Credit Ratings & Research

Credit Rating Report
General Finance Limited

NZBN: 9429038072994

Credit Rating Report

Date: 24 July 2023

Prepared for: General Finance Limited

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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 (the RBNZ) and domiciled in New Zealand. The Company offers secured loans and accepts customer deposits.

Equifax Credit Ratings Australasia Pty Ltd ('Equifax') has affirmed GF's credit rating of 'BB' at Mar23, which is a near-prime classification with a low to moderate level of risk. The outlook for the rating is 'Stable'. Overall, GF's credit rating benefits from its market position as a specialised bridging loans provider, its increased scale and healthy earnings, sound capital and funding profile, and the expected benefit to its ability to attract deposits by recent proposed regulatory reforms. The rating is constrained by the apparent pressure on its asset quality, with increasing arrears and impaired loans reflecting its broader business model risks (which include market risk factors and a moderate degree of concentration risks), a challenging macroeconomic environment intensifying asset quality pressures and potentially constraining the rate of growth, as well as a high reliance on key executives' expertise, thereby exposing it to keyperson and business continuity risks.

Strengths

- GF's increasing market presence, as a well-established (25+ year operating history) specialist bridging loans provider catering to a market underserved by many industry competitors, is evidenced by its strong loan book growth (Mar23: $108.8m, Mar22: $80.0m, Mar21: $53.8m), which together with a rising interest rate environment, has enabled GF to maintain a higher average yield on loans (FY23: 10.4%, FY22: 9.1%, FY21: 7.8%). Meanwhile, consistent improvement in the Company's NIMs (FY23: 4.7%, FY22: 3.2%, FY21: 2.0%), has also been complemented by an increase in non-interest income and sound overheads control.

- A sound capital ratio of 21.8% at Mar23 (Mar22: 17.9%) enables GF to maintain adequate headroom above the regulatory minimum capital ratio threshold (8.0%). The Company's capitalisation, amidst sustained loan book growth, has been supported by strong earnings retention, together with incremental capital injection, including $3.0m of capital raised in FY23 (FY22: $2.6m), and holds it in good stead to support further loan book growth and/or cushion the impact of any adverse trading performance on its capital ratio.

- GF's demonstrated capacity to attract deposits to aid its asset growth supports its funding profile. The same is reflected by a satisfactory 12-month deposit renewal rate (Mar23: 70.0%, Mar22: 76.0%), underpinning GF's deposit to loan ratio which has remained consistently above 100.0%. Additionally, the Company's liquidity profile is supported by a positive short-term asset liability duration gap as it uses longer-duration deposits to underwrite shorter-duration loans. The Company's capacity to withstand pressure on liquidity is further supported by its 14.3% liquidity ratio (measured as Liquid Assets to Total Assets) at Mar23.

- RBNZ is in the process of aligning all deposit takers' regulations under one framework and introducing a depositor compensation scheme. More stringent regulatory oversight of NBDTs is likely to promote public confidence in the sector, and in turn, enhance participants' and GF's capacity to attract retail deposits. Whilst we acknowledge that the related compliance cost burden could weigh on earnings, GF's healthy NIMs and capitalisation support its ability to absorb any material impact. Moreover, GF's recent appointment of a Corporate Counsel/Company Secretary enhances its resources and capacity to navigate the changing regulatory landscape.

Constraints

- Together with the wider economy, the NBDT sector, including GF are facing market challenges emanating from rising inflation, increasing interest rates, weakening economic growth, and a slowing housing market. GF's asset quality appears to be showing early signs of potential stress, with 13.3% of the loan book either impaired or past due at Mar23 (Mar22: 3.3%), likely reflecting some materialisation of market risks associated with GF's asset-backed lending business model, and delays with borrowers' liquidation plans for the underlying asset to repay borrowings. Further, as a major portion of GF's loan book comprises interest only or interest capitalised advances to borrowers, in addition to credit risks, the current downturn in real estate markets exposes the Company to a reduced collateral cover. Although the weighted average loan-to-value ratio (LVR) on the Company's loan book remains low at ~54.0%, the market-price discount may be greater in the current environment, and thus, the risk of loss upon a credit event occurrence is elevated, in our view. Furthermore, GF's scale underlines a moderately high concentration risk in its operations, as the top-six loans accounted for 134% (Mar22: 157%) of its total capital base and 19.1% (Mar22: 18.8%) of the total loan book at Mar23.

- In response to the challenging market environment, management are looking to adopt a more conservative approach to lending - targeting loans with lower LVR's. While this strategy supports a degree of protection for GF's asset quality, it may constrain the rate of loan book growth, and in the event of steady or increased deposits – leading to elevated cash reserves (which yield lower returns) – could place downward pressure on the Company's NIMs, going forward.

- GF has significant dependence on Managing Director, Mr. Brent King, which exposes business operations to keyperson risks. As the public face of the Company, Mr. King has an active involvement in regulatory developments, liaises with key stakeholders and lends his commercial expertise and business acumen as the final sign-off authority for all loans. In Equifax's view, GF's ability to execute its future growth strategy and successfully navigate through a challenging macroeconomic environment has a high reliance on Mr. King's expertise and may benefit from addition of appropriately qualified and experienced professionals to handle some of these specialist responsibilities.

The outlook for the rating is currently 'Stable' and a rating upgrade is unlikely in the near term. An upgrade would require a demonstrated sustained improvement in scale and market position, combined with a sustained reduction in asset quality risks, and material reduction in keyperson and business continuity risks through an increase in the pool of key executives. The rating may be revised downward if there is material deterioration in either GF's earnings, scale or asset quality.

Risk Rating

BB

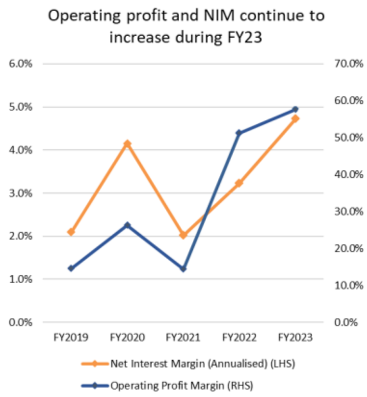
Outlook: Stable

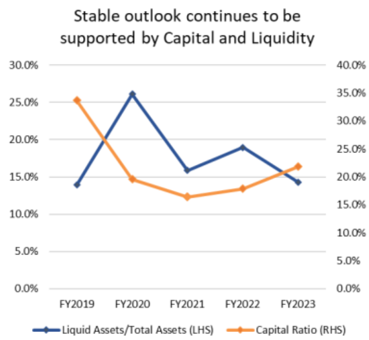
Type: Public, Monitored

Industry Percentiles

Scale:	
Total Assets	63%
Gross loans	63%
Profitability:	
NIM	50%
ROE	88%
ROA	88%
Efficiency Ratio	13%
Capitalisation:	
Leverage (Gross Loans to Equity)	50%
Capital Ratio	88%
Capital to Total Assets	38%
Funding and Liquidity:	
Deposits to Loan Ratio	50%
Liquid Assets to Total Assets	50%
Asset Quality:	
Net Charge-offs	88%
Impaired Loans	25%
Provision for Loan Losses	25%

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	**24 July 2023**
Request Type	**Issuer**
Assessment Type	**Under Ongoing Monitoring**
Rating Initiation	**Issuer based (solicited)**
Rating Distribution	**Public Rating**
Report Distribution	**Unrestricted**
Purchased by	**General Finance Limited**
Report Fee	**Fixed Price**
Ancillary fees	**Nil**
Issuer Name	**General Finance Limited**
Issue Name	**Not Applicable**
Issuer First Time Rated	**No**
Issue First Time Rated	**Not Applicable**
Financial Scope	**Standalone Entity**
Structure	**Limited Company**
Industry	**Financial Services**
Sector	**Non-Bank Deposit Takers**

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 2023, 2022 and 2021.** **Management accounts for the 2-month period ended 31 May 2023.**
Name of auditor	**Grant Thornton New Zealand Audit Limited**
Other Information Sources	**The Company's response to our Request for Information, the Company website, industry and regulatory websites, management interviews, media articles, adverse searches and internet searches.**
Subject participation	**Full**
Material financial adjustments	**None**
Limitations of assessment	**None noted**
Outsourced rating activities	**No**
Confidentiality agreement	**No**
Material client	**No**
Rating amended post issuer disclosure	**No**
Potential conflict of interest	**GF is also a user of other Equifax products which are procured on commercial terms.**
Rating methodology	**Financial Institution Rating Criteria**

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

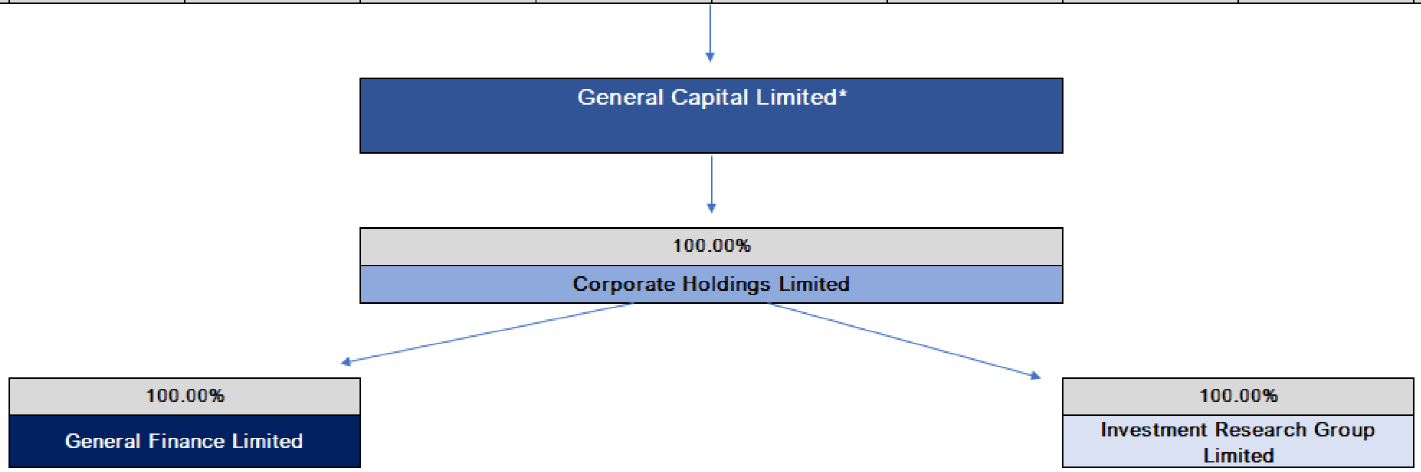
3. General Background of the Subject

3.1 Subject Overview

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

3.2 Corporate Structure

Borneo Capital Limited	API No 1 Limited Partnership	Lynn Landmark Michel & Mat Floyd Trustee Co (No 1) Limited	Brent King**	Snowdon Peak Investments Limited	Owen Arvind Daji	Olivia Ling	Grant Baker & others	Stephen Sinclair & others	Syed Hizam Alsagoff	Other Shareholders
34.93%	23.92%	9.57%	6.08%	4.09%	1.93%	1.83%	1.79%	1.73%	1.68%	12.45%



** General Capital Limited shareholding as at 9 June 2023.*
*** Brent King is currently the Managing Director of General Capital Limited, General Finance Limited, and Investment Research Group. He also owns 100% of the shares in Snowdon Peak Investments Ltd which is the fifth largest shareholder of General Capital Limited.*

4. Industry Risks

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

Systemic Risk Factors

Economic growth likely to remain weak in the near term as monetary policy remains restrictive

The Monetary Policy Committee (MPC) agreed that monetary conditions are restricting spending and reducing inflationary pressure as anticipated. However, inflation remains too high. Spending needs to remain subdued to better match the economy's ability to supply goods and services, so that consumer price inflation returns to its target range of 1.0% to 3.0%. Supply capacity constraints in the economy continue to ease.

MPC noted that Global economic growth remains weak and inflation pressures are easing. This follows a period of significant monetary policy tightening by central banks internationally. Global inflation rates continue to decline, assisted by the normalisation of international supply chains, and the decline in shipping costs and energy prices. The weaker global growth has led to lower export prices for New Zealand's goods

In response to the above factors, MPC, in its meeting in July 2023, decided to leave the Official Cash Rate unchanged at 5.5% after 12 consecutive hikes in interest rates. The Committee agreed that interest rates will need to remain at a restrictive level for the foreseeable future, to ensure consumer price inflation returns to the 1.0% to 3.0% target range while supporting maximum sustainable employment.

New Zealand households and businesses are facing higher debt costs, but borrowers are adapting so far

With rising interest rates since mid-2021, household and business borrowers have been gradually adjusting to significantly higher debt servicing costs. Mortgage lending that was fixed at the low rates that prevailed in the early period of the pandemic continues to roll over to higher fixed rates. For households with mortgages, it is estimated that in aggregate the share of their disposable income dedicated to interest costs will rise from a low point of 9 percent to around 22 percent by the end of this year.

House prices continue to decline, and market activity has been subdued as lending conditions remain tight

With increased interest rates, prospective borrowers' debt servicing capacity has declined and the relative attractiveness of buying compared to renting has fallen. Prices and activity in the housing market have continued to fall, with nationwide house prices now around 16 percent below their peak , taking them back to

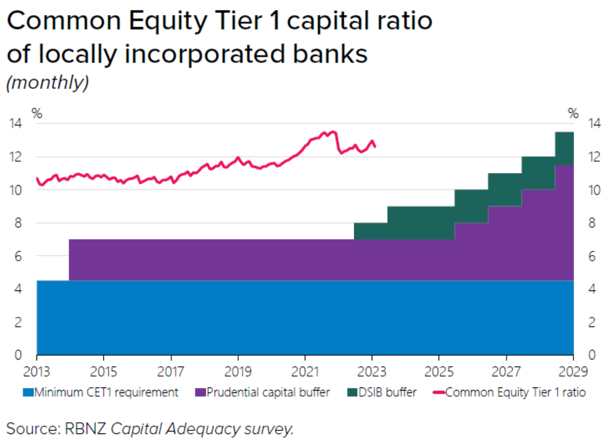
[1] RBNZ Financial Stability Report May 2023, RNBZ Monetary Policy Statement July 2023, RBNZ Website and various of Publications of RBNZ.

levels seen around the start of 2021. The outlook for residential development has continued to deteriorate given the headwinds of high and uncertain interest rates, ongoing construction cost inflation, and the steady supply into the market of previously committed new builds. Pre-sales activity remains subdued, limiting the number of viable projects for which developers can obtain finance. The completion of the existing pipeline of developments is keeping construction activity high for now, but there will be a slowdown in activity once these projects have been completed.

<u>New Zealand's banking system is well placed to handle domestic and international pressures</u>

New Zealand banks' profitability has been robust in recent quarters, with a pick-up in net interest margins (NIMs) supporting a return of most profitability metrics to around pre-pandemic levels. Recent profitability partly reflects the lagged adjustment of banks' deposit funding costs to tightening monetary policy. Banks' capital levels continue to increase gradually, ahead of increasing regulatory requirements, as they retain earnings and issue additional capital instruments to further improve their resilience. Offshore funding markets have been volatile following events in the US and European banking systems in March, but the large New Zealand banks are well funded, having raised long-term funding in these markets in prior months.

Figure 1: Capital ratios of banks



Cyclicality

Due to strong linkage between economic activity and interest rates financial institutions remain vulnerable to vagaries of economic cycles. During recessionary times interest rates drop and business sentiment remains weak, thus undermining the ability of financial institutions to raise deposits and make loans. Similarly, during periods of inflation, interest rates usually rise and purchasing power of households dwindles thereby exposing financial institutions to asset quality risks. 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. As a result, a study of economic cycles and its phases is vital to accurately assess the exposure to various market risks.

New Zealand economy is in the midst of a necessary, policy induced slowdown

New Zealand recovered faster than most other advanced economies due to efficient management of the COVID-19 pandemic. This supported activity and, together with generous fiscal and monetary support, resulted in strong investment, and private consumption. But this came at the cost of overheating against capacity constraints exacerbated by restrictions on labour movement due to border closures, and disruptions in global supply chains. Following significant monetary policy tightening, the economy is now slowing, but significant and persistent labour market constraints and the large positive output gap have kept inflation high. Labour market conditions remain extremely tight with record high labour force participation and historically low unemployment and underemployment rates. This has put upward pressure on wages, particularly in the services and construction sectors (Source: IMF, Mission Concluding Statement).

Market Risk

Market risk refers to the impact on profitability due to adverse changes in interest rates, assets prices, commodity prices and exchange rates. Interest rates remain the key and most direct source of market risk to financial institutions due to the nature of their operations and the strong interplay between interest and currency rates and interest rates and asset prices.

NBDTs primarily faces interest rate risk given their limited appetite for transactions denominated in foreign currency and relatively small scale of operations. As a result, paragraphs below discuss the recent movements in the prevailing interest rates and asset prices in New Zealand.

Interest Rate Movements

In July 2023, the Monetary Policy Committee ('MPC' or 'the Committee') kept the Official Cash Rate (OCR) on hold at 5.5% after twelve consecutive rate hikes spanning a period of 20 months. MPC noted that inflation is still expected to decline within the target band by the second half of 2024 indicating that monetary policy will remain tight for the foreseeable future.

The above decision was taken in the light of recent data which suggests that tight monetary conditions are constraining domestic spending as expected. Economic activity contracted slightly in the March 2023 quarter with some indicators suggesting that growth is likely to remain weak in the near term, despite some support from repair and rebuild work underway in regions of the North Island due to severe weather events.

Asset Price Movements

Rising interest rates reduce the current market value of long-term financial assets such as government bonds and mortgage-backed securities, potentially creating large unrealised losses for institutions holding these assets. Since early March a number of financial institutions in the United States and Europe have encountered difficulties and had their regulators intervene to mitigate the spread of panic to other institutions. However, New Zealand banks generally take on little interest rate risk, both through having relatively short repricing profiles for their lending and funding, and through the use of hedging instruments. Agriculture and commercial property stand out as business sectors where rising interest rates could lead to financial stresses, given these sectors' reliance on debt-financed physical assets such as property. Meanwhile, equity prices as gauged by SP/NZX 50 Index, have remained strong YTD indicating market's expectation of a soft-landing for the economy.

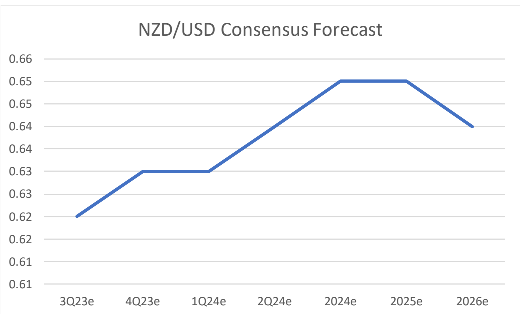
<u>Foreign Currency Risks</u>

The adverse movement in exchange rate poses direct and indirect risks to financial institutions depending on its balance sheet and contribution of foreign trade to overall economy. For economies highly reliant on foreign trade, adverse changes in exchange rates can affect overall GDP levels and business profitability thus heightening the financial institutions' vulnerability to asset quality risks. Further, financial institutions may raise capital from or lend to foreign investors / borrowers and hence adverse movement in the exchange rates may impact the financial institutions' borrowing costs / lending incomes.

<u>New Zealand Exchange Rate</u>

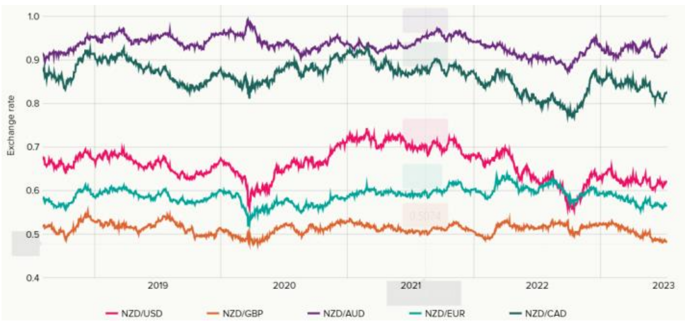
The New Zealand dollar has been among the weakest performing major currencies in 2023 due to indication by the Reserve Bank to keep the interest rates on hold for the foreseeable future as opposed to potential further hikes in interest rates in other major developed economies. Other factors contributing to the weak performance include GDP contraction and volatile commodity prices including for agricultural products as New Zealand exports have a high reliance on agriculture products exports.

Figure 2: NZD/USD Forecast



Source: Bloomberg

Figure 3: New Zealand dollar exchange rates



Level of Competition and Market Structure

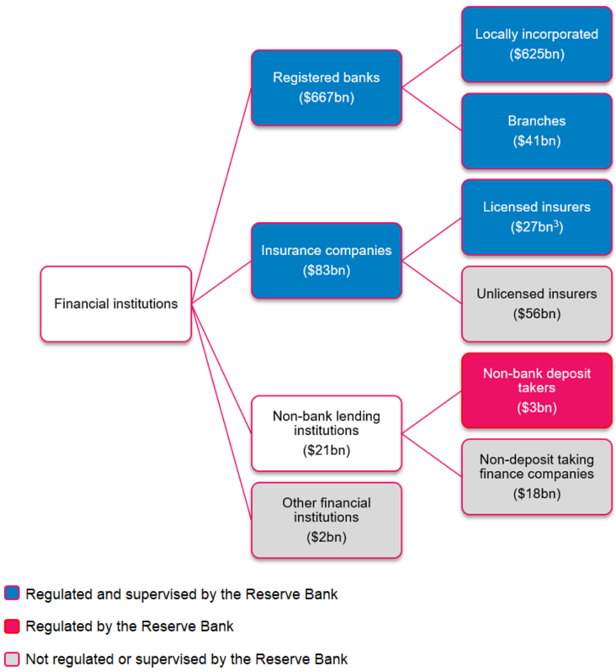
The financial institutions face stiff competition on an ongoing basis to attract capital and funding. In addition to peers, the financial institutions must compete with other finance intermediaries like managed funds, insurance companies and other intermediaries that offer alternative avenues for households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

Overview of Competitive Landscape in New Zealand

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 4). 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.

In contrast, equity and debt capital markets are relatively less developed in New Zealand, with the total market capitalisation of equities listed on the New Zealand Stock Exchange at ~$161bn, while the domestic bond market is estimated at ~$171bn (excluding government debt). The managed funds industry is also small compared to banks, with around $200bn of assets under management.

Figure 4: Market Overview New Zealand Financial Services Industry



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

Direct capital market funding (issuance of corporate bonds) and non-bank lending institutions (NBLIs) together account for only 6% of non-financial private sector borrowing. NBLIs account for just over 3% of intermediated credit since they have a limited offering and specialise in raising deposits to lend to higher risk consumer and business segments underserved by the traditional banks. NBLIs include non-bank deposit-taking institutions

(NBDTs) and non-deposit-taking finance companies. While the Reserve Bank of New Zealand regulates NBDTs it does not regulate or supervise non-deposit-taking finance companies.

There are currently 15 NBDTs operating in New Zealand, which include building societies, credit unions, and deposit taking finance companies. They have a diverse range of business models, with credit unions having a high share of their lending in a mix of residential and consumer loans to their members, while building societies and finance companies tend to focus on a range of types of property lending. Total net lending by NBDTs is around $2.98bn, compared to $667bn in lending by banks. While small relative to the rest of the financial system, the NBDT sector covers a diverse range of organisations that support financial inclusion by serving communities that may traditionally be under-serviced by the banking system.

There has been consolidation in the NBDT sector in recent years, particularly among credit unions. Overall, since 2018, the number of credit unions operating in New Zealand has fallen from 13 to 5. Many of the profitability challenges faced by the credit union sector are due to lack of scale, with high operating costs relative to income. Combined with a limited ability to raise external equity given their mutual structure, some institutions have had a limited capacity to build up the capital buffers that are needed to absorb unexpected shocks while maintaining credit growth. While attaining economies of scale has been challenging for some credit unions, net interest margins have moderately increased in recent years as interest rates have declined, supporting their financial sustainability.

Figure 5: Key Metrics for NBDTs (year ended June)

Metric	Segment	2018	2019	2020	2021	2022
Total assets ($m)	Finance Companies[1]	220	270	218	296	357
	Credit Unions	1,149	1,131	1,152	1,126	1,106
	Building Societies and Other[2]	1,084	1,217	1,303	1,400	1,553
Capital ratio (%)	Finance Companies	15.6	14.8	17.8	15.7	17.2
	Credit Unions	14.9	14.7	14.1	12.9	12.7
	Building Societies and Other	11.0	11.6	12.4	13.7	13.7
Non-performing loan ratio (%)	Finance Companies	5.6	7.3	10.3	1.9	1.9
	Credit Unions	2.6	2.5	3.3	2.9	3.1
	Building Societies and Other	0.3	0.1	0.2	0.1	0.3
Return on assets, before tax (%)	Finance Companies	2.5	1.7	1.9	1.8	2.4
	Credit Unions	0.1	-0.6	0.0	0.4	0.1
	Building Societies and Other	0.8	0.9	0.9	1.2	1.5
Number of operating entities	Finance Companies	7	7	6	6	6
	Credit Unions	13	9	9	8	7
	Building Societies and Other	4	4	4	4	4

Source: RBNZ *Non-Bank Deposit Takers survey.*

1 Datas for finance companies exclude FE Investments Limited from March 2020, when it entered receivership.

2 Other NBDT refers to Christian Savings Limited.

Legal and Regulatory Framework

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

Regulatory landscape in New Zealand

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

Macro Prudential Policy

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

LVR restrictions are the main tool currently used to address financial system risks related to the housing market. RBNZ has recently eased LVR restrictions on new lending to investors above 65% (from 60%). In addition, the maximum share of new lending to owner-occupiers with LVRs over 80% was increased from 10% to 15%, effective from 1 June 2023. These changes to LVR restrictions reflect the RBNZ's view that the risks to financial stability posed by high-LVR lending have reduced to a level where the current restrictions may be unnecessarily reducing efficiency. In particular, impeding the provision of credit to some otherwise creditworthy borrowers, which is not proportionate to the level of risk. The RBNZ believe that national house prices have fallen towards a level that is more consistent with medium-term fundamentals, and the probability of a further large correction in house prices has reduced. Alongside this, lending conditions have tightened significantly as banks' debt servicing assessments allow for higher interest rates.

Various other regulatory initiatives aim to future-proof the resilience of the financial system, including changes to the Credit Contracts and Consumer Finance Act (CCCFA) and Regulations, and the Proposed Deposit Takers Act (DTA) - aligning regulation of all deposit takers under one framework. Included within the DTA are proposals for a Depositor Compensation Scheme to cover bank depositors in the event of bank, or non-bank deposit taker such as a building society, failing. Depositors will be covered for a total of $100,000 per institution per depositor.

Credit Contracts and Consumer Finance Act 2003 (CCCFA) changes: The CCCFA changes intended to address concerns about continued irresponsible lending that was harming some borrowers. Specifically, the CCCFA changes were intended to result in all consumer lenders implementing credit assessment processes that conformed to the lender responsibility principles around affordability and suitability, including performing 'minimum steps' prescribed in regulations. While the initial changes received some criticism, the negative impacts from the changes are likely to be reversed through subsequent changes (applied from 4 May 2023) and potentially improve borrowing capacity and lending processes. That said, given the current macroeconomic environment globally and locally in NZ on the back of high inflation rate, rising interest rates, high cost of living, declining asset prices and reduced repayment capacities, the intended benefits from the recent CCCFA changes could take longer to reap than originally anticipated, in our view.

Deposit Takers Bill (DTB) and Depositor Compensation Scheme (DCS): The Deposit Takers Bill was introduced to Parliament on 22 September 2022, achieved Royal Assent in July 2023 and is gradually coming into force over the next 5 years. The DTB intends to bring banks as well as non-bank deposit takers under one regulatory regime. The purpose of the DTB is to modernise New Zealand's monetary and financial stability policy frameworks and the Reserve Bank's governance and accountability settings. As part of the Bill, DCS is being prioritised ahead of the other changes from the DTB and is expected to be operational by the end of 2024. The costs for deposit takers associated with the implementation of the DCS and maintaining compliance with the new regulatory requirements are likely to increase and are anticipated to place downward pressure on the operating margins of deposit takers, particularly smaller entities. In our view, over the short-term these regulatory changes combined with adverse impacts from the current macroeconomic factors (inflation, rising interest rates, potentially deteriorating asset quality and weakening repayment capability of the borrowers) are likely to negatively affect the earnings and capitalisation for deposit takers. That said, the NBDT sector is diverse, with some building societies and finance companies better able to build resilience in the long term.

Prudential Requirements applicable to NBDTs are discussed in the section 5 – Prudential Framework.

5. Prudential Framework

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

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

[1] The RBNZ

6. Business Risks

6.1 Market Risk Exposures and Controls

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

Interest rate: Interest rate risk is the possibility that the value of an asset or liability will adversely change as a result of an unexpected change in market interest rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on the cash flows relating to its financial instruments. In managing interest rate risk, management focuses on mismatches between the repricing dates of interest-bearing assets and liabilities; and the investment of capital and other non-interest-bearing liabilities in interest bearing assets.

GF’s loan portfolio and product suite substantially consists of fixed interest rate loans which are secured by residential properties. The Company primarily offers funds for short-term requirements such as bridging finance for property purchase or renovation before sale. A majority of loans (Mar23: 99.0%, Mar22: 96.2%) will mature within the next 12 months, with renewal/extension at the sole discretion of management.

In FY23, GF’s deposits with banks attracted a weighted average interest rate of 3.94% (FY22: 0.96%). The Company noted that a 1% decrease in the weighted average interest rate would reduce the annual interest income by $184k (FY22: $188k). 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 Mar23 (Undiscounted cashflows)

$000's	Total	0-6 months	6-12 months	12-24 months	24+ months
Assets					
Cash	18,368	18,368	1,000		
Other Assets	78	78			
Loans	109,806	66,518	42,124	1,164	
Total	**128,253**	**84,965**	**42,124**	**1,164**	
Liabilities					
Payables	786	786			
Leases					
Deposits	108,719	44,650	31,731	21,861	10,477
Total	**109,505**	**45,436**	**37,731**	**21,861**	**10,477**
Difference	**18,748**	**39,529**	**10,393**	**-20,697**	**-10,477**

Repricing Gap Analysis at Sep22 (Undiscounted cashflows)					
$000's	Total	0-6 months	6-12 months	12-24 months	24+ months
Assets					
Cash	21,334	20,328	1,006		
Other Assets	78	78			
Loans	101,890	64,142	34,656	3,091	
Total	**123,302**	**84,548**	**35,663**	**3,091**	
Liabilities					
Payables	432	432			
Leases	55	55			
Deposits	106,994	51,012	33,113	17,445	8,094
Total	**110,150**	**51,498**	**33,113**	**17,445**	**8,094**
Difference	**13,152**	**33,050**	**2,549**	**-14,354**	**-8,098**

The favourable balance in the near-term maturity buckets indicates that the Company's assets mature earlier and are repriced more frequently relative to its liabilities. In other words, GF is using longer-duration funding to underwrite shorter-duration loans. In a rising interest rate environment, the above is positive, as interest income from loans increases faster than cost of deposits. However, we note that the weighted average interest rate on loans increased by only 1.33bps, compared to a 2.25bps increase in the weighted average interest cost on deposits (top 20) during the year ended Mar23. In addition to rising interest rates, this also reflects (i) management's decision to lower lending rates since December 2022, cognizant of the market environment, in an attempt to stimulate lending, and more recently (ii) a more conservative approach to lending - targeting loans with lower LVR's, translating into lower yield on an absolute basis. Since the interest rates are expected to remain high to curb inflationary pressures as indicated by RBNZ, we expect the Company's net interest margins to continue to benefit over the short term.

Liquidity Risk: Liquidity risk is the risk that the Company will encounter difficulty in meeting payment obligations associated with its financial liabilities when they fall due. It includes the risk that the Company may not have sufficient liquid funds or be able to raise sufficient funds at short notice, to meet its payment obligations associated with financial liabilities when they fall due. This situation can arise if there is a significant mismatch of its financial assets and financial liabilities. As per the Trust Deed, the Company must maintain a three-month liquidity cover ratio (LCR) of not less than 1.25 times[1] (Actual LCR at Mar23: 3.96 times).

In terms of cash flow management, the Company prepares a twelve-week cash flow projection on a weekly basis while projections for longer time frames (up to 2 years) are prepared on a monthly basis for the trustee.

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

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.

As described above, the Company maintains a positive short term asset/liability maturity gap, which together with prudent cash flow and lending management, and healthy LCR, underpins its sound liquidity profile.

6.2 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 Mar23, the Company's total cash holdings of $18.4m ($8.1m on call and $10.3m in short-term deposits) were held with Bank of New Zealand (53.7%) and Heartland Bank (46.3%). The deposits with Bank of New Zealand (BNZ) are expected to have a low counterparty risk, on account of BNZ's systemic importance in the New Zealand economy and investment grade rating from international credit rating agencies. Whilst the deposits with Heartland Bank present a higher counterparty risk, given it is a lower-tier lender with less systemic importance, the risk remains relatively low in our view, as it also maintains an investment grade rating. Moreover, there has been no change to its credit rating or outlook since January 2020, despite the macro-economic impacts of COVID-19.

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 Mar23, first mortgage loans continued to represent 100% of total loans (Mar22: 100%).
- Provision of regulated and unregulated loans to borrowers - regulated loans are loans provided to individuals predominantly for personal, domestic, or household purposes. These loans are governed by the Credit Contracts and Consumer Finance Act 2003. At Mar23, the Company's loan book did not include any regulated loans (Mar22: Nil).

- GF provides loans for all types of residential property including residential investment/rental property, rural and lifestyle blocks.
- The Company commenced lending on commercial properties during FY21. GF's lending policy allows for a maximum of 30% of total lending to be secured over commercial properties. At Mar23, 2.8% (Mar22: 3.8%) of GF's loan-book comprised of loans backed by commercial property. In line with the Company's conservative risk management, all lending is secured against property collateral.
- GF's maximum loan-to value ratios/lending margins for residential/commercial property are as follows:

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

- Within these maximum LVR limits, management has the discretion to reduce the acceptable level of LVR at its discretion, based on market conditions.
- The Company noted that the highest LVR of the Company loan book at Mar23 was 67.2% (Mar22: 70.6%) while the overall weighted average LVR of the loan book was 54.2% (Mar22: 55.3%).
- Loan terms range from 3 months to 3 years. Longer terms are to be considered in specific circumstances. At Mar23, the weighted average tenure for the loan-book remained within the approved terms, at 7.0 months (Mar22: 7.0 months).
- Loan sizes range 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 Mar23, the largest loan balance outstanding was 3.1% (Mar22: 3.1%) 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 Mar23, 99.9% (Mar22: 91.8%) of total loans were on interest-only basis while the remainder were interest-capitalised loans.

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

6.3 Structure and Service Delivery Platform

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

The Supervisor reviews, on a monthly basis, the management accounts of GF 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 Mar23, GF did not carry any external debt and hence, there is minimal risk of structural subordination or double leverage to increase its asset portfolio.

6.4 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 24.8% in FY23 (FY22: 52.2%), while total number of depositors increased to 853 at Mar23 (Mar22: 681).

6.5 Execution of Strategy

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

Overall, following a period of profit deterioration (decrease in NIM across each of the three years to Mar21) the Company has reported consistent improvement in profitability during FY22 and FY23, supported by continued strong loan book growth and an increase in average lending rates (FY23: 10.4%, FY22: 9.1%, FY21: 7.8%). Moreover, GF has maintained low levels of credit losses, due to prudent underwriting standards and the collateral coverage headroom on its loan portfolio. However, we note that macro-economic factors (including a slowing housing market and potentially weakening repayment capability of borrowers) appears to be placing pressure on the Company's asset quality, given an increasing level of loan arrears in recent periods, and while LVR's remain low, the current downturn in real estate markets exposes the Company to a reduced collateral cover, in our view.

In response to the challenging market environment, management advised they are adopting a more conservative approach to lending - targeting loans with lower LVR's, which may constrain the Company's rate of loan book growth. While this strategy supports the conservation of GF's sound asset quality, muted loan book growth, in the presence of steady or increasing deposit levels – leading to elevated cash reserves (which yield lower returns), could place downward pressure on the Company's NIMs, going forward. That said, high interest rates for the foreseeable future, supporting a continuation of favourable lending rates for new loans, and the anticipated maintenance of scale, are expected to support sustained healthy NIMs in FY24.

6.6 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
Gregory John Pearce	Independent Non-Executive Director	19 Dec 2017
Brent Douglas King	Executive Director (Managing Director)	19 Dec 2017
Anton Steven Ian Douglas	Non-Executive Director	17 Feb 2023

Board of Directors:

Donald Frederick Hattaway CA, ACIS

Chairman and Independent Non-Executive Director

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

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

Independent Non-Executive Director

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

Gregory John Pearce B.Com.

Independent Non-Executive Director

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

Brent Douglas King B.Com., CA, CMA

Executive Director (Managing Director)

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

Anton Steven Ian Douglas BCom

Non-Executive Director

Anton has over 30 years of experience across mortgage lending, capital markets, investment banking, corporate finance and wealth management. Anton was previously the CEO and Investment Committee Chair at Midlands Funds Management Limited, a NZ non-bank property lender and MIS Manager. Prior to that Anton was based in the US (New York) where he was the Chief Investment Officer at Credit Suisse Asset Management's EM private debt & special situations fund, prior to that he was the global head of Credit Suisse Investment Bank's EM Financing business. Anton also held various senior executive roles at Credit Suisse including co-head of fixed Income for Asia Pacific, based in Hong Kong. Anton began his career with the National Bank of New Zealand Treasury Division in 1992. Anton is on the Advisory Board of Killarney Capital, a Trustee of the IHC Foundation, a member of INFINZ and a member of the Institute of Directors.

Senior Management:

In line with the Company's strategy to increase management headcount in order to enhance operational resource capacity to manage anticipated growth in scale, GF appointed Mr. Richard McIntosh as Corporate Counsel and Company Secretary, effective 17 April 2023. The appointment of Mr. McIntosh bolsters the Company's capacity for attending to legal and compliance responsibilities, including navigation of the changing regulatory environment with the progressive introduction of the new Deposit Takers Act. We also note that Willem Groenewald (Senior Manager Credit & Recovery) departed the Company in January 2023, and has subsequently been replaced by Thornton Dabb, in July 2023.

Victor Pliev B.Com, C.A.

Chief Financial Officer

Victor is a Chartered Accountant and has been a member of the Chartered Accountants Australia and New Zealand (CAANZ) since 2012. He has over 10 years of post-qualified experience, including several years working in business advisory roles for a chartered accounting firms and other accounting and finance roles for listed and unlisted companies.

Richard McIntosh LLB, BA

Legal Counsel and Company Secretary

Richard joined the Company in April 2023, and is an experienced lawyer and legal counsel. Richard was admitted to the Bar, New Zealand, in 1997 and has extensive New Zealand and overseas legal experience working for listed entities. Richard's experience is focused in the insurance and banking sector, with the most recent positions held with Tower Limited as General Counsel and AIA as General Counsel and Company Secretary.

Michelle Nel

Senior Manager (Lending)

Michelle joined the Company in 2019 as Loan Administration Manager, following earlier migration to New Zealand from South Africa, and was promoted to the role of Senior Manager (Lending) in early 2022. Prior to joining GF, Michelle spent 2 years as Loans Administration Manager at a New Zealand legal firm, gaining experience in AML, loan onboarding , investor management and processing broker applications. Michelle has completed level 5 Certificate in Financial Services specialising in Residential Property Lending.

Thornton Dabb

Senior Manager Credit & Recovery

Thornton has recently joined the Company, in July 2023. He has approximately 35 years' experience in the banking and credit industry. He has previously led and supported the running of the ASB Bank's Collections and Credit Solutions team, including managing resourcing, technology, reporting, vendor management and assurance and risk management. Earlier, he held a range of credit control, business banking and commercial account management, and recoveries roles.

Ricky Tseng

Senior Manager Deposits

Ricky's background includes three years working for an associated party, Equity Investment Advisers, as a Financial adviser (2015 to 2018). Equity Investment Advisers is a private company owned by GF Managing Director, Brent King. It introduces approximately 21% of GF' deposits and receives brokerage commission. Ricky has a Bachelor of Commerce (B.Com) from the University of Otago, and a M.B.A from Melbourne Business School. Ricky's academic record also includes a master's degree in Finance and he is also a qualified Financial Adviser. He has an extensive background in the commercial and finance sectors including experience in China, Hong Kong , Taiwan and New Zealand.

6.7 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, and involve an assessment of the extent, impact and likelihood of risk, and the development of risk mitigation strategies to address specific risks.

GF's Board of Directors have overall responsibility for risk management and delegate 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 following table outlines the specific roles and responsibilities for risk management:

Board	• Governance responsibility for risk management; compliance; solvency; liquidity; capital adequacy of GF; • Establish risk appetite and tolerances; • Approve the reporting requirements, policies procedures and controls; • Monitor the risk exposures to check that they are consistent with established risk tolerances; • Monitor compliance with legal requirements and internal policies and procedures; • Approve the Code of Ethics, including the policy on managing conflicts of interest; • Ensure that any exposures to, and transactions with, related parties are on arm's length terms and conditions.
Senior Management	• Reports to the Board; • Ensure risks are taken within limits set by the Board; • Implement the policies, procedures, controls and reporting mechanisms set out in this Risk Management Programme; • Ensure that the Risk Management Programme includes: o a requirement that an action that is contrary to GCL or GFL's policies is reported to senior management and, depending on materiality, to the Board; and o a requirement that in such cases corrective measures are triggered; • Ensure staff are well-trained and have experience appropriate to their roles.
Chief Financial Officer / Risk and Compliance Manager	• Responsibility for risk management (e.g. risk policy, policy compliance); • Reports to the CEO; • Monitoring and regular reporting on risk management issues; • Management of the process of identifying and monitoring risk; • Maintenance of the Risk Register; • Development of tools to assist GF to implement risk and compliance solutions; • Provision of regular training for all staff to promote the risk culture; • Oversight of internal audit and compliance activity; • Monitor compliance with the policy on conflict of interest.

	• Monitor transactions with related parties to meet the requirements of being undertaken at an arm's length terms and conditions
All Staff	• Each business area should be aware, accountable and responsible for the risks it exposes the GC Group through its operations; • Should understand the risks they encounter in conducting their part of the business via training by the Risk and Compliance Manager; • Where appropriate identify and report increases in risks or new risks in a timely manner.

GF maintains a risk register which records the following:

- The risks across the business, or specify to an entity;
- Linkage of risks to processes and people (risk owners);
- Assessment of inherent risks;
- Controls in place;
- Assessment of residual risk;
- Risk Tolerance
- Treatment of risks; and
- Monitoring of risks.

The Risk Register is reviewed in full at least annually by the Risk Owners, with the Risk & Compliance Manager being responsible for updating the register and presenting to the Boards for review and approval.

External

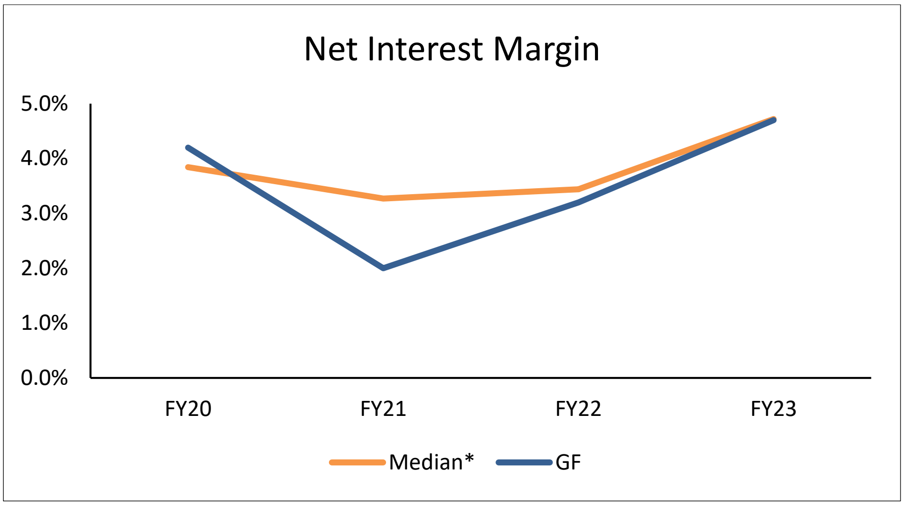
The Trust deed and the prudential norms prescribed by the RBNZ are key source of external governance measures which GF must comply with. The details of the RBNZ's prudential requirements are mentioned in Section 5 and the table below summarises GF's compliance with select requirements of the trust deed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

Ratio	Calculation	May-23	Mar-23	Mar-22	Mar-21	Trust deed	Regulatory
Risk weighted capital ratio	Tier 1 capital as a percentage of risk weighted assets	24.5%	21.8%	17.9%	16.4%	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.	3.91 times	3.96 times	4.11 times	3.55 times	>1.25 times	As appropriate
Related party ratio	Aggregate credit exposures to all the related parties as a percentage of tier 1 capital	0.1%	0.1%	0.1%	0.2%	<10%	<15%

Grant Thornton New Zealand Audit Limited 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.

7. Profitability

Net Interest Margin



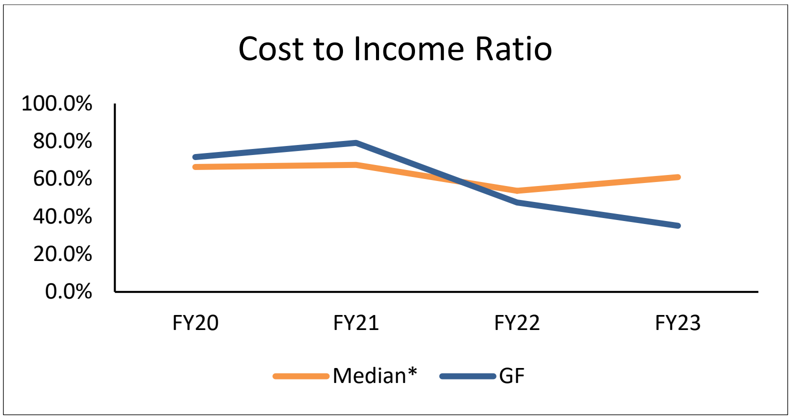
Source: Reported financial statements of Peer Group from FY20 – FY23.

**Median figure for FY23 is based on entities for which financial statements were available at Jul23.*

During the year ended Mar23, the Company's net interest margin (NIM) showed ongoing improvement to 4.7% (FY22: 3.2%, FY21: 2.3%), supported by continued strong loan book growth, and the rising interest rate environment – enabling GF to increase its yield on loans. Rising rates are likely to have also underpinned the improvement in net interest margins of its peers' for FY23 and FY22. GF's NIM deteriorated in FY21, as did the net interest margin of its peers, primarily owing to the declining interest rates and heightened competitive pressures. The sharper decline in GF's NIM relative to its peers in FY21, also reflects the Company's response to uncertainties at the onset of COVID-19, where deposit growth together with a decision to maintain elevated cash reserves (which yield lower returns), weighed on its NIM.

In response to the challenging market environment, management advised that they are again looking to adopt a more conservative approach to lending - targeting loans with lower LVRs, which may constrain the Company's rate of loan book growth, and place downward pressure on the Company's NIMs, going forward. That said, high interest rates for the foreseeable future, supporting a continuation of favourable lending rates for new loans, should support healthy operating earnings and NIM in FY24.

Operating Efficiency

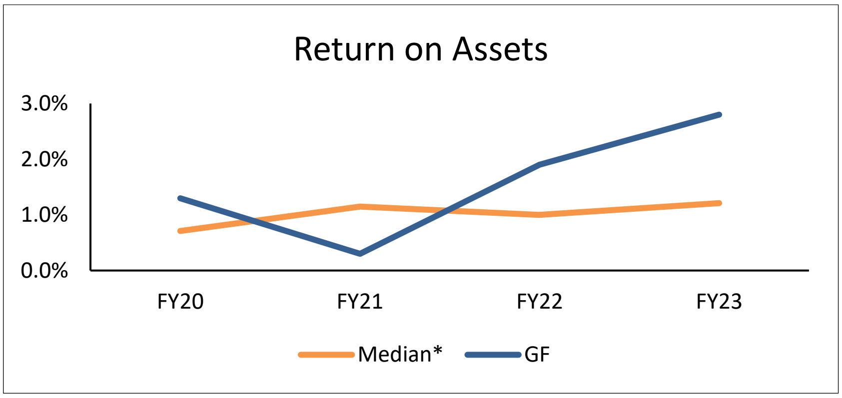


Source: Reported financial statements of Peer Group from FY20 – FY23.

**Median figure for FY23 is based on entities for which financial statements were available at Jul23.*

In FY23, with an increase in scale and an 87.4% increase in operating income, GF's overall cost to income declined to 35.1% (FY22: 47.4%). 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 and improvement in performance, going forward. That said, we acknowledge the Company's recent increase in headcount to enhance its operating capacity, and the related cost increase may constrain further improvement in the indicator.

Return on Assets (ROA)



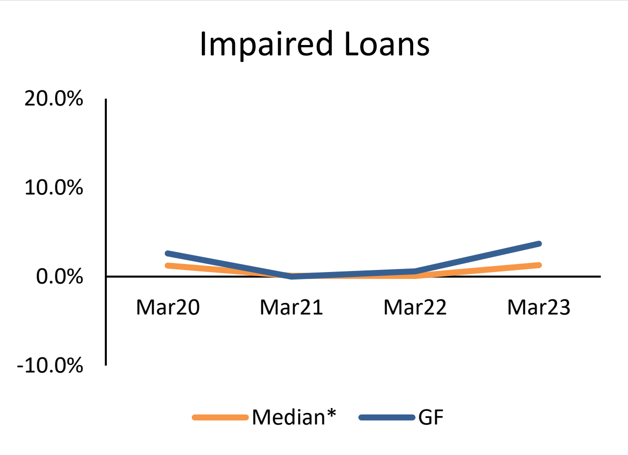
Source: Reported financial statements of Peer Group from FY20 – FY23.

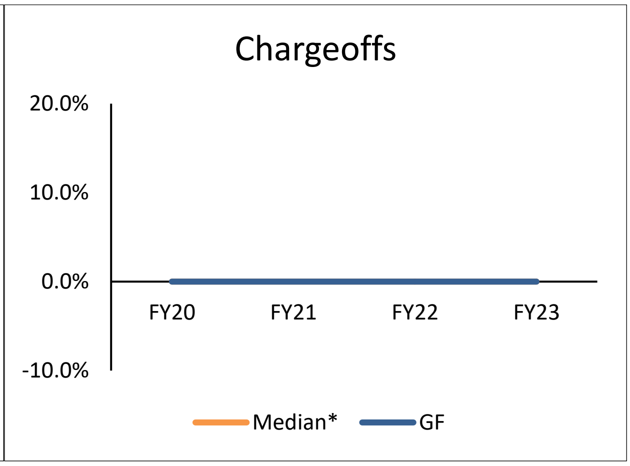
**Median figure for FY23 is based on entities for which financial statements were available at Jul23.*

While industry median ROAs have been relatively stable since FY20, General Finance's ROAs have been somewhat volatile. GF's ROA was subdued until 2021, reflecting the rapid growth of assets and the gradual decline in NIMs. Despite continued strong asset growth, the Company has been able to generate healthy and above average returns from FY22, underpinned by its increase in NIM, and sound overheads control.

8. Asset Quality

Impaired Loans



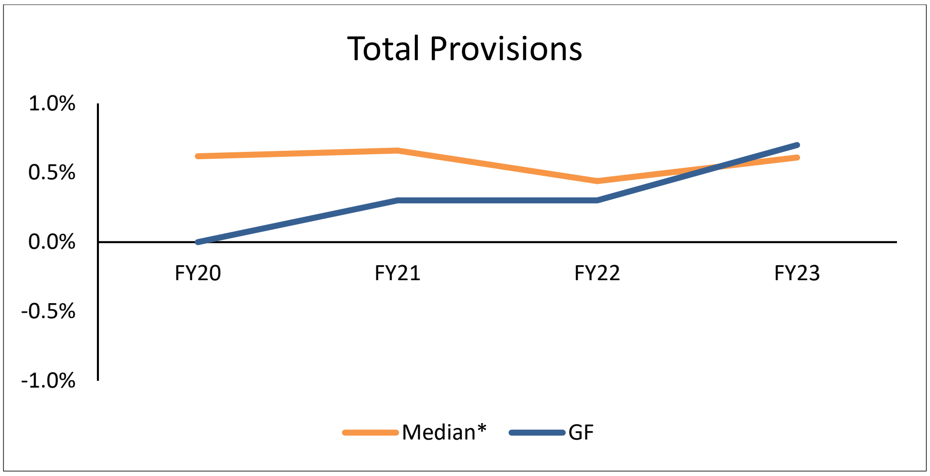


Source: Reported financial statements of Peer Group from FY20 – FY23.

**Median figure for FY23 is based on entities for which financial statements were available at Jul23.*

As a result of its underwriting standards and conservative loan to value ratios, GF's loan portfolio has historically exhibited low delinquency levels and high recovery rates. At Mar23, 100% (Mar20: 96.1%) of the total loan book was secured against first mortgages. The Company has maintained low levels of loan losses and non-performing assets, as the focus has been on relatively short-term lending on evidence of strong LVR and collateral metrics. Whilst there have been no loan losses booked, GF's, and its peers', impaired loans have increased at Mar23 (vs Mar22), likely reflecting some pressure on asset quality, impacted by market challenges emanating from rising inflation, increasing interest rates, weakening economic growth, and a slowing housing market. GF's impaired loans increased to $4.1m (Mar22: $0.5m, Mar21: Nil) or 3.7% of gross loans at Mar23, which is higher (worse than) the industry median. Although there has been some notable loan settlements post balance date, with further impairments booked, the impaired loans balance increased further at May23.

Provisioning



Source: Reported financial statements of Peer Group from FY20 – FY23.

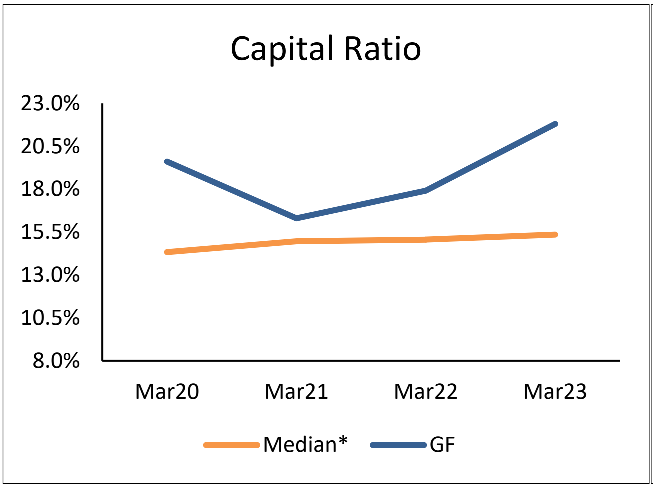
**Median figure for FY23 is based on entities for which financial statements were available at Jul23.*

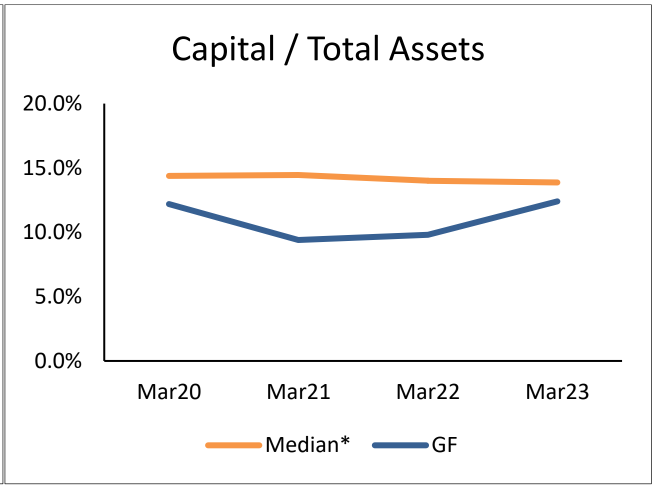
In response to market conditions, the industry's total impairment provisions to gross loans tracked higher across the three years to Mar22. GF noted that, based on historical evidence of its loan book over the past 9 years, average write offs were less than 0.10%. While the Company recognised the potential unfavourable impacts of the ongoing post pandemic economic environment, high inflation, high interest rates, uncertainty in the property market, financial market uncertainties, post natural disaster environment on loan receivables on its loan portfolio, and that the probability of default has increased, 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 determined that a collective loan provisioning of 0.25% (Mar22: 0.25%) is an appropriate expectation of losses in the near-term.

However, GF's total provisions as a percentage of gross loans were 0.71% at Mar23 (Mar22: 0.25%), marginally higher (worse than) the sector median, as the Company booked ~$0.5m individual loan impairment allowance, the majority of which ($0.4m) pertaining to a single underperforming loan that represented over 65.0% of the impaired assets at Mar23. Positively, following the mortgagee sale of the secured property, the abovesaid underperforming loan has since been settled satisfactorily, and management indicated that the corresponding provisions will be reversed, thereby contributing to a decrease in the provision ratio.

That said, GF's asset quality metrics are expected to come under increasing pressure, in our view, due to macroeconomic headwinds including a downturn in the housing market, with potential double impact of adverse property price movements eroding collateral coverage and leading to delays to borrowers' liquidation plans for the underlying asset to repay borrowings. In addition, as the average borrower's credit quality deteriorates the Company may face greater competition for quality borrowers.

9. Capitalisation



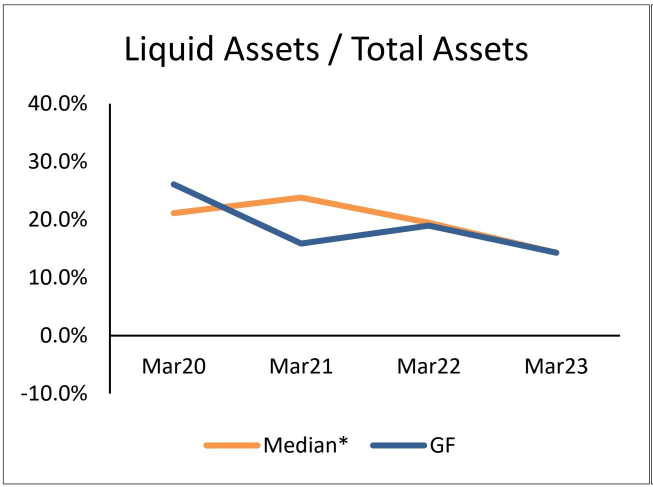


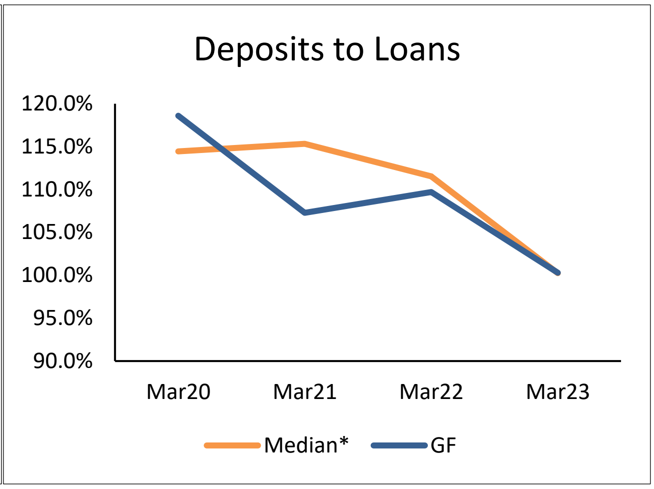
Source: Reported financial statements of Peer Group from FY20 – FY23.

**Median figure for FY23 is based on entities for which financial statements were available at Jul23.*

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. Since Mar20, the Company's capital ratio has increased overall to 21.8% (Mar22: 17.9%, Mar21: 16.3%, Mar20: 19.6%) at Mar23, and has remained better than the sector median. The reduction in the capital in Mar21 was largely due to record 103% increase in the Company's loan book during FY21. Since then, the Company's increasing and healthy capital ratio, amidst sustained loan book growth, has been supported by strong earnings' retention, together with incremental capital injection, including $3.0m of capital raised in FY23 (FY22: $2.6m), and holds it in good stead to support further loan book growth and/or cushion the impact of any adverse trading performance on its capital ratio.

10. Funding and Liquidity





Source: Reported financial statements of Peer Group from FY20 – FY23.

**Median figure for FY23 is based on entities for which financial statements were available at Jul23.*

GF's deposits to loans ratio decreased to 100.3% (Mar22: 109.7%) at Mar23, however remained in-line with its peers. Despite the capital infusion during FY23, with strong loan book growth, the decrease in deposit funding meant that the Company's liquid assets to total assets ratio decreased, although remained sound at 14.3% at Mar23 (Mar22: 19.0%) which was also in line with its peers. The Company's liquidity remains well supported by a satisfactory 12-month average deposit renewal rate (Mar23: 70%.0, Mar22: 76.0%, Mar21: 51.0%). Overall, GF's demonstrated capacity to attract deposits to aid its asset growth supports its funding profile.

Additionally, the Company's liquidity cover ratio (LCR) calculated according to its trust deed was acceptable at 3.96 times, against the stipulated minimum LCR of >1.25 times. As part of its liquidity policy, GF endeavours to maintain cash or short-term deposits equivalent to at least 10% of Total Tangible Assets. GF was assessed as having sufficient headroom within above metrics to enable the Company to withstand some level of funding volatility.

11. Financial Benchmarks

Description	Percentile	MCFL	XF	FD	NBS	WBS	HBS	GFL
Financial Year		2023	2023	2023	2023	2023	2023	2023
Scale:								
Operating income ($ 000s)	75%	3,954	6,410	3,492	33,322	6,634	453	7,555
Total Assets ($ 000s)	63%	60,192	89,454	19,518	1,138,268	164,135	38,918	128,462
Gross loans ($ 000s)	63%	57,621	71,819	17,311	894,577	148,429	25,360	109,611
Profitability:								
Net Interest Margin (%)*	50%	5.9%	5.5%	7.9%	2.9%	3.8%	1.9%	4.7%
Non Interest Income to total operating income (%)	63%	23.1%	37.2%	64.1%	5.3%	13.2%	-52.5%	29.1%
ROE (%)*	88%	18.7%	10.5%	-0.4%	9.3%	3.1%	-4.3%	25.2%
Return on assets (%)*	88%	2.8%	1.2%	-0.1%	0.9%	0.5%	-0.7%	2.8%
Cost to Income (%)	13%	45.3%	75.7%	99.7%	50.4%	60.9%	146.2%	35.1%
Capitalisation:								
Leverage (Gross loans to Equity) (x)	50%	6.9	7.8	4.5	8.1	5.9	4.0	6.9
Capital ratio - risk adjusted (%)	88%	13.1%	15.4%	16.5%	13.2%	15.0%	20.1%	21.8%
Capital to total assets ratio (%)	38%	13.9%	10.2%	19.9%	9.7%	15.4%	16.2%	12.4%
Funding and Liquidity:								
Gross loans as a % of total assets (%)	50%	95.7%	80.3%	88.7%	78.6%	90.4%	65.2%	85.3%
Deposits to gross loans (%)	50%	86.8%	110.4%	83.8%	113.6%	91.0%	127.3%	100.3%
Liquid assets to total assets (%)	50%	2.5%	18.3%	4.8%	20.4%	5.5%	25.0%	14.3%
Asset Quality:								
Write-offs to gross loans (%)	88%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Impaired loans to gross loans (%)	25%	1.3%	6.2%	2.0%	1.2%	1.1%	0.0%	3.7%
Impairment provision to gross loans (%)	25%	0.6%	0.5%	2.1%	0.6%	0.5%	0.0%	0.7%

12. Summary Financial Data

General Finance Limited						
$'000s	**Trend**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**
Income Statement						
Net Interest Income		1,476	2,842	3,536	5,609	10,580
Non Interest Income		883	1,402	1,290	2,638	5,356
Operating Income		1,095	1,911	1,965	4,032	7,555
Operating Expense		983	1,366	1,555	1,910	2,652
Pre Provision Operating Profit		140	558	310	2,128	4,926
Credit Impairment Charge / (Reversal)		- 20	55	27	66	574
Operating Profit Before Tax		160	503	283	2,062	4,352
Other non Operating Income / (Expense)		28	13	90	6	23
Net Profit		125	442	223	1,537	3,245
Financial Position						
Total Assets		20,210	47,787	64,648	99,354	128,462
Customer Deposits		14,900	41,450	57,863	88,047	109,886
Loans		17,250	34,965	53,911	80,230	109,611
Liquid Assets		2,814	12,472	10,248	18,845	18,368
Ratios						
Profit Before Tax to Operating Income Margin (%)		14.6%	26.3%	14.4%	51.1%	57.6%
Net Interest Margin (%)*		2.1%	4.2%	2.0%	3.2%	4.7%
Cost to Income (%)		89.8%	71.5%	79.1%	47.4%	35.1%
Return on Asset (%)*		0.3%	1.3%	0.3%	1.9%	2.8%
Return on Equity (%)*		2.2%	8.1%	6.4%	19.5%	25.2%
Capital Ratio (%)		33.7%	19.6%	16.3%	17.9%	21.8%
Capital to Total Asset Ratio (%)		25.2%	12.2%	9.4%	9.8%	12.4%
Leverage Ratio - (Total Loans / Equity) (x)		3.4	6.0	8.9	8.2	6.9
Charges-offs / Total Loans (%)		0.0%	0.0%	0.0%	0.0%	0.0%
Neither Impaired or Past Due to Gross Loans (%)		96.4%	84.5%	96.3%	96.7%	86.7%
Non - Performing Loans to Gross Loans (%)		0.0%	2.6%	0.0%	0.6%	3.7%
Loan Loss Provision / Loans (%)		0.0%	0.0%	0.3%	0.3%	0.7%
Deposits to Loans (%)		86.4%	118.6%	107.3%	109.7%	100.3%
Liquid Assets to Total Assets (%)		13.9%	26.1%	15.9%	19.0%	14.3%

APPENDICES

1. Explanation of the Equifax's credit rating

1.1 What is a rating?

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

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

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

1.2 Equifax's credit rating

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

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

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

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

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

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

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

1.3 Rating Definitions

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

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

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

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

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

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

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

1.4 Rating Outlooks

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

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

Credit Concepts measured

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

http://www.corporatescorecard.co.nz/services_credit_ratings.php

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

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The credit rating issued by Equifax Credit Ratings reflects our current opinion of the relative credit risk of the institution. This opinion has been formed in accordance with Equifax's published credit ratings methodology - financial institution rating criteria (Issue 8, November 2021).

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

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