

**GENEVA FINANCE LIMITED**

**INVESTMENT STATEMENT**

**For an issue of  
SECURED DEBENTURE STOCK  
and  
SUBORDINATED NOTES**

**18 June 2010**

## **IMPORTANT INFORMATION**

*(The information in this section is required under the Securities Act 1978)*

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

### **Choosing an Investment**

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

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In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.

### **Engaging an investment adviser**

An investment adviser must give you a written statement that contains information about the adviser and his or her ability to give advice. You are strongly encouraged to read that document and consider the information in it when deciding whether or not to engage an adviser.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes, and carry different levels of risk.

The written statement should contain important information about the adviser, including:

- relevant experience and qualifications, and whether dispute resolution facilities are available to you; and
- what types of investments the adviser gives advice about; and
- whether the advice is limited to investments offered by 1 or more particular financial institutions; and
- information that may be relevant to the adviser's character, including certain criminal convictions, bankruptcy, any adverse findings by a court against the adviser in a professional capacity, and whether the adviser has been expelled from, or prohibited from joining, a professional body; and
- any relationships likely to give rise to a conflict of interest.

The adviser must also tell you about fees and remuneration before giving you advice about an investment. The information about fees and remuneration must include:

- the nature and level of the fees you will be charged for receiving the advice; and
- whether the adviser will or may receive a commission or other benefit from advising you.

An investment adviser commits an offence if he or she does not provide you with the information required.

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This Investment Statement is dated 18 June 2010 and is prepared for the purposes of the Securities Act 1978

## ABOUT GENEVA FINANCE

### Company Activities

Geneva Finance provides finance and financial services to the consumer credit and small to medium business markets. Geneva Finance commenced business on 7 October 2002. Geneva Finance's loans are originated through three distribution channels (Direct, Retail and Dealer), processed by the central sales desk then administered through a national operations centre located at Mt Wellington, Auckland.

The Company borrows money, including by the issue of Debenture Stock and Subordinated Notes and under the BOS Facility and lends that money to individuals, companies and other entities by providing hire purchase finance, and personal loans secured by registered security interests over personal assets such as motor vehicles, household goods (e.g. furniture and appliances), and mortgages of residential property.

### Receivables Ledger

	<b>31 March 2010</b>
	<b>Audited</b>
	<b>\$ millions</b>
Gross finance receivables	85.8
Less: Deferred fee revenue and expenses	0.7
Provision for credit impairment	25.9
Net finance receivables	<u>59.2</u>
Number of loans	13,310
Average loan size (\$)	6,446

The large number and relatively small size of each loan represents a wide spread of risk.

Since 2008, the Company has tightened its lending criteria, resulting in a client profile that has higher affordability, proven credit performance and greater stability of residence and employment. A proportion of loans are made to individuals whose personal lending and finance needs are not adequately catered for by trading banks or because of the specific nature of the borrowing requirement, e.g. secured fixed-term personal asset financing such as vehicle or retail hire purchase finance.

### **Lending Policies**

Geneva Finance has developed and implemented prudent lending and risk management policies which result in a very thorough analysis of customer loan applications relative to specified criteria. Its staff work very closely with each customer, helping them through all stages of the borrowing process to ensure the loan is affordable while at the same time, delivering the Geneva Finance promise of a fast, personalised lending service.

The lending process commences with the receiving of a loan enquiry by a Geneva Finance lending representative, where the borrower's needs are ascertained and the Company's lending requirements are explained. The customer completes a detailed loan application form which includes full personal details, an income and expenditure budget, a statement of assets and liabilities, any credit references etc, together with any required supporting documentation and information i.e. bank statements, proof of identification, address and income, settlement statements etc.

Once the application is completed and all required information provided then a very thorough verification and credit checking process takes place into : the applicants credit history and status; the security valuation, ownership and status; and to confirm that the all details on the application form are independently verified i.e. identification, living address, income, debt, relationship and family status etc.

Once the application preparation, processing and verification has been completed then it is submitted for lending review, analysis and decision-making and there are several lending approval levels depending on the size of the loan. Payment protection insurance is generally offered to the applicant who can choose to decline it. A lending decision is then made and communicated to the client and the lending process is completed, including: the establishment of the loan; the documentation of the contract; the full disclosure of the borrower's responsibilities under the contract; the disbursement of the loan advance; registration of securities; and finalization of all other loan processes and details.

The Company may require additional co-borrowers or guarantors where a loan application review requires it, e.g. where joint parties own the security used as collateral, younger borrowers, insufficient security value etc.

### **Credit Management Policies**

Geneva Finance has comprehensive credit and risk management policies which are used to manage its exposure to any credit risk. Geneva Finance works very closely with its borrowers both in its lending and credit control processes and has strong credit management competencies based on the significant experience of its staff, its business systems and its technology. The Company has well documented risk management policies and all staff go through rigorous training to ensure that all loans comply with these policies and are managed effectively. It has standardized systems, processes, policies and procedures.

A key collection strategy on any non-performing loan is to always seek cashflow and to work closely and supportively with those customers to achieve that. If cashflow can't be secured then the collection activity will be escalated until all avenues of negotiation and payment arrangement have been exhausted and the only option is to recover the loan security and pursue collection through the legal process. Geneva Finance may use Stellar Collections Limited to assist with the collection and legal processes. Stellar Collections is a subsidiary company of Geneva Finance and focuses specifically on debt recovery, legal services and investigation and tracing.

If a borrower has suffered an event which is covered by any payment protection policy they may have taken, then any amounts payable under that policy are applied to the repayment of their loan with Geneva Finance.

Geneva Finance regularly reviews and assesses the adequacy of its doubtful debt provisions both specific (against specific individual loans) and collective, and will fully provide against those loan balances where the Company has exhausted all collection activities and loan cash flow has stopped for some time. The Company enjoys great success in the rehabilitation of non-performing loans based on the competency and thoroughness of its collection activities.

## INDEPENDENT CREDIT RATING

Geneva's creditworthiness has been reviewed by Standard & Poor's. Standard & Poor's is a ratings agency approved by the Reserve Bank of New Zealand under section 157J of the Reserve Bank of New Zealand Act 1989.

On 30 March 2010 Standard & Poor's raised its long-term rating on Geneva Finance to 'CCC' from 'SD'. At the same time, the insurer financial strength rating on Geneva's captive insurer, Quest Insurance Group Limited (**Quest**), was raised to 'CCC' from 'CC'. The outlook on both ratings is negative.

Standard & Poor's stated that the upgrade followed Geneva's success in securing debenture investors' approval and banker support for the Interest Bearing Repayment Plan. The 'CCC' rating reflects their view that Geneva has a marginal liquidity position which is expected to help it meet its immediate principal and interest repayments in full and on time under its new +arrangement. However, it considers there is significant uncertainty about Geneva's future liquidity position as Geneva's liquidity still depends on favourable business, financial and economic conditions. Moreover, it believes Geneva needs to remain prudent in its management of operating cash flows and while management has carefully overseen operations, cash flows and banker relationships since initially being placed in moratorium, and has compared favourably with other finance company peers that were placed in moratorium, a return to profitability is yet to be proven.

Standard & Poor's also advised that the negative outlook reflects their view that Geneva's liquidity still depends on yet-to-transpire favourable business, financial and economic conditions. The rating may be lowered if there is a substantial weakening in Geneva's asset quality such that it materially diminishes its ability to meet its liquidity needs and maintain its compliance with borrowing facility covenants. The rating is also likely to be lowered if Geneva's liquidity management plans, which are delicately balanced, do not track as expected within the next 12 months. Critical to these plans is Geneva's ability to: generate good operating earnings; raise new debenture funding; and raise funding from asset sales.

The rating could be raised if there were material and substantial improvement in Geneva's liquidity position. Equally pivotal to attaining a higher rating is the continued careful management of its relationships with its bankers.

Geneva's rating is a local currency (New Zealand dollar), long-term, issuer rating. This type of rating expresses an opinion about the overall financial capacity of an issuer to meet its New Zealand dollar financial obligations (in contrast to an issue rating, which relates only to specific financial obligations).

Standard & Poor's ratings range from "AAA" (the highest) to "SD" and "D" (the lowest).

The ratings referred to in this summary are ratings at the bottom of this range.

Under Standard & Poor's ratings criteria the ratings referred to in this summary are described as follows:

- (a) 'CCC': An obligor rated 'CCC' is currently vulnerable and is dependent upon favourable business, financial, and economic conditions to meet its financial commitments.
- (b) 'CC': An obligor rated 'CC' is currently highly vulnerable.
- (c) 'R': An obligor rated 'R' is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision, the regulators may have the power to favour one class of obligations over others or pay some obligations and not others.
- (d) 'SD' and 'D': An obligor rated 'SD' (selective default) or 'D' has failed to pay one or more of its financial obligations (rated or unrated) when it came due. A 'D' rating is assigned when Standard & Poor's believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An 'SD' rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. A selective default includes the completion of a distressed exchange offer, whereby one or more financial obligations is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

A further explanation of Standard & Poor's ratings can be found on their website, [www.standardandpoors.com](http://www.standardandpoors.com).

Credit ratings are statements of opinion issued by an approved rating agency – they are not statements of fact, an endorsement of Geneva, or a recommendation to buy, hold, or sell securities.

#### **RELATED PARTY LENDING**

The Geneva Finance Group has entered into a Debenture Trust Deed dated 17 December 2002 as amended and restated 16 April 2010 (the **Debenture Trust Deed**) with Covenant Trustee Company Limited for the benefit of all Stockholders. The Geneva Finance Group has also entered into an Unsecured Deposits and Subordinated Notes Trust Deed dated 28 September 2005 as amended and restated on 16 April 2010 (the **Unsecured Trust Deed**) with Covenant Trustee Company Limited for the benefit of all Noteholders. Under clause 5.2 (b) of the Debenture Trust Deed and clause 7.2 (b) of the Unsecured Trust Deed, the Company covenants with the Trustee that it will not, without the prior written consent of the Trustee, enter into any Related Party Transaction except in the ordinary course of business and where the terms thereof are evidenced in writing and the consideration therefore is on the basis of an arms length transaction as between two unrelated parties contracting in an open market. In any twelve month period the aggregate Value of Related Party Transactions entered into or remaining outstanding shall not exceed 2% of Total Tangible Assets.

Geneva Finance complies with these covenants.

## FEATURES OF THE ISSUE

### Debenture Stock

Geneva Finance Limited offers for subscription Debenture Stock in accordance with the terms of this Investment Statement and the terms of the Company's current Prospectus.

The Debenture Stock offered in this Investment Statement are debt securities issued by Geneva Finance under the Debenture Trust Deed. Debenture Stock is offered for such periods and interest rates as Geneva from time to time determines. The issue periods and interest rates are set out in a rate chart available from Geneva, which is subject to change.

### Subordinated Notes

Geneva Finance Limited offers for subscription Subordinated Notes in accordance with the terms of this Investment Statement and the terms of the Company's current Prospectus.

The Subordinated Notes offered in this Investment Statement are debt securities issued by Geneva Finance under the Unsecured Trust Deed. Subordinated Notes are offered for such periods and interest rates as Geneva from time to time determines. The issue periods and interest rates are set out in a rate chart available from Geneva, which is subject to change.

### Security for Debenture Stock

Because it would be impracticable for each individual investor to hold a separate security over the assets of the Company, the Debenture Stock is constituted under the Debenture Trust Deed. The charge created by the Debenture Trust Deed is a first ranking debenture over the assets and undertakings of the Company and its subsidiaries (the **Group**), subject only to permitted prior charges which must not exceed 5% of the Total Tangible Assets of the Group. Currently there are no prior charges that would rank ahead of the Debenture Stock.

All Debenture Stock ranks equally as far as security over the assets and undertaking of the Group is concerned.

The Debenture Trust Deed is entered into for the benefit of all holders of the Debenture Stock ("**Stockholders**"). The Trust Deed is registered with the Companies Office and a copy is available on request from Geneva Finance. The Trustee does not guarantee the payment of the Debenture Stock or the interest thereon.

### Terms of Issue of Subordinated Notes

Because it would be impracticable for each individual investor to have a separate contract with the Company governing the terms of the Subordinated Notes issued to the individual investor, the Subordinated Notes are constituted under the Unsecured Trust Deed.

The Unsecured Trust Deed is entered into for the benefit of all holders of the Subordinated Notes ("**Noteholders**"). The Trust Deed is registered with the Companies Office and a copy is available on request from Geneva Finance. The Trustee does not guarantee the payment of the Subordinated Notes or the interest thereon.

The Notes rank behind all Senior Creditors of the Company. Senior Creditors are defined as the Stockholders, unsecured depositors and creditors in respect of all other liabilities (except for the Notes and liabilities in respect of which the creditors have agreed to rank equally with or behind the Noteholders).

On liquidation of the Company, no payments can be made on the Notes until all the Senior Creditors have all been paid in full. Prior to liquidation, the Notes and interest on them can be paid in accordance with their terms.

All Subordinated Notes rank equally between themselves.

### How to Invest

If you wish to subscribe for Debenture Stock or Subordinated Notes, please complete the Application Form distributed with this Investment Statement. Applications must be for a minimum of \$ 5,000 and thereafter in multiples of \$1,000. Geneva Finance reserves the right to reject any application in whole or in part without assigning any reason.

Please fill in all the details on the Application Form using the terms and conditions you have agreed with Geneva Finance and attach your cheque, made payable to Geneva Finance. Post the completed form and your cheque to Geneva Finance Limited at Box 14377, Panmure, or bring it in to our offices at 6B Pacific Rise, Mt Wellington.

Alternatively payment may be made by direct credit to our bank account, which can be provided to you upon request. Please fax the completed application form to the Company's fax number: (09) 573 6248.

### **Interest Payment**

The interest will accrue on a daily basis from the day the application money is received in cleared funds by the Company. A range of deposit terms (as per Company rate card from time to time) and interest payment options are available to investors to choose from as follows:

- **Monthly payment** by direct credit (on the last day of the month)
- **Quarterly payment** by direct credit (on the last days of March, June, September and December)
- **Quarterly compounded.** Your original investment grows by having your interest compounded and added to your investment at the end of each quarter (on the last days of March, June, September and December)

General information – All rates are subject to change without prior notice. All rates are per annum. Special rates may apply for larger amounts.

### **Resident Withholding Tax**

Under current legislation, the Company is required to deduct Resident Withholding Tax (**RWT**) on a PAYE basis from interest earned on your investment. You will be advised of the tax deducted.

RWT rates for individuals (including corporate trustees) are 12.5%, 21%, 33% and 38%. If the investor does not supply the Company with an IRD number, RWT must be deducted at the rate of 38%. If an IRD number is provided but the investor does not indicate a RWT deduction rate, then RWT must be deducted at the rate of 38%. RWT will not be deducted where an investor holds a certificate of exemption and a copy of the certificate of exemption is supplied to the Company. Under current tax law, interest paid to overseas residents is subject to non-resident withholding tax.

For companies the RWT rate is 30% and the non-declaration rate is 38%.

IRD is also entitled to instruct interest payers, including the Company, to shift an investor's RWT rate where IRD considers that they are on a RWT rate inconsistent with their marginal tax rate.

### **Repayment of your Investment**

On maturity of your Debenture Stock or Subordinated Notes, you may choose to have all or any part of your principal and/or any outstanding interest if any either repaid or re-invested. Geneva Finance will write to you at least fourteen days before the maturity date, stating the reinvestment and repayment options, and asking for your instructions.

If at the maturity date the Company has not received any instructions from you regarding either the reinvestment or repayment of your investment the Company reserves the right to:

- Hold that investment "at call" at the Company's "at call" rate ; or
- Reinvest your investment for the same term, earning interest at the current rate for that term; or
- Repay your investment (together with accrued but unpaid interest), by cheque posted to your last known address.

### **Early Repayment**

The Company has discretion to repay an investment early if:

- (a) A sole investor dies; or
- (b) There are exceptional or unforeseen circumstances that cause the investor to seek repayment.

In the case of early repayment, the Company has the right to adjust the interest rate to a rate applicable to the period during which the investment was actually outstanding.

### **Statements**

Geneva Finance will issue an Investment Confirmation to you after your investment has been accepted, to provide you with a record of the terms on which the investment has been accepted. It will send a quarterly statement to you providing details of all transactions for the quarter, the balance of your investment at the end of each quarter and interest earned and tax deductions for the quarter and year to date.

When your investment matures, you simply provide the Company with your signed, written instructions for repayment or re-investment and these will be verified and actioned accordingly. For “at call” investments, you will receive a written acknowledgement containing details of your investment.

### **Register and Transfers**

Registers of Stockholders and Noteholders will be maintained by Geneva Finance at its office at 6B Pacific Rise, Mt Wellington, Auckland.

Transfers of Debenture Stock or Subordinated Notes may be made on the form commonly used for security transfers, or on any other form approved by the Company. Registration of transfers will be effected as soon as the Company is practicably able, following receipt of a properly executed transfer. On the death of a Stockholder or Noteholder a transfer can be effected to an executor or beneficiary as soon as probate or letters of administration are presented to the Company.

Funds raised from the current offer will be used to further expand the Company's receivables ledger.

### **Moratorium Stock**

Under the Plan repayment instalments of Moratorium Stock are due every 6 months.. From time to time Geneva intends to offer Moratorium Stockholders the opportunity to roll up one or more of their instalments next falling due into a single instalment to be paid on a later 6 monthly instalment date. Interest at the relevant Moratorium Stockholder's applicable interest rate would continue to be paid monthly on any deferred instalments. . Any offer to roll up instalments would effectively be a new investment in Debenture Stock equal to the amount of the rolled up instalment from the date on which the rolled up instalment was due under the Plan to the extended maturity date.. The details of any offer to roll up instalments of Moratorium Stock will be made by the Company in writing to the Moratorium Stockholders from time to time. This arrangement will not allow for any instalment to be paid at an earlier date than is provided in the Plan.

## **STATUTORY INFORMATION**

### **WHAT SORT OF INVESTMENT IS THIS?**

#### **Debenture Stock**

The Debenture Stock offered in this Investment Statement are secured debt securities issued by the Company under its Debenture Trust Deed. The Debenture Trust Deed creates a security interest over the assets of the Company to secure all Debenture Stock or as otherwise agreed with any Stockholder.

Debenture Stock is offered for such periods and interest rates as the Company from time to time determines. The issue periods and interest rates are set out in a rate chart available from the Company from time to time or as otherwise agreed with any Noteholder.

#### **Subordinated Notes**

The Subordinated Notes offered under this Investment Statement are subordinated debt securities in the Company, constituted under its Unsecured Trust Deed.

Subordinated Notes are offered for such periods and interest rates as the Company from time to time determines. The issue periods and interest rates are set out in a rate chart available from the Company from time to time.

The Company will use the funds raised under this Investment Statement in its finance company business.

### **WHO IS INVOLVED IN PROVIDING IT FOR ME?**

#### ***The Issuer***

The issuer is Geneva Finance Limited of 6B Pacific Rise, Mt Wellington, Auckland. The directors of Geneva Finance are:

David Smale (Chairman)  
Peter Edward Francis A.C.A.  
David Gerard O'Connell A.C.A.  
Ronald Robin King

#### ***The Trustee***

The Trustee for Stockholders and Noteholders appointed under the Company's Debenture Trust Deed and Unsecured Trust Deed is Covenant Trustee Company Limited, Level 34, Vero Centre, 48 Shortland Street, Auckland.

#### ***Activities***

Geneva Finance provides finance and financial services to the consumer credit and small to medium business markets. Geneva Finance commenced business on 7 October 2002. Geneva Finance's loans are originated through three distribution channels (Direct, Retail and Dealer), processed by the central sales desk then administered through a national operations centre located at Mt Wellington, Auckland.

The Company borrows money, including by the issue of Debenture Stock and Subordinated Notes and under the BOS Facility and lends that money to individuals, companies and other entities by providing hire purchase finance, and personal loans secured by registered security interests over personal assets such as motor vehicles, household goods (e.g. furniture and appliances), and mortgages of residential property.

The Company has a large number of loans which are relatively small in size and thus represent a wide spread of risk. As at 31 March 2010, the Company had 13,310 loans with an average size of \$6,446.

### **HOW MUCH DO I PAY?**

Applications for Debenture Stock must be for a minimum amount of \$5,000 and thereafter in multiples of \$1,000 (or such other minimum and multiples as the Company from time to time agrees). Applications for Subordinated Notes must be for a minimum amount of \$5,000 and thereafter in multiples of \$1,000 (or such other minimum and multiples as the Company from time to time agrees). All investments must be made on and in accordance with the instructions set out on the Application Form accompanying this Investment Statement.

The Company reserves the right to refuse any application, or to accept any application in part only, without assigning a reason.

The Application Form accompanying this Investment Statement must be sent, together with your payment, to the Company at P.O. Box 14377, Panmure, Auckland, 1741 or delivered, with your payment to 6B Pacific Rise, Mt Wellington, Auckland.

If payment is made by cheque, the Company may delay issue of the Debenture Stock or Subordinated Notes until the cheque has been cleared.

#### **WHAT ARE THE CHARGES?**

An investor does not pay any charges for an investment in Debenture Stock or Subordinated Notes other than the money paid for the Debenture Stock or Subordinated Notes applied for.

The Company may allow early repayment of Debenture Stock or Subordinated Notes before its maturity date if:

- (a) a sole investor dies; or
- (b) exceptional or unforeseen circumstances exist for the investor to seek repayment.

In the case of early repayment, the Company has the right to adjust the interest rate to a rate applicable to the period during which the investment was actually outstanding.

#### **WHAT RETURNS WILL I GET?**

The returns to an investor will be interest on the Debenture Stock or Subordinated Notes.

Interest rates for Debenture Stock and Subordinated Notes are determined by the Company after considering the prevailing market interest rates for investments of a similar type and term and are set out in a rate card available from the Company from time to time. Interest is calculated on a per annum basis. Once the Company has accepted an investment at the relevant rate, the Company will pay that rate for the term of the investment. At call rates can change daily. Interest on Debenture Stock or Subordinated Notes held at call will accrue on a daily basis at the daily call rate and will be paid on repayment of the Debenture Stock or Subordinated Notes.

The Company may vary the interest rates offered at any time. A change in interest rates will not affect the rate on any Debenture Stock or Subordinated Notes already issued. If the Company reduces an interest rate after an investor completes an application for investment but before the relevant Debenture Stock or Subordinated Notes is issued, it will notify the investor of the new rate. The investor may then confirm their application at the reduced rate, otherwise their application money will be refunded within 14 days. No interest will be paid on refunded investments.

The Company may adjust the interest rate applicable to any Debenture Stock or Subordinated Notes if the investor seeks early repayment in the circumstances set out in the section "What are the Charges." The new rate will be a rate the Company determines is applicable for the period during which the investment was held.

Interest paid on the Debenture Stock and Subordinated Notes held by New Zealand resident investors is subject to resident withholding tax at the rates set out on page 7. Resident withholding tax will not be deducted where an investor holds a certificate of exemption and a copy of the certificate of exemption is supplied to the Company. Interest paid to overseas residents is subject to non-resident withholding tax.

Subject to an investor's application being accepted, interest will begin accruing on the day the application money is received in cleared funds by the Company. The interest will accrue on a daily basis from that date (on the basis of a 365 day year) and will be paid at the intervals and the rates as set out in the application form on which the investment was made or as otherwise agreed with the Company.

Interest payments will only be made to the person in whose name the Debenture Stock or Subordinated Notes is registered. Where there are joint holders, interest may be paid by the Company to the holder whose name first appears in the Register maintained by the Company.

Where a person becomes entitled to an investment following the death, insanity or bankruptcy of an investor, the Company may retain the principal and interest until a transmission or transfer to the person has been registered.

Geneva Finance is legally liable to repay the Debenture Stock and Subordinated Notes and all interest thereon.

Under the Trust Deeds, Pacific Rise Limited, Quest Insurance Group Limited, Stellar Collections Limited and Stellar Collections No 2 Limited, all wholly owned subsidiaries of the Group, have unconditionally guaranteed all of the Debenture Stock and Subordinated Notes and all interest thereon. Pacific Rise Limited, Quest Insurance Group Limited, Stellar Collections Limited and Stellar Collections No 2 Limited have given an unlimited first ranking charge over all their assets in support of this guarantee.

### **WHAT ARE MY RISKS?**

The risks faced by Stockholders and Noteholders include general risks arising from an investment in securities issued by finance companies and risks specific to Geneva Finance.

Every investor in company securities is exposed to the risk that the issuer of the securities becomes insolvent and is unable to repay its securities and accrued interest in full.

There are a number of risks to which Geneva Finance is exposed which could affect its financial performance and consequently affect its ability to pay interest on, and repay the principal of, the Debenture Stock and Notes and, in a worst case, lead to its insolvency. These risks are listed below.

#### *Risks specific to BOS*

The amended BOS Facility includes a number of financial covenants which have been included in the BOS Facility since inception in 2006, but amended to ensure that Geneva can comply with the covenants over the extended term of the BOS Facility so long as Geneva performs substantially in its financial forecasts. The Board of Geneva Finance considers the amended terms of the BOS Facility to be commercially acceptable.

Investors should appreciate that, as is normal with bank facilities of this type, the covenants in the BOS Facility are additional to those set out in the Trust Deeds. Therefore, BOS may be able to call for early repayment of its loan and, as a Majority Security Stockholder, require the Trustee to enforce the Debenture Trust Deed if Geneva Finance is in breach of the BOS Facility even where Geneva Finance would not otherwise be in default under the Debenture Trust Deed. However, in the event of enforcement, other Stockholders would share equally with BOS in proportion to the amounts owing to them.

#### *General Business Risks*

Security of power supply, the retention of competent management and staff, destruction of business premises due to fire or other causes, loss of computer data and the introduction of new legislation or amendment to existing legislation are some of the general risks which could affect Geneva Finance's business. The Board maintains an active policy of identifying and monitoring general business risks and where a specific risk has been identified it will develop and implement a risk management plan to mitigate the risk, including appropriate insurance.

#### *Credit Risk*

Geneva Finance relies on its borrowers to repay their loans and make interest payments on due date. Most loans Geneva Finance makes are for amounts ranging from \$2,000 to \$50,000. Loans consist of secured business loans and secured and unsecured personal loans. The security on business loans is generally a first charge over the assets being purchased, typically equipment. The security on personal loans is generally a first charge over the assets being purchased, typically motor vehicles or chattels. Sometimes the loan is guaranteed, usually by a member of the borrower's family. If a borrower fails to repay the loan made to that person on due date and the value of the secured asset (if the loan is secured) and/or the amount recovered under any guarantee is insufficient to cover the outstanding payments, Geneva Finance will make a loss on that loan. These types of loan are called impaired receivables. If a significant number of Geneva Finance's loans become impaired receivables, Geneva Finance could become insolvent.

Geneva Finance has a credit policy which is used to manage its exposure to credit risk. As part of this policy credit evaluations are performed on all prospective borrowers, limits on exposures set, and lending is subject to defined criteria and is monitored and controlled by prudent credit measures. In early 2009, Geneva Finance reviewed and

significantly tightened its credit policy and now conducts regular policy reviews to make sure the policy is appropriate for current market conditions.

#### *Old Ledger*

Prior to 2009, Geneva Finance made loans under its former more relaxed credit policy. These loans are known as the “old ledger”. Much of the old ledger has proved to be unrecoverable. This has led to provisioning in the Company’s accounts of \$9.4m (YE 2008) and \$9.4m (YE 2009). As at the date of this Investment Statement, the old ledger stands at \$19.5m. The Board considers that this balance will be repaid over time. However there is a risk that there may need to be further provisions made against this balance in the future.

#### *Liquidity Risk*

Liquidity risk arises from Geneva Finance’s reliance on cash receipts to pay its debts as they fall due. Geneva Finance monitors its liquidity position on a continuous basis and plans its operating activities with a view to ensuring a balanced liquidity position. The key factors in managing liquidity are the timing of interest payments due on Debenture Stock and Notes and the dates for repayment of Debenture Stock and Notes on the one hand and the receipt of interest and loan repayments, the rates at which Debenture Stock and Notes are re-invested and the timing of proceeds on new funding sources on the other hand. The Plan has significantly reduced Geneva Finance’s liquidity risk since the maturity dates of the Debenture Stock and Notes have been extended to match the maturity profile of Geneva Finance’s finance receivables.

#### *Interest Rate Risk*

Interest received on loans to customers is Geneva Finance’s main income. Interest rate risk arises from the need to ensure that interest received on loans to customers and on bank balances is sufficient to pay interest due on Debenture Stock and Notes as well as pay all of Geneva Finance’s expenses. Interest rates paid on Debenture Stock and Notes and charged on loans are set by the Board and are subject to market influences. It is the policy of management to constantly monitor Geneva Finance’s portfolio and maintain interest rate margins between borrowing and lending rates.

#### *Risks specific to Geneva Finance’s business*

Geneva Finance’s principal activity involves the provision of hire purchase finance to the consumer credit market. This is short-term, secured asset purchase lending which generally falls outside the traditional lending activities of trading banks. Hire purchase finance applicants are evaluated against Geneva Finance’s lending criteria, their risk profile is assessed and an appropriate interest rate is charged to reflect that. The resulting margin will be a reflection of the customer profile and the assessment of risk. These customers cover a wide spectrum of socio-economic backgrounds but were historically in the lower to middle income bracket. More recently Geneva Finance has diversified its client base and a significant percentage of new advances are in the middle to higher income bracket. Geneva Finance believes that this will help reduce the risk of customers defaulting in the future.

Whilst the majority of Geneva Finance’s lending involves hire purchase finance, Geneva Finance’s other main activity involves the provision of personal loans to the consumer credit market. Most of these loans (approximately 95% by value) are also secured by a first ranking charge over an asset acquired with the loan, but others are unsecured loans made to finance general personal consumption expenditure. Personal loan applicants likewise are evaluated against Geneva Finance’s lending criteria, their risk profile is assessed and an appropriate interest rate is charged to reflect that. The resulting margin will also be a reflection of the customer profile and the assessment of risk. These customers include hire purchase customers (as per above) but also include lower income earning customers whose personal lending needs are not adequately catered for by trading banks, and more middle income earners who may have access to bank credit but who choose to deal with Geneva Finance for a faster, more personalised lending service.

The specific risks associated with the provision of hire purchase finance and personal loans by Geneva Finance can be summarised as follows:

- That a proportion of those customers, particularly those on lower incomes, do not perform their obligations under their loan contract;
- That Geneva Finance’s credit management activities are ultimately unsuccessful in getting those customers to repay their loans in full or in part;

- Although the loan balance might be reduced by regular loan repayments (e.g. weekly) over the term of the loan, the value of the security might also be depreciating and if the loan security has to be realised then the proceeds from the disposal of the loan security are likely to be insufficient to cover the amount outstanding under the loan because a forced sale of an asset may realise less than its market value.

If all of these factors occurred in relation to a significant proportion of Geneva Finance's loans, Geneva Finance could become insolvent as a result.

#### *Risk Management*

Geneva Finance maintains a very high level of risk management activity to manage these specific risks and to reduce any potential loss arising, as follows:

- It has prudent lending policies and very thorough processes based around the analysis of loan applications against specified criteria, the verification and checking of the same to determine that the loan is affordable and in most cases the taking of securities as collateral for the loan, usually in the form of a first ranking charge over an asset acquired with the loan;
- It has strong credit management competencies based on the significant experience of its staff, its business systems and its technology in these markets;
- All customers whose loans fall into arrears are contacted as soon as that occurs and these loans individually managed for performance;
- Geneva Finance works closely with these customers to restore cashflow on their loans and will always try to seek cashflow in the first instance;
- If cashflow cannot be restored then the collection activity will be escalated until all avenues of negotiation and payment arrangement have been exhausted and the only option is to recover and dispose of the loan security and to pursue the payment of the debt through the legal system; and
- Geneva Finance's margins between borrowing and lending rates reflect the risk profile of its customers.

#### *Consequences of receivership or liquidation*

It is reasonably foreseeable that in a receivership or liquidation of the Company, Stockholders and/or Noteholders will receive less than the amount due to them on maturity of their Stock and Notes.

#### *Payments and ranking of securities in a liquidation*

No Stockholder or Noteholder will be obliged to pay any further monies to the Company as a result of the insolvency or liquidation of the Company.

In a liquidation of the Company:

- the claims of all Stockholders will rank equally with each other and ahead of the claims of the Noteholders and all other creditors other than the following claims which will or may rank ahead of claims of Stockholders:
  - Claims of holders of Prior Security Interests permitted under the Trust Deed. (The Trust Deeds permit the Company to create Prior Security Interests securing amounts not exceeding 5% of total tangible assets of the Group). As at the date of this Investment Statement, there are no security interests which rank ahead of the Stock;
  - Claims of various preferential creditors under the Seventh Schedule of the Companies Act 1993;
  - Claims of the Trustee or any receiver appointed by the Trustee for costs, liabilities and remuneration under the relevant Trust Deed.

- the claims of all Noteholders will rank equally amongst themselves, ahead of the shareholders of the Company but behind all Stock and all other secured, unsecured and unsubordinated liabilities of the Company from time to time (including all claims which rank ahead of the Stockholders as detailed above).

### **CAN THE INVESTMENT BE ALTERED?**

The specific terms (such as maturity date and interest rate) of Debenture Stock and Subordinated Notes which has been issued to an investor cannot be altered without agreement between the investor and the Company. However, both the Debenture Trust Deed and the Unsecured Trust Deed provide for alteration of their terms by the Trustee and the Company either upon direction of an Extraordinary Resolution of Stockholders or Noteholders (as the case may be) or by agreement by the Trustee in limited circumstances such as to correct any formal or technical errors, to comply with statutory requirements, or if the Trustee is of the opinion that the alteration will not be prejudicial to the general interests of Stockholders or Noteholders (as the case may be).

### **HOW DO I CASH IN MY INVESTMENT?**

Debenture Stock and Subordinated Notes are only repayable by the Company at the agreed maturity date. The Company has a discretion to repay the investment early if:

- (a) A sole investor dies; or
- (b) There are exceptional or unforeseen circumstances that cause the investor to seek repayment.

In the case of early repayment, the Company has the right to adjust the interest rate to a rate applicable to the period during which the investment was actually outstanding.

A Stockholder or Noteholder may sell his or her investment. A transfer must not result in a Stockholder or Noteholder holding Debenture Stock or Subordinated Notes of less than \$5,000. The Company may not register a transfer of Debenture Stock or Subordinated Notes if:

- (a) The Register is closed; or
- (b) A duly completed transfer is not left at the registered office of the Company; or
- (c) The Directors of the Company decide, in their absolute discretion, to refuse to register a transfer.

In the Company's opinion, there is no established market for such sales.

### **WHO DO I CONTACT WITH ENQUIRIES ABOUT MY INVESTMENT?**

Enquiries about Debenture Stock and Subordinated Notes should be made to:

The Investment Manager  
Geneva Finance  
6B Pacific Rise  
Mt Wellington  
Auckland

Telephone: 0800 800 133  
Facsimile: (09) 573 6248

### **IS THERE ANYONE TO WHOM I CAN COMPLAIN IF I HAVE PROBLEMS WITH THE INVESTMENT?**

Complaints about the Debenture Stock and Subordinated Notes can be made to:

The Managing Director  
Geneva Finance  
6B Pacific Rise  
Mt Wellington

Auckland

Telephone: 0800 800 133

Facsimile: (09) 573 6248

The Manager  
Covenant Trustee Company Limited  
Level 34  
Vero Centre  
48 Shortland Street  
Auckland

Telephone: (09) 302-0638

Facsimile: (09) 302-1037

There is no ombudsman for this class of investment.

#### **WHAT OTHER INFORMATION CAN I OBTAIN ABOUT THIS INVESTMENT?**

Other information about the Company and the Debenture Stock and Subordinated Notes is contained in the Company's current Prospectus and financial statements. A copy of the current Prospectus and financial statements and the Company's constitution are available free of charge on request by telephone or in person from:

Geneva Finance  
6B Pacific Rise  
Mt Wellington  
Auckland

They can also be viewed on the Companies Office website at [www.companies.govt.nz](http://www.companies.govt.nz). Where relevant documents are not available on the website, the documents can be obtained for a fee by telephoning the Ministry of Economic Development Business Service Centre on 0508 266 726

Investors may request from the Company in writing, copies of any of the above documents plus the most recent financial statements of the Company which will be supplied free of charge.

## GLOSSARY

The following capitalised terms used in this Investment Statement have the following meanings. Some of these terms are summaries of definitions in the Trust Deeds. For complete definitions, reference should be made to the Trust Deeds.

<b>BOS</b>	BOS International (Australia) Limited.
<b>BOS Facility</b>	The revolving finance facility provided by BOS to Geneva Finance upon the security of Security Stock which has a maximum principal amount of \$30 million at the date of this Investment Statement.
<b>BOS Facility Limit</b>	The maximum principal amount which may be outstanding under the BOS Facility at any time.
<b>Company and Geneva Finance</b>	Geneva Finance Limited.
<b>Debenture Trust Deed</b>	Debenture Trust Deed dated 17 December 2002 as amended and restated on 16 April 2010, between the Company, Pacific Rise Limited, Quest, Stellar, Stellar Collections No 2 Limited and the Trustee.
<b>Directors</b>	The directors of Geneva Finance.
<b>Geneva Finance Group and Group</b>	The Company and its subsidiaries, Pacific Rise Limited, Quest Insurance Group Limited, Stellar Collections Limited and Stellar Collections No 2 Limited.
<b>Moratorium Stock</b>	Debenture Stock (other than Security Stock) outstanding on 1 May 2008 at the time of adoption of the Capital Reconstruction Plan, before any conversions to shares or payments of cash were made under the Capital Reconstruction Plan.
<b>Moratorium Stockholder</b>	The holder of Moratorium Stock.
<b>Note or Subordinated Note</b>	Each subordinated note issued under the Unsecured Trust Deed.
<b>Noteholder</b>	The holder of a Note.
<b>Plan</b>	The Interest Bearing Repayment Plan approved by Stockholders and Noteholders on 29 March 2010.
<b>Prior Security Interest</b>	A security interest over the assets of the Group ranking ahead of the security interest of the Trustee under the Debenture Trust Deed.
<b>Quest</b>	Quest Insurance Group Limited
<b>Security Stock</b>	A type of Stock issued to banks and financial institutions.
<b>Stellar</b>	Stellar Collections Limited
<b>Stock and Debenture Stock</b>	Stock issued under the Debenture Trust Deed.
<b>Stockholder</b>	The holder of Stock.
<b>Trustee</b>	Covenant Trustee Company Limited.
<b>Trust Deeds</b>	The Debenture Trust Deed and the Unsecured Trust Deed.
<b>Unsecured Trust Deed</b>	The Unsecured Deposits and Notes Trust Deed dated 28 September 2005 as amended and restated on 16 April 2010, between the Company, Pacific Rise Limited, Quest, Stellar, Stellar Collections No 2 Limited and the Trustee.

## DIRECTORY

### THE COMPANY

Geneva Finance Limited  
6B Pacific Rise  
Mt Wellington  
Auckland  
Ph: (09) 573 2940

### DIRECTORS

David Smale (Chairman)  
100 Otara-wairere Road  
Ohope  
Whakatane

Peter Edward Francis A.C.A.  
Apartment 3601  
Metropolis  
1 Courthouse Lane  
Auckland

David Gerard O'Connell A.C.A.  
11 Tudor Park Drive  
Whitford  
Auckland

Ronald Robin King  
8 Wingate Terrace  
Newtown  
Wellington

### REGISTERED OFFICE

6B Pacific Rise  
Mt Wellington  
Auckland

### AUDITORS

Staples Rodway  
Level 9, Tower Center  
45 Queen Street  
Auckland

### SOLICITOR TO THE COMPANY

Richard Hanna  
149-155 Parnell Road  
Auckland 1151

### TRUSTEE

Covenant Trustee Company Limited  
Level 34, Vero Centre  
48 Shortland Street  
Auckland

### SOLICITORS TO THE TRUSTEE

Minter Ellison Rudd Watts  
Lumley Centre  
88 Shortland Street  
Auckland

### REGISTRAR

Geneva Finance Limited  
6B Pacific Rise  
Mt Wellington