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Research Update:

Ratings On GFNZ Group And Quest Insurance Raised To 'CCC' On Building Sale And New Debenture Inflow

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Table Of Contents

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Overview

- New Zealand finance company GFNZ Group Ltd. (GFNZ) is selling its Mt. Wellington property for NZ$4.6 million; settlement is within a month.
- Sale proceeds are expected to repay GFNZ's September 2013 debt payments ahead of schedule.
- GFNZ expects to receive NZ$1.4 million in net proceeds from the sale of its receivables under its Professional Investor Scheme, and in addition secure some new debenture money, which would together shore up GFNZ's liquidity position to March 2014.
- GFNZ's liquidity profile remains vulnerable over the next 12 months.
- We are raising the long-term issuer credit ratings on GFNZ and GFNZ's wholly owned insurance subsidiary, Quest Insurance Group Ltd., to 'CCC' from 'CC'. The outlooks are negative.

Rating Action

On April 3, 2013, Standard & Poor's Rating Services raised its long-term issuer credit ratings on New Zealand finance company GFNZ Group Ltd. (GFNZ) and GFNZ's wholly owned insurance subsidiary, Quest Insurance Group Ltd., to 'CCC' from 'CC'. The outlooks are negative.

Rationale

The rating upgrade reflects an improved short-term liquidity outlook resulting from GFNZ's sale and expected settlement of its head office building in Mt. Wellington, Auckland, for net proceeds of NZ$4.6 million. In addition, a sale of receivables under the company's Professional Investor Scheme is expected to raise another NZ$1.4 million. These proceeds, together with debentures money under GFNZ's new prospectus, should allow the company to repay its September 2013 payments ahead of schedule.

The new debenture prospectus, registered on Feb. 8, 2013, was a significant milestone for GFNZ, raising NZ$0.7 million over February and March 2013, mostly from existing investors. We expect support to continue in this manner, noting that some negative rating pressure could result if such support declines, as it could indicate weakening investor interest.

Standard & Poor's understands that once the September 2013 repayments are satisfied, GFNZ will be better positioned to meet its liquidity needs to March

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2014. The rating is sensitive to the timing of new funding. While new and reinvested debenture money can provide some cash flow relief, in our opinion the sourcing of alternative funding--e.g., via new bank funding or an extended cap (currently at a maximum of NZ$7.5 million receivables) through the Professional Investor Scheme--is important for curbing growing negative sentiment on liquidity. We understand liquidity pressures could be mitigated by new lending cutbacks; however, we believe this lever is used as a last resort, and is effective only if exercised sufficiently prior to the repayment date so as to accumulate sufficient funds. We note that excessive use of new lending cutbacks may result in negative profitability outcomes, and in turn affect new funding prospects.

In our opinion, GFNZ's key focus for the next 12 months will continue to be on funding and liquidity--the factors underpinning the current rating. We recognize an improvement in performance, with a small group profit of NZ$78,000 reported for the six months to September 2012, driven by good performance on the new ledger business and improving credit loss stability on the old ledger business. At February 2013, new ledger loans represented 70% of the net receivables, with 86% of these loan receivables making timely payments. A challenge for GFNZ is its ability to grow the new ledger business under constraining funding and liquidity factors--again highlighting the importance of this to the rating. As previously noted, should GFNZ be able to secure significant and stable funding sources over the longer term, there is scope to better recognize any improvements in overall loan quality.

Liquidity

Total net proceeds of NZ$6.0 million from the sale of GFNZ's office building and receivables sold under the Professional Investor Scheme are expected to be used to repay September 2013 payments ahead of schedule. Once the September 2013 repayments are satisfied, GFNZ's liquidity position will be better positioned to meet its needs to March 2014.

GFNZ has to meet NZ$2.4 million in debenture repayments and a NZ$ 2.5 million bank facility reduction every six months to March 2014. Consequently, both the half-yearly debenture-holder repayment and bank-facility reduction will almost double until these debts are fully satisfied by March 2015. A mitigating factor is GFNZ's debtor receipts, which are expected to average NZ$2 million per month. Liquidity pressure could also be mitigated by cutting back new lending; however, we understand this lever would only be used as a last resort, and exercised sufficiently prior to the repayment date so as to accumulate sufficient funds.

Outlook

The negative outlook reflects GFNZ's ongoing funding and liquidity challenges in meeting substantial half-yearly scheduled debenture repayments and bank-facility reductions through to March 2015.

The rating could be lowered if a scenario emerges that shows the inevitability of a default in the next six months. This could occur if GFNZ: fails to receive settlement funds from the sale of its head office building; fails to obtain alternative funding; experiences a deterioration in debenture investment/reinvestment; or cannot sufficiently accumulate funds from lending cutbacks ahead of its March 2015 repayment or future repayments.

We do not anticipate GFNZ materially using building and receivables sale proceeds for new lending; we may also lower the rating if that occurs, and to the detriment of short-term liquidity.

GFNZ's rating is unlikely to be raised above the 'CCC' category before March 2015, when the last scheduled repayment is made. Within the 'CCC' category, the ratings on GFNZ could move upward if the company successfully secures substantial new and sustainable funding, and demonstrates better coverage of liquidity needs beyond a 12-month period.

Related Criteria And Research

- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-' And 'CC' Ratings, Oct. 1, 2012
- Rating Finance Companies, March 18, 2004

Ratings List

	To	From
GFNZ Group Ltd.		
Counterparty Credit Rating	CCC/Negative/C	CC/Negative/--
GFNZ Group Ltd.		
Analytical Factors		
Local Currency	ccc	cc
Quest Insurance Group Ltd.		
Analytical Factors		
Local Currency	NA	cc
Quest Insurance Group Ltd.		
Counterparty Credit Rating		
Local Currency	CCC/Negative/--	CC/Negative/--
Financial Strength Rating		
Local Currency	CCC/Negative/--	CC/Negative/--

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