Geneva Finance March 2023

30 May 2023

COMMENTARY

Trading Performance

The Group unaudited pre-tax profit of $4.8m was down $3.5m (-42%) on last year. Lower lending in the first half of the year in conjunction with the increase in cost of funds were the primary contributors to the profit decline. Unfortunately, this was then further exacerbated by the claim costs associated with the Auckland floods (as announced in our February 23 market announcement). In addition, during the year the board increased investment in group governance structure(s) which while increasing costs in the current year will provide ongoing benefits to the Group going forward.

Geneva Financial Services' (the lending business) pre-tax profit result of $2.8m was down $2.5m (-47%) on last year. The ongoing and regular increases in the OCR flowed in GFSL's cost of funds and was the primary cause of the decline in profitability of this operation. While this was mitigated by passing on the rate increases, the impact of this action will largely be visible in the March 24 year. Lower lending volumes in the first half of the year were a driven by lower motor vehicle sales and regulatory changes; in particular the interpretation of "affordability" under the responsible lending code. In contrast, the second half of the year delivered good lending growth as a result of both a restructuring of this operation and increased clarity from the regulator around the interpretation of the code. As with the increase in the interest rates referred to above, the benefits of the increased lending growth will mainly be seen in the March 24 year. The asset quality of receivables remained strong through the current challenging economic conditions which is a pleasing result. The net receivables ledger balance at period end was $91.2m.

Quest Insurance Group Limited (Quest) reported a pretax profit of $4.4m, down 6% on the prior period. Though Quest maintained strong premium growth over the period with gross premium of $39.3m, up 29%, higher claims cost, particularly from the Auckland floods and to a lessor degree claims from cyclone Gabriella mitigated much of this benefit. Operating costs were up $0.2m, +28% on last year, mainly due to increased costs associated with regulatory compliance. Cash on hand at year end amounted to $31.7m, up $6.8m on last year.

Federal Pacific Tonga (60% owned by the Group) reported a pre-tax profit of NZD $1.5m (-1.30% down on last year). The Group's share amounted to $0.9m pre-tax profit ($0.6m after tax).

Stellar Collections (Stellar), including the debt litigation business, reported a $0.1m loss for the period, down $0.2m on prior year $0.1m profit. The COVID impact on the debt litigation business was much more severe than first anticipated, however changes are being made to this operation to restore the business to pre COVID profitability.

Geneva Capital (invoice factoring), reported a $9k loss up $0.2m on the $0.2m loss reported on the prior period. This business operation has been restructured and the result includes a goodwill impairment provision. The board will review the operations in the coming financial year.

The after-tax unaudited financial result for the period was a profit of $3.5m, down $2.5m (41.5%).

Current economic environment

The current economic outlook will bring challenges as the rising costs and high inflation is put pressure on consumers, dampening demand for motor vehicles and associated services. However this environment also brings opportunities as competitors increase focus on asset quality, product profitability and less on volume growth, creating niches that our lending and insurance operations are adept at servicing.

Balance Sheet

Total Group assets increased to $174m (12% increase). The company's equity to total assets ratio is 22.2% vs 24.3% in the prior year.

Revenues

Revenue totaled $50.3m, an increase of $7.6m (18%).

Operating Costs

Operating costs increased by 16% to $22.7m, up $3.2m. This increase is largely driven by increases in additional regulatory costs, an investment in governance structures and additional claim costs associated with the recent weather events.

Funding

Group funding:

a. The lending and invoice financing businesses' securitisation facility of $75m was drawn to $73.6m at balance date. The facility limit was increased to $80m after year end.
b. Stellar's banking facility remained unchanged at $3.4m. The facility will be repaid in equal repayments commencing 31 July 2023 to 31 July 2025.

c. Wholesale investor debt funding increased to $14.8m and includes loans from directors and shareholders.

Credit Rating

Quest Insurance Group Limited's credit ratings issued by AM Best were reaffirmed on 17th August 2022.

- Financial Strength Rating of B outlook stable
- Issuer credit rating of bb+ outlook stable.

Highlights / Key Events

Quest premium sales increased by 30%.
Strong Cash resources, equal to last year $39.0m.
Total Group assets increased to $174m, up 12.2%.
Group equity increased to $39.0m, up 3.3%.

Events Subsequent to Balance Date

The Westpac securitisation facility was increased to $80m. The group entered into a new head office lease commencing 2 June 2023 for new premises located at 3 Te Kehu Way, Sylvia Park, Auckland.

Strategic Direction

The strategic direction for the group remains to strengthen its core businesses of Finance and Insurance.

Summary and Outlook

The year's result was disappointing and as noted above was an outcome of both the increases in interest rates and the impact of the Auckland floods. The former has been addressed and the latter is "one of those things" that the insurance operation will absorb and grow through. The board are confident that it's continued investment in the business infrastructure together with improvements in systems and people have positioned the business to bounce back from a difficult result and move the business back into the sustainable profitable growth.

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For further information, please contact:

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