Geneva Finance Limited

genevaFINANCE
Making life easier

Expert Opinion

In Relation to a Proposed Exchange of Ordinary Shares for all Outstanding Subordinated Notes

March 2011

northingtonPARTNERS
investment banking • corporate finance

northingtonPARTNERS

Table of Contents

ABBREVIATIONS AND DEFINITIONS

Abbreviations used in this report are as follows:

BOS	BOS International (Australia) Limited
Capital Reconstruction Proposal	The Capital Reconstruction proposal approved by Stockholders and Noteholders in March 2010
Debentures	Secured debenture stock
FY	Financial year ending 31 March
Geneva or Company	Geneva Finance Limited
Northington Partners	Northington Partners Limited
Noteholders	Holders of Sub-Notes
Stockholders	Holders of Debentures
Sub-Note Exchange	Proposed transaction whereby all of the outstanding Sub-Notes are exchanged for ordinary shares in the Company in accordance with the terms set out in a Simplified Disclosure Prospectus
Sub-Notes	Subordinated Notes
Trust Deed	Trust Deed for the Unsecured Deposits and Subordinated Notes
Trustee	Covenant Trustee Company Limited
Wind-down Scenario	The assumed alternative to the Repayment Plan, based on the approach and assumptions documented in this report

EXECUTIVE SUMMARY

INTRODUCTION

Investors in Geneva Finance Limited ("**Geneva**" or "**Company**") voted in March 2010 to accept the second capital reconstruction proposal ("**Capital Reconstruction Proposal**") put to them since the Company was initially placed into moratorium in November 2007. The main aim of the Capital Reconstruction Proposal was to extend the repayment period of all outstanding secured debenture stock ("**Debentures**"), all outstanding subordinated notes ("**Sub-Notes**"), and the wholesale loan facility provided by BOS International (Australia) Limited ("**BOS**").

Covenant Trustee Company Limited ("**Trustee**") engaged Northington Partners Limited ("**Northington Partners**") to provide an expert opinion on the merits of the Capital Reconstruction Proposal, primarily for the benefit of the holders of the Debentures ("**Stockholders**") and Sub-Notes ("**Noteholders**"). The scope of that assessment was relatively wide ranging, but focused primarily on the relative prospects for Stockholders and Noteholders under two alternative scenarios. The first scenario assumed that the Capital Reconstruction Proposal was approved, in which case the Company would continue as a going-concern, while the second scenario assumed that the Capital Reconstruction Proposal was not approved and the Company was placed into a managed wind-down process (run either by the current management team or an appointed receiver).

In our report dated March 2010, we reached the following conclusions in relation to the Capital Reconstruction Proposal:

- The financial outcomes for Stockholders and Noteholders under the Capital Reconstruction Proposal would be superior to those under the wind-down scenario on the condition that the Capital Reconstruction Proposal could be implemented in line with the projections prepared by the Company;
- Relative projected outcomes for the Noteholders were very clear cut. Under the Capital Reconstruction Proposal, the Company expected to pay Noteholders their entire outstanding principal, and interest would continue to be paid at an average annual rate of 13.2%. Under a wind-down scenario, we concurred with the management view that Noteholders were unlikely to receive any payment;
- The prospects for the Company under the Capital Reconstruction Proposal were critically dependent on the ability of the Company to raise additional debt and equity funding to support the ongoing lending operation and to repay the existing funding sources. In our view, Geneva's assumptions in this respect were very optimistic considering the Company's existing position and the increasingly difficult environment faced by all participants in the industry; and
- Notwithstanding our significant concerns over the likelihood that the projections prepared to support the Capital Reconstruction Proposal were achievable, we concluded that Stockholders and Noteholders would be no worse off if the Capital Reconstruction Proposal was approved. Approving the plan provided all investors with some upside in the event that the Company was successful at re-establishing a viable business, while there was limited downside if the projections could not be met.

Geneva has been unable to raise additional equity funding since the Capital Reconstruction Proposal was approved. The Company is now in a position where it believes that there is a significant risk that it will breach the minimum regulatory capital adequacy ratio of 8%, and that the likely consequence of such a breach is that the Trustee would appoint a receiver. Geneva currently has a capital ratio above the minimum regulatory level of 8%, but below the guideline minimum level of 10% as stipulated in the Unsecured Deposits and Subordinated Notes Trust Deed ("**Trust Deed**").

Geneva is proposing to increase its capital position above the 10% guideline minimum level using two main capital raising mechanisms, including a restructuring transaction whereby all of the outstanding Sub-Notes are exchanged for ordinary shares in the Company in accordance with the terms set out in a Simplified Disclosure Prospectus ("**Sub-Note Exchange**"). If approved by a special resolution of the Noteholders, this transaction would effectively result in the conversion of $4.44 million of Sub-Note principal into new equity capital with the same value.

The Trustee has engaged Northington Partners to provide the Noteholders with an independent expert report in relation to the Sub-Note Exchange. In contrast to the report prepared for the Capital Reconstruction Proposal in March 2010, we note that the scope of our assessment for this particular transaction has been restricted to a consideration of the following matter:

> *A determination of what further payments of interest and principal (if any) Noteholders would be likely to receive in the event that Geneva is either placed into receivership or wound down by current management ("**Wind-down Scenario**") commencing on 1 April 2011.*

Our assessment is therefore based on the premise that without the Sub-Note Exchange, the Company will breach the minimum capital adequacy level and will be subsequently forced into the Wind-down Scenario. Based primarily on revised financial models provided by the Company, we have assessed the potential outcomes for Noteholders under this scenario alone, with no consideration of the possible future returns that Noteholders may receive if the Sub-Note Exchange is approved.

As set out in Section 1.2, this scope is far more limited than is often the case for reports of this nature, and means that we have not addressed several important issues that we believe Noteholders should consider when determining whether or not to approve the Sub-Note Exchange.

SUMMARY OF OUR ASSESSMENT

Based on our review of the financial modelling, we believe that it is very unlikely that Noteholders will receive any payments of outstanding principal or accrued interest under the Wind-down Scenario.

Projections of the level of cash that may be generated in the Wind-down Scenario are subject to a number of assumptions, and actual cash flows may be higher than the current projections. However, we believe that even if recoveries from the loan book and other business assets are significantly higher than those projected by Geneva, it is likely that there would remain a shortfall in cash available to make any payments to Noteholders.

1.0 BACKGROUND AND SCOPE OF THIS REPORT

1.1 SUMMARY OF THE SUB-NOTE EXCHANGE

Full details of the Sub-Note Exchange are set out in the Simplified Disclosure Prospectus prepared by the Company. In summary:

- Noteholders will receive 20,000 ordinary shares in the Company for every $1,000 of outstanding Sub-Note principal. The exchange is based on an issue price of $0.05 per share;
- Based on the current number of shares outstanding, Noteholders in aggregate will hold just over 50% of all ordinary shares on issue after the Sub-Note exchange has been completed (assuming no further ordinary shares are issued pursuant to the other capital raising initiatives described below);
- The Sub-Note Exchange will proceed if approved by Noteholders who own 75% or more of the Sub-Notes on issue. The extraordinary resolution in relation to the Sub-Note Exchange will be voted on at a meeting of Noteholders scheduled for 31 March 2011. If the extraordinary resolution is approved, it will be binding on all Noteholders;
- Noteholders will receive interest on the Sub-Notes up to 31 March 2011;
- In conjunction with the Sub-Note Exchange, the Company is also offering Stockholders the ability to subscribe for additional shares by electing to exchange the Debenture principal repayment scheduled for 31 March 2015 for ordinary shares in the Company at an issue price of $0.05 per share. The aggregate principal repayment scheduled for that date is approximately $4.86 million; and
- The Sub-Note Exchange is conditional on shareholder approval of the issue of shares to Noteholders in relation to the Sub-Note Exchange.

1.2 TERMS OF REFERENCE AND ASSESSMENT APPROACH

We understand that the proposed Sub-Note Exchange is not subject to the Securities (Moratorium) Regulations 2009, which prescribes in some detail the required information that must be provided in an Expert Opinion for moratorium proposals. As such, the Trustee has some discretion as to the nature and extent of the review that is undertaken and the information that is provided to Noteholders.

As agreed between the Trustee and Geneva, the scope of our assessment for this particular proposed transaction has been restricted to a consideration of the following matter:

> *A determination of what further payments of interest and principal (if any) Noteholders would be likely to receive in the event that Geneva is either placed into receivership or wound down by current management commencing on 1 April 2011.*

This scope is very limited, and our report will **not** address several factors that Noteholders should consider when determining whether or not to approve the extraordinary resolution in relation to the Sub-Note Exchange. These factors include:

- The consequences for Geneva and the Noteholders in the event that the Sub-Note Exchange is not approved (including the likelihood that the Company would be placed into receivership or a managed wind-down);

- The options available to the Company as an alternative to the Sub-Note Exchange and the likelihood that any of these options could be successfully implemented;
- The share value used to determine the number of shares that Noteholders will receive in exchange for their Sub-Notes if the Sub-Note Exchange is approved;
- The short-term prospects for the market price and liquidity of Geneva's shares, and the potential for Noteholders to sell the shares issued to them pursuant to the Sub-Note Exchange; and
- The likelihood that Geneva's medium – long term plans will be achieved if the Sub-Note Exchange is approved, and the potential future value of the shares issued to Noteholders pursuant to the Sub-Note Exchange;

We also note that our report has been prepared for the benefit of the Noteholders only and does not assess the merits of the Sub-Note Exchange from the point of view of either the current Stockholders or shareholders of Geneva.

2.0 ASSESSMENT OF THE WIND-DOWN SCENARIO

A managed wind-down could potentially occur under a number of different structures. We assume that regardless of the actual structure put in place, the Wind-down Scenario is likely to involve some of the existing management and the collection team, and will potentially be carried out with the oversight of either a receiver or an independent monitor. Other key assumptions for the adopted Wind-down Scenario are as follows:

- The wind-down period occurs over four years. Given the nature of Geneva's business, it is likely that attempts would be made to keep the existing management and collections team in place while the receivables book is collected. Once a substantial proportion of the book has been collected, it is assumed that the residual assets of the Company are sold and proceeds used to repay outstanding liabilities. The financial model assumes that this final asset liquidation occurs at the end of four years, in March 2015;
- The current loan book is split between performing loans and loans in arrears. Geneva has provisioned approximately $29 million for loan arrears at 31 March 2011, and assumes that over the course of the four year wind-down period a further $6.0 million is provisioned for the collection of the receivables. This reflects primarily the risk of retaining an experienced and effective collections team for the duration of the wind-down;
- There is no allowance in the modelling for early repayments. It is possible that good customers who wish to borrow more will refinance their entire loan with another lender because Geneva will be unable to service their ongoing requirements. Although these repayments would mean that additional cash is available earlier than the contracted repayment dates, the total amount of cash collected will be lower because of the interest income that is foregone. For consumer lending, this factor could be significant;
- It is assumed that the commercial property Geneva owns and occupies is sold in April 2012 for $3.1 million (net proceeds after associated sale costs and commissions). The actual proceeds realised from the sale will be dependent on market movements in the period prior to the assumed sale date and the outcome from attempts to find a tenant to replace Geneva. The assumed proceeds from the sale of the property reflect some risk that the property may not be tenanted when sold. All else being equal, the sale price will be higher if the property is tenanted when it is sold;
- The business sells its shares in Anglesea Medical Properties Limited prior to March 2013 at 75% of book value, realising net proceeds of $1.8 million;
- At the end of the four year wind-down period, the remaining tangible assets are sold. It is assumed that the loan receivables at this time are sold at 70% of face value (net of provisions), which we believe represents a reasonable recovery level given the projected balance of the portfolio between the old impaired assets and the higher quality loan assets;
- Geneva's projected operating costs would reduce under a wind-down of the business, due largely to the cessation of new lending activities and broad cost reductions throughout the business as the Company becomes primarily a collections vehicle. All expenses relating to the origination of new lending would be eliminated;
- If the Wind-down Scenario involves a receiver, it is assumed that the receiver's costs to oversee the wind-down process will total approximately $0.8 million. This estimate is based on the reported costs of similar receiverships in which the incumbent management team was retained to assist with the wind-down. This cost has not been included in the assumed Wind-down Scenario, given

the working assumption that existing management would manage the process with limited oversight. If a receiver was involved, the associated costs would further weaken the position of the Noteholders; and

- The model incorporates the exit fee of $1.0 million payable to BOS on 1 October 2013, reflecting an expectation that the BOS facility will not have been fully repaid by this time.

Table 1: Projected Statement of Financial Position under Wind-down Scenario ($000s)

	FY2011 Projected	FY2012 Projected	FY2013 Projected	FY2014 Projected	FY2015 Projected	Wash-Up Projected
Current Assets						
Cash	2,123	1,009	917	1,223	3,905	3,905
Total Current Assets	**2,123**	**1,009**	**917**	**1,223**	**3,905**	**3,905**
Non-Current Assets						
Gross Loans Receivable	83,597	62,837	51,726	43,623	38,061	-
Less Provisions and Adjustments	(29,777)	(29,405)	(31,865)	(33,365)	(34,765)	-
Net Loan Receivables	53,820	33,432	19,861	10,258	3,296	2,307[1]
Fixed Assets & Intangibles	5,660	4,880	1,268	890	596	-
Other Non-Current Assets	7,794	7,192	6,757	6,181	6,160	-
Total Assets	**69,397**	**46,513**	**28,803**	**18,552**	**13,957**	**6,212**
Current Liabilities	**1,306**	**794**	**664**	**597**	**593**	**-**
Term Liabilities						
Debentures	28,520	19,372	13,001	9,931	9,555	4,965
BOS	24,200	14,622	8,364	6,671	6,435	6,435
Subordinated Notes	4,437	5,087	5,833	6,687	7,667	-
Total Term Liabilities	**57,157**	**39,081**	**27,198**	**23,289**	**23,657**	**11,400**
Total Liabilities	**58,463**	**39,875**	**27,862**	**23,886**	**24,250**	**11,400**
Net Assets	**10,934**	**6,638**	**940**	**(5,334)**	**(10,292)**	**(5,188)[2]**
Shareholders Funds						
Ordinary Share Capital	37,699	37,699	37,699	37,699	37,699	-
Preference Share Capital						
Retained Earnings	(26,629)	(30,925)	(36,623)	(42,896)	(47,854)	-
Revaluation Reserve	(137)	(137)	(137)	(137)	(137)	-
Total Equity	**10,934**	**6,638**	**940**	**(5,334)**	**(10,292)**	**-**

[1] Loan Receivables assumed to be sold at 70% of net book value

[2] Net asset position before any payment to unsecured creditor and subordinated noteholders

Table 1 summarises the Company's projected financial position both during the four year wind-down period and following the liquidation of residual assets at the completion of that period[1]. We conclude that:

- At the completion of the wind-down period, it is not expected that the Company will have sufficient cash to pay all of the accrued interest to Stockholders and BOS. As set out in the final column of Table 1, the projected shortfall is approximately $5.2 million;

[1] Note that the Company's projections have not been prepared in accordance with FRS42 (Prospective Financial Statements), and we express no opinion on their reliability.

- Noteholders are not entitled to any payments (or either interest or principal) until all of the payment obligations to Stockholders, BOS, and unsecured creditors have been met. The financial projections therefore indicate that it is very unlikely that Geneva will be in a position to make any payments of interest or principal to Noteholders under the Wind-down Scenario.

The actual outcome under the Wind-down Scenario is sensitive to the assumptions made in the analysis. Changes to the assumed performance of the existing receivables, the on-going level of operating costs, and the actual liquidation proceeds may affect or alter the ability of the business to make payments to Noteholders. However, as set out in Table 1, the estimated shortfall in residual cash generated by the business over the course of the wind-down period suggests that even a significant improvement in the performance of the business under the Wind-down Scenario is unlikely to result in Noteholders receiving any repayments.

3.0 QUALIFICATIONS, DECLARATIONS AND CONSENTS

3.1 DECLARATIONS

This report has been prepared by Northington Partners at the request of the Trustee to provide Noteholders with an independent assessment of the proposed Sub-Note Exchange. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

A prior draft of this report was provided to the Trustee and Geneva for review and discussion. Although minor changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

3.2 QUALIFICATIONS

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand and the Asia-Pacific region. The company specialises in mergers and acquisitions, capital raising support, investment appraisals, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and State Owned Enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D, Mark Cahill B.Sc, M.Com, and Will Parkyn B.App.Sc. Each individual has a wealth of experience in providing independent advice to clients relating to the value of business assets and equity instruments, as well as the choice of appropriate financial structures and governance issues.

3.3 INDEPENDENCE

None of the Directors or employees of Northington Partners have a relationship with, or a shareholding in, any of the parties associated with the proposed Sub-Note Exchange that could reasonably be regarded as capable of affecting Northington Partners ability to provide an unbiased assessment.

3.4 DISCLAIMER AND RESTRICTIONS ON THE SCOPE OF OUR WORK

In preparing this report, Northington Partners has relied on information provided by Geneva. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its Directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

The statements and opinions expressed in this report are based on information available as at the date of the report. In forming our opinion, we have relied on forecasts, projections and assumptions prepared by Geneva about future events which by their nature are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts and projections upon which we have relied.

We reserve the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

3.5 INDEMNITY

Geneva has agreed to indemnify Northington Partners (to the maximum extent permitted by law and subject to certain exceptions) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report; except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

Northington Partners Limited

Greg Anderson
Director

www.northington.co.nz

Appendix I - Sources of Information Used in This Report

Other than the information sources referenced directly in the body of the report, this assessment is also reliant on the following sources of information:

- A financial model (and associated updates) prepared by Geneva containing the projected financial performance of the Company over a four year period;
- The Simplified Disclosure Prospectus prepared by Geneva in relation to the proposed Sub-Note Exchange;
- The Constitution of Geneva dated March 2008;
- Discussions with Geneva Management;
- The Geneva Unsecured Deposits and Subordinated Notes Trust Deed (including a deed of amendment and supplemental trust deed); and
- A range of worksheets and schedules provided by Geneva in relation to various aspects of the Sub-Note Exchange.