

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 June 2018 issued by MCF which replaces the Product Disclosure Statement dated 5 October 2017.

This document was prepared on 29 June 2018.

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 **29 June 2018** 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 expected maturity profile in MCF's financial statements shows that MCF will experience a shortfall between its financial assets and financial liabilities of \$7,328,3044 in the 13 to 60 month period following 31 March 2018. 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 31 March 2018 both the contractual and expected maturity profiles show a surplus between MCF's financial assets and financial liabilities of \$4,109,565.

While historical reinvestment rates calculated from 1 April 2012 to 31 May 2018 were 80.1%, the reinvestment rate for the twelve months to 31 May 2018 was 86.9% and for the financial year to 31 March 2018 was 84.8%. 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 31 May 2018 totalled \$11,043,730 and for the financial year to 31 March 2018 totalled \$11,745,752.

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 May 2018, 31 March 2018 and 31 March 2017 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 May 2018, 31 March 2018 and 31 March 2017.

Loan Security type	As at 31/05/2018		As at 31/03/2018		As at 31/03/2017	
		%		%		%
Secured by 1st charge on land and buildings	\$11,878,271	58.7%	\$12,807,321	57.5%	\$8,982,576	51.0%
Secured by second or subsequent charge on land and buildings	\$1,871,022	9.3%	\$2,238,520	10.1%	\$1,062,558	6.0%
Secured by charge registered under the PPSA	\$6,224,417	30.8%	\$6,955,731	31.30%	\$7,389,589	42.0%
Unsecured	\$244,930	1.2%	\$249,802	1.1%	\$179,041	1.0%
	\$20,218,640	100%	\$22,251,374	100%	\$17,613,734	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 May 2018 and 31 March 2018 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

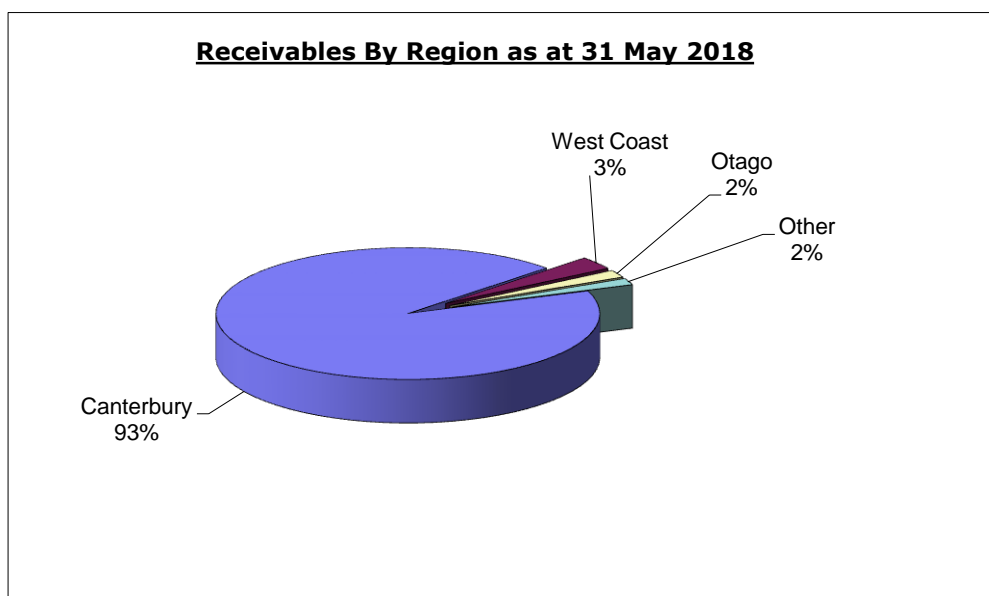
MCF's Trust Deed limits the maximum level of funding that can be provided to an individual client or client group. MCF regularly reviews exposures to these client groups to ensure it remains informed as to their position and any potential issues are addressed.

Geographical exposure risk

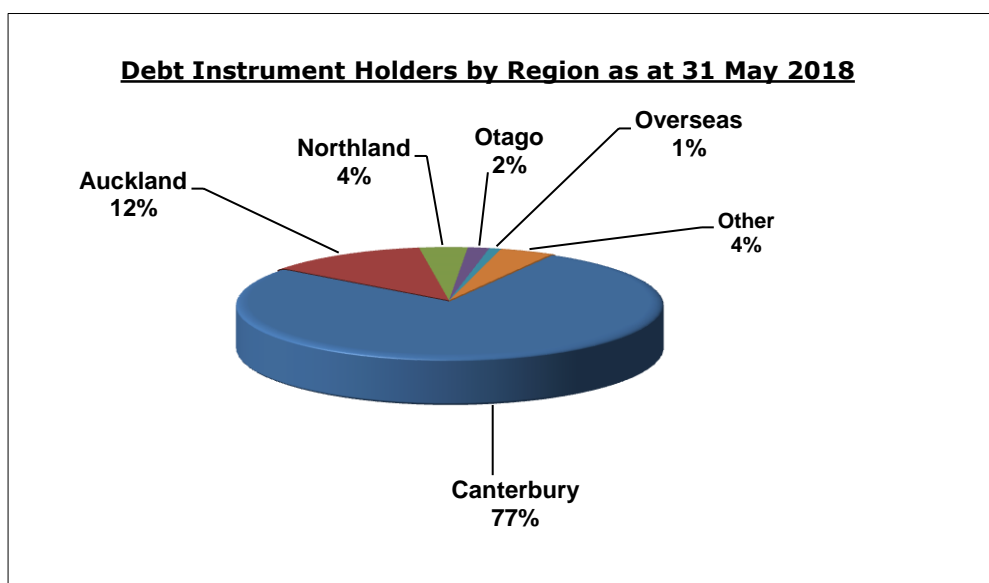
Description of the risk

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 May 2018 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 May 2018 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.

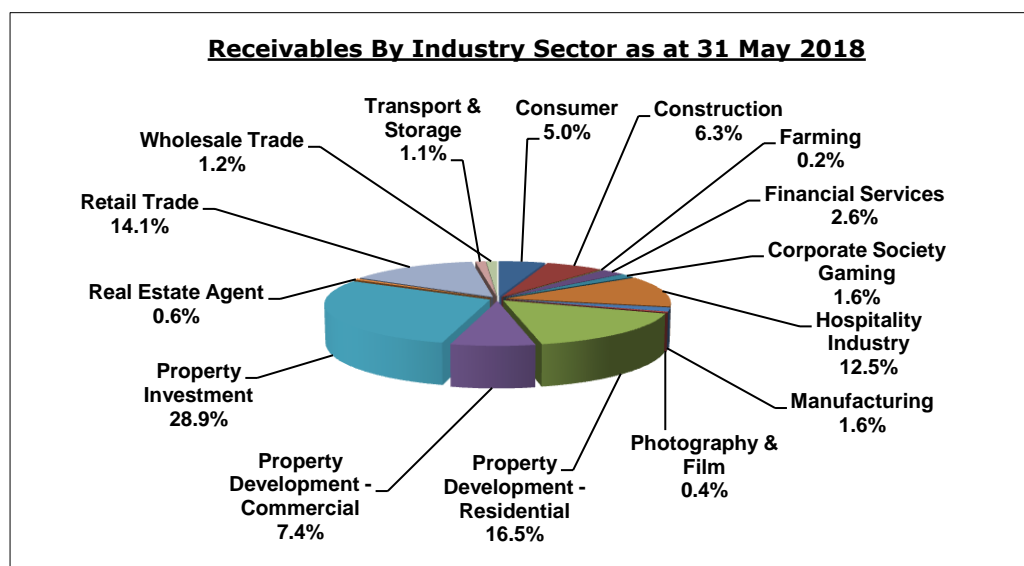
Mitigation Strategies

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 May 2018 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 31/5/18 and position as at 31/3/2018						
		Balance as at 31/05/2018	31/03/2018	Repayment Terms	Region	Security
Group 1		Industry Sector: Construction				
Advance 1		\$97,780	\$107,780	Interest Only	Canterbury	General Security Agreement and Personal Guarantees
Advance 2	(1. See below)	\$1,566,010	\$1,568,099	Interest Only	Canterbury	1st Mortgage over residential site, GSA and personal guarantees
		\$1,663,790	\$1,675,879			
Group 2		Industry Sector: Retail Trade				
Advance 1		\$1,301,251	\$1,359,480	Interest Only	Canterbury	General Security Agreement and personal guarantees
Group 3		Industry Sector: Property Investment - Residential				
Advance 1		\$0	\$615,194	Interest Only	Canterbury	1st mortgage over residential property and personal guarantees
Advance 2		\$525,787	\$526,490	Interest Only	Canterbury	1st mortgage over residential property and personal guarantees
Advance 3		\$473,542	\$474,185	Interest Only	Canterbury	1st mortgage over residential property and personal guarantees
Advance 4		\$253,814	\$0	Interest Only	Canterbury	1st mortgage over residential property and personal guarantees
		\$1,253,143	\$1,615,869			
Group 4		Industry Sector: Hospitality				
Advance 1		\$638,364	\$739,756	Principal & interest	West Coast	2nd Mortgage over land & buildings, GSA and intercompany and personal guarantees
Advance 2		\$115,213	\$121,265	Principal & interest	Otago	1st mortgage over a 2 bedroom unit, intercompany and personal guarantee
Advance 3		\$143,742	\$149,510	Principal & interest	Otago	1st mortgage over a 3 bedroom unit, intercompany and personal guarantee
Advance 4		\$0	\$17,087	Principal & interest	West Coast	Specific Security Agreement , intercompany and personal guarantee
Advance 5		\$22,875	\$25,337	Principal & interest	Otago	1st mortgage over a studio unit, intercompany and personal guarantee
Advance 6		\$53,694	\$57,079	Principal & interest	Otago	1st mortgage over a studio unit, intercompany and personal guarantee
Advance 7		\$49,323	\$50,619	Principal & interest	Otago	1st mortgage over a studio unit, intercompany and personal guarantee
Advance 8		\$0	\$20,502	Principal & interest	Otago	Specific Security Agreement , intercompany and personal guarantee
Advance 9		\$0	\$23,973	Principal & interest	Canterbury	Specific Security Agreement , intercompany and personal guarantee
Advance 10		\$31,024	\$51,246	Principal & interest	West Coast	Specific Security Agreement and personal guarantee
Advance 11		\$192,067	\$0	Interest Only	Otago	1st mortgage over a 2 bedroom unit, intercompany and personal guarantee
Total for Group		\$1,246,302	\$1,256,374			
Group 5		Industry Sector: Property Investment - Residential				
Advance 1		\$864,249	\$0	Interest Only	Canterbury	1st Mortgage over residential properties and personal guarantee
Advance 2		\$208,990	\$0	Interest Only	Canterbury	1st Mortgage over residential properties and personal guarantee
		\$1,073,239	\$0			
Group 6		Industry Sector: Property Development - Commercial				
Advance 1	(1. See below)	\$340,639	\$157,856	Interest capitalised	Canterbury	1st Mortgage over commercial property, GSA and personal guarantees
Advance 2	(1. See below)	\$0	\$1,637,487	Interest capitalised	Canterbury	1st Mortgage over commercial development, GSA and personal guarantees
Advance 3	(1. See below)	\$696,763	\$0	Interest capitalised	Canterbury	1st Mortgage over commercial development, GSA and personal guarantees
Total for Group		\$1,037,402	\$1,795,343			

Group 7 Industry Sector: Property Investment - Residential					
Advance 1	\$982,471	\$1,169,735	Interest Only	Canterbury	1st & 2nd Mortgage over residential properties and personal guarantee
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Group 8 Industry Sector: Hospitality					
Advance 1	\$320,609	\$325,838	Principal & interest	Christchurch	General Security Agreement. Intercompany and personal guarantees
Advance 2	\$462,235	\$466,273	Principal & interest	Christchurch	General Security Agreement. Intercompany and personal guarantees
Advance 3	\$72,204	\$75,467	Principal & interest	Christchurch	General Security Agreement. Intercompany and personal guarantees
Total for Group	\$855,048	\$867,578			
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Group 9 Industry Sector: Property Investment - Residential					
Advance 1	\$328,028	\$328,451	Interest Only	Canterbury	1st Mortgage over residential properties and personal guarantee
Advance 2	\$173,502	\$173,724	Interest Only	Canterbury	1st Mortgage over residential properties and personal guarantee
Advance 3	\$257,049	\$0	Interest Only	Canterbury	1st Mortgage over residential properties and personal guarantee
Total for Group	\$758,579	\$502,175			
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Group 10 Industry Sector: Property Investment - Residential					
Advance 1	\$675,000	\$675,000	Interest Only	Canterbury	1st Mortgage over residential property, intercompany and personal guarantees.
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Group 11 Industry Sector: Property Development - Residential					
Advance 1	\$657,655	\$643,797	Part interest capitalised	Marlborough	General Security Agreement, 1st Mortgage over land and personal guarantees
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Group 12 Industry Sector: Retail and Property Investment					
Advance 1	\$650,000	\$1,453,000	Interest Only	Canterbury	Specific Security Agreement over Shares
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Group 13 Industry Sector: Property Investment - Residential					
Advance 1	\$634,000	\$634,000	Interest Only	Canterbury	1st Mortgage over residential properties and personal guarantee
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Group 14 Industry Sector: Property Development - Residential					
Advance 1	\$506,955	\$507,607	Interest Only	Canterbury	1st Mortgage over residential properties and personal guarantee
Advance 2	\$6,829	\$7,577	P&I	Canterbury	Specific security agreement and personal guarantee
	\$513,784	\$515,184			
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Group 15 Industry Sector: Financial Services and Property Development - Commercial and Residential					
Advance 1	\$505,096	\$505,096	Interest Only	Canterbury	General Security Agreement and set off against an advance to a 3 rd party
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Group 16 Industry Sector: Property Investment - Residential					
Advance 1	\$474,646	\$474,750	Interest Only	Canterbury	1st Mortgage over residential property.

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.