NZF
GENERAL
15 August 2008

NZF Group Limited (NZF) – Profit Guidance

NZF Group Limited (NZF) today advises that it expects the slow down in the housing market and the international credit crunch to have an impact on its profitability for the current financial year.

Given that a turnaround in conditions is unlikely before year end coupled with the decision to prudently retain high levels of cash, NZF expects its net profit after tax (NPAT) for the year ended 31 March 2009 to be between $2 million and $2.5 million.

NZF managing director John Callaghan said the guidance was based on a conservative outlook of the market. “We want to advise the market as early as we can so there are no surprises,” he said.

The expected NPAT compares to $3.8 million reported in the year ended 31 March 2008. The key reasons for the lower projections are:

- The impact of the international credit crunch has been well documented. The home loan, investment and property development markets have become further depressed and this has resulted in fewer quality lending opportunities in the market. In these times, NZF has continued its conservative stance in credit assessment.
- NZF has elected to retain the $40 million line of credit from Commonwealth Bank of Australia. The line of credit at this time is strategically important as it provides NZF considerable lending flexibility. Costs, however, are incurred from holding this unused facility.
- The prediction that the Reserve Bank will ease monetary policy over the rest of the year causing interest rates to fall. NZF hedges its loan book to neutralise the impact of such interest rate movements. However, under new accounting standards (NZIFRS) NZF must mark to market the impact of movements of interest rates. This is an accounting anomaly and affects reported profit but importantly not cash flows.
- Lower housing sales feeding through into lower income to NZF’s brokerage business. This impacts on NZF’s wholly owned brokerages and also its subsidiaries Mike Pero Mortgages and Finance Direct. The impact of lower commissions from the main trading banks is also now being realised.

Mr. Callaghan said that NZF was well placed with significant unused funding lines to take advantage of any uplift in activity in the housing market that would inevitably occur should interest rates fall as expected.

“In recent years we have taken steps to diversify our activities. We purchased shares in the Mike Pero Mortgages brokerage (50%) and Finance Direct (51%). We established warehouse funding lines with Westpac Banking Corporation and Commonwealth Bank of Australia to enable NZF to grow its home loan portfolio. These have been deliberate decisions to deliver on our strategy to develop NZF to be more than just a finance company.

“Our residential lending focus has always been on first mortgage security over quality property. The majority of our lending is insured by an unrelated third party insurer – Genworth Financial, which is AA rated by Standard and Poor’s. So whilst we have negligible bad debt we are significantly covered.

“On the borrowing side the bulk of our $259 million book is bank financed – principally Westpac Banking Corporation. We have actively reduced our reliance on debenture stock issuances over the years and now have just $51 million on issue. This is more than covered by cash and available funding lines of $77.75 million.”

NZF chairman Richard Waddel said, the board was pleased with the conservative approach taken by the company.

“NZF has not chased market share at any cost like other finance companies. This has been a deliberate strategy and one that the full board endorsed. In that regard our prudence has proved our strength in this market. We are confident that this will remain so.”

Ends

John Callaghan
Managing Director

For further information please contact:

Richard Waddel, Chairman Tel (0274) 941 690

John Callaghan, Managing Director Tel (021) 346 262