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Research Update:

Ratings On GFNZ Group And Quest Insurance Placed On CreditWatch Positive On Potential New Funding Arrangements

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Overview

- New Zealand finance company GFNZ has completed negotiations for a series of funding transactions that will generate NZ\$27.5 million on drawdown.
- We expect the company to use the proceeds from the transactions, along with cash on hand, to repay all existing outstanding debt.
- We are placing our 'CCC' long-term issuer credit rating on GFNZ on CreditWatch with positive implications. Our 'C' short-term issuer credit rating on GFNZ has been affirmed. We are also placing our 'CCC' counterparty credit and financial strength ratings on GFNZ's core insurance subsidiary Quest on CreditWatch with positive implications.
- We aim to resolve the CreditWatch after we have clarity on the shareholder approval scheduled on July 31, 2013, and the finalized terms of the transactions.

Rating Action

On July 17, 2013, Standard & Poor's Ratings Services placed its 'CCC' long-term issuer credit rating on New Zealand-based finance company GFNZ Group Ltd. on CreditWatch with positive implications. Our 'C' short-term issuer credit rating on GFNZ has been affirmed. We also placed the 'CCC' long-term counterparty credit and financial strength ratings on GFNZ's wholly owned insurance subsidiary Quest Insurance Group Ltd. on CreditWatch with positive implications.

Rationale

We placed the ratings on CreditWatch with positive implications because we expect GFNZ's new funding arrangements to improve the company's liquidity profile, which is our key rating factor. We believe there is at least a one-in-two chance that we may raise our long-term issuer credit ratings on GFNZ and Quest after we further assess the terms of GFNZ's recently negotiated funding transactions once they are approved. The ratings on Quest are equalized with those on GFNZ, given Quest's status as GFNZ's core insurance subsidiary.

On July 16, 2013, GFNZ announced that it had completed negotiations for a series of funding transactions that will generate NZ\$27.5 million on drawdown. The transactions include: (1) a NZ\$30 million securitized debt facility

provided by Westpac New Zealand Ltd., of which NZ\$17.5 million is expected to be drawn down on settlement; (2) a NZ\$5 million debt facility from professional investors; and (3) a NZ\$5 million unsecured loan from GFNZ's cornerstone shareholder Federal Pacific Group. The transactions are subject to shareholder approval on July 31, 2013. If the transactions are approved, we expect GFNZ to use these funds, together with its cash on hand, to repay all existing debt holders, effectively releasing the company from its debt moratorium on Aug. 1, 2013.

Following the approval of the funding transactions, we also expect some benefit to GFNZ's business risk profile from more stable and ongoing funding facilities. We are yet to assess the extent of this benefit. On the other hand, we still need to evaluate whether the terms of the transactions, particularly the ring-fencing of securitized receivables, would heighten the risk of non-payment to other debtholders, particularly over the next 12 months.

CreditWatch

We aim to resolve the CreditWatch within the next three months once we have clarity on the approved and finalized terms of the new funding transactions.

At a minimum, GFNZ would need to demonstrate it will not face payment difficulties over the next 12 months to benefit from a one-notch upgrade. Any rating uplift beyond that is less likely in the short- to medium-term but could occur if the improvement in the company's funding and liquidity stability and its business risk profile is greater than we currently anticipate. Any uplift in the rating assumes that the ring-fencing of securitized receivables would not heighten the risk of non-payment to other debtholders.

Conversely, we could affirm the long-term issuer credit rating if we believe that the proposed funding transactions do not materially benefit GFNZ's credit-standing or are not approved by the shareholders.

We note that a CreditWatch positive placement is not necessarily a precursor to an upgrade.

Related Criteria And Research

- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Group Rating Methodology, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Rating Finance Companies, March 18, 2004

Ratings List

Ratings Affirmed; CreditWatch/Outlook	Action	To	From
GFNZ Group Ltd. Counterparty Credit Rating		CCC/Watch Pos/C	CCC/Negative/C
Quest Insurance Group Ltd. Counterparty Credit Rating			
Local Currency		CCC/Watch Pos/--	CCC/Negative/--
Financial Strength Rating			
Local Currency		CCC/Watch Pos/--	CCC/Negative/--

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