



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 29 July 2022 issued by MCF which replaces the Product Disclosure Statement dated 3 December 2021.

This document was prepared on 29 July 2022.


Ranking Of First Ranking Debt Instruments as at 31 March 2022

The diagram set out below illustrates the ranking of First Ranking Debt Instruments on a liquidation of MCF and is based on \$36,342,684 of First Ranking Debt Instruments on issue as at 31 March 2022.

As at 31 March 2022, the total amount of the liabilities secured by the security interest was \$36,342,684 and the total value of MCF's assets was \$44,876,108. Such assets were comprised of the following:

- loans and finance receivables – 94.9%;
- cash and cash equivalents – 3.1%;
- office equipment and other fixed assets – 0.7%;
- deferred tax assets – 0.2%; and
- sundry debtors, prepayments and other sundry assets – 1.1%.

The table set out below illustrates the ranking of the First Ranking Debt Instruments on a liquidation of MCF.

Ranking Level	Ranking on liquidation of MCF	Nature of liability	Indicative amount of liability as at 31 March 2022	Total liabilities in class as at 31 March 2022
Higher ranking/priority 	Liabilities that rank in priority to the First Ranking Debt Instruments on a liquidation of MCF	Prior charges permitted under the Trust Deed.	Nil	\$399,540
		Unpaid fees, expenses and other amounts owed to the Supervisor.	\$12,941	
		Liabilities owed to statutorily preferred creditors (such as the Inland Revenue and employees of MCF).	\$386,599	
	Liabilities that rank equally with the First Ranking Debt Instruments on a liquidation of MCF	Other First Ranking Debt Instruments issued by MCF.	\$36,342,684	\$36,342,684
		Variable Secured Debt Instruments issued by MCF.	Nil	
	Liabilities that rank below the First Ranking Debt Instruments on a liquidation of MCF	Second Ranking Debt Instruments issued by MCF.	Nil	\$712,626
		Unsecured debt instruments, unsecured creditors and subordinated debt instruments.	\$712,626	
Lower ranking/priority	Equity	The amount owed to shareholders of MCF after all liabilities have been paid.	\$7,421,258	\$7,421,258

MCF's Financial Information

MCF is required by law and its Trust Deed to meet certain financial requirements. This table shows how MCF is currently meeting those requirements. These are minimum requirements. Meeting them does not mean that MCF is safe. The section on specific risks in the PDS relating to MCF's creditworthiness sets out risk factors that could cause its financial position to deteriorate. The offer register provides a breakdown of how the figures in this table are calculated, as well as full financial statements.

Key Ratios

Set out below are key ratios for MCF's most recent financial year as well as for the two preceding financial years. The ratios are calculated in accordance with the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010 (the *Non-bank Deposit Taker Regulations*). A summary of MCF's calculations is set out in the Appendix.

a) Capital Ratios

Capital Ratio	31 March 2022	31 March 2021	31 March 2020
MCF's capital ratio calculated in accordance with the Non-bank Deposit Taker Regulations	14.50%	12.75%	13.04%
Minimum capital ratio MCF must maintain under the Trust Deed	12.0%	12.0%	12.0%
Minimum capital ratio that must be included in the Trust Deed under the Non-bank Deposit Taker Regulations	10.0%	10.0%	10.0%
Minimum capital ratio MCF must maintain under the Non-bank Deposit Takers (Credit Ratings Minimum Threshold) Exemption Notice 2016*	12%	12%	12%

The capital ratio is a measure of the extent to which MCF is able to absorb losses without becoming insolvent. The lower the capital ratio, the fewer financial assets MCF has to absorb unexpected losses arising out of its business activities.

*This exemption notice exempts MCF, because when assessed on 1 October for the relevant measurement period it had average consolidated liabilities of \$20 million or more but less than \$40 million, from the requirement to have its creditworthiness assessed by an approved rating agency on the basis that it is unduly onerous for MCF to comply with the requirement to have a credit rating, provided MCF maintains a capital ratio of at least 12%. If MCF's average consolidated liabilities are \$40 million or more when assessed on 1 October, MCF will need a credit rating from 1 March of the year following that date.

b) Related Party Exposures

Related Party Exposures	31 March 2022	31 March 2021	31 March 2020
MCF's aggregate exposures to related parties	0.04%	0.03%	0.47%
Maximum limit on aggregate exposures to related parties that MCF must not exceed that is included in the Trust Deed	15%	15%	15%
Maximum limit on aggregate exposures to related parties that MCF must not exceed that must be included in the Trust Deed under the Non-bank Deposit Takers Regulations	15%	15%	15%

Related party exposures are financial exposures that MCF has to related parties. A related party is an entity that is related to MCF through common control or some other connection that may give the party influence over MCF (or MCF over the related party). These related parties include directors and shareholders of MCF and other companies or entities that the directors and shareholders have an interest in.

c) Liquidity Requirements

Liquidity Requirements	31 March 2022	31 March 2021	31 March 2020
Liquid assets to total liabilities ratio	9.09%	10.36%	14.61%
Minimum liquid assets to total liabilities ratio under the Trust Deed	(i) 10% of Total Liabilities if the capital ratio is less than 11%; or (ii) 8.75% of Total Liabilities if the capital ratio is equal to or greater than 11% but less than 13%; or (iii) 7.5% of Total Liabilities if the capital ratio is equal to or greater than 13%.		
Total mismatch calculations	No deficit	No deficit	No deficit
Minimum liquid assets to cover any deficit between expected receipts and expected payments under the Trust Deed	1) At least 110% of any deficit amount arising from: a) the aggregate amount receivable by the Charging Group in cash by way of principal and interest during the forthcoming financial quarter and the amount of any financial assets of the Charging Group that are at call or available on demand during the forthcoming financial quarter; less		

	b) the aggregate of the total amount of cash payable against liabilities of the Charging Group during the forthcoming financial quarter (including but not limited to principal, interest, tax, operating expenses and capital commitments).
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Liquidity requirements help to ensure that MCF has sufficient realisable assets on hand to pay its debts as they become due in the ordinary course of business. Failure to comply with liquidity requirements may mean that MCF is unable to repay investors on time, and may indicate other financial problems in its business.

Selected financial information

Set out below is selected financial information for MCF's most recent financial year of MCF as well as the two preceding financial years.

	31 March 2022	31 March 2021	31 March 2020
Total assets*	\$44,876,108	\$41,068,062	\$32,721,897
Total liabilities*	\$37,454,850	\$34,375,916	\$26,611,034
Net profit after tax*	\$1,183,862	\$886,102	\$560,648
Net cash flows from operating activities *	\$596,914	(\$997,819)	(\$1,054,439)
Cash and cash equivalents*	\$1,404,536	\$1,562,175	\$2,889,872
Capital†	\$7,325,479	\$6,599,189	\$6,069,574

* Calculated in accordance with GAAP

† Calculated in accordance with the Non-bank Deposit Takers Regulations.

Other limitations, restrictions, and prohibitions

The Trust Deed contains financial covenants imposed on MCF, certain borrowing restrictions and restrictions on transactions with related parties. These are summarised in Section 5 (Key features of the First Ranking Debt Instruments) of the PDS and further details may be found in a copy of the Trust Deed that is publically available at <https://www.companiesoffice.govt.nz/disclose>.

Full financial statements

The offer register contains full audited financial statements of MCF for the most recent financial year of MCF as well as the two preceding financial years.

Appendix – Ratio Calculations as at 31 March 2022

Basis of preparation:

The ratios are calculated in accordance with the Non-bank Deposit Takers Regulations. The calculations are based on audited Financial Statements as at 31 March 2022

A CAPITAL RATIO			
Gross capital			\$7,421,258
Less deductions			\$95,779
Total Capital (A)			\$7,325,479
	Net Exposure	Risk Weighting	Risk Weighted Exposures
Residential 1st mortgages under 70% LVR	5,828,583	35%	2,040,004
Residential 1st mortgages 70% - 80% LVR	13,393,964	50%	6,696,982
Residential 1st mortgages 80%-90% LVR	2,472,721	100%	2,472,721
Residential 1st mortgages 90-100% LVR	1,120,519	125%	1,400,649
Residential 1st mortgages >100% LVR	0	150%	0
Residential 2nd mortgages or LVR over 100%	4,636,593	150%	6,954,889
Property development 1st mortgage LVR under 60%	846,774	150%	1,270,161
Property development 1st mortgage LVR 60 - 100%	2,082,168	200%	4,164,336
Other property development or no security	0	300%	0
Personal loans under \$40k with PPSA	0	100%	0
Personal loans under \$40k unsecured	48,025	150%	72,038
Other property loans 1st mortgage LVR under 70%	7,352,535	100%	7,352,535
Other property loans 1st mortgage LVR 70% - 100%	2,181,720	150%	3,272,580
Business lending - MV and machinery LVR under 70%	0	100%	0
Business lending - General Security Agreement	1,592,287	150%	2,388,431
Business lending - Specific Security Agreement	612,066	150%	918,099
Corporate society gaming	0	150%	0
Business lending - MV and machinery LVR over 70%	15,517	150%	23,275
Personal loans over \$40k secured at PPSR	28,169	150%	42,254
Other	379,899	200%	759,798
Bank deposits	1,404,536	20%	280,907
Deferred tax	95,779	0%	0
Other assets	<u>784,253</u>	350%	<u>2,744,886</u>
Total credit risk weighted exposures (B)			\$42,854,545
Total assets (C)	\$44,876,108		
Operational and Market Exposures (D) = (B + C)/2 * 17.5%			\$7,676,432
Total Exposures (E) = (B + D)			\$50,530,977
Capital Ratio at 31 March 2022 (F) = (A/E)			14.50%

B AGGREGATE EXPOSURE TO RELATED PARTIES	
Total exposure to related parties	\$2,609
Total capital	\$7,325,479
Related party loans % of Total Capital as at 31 March 2022	0.04%
C HOW LIQUIDITY MEASURES HAVE BEEN CALCULATED¹	
Cash on hand	\$1,404,536
ASB Committed Cash Advance Facility	\$2,000,000
Total liquidity as at 31 March 2022	\$3,404,536
1) Total receivable in forthcoming 3 months	\$23,605,085
Total payable in forthcoming 3 months	\$20,236,198
Surplus/(Deficit)	\$3,368,887
110% of any deficit	\$N/A
2) Capital ratio:	14.50%
Total liabilities:	\$37,454,850
Minimum liquidity % of total liabilities:	7.50%
Minimum liquidity amount:	\$2,809,114
Liquid assets to total liabilities ratio:	9.09%
NOTES	
¹ Per Trust Deed, MCF's Liquid Assets must be the greater of: <ul style="list-style-type: none"> (i) at least 110% of any deficit amount arising from: <ul style="list-style-type: none"> a) the aggregate amount receivable by MCF in the forthcoming 3 months; less b) the aggregate of the total amount payable by MCF in the forthcoming 3 months; and (ii) at least: <ul style="list-style-type: none"> a) 10% of total liabilities if the capital ratio is less than 11%; or b) 8.75% of total liabilities if the capital ratio is equal to or greater than 11% but less than 13%; or c) 7.5% if the capital ratio is 13% or greater. 	