

Investor Newsletter

Winter 2010 Vol 1 Issue 8

Welcome to the winter 2010 edition of our Investor Newsletter.

In this edition we will cover:

- Review of the June 2010 Quarter
- NZF turn around in profit
- Launch of the \$100m RMBS issue
- Susan's Chicken liver pate recipe
- Government Retail Deposit Guarantee Scheme update
- How to contact us
- Our latest interest rates

Our Hot Rates

8.75% pa*
for 12 months

8.95% pa*
for 18 months

(Interest paid quarterly or at maturity)

On 24 February 2010, NZF Money Limited received a NZ Dollar long term issuer rating of B (Outlook Negative) from Standard & Poor's.

For more information on; this rating, Standard & Poor's or credit ratings generally, please visit our Investors section on our website: www.nzf.co.nz

* Loyalty rates available to existing customers only

Review of the June 2010 Quarter

While the quarter started positively, Greece threw a spanner in the works (excuse the pun), resulting in a fall in the equity markets and volatility in the bond markets. This impacted on the NZ sharemarket, although there was little impact on retail interest rates in New Zealand. We expect to see a continuation in volatility, particularly in the sharemarket, as Europe continues to try to deal with its sovereign debt issues.

New Zealand has in some respects been in the right place at the right time during this recession; having goods and services that the world still want and having two major trading partners performing well. The Australian and Chinese economies are at the front of the pack leading the world out of recession and luckily for New Zealand, both these countries are major export markets for us and are also in the 'top five' visitors to NZ. By riding on the coat tails of these economies, New Zealand has avoided the severe effects of the recession that affected other countries. The positive terms of trade (largest increase in 34 years), unemployment figures and positive consumer and business confidence over the quarter support the view on the recovery of the NZ economy.

Further, residential property prices are only 5.6% down on average from the height of the market in 2007, supporting the view that the market is stabilising.

NZF Group announces a turn around in profit from trading operations

We are pleased to announce that our parent company (NZF Group Limited) has just announced its financial results. For more information on the results, please visit our website: www.nzf.co.nz.

NZF Group announces a turn around in profit from trading operations (cont.)

Some of the highlights include:

- **NZF's four key operating segments all showed strong returns to profitability**; the most notable of which were the Home Loans and Property Finance Divisions, which contributed \$4.345 million and \$1.021 million respectively to the audited profit from trading operations for the year.
- NZF **increased** its **Home Loans portfolio** from \$174.126 million to \$200.506 million.
- NZF **reduced** its **Property Finance Loan portfolio** from \$84.020 million to \$61.455 million, which was assisted by the repayment of a number of loans that were either past due or considered to be impaired as at 31 March 2009.
- NZF **increased** its **Consumer Loan portfolio** from \$5.137 million to \$5.951 million.
- NZF **maintained** its **conservative approach to lending**, with 95.9% of all Loans and Advances secured by way of First Mortgage security as at 31 March 2010.
- NZF **reduced** its **Total Gross Impaired Assets** from \$16.825 million to \$11.790 million without incurring any significant bad debt write offs over and above amounts assessed in the previous financial year.
- NZF **reduced** its **Total Past Due Assets** from \$25.068 million to \$12.642 million.
- NZF **repaid** the **\$40 million Cash Advances Facility** with Commonwealth Bank of Australia in full on 19 February 2010.
- NZF had \$15.346 million of cash reserves and \$31.3 million of undrawn bank facilities as at 31 March 2010.
- NZF **continues to have strong working relationships with its bankers**. Westpac increased the Warehouse Facility from \$200 million to \$225 million and extended the expiry date to 18 October 2010 during the height of the Global Financial Crisis.
- **NZF Money** Limited and Finance Direct Limited **continue to comply with all Trust Deed covenants and reporting obligations** and remain Approved Institutions under the current New Zealand Deposit Guarantee Scheme which expires on 12 October 2010.
- NZF SuperKiwi and Mike Pero Saver products have continued their rapid growth providing customers with a superannuation solution, while growing additional income streams for the Group. Over the last 12 months, the number of KiwiSaver customers has tripled.

While other companies operating in the finance company sector have been **announcing huge increases in loss provisions, NZF has returned to profit**. Executive Director, Mark Thornton said that "it was important to understand that **NZF had not incurred any significant bad debt write offs during the year** as a very conservative view on the possible losses from impaired loans had been taken back in March 2009. **NZF has always taken a conservative approach to lending** and has an experienced and stable financial management team. **NZF's lending is primarily focused on First Mortgage security**, which means that we are in a much **better position to control the sale and recoverability of impaired assets**. It is also pleasing to note that the skills and efforts of our lending team have been rewarded with further recoveries against impaired loans since 31 March 2010."

NZF Group launches \$100 million Residential Mortgage Backed Securities issue

NZF Group has completed (ie closed and settled) a \$100 million Retail Mortgage Backed Securities (RMBS) issue. This was the first RMBS issue in NZ by anyone in nearly three years and enabled NZF Group to both diversify its funding and grow its business. This news even made one of the largest global information and media sources "Bloomberg". These securities were almost all **(97%) rated AAA** by international credit rating agency Standard and Poor's (S&P). For more information on the NZF Group RMBS issue, please visit the 'Media Centre' section on our website: www.nzf.co.nz.

*This was the **first RMBS issue...in nearly three years** and enabled NZF Group to both diversify its funding and grow its business.*

Susan's Chicken Liver Paté

Some of you have spoken Susan on the phone regarding your investments, but what you may not know she is also a fantastic cook and regularly brings in her culinary delights! She made her home made paté recently (which we all loved!) and when asked, was very happy to share with our customers.

The recipe goes like this:

- 250gms chicken livers
- 1 Onion, peeled and quartered
- 1 clove of garlic
- 1 rasher of bacon cut into quarters
- 125gms of butter or margarine
- 1 tsp of thyme
- Salt & pepper to taste
- 1 ½ tabs brandy
- ¼ cup of cream



Susan Gin
NZF Investment
Administration Manager

Using the chopping blade of a food processor (or kitchen whizz), process onion, garlic and bacon until finely chopped. Melt butter or margarine in pan, add onion, garlic and bacon, cook until tender. Add chicken livers, thyme, salt & pepper. Cook a further 5 minutes. Cool slightly. Place back into bowl and process until pureed. Add brandy and cream, process until combined. Place into individual moulds or one large mould. Serve with toast or dry biscuits.

Question and Answers regarding the Retail Deposit Guarantee Scheme

While we would not rule out applying for the extension should we achieve a BB or better (re) rating, there would need to be sound and compelling reasons for doing so.



While the markets have remained volatile, they have recovered from their low point 15 months ago...

We have raised some key questions we thought you may have surrounding the extension as follows:

(1) Have NZF made a decision of whether or not you will apply for the extension under the Governments Retail Deposit Guarantee Scheme (RDGS)?

Our Answer - No, not at this stage. However, if we were to apply, we have to consider the cost of the extension. On an ongoing basis this cost is very high and while we could absorb the costs, we have to weigh up the benefits gained. While we would not rule out applying for the extension should we achieve a BB or better (re) rating, there would need to be sound and compelling reasons for doing so. Currently, it is our view that those companies that have sought the extension and accept the high cost of doing so, are more likely to have to (rather than want to) extend.

Further, we see the guarantee as a double edge sword, in that the extension is only for 14 months. What this will do is attract investors who would otherwise have traditionally invested in bank deposits, simply to get a higher rate that is government guaranteed. Some finance companies are now offering non-guaranteed (but still secured) deposits in an effort to wean investors off the RDGS. It was never the intention of the RDGS to offer (effectively) government guaranteed deposits with high interest rates. It was simply done to calm the panic in the markets in late 2008 and allow a period for things to settle down. While the markets have remained volatile, they have recovered from their low point 15 months ago and we expect will be even better by October 2010.

(2) How secure am I if I invest beyond 12 October 2010?

Our Answer – Nearly 40% (currently 39.2% and growing) **of our investors are already invested beyond the expiry of the current RDGS** and we expect many more of our investors will do the same as their deposits mature. They have considered our performance throughout the last few challenging years, the fact that renewed deposits (irrespective of term) are still covered by the current guarantee until its expiry and that the fundamentals for the company haven't changed since we started over 12 years ago:

- We have always been focused on first mortgage security (91.8% were first mortgage as at 31 March 2010)
- We maintained high levels of liquidity during the bad times
- We avoided exposure to large property developments and problem areas in NZ
- Our Senior Management have over 130 years of collective trading bank and finance sector experience.
- We are part of a diversified financial services company
- We have continued with our policy of no related party lending

Plus your investment is still secured by first ranking debenture stock over the assets of the company, irrespective of any government guarantee.

How to contact us

If you have any questions about anything in this newsletter, your secured term investment or if you would like to request a copy of the NZF SuperKiwi Investment Statement & Application or NZF Prospectus, we would be delighted to hear from you. Our contact details are as follows:

Telephone: 09 520 9350

(If calling us from overseas: +64 9 520 9350)

Toll free: 0800 20 70 70

Fax: 09 520 9351

Email: info@nzf.co.nz

Website: www.nzf.co.nz

Postal address: P O Box 1195, Shortland Street, Auckland, 1140

Business address: Level 2, 88 Broadway, Newmarket, Auckland, 1023

Nearly 40%...of our investors are already invested beyond the expiry of the current RDGS...



We have always been focused on first mortgage security (91.8% were first as at 31 March 2010).

INTEREST RATE CHART

First Ranking⁽¹⁾ Secured Deposits

Special Offer Rate (minimum \$1,000)

Term	Rates		Interest payment frequency
	Advertised Rates	Loyalty Rates ⁽²⁾ (Existing Clients)	
12 months	8.25% p.a.	8.75% p.a.	Monthly, Quarterly and At Maturity
18 months	8.45% p.a.	8.95% p.a.	Quarterly and At Maturity

Deposits \$10,000 plus

Term	Rates		Interest payment frequency
	Advertised Rates	Loyalty Rates ⁽²⁾ (Existing Clients)	
3 months	4.50% p.a.	4.50% p.a.	Quarterly and At Maturity
6 months	5.00% p.a.	5.00% p.a.	Quarterly and At Maturity
9 months	6.75% p.a.	7.00% p.a.	Quarterly and At Maturity
12 months	8.25% p.a.	8.75% p.a.	Monthly, Quarterly and At Maturity
18 months	8.45% p.a.	8.95% p.a.	Quarterly and At Maturity
2 years	8.50% p.a.	8.75% p.a.	Quarterly and At Maturity
3 years	8.50% p.a.	8.75% p.a.	Quarterly and At Maturity
4 years	8.00% p.a.	8.25% p.a.	Quarterly and At Maturity
5 years	8.00% p.a.	8.25% p.a.	Quarterly and At Maturity

Deposits less than \$10,000 (\$1,000 - \$9,999)

Term	Rate		Interest payment frequency
	Advertised Rates	Loyalty Rate ⁽²⁾ (Existing Clients)	
3 months	4.25% p.a.	4.25% p.a.	Quarterly and At Maturity
6 months	4.75% p.a.	4.75% p.a.	Quarterly and At Maturity
9 months	6.75% p.a.	7.00% p.a.	Quarterly and At Maturity
12 months	8.25% p.a.	8.75% p.a.	Monthly, Quarterly and At Maturity
18 months	8.45% p.a.	8.95% p.a.	Quarterly and At Maturity
2 years	8.25% p.a.	8.50% p.a.	Quarterly and At Maturity
3 years	8.25% p.a.	8.50% p.a.	Quarterly and At Maturity
4 years	7.75% p.a.	8.00% p.a.	Quarterly and At Maturity
5 years	7.75% p.a.	8.00% p.a.	Quarterly and At Maturity

- Minimum Term Investment amount \$1,000.00
- Rates are subject to change⁽³⁾
- NZF Money Limited was approved under the Crown Deposit Guarantee Scheme on 7 November 2008⁽⁴⁾
- On 24 February 2010, NZF Money Limited received a NZ Dollar long term issuer rating of B (Outlook Negative) from Standard & Poor's⁽⁵⁾
- Rates effective 26 May 2010

(1) Subject to claims given priority by legislation (2) If applicable (3) Rates are current at the time of this publication, however we regret that they are subject to change at anytime. Where this occurs, we will contact any investor (that has requested renewal or sent in a new deposit) where the rate requested differs to current rates. Investors can then decide whether you wish to: (a) invest at the new rates or (b) invest for a more favourable rate for a different term or (c) have your investment repaid at maturity (or your cheque returned). (4) For more information on the Crown Deposit Guarantee Scheme go to: <http://www.treasury.govt.nz/economy/guarantee/retail/approved/nbdt> (5) For more information on about this rating, Standard & Poor's and credit ratings generally please see our website: <http://www.nzf.co.nz/Investors/disclosure.aspx>

For further information and a copy of our Prospectus and Investment Statement please call one of our Investment Team on:

0800 20 70 70

www.nzf.co.nz

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