

interim report 2009

For the six month period ended 30 September 2009



30/09/09	\$301,654
31/03/09	\$291,355
30/09/08	\$282,279
31/03/08	\$281,891
30/09/07	\$267,850
31/03/07	\$199,453

Total Assets
(\$'000)

30/09/09	\$20,715
31/03/09	\$18,086
30/09/08	\$24,888
31/03/08	\$24,334
30/09/07	\$23,659
31/03/07	\$21,176

Total Equity
(\$'000)

CHAIRMAN'S STATEMENT

As the philosopher Friedrich Nietzsche once said, "That which does not kill us makes us stronger". Conditions over the last few years have been the most difficult the Group has experienced in our 12 years of trading. However, we are pleased to announce that our **six month results to 30 September 2009** has **produced a net operating profit before tax of \$2.877m**, which compares with a net loss before tax of \$4.834m for the full twelve months ended 31 March 2009. Further, **total assets increased by 3.5% to \$301.654m**. The bulk of this growth has been achieved in the Home Loans Division.

The last six months has seen a turnaround in the economy as early signs of recovery gather pace. At the start of 2009, there were dismal forecasts for the economy ahead, however this view dissipated as the recovery started much earlier than anyone had anticipated. The more benign economy, relatively low interest rates and rising immigration numbers underpinned the turnaround in the property market. These factors, combined with the concerted effort of our experienced credit team to focus on collections, resulted in us being able to dispose of some troublesome assets at much better prices than we had initially expected.

John Callaghan, Managing Director, said "the challenges of 2008 now seem to be abating and **it is pleasing to announce the profit turnaround at a time when most others in the industry have only been able to disclose bad news**".

The result was significantly impacted by both the write back of previously impaired loans and a net gain on interest rate swaps. However, it is important

that shareholders understand that the write back of impaired loans means that we took a very conservative view on the possible losses in March. The gain on interest rate swap contracts relates to the Group's Home Loans book. Shareholders may recall that we signalled this positive movement in financial instrument valuations had started to occur in our annual address to shareholders in August 2009 and this has in fact eventuated.

Overall, I feel the **results** are a **testament to the conservative approach the Group has adopted** and while the recovery seems to be taking hold, there is still major uncertainty in the finance sector making it extremely difficult to predict the annual result.

In accordance with our conservative strategy, no dividend has been declared as it is considered more prudent to retain cash in the current market conditions.



Richard Waddel
Chairman
26 November 2009

Consolidated Statement of Comprehensive Income

For the six month period ended 30 September 2009

	30-Sep 2009 (6 Months) Unaudited \$'000	31-Mar 2009 (12 Months) Audited \$'000	30-Sep 2008 (6 Months) Unaudited \$'000
Interest income	12,310	28,230	14,781
Interest expense	(10,392)	(21,489)	(12,089)
Net interest income	1,918	6,741	2,692
Fee and commission income	4,360	10,964	6,475
Fee and commission expense	(2,430)	(6,422)	(2,725)
Net fee and commission income	1,930	4,542	3,750
Gains/(losses) on financial instruments at fair value	1,603	(4,006)	(388)
Other income	129	374	141
Total operating income	5,580	7,651	6,195
Net impairment losses	1,082	(4,461)	(125)
Operating expenses and staff costs	(3,785)	(8,024)	(4,162)
Profit/(loss) before income tax	2,877	(4,834)	1,908
Income tax (expense)/benefit	(864)	1,419	(587)
Profit/(loss) for the period from continuing operations	2,013	(3,415)	1,321
Other comprehensive income			
Net gains/(losses) on cash flow hedges arising during the period	648	(1,238)	-
Income tax relating to components of other comprehensive income	-	-	-
Other comprehensive income for the period, net of tax	648	(1,238)	-
Total comprehensive income for the period, net of tax	2,661	(4,653)	1,321
Attributable to:			
Minority interest	18	21	51
Equity holders of the Company	2,643	(4,674)	1,270
	2,661	(4,653)	1,321
	Cents	Cents	Cents
Basic earnings per share	2.60	(4.48)	1.66
Diluted earnings per share	2.60	(4.48)	1.66

Consolidated Balance Sheet

As at 30 September 2009

	30-Sep 2009 Unaudited \$'000	31-Mar 2009 Audited \$'000	30-Sep 2008 Unaudited \$'000
Assets			
Cash and cash equivalents	8,872	7,896	6,662
Derivative assets held for risk management	-	-	172
Loans and advances to customers	269,003	258,712	252,119
Trade and other receivables	1,515	1,674	2,118
Current tax assets	205	534	524
Property, plant and equipment	653	726	854
Intangible assets	16,696	16,696	16,710
Deferred tax asset	1,288	1,954	304
Other assets	3,422	3,163	2,816
Total assets	301,654	291,355	282,279
Liabilities			
Trade and other payables	2,392	2,316	2,210
Derivative liabilities held for risk management	2,394	4,771	186
Loans and borrowings	275,614	265,628	254,157
Other liabilities	539	554	838
Total liabilities	280,939	273,269	257,391
Net assets	20,715	18,086	24,888
Equity			
Share capital	7,503	7,503	7,503
Retained earnings	13,301	11,306	16,395
Hedge accounting reserve	(590)	(1,238)	-
Total equity attributable to equity holders of the company	20,214	17,571	23,898
Minority interest	501	515	990
Total equity	20,715	18,086	24,888
	Cents	Cents	Cents
Net tangible assets per share	5.24	1.81	10.67

Consolidated Statement of Changes in Equity

For the six month period ended 30 September 2009

	Attributable to Equity holders of the Company					
	Share Capital \$'000	Retained Earnings \$'000	Accounting Reserve \$'000	Total \$'000	Minority Interest \$'000	Total Equity \$'000
Balance as at 1 April 2008	7,503	15,892	-	23,395	939	24,334
Total comprehensive income	-	1,270	-	1,270	51	1,321
Equity dividends	-	(767)	-	(767)	-	(767)
Balance as at 30 September 2008	7,503	16,395	-	23,898	990	24,888
Balance as at 1 April 2008	7,503	15,892	-	23,395	939	24,334
Total comprehensive income	-	(3,436)	(1,238)	(4,674)	21	(4,653)
Minority interest reduction on acquisition of further shares in Finance Direct Limited	-	-	-	-	(365)	(365)
Dividend paid to minority shareholders in Finance Direct Limited	-	-	-	-	(63)	(63)
Cash drawn by minority shareholders in MPMH Limited and Subsidiary Undertakings	-	-	-	-	(17)	(17)
Equity dividends	-	(1,150)	-	(1,150)	-	(1,150)
Balance as at 31 March 2009	7,503	11,306	(1,238)	17,571	515	18,086
Balance as at 1 April 2009	7,503	11,306	(1,238)	17,571	515	18,086
Total comprehensive income	-	1,995	648	2,643	18	2,661
Cash drawn by minority shareholders in MPMH Limited and Subsidiary Undertakings	-	-	-	-	(32)	(32)
Equity dividends	-	-	-	-	-	-
Balance as at 30 September 2009	7,503	13,301	(590)	20,214	501	20,715

Consolidated Statement of Cash Flows

For the six month period ended 30 September 2009

	30-Sep 2009 (6 Months) Unaudited \$'000	31-Mar 2009 (12 Months) Audited \$'000	30-Sep 2008 (6 Months) Unaudited \$'000
Net cash flow from operating activities	(8,949)	(14,415)	(4,995)
Net cash flow from investing activities	(29)	(452)	(97)
Net cash flow from financing activities	9,954	10,702	(307)
Net increase/(decrease) in cash held	976	(4,165)	(5,399)
Cash balance at start of the period	7,896	12,061	12,061
Cash balance at end of the period	8,872	7,896	6,662
Made up as follows:			
Bank accounts	8,872	7,896	6,662

Reconciliation of Net Profit/(Loss) with Cash Flows from Operating Activities

For the six month period ended 30 September 2009

	30-Sep 2009 (6 Months) Unaudited \$'000	31-Mar 2009 (12 Months) Audited \$'000	30-Sep 2008 (6 Months) Unaudited \$'000
Profit/(loss) for the period	2,013	(3,415)	1,321
Add:			
Depreciation of property, plant and equipment	87	226	111
Loss on sale of property, plant and equipment	15	93	1
(Decrease)/increase in collective and specific loan allowances	(1,269)	4,051	61
Bad debts written off	187	390	64
Impairment loss on other assets	-	20	-
Gain on acquisition of shares held by minority interest in subsidiary undertaking	-	(95)	-
Deduct:			
Net increase in loans and advances to customers	(9,209)	(17,446)	(6,538)
Net (increase)/decrease in derivative assets and liabilities held for risk management	(1,729)	3,907	388
(Increase)/decrease in accounts receivable and other assets	(100)	82	(14)
Increase/(decrease) in accounts payable and other liabilities	61	(728)	(550)
Decrease/(increase) in current tax assets	329	261	272
Decrease/(increase) in deferred tax asset	666	(1,761)	(111)
Net Cash Flow from Operating Activities	(8,949)	(14,415)	(4,995)

1.STATEMENT OF COMPLIANCE

The consolidated financial statements for the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP") and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

2.BASIS OF PREPARATION

The financial statements have been prepared on the basis of historical cost, as modified by the fair value measurement of available for sale financial assets, financial instruments held at fair value through profit or loss and all derivative contracts. Cost is based on the fair values of the consideration given in exchange for assets.

The Group meets the definition of a Financial Institution under NZ IFRS 7 'Financial Instruments: Disclosures' and is subject to the specific additional disclosure requirements applicable to Financial Institutions defined in Appendix E of NZ IFRS 7.

The Income Statement discloses the net interest income, net fee and commission income and other income in line with the Income Statement presentation used by other Financial Institutions.

The Balance Sheet presentation discloses assets and liabilities in order of their liquidity in line with the Balance Sheet presentation used by other

Financial Institutions.

The Group prepares its consolidated financial statements in accordance with NZ IFRS, the application of which often requires judgements to be made by management when formulating the Group's financial position and results. Under NZ IFRS, the Directors are required to adopt those accounting policies most appropriate to the Group's circumstances for the purpose of presenting fairly the Group's financial position, financial performance and cash flows.

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy, accounting estimate or assumption to be followed could materially affect the reported results or net asset position of the Group should it later be determined that a different choice would be more appropriate.

Accounting policies are selected and applied in a manner which ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions, and bases of which, are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods

if the revision affects both current and future periods.

The accounting policies used in the preparation of these financial statements are consistent with those used in the interim financial statements for the six month period ended 30 September 2008 and in the audited financial statements for the year ended 31 March 2009.

These interim financial statements have been prepared in accordance with NZ IAS 34 covering Interim Financial Reporting, and should be read in conjunction with the 2009 Annual Report.

3.SEGMENT REPORTING

For management purposes, the Group is organised into four operating segments, as follows:

Property Finance Division

The Property Finance Division is operated by NZF Money Limited (100% subsidiary), which provides property finance to a range of clients for residential properties (owner occupied houses), investment properties (houses), commercial and industrial properties, property development (houses and quality apartments), rural and farm properties and bare land (residential development land), which is predominantly backed by first mortgage security.

Home Loans Division

The Home Loans Division comprises NZF Homeloans Limited, NZF Mortgages Warehouse A Trust and NZF Mortgages Warehouse B Trust (100% controlled entities). The principal activity of the Home Loans Division is to provide residential mortgage customers with bank competitive Home Loans, which are secured by first mortgage security.

Consumer Finance Division

The Consumer Finance Division comprises

Finance Direct Limited (70% subsidiary), which specialises in sourcing lenders to make certain financial accommodation available to clients and in making certain loans and other financial accommodation to clients, which are secured against vehicles, boats and property.

NZF Money Limited also provides secured business and personal loans to some of its clients and employees. However, this does not form a significant part of that Company's activities and is therefore not managed and measured separately from its main Property Finance activities. As a result, all financial information relating to NZF Money Limited has been disclosed within Property Finance activities.

Financial Services Distribution

NZF Group Limited, New Zealand Mortgage Finance Limited (100% subsidiary) and MPMH Limited and Subsidiary Undertakings (50% joint venture investee) have developed their own extensive broker networks to distribute a range of financial services products to clients, including Mortgages, Insurances, Personal Loans and Kiwisaver. Whilst the financial services business of all three Companies are managed and measured independently from one another, their results have been aggregated and shown as a single operating segment, as they have similar economic characteristics. These include the nature of the products and services provided to clients, the types and classes of clients to whom services are provided, the distribution methods employed and the regulatory environment within which all three businesses operate.

Management monitors the results of its four operating segments separately for the purpose of making

decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss shown in the consolidated financial statements. Income taxes are managed by operating segment due to the number of separate legal and tax entities involved.

The principal activity of NZF Group Limited is to act as the management and holding company for the NZF Group of Companies. This includes holding the investments in subsidiary undertakings and the joint venture investee, managing Group cash flow requirements, Corporate

Governance, Financial Reporting, complying with the NZX Listing Rules and dealing with Investor relations. NZF Group Limited is funded by Ordinary Share Capital, Retained Earnings and \$20,050,000 of Unsecured Capital Notes which are due to mature on 15 March 2011. Interest is payable on the Unsecured Capital Notes at the rate of 9.75% per annum, quarterly in arrears. This interest, together with other central operating expenses, assets and liabilities, are not allocated by management to the four operating segments when making decisions about resource allocation and performance assessment.

The following information has been prepared on a

consistent basis for all three accounting periods in accordance with NZ IFRS 8 Operating Segments, except that depreciation and amortisation charges have not been separately disclosed, as management does not consider these to be material for the purpose of making decisions about resource allocation and performance assessment.

In order to provide a full reconciliation of the Group's total revenue, total profit/(loss), total assets and total liabilities for each accounting period, any revenue, costs, assets and liabilities of NZF Group Limited that are not allocated by management to the four operating segments have been shown within Management & Holding Activities. Goodwill

and intangible assets have also been allocated by management to the operating segments to which those assets relate.

Intersegment revenue is not considered to be material by management and has therefore been eliminated on consolidation and not disclosed. As a result, all revenue shown for each operating segment is that generated from external customers. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2009 or 2008.

All business activities are carried out within New Zealand so there is no geographic segment reporting.

30 September 2009 (6 Months) Unaudited

	Total \$'000	Property Finance Division \$'000	Home Loans Division \$'000	Consumer Finance Division \$'000	Financial Services Distribution \$'000	Management & Holding Activities \$'000
Interest income	12,310	4,229	7,465	567	29	20
Interest expense	(10,392)	(3,078)	(6,096)	(221)	(20)	(977)
Net interest income	1,918	1,151	1,369	346	9	(957)
Fee and commission income	4,360	464	300	491	3,105	-
Fee and commission expense	(2,430)	(12)	(428)	(85)	(1,905)	-
Net fee and commission income	1,930	452	(128)	406	1,200	-
Gains on financial instruments at fair value	1,603	-	1,603	-	-	-
Other income	129	-	-	12	117	-
Total operating income	5,580	1,603	2,844	764	1,326	(957)
Net impairment losses	1,082	1,148	(33)	(33)	-	-
Operating expenses and staff costs	(3,785)	(1,483)	(275)	(634)	(1,054)	(339)
Profit/(loss) before income tax	2,877	1,268	2,536	97	272	(1,296)
Income tax (expense)/benefit	(864)	(380)	(761)	(29)	(82)	388
Profit/(loss) for the period from continuing operations	2,013	888	1,775	68	190	(908)
Total assets	301,654	83,601	184,694	8,516	16,017	8,826
Total liabilities	280,939	68,897	184,090	6,249	1,122	20,581

**31 March 2009 (12 Months)
Audited**

	Total \$'000	Property Finance Division \$'000	Home Loans Division \$'000	Consumer Finance Division \$'000	Financial Services Distribution \$'000	Management & Holding Activities \$'000
Interest income	28,230	9,527	17,858	807	27	11
Interest expense	(21,489)	(5,952)	(13,114)	(350)	(118)	(1,955)
Net interest income	6,741	3,575	4,744	457	(91)	(1,944)
Fee and commission income	10,964	2,835	482	917	6,730	-
Fee and commission expense	(6,422)	[22]	(2,208)	(139)	(4,053)	-
Net fee and commission income	4,542	2,813	(1,726)	778	2,677	-
Losses on financial instruments at fair value	(4,006)	-	(4,006)	-	-	-
Other income	374	-	-	-	280	94
Total operating income	7,651	6,388	(988)	1,235	2,866	(1,850)
Net impairment losses	(4,461)	(4,026)	(239)	(176)	(20)	-
Operating expenses and staff costs	(8,024)	(3,106)	(563)	(1,088)	(2,712)	(555)
(Loss)/profit before income tax	(4,834)	(744)	(1,790)	(29)	134	(2,405)
Income tax benefit/(expense)	1,419	223	525	(2)	(74)	747
(Loss)/profit for the period from continuing operations	(3,415)	(521)	(1,265)	(31)	60	(1,658)
Total assets	291,355	82,135	176,242	6,724	16,217	10,037
Total liabilities	273,269	68,836	177,944	4,517	1,461	20,511

**30 September 2008 (6 Months)
Unaudited**

	Total \$'000	Property Finance Division \$'000	Home Loans Division \$'000	Consumer Finance Division \$'000	Financial Services Distribution \$'000	Management & Holding Activities \$'000
Interest income	14,781	5,015	9,331	413	15	7
Interest expense	(12,089)	(3,068)	(7,811)	(166)	(72)	(972)
Net interest income	2,692	1,947	1,520	247	(57)	(965)
Fee and commission income	6,475	1,858	342	523	3,752	-
Fee and commission expense	(2,725)	(13)	(392)	(82)	(2,238)	-
Net fee and commission income	3,750	1,845	(50)	441	1,514	-
Losses on financial instruments at fair value	(388)	-	(388)	-	-	-
Other income	141	-	-	-	141	-
Total operating income	6,195	3,792	1,082	688	1,598	(965)
Net impairment losses	(125)	(114)	-	(11)	-	-
Operating expenses and staff costs	(4,162)	(1,531)	(285)	(556)	(1,481)	(309)
Profit/(loss) before income tax	1,908	2,147	797	121	117	(1,274)
Income tax (expense)/benefit	(587)	(643)	(246)	(44)	(36)	382
Profit/(loss) for the period from continuing operations	1,321	1,504	551	77	81	(892)
Total assets	282,279	73,121	177,188	5,540	16,329	10,101
Total liabilities	257,391	56,153	175,829	3,016	1,870	20,523

4.SUBSEQUENT EVENTS

The Directors are not aware of any matters or circumstances since the end of the reporting period, not otherwise dealt with within this report or financial statements, that have significantly or may significantly affect the consolidated operations of NZF Group Limited.



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