



MUTUAL CREDIT FINANCE LIMITED

Offer of First Ranking Debt Instruments

This document provides material information relating to the Offer of First Ranking Debt Instruments of MCF offered under a Product Disclosure Statement dated 24 January 2019 issued by MCF which replaces the Product Disclosure Statement dated 29 June 2018.

This document was prepared on 13 December 2019.

Specific Risks relating to MCF's creditworthiness

Set out below is a description of the risks that MCF is aware of that exist or are likely to arise that significantly increase the risk to MCF's financial position, financial performance or stated plans. These risks are based on the knowledge and assessment of the directors as at **13 December 2019** and it is possible that other risks may emerge over time.

Liquidity risk

Description of the risk

This is the risk that MCF may not be able to meet its payment obligations when they fall due.

MCF's assessment of the nature and potential magnitude of the risk

The potential for liquidity risk is due to a number of possible causes including:

- a mismatch between the maturities of financial assets (loan receivables) and the maturity of financial liabilities (First Ranking Debt Instruments);
- a significant amount of loan advances not being repaid as due (See the below "Credit Risk" summary for further details); or
- investors not reinvesting or making new investments in First Ranking Debt Instruments (See the below "Reinvestment Risk" summary for further details).

Mitigation Strategies

MCF regularly monitors and forecasts cash flows and reinvestment rates and adjusts lending volumes if required to ensure there is no mismatch. Where possible, loans are structured with regular monthly repayments and a credit control function is in place to work with borrowers to ensure repayment obligations are complied with. MCF also monitors liquidity ratios against the minimum levels specified in the Trust Deed. To further help manage this risk, a \$1,000,000 committed cash advance facility with ASB is in place. As at the date of this register entry this has not been drawn on.

Reinvestment risk

Description of the risk

This is the risk that MCF is unable to attract new investors to invest in or existing investors to reinvest in Debt Instruments.

MCF's assessment of the nature and potential magnitude of the risk

MCF is reliant on some existing investors reinvesting their funds when their Debt Instruments mature and attracting new investors to replace matured investments withdrawn and fund future growth.

The contractual and expected maturity profiles in MCF's financial statements shows that MCF will experience a shortfall between its financial assets and financial liabilities of \$7,922,679 and \$7,603,416 respectively in the 13 to 60 month period following 30 September 2019. MCF considers this risk is manageable as this profile does not take into account any reinvestment or new investments in Debt Instruments. MCF also has a \$1,000,000 committed cash advance facility from ASB Bank Limited which it can utilise to meet funding shortfalls. Additionally for the 60 month period from 30 September 2019 both the contractual and expected maturity profiles show a surplus between MCF's financial assets and financial liabilities of \$5,361,483.

While historical reinvestment rates calculated from 1 April 2012 to 30 September 2019 were 83.4%, the reinvestment rate for the twelve months to 30 September 2019 was 89.5% and for the six months to 30 September 2019 was 86.8%. MCF believes it is reasonable to expect that the reinvestment rate will continue between 60% to 80% in the future. New investments received in the twelve months to 30 September 2019 totalled \$4,946,567 and for the 6 months to 30 September 2019 totalled \$2,429,000.

If MCF was unsuccessful in obtaining the reinvestment of sufficient investments or new investments and could not obtain funding from other sources, MCF would need to reduce or cease lending and collect the existing loan book and cease issuing Debt Instrument to the public. If this occurred, MCF would consult with the Supervisor and its other secured creditors to determine the appropriate course of action to be taken.

Note: Liquidity risk and reinvestment risk are related, in that a shortfall in liquidity may rise due to a reduction in MCF's reinvestment rate and/or new investment rate.

Mitigation Strategies

MCF monitors movements in interest rates obtained on lending and offered for Debt Instruments on an on-going basis and these rates are adjusted in line with market movements. For example MCF has the option of adjusting the interest rate that it pays on new Debt Instruments that it issues to attract new investments and reinvestments of Debt Instruments. Regular communication is maintained with its investors and selected professional advisors.

Credit risk

Description of the risk

This is the risk that a counterparty will cause a financial loss for MCF by failing to discharge an obligation, for example, a borrower does not repay its loan from MCF on the due date or the security taken is inadequate to enable full recovery of the loan.

MCF's assessment of the nature and potential magnitude of the risk

Credit risk is a significant risk for MCF and arises principally on advances made to its borrowers and deposits held with other entities. This could result in a financial loss for MCF and impact on its ability to repay First Ranking Debt Instruments as they mature or provide new loans.

See the below summaries for "Borrower/Guarantor Concentration Risk", "Geographical Risk" and "Industry Concentration Risk" and for further details on how credit risk exposures could arise.

Mitigation Strategies

MCF has in place a lending policy under which all lending is assessed and regularly reviewed with all loans approved under a delegated authority policy authorised by MCF's Board of Directors. Credit control functions are undertaken by experienced staff with the focus on working with clients to ensure contracted repayment obligations are complied with.

In addition, to further mitigate this credit risk MCF seeks to secure its loans (MCF also provides loans on an unsecured basis) against a range of different types of securities. By securing its loans against a range of security types MCF is reducing its credit risk by limiting its exposure to events or circumstances which may cause particular types of securities to become inadequate to enable full recovery of MCF's loans. MCF regularly monitors how its loans are secured. A summary of the main security types and the percentage of MCF's loan book that each security type comprises as at 31 October 2019, 30 September 2019 and 31 March 2019 is set out in the table below. The amounts shown are stated net of impairment provisions (i.e. the amounts set out below are the gross receivables less the amount MCF considers is unlikely to be recovered in respect of those receivables).

Receivables (Net of Impairment Provisions) by Security Type as at 31 October 2019, 30 September 2019 and 31 March 2019.

Loan Security type	As at 31/10/2019		As at 30/09/2019		As at 31/03/2019	
		%		%		%
Secured by 1st charge on land and buildings	\$13,224,305	52.9%	\$16,625,622	60.7%	\$19,042,990	70.1%
Secured by second or subsequent charge on land and buildings	\$6,391,732	25.6%	\$5,759,238	21.0%	\$2,888,329	10.6%
Secured by charge registered under the PPSA	\$5,174,170	20.7%	\$4,786,036	17.5%	\$4,955,556	18.2%
Unsecured	\$209,210	0.8%	\$223,847	0.8%	\$293,423	1.1%
	\$24,999,417	100%	\$27,394,742	100%	\$27,180,298	100%

Borrower/Guarantor Group Concentration Risk

Description of the risk

MCF's loan portfolio contains a number of client groups where MCF's exposure is more than 10% of MCF's shareholders equity. A summary of these client groups as at 31 October 2019 and 30 September 2019 is detailed in the table in Appendix 1.

MCF's assessment of the nature and potential magnitude of the risk

Due to the comparatively small size of MCF's loan portfolio and the proportion of this that these client groups represent, impairment of any of these client groups may have a significant impact on MCF's ability to meet its liabilities as they fall due.

Mitigation Strategies

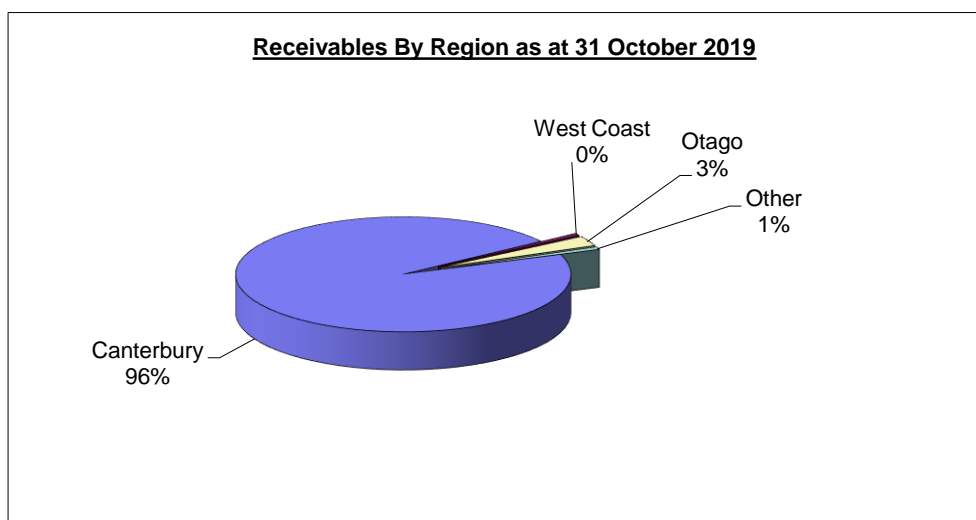
MCF's Trust Deed limits the maximum level of funding that can be provided to an individual client or client group. MCF regularly reviews exposures to these client groups to ensure it remains informed as to their position and any potential issues are addressed.

Geographical exposure risk

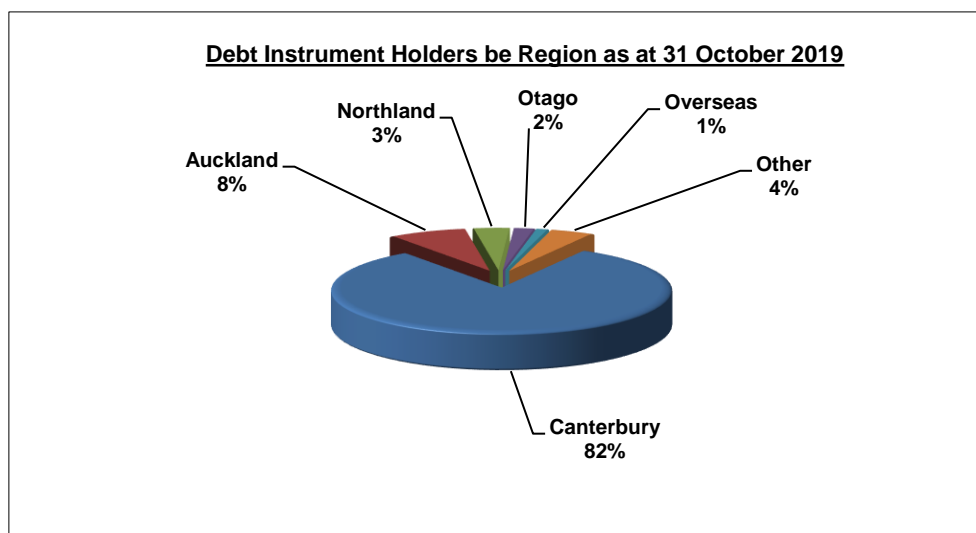
Description of the risk

MCF's business is concentrated in the Canterbury region. This is because of the following:

1. MCF's loans are predominantly made to borrowers based in Canterbury and secured over assets located in Canterbury. The percentage of borrowers based in Canterbury as at 31 October 2019 is detailed in the below graph.



2. MCF's Debt Instruments are predominantly issued to investors based in Canterbury. The percentage of Debt Instrument holders based in Canterbury as at 31 October 2019 is detailed in the below graph.



MCF's assessment of the nature and potential magnitude of the risk

This concentration of credit exposures and funding in the Canterbury Region presents a moderate risk to MCF. This is due to the possibility of the economy in Canterbury experiencing a down turn which could impact on the borrower's ability to repay advances when due and also reduce the level of reinvestments and new investments made from investors in the Canterbury region.

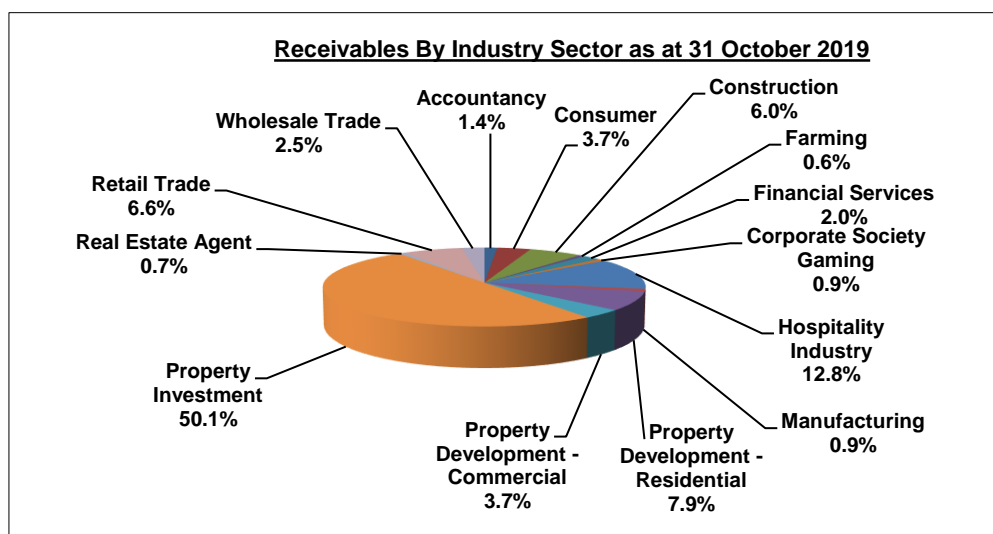
Mitigation Strategies

MCF considers this risk is mitigated by the benefits of the concentration. As MCF has traditionally operated in the Canterbury region, it has built a number of longstanding relationships with borrowers, investors and professional advisors in the region. MCF's Directors and Management have considerable experience and knowledge of local market conditions which assists in the assessment of lending proposals.

Industry Concentration Risk

Description of the risk

This is the risk of lending predominantly to client groups involved in the same or similar industries. A summary of MCF's financial receivables net of impairment provisions by industry sector as at 31 October 2019 is detailed in the below graph.



MCF's assessment of the nature and potential magnitude of the risk

Borrowers who are involved in the same or very similar industries are likely to be subject to the same adverse market factors at the same time. This could affect their ability to comply with loan terms and repayment obligations and in some cases, impact security values and its saleability. MCF largest area of lending is to clients involved in different sectors of the property industry including residential and commercial investment and development. As such MCF has a significant exposure to a downturn in the property market or property values.

Mitigation Strategies

MCF regularly monitors the level of lending by industry type and manages this risk by having in place maximum levels of a property's market value (or percentage of completion thereof) that funding will be provided to, and requiring levels of pre-sales where appropriate.

Reliance on key staff

Description of the risk

Due to its small size and low staff numbers, MCF is reliant on its key staff.

MCF's assessment of the nature and potential magnitude of the risk

Should a number of staff be lost in a short space of time, there is a risk that operations could be impacted for a period until suitable replacements were identified.

Mitigation Strategies

MCF reduces this risk by the provision of on-going training to develop and increase the knowledge of all staff to assist with succession planning.

Appendix 1

Summary of advances to Client Groups where MCF's exposure is more than 10% of shareholders equity as at 31/10/19 and position as at 30/9/2019						
	Balance as at		Repayment	Region	Security	
	31/10/2019	30/09/2019	Terms			
Group 1	Industry Sector: Hospitality					
Advance 1	\$558,379	\$546,514	Principal & interest	West Coast	2nd Mortgage over land & buildings, GSA and intercompany and personal guarantees	
Advance 2	\$22,939	\$24,762	Principal & interest	Otago	1st mortgage over two 2 bedroom units, intercompany and personal guarantee	
Advance 3	\$0	\$1,464	Principal & interest	Otago	1st mortgage over a 2 bedroom unit, intercompany and personal guarantee	
Advance 4	\$60,721	\$63,740	Principal & interest	Otago	1st mortgage over a 3 bedroom unit, intercompany and personal guarantee	
Advance 5	\$92,563	\$94,732	Principal & interest	Otago	1st mortgage over a 3 bedroom unit, intercompany and personal guarantee	
Advance 6	\$38,628	\$38,490	Principal & interest	Otago	1st mortgage over a studio unit, intercompany and personal guarantee	
Advance 7	\$195,400	\$194,000	Interest only	Otago	1st mortgage over a 3 bedroom unit, intercompany and personal guarantee	
Advance 8	\$30,781	\$31,806	Principal & interest	Otago	1st mortgage over a studio unit, intercompany and personal guarantee	
Advance 9	\$36,783	\$37,799	Principal & interest	Otago	1st mortgage over a studio unit, intercompany and personal guarantee	
Advance 10	\$164,058	\$164,464	Principal & interest	West Coast	2nd Mortgage over land & buildings, GSA and intercompany and personal guarantees	
Advance 11	\$103,086	\$102,817	Principal & interest	Otago	1st mortgage over a 2 bedroom unit, intercompany and personal guarantee	
Advance 12	\$70,789	\$68,895	Principal & interest	Otago	1st mortgage over a 2 bedroom unit, intercompany and personal guarantee	
Advance 13	\$23,516	\$23,782	Principal & interest	Canterbury	2nd Mortgage over land & buildings, GSA and intercompany and personal guarantees	
Advance 14	\$154,587	\$151,763	Interest only	Otago	1st mortgage over a 2 bedroom unit, intercompany and personal guarantee	
Advance 15	\$151,189	\$148,276	Interest only	Otago	1st mortgage over a 2 bedroom unit, intercompany and personal guarantee	
Advance 16	\$152,003	\$149,236	Principal & interest	Canterbury	2nd Mortgage over land & buildings, GSA and intercompany and personal guarantees	
Advance 17	\$24,310	\$24,511	Principal & interest	Canterbury	2nd Mortgage over land & buildings, GSA and intercompany and personal guarantees	
Advance 18	\$24,615	\$24,789	Principal & interest	Canterbury	2nd Mortgage over land & buildings, GSA and intercompany and personal guarantees	
Advance 19	\$102,435	\$100,433	Principal & interest	Canterbury	2nd Mortgage over land & buildings, GSA and intercompany and personal guarantees	
Advance 20	\$76,282	\$0	Principal & interest	Canterbury	2nd Mortgage over land & buildings, GSA and intercompany and personal guarantees	
Total for Group	\$2,083,063	\$1,992,273				
Group 2	Industry Sector: Property Investment - Residential					
Advance 1	\$1,852,603	\$1,916,385	Interest Only	Canterbury	1st & 2nd Mortgage over residential properties and personal guarantee	
Group 3	Industry Sector: Property Investment - Residential and Commercial					
Advance 1	\$154,927	\$154,890	Interest Only	Canterbury	2nd mortgage over residential property and personal guarantees	
Advance 2	\$153,930	\$153,884	Interest Only	Canterbury	2nd mortgages over residential property and personal guarantees	
Advance3	\$0	\$327,472	Interest Only	Canterbury	1st mortgage over residential property and personal guarantees	
Advance 4	\$123,451	\$123,429	Interest Only	Canterbury	2nd mortgages over residential property and personal guarantees	
Advance 5	\$188,680	\$188,614	Interest Only	Canterbury	2nd mortgages over residential property and personal guarantees	
Advance 6	\$153,452	\$0	Interest Only	Canterbury	2nd mortgages over commercial property and personal guarantees	
Advance 7	\$318,772	\$318,886	Interest Only	Canterbury	1st mortgage over residential property and personal guarantees	
Advance 8	\$342,000	\$342,000	Interest Only	Canterbury	1st and 2nd mortgages over residential property and personal guarantees	
Advance 9	\$368,755	\$368,755	Interest Only	Canterbury	1st and 2nd mortgages over residential property and personal guarantees	
Total for Group	\$1,803,966	\$1,977,930				
Group 4	Industry Sector: Property Investment - Residential					
Advance 1	(1. See below)	\$685,000	\$685,000	Interest Only	Canterbury	1st Mortgage over residential property, intercompany and personal guarantees.
Advance 2		\$241,565	\$209,057	Interest Only	Canterbury	1st Mortgage over residential property, intercompany and personal guarantees.
Advance 3		\$267,581	\$241,500	Interest Only	Canterbury	1st Mortgage over residential property, intercompany and personal guarantees.
Advance 4		\$329,922	\$326,500	Interest Only	Canterbury	1st Mortgage over residential property, intercompany and personal guarantees.

Total for Group		\$1,524,068	\$1,462,057			
Industry Sector: Property Investment - Residential						
Group 5						
Advance 1		\$297,384	\$297,279	Interest Only	Canterbury	1st Mortgage over residential properties and personal guarantee
Advance 2		\$257,019	\$256,857	Interest Only	Canterbury	1st Mortgage over residential properties and personal guarantee
Advance 3		\$340,135	\$340,000	Interest Only	Canterbury	1st Mortgage over residential properties and personal guarantee
Advance 4		\$214,323	\$214,207	Interest Only	Canterbury	1st Mortgage over residential properties and personal guarantee
Advance 5		\$377,000	\$377,000	Interest Only	Canterbury	1st Mortgage over residential properties and personal guarantee
Total for Group		\$1,485,862	\$1,485,343			
Industry Sector: Property Investment - Commercial and Residential						
Group 6						
Advance 1		\$789,091	\$788,583	Interest Only	Canterbury	1st mortgage over commercial property, intercompany and personal guarantees
Advance 2		\$284,547	\$0	Interest Only	Canterbury	1st mortgage over residential property, intercompany and personal guarantees
Advance3		\$215,491	\$0	Interest Only	Canterbury	1st mortgage over residential property, intercompany and personal guarantees
Total for Group		\$1,289,129	\$788,583			
Industry Sector: Retail/Wholesale Trade						
Group 7						
Advance 1		\$366,300	\$365,987	Principal & interest	Christchurch	1st Mortgage over residential section and personal guarantee
Advance 2		\$306,766	\$306,749	Interest Only	Christchurch	1st Mortgage over residential sections and personal guarantee
Advance 3		\$440,000	\$460,000	Principal & interest	Christchurch	GSA and personal guarantees
Total for Group		\$1,113,065	\$1,132,736			
Industry Sector: Property Investment - Residential						
Group 8						
Advance 1		\$0	\$333,960	Interest Only	Canterbury	1st Mortgage over residential property and personal guarantees
Advance 2		\$391,037	\$782,292	Interest Only	Canterbury	1st Mortgage over residential property and personal guarantees
Advance 3		\$552,500	\$552,500	Interest Only	Canterbury	1st Mortgage over residential property and personal guarantees
Total for Group		\$943,537	\$1,668,752			
Industry Sector: Property Development - Commercial						
Group 9						
Advance 1	(1. See below)	\$933,978	\$978,267	Interest capitalised	Canterbury	1st Mortgage over commercial property, GSA and personal guarantees
Total for Group		\$933,978	\$978,267			
Industry Sector: Retail/Wholesale Trade						
Group 10						
Advance 1		\$906,627	\$520,045	Interest Only	Canterbury	General Security Agreement and personal guarantees
Industry Sector: Construction - Residential						
Group 11						
Advance 1		\$0	\$629,659	Interest Only	Canterbury	1st Mortgage over residential property, personal and intercompany guarantees.
Advance 2		\$323,835	\$323,639	Interest Only	Canterbury	Specific Security Agreement, personal and intercompany guarantees.
Advance3		\$25,430	\$25,417	Interest Only	Canterbury	Specific Security Agreement, personal and intercompany guarantees.
Advance 4		\$509,404	\$509,208	Interest Only	Canterbury	2nd Mortgage over residential properties, personal and intercompany guarantees.
Total for Group		\$858,669	\$1,487,923			
Industry Sector: Property Investment - Residential						
Group 12						
Advance 1		\$338,150	\$338,020	Interest Only	Canterbury	1st Mortgage over residential site, GSA and personal guarantees
Advance 2		\$102,485	\$102,425	Interest Only	Canterbury	1st Mortgage over residential site, GSA and personal guarantees
Advance 3		\$215,779	\$215,649	Interest Only	Canterbury	1st Mortgage over residential site, GSA and personal guarantees
Advance 4		\$81,600	\$81,586	Interest Only	Canterbury	1st Mortgage over residential site, GSA and personal guarantees
Total for Group		\$738,015	\$737,679			
Industry Sector: Property Investment - Residential						
Group 13						
Advance 1		\$210,234	\$210,128	Interest Only	Canterbury	1st Mortgage over residential properties and personal guarantees
Advance 2		\$289,305	\$289,199	Interest Only	Canterbury	1st Mortgage over residential properties and personal guarantees

Advance 3	\$174,603	\$174,603	Interest Only	Canterbury	1st Mortgage over residential properties and personal guarantees
Total for Group	\$674,142	\$673,930			
Group 14 Industry Sector: Property Development - Residential					
Advance 1	\$629,506	\$539,955	Interest Only	Canterbury	1st Mortgage over residential subdivision, intercompany and personal guarantee.
Total for Group	\$629,506	\$539,955			

1. These facilities are MCF's share of syndicated facilities with the securities held be MCF for the benefit of all of the syndicate lenders.