

NZF

## MARKET INFORMATION

2 February 2011

### **NZF Group Limited (NZF) – Response To NZ Herald Article 2 February 2011**

NZF wishes to clarify a number of inaccuracies contained in the article written by Tamsyn Parker that was published in the New Zealand Herald earlier this morning under the headline “Cash not an option, NZF tells investors”.

This article caused a flurry of calls from concerned investors in secured debenture stock in NZF's wholly owned subsidiary, NZF Money Limited, and undue worry as investors assumed that this related to their investment in that company. Given events over the last three years in the finance company sector, inaccurate reporting simply unnerves and confuses debenture stock investors.

The particular inaccuracies in the article that NZF wishes to clarify are as follows:

- (1) Paragraph 1 - Investors in Capital Notes are not locked in for five years. NZF Capital Notes are a tradable security on the secondary market and therefore can be sold for cash.
- (2) Paragraph 2 –
  - a. NZF's former name was New Zealand Finance Holdings Limited and not New Zealand Finance. New Zealand Finance Limited is the former name of NZF Money Limited.
  - b. NZF is not a finance company and therefore never applied for coverage under the Government's Retail Deposit Guarantee Scheme (RDGS). Two of NZF's subsidiaries, NZF Money Limited and Finance Direct Limited, were both covered under the RDGS, with both companies successfully exiting the Scheme on 12 October 2010.
- (3) Paragraph 3 – Whilst the introduction of the RDGS on 12 October 2008 achieved its objective of stabilising the market, it also had the adverse effect of putting unnatural pressures on cash flows nearing the expiry of the guarantee on 12 October 2010. In order to properly plan its business and to avoid further unnatural pressures being

placed on cash flows towards the expiry of the extended RDGS on 31 December 2011, the Directors of NZF Money Limited did not consider it viable to go through a re-rating exercise to obtain a rating that would enable it to apply for the extended RDGS. Due to its size, Finance Direct Limited was exempt from the requirement to obtain a rating by an approved ratings agency and, for similar reasons to NZF Money Limited, Finance Direct Limited did not see any benefits in applying for the extended RDGS.

- (4) Paragraph 8 – Mark Thornton is the Chief Executive Officer and not the acting Managing Director.
- (5) Paragraph 21 - NZF is not a finance company with a B rating. NZF is in fact a well diversified financial services group which has a wholly owned subsidiary, NZF Money Limited. This company is a finance company that received a NZ Dollar long-term issuer rating of B (Outlook Negative) from internationally recognised ratings agency Standard & Poor's on 24 February 2010.
- (6) Paragraph 23 – As mentioned above, investors do have an exit option i.e. selling their Capital Notes on the secondary market for cash.
- (7) Paragraph 26 – NZF does not and has never owned a stake in “Finance Now”. NZF does however own a 70% interest in Finance Direct Limited; a small consumer based finance company that has successfully traded in New Zealand for over 10 years.
- (8) Paragraph 28 – NZF's former name was New Zealand Finance Holdings Limited and not New Zealand Finance. New Zealand Finance Limited is the former name of NZF Money Limited. NZF does not and has never owned a stake in “Finance Now”.

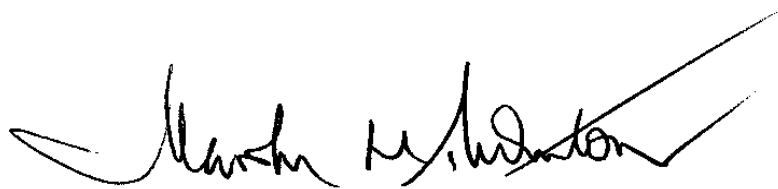
It is important to note that when the Capital Notes were originally issued in September 2006, the world was a different place. No one had contemplated the meltdown that would ensue over the next few years affecting the finance company sector and the devastating effects on investors, where some Capital Note holders also lost some or all of their investments. NZF has continued to pay interest on its Capital Notes on time, every time, and will continue to manage its business on a prudent basis.

In previous NZX Announcements, we have also advised that NZF was in the process of formulating a recapitalisation plan, including seeking new capital partners, in order to take advantage of growth opportunities that exist within the Residential Mortgage Backed Securities market in New Zealand.

We are able to announce that NZF is in the final stages of negotiation with a new business partner which we believe offers the most effective solution for NZF. The negotiations have not yet been concluded and are subject to completion of due diligence, where we have been asked to suspend all new originations in NZF's Home Loans Division until the negotiations and the necessary due diligence has been completed. The negotiations are

also subject to a confidentiality agreement and therefore we are unable to release any further information to the market at this stage. We will however update the market with further announcements in due course.

**ENDS**

A handwritten signature in black ink, appearing to read 'Mark Thornton', with a large, sweeping flourish extending upwards and to the right.

**Mark Thornton**  
**Chief Executive Officer**

See the NZX release for more details and for further information please contact:

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Date released: Wednesday, 2 February 2011