NZF

2010

equipped

annual report

NZF ANNUAL REPORT 2010

equipped

contents

chairman's & managing director's report

Winston Churchill once said "When you are going through hell, keep going!". That quote sums up how the last few years has felt for the Board, our management team, our staff and also our investment customers, as a result of the far reaching impacts of the Global Financial Crisis and the turmoil in the Finance Company sector. We are extremely proud of our management team and staff who have dug deep and forged on in a very difficult and challenging economic environment. These last few years have been the most challenging ever for the Company, although thankfully we are now seeing light at the end of the tunnel.

John Callaghan
Managing Director

Richard Waddel
Chairman

Key Financial Results for the year ended 31 March 2010

	2010 $'000	2009 $'000
Total gross operating income	**32,998**	39,568
Total net operating income	**8,251**	11,657
Movement in loan impairment allowances and bad debts written off	**158**	(4,441)
Gains/(losses) on financial instruments at fair value	**2,269**	(4,006)
Operating expenses and staff costs	**(7,242)**	(8,024)
Operating profit/(loss) before impairment loss on intangible assets	**3,436**	(4,814)
Impairment loss on intangible assets	**(6,975)**	(20)
Loss before income tax	**(3,539)**	(4,834)
Income tax (expense)/benefit	**(1,022)**	1,419
Loss for the year	**(4,561)**	(3,415)
Gains/(losses) on cash flow hedges arising during the year	**713**	(1,238)
Total comprehensive income for the year	**(3,848)**	(4,653)
Attributable to:		
Minority interests	**35**	21
Equity holders of the Company	**(3,883)**	(4,674)

Throughout the difficult times, NZF's original goal has remained the same, to build a successful diversified financial services business. This is reflected in our vision "to be a leading provider of financial services for hard working Kiwis".

After weathering another tough year, we are pleased to announce an audited profit from trading operations of $3.436 million for the year ended 31 March 2010, representing an $8.250 million turnaround compared to the net loss from trading operations of $4.814 million reported for the year ended 31 March 2009. This is particularly pleasing at a time when most others in the industry have only been able to disclose bad news.

Key highlights for the year include:

- NZF's four key operating segments: Property Finance Division, Home Loans Division, Consumer Finance Division and Financial Services Distribution all showed strong returns to profitability. The results achieved by the Home Loans Division and the Property Finance Division were particularly pleasing and contributed $4.150 million and $0.943 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 both met the Reserve Bank of New Zealand Amendment Act 2008 deadline to have formal Risk Management Programmes put in place by 1 September 2009.

- NZF Money Limited met the Reserve Bank of New Zealand Amendment Act 2008 deadline and obtained a current credit rating from an Approved Rating Agency by 1 March 2010.

- 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.

We are pleased to report that NZF has 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. At 17 June 2010, Total Gross Impaired Assets stand at $6.806 million, against which one unconditional sale of $3.8 million has been agreed but not yet settled.

In accordance with NZ IFRS, management performed an annual test for impairment for goodwill and its indefinite life assets as at 31 March 2010. Goodwill impairment testing indicated that the carrying amount of goodwill allocated to NZF's 50% Joint Venture Investment in MPMH Limited (Mike Pero Mortgages Group) exceeded its estimated recoverable amount by $6.975 million. The Directors have accordingly accounted for this impairment loss in the financial statements, which has resulted in NZF reporting a retained loss for the year. The impairment loss principally arose due to the reassessment of short term growth rates and projections of profitability by management due to changes in MPMH's KiwiSaver sales and marketing strategy and the prolonged impact of the Global Financial Crisis on the New Zealand Housing Market affecting mortgage broking and insurance related income streams. Whilst the impairment loss was reflective of current market conditions, Mike Pero Mortgages continues to be the most recognised Mortgage Broking name in New Zealand.

"The overall effect of the RMBS transaction has been to provide NZF's Home Loans Division with an additional funding line of $100 million to enable it to continue the significant growth it has already achieved to date. It is clear that NZF's inaugural $100 million RMBS issue has created a lot of interest and excitement both internationally and in New Zealand. It is also clear that investor appetite and confidence is returning to this market. The rejuvenation of the RMBS market in New Zealand provides NZF with significant opportunities for future growth".

On 26 May 2010, the Directors were pleased to announce the launch of NZF's inaugural $100 million Residential Mortgage Backed Securities (RMBS) issue, the NZF Mortgages Series 2010-1 RMBS, which is the first RMBS issue in New Zealand since late 2007. The transaction involved the sale of $100 million of fully reinsured Residential Home Loans and the issue of $100 million of Notes by the Trust. The ratings assigned by Standard & Poor's to each Note Class issued by the Trust (96.9% AAA Rated, 2.5% AA-Rated and 0.6% Not Rated) took into account a number of factors, including the credit risk of the underlying Residential Home Loans sold, and further underlines NZF's commitment to quality lending.

The RMBS transaction was arranged and lead managed by Westpac Institutional Banking and was built around strong reverse enquiry from a small group of Institutional Investors. We are pleased to confirm that the RMBS transaction settled on 15 June 2010 and wish to thank everyone involved at NZF and Westpac Institutional Banking for all of their skills, efforts and determination in successfully bringing this transaction to market.

The overall effect of the RMBS transaction has been to provide NZF's Home Loans Division with an additional funding line of $100 million to enable it to continue the significant growth it has already achieved to date. It is clear that NZF's inaugural $100 million RMBS issue has created a lot of interest and excitement both internationally and in New Zealand. It is also clear that investor appetite and confidence is returning to this market. The rejuvenation of the RMBS market in New Zealand provides NZF with significant opportunities for future growth.

NZF is not a traditional Finance Company and continues to position itself to take advantage of multiple income streams and remain a well diversified Financial Services Group. It is a Company built on strong leadership, governance and credit principles and it continues to take a conservative approach to its credit approval process, including a prudent spread of investments across New Zealand.

The Directors are mindful of the current economic climate and the various challenges the Group faces, including expiry of the current New Zealand Deposit Guarantee Scheme on 12 October 2010. The Directors remain confident in the Group's ability to tackle these challenges head on and are thankful for the continued support of our loyal investors, key banking partners and shareholders.

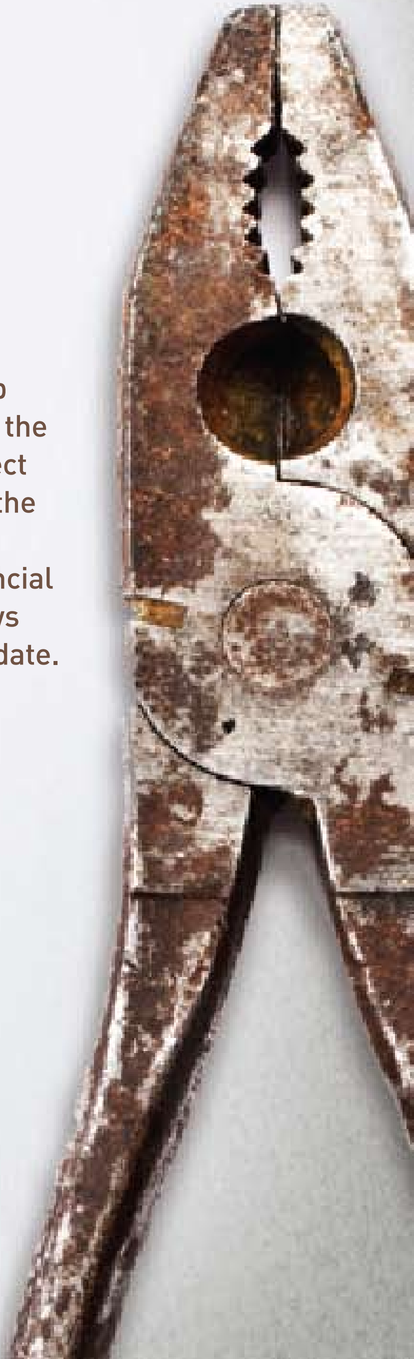
NZF is in the process of formulating a recapitalisation plan, including seeking new capital partners, in order to take advantage of a number of growth opportunities. We are pleased to report that Specialist Financial Services Consultant, Ecko Capital, is currently working with a number of interested parties.

The Directors have resolved that a dividend will not be declared for this reporting period.

directors' report

for the year ended 31 March 2010

The Directors of NZF Group Limited resolved to submit the following report with respect to the financial position of the Company and Group as at 31 March 2010 and its financial performance and cash flows for the year ended on that date.



directors' report

for the year ended 31 March 2010

Directors

The names of the Directors of the Company in office at the date of this report are:

Richard Alan Waddel
Chairman and Independent Director, BCom FCA (NZ), AF InstD

John Alan Callaghan
Managing Director, BBS

Mark Hume Thornton
Executive Director

Jeffrey Albert Barkwill
Independent Director, FCA (NZ), DipCM

Peter Karl Christopher Huljich
Non-Executive Director, BCom, Dip. NZX, SA Fin.

Pat Redpath O'Connor
Non-Executive Director

In accordance with the Company's Constitution, Richard Alan Waddel and Mark Hume Thornton will retire, and, being eligible, offer themselves for re-election.

Nature of Business

The business of the Company and Group has continued to be the provision of a broad range of financial products and services during the year under review.

Consolidated Result For The Year

	2010 $'000	2009 $'000
Total gross operating income	**32,998**	39,568
Total net operating income	**8,251**	11,657
Movement in loan impairment allowances and bad debts written off	**158**	(4,441)
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Impairment loss on intangible assets	**(6,975)**	(20)
Loss before income tax	**(3,539)**	(4,834)
Income tax (expense)/benefit	**(1,022)**	1,419
Loss for the year	**(4,561)**	(3,415)
Gains/(losses) on cash flow hedges arising during the year	**713**	(1,238)
Total comprehensive income for the year	**(3,848)**	(4,653)
Attributable to:		
Minority interests	**35**	21
Equity holders of the Company	**(3,883)**	(4,674)

Remuneration of Directors

During the year the following remuneration was paid or payable to Directors:

	2010 $'000	2009 $'000
Company		
NZF Group Limited		
Richard Alan Waddel	**45**	42
Jeffrey Albert Barkwill	**33**	33
Peter Karl Christopher Huljich	**33**	33
Pat Redpath O'Connor	**27**	27
John Alan Callaghan	**-**	-
Mark Hume Thornton	**-**	-
Subsidiaries		
NZF Money Limited		
Richard Alan Waddel	**-**	-
Jeffrey Albert Barkwill	**-**	-
Peter Karl Christopher Huljich	**-**	-
Pat Redpath O'Connor	**-**	-
John Alan Callaghan	**225**	255
Mark Hume Thornton	**180**	195
NZF Homeloans Limited		
John Alan Callaghan	**-**	-
Mark Hume Thornton	**-**	-
NZF Securitisation Limited		
John Alan Callaghan	**-**	-
Mark Hume Thornton	**-**	-
NZF Mortgages Limited		
John Alan Callaghan	**-**	-
Mark Hume Thornton	**-**	-
New Zealand Mortgage Finance Limited		
John Alan Callaghan	**-**	-
Approved Mortgage Brokers Limited		
John Alan Callaghan	**-**	-
Finance Direct Limited		
Richard Alan Waddel	**9**	9
Wayne Darrin Croad	**145**	145
Murray Robert Greig (Resigned 7 July 2008)	**-**	30
John Alan Callaghan	**-**	-
Peter Karl Christopher Huljich	**-**	-
	697	769

Employees

The number of employees, other than Directors, within the Company and Group receiving remuneration and benefits above $100,000, as is required to be disclosed in accordance with Section 211(g) of the Companies Act 1993, is indicated in the following table:

	2010 Number	2009 Number
NZF Money Limited		
$100,000 - $109,999	**1**	-
$110,000 - $119,999	**1**	2
$120,000 - $129,999	**1**	-
$130,000 - $139,999	**1**	1
$140,000 - $149,999	**1**	-
$150,000 - $159,999	**1**	-
$160,000 - $169,999	**-**	2
$190,000 - $199,999	**-**	1

Directors' Shareholdings

Director	Holder	Number Of Shares
John Alan Callaghan	Bluewater Corporation Limited	17,951,218
Pat Redpath O'Connor	Hillview Trust	16,910,002
Mark Hume Thornton	Colsam Trust	9,095,514
Peter Karl Christopher Huljich	Best Investments Limited	5,768,622
Peter Karl Christopher Huljich	E A Huljich Family Trust	1,122,859
Peter Karl Christopher Huljich	Peter Karl Christopher Huljich	1,007,667
Richard Alan Waddel	Richard Alan Waddel	36,000
Jeffrey Albert Barkwill	Jeffrey Albert Barkwill	26,000

Interested Transactions

The Directors have disclosed the following transactions with the Company and Group:

Interested Transactions

Peter Karl Christopher Huljich is a beneficial shareholder in Huljich Wealth Management (New Zealand) Limited. NZF Group Limited and Mike Pero Mortgages Limited distribute the Huljich KiwiSaver Scheme using the NZF SuperKiwi and Mike Pero Saver brands. Huljich Wealth Management (New Zealand) Limited is the Funds Management provider and pays upfront and trail commission to NZF Group Limited and Mike Pero Mortgages Limited, of which $272,000 was received during the year ended 31 March 2010 (2009: $118,000).

Pat Redpath O'Connor had $1,800,000 invested in secured debenture stock issued by NZF Money Limited during the year ended 31 March 2010 (2009: $2,800,000) on which interest of $98,946 (2009: $70,884) was paid. At 31 March 2010, $1,800,000 (2009: $1,800,000) of secured debenture stock was held by Pat Redpath O'Connor in NZF Money Limited.

There were no other transactions during the year with interested or related parties.

Directors' Remuneration

Remuneration details of Directors are provided above.

Interested Transactions (cont)

Indemnification and Insurance of Officers and Directors

The Company indemnifies Directors and Executive Officers of the Group against all liabilities which arise out of the performance of their normal duties as Directors or Executive Officers, unless the liability relates to conduct involving lack of good faith. To manage this risk, the Group has indemnity insurance. The total cost of this insurance expensed during the financial year was $33,775 (2009: $34,875).

Share Transactions

No Directors acquired or disposed of any Ordinary Shares in the Company during the year.

Directors' Loans

There were no loans made by the Company or Group to Directors.

The Board received no notices during the year from Directors requesting to use Company information received in their capacity as Directors which would not otherwise have been available to them.

Auditors

During the year the Group paid fees of $312,000 (2009: $258,000) for audit related services to the auditors, Grant Thornton. In accordance with Section 200 of the Companies Act 1993, the auditors, Grant Thornton, continue in office.

Donations

There were no donations paid during the year (2009: $nil).

Directors' Declaration

In the opinion of the Directors of NZF Group Limited, the financial statements and notes, on pages 18 to 77:

- Comply with New Zealand Generally Accepted Accounting Practice and give a true and fair view of the financial position of the Company and Group as at 31 March 2010 and the results of their operations and cash flows for the year ended on that date.
- Have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Directors consider that they have taken adequate steps to safeguard the assets of the Company and the Group, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements.

The Directors are pleased to present the financial statements of NZF Group Limited for the year ended 31 March 2010.

For and on behalf of the Board of Directors who approved this annual report for issue on 17 June 2010.

John Alan Callaghan Managing Director	Mark Hume Thornton Executive Director

shareholder information

for the year ended 31 March 2010

Shareholders

As at 31 March 2010 there were 373 shareholders.

Share Issues

There were no share issues for the year under review.

Shareholder Details

The ordinary shares of NZF Group Limited are listed on the NZX.

The information in the disclosures below has been taken from the Company's registers as at 31 March 2010:

20 Largest Shareholders

Name	Fully Paid Number	Ordinary Shares %
Bluewater Corporation Limited	17,951,218	23.41
Robert Norman Burnes, Pat Redpath O'Connor & Kay O'Connor for Hillview Trust	16,910,002	22.06
Lynton Ross Campbell, Dennis Michael Graham & Mark Hume Thornton for Colsam Trust	9,095,514	11.86
Barbara Charlotte Thornton & SW Trust Services Limited	7,834,488	10.22
Best Investments Limited	5,768,622	7.52
New Zealand Central Securities Depository Limited	2,744,623	3.58
Ted Burak	1,890,000	2.47
Kim Nigel Lyons, Fiona Patricia Lyons & Christopher John Davis	1,682,917	2.20
Christopher Peter Huljich & Colin Gordon Powell	1,122,859	1.46
Peter Karl Christopher Huljich	1,007,667	1.31
Macleay Investments Limited	910,492	1.19
Suzanne Janice Sundberg & Timothy Joel Sundberg	634,118	0.83
PKB Trustees Limited	573,596	0.75
David Anthony Shatford	451,333	0.59
New Zealand Finance Solutions Limited	400,000	0.52
Christine Ruth Lockie & J T Trustee Co Limited	385,346	0.50
Craig Maurice Johnston & Charmaine Denise O'Shea	320,000	0.42
Michael Roger Beal, Tiffany Anne Bower & Stephanie Faye Paxton-Penman	310,226	0.40
Munro Hubbard Limited	252,061	0.33
Lawrence Arthur Diack & Helen Maree Diack	243,446	0.32
Total	**70,488,528**	**91.94%**

Distribution of Equity Securities

Size of Holdings As at 31 March 2010	Shareholders Number	%	Fully Paid Number	Ordinary Shares %
1 – 2,999	57	15.28	78,053	0.10
3,000 – 9,999	136	36.46	659,434	0.86
10,000 – 49,999	134	35.93	2,457,624	3.21
50,000 – 99,999	12	3.22	785,664	1.02
100,000 – 199,999	11	2.95	1,508,355	1.97
200,000 – 499,999	10	2.68	3,051,422	3.98
500,000 – 999,999	3	0.80	2,118,206	2.76
Over 1,000,000	10	2.68	66,007,910	86.10
Total	**373**	**100.00%**	**76,666,668**	**100.00%**

Substantial Security Holders

Pursuant to Section 26 of the Securities Markets Act 1988, details of substantial security holders and their total relevant interests as per their most recent notices are:

Name	Number Of Shares	Record Date	Date of Notice
Bluewater Corporation Limited	17,951,218	27 December 2006	27 December 2006
Robert Norman Burnes, Pat Redpath O'Connor & Kay O'Connor for Hillview Trust	16,910,002	6 October 2004	6 October 2004
Lynton Ross Campbell, Dennis Michael Graham & Mark Hume Thornton for Colsam Trust	9,095,514	23 June 2006	23 June 2006
Barbara Charlotte Thornton & SW Trust Services Limited	7,834,488	4 August 2006	4 August 2006
Best Investments Limited	5,768,622	14 August 2007	14 August 2007

Shareholder Enquiries

Shareholders should send changes of address to Link Market Services Limited at the address noted in the Company Directory on page 78. Notification must be in writing. Questions relating to shareholdings should also be addressed to Link Market Services Limited. For information about the Group please contact the Company at the Registered Office by sending an e-mail to info@nzf.co.nz or visit the website www.nzf.co.nz.

Announcement and Reporting to Shareholders

The Company has established an e-mail list of Shareholders that want to receive announcements and reports made by NZF Group Limited to the NZX. Announcements and reports are e-mailed to Shareholders who wish to receive them shortly after they are released. This will include the Annual Meeting addresses, Annual Reports and Interim Reports. If you want to be added to this listing please e-mail registry@nzf.co.nz and advise us of your preferred e-mail address. Your e-mail details will be kept confidential.

Announcements are also posted on our website www.nzf.co.nz normally a day after they are released.

corporate governance

for the year ended 31 March 2010

The Board of NZF Group Limited is committed to acting with integrity and expects high standards of behaviour and accountability from all its officers and staff. The Board recognises the need to continue to enhance its Governance Standards in line with developing best practice. In so doing, the Board has considered standards, guidelines and principles published by a range of interested parties in New Zealand and Internationally. The Governance Principles adopted by the Board are designed to meet best practice. Generally NZF Group Limited follows the NZX Corporate Governance Best Practice Code, except that there is no Nominations Committee. The Board has reviewed those Rules, Principles and Guidelines and is taking progressive steps to improve the Governance Systems and Processes by reference to them.

Role of the Board

The Board's primary objective is the enhancement of Shareholder value by following appropriate strategies and ensuring effective and innovative use of available Group resources. The Board is responsible for the management, supervision and direction of the Group. Day-to-day management of the Group is delegated to the Group Managing Director.

Board Meetings

The Board normally meets eleven times each year for scheduled meetings. Additional meetings are held where specific matters require attention between scheduled meetings. Board meetings are used to monitor, challenge, develop and fully understand business and operational issues.

Composition of the Board

The Constitution provides that there will be no less than three and not more than nine Directors. NZX requirements are that at least two Directors, or one-third, are Independent Directors. The Board currently consists of two Independent Directors including the Chairman.

Criteria for Board Membership

When a vacancy arises, the Board will identify candidates with a mix of capabilities and perspectives considered necessary for the Board to carry out its responsibilities effectively. A Director appointed by the Board must stand for election at the next Annual Meeting. At each Annual Meeting one-third of Directors (excluding the Managing Director) must retire by rotation. Retiring Directors are eligible for re-election.

Board Committees

The Board has established an Audit & Risk Committee and a Remuneration Committee.

The Audit & Risk Committee operates under a Charter approved by the Board and is accountable to the Board for: the business relationship with, and the independence of, external auditors; the reliability and appropriateness of the disclosure of the financial statements and external financial communication; and the maintenance of an effective business risk management framework including compliance and internal controls. The Audit & Risk Committee is comprised of three Non-Executive Directors. The Chairman of the Committee is Jeffrey Albert Barkwill.

The Remuneration Committee operates under a Charter approved by the Board and is accountable to the Board for: obtaining assurance that the Group's human resources policies and practices support achievement of the Group's goals; overseeing appointments of the Managing Director, roles reporting to the Managing Director, and key professional advisors in the area of Legal, Tax and Public Relations; and overseeing the development of key employees.

The Remuneration Committee recommends to the Board the level of the Managing Director's remuneration package.

The Remuneration Committee is comprised of three Non-Executive Directors. The Chairman of the Committee is Peter Karl Christopher Huljich.

Trading in Shares

NZF Group Limited has a detailed Insider Trading Policy applying to all Directors and employees. A procedure must be followed to obtain consent to trade in the Company's shares at all times. Generally trading is permitted from the release of interim results until 28 February and from the release of the final results until 31 August. Directors and employees are not able to trade in Company shares, if they are in possession of unpublished price sensitive information.

The Company reinforces these measures by requiring that anyone designated as having the opportunity to access price sensitive information can transact in the Company's securities only with the prior approval of the Company Secretary and Chairman.

Make Timely and Balanced Disclosure

The Company has in place procedures designed to ensure compliance with the NZX Listing Rules such that:

- All investors have equal and timely access to material information concerning the Company, including its financial situation, performance, ownership and governance.
- Company announcements are factual and presented in a clear and balanced way.

Accountability for compliance with disclosure obligations is with the Company Secretary. Significant market announcements, including the preliminary announcement of the half year and full year results, and the financial statements for those periods, require review by the Audit & Risk Committee and the Board.

Audit Report

Audit

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Partnership
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PO Box 1961
Auckland 1140

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F +64 (0)9 309 4892
www.grantthornton.co.nz

To the shareholders of NZF Group Limited

We have audited the financial statements on pages 18 to 77. The financial statements provide information about the past financial performance and cash flows of the company and group for the year ended 31 March 2010 and the financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 23 to 33.

Directors' Responsibilities

The company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the company and group as at 31 March 2010 and of the financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- whether the accounting policies used are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

Chartered Accountants
Member of Grant Thornton International Ltd

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether causec by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

A financial planning entity associated with Grant Thornton received brokerage on normal commercial terms for the placement of funds with the company. This has not impaired our independence as auditors of the company.

The firm has no other interest in the company or its subsidiaries.

Unqualified Opinion

We have obtained all the information and explanations that we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial statements on pages 18 to 77:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the financial position of the company and group as at 31 March 2010 and the financial performance and cash flows for the year ended on that date.

Our audit was completed on 17 June 2010 and our unqualified opinion is expressed as at that date.

Grant Thornton

Grant Thornton New Zealand Audit Partnership
Auckland, New Zealand

Chartered Accountants
Member of Grant Thornton Internatio

statement of comprehensive income

for the year ended 31 March 2010

	Note	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Interest income	3	24,735	28,230	332	593
Interest expense	3	(20,115)	(21,489)	(1,952)	(1,955)
Net interest income	3	4,620	6,741	(1,620)	(1,362)
Fee and commission income	4	8,009	10,964	216	99
Fee and commission expense	4	(4,632)	(6,422)	(163)	(69)
Net fee and commission income	4	3,377	4,542	53	30
Gains/(losses) on financial instruments at fair value	5	2,269	(4,006)	-	-
Other income	6	254	374	-	3,147
Total operating income		10,520	7,651	(1,567)	1,815
Net impairment losses	7	(6,817)	(4,461)	(6,593)	-
Operating expenses and staff costs	8	(7,242)	(8,024)	(626)	(553)
(Loss)/profit before income tax		(3,539)	(4,834)	(8,786)	1,262
Income tax (expense)/benefit	10	(1,022)	1,419	658	565
(Loss)/profit for the year from continuing operations		(4,561)	(3,415)	(8,128)	1,827
Other comprehensive income					
Gains/(losses) on cash flow hedges arising during the year		713	(1,238)	-	-
Income tax relating to components of other comprehensive income		-	-	-	-
Other comprehensive income for the year, net of tax		713	(1,238)	-	-
Total comprehensive income for the year, net of tax		(3,848)	(4,653)	(8,128)	1,827
Attributable to:					
Minority interest		35	21	-	-
Equity holders of the Company		(3,883)	(4,674)	(8,128)	1,827
		(3,848)	(4,653)	(8,128)	1,827
Earnings per Share					
Attributable to Equity holders of the Company:		Cents	Cents		
Basic	13	(5.99)	(4.48)		
Diluted	13	(5.99)	(4.48)		

The attached notes form part of and are to be read in conjunction with the Financial Statements

statement of changes in equity

for the year ended 31 March 2010

		Attributable to Equity holders of the Company					
	Note	Share Capital $'000	Retained Earnings $'000	Hedge Accounting Reserve $'000	Total $'000	Minority Interest $'000	Total Equity $'000
Group							
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	**20**	-	-	-	-	(366)	(366)
Dividend paid to minority shareholders in Finance Direct Limited		-	-	-	-	(63)	(63)
Cash drawn by minority shareholders in MPMH Limited and Subsidiary Undertakings		-	-	-	-	(16)	(16)
Equity dividends	**12**	-	(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		-	(4,596)	713	(3,883)	35	(3,848)
Cash drawn by minority shareholders in MPMH Limited and Subsidiary Undertakings		-	-	-	-	(32)	(32)
Equity dividends	**12**	-	-	-	-	-	-
Balance as at 31 March 2010		**7,503**	**6,710**	**(525)**	**13,688**	**518**	**14,206**
Company							
Balance as at 1 April 2008		7,503	2,596	-	10,099	-	10,099
Total comprehensive income		-	1,827	-	1,827	-	1,827
Equity dividends	**12**	-	(1,150)	-	(1,150)	-	(1,150)
Balance as at 31 March 2009		7,503	3,273	-	10,776	-	10,776
Balance as at 1 April 2009		7,503	3,273	-	10,776	-	10,776
Total comprehensive income		-	(8,128)	-	(8,128)	-	(8,128)
Equity dividends	**12**	-	-	-	-	-	-
Balance as at 31 March 2010		**7,503**	**(4,855)**	**-**	**2,648**	**-**	**2,648**

The attached notes form part of and are to be read in conjunction with the Financial Statements

balance sheet

as at 31 March 2010

	Note	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Assets					
Cash and cash equivalents		**15,346**	7,896	**802**	6,039
Derivative assets held for risk management	**15**	**47**	-	**-**	-
Loans and advances to customers	**16**	**264,989**	258,712	**-**	-
Trade and other receivables	**17**	**1,400**	1,674	**6,269**	3,011
Current tax assets		**362**	534	**673**	464
Property, plant and equipment	**18**	**531**	726	**-**	-
Intangible assets	**19**	**9,721**	16,696	**-**	-
Investments in subsidiaries and joint venture	**20**	**-**	-	**15,196**	21,289
Deferred tax asset	**21**	**1,005**	1,954	**60**	60
Other assets	**22**	**3,212**	3,163	**260**	445
Total assets		**296,613**	291,355	**23,260**	31,308
Liabilities					
Trade and other payables	**23**	**2,265**	2,316	**562**	482
Derivative liabilities held for risk management	**15**	**1,552**	4,771	**-**	-
Loans and borrowings	**24**	**278,194**	265,628	**20,050**	20,050
Other liabilities	**25**	**396**	554	**-**	-
Total liabilities		**282,407**	273,269	**20,612**	20,532
Net assets		**14,206**	18,086	**2,648**	10,776
Equity					
Share capital	**26**	**7,503**	7,503	**7,503**	7,503
Retained earnings		**6,710**	11,306	**(4,855)**	3,273
Hedge accounting reserve		**(525)**	(1,238)	**-**	-
Total equity attributable to equity holders of the company		**13,688**	17,571	**2,648**	10,776
Minority interest		**518**	515	**-**	-
Total equity		**14,206**	18,086	**2,648**	10,776

For and on behalf of the Board of Directors who approved these financial statements for issue on 17 June 2010.

John Alan Callaghan
Managing Director

Mark Hume Thornton
Executive Director

The attached notes form part of and are to be read in conjunction with the Financial Statements

statement of cash flows

for the year ended 31 March 2010

	Note	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Cash Flows from Operating Activities					
Interest received		**23,988**	28,332	**332**	593
Interest paid		**(20,006)**	(21,755)	**(1,949)**	(1,961)
Fee and commission income received		**7,993**	10,682	**216**	99
Other income received		**(30)**	181	**-**	-
Dividends received		**-**	-	**-**	3,147
Payments to suppliers and employees		**(11,836)**	(14,368)	**(527)**	(525)
Taxation received/(paid)		**99**	(80)	**449**	377
Net increase in loans and advances to customers	**1(t)**	**(5,279)**	(17,446)	**-**	-
Net (increase)/decrease in loans to subsidiaries	**1(t)**	**-**	-	**(3,261)**	6,044
Franchisee loan repayments		**36**	15	**-**	-
Employee loan repayments		**3**	25	**3**	25
Net Cash Flow from Operating Activities		**(5,032)**	(14,414)	**(4,737)**	7,799
Cash Flows used in Investing Activities					
Acquisition of additional shares in subsidiary undertaking	**20**	**-**	-	**(500)**	-
Acquisition of shares held by minority interest in subsidiary undertaking	**20**	**-**	(271)	**-**	(271)
Acquisition of additional shares in joint venture	**20**	**-**	-	**-**	(350)
Sale of intangible assets		**-**	31	**-**	-
Purchase of property, plant and equipment	**18**	**(52)**	(215)	**-**	-
Sale of property, plant and equipment		**-**	2	**-**	-
Net Cash Flow from Investing Activities		**(52)**	(453)	**(500)**	(621)
Cash Flows from Financing Activities					
Net increase in term loans	**1(t)**	**5,500**	21,572	**-**	-
Repayment of unsecured subordinated notes		**-**	(610)	**-**	-
Net increase/(decrease) in secured debenture stock	**1(t)**	**7,066**	(9,031)	**-**	-
Payment of group dividends	**12**	**-**	(1,150)	**-**	(1,150)
Payment of dividends to minority shareholders		**-**	(63)	**-**	-
Cash drawn by minority shareholders		**(32)**	(16)	**-**	-
Net Cash Flow from Financing Activities		**12,534**	10,702	**-**	(1,150)
Net increase/(decrease) in cash held		**7,450**	(4,165)	**(5,237)**	6,028
Cash balance at start of the year		**7,896**	12,061	**6,039**	11
Cash balance at end of the year		**15,346**	7,896	**802**	6,039
Made up as follows:					
Cash and cash equivalents		**15,346**	7,896	**802**	6,039

The attached notes form part of and are to be read in conjunction with the Financial Statements

reconciliation of net (loss)/profit with cash flows from operating activities

for the year ended 31 March 2010

	Note	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
(Loss)/profit for the year		**(4,561)**	(3,415)	**(8,128)**	1,827
Add:					
Depreciation of property, plant and equipment		**218**	226	**-**	-
Loss on sale of property, plant and equipment		**29**	93	**-**	-
(Decrease)/increase in collective and specific loan allowances		**(1,648)**	4,051	**-**	-
Bad debts written off		**650**	390	**-**	-
Impairment loss on other assets		**6,975**	20	**6,593**	-
Gain on acquisition of shares held by minority interest in subsidiary undertaking		**-**	(95)	**-**	-
Deduct:					
Net increase in loans and advances to customers	**1(t)**	**(5,279)**	(17,446)	**-**	-
Net (increase)/decrease in derivative assets and liabilities held for risk management	**1(t)**	**(2,553)**	3,907	**-**	-
Decrease/(increase) in accounts receivable and other assets		**225**	83	**(3,073)**	6,240
(Decrease)/increase in accounts payable and other liabilities		**(209)**	(728)	**80**	(80)
Decrease/(increase) in current tax assets		**172**	261	**(209)**	(190)
Decrease/(increase) in deferred tax asset		**949**	(1,761)	**-**	2
Net Cash Flow from Operating Activities		**(5,032)**	(14,414)	**(4,737)**	7,799

Major Non-Cash Transactions

During the year ended 31 March 2010, $840,000 of interest was accrued on impaired loans and advances, as required by NZ IAS 39 Financial Instruments: Recognition and Measurement, in order to recognise the discount applied using the effective interest rate method to future cash receipts expected on those loans and advances (see Note 16). There were no major non-cash transactions during the year ended 31 March 2009.

The attached notes form part of and are to be read in conjunction with the Financial Statements

notes to the financial statements

for the year ended 31 March 2010

1. Significant Accounting Policies

(a) General Information

The reporting entity is NZF Group Limited (the "Company"). It is profit oriented and incorporated and domiciled in New Zealand. The Group comprising the Company and its subsidiary undertakings, controlled entities and joint venture is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The Company and the Group is an Issuer as defined by the Securities Act 1978 and the Securities Regulations 1983.

(b) Basis of Preparation

The consolidated financial statements for the Group 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 Statement of Comprehensive Income discloses the net interest income, net fee and commission income and other income in line with the Statement of Comprehensive Income 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. Where it is not evident from the financial statement line item, disclosure of the current/non-current split has been made in the Maturity Profile of Financial Assets and Financial Liabilities (see Note 29) or the relevant note.

The consolidated financial statements for the Group are presented in New Zealand dollars ($), which is the functional currency of all entities within the Group. All financial information presented in New Zealand dollars has been rounded to the nearest thousand dollars ($'000).

(c) 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 consolidated financial statements comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(d) Changes in Accounting Policies and Disclosures

The accounting policies and disclosures adopted are consistent with those used in the previous financial year except that the Group has adopted the following new and amended New Zealand Equivalents to International Financial Reporting Standards and interpretations:

<u>NZ IAS 1 Presentation of Financial Statements (Revised 2007)</u>

The revised standard separates disclosures in relation to owner and non-owner changes in equity. The Statement of Changes in Equity now only includes details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, it introduces the Statement of Comprehensive Income, which presents income and expense items recognised in profit or loss, together with all other items of recognised income and expenses, either in one single statement or in two linked statements. The Group has adopted a single Statement of Comprehensive Income and there is no impact on the financial performance or position as the changes are of presentational nature.

<u>NZ IFRS 7 Financial Instruments: Disclosures (Amendments)</u>

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 27. The liquidity risk disclosures are not significantly impacted by the amendments and are also presented in Note 27.

NZ IFRS 8 Operating Segments
This standard replaced NZ IAS 14 Segment Reporting which required disclosure of primary (business) and secondary (geographical) reporting segments. NZ IFRS 8 requires disclosure of information relating to the Group's operating segments based on internal management reporting information that is regularly reviewed by the Chief Operating Decision Maker. The Group concluded that the Chief Operating Decision Maker measures the performance of the Group based on four operating segments determined in accordance with NZ IFRS 8, as opposed to the one operating segment previously identified under NZ IAS 14. Please refer to accounting policy 1(f) and Note 14 for further information about the Group's Segment Reporting accounting policies and disclosures under NZ IFRS 8.

Standards and interpretations to published standards that are not yet effective and have not been adopted early by the Group
At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective at balance sheet date, and have not been adopted early by the Group.

Management anticipates that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

NZ IFRS 3 Business Combinations (Revised 2008) (effective from 1 July 2009)
NZ IFRS 3 introduces the following significant changes in accounting for business combinations:

- There has been a change from the purchase method to the acquisition method.
- Definition of business has been broadened, which will result in more acquisitions being classified as business combinations.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any minority interest must be measured either at fair value, or as a proportion of the identifiable net assets, on a transaction by transaction basis.

The changes apply prospectively and are not expected to have a significant impact on the Group's financial statements.

NZ IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective from 1 July 2009)
NZ IAS 27 has introduced additional changes to the definition of cost and deemed costs, as well as a paragraph on restructuring dividends. NZ IAS 27 requires accounting for a change in ownership by a Group in a subsidiary, whilst still retaining control, to be recognised in equity. Additional disclosure requirements have been added and the amendments to NZ IAS 27 may result in changes to the disclosures in the Group's financial statements. Other than additional disclosure, the amendments are not expected to have a significant impact on the Group's financial statements.

NZ IFRS 9 – Financial Instruments: Disclosures (Amendments) (effective from 1 January 2013)
This standard is part of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard applies to financial assets, their classification and measurement. All financial assets are required to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially recorded at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs and measured at amortised cost or fair value. Management is still assessing the impact of this standard on the Group.

Annual Improvements 2009
The Accounting Standards Review Board has issued Improvements for International Financial Reporting Standards 2009. Most of these amendments become effective in annual periods beginning on or after 1 January 2010. These amendments are not expected to have a significant impact on the Group's financial statements.

(e) Basis of Consolidation

The Group financial statements consolidate the financial statements of the Company, NZF Group Limited, and its subsidiary undertakings and controlled entities as detailed in Note 20 to the financial statements, using the purchase method of accounting.

Subsidiary undertakings are entities controlled, either directly or indirectly, by the Company. All material transactions between subsidiary undertakings and the Company are eliminated on consolidation. The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated Statement of Comprehensive Income from the date of acquisition or to the date of disposal.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement requiring unanimous consent for strategic, financial and operating decisions.

Joint ventures are accounted for using the proportionate line by line method. The consolidated financial statements include the Group's share of income and expenses of joint venture investees, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

(f) 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, 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. 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 undertaking), 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 undertaking) 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.

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.

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. Income taxes are managed by operating segment due to the number of separate legal and tax entities involved.

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.

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

(g) Revenue

Recognition of income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income and similar expense

For all financial instruments measured at amortised cost, interest income and expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

The Group recognises interest revenue and establishment fees on an accruals basis when the services are rendered using the effective interest rate method.

Fee and commission income

The Group earns fee income from a range of services it provides to customers. Fee income can be divided into the following categories:

<u>Lending/Establishment fees</u>

Fees and direct costs relating to loan origination, financing or restructuring and to loan commitments are deferred and amortised to the Statement of Comprehensive Income over the life of the loan using the effective interest method. Lending fees not directly related to the origination of a loan are recognised over the period of service.

<u>Commissions and other fees</u>

When commissions or fees relate to specific transactions or events, they are recognised in the Statement of Comprehensive Income when the service is provided to the customer. When they are charged for services provided over a period, they are recognised in the Statement of Comprehensive Income on an accruals basis as the service is provided.

<u>Brokerage fees</u>

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance are recognised after fulfilling the corresponding criteria.

<u>Payment protection insurance</u>

The Group acts as an agent for payment protection insurance on small business loans and consumer finance loans. Given the agency relationship, under NZ IFRS the income is presented on a net basis rather than on a gross basis. This means that only the commission income is recognised, not the full amount of the insurance premiums offset by the cost to the Group. The Group recognises the estimated liability on payment protection insurance refunds at balance date. The amount of the liability is estimated using historical refund data.

Other income
Other income comprises dividend income, franchise sales, rent receivable and other sundry income. Dividend income is recorded in the Statement of Comprehensive Income when the right to receive the dividend is established.

(h) Financial Instruments

Financial instruments are classified in one of the following categories at initial recognition: Financial Assets at Fair Value through Profit or Loss, Held to Maturity Investments, Loans and Receivables, Available for Sale Financial Assets, Financial Liabilities at Fair Value through Profit or Loss and Financial Liabilities measured at Amortised Cost. Furthermore, financial instruments are split between derivative and non-derivative financial instruments.

Financial instruments are transacted on a commercial basis to derive an interest yield/cost with terms and conditions having due regard to the nature of the transaction and the risks involved.

Some of these categories require measurement at fair value. Where available, quoted market prices are used as a measure of fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied to liabilities. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at balance date.

Where the Group has assets and liabilities with offsetting market risk, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies a bid/offer spread adjustment to the net open position as appropriate.

If changes in these assumptions to a reasonably possible alternative would result in a significantly different fair value this has been disclosed with a range of possibilities.

Financial Assets and Liabilities at Fair Value through Profit or Loss
Assets and liabilities in this category are either held for trading or are managed with other assets and liabilities and are accounted for and evaluated on a fair value basis. Fair value reporting of these assets and liabilities reflects the Group's risk management process, which includes utilising natural offsets where possible and managing overall risks of the portfolio on a trading basis.

Upon initial recognition, attributable transaction costs are included in the Statement of Comprehensive Income when incurred. Assets and liabilities in this category are subsequently measured at fair value, with any changes recognised in the Statement of Comprehensive Income.

Assets and liabilities in this category include derivative financial instruments to hedge the Group's exposure to interest rate risks arising from financing and investment activities using interest rate swaps as detailed in the Derivative Financial Instruments and Hedge Accounting note below.

Held to Maturity Investments
Assets in this category are recorded upon initial recognition at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment.

Loans and Receivables
These assets are recorded upon initial recognition at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment. This category of Financial Asset includes:

Loans and advances to customers
These are recorded at amortised cost using the effective interest rate method, less impairment.

Trade and other receivables
These include accounts receivable, accrued interest on loans and advances to customers, and amounts due from group undertakings, less impairment.

Available for Sale Financial Assets
Available for sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Assets in this category include cash and cash equivalents that comprise cash balances and call deposits. Assets in this category are measured upon initial recognition at fair value plus transaction costs directly attributable to their acquisition. Subsequently such assets are measured at fair value excluding transaction costs.

Financial Liabilities measured at Amortised Cost
This category includes all financial liabilities other than those at Fair Value through Profit or Loss. Liabilities in this category are measured at amortised cost using the effective interest rate method and include:

<u>Loans and borrowings</u>
All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

<u>Other liabilities</u>
These are recorded at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial period that are unpaid and arise when the Group becomes obliged to make future payments. These amounts are unsecured.

Derivative Financial Instruments and Hedge Accounting
The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing and investment activities using interest rate swaps.

Derivatives are initially recognised at fair value on the date a derivative contract is executed, and are subsequently re-measured to their fair value at each reporting date. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the yield curve at reporting date derived from quoted interest rates. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge will be recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value will be recognised in the Statement of Comprehensive Income.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting will be discontinued. The cumulative gain or loss previously recognised in equity will remain there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity will be transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity will be transferred to the Statement of Comprehensive Income in the same period that the hedged item affects profit or loss.

(i) Share Capital

Ordinary shares
Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

(j) Property, Plant and Equipment

Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the Statement of Comprehensive Income as incurred.

Depreciation
Depreciation is provided on leasehold improvements, computers and software, office furniture and equipment, and motor vehicles. Depreciation is recognised in the Statement of Comprehensive Income to write off the cost of an item of property, plant and equipment, less any residual value, over its expected useful life, at the following rates:

Leasehold Improvements	18% - 26.4%	Diminishing Value
Computers and Software	14.4% - 48%	Diminishing Value
Office Furniture and Equipment	11.4% - 60%	Diminishing Value
Motor Vehicles	22% - 36%	Diminishing Value

The useful lives and residual values are reviewed annually and the depreciation recognised in the Statement of Comprehensive Income calculated on a straight line basis would not be materially different from the depreciation recognised using the above rates as allowed by the Income Tax Act 2004.

(k) Investments in Subsidiary Undertakings and Joint Venture

Investments in subsidiary undertakings and joint venture are held in the Company's financial statements at cost less accumulated impairment losses. The carrying amount of the investments is reviewed at each balance sheet date to determine if there is any evidence of impairment.

(l) Intangible Assets

Goodwill
Goodwill arises on the acquisition of subsidiary undertakings and joint ventures. It represents the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. It is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired, any impairment is recognised immediately in the Statement of Comprehensive Income.

Acquisitions prior to 1 April 2006
As part of its transition to NZ IFRS, the Group elected to restate only those business combinations that occurred on or after 1 April 2006. In respect of acquisitions prior to 1 April 2006, goodwill represents the amount recognised under previous NZ GAAP.

Acquisitions on or after 1 April 2006
For acquisitions on or after 1 April 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. When the excess of the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is over cost, it is recognised immediately in the Statement of Comprehensive Income.

Other intangible assets
Other intangible assets that are acquired by the Group, which have indefinite useful lives, are measured at cost and not amortised, but tested for impairment annually and whenever there is an indication that the other intangible assets may be impaired, any impairment is recognised immediately in the Statement of Comprehensive Income.

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in the Statement of Comprehensive Income on a straight line basis from the date that they are available for use.

Subsequent expenditure
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the Statement of Comprehensive Income when incurred.

Software development
The costs of purchasing and developing software for use by the Group are capitalised. Once the software development is complete and in use it will be amortised over its useful economic life. Until the software is in use the Group tests it annually for impairment.

(m) Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognised on the Group's balance sheet. Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

(n) Asset Quality

Past Due Assets
An asset is Past Due when a counterparty has failed to make a payment when contractually due. A 90 Day Past Due Asset is any asset which has not been operated by the counterparty within its key terms for at least 90 days and which is not a restructured asset, other individually impaired asset, or a financial asset acquired through the enforcement of security.

Impaired Assets
Impaired assets consist of restructured assets, assets acquired through the enforcement of security and other impaired assets.

"Restructured asset" means any credit exposure for which:

a) the original terms have been changed to grant the counterparty a concession that would not otherwise have been available, due to the counterparty's difficulties in complying with the original terms; and

b) the revised terms of the facility are not comparable with the terms of new facilities with comparable risks; and

c) the yield on the asset following restructuring is equal to, or greater than, the Group's average cost of funds, or that a loss is not otherwise expected to be incurred.

Assets acquired through the enforcement of security are those assets (primarily real estate) which are legally owned as a result of the enforcement of security.

Other impaired assets refers to any credit exposure for which an impairment loss is recognised in accordance with NZ IAS 39 Financial Instruments: Recognition and Measurement.

(o) Impairment

Impairment of Loans and Advances
Losses for impaired loans and advances are recognised immediately when there is objective evidence that impairment of a loan or portfolio of loans has occurred. A loan is considered impaired when management determines that it is probable that all amounts owing in accordance with the terms of the original contract will not be collected. When a loan has been identified as impaired, the carrying amount of the loan is decreased by recording specific allowances for the loss to reduce

the loan to its estimated recoverable amount, which is the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

Impairment losses are calculated on individually significant loans and loans assessed collectively. Losses expected from future events no matter how likely, are not recognised.

Individually significant loans
At each reporting date, the Group reviews individually significant loans for evidence of impairment. All relevant information, including the economic situation, solvency of the customer/guarantor, enforceability of guarantees, current security values and the time value of future cash flows are taken into account in determining individual impairment allowances.

Collectively assessed loans
At each reporting date, loans that have been individually assessed but no objective evidence of impairment existed and loans that are not considered individually significant (e.g. small business loans and consumer finance) are pooled in similar credit risk groups. These groups are then assessed for impairment based on historical loss experience of assets with similar risk characteristics. The historical loss experience is then adjusted for the impact of current observable data.

Management regularly reviews and adjusts the methodology and assumptions for impairment testing as improved analysis becomes available to minimise any differences between loss estimates and actual loss experience.

Loan write offs
Loans are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from realising the security has been received.

Impairment of Trade and Other Receivables
The recoverable amount of the Group's trade and other receivables carried at amortised cost is calculated on an undiscounted basis due to their short term nature. At each reporting date, the Group reviews individually significant trade and other receivables for evidence of impairment. For trade and other receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on numbers of days overdue, and taking into account the historical loss experience in portfolios with a similar amount of days overdue.

Impairment of Non-Financial Assets
The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(p) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at balance sheet date. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The increase in the provision resulting from the passage of time is recognised in finance costs. If economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be reliably measured.

(q) Expense Recognition

All expenses are recognised in the Statement of Comprehensive Income on an accruals basis.

(r) Employee Benefits

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee expense in the Statement of Comprehensive Income when they are due.

(s) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In principle deferred tax liabilities are recognised from taxable temporary timing differences. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unused tax losses and tax credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company has a legally enforceable right to offset current tax assets against current tax liabilities.

(t) Cash Flows

The Statement of Cash Flows has been prepared using the direct approach. The following are the definitions used in the Statement of Cash Flows:

Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Operating activities are the principal revenue-producing activities of the Group and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the Group.

In accordance with paragraph 24 of NZ IAS 7 Statement of Cash Flows, cash receipts and payments shown under the following headings in the Statement of Cash Flows have been disclosed on a net basis:

(a) Net increase in loans and advances to customers;

(b) Net (increase)/decrease in loans to subsidiaries;

(c) Net (increase)/decrease in derivative assets and liabilities held for risk management;

(d) Net increase in term loans;

(e) Net increase/(decrease) in secured debenture stock.

The Group manages its ongoing day to day lending, cash flow and funding requirements on a net basis and believes that the disclosure of cash receipts and payments on a net basis for the above items provides users of the financial statements with a better understanding on how the Group has managed its cash flows during the year. In addition, the Group's Term Loan facilities typically roll over on a monthly basis and in the Directors' view disclosure of the gross amounts of these rollovers would provide no additional insight to the users of the financial statements.

2. Critical Estimates and Judgements Used in Applying Accounting Policies

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.

Management considers the accounting estimates and assumptions discussed below to be its critical accounting estimates and, accordingly, provides an explanation of each below.

The discussion below should also be read in conjunction with the Group's disclosure of significant NZ IFRS accounting policies, which is provided in Note 1 to the consolidated financial statements, "Significant Accounting Policies".

Management has discussed its critical accounting estimates and associated disclosures with the Company's Audit & Risk Committee.

Impairment reviews
Asset recoverability is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters, as noted below.

In accordance with NZ IFRS, management undertakes an annual test for impairment for goodwill, its indefinite life assets and intangible assets not yet available for use. Indefinite life assets include the Mike Pero Mortgages Group brands which the Directors consider have an indefinite useful life, as Mike Pero Mortgages continues to be the most recognised Mortgage Broking name in New Zealand and there is continual substantial ongoing investment in its brands.

For both financial and non-financial assets with a finite life, the Company and Group tests for impairment if any events or changes in circumstances indicate that the carrying amount of these types of asset may not be recoverable.

Goodwill

Goodwill only arises in business combinations. The amount of goodwill initially recognised is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement.

NZ IFRS requires that goodwill is tested for impairment at least annually.

To determine if goodwill is impaired the carrying value of the identified Cash Generating Unit ("CGU") to which the goodwill is allocated, including the allocated goodwill, is compared to its recoverable amount. Recoverable amount in these circumstances being defined as the higher of the CGUs fair value less costs to sell and its value in use. Value in use is the present value of expected future cash flows from the CGU.

Goodwill has been allocated to three separate CGUs: MPMH Limited and Subsidiary Undertakings, New Zealand Mortgage Finance Limited and Finance Direct Limited because this is the lowest level at which goodwill is monitored for internal management reporting purposes.

In determining the recoverable amount of each CGU the value in use calculation is based on a discounted cash flow approach and a capitalisation of earnings approach.

Determination of appropriate cash flows and discount rates for the calculation of value in use is subjective and requires a number of assumptions and estimates to be made, including growth in EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation), timing and quantum of future capital expenditure, long term growth rates and the selection of discount rates to reflect the risks involved.

Under the capitalisation of earnings methodology, valuation multiples (such as price to earnings (PE) ratios) observed from previous transactions that have taken place in the financial services sector were used. In determining the price multiples, judgement was applied in comparing companies and transactions, particularly with respect to the risk of business, geographic location, growth prospects, riskiness of earnings and the size of the overall business. These calculations use pre-tax cash flow projections based on financial budgets approved by the Board covering a five year period.

Other factors taken into account when testing goodwill for impairment include:

- actual financial performance against budgeted financial performance,
- any material unfavourable operational factors and regulatory factors, and
- any material unfavourable economic outlook and market competitive factors.

The key assumptions made in determining the value in use calculations are included in Note 19 as it was not possible to determine the recoverable amount using the fair value less costs to sell approach.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and, hence, results.

Goodwill impairment testing undertaken at 31 March 2010 indicated that the estimated recoverable amount of goodwill allocated to the MPMH Limited and Subsidiary Undertakings CGU was considered to be significantly lower than its carrying amount. The Directors have therefore accounted for an impairment loss of $6,975,000 (2009: $nil) to write down its carrying amount to its estimated recoverable amount. This impairment loss principally arose due to the reassessment of short term growth rates and projections of profitability determined by management, in light of changes to MPMH's KiwiSaver sales and marketing strategy and the prolonged impact of the Global Financial Crisis on the New Zealand Housing Market affecting mortgage broking and insurance related income streams (see Note 19).

Goodwill impairment testing undertaken at 31 March 2010 and 31 March 2009 did not indicate that goodwill allocated to the New Zealand Mortgage Finance Limited CGU and the Finance Direct Limited CGU had been impaired.

Brand value
In December 2007, a high level independent assessment was carried out to reassess whether the value of the Mike Pero Mortgages Group brands had been impaired since the original independent professional valuation carried out in March 2004. The results of this high level independent assessment concluded that there was no evidence to suggest that the brand value of $13.2 million recorded in the financial statements for MPMH Limited and Subsidiary Undertakings as at 31 March 2007 had been impaired.

Management reassessed the brand value of MPMH Limited and Subsidiary Undertakings using a methodology consistent with that used in 2007, but adjusting the input variables to reflect economic conditions and projections at each balance date. The impairment testing, based on a discounted cash flow model, did not indicate that the value of the brands had been impaired as at 31 March 2010 or at 31 March 2009. As noted in Note 19, the recoverable amount is most sensitive to the discount rates used for the discounted cash flow model and the growth rate used for extrapolation purposes.

Impairment losses on loans and advances
An impairment allowance is established if there is objective evidence that a loan is impaired. A loan is considered impaired when management determines that it is probable that all amounts due according to the original contractual terms will not be collected. When a loan has been identified as impaired, the carrying amount of the loan is decreased by recording specific allowances for the loss to reduce the loan to its estimated recoverable amount, which is the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

There are two methods used in assessing loans for impairment, including specific loan assessment and collective loan assessment. At each reporting date the Group reviews individually significant loans for evidence of impairment. All relevant information, including the economic situation, solvency of the customer/guarantor, enforceability of guarantees, current security values and the time value of future cash flows are taken into account in determining individual allowances.

At each reporting date loans that have been individually assessed but no objective evidence of impairment existed and loans that are not considered individually significant are pooled in similar credit risk groups. These groups are then assessed for impairment based on historical loss experience of assets with similar risk characteristics. The historical loss experience is then adjusted for the impact of current observable data.

Management regularly reviews and adjusts the methodology and assumptions for impairment testing as improved analysis becomes available to minimise any differences between loss estimates and actual loss experience.

Fair value estimation
The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the yield curve at reporting date derived from quoted interest rates. The carrying amounts of loans and advances net of impairment allowances are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest for similar financial instruments.

Recognition of deferred tax assets
The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted. Recognition, therefore, involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised.

At 31 March 2010, NZF Mortgages Warehouse A Trust and NZF Mortgages Warehouse B Trust had unrelieved income tax losses carried forward of $nil (2009: $1,571,000) and $233,000 (2009: $181,000) respectively. Management believes that sufficient and suitable taxable profits will be made available by these separate legal entities in the future and has accordingly accounted for a deferred tax asset of $70,000 relating to these unrelieved income tax losses as at 31 March 2010 (2009: $526,000).

3. Net Interest Income

	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Interest income				
Loans and advances	**23,485**	26,659	**-**	-
Impaired loans and advances	**953**	1,207	**-**	-
Intercompany advances	**-**	-	**284**	581
Interest from Available for Sale Financial Assets: Cash and short term investments	**297**	364	**48**	12
Total interest income	**24,735**	28,230	**332**	593
Interest expense				
Term loans	**12,988**	14,303	**-**	-
Unsecured capital notes	**1,952**	1,955	**1,952**	1,955
Unsecured subordinated notes	**-**	26	**-**	-
Secured debenture stock	**5,056**	5,065	**-**	-
Other similar charges	**119**	140	**-**	-
Total interest expense	**20,115**	21,489	**1,952**	1,955
Net interest income	**4,620**	6,741	**(1,620)**	(1,362)

4. Net Fee and Commission Income

	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Fee and commission income				
Lending and credit related fee income	**1,756**	3,761	**-**	-
Brokerage income	**5,951**	6,807	**216**	99
Franchise levies and cost recharges	**302**	396	**-**	-
Total fee and commission income	**8,009**	10,964	**216**	99
Fee and commission expense				
Brokerage fees	**4,632**	6,422	**163**	69
Total fee and commission expense	**4,632**	6,422	**163**	69
Net fee and commission income	**3,377**	4,542	**53**	30

5. Gains/(Losses) on Financial Instruments at Fair Value

Group Only	2010 $'000	2009 $'000
Gains/(losses) on interest rate swaps held for risk management purposes	**2,269**	(4,006)

6. Other Income

	Note	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Dividends received - subsidiary undertakings		**-**	-	**-**	3,147
Franchise sales, rent receivable and other income		**254**	279	**-**	-
Gain on acquisition of shares held by minority interest in Finance Direct Limited	20	**-**	95	**-**	-
		254	374	**-**	3,147

7. Net Impairment Losses

	Note	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Movement in collective loan allowance	16	**(44)**	106	**-**	-
Movement in specific loan allowance	16	**(764)**	3,945	**-**	-
Bad debts written off	30	**650**	390	**-**	-
Impairment of goodwill in MPMH Limited and Subsidiary Undertakings	19	**6,975**	-	**-**	-
Impairment of investment in MPMH Limited	20	**-**	-	**6,593**	-
Other impairment losses		**-**	20	**-**	-
		6,817	4,461	**6,593**	-

8. Operating Expenses and Staff Costs

	Note	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
(Loss)/profit before income tax includes the following expenses:					
Executive Directors' remuneration		**550**	625	**-**	-
Non-Executive Directors' fees		**147**	144	**138**	135
Auditors' remuneration	**9**	**312**	258	**82**	37
Depreciation of property, plant and equipment	**18**	**218**	226	**-**	-
Loss on sale of property, plant and equipment		**29**	93	**-**	-
Leasing and rental costs		**312**	645	**-**	-
Insurance costs		**78**	83	**21**	20
Personnel costs		**2,291**	2,532	**-**	15
Marketing and selling costs		**782**	1,071	**9**	-
NZX, share registry, trust and other corporate costs		**1,239**	768	**329**	296
Administrative expenses		**1,284**	1,579	**47**	50
		7,242	8,024	**626**	553
Key management compensation included in the above:					
Short-term employee benefits		**1,076**	1,355	**-**	15

There were no post-employment benefits, other long-term benefits, termination benefits or share based payments made to key management personnel during the year ended 31 March 2010 (2009: $nil).

9. Auditors' Remuneration

	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Amounts paid to the auditor for:				
Audit related services	**312**	258	**82**	37
Other services	**-**	-	**-**	-
Total auditors' remuneration	**312**	258	**82**	37

10. Income Tax Expense/(Benefit)

	Note	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Income tax					
Current year		**88**	388	**(658)**	(567)
Adjustment for prior years		**(15)**	(46)	**-**	-
		73	342	**(658)**	(567)
Deferred tax					
Origination and reversal of temporary differences	21	**949**	(1,761)	**-**	2
Income tax expense/(benefit) reported in the Statement of Comprehensive Income		**1,022**	(1,419)	**(658)**	(565)
Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable:					
(Loss)/profit before income tax expense/(benefit)		**(3,539)**	(4,834)	**(8,786)**	1,262
Tax at the New Zealand tax rate of 30%		**(1,062)**	(1,450)	**(2,636)**	379
Tax amounts which are not taxable or deductible in calculating taxable income:					
Non-taxable income		**-**	(29)	**-**	(944)
Non-deductible expenses		**8**	14	**-**	-
Impairment of goodwill in MPMH Limited and Subsidiary Undertakings		**2,093**	-	**-**	-
Impairment of investment in MPMH Limited		**-**	-	**1,978**	-
Adjustment for prior years		**(15)**	(46)	**-**	-
Deferred tax:					
Adjustment for prior years		**(2)**	92	**-**	-
		1,022	(1,419)	**(658)**	(565)

At 31 March 2010, NZF Mortgages Warehouse A Trust and NZF Mortgages Warehouse B Trust had unrelieved income tax losses carried forward of $nil (2009: $1,571,000) and $233,000 (2009: $181,000) respectively. Management believes that sufficient and suitable taxable profits will be made available by these separate legal entities in the future and has accordingly accounted for a deferred tax asset of $70,000 relating to these unrelieved income tax losses as at 31 March 2010 (2009: $526,000).

The Company is a member of a tax consolidated group that is recognised as a single tax entity for income tax purposes. Gains and losses incurred by the Company are taken into account in calculating the taxable income of the consolidated group.

11. Imputation Credit Account

The Company is a member of a tax consolidated group. The movements in the Imputation Credit Account attributable to the Group and Company were as follows:

	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Opening balance	**7,121**	7,298	**128**	174
Income tax (received from)/paid to the IRD	**(99)**	80	**15**	(377)
Imputation credits attached to dividends received	**-**	898	**-**	898
Imputation credits attached to dividends paid	**-**	(1,475)	**-**	(567)
Other (debits)/credits	**(19)**	320	**465**	-
Closing balance	**7,003**	7,121	**608**	128

12. Dividends Declared and Paid

The following dividends were declared and paid during the year:

	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Ordinary Shares				
Final dividend for the year ended 31 March 2008	**-**	767	**-**	767
Interim dividend for the year ended 31 March 2009	**-**	383	**-**	383
	-	1,150	**-**	1,150

A final dividend of 1 cent per Ordinary Share was paid on 28 May 2008 relating to the Group's results for the year ended 31 March 2008. An interim dividend of 0.50 cents per Ordinary Share was paid on 12 December 2008 on account of the Group's results for the year ended 31 March 2009.

13. Earnings Per Share

Group Only	2010 $'000	2009 $'000
(Loss)/profit for the year attributable to Equity holders of the Company	**(4,596)**	(3,436)
	2010 No. of Shares	**2009 No. of Shares**
Weighted average number of shares:		
Ordinary shares at the beginning of the year	**76,666,668**	76,666,668
Ordinary shares at the end of the year	**76,666,668**	76,666,668
	2010 Cents	**2009 Cents**
Basic Earnings Per Share	**(5.99)**	(4.48)
Diluted Earnings Per Share	**(5.99)**	(4.48)

14. Segment Information

The following information has been prepared on a consistent basis for both accounting periods in accordance with NZ IFRS 8 Operating Segments. Inter-segment revenues, assets and liabilities are eliminated on consolidation. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue during either accounting period reported on.

	2010						
	Total $'000	Eliminations and Adjustments $'000	Property Finance Division $'000	Home Loans Division $'000	Consumer Finance Division $'000	Financial Services Distribution $'000	Management & Holding Activities $'000
Interest income							
From external customers	24,735	-	8,614	14,885	1,155	33	48
From other segments	-	(284)	-	-	-	-	284
	24,735	(284)	8,614	14,885	1,155	33	332
Interest expense	(20,115)	284	(5,945)	(12,001)	(465)	(36)	(1,952)
Net interest income	4,620	-	2,669	2,884	690	(3)	(1,620)
Fee and commission income							
From external customers	8,009	-	838	470	907	5,794	-
From other segments	-	(163)	-	-	-	163	-
	8,009	(163)	838	470	907	5,957	-
Fee and commission expense	(4,632)	163	(18)	(865)	(176)	(3,736)	-
Net fee and commission income	3,377	-	820	(395)	731	2,221	-
Gains on financial instruments at fair value	2,269	-	-	2,269	-	-	-
Other income	254	-	-	-	49	205	-
Total operating income	10,520	-	3,489	4,758	1,470	2,423	(1,620)
Net impairment losses	(6,817)	-	315	(105)	(52)	(6,975)	-
Depreciation and amortisation	(247)	-	(63)	(31)	(10)	(143)	-
Other operating expenses and staff costs	(6,995)	-	(2,798)	(472)	(1,240)	(1,859)	(626)
(Loss)/profit before income tax	(3,539)	-	943	4,150	168	(6,554)	(2,246)
Income tax (expense)/benefit	(1,022)	-	(284)	(1,249)	(51)	(112)	674
(Loss)/profit for the year from continuing operations	(4,561)	-	659	2,901	117	(6,666)	(1,572)
Total assets	296,613	(21,422)	73,429	202,885	8,305	10,156	23,260
Total liabilities	282,407	(6,257)	58,827	201,118	5,981	2,126	20,612

14. Segment Information (cont)

	Total	Eliminations and Adjustments	Property Finance Division	2009 Home Loans Division	Consumer Finance Division	Financial Services Distribution	Management & Holding Activities
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Interest income							
From external customers	28,230	-	9,527	17,858	807	27	11
From other segments	-	(582)	-	-	-	-	582
	28,230	(582)	9,527	17,858	807	27	593
Interest expense	(21,489)	582	(5,952)	(13,698)	(350)	(116)	(1,955)
Net interest income	6,741	-	3,575	4,160	457	(89)	(1,362)
Fee and commission income							
From external customers	10,964	-	2,835	482	917	6,730	-
From other segments	-	(140)	-	-	-	140	-
	10,964	(140)	2,835	482	917	6,870	-
Fee and commission expense	(6,422)	140	(22)	(2,208)	(139)	(4,193)	-
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	-	-	-	-	279	95
Total operating income	7,651	-	6,388	(1,572)	1,235	2,867	(1,267)
Net impairment losses	(4,461)	-	(4,026)	(239)	(176)	(20)	-
Depreciation and amortisation	(319)	-	(99)	(55)	(15)	(150)	-
Other operating expenses and staff costs	(7,705)	-	(3,007)	(508)	(1,073)	(2,562)	(555)
(Loss)/profit before income tax	(4,834)	-	(744)	(2,374)	(29)	135	(1,822)
Income tax benefit/(expense)	1,419	-	223	700	(2)	(74)	572
(Loss)/profit for the year from continuing operations	(3,415)	-	(521)	(1,674)	(31)	61	(1,250)
Total assets	291,355	(28,983)	86,555	178,241	6,737	17,497	31,308
Total liabilities	273,269	(7,734)	73,257	179,943	4,530	2,741	20,532

15. Derivative Assets and Liabilities Held for Risk Management

Group Only	2010 $'000	2009 $'000
Derivative assets held for risk management		
Interest rate swaps	**47**	-
Derivative liabilities held for risk management		
Interest rate swaps	**1,552**	4,771

The Group uses interest rate swaps to mitigate the risk of changing interest rates on the fair value of fixed rate mortgages and the cash flow exposures on the issued variable debt.

16. Loans and Advances to Customers

Group Only	2010			
	Property Finance Division $'000	Home Loans Division $'000	Consumer Finance Division $'000	Total $'000
Loans and advances to customers	**61,455**	**200,506**	**5,951**	**267,912**
Impaired loan allowance				
Collective loan allowance	**(491)**	**-**	**(91)**	**(582)**
Specific loan allowance	**(2,264)**	**-**	**(77)**	**(2,341)**
Total loan allowance	**(2,755)**	**-**	**(168)**	**(2,923)**
Net loans and advances to customers	**58,700**	**200,506**	**5,783**	**264,989**

Group Only	2009			
	Property Finance Division $'000	Home Loans Division $'000	Consumer Finance Division $'000	Total $'000
Loans and advances to customers	84,020	174,126	5,137	263,283
Impaired loan allowance				
Collective loan allowance	(579)	-	(47)	(626)
Specific loan allowance	(3,760)	-	(185)	(3,945)
Total loan allowance	(4,339)	-	(232)	(4,571)
Net loans and advances to customers	79,681	174,126	4,905	258,712

16. Loans and Advances to Customers (cont)

A reconciliation of the allowance for impairment losses for loans and advances, by class, is as follows:

Group Only	Note	2010 Property Finance Division $'000	Home Loans Division $'000	Consumer Finance Division $'000	Total $'000
Collective loan allowance					
Opening balance		(579)	-	(47)	(626)
Credit/(charge) for the year	7	88	-	(44)	44
Closing balance		(491)	-	(91)	(582)
Specific loan allowance					
Opening balance		(3,760)	-	(185)	(3,945)
Interest accrued on impaired loans and advances		840	-	-	840
Credit/(charge) for the year	7	656	-	108	764
Closing balance		(2,264)	-	(77)	(2,341)
Gross amounts of loans, individually determined to be impaired, before deducting the individually assessed impairment allowance	30	11,627	-	163	11,790

Group Only	Note	2009 Property Finance Division $'000	Home Loans Division $'000	Consumer Finance Division $'000	Total $'000
Collective loan allowance					
Opening balance		(464)	-	(56)	(520)
(Charge)/credit for the year	7	(115)	-	9	(106)
Closing balance		(579)	-	(47)	(626)
Specific loan allowance					
Opening balance		-	-	-	-
Interest accrued on impaired loans and advances		-	-	-	-
(Charge)/credit for the year	7	(3,760)	-	(185)	(3,945)
Closing balance		(3,760)	-	(185)	(3,945)
Gross amounts of loans, individually determined to be impaired, before deducting the individually assessed impairment allowance	30	16,511	-	314	16,825

17. Trade and Other Receivables

	Note	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Accounts receivable		**488**	629	**-**	-
Accrued loan interest		**664**	758	**-**	-
Secured subordinated notes	**34**	**-**	-	**3,460**	2,000
Loans to subsidiary undertakings and controlled entities	**34**	**-**	-	**2,405**	604
Loans to joint venture	**34**	**199**	199	**398**	398
Loans to franchisees		**43**	79	**-**	-
Loans to employees	**26**	**6**	9	**6**	9
		1,400	1,674	**6,269**	3,011

Secured Subordinated Notes
Under the terms of the Warehouse Facility Agreement with Westpac Banking Corporation, NZF Group Limited has provided funding of $3,460,000 (2009: $2,000,000) to NZF Mortgages Warehouse A Trust in the form of Secured Subordinated Notes. NZF Group Limited also provided funding of $5,000,000 to NZF Mortgages Warehouse B Trust in the form of Secured Subordinated Notes under the terms of the Warehouse Facility Agreement with Commonwealth Bank of Australia, prior to that facility being repaid in full on 25 March 2009.

The Secured Subordinated Notes are secured against the assets and undertakings of NZF Mortgages Warehouse A Trust and NZF Mortgages Warehouse B Trust and are repayable at the earlier to occur of the date of termination of the Warehouse Facility Agreements or the Vesting Date or such other date as agreed between the Warehouse Facility Provider, NZF Homeloans Limited as Trust Manager, and The New Zealand Guardian Trust Company Limited as Trustee.

18. Property, Plant and Equipment

Group Only	**Leasehold Improvements $'000**	**Computers & Software $'000**	**Office Furniture & Equipment $'000**	**Motor Vehicles $'000**	**Total $'000**
Cost or deemed cost					
Balance at 1 April 2008	170	579	988	20	1,757
Additions	-	209	6	-	215
Disposals	(18)	(158)	(245)	(1)	(422)
Balance at 31 March 2009	**152**	**630**	**749**	**19**	**1,550**
Balance at 1 April 2009	152	630	749	19	1,550
Additions	1	26	4	21	52
Disposals	(61)	(1)	(2)	-	(64)
Balance at 31 March 2010	**92**	**655**	**751**	**40**	**1,538**
Depreciation and impairment losses					
Balance at 1 April 2008	21	367	525	12	925
Depreciation charge for the year	19	83	122	2	226
On disposals	(10)	(149)	(167)	(1)	(327)
Balance at 31 March 2009	**30**	**301**	**480**	**13**	**824**
Balance at 1 April 2009	30	301	480	13	824
Depreciation charge for the year	10	130	70	8	218
On disposals	(33)	(1)	(1)	-	(35)
Balance at 31 March 2010	**7**	**430**	**549**	**21**	**1,007**
Carrying amounts					
At 31 March 2009	**122**	**329**	**269**	**6**	**726**
At 31 March 2010	**85**	**225**	**202**	**19**	**531**

19. Intangible Assets

Group Only	Note	Goodwill $'000	Brand Value $'000	Total $'000
Cost or deemed cost				
At 1 April 2008		10,133	6,614	16,747
Additions		-	-	-
Disposals		(51)	-	(51)
At 31 March 2009		**10,082**	**6,614**	**16,696**
At 1 April 2009		10,082	6,614	16,696
Additions		-	-	-
Disposals		-	-	-
At 31 March 2010		**10,082**	**6,614**	**16,696**
Accumulated impairment losses				
At 1 April 2008		-	-	-
Impairment loss for the year	**7**	-	-	-
At 31 March 2009		-	-	-
At 1 April 2009		-	-	-
Impairment loss for the year	**7**	6,975	-	6,975
At 31 March 2010		**6,975**	**-**	**6,975**
Net book amount				
At 31 March 2009		**10,082**	**6,614**	**16,696**
At 31 March 2010		**3,107**	**6,614**	**9,721**

Goodwill

For the purpose of impairment testing, goodwill is allocated to Cash Generating Units (CGUs) at the lowest level at which the goodwill is monitored for internal management purposes. Goodwill has been allocated to three separate CGUs, MPMH Limited and Subsidiary Undertakings, New Zealand Mortgage Finance Limited and Finance Direct Limited. The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

Group Only	2010 $'000	2009 $'000
MPMH Limited and Subsidiary Undertakings	**894**	7,869
New Zealand Mortgage Finance Limited	**1,597**	1,597
Finance Direct Limited	**616**	616
	3,107	10,082

19. Intangible Assets (cont)

The Directors have carried out an annual impairment review of goodwill allocated to each CGU, in order to ensure that recoverable amounts exceed aggregate carrying amounts. The recoverable amount of all three separate CGUs was determined based on value in use calculations. Key assumptions made in determining the value in use calculations were as follows:

Budgeted EBITDA

The cash flow projections use pre-tax cash flow amounts based on financial budgets approved by the Board covering a five year period. Budgeted EBITDA was based on past experience adjusted for expected increases in the short term growth rates of each CGU.

The short term growth rate applied to the budgeted EBITDA for MPMH Limited and Subsidiary Undertakings reflects the strategic growth objectives that were approved by the Board prior to each balance date. The growth objectives are designed to:

- increase market share by increasing the number of franchisees, loan writers and KiwiSaver specialists writing new business and replicating proven strategies to increase its profile in towns and cities where its market share at 31 March 2010 was significantly below its market share nationwide, and
- extract maximum value from the nationwide distribution network that was purchased in 2006.

The short term growth rate applied to the budgeted EBITDA for New Zealand Mortgage Finance Limited reflects continued growth of its current business based on growth achieved in the last 12 months.

The short term growth rate applied to the budgeted EBITDA for Finance Direct Limited reflects improved profitability which is expected to arise as a result of increased focus on operating margins and overhead costs.

Budgeted capital expenditure

The cash flow projections for capital expenditure were based on past experience and took into account anticipated cash outflows for the maintenance of the current functionality and performance of its property, plant and equipment.

Long term growth rate

Management determined the long term average growth rate with reference to inflation rates that have been published by the New Zealand Government.

Pre-tax adjusted discount rate

The discount rate applied to the cash flows of each CGU was based on the risk free rate for ten year bonds issued by the New Zealand Government, adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of each business.

Sensitivity to changes in assumptions

The table below shows the key assumptions made in determining the value in use calculations and the amount by which each key assumption must change in isolation in order for the estimated recoverable amount to be equal to its carrying value at 31 March 2010.

	Assumptions used in value in use calculation			**% change required in this input variable, all other things being equal, for carrying value to equal the recoverable amount**		
	MPMH & Subs	**NZMF**	**FDL**	**MPMH & Subs**	**NZMF**	**FDL**
Budgeted EBITDA	15.00%	2.50%	2.50%	0.00%	3.50%	6.75%
Budgeted capital expenditure	4.75%	1.50%	0.90%	0.00%	10.50%	19.75%
Long term growth rate	2.50%	2.50%	2.50%	0.00%	1.50%	3.50%
Pre-tax adjusted discount rate	16.86%	16.86%	16.86%	0.00%	1.50%	3.35%

At 31 March 2010, the date of the Group's annual impairment test, the estimated recoverable amount of the MPMH Limited and Subsidiary Undertakings CGU was considered to be significantly lower than its carrying amount. The Directors have therefore accounted for an impairment loss of $6,975,000 (2009: $nil) relating to the goodwill allocated to the MPMH Limited and Subsidiary Undertakings CGU, in order to write down its carrying amount to its estimated recoverable amount. This impairment loss principally arose due to the reassessment of short term growth rates and projections of profitability determined by management, in light of changes to MPMH's KiwiSaver sales and marketing strategy and the prolonged impact of the Global Financial Crisis on the New Zealand Housing Market affecting mortgage broking and insurance related income streams.

The assumptions used in the prior year were:

	Assumptions used in value in use calculation			% change required in this input variable, all other things being equal, for carrying value to equal the recoverable amount		
	MPMH & Subs	NZMF	FDL	MPMH & Subs	NZMF	FDL
Budgeted EBITDA	50.00%	15.00%	5.00%	32.50%	0.75%	30.00%
Budgeted capital expenditure	3.25%	1.85%	2.20%	31.85%	1.85%	50.00%
Long term growth rate	2.50%	2.50%	2.50%	2.50%	0.25%	35.00%
Pre-tax adjusted discount rate	16.86%	16.86%	16.86%	2.65%	0.25%	25.75%

Brand Value

The brand value of $6,614,000 (2009: $6,614,000) relates to the Group's 50% joint venture investment in MPMH Limited and Subsidiary Undertakings, and for the purpose of impairment testing, the brand is allocated to this Cash Generating Unit (CGU) as it is the lowest level at which the brand is monitored for internal management purposes.

The Directors have carried out an annual impairment review of the brand value allocated to the CGU, in order to ensure that recoverable amounts exceed aggregate carrying amounts, which was determined based on value in use calculations. Key assumptions made in determining the value in use calculations were as follows:

Budgeted EBITDA

The cash flow projections use pre-tax cash flow amounts based on financial budgets approved by the Board covering a five year period. Budgeted EBITDA was based on past experience adjusted for expected increases in the short term growth rates of the CGU.

The short term growth rate applied to the budgeted EBITDA for MPMH Limited and Subsidiary Undertakings reflects the strategic growth objectives that were approved by the Board prior to each balance date. The growth objectives are designed to:

- increase market share by increasing the number of franchisees, loan writers and KiwiSaver specialists writing new business and replicating proven strategies to increase its profile in towns and cities where its market share at 31 March 2010 was significantly below its market share nationwide, and
- extract maximum value from the nationwide distribution network that was purchased in 2006.

Budgeted capital expenditure

The cash flow projections for capital expenditure were based on past experience and took into account anticipated cash outflows for the maintenance of the current functionality and performance of its property, plant and equipment.

Long term growth rate

Management determined the long term average growth rate with reference to inflation rates that have been published by the New Zealand Government.

Pre-tax adjusted discount rate

The discount rate applied to the cash flows of the CGU was based on the risk free rate for ten year bonds issued by the New Zealand Government, adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of each business.

19. Intangible Assets (cont)

Sensitivity to changes in assumptions

The table below shows the key assumptions made in determining the value in use calculations (1) and the amount by which each key assumption must change in isolation in order for the estimated recoverable amount to be equal to its carrying value (2).

	(1)	(2)
Budgeted EBITDA	15.00%	2.75%
Budgeted capital expenditure	4.75%	16.20%
Long term growth rate	2.50%	1.55%
Pre-tax adjusted discount rate	16.86%	1.60%

The assumptions used in the prior year were:

	(1)	(2)
Budgeted EBITDA	50.00%	32.50%
Budgeted capital expenditure	3.25%	31.85%
Long term growth rate	2.50%	2.50%
Pre-tax adjusted discount rate	16.86%	2.65%

At 31 March 2010, the date of the Group's annual impairment test, the estimated recoverable amount of the MPMH Limited and Subsidiary Undertakings CGU, the New Zealand Mortgage Finance Limited CGU and the Finance Direct Limited CGU exceeded their carrying value by $894,000 (2009: $6,950,000), $182,000 (2009: $26,000) and $587,000 (2009: $1,575,000) respectively.

20. Investment in Subsidiary Undertakings and Joint Venture

The Company's investment in subsidiary undertakings and joint venture comprises shares at cost less accumulated impairment losses.

	Note	Subsidiary Undertakings $'000	Joint Venture $'000	Total $'000
Cost or deemed cost				
At 1 April 2008		6,917	13,751	20,668
Additions		271	350	621
Disposals		-	-	-
At 31 March 2009		**7,188**	**14,101**	**21,289**
At 1 April 2009		7,188	14,101	21,289
Additions		500	-	500
Disposals		-	-	-
At 31 March 2010		**7,688**	**14,101**	**21,789**
Accumulated impairment losses				
At 1 April 2008		-	-	-
Impairment loss for the year	**7**	-	-	-
At 31 March 2009		**-**	**-**	**-**
At 1 April 2009		-	-	-
Impairment loss for the year	**7**	-	6,593	6,593
At 31 March 2010		**-**	**6,593**	**6,593**
Net book amount				
At 31 March 2009		**7,188**	**14,101**	**21,289**
At 31 March 2010		**7,688**	**7,508**	**15,196**

20. Investment in Subsidiary Undertakings and Joint Venture (cont)

Significant subsidiaries and the joint venture include:

Subsidiaries	Principal Activity	Shareholding 2010 %	Shareholding 2009 %	Carrying Value 2010 $'000	Carrying Value 2009 $'000
NZF Money Limited	Finance Company	**100%**	100%	**5,074**	4,574
NZF Securitisation Limited	Mortgage Lending	**100%**	100%	**1**	1
New Zealand Mortgage Finance Limited	Mortgage Advisory	**100%**	100%	**900**	900
Finance Direct Limited	Finance Company	**70%**	70%	**1,713**	1,713
				7,688	7,188
Joint Venture					
MPMH Limited	Mortgage Advisory	**50%**	50%	**7,508**	14,101
Total Investments				**15,196**	21,289

	Principal Activity	Shareholding 2010 %	Shareholding 2009 %
Subsidiary of NZF Money Limited:			
NZF Homeloans Limited	Mortgage Servicing Company	**100%**	100%
Subsidiary of NZF Securitisation Limited:			
NZF Mortgages Limited	Mortgage Lending	**100%**	100%
Subsidiary of New Zealand Mortgage Finance Limited:			
Approved Mortgage Brokers Limited	Mortgage Advisory	**100%**	100%

NZF Homeloans Limited is the Trust Manager and exercises control over the assets and undertakings of both NZF Mortgages Warehouse A Trust and NZF Mortgages Warehouse B Trust, as it has sole entitlement to both the Residual Capital Interest and Residual Income Interest of both Trusts.

The principal activity of both NZF Mortgages Warehouse A Trust and NZF Mortgages Warehouse B Trust is Residential Mortgage Lending.

All subsidiary undertakings, controlled entities and the joint venture have balance dates of 31 March.

Acquisition of Finance Direct Limited

On 2 April 2007, NZF Group Limited acquired a 51% controlling stake in Finance Direct Limited, a consumer based finance company, for the consideration of $1,442,000 and also took out an option to acquire the remaining 49% shareholding within the next four years. On 3 December 2008, NZF Group Limited exercised part of this option by increasing its controlling stake in Finance Direct Limited from 51% to 70%. Cost of the acquisition was $271,000 compared to the minority interests' share in the net assets acquired of $366,000. The resulting gain of $95,000 was considered to represent a bargain purchase and was accounted for within other income during the year ended 31 March 2009 (see Note 6).

Under the Share Sale and Purchase Agreement dated 2 April 2007, NZF Group Limited has agreed to provide a facility of up to $1,000,000 to Finance Direct Limited. NZF Group Limited has agreed to make the funding facility available to Finance Direct Limited as and when required, subject to the agreement of terms. This facility would be called upon to satisfy working capital requirements and in particular would be called upon to ensure that Finance Direct Limited maintains compliance with its financial covenants including, but not limited to, its debt/equity ratios as comprised within its Debenture Stock Trust Deed.

Proportional Consolidation of MPMH Limited and Subsidiary Undertakings

The Group's joint venture investment in MPMH Limited and Subsidiary Undertakings is consolidated using the proportionate line by line method. The consolidated financial statements include the Group's share of the total assets, total liabilities, minority interests, income and expenses of joint venture investees, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

The consolidated financial statements include the following amounts, which represent the Group's share of the total assets, total liabilities and minority interests of MPMH Limited and Subsidiary Undertakings as at each balance date:

	2010 $'000	2009 $'000
Assets		
Cash and cash equivalents	**243**	148
Trade and other receivables	**77**	129
Current tax assets	**28**	220
Property, plant and equipment	**259**	346
Intangible assets	**7,508**	14,474
Other assets	**273**	336
Total assets	**8,388**	15,653
Liabilities		
Trade and other payables	**326**	503
Loans and borrowings	**650**	850
Deferred tax liability	**45**	49
Total liabilities	**1,021**	1,402
Net assets	**7,367**	14,251
Minority interests - Pyco Insurances Limited	**6**	38

20. Investment in Subsidiary Undertakings and Joint Venture (cont)

Proportional Consolidation of MPMH Limited and Subsidiary Undertakings (cont)

The consolidated financial statements also include the following amounts, which represent the Group's share of the income and expenses of MPMH Limited and Subsidiary Undertakings for the year ended 31 March 2010:

	2010 $'000	2009 $'000
Interest income	**32**	25
Interest expense	**(36)**	(117)
Net interest income	**(4)**	(92)
Fee and commission income	**4,309**	4,757
Fee and commission expense	**(2,453)**	(2,647)
Net fee and commission income	**1,856**	2,110
Other income	**175**	253
Total operating income	**2,027**	2,271
Net impairment loss	**(6,966)**	(20)
Operating expenses and staff costs	**(1,884)**	(2,101)
(Loss)/profit before income tax	**(6,823)**	150
Income tax expense	**(29)**	(79)
(Loss)/profit for the year	**(6,852)**	71
Attributable to:		
Minority interests	**-**	13
Equity holders of the Company	**(6,852)**	58

The net impairment loss of $6,966,000 recognised in the financial statements of MPMH Limited and Subsidiary Undertakings during the year ended 31 March 2010 represents the write down of the carrying amount of goodwill to its estimated recoverable amount. This impairment loss principally arose due to the reassessment of short term growth rates and projections of profitability determined by management, in light of changes to MPMH's KiwiSaver sales and marketing strategy and the prolonged impact of the Global Financial Crisis on the New Zealand Housing Market affecting mortgage broking and insurance related income streams (see Note 19).

As a direct result of the write down in the carrying value of goodwill in the financial statements of MPMH Limited and Subsidiary Undertakings, the Directors have reviewed the carrying value of the Company's investment in MPMH Limited for impairment and accordingly accounted for an impairment loss of $6,593,000 to write it down to its estimated recoverable amount as at 31 March 2010.

21. Deferred Tax Asset

	Note	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
The balance comprises temporary differences attributable to:					
Collective loan impairment allowance		**175**	187	**-**	-
Specific loan impairment allowance		**702**	1,184	**-**	-
Other impairment allowance		**60**	60	**60**	60
Income tax losses carried forward		**70**	526	**-**	-
Prepaid advertising expenditure		**(51)**	(55)	**-**	-
Holiday pay accruals		**36**	42	**-**	-
Other timing differences		**13**	10	**-**	-
Net deferred tax asset		**1,005**	1,954	**60**	60
Movements					
Opening balance		**1,954**	193	**60**	62
(Charged)/credited to the Statement of Comprehensive Income	10	**(949)**	1,761	**-**	(2)
Closing balance		**1,005**	1,954	**60**	60

The reduction in the corporate tax rate from 33% to 30% from 1 April 2008 has been taken into account in calculating the value of deferred tax as at 31 March 2010 and 31 March 2009.

22. Other Assets

	Note	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Deferred brokerage fees		**1,584**	1,284	**-**	-
Prepaid expenses		**784**	1,209	**260**	445
Purchased software under development but not yet deployed	32	**844**	670	**-**	-
		3,212	3,163	**260**	445
Current		**2,149**	2,105	**260**	257
Non-Current		**1,063**	1,058	**-**	188
		3,212	3,163	**260**	445

23. Trade and Other Payables

	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Accounts payable	**1,124**	1,248	**433**	368
Accrued interest	**348**	239	**83**	80
Accrued expenses	**793**	829	**46**	34
	2,265	2,316	**562**	482

24. Loans and Borrowings

	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Term loans	**194,350**	188,850	**-**	-
Unsecured capital notes	**20,050**	20,050	**20,050**	20,050
Secured debenture stock	**63,794**	56,728	**-**	-
	278,194	265,628	**20,050**	20,050

Term Loans

At 31 March 2010, the Group had the following Term Loan facilities:

Facility	Lender	Maturity Date	Interest Rate %	2010 Total Facility $'000	Amount Drawn $'000	Amount Undrawn $'000
NZF Mortgages Warehouse A Trust						
Warehouse Facility	**Westpac**	**18/10/10**	**3.28**	**225,000**	**193,700**	**31,300**
MPMH Limited and Subsidiaries						
Term Loan	**Westpac**	**31/05/10**	**4.72**	**650**	**650**	**-**
				225,650	**194,350**	**31,300**

Facility	Lender	Maturity Date	Interest Rate %	2009 Total Facility $'000	Amount Drawn $'000	Amount Undrawn $'000
NZF Money Limited						
Cash Advances Facility	CBA	12/12/09	4.46	40,000	15,000	25,000
NZF Mortgages Warehouse A Trust						
Warehouse Facility	Westpac	18/10/09	3.58	200,000	173,000	27,000
NZF Mortgages Warehouse B Trust						
Warehouse Facility	CBA	15/05/09	-	20,000	-	20,000
MPMH Limited and Subsidiaries						
Term Loan	Westpac	31/05/09	5.70	850	850	-
				260,850	188,850	72,000

The $225,000,000 (2009: $200,000,000) Warehouse Facility between Westpac Banking Corporation, NZF Mortgages Warehouse A Trust, NZF Homeloans Limited and NZF Group Limited, is to be used for the provision of residential mortgages as per agreed credit criteria. Interest payable on the Warehouse Facility is set at the date of drawdown or periodic rollover of the facility. The Warehouse Facility is secured by first registered mortgages and is due for repayment on 18 October 2010. As is usual practice, the facility will be renegotiated in the ordinary course of business.

The $1,300,000 (2009: $1,700,000) Term Loan Facility between Westpac Banking Corporation and MPMH Limited and Subsidiary Undertakings is secured over the assets and undertakings of the Mike Pero Mortgages Group. The facility is currently in the process of being renegotiated and has temporarily been extended to 30 June 2010.

The $40,000,000 Cash Advances Facility between Commonwealth Bank of Australia and NZF Money Limited ranked equally with secured debenture stockholders in terms of its security over all of the assets and undertakings of NZF Money Limited and was repaid in full on 19 February 2010.

The $20,000,000 Warehouse Facility between Commonwealth Bank of Australia, NZF Mortgages Warehouse B Trust, NZF Homeloans Limited and NZF Group Limited was used for the provision of residential mortgages as per agreed credit criteria. The Warehouse Facility was secured by first registered mortgages and repaid in full on 25 March 2009.

At 31 March 2010, the Group had cash reserves of $15,346,000 (2009: $7,896,000) and total undrawn term loan facilities of $31,300,000 (2009: $72,000,000).

Unsecured Capital Notes
Unsecured capital notes of $20,050,000 were issued by NZF Group Limited in October 2006. These notes pay fixed interest at the rate of 9.75% per annum, quarterly in arrears. The capital notes will mature on 15 March 2011. Prior to the maturity date, the Company may elect to offer the noteholders the option to renew the capital notes on new terms and conditions. Alternatively, the Company may elect to convert the capital notes by issuing new Ordinary Shares in the Company to the noteholders at a discount to the then current market price, or by redeeming the capital notes for cash.

Secured Debenture Stock
At 31 March 2010, secured debenture stock of $63,794,000 (2009: $56,728,000) comprises $58,186,000 (2009: $52,571,000) in respect of secured debenture stock issued by NZF Money Limited and $5,608,000 (2009: $4,157,000) of secured debenture stock issued by Finance Direct Limited.

The debenture stock issued by NZF Money Limited is secured under a Debenture Stock Trust Deed between NZF Money Limited and Covenant Trustee Company Limited as Trustee. The Deed creates a floating charge in favour of the Trustee over all of the assets and undertakings of NZF Money Limited, but not the assets or undertakings of NZF Homeloans Limited, NZF Mortgages Warehouse A Trust or NZF Mortgages Warehouse B Trust.

The debenture stock issued by Finance Direct Limited is secured under a Debenture Stock Trust Deed between Finance Direct Limited and Covenant Trustee Company Limited as Trustee. The Deed creates a floating charge in favour of the Trustee over all of the assets and undertakings of Finance Direct Limited.

NZF Money Limited and Finance Direct Limited both have guarantees under the current New Zealand Deposit Guarantee Scheme ("Scheme"). The guarantee is for a two year period from 12 October 2008 to 12 October 2010. NZF Money Limited and Finance Direct Limited have each entered into a Deed of Guarantee with the Crown in respect of the Scheme. The Crown has guaranteed certain deposits under the Scheme. The Crown guarantee is subject to compliance with a number of requirements including certain reporting obligations, meeting Trust Deed covenants, complying with prudential directions and restrictions on entering into certain transactions.

On 8 December 2009, NZF Money Limited and Finance Direct Limited entered into replacement Deeds of Guarantee with the Crown in respect of the Scheme. The replacement Deeds of Guarantee took effect from 1 January 2010 and provide the Crown with greater ability to obtain information about each Company's investors, notification requirements in regard to any proposed variation to the terms of the Debenture Stock Trust Deeds that could increase the Crown's exposure, new requirements regarding administrative assistance in making payments to creditors after a default event, clarification of various requirements of the Deed of Guarantee, and the ability of each company to issue non-guaranteed debt securities whilst still remaining in the Scheme.

NZF Money Limited and Finance Direct Limited have complied with all requirements under the Scheme throughout both years. As a result, there were no liabilities that ranked in priority to qualifying deposits under the Scheme as at 31 March 2010 and 31 March 2009 in the event that either NZF Money Limited or Finance Direct Limited was liquidated. For non-qualifying deposits under the Scheme, liabilities totalling $215,278 (2009: $250,559) for NZF Money Limited and $32,358 (2009: $23,976) for Finance Direct Limited would rank in priority as at 31 March 2010 in the event of either company being liquidated.

25. Other Liabilities

Group Only	2010 $'000	2009 $'000
Deferred fee income:		
Current	**196**	308
Non-Current	**200**	246
	396	554

26. Share Capital

	Group & Company 2010 No. of Shares	Group & Company 2010 $'000	Group & Company 2009 No. of Shares	Group & Company 2009 $'000
Issued and paid up capital:				
Ordinary Shares	**76,666,668**	**7,503**	76,666,668	7,503

No Ordinary Shares were issued by the Company during the year ended 31 March 2009 or the year ended 31 March 2010.

All Ordinary Shares are issued and fully paid, have no par value and have an equal right to vote, to dividends and to any surplus on winding up. The Company does not have a total number of authorised shares. The Board may issue Shares or other Equity Securities to any person in any number it thinks fit provided that while the Company is Listed, the issue is made in accordance with the NZX Listing Rules.

On 19 August 2004, the Company issued 500,000 Ordinary Shares for $150,000 pursuant to an employee share purchase scheme complying with Section DF7 of the Income Tax Act 2004. As required by the Income Tax Act the consideration for the shares was funded by an interest free loan to each employee to be repaid over a five year restricted period. At 31 March 2010, the total receivable owing from the employees was $6,000 (2009: $9,000). The shares allocated to employees are held on their behalf by the Trustee, which is NZF Trustee Limited. Employees are entitled to receive the dividend on the shares, with any such amounts received applied to reducing their respective loans. Voting rights on the shares are exercised by the Trustee on behalf of the employees. John Alan Callaghan and Mark Hume Thornton have been appointed by the Company as Directors of NZF Trustee Limited.

27. Financial Instruments

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Quoted prices in active markets for the same instrument (i.e. without modification or repackaging);

Level 2: Quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data and yield curve information provided by the Group's bankers; and

Level 3: Valuation techniques for which any significant input is not based on observable market data.

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Group Only		**2010**		
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
	$'000	**$'000**	**$'000**	**$'000**
Financial Assets				
Derivative financial instruments:				
Interest rate swaps	**-**	**47**	**-**	**47**
Financial Liabilities				
Derivative financial instruments:				
Interest rate swaps	**-**	**1,552**	**-**	**1,552**

Group Only		**2009**		
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
	$'000	**$'000**	**$'000**	**$'000**
Financial Assets				
Derivative financial instruments:				
Interest rate swaps	-	-	-	-
Financial Liabilities				
Derivative financial instruments:				
Interest rate swaps	-	4,771	-	4,771

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps. The most frequently applied valuation techniques include swap models, using present value calculations. The models incorporate various inputs including the applicable interest rate yield curves derived from quoted interest rates.

27. Financial Instruments (cont)

Fair value of financial assets and financial liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Loans and advances to customers

Each loan has particular circumstances, which determine its fair value. The carrying amounts of the loans net of impairment allowances best represent their fair value.

Loans and borrowings

Fair value is calculated based on the present value of contractual principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Cash and cash equivalents, trade and other receivables and trade and other payables

Due to their relatively short term nature, the carrying amounts of these items are considered to be equivalent to their fair value.

Set out below is a comparison by class of the carrying amounts and fair values of financial instruments that are not carried at fair value in the financial statements. These tables do not include the fair values of non-financial assets and non-financial liabilities.

Group	**2010 Carrying Amount $'000**	**2010 Total Fair Value $'000**	**2009 Carrying Amount $'000**	**2009 Total Fair Value $'000**
Financial Assets				
Available for sale assets:				
Cash and cash equivalents	**15,346**	**15,346**	7,896	7,896
Loans and receivables:				
Loans and advances to customers	**264,989**	**264,989**	258,712	258,712
Trade and other receivables	**1,400**	**1,400**	1,674	1,674
	266,389	**266,389**	260,386	260,386
Total Financial Assets	**281,735**	**281,735**	268,282	268,282
Financial Liabilities				
Amortised cost:				
Loans and borrowings	**278,194**	**278,194**	265,628	265,628
Trade and other payables	**2,265**	**2,265**	2,316	2,316
	280,459	**280,459**	267,944	267,944
Total Financial Liabilities	**280,459**	**280,459**	267,944	267,944

Company	2010 Carrying Amount $'000	2010 Total Fair Value $'000	2009 Carrying Amount $'000	2009 Total Fair Value $'000
Financial Assets				
Available for sale assets:				
Cash and cash equivalents	**802**	**802**	6,039	6,039
Loans and receivables:				
Trade and other receivables	**6,269**	**6,269**	3,011	3,011
Total Financial Assets	**7,071**	**7,071**	9,050	9,050
Financial Liabilities				
Amortised cost:				
Loans and borrowings	**20,050**	**20,050**	20,050	20,050
Trade and other payables	**562**	**562**	482	482
	20,612	**20,612**	20,532	20,532
Total Financial Liabilities	**20,612**	**20,612**	20,532	20,532

The Company and the Group have not classified any assets as Held to Maturity Investments.

Interest rates used for determining fair value

The following interest rates used to discount estimated cash flows, where applicable, are based on the yield curve as at reporting date plus an appropriate constant credit spread:

	2010	2009
Loans and advances to customers	**5.80% - 19.95%**	5.75% - 19.95%
Term loans	**3.28% - 4.72%**	3.58% - 5.70%
Unsecured capital notes	**9.75%**	9.75%
Secured subordinated notes	**3.75% - 8.71%**	3.75%
Secured debenture stock	**4.50% - 12.00%**	4.25% - 12.25%

Financial risk management objectives

The Group's management provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the Board of Directors on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

27. Financial Instruments (cont)

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including interest rate swap contracts to mitigate the risk of changes in interest rates.

Market risk exposures are analysed by sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management

All of the Group's operations are carried out within New Zealand. As a result, the Group is not exposed to any direct foreign currency exchange risks.

Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow and lend funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts in order to maintain the Group's lending margin on fixed rate mortgages.

Under the terms of the Warehouse Facility Agreements with Westpac Banking Corporation and Commonwealth Bank of Australia all fixed rate mortgages are matched with individual interest rate swap contracts for the duration of the fixed rate loan period. As a result, all fixed rate lending is hedged.

Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of fixed rate mortgages and the cash flow exposures on the issued variable debt. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the yield curves at reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

Group Only

Outstanding Contracts	Average Contracted Fixed Interest Rate		Notional Principal Amount		Net Fair Value	
	2010	2009	2010	2009	2010	2009
	%	%	$'000	$'000	$'000	$'000
Less than 1 year	**4.10**	7.26	**115,548**	101,513	**(566)**	(1,865)
1 to 2 years	**4.57**	7.75	**19,556**	27,924	**(226)**	(1,561)
2 to 5 years	**6.52**	7.06	**16,551**	19,141	**(713)**	(1,345)
			151,655	148,578	**(1,505)**	(4,771)

The interest rate swap contracts settle on a monthly basis. The floating rate on the interest rate swap contracts is the interbank rate of New Zealand (BKBM). The Group will settle the difference between the fixed and floating interest rate on a net basis.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point (0.5%) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

For each interest rate movement of 50 basis points higher/lower, assuming all other variables were held constant, the Group's loss for the year would increase/decrease by $386,000 (2009: $369,000).

Credit risk management

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments which potentially subject the Group to credit risk principally consist of cash and cash equivalents, derivative assets held for risk management, loans and advances to customers, and trade and other receivables.

The Group's cash balances, call deposits and derivative assets held for risk management are placed with major trading banks with high credit-ratings assigned by international credit-rating agencies. The Group performs credit evaluations on all customers requiring loans and advances. The Group requires collateral or other security to support financial instruments with credit risk.

The Group operates a lending policy with various levels of authority depending on the size and loan to value ratio of the loan, ensuring compliance with all Trust Deed covenants and agreed credit criteria set out in term loan facility agreements. The Group closely monitors the performance of its borrowers, the payment of instalments under its loans, and has adopted a formal debt management process to be followed when a loan falls into arrears.

Risk gradings categorise exposures according to the degree of risk of financial loss faced and focus management on the attendant risks. Risk grades are used to determine where impairment allowances may be required. The current risk grading framework consists of three grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. They are as follows:

- Neither past due or impaired – compliance with all terms, good security value, no adverse events affecting the borrower.
- Past due but not impaired – material compliance with all terms, no concerns over security value or future events that may affect the borrower.
- Impaired – non-compliance with terms or evidence of impairment of security held, or adverse event affecting the borrower.

The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances to customers are:

- Mortgages over properties.
- General Security Agreements.
- Charges over business assets and motor vehicles.
- Personal guarantees.

The Group also limits potential exposure to credit risk from certain Home Loan mortgage customers by fully reinsuring loan principal amounts and 12 months cash flow cover with third party insurers. At 31 March 2010, $192,471,000 (2009: $163,996,000) of the reported loans and advances to customers were fully reinsured with third party insurers.

Maximum exposure to credit risk is represented by the carrying value of each financial asset in the Balance Sheet which is net of any impairment allowance. Concentration of credit exposures set out in Note 28 do not take into account the fair value of any collateral, in the event of counterparties failing to meet their contractual obligations.

27. Financial Instruments (cont)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves and bank facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities. Included in Note 24 are details of additional undrawn term loan facilities that the Group had at its disposal at 31 March 2010 to further reduce liquidity risk.

The tables in Note 29 detail the Group's expected maturity for its financial assets and the remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the contractual maturities of the financial assets except where the Group anticipates that the cash flow will occur in a different period and the cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

On 7 November 2008 and 12 November 2008 respectively, NZF Money Limited and Finance Direct Limited became Approved Institutions under the New Zealand Deposit Guarantee Scheme ("Scheme"). The Scheme guarantees certain deposits for a two year period from 12 October 2008 to 12 October 2010. In order to maintain Approved status, NZF Money Limited and Finance Direct Limited have to comply with a number of requirements including certain reporting obligations, meeting Trust Deed covenants, complying with prudential directions and restrictions on entering into certain transactions.

On 25 August 2009, details of an extension to the Scheme through to 31 December 2011 were released. A credit rating of BB or higher is required for an Issuer to join the extended Scheme. On 24 February 2010, NZF Money Limited received an NZ Dollar Long Term Issuer Rating of B (Outlook Negative) from Standard & Poor's. On 25 February 2010, Finance Direct Limited received confirmation from the Reserve Bank that its application for exemption under the Deposit Takers (Credit Ratings Minimum Threshold) Exemption Notice 2009 was acceptable for the application of the exemption. NZF Money Limited and Finance Direct Limited therefore do not currently qualify to join the extended Scheme. There is a possibility that NZF Money Limited and Finance Direct Limited may not obtain a credit rating of BB or higher prior to the extension taking effect. It is also possible that NZF Money Limited and Finance Direct Limited may, for a number of reasons, choose not to apply to join the extended Scheme.

If either NZF Money Limited or Finance Direct Limited failed to comply with any of their obligations under the current Scheme or were unable to obtain extension of their current guarantees beyond 12 October 2010, this may impact on the Group's liquidity.

Capital management

The Group considers share capital and retained earnings to be capital for management purposes. In implementing current capital requirements, the Debenture Stock Trust Deeds entered into between NZF Money Limited, Finance Direct Limited and Covenant Trustee Company Limited as Trustee, require both companies to maintain a prescribed ratio of total liabilities to total tangible assets. The Trust Deed prescribed ratios are 86% for both NZF Money Limited and Finance Direct Limited.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group also monitors the level of dividends to ordinary shareholders. NZF Money Limited and Finance Direct Limited have complied with all Trustee imposed capital requirements throughout the two years ended 31 March 2010 and there have been no material changes in the Group's approach to capital management during the year.

28. Concentration of Credit Exposure

Loans and Advances to Customers

Geographical Concentration of Loans and Advances

Group Only	2010 %	2010 $'000	2009 %	2009 $'000
Residential Property				
Auckland	**48.58**	**130,136**	54.03	142,185
Bay of Plenty	**3.36**	**8,999**	2.80	7,375
Canterbury	**5.47**	**14,645**	3.20	8,438
Gisborne	**0.49**	**1,314**	0.42	1,115
Hawkes Bay	**2.04**	**5,478**	2.41	6,357
North Shore	**8.90**	**23,856**	10.14	26,703
Northland	**3.51**	**9,395**	3.33	8,768
Queenstown	**1.05**	**2,811**	1.25	3,293
Southland/Otago	**1.28**	**3,426**	0.95	2,512
South Island – Other	**2.31**	**6,182**	2.50	6,574
Taranaki/Manawatu/Wanganui	**2.56**	**6,859**	1.88	4,955
Waikato	**6.05**	**16,199**	4.80	12,642
Wellington/Kapiti	**10.96**	**29,352**	9.08	23,907
	96.56	**258,652**	96.79	254,824
Other Loans				
Auckland	**0.10**	**293**	0.12	307
Wellington	**1.13**	**3,016**	1.14	3,015
	1.23	**3,309**	1.26	3,322
Small Business Loans and Consumer Finance				
New Zealand	**2.21**	**5,951**	1.95	5,137
Total	**100.00**	**267,912**	100.00	263,283

Collateral held over Loans and Advances

Group Only	2010 %	2010 $'000	2009 %	2009 $'000
First Mortgages	**95.90**	**256,916**	94.89	249,839
Second Mortgages	**0.64**	**1,711**	1.89	4,971
GSA and Other Security	**3.46**	**9,285**	3.22	8,473
Total	**100.00**	**267,912**	100.00	263,283

28. Concentration of Credit Exposure (cont)

Loans and Advances to Customers (cont)

Concentration of Loans and Advances to Individual Counterparties

Group Only	Number of Counterparties 2010	Number of Counterparties 2009
% of Shareholder Funds		
10 - 19.99%	**12**	14
20 - 29.99%	**3**	1
30 - 39.99%	**1**	2
40 - 49.99%	**-**	1
Total	**16**	18

Managed Funds, Securitisation, Custodial and Other Fiduciary Activities

The Group has not had any involvement in funds management, securitisation and/or custodial activities.

Funding – Loans and Borrowings

Product Concentration of Funding

	Group 2010 %	Group 2010 $'000	Group 2009 %	Group 2009 $'000	Company 2010 %	Company 2010 $'000	Company 2009 %	Company 2009 $'000
Term loans	**69.86**	**194,350**	71.10	188,850	**-**	**-**	-	-
Unsecured capital notes	**7.21**	**20,050**	7.55	20,050	**100.00**	**20,050**	100.00	20,050
Secured debenture stock	**22.93**	**63,794**	21.35	56,728	**-**	**-**	-	-
Total	**100.00**	**278,194**	100.00	265,628	**100.00**	**20,050**	100.00	20,050

Geographical Concentration of Funding

	Group 2010 %	Group 2010 $'000	Group 2009 %	Group 2009 $'000	Company 2010 %	Company 2010 $'000	Company 2009 %	Company 2009 $'000
New Zealand	**98.77**	**274,812**	99.43	264,240	**99.28**	**19,905**	99.28	19,905
Australia	**0.55**	**1,571**	0.10	277	**0.27**	**55**	0.27	55
United Kingdom	**0.21**	**615**	0.14	364	**-**	**-**	-	-
France	**0.12**	**348**	0.01	15	**0.08**	**15**	0.08	15
Hong Kong	**0.08**	**212**	-	-	**-**	**-**	-	-
USA	**0.06**	**176**	0.08	207	**0.12**	**25**	0.12	25
China	**0.06**	**161**	-	-	**-**	**-**	-	-
Canada	**0.03**	**85**	0.03	77	**-**	**-**	-	-
Switzerland	**0.03**	**73**	0.03	71	**0.25**	**50**	0.25	50
Japan	**0.02**	**46**	0.05	130	**-**	**-**	-	-
Netherlands	**0.01**	**30**	0.02	45	**-**	**-**	-	-
Germany	**0.01**	**25**	0.01	35	**-**	**-**	-	-
Ireland	**0.01**	**11**	0.01	10	**-**	**-**	-	-
Singapore	**0.01**	**10**	0.01	11	**-**	**-**	-	-
Taiwan	**0.01**	**7**	0.01	6	**-**	**-**	-	-
Korea	**0.01**	**7**	-	-	**-**	**-**	-	-
Malaysia	**0.01**	**5**	0.01	10	**-**	**-**	-	-
South Africa	**-**	**-**	0.04	100	**-**	**-**	-	-
Romania	**-**	**-**	0.01	20	**-**	**-**	-	-
Thailand	**-**	**-**	0.01	10	**-**	**-**	-	-
Total	**100.00**	**278,194**	100.00	265,628	**100.00**	**20,050**	100.00	20,050

There is no material concentration of funding within New Zealand.

29. Maturity Profile of Financial Assets and Financial Liabilities

(a) Interest rate risk

The following tables summarise the Group's interest rate gap position on the basis of net discounted cash flows:

Group	Weighted average effective interest rate %	2010 Current 0 - 6 Months $'000	7 - 12 Months $'000	Non-Current 1 - 2 Years $'000	2 - 5 Years $'000	5+ Years $'000	Total $'000
Financial Assets							
Non-Derivative:							
Cash and cash equivalents	2.75	15,346	-	-	-	-	15,346
Loans and advances to customers	8.03	50,121	364	1,480	2,852	210,172	264,989
Trade and other receivables	-	1,400	-	-	-	-	1,400
		66,867	364	1,480	2,852	210,172	281,735
Derivative:							
Derivative assets held for risk management	-	-	-	1	46	-	47
		66,867	364	1,481	2,898	210,172	281,782
Financial Liabilities							
Non-Derivative:							
Trade and other payables	-	2,265	-	-	-	-	2,265
Term loans	3.28	650	193,700	-	-	-	194,350
Unsecured capital notes	9.75	-	20,050	-	-	-	20,050
Secured debenture stock	7.80	39,047	13,158	10,138	1,451	-	63,794
		41,962	226,908	10,138	1,451	-	280,459
Derivative:							
Derivative liabilities held for risk management	-	183	383	227	759	-	1,552
		42,145	227,291	10,365	2,210	-	282,011

On 15 June 2010, the amount drawn against the Group's term loan facility with Westpac Banking Corporation was reduced to $94 million following the issue of $100 million of long term debt connected with the inaugural $100 million Residential Mortgage Backed Securities (RMBS) issue by NZF Group Limited (see Note 35). As disclosed in Note 24, the Group's term loan facility with Westpac Banking Corporation is due for repayment on 18 October 2010. As is usual practice, this facility will be renegotiated in the ordinary course of business. The Directors are not currently aware of any adverse circumstances that may affect the renewal of this facility.

Group	Weighted average effective interest rate %	2009 Current 0 - 6 Months $'000	7 - 12 Months $'000	Non-Current 1 - 2 Years $'000	2 - 5 Years $'000	5+ Years $'000	Total $'000
Financial Assets							
Non-Derivative:							
Cash and cash equivalents	3.50	7,896	-	-	-	-	7,896
Loans and advances to customers	9.22	63,662	947	4,530	2,442	187,131	258,712
Trade and other receivables	-	1,674	-	-	-	-	1,674
		73,232	947	4,530	2,442	187,131	268,282
Financial Liabilities							
Non-Derivative:							
Trade and other payables	-	2,316	-	-	-	-	2,316
Term loans	3.66	850	188,000	-	-	-	188,850
Unsecured capital notes	9.75	-	-	20,050	-	-	20,050
Secured debenture stock	8.89	12,762	17,471	21,278	5,217	-	56,728
		15,928	205,471	41,328	5,217	-	267,944
Derivative:							
Derivative liabilities held for risk management	-	619	1,246	1,560	1,346	-	4,771
		16,547	206,717	42,888	6,563	-	272,715

Company	Weighted average effective interest rate %	2010 Current 0 - 6 Months $'000	7 - 12 Months $'000	Non-Current 1 - 2 Years $'000	2 - 5 Years $'000	5+ Years $'000	Total $'000
Financial Assets							
Non-Derivative:							
Cash and cash equivalents	**2.75**	**802**	**-**	**-**	**-**	**-**	**802**
Trade and other receivables	**-**	**6,269**	**-**	**-**	**-**	**-**	**6,269**
		7,071	**-**	**-**	**-**	**-**	**7,071**
Financial Liabilities							
Non-Derivative:							
Trade and other payables	**-**	**562**	**-**	**-**	**-**	**-**	**562**
Unsecured capital notes	**9.75**	**-**	**20,050**	**-**	**-**	**-**	**20,050**
		562	**20,050**	**-**	**-**	**-**	**20,612**

29. Maturity Profile of Financial Assets and Financial Liabilities (cont)

(a) Interest rate risk (cont)

Company	Weighted average effective interest rate %	2009 Current 0 - 6 Months $'000	7 - 12 Months $'000	Non-Current 1 - 2 Years $'000	2 - 5 Years $'000	5+ Years $'000	Total $'000
Financial Assets							
Non-Derivative:							
Cash and cash equivalents	4.23	6,039	-	-	-	-	6,039
Trade and other receivables	-	3,011	-	-	-	-	3,011
		9,050	-	-	-	-	9,050
Financial Liabilities							
Non-Derivative:							
Trade and other payables	-	482	-	-	-	-	482
Unsecured capital notes	9.75	-	-	20,050	-	-	20,050
		482	-	20,050	-	-	20,532

(b) Residual contractual maturities of financial assets and financial liabilities

The following tables show the gross undiscounted cash flows of the Group's financial assets and financial liabilities on the basis of their earliest possible contractual maturity and their expected maturity. The Gross nominal inflow/(outflow) disclosed in the following tables is the contractual, undiscounted cash flow of the financial asset or financial liability.

Group	2010						
	0 - 6 Months $'000	7 - 12 Months $'000	1 - 2 Years $'000	2 - 5 Years $'000	5+ Years $'000	Gross Nominal Inflow/ (Outflow) $'000	Carrying Amount $'000
Financial Assets							
Non-Derivative:							
Cash and cash equivalents	15,346	-	-	-	-	15,346	15,346
Loans and advances to customers	63,395	10,702	19,746	54,813	250,378	399,034	264,989
Trade and other receivables	1,400	-	-	-	-	1,400	1,400
	80,141	10,702	19,746	54,813	250,378	415,780	281,735
Derivative:							
Derivative assets held for risk management	-	-	1	46	-	47	47
	80,141	10,702	19,747	54,859	250,378	415,827	281,782
Financial Liabilities							
Non-Derivative:							
Trade and other payables	(2,265)	-	-	-	-	(2,265)	(2,265)
Term loans	(3,832)	(194,022)	-	-	-	(197,854)	(194,350)
Unsecured capital notes	(977)	(20,942)	-	-	-	(21,919)	(20,050)
Secured debenture stock	(40,845)	(13,883)	(10,696)	(1,582)	-	(67,006)	(63,794)
	(47,919)	(228,847)	(10,696)	(1,582)	-	(289,044)	(280,459)
Derivative:							
Derivative liabilities held for risk management	(183)	(383)	(227)	(759)	-	(1,552)	(1,552)
	(48,102)	(229,230)	(10,923)	(2,341)	-	(290,596)	(282,011)
Total	32,039	(218,528)	8,824	52,518	250,378	125,231	(229)

29. Maturity Profile of Financial Assets and Financial Liabilities (cont)

(b) Residual contractual maturities of financial assets and financial liabilities (cont)

The expected maturity of financial assets and financial liabilities differs materially from the contractual maturity in respect of loans and advances for the Group as at 31 March 2010. The expected maturity of loans and advances and the adjusted contractual cash flows are as follows:

Group	2010					
	0 - 6 Months $'000	7 - 12 Months $'000	1 - 2 Years $'000	2 - 5 Years $'000	5+ Years $'000	Gross Nominal Inflow/ (Outflow) $'000
Loans and advances to customers (expected)	**61,069**	**10,681**	**19,746**	**54,757**	**250,378**	**396,631**
Adjusted Total	**29,713**	**(218,549)**	**8,824**	**52,462**	**250,378**	**122,828**

On 15 June 2010, the amount drawn against the Group's term loan facility with Westpac Banking Corporation was reduced to $94 million following the issue of $100 million of long term debt connected with the inaugural $100 million Residential Mortgage Backed Securities (RMBS) issue by NZF Group Limited (see Note 35). As disclosed in Note 24, the Group's term loan facility with Westpac Banking Corporation is due for repayment on 18 October 2010. As is usual practice, this facility will be renegotiated in the ordinary course of business. The Directors are not currently aware of any adverse circumstances that may affect the renewal of this facility.

Group	2009						
	0 - 6 Months $'000	7 - 12 Months $'000	1 - 2 Years $'000	2 - 5 Years $'000	5+ Years $'000	Gross Nominal Inflow/ (Outflow) $'000	Carrying Amount $'000
Financial Assets							
Non-Derivative:							
Cash and cash equivalents	7,896	-	-	-	-	7,896	7,896
Loans and advances to customers	78,115	10,246	22,112	51,703	234,513	396,689	258,712
Trade and other receivables	1,674	-	-	-	-	1,674	1,674
	87,685	10,246	22,112	51,703	234,513	406,259	268,282
Financial Liabilities							
Non-Derivative:							
Trade and other payables	(2,316)	-	-	-	-	(2,316)	(2,316)
Term loans	(4,285)	(188,449)	-	-	-	(192,734)	(188,850)
Unsecured capital notes	(977)	(977)	(21,919)	-	-	(23,873)	(20,050)
Secured debenture stock	(14,453)	(18,954)	(22,874)	(5,556)	-	(61,837)	(56,728)
	(22,031)	(208,380)	(44,793)	(5,556)	-	(280,760)	(267,944)
Derivative:							
Derivative liabilities held for risk management	(619)	(1,246)	(1,560)	(1,346)	-	(4,771)	(4,771)
	(22,650)	(209,626)	(46,353)	(6,902)	-	(285,531)	(272,715)
Total	65,035	(199,380)	(24,241)	44,801	234,513	120,728	(4,433)

The expected maturity of financial assets and financial liabilities differs materially from the contractual maturity in respect of loans and advances for the Group as at 31 March 2009. The expected maturity of loans and advances and the adjusted contractual cash flows are as follows:

Group	2009					
	0 - 6 Months $'000	7 - 12 Months $'000	1 - 2 Years $'000	2 - 5 Years $'000	5+ Years $'000	Gross Nominal Inflow/ (Outflow) $'000
Loans and advances to customers (expected)	69,788	14,946	22,069	51,618	234,513	392,934
Adjusted Total	56,708	(194,680)	(24,284)	44,716	234,513	116,973

Company	**2010**						
	0 - 6 Months $'000	**7 - 12 Months $'000**	**1 - 2 Years $'000**	**2 - 5 Years $'000**	**5+ Years $'000**	**Gross Nominal Inflow/ (Outflow) $'000**	**Carrying Amount $'000**
Financial Assets							
Non-Derivative:							
Cash and cash equivalents	**802**	**-**	**-**	**-**	**-**	**802**	**802**
Trade and other receivables	**6,269**	**-**	**-**	**-**	**-**	**6,269**	**6,269**
	7,071	**-**	**-**	**-**	**-**	**7,071**	**7,071**
Financial Liabilities							
Non-Derivative:							
Trade and other payables	**(562)**	**-**	**-**	**-**	**-**	**(562)**	**(562)**
Unsecured capital notes	**(977)**	**(20,942)**	**-**	**-**	**-**	**(21,919)**	**(20,050)**
	(1,539)	**(20,942)**	**-**	**-**	**-**	**(22,481)**	**(20,612)**
Total	**5,532**	**(20,942)**	**-**	**-**	**-**	**(15,410)**	**(13,541)**

Company	**2009**						
	0 - 6 Months $'000	**7 - 12 Months $'000**	**1 - 2 Years $'000**	**2 - 5 Years $'000**	**5+ Years $'000**	**Gross Nominal Inflow/ (Outflow) $'000**	**Carrying Amount $'000**
Financial Assets							
Non-Derivative:							
Cash and cash equivalents	6,039	-	-	-	-	6,039	6,039
Trade and other receivables	3,011	-	-	-	-	3,011	3,011
	9,050	-	-	-	-	9,050	9,050
Financial Liabilities							
Non-Derivative:							
Trade and other payables	(482)	-	-	-	-	(482)	(482)
Unsecured capital notes	(977)	(977)	(21,919)	-	-	(23,873)	(20,050)
	(1,459)	(977)	(21,919)	-	-	(24,355)	(20,532)
Total	7,591	(977)	(21,919)	-	-	(15,305)	(11,482)

30. Asset Quality

(a) Summary of Lending

Group Only	2010 $'000	2009 $'000
Neither past due nor impaired	**243,480**	221,390
Past due but not impaired	**12,642**	25,068
Impaired	**11,790**	16,825
Gross loans and advances	**267,912**	263,283
Less: Impaired loan allowance	**(2,923)**	(4,571)
Net loans and advances	**264,989**	258,712

The Group closely monitors the performance of its borrowers and the payment of instalments under its loans. The Board has adopted a formal debt management process to be followed when a loan falls into arrears, which includes specified time driven debt collection procedures, although management may take such actions earlier as circumstances require. Special monitoring of assets occurs when there is a risk of the asset becoming impaired and active management is required to maintain the debt.

(b) Loans and Advances Past Due But Not Impaired

Group Only	2010 $'000	2009 $'000
Past Due Assets Not Impaired		
Opening balance	**25,068**	8,224
Collected during the year	**(20,678)**	(6,296)
Reclassified as Impaired assets	**(157)**	(1,928)
Additions to Past Due asset status	**8,409**	25,068
Closing balance	**12,642**	25,068

Group Only	2010			2009		
	Total $'000	Instalment Arrears $'000	Balance of Loan Principal $'000	Total $'000	Instalment Arrears $'000	Balance of Loan Principal $'000
Analysis of Past Due Assets Not Impaired:						
0 - 31 Days	**5,879**	**63**	**5,816**	20,407	134	20,273
32 - 60 Days	**1,736**	**30**	**1,706**	2,178	39	2,139
61 - 90 Days	**361**	**55**	**306**	1,002	31	971
90+ Days	**4,666**	**400**	**4,266**	1,481	75	1,406
Total Past Due Assets Not Impaired	**12,642**	**548**	**12,094**	25,068	279	24,789
Security Value of Past Due Assets	**17,372**			36,868		
LVR	**73%**			68%		
Past Due Assets Underwritten by Third Party Insurers	**6,780**			18,977		
Past Due Assets Not Reinsured	**5,862**			6,091		
Security Value of Past Due Assets Not Reinsured	**8,117**			8,744		
LVR	**72%**			70%		

Past Due Assets Not Impaired represent Loans and Advances to Customers where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

(c) Impaired Assets

At 31 March 2010, there were no restructured assets, real estate assets or other assets acquired through the enforcement of security (2009: $nil). The breakdown of the gross amount of other individually impaired loans and advances and individual impairment allowances is as follows:

Group Only	2010			2009		
	Total	Property Finance	Consumer Finance	Total	Property Finance	Consumer Finance
	$'000	$'000	$'000	$'000	$'000	$'000
Total Gross Impaired Assets						
Opening balance	**16,825**	**16,511**	**314**	-	-	-
Net additions	**510**	**386**	**124**	17,215	16,901	314
Loan repayments received	**(4,895)**	**(4,736)**	**(159)**	-	-	-
Amounts written off	**(650)**	**(534)**	**(116)**	(390)	(390)	-
Closing balance	**11,790**	**11,627**	**163**	16,825	16,511	314
Individual Allowance for Impairment	**(2,341)**	**(2,264)**	**(77)**	(3,945)	(3,760)	(185)
Total Net Impaired Assets	**9,449**	**9,363**	**86**	12,880	12,751	129
Collateral held over Impaired Loans and Advances						
First Mortgages	**11,627**	**11,627**	**-**	16,511	16,511	-
GSA and Other Security	**163**	**-**	**163**	314	-	314
	11,790	**11,627**	**163**	16,825	16,511	314

31. Operating Lease Commitments

At 31 March 2010, the Group had operating lease commitments in respect of property, equipment and vehicles used by subsidiary undertakings and the joint venture investee. At 31 March 2010, total future minimum payments under non-cancellable operating leases were payable as follows:

Group Only	2010			2009		
	Total	Property & Equipment	Motor Vehicles	Total	Property & Equipment	Motor Vehicles
	$'000	$'000	$'000	$'000	$'000	$'000
Less than one year	**236**	**202**	**34**	264	208	56
Between one and five years	**121**	**106**	**15**	285	240	45
	357	**308**	**49**	549	448	101

There are no onerous terms concerning renewal of the above leases and the Group does not sublet any of the leased assets.

32. Capital Commitments

On 26 June 2008, NZF Money Limited, a 100% subsidiary undertaking of the Group, entered into a Software Licence and Maintenance Agreement with Ultradata Australia Pty Limited for the procurement of a new IT operating platform. Under the terms of the agreement, the Licence Fee commitment amounts to $400,000, which is payable in various stages up to and including the Go Live date, with annual Maintenance Fees then payable, representing 20% of the Licence Fee amount. Total implementation costs are estimated to be in the region of $1,500,000; $844,000 of which had been incurred as at 31 March 2010 (2009: $670,000). There were no other material capital commitments at 31 March 2010 (2009: $nil).

33. Contingent Assets and Liabilities

As disclosed in Note 20, under the Share Sale and Purchase Agreement dated 2 April 2007, NZF Group Limited has agreed to provide a facility of up to $1,000,000 to Finance Direct Limited. NZF Group Limited has agreed to make the funding facility available to Finance Direct Limited as and when required, subject to the agreement of terms. This facility would be called upon to satisfy working capital requirements and in particular would be called upon to ensure that Finance Direct Limited maintains compliance with its financial covenants including, but not limited to, its debt/equity ratios as comprised within its Debenture Stock Trust Deed.

There were no other contingent assets or liabilities at 31 March 2010 (2009: $nil).

34. Related Party Transactions

Group		**Weighted Average Interest Rate**		**Interest Received/ (Paid)**		**Asset/(Liability) at 31 March**	
Entity	**Relationship**	**2010 %**	**2009 %**	**2010 $'000**	**2009 $'000**	**2010 $'000**	**2009 $'000**
Related Party Loans							
MPMH Limited	Joint Venture Investee	**-**	-	**-**	-	**199**	199
Secured Debenture Stock							
Pat Redpath O'Connor	Non-Executive Director	**6.65%**	6.42%	**(99)**	(71)	**(1,800)**	(1,800)

Company		**Weighted Average Interest Rate**		**Interest Received/ (Paid)**		**Asset/(Liability) at 31 March**	
Entity	**Relationship**	**2010 %**	**2009 %**	**2010 $'000**	**2009 $'000**	**2010 $'000**	**2009 $'000**
Call Account Deposit							
NZF Money Limited	Subsidiary	**-**	4.50%	**78**	-	**-**	4,420
Secured Subordinated Notes							
NZF Mortgages Warehouse A Trust	Controlled Trust	**5.84%**	3.75%	**144**	139	**3,460**	2,000
NZF Mortgages Warehouse B Trust	Controlled Trust	**-**	-	**-**	348	**-**	-
				144	487	**3,460**	2,000
Related Party Loans							
NZF Mortgages Warehouse A Trust	Controlled Trust	**3.75%**	3.75%	**51**	56	**1,400**	(370)
NZF Mortgages Warehouse B Trust	Controlled Trust	**-**	-	**-**	38	**-**	-
New Zealand Mortgage Finance Limited	Subsidiary	**-**	-	**-**	-	**1,005**	974
Finance Direct Limited	Subsidiary	**-**	-	**11**	-	**-**	-
				62	94	**2,405**	604
MPMH Limited	Joint Venture Investee	**-**	-	**-**	-	**398**	398

All of the above balances are unsecured and repayable on demand, except for the Secured Debenture Stock of $1,800,000 (2009: $1,800,000) and the Secured Subordinated Notes of $3,460,000 (2009: $2,000,000). The Secured Debenture Stock is secured against the assets and undertakings of NZF Money Limited and is scheduled for repayment as follows: $1,000,000 on 21 June 2010, $400,000 on 25 January 2011 and $400,000 on 31 January 2011. The Secured Subordinated Notes are secured against the assets and undertakings of NZF Mortgages Warehouse A Trust and are repayable at the earlier to occur of the date of termination of the Warehouse Facility Agreement or the Vesting Date or such other date as agreed between the Warehouse Facility Provider, NZF Homeloans Limited as Trust Manager, and The New Zealand Guardian Trust Company Limited as Trustee.

In addition to the above, NZF Group Limited and Mike Pero Mortgages Limited distribute the Huljich KiwiSaver Scheme using the NZF SuperKiwi and Mike Pero Saver brands. Huljich Wealth Management (New Zealand) Limited is the Funds Management provider and pays upfront and trail commissions to NZF Group Limited and Mike Pero Mortgages Limited, of which $216,000 (2009: $99,000) and $56,000 (2009: $19,000) was respectively received during the year ended 31 March 2010. Peter Karl Christopher Huljich, a Non-Executive Director of the Company, is a beneficial shareholder in Huljich Wealth Management (New Zealand) Limited.

No amounts owed by related parties were written off or forgiven during the year ended 31 March 2010 (2009: $nil).

35. Subsequent Events

On 26 May 2010, NZF Group Limited announced the launch of its inaugural $100 million Residential Mortgage Backed Securities (RMBS) issue, the NZF Mortgages Series 2010-1 RMBS, which is the first RMBS issue in New Zealand since late 2007. The transaction was built around strong reverse enquiry from a small group of Institutional Investors and settled on 15 June 2010. The transaction involved the sale of $100 million of fully reinsured Residential Home Loans from NZF Mortgages Warehouse A Trust to NZF Mortgages 2010-1 Trust and the issue of $100 million of Notes by the Trust. Details of the Notes issued by the Trust were as follows:

Note Class	Issue Amount (NZ$m)	Rating (Standard & Poor's)	Pricing (3 Month BKBM Bid Rate +)
A1	87.80	AAA	175 Basis Points
A2	9.10	AAA	260 Basis Points
B	2.50	AA-	Undisclosed
C	0.60	Not Rated	Undisclosed
	100.00		

NZF Group Limited invested $3.1 million to acquire all of the B and C Notes, in order to facilitate the transaction. The ratings assigned by Standard & Poor's to each Note Class took into account a number of factors, including the credit risk of the underlying Residential Home Loans sold, which further underlines the Group's commitment to quality lending.

The $100 million of sales proceeds received by NZF Mortgages Warehouse A Trust were used to reduce the amount drawn under the Warehouse Facility with Westpac Banking Corporation to $94 million (see Note 24). NZF Mortgages 2010-1 Trust is a newly created 30 year trust, whose Trustee is Public Trust. NZF Homeloans Limited is the Trust Manager and continues to manage the $100 million of fully reinsured Residential Home Loans sold to the Trust. NZF Homeloans Limited also has sole entitlement to both the Residual Capital Interest and Residual Income Interest of the Trust.

The Warehouse Facility between Westpac Banking Corporation, NZF Mortgages Warehouse A Trust, NZF Homeloans Limited and NZF Group Limited continues to remain unchanged at $225 million, against which $94 million has been drawn. The overall effect of the RMBS issue has been to provide NZF's Home Loans Division with an additional funding line of $100 million to enable it to continue the significant growth it has already achieved to date.

Since 31 March 2010 the New Zealand Government has announced that the Company tax rate will reduce from 30% to 28% effective for years beginning on or after 1 April 2011. The financial effects of the change in tax rate have not been brought to account in the consolidated financial statements for the year ended 31 March 2010. Had the financial effects of the change in tax rate been recognised at 31 March 2010, there would have been a reduction in the deferred tax asset and an increase in the income tax expense of $67,000.

The Directors are not aware of any other 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.

company directory
as at 31 March 2010

Independent Directors
Richard Alan Waddel (Chairman), BCom FCA (NZ), AF InstD
301 Kingsridge, 424 Remuera Road, Remuera, Auckland

Jeffrey Albert Barkwill FCA (NZ), DipCM
23 Vista Crescent, Glendowie, Auckland

Non-Executive Directors
Peter Karl Christopher Huljich BCom, Dip. NZX, SA Fin.
8 Karori Crescent, Orakei, Auckland

Pat Redpath O'Connor
9 Joseph Banks Terrace, Newmarket, Auckland

Executive Directors
John Alan Callaghan (Managing Director) BBS
137 Hingaia Road, Papakura, Auckland

Mark Hume Thornton
80 Kelmarna Avenue, Ponsonby, Auckland

Company Secretary
Malcolm Lindeque CA, BCom CA (SA)
6 George Deane Place, Albany, Auckland

Registered Office
88 Broadway, Newmarket, Auckland
Tel: 0800 379 9090

Executive Team
Chief Financial Officer
Malcolm Lindeque CA, BCom CA (SA)

General Manager Lending
Tony Milicich

General Manager Investments and Insurance
Dave Shatford Dip P Fin Plan (Waikato)

Company Number
1474151

Incorporated
22 January 2004

Shares Issued
76,666,668 Ordinary

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152 Fanshawe Street, Auckland

Share Registrar
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Tel: 03 308 8887

Bankers
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Level 21, ASB Bank Centre, 135 Albert Street, Auckland

Westpac Banking Corporation
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