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As I was writing this, New Zealand was enjoying its biggest ever sporting event, the Rugby World Cup. The battles there will be intense, so

go the All Blacks!

WORD FROM THE CEO

The business of change

Last week I had lunch with a 77-year old business owner who has been a client of Lock Finance since 1973. His company installs film projectors in cinemas all over New Zealand. Recently we sponsored him for a business ideas workshop which he really enjoyed and more importantly found extremely useful to his business. As a result he has implemented several changes to his business, which is now managed day-to-day by his son.

At our lunch, the business owner thanked us for that seminar. Like many businesses at the moment, he is also in the process of restructuring, and I am pleased to say, Lock will continue to work with him, through this process.

What I really noticed was that at 77, our client was still very receptive to new ideas and happy to drive change in his business. We can all be guilty of preferring to stay in our comfort zone, happy with our familiar day-to-day routines. Often, we find it a struggle to step back and take stock of what changes are needed and where improvements can be made. Change is not easy but is it necessary and often the only way a business can stay relevant.

We know that this year has been hard for many of you, and the competition is tougher than ever out there in the marketplace. The much "hoped-for" resurgence in the economy seems to be around yet another corner; cash flow remains tight; the market's volatility has certainly not helped.

For some companies, this has led to a corporate slimming down programme. We've tightened our

belt this year too. But we continue to see that strong Kiwi resilience come through, time and time again. We have seen many clients produce stronger results from implementing smarter ideas, by improving accountability and increasing staff participation in decision making.

I hope you will be inspired by our 77-year old client and continue to explore changes that will improve your business.

On a lighter note, this month, along with some members of the Lock Finance team I have entered a 'Biggest Loser' weight loss competition organised by our neighbouring tenant, Rentplus. While we're not taking it too seriously, I can tell you there is certainly more awareness around the office regarding what we eat and how often we get down to the gym. It is surprising how competition focuses the mind!

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MAIN ARTICLE

NZ's SME lending – best in class leading the way

New Zealand's small-to-medium-scale enterprises (SMEs) can count themselves lucky given the country currently has one of the best models when it comes to extending financing for small businesses.

World Bank Statistics show that SMEs around the world continue to face difficulty getting financing. There are about 400 million SMEs in emerging markets (excluding the OECD countries) but only about 20% of them have any form of loans or overdraft.

In Asia, 70% of the SMEs surveyed said they were unable to access loans because they could not provide any form of property as security, while 20% would not even consider applying to banks for credit.

New Zealand financial institutions are more proactive in helping to raise financing for SMEs, for example invoice-based financing and factoring among others. The rest of the world is still focused on traditional asset-based lending.

Earlier this year, Lock Finance chief executive, Simon Thompson was asked by the World Bank to speak at their conference on Small-to-Medium-Enterprise Finance held at Rio de Janeiro, Brazil.

"The World Bank is currently leading a major programme to improve finance for SMEs by pushing for legislative changes," says Thompson. "They are also educating the banking community to accept a more diverse range of SME assets (such as plant, inventory and account receivables) beyond traditional security such as property-based assets."

According to Thompson, there remains a huge gap in the SME finance market. (See tables below) because few SMEs have property assets, yet banks and lenders want property security.

"New Zealand leads the way in this area and we are

now seen as a 'best practice' country. We have a very good legal framework (based on our Personal Property Securities Act), a well-used online security registry system and active market lenders, such as Lock Finance, who do not need property security when lending to the SME sector."

Thompson says that New Zealand tends to take its lending framework for granted, "But I can assure you there is considerable international interest in the lending model we use because, simply put, we Kiwis do it very well."

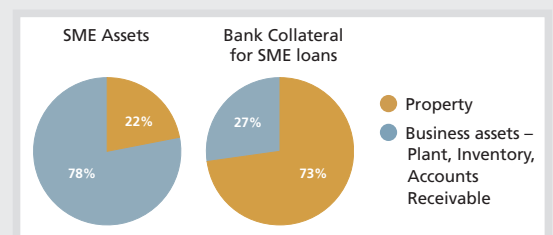


Table 1: Mismatched needs

With the support and encouragement of the Lock Finance shareholders, Thompson says he has been able to provide expertise to the World Bank on training projects in China and Cambodia as well as at the Rio de Janeiro conference.

He found the trip a fascinating experience on both a personal and professional level.

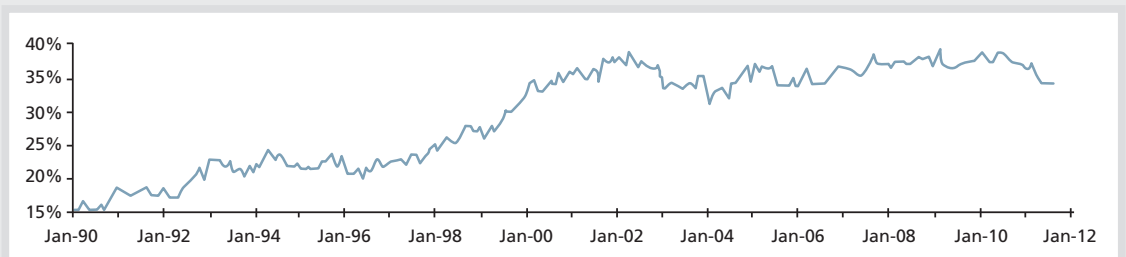
"Away from the conference, I found some time to explore Rio de Janeiro and discovered that it is a truly magnificent city and I recommend you visit if you can, especially to catch the Carnivale. It starts at about 10.30pm and goes till 6am – it is spectacular!"



FINANCIAL COMMENTARY

A silver lining to the global financial turmoil

With Greece on the brink of defaulting on its debt there is good reason for concern, in part because NZ banks still rely significantly on overseas funding. But the latest turmoil has a silver lining.



The chart shows the % of New Zealand bank funding sourced from non-residents. Source: RBNZ

With government debt of around 180% of GDP and a fiscal deficit of around 15% of GDP the financial problems in Greece are insurmountable. No wonder the market is pricing the risk of Greek default at slightly over 90%.

The important question is not whether Greece will default but whether it will drag down other Eurozone countries and the international banking system with it. I live in hope, but firms are well advised to bolster cash reserves just in case access to credit becomes a major issue again.

NZ is exposed to the turmoil in Europe and the US because of the negative impact it will have on exports and because we still rely significantly on overseas funding.

Policy initiatives by the RBNZ have forced banks to fund more from the local retail market and to rely less on short-term overseas funding. But based on the July data from the RBNZ, the banking sector still obtains 34% of its funding from non-residents, as shown in the chart.

But the latest turmoil has a silver lining. It has poured cold water on the bank economists who have been barking for early OCR hikes.

On 28 July Governor Bollard stated that "Provided current global financial risks recede and the economy continues to recover, the Bank sees little need for the March 2011 'insurance' cut to remain in place much longer." Since 28 July the risks have increased rather than receded. The implication of Bollard's logic is that if the crisis and global growth prospects get significantly worse the next move in the OCR should be down.

The continued international financial turmoil also means the predictions by some bank economists that the OCR will be hiked to 5% or so are misplaced. This is because the crisis has driven a much larger wedge between the interest rates faced by borrowers and the OCR.

Written by Rodney Dickens. Visit www.sra.co.nz to learn about SRA Ltd's services.



CASE STUDY

Rainbow Print rebuilds – post-quake

Rainbow Print considers itself lucky on two counts: it experienced only minor damage from Christchurch's major earthquakes and it had made a well-timed move to implement some risk management plans before the February quake.



For business partners Graeme Duncan and John Boyle, the best thing their customers did after the earthquake was keep feeding work to the commercial printing company.

John Boyle says having a nationwide sales team helped tremendously.

He said they were also proactive, going out to their clients and informing them it was business as usual.

"We did survive and we needed their continued support to keep going."

Fortunately the company's printing presses were intact and they could resume print runs just a day after the quake. And then there were the risk management plans they had put in place.

"We were lucky in that we had a risk management process for our company. We had already started putting some of the contingencies in place," says Boyle.

Although the company was back on its feet within days of the February earthquake, Rainbow Print

was aware that for its staff, the upheaval would last much longer. Many were (and still are) coping with the aftermath of the loss of their homes, families and friends. Staff with children had to deal with disruption to schools, with some schools closed and others suddenly sharing facilities with a large number of extra students.

Embracing competitors

One of the best things the company did after the quake was open its door to its competitors. This allowed these other printing businesses to continue running too.

Boyle is proud of the dedication demonstrated by his staff.

"During daylight, they would tend to their affairs at home, such as cleaning up, and then when it was dark, they would come in to finish off work because they knew our company needed to keep its commitment to clients to continue as a business."

Boyle says for many it is still a waiting game while they find out whether their houses are going to stay or go. "Up until four weeks ago, people were still using chemical toilets, so it's been very disruptive."

Boyle says for many it will be another three to four years before they get back on their feet.

"It is really a case of grinning and bearing it, and moving on."

Market shift

"As a company we are modifying our business model and looking forward to new opportunities in the new Christchurch market," he says.

STAFF NEWS

Amazing race for charity

Last month the Lock Finance team took some well earned time off for a mystery staff activity. We were divided into 3 teams and took off around the city doing a variety of Amazing Race crazy activities, ranging from street scrabble to pole dancing!



For our efforts we were rewarded with parts of a bike which each team then had to construct back at our office. The best part though was that 3 "kidney kids" arrived and the bikes were for them! Each of these children has a form of kidney disease and the event organizer had arranged for us to gift them the bikes. As you can see by the photo young Max sure loved his and we all loved seeing them so happy. It was a great team-building day. The event was organized by Team Elevate and we thoroughly recommend them and this activity for some great fun, plus a real "feel good" factor!



Anne-Marie Fleming, from the Operations Team, baked this fantastic cake and muffins to welcome the Rugby World Cup to NZ.



STAFF PROFILE

Meet Craig Brown

Senior Lending Manager

I have been in the finance industry for 25 years, and over half that time has been spent assisting New Zealand's small-to-medium enterprises (SMEs) with their cash flow funding requirements. For the last six years I have been with Locks, so I've built up a solid knowledge about the issues facing businesses across a wide range of industries throughout New Zealand.

I enjoy talking to businesses about cash flow and ways to improve it. This is the lifeblood of any business.

Recently I added the Waikato and Bay of Plenty Regions to my portfolio. This is exciting for me as this is an area where I have spent a lot of time over the years.

With the kids' winter sport commitments out of the way for the year, I'm hoping to spend some time at my family bach on the Coromandel, enjoying the spring and early summer weather.

However, this time of the year can be very busy for a number of our clients as their businesses may be building up to the traditional Christmas and summer rush. So if you are aware of any businesses with potential cash flow issues or if you are looking for seasonal funding, then let me know and I will be more than willing to assist if possible.

**You are welcome to contact me on (09) 375 8502
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