



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 26 July 2019.


Ranking Of First Ranking Debt Instruments as at 31 March 2019

The diagram set out below illustrates the ranking of First Ranking Debt Instruments on a liquidation of MCF and is based on \$25,763,526 of First Ranking Debt Instruments on issue as at 31 March 2019.

As at 31 March 2019, the total amount of the liabilities secured by the security interest was \$25,763,526 and the total value of MCF's assets was \$32,068,051. Such assets were comprised of the following:

- loans and finance receivables – 84.8%;
- cash and cash equivalents – 13.3%;
- office equipment and other fixed assets – 0.5%;
- deferred tax assets – 0.1%; and
- sundry debtors, prepayments and other sundry assets – 1.3%.

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 2019	Total liabilities in class as at 31 March 2019
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	\$261,261
		Unpaid fees, expenses and other amounts owed to the Supervisor.	Nil	
		Liabilities owed to statutorily preferred creditors (such as the Inland Revenue and employees of MCF).	\$261,261	
	Liabilities that rank equally with the First Ranking Debt Instruments on a liquidation of MCF.	Other First Ranking Debt Instruments issued by MCF.	\$25,763,526	\$25,763,526
		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	\$190,800
		Unsecured debt instruments, unsecured creditors and subordinated debt instruments.	\$190,800	
Lower ranking/priority	Equity	The amount owed to shareholders of MCF after all liabilities have been paid.	\$5,852,464	\$5,852,464

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 2019	31 March 2018	31 March 2017
MCF's capital ratio calculated in accordance with the Non-Bank Deposit Taker Regulations	14.35%	12.63%	13.42%
Minimum capital ratio MCF must maintain under the Trust Deed	12.0%	10.0%	10.0%
Minimum capital ratio that must be included in the Trust Deed under the Non-Bank Deposit Taker Regulations	12.0%	10.0%	10.0%

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.

b) Related Party Exposures

Related Party Exposures	31 March 2019	31 March 2018	31 March 2017
MCF's aggregate exposures to related parties	1.10%	2.09%	3.88%
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	15%	15%	15%

Deed under the Non-Bank Deposit Takers Regulations.			
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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 2019	31 March 2018	31 March 2017
Liquid assets to total liabilities ratio	20.05%	23.52%	10.25%
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).		

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 2019	31 March 2018	31 March 2017
Total assets*	\$32,068,051	\$27,366,923	\$18,955,722
Total liabilities*	\$26,215,587	\$22,663,876	\$15,034,903
Net profit after tax*	\$655,210	\$508,110	\$171,716
Net cash flows from operating activities *	(\$504,244)	\$3,521,742	(\$3,363,759)
Cash and cash equivalents*	\$4,255,771	\$4,330,706	\$540,984
Capital†	\$5,804,476	\$4,656,816	\$3,844,552

* 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 2019

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 2019

A CAPITAL RATIO			
Gross capital			\$5,852,464
Less Deductions			\$47,988
Total Capital (A)			\$5,804,476
	Net Exposure	Risk Weighting	Risk Weighted Exposures
Residential 1st mortgages under 70% LVR	1,492,792	35%	522,477
Residential 1st mortgages 70% - 80% LVR	4,482,161	50%	2,241,081
Residential 1st mortgages 80%-90% LVR	3,691,152	100%	3,691,152
Residential 1st mortgages 90-100% LVR	829,630	125%	1,037,038
Residential 1st mortgages >100% LVR	0	150%	0
Residential 2nd mortgages or LVR over 100%	2,522,248	150%	3,783,372
Property development 1st mortgage LVR under 60%	0	150%	0
Property development 1st mortgage LVR 60 - 100%	2,600,901	200%	5,201,801
Other property development or no security	0	300%	0
Personal loans under \$40k with PPSA	72,452	100%	72,452
Personal loans under \$40k unsecured	435,149	150%	652,724
Other property loans 1st mortgage LVR under 70%	3,684,003	100%	3,684,003
Other property loans 1st mortgage LVR 70% - 100%	2,262,351	150%	3,393,526
Business Lending - MV and machinery LVR under 70%	43,602	100%	43,602
Business Lending - General Security Agreement	3,246,404	150%	4,869,605
Business Lending - Specific Security Agreement	800,738	150%	1,201,107
Corporate Society Gaming	317,361	150%	476,041
Business Lending - MV and machinery LVR over 70%	0	150%	0
Personal loans over \$40k secured at PPSR	0	150%	0
Other	1,060,174	200%	2,120,348
Bank deposits	4,255,771	20%	851,154
Deferred Tax	47,988	0%	0
Other assets	<u>223,175</u>	350%	<u>781,113</u>
Total credit risk weighted exposures (B)			\$34,622,595
Total assets (C)	\$32,068,051		
Operational and Market Exposures (D) = (B + C)/2* 17.5%			\$5,835,432
Total Exposures (E) = (B + D)			\$40,458,026
Capital Ratio at 31 March 2019 (F) = (A/E)			14.35%

B AGGREGATE EXPOSURE TO RELATED PARTIES	
Total exposure to related parties	\$64,083
Total Capital	\$5,804,476
Related party loans % of Total Capital as at 31 March 2019	1.10%
C N LIQUIDITY MEASURES HAVE BEEN CALCULATED¹	
Cash on hand	\$4,255,771
ASB Committed Cash Advance Facility	\$1,000,000
Total Liquidity as at 31 March 2019	\$5,255,771
1) Total receivable in forthcoming 3 months	\$13,245,341
Total payable in forthcoming 3 months	\$12,708,544
Surplus/(Deficit)	\$536,797
110% of any deficit	\$N/A
2) Capital Ratio:	14.35%
Total Liabilities:	\$26,215,587
Minimum Liquidity % of Total Liabilities:	7.50%
Minimum Liquidity Amount:	\$1,966,169
Liquid assets to total liabilities ratio:	20.05%
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. 	