Credit Ratings & Research

Credit Rating Review

Gold Band Finance Limited

NZBN: 9429039681492

Credit Rating Synopsis

Date: 27 June 2023

Prepared for: Gold Band Finance Limited

Report prepared by: Equifax Australasia Credit Ratings Pty Limited ("Equifax")

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Currency used in this report: This report is presented in New Zealand Dollars unless otherwise noted

Corporate Scorecard
From Equifax

Contents

1. Synopsis for Comprehensive Credit Rating Report

Gold Band Finance Limited ("GBF" or "the Company")

GBF is a Non-Bank Deposit Taking (NBDT) organisation that is licenced and regulated by the Reserve Bank. It provides loans to customers who operate in a segment underserved by traditional banks and accepts secured customer deposits for fixed term and rate.
Equifax Credit Ratings Australasia Pty Ltd ('Equifax') has affirmed GBF's credit rating of 'B+' at May23, which is a sub-prime classification with a moderate level of risk. Moreover, Equifax has upgraded the outlook for the rating to 'Positive' over the next 12 months, in view of the enhancement in headroom over minimum regulatory capital requirements, continued increase in net operating income, sustained healthy net interest margins, and a well-balanced growth strategy which involves a conservative lending policy and healthy retention of earnings. In our view, the afore-mentioned factors place the Company in a favourable position to absorb any potential adverse impact of macro-economic headwinds and to capitalise on potential growth opportunities.

Overall, GBF's credit rating benefits from its operating history which dates back to 1986, consistent and healthy profitability, efficient operating cost structure, sound liquidity, favourable asset-liability maturity profile, high deposit reinvestment rates and substantial capital buffers. The rating is constrained by the current macro-economic headwinds and uncertainty which may impact asset quality and erode capital coverage, high proportion of interest only loans and significant geographic concentration to the Canterbury region.

Strengths

- GBF's operating risk profile benefits from its consistent and healthy earnings generation, supported by its sound net interest margins and better-than-sector average cost-to-income ratio (which further improved to 34.1% in the nine months to May23 vs 40.9% in FY22), which reflects a lean and efficient operating cost structure. In the nine months to May23, the Company reported a 16.9% increase in interest income on an annualised basis and an increase in net interest margin to 6.1% (FY22: 5.5%).
- The Company has funded its growth over the past five years by consistently being able to raise additional consumer deposits (1.8% growth in nine months to May23) by offering attractive returns. Further, after a brief decline in Dec22 and Jan23, reinvestment rates have reverted to high levels averaging ~85.0% during Feb23-Apr23.
- GBF's liquidity position has further improved during the period under review evidenced by its liquid assets to liabilities ratio of 22.1% at May23 (Aug22: 14.7%). The Company's liquidity is supported by a well-matched asset-liability maturity profile, and some diversification into P&I amortising loans for the gaming sector. Together they suitably position the Company to withstand liquidity shocks and partially offset risks associated with a high proportion of interest only loans.
- The Company's capital adequacy levels have further strengthened, with a capital ratio of 22.0% as at May23 (Apr23: 18.27%, Aug 22: 16.59%) which is almost twice the minimum Trust Deed requirement of 12.0%. GBF's capital levels provide ample capacity to support growth in the loan-book and/or withstand any potential future financial and operational losses. The capital adequacy ratio is expected to remain robust as the Company plans to freeze dividend payouts over the near-term and exercise caution in extending loan amidst macro-economic headwinds.

Constraints

- The NBDT sector players including GBF face significant macroeconomic headwinds (recessionary environment) characterised by persistent inflation, increasing interest rates, weakening economic growth, and a slowing housing market. In our view, GBF's asset quality may come under pressure with double impact of adverse property price movements eroding collateral coverage and a deterioration in borrowers' repayment capacity in tough economic conditions. However, we note that current performance of the loan book is considered satisfactory, evidenced by low NPLs and credit loss ratio.
- GBF's rating is constrained by its small size and franchise, its focus on the upper quadrants of the risk-reward matrix and its retail deposit funding base. With a high proportion of interest only loans, its borrowers' debt serviceability is more susceptible and sensitive to the macroeconomic environment than that of traditional banks' borrowers.
- GBF's operations have significant geographic concentration risks as most of its business is generated in the Canterbury region of New Zealand. In our view, this makes GBF's earnings more susceptible to region-specific idiosyncratic risks.

The outlook for GBF's credit rating has been upgraded to 'Positive' from 'Stable'. The rating may be revised upward with sustained maintenance/improvement in scale, while maintaining profitability and asset quality. There may be downward pressure on the rating if the Company's asset quality, capital ratio or liquidity positions materially deteriorate, on an individual or a collective basis.

Risk Rating

B+

Outlook: Positive

Type: Public, Monitored

Industry Percentiles (FY22)

Scale:	Percentile
Total Assets	23%
Gross Loans	8%
Profitability:	
NIM	85%
ROE	0%
ROA	0%
Cost to Income	8%
Capitalisation:	
Leverage (Gross loans to Equity)	15%
Capital Ratio	8%
Capital to Total Assets	23%
Funding and liquidity:	
Deposits to Loan Ratio	77%
Liquid Assets to Total Assets	85%
Asset Quality:	
Net Charge-offs	39%
Impaired Loans	31%
Provision for Loan Losses	15%

Key Trends

2. Scope of Report

The purpose of this report is to provide a Credit Rating Synopsis on Gold Band Finance Limited.

We have complied with our rating services guidelines in order to derive the credit rating on Gold Band Finance Limited. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. The details pertaining to this report are outlined below:

Report Details	
Date of Report	**27 June 2023**
Request Type	**Issuer (Self-assessment)**
Assessment Type	**Under ongoing monitoring**
Rating Initiation	**Issuer based (solicited)**
Rating Distribution	**Public**
Report Distribution	**Unrestricted**
Purchased by	**Gold Band Finance Limited**
Report Fee	**Fixed Price**
Ancillary fees	**Nil**
Issuer Name	**Gold Band Finance Limited**
Issuer First Time Rated	**No**
Issue Name	**Not Applicable**
Issue First Time Rated	**Not Applicable**
Financial Scope	**Standalone Entity**
Entity Structure	**Limited Company**
Issuer Industry	**Financial Services**
Issuer Sector	**Non-Bank Deposit Takers**

This Report should be taken as a whole and cannot be abridged or excerpted for any reason.

We have conducted this assessment on the basis of the information provided to us by Gold Band Finance Limited, publicly available information and from our own enquiries. We have derived a credit rating on the Company based on the understanding that Gold Band Finance Limited has no contingent liabilities, cross guarantees or other liabilities to any other entity other than as disclosed to us or as detailed in the financial statements. Our duty does not include auditing the financial statements.

Information Sources	
Financial Statements	**- Management accounts of Gold Band Finance Limited for the nine-month interim period ended 31 May 2023 and eight-month interim period ended 30 April 2023. - Audited Financial Statements of Gold Band Finance Limited for the years ended 31 August 2022, 2021, 2020 and 2019.**
Name of Auditor	**PricewaterhouseCoopers (PwC)**
Other Information Sources	**The Company's response to our Request for Information, the Company website, industry and regulatory websites, management interviews, media articles, adverse searches and internet searches.**
Issuer Participation	**Full**
Material Financial Adjustments	**None**
Limitations of Assessment	**None noted**
Outsourced Assessment Activities	**No**
Confidentiality Agreement	**No**
Material Client	**No**
Rating Amended Post Issuer Disclosure	**No**
Potential Conflict of Interest	**None noted**
Rating Methodology	**Financial Institution Rating Criteria**

This report should be read within the context of Equifax's Ratings Services Guide.

APPENDICES

1. Explanation of the Equifax's credit rating

1.1 What is a rating?

Credit ratings provide an Agency's opinion as to the capacity, viability and willingness of an entity, issuer, or counterparty to meet their respective financial commitments. As such, Equifax assigns ratings based on the credit worthiness of an entity, commitment, or product, and provides probabilistic assessments of default over the short, medium, and long-term.

Credit ratings are a critical measure used extensively in commercial, financial, and capital markets to support key business decisions. Equifax's credit ratings are used to support debt and bonding decisions, loan origination and recovery, insurance and warranty, funds management, portfolio management, tendering and procurement, counterparty risk assessments and other commercial contracts.

Equifax provides credit ratings on government and commercial agencies, international conglomerates, infrastructure consortia, financial institutions, publicly listed entities, private corporations, and small-to-medium sized enterprises across a range of industry sectors both domestically and internationally. As such, Equifax is also able to provide detailed industry intelligence, benchmarking reports, and analysis across a wide range of sectors.

1.2 Equifax's credit rating

Equifax and other credit rating agencies all attempt to measure the probability of an entity being able to honour its financial commitments as and when they fall due. The most recognised credit rating is that based on Bond Rating Equivalents (BRE) used over the past eighty years to determine the proximity of an entity's securities to default (non-payment of interest or principal). The accuracy of this method has been extensively tested and is accepted worldwide.

The Equifax's database contains more than 100,000 financial years of information spanning more than twenty-five years. As such Equifax is in a unique position, having developed a large and empirical data source on entities across various industry sectors with long data histories covering a range of economic conditions and one or more complete business cycles. Equifax has therefore been able to use a variety of quantitative validation tools and comparisons using this information to adequately verify the stability, accuracy, and consistency of its rating models.

Equifax's rating models have been designed to assess the proximity of an entity to defaulting on its financial commitments and obligations. Proprietary risk analytics are used to evaluate the multivariate interrelationship of key risk indicators using scientifically based and empirically derived risk metrics. These models evaluate the financial performance, position, and profile of an entity in the context of its industry, size, and structure. They have been validated on Australian and international data with the assistance of Professor Edward Altman, an internationally recognised leader in the field of credit risk analysis and bankruptcy prediction.

Equifax uses its comprehensive benchmarking database to evaluate the financial position, performance and credit quality of an agency, institution, corporation, or entity relative to an industry and its peers. This enables the identification of key sensitivities, trends, cautionary alerts, and exception reports based on identified anomalies and/or outliers across key credit indicators of a select benchmarking group.

While there is no single method to discriminate unambiguously between firms that will default and those that will not, Equifax can make probabilistic assessments of default. This requires a large database of actual defaults to enable an assessment of default probabilities and actual default rates from empirical evidence. The Australasian market has a comparatively small number of corporate bond issues and a relatively benign credit climate over recent decades, and as such empirical data on Australian default rates is limited. Therefore, Equifax considers it is more appropriate to apply default probabilities using empirical data from international markets over several economic cycles.

Equifax's default statistics have been derived from nearly twenty years' experience analysing mainly US non-financial, non-utility corporate bond issuers. The analysis covered a relatively large number of companies (approximately 1,000 rated each year) and follows the well-established static pool approach used by Credit Rating Agencies to report their default experience. Static pools were created for bond issuers each year by both notch and grade, and the history of these bond issuers was then analysed over the period. The pools were then combined so that long-term average default experience by duration could be calculated, and both annual and cumulative default experience was calculated from the pools.

Equifax's risk analytics enable analysts to evaluate the most critical and sensitive financial and risk items through the Risk Assessment Platform by analysing key indicators to derive a definitive credit risk score and Bond Rating Equivalent (BRE), providing Probabilities of Default (PoD) over the short-, medium- and long-term horizon.

1.3 Rating Definitions

Credit ratings provide an Agency's opinion as to the capacity, viability, and willingness of an entity to meet their respective financial and contractual commitments. As such credit ratings are assigned in accordance with the entity, commitment, or product's proximity to default. Equifax adheres to internationally recognised grades and are similar to other agency classifications, providing ratings across twenty-two credit notches from 'D' (in default) to 'AAA' (extremely strong).

Moody's	Fitch	S&P	Rating	Default rates (5 years)	Classification	Risk Level
Aaa	AAA	AAA	AAA	0.17	High Grade	Negligible
Aa1	AA+	AA+	AA+	0.31		
Aa2	AA	AA	AA	0.44		
Aa3	AA-	AA-	AA-	0.55		
A1	A+	A+	A+	0.76	Investment Grade	Very Low
A2	A	A	A	0.81		
A3	A-	A-	A-	1.47		
Baa1	BBB+	BBB+	BBB+	2.08		Low
Baa2	BBB	BBB	BBB	3.19		
Baa3	BBB-	BBB-	BBB-	4.37		
Ba1	BB+	BB+	BB+	7.13	Near Prime	Low to Moderate
Ba2	BB	BB	BB	7.49		
Ba3	BB-	BB-	BB-	10.52		
B1	B+	B+	B+	16.34	Sub Prime	Moderate
B2	B	B	B	22.21		
B3	B-	B-	B-	24.16		High
Caa1	CCC	CCC+	CCC+	28.16	Credit Watch	Very High
Caa2		CCC	CCC	29.90		
Caa3		CCC-	CCC-	39.16		
Ca		CC	CC	52.87	Distressed	Extremely High
		C	C	55.00		
C	D	D	D	100.00		

Equifax assigns ratings based on the credit worthiness of an entity or a specific financial commitment, and provides probabilistic assessments of default over the short, medium, and long-term. Every entity or commitment has some probability of default over a period of time, even those assigned with the strongest of ratings. An Investment Grade classification is attributed to credits that exhibit a lower probability of default, while a Sub-Prime classification has a greater expectancy of default.

An Equifax's credit rating may also be assigned additional clarification markers (symbols) to qualify the credit risk assessment. These may include:

Conditional Rating (#)

A Conditional Rating is used where Equifax has rated an entity on the basis of significant risk factors and/or report qualifications, with recommendations providing one or more conditions precedent and/or mitigation action(s) to reduce identified uncertainty and risk.

Provisional Rating (*)

A Provisional Rating is used when the most recent financial figures are based on draft management accounts or are deemed out-of-date. Entities with a provisional rating should be re-evaluated as soon as finalised financial statements become available.

Indicative Rating (^)

An Indicative Rating is used where Equifax is engaged to conduct preliminary analysis only, and as such an official rating assignment would require a more detailed and comprehensive investigation and due diligence assessment prior to the provision of our professional opinion.

1.4 Rating Outlooks

Equifax's forward estimates help ascertain the trajectory of ratings as well as the risks to ratings. Ratings with a positive trajectory are assigned 'Positive Outlooks'. Ratings with a negative trajectory are assigned 'Negative Outlooks'. Where Ratings are expected to remain unchanged, a 'Stable Outlook' assigned.

Rating trajectories are closely related to the outlook for the corporate's earnings. Earnings growth that is within sustainable growth parameters together with an attenuation of earnings volatility provide upward rating pressure and so may warrant the assignment of a Positive Outlook.

Credit Concepts measured

The main credit concepts measured against Australian and New Zealand Standard Industry Classifications (ANZSIC) and specific Peer Groups based on entity size are available in Corporate Scorecard's Rating methodology, which can be found at the below-mentioned links

http://www.corporatescorecard.co.nz/services_credit_ratings.php

https://www.corporatescorecard.co.nz/docs/RatingMethodologyFinancial.pdf

2. Regulatory Disclosures and Disclaimer

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The credit rating issued by Equifax Credit Ratings reflects our current opinion of the relative credit risk of the institution. This opinion has been formed in accordance with Equifax's published credit ratings methodology - financial institution rating criteria (Issue 8, November 2021).

https://www.corporatescorecard.co.nz/docs/RatingMethodologyFinancial.pdf

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