Credit Ratings & Research

# Credit Rating Report
# General Finance Limited

## Credit Rating Report

**Date:** 16/09/2019

**Prepared for:** General Finance Limited

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

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**Job Number:** 291303

**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 Non-Bank Deposit Taking (NBDT) organisation that is licenced and domiciled in New Zealand. The Company offers secured loans and accepts customer deposits. Equifax has assigned General Finance Limited a credit rating of 'BB-' at March 2019. The Outlook for the rating is Positive.

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 liquidity. The rating meanwhile is constrained by GF's small scale, exposure to higher-risk borrowers and a moderately high concentration to few borrowers and depositors. Our outlook for the rating is positive, based on the Company's focus on, and capacity to finance, near-term growth targets.

**Strengths**

- GF's niche market position as a short-term and bridging loan specialist, catering to a market underserved by many industry competitors, supports its competitive position and profitability. Net-interest margins (NIMs) have recently decreased to 3.42% in FY19 (FY18: 4.47%) due to management's stronger focus on asset and deposit growth, but remain healthy and in line with the industry median. GF's NIMs, together with low instances of non-performing loans, support its consistently positive earnings.

- GF's low impaired loan metrics are reflective of its asset quality and conservative lending policies. The Company's conservative LVR (maximum permitted LVR of 75%, and average loan book LVR of 50.2% at Jun19) reduce the risk of loss upon a credit event occurrence, while the management's policy to primarily accept general use residential properties as collateral increases our confidence in GF's risk management.

- GF is well funded and capitalised. A capital ratio of 28.0% at Jun19 (Mar19: 33.7%) supports the Company's growth plans, while maintaining adequate headroom to regulatory and GF's trust deed minimum capital ratio threshold. Furthermore, GF's parent – General Capital Ltd, has recently listed on the NZ stock exchange, the Company's shareholders have injected $1.6m equity in FY19 and plan to raise additional $2.2m during FY20, which together with strong growth in consumer deposits during the preceding 18 months, mean GF is suitably positioned to execute its growth plans.

-GF's positive short-term asset liability duration gap supports is liquidity position. Unlike most industry peers, GF uses longer dated consumer deposits to underwrite shorter duration loans, which supports the Company's capacity to withstand a stressed liquidity scenario. The Company's liquidity is further supported by its internal guidelines to hold a minimum of 10% of total assets in cash/ equivalents; liquid assets to total assets were 13.9% at Mar19.

**Weaknesses**

- 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, any adverse developments in the underlying housing and real estate market segments may potentially expose the Company to an increase in credit and/or liquidity risk, and a reduced collateral cover. However, the Company has partially mitigated this risk by maintaining a conservative average collateral cover on its loan book.

- GF's small scale underlines a high concentration risk in its operations. As at Jun19, GF's top-six loans accounted for 104.4% of its total capital base, while the largest depositor accounted for 13.4% of total deposits. However, we note this risk to be reducing with the recent increase in GF's deposit and loan base and management's continued focus on growth.

- 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. Further, the Company's executive team is small and is expected to require additional operational support to manage and monitor risks for a larger loan book

The outlook for the rating is positive, and a rating upgrade maybe premised upon 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-**

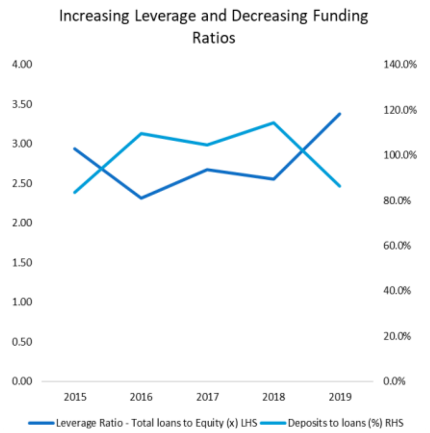
**Outlook: Positive**

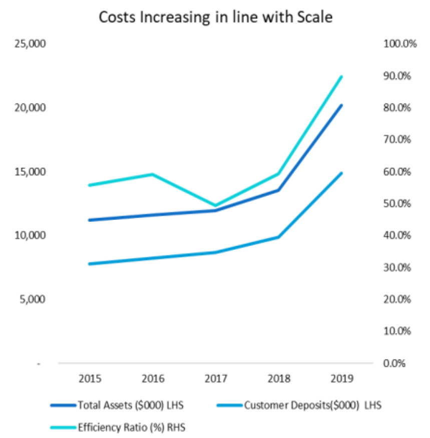
**Type: Public, Monitored**

## Industry Percentiles

| | |
|---|---|
| **Scale:** | |
| Total Assets | 8% |
| Gross loans | 8% |
| **Profitability:** | |
| NIM | 50% |
| ROE | 33% |
| ROA | 42% |
| Efficiency Ratio | 67% |
| **Capitalisation:** | |
| Leverage (Gross loans to Equity) | 83% |
| Capital Ratio | 100% |
| Capital to Total Assets | 92% |
| **Funding and liquidity:** | |
| Deposits to loan ratio | 33% |
| Liquid assets to total assets | 50% |
| **Asset Quality:** | |
| Net Charge-offs | 58% |
| Non performing loans | 100% |
| Provision for loan losses | 75% |

## 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 | **16th September 2019** |
| 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 | **Financial Services (Peer Group included in sec. 19)** |

This report should be read within the context of Corporate Scorecard’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 2019, 2018 and 2017.**<br>**Management accounts for the two-month interim period ended 30 May 2019.** |
| Name of auditor | **Baker Tilly Staples Rodway Auckland** |
| Other Information Sources | **The Company's response to our Request for Information, AML & CFT Audit report by William Buck Audit (NZ) Limited as at Mar19, 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.

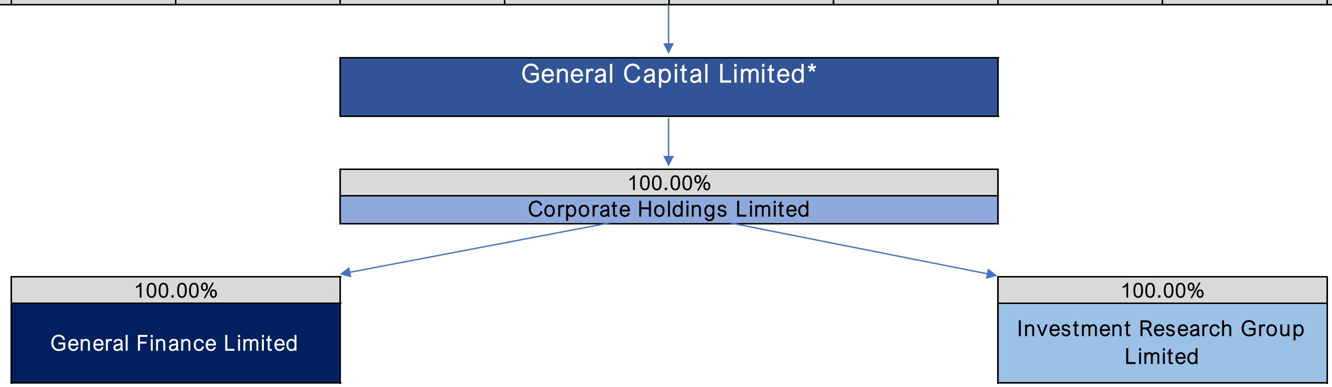
# 3. General Background of the Subject

## 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,<br>Auckland, 1010,<br>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).<br><br>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, then 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% | 13.62% | 10.58% | 5.90% | 4.57% | 4.23% | 4.23% | 4.23% | 4.09% | 4.09% | 18.21% |

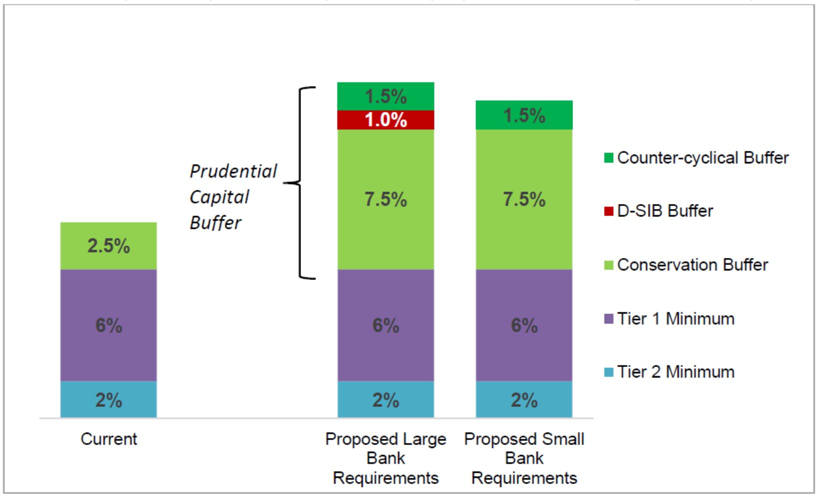



**General Capital Limited shareholding as at Aug19.*
*** Brent King is currently the Managing Director of General Capital Limited, General Finance Limited and Investment Research Group.*

# 4. Industry Risks

**Regulatory intervention** is a key exogenous risk factor affecting financial institutions. Industry profitability maybe affected if institutions are required to hold more regulatory capital due to an increase in minimum capital holding ratios, and/or the implementation of Basel III and Basel IV for risk-adjusted capital requirement computation. Additionally, regulatory intervention in the form of macro-prudential norms, such as reductions in maximum LVR for residential mortgages, may add to demand pressures in the financial services industry.

*Proposed capital ratio requirements (as percent of risk-weighted assets)*




Source: RBNZ Capital Review Paper 4 - How much capital is enough?

In 2017, the Reserve Bank of New Zealand (RBNZ) began a review of the capital adequacy framework for locally incorporated registered banks. The purpose of the review was to identify the most appropriate capital framework for New Zealand banks, with respect to the current framework and international developments in bank capital requirements. In January 2019, the RBNZ published its fourth and most recent consultation paper "*How much capital is enough?*" proposing to increase banks' capital levels materially. It proposed to almost double the required amount of high-quality capital that banks will have to hold in attempt to strengthen New Zealand's banking system and economy while making it resilient to economic shocks and downturns. The effect of these changes could potentially lead to higher interest costs for borrowers and a reduction in investment returns for shareholders of Banks. While NBDTs face lower risk from regulatory intervention than systemically important and tier 2 banks, most of these entities have less flexibility to respond to regulatory changes due to their smaller scale and lower diversity of operations.

**Complexity** of operations from multiple service delivery channels, a large range of products and/or segments, operations in multiple taxation and regulatory jurisdictions – results in operating risk. Unless mitigated by above average risk control and governance measures, such organisations would have a higher risk of loss due to process failures, fraud, and human error. Due to nature of their relatively simpler business model, NBDTs have lower complexity than systemically important and tier 2 banks.

**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.

**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.

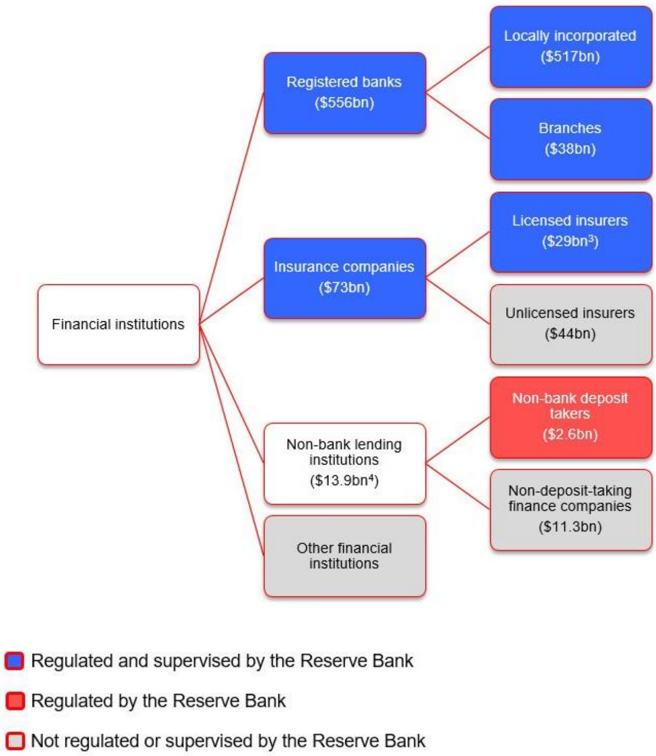
**Diversity of operations** mitigates the risk of significant capital erosion in the event of a credit shock or contraction in demand for deposits or lending products. Risk concentration may be mitigated by a diverse product range, a wider customer demographic profile, operations in multiple geographies, 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.

**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. Most NBDTs tend to be price takers for deposit and general loan products whilst systemically relevant banks compete on the basis of product features and pervasive branch networks.

## 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.




*Source: RBNZ*

The New Zealand financial system is dominated by the banking sector, with banking assets ($556bn) accounting for a large share of overall financial system assets. In contrast, capital markets are relatively less developed, with total market capitalisation of equities at the New Zealand Stock Exchange around $142bn, while the domestic bond market is around $128bn (excluding government debt). The managed fund industry is also smaller compared to banks, with around $134bn 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.

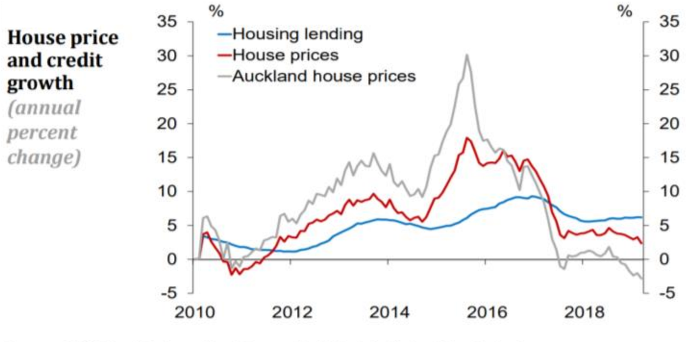
The Reserve Bank of New Zealand Act 1989 gives the Reserve Bank of New Zealand powers to regulate and supervise, banks and licensed insurers for the purposes of promoting the maintenance of a sound and efficient financial system, and avoiding significant damage to the financial system that could result 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. However, they do not include registered banks. There are currently 21 licensed NBDTs operating in New Zealand. As at March 2019 total assets of NBDTs was $2.58 billion[1], of which $1.02 billion was in building societies and $1.14 billion is in credit unions.

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 of 15.0%. 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.

[1] Excluding UDC Finance

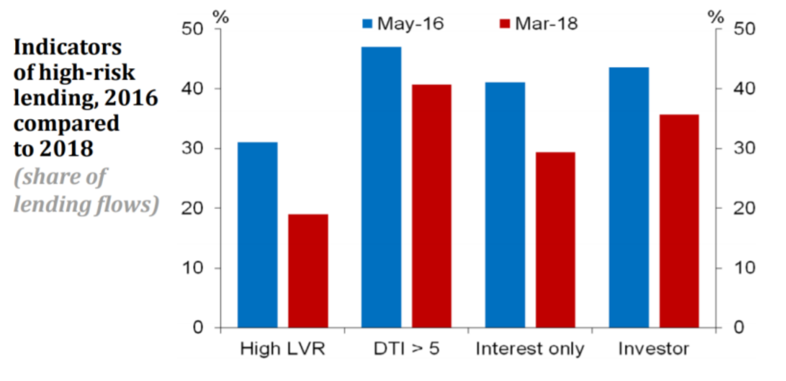
A recent example of macro-prudential intervention by RBNZ is demonstrated by LVR intervention. A strong run-up in housing markets posed a risk to future financial stability by increasing the risk of a sharp correction and consequent financial sector disruption. The Reserve Bank was concerned that the escalation of house prices was increasing the probability and potential effect of a significant downward house price adjustment from future economic or financial shocks. Heightened risks from investor lending were also an increasing concern for the Reserve Bank. Investors accounted for a rising share of mortgage lending, as rapid increases in house prices unlocked additional borrowing capacity.



Sources: RBNZ *Bank Balance Sheet Survey*, Real Estate Institute of New Zealand

The Reserve Bank tightened the LVR requirements in two stages. The initial tightening was targeted at Auckland investors, reflecting the significantly higher risk of a housing correction and investor debt burdens associated with high house prices and low rental yields in the city. After housing risks eventually spread to the rest of New Zealand, the policy was broadened to cover all investor lending in October 2016. The maximum LVR for nationwide investor lending was lowered to 60. At the same time, the Reserve Bank tightened baseline capital rules for investor mortgages, to reflect its view that investors are riskier than owner occupiers in a downturn.

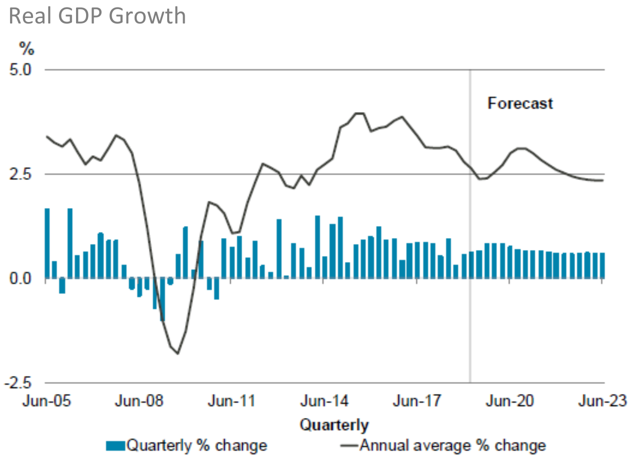
The Reserve Bank has begun easing the LVR policy in recent years, in response to lower risks of a housing market correction and prudent lending standards as reflected in improved debt serviceability of borrowers. RBNZ notes that banks have broadly maintained prudent standards after the easing of the LVR policy.



Source: RBNZ *DTI New Commitments Survey*

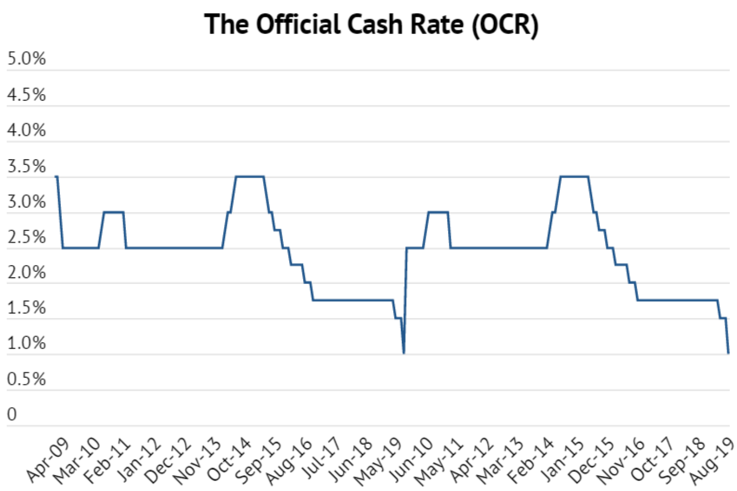
## 6. Systemic Risk

The pace of economic expansion in New Zealand lost some momentum over the second half of 2018, largely reflecting slower business investment growth. Recent indicators of economic activity point to a stabilisation of annual economic growth over the six months to June 2019. Migration-led population growth supported an expansion in domestic demand from 2014 to 2017 while rising house price inflation also supported household consumption over 2016. Recent indicators including goods exports, building consents and survey measures of sentiment point to a stabilisation of annual economic growth over the six months to June 2019.




Sources: Stats NZ, the Treasury

Having reduced the Official Cash Rate (OCR) to 1.5% in May 2019, in August the RBNZ cut the OCR by 50 basis points to a record low of 1.0%. The Monetary Policy Committee noted that in the absence of additional monetary stimulus, employment and inflation would likely ease relative to targets and a lower OCR was necessary in order to meet these objectives. Employment was noted to be around the maximum sustainable level, while inflation remained within the target range but below the 2.0 % mid-point. The committee also noted that global economic activity continues to weaken with global long-term interest rates declining to historically low levels, consistent with low expected inflation and growth rates.




Source: RBNZ

There are signs that growth in the global economy is starting to slow down, in part because of uncertainty around trade policies. Global growth is expected to reduce over the next few years. Trading-partner growth is expected to further moderate in 2019 partly because of trade tensions and tighter financial conditions, thereby easing demand for New Zealand's goods and services. Global commodity prices have already softened, reducing the tailwind that benefited New Zealand's economic activity. The risk of a sharper downturn in trading-partner growth has also heightened over recent months.

Monetary and fiscal stimulus remain necessary to support growth. Monetary and fiscal stimulus are expected to lift GDP growth to 3% during 2019, contributing to higher capacity pressure and employment. As capacity pressure builds, and the dampening effect of low headline inflation fades, inflation is projected to increase towards the target mid-point. However, the recent easing in domestic growth, together with slowing global growth, weigh on this rise in capacity pressure. There are upside and downside risks to this outlook. A more pronounced global downturn could weigh on domestic demand, but inflation could rise faster if firms pass on cost increases to prices to a greater extent.

The RBNZ has assessed New Zealand banks as, profitable, well capitalised, sufficiently funded and liquid relative to the RBNZ's minimum guidelines. However, the RBNZ has stated the financial sector remains exposed to three key vulnerabilities: household sector indebtedness, dairy sector indebtedness, and the banking system's exposure to international risks. With regard to NBDTs, RBNZ noted that the sector has been performing as anticipated; where lending activity has increased without heightened risk-taking, investors appear to remain confident in the sector, profitability generally has been satisfactory though declining in recent years for portions of the sector, and sector consolidation trends were largely unfolding as per the experiences of other jurisdictions.

NBDTs continue to have a different risk profile from banks. In spite of increased regulatory scrutiny, they can have a bigger exposure to risk, largely due to their small size, unique business models, and niche lending markets. Extending this, low or variable profitability means that NBDTs can be more vulnerable to financial stress or may find it more challenging to adequately invest in their systems to keep pace with technology. Similarly, although compliance costs have gone up and remained steady due to the current regulatory framework, this has also come with improved investor confidence.

## 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 funding requirements such as bridging finance for property purchase or renovation before sale. A majority of loans (Mar19: 94.3%, Mar18: 94.9%) are expected to mature within the next 12 months, with renewal/extension at the sole discretion of management.

At Mar19, GF’s deposits with banks attracted a weighted average interest rate of 2.41%. The Company noted that a 1% decrease in the weighted average interest rate would reduce the annual interest income by $28,141. 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 FY19 (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** |

**Repricing Gap Analysis FY18 (Undiscounted cashflows)**

| $000's | Total | 0-6 months | 6-12 months | 12-24 months | 24+ months |
|---|---|---|---|---|---|
| ***Assets*** | | | | | |
| Cash | 4,858 | 4,858 | | | |
| Other Assets | 3 | 3 | | | |
| Loans | 9,139 | 6,719 | 1,956 | 464 | |
| **Total** | **14,000** | **11,580** | **1,956** | **464** | **-** |
| | | | | | |
| ***Liabilities*** | | | | | |
| Payables | 128 | 128 | | | |
| Deposits | 10,548 | 2,499 | 2,296 | 3,907 | 1,896 |
| **Total** | **10,676** | **2,627** | **2,296** | **3,907** | **1,896** |
| | | | | | |
| **Difference** | **3,324** | **8,953** | **- 340** | **- 3,443** | **- 1,896** |

**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[2]. 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 primarily 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 in the month preceding the maturity of their deposit.

As per its Trust Deed requirements, the Company also maintains a minimum capital ratio of 15% while endeavouring to maintain a capital buffer ratio of 2% above the minimum percentage (15%). In accordance with the trust deed, if the Company's capital ratio falls below 17%, it will be an "event of review" and GF will need to consult with the trustee to agree on the action to be taken to avoid a breach of the minimum capital ratio of 15%.

[2] 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 Mar19, the Company's total cash holdings of $2.8m ($664k on call and $2.2m 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%-90% of its overall portfolio as first mortgage loans. As at Mar19 first mortgage loans comprised of 87.2% of total loans (Mar18: 87.7%).

- GF provides loans on all types of residential properties (single dwelling to blocks of flats).
    - In line with the Company's conservative risk management, 100% of its current loan-book is secured against residential property collateral.
    - The Company is currently in the process of gaining approval from its Supervisor to include Commercial property (tourist accommodation, retail, office, and industrial properties) as acceptable collateral for loans. The Company's credit policies and Product Disclosure Statements will be updated post-approval.

However,

- Loan-to value ratios/Lending Margins include
    - Maximum of 75% including fees and charges for first mortgages for population centre locations – (or lower depending on the location and condition of the security)
    - Maximum of 70% including fees and charges for second mortgages for population centre locations (or lower depending on the location and condition of the security)

Again, the Company has followed a conservative approach with respect to LVR. Based on its loan book at Jun19, the total LVR on its portfolio was 50.2%, while only 6 of its 58 loans were secured against a second mortgage.

- Loan terms range from 1 day to 5 years. Longer terms were to be considered in specific circumstances. The weighted average tenure for the loan-book was well within the approved terms, at 6.3 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 Jun19, the largest loan balance outstanding was ~4.9% of TTA.
- GF's product suite included the following loans;
    - Interest only - interest upfront at loan establishment
    - Interest only – payments monthly in arrears
    - Fully amortising – with principal and interest
    - Partially amortising with bullet repayment
    - Interest capitalised loans

However, as at Mar19, 88.0% of total loans were on interest-only basis while 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, NZ registered banks and P2P lenders 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 financial market infrastructure. The Financial Markets Authority is responsible for licensing and regulating P2P lenders and ancillary financial services providers (auditors, brokers, custodians, financial advisers, fund managers and others).

The 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, like GF, have to offer customers a better value proposition and to compete on price to retain existing customers and win new business.

P2P lenders are a new class of disruptors in the financial service market. They provide a platform for market participants to lend and borrow funds directly from each other rather than having to deal with an intermediary such as a bank. The threat of disruptive business models that affect market structure through a new value-offering to customers poses a threat to bank and NBDT margins and market share alike. Regulatory changes in the Australia and New Zealand financial services sector have made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic payments systems, mortgages, and credit cards. In addition, it is possible for existing companies operating outside of the traditional financial services sector to obtain a banking license and offer products and services that have been traditionally provided by banks. The effect of increasingly competitive market conditions, may necessitate industry participants to compete on price to gain or retain market share, thereby impacting earnings adversely.

## 10. Structure and Service Delivery Platform

### Structure

General Finance Limited is governed by a five-member board consisting of three 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 Mar19, GF did not carry any external debt and hence, there is minimal risk of structural subordination or double leverage to increase 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. Computershare Investor Services Limited (NZ) is a subsidiary of ASX listed Computershare Limited - a specialist investor services provider operating across the world.

While 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 most recent AML-CFT Audit was conducted by William Buck Audit (NZ) Limited at Mar19. The AML-CFT Audit Report noted that there were no material compliance issues related to GF's AML-CFT Programme.  Meanwhile, the Company utilises 'Finesse' – a cloud-based loan management system for loan origination, monitoring and reporting.

## 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's new management has recently been increasing funding and depositor base through broader market outreach and plans to utilise this funding to increase its loan book and borrower base.

## 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 stable profitability and low levels of credit losses due to prudent underwriting standards and the collateral coverage 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 |
| Alistair Alan Ward* | 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 |

*Post-finalisation of the rating, Mr. Ward announced his resignation from the Board of General Finance Limited, effective 16 Sep 2019.

### 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 functioned as a finance director of many small to medium sized enterprises. Previously, Don was the Chairman of listed banking software technology company - Finzsoft Solutions Ltd. Don is also previous Chairman of the Board of Directors of the Auckland Cricket Association. He is a Director of Sietec (NZ) Limited and previously held directorship with Cooks Global Foods Ltd, as well as directorships with many private companies.

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

***Independent Non-Executive Director***

Having practised law for 16 years, Rob is currently a director of Waikato law firm- Ellice Tanner Hart. He has acted 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. Rob is a member of the New Zealand Sports Tribunal and has held directorships with a number of private companies.

**Alistair Alan Ward B.Com (Hons) M INST D AFNZIM**

***Independent Non-Executive Director (Resigned with effect from 16 Sep 2019)***

Alistair is a director & principal of Campbell MacPherson Limited, a corporate advisory firm he co-founded in 2002. He is a member of the New Zealand Institute of Directors and an Associate Fellow of the NZ Institute of Management and has held directorships with many 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 Corporate Holdings Limited, Investment Research Group Limited (IRG), Equity Investment Advisers Limited, King Capital & Investment Corporation Limited, Mykco Limited and Chow Group Limited. IRG is both an NZAX sponsor and an NXT advisor. Mr King has also held directorships with a number of private companies. As at Aug19, 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 previous roles with 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 9 years' experience, including several years working on statutory external audit engagements for a chartered accounting firm and other accounting and finance roles for public and private 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.
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.

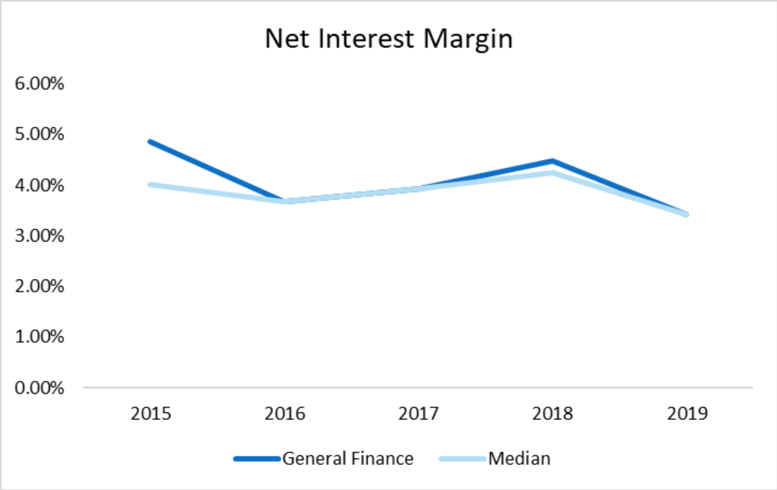
Baker Tilly Staples Rodway Auckland (BTSRA) as GF’s external auditor confirmed that there were no significant or material issues arising from their latest audits (for full year Mar19 and interim 6 months to Sep18). We note that General Finance conducts bi-annual external audits as a part of its ongoing 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-19 | Mar-19 | Mar-18 | Mar-17 | Trust deed | Regulatory |
|---|---|---|---|---|---|---|---|
| **Risk weighted capital ratio** | Tier 1 capital as a percentage of risk weighted assets | 28.0% | 33.70% | 48.17% | 49.95% | 8% or more if rated<br>15% or more if unrated | 8% or more if rated<br>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. | 8.85 times | 22.54 times | 7.07 times | 33.61 times | >1.25 times | As appropriate |
| **Related party ratio** | Aggregate credit exposures to all the related parties as a percentage of tier 1 capital | 6.00 % | 6.10% | 0% | 0% | <10% | <15% |

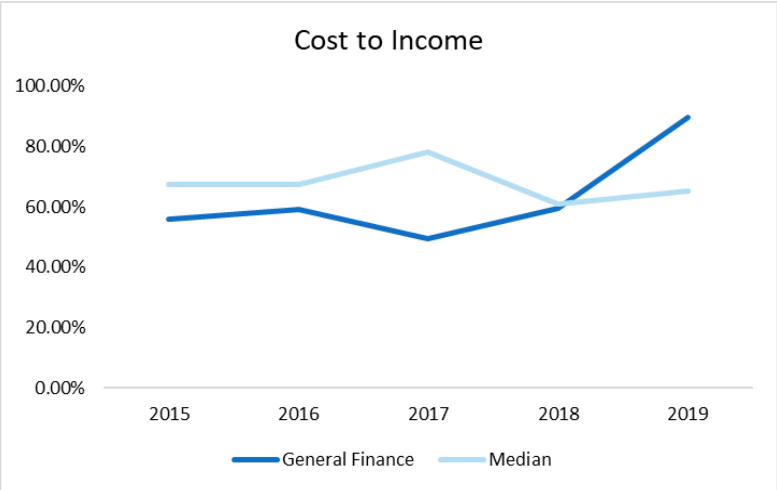
## 15. Profitability

### Net Interest Margin



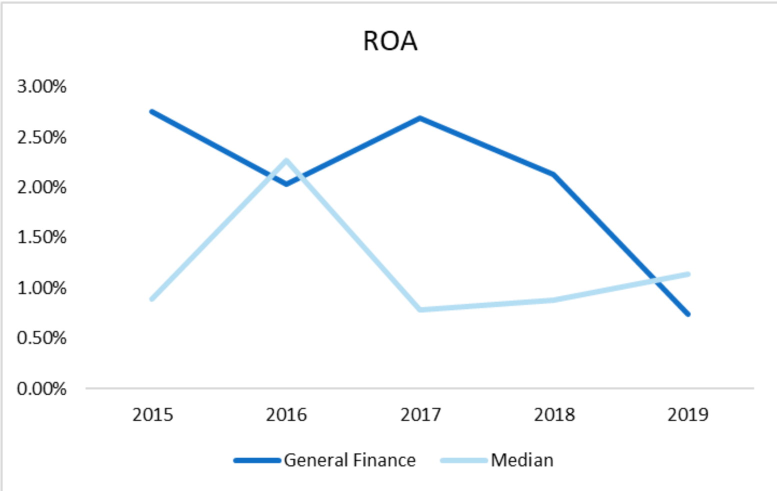

GF's net interest margin has largely been in line with industry peers' median. As a majority of NBDT credit unions and finance companies are dependent on retail deposits for funding, the NIM differences amongst peers is a function of variations between funding and loan composition (asset, personal, mortgage lending, etc). Some credit unions such as Credit Union South and finance companies such as Asset Finance, have a higher-than-average NIM due to a greater exposure to higher risk personal and motor finance loans which are advanced at a higher interest rate than traditional mortgages. Loans by GF are extended primarily against the security of the underlying mortgage and personal guarantees from borrowers (with the exception of trustees). GF's NIM has declined in FY19 and the period to May19 but remains healthy. This decline is reflective of the Company's strategy to transition away from higher risk/higher yield secondary mortgages to lower risk first mortgages and underwrite more unregulated loans at lower interest rates.

### Efficiency/ Cost-to-income Ratio



GF's efficiency (measured as cost to income ratio) was historically better or in line with peers in the period to FY18. However, we note that operating costs were understated in previous years (compared to FY19) as the management was compensated primarily through dividend payments. After the management restructure in FY19, GF focused on hiring additional full-time employees and compensated executive management and board directors through pre-tax fee and salary payments. This meant that that the cost to income ratio increased to 89.8% in FY19 from 59.4% in FY18 (FY17: 49.40%). Adjusted for dividends, cost to income would have been 84.6% in FY18 and 98.2% in FY17 which indicates a worse than industry median efficiency ratio. The higher cost to income is reflective of the Company's relatively small size and is expected to moderate as the Company achieves economies of scale.

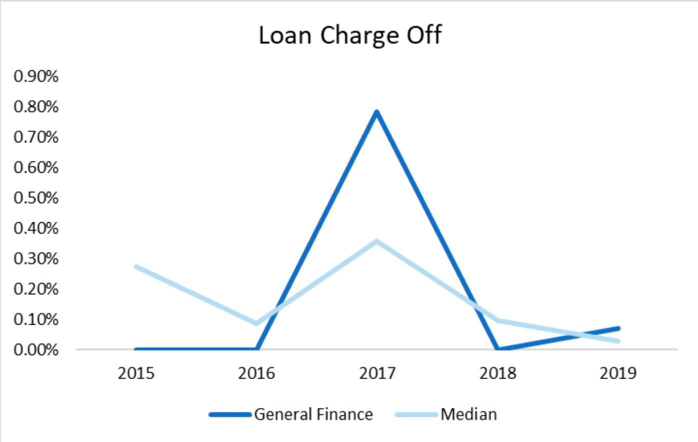
## Return on Assets (ROA)

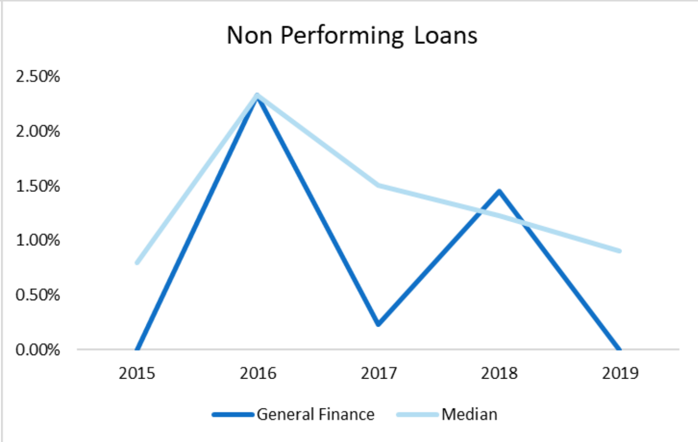



A stable asset and income base allowed GF to operate with a relatively stable ROA which was better or in line with peer medians, over the period to FY18. However, as the Company's asset base and income increased by 49.3% and 11.1% respectively in FY19, as income growth is expected to lag the balance sheet growth by a reporting period , ROA declined to 0.74% at Mar19 (Mar18: 2.13%). The growth in assets was driven by a 100.3% growth in gross loans over the period. Furthermore, ROA was also impacted by the increase in cost to income ratio during FY19. Going forward, ROA is expected to moderate in line with the changing borrower profile and the forecast growth in assets and income.

## 16. Asset Quality

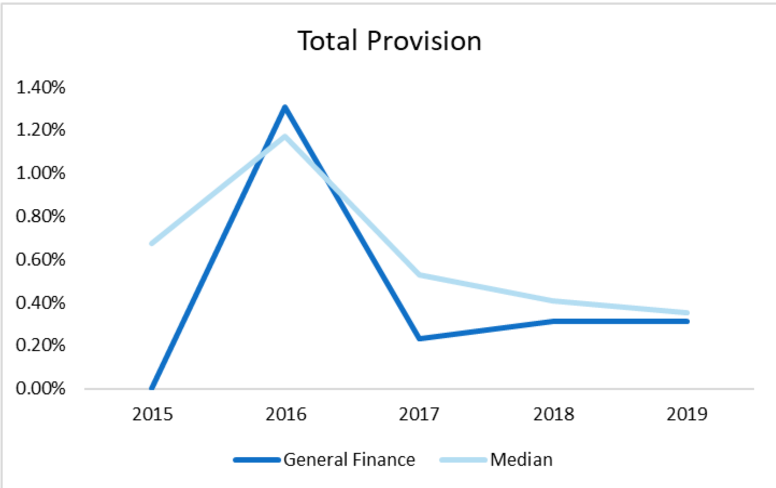
### Non-Performing Loans



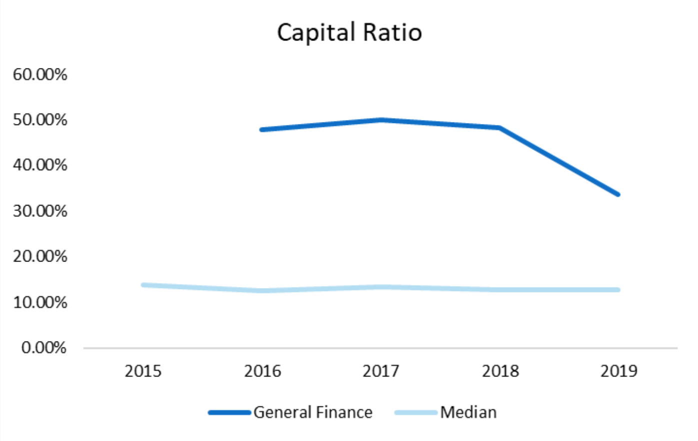

GF's portfolio exhibits low delinquency levels and high recovery rates, which reflect its healthy underlying asset quality and conservative loan to value ratios. Exposure to unsecured loans was nil at Mar19 (Mar18: 0.2%) with 87.2% of total loan book secured against first mortgages. Historically, the Company has maintained a low level of loan losses and non-performing assets as it has focused on lending on a short-term basis upon evidence of strong LVR and collateral metrics. The overall loan book's weighted average LVR at Jun19 was 50.2%, reflective of ample headroom in the underlying asset base. This has meant that borrowers were less likely to default on payments, hence, the cost of delinquencies were minimal due to favourable levels of asset coverage. Non-performing loans (as a percentage of gross loans, 'NPLs') increased to 1.45% at Mar18 on the back of additional $111k in loans classified as impaired assets. The indicator improved and remained at nil levels due to repayments and roll overs during FY19.

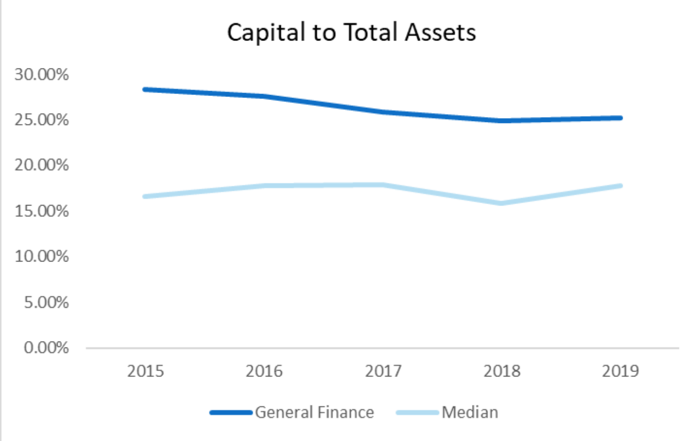
### Provisioning



GF's provisioning has been in line with the overall industry median. The Company has continued to maintain total provisions at 0.31% of total loans in FY19 despite recording nil impaired assets. At Mar19, the provision was in line with its internal probability weighted expected loss calculations. The provisioning level is expected to remain stable as the overall business model continues to be focused on short-term mortgage backed loans with sound LVR headroom.

## 17. Capitalisation

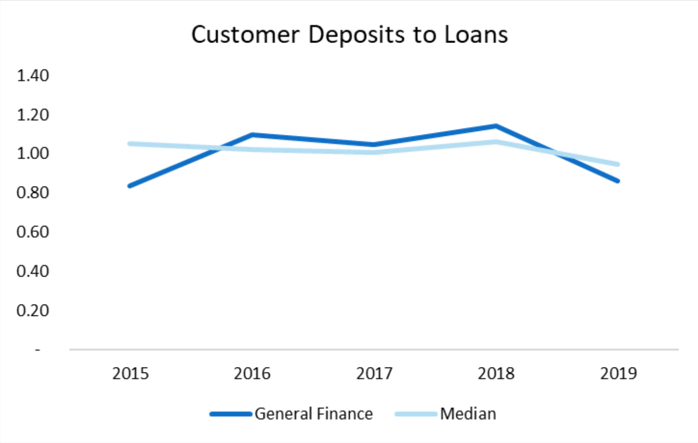


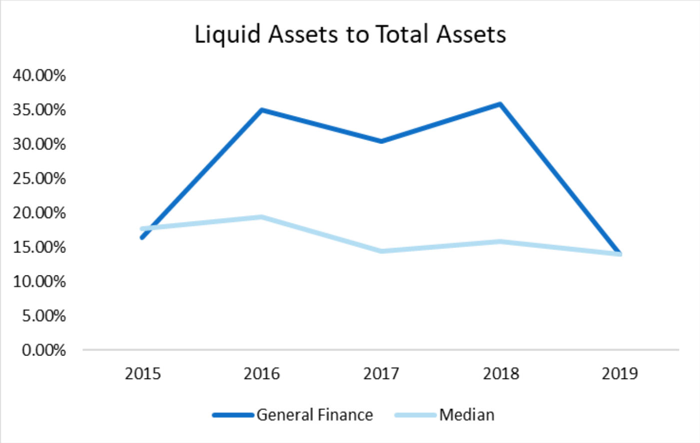




GF's Tier 1 capital to risk weighted assets ratio is better than benchmark average as a result of its conservative financing and business strategy. The regulatory capital requirement for GF under the RBNZ guidelines is 10% (relating to NBDTs that are not rated by an RBNZ licenced credit rating agency). However, GF's Tier 1 capital requirement under its trust deed is 15%.

The Company's Tier 1 Capital to Risk Weighted Assets (RWA) declined to 33.7% at Mar19 from 48.2% at Mar18. The ratio decreased further to 28.0% at Jun19 due to strong growth in the loan book and Risk Weighted Assets. RWA increased by 116% in FY19 (FY18: 12.4% growth), while the RWA to total asset ratio increased to 73.5% (from 50.9%) reflective of the Company's increased exposure to property development loans and a reduction in cash. Meanwhile, capital to total assets remained stable, as the 49.3% increase in total assets was supported by a 52.5% (or $1.6m) increase in shareholder contributed equity. We note that significant headroom above the regulatory and trust deed requirements enables GF to finance the planned increase its loan book and adapt to any potential regulatory changes requiring it to hold higher levels of capital.

## 18. Funding and Liquidity




From FY16 to FY18 GF maintained a higher than median customer deposit to loan ratio which was reflected in its liquidity. Deposits in excess of loans were invested in highly liquid term deposits with BNZ which provided adequate liquidity buffer.

While liquid assets to total assets declined to 13.9% at Mar19 (Mar18: 35.8%), the liquidity cover ratio (LCR) as calculated according the trust deed was healthy at 22.54 times (Mar18: 7.07 times). The LCR at Mar19 was supported by 3-month expected receivables of $4.6m and the Company maintained strong headroom the minimum stipulated LCR >1.25 times as per its Trust deed. Additionally, as part of its liquidity policy, GF endeavours to maintain cash or short-term deposits equivalent to 10% of Total Tangible Assets.

GF was assessed as having sufficient headroom within above metrics enabling the Company to withstand some level of funding volatility. Moreover, GF's deposit funds have a consistently healthy reinvestment rate. As at May19, the monthly reinvestment rate was 70.0%, while the 12-month average reinvestment rate was 72.0%.

## 19. Financial Benchmarks

| Description | Percentile | Credit Union South | First Credit | Baywide | NBS | WBS | FEIG | GB | Liberty NZ | UDC | Mutual CF | FD | Asset Finance | General Finance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | | NZ | NZ | NZ | NZ | NZ | NZ/AU | NZ | NZ | NZ | NZ | NZ | NZ | NZ |
| **Scale:** | | | | | | | | | | | | | | |
| Operating income ($ 000s) | 8% | 13,125 | 19,531 | 16,072 | 19,392 | 4,521 | 6,487 | 2,765 | 1,064 | 136,502 | 2,043 | 2,793 | 6,047 | 1,095 |
| Total Assets ($ 000s) | 8% | 130,716 | 359,315 | 381,380 | 830,148 | 160,603 | 78,459 | 25,829 | 44,516 | 3,330,473 | 32,158 | 16,128 | 29,068 | 20,210 |
| Gross loans ($ 000s) | 8% | 106,047 | 198,519 | 274,876 | 641,833 | 126,613 | 61,163 | 21,895 | 38,827 | 3,256,998 | 27,270 | 14,428 | 23,065 | 17,250 |
| **Profitability:** | | | | | | | | | | | | | | |
| Net Interest Margin (%) | 50% | 6.9% | 3.6% | 3.4% | 2.0% | 1.9% | 3.3% | 7.0% | 1.1% | 3.4% | 4.2% | 8.6% | 15.0% | 3.4% |
| Non Interest Income to total operating income (%) | 25% | 27.4% | 32.6% | 13.5% | 6.7% | 20.5% | 31.3% | 23.5% | 28.7% | 3.6% | 20.5% | 49.9% | 43.6% | 19.4% |
| ROE (%) | 33% | -4.4% | 1.3% | 2.5% | 10.5% | 9.5% | 0.5% | 13.7% | 5.4% | 12.6% | 12.4% | 14.2% | 8.9% | 3.0% |
| Return on assets (%) | 42% | -0.7% | 0.2% | 0.3% | 0.7% | 1.1% | 0.1% | 4.1% | 0.9% | 2.1% | 2.2% | 2.4% | 1.9% | 0.7% |
| Efficiency Ratio (%) | 67% | 92.3% | 92.0% | 93.1% | 55.2% | 65.1% | 111.3% | 43.4% | 56.5% | 25.5% | 55.0% | 83.0% | 59.2% | 89.8% |
| **Capitalisation:** | | | | | | | | | | | | | | |
| Leverage (Gross loans to Equity) (x) | 83% | 5.11 | 3.49 | 6.71 | 10.98 | 6.34 | 4.37 | 2.88 | 6.08 | 5.85 | 4.64 | 5.07 | 3.29 | 3.38 |
| Capital ratio - risk adjusted (%) | 100% | 12.0% | 14.9% | 10.8% | 10.5% | 13.2% | 10.5% | 23.9% | 22.4% | 10.4% | 12.6% | 12.7% | 16.4% | 33.7% |
| Capital to total assets ratio (%) | 92% | 15.9% | 15.7% | 10.7% | 7.0% | 0.0% | 17.8% | 28.7% | 14.3% | 16.5% | 18.2% | 17.1% | 20.8% | 25.2% |
| **Funding and liquidity:** | | | | | | | | | | | | | | |
| Gross loans as a % of total assets (%) | 25% | 81.1% | 55.2% | 72.0% | 77.3% | 78.8% | 77.6% | 82.6% | 87.2% | 96.8% | 84.5% | 87.0% | 68.6% | 85.1% |
| Customer deposits to gross loans (%) | 33% | 87.5% | 150.2% | 122.6% | 119.6% | 108.6% | 99.8% | 79.1% | 97.6% | 28.6% | 94.5% | 84.3% | 82.7% | 86.4% |
| Liquid assets to total assets (%) | 50% | 12.4% | 37.6% | 25.9% | 18.8% | 13.7% | 17.1% | 14.2% | 11.8% | 1.7% | 13.2% | 5.3% | 15.5% | 13.9% |
| **Asset Quality:** | | | | | | | | | | | | | | |
| Net Charge-offs to gross loans (%) | 58% | 0.33% | 0.23% | 0.18% | 0.12% | 0.00% | 0.01% | 2.13% | 0.00% | 0.27% | 0.03% | 0.00% | 0.59% | 0.07% |
| Non performing loans to gross loans (%) | 100% | 0.94% | 4.33% | 0.32% | 0.09% | 0.80% | 2.89% | 4.16% | 0.00% | 0.55% | 0.91% | 2.99% | 26.10% | 0.00% |
| Individual provision for loan losses to gross loans (%) | 33% | 0.08% | 0.65% | 0.14% | 0.05% | 0.26% | 0.00% | 2.33% | 0.00% | 0.27% | 0.00% | 2.75% | 12.16% | 0.31% |
| Individual & collective provision for loan losses to gross loans (%) | 75% | 0.74% | 1.34% | 0.22% | 0.21% | 0.35% | 0.46% | 2.53% | 0.23% | 1.06% | 0.33% | 2.75% | 13.61% | 0.31% |

## 20. Summary Financial Data

| General Finance Limited | | | | | | |
|---|---|---|---|---|---|---|
| $000s | Trend | 2015 | 2016 | 2017 | 2018 | 2019 |
| **Income Statement** | | | | | | |
| Net Interest Income | | 746 | 627 | 648 | 792 | 883 |
| Non interest income | | 291 | 160 | 172 | 198 | 212 |
| Operating Income | | 1,037 | 787 | 820 | 990 | 1,095 |
| Operating Expense | | 579 | 466 | 405 | 588 | 983 |
| Pre-Provision Operating Profit | | 458 | 321 | 415 | 402 | 112 |
| Credit impairment charge/(reversal) | | 42 | 9 | -14 | 41 | -19 |
| Operating Profit Before Tax | | 432 | 322 | 441 | 378 | 159 |
| Other non Operating Income/(Expense) | | 16 | 10 | 12 | 17 | 28 |
| Net Profit | | 308 | 232 | 317 | 272 | 125 |
| | | | | | | |
| **Financial Position** | | | | | | |
| Total Assets | | 11,196 | 11,613 | 11,949 | 13,537 | 20,210 |
| Customer Deposits | | 7,790 | 8,213 | 8,681 | 9,854 | 14,900 |
| Loans | | 9,330 | 7,401 | 8,277 | 8,584 | 17,196 |
| Liquid assets | | 1,838 | 4,068 | 3,625 | 4,844 | 2,814 |
| **Ratios** | | | | | | |
| Operating Profit to Operating Income margin (%) | | 42% | 41% | 54% | 38% | 15% |
| Net Interest Margin (%) | | 4.86% | 3.68% | 3.92% | 4.47% | 3.42% |
| Efficiency Ratio (%) | | 55.8% | 59.2% | 49.4% | 59.4% | 89.8% |
| Return On Assets (%) | | 2.8% | 2.0% | 2.7% | 2.1% | 0.7% |
| Return on Equity (%) | | 9.7% | 7.3% | 10.1% | 8.4% | 3.0% |
| Capital Ratio (%) | | 0.0% | 47.9% | 50.0% | 48.2% | 33.7% |
| Capital to Total Assets Ratio (%) | | 28.4% | 27.5% | 25.9% | 24.9% | 25.2% |
| Leverage Ratio - Total loans to Equity (x) | | 2.94 | 2.32 | 2.68 | 2.55 | 3.38 |
| Charge-offs/Total loans (%) | | 0.00% | 0.00% | 0.78% | 0.00% | 0.07% |
| Non-Performing Loans to Gross Loans (%) | | 0.00% | 2.33% | 0.23% | 1.45% | 0.00% |
| Non-Performing Assets & 90+ Days Past to Gross loans (%) | | 0.00% | 17.79% | 3.68% | 11.24% | 0.00% |
| Loan Loss Provision/Loans (%) | | 0.00% | 1.31% | 0.23% | 0.31% | 0.31% |
| Deposits to loans (%) | | 83.5% | 109.5% | 104.6% | 114.4% | 86.4% |
| Liquid assets to total assets (%) | | 0.0% | 35.0% | 30.3% | 35.8% | 13.9% |

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

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

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http://www.corporatescorecard.co.nz/docs/RatingMethodologyFinancialInstitutionRatingCriteria.pdf

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