Credit Ratings & Research

Credit Rating Report
General Finance Limited

Credit Rating Report

Date: 08 September 2020

Prepared for: General Finance Limited

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

Primary Analyst: Anuj Kindra, CFA

Secondary Analyst: Jay Mulafer, CPA

Currency used in this report:

This report is presented in New Zealand Dollars unless otherwise noted

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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 ('RBNZ') and domiciled in New Zealand. The Company offers secured loans and accepts customer deposits. Equifax has affirmed General Finance Limited's credit rating of 'BB-' at March 2020. The outlook for the rating has been revised to stable, from positive at Sep19, due to the challenging market conditions brought upon by COVID19.

GF's credit rating reflects its strong capital and funding position, its acceptable asset quality metrics – mainly conservative Loan to Value Ratios (LVRs), and its specialised market position as a short-term bridging loan specialist. The rating is also supported by the Company's stable profitability and sound liquidity. The rating is constrained by the risks posed by the current macroeconomic outlook and worsened market conditions, GF's evolving – yet comparatively small scale, exposure to higher-risk borrowers and a moderately high concentration to a few borrowers and depositors.

Strengths

- GF operates as a niche market player that provides short-term and bridging loans to a market underserved by many industry competitors. A focused growth strategy, adopted by the new management since mid-2018, has underpinned an 87.9% compounded annual growth rate in total assets since Mar18 (Mar20: $47.8m, Mar19: $20.2m, Mar18: $13.5m). While GF's net interest margins (NIMs) have been decreasing in this period due to a declining interest rate environment and strong asset growth (FY20: 2.54%, FY19: 3.42%, FY18: 4.47%), they remain healthy in our view and overall earnings are also complemented by strong non-interest income contributions (FY20: 26.7%, FY19: 19.4%, 20.0%).

- GF's asset quality and low impaired loan metrics are reflective of its conservative lending policies. At Mar20, the maximum loan-to-value ratio (LVR) on the Company loan book was at 77.0% (Mar19:74.1%), while a weighted average loan book LVR of 58.5% at Mar20 (Mar19: 55.2%) affords the Company sufficient headroom to navigate through a decline in collateral value. Furthermore, management's policy to primarily accept general use residential properties as collateral, which typically have a better marketability and a lower liquidity haircut. This reduces the risk of loss upon a credit event occurrence and increases our confidence in GF's risk management.

- GF is well funded and capitalised. Shareholder funds have increased to $5.8m at Mar20 from $3.4m at Mar18 driven by equity infusions and retained profits. A sound capital ratio of 25.1% at Jun20 (Mar20: 19.6%, Mar19: 33.7%) enables the Company to maintain adequate headroom above the regulatory minimum capital ratio threshold (8.0%) and absorb possible credit losses.

-GF's strong liquidity position is supported by a positive short-term asset liability duration gap. Unlike most industry peers, GF uses longer dated consumer deposits to underwrite shorter duration loans, which supports the Company's capacity to withstand a short-term stressed liquidity scenario. Recently, upon onset of the COVID19 pandemic, GF's move to preserve liquidity, led to a further improvement in its liquid assets to total assets indicator (Mar20: 26.1%, Mar19: 13.9%).

Constraints

- COVID19 and the resulting macro-economic uncertainty is a key challenge to the Global and New Zealand Economy. Upon a significant slowdown in activity during the lockdown GF's management adopted a cautious approach to new lending, which in our view underscores the management's conservative risk management to preserve capital, but also resulted in a decline in the loan-book to $25.3m at Jun20 (Mar20: $35.0m, Sep19: $23.6m). A reduction in loan assets, combined with high levels of liquid assets invested in low yielding bank deposits, may underpin a further deterioration in NIMs and create an impost on the Company's overall profitability.

- A low interest rate environment and liquidity measures introduced by authorities to offset the impact of COVID19 and revive economic growth, have underpinned an increased competition in the market for quality borrowers. As lending gradually resumed after the shutdown period, GF has lowered its loan interest rates significantly to attract new borrowers, potentially indicative of these increased competitive forces. Positively, we note that these measures have yielded a healthy increase in loan-book, Aug20 onwards.

- GF's primary reliance on the underlying collateral for the loan, exposes the Company to a higher degree of market risk and credit risk than traditional banks or non-bank financial institutions. The Company underwrites secured short-term interest-only loans to higher-risk borrowers, wherein recurring earnings of the borrower are not the primary source of the loan's principal repayments. As such, adverse developments in real estate markets have the potential to expose the Company to an increase in credit and/or liquidity risk, and a reduced collateral cover. We note that loan quality currently remains healthy, benefitting from conservative LVRs on loans, as impaired loans as at Jul20 and Mar20 have since been settled.

- GF's small scale underlines a high concentration risk in its operations. As at Mar20, GF's top-six loans accounted for 131% of its total capital base (Jun19: 104%), while the largest depositor accounted for 11% of total deposits at Mar20. We note that this risk is inherent to GF's small scale and expect concentration to reduce with further growth in deposits and loans.

- GF's growth plans and scalability are moderately constrained by its reliance on key executives' expertise. 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.

The outlook for the rating is currently stable, and a rating upgrade would require a sustainable improvement in scale and franchise coupled with the introduction and implementation of more prescriptive credit and risk management policies.

There may be downward pressure on the rating if either the Company's asset quality, capital ratio or liquidity position materially deteriorate, on an individual or a collective basis.

Risk Rating

BB-

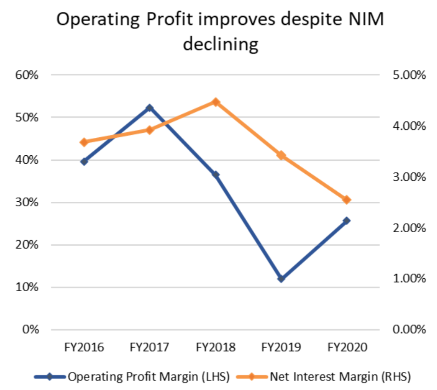
Outlook: Stable

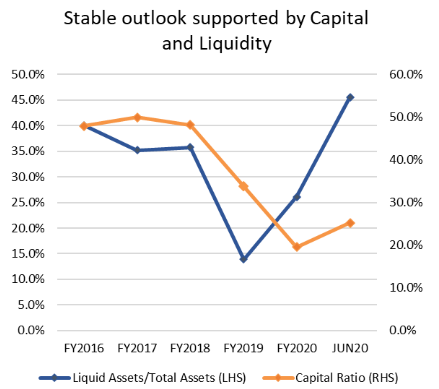
Type: Public, Monitored

Industry Percentiles

Scale:	
Total Assets	15%
Gross Loans	38%
Profitability:	
NIM	38%
ROE	46%
ROA	69%
Efficiency Ratio	54%
Capitalisation:	
Leverage (Gross loans to Equity)	31%
Capital Ratio	85%
Capital to Total Assets	31%
Funding and liquidity:	
Deposits to Loan Ratio	69%
Liquid Assets to Total Assets	77%
Asset Quality:	
Net Charge-offs	100%
Impaired Loans	23%
Provision for Loan Losses	77%

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	**08 September 2020**
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**
Issue First Time Rated	**Not Applicable**
Financial Scope	**Standalone Entity**
Structure	**Limited Company**
Industry	**NZ Non-Bank Deposit Takers (Peer Group 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 March 2020, 2019 and 2018. Management accounts for the four-month interim period ended 31 Jul 2020.**
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	**Yes**
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.

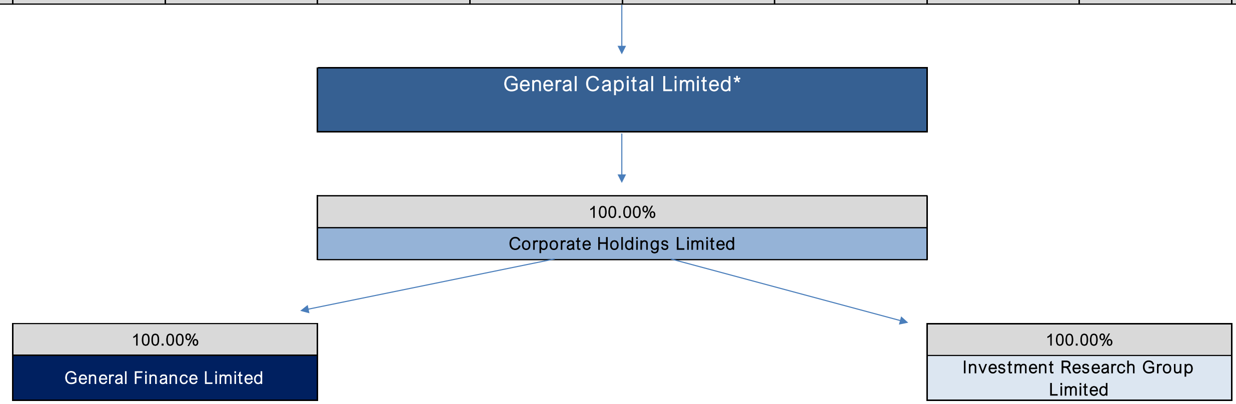
3. General Background of the Subject

3.1 Subject Overview

Subject Name	General Finance Limited
Type of Entity	Licensed Non-Bank Deposit Taker (NBDT)
Head Office Address	Level 7, 12-26 Swanson Street, Auckland, 1010, New Zealand.
Date of Incorporation	13 June 1997
Principal Activities	General Finance Limited is a finance company operating as a residential mortgage 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 August 2018 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

Borneo Capital Limited	Brent King**	CFS NBDT Interest Limited	Belian Holdings Limited	Owen Daji	Grant Baker & others	Harrigens Trustees Limited	Bruce Speers & Fiorano Trust Ltd	Stephen Sinclair & others	John Tomson	Other Shareholders
26.25%	13.64%	10.11%	7.69%	4.37%	4.05%	4.05%	4.05%	3.91%	3.91%	17.97%



**General Capital Limited shareholding as at Aug20.*

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

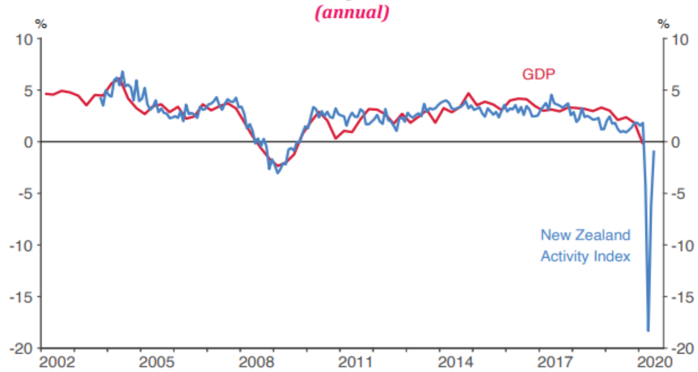
4. Industry Risks

COVID-19

Global economic activity has been severely disrupted as countries have taken public health measures to contain the COVID-19 pandemic. In New Zealand, border closures and economic lockdowns have led to an unprecedented decline in economic activity. Economic activity restarted domestically as the country moved to Alert Level 2 and a number of other countries made moves to open up their economies. However, economies are operating well below capacity and general economic conditions are expected to remain weak as losses of income in directly affected sectors flow into a decline in overall demand. Meanwhile, unemployment is expected to rise significantly[1]. However, the Reserve Bank of New Zealand ('RBNZ' or 'Reserve Bank') noted that with the move to Alert Level 1 business activity rebounded and proved more resilient to the higher Alert Level restrictions than initially expected[2].

Figure 4.0

GDP growth
(annual)



Source: RBNZ, Stats NZ, Treasury.

Note: The New Zealand Activity Index (NZAC) is a weighted average of eight monthly indicators of economic activity, covering consumer spending, unemployment, job vacancies, traffic volumes, electricity generation, the economic outlook, and manufacturing expectations.

Market risk

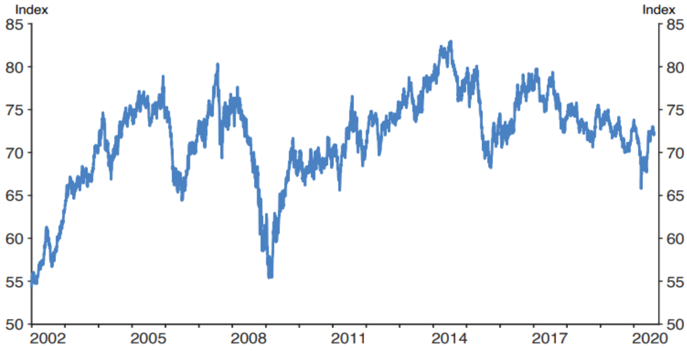
Market risk refers to the risk of loss due to changes in currency, commodity, asset prices, interest rates and other market traded instruments. Financial institutions that act as market makers are at greatest risk. NBDTs have a lower willingness and tolerance for market risk than larger banks but have 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.

1 RBNZ Financial Stability Report May 2020
2 RBNZ Monetary Policy Statement August 2020

The COVID-19 pandemic has disrupted economic activity globally and reduced demand for New Zealand's exports while challenging global supply chains. Some countries have cautiously eased restrictions, allowing economic activity to resume. The easing of restrictions and reports of progress in vaccine development have contributed to a rebound in global equity prices and an improvement in financial conditions.

The New Zealand dollar trade-weighted index (TWI) has appreciated by ~6.0% to its early-2020 levels (figure 4.1). The recent appreciation of the TWI reflects a combination of factors; risk sentiment has improved in global financial markets and New Zealand has so far avoided a widespread community outbreak of COVID-19. The higher TWI also reflects that prices for New Zealand's key export commodities have held up, despite the global economic downturn[3].

Figure 4.1
New Zealand dollar TWI



Source: RBNZ.

Cyclicality

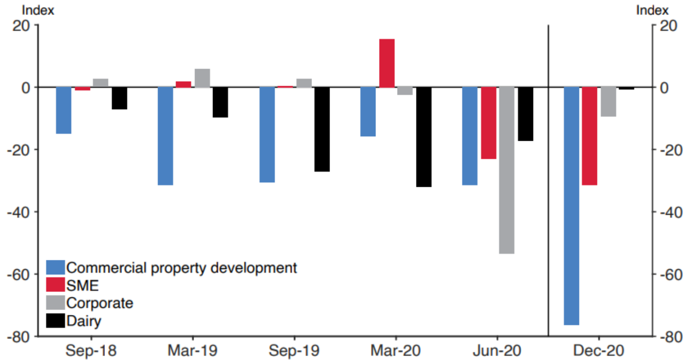
Cyclicality impacts household savings rates, corporate profitability and asset valuations. Different stages in the economic cycle pose distinct risks. For instance, in a low rate environment, financial institutions would find it challenging to attract funding through customer deposits as savings rates 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, 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.

The RBNZ Monetary Policy Statement of August 2020 observes that considerable uncertainty about future demand and the prospect of significant structural changes in the economy is leading firms to curtail investment plans. Banks and firms are reporting significantly lower credit demand for investment purposes while availability of bank credit has also declined. This is particularly the case for the commercial property sector, which is more likely to be affected by the shift towards working from home, and sectors exposed to the loss of tourist spending. Business investment is likely to remain subdued until firms see a sustainable recovery in demand and greater certainty.[3]

[3] RBNZ Monetary Policy Statement August 2020

Figure 4.2

Credit demand for capital expenditure



Source: RBNZ *Credit Conditions Survey*.

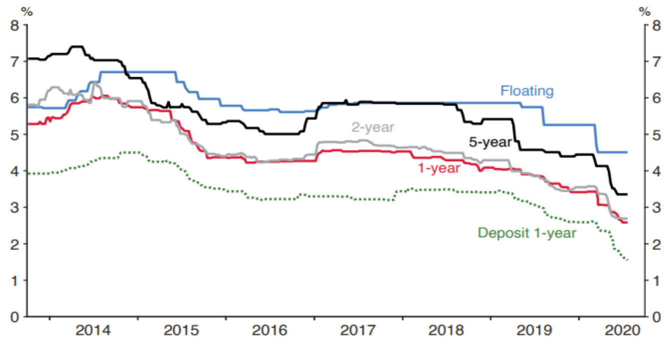
Note: Data are market share-weighted net percentage changes. A negative value indicates decreasing demand for credit for capital expenditure or commercial property development. Data after the vertical line reflect banks' expected changes in the next six months.

Firms are facing significant uncertainty about the economic outlook, and this is making it difficult for them to plan. During times of uncertainty, firms look to cut costs and delay or cancel planned investment projects. Firms are reporting that they intend to invest less. Consistent with this, credit demand for capital expenditure has fallen significantly (figure 4.2). Investment is likely to be low until firms start to see a sustained increase in demand.

Meanwhile, monetary policy measures such as the reduction in the OCR, the Large-Scale Asset Purchases (LSAP) programme, and broader signalling of the monetary policy outlook have contributed to lower interest rates in the economy. Government bond rates have increased by around 15bps since May 2020 but are still around 95bps lower than they were at the start of the year.

Figure 4.3

Selected mortgage and deposit rates



Source: interest.co.nz.

Note: The rates shown for each term are the average of the rates on offer from ANZ, ASB, BNZ, and Westpac. Rates are for mortgages except where otherwise specified.

Diversity of operations

Diversification of operations mitigates the risk of significant capital erosion in the event of a credit shock or contraction in demand for deposits or lending products. Risk concentration may be mitigated by a diverse product range, a wider customer demographic profile, operations in multiple geographies, exposure to consumer, commercial and corporate sectors, and generating higher proportion of operating income from non-interest income sources. In line with their smaller scale of operations, NBDTs offer a limited product suite and tend to cater to a niche customer segment which limits their sources of funding, growth and ability to respond to rapid shifts in customer preference.

Competition

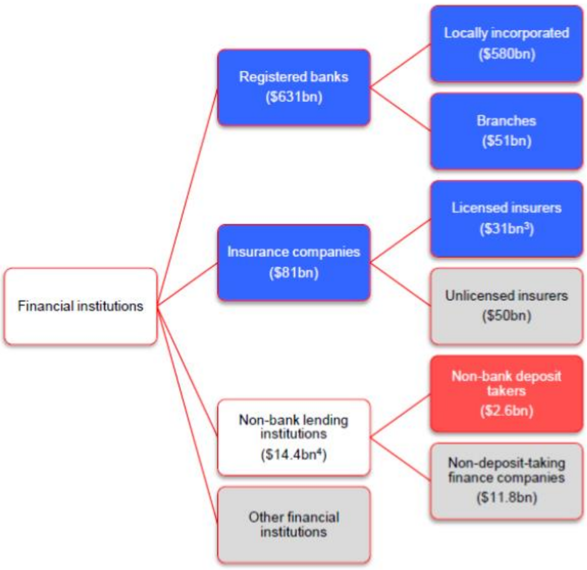
The intensity of competition is, generally, higher in markets with higher fragmentation, offering lower protection in the form of regulatory entry barriers. Price based competition, rather than differentiation, gives rise to greater intensity of competition. NBDTs face greater competition, from traditional lenders and market disruptors like peer-to-peer lenders, than larger banks owing to the lower structural (e.g. investment) and artificial (e.g. regulatory) entry barriers vis a vis a systemically relevant bank.

5. Prudential Framework

Overview of the New Zealand financial system

The Reserve Bank of New Zealand ('RBNZ' or 'Reserve Bank') regulates banks, insurers, and non-bank deposit takers (NBDT), for the purpose of promoting the maintenance of a sound and efficient financial system. The approach to prudential supervision by RBNZ is described in its statements of supervisory and enforcement approaches. The Reserve Bank does not carry the responsibility to regulate non-deposit taking non-bank lending institutions (NBLI) or unlicensed insurers, however, oversees and operates the overall New Zealand's financial market infrastructure.

Figure 5.0 – Asset Size of Industry*



**As at 31 March 2020*

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

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 5.0). In contrast, capital markets are relatively less developed in New Zealand, with total market capitalisation of equities at the New Zealand Stock Exchange around $132bn, while the domestic bond market is around $132bn (excluding government debt). The managed fund industry is also small compared to banks, with around $157bn of assets under management.

The banking system comprises the majority of lending to the non-financial private sector in New Zealand. 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. Non-bank lending institutions (NBLIs) include non-bank deposit-taking institutions (NBDTs) and other non-bank finance companies (which do not accept consumer deposits). The Reserve Bank of New Zealand regulates NBDTs but does not regulate or supervise other non-bank finance companies. NBLIs account for just over 3% of intermediated credit, mainly focusing on the business and consumer sectors.

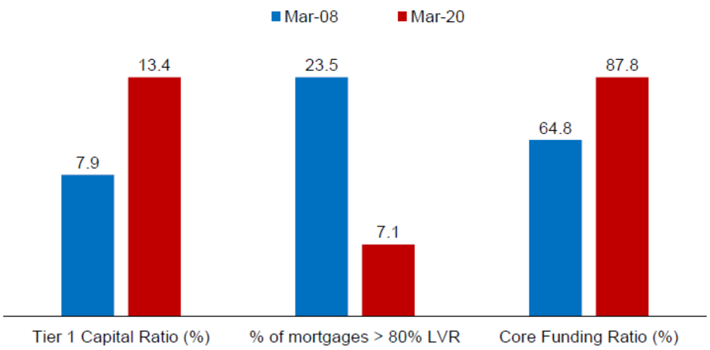
The Reserve Bank of New Zealand Act 1989 gives the Reserve Bank of New Zealand powers to regulate and supervise, banks and licensed insurers for the purposes of promoting the maintenance of a sound and efficient financial system, and avoiding significant damage to the financial system that could result from the failure of these financial institutions. The RBNZ also has regulatory responsibilities in relation to non-bank deposit takers. The prudential regulation of NBDTs is carried out under the Non-Bank Deposit Takers Act 2013 and associated regulations. NBDTs are entities that offer debt securities to the public (as defined in the Securities Act 1978) and carry on the business of borrowing and lending money, or provide financial services, or both.

In addition to changes in ownership, credit rating, risk management process and board governance requirements, the RBNZ regulates NBDTs through the imposition of a minimum capital ratio of 10.0% (8.0% for NBDTs with a credit rating) and a maximum related party exposure limit at 15.0% of capital. The RBNZ also requires NBDTs' trust deeds to include one or more quantitative liquidity requirements.

Following the Global Financial Crisis, the RBNZ developed a policy approach known as macro-prudential policy, which uses prudential instruments to manage the systemic risks that can develop during boom-bust financial cycles. The objective of the Reserve Bank's macro-prudential policy is to increase the resilience of the domestic financial system and counter instability arising from credit, asset price or liquidity shocks. The instruments of macro-prudential policy are designed to provide additional buffers to the financial system (e.g. through changes in capital, lending and liquidity requirements) that vary with the macro credit-cycle.

Impacts of COVID-19 on regulatory initiatives

Figure 5.0
Measures of banking system soundness



Source: RBNZ *Capital Adequacy Survey*, RBNZ *LVR Lending Positions Survey*, RBNZ *Liquidity Survey*, registered banks' Disclosure Statements.

In March 2020, the Reserve Bank announced that it would delay or slow down most of its regulatory initiatives for an initial period of six months. This action was taken to reduce the regulatory impost on financial institutions and free up Reserve Bank and industry resources to support the economy and tackle the challenges created by COVID-19.

The Reserve Bank has delayed the implementation of the final decisions it made on its review of bank capital requirements, supporting banks' ability to provide credit to the economy during a period of lower earnings. Banks' Core Funding Ratio (CFR) requirement has the objective of building up the resilience of their funding profiles to short-term funding market disruptions. As these funding market risks have crystallised in recent months, their strong funding profiles have meant banks have been able to draw on this resilience, and continue providing credit at a stable cost. The Reserve Bank reduced the CFR from 75 to 50 percent to ensure that the requirement does not constrain the provision of credit. The Reserve Bank has also removed LVR restrictions for 12 months to ensure that banks are not inhibited in supporting customers facing temporary stress.[4]

While external-facing work on the initiatives has been deferred, the initiatives themselves remain important for the Reserve Bank. Alongside these deferrals, the Reserve Bank will be extending the transition period for its revised outsourcing policy by 12 months. Affected banks will now need to be fully compliant with the new requirements by 1 October 2023. RBNZ highlighted that the medium- to long-term risks to financial institutions from climate change remain relevant through and well beyond the current crisis.

6. Systemic Risk

The Government and the Reserve Bank have worked together to cushion the losses of income associated with the economic lockdown. The Government's Wage Subsidy Scheme has provided short-term support to firms that have lost income and has allowed them to retain staff. The Reserve Bank cut the Official Cash Rate (OCR) to a record low and began purchasing central and local government bonds in large scales to reduce interest rates. It also provided funding to banks when markets were volatile to ensure banks remained able to support customers[4].

Despite the broad range of support measures, some households and firms are expected to face a significant loss of income. Firms in the tourism, accommodation and hospitality sectors are particularly affected, and will face longer recoveries as border restrictions and social distancing measures affect sales and operating models. Household incomes will also come under pressure as staff cutbacks and firm failures lead to rising unemployment. Loss of income will mean that some borrowers have difficulty repaying their loans. As a result, banks are likely to experience more loan defaults and losses[4].

[4] RBNZ Financial Stability Report May 2020

Banks have strong buffers of capital and liquidity. These have increased substantially in the past ten years in response to increased regulatory requirements. Bank resilience will be tested in the coming months as loan losses rise materially from current low levels. The Reserve Bank undertakes stress tests to understand banks' ability to absorb losses. While there remains considerable uncertainty about the economic outlook, stress tests suggest that banks can withstand a broad range of adverse economic scenarios while retaining sufficient capital to continue lending.

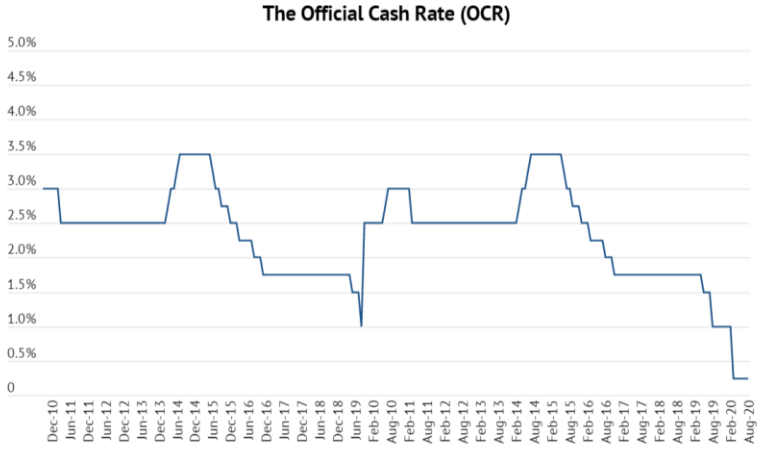
Maintaining access to credit is crucial to ensure that households and businesses that are facing temporary losses of income are able to meet their financial obligations. The Reserve Bank has worked alongside the banking industry and the Government to ensure credit markets remain open. To enable this, the Reserve Bank has delayed increasing capital requirements, relaxed rules on how much of banks' funding needs to come from long-term sources, and temporarily removed restrictions on low deposit loans. This helps to free up banks to continue supporting customers. Banks have offered household and small business customers loan deferrals, to help them manage short-term financial stress. They have also offered business customers working capital facilities to help them manage cashflow while incomes have been low.

Reflecting the critical role that the financial system plays in supporting borrowers facing income shortfalls, the Reserve Bank and the Government have also been working closely with the financial system to ensure that it can continue to support its customers. Tougher prudential requirements have seen capital ratios increase to much higher levels than those prior to the Global Financial Crisis, as banks have retained a proportion of their high profits. Banks' funding and liquidity positions are also much stronger, leaving them more resilient to the disruption that has occurred in financial markets in recent months. To enable lending to continue to flow to households and firms, the Reserve Bank and the Government have been working with industry on a number of initiatives.

- Banks have offered household and small business customers that have suffered income losses as a result of COVID-19 deferrals of loan payments for a period of up to six months. This has been facilitated by an appropriate capital treatment of these loans by the Reserve Bank.
- The Government has introduced the Business Finance Guarantee Scheme, which provides small and medium firms with partially Government-guaranteed loans at a low interest rate to manage short-term income disruption.
- The Reserve Bank has introduced term funding facilities for banks and has eased bank core funding requirements to alleviate liquidity and funding pressure on banks.
- The Reserve Bank has delayed implementation of planned increases to bank capital requirements by at least 12 months and imposed dividend restrictions to ensure that banks can use current capital buffers to support lending.

In addition, banks have continued to support existing customers by extending lending facilities and granting payment relief. Taken together, these initiatives have had a significant impact on supporting the short-term financial needs of households and businesses. Maintaining the flow of credit to sound borrowers will contribute to the long-term stability of the banking system by reducing borrower defaults and preventing large falls in property prices and other asset values. Maintaining credit will also play a strong role in supporting the upcoming economic recovery. The RBNZ noted that parts of the financial system entered this crisis in an already vulnerable position. Some Non-Bank Deposit Takers have low profitability and are operating with low financial buffers. It also noted that there has been consolidation in the NBDT sector in recent years and this was expected to continue.[5]

On 15 March 2020, the Monetary Policy Committee reduced the Official Cash Rate (OCR) to 0.25% from 1.0%, and noted that the rate was expected to remain at this level for at least the next 12 months. The committee also noted that negative economic implications of the COVID19 continue to rise, warranting further monetary stimulus.



Source: RBNZ

In August 2020, the Monetary Policy Committee agreed to expand the Large Scale Asset Purchase (LSAP) programme up to $100.0bn to further lower retail interest rates in order to achieve its remit. Reflecting a possible need for further monetary stimulus, the Committee also agreed that a package of additional monetary instruments must remain in active preparation. The deployment of such tools will depend on the outlook for inflation and employment. The package of further instruments includes a negative OCR supported by funding retail banks directly at near-OCR (a Funding for Lending Programme). The Monetary Policy Committee noted that purchases of foreign assets also remain an option[6].

Ongoing support for domestic economic activity is being provided through significant government spending on business assistance and household income support. This will be supported by a rising level of government investment. However, there will be a transition of policies in the near-term, with the announced end of the Wage Subsidy likely to coincide with a decline in employment.

[5] RBNZ Financial Stability Report May 2020
[6] Monetary Policy Committee statement 12 Aug 2020

7. Market Risk Exposure and Controls

GF’s exposure to market risk is mainly in form of interest rate risk. The Company has no 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 almost wholly 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 (Mar20: 88.7%, Mar19: 94.3%) will mature within the next 12 months, with renewal/extension at the sole discretion of management.

In FY20, GF’s deposits with banks attracted a weighted average interest rate of 1.26% (FY19: 2.41%). The Company noted that a 1% decrease in the weighted average interest rate would reduce the annual interest income by $124k (FY19: $28k). 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.

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**

Repricing Gap Analysis at Mar19 (Undiscounted cashflows)					
$000's	**Total**	**0-6 months**	**6-12 months**	**12-24 months**	**24+ months**
Assets					
Cash	2,841	2,841			
Other Assets	1	1			
Loans	18,243	10,941	6,220	743	339
Total	**21,085**	**13,783**	**6,220**	**743**	**339**
Liabilities					
Payables	49	49			
Deposits	15,985	4,487	3,389	5,555	2,555
Total	**16,034**	**4,536**	**3,389**	**5,555**	**2,555**
Difference	**5,051**	**9,247**	**2,831**	**- 4,812**	**- 2,216**

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 maintains a three-month liquidity cover ratio of not less than 1.25 times[7]. The Company also endeavours to maintain an ongoing level of liquidity (cash /short-term deposits) equivalent to 10% of Total Tangible Assets.

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

8. 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 Mar20, the Company's total cash holdings of $12.5m ($6.8m on call and $5.7m 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 acceptable level its 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 Mar20, first mortgage loans had increased to 96.1% of total loans from 87.2% at Mar19.
- 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 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 has the option to commence lending against commercial property including, retail, office, industrial, and accommodation properties (excluding commercial development property). GF also provides loans on Leasehold property (after assessing value of lessee's) interest. In line with the Company's conservative risk management, all lending was secured against property collateral.
- At May 20, GF's maximum loan-to value ratios/lending margins for residential 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 populations under 20,000 were to be lower by at least 5%.	The maximum LVR's for locations with populations 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 Mar20 was 77.0% (Mar19: 74.1%) while the overall weighted average LVR of the loan book was 58.5% (Mar19: 55.2%).
- Loan terms range from 1 day to 5 years. Longer terms were to be considered in specific circumstances. At Mar20, the weighted average tenure for the loan-book was within the approved terms, at 6.8 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 Mar20, the largest loan balance outstanding was 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 Mar20, 82.7% (Mar19: 88.0%) of total loans were on interest-only basis while 17.3% (Mar19: 12.0%) were interest-capitalised loans.

- All loans are approved by a credit committee comprising both executive directors. If either of the executive directors are unavailable - loans of up to $750,000 may be approved by one executive director or one non-executive director, if recommended by a Lending Manager. Loans over $750,000 may be approved by one executive director and one non-executive director, or two non-executive directors, if recommended by a Lending Manager.

- Loan rollovers are approved by one Executive Director 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.

9. Competition

GF competes with other NBDTs, Banks and Non-deposit taking financial companies in the domestic market for attracting deposits for funding and loans. The competitive landscape in New Zealand is monitored by the RBNZ and the Financial Markets Authority. The RBNZ regulates banks, NBDTs, licensed insurers and the financial market infrastructure. The Financial Markets Authority is responsible for licensing and regulating financial services providers (P2P lenders, auditors, brokers, custodians, financial advisers, fund managers and others).

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 that can't be matched by NBDTs. 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 pandemic means that NBDT's are expected to face increased margins pressures competition from larger players to retain existing customers and win new business.

10. Structure and Service Delivery Platform

Structure

General Finance Limited is governed by a four-member board consisting of two independent non-executive directors and two executive directors. 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 Ltd, 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 Ltd 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 Mar20, 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 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.

11. 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 178% in FY20 (FY19: 51.2%), while total number of depositors increased to 471 at Mar20, from 222 at Mar19 (Mar18: 170).

12. Execution of Strategy

GF’s business model 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 offer deposit rates that are higher than other larger, more established players. Overall, the Company has been able to maintain its profitability in line with industry medians with low levels of credit losses, due to prudent underwriting standards and the collateral coverage headroom on its loan portfolio.

13. 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 in public practice 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 Ltd. 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 Ltd 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.

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 Aug20, he is also the second largest shareholder of General Capital Limited, the ultimate parent of General Finance Limited.

Gregory John Pearce B.Com.

Executive Director (Lending and Credit)

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.

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.

14. 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.

The GF 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 and ensures that risk management practices are established and maintained, and providing support and guidance to the organisation.

Management Team Members (Managing Director, Executive Director – 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) submitted to the Board of Directors or any of its Committees for endorsement, indicate 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.
    - Executive Director, 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

GF is an RBNZ licenced NBDT and is governed by the RBNZ under the Non-Bank Deposit Takers Act 2013. Licensed NBDTs are required to comply with prudential requirements outlined in the Non-Bank Deposit Takers Act 2013, the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010 and the Deposit Takers (Liquidity Requirements) Regulations 2010. The governance under the NBDT regime requires GF to adhere to the following requirements in form of minimum capital ratio covenant, liquidity requirements, and other negative/positive affirmation covenants on an ongoing basis –

1. Credit ratings (in force since 1 Mar 2010) – Unless exempt, licensed NBDTs are required to have a local currency (New Zealand dollar), long-term, issuer rating, given by one of the approved rating agencies.
2. Governance (in force since 1 Dec 2010) – 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. 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.
3. Risk management (in force since 1 Sep 2009) – Licensed NBDTs are required to have a risk management programme that outlines how the licensed NBDT identifies and manages its key risks.

4. Capital (in force since 1 Dec 2010) – 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 the licensed NBDTs' trust deeds. This ratio must be at least 8.0% 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 10.0%.
5. Related party exposure limits (in force since 1 Dec 2010) –The related party exposures should not exceed a maximum limit of 15.0% of tier one capital.
6. Liquidity (in force since 1 Dec 2010) – Liquidity regulations require every licensed NBDT and its trustee to ensure that the licensed NBDTs 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.
7. Suitability assessment of directors and senior officers (in force since 1 May 2014) – Licensed NBDTs must notify the Reserve Bank when one of its directors or senior officers (or a person who it is proposed to be appointed as a director or senior officer) raises a "suitability concern". The Reserve Bank will then carry out a suitability assessment of that person.
8. Changes of ownership (in force since 1 May 2014) – An application must be made to the Reserve Bank to approve a transaction that will result in a person:
    - having the direct or indirect ability to appoint 25.0% or more of a licensed NBDT's governing body; or
    - having a qualifying interest in 20.0% or more of the voting securities issued by the licensed NBDT.

    A transaction having this effect can only proceed with the Reserve Bank's approval. The Reserve Bank must also approve if a person proposes to increase their influence above their currently permitted level.

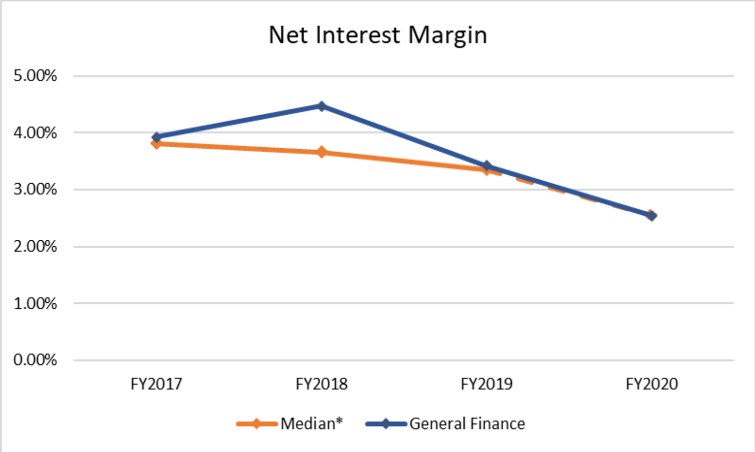
Baker Tilly Staples Rodway Auckland (BTSRA) functions as GF's external auditor. The Company engages in semi-annual external audits as a part of its ongoing commitment to compliance and governance.

GF tracks its capital adequacy and liquidity related ratios on an ongoing basis to comply with relevant regulations. The following table details the Company's performance in respect of some of the above-mentioned parameters, vis-a-vis the regulatory requirements and the trust deed.

Ratio	Calculation	Jun-20	Mar-20	Mar-19	Mar-18	Trust deed	Regulatory
Risk weighted capital ratio	Tier 1 capital as a percentage of risk weighted assets	25.2%	19.6%	33.7%	48.2%	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.	6.29 times	3.80 times	22.54 times	7.07 times	>1.25 times	As appropriate
Related party ratio	Aggregate credit exposures to all the related parties as a percentage of tier 1 capital	2.1%	1.9%	6.1%	0.0%	<10%	<15%

15. Profitability

Net Interest Margin

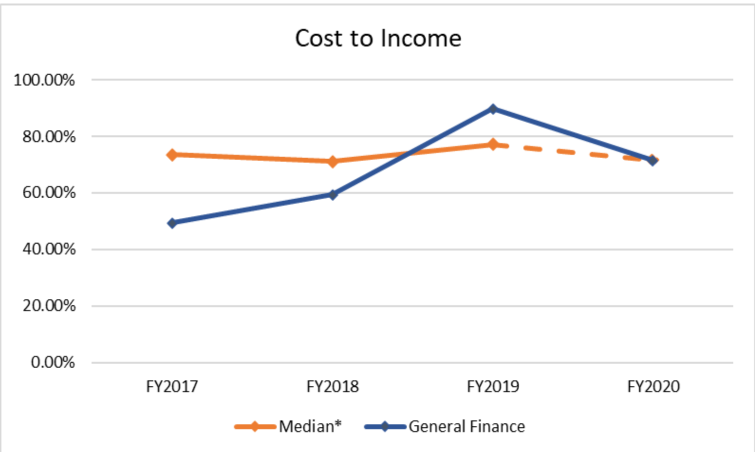


Source: Reported financial statements of Peer Group from FY17 to FY20.

**Median figure for FY20 is based on entities for which financial statements were available at Aug20.*

Over the period FY17 to FY20, GF's net interest margin has largely moved in line with industry peers' median. As the NBDT peer group had limited access to wholesale funding, these entities were primarily dependent on customer deposits. A declining interest rate environment led to industry 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. GF's NIM has declined in FY19 and FY20, reflective of the Company'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. Due to monetary policy responses to COVID19 and increased competition in the market, overall industry NIMs are expected to remain subdued going forward.

Operating Efficiency

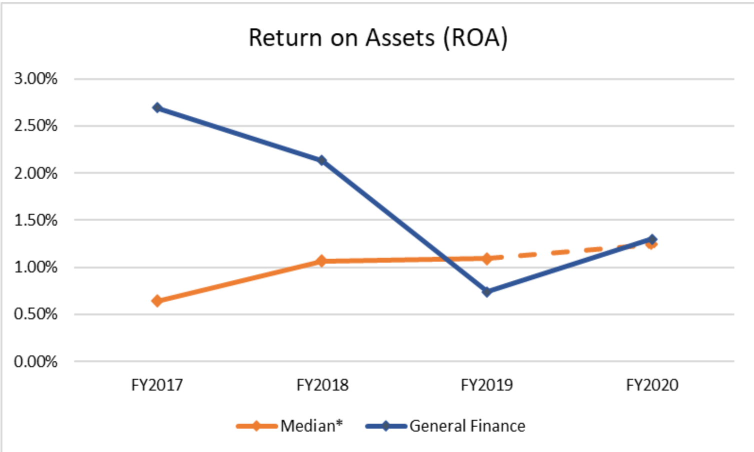


Source: Reported financial statements of Peer Group from FY17 to FY20.

**Median figure for FY20 is based on entities for which financial statements were available at Aug20.*

The Company's operating efficiency as measured by its cost to income ratio was better than peers' in the period FY17-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 overall cost to income declined to 71.5% (FY19: 89.8%). While the cost to income ratio is reflective of the Company's relatively small scale, it has the potential to moderate further with an increase in loan volumes, going forward.

Return on Assets (ROA)



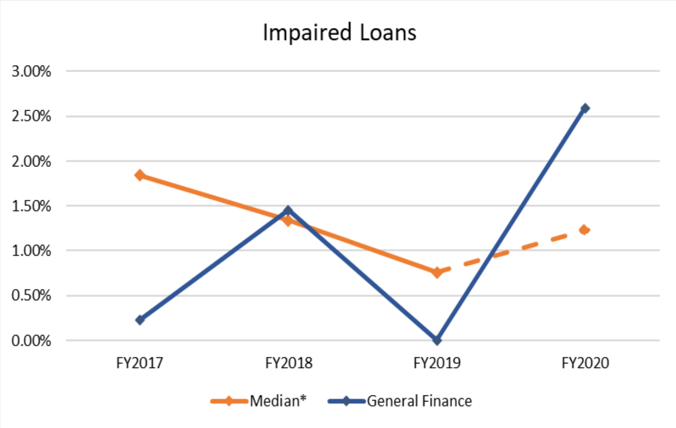
Source: Reported financial statements of Peer Group from FY17 to FY20.

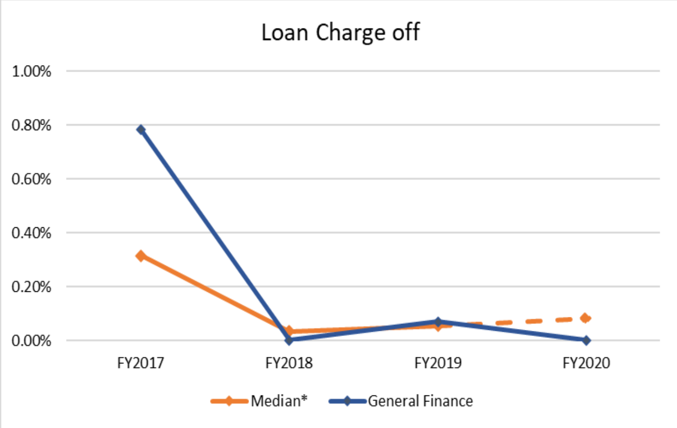
**Median figure for FY20 is based on entities for which financial statements were available at Aug20.*

While industry median ROAs have been relatively stable since FY17, General Finance's was able to generate above average returns in FY17 and 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 due to the rapid growth of assets (asset growth in FY20: 136%, FY19: 49.3%, FY18: 13.3%) and the gradual decline in NIMs. Going forward, the Company's ROA is expected remain broadly stable and in line with the broader industry.

16. Asset Quality

Impaired Loans



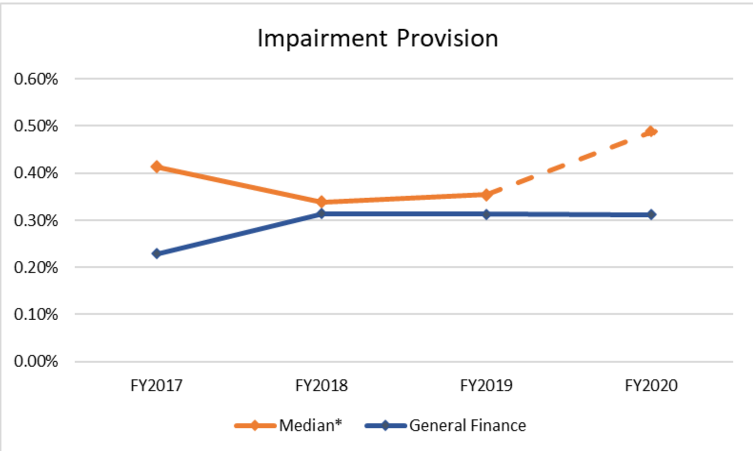


Source: Reported financial statements of Peer Group from FY17 to FY20.

**Median figure for FY20 is based on entities for which financial statements were available at Aug20.*

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 Mar20, 96.1% (Mar19: 87.2%) of the total loan book secured against first mortgages while 2.9% (Mar19: 5.8%) was secured against a 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 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. After a further increase in impaired loans at Jul20, the Management has noted that these loans have now been settled/serviced satisfactorily.

Provisioning

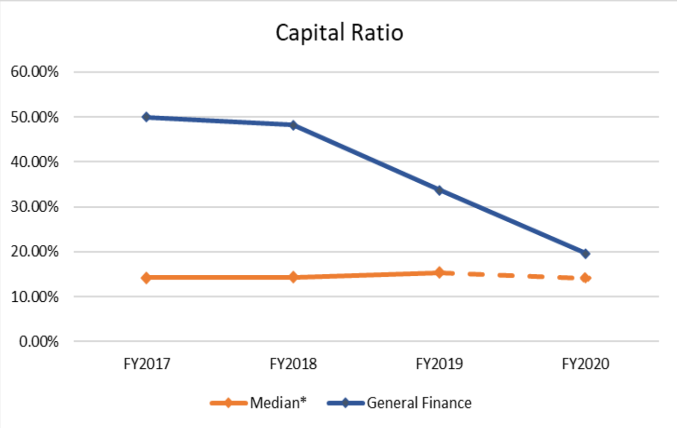


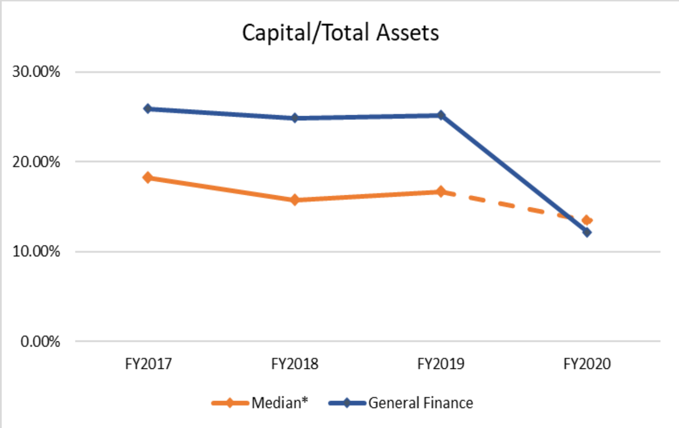
Source: Reported financial statements of Peer Group from FY17 to FY20.

**Median figure for FY20 is based on entities for which financial statements were available at Aug20.*

As the response to market conditions evolves, the industry's total impairment provisions to gross loans are expected track higher. GF noted that, based on historical evidence of its loan book over the past 7 years, average write offs were at 0.15%. 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's provisioning is expected remain stable at 0.31% (Mar19: 0.31%) in the near-term.

17. Capitalisation



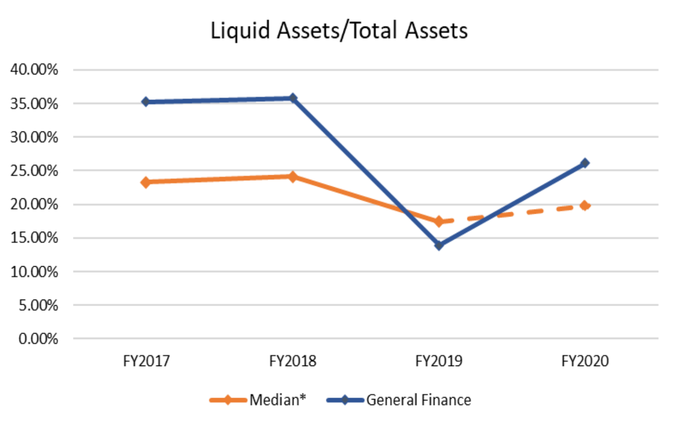


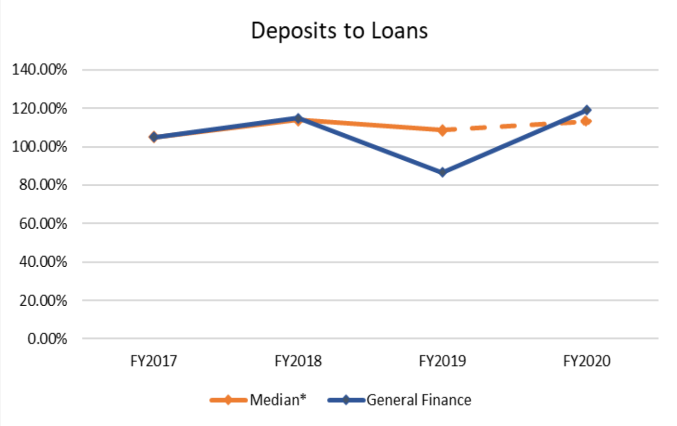
Source: Reported financial statements of Peer Group from FY17 to FY20.

**Median figure for FY20 is based on entities for which financial statements were available at Aug20.*

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. At Mar20, GF's capital ratio declined to 19.6% from 33.7% at Mar20, due to a 103% increase in the gross loan book within the year. The capital ratio however improved to 25.2% at Jun20 and remained consistently higher than the industry median over the period under review. Meanwhile, capital to total assets declined to 12.2% at Mar20 (Mar19: 25.2%) as the Company's total assets increased by 136% following strong growth in the loan book during FY20. Despite a declining trend in the metric, GF is deemed to have significant headroom above the minimum capital requirement to accommodate an increase in its loan book, going forward.

18. Funding and Liquidity





Source: Reported financial statements of Peer Group from FY17 to FY20.

**Median figure for FY20 is based on entities for which financial statements were available at Aug20.*

As the increase in deposits outpaced loan book growth, customer deposits to loans increased to 119% at Mar20 from 86.6% at Mar19. The excess deposit acceptance meant that liquid assets/total assets increased to 26.1% at Mar20 (Mar19: 13.9%). Meanwhile, the Company's liquidity cover ratio (LCR) calculated according the trust deed was acceptable at 3.8 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 that enable the Company to withstand some level of funding volatility. Moreover, GF's funding strategy was supported by a healthy 12-month average deposit renewal rate of 79% at Mar20 (Sep19: 80%, Jun19: 72%).

19. Financial Benchmarks

Description	Percentile	AF	CSL	CUB	FEI	FD	FCU	GB	HBS	LF	MCF	NBS	PFCU	WBS	GF
Financial Year		FY2020	FY2019	FY2019	FY2019	FY2020	FY2019	FY2019	FY2020	FY2019	FY2020	FY2020	FY2019	FY2020	FY2020
Scale:															
Operating income ($ 000s)	15%	6,559	2,905	18,181	6,544	2,720	21,843	2,582	399	1643	2255	22913	5,226	3727	1,911
Total Assets ($ 000s)	38%	34,184	183,529	528,694	77,846	16,186	383,019	28,233	39,534	62,282	32,829	869,738	132,032	168,405	47,787
Gross loans ($ 000s)	38%	25,867	129,609	394,146	62,863	14,032	202,335	24,027	19,663	50,479	29,281	680,022	48,437	127,164	34,965
Profitability:															
Net Interest Margin (%)	38%	14.94%	1.19%	3.36%	3.34%	8.97%	3.26%	5.84%	0.65%	2.16%	4.76%	2.26%	3.47%	1.75%	2.54%
Non Interest Income to total operating income (%)	69%	38.01%	7.33%	0.38%	27.90%	47.28%	40.07%	22.46%	0.00%	3.04%	17.52%	5.80%	2.97%	6.36%	26.64%
ROE (%)	46%	10.57%	5.01%	-3.51%	9.11%	0.04%	5.09%	11.37%	4.29%	9.39%	9.38%	9.36%	4.81%	10.13%	8.09%
Return on assets (%)	69%	2.02%	0.53%	-0.38%	1.64%	0.01%	0.80%	3.17%	0.63%	1.18%	1.73%	0.73%	0.92%	1.24%	1.30%
Cost to Income (%)	54%	66.41%	70.88%	102.11%	94.70%	98.90%	79.82%	46.44%	134.59%	40.66%	51.80%	49.34%	77.09%	79.55%	71.48%
Capitalisation:															
Leverage (Gross loans to Equity) (x)	31%	3.76	6.75	6.67	4.03	5.26	3.40	3.07	3.69	7.19	4.77	9.27	1.89	5.79	5.98
Capital ratio - risk adjusted (%)	85%	14.16%	12.60%	10.70%	11.10%	13.47%	18.35%	22.19%	17.40%	18.60%	13.03%	11.76%	26.24%	14.30%	19.56%
Capital to total assets ratio (%)	31%	17.70%	10.46%	10.95%	19.93%	16.20%	15.55%	27.17%	13.49%	11.27%	18.61%	8.44%	19.37%	12.97%	12.21%
Funding and liquidity:															
Gross loans as a % of total assets (%)	38%	66.60%	70.62%	73.10%	80.39%	85.20%	52.83%	83.47%	49.74%	81.05%	88.87%	78.19%	36.69%	75.51%	72.94%
Deposits to gross loans (%)	69%	93.83%	125.59%	115.52%	97.14%	90.29%	158.12%	81.65%	172.46%	108.61%	88.92%	116.04%	218.93%	113.07%	118.92%
Liquid assets to total assets (%)	77%	19.8%	23.1%	22.1%	17.2%	5.8%	41.2%	13.9%	39.3%	17.62%	8.80%	21.13%	50.2%	17.58%	26.1%
Asset Quality:															
Write-offs to gross loans (%)	100%	3.96%	0.00%	0.32%	1.10%	1.45%	0.48%	1.02%	0.00%	0.00%	0.03%	0.08%	0.04%	0.10%	0.00%
Impaired loans to gross loans (%)	23%	23.36%	0.00%	2.39%	3.44%	1.87%	4.33%	0.00%	0.00%	0.72%	0.68%	0.09%	0.04%	1.23%	2.59%
Impairment provision to gross loans (%)	77%	11.99%	0.00%	1.94%	0.44%	1.72%	1.37%	1.92%	0.00%	0.36%	0.37%	0.62%	0.22%	0.49%	0.31%

20. Summary Financial Data

General Finance Limited						
$000s	Trend	2016	2017	2018	2019	2020
Income Statement						
Net Interest Income		627	648	792	883	1,402
Non interest income		160	172	198	212	509
Operating Income		787	820	990	1,095	1,911
Operating Expense		466	405	588	983	1,366
Pre-Provision Operating Profit		321	415	402	112	545
Credit impairment charge/(reversal)		9	-14	41	-19	55
Operating Profit Before Tax		312	429	361	131	490
Other non Operating Income/(Expense)		10	12	17	28	13
Net Profit		232	317	272	125	442
Financial Position						
Total Assets		11,613	11,949	13,537	20,210	47,787
Customer Deposits		8,213	8,681	9,854	14,900	41,450
Loans		7,401	8,277	8,584	17,196	34,856
Liquid assets		4,068	3,625	4,844	2,814	12,472
Ratios						
Operating Profit to Operating Income margin (%)		40%	52%	36%	12%	26%
Net Interest Margin (%)		3.68%	3.92%	4.47%	3.42%	2.54%
Cost to Income (%)		59.2%	49.4%	59.4%	89.8%	71.5%
Return On Assets (%)		2.0%	2.7%	2.1%	0.7%	1.3%
Return on Equity (%)		7.3%	10.1%	8.4%	3.0%	8.1%
Capital Ratio (%)		47.9%	50.0%	48.2%	33.7%	19.6%
Capital to Total Assets Ratio (%)		27.5%	25.9%	24.9%	25.2%	12.2%
Leverage Ratio - Total loans to Equity (x)		2.32	2.68	2.55	3.38	5.98
Charge-offs/Total loans (%)		0.00%	0.78%	0.00%	0.07%	0.00%
Non-Performing Loans to Gross Loans (%)		2.33%	0.23%	1.45%	0.00%	2.59%
Non-Performing Assets & 90+ Days Past to Gross loans (%)		15.46%	3.45%	9.79%	0.00%	2.59%
Loan Loss Provision/Loans (%)		1.31%	0.23%	0.31%	0.31%	0.31%
Deposits to loans (%)		111.0%	104.9%	114.8%	86.6%	118.9%
Liquid assets to total assets (%)		40.1%	35.2%	35.8%	13.9%	26.1%

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://corporatescorecard.com.au/services_credit_ratings.php

http://corporatescorecard.com.au/docs/RatingMethodologyFinancialInstitutionRatingCriteria.pdf

2. Regulatory Disclosures and Disclaimer

Equifax Australasia Credit Ratings Pty Ltd (Equifax Credit Ratings) is a credit rating agency regulated by the Reserve Bank of New Zealand. The licensing regime addresses a range of matters including the quality and integrity of the ratings process, independence and avoidance of conflict of interest, and responsibilities to the public, clients and assessed entities. The regime also covers confidentiality, communication and disclosure, professional development, document management, and a range of governance related matters. Financial, operational and compliance audits are conducted by external, independent auditors each year.

Equifax Credit Ratings also holds an Australian Financial Services License (AFS License no. 341391) which licenses it to provide credit ratings to wholesale clients in Australia.

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.com.au/docs/RatingMethodologyFinancial.pdf

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