

## NZF Group Limited

20 Aug 2009

### Chair's address to AGM 20<sup>th</sup> August 2009

I opened my address last year stating that the past year has been the most difficult in the company's history. This current year has continued to be extremely difficult although there have been some encouraging developments.

However we can be proud of the way the company has been able to deal with these continuing challenges which has resulted in NZF Group Limited being in a relatively strong position despite the loss for the period.

### Key 2009 outcomes for the Group:

- Total Operating Profit **before** financial instrument valuations, impairment allowances and tax from the previous year decreased to \$3.6 million from \$5.7 million, and resulting in an after tax loss of \$3.4m
- Growth in the loan portfolio from \$246 million to \$263 million
- Total Assets increased by 3% to \$291 million
- Total dividend paid for the year of 0.50 cents per share, fully imputed
- Taking our share in Finance Direct Limited from 51% to 70%
- Introduction of the Government Deposit Guarantee Scheme
- The impact of IFRS requirements around the Financial Instrument reporting

- Loan impairment allowance of \$4.57m – at 1.7% of total loans. The first time in the company's history that this has been necessary

### **So how have we achieved this?**

- Increasing our funding facility from Westpac from \$200 to \$225m
- The debenture stock maturity profile continues to be very similar to our loan book repayment profile
- Quality loans predominantly first mortgage security and while we have provisioned for impaired loans at \$4.57m this represents 1.7% of total loans which is significantly less than other non bank competitors.
- Continuing to diversify our business to move away from total dependence on the finance company operations with very pleasing increase in our Home Loan business which as of today total \$182m
- Maintained a high level of liquidity which as of today is approximately \$34.8m in cash and undrawn facilities
- The introduction of Kiwisaver business through Huljich Wealth Management.

### **What impact has this had and will it have on the company:**

- A decrease in operating profit **before** financial instrument valuations, impairment allowances and tax from the previous year of \$2.1m (36%)
- The need to forgo a final dividend
- Our finance company loan book increased by 23% for the year and debenture stock decreased by 7.6% following the introduction of the DGS

- A reduction in loan applications approved due to a fall-off in quality of these applications and a move to even more conservative lending criteria
- Despite a decrease in residential property transactions we continued to grow our Home Loan portfolio to \$174m
- A continued reduction in property broking business caused by the reduction in residential sales
- A further fall in the share price which is likely to take some time to recover
- Our conservative approach of maintaining high levels of cash, thus increasing liquidity; has negatively impacted our operating result through a reduction in interest margin

**Where to from here:**

- When the market conditions improve, we are in a very strong position to continue to grow our loan book and therefore profitability
- We are continually looking to diversify our product lines to provide hopefully what the market wants and therefore grow our business. Examples being Home Loans, Kiwisaver and our own Insurance Products.
- The completion of the installation of a complete banking IT system to support the organisation as a diversified financial services group hopefully by March 2010
- Maintaining our quality staff
- Further enhancement of excellent quality of service

- Diversifying our funding sources, although this will not be easy to achieve
- The need to get certainty around what happens with the Government Deposit Guarantee Scheme after it is due to end October 2010. We have been assured by Government that an announcement around this should be made within the next 2 months.

Prime Minister John Key, last night in Melbourne said that the retail deposit guarantee scheme in New Zealand is likely to be extended to match the duration of the Australian scheme.

While it has been another extremely difficult year, we can be proud of what we have achieved, how strongly we have survived and the position we are now in to seize the opportunities that will arise in the future although it is likely to be gradual improvement over time in performance of the company rather than dramatic.

I cannot let this moment pass without saying on behalf of the Board and I am sure on behalf of you the shareholders a tremendous thank you to the staff including the executive directors for a job very well done. They all continue working in a very stressful environment and have come through delivering a company we can continue to be proud of.

A thank also to my fellow board members for their efforts they have been an integral part of the strategy and decision making process that now finds the

company in a relatively strong position in an industry that has nearly been brought to its knees

I now call the MD John Callaghan to the podium...