

## Wairarapa Building Society

# PROSPECTUS NUMBER 49

dated 15 December 2011

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#### Second Schedule Requirements -

#### Second Schedule Clauses – relating to Deposits, Saver Shares and Senior Shares

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# Wairarapa Building Society PROSPECTUS NUMBER 49

**For the issue of unsecured debt securities (Deposits) and unsecured specified participatory securities (Saver Shares and Senior Shares) as defined in the Securities Act 1978 and Securities Act (Building Societies) Exemption Notice 2002, both Crown Guaranteed, up to a maximum of \$100,000,000**

*All fixed term deposits and shares issued pursuant to this prospectus are “Excluded Securities” which will not have any Crown Guarantee.*

*Call deposits and shares issued pursuant to this prospectus prior to 31 December 2011 will have the benefit of the Crown Guarantee.*

*However, even call deposits and shares issued pursuant to this prospectus prior to 31 December 2011 will only be the subject of the Crown Guarantee if they become payable on or before that date and are not repaid by Wairarapa Building Society when due.*

*Further details about the Crown Guarantee are given on page 2 of this prospectus*

## **The issuer**

Wairarapa Building Society (referred to in this Prospectus as 'WBS'), a Building Society incorporated under the Building Societies Act 1965 (formerly 1908) on 22 April 1932. The incorporation number of WBS is 1781003.

The Registered Office of WBS and its subsidiaries is located at 75 Queen Street, Masterton; the postal address is Post Office Box 441, Masterton 5840, and the telephone number is 06 370 0070.

Wairarapa Property Investments Limited, Manawatu Permanent Building Society and Perry Street Properties Limited are wholly owned subsidiaries of the issuer and are guaranteeing subsidiaries ("the Guaranteeing Subsidiaries"). The guarantees given by the subsidiaries are unsecured and are unlimited and unconditional.

The Guaranteeing Subsidiaries and WBS form "The Borrowing Group" and "The Guaranteeing Group". References to WBS include them all as the context reasonably permits, and references to Borrowing Group and Guaranteeing Group are interchangeable.

## **Issue date – 15 December 2011**

A copy of this Prospectus, duly signed with copies attached of the documents required by Section 41 of the Securities Act 1978 and Regulation 18 of the Securities Regulations 2009, has been delivered to the Registrar of Financial Service Providers at Wellington for registration in terms of Section 42 on 15 December 2011.

The documents required to be attached in terms of Section 41 are the Auditor's Report and the Auditor's Statement consenting to that Report appearing in this Prospectus in the form in which it appears and any Material Contracts.

## **Expiry date – 30 June 2012**

Although due to expire on 30 June 2012 WBS reserves the right to issue a new Prospectus at any time in substitution for, or amendment of, this Prospectus.

## **Other General Information**

The public file relating to WBS (File 1781003) can be accessed on the Companies Office website [www.companies.govt.nz](http://www.companies.govt.nz) under "Search Other Registers", as also can the financial statements of WBS registered under the Financial Reporting Act 1993. Copies of the documents may also be obtained by telephoning the MED Business Service Centre on 0508 266 726. All legislation referred to in this Prospectus can be viewed on line at [www.legislation.govt.nz](http://www.legislation.govt.nz).

The Rules of WBS may be inspected at any office of WBS.

The Securities Act (Building Societies) Exemption Notice 2002 exempts WBS from certain provisions of the Securities Act 1978 and Securities Regulations 2009.

The exemption notice has the effect of allowing WBS to issue Specified Participatory Securities as though they were Debt Securities.

Stock Exchange listing has not been sought for any of the Securities offered in this Prospectus.

## Crown Guarantee

On 12 October 2008, the New Zealand Government ("Crown") announced the introduction of an opt-in retail deposit guarantee scheme that would cover all retail deposits of participating New Zealand registered banks and retail deposits by locals in non-bank deposit taking entities until the 12 October 2010. WBS applied for and received coverage under this guarantee. The Crown subsequently offered participating financial institutions the option to apply to have the guarantee extended until the 31 December 2011 under revised conditions. WBS has applied for and received coverage under the extended guarantee.

The extended guarantee is provided by the Crown under a Crown Deed of Guarantee entered into by WBS and the Crown on 8 December 2009. Subject to the terms of the deed, the extended guarantee came into force on 1 January 2010 and shall remain in force until 31 December 2011. Only those investments that are due to be repaid by WBS before expiry of the Crown Deed of Guarantee on 31 December 2011 are guaranteed by the Crown.

A copy of the deed, further information about the Crown Retail Deposit Guarantee Scheme, and the most recent audited statement of financial position of the Crown, is available on The Treasury website at [www.treasury.govt.nz](http://www.treasury.govt.nz) free of charge. A copy of the deed is also available on the WBS website at [www.wbs.net.nz](http://www.wbs.net.nz).

Under the terms of the Crown Deed of Guarantee, WBS may determine that certain investments with it are "Excluded Debt Securities" which are not guaranteed by the Crown, and has done so in respect of all term investments with WBS made from January 2011 onwards. ***That together with the expiry of the Crown Deed of Guarantee on 31 December 2011 means that –***

- ***No term investments with WBS made after the date of this Prospectus will be guaranteed by the Crown;***
- ***Only those call investments with WBS which are made before the Crown Deed of Guarantee expires on 31 December 2011 will be guaranteed by the Crown; And***
- ***Even call investments with WBS made before the Crown Deed of Guarantee expires on 31 December 2011 are only guaranteed by the Crown if they become repayable by WBS prior to that date and are not repaid by WBS.***

## Material Contracts

The extended Crown Guarantee referred to above and the Deed of Amendment to the Trust Deed dated 24 November 2010 are the only material contracts entered into by WBS in the two years preceding issue of this Prospectus (not being contracts entered into in the ordinary course of business).

The Deed of Amendment incorporates into the Trust Deed a new capital ratio and new related party provisions required under the Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010. Further details about those provisions are contained in the "Main Terms of Trust Deed" section on page 8, and the Deed of Amendment is available for viewing on the Companies Office website (refer to page 1).

## Pending Proceedings

There are no legal proceedings or arbitrations pending at the date of the Prospectus that may have a material adverse effect on WBS or its guaranteeing subsidiaries.

## Issue Expenses

This issue is not being made through a promoter or through any organising brokers and the total issue expenses are estimated to be \$60,000.

Brokerage has been paid in the past and will continue to be paid during the term of this Prospectus for some funds received at the rate of 0.25% to 0.50% per annum.

Brokerage is paid to persons authorised to receive brokerage by WBS.

## Ranking of Securities

All securities issued under this Prospectus are unsecured.

Total Debt Securities rank equally with all unsecured creditors and ahead of total Specified Participatory Securities and equity securities.

By special resolution on 13 March 2008 the Rules of WBS were changed so that Specified Participatory Securities outstanding as at that date became "Senior Shares" with their rights and privileges unchanged. Specified Participatory Securities issued after that date are either Senior Shares or "Saver Shares", with the rights and privileges set out in this Prospectus.

Both of those classes rank ahead of the equity securities ("Capital Shares") already issued to the WBS Charitable Trust. As at 30 September 2011 the amount of Debt Securities on issue was \$14,390,000 (30/9/10 \$17,287,000; 31/3/11 \$14,468,000; 31/3/10 \$14,927,000), and the amount of Specified Participatory Securities on issue was \$76,287,000 (30/9/10 \$77,097,000; 31/3/11 \$78,499,000; 31/3/10 \$82,004,000).

As at the date of this Prospectus the only Capital Shares issued are those referred to below.

On 10 March 2008, 30 million Capital Shares were issued to WBS Charitable Trust which results in that Trust becoming a substantial equity securityholder of WBS.

As at the date of this Prospectus there are no securities secured by mortgage or charge that rank in point of security ahead of the securities being offered in this Prospectus.

## **Directorate, Managers and Advisors**

### **Directors**

DOBSON Donald Graham, LLB, (Chairman); Solicitor, 25 Second Street, Masterton.

ALLEN Michael George; CA; Accountant, 'Waingongoro', R D 4, Masterton.

BROWN Stephen Wallace; Managing Director/Builder, 28 William Donald Drive, Masterton.

GOLD Robyn Molly; Retired, 8 Aberdeen Street, Mt Maunganui.

HAYES Graham Dean; Retired, 40 Cody Crescent, Masterton.

McLEOD Alexander Gregory; Company Director, 110 West Street, Greytown.

### **General Manager**

TULLOCH Alexander; BCA, 'Hollycombe', R D 5, Masterton.

### **Secretary and Securities Registrar**

McCABE Kimberley Paul; BCA; 'Trenair' R D 7, Masterton.

### **Auditors**

KPMG, 10 Customhouse Quay, Wellington.

### **Solicitors**

Gawith Burrige, Corner Lincoln Road and Queen Street, Masterton.

### **Bankers**

Bank of New Zealand, 193-197 Queen Street, Masterton.

Westpac Institutional Bank, 157 Lambton Quay, Wellington.

### **Trustee**

Trustees Executors Limited, 10 Customhouse Quay, Wellington.

### **Guarantors and Promoters**

The Securities offered pursuant to this Prospectus are guaranteed by the Guaranteeing Group members described on page 1 and, to the extent stated above in respect of the Crown Guarantee, by the Crown,

Otherwise, neither the Directors and Officers of WBS, nor any other persons named in this prospectus, guarantee the securities issued under this Prospectus in any way, and there are no other guarantors.

There are no 'promoters' of this offer as defined in the Securities Act.

## Directors' Statement

In our opinion, after due enquiry by us in relation to the period between the date of the latest financial statements contained in this Prospectus and the date that this Prospectus was registered, no circumstances have arisen which materially adversely affect the trading or profitability of the Borrowing Group, the value of its assets or the ability of the Borrowing Group to pay its liabilities due within the next twelve months.

This prospectus has been duly signed by all the Directors or their authorised Agents.

Dobson D G  
Gold R M  
McLeod A G

Allen M G  
Brown S W  
Hayes G D

## Description of Activities

Wairarapa Building Society (WBS) was incorporated on 22 April 1932, and in its current form resulted from the renaming of the former North Wairarapa Permanent Building and Investment Society, following the transfer of engagements to that Society of the Permanent Investment and Loan Association of Wairarapa and the Tararua Permanent Building and Investment Society, on 1 April 1980.

The underlying purpose of the 1 April 1980 amalgamation was to establish a strong united Wairarapa based regional Building Society of a size able to compete in the Wairarapa financial market place.

In December of 1987 WBS purchased at par the total shareholding of the Manawatu Permanent Building Society and this Society remains a wholly owned subsidiary of WBS. It operates as a property holding entity with one building in Masterton. In September 1988 WBS incorporated a wholly owned subsidiary company called Wairarapa Property Investments Limited (WPIL) to act as the vehicle for WBS's property investment activities. Perry Street Properties Limited was incorporated on 21 October 2009 and similarly to WPIL is an arm of the Group's property investment activities. Over 50% of the Group's rental income is derived from either central or local government.

The purpose of WBS is to promote a range of competitive investment options for the residents of the Wairarapa, and from the funds attracted, to provide secured home and commercial loan needs to the residents and businesses of the Wairarapa, with special emphasis on the provision of long term mortgage finance and commercial properties for lease.

Approximately 98% of loans made by WBS are secured by mortgages, and approximately 92% of WBS loans are to borrowers in the Wairarapa region. Further information about these matters, and the proportions in which WBS loans have been made for residential, commercial or rural purposes are given in notes 14 and 20 to the accounts in this prospectus, on pages 33 and 37 below.

The activities of the Borrowing Group during the 5 years preceding the issue of this Prospectus have principally comprised the provision of investments and loans as just described. In addition, the Borrowing Group owns investment properties as described in note 13 of the attached financial statements. None of the principal assets of the Guaranteeing Group are charged or subject to obligations in favour of a third party.

In carrying on those activities, WBS is required to comply with regulations made under Part 5D of the Reserve Bank of New Zealand Act 1989 ("RBNZ Act"). Those Regulations set limits and prescribe minimum standards in the following areas, credit ratings, risk management, capital adequacy, related party lending, liquidity and governance. WBS complies with all those requirements.

## Restrictions on Directors' Powers

The Rules of WBS do not impose any material restrictions on the powers of WBS's Directors.

## Your Risks

Like any other financial institution, WBS is exposed to a range of risks that arise from operating in the financial markets. The maximum loss to which any investor can be exposed is the loss of the funds invested together with any interest owing on those funds. This situation would only eventuate if WBS became insolvent.

Any financial institution needs to be sufficiently capitalised to provide a buffer for investors against the various risks inherent in operating in the financial markets. In the case of WBS, this buffer is provided by its Reserves, Retained Earnings and Capital Shares. As at 30 September 2011, WBS had Reserves, Retained Earnings and Capital Shares of \$15,505,000 (14.34% as a percentage of Total Tangible Assets). Under the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010 ("Deposit Takers Regulations"), the minimum required risk weighted capital is 8.0%, if the deposit taker has a credit rating. This ratio is also in the Trust Deed. The Group's risk weighted capital as at 30 September 2011 is 12.56%

Although exposed to a variety of risks, those that have the potential to impact significantly on the viability of WBS are discussed in greater detail below:

## **Credit Risk**

Credit risk is the risk that WBS takes on the ability of its borrowers to repay loans made to them by WBS, and which thus arises from WBS's business of lending money. WBS seeks to mitigate by virtually all of WBS's loans being secured by registered mortgage over land and buildings. Of its total loans almost 98% are secured by registered first mortgage over freehold property. On international standards (the Bank of International Settlements Basel, Capital Adequacy Requirements which are reflected in the Deposit Takers Regulations just mentioned) this is one of the lowest risk weighted forms of lending which can be undertaken.

In addition, WBS operates within the terms of a Trust Deed that sets prudent lending limitations against any particular type of security, i.e. residential or commercial. There are further limitations on the exposure to any one person or entity and to the top ten borrowers in total. These are highlighted on page 8 under the heading Main Terms of Trust Deed. The combination of these various limitations reduces the risk of WBS suffering any significant or material loss from its lending activities.

The security of any lending portfolio can be negatively impacted by depreciation in the value of the assets a lender holds as security for its loans. WBS recognises this and has consistently adopted conservative lending ratios. Its overall loan book has a loan-to-valuation ratio of less than 45%. This further mitigates credit risk.

## **Geographic Risk**

WBS lending and funding are each concentrated in the Wairarapa however the Directors have no intention, in the normal course of business, of expanding the Group's lending outside its traditional area of operation. As at 30 September 2011 92% of all lending was within the Wairarapa. Lending outside the Wairarapa is generally only undertaken where the borrower has a pre-existing association with WBS. The Group's experience and knowledge of lending in the Wairarapa has stood it in good stead throughout the global financial crisis, and WBS believes that its regional specialization means it will continue to be able to manage these risks. Bad debt write-offs in the last five years are cumulatively less than 1% of total assets.

## **Solvency and Liquidity Risk**

Solvency and liquidity risk involves the risk that loans made by WBS may not fall due until future dates, and that in the meantime WBS may need liquid assets and cash to meet obligations that fall due sooner than that. To address this risk the WBS Trust Deed requires WBS to maintain a minimum level of both liquidity and reserves, and WBS is required to report to the Trustee on such matters. WBS seeks to further mitigate this risk by liquidity being monitored on a daily basis and by WBS having 2 year rolling committed credit line facilities totalling \$18,000,000 from two major registered banks which are able to be drawn down by WBS if its liquidity so requires.

## **Interest Rate Risk**

Interest rate risk arises from the timing differential in WBS's borrowing and lending activities, and is the risk that the rates of interest payable by WBS on its funding and borrowings may exceed the rates of interest receivable by WBS on its loans. Most borrowing is undertaken by WBS for relatively short periods, i.e. less than one year, which is characteristic of financial institutions in the New Zealand market. On the other hand, lending can be at a fixed interest rate for terms ranging for up to five years. The interest rate risk arises from the mis-match of these two activities, for example by deposit rates payable by WBS rising rapidly due to market conditions. This risk is managed by WBS hedging much of the exposure by the use of interest rate swaps. The effectiveness of this hedging policy is evidenced by the Interest Rate Repricing Schedule on page 42.

## **Competitive Risk**

Competition amongst the various financial institutions is an area of risk faced on a daily basis. The market is highly competitive and margins are narrow. WBS, in light of its strong Reserves position and market share in the Wairarapa, is well placed to meet this competition.

## **Operational Risk**

The largest component of operational risk to WBS is its IT and other related systems. The IT system used by WBS is provided by an Australian group that provides the same software to a significant number of buildings societies and credit unions in Australia. In addition to WBS, the software is also used in New Zealand by a registered bank. In short, WBS is part of a group who all have a common interest in the maintenance and enhancement of commonly used software. Hardware vulnerability is covered by WBS maintaining a disaster recovery system in Wellington. A major upgrade, including compliance with the Anti-Money Laundering regime is scheduled for 2012.

## **Credit Rating**

WBS holds a BB+ (Stable) credit rating from Fitch Ratings, an international credit rating agency approved by the Reserve Bank of New Zealand. This rating is above the minimum required for a non-bank deposit taker to qualify to apply for coverage under the Crown Retail Deposit Guarantee. A fact sheet explaining credit ratings may be found on the Reserve Bank of New Zealand's website at [www.rbnz.govt.nz/finstab/nbdt/creditratings/3914649.pdf](http://www.rbnz.govt.nz/finstab/nbdt/creditratings/3914649.pdf). Credit ratings are a statement of opinion by the rating agency and are not statements of fact, an endorsement of the issuer or a recommendation to buy, sell or hold the securities offered under this prospectus.

The latest rating agency report is available on our website [www.wbs.net.nz](http://www.wbs.net.nz)

## **Main Terms of Offer and Description of Deposits, Saver and Senior Shares**

The characteristics of these Securities are as follows –

## **Debt Securities - Deposits**

The Debt Securities offered in this Prospectus are unsecured Deposits invested either for a term agreed to by WBS or on demand, at an interest rate negotiated at the commencement of the term in respect of term deposits, and at an interest rate negotiated when invested or fluctuating at WBS's discretion in respect of call deposits. **The call Debt Securities offered under this Prospectus are presently subject to the Crown Retail Deposit Guarantee . However that Guarantee expires on 31 December 2011. Further details about the limited manner in which the Crown Guarantee may apply to the Debt Securities offered in this Prospectus are given under "The Debt Securities offered in this Prospectus" on page 2 above.**

Changes to Deposit interest rates which fluctuate at WBS's discretion will be communicated direct to account holders or advertised in the Wairarapa Times Age.

The interest calculation method and frequency of interest credit is agreed to at the time of investment. Liability is limited to the amount invested and accrued interest - there is no minimum subscription and all subscriptions must be in cash. A minimum deposit of \$500 is required to open a deposit account. There is no minimum subsequent deposit.

Debt Securities are issued under the terms of the Trust Deed and rank ahead of Specified Participatory Securities in the event of WBS's dissolution or winding up but behind any secured debt obligations of the Guaranteeing Group.

As at the date of this Prospectus WBS has no secured debt obligations.

In WBS's financial statements Debt Securities are recorded as Deposits.

## **Specified Participatory Securities – Saver and Senior Shares**

The Specified Participatory Securities offered in this Prospectus are unsecured Deposits invested for a nominated term or on demand at an interest rate negotiated at the commencement of the term in respect of term deposits, and at an interest rate negotiated when invested or fluctuating at WBS's discretion in respect of call deposits. These shares are referred to in WBS's accounts as Redeemable Shares and in this Prospectus as either Saver Shares or Senior Shares. **The Specified Participatory Securities offered under this Prospectus will be subject to the Crown Retail Deposit Guarantee only if they are on demand shares issued prior to 31 December 2011 when the Crown Guarantee expires.**

**Investments in WBS fixed term Saver Shares are "Excluded Securities" for the purposes of the Crown Guarantee and are not guaranteed by the Crown.**

**Further details about the Crown Guarantee are given under "The Debt Securities offered in this Prospectus" on page 2 above.**

The following is a description of the main terms of Saver Shares. More terms and conditions of Saver Shares are set out in the Schedule to the Rules of WBS. Funds are invested in Saver Shares for a nominated term at an interest rate negotiated at the commencement of the term in respect of term shares, and at an interest rate negotiated when invested or fluctuating at WBS's discretion in respect of call shares.

Changes to interest rates which fluctuate at WBS's discretion will be communicated direct to account holders or advertised in the Wairarapa Times Age.

The interest calculation method and frequency of interest credit is agreed to at the time of investment.

Liability is limited to the amount invested and accrued interest - there is no minimum subscription and all subscriptions must be in cash.

The price of Saver Shares is one dollar per share and shares may be subscribed for in any dollar amount, or fraction thereof, acceptable to WBS. All new share investors are Saver Shareholders.

In the event of WBS's dissolution or winding up the holders of Saver Shares will be entitled to the return of the subscription price and interest at the agreed rate, but will not participate in any surplus assets WBS may have on a dissolution or winding up. Holders of Saver Shares agree as a term of issue that they are not entitled to any such windfall benefit that could be otherwise derived from holding Saver Shares, and any such benefit will pass instead to the WBS Charitable Trust.

Saver Share investors are entitled to attend and vote at any Special or Annual General Meeting of WBS, subject to meeting the eligibility criteria provided for in the Rules, which are that voting rights on either a show of hands or a poll are conditional upon the holder having a minimum of two hundred dollars invested in aggregate in either Saver or Senior Shares at the relevant books closing date and also at the end of the last financial year of WBS before the date of the meeting.

Each eligible Saver Shareholder is entitled to one vote.

In accordance with the Rules the Directors of WBS may decline to accept, or may refund, any share subscription.

Senior Shares have the same terms and characteristics as Saver Shares, with the addition that they participate in any surplus assets WBS may have in the event of the winding up or dissolution of WBS.

Senior Shares are shares subscribed for by Senior Shareholders and held in accounts that were open as at 13 March 2008, being the shares under levels recorded by WBS from time to time as the minimum holding in each account.

Senior Shareholders are all members of WBS as at 13 March 2008 who held shares at, and continuously after, that date.

## **General Conditions of Investment for Deposits, Senior and Saver Shares**

In this section the references to 'investments' and 'funds invested' are to be read as references to both Deposits (Debt Securities) and Saver or Senior Shares (Specified Participatory Securities).

### **Interest Rate**

The interest rate in respect of funds invested is negotiated at the commencement of the term in respect of term investments, and either negotiated at the date invested or left to fluctuate at WBS's discretion in respect of call investments. The latest call rates are available by telephoning WBS on (06) 370-0070 during office hours.

### **Withholding Tax**

Unless satisfied to the contrary, WBS will assume that all holders of Securities issued pursuant to this Prospectus are New Zealand residents for tax purposes. Under New Zealand Income Tax legislation interest paid to New Zealand residents will, unless an investor holds an exemption certificate, be subject to the deduction of resident withholding tax at the rate prescribed by legislation for the relevant income year if investors supply their personal Inland Revenue Department number; and 33% if Inland Revenue Department numbers are not supplied. Investors may elect to have tax deducted at lower rates dependant on their expected income. Investors should seek their own tax advice.

Companies have withholding tax deducted at the prevailing company tax rate at time interest is paid.

Investors are requested to supply their Inland Revenue Department numbers when initially investing with WBS. WBS will provide these numbers to the Inland Revenue Department.

### **Interest Credit**

The frequency at which interest will be credited to investors' accounts is that which is agreed to at the time of investment.

### **Maturity**

Prior to the maturity of term investments, investors are contacted and their instructions on the handling of their funds on the maturity date sought.

Term investors are given the option of either reinvesting or withdrawing all or part of their funds.

Where no instructions are received from an investor in respect of a maturing term investment the funds are reinvested for the same term at the interest rate prevailing for that term at the time of maturity.

### **Repayment of Term Investments Prior to Maturity**

In exceptional or unforeseen circumstances term investors may apply in writing to WBS to break the term of their investment.

Reasonable requests to break term investments are normally agreed to but WBS may require thirty (30) days notice and retrospectively adjust the interest payable to deliver the rate applicable to the actual reduced term of investment and/or charge a fee which is currently \$10.

# Main Terms of Trust Deed

## Introduction

The Deposits and Specified Participatory Securities offered under this Prospectus are issued under and have the benefit of a Trust Deed, the main provisions of which are set out on pages 8 to 12. "Trust Deed" means "the Trust Deed dated 28 November 2003 as amended by the Supplemental Deed of Variation dated 30 April 2008 and Deed of Amendment dated 24 November 2010".

A copy of the Trust Deed may be inspected during normal office hours at the Head Office of WBS at 75 Queen Street, Masterton. A copy may also be accessed on the Companies Office website as per "Other General Information" on page 1 of this Prospectus.

## The Trust Deed

The deposits and Specified Participatory Securities (referred to as "deposits" and "Shares" respectively in the Trust Deed) offered in this Prospectus are issued under a Trust Deed made between WBS and its wholly-owned subsidiaries ("Guaranteeing Subsidiaries") (together called the "Guaranteeing Group") and Trustees Executors Limited, (the "Trustee") as trustee for the Securityholders.

The Trust Deed came into effect on 2 February 2004 and in addition to the terms and conditions relating to the Securities set out in this Prospectus, those contained in the Trust Deed apply.

The Securities covered by the Trust Deed include all such Deposit and Shares issued from 2 February 2004.

All deposits rank equally on a winding up with all other deposits and unsecured liabilities of the Society and before Shares (including Capital Shares), and Saver or Senior Shares rank equally amongst themselves but behind all deposits and other liabilities (whether secured or unsecured) of the Society, and ahead of Capital Shares notwithstanding that they may have been issued at different times and carry interest at different rates and are repayable at different times.

Terms referred to in this section and which are defined in the Trust Deed have the meaning specified in the Trust Deed. Definitions of important terms used in this summary are set out below.

**"Deposit Money"** means at any time and from time to time the Principal and interest payable on the deposits, and all other money payable in respect of the deposits to or at the direction of the Trustee or any Depositor, and all costs, charges and expenses earned or incurred by the Trustee, under or pursuant to this Deed or the terms of issue of any of the deposits.

**"Capital Ratio"** has the same meaning as set out in Part 3 of the Deposit Takers Regulations.

**"Deposit Takers Regulations"** means the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010.

**"Effective Date"** means 2 February 2004.

**"External Person"** means any person other than a member of the Guaranteeing Group.

**"Money Owning"** means the aggregate of:

- (a) the Share Money, the Deposit Money; and
- (b) any other money for the time being owing or payable to or at the direction of the Trustee or any Securityholder pursuant to this Deed or the terms of issue of any of the Securities (not including Capital Shares).

**"Principal"** means in relation to Securities, the sum (other than interest) payable by the Society on redemption of the relevant Security but inclusive of any premium payable in accordance with the conditions of issue thereof.

**"Reference Date"** means the date at which a calculation is being made for the purposes of the Trust Deed of a financial covenant set out in clause 4.1 of the Trust Deed.

**"Related Party"** has the meaning defined under the Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010.

**"Reserves"** means the reserves of the Society as at the Reference Date which are or which would be disclosed by a Reference Balance Sheet (being a Balance Sheet if one was prepared as at the Reference Date).

**"Share Money"** means that any time from time to time the Principal and interest whether or not called dividends payable on the Shares and all other money payable in respect of the Shares to or at the direction of the Trustee or to any Shareholder under or pursuant to this Deed or the terms of issue of any of the Shares and whether payable by the Society and/or by any Guaranteeing Subsidiary and in any case whether as a principal debtor or as a Guarantor.

**"Shareholders Funds"** means the aggregate of:

- (a) shares issued by the Society that are redeemable only at the directors' discretion, e.g. capital shares; and
- (b) the Reserves.

**"Shares"** means all shares issued by the Society on or after the Effective Date pursuant to section 11 of the Building Societies Act and the Rules and which are redeemable by the holder which are from time to time outstanding and uncanceled, or a specified portion thereof as the case may require, and (where appropriate) includes the Principal represented thereby.

**"Total Liabilities"** means the aggregate on a consolidated basis of the amounts of all Liabilities of the Society and the Guaranteeing Subsidiaries as would be disclosed in a Reference Balance Sheet if one was prepared as at the Reference Date.

**"Total Liquid Assets"** means the total on a consolidated basis of the Market Values of all Liquid Assets of the Guaranteeing Group as would be disclosed in a Reference Balance Sheet if one was prepared as at the Reference Date.

**"Total Listed Securities"** means the total on a consolidated basis of the Market Values of Listed Securities of the Guaranteeing Group as would be disclosed in a Reference Balance Sheet if one was prepared as at the Reference Date.

**"Total Other Liabilities"** means Total Liabilities less the aggregate of the Money Owning.

**"Total Other Tangible Assets"** means the total on a consolidated basis of Market Values of all Other Tangible Assets of the Guaranteeing Group as would be disclosed in a Reference Balance Sheet if one was prepared as at Reference Date.

**"Total Secured Indebtedness"** means the total on a consolidated basis of the Market Value of all Secured Indebtedness owing to the Guaranteeing Group as would be reflected in a Reference Balance Sheet if one was prepared as at the Reference Date.

**"Total Secured Liabilities"** means the total on a consolidated basis of the amount of all Secured Liabilities of the Guaranteeing Group as would be disclosed in a Reference Balance Sheet if one was prepared as at the Reference Date.

**"Total Tangible Assets"** means an amount equal to the aggregate on a consolidated basis of the book values of the tangible assets of the Guaranteeing Group Members as at the Reference Date which are or which would be disclosed by a Reference Balance Sheet if one were then prepared after:

- (a) making such adjustments as are appropriate to make in respect of receivables, provision for bad debts and income yet to mature, except those already taken into account in the determination of book value; and
- (b) taking account of any Subsidiary which any two Directors on behalf of the Directors certify in writing to the Trustee (with supporting detail to the reasonable satisfaction of the Trustee) will become a Guaranteeing Subsidiary within a period of three months after the Reference Date as if that Subsidiary had been a Guaranteeing Subsidiary at the Reference Date.

**"Total Unlisted Securities"** means the total on a consolidated basis of the Market Values of all Unlisted Securities of the Guaranteeing Group as would be disclosed in a Reference Balance Sheet if one were prepared at the Reference Date.

**"Total Unsecured Indebtedness"** means the total on a consolidated basis of the Market Value of all Unsecured Indebtedness owing to the Guaranteeing Group as would be disclosed in a Reference Balance Sheet if one was prepared as at the Reference Date.

## Trustee

Under the Trust Deed the Trustee is appointed trustee for all Security holders. The Trustee does not guarantee repayment of the Securities or the payment of any interest or dividends thereon.

At the date of this Prospectus the Trustee holds a licence under the Securities Trustees and Statutory Supervisors Act 2011.

## Limitation

The Trust Deed does not prohibit the creation of new mortgages or charges ranking in point of the security ahead of the Securities but imposes a maximum to the total amount that may be so secured over the assets of the Guaranteeing Group (see below under "Secured Liabilities Restriction").

## Financial Restrictions

The Trust Deed contains the following financial and other restrictions:

WBS will not at any time without the Trustee's prior consent:

### Asset Quality Requirements

- (a) permit the aggregate of Total Secured Indebtedness, Total Unsecured Indebtedness, Total Listed Securities and Total Unlisted Securities, to exceed 15% of Total Tangible Assets;
- (b) permit the aggregate of Total Unsecured Indebtedness, Total Listed Securities and Total Unlisted Securities to exceed 5% of Total Tangible Assets;

### **Liquidity Requirements**

- (a) permit Liquid Assets to be less than 15% of Total Tangible Assets less Shareholders Funds, if Shareholders Funds are 7% or greater, but less than 8%, of Total Tangible Assets;
- (b) permit Liquid Assets to be less than 12.5% of Total Tangible Assets less Shareholders Funds, if Shareholders Funds are 8% or greater, but less than 9%, of Total Tangible Assets;
- (c) permit Liquid Assets to be less than 10% of Total Tangible Assets, less Shareholders Funds, if Shareholders Funds are 9% or greater, but less than 12%, of Total Tangible Assets;
- (d) permit Liquid Assets to be less than 7.5% of Total Tangible Assets, less Shareholders Funds, if Shareholders Funds are 12% or greater of Total Tangible Assets;
- (e) permit the total amount of interest payable in cash by the Guaranteeing Group (including withholding tax payable thereon) over any half year to exceed income actually received in cash, by the Guaranteeing Group, over the same period;
- (f) fail to ensure that the assets of the Guaranteeing Group that are or may be available are sufficient or likely to be sufficient to enable its liabilities (which for the avoidance of doubt, include the Share Money) to be discharged when they become due;

### **Total Liabilities Limited**

- (a) permit Shareholders Funds to be less than 7% of Total Tangible Assets;

### **Secured Liabilities Restriction**

- (a) permit the aggregate of Prior Amounts to exceed 2.5% of Total Tangible Assets;

### **Lending Restrictions**

- (a) permit the aggregate amount of money owing to WBS from time to time by any Single Group (excluding Trust House Ltd and Masterton Trust Lands Trust or their successors) to exceed 7.5% of Total Tangible Assets;
- (b) permit the aggregate amount of moneys owing to WBS from time to time by the 10 Single Groups (excluding the amounts owing to the Society by Trust House Ltd and Masterton Trust Lands Trust, or their successors ) which owe the highest principal amounts to the Society to exceed 30% of Total Tangible Assets;
- (c) permit the amount of monies owing to WBS by Trust House Ltd or Masterton Trust Lands Trust, or their successors, to exceed 60% of the value of the Freehold Land provided as security for the monies owed or 10% of Total Tangible Assets, whichever is the lower. Value to be determined with reference to the definition of Approved Mortgage Principal;

### **Disposal of Undertaking**

- (a) sell or transfer whether by a single transaction or any series of transactions whether related or not the whole or any substantial part of the business, undertaking or assets of the Guaranteeing Group, viewing such business, undertaking or assets as a single entity, except to WBS or any Guaranteeing Subsidiaries;

### **Dealing with Assets**

- (a) dispose of any part of its undertaking or assets to any Related Party otherwise than for full consideration in the ordinary course of business and any consideration not passing on settlement to be secured to the satisfaction of the Trustee;

### **Dealings with Related Parties**

- (a) lend to any Related Party except in the ordinary course of business, on normal commercial terms and such that the loan qualifies as Guaranteed Investment Principal or Approved Mortgage Principal, and provided that the aggregate exposures of the Society and the Guaranteeing Subsidiaries to Related Parties do not exceed:
  - (i) 15% of capital; or
  - (ii) if at any time the Deposit Takers Regulations require a lower maximum limit on exposures to Related Parties, that lower maximum limit;

### **Unlimited Guarantees**

- (a) enter into or permit the subsistence of any guarantee, indemnity or security (not prohibited elsewhere in this deed) for the obligations of any External Person for any unlimited amount of liability;

### **Provision of Services or Assets**

- (a) enter into any substantial contract or arrangement (other than in the ordinary course of business) with any Related Party for the provision of any services or assets by or to such Related Party unless a Director's Certificate is given to certify that the consideration therefore is fair and reasonable assessed on an arms-length basis, and for the purposes of this paragraph the Trustee and the Society may from time to time agree when any contract or arrangement shall be deemed to be substantial having regard to the consideration therefore;

### **Alteration of Business**

- (a) make any alteration to the nature of its business which shall be, or result in, a substantial alteration to the business of the Guaranteeing Group taking account of the nature of business generally accepted as the business of a building society;

### **Write Up Value of Assets**

- (a) write up the value of any tangible assets in its books of account to a value in excess of its Market Value at the time of writing up;

### **Non Guaranteeing Subsidiaries**

- (a) make any loan to, subscribe for share capital in, guarantee, or give an indemnity for, or otherwise be responsible for the obligations of, any Non-Guaranteeing Subsidiary without the prior written consent of the Trustee;

### **Capital Ratio**

- (a) permit the consolidated capital ratio of the Society and the Guaranteeing Subsidiaries to be less than 8% or if at any time the Deposit Takers Regulations require a higher minimum capital ratio, that higher minimum capital ratio.

### **Guarantee of the Guaranteeing Group**

Under the Trust Deed each of the guaranteeing subsidiaries unconditionally guarantees the due and punctual payment by WBS of the share money and the Deposit Money and the performance by WBS of its obligations under the Trust Deed.

### **Reports to Trustee**

To enable the Trustee to monitor the financial position of the Guaranteeing Group, WBS must report regularly to the Trustee on the Guaranteeing Group's financial affairs.

Audited financial statements must be presented yearly and unaudited financial statements half yearly.

The directors of WBS must report to the Trustee every three months on various matters specified in detail in the Trust Deed, and supply unaudited financial statements for each quarter ending 30 June and 31 December in each year. The directors also provide a report to the Trustee monthly in accordance with the Securities Regulations 2009.

The Trustee may also request that the Guaranteeing Group provide further accounts and relevant information.

### **Enforcement by Trustee**

If WBS or any member of the Guaranteeing Group failed to comply with the Trust Deed, including those set out above under "Financial Restrictions", an Event of Default would exist. The Trust Deed states that at any time after an Event of Default has occurred, the Trustee may (and must, if directed by investors holding at least 20% of the money owing under the Trust Deed) exercise all rights given by the securities issued under the Trust Deed or otherwise available to it by law to call up and demand payment of those amounts, and may do such things as the Trustee may think fit to enforce payment.

### **Duties of Trustee**

The following is a summary of the duties of the Trustee as stated by the Trust Deed:

- (a) to oversee compliance with the covenants and obligations of the Guaranteeing Group under the Trust Deed on the basis of the provisions of the Trust Deed;
- (b) to receive and consider the financial statements and reports of the Directors and Auditors;
- (c) to ascertain whether or not the Guaranteeing Group has breached the covenants in the Trust Deed or the terms of issue of any of the Securities issued after 1 February 2004;
- (d) Upon the occurrence of certain events of default under the Trust Deed -
  - (i) The Trustee may in its discretion declare the Money Owing immediately due and payable; and

- (ii) The Trustee shall upon the written request of the holders of at least one-fifth in value of the Money Owing or upon being directed to do so by an Extraordinary Resolution of Securityholders, call up and demand payment of the Money Owing as a debt immediately due and payable.

In addition, the Trustee has a statutory duty pursuant to the Securities Act 1978 and the Securities Regulations 2009 to exercise reasonable diligence to:

- (a) ascertain whether or not there has been any breach of terms of the Trust Deed or of the terms of the offer of the deposits and redeemable shares and to do all it is empowered to do to cause any such breach to be remedied (except where satisfied that the breach will not materially prejudice the interests of the Holders); and
- (b) ascertain whether or not the assets of the Guaranteeing Group that are or may be available, whether by way of security or otherwise, are sufficient or likely to be sufficient to discharge the amounts on the deposits and redeemable shares as they become due.

The Trustee has no duty to holders of Capital Shares.

### **Meetings of Securityholders having the benefit of the Trust Deed**

The Trust Deed contains provisions for meetings of Securityholders and any class of them. An Extraordinary Resolution (i.e. a resolution passed by three-quarters of the votes cast at a meeting where there was a quorum of the holders of not less than a majority in value of the relevant securities) of Securityholders (or any class of them) generally binds all the members of that class of Securityholders (whether they vote or not). However, an Extraordinary Resolution which exclusively affects the rights and interests of a class of Securityholders shall be of no force and effect unless passed by an Extraordinary Resolution of that class of Securityholders or unless it has been assented to in writing by the holders of not less than three-quarters in Principal amount of that class of Securityholders.

### **Modifications to Trust Deed**

The Trustee may concur with WBS in making modifications to the Trust Deed in certain specified cases including where the modification is approved by Extraordinary Resolution passed by Security holders or where the Trustee is of the opinion that such alteration is not or is not likely to become prejudicial to the general interests of Security holders (or any class of them).

### **Release of the Trust Deed**

The Trustee will release the Guaranteeing Group from its obligations under the Trust Deed if the Guaranteeing Group becomes a registered bank or transfers its engagements to a bank which is exempted from the requirement of a Trust Deed under the Securities Act or to another building society or entity which has a trust deed in place which complies with the Securities Act and under which the Security holders will be beneficiaries or upon the Trustee being satisfied that all moneys owing under the Trust Deed have been repaid or provision has been made for such payment.

### **Other Material Matters**

There are no other material matters.

## KPMG Auditor's Report

## KPMG Auditor's Report

## Trustees' Statement

15 December 2011

The Directors  
Wairarapa Building Society  
P O Box 441  
MASTERTON

Dear Sirs

Clause 14(3) of the Second Schedule to the Securities Regulations 2009 requires us to confirm that the offer of Securities ("the Trust Deed Securities") set out in this Prospectus complies with any relevant provisions of the Trust Deed dated 28 November 2003 (as amended). These provisions are those which:

- (i) Entitle Wairarapa Building Society to constitute and issue under or with the benefit of the Trust Deed (as the case may be) the Trust Deed Securities offered in the Prospectus;
- (ii) Impose restrictions on the right of Wairarapa Building Society to offer the Trust Deed Securities;

and are described in the summary of the Trust Deed in the Prospectus.

The Auditors have reported on the financial information set out in the Prospectus and our statement does not refer to that information or to any other material in the Prospectus which does not relate to the Trust Deed.

We confirm that the offer of the Trust Deed Securities set out in the Prospectus complies with any relevant provisions of the Trust Deed. We have given the above confirmation on the basis;

- (a) set out above; and
- (b) that, subject to the duties imposed on the Trustee by the Fifteenth Schedule of the Securities Regulations 2009, the Trustee relies on the information supplied to it by Wairarapa Building Society pursuant to the Trust Deed and does not carry out an independent check of that information.

Trustees Executors Limited does not guarantee the repayment of Trust Deed Securities or the payment of interest thereon

Signed for and on behalf of  
Trustees Executors Limited  
[Luiza Moran], Manager, Corporate Trust

## Summary Financial Statements

### Consolidated Income Statement

	Unaudited 6 Months Ended 30/9/11 \$000	Audited Year Ended 31/3/11 \$000	Audited Year Ended 31/3/10 \$000	Audited Year Ended 31/3/09 \$000	Audited Year Ended 31/3/08 \$000	Audited Year Ended 31/3/07 \$000
<b>Interest Income</b>						
Interest Income from Loans	2,872	6,659	6,680	8,637	8,357	7,490
Interest Income from Other Assets	262	74	114	218	303	347
Interest Expense to Depositors & Shareholders	2,326	5,060	5,192	6,513	6,034	5,471
Interest Expense on Other Liabilities	1	2	2	1	3	3
<b>Net Interest Income</b>	<b>807</b>	<b>1,671</b>	<b>1,600</b>	<b>2,341</b>	<b>2,623</b>	<b>2,363</b>
<b>Other Income</b>						
Other Operating Income	402	788	668	731	612	590
<b>Total Operating Income</b>	<b>1,209</b>	<b>2,459</b>	<b>2,268</b>	<b>3,072</b>	<b>3,235</b>	<b>2,953</b>
Personnel Expenses	401	828	824	937	865	759
Depreciation	26	71	73	69	71	82
Credit Impairment Charge	-	179	508	265	150	-
Other Operating Expenses	685	1,291	999	1,149	1,048	1,001
<b>Operating Profit/(Loss)</b>	<b>97</b>	<b>90</b>	<b>(136)</b>	<b>652</b>	<b>1,101</b>	<b>1,111</b>
Change in the Fair Value of Investment Properties	-	(565)	141	(163)	209	472
<b>Profit/(Loss) Before Income Tax After Property Revaluation</b>	<b>97</b>	<b>(475)</b>	<b>5</b>	<b>489</b>	<b>1,310</b>	<b>1,583</b>
Income Tax Expense/(Refund)	(89)	27	(40)	275	383	366
Deferred Tax Adjustment	-	349	-	-	-	-
<b>Profit/(Loss) for the Period</b>	<b>186</b>	<b>(851)</b>	<b>45</b>	<b>214</b>	<b>927</b>	<b>1,217</b>

The Deferred Tax Adjustment (31 March 2011) relates to the impact of a change in taxation legislation from 1 April 2011 to apply a zero percent depreciation rate to buildings with a life of 50 years or more in accordance with NZIAS12 Income Taxes.

### Consolidated Statement of Comprehensive Income

	Unaudited 6 Months Ended 30/9/11 \$000	Audited Year Ended 31/3/11 \$000	Audited Year Ended 31/3/10 \$000	Audited Year Ended 31/3/09 \$000	Audited Year Ended 31/3/08 \$000	Audited Year Ended 31/3/07 \$000
Profit/(Loss) for the Period	186	(851)	45	214	927	1,217
Net Change in Revaluation Reserve	-	18	20	296	56	192
<b>Total Comprehensive Income for the Period</b>	<b>186</b>	<b>(833)</b>	<b>65</b>	<b>510</b>	<b>983</b>	<b>1,409</b>

## Summary Financial Statements

### Consolidated Statement of Financial Position

	Unaudited As At 30/9/11 \$000	Audited As at 31/3/11 \$000	Audited As at 31/3/10 \$000	Audited As at 31/3/09 \$000	Audited As at 31/3/08 \$000	Audited As at 31/3/07 \$000
<b>Assets</b>						
Cash on Hand	72	129	78	121	99	88
Bank	103	65	79	-	258	-
Liquid Investments	14,150	11,200	6,975	4,781	4,170	1,998
Prepayments	93	49	49	42	16	14
Trade and Other Receivables	308	404	31	12	63	54
Derivative Financial Instruments	-	-	14	-	394	444
Tax Refund Due	-	-	-	23	-	11
Loans	82,096	87,689	99,284	99,133	93,367	91,695
Accrued Interest	145	1	13	15	35	1
Investment Property	8,713	8,595	6,500	6,220	6,355	6,115
Property, Plant and Equipment	2,442	2,424	2,417	2,458	1,733	1,727
<b>Total Assets</b>	<b>108,122</b>	<b>110,556</b>	<b>115,440</b>	<b>112,805</b>	<b>106,490</b>	<b>102,147</b>
<b>Liabilities</b>						
Bank Overdraft	-	-	-	27	-	220
Trade and Other Payables	1,298	1,246	1,322	1,454	1,799	1,766
Derivative Financial Instruments	250	505	817	1,552	43	1
Tax Payable	-	38	35	-	44	-
Redeemable Shares	76,287	78,499	82,004	76,004	69,909	63,867
Deposits and Bank Borrowings	14,390	14,468	14,927	17,342	18,671	21,231
Deferred Tax	392	481	183	339	297	318
<b>Total Liabilities</b>	<b>92,617</b>	<b>95,237</b>	<b>99,288</b>	<b>96,718</b>	<b>90,763</b>	<b>87,403</b>
<b>Net Assets</b>	<b>15,505</b>	<b>15,319</b>	<b>16,152</b>	<b>16,087</b>	<b>15,727</b>	<b>14,744</b>
<b>Equity</b>						
Capital Shares	300	300	300	300	-	-
Retained Earnings	14,116	13,930	14,781	14,736	14,972	14,045
Reserves	1,089	1,089	1,071	1,051	755	699
<b>Total Equity</b>	<b>15,505</b>	<b>15,319</b>	<b>16,152</b>	<b>16,087</b>	<b>15,727</b>	<b>14,744</b>

### Consolidated Statement of Cash Flows

	Unaudited As At 30/9/11 \$000	Audited Year Ended 31/3/11 \$000	Audited Year Ended 31/3/10 \$000	Audited Year Ended 31/3/09 \$000	Audited Year Ended 31/3/08 \$000	Audited Year Ended 31/3/07 \$000
Net Cash Flows From/(Used In):						
Operating Activities	(3)	160	297	307	1,075	1,085
Investing Activities	5,224	8,066	(1,625)	(4,575)	(1,896)	(10,633)
Financing Activities	(2,290)	(3,964)	3,585	4,616	3,482	3,975
Opening Cash and Cash Equivalents	11,394	7,132	4,875	4,527	1,866	7,439
<b>Closing Cash and Cash Equivalents</b>	<b>14,325</b>	<b>11,394</b>	<b>7,132</b>	<b>4,875</b>	<b>4,527</b>	<b>1,866</b>

## Summary Financial Statements

### Consolidated Statement of Changes in Equity

	Unaudited As At 30/9/11 \$000	Audited Year Ended 31/3/11 \$000	Audited Year Ended 31/3/10 \$000	Audited Year Ended 31/3/09 \$000	Audited Year Ended 31/3/08 \$000	Audited Year Ended 31/3/07 \$000
<b>Opening Equity</b>	15,319	16,152	16,087	15,727	14,744	13,335
Total Comprehensive Income	186	(833)	65	510	983	1,409
Capital Shares Issued	-	-	-	300	-	-
Dividends Paid	-	-	-	(450)	-	-
<b>Closing Equity</b>	<b>15,505</b>	<b>15,319</b>	<b>16,152</b>	<b>16,087</b>	<b>15,727</b>	<b>14,744</b>
Represented by:						
Capital Shares	300	300	300	300	-	-
General Reserve	14,116	13,930	14,781	14,736	14,972	14,045
Revaluation Reserve	1,089	1,089	1,071	1,051	755	699
<b>Closing Equity</b>	<b>15,505</b>	<b>15,319</b>	<b>16,152</b>	<b>16,087</b>	<b>15,727</b>	<b>14,744</b>

## Notes to the Summary Financial Statements

- The above Summary Financial Statements are for the Guaranteeing Group ("the Group").
- All amounts are stated in New Zealand Dollars and rounded to the nearest thousand.
- The Summary Financial Statements were approved by the Board on 23 November 2011.
- All amounts other than 30 September 2011, which were extracted from unaudited interim financial statements, in the Summary Financial Statements have been taken from audited full Financial Statements. The Group's full Financial Statements have been prepared in accordance with NZGAAP and comply with the New Zealand equivalents to IFRS (refer to Note 2(a) on page 25 for definitions) as appropriate for profit orientated entities. The full Financial Statements comply with International Financial Reporting Standards. The full Financial Statements of the Group for the years ended 31 March 2011, 31 March 2010, 31 March 2009, 31 March 2008 and 31 March 2007 were authorised for issue by the Board of Directors on 22 June 2011, 23 June 2010, 24 June 2009, 25 June 2008 and 27 June 2007 respectively, and unqualified audit reports were issued on the same dates.
- The information above has been compiled in accordance with FRS43 Summary Financial Statements and Schedule 2 of the Securities Regulations 2009.
- These Summary Financial Statements cannot provide as complete an understanding of the Group's financial position and results as provided by the full Financial Statements.
- Full Financial Statements for the unaudited periods ending 30 September 2011 and 30 September 2010 together with audited Statements for periods ending 31 March 2011 and 31 March 2010 appear in this Prospectus.
- Unaudited interim financial statements for the six months ended 30 September 2011 appear in this prospectus. The most recent audited financial statements of the Guaranteeing Group that comply with, and have been registered under, the Financial Reporting Act 1993 were registered with the Companies Office on the 24 June 2011 and cover the year ended 31 March 2011.

## Consolidated Income Statement

For the six months ended 30 September 2011

	Note	Unaudited 6 Months Ended 30/9/11 \$000	Unaudited 6 Months Ended 30/9/10 \$000	Audited Year Ended 31/3/11 \$000	Audited Year Ended 31/3/10 \$000
<b>Interest income</b>					
Interest Income from Loans		2,872	3,266	6,659	6,680
Interest Income from Other Assets		262	73	74	114
Interest Expense to Depositors and Shareholders		2,326	2,537	5,060	5,192
Interest Expense on Other Liabilities		1	1	2	2
<b>Net interest income</b>	6	<b>807</b>	<b>801</b>	<b>1,671</b>	<b>1,600</b>
<b>Other Income</b>					
Other Operating Income	7	402	360	788	668
<b>Total Operating Income</b>		<b>1,209</b>	<b>1,161</b>	<b>2,459</b>	<b>2,268</b>
Personnel Expenses	8	401	404	828	824
Depreciation	15	26	33	71	73
Credit Impairment Charge		-	105	179	508
Other Operating Expenses	9	685	588	1,291	999
<b>Operating Profit/(Loss)</b>		<b>97</b>	<b>31</b>	<b>90</b>	<b>(136)</b>
Change in the Fair Value of Investment Properties	13	-	-	(565)	141
<b>Profit/(Loss) Before Income Tax After Property Revaluation</b>		<b>97</b>	<b>31</b>	<b>(475)</b>	<b>5</b>
Income Tax Expense/(Refund)	10	(89)	9	27	(40)
Deferred Tax Adjustment		-	1,994	349	-
<b>Profit/(Loss) for the Period</b>		<b>186</b>	<b>(1,972)</b>	<b>(851)</b>	<b>45</b>

The Deferred Tax Adjustment (30 September 2010 and 31 March 2011) relates to the impact of a change in taxation legislation from 1 April 2011 to apply a zero percent depreciation rate to buildings with a life of 50 years or more in accordance with NZIAS12 Income Taxes.

## Consolidated Statement of Comprehensive Income

	Note	Unaudited 6 Months Ended 30/9/11 \$000	Unaudited 6 Months Ended 30/9/10 \$000	Audited Year Ended 31/3/11 \$000	Audited Year Ended 31/3/10 \$000
<b>Profit/(Loss) for the Period</b>		<b>186</b>	<b>(1,972)</b>	<b>(851)</b>	<b>45</b>
Other Comprehensive Income					
Net Change in Revaluation Reserve	19	-	-	18	20
Total Other Comprehensive Income for the Period		-	-	18	20
<b>Total Comprehensive Income for the Period</b>		<b>186</b>	<b>(1,972)</b>	<b>(833)</b>	<b>65</b>

The notes on pages 25 to 49 are an integral part of these financial statements.

## Consolidated Statement of Financial Position

As at 30 September 2011

	Note	Unaudited As at 30/9/11 \$000	Unaudited As at 30/9/10 \$000	Audited As at 31/3/11 \$000	Audited As at 31/3/10 \$000
<b>Assets</b>					
Cash on Hand	12	72	118	129	78
Bank	12	103	84	65	79
Liquid Investments	12	14,150	-	11,200	6,975
Prepayments		93	107	49	49
Trade and Other Receivables		308	58	404	31
Derivative Financial Instruments	20	-	-	-	14
Tax Refund Due		-	11	-	-
Loans	14	82,096	102,961	87,689	99,284
Accrued Interest		145	-	1	13
Investment Property	13	8,713	6,892	8,595	6,500
Property, Plant and Equipment	15	2,442	2,412	2,424	2,417
<b>Total Assets</b>		<b>108,122</b>	<b>112,643</b>	<b>110,556</b>	<b>115,440</b>
<b>Liabilities</b>					
Trade and Other Payables	16	1,298	1,258	1,246	1,322
Derivative Financial Instruments	20	250	663	505	817
Tax Payable		-	-	38	35
Redeemable Shares	17	76,287	77,097	78,499	82,004
Deposits and Bank Borrowings	17	14,390	17,287	14,468	14,927
Deferred Tax	18	392	2,158	481	183
<b>Total Liabilities</b>		<b>92,617</b>	<b>98,463</b>	<b>95,237</b>	<b>99,288</b>
<b>Net Assets</b>		<b>15,505</b>	<b>14,180</b>	<b>15,319</b>	<b>16,152</b>
<b>Equity</b>					
Capital Shares	19	300	300	300	300
Retained Earnings	19	14,116	12,809	13,930	14,781
Reserves	19	1,089	1,071	1,089	1,071
<b>Total Equity</b>		<b>15,505</b>	<b>14,180</b>	<b>15,319</b>	<b>16,152</b>

The notes on pages 25 to 49 are an integral part of these financial statements.

D G Dobson  
(Chairman)

M G Allen  
(Deputy Chairman)

K P McCabe  
(Secretary)

\_\_\_\_\_ 2011

## Consolidated Statement of Changes in Equity

For the six months ended 30 September 2011

	Capital Shares \$000	General Reserve \$000	Revaluation Reserve \$000	Total Equity \$000
<b>Balance at 1 April 2009</b>	300	14,736	1,051	16,087
<b>Total Comprehensive Income for the Period</b>				
Profit or (Loss)	-	45	-	45
<b>Other Comprehensive Income</b>				
Revaluation of Properties	-	-	20	20
<b>Total Comprehensive Income</b>	-	45	20	65
<b>Balance at 31 March 2010 – Audited</b>	<b>300</b>	<b>14,781</b>	<b>1,071</b>	<b>16,152</b>
<b>Balance at 1 April 2010</b>	300	14,781	1,071	16,152
<b>Total Comprehensive Income for the Period</b>				
Profit or (Loss)	-	(851)	-	(851)
<b>Other Comprehensive Income</b>				
Revaluation of Properties	-	-	18	18
<b>Total Comprehensive Income</b>	-	(851)	18	(833)
<b>Balance at 31 March 2011 – Audited</b>	<b>300</b>	<b>13,930</b>	<b>1,089</b>	<b>15,319</b>
<b>Balance at 1 April 2010</b>	300	14,781	1,071	16,152
<b>Total Comprehensive Income for the Period</b>				
Profit or (Loss)	-	(1,972)	-	(1,972)
<b>Other Comprehensive Income</b>				
Revaluation of Properties	-	-	-	-
<b>Total Comprehensive Income</b>	-	(1,972)	-	(1,972)
<b>Balance at 30 September 2010 - Unaudited</b>	<b>300</b>	<b>12,809</b>	<b>1,071</b>	<b>14,180</b>
<b>Balance at 1 April 2011</b>	300	13,930	1,089	15,319
<b>Total Comprehensive Income for the Period</b>				
Profit or (Loss)	-	186	-	186
<b>Other Comprehensive Income</b>				
Revaluation of Properties	-	-	-	-
<b>Total Comprehensive Income</b>	-	186	-	186
<b>Balance at 30 September 2011 - Unaudited</b>	<b>300</b>	<b>14,116</b>	<b>1,089</b>	<b>15,505</b>

The notes on pages 25 to 49 are an integral part of these financial statements.

## Consolidated Statement of Cash Flows

For the six months ended 30 September 2011

	Note	Unaudited 6 Months Ended 30/9/11 \$000	Unaudited 6 Months Ended 30/9/10 \$000	Audited Year Ended 31/3/11 \$000	Audited Year Ended 31/3/10 \$000
<b>Cash Flows from Operating Activities</b>					
Interest Income		2,990	3,352	6,745	6,796
Other Income		395	350	695	685
Tax Refund Received		-	-	-	23
Interest Paid		(2,273)	(2,631)	(5,031)	(5,230)
Cash Paid to Suppliers and Employees		(1,077)	(1,047)	(2,174)	(1,897)
Income Tax Paid		(38)	(75)	(75)	(80)
<b>Net Cash from/(Used In) Operating Activities</b>	23	<b>(3)</b>	<b>(51)</b>	<b>160</b>	<b>297</b>
<b>Cash Flows from Investing Activities</b>					
Loans Repaid/(Advanced)		5,345	(3,912)	11,132	(1,473)
Acquisition of Property, Plant and Equipment	15	(5)	(12)	(44)	-
Acquisition of Computer Software	15	(39)	(16)	(16)	(12)
Proceeds from Investment Properties		-	-	470	-
Additions to Investment Properties		(77)	(392)	(3,476)	(140)
<b>Net Cash From/(Used In) Investing Activities</b>		<b>5,224</b>	<b>(4,332)</b>	<b>8,066</b>	<b>(1,625)</b>
<b>Cash Flows from/(Used In) Financing Activities</b>					
Net Proceeds from Investing Deposits		(2,290)	(2,547)	(3,964)	3,585
<b>Net Cash From/(Used In) Financing Activities</b>		<b>(2,290)</b>	<b>(2,547)</b>	<b>(3,964)</b>	<b>3,585</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>2,931</b>	<b>(6,930)</b>	<b>4,262</b>	<b>2,257</b>
Cash and Cash Equivalents at the Beginning of the Period		11,394	7,132	7,132	4,875
<b>Cash and Cash Equivalents at the End of the Period</b>	12	<b>14,325</b>	<b>202</b>	<b>11,394</b>	<b>7,132</b>

The notes on pages 25 to 49 are an integral part of these financial statements.

## Notes to the Financial Statements

### 1. Reporting Entity

The consolidated financial statements presented are those for Wairarapa Building Society (WBS) (Parent) and Subsidiaries (the Group). The Group consists of the Parent (WBS) and its wholly owned subsidiaries, Wairarapa Property Investments Limited (WPIL), Manawatu Permanent Building Society (MPBS) and Perry Street Properties Limited (PSPL). The Group is domiciled in New Zealand.

The financial statements have been prepared in accordance with the Building Societies Act 1965, the Securities Act 1978, Securities Regulations 2009 and the Financial Reporting Act 1993.

The Group is primarily involved in providing savings and investment accounts, financing residential, rural and commercial property and investment in properties.

### 2. Basis of Preparation

#### (a) Statement of Compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board on 23 November 2011.

#### (b) Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following, which are measured at fair value:

- investment properties
- land and buildings
- derivative financial instruments
- available for sale investments

#### (c) Functional and Presentation Currency

These financial statements are presented in New Zealand dollars (\$), which is the Parent's functional currency. All financial information presented in NZ\$ has been rounded to the nearest thousand (\$000).

#### (d) Use of Estimates, Judgements and Assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 4 – Determination of Fair Values
- Note 20 – Financial Instruments

In preparing these financial statements in accordance with NZ IFRS, the following standards were available for early adoption but have not been applied by the Group:

- NZ IFRS 9 – Financial Instruments: Classification and Measurement. Effective from 1 January 2013.
- NZ IFRS 13 – Fair Value Measurement. Effective from 1 January 2013.

The adoption of these standards is not likely to have a material impact on the financial performance or position of the Group.

### 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

#### (a) Basis of Consolidation

##### (i) Subsidiaries

Subsidiaries are entities controlled by another Group entity. Control exists when one entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The purchase method of accounting is used in the preparation of the Consolidated Financial Statements.

##### (ii) Transactions Eliminated on Consolidation

The effects of intra-group transactions and balances are eliminated in preparing the consolidated financial statements.

#### (b) Revenue and Expense Recognition

Revenue is recognised to the extent that it is probable economic benefits will flow to the Group and that revenue can be reliably measured. Expenses are recognised in the income statement on an accruals basis.

#### (c) Interest Income and Expenses

Interest income and expenses are recognised in the income statement as they accrue, using the effective interest method. The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability. The application of the method has the effect of recognising income and expenses on the financial asset or liability evenly in proportion to the amount outstanding over the period to maturity or repayment.

#### (d) Rental Income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

#### (e) Fee Income

Fee income that is integral to the effective interest rate on a financial asset is recognised progressively in interest income over a three year period.

#### (f) Net Income from Other Financial Instruments at Fair Value

Net income from other financial instruments at fair value relates to derivatives held for risk management purposes and includes all realised and unrealised fair value changes on interest rate swap derivative contracts.

#### (g) Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss 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 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 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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference 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.

#### (h) Financial Assets and Liabilities

##### (i) Recognition

The Group recognises a financial asset or liability on its statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial asset or liability.

## Significant Accounting Policies (continued)

(ii) **Derecognition**

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(iii) **Offsetting**

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group has an enforceable legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(iv) **Amortised Cost Measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) **Fair Value Measurement**

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

(vi) **Impairment of Financial Assets**

At each reporting date the Group assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably. The Group considers evidence of impairment at a specific asset level.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amounts of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rates. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impaired loans and advances include:

- Assets acquired through the enforcement of security are those assets which are legally owned by the Group as a result of enforcing security in settlement of all or part of a debt.
- Other individually impaired assets are those assets determined to be impaired but which are not restructured assets or assets acquired through the enforcement of security.

Assets that are in arrears based upon their contractual terms, but not yet impaired, are reported separately. These are known as 'past due assets'.

(i) **Financial Instruments**

**Derivative Financial Instruments**

Derivative financial instruments are contracts whose value is derived from changes in one or more underlying financial instrument or indices. The Group's derivative financial instruments comprise interest rate swaps.

Derivative financial instruments are recognised initially at fair value in the statement of financial position and subsequently remeasured at fair value. Fair values are obtained from quoted prices in active markets, including recent transactions. Movements in the fair value of derivative financial instruments are recognised in the income statement.

## Significant Accounting Policies (continued)

### Fair Value Hedges

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes. The Group has elected to apply fair value hedge accounting. Under a fair value hedge, when a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or firm commitment, changes in the fair value of the derivative are recognised in the income statement together with changes in the fair value of the hedged item that is attributable to the hedged risk.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The resulting adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement over a period to maturity. If the hedged item is sold or repaid, the balance of the adjustment to the carrying value of the hedged item is recognised in the income statement immediately.

### Non-Derivative Financial Instruments

#### Available-for-Sale Financial Assets

The Group's investments in equity securities and New Zealand Government and Local Authority Stock are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

#### (j) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, floats and petty cash and liquid investments. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### (k) Trade and Other Receivables

Trade and other receivables are stated at their cost less impairment losses.

#### (l) Trade and Other Payables

Trade and other payables are stated at cost.

#### (m) Loans and Advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, less any impairment loss. They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

Restructured loans and advances are those that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Contractual changes, including loan extensions that arise in the normal course of business are not considered to give rise to restructured loans and advances.

Loans and advances are regularly reviewed for impairment. Credit impairment provisions are raised for exposures that are known to be impaired. Loans are impaired and impairment losses incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and that loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the individual loan or the collective portfolio of loans.

#### (n) Property, Plant and Equipment

##### (i) Recognition and Measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, except for land and buildings which are at fair value. Land and buildings included in property, plant and equipment is distinct from investment property in that more than 20% of the lettable area is occupied by WBS. Cost includes expenditures that are directly attributable to the acquisition of the asset.

##### (ii) 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 profit or loss as incurred.

## Significant Accounting Policies (continued)

### (iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The depreciation rates used for each class of asset are as follows:



Depreciation methods, useful lives and residual values are reassessed at the reporting date.

### (o) Intangible Assets

#### (i) Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is four years.

At each reporting date, the software assets and other intangible assets are reviewed to determine whether there is any objective evidence of impairment. If any indication of impairment exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the income statement.

### (p) Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment properties are measured at fair value with any change therein recognised in the Income Statement. Valuations are determined annually by independent registered valuers.

### (q) Redeemable Shares and Deposits

Redeemable shares include fixed term and call shares issued by the Group. Deposits are interest bearing customer deposits. Shares and deposits are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost. The interest expense is recognised using the effective interest method. Both Redeemable Shares and Deposits are unsecured. Deposits rank ahead of Redeemable Shares.

Redeemable Shares are considered to be a compound instrument. However due to the debt portion of the instrument being the material balance of the Redeemable Shares, there is no material equity portion which should be disclosed.

### (r) Bank Borrowings

Bank borrowings include the borrowing facilities that the Group has arranged with the Bank of New Zealand and Westpac Banking Corporation described in Note 17. Any funds drawn down from these bank borrowing facilities are initially recognised at fair value plus transaction costs, and subsequently stated at amortised cost. Interest expense is recognised in the income statement using the effective interest method.

### (s) Impairment of Non Financial Assets

The carrying amounts of the Group's non-financial assets, other than investment property, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

### (t) 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 if the Group has a present legal obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

## Significant Accounting Policies (continued)

### (u) 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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### (v) Segment Reporting

The Group operates in the retail banking and property investment industries. In accordance with NZIFRS 8, the operating segments reported are in line with the organisational structure of the Group and reporting to the Chief operating decision maker and take into account the nature of the product and services provided.

### (w) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST') except where the amount of GST incurred is not recoverable from the Inland Revenue Department ('IRD'). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the IRD is included as 'other assets' or 'other liabilities' in the statement of financial position. Cash flows are included in the cash flow statement on a net basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the IRD are classified as operating cash flows.

### (x) Statement of Cash Flows

The Statement of Cash flows has been presented using the direct approach modified by the netting of certain items as disclosed below.

#### (i) Cash and Cash Equivalents

Cash and cash equivalents reflect the cash on hand, liquid investments, short term borrowings at call and bank overdraft used in the day-to-day cash management of the Group, that the Group has the ability to liquidate within three months.

#### (ii) Netting of Cash Flows

Investing deposit cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Group.

## 4. Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### (a) Property, Plant and Equipment

Land and buildings are shown in the financial statements at fair value. The fair values are based on market values. The market valuation is undertaken annually by an external independent valuer, Blackmore & Associates (registered and ANZIV Certified Valuers), having appropriate recognised professional qualifications and recent experience in the location and category of property being valued.

### (b) Investment Property

Investment properties are measured at fair value. The fair values are based on market values. The market valuation is undertaken annually by an external valuer, Blackmore & Associates (registered and ANZIV Certified Valuers), having appropriate recognised professional qualifications and recent experience in the location and category of property being valued.

### (c) Investments in Debt Securities

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

### (d) Derivatives

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

## Determination of Fair Values (continued)

### (e) Loans and Advances

For variable rate advances the carrying amount is a reasonable estimate of the fair value as they can be settled the following day at balance outstanding. For fixed rate advances, fair values have been estimated using the discounted cash relative wholesale rates for the term at original fixing, and the wholesale rate for the remaining term at balance date.

### (f) Non-Derivative Financial Liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

## 5. Segment Reporting

### Operating Segments

The operating segments are based on the Group's management and internal reporting structure. The Group comprises the following main operating segments:

- Banking
- Property investment

### Operating Segments Disclosure

	Unaudited			Unaudited		
	Banking 30/9/11 \$000	Property Investment 30/9/11 \$000	Group 30/9/11 \$000	Banking 30/9/10 \$000	Property Investment 30/9/10 \$000	Group 30/9/10 \$000
Total Operating Income	843	366	1,209	840	321	1,161
Pre Tax Result	(102)	199	97	(190)	221	31
Tax Expense/(Refund)	(143)	54	(89)	(57)	66	9
Deferred Tax Adjustment	-	-	-	-	(1,994)	(1,994)
Profit for the Period	(41)	145	186	(133)	155	22
Segment Assets	96,687	11,435	108,122	103,388	9,255	112,643
Segment Liabilities	92,264	353	92,617	95,906	2,557	98,463
Capital Expenditure	40	123	163	28	392	420
Depreciation	19	7	26	15	18	33
Impairment Loss on Loans	-	-	-	105	-	105

	Audited			Audited		
	Banking 31/3/11 \$000	Property Investment 31/3/11 \$000	Group 31/3/11 \$000	Banking 31/3/10 \$000	Property Investment 31/3/10 \$000	Group 31/3/10 \$000
Total Operating Income	1,739	720	2,459	1,662	747	2,409
Pre Tax Result	237	(712)	(475)	65	60	5
Tax Expense/(Refund)	87	289	376	20	(60)	(40)
Profit for the Year	150	(1,001)	(851)	45	-	45
Segment Assets	99,234	11,322	110,556	106,496	8,944	115,440
Segment Liabilities	94,507	381	94,888	98,787	501	99,288
Capital Expenditure	55	3,165	3,220	12	140	152
Depreciation	34	37	71	30	43	73
Impairment Loss on Loans	179	-	179	508	-	508

## 6. Net Interest Income

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
<b>Interest Income</b>				
Loans	2,872	3,266	6,659	6,680
Call Deposits	45	58	58	57
Promissory Notes/Term Deposits	217	15	16	57
<b>Total Interest Income</b>	<b>3,134</b>	<b>3,339</b>	<b>6,733</b>	<b>6,794</b>
<b>Interest Expense</b>				
Bank Overdraft	1	1	2	2
Redeemable Shares	2,055	2,276	4,478	4,670
Deposits	271	261	582	522
<b>Total Interest Expense</b>	<b>2,327</b>	<b>2,538</b>	<b>5,062</b>	<b>5,194</b>
<b>Net Interest Income</b>	<b>807</b>	<b>801</b>	<b>1,671</b>	<b>1,600</b>

There is no interest income earned on financial assets acquired through the enforcement of security or impaired assets (30/9/10 \$Nil; 31/3/11 \$Nil; 31/3/10 \$Nil).

## 7. Other Operating Income

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
Lending and Facility Fees Income	33	36	63	55
Other Fee Income	1	3	4	7
Rental Income from Investment Properties	368	321	721	606
<b>Other Operating Income</b>	<b>402</b>	<b>360</b>	<b>788</b>	<b>668</b>

## 8. Personnel Expenses

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
Directors Fees	36	36	71	72
Wages and Salaries	360	359	739	735
Other Staff Related Expenses	5	9	18	17
<b>Personnel Expenses</b>	<b>401</b>	<b>404</b>	<b>828</b>	<b>824</b>

## 9. Other Operating Expenses

The following items of expenditure are included in other operating expenses:

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
Auditor's Remuneration to KPMG comprises:				
Audit of Financial Statements	25	20	34	37
Other Audit-Related Services	3	-	7	6
<b>Total Auditor's Remuneration</b>	<b>28</b>	<b>20</b>	<b>41</b>	<b>43</b>

Other audit-related services include services for the audit or review of financial information other than financial reports including prospectus reviews and trust deed reporting.

10. **Income Tax Expense**

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
<b>Current Tax Expense</b>				
Current Period	27	28	87	116
<b>Deferred Tax Expense</b>				
Origination and Reversal of Temporary Differences	(116)	1,975	(51)	(156)
Reduction in Tax Rate	-	-	(9)	-
Effect of Change in Tax Legislation	-	-	349	-
<b>Total Income Tax Expense/(Refund)</b>	<b>(89)</b>	<b>2,003</b>	<b>376</b>	<b>(40)</b>

**Reconciliation of Effective Tax Rate**

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
Profit before Income Tax	97	31	(475)	5
Income Tax using the Tax Rate 28%	27	9	(142)	1
Deferred Tax Adjustment	-	1,994	349	-
Non Deductible Expenses/(Tax Exempt Income)	-	-	178	(41)
Origination and Reversal of Temporary Differences	(116)	-	-	-
Reduction in Tax Rate	-	-	(9)	-
<b>Total Income Tax Expense/(Refund)</b>	<b>(89)</b>	<b>2,003</b>	<b>376</b>	<b>(40)</b>

11. **Imputation Credit Account**

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
<b>Imputation Credits at Beginning of Period</b>	<b>6,496</b>	<b>6,420</b>	<b>6,420</b>	<b>6,363</b>
Income tax paid during the period	38	76	76	80
Income tax refunded during the period	-	-	-	(23)
<b>Imputation Credits at End of Period</b>	<b>6,534</b>	<b>6,496</b>	<b>6,496</b>	<b>6,420</b>

12. **Cash and Cash Equivalents**

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
Cash on Hand	72	118	129	78
Liquid Investments	14,150	-	11,200	6,975
Bank/(Overdraft)	103	84	65	79
<b>Cash and Cash Equivalents in the Statement of Cash Flows</b>	<b>14,325</b>	<b>202</b>	<b>11,394</b>	<b>7,132</b>

13. **Investment Property**

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
Balance at Beginning of Period	8,595	6,500	6,500	6,220
Acquisitions/Additions	118	392	3,160	139
Disposals	-	-	(470)	-
Loss on Sale	-	-	(30)	-
Change in Fair Value/Revaluation	-	-	(565)	141
<b>Balance at End of Period</b>	<b>8,713</b>	<b>6,892</b>	<b>8,595</b>	<b>6,500</b>

## Investment Property (continued)

Investment property comprises a number of commercial properties that are leased to third parties. Each of the leases is non-cancellable. Subsequent renewals are negotiated with the lessee. No contingent rents were charged.

The Group's investment in properties is independently valued annually as at 31 March by Blackmore & Associates (Registered and ANZIV Certified Valuers). The current Government valuation (Masterton - 1 September 2008, Wanganui - 1 September 2010) of the Group's Investment Properties is \$8,420,000. An assessment by Directors has been made at 30 September 2011 and confirms that there has been no material change in value.

### Leases as Lessor

The Group leases out its investment property held under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
Less than One Year	694	533	626	570
Between One and Five Years	1,898	1,678	1,954	1,729
More than Five Years	637	286	581	451
	<b>3,229</b>	<b>2,497</b>	<b>3,161</b>	<b>2,750</b>

During the period ended 30 September 2011, \$368,000 (30/9/10 \$321,000; 31/3/11 \$721,000; 31/3/10 \$606,000) was recognised as rental income in the income statement. At 30 September 2011 direct operating expenses arising from the investment property recognised in the income statement totalled \$169,000 (30/9/10 \$101,000; 31/3/11 \$209,000; 31/3/10 \$225,000).

## 14. Loans

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
Secured Loans				
By Mortgage	80,729	102,368	87,155	98,346
By Other than Mortgage	989	811	989	917
Unsecured Loans	128	147	143	141
<b>Total Loans and Advances</b>	<b>81,846</b>	<b>103,326</b>	<b>88,287</b>	<b>99,404</b>
Fair Value Hedge Adjustment	250	663	505	803
Less Individual Provision for Doubtful Debts	-	(1,028)	(1,103)	(923)
<b>Net Loans</b>	<b>82,096</b>	<b>102,961</b>	<b>87,689</b>	<b>99,284</b>

The Individual Provision for Doubtful Debt impairment is the result of financial assets acquired through the enforcement of security.

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
Opening Balance	1,103	923	923	415
Provision Raised	-	105	180	508
Provision Realised	(1,103)	-	-	-
<b>Closing Balance</b>	<b>-</b>	<b>1,028</b>	<b>1,103</b>	<b>923</b>

Included in Secured Loans and Advances are assets of \$Nil (30/9/10 \$1,278,000; 31/3/11 \$1,387,000; 31/3/10 \$1,073,000) acquired through enforcement of security.

## 15. Property, Plant and Equipment

Group	Land and Buildings at Fair Value \$000	Plant and Equipment at Cost \$000	Computer Equipment at Cost \$000	Motor Vehicles at Cost \$000	Total \$000
<b>Asset Cost or Fair Value</b>					
Balance at 1 April 2009	2,335	387	393	46	3,161
Additions	-	-	14	-	14
Revaluation	18	-	-	-	18
Disposals	-	(31)	(75)	-	(106)
<b>Balance at 31 March 2010</b>	<b>2,353</b>	<b>356</b>	<b>332</b>	<b>46</b>	<b>3,087</b>
Balance at 1 April 2010	2,353	356	332	46	3,087
Additions	-	13	47	-	60
Revaluation	18	-	-	-	18
Disposals	-	(31)	(96)	-	(127)
<b>Balance at 31 March 2011</b>	<b>2,371</b>	<b>338</b>	<b>283</b>	<b>46</b>	<b>3,038</b>
Balance at 1 April 2010	2,353	356	332	46	3,087
Additions	-	12	16	-	28
Revaluation	-	-	-	-	-
Disposals	-	-	-	-	-
<b>Balance at 30 September 2010</b>	<b>2,353</b>	<b>368</b>	<b>348</b>	<b>46</b>	<b>3,115</b>
Balance at 1 April 2011	2,371	338	283	46	3,038
Additions	-	5	39	-	44
Revaluation	-	-	-	-	-
Disposals	-	-	-	-	-
<b>Balance at 30 September 2011</b>	<b>2,371</b>	<b>343</b>	<b>322</b>	<b>46</b>	<b>3,082</b>
<b>Depreciation</b>					
Balance at 1 April 2009	35	316	346	6	703
Depreciation for the Year	18	17	26	12	73
Disposals	-	(31)	(75)	-	(106)
<b>Balance at 31 March 2010</b>	<b>53</b>	<b>302</b>	<b>297</b>	<b>18</b>	<b>670</b>
Balance at 1 April 2010	53	302	297	18	670
Depreciation for the Year	18	15	29	9	71
Disposals	-	(31)	(96)	-	(127)
<b>Balance at 31 March 2011</b>	<b>71</b>	<b>286</b>	<b>230</b>	<b>27</b>	<b>614</b>
Balance at 1 April 2010	53	302	297	18	670
Depreciation for the Period	9	7	12	5	33
Disposals	-	-	-	-	-
<b>Balance at 30 September 2010</b>	<b>62</b>	<b>309</b>	<b>309</b>	<b>23</b>	<b>703</b>
Balance at 1 April 2011	71	286	230	27	614
Depreciation for the Period	-	6	17	3	26
Disposals	-	-	-	-	-
<b>Balance at 30 September 2011</b>	<b>71</b>	<b>292</b>	<b>247</b>	<b>30</b>	<b>640</b>
<b>Carrying Amounts</b>					
At 31 March 2010	2,300	54	35	28	2,417
At 31 March 2011	2,300	52	53	19	2,424
At 30 September 2010	2,291	59	39	23	2,412
At 30 September 2011	2,300	51	75	16	2,442

The carrying amount of land and buildings as at 30 September 2011 had they been recognised under the cost model would have been \$1,283,000 (30/9/10 \$1,283,000; 31/3/11 \$1,283,000; 31/3/10 \$1,283,000).

The Group's land and buildings are independently valued annually. The valuation for the year ended 31 March 2011 was performed by Blackmore & Associates (Registered and ANZIV Certified Valuers).

Included within Computer Equipment is computer software, the carrying amount of this at 30 September 2011 was \$46,552 (30/9/10 \$23,000; 31/3/11 \$16,000; 31/3/10 \$15,000).

16. **Trade and Other Payables**

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
Interest payable	1,035	843	979	907
Accrued expenses	125	180	126	143
Other payables	138	235	141	272
	<b>1,298</b>	<b>1,258</b>	<b>1,246</b>	<b>1,322</b>

17. **Redeemable Shares, Deposits and Bank Borrowings**

This note provides information about the contractual terms of the Group's interest-bearing shares, deposits and bank borrowing facilities. For more information about the Group's exposure to interest rate risk, see note 20.

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
Redeemable Shares	76,287	77,097	78,499	82,004
Deposits and Bank Borrowings	14,390	17,287	14,468	14,927

Both redeemable shares and deposits are unsecured. Deposits rank ahead of redeemable shares.

**Bank Borrowing Facility**

The Group has committed borrowing facilities totalling \$18,000,000 (30/9/10 \$24,000,000; 31/3/11 \$24,000,000; 31/3/10 \$24,000,000) with the Bank of New Zealand \$10,000,000 and Westpac Banking Corporation \$8,000,000. As at 30 September 2011, the amounts drawn down were \$Nil (30/9/10 \$3,500,000; 31/3/11 \$Nil; 31/3/10 \$Nil). Any funds drawn down under these facilities rank equally in point of security with all other deposits.

The use of these facilities continues to be fully available on demand.

**Terms and Debt Repayment Schedule**

Terms and conditions of outstanding redeemable shares, deposits and bank borrowings are as detailed above.

18. **Deferred Tax Liabilities**

**Recognised Deferred Tax Assets and Liabilities**

Deferred tax assets and liabilities are attributable to the following:

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
Property, Plant and Equipment	393	298	474	59
Investment Property	316	2,077	234	313
Tax Benefit of Losses Carried Forward	(289)	-	-	-
Other items	(27)	(217)	(227)	(189)
<b>Net Deferred Tax Liabilities</b>	<b>392</b>	<b>2,158</b>	<b>481</b>	<b>183</b>

**Movement in temporary differences during the period**

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
Opening Balance	481	183	183	339
Property, Plant and Equipment	(82)	239	415	1
Investment Property	82	1,764	(79)	15
Derivatives	-	-	-	(14)
Tax Benefit of Losses Carried Forward	(289)	-	-	-
Other items	200	(28)	(38)	(158)
<b>Net Deferred Tax Liabilities</b>	<b>392</b>	<b>2,158</b>	<b>481</b>	<b>183</b>

All movements in temporary differences during the year were recognised in the income statement.

## 19. Equity

### Reconciliation of Movement in Equity and Reserves

Group	Capital Shares \$000	Retained Earnings \$000	Revaluation Reserve \$000	Total Equity \$000
Balance at 1 April 2009	300	14,736	1,051	16,087
Net Change in Revaluation Reserve	-	-	20	20
Profit/(Loss) for the Year	-	45	-	45
<b>Balance at 31 March 2010</b>	<b>300</b>	<b>14,781</b>	<b>1,071</b>	<b>16,152</b>
Balance at 1 April 2010	300	14,781	1,071	16,152
Net Change in Revaluation Reserve	-	-	18	18
Profit/(Loss) for the Year	-	(851)	-	(851)
<b>Balance at 31 March 2011</b>	<b>300</b>	<b>13,930</b>	<b>1,089</b>	<b>15,319</b>
Balance at 1 April 2010	300	14,781	1,071	16,152
Net Change in Revaluation Reserve	-	-	-	-
Profit/(Loss) for the Period	-	(1,972)	-	(1,972)
<b>Balance at 30 September 2010</b>	<b>300</b>	<b>12,809</b>	<b>1,071</b>	<b>14,180</b>
Balance at 1 April 2011	300	13,930	1,089	15,319
Net Change in Revaluation Reserve	-	-	-	-
Profit/(Loss) for the Period	-	186	-	186
<b>Balance at 30 September 2011</b>	<b>300</b>	<b>14,116</b>	<b>1,089</b>	<b>15,505</b>

#### Revaluation Reserve

The revaluation reserve relates to the revaluation of property, plant and equipment

#### Capital Shares

30 million capital shares at 1c per share are on issue. All capital shares have equal voting rights and share equally in dividends and assets on winding up. All capital shares are held by Wairarapa Building Society Charitable Trust. Dividends of Nil per share were paid during the period (all prior periods are also "Nil").

## 20. Financial Instruments

### (a) Financial Risk Management Policies

Exposure to credit, liquidity, interest rate and other market risks arises in the normal course of the Group's business.

#### (i) Credit Risk

Credit Risk is the potential loss arising from the non performance by the counterparty to an instrument or facility. Credit Risk is controlled through the credit approval process and the holding of appropriate security. Securities held include registered mortgages and personal property charges (refer to Note 14).

#### (ii) Liquidity Risk

Liquidity Risk is the risk that an entity will encounter difficulty in raising funds at short notice to meet obligations from its financial liabilities.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group maintains a portfolio of short-term liquid assets and unused credit lines, to ensure that sufficient liquidity is maintained within the Group as a whole.

The Group's liquidity position is monitored daily.

## Financial Instruments (continued)

### (iii) Interest Rate Risk

Interest Rate Risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Although inherent in any lending portfolio, interest rate risk is managed where possible by the Group matching the interest maturity profile of its assets and liabilities. To this end the majority of the Group's borrowings undergo an interest rate review within one year and advances with fixed rates of interest exceeding one year are hedged with Interest Rate Swaps.

### (iv) Other Market Risks

The Group's assets are not traded. All material assets, excluding advances, are purchased with the intent that they are held to maturity. Therefore, unless sold as part of liquidity management, the Group would not be affected by any changes in the market value of these assets. The only exposure the Group has to derivative arrangements in the ordinary course of business is to manage interest rate risk by way of interest rate swap contracts.

## (b) Quantitative Disclosures

### (i) Credit Risk

Credit Risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit Risk is controlled through risk assessment, the credit approval process and holding appropriate collateral.

Risk assessment is based on the degree of risk of financial loss faced. An authorisation structure for the approval and renewal of credit facilities is in place, whereby authorisation limits are allocated to management and larger facilities require approval from the Board of Directors.

Collateral held includes registered mortgages and personal property charges. Group policy stipulates minimum levels of collateral in accordance with the assessed level of risk associated with each facility.

The amount that best represents the Group's maximum credit risk exposure is the book value of loans (including existing approved credit limits and interest accrued) and liquid investments. As at 30 September 2011, these items amounted to \$100,501,000 (30/9/10 \$110,884,000; 31/3/11 \$105,357,000; 31/3/10 \$116,568,000).

The Group's significant concentration of risk is the Wairarapa mortgage market as shown in the table below.

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
<b>Analysis of the Risk is as Below:</b>				
Residential Lending	42,496	59,314	43,328	60,266
Commercial Lending	37,545	41,976	42,434	37,265
Farm Lending	2,055	1,671	1,927	1,753
<b>Concentration of Credit Risk:</b>				
Lending:	%	%	%	%
Within the Wairarapa	92	94	90	94
Outside the Wairarapa	8	6	10	6
<b>Percentage of Equity</b>				
Between 10 and 20	4	5	6	3
Between 20 and 30	1	3	2	2
Between 90 and 100	-	1	-	1

The Group's six largest Debtors together owe 17.78% (30/9/10 29.82%; 31/3/11 16.54%; 31/3/10 26.46%) of Monetary Assets Receivable. The Group recognises this concentration of risk, has applied its normal risk management criteria, and is satisfied with the result.

## Financial Instruments (continued)

### Past Due

The status of loans and advances at the reporting date is as follows:

	Unaudited		Unaudited		Audited		Audited	
	Gross Loans & Advances 30/9/11 \$000	Impaired Loans 30/9/11 \$000	Gross Loans & Advances 30/9/10 \$000	Impaired Loans 30/9/10 \$000	Gross Loans & Advances 31/3/11 \$000	Impaired Loans 31/3/11 \$000	Gross Loans & Advances 31/3/10 \$000	Impaired Loans 31/3/10 \$000
<b>Loans and Advances</b>								
Not Past Due	80,850	-	101,769	-	86,969	-	97,588	-
Past due but not Impaired								
0-30 days	828	-	231	-	75	-	69	-
Past due but not Impaired								
31-90 days	213	-	438	-	193	-	1,364	-
Past due but not Impaired								
91-120 days	205	-	159	-	157	-	-	-
Past due but not Impaired								
121-360 days	-	-	114	-	-	-	113	-
Impaired Loan due more than 1 year	-	-	-	250	-	295	-	150
<b>Total</b>	<b>82,096</b>	<b>-</b>	<b>102,711</b>	<b>250</b>	<b>87,394</b>	<b>295</b>	<b>99,134</b>	<b>150</b>

During the period ended 30 September 2011 loans and advances to the value of \$771,000 were renegotiated (30/9/10 \$117,000; 31/3/11 \$517,000; 31/3/10 \$655,000) and \$Nil restructured (30/9/10 \$Nil; 31/3/11 \$Nil; 31/3/10 \$Nil).

### (ii) Liquidity risk

The Group also maintains a portfolio of liquid assets together with committed external borrowing lines.

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
Total Available Liquid Funds are:				
Liquid Investments	14,150	118	11,200	6,975
Committed Undrawn Borrowing Line	18,000	20,500	24,000	24,000
Bank/(Overdraft) and Cash	175	84	194	157
	<b>32,325</b>	<b>20,702</b>	<b>35,394</b>	<b>31,132</b>
The Group funding is sourced from:	%	%	%	%
Funding from within the Wairarapa	96	96	96	96
Funding from outside the Wairarapa	4	4	4	4
	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

The following table sets out a maturity analysis of the undiscounted contractual cash flows for all financial assets and liabilities prepared on the basis of the remaining period to contractual maturity as at balance date. It is shown on an undiscounted cash flow basis as this is considered the most meaningful and useful to users.

We show two Maturity tables, one Contractual and the other Expected. The Contractual table is based on a strict interpretation of the contractual obligations of the counterparties for both funding and lending and is prepared on a gross undiscounted basis. In other words, all funds invested are withdrawn on maturity and all loans go for the full contractual term.

The second maturity table shows Expected cash flows from funding and lending based on historical trend. In the last six years, the Group has on average had 35% of its loan book repaid annually. In the last year it has successfully retained 90.56% of all maturing invested funds. The table reflects this experience.

## Financial Instruments (continued)

<b>Contractual - Unaudited</b>	6 Months or Less *	6-12 Months	1-2 Years	2-5 Years	More than 5 Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>30 September 2011</b>						
<b>Assets</b>						
Cash on Hand	72	-	-	-	-	72
Bank	103	-	-	-	-	103
Liquid Investments	14,150	-	-	-	-	14,150
Prepayments	93	-	-	-	-	93
Trade and Other Receivables	308	-	-	-	-	308
Loans	13,152	6,930	15,901	27,626	80,131	143,740
Interest Accrued	1	-	-	-	-	1
<b>Total Financial Assets</b>	<b>27,879</b>	<b>6,930</b>	<b>15,901</b>	<b>27,626</b>	<b>80,131</b>	<b>158,467</b>
<b>Liabilities</b>						
Trade and Other Payables	1,298	-	-	-	-	1,298
Derivative Financial Instruments	250	-	-	-	-	250
Redeemable Shares & Deposits	74,908	15,588	150	31	-	90,677
<b>Total Financial Liabilities</b>	<b>76,456</b>	<b>15,588</b>	<b>150</b>	<b>31</b>	<b>-</b>	<b>92,225</b>
<b>Net Liquidity (Gap)/Surplus</b>	<b>(48,577)</b>	<b>(8,658)</b>	<b>15,751</b>	<b>27,595</b>	<b>80,131</b>	<b>66,242</b>

\* 0 – 6 months includes on-call amounts of Redeemable Shares of \$7,100,000 and Deposits from customers of \$9,555,000.

<b>Expected - Unaudited</b>	6 Months or Less *	6-12 Months	1-2 Years	2-5 Years	More than 5 Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>30 September 2011</b>						
<b>Assets</b>						
Cash on Hand	72	-	-	-	-	72
Bank	103	-	-	-	-	103
Liquid Investments	14,150	-	-	-	-	14,150
Prepayments	93	-	-	-	-	93
Trade and Other Receivables	308	-	-	-	-	308
Loans	13,152	6,930	15,901	65,746	-	101,729
Interest Accrued	1	-	-	-	-	1
<b>Total Financial Assets</b>	<b>27,879</b>	<b>6,930</b>	<b>15,901</b>	<b>65,746</b>	<b>-</b>	<b>116,456</b>
<b>Liabilities</b>						
Trade and Other Payables	1,298	-	-	-	-	1,298
Derivative Financial Instruments	250	-	-	-	-	250
Redeemable Shares & Deposits	7,491	1,559	15	3	81,609	90,677
<b>Total Financial Liabilities</b>	<b>9,039</b>	<b>1,559</b>	<b>15</b>	<b>3</b>	<b>81,609</b>	<b>92,225</b>
<b>Net Liquidity (Gap)/Surplus</b>	<b>18,840</b>	<b>5,371</b>	<b>15,886</b>	<b>65,743</b>	<b>(81,609)</b>	<b>24,231</b>

### Financial Instruments (continued)

<b>Contractual - Unaudited</b>	6 Months or Less *	6-12 Months	1-2 Years	2-5 Years	More than 5 Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>30 September 2010</b>						
<b>Assets</b>						
Cash on Hand	118	-	-	-	-	118
Bank	84	-	-	-	-	84
Liquid Investments	-	-	-	-	-	-
Prepayments	107	-	-	-	-	107
Trade and Other Receivables	58	-	-	-	-	58
Loans	17,034	9,560	15,453	28,910	121,458	192,415
Interest Accrued	13	-	-	-	-	13
<b>Total Financial Assets</b>	<b>17,414</b>	<b>9,560</b>	<b>15,453</b>	<b>28,910</b>	<b>121,458</b>	<b>192,795</b>
<b>Liabilities</b>						
Trade and Other Payables	1,258	-	-	-	-	1,258
Derivative Financial Instruments	663	-	-	-	-	663
Redeemable Shares & Deposits	83,347	10,365	662	10	-	94,384
<b>Total Financial Liabilities</b>	<b>85,268</b>	<b>10,365</b>	<b>662</b>	<b>10</b>	<b>-</b>	<b>96,305</b>
<b>Net Liquidity (Gap)/Surplus</b>	<b>(67,854)</b>	<b>(805)</b>	<b>14,791</b>	<b>28,900</b>	<b>121,458</b>	<b>96,490</b>

\* 0 – 6 months includes on-call amounts of Redeemable Shares of \$5,786,000 and Deposits from customers of \$12,674,000.

<b>Expected - Unaudited</b>	6 Months or Less *	6-12 Months	1-2 Years	2-5 Years	More than 5 Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>30 September 2010</b>						
<b>Assets</b>						
Cash on Hand	118	-	-	-	-	118
Bank	84	-	-	-	-	84
Liquid Investments	-	-	-	-	-	-
Prepayments	107	-	-	-	-	107
Trade and Other Receivables	58	-	-	-	-	58
Loans	15,916	9,032	11,737	88,886	-	125,571
Interest Accrued	-	-	-	-	-	-
<b>Total Financial Assets</b>	<b>16,283</b>	<b>9,032</b>	<b>11,737</b>	<b>88,886</b>	<b>-</b>	<b>125,938</b>
<b>Liabilities</b>						
Trade and Other Payables	1,258	-	-	-	-	1,258
Derivative Financial Instruments	663	-	-	-	-	663
Redeemable Shares & Deposits	11,668	1,451	93	1	81,171	94,384
<b>Total Financial Liabilities</b>	<b>13,359</b>	<b>1,451</b>	<b>93</b>	<b>1</b>	<b>81,171</b>	<b>96,305</b>
<b>Net Liquidity (Gap)/Surplus</b>	<b>2,694</b>	<b>7,581</b>	<b>11,644</b>	<b>88,885</b>	<b>(81,171)</b>	<b>29,633</b>

## Financial Instruments (continued)

<b>Contractual - Audited</b>	6 Months or Less *	6-12 Months	1-2 Years	2-5 Years	More than 5 Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>31 March 2011</b>						
<b>Assets</b>						
Cash on Hand	129	-	-	-	-	129
Bank	65	-	-	-	-	65
Liquid Investments	7,200	4,000	-	-	-	11,200
Prepayments	49	-	-	-	-	49
Trade and Other Receivables	404	-	-	-	-	404
Loans	18,002	8,380	13,053	25,126	89,171	153,732
Interest Accrued	1	-	-	-	-	1
<b>Total Financial Assets</b>	<b>25,850</b>	<b>12,380</b>	<b>13,053</b>	<b>25,126</b>	<b>89,171</b>	<b>165,580</b>
<b>Liabilities</b>						
Trade and Other Payables	1,246	-	-	-	-	1,246
Derivative Financial Instruments	505	-	-	-	-	505
Redeemable Shares & Deposits	74,748	17,008	1,180	31	-	92,967
<b>Total Financial Liabilities</b>	<b>76,499</b>	<b>17,008</b>	<b>1,180</b>	<b>31</b>	<b>-</b>	<b>94,718</b>
<b>Net Liquidity (Gap)/Surplus</b>	<b>(50,649)</b>	<b>(4,628)</b>	<b>11,873</b>	<b>25,095</b>	<b>89,171</b>	<b>70,862</b>

\* 0 – 6 months includes on-call amounts of Redeemable Shares of \$5,764,000 and Deposits from customers of \$9,818,000.

<b>Expected - Audited</b>	6 Months or Less *	6-12 Months	1-2 Years	2-5 Years	More than 5 Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>31 March 2011</b>						
<b>Assets</b>						
Cash on Hand	129	-	-	-	-	129
Bank	65	-	-	-	-	65
Liquid Investments	7,200	4,000	-	-	-	11,200
Prepayments	49	-	-	-	-	49
Trade and Other Receivables	404	-	-	-	-	404
Loans	18,002	8,380	13,053	69,866	-	109,301
Interest Accrued	1	-	-	-	-	1
<b>Total Financial Assets</b>	<b>25,850</b>	<b>12,380</b>	<b>13,053</b>	<b>69,866</b>	<b>-</b>	<b>121,149</b>
<b>Liabilities</b>						
Trade and Other Payables	1,246	-	-	-	-	1,246
Derivative Financial Instruments	505	-	-	-	-	505
Redeemable Shares & Deposits	8,969	2,040	141	4	81,813	92,967
<b>Total Financial Liabilities</b>	<b>10,720</b>	<b>2,040</b>	<b>141</b>	<b>4</b>	<b>81,813</b>	<b>94,718</b>
<b>Net Liquidity (Gap)/Surplus</b>	<b>15,130</b>	<b>10,340</b>	<b>12,912</b>	<b>69,862</b>	<b>(81,813)</b>	<b>26,431</b>

### Financial Instruments (continued)

<b>Contractual - Audited</b>	6 Months or Less *	6-12 Months	1-2 Years	2-5 Years	More than 5 Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>31 March 2010</b>						
<b>Assets</b>						
Cash on Hand	78	-	-	-	-	78
Bank	79	-	-	-	-	79
Liquid Investments	6,975	-	-	-	-	6,975
Prepayments	49	-	-	-	-	49
Trade and Other Receivables	31	-	-	-	-	31
Loans	18,120	7,026	13,472	24,569	121,221	184,408
Interest Accrued	13	-	-	-	-	13
<b>Total Financial Assets</b>	<b>25,345</b>	<b>7,026</b>	<b>13,472</b>	<b>24,569</b>	<b>121,221</b>	<b>191,633</b>
<b>Liabilities</b>						
Trade and Other Payables	1,322	-	-	-	-	1,322
Derivative Financial Instruments	817	-	-	-	-	817
Redeemable Shares & Deposits	87,533	7,403	1,609	386	-	96,931
<b>Total Financial Liabilities</b>	<b>89,672</b>	<b>7,403</b>	<b>1,609</b>	<b>386</b>	<b>-</b>	<b>99,070</b>
<b>Net Liquidity (Gap)/Surplus</b>	<b>(64,327)</b>	<b>(377)</b>	<b>11,863</b>	<b>24,183</b>	<b>121,221</b>	<b>92,563</b>

\* 0 – 6 months includes on-call amounts of Redeemable Shares of \$5,418,000 and Deposits from customers of \$9,897,000.

<b>Expected - Audited</b>	6 Months or Less *	6-12 Months	1-2 Years	2-5 Years	More than 5 Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>31 March 2010</b>						
<b>Assets</b>						
Cash on Hand	78	-	-	-	-	78
Bank	79	-	-	-	-	79
Liquid Investments	6,975	-	-	-	-	6,975
Prepayments	49	-	-	-	-	49
Trade and Other Receivables	31	-	-	-	-	31
Derivative financial Instruments	14	-	-	-	-	14
Loans	18,120	7,026	13,472	82,939	-	121,557
Interest Accrued	13	-	-	-	-	13
<b>Total Financial Assets</b>	<b>25,359</b>	<b>7,026</b>	<b>13,472</b>	<b>82,939</b>	<b>-</b>	<b>128,796</b>
<b>Liabilities</b>						
Trade and Other Payables	1,322	-	-	-	-	1,322
Derivative Financial Instruments	817	-	-	-	-	817
Redeemable Shares & Deposits	12,255	1,036	225	54	83,361	96,931
<b>Total Financial Liabilities</b>	<b>14,394</b>	<b>1,036</b>	<b>225</b>	<b>54</b>	<b>83,361</b>	<b>99,070</b>
<b>Net Liquidity (Gap)/Surplus</b>	<b>10,965</b>	<b>5,990</b>	<b>13,247</b>	<b>82,885</b>	<b>(83,361)</b>	<b>29,726</b>

\* 0 – 6 months includes on-call amounts of Redeemable Shares of \$5,418,000 and Deposits from customers of \$9,897,000.

## Financial Instruments (continued)

### (iii) Interest Rate Risk – Repricing Analysis

The interest rate repricing analysis provides information about the Group's exposure to interest rate risk and has been prepared on the basis of the earliest of contractual maturity or the next repricing date.

<b>Unaudited</b>	6 Months or Less \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	More than 5 Years \$000	Total \$000
<b>30 September 2011</b>						
<b>Financial Assets</b>						
Cash on Hand	72	-	-	-	-	72
Bank	103	-	-	-	-	103
Liquid Investments	14,150	-	-	-	-	14,150
Prepayments	93	-	-	-	-	93
Trade and Other Receivables	308	-	-	-	-	308
Loans	76,180	2,845	958	2,113	-	82,096
Accrued Interest	1	-	-	-	-	1
<b>Total</b>	<b>90,907</b>	<b>2,845</b>	<b>958</b>	<b>2,113</b>	<b>-</b>	<b>96,823</b>
<b>Financial Liabilities</b>						
Trade and Other Payables	1,298	-	-	-	-	1,298
Redeemable Shares and Deposits	74,908	15,588	150	31	-	90,677
<b>Total</b>	<b>76,206</b>	<b>15,588</b>	<b>150</b>	<b>31</b>	<b>-</b>	<b>91,975</b>
<b>Net On Balance Sheet Position</b>	<b>14,701</b>	<b>(12,743)</b>	<b>808</b>	<b>2,082</b>	<b>-</b>	<b>4,848</b>
<b>Off Balance Sheet</b>						
Interest Rate Swaps	3,580	(1,790)	(500)	(1,290)	-	-
<b>Net Position</b>	<b>18,281</b>	<b>(14,533)</b>	<b>308</b>	<b>792</b>	<b>-</b>	<b>4,848</b>
<b>Unaudited</b>	6 Months or Less \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	More than 5 Years \$000	Total \$000
<b>30 September 2010</b>						
<b>Financial Assets</b>						
Cash on Hand	118	-	-	-	-	118
Bank	84	-	-	-	-	84
Liquid Investments	-	-	-	-	-	-
Prepayments	107	-	-	-	-	107
Trade and Other Receivables	58	-	-	-	-	58
Tax Refund Due	-	11	-	-	-	11
Loans	84,950	5,053	10,083	2,875	-	102,961
Accrued Interest	-	-	-	-	-	-
<b>Total</b>	<b>85,317</b>	<b>5,064</b>	<b>10,083</b>	<b>2,875</b>	<b>-</b>	<b>103,339</b>
<b>Financial Liabilities</b>						
Trade and Other Payables	1,258	-	-	-	-	1,258
Redeemable Shares and Deposits	83,347	10,365	662	10	-	94,384
<b>Total</b>	<b>84,605</b>	<b>10,529</b>	<b>662</b>	<b>10</b>	<b>-</b>	<b>95,642</b>
<b>Net On Balance Sheet Position</b>	<b>712</b>	<b>(5,301)</b>	<b>9,421</b>	<b>2,865</b>	<b>-</b>	<b>7,697</b>
<b>Off Balance Sheet</b>						
Interest Rate Swaps	15,625	(2,590)	(9,120)	(3,915)	-	-
<b>Net Position</b>	<b>16,337</b>	<b>(7,891)</b>	<b>301</b>	<b>(1,050)</b>	<b>-</b>	<b>7,697</b>

## Financial Instruments (continued)

<b>Audited</b>	6 Months or Less \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	More than 5 Years \$000	Total \$000
<b>31 March 2011</b>						
<b>Financial Assets</b>						
Cash on Hand	129	-	-	-	-	129
Bank	65	-	-	-	-	65
Liquid Investments	7,200	4,000	-	-	-	11,200
Prepayments	49	-	-	-	-	49
Trade and Other Receivables	404	-	-	-	-	404
Loans	74,141	7,725	3,546	2,277	-	87,689
Accrued Interest	1	-	-	-	-	1
<b>Total</b>	<b>81,989</b>	<b>11,725</b>	<b>3,546</b>	<b>2,277</b>	<b>-</b>	<b>99,537</b>
<b>Financial Liabilities</b>						
Trade and Other Payables	1,246	-	-	-	-	1,246
Redeemable Shares and Deposits	74,748	17,008	1,180	31	-	92,967
<b>Total</b>	<b>75,994</b>	<b>17,008</b>	<b>1,180</b>	<b>31</b>	<b>-</b>	<b>94,213</b>
<b>Net On Balance Sheet Position</b>	<b>5,995</b>	<b>(5,283)</b>	<b>2,366</b>	<b>2,246</b>	<b>-</b>	<b>5,324</b>
<b>Off Balance Sheet</b>						
Interest Rate Swaps	11,245	(7,330)	(2,325)	(1,590)	-	-
<b>Net Position</b>	<b>17,240</b>	<b>(12,613)</b>	<b>41</b>	<b>656</b>	<b>-</b>	<b>5,324</b>

<b>Audited</b>	6 Months or Less \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	More than 5 Years \$000	Total \$000
<b>31 March 2010</b>						
<b>Financial Assets</b>						
Cash on Hand	78	-	-	-	-	78
Bank	79	-	-	-	-	79
Liquid Investments	6,975	-	-	-	-	6,975
Prepayments	49	-	-	-	-	49
Trade and Other Receivables	31	-	-	-	-	31
Loans	78,904	3,671	11,074	5,635	-	99,284
Accrued Interest	13	-	-	-	-	13
<b>Total</b>	<b>86,129</b>	<b>3,671</b>	<b>11,074</b>	<b>5,635</b>	<b>-</b>	<b>106,509</b>
<b>Financial Liabilities</b>						
Trade and Other Payables	1,322	-	-	-	-	1,322
Redeemable Shares and Deposits	87,533	7,403	1,609	386	-	96,931
<b>Total</b>	<b>88,855</b>	<b>7,403</b>	<b>1,609</b>	<b>386</b>	<b>-</b>	<b>98,253</b>
<b>Net On Balance Sheet Position</b>	<b>(2,726)</b>	<b>(3,732)</b>	<b>9,465</b>	<b>5,249</b>	<b>-</b>	<b>8,256</b>
<b>Off Balance Sheet</b>						
Interest Rate Swaps	15,770	(1,125)	(10,730)	(3,915)	-	-
<b>Net Position</b>	<b>13,044</b>	<b>(4,857)</b>	<b>(1,265)</b>	<b>1,334</b>	<b>-</b>	<b>8,256</b>

## Financial Instruments (continued)

### (iv) Capital Management

The Group's capital includes capital shares, reserves and retained earnings.

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 Group is subject to externally imposed capital requirements via its Trust Deed. The minimum required capital is 7%. As at 30 September 2011 the Group has capital of 14.34%.

The allocation of capital between its specific business segments' operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors. There have been no material changes in the Group's management of capital during the year.

### (v) Sensitivity Analysis

#### Cash Flow Sensitivity Analysis

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuation on the Group's earnings. Over the longer term, however, permanent changes in interest rates may have an impact on profit.

A change in interest rates would impact on interest payments and receipts on the Group's floating rate assets and liabilities. Accordingly, the one-year cash flow sensitivity to a 1% movement in interest rates (based on the assets and liabilities held at balance date) is as follows (interest rate swaps have been included in this calculation):

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	31/3/11 Impact on Profit & Loss	31/3/10 Impact on Profit & Loss
1% Increase in Interest Rates	272,512	259,212	342,878	215,081
1% Decrease in Interest Rates	(272,512)	(259,212)	(342,878)	(215,081)

### (vi) Hedging

#### Interest Rate Hedges

The Group has a policy of ensuring that it materially hedges all exposure to changes in interest rates on fixed rate advances beyond one year. Interest rate swaps, denominated in New Zealand dollars, have been entered to achieve the Group's policy. The swaps mature over the next 4 years matching the maturity of the related loans and have fixed swap rates ranging from 4.35% to 8.26% (30/9/10 4.05% to 8.46%; 31/3/11 4.05% to 8.26%; 31/3/10 4.05% to 8.46%). At 30 September 2011, the Group had interest rate swaps with a notional contract amount of \$8,170,000 (30/9/10 \$14,960,000; 31/3/11 \$13,835,000; 31/3/10 \$20,080,000). The Group classifies interest rate swaps as fair value hedges.

The net fair value of swaps at 30 September 2011 was negative \$250,000 (30/9/10 negative \$663,000; 31/3/11 negative \$505,000; 31/3/10 negative \$803,000) comprising assets of \$Nil (30/9/10 \$Nil; 31/3/11 \$Nil; 31/3/10 \$14,000) and liabilities of \$250,000 (30/9/10 \$663,000; 31/3/11 \$505,000; 31/3/10 \$817,000).

Hedge ineffectiveness as at 30 September 2011 amounted to \$Nil (30/9/10 \$Nil; 31/3/11 \$ Nil; 31/3/10 \$Nil).

## Financial Instruments (continued)

### (vii) Accounting Classifications and Fair Values

<b>Unaudited</b>	Designated at Fair Value \$000	Loans and Receivables \$000	Available for Sale \$000	Other Amortised Cost \$000	Total Carrying Amount \$000	Fair Value \$000
<b>30 September 2011</b>						
<b>Assets</b>						
Cash on Hand	-	72	-	-	72	72
Bank	-	103	-	-	103	103
Liquid Investments	-	3,150	11,000	-	14,150	14,150
Trade & Other Receivables	-	308	-	-	308	308
Loans	-	82,096	-	-	82,096	82,096
Accrued Interest	-	145	-	-	145	145
<b>Total</b>	<b>-</b>	<b>85,874</b>	<b>11,000</b>	<b>-</b>	<b>96,874</b>	<b>96,874</b>
<b>Liabilities</b>						
Derivative Financial Instruments	250	-	-	-	250	250
Trade & Other Payables	-	-	-	1,298	1,298	1,298
Redeemable Shares and Deposits	-	-	-	90,677	90,677	90,677
<b>Total</b>	<b>250</b>	<b>-</b>	<b>-</b>	<b>91,975</b>	<b>92,225</b>	<b>92,225</b>

<b>Unaudited</b>	Designated at Fair Value \$000	Loans and Receivables \$000	Available for Sale \$000	Other Amortised Cost \$000	Total Carrying Amount \$000	Fair Value \$000
<b>30 September 2010</b>						
<b>Assets</b>						
Cash on Hand	-	118	-	-	118	118
Bank	-	84	-	-	84	84
Liquid Investments	-	-	-	-	-	-
Trade & Other Receivables	-	165	-	-	165	165
Loans	-	102,961	-	-	102,961	102,961
Accrued Interest	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>103,328</b>	<b>-</b>	<b>-</b>	<b>103,328</b>	<b>103,328</b>
<b>Liabilities</b>						
Derivative Financial Instruments	663	-	-	-	663	663
Trade & Other Payables	-	-	-	1,258	1,258	1,258
Redeemable Shares and Deposits	-	-	-	94,384	94,384	94,384
<b>Total</b>	<b>663</b>	<b>-</b>	<b>-</b>	<b>95,642</b>	<b>96,305</b>	<b>96,305</b>

## Financial Instruments (continued)

<b>Audited</b>	Designated at Fair Value \$000	Loans and Receivables \$000	Available for Sale \$000	Other Amortised Cost \$000	Total Carrying Amount \$000	Fair Value \$000
<b>31 March 2011</b>						
<b>Assets</b>						
Cash on Hand	-	129	-	-	129	129
Bank	-	65	-	-	65	65
Liquid Investments	-	11,200	-	-	11,200	11,200
Trade & Other Receivables	-	404	-	-	404	404
Loans	-	87,689	-	-	87,689	87,689
Accrued Interest	-	1	-	-	1	1
<b>Total</b>	<b>-</b>	<b>99,488</b>	<b>-</b>	<b>-</b>	<b>99,488</b>	<b>99,488</b>
<b>Liabilities</b>						
Trade & Other Payables	-	-	-	1,246	1,246	1,246
Derivative Financial Instruments	505	-	-	-	505	505
Redeemable Shares and Deposits	-	-	-	92,967	92,967	92,967
<b>Total</b>	<b>505</b>	<b>-</b>	<b>-</b>	<b>94,213</b>	<b>94,718</b>	<b>94,718</b>

<b>Audited</b>	Designated at Fair Value \$000	Loans and Receivables \$000	Available for Sale \$000	Other Amortised Cost \$000	Total Carrying Amount \$000	Fair Value \$000
<b>31 March 2010</b>						
<b>Assets</b>						
Cash on Hand	-	78	-	-	78	78
Bank	-	79	-	-	79	79
Liquid Investments	-	3,000	3,975	-	6,975	6,975
Trade & Other Receivables	-	31	-	-	31	31
Derivative Financial Instruments	14	-	-	-	14	14
Loans	-	99,284	-	-	99,284	99,284
Accrued Interest	-	13	-	-	13	13
<b>Total</b>	<b>14</b>	<b>102,485</b>	<b>3,975</b>	<b>-</b>	<b>106,474</b>	<b>106,474</b>
<b>Liabilities</b>						
Trade & Other Payables	-	-	-	1,322	1,322	1,322
Derivative Financial Instruments	817	-	-	-	817	817
Redeemable Shares and Deposits	-	-	-	96,931	96,931	96,931
<b>Total</b>	<b>817</b>	<b>-</b>	<b>-</b>	<b>98,253</b>	<b>99,070</b>	<b>99,070</b>

Fair value hierarchy. Derivatives are valued using valuation models based on observable market inputs (level 2 inputs). For liquid investments classified as available for sale, fair values considered to be represented by the amortised cost of the investment as they are short term in nature and there has been no significant change in credit risk.

## 21. Contractual Commitments

WBS's commitment in respect of loans and advances approved but still awaiting settlement and undrawn facilities/limits as at 30 September 2011 totalled \$4,110,000 (30/9/10 \$7,682,000; 31/3/11 \$6,468,000; 31/3/10 \$10,309,000).

## 22. Contingencies

The Group has no material contingent liabilities at reporting date (30/9/10 \$Nil; 31/3/11 \$Nil; 31/3/10 \$Nil).

## 23. Reconciliation of the Profit for the Period with the Net Cash Flows from Operating Activities

	Unaudited 30/9/11 \$000	Unaudited 30/9/10 \$000	Audited 31/3/11 \$000	Audited 31/3/10 \$000
Profit/(Loss) for the Year	186	(1,972)	(851)	45
Adjustments for:				
Bad Debts Provision	-	105	179	508
Depreciation	26	33	71	73
Loss on Sale of Investment Property	-	-	30	-
Change in Fair Value of Investment Property	-	-	565	(141)
Accrued Income	(151)	3	(2)	2
Accrued Expenses	3	29	(33)	(29)
Change in Trade and Other Receivables	50	(27)	(53)	(19)
Change in Prepayments	(44)	(58)	(79)	(7)
Change in Trade and Other Payables	54	(93)	32	(37)
Change in Current Tax Liabilities/(Assets)	(38)	(46)	3	58
Change in Deferred Tax Liabilities/(Assets)	(89)	(1,975)	298	(156)
<b>Net Cash from Operating Activities</b>	<b>3</b>	<b>(51)</b>	<b>160</b>	<b>297</b>

## 24. Related Parties

### Parent and Ultimate Controlling Party

The ultimate controlling entity in the Group is Wairarapa Building Society.

### Loans to Directors

Additional loan facilities issued to Directors, Key Management Personnel and their associated Companies during the period ended 30 September 2011 amounted to \$Nil (30/9/10 \$Nil; 31/3/11 \$Nil; 31/3/10 \$20,000). All loans are made on an "arms length" basis and at market rates. The loans are repayable by 31 December 2030 and are secured by registered mortgage. At 30 September 2011 the total balance of outstanding loans was \$722,204 (30/9/10 \$832,000; 31/3/11 \$819,683; 31/3/10 \$885,000). These loan facilities are included in loans and advances recorded by the Group (see note 14).

## 25. Controlled entities

Controlled entities	Ownership interest %	Balance date	Nature of business
Wairarapa Property Investments Limited	100%	31 March	Property investment
Manawatu Permanent Building Society	100%	31 March	Property investment
Perry Street Properties Limited	100%	31 March	Property investment

## 26. Key Management Personnel Compensation

Key Management Personnel short term employee benefits amounted to \$259,500 for the period ended 30 September 2011 (30/9/10 \$258,000; 31/3/11 \$517,000; 31/3/10 \$599,000). There were no other benefits paid to Key Management Personnel.

## 27. Subsequent Events

There have been no events subsequent to balance date that would have a material impact on the financial statements or the operation of the Group.