1	BB+	BB+	BB+	7.13	Near Prime	Low to Moderate
Ba2	BB	BB	BB	7.49		
Ba3	BB-	BB-	BB-	10.52		
B1	B+	B+	B+	16.34	Sub Prime	Moderate
B2	B	B	B	22.21		
B3	B-	B-	B-	24.16		High
Caa1	CCC	CCC+	CCC+	28.16	Credit Watch	Very High
Caa2		CCC	CCC	29.90		
Caa3		CCC-	CCC-	39.16		
Ca		CC	CC	52.87	Distressed	Extremely High
		C	C	55.00		
C	D	D	D	100.00		

Equifax assigns ratings based on the credit worthiness of an entity or a specific financial commitment, and provides probabilistic assessments of default over the short, medium, and long-term. Every entity or commitment has some probability of default over a period of time, even those assigned with the strongest of ratings. An Investment Grade classification is attributed to credits that exhibit a lower probability of default, while a Sub-Prime classification has a greater expectancy of default.

An Equifax's credit rating may also be assigned additional clarification markers (symbols) to qualify the credit risk assessment. These may include:

Conditional Rating (#)
A Conditional Rating is used where Equifax has rated an entity on the basis of significant risk factors and/or report qualifications, with recommendations providing one or more conditions precedent and/or mitigation action(s) to reduce identified uncertainty and risk.

Provisional Rating (*)
A Provisional Rating is used when the most recent financial figures are based on draft management accounts or are deemed out-of-date. Entities with a provisional rating should be re-evaluated as soon as finalised financial statements become available.

Indicative Rating (^)
An Indicative Rating is used where Equifax is engaged to conduct preliminary analysis only, and as such an official rating assignment would require a more detailed and comprehensive investigation and due diligence assessment prior to the provision of our professional opinion.

1.4 Rating Outlooks

Equifax's forward estimates help ascertain the trajectory of ratings as well as the risks to ratings. Ratings with a positive trajectory are assigned 'Positive Outlooks'. Ratings with a negative trajectory are assigned 'Negative Outlooks'. Where Ratings are expected to remain unchanged, a 'Stable Outlook' assigned.

Rating trajectories are closely related to the outlook for the corporate's earnings. Earnings growth that is within sustainable growth parameters together with an attenuation of earnings volatility provide upward rating pressure and so may warrant the assignment of a Positive Outlook.

Credit Concepts measured

The main credit concepts measured against Australian and New Zealand Standard Industry Classifications (ANZSIC) and specific Peer Groups based on entity size are available in Corporate Scorecard's Rating methodology, which can be found at the below-mentioned links

http://www.corporatescorecard.co.nz/services_credit_ratings.php
https://www.corporatescorecard.co.nz/docs/RatingMethodologyFinancial.pdf

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The credit rating issued by Equifax Credit Ratings reflects our current opinion of the relative credit risk of the institution. This opinion has been formed in accordance with Equifax's published credit ratings methodology - financial institution rating criteria (version 6, 2019).

https://www.corporatescorecard.co.nz/docs/RatingMethodologyFinancial.pdf

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