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**MEMORANDUM OF AMENDMENTS TO REGISTERED PROSPECTUS NO 44 OF  
SOUTHERN CROSS BUILDING SOCIETY**

**DATED 29 JUNE 2010**

**1. INTRODUCTION**

The registered prospectus number 44 for an offer of at-call and fixed term unsecured deposits or money with Southern Cross Building Society dated 30 September (as amended by Memorandum of Amendments date 21 December 2009) (the "Prospectus") is further amended in accordance with this memorandum of amendments.

Capitalised terms not specifically defined in this memorandum of amendments have the meaning given to them in the Prospectus.

**2. AMENDMENTS**

1. On the front cover page of the Prospectus the words "*as amended by a Memorandum of Amendments dated 21 December 2009*" are deleted and replaced with "*as amended by Memoranda of Amendments dated 21 December 2009 and 29 June 2010*"
2. On page 2 of the Prospectus, the table of contents under the heading "**Second Schedule**" is deleted in its entirety and replaced with the following:

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3. On page 3 of the Prospectus the words "*as amended by a Memorandum of Amendments dated 21 December 2009*" are deleted and replaced with "*as amended by Memoranda of Amendments dated 21 December 2009 and 29 June 2010*" at the top of the page

4. On page 3 of the Prospectus the page reference of "21" is deleted and replaced with "25" under the heading "**Definitions**"
5. On page 3 of the Prospectus the words "*as amended by a Memorandum of Amendments dated 21 December 2009*" are deleted and replaced with "*as amended by Memoranda of Amendments dated 21 December 2009 and 29 June 2010*" under the heading "**Date**"
6. On page 3 of the Prospectus the page reference of "16" is deleted and replaced with "18" under the heading "**Important Information**"
7. On page 3 of the Prospectus the words "*This is the first credit rating awarded to a building society in New Zealand by Standard & Poor's.*" are deleted and replaced with "*For further information about the Society's credit rating see page 21.*" under the item titled "**Credit Rating**" under the heading "**Investment Highlights**"
8. On page 3 of the Prospectus the words "*The Society's Deposits are currently guaranteed under the New Zealand Deposit Guarantee Scheme which will continue until 12 October 2010. The Society is eligible to participate in the Retail Deposit Guarantee Scheme Extension announced by the Minister of Finance on 25 August 2009 ("Extended Guarantee"). As at the date of this Prospectus, the Society has yet to determine whether it will participate in the Extended Guarantee.*" are deleted and replaced with "*The Society has a guarantee under a Crown Retail Deposit Guarantee Scheme, being a guarantee that expires on 31 December 2011. The Society may offer Deposits with or without the benefit of this guarantee. Further information about the implications of investing in Guaranteed Term Deposits and Guaranteed Call Deposits or Non-Guaranteed Term Deposits and Non-Guaranteed At Call Deposits see pages 6 to 7*" under the item titled "**Crown Retail Deposit Guarantee Scheme**" under the heading "**Investment Highlights**".
9. On page 3 of the Prospectus an item titled "**Merger Proposal**" is inserted after the item titled "**Crown Retail Deposit Guarantee Scheme**" and before the item titled "**Established financial institution**" under the heading "**Investment Highlights**"
10. On page 3 of the Prospectus the words "*On 1 June 2010 the Society signed a Memorandum of Understanding with Canterbury Building Society and Pyne Gould Corporation Limited relating to a proposal to merge their respective financial services activities and to ultimately become a registered bank (none of the merger participants are currently registered banks). For further information concerning the proposed merger, see page 21*" are inserted under a newly created item titled "**Merger Proposal**" under the heading "**Investment Highlights**"
11. On page 4 of the Prospectus the page reference of "16" is deleted and replaced with "19" under the item titled "**Liquidity**" under the heading "**Investment Highlights**"

12. On page 4 of the Prospectus the page references of "14 to 16" are deleted and replaced with "15 to 17" under the item titled "**Trustee Reporting**" under the heading "**Accountability and Reporting**"
13. On page 4 of the Prospectus the words "New Zealand" are deleted and replaced with "Crown Retail" under the third bullet point under the subheading titled "**Trustee Reporting**" under the heading "**Accountability and Reporting**"
14. On page 5 of the Prospectus, under the section titled "**Main Terms of Offer**" under the heading "**Statutory Information**", the subheading "**New Zealand Guarantee Scheme**" and the paragraph under that subheading are deleted in their entirety and replaced with the following:

***"Crown Retail Deposit Guarantee Scheme***

*The Society has a guarantee under a Crown Retail Deposit Guarantee Scheme, being a guarantee that expires on 31 December 2011 ("**Crown Guarantee**")."*

15. On page 5 of the Prospectus the words "and, in either case, may be offered with or without the benefit of the Crown Guarantee" are inserted after the words "for a fixed term" in the second paragraph under the section titled "**The Deposits**" under the section titled "**Main Terms of Offer**" under the heading "**Statutory Information**"
16. On page 6 of the Prospectus the word "deposit" is deleted and replaced with the word "Deposit" under the sub heading titled "**Term Deposits**" under the heading titled "**The Deposits**" under the section titled "**Main Terms of Offer**" under the heading "**Statutory Information**"
17. On page 6 of the Prospectus the section titled "**Guaranteed and Non-Guaranteed Deposits**" is inserted after the last paragraph in the section titled "**The Deposits**" and before the section titled "**Trust Deed**"
18. On page 6 of the Prospectus the following words are inserted after the newly created section titled "**Guaranteed and Non-Guaranteed Deposits**":

*"The Society may offer investors the choice of investing in Deposits with or without the benefit of the Crown Guarantee, as set out below.*

*Guaranteed Term Deposits and Guaranteed At Call Deposits*

*"Guaranteed Term Deposits" and "Guaranteed At Call Deposits" are, respectively, Term Deposits and At Call Deposits offered by the Society which are covered by the Crown Guarantee, subject to the terms and conditions of the Crown Guarantee. Potential investors in Guaranteed Term Deposits or Guaranteed At Call Deposits should satisfy themselves that the Crown Guarantee applies to them.*

*If an investor subscribes for Guaranteed Term Deposits or Guaranteed At Call Deposits, then the Society's obligations under or in respect of that investment will be covered by the Crown Guarantee. If the Society*

*defaults on its obligations, an investor may be able to make a claim under the Crown Guarantee, subject to its terms.*

*Further detail regarding the Crown Guarantee is set out on pages 20 to 21.*

*Non-Guaranteed Term Deposits and Non-Guaranteed At Call Deposits*

***"Non-Guaranteed Term Deposits" and "Non-Guaranteed At Call Deposits" are, respectively, Term Deposits and At Call Deposits offered by the Society which are not covered by the guarantee given under the Crown Retail Deposit Guarantee Scheme.***

*Non-Guaranteed Term Deposits and Non-Guaranteed At Call Deposits are, in each case, an "excluded security" for the purposes of the Crown Deed of Guarantee. If an investor subscribes for Non-Guaranteed Term Deposits or Non-Guaranteed At Call Deposits, then none of the Society's obligations under or in respect of that investment will be covered by the Crown Guarantee.*

19. On page 6 of the Prospectus the page references of "14 to 16" are deleted and replaced with "15 to 17" under the item titled "**Trust Deed**" under the section titled "**Main Terms of Offer**" under the heading "**Statutory Information**"
20. On page 6 of the Prospectus the page references of "70 to 71" are deleted and replaced with "74 to 75" under the item titled "**How to Invest**" under the section titled "**Main Terms of Offer**" under the heading "**Statutory Information**"
21. On page 6 of the Prospectus the page reference of "69" is deleted and replaced with "73" under the item titled "**How to Invest**" under the section titled "**Main Terms of Offer**" under the heading "**Statutory Information**"
22. On page 8 of the Prospectus the page reference of "9" is deleted and replaced with "11" under the item titled "**Purpose of the Offer**" under the section titled "**Main Terms of Offer**" under the heading "**Statutory Information**"
23. On page 8 of the Prospectus the section titled "**Credit Rating**" is inserted after the section titled "**Purpose of the Offer**"
24. On page 8 of the Prospectus the following words are inserted after the newly created section titled "**Credit Rating**":

*"The Society was issued a "BB" (with stable outlook) long term credit rating on 27 August 2009 by Standard & Poor's. For further information about the Society's credit rating see page 21."*

25. On page 8 of the Prospectus the title "**New Zealand Deposit Guarantee Scheme**" is deleted and replaced with the title "**New Zealand Deposit Guarantee Scheme**"

26. On page 8 of the Prospectus under the section now titled "**Credit Rating**" the four paragraphs below it are deleted in their entirety and replaced with the following:

**"Crown Retail Deposit Guarantee Scheme**

*The Society has a guarantee under a Crown Retail Deposit Guarantee Scheme, being a guarantee that expires on 31 December 2011.*

*The Crown Guarantee comprises:*

- A guarantee under the New Zealand Deposit Guarantee Scheme, which expires on 12 October 2010.*
- A guarantee under the Crown Retail Deposit Guarantee Scheme Act 2009, which commences on 12 October 2010 and expires on 31 December 2011.*

*Further details regarding the Crown Guarantee is set out of pages 20 to 21"*

27. On page 9 of the Prospectus the page reference of "69" is deleted and replaced with "73" under the section titled "**Directors**" under the heading "**Directorate and Advisors**"

28. On page 9 of the Prospectus the page reference of "69" is deleted and replaced with "73" under the section titled "**Advisors**" under the heading "**Directorate and Advisors**"

29. On page 9 of the Prospectus the page reference of "69" is deleted and replaced with "73" under the section titled "**Secretary**" under the heading "**Directorate and Advisors**"

30. On page 10 of the Prospectus the following words are inserted after the third paragraph of the section titled "**Activities of the Society**" under the heading "**Description of Activities of Borrowing Group**"

*"In June 2010, the Society entered into a non-binding Memorandum of Understanding with Canterbury Building Society and Pyne Gould Corporation Limited relating to a proposal to merge their respective financial services activities with a view to ultimately becoming a registered bank (none of the merger participants are currently registered banks). For further information concerning the proposed merger, see page 21"*

31. On page 13 of the Prospectus the two paragraphs under the heading titled "**Material Contracts**" are deleted and replaced with the following:

*"The Society and Her Majesty the Queen in right of New Zealand entered into a Crown Deed of Guarantee (Building Society/Credit Union) dated 21 November 2008. Pursuant to this deed the Crown guaranteed certain obligations of the Society for a period of two years from 12 October 2008. This is the only material contract (not being a contract entered into in the ordinary course of business) that was entered into by the Society and its Guaranteeing Subsidiaries in the two years preceding the date of this Prospectus (30 September 2009).*

*However, since the date of this Prospectus, the Society has entered into the following:*

- The Society and Her Majesty the Queen in right of New Zealand entered into a Crown Deed of Guarantee (Building Society/Credit Union) dated 9 December 2009. This deed replaced the existing Crown Deed of Guarantee referred to above from 1 January 2010 and has effect to 12.01am on 12 October 2010. This deed clarifies the operation of the Crown Guarantee imposes additional obligations on the Society and permits the offer of "excluded securities" that do not have the benefit of the guarantee (in this regard, the Non-Guaranteed At Call Deposits and Non-Guaranteed Term Deposits which may be offered under this Prospectus are "excluded securities).*
- The Society and Her Majesty the Queen in right of New Zealand entered into a Crown Deed of Guarantee (Building Society/Credit/Union) dated 28 May 2010. This Deed commences at 12.01am on 12 October 2010 and expires at 11.59pm on 31 December 2011"*

32. On page 13 of the Prospectus the words "0.30% to 0.90% per annum of total balance invested through an agent, depending on the commission structure applicable to that agent" are deleted and replaced with "0.40% to 0.70% per annum of total balance invested through an agent".

33. On page 14 of the Prospectus the page reference of "8" is deleted and replaced with "10" under subheading "**Guaranteeing Subsidiaries**" under the section titled "**Trust Deed**" under the heading "**Provisions of the Trust Deed and other restrictions on the Borrowing Group**"

34. On page 15 of the Prospectus the words "As at 29 June 2010, there is no expectation that an extension of the waiver will be sought." are inserted after the words "exposure to counterparties in regard to the Society's liquid assets." in the paragraph with the subheading "**Trustee Waiver**" under the section titled "**Trust Deed**" under the heading "**Provisions of the Trust Deed and other restrictions on the Borrowing Group**"

35. On page 16 of the Prospectus the page reference of "67" is deleted and replaced with "71" under the section titled "**Trustee's Statement**" under the heading "**Provisions of the Trust Deed and other restrictions on the Borrowing Group**"

36. On page 16 of the Prospectus the page references of "22 to 62" are deleted and replaced with "27 to 66" under the heading "**Financial Statements**"

37. On page 16 of the Prospectus the page reference of "69" is deleted and replaced with "73" under the heading "**Places of Inspection of Documents**"
38. On page 18 of the Prospectus the fourth paragraph after the subheading titled "**Liquidity Risk**" under the section titled "**Risks**" under the heading "**Other Material Matters**" is deleted in its entirety
39. On page 18 of the Prospectus the word "NBDT's" is deleted and replaced with ""**NBDT**"" under the first paragraph under the sub heading titled "**Regulatory environment**" under the section titled "**Risks**" under the heading "**Other Material Matters**"
40. On page 18 of the Prospectus the words "(for further information see pages 21 to 23)" are inserted after the words "This is the first credit rating awarded to a building society in New Zealand by Standard & Poor's" in the third paragraph under the sub heading titled "**Regulatory environment**" under the section titled "**Risks**" under the heading "**Other Material Matters**"
41. On page 18 of the Prospectus the words "Reserve Bank of New Zealand Amendment Act 2008" are deleted and replaced with *Reserve Bank of New Zealand Act 1989 "(Reserve Bank Act)"* in the third paragraph under the sub heading titled "**Regulatory environment**" under the section titled "**Risks**" under the heading "**Other Material Matters**"
42. On page 19 of the Prospectus the section titled "**New Zealand Deposit Guarantee Scheme**" is deleted and replaced with the section titled "**Crown Retail Deposit Guarantee Scheme**"
43. On page 19 of the Prospectus the words under the section now titled "**Crown Retail Deposit Guarantee Scheme**" are deleted and replaced with the following:

*"The Society has a guarantee under a Crown Retail Deposit Guarantee Scheme, being a guarantee that expires on 31 December 2011.*

*The Crown Guarantee comprises:*

- *A guarantee under the New Zealand Deposit Guarantee Scheme, which expires on 12 October 2010.*
- *A guarantee under the Crown Retail Deposit Guarantee Scheme Act 2009, which commences on 12 October 2010 and expires on 31 December 2011.*

*The Crown Guarantee does not apply to Non-Guaranteed Term Deposits and Non-Guaranteed At Call Deposits or any other "excluded securities" which the Society may offer from time to time.*

*The Society may offers investors the choice of investing in Deposits with or without the benefit of the Crown Guarantee, as detailed in section under the heading "Crown Retail Deposit Scheme" and on pages 6 to 7.*

*Under the Crown Guarantee, the Crown guarantees to each eligible investor that if the Society fails to repay the amount invested plus any accrued interest when it is due and payable, then the Crown will pay that amount to the investor. In general terms, eligible investors in Deposits (other than Non-Guaranteed Term Deposits and Non-Guaranteed At Call Deposits or any other "excluded securities") will have the benefit of the Crown Guarantee given under the:*

- New Zealand Deposit Guarantee scheme, up to \$1 million until 12 October 2010; and*
- Crown Retail Deposit Guarantee Scheme Act 2009, up to \$250,000 from 12 October 2010 to 31 December 2011.*

*The Crown Guarantee also covers Deposits (other than Non-Guaranteed Term Deposits and Non-Guaranteed At Call Deposits or any other "excluded securities") which are due and payable to investors later than the above dates if a "default event" occurs during the relevant period.*

*A "default event" under the Crown Guarantee is where: the Society becomes insolvent or fails to pay its debts when due; the Society is subject to insolvency proceedings; a voluntary administrator, liquidator or receiver is appointed; a secured party takes possession of the Society's assets; the Society enters into an arrangement or compromise with its creditors—the Society enters into a moratorium or a statutory manager is appointed. As at 29 June 2010, the Board considers it unlikely that a default event will occur.*

*The Crown will only make payment to an investor under the Crown Guarantee if the investor makes a claim and the Crown is satisfied as to its liability to the investor and as to the amount payable to them.*

*The "extended" Crown Guarantee (which applies from 12 October 2010 to 31 December 2011), differs from the "existing" Crown Guarantee (which applies to 12 October 2010). In particular, the "extended" Crown Guarantee:*

- does not cover any interest that accrues after a "default event";*
- requires an investor must make any claim for payment with the Crown within 180 days of the date of their investment becoming due and payable (and the Society has not paid); and*
- only covers investments which are due and payable to investors during the period from 12 October 2010 to 31 December 2011. It does not cover investments which are due and payable after the expiry of that period.*

*Further information about the Crown Retail Deposit Guarantee Scheme and the most recent audited financial statements of the Crown are available free of charge, at all reasonable times, on the internet site maintained by, or on behalf of the Treasury at [www.treasury.govt.nz](http://www.treasury.govt.nz).*

*The full terms and conditions of each guarantee are set out in the relevant Crown Deed of Guarantee.*

*Potential investors in Guaranteed Term Deposits or Guaranteed At Call Deposits should satisfy themselves that the Crown Guarantee applies to*

*them. If you are in doubt as to the application of the Crown Guarantee, you should seek independent professional advice."*

44. Immediately following the last paragraph in the newly inserted section entitled "**Crown Retail Deposit Guarantee Scheme**" a section titled "**Memorandum of Understanding**" is inserted together with the following words:

*"On 1 June 2010, the Society signed a non-binding Memorandum of Understanding with Canterbury Building Society and Pyne Gould Corporation Limited.*

*Under the Memorandum of Understanding, the parties have agreed to evaluate a proposed merger of their respective financial services activities with a view to ultimately becoming a New Zealand owned registered bank which would list on the New Zealand Stock Exchange (none of the merger participants are currently registered banks). At this stage, this is just a proposal and there is no certainty that the aim of the parties will be achieved as numerous requirements must be met even if all parties agree to the proposal. Further details of the proposed merger are available on the Society's website at [www.buildingsociety.co.nz](http://www.buildingsociety.co.nz)."*

45. Immediately following the last paragraph in the newly inserted section entitled "**Memorandum of Understanding**" a section titled "**Credit Rating**" is inserted together with the following words:

*"The creditworthiness of the Society is rated by Standard & Poor's, a ratings agency approved by the Reserve Bank under section 157J of the Reserve Bank Act.*

*Standard & Poor's assigned a "**BB**" (with stable outlook) long term credit rating to the Society on 27 August 2009.*

*It is important to note that Standard & Poor's credit rating of the Society is not a statement of fact, an endorsement of the Society, or a recommendation to invest in the Society's Deposits. Rather, it is a statement of opinion issued by Standard & Poor's.*

*As described in Standard & Poor's website ([www.standardandpoors.com](http://www.standardandpoors.com)):*

*"Since there are future events and developments that cannot be foreseen, the assignment of credit ratings is not an exact science. For this reason, Standard & Poor's ratings opinions are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default".*

*"A Standard & Poor's issuer credit rating is a forward-looking opinion about an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation."*

*"A Standard & Poor's rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to*

two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions".

The designation of "stable outlook" assigned by Standard & Poor's to the Society means that a rating is not likely to change.

Also, the credit rating that has been assigned to the Society is a local currency issuer rating as opposed to a foreign currency issuer rating. This means the country (or sovereign) risk that is taken into account by Standard & Poor's is that of New Zealand only and the currency of repayment is the New Zealand dollar.

Standard & Poor's adopts the following scale and meanings to its credit rating opinions:

Scale	Meaning
AAA	Extremely strong capacity to meet financial commitments. Highest Rating.
AA	Very strong capacity to meet financial commitments.
A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.
BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.
BBB-	Considered lowest investment grade by market participants.
BB+	Considered highest speculative grade by market participants.
<b>BB</b>	<b>Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.</b>
B	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments.
CCC	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments.
CC	Currently highly vulnerable.
C	Currently highly vulnerable obligations and other defined circumstances.
D	Payment default on financial commitments.

Note: Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Source: [www.standardandpoors.com](http://www.standardandpoors.com) "

46. Immediately following the last paragraph in the newly inserted section entitled "**Credit rating**" a section titled "**Non Bank Deposit Taker Regulations**" is inserted together with the following words:

"Part 5D of the Reserve Bank Act regulates NBDTs such as the Society. The Reserve Bank has regulation making powers under the Reserve Bank Act to specify the type of credit rating that must be held in order to meet the definition of a NBDT and to require NBDTs to:

- maintain a minimum dollar amount of capital;
- meet a minimum capital ratio requirement;

- *meet related party restrictions;*
- *meet liquidity requirements; and*
- *Meet prescribed governance requirements (i.e.; board composition)*

*In December 2008, the Reserve Bank published a consultation paper on draft NBDT policies in relation to the proposed regulations regarding related party requirements and minimum capital ratio requirements. The Reserve Bank has proposed that a minimum capital ratio be set at 8% of tier one capital.*

*As at 29 June 2010, the proposed regulations are not yet operational but the Society expects to comply with these regulations as and when they become effective."*

47. On page 20 of the Prospectus the page references of "63 to 66" are deleted and replaced with "67 to 70" under the heading "**Auditors' Report**"

48. On page 20 of the Prospectus the following words are inserted after the Directors signatures:

**"NOTE:** *Gavin Ronald Walker is named above, as he was an original signatory to this Prospectus (which is dated 30 September 2009). However, Mr Walker resigned as a Director of the Society on 16 December 2009. Don Turkington, who was subsequently appointed as a Director of the Society on 21 December 2009 is not named above, as he was not a Director on the date of this Prospectus."*

49. On page 21 of the Prospectus the definition "**Crown Guarantee** means the Society's guarantee under a Crown Retail Deposit Guarantee Scheme, expiring on 31 December 2011" is inserted in alphabetical order.

50. On page 21 of the Prospectus the words "**Extended Guarantee** means the Retail Deposit Guarantee Scheme Extension to the New Zealand Deposit Guarantee Scheme announced by the Minister of Finance on 25 August 2009." are deleted.

51. On page 21 of the Prospectus the definition "**Guaranteed At Call Deposit** means an At Call Deposit which is covered by the Crown Guarantee." is inserted in alphabetical order.

52. On page 21 of the Prospectus the definition "**Guaranteed Term Deposit** means a Term Deposit which is covered by the Crown Guarantee." is inserted in alphabetical order.

53. On page 21 of the Prospectus the definition "**NBDT** means Non Bank Deposit Taker as referred to in Reserve Bank Act." is inserted in alphabetical order.

54. On page 21 of the Prospectus the definition "**Non-Guaranteed At Call Deposit** means an At Call Deposit which is not covered by the Crown Guarantee." is inserted in alphabetical order.

55. On page 21 of the Prospectus the definition of "**Non-Guaranteed Term Deposit** means a Term Deposit which is not covered by the Crown Guarantee." is inserted in alphabetical order.
56. On page 21 of the Prospectus the definition "**Reserve Bank Act** means the Reserve Bank of New Zealand Act 1989." is inserted in alphabetical order.
57. On page 21 of the Prospectus the words "**Trust** means the Southern Cross Building Society Charitable Trust" are deleted in their entirety.
58. The auditors' report set out in Appendix Two to the Prospectus is replaced with the auditors' report attached as a schedule (titled "**Schedule A**") to this memorandum of amendments (with amendments highlighted and page references updated to ensure that the page cross references in the auditors' report are correct).
59. On page 69 of the Prospectus the address of Don James Turkington of "18a Upland Road, Remuera, Auckland" is deleted and replaced with "8/3 Morwong Drive, Noosa Heads, Queensland 4567, Australia"
60. On pages 70 to 71 of the Prospectus the Directory of Deposit & Withdrawal Agencies is deleted in entirety and replaced with the Directory of Deposit & Withdrawal Agencies attached as a separate schedule (titled "**Schedule B**") to this memorandum of amendments.

### 3. SIGNATURES

Signed by each of Director of Southern Cross Building Society (or by his agent authorised in writing):



Geoffrey Thomas Ricketts  
(by his duly authorised agent  
Robert Leslie Smith)



Don James Turkington  
(by his duly authorised agent  
Robert Leslie Smith)



Christopher Robert Mace  
(by his duly authorised agent  
Robert Leslie Smith)



Anthony Donald Beasley  
(by his duly authorised agent  
Robert Leslie Smith)



Noel Barclay  
(by his duly authorised agent  
Robert Leslie Smith)



Robert Leslie Smith

#### **4. AMENDED PROSPECTUS**

A copy of the Prospectus as amended is attached to this memorandum of amendments.

# Deloitte.

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29 June 2010

The Directors  
 Southern Cross Building Society  
 P O Box 554  
 AUCKLAND 1140

Dear Directors

## AUDITORS' REPORT FOR INCLUSION IN PROSPECTUS

As auditors of Southern Cross Building Society (the 'Society' and 'Borrowing Entity') and subsidiaries (the 'Group' and 'Borrowing Group'), we have prepared this report pursuant to clause 36 of the Second Schedule of the Securities Regulations 1983 for inclusion in a prospectus dated 30 September 2009 as amended by Memoranda of Amendments dated 21 December and 29 June 2010 for the issue of deposits. Our report dated 30 September 2009 is reissued as at 29 June 2010 to take account of the Memorandum of Amendments dated 29 June 2010 to the Registered Prospectus No 44 of Southern Cross Building Society (the 'Memorandum of Amendments'). The changes outlined in the Memorandum of Amendments and incorporated in the prospectus dated 30 September 2009 as amended by Memoranda of Amendments dated 21 December and 29 June 2010 do not affect our Opinion on the Financial Statements, Opinion on the Summary of Financial Statements or Opinion on the Ranking of Securities as set out in our report dated 30 September 2009 except in respect of the page numbers referred to in that report. We have not performed any additional procedures since the date of our original report of 30 September 2009.

### Board of Directors' Responsibilities

The Board of Directors (the 'Directors') are responsible for the preparation and presentation of:

- (a) the financial statements as required by clauses 16 to 31 of the Second Schedule of the Securities Regulations 1983, that comply with the regulations; and subject to the regulations comply with generally accepted accounting practice in New Zealand; and give a true and fair view of the state of affairs of the Borrowing Group as at 30 June 2009 and its financial performance and cash flows for the financial year ended on that date;
- (b) the summary of financial statements of the Borrowing Group for the financial years ended 30 June 2009, 2008, 2007, 2006, and 2005, as required by clauses 7(2) and 7(3) of the Second Schedule of the Securities Regulations 1983;
- (c) the financial statements which give a true and fair view of the financial position of the Society and Group as at 30 June 2009 and their financial performance and cash flows for the year ended on that date which are provided by the directors for investors information; and
- (d) the details and amounts in respect of the ranking of securities of the Borrowing Group as at 30 June 2009 as required by clause 12 of the Second Schedule of the Securities Regulations 1983.

# Deloitte.

## **Auditors' Responsibilities**

It is our responsibility to:

- (a) express an independent opinion on the financial statements of the Borrowing Group as at 30 June 2009 and for the year ended on that date, prepared and presented by the directors, and report our opinion in accordance with clause 36(1) of the Second Schedule of the Securities Regulations 1983;
- (b) express an independent opinion on the financial statements of the Society and Group as at 30 June 2009 and for the year ended on that date prepared and presented by the directors; and
- (c) report in accordance with clause 36(1)(g) of the Second Schedule of the Securities Regulations 1983
  - i) on the amounts included in the summary of financial statements of the Borrowing Group for the financial years ended 30 June 2009, 2008, 2007, 2006, and 2005 presented by the directors; and on the amounts included in the ranking of securities of the Borrowing Group as at 30 June 2009 presented by the directors.

This report has been prepared for inclusion in the prospectus for the purpose of meeting the requirements of clause 36 of the Second Schedule of the Securities Regulations 1983. We disclaim any assumptions of responsibility for reliance on this report or the amounts included in the financial statements, the summary financial statements, the amounts included in the ranking of securities, for any other purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the prospectus not specifically mentioned in this report.

## **Basis of Opinion on the Financial Statements**

An audit of the financial statements for the year ended 30 June 2009 includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Board of Directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Borrowing Group circumstances, consistently applied and adequately disclosed.

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

## **Basis of Opinion on the Summary of Financial Statements**

We have undertaken procedures to provide reasonable assurance that the amounts set out in the summary of financial statements on pages 12 and 13 of this prospectus, pursuant to clauses 7(2) and 7(3) of the Second Schedule of the Securities Regulations 1983, have been correctly taken from the audited financial statements of the Borrowing Group for the financial years ended 30 June 2009, 2008, 2007, 2006, and 2005. For a better understanding of the financial position and results of the Borrowing Group's operations for the financial period the summary financial information should be read in conjunction with the related annual financial statements.

## **Basis of Opinion on the Ranking of Securities**

We have undertaken procedures to provide reasonable assurance that the amounts set out in the ranking of securities on page 14 and 15 pursuant to clause 12 of the Second Schedule of the Securities

# Deloitte.

Regulations 1983, have been correctly taken from the audited financial statements of the Borrowing Group as at 30 June 2009.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in Southern Cross Building Society or any of its subsidiaries.

## Unqualified Opinion on the Financial Statements

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

In our opinion:

- proper accounting records have been kept by the Borrowing Group as far as appears from our examination of those records; and
- the financial statements of the Society, Borrowing Group and Group on pages 26 to 66 of Appendix 1 to this prospectus, as required by clauses 16 to 31 of the Second Schedule of the Securities Regulations 1983, and that are required to be audited, have been drawn up to:
  - comply with the Securities Regulations 1983;
  - subject to these Regulations, comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the financial position of the Society, Borrowing Group and Group as at 30 June 2009 and the results of their operations and cash flows for the financial year ended on that date.

Our audit for the Society and Group was completed on 12 August 2009 and our unqualified opinion is expressed as at that date.

## Unqualified Opinion on the Summary of Financial Statements

In our opinion the amounts set out in the summary of financial statements, on pages 12 and 13 of this prospectus, as required by clauses 7(2) and 7(3) of the Second Schedule of the Securities Regulations 1983, have been correctly taken from the audited financial statements of the Borrowing Group for the financial years ended 30 June 2009, 2008, 2007, 2006, 2005 from which they were extracted.

## Unqualified Opinion on the Ranking of Securities

In our opinion the amounts set out in the ranking of securities, on page 14 and 15 of this prospectus, as required by clause 12 of the Second Schedule of the Securities Regulations 1983, have been correctly taken from the audited financial statements of the Borrowing Group for the year ended 30 June 2009.

In terms of Regulations 7(1) (b) (ii) of the Securities Regulations 1983 we hereby give our consent to the inclusion in the above mentioned prospectus of this report in the form in which it is included. We also confirm that we have not, before delivery of this prospectus for registration, withdrawn our consent to the issue thereof.

Yours faithfully



**DELOITTE**  
Chartered Accountants  
Auckland, New Zealand

This audit report relates to the prospectus of Southern Cross Building Society dated 30 September 2009 included on Southern Cross Building Society's website. The Board of Directors is responsible for the maintenance and integrity of Southern Cross Building Society's website. We have not been engaged to report on the integrity of Southern Cross Building Society's website. We accept no responsibility for any changes that may have occurred to the prospectus since it was initially presented on the website. The audit report refers only to the prospectus named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the prospectus. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the prospectus and related audit report dated 30 September 2009 to confirm the information included in the prospectus presented on this website. Legislation in New Zealand governing the preparation and dissemination of prospectuses may differ from legislation in other jurisdictions.

## SCHEDULE B

### DIRECTORY OF DEPOSIT & WITHDRAWAL AGENCIES

---

#### NORTHERN REGION

<u>Suburb / Town</u>	<u>Address</u>	<u>Telephone</u>
<b>TAKAPUNA BRANCH</b>	456 Lake Road, Takapuna	(09) 489 5264
Browns Bay	Browns Bay Toyworld, 71 Clyde Road	(09) 478 9464
Kerikeri	PKF Poutsma Lemon Limited, Chartered Accountants, 9 Hobson Avenue	(09) 407 7142
Mairangi Bay	Janbells School Uniforms, Shop 7, 404 Beach Road	(09) 478 3450
Orewa	Orewa Care Chemist, 312 Hibiscus Coast Highway	(09) 426 4087
Paihia	PKF Poutsma Lemon Limited, Chartered Accountants, Williams Road	(09) 402 7926

#### AUCKLAND REGION

<u>Suburb / Town</u>	<u>Address</u>	<u>Telephone</u>
<b>AUCKLAND BRANCH</b>	Ground Floor, Southern Cross Building, Corner High & Victoria Streets, Auckland	(09) 303 1004
Blockhouse Bay	Blockhouse Bay Pharmacy, 526 Blockhouse Bay Road	(09) 627 9913
Eastridge - Orakei	Eastridge Paper Plus, Eastridge Shopping Mall, Kapa Road	(09) 521 5402
Mt Roskill	Bradburns Value Pharmacy, 1250 Dominion Road	(09) 620 8671
Remuera	Village Bookshop, 545 Remuera Road	(09) 524 5553
Westgate	Westgate Paper Plus, Westgate Shopping Centre, Hobsonville Rd	(09) 831 0230
<b>PAPATOETOE BRANCH</b>	183 Great South Road, Hunters Corner	(09) 279 9171
Howick	Readaway Books, 83 Picton Street	(09) 534 5610
Mangere Bridge	Mangere Bridge Stationers Ltd, 21a Coronation Road	(09) 636 5366
Papakura	Papakura Taxation Services Ltd, 81 O'Shannessey Street	(09) 298 4734

#### WAIKATO REGION

<u>Suburb / Town</u>	<u>Address</u>	<u>Telephone</u>
<b>HAMILTON BRANCH</b>	415 Victoria Street, Hamilton	(07) 838 0136
Beerescourt	DispensaryFirst Beerescourt Pharmacy, 1365 Victoria Street	(07) 838 2319
Cambridge	Munro-Burgess Ltd, 52 Victoria Street	(07) 823 0700
Chartwell	Life Pharmacy, Westfield Shopping Centre	(07) 855 6024
Coromandel	Hauraki Taxation Services Ltd, 95 Kapanga	(07) 866 8660

	Road	
Dinsdale	Barrett Pharmacy Ltd, Whatawhata Road	(07) 847 8478
Matamata	Frasers Take Note, 58-60 Arawa Street	(07) 888 7787
Morrinsville	The Woolbar/Top Gear, 232 Thames Street	(07) 889 7772
Paeroa	Take Note Paeroa, 46 Belmont Road	(07) 862 7213
Te Aroha	Piako Stationery Supplies, 160 Whitaker Street	(07) 884 9110
Te Awamutu	Selectrix, 174 Alexandra Street	(07) 871 7191
Te Kuiti	Kidd Falconer & Co, Chartered Accountants, 46 Taupiri Street	(07) 878 8145
Thames	Thames Mitre 10, 460 Pollen Street	(07) 868 7155
Thames	Hauraki Taxation Services Ltd, 328a Pollen Street	(07) 868 9710

## **BAY OF PLENTY REGION**

<b><u>Suburb / Town</u></b>	<b><u>Address</u></b>	<b><u>Telephone</u></b>
<b>TAURANGA BRANCH</b>	24 Devonport Road, Tauranga	(07) 578 3212
Bayfair	Bayfair Pharmacy Ltd, Bayfair Shopping Centre, Girven Road	(07) 575 3830
Cherrywood	Cherrywood Bookshop, 42 Cherrywood Drive	(07) 576 4128
Greerton	Greerton Newsagency, 1295 Cameron Road	(07) 578 4907
Katikati	Ingham Mora Limited, 80 Main Road	(07) 549 1572
Te Puke	Blackett Pharmacies Ltd, Corner Oxford & Jellicoe Street	(07) 573 7445
Waihi	Lynch & Partners, 102 Upper Seddon Street	(07) 863 7372
Whangamata	Blue Water Real Estate, 503 Port Road	(07) 865 8424
Whitianga	Business One Limited, Chartered Accountants, 26a Albert Street	(07) 866 4708

## **ROTORUA REGION**

<b><u>Suburb / Town</u></b>	<b><u>Address</u></b>	<b><u>Telephone</u></b>
<b>ROTORUA BRANCH</b>	1132 Hīnemoa Street, Rotorua	(07) 348 4733
Turangi	Turangi Pharmacy Ltd, Town Centre	(07) 386 8565

## **WELLINGTON REGION**

<b><u>Suburb / Town</u></b>	<b><u>Address</u></b>	<b><u>Telephone</u></b>
<b>WELLINGTON BRANCH</b>	Shop 2, 86-96 Victoria Street, Wellington	(04) 472 1313
Hastings	Centracorp Finance 2000 Ltd, 727 Heretaunga Street	(06) 870 8702
Upper Hutt	Hoppers Pharmacy, 147 Main Street	(04) 528 3270
Waikanae	Take Note Waikanae, 46 Main Road	(04) 293 6203

AUTHORITY OF AGENT TO SIGN MEMORANDUM OF AMENDMENTS

(Section 43)

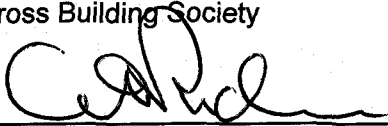
(for office use only)

Please note that the information in this form must be either typewritten or printed. It must not be handwritten.

Issuer Name

**SOUTHERN CROSS BUILDING SOCIETY**

I **GEOFFREY THOMAS RICKETTS** a director of Southern Cross Building Society, authorise **ROBERT LESLIE SMITH** to sign on my behalf as my agent a Memorandum of Amendments to be dated on or about 29 June 2010 for the purposes of section 43 of the Securities Act 1978 in respect of the prospectus dated 30 September 2009 (as amended by Memorandum of Amendments dated 21 December 2009) for the offer to the public of deposits by Southern Cross Building Society



Signature of Director

*Geoffrey Thomas Ricketts*

Name of Director

29 JUNE 2010

Date

Presented by	<b>HARMOS HORTON LUSK</b> Nathanael Starrenburg	Account No.	<div style="border: 1px solid black; height: 20px;"></div>
Postal Address	PO Box 28 Auckland	Telephone	(09) 921 4300
		Facsimile	(09) 921 4319

**AUTHORITY OF AGENT TO SIGN MEMORANDUM OF AMENDMENTS**

(Section 43)

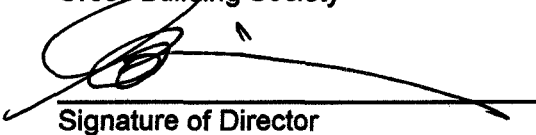
(for office use only)

Please note that the information in this form must be either typewritten or printed. It must not be handwritten.

Issuer Name

**SOUTHERN CROSS BUILDING SOCIETY**

I **CHRISTOPHER ROBERT MACE** a director of Southern Cross Building Society, authorise **ROBERT LESLIE SMITH** to sign on my behalf as my agent a Memorandum of Amendments to be dated on or about 29 June 2010 for the purposes of section 43 of the Securities Act 1978 in respect of the prospectus dated 30 September 2009 (as amended by Memorandum of Amendments dated 21 December 2009) for the offer to the public of deposits by Southern Cross Building Society

  
Signature of Director

CHRISTOPHER ROBERT MACE  
Name of Director

29 JUNE 2010  
Date

Presented by	<b>HARMOS HORTON LUSK</b> Nathanael Starrenburg	Account No.	
Postal Address	PO Box 28 Auckland	Telephone	(09) 921 4300
		Facsimile	(09) 921 4319

AUTHORITY OF AGENT TO SIGN MEMORANDUM OF AMENDMENTS

(Section 43)

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(for office use only)

Please note that the information in this form must be either typewritten or printed. It must not be handwritten.

Issuer Name

**SOUTHERN CROSS BUILDING SOCIETY**

I **NOEL BARCLAY** a director of Southern Cross Building Society, authorise **ROBERT LESLIE SMITH** to sign on my behalf as my agent a Memorandum of Amendments to be dated on or about 29 June 2010 for the purposes of section 43 of the Securities Act 1978 in respect of the prospectus dated 30 September 2009 (as amended by Memorandum of Amendments dated 21 December 2009) for the offer to the public of deposits by Southern Cross Building Society

Noel Barclay.  
Signature of Director

NOEL BARCLAY  
Name of Director

29 JUNE 2010  
Date

Presented by	<b>HARMOS HORTON LUSK</b> Nathanael Starrenburg	Account No.	[Empty box]
Postal Address	PO Box 28 Auckland	Telephone	(09) 921 4300
		Facsimile	(09) 921 4319

**AUTHORITY OF AGENT TO SIGN MEMORANDUM OF AMENDMENTS**

(Section 43)

(for office use only)

Please note that the information in this form must be either typewritten or printed. It must not be handwritten.

Issuer Name

**SOUTHERN CROSS BUILDING SOCIETY**

I **DON JAMES TURKINGTON** a director of Southern Cross Building Society, authorise **ROBERT LESLIE SMITH** to sign on my behalf as my agent a Memorandum of Amendments to be dated on or about 29 June 2010 for the purposes of section 43 of the Securities Act 1978 in respect of the prospectus dated 30 September 2009 (as amended by Memorandum of Amendments dated 21 December 2009) for the offer to the public of deposits by Southern Cross Building Society

  
\_\_\_\_\_  
Signature of Director

*Don James Turkington*  
\_\_\_\_\_  
Name of Director

29 JUNE 2010  
\_\_\_\_\_  
Date

Presented by	<b>HARMOS HORTON LUSK Nathanael Starrenburg</b>	Account No.	
Postal Address	PO Box 28 Auckland	Telephone	(09) 921 4300
		Facsimile	(09) 921 4319

**AUTHORITY OF AGENT TO SIGN MEMORANDUM OF AMENDMENTS**

(Section 43)

(for office use only)

Please note that the information in this form must be either typewritten or printed. It must not be handwritten.

Issuer Name

**SOUTHERN CROSS BUILDING SOCIETY**

I **ANTHONY DONALD JAMES BEASLEY** a director of Southern Cross Building Society, authorise **ROBERT LESLIE SMITH** to sign on my behalf as my agent a Memorandum of Amendments to be dated on or about 29 June 2010 for the purposes of section 43 of the Securities Act 1978 in respect of the prospectus dated 30 September 2009 (as amended by Memorandum of Amendments dated 21 December 2009) for the offer to the public of deposits by Southern Cross Building Society

*Anthony Beasley*  
Signature of Director

ANTHONY DONALD JAMES BEASLEY  
Name of Director

29 JUNE 2010  
Date

Presented by	<b>HARMOS HORTON LUSK Nathanael Starrenburg</b>	Account No.	
Postal Address	<b>PO Box 28 Auckland</b>	Telephone	<b>(09) 921 4300</b>
		Facsimile	<b>(09) 921 4319</b>

**SOUTHERN CROSS BUILDING  
SOCIETY**

**OFFER OF DEPOSITS WITH  
SOUTHERN CROSS BUILDING SOCIETY**

**PROSPECTUS NUMBER 44**

**30 SEPTEMBER 2009 (as amended by Memoranda of  
Amendments dated 21 December 2009 and 29 June 2010)**

**SOUTHERN CROSS BUILDING SOCIETY**  
**INDEX OF STATUTORY DISCLOSURE**

Provided in accordance with clause 5(6) of, and the Second Schedule to, the Securities Regulations 1983

<b>Clause of the Regulations</b>	<b>Item</b>	<b>Pages</b>
<b>Second Schedule</b>		
1.	Main terms of offer	5
2.	Name and address of offeror	9
3.	Details of incorporation of issuer	9
4.	Guarantors	9
5.	Directorate and advisers	10
5A.	Restrictions on directors' powers	10
6.	Description of activities of borrowing group	10
7.	Summary of Financial Statements	12
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9.	Material contracts	14
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12.	Ranking of securities	14
13.	Provisions of the trust deed and other restrictions on borrowing group	15
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## SOUTHERN CROSS BUILDING SOCIETY

### PROSPECTUS NUMBER 44

Dated 30 September 2009 (as amended by Memoranda of Amendments dated 21 December 2009 and 29 June 2010)

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#### GENERAL INFORMATION

This is a Prospectus in respect of at-call and fixed term unsecured deposits of moneys in a deposit account (a “**Deposit**”) with the Southern Cross Building Society (the “**Society**”) for the purposes of the Securities Act 1978 (“**Securities Act**”) and the Securities Regulations 1983 (“**Securities Regulations**”). It contains certain prescribed information in respect of Deposits with the Society.

A copy of this Prospectus, duly signed by, or on behalf of, the Directors of the Society for the purposes of the Securities Act and being accompanied by the documents required to be filed with the Prospectus (being the authority of agent forms relating to the signing of this Prospectus) has been delivered for registration under section 42 of the Securities Act.

All legislation referred to in this Prospectus may be viewed at [www.legislation.govt.nz](http://www.legislation.govt.nz).

#### DEFINITIONS

Defined terms used in this Prospectus are set out on page 25.

#### DATE

This Prospectus is dated 30 September 2009 (as amended by Memoranda of Amendments dated 21 December 2009 and 29 June 2010).

#### IMPORTANT INFORMATION

The Directors of the Society consider that an investment in Deposits is a low risk investment. However, investors should be aware that no investment is without risk. Accordingly, the “Investment Highlights” section set out below should be read in light of the investment risks outlined under the heading “Other Material Matters” on page 18 and as set out in the Investment Statement relating to the Deposits under the heading “What are my risks?”.

You should read the Investment Statement in full before making a decision whether to invest. The Investment Statement is available from the Society on request and can be found at: [www.buildingsociety.co.nz](http://www.buildingsociety.co.nz).

If you have questions in respect of an investment in Deposits you should seek advice from your financial or legal adviser.

#### INVESTMENT HIGHLIGHTS

- **Credit Rating:** The Society was issued a “BB” (with stable outlook) long term credit rating on 27 August 2009 by Standard & Poor’s. For further information about the Society’s credit rating see page 21.
- **Crown Retail Deposit Guarantee Scheme** The Society has a guarantee under a Crown Retail Deposit Guarantee Scheme, being a guarantee that expires on 31 December 2011. The Society may offer Deposits with or without the benefit of this guarantee. Further information about the implications of investing in Guaranteed Term Deposits and Guaranteed Call Deposits or Non-Guaranteed Term Deposits and Non-Guaranteed At Call Deposits see pages 6 to 7.
- **Merger Proposal:** On 1 June 2010 the Society signed a Memorandum of Understanding with Canterbury Building Society and Pyne Gould Corporation Limited relating to a proposal to merge their respective financial services activities and to ultimately become a listed bank (none of the merger participants are currently registered banks). For further information concerning the proposed merger, see page 21

- **Established financial institution:** The Society is New Zealand's third largest building society. It has provided New Zealanders with financial services since 1923 and remains New Zealand controlled.
- **Financial stability:** As at 30 June 2009, the Society's net assets (equity) total \$52.2 million with there being no material change in the value of net assets as at the date of this Prospectus. The Society has a strong balance sheet and, in the Directors' opinion, is financially stable.
- **Liquidity:** As at 30 June 2009, the Society's liquidity ratio was 32.2%, this being twice the minimum liquidity ratio of 15% required under the Trust Deed. Further details of the Society's liquidity position are contained in the "Other Material Matters" on page 19 of this Prospectus.
- **Asset base:** The Society had total assets of \$412.0 million as at 30 June 2009, of which loan advances represented \$275.6 million, and the balance largely comprised cash and investments (liquid assets).
- **Conservative lending policies:** The Society continues to adopt conservative lending criteria and policies. It lends almost exclusively on a first mortgage security basis over residential, commercial and rural properties.
- **Restrictions on related party lending:** The Trust Deed restricts related party lending to loans on normal commercial terms and backed by a mortgage security. As at 30 June 2009 there were no loans to related parties of any significance. In addition, the Society's Rules require Member approval to material transactions with related parties (except in certain specified cases).

## ACCOUNTABILITY AND REPORTING

### Trustee reporting

The Deposits are issued under a Trust Deed between the Society and Trustees Executors Limited (the "Trustee"). The Trust Deed contains important protections for the holders of Deposits, including various financial covenants that the Society must comply with (summarised on pages 15 to 17 under the heading "Provisions of the Trustee Deed and Other Restrictions on Borrowing Group").

The Trustee is responsible for monitoring these covenants and taking action to enforce the Trust Deed on behalf of the holders of Deposits.

In order to ensure that the Trustee is able to fulfil these duties, the Society is required to report regularly to the Trustee in terms of the Trust Deed, and in particular must:

- present the Trustee with monthly management accounts, six monthly unaudited interim Financial Statements and annual audited Financial Statements; and
- report to the Trustee every three months on various matters specified in detail in the Trust Deed, including on the Society's compliance with the Trust Deed's financial covenants

The Society also reports its liquidity status to the Trustee, currently on a weekly basis (although the frequency and content of such reporting may change from time to time).

Additionally, the Society reports:

- on a monthly basis, its monthly financial accounts, to the Reserve Bank of New Zealand (through the Trustee) under the requirements of the Crown Retail Deposit Guarantee Scheme; and
- on a quarterly basis, its compliance with the Society's risk management programme as required by the Reserve Bank of New Zealand Amendment Act 2008.

### Annual Report

The Society is required to prepare an Annual Report for distribution to Members prior to the Annual General Meeting, which must include a report from the Directors on the activities of the Society and

audited Financial Statements that comply with the Building Societies Act 1965, the Building Societies Regulations 1989 and the Financial Reporting Act 1993. The Annual Report must be registered with the Companies Office.

The Annual Report is available to investors in Deposits on request from the Society and can be found at: [www.buildingsociety.co.nz](http://www.buildingsociety.co.nz). In addition, once registered, a copy of the Annual Report may be viewed on the Companies Office website at: [www.companies.govt.nz](http://www.companies.govt.nz), (under "Search Other Registers"), or may be obtained by telephoning the Companies Office on 0508 266 726. The Companies Office may charge a nominal fee for this.

#### **Annual Return**

The Society is required, pursuant to the Building Societies Act 1965, to prepare and register an Annual Return with the Companies Office within three months after its balance date. The Society's most recent balance date was 30 June 2009.

The Annual Return must contain the information specified in Schedule 5 to the Building Societies Regulations 1989 (including, for example, particulars of the Society's Directors and officers) and must be audited.

A copy of the Annual Return, once registered, may be viewed on the Companies Office website at: [www.companies.govt.nz](http://www.companies.govt.nz), (under "Search Other Registers"), or may be obtained by telephoning the Companies Office on 0508 266 726. The Companies Office may charge a nominal fee for this.

#### **Industry Associations**

The Society is a member of the Financial Services Federation and of the New Zealand Savings Institutions Association.

### **STATUTORY INFORMATION**

The information set out in this "Statutory Information" section is provided in accordance with the requirements of the Second Schedule to the Securities Regulations.

#### **1. MAIN TERMS OF OFFER**

##### **Issuer**

The issuer of the Deposits is the Southern Cross Building Society. The registered office of the Society is at Level 1, Corner Victoria and High Streets, Auckland. The Society's mailing address is PO Box 554, Auckland, and its website address is: [www.buildingsociety.co.nz](http://www.buildingsociety.co.nz).

You can contact the Society by calling 0800 657 935.

##### **Crown Retail Deposit Guarantee Scheme**

The Society has a guarantee under a Crown Retail Deposit Guarantee Scheme, being a guarantee that expires on 31 December 2011 ("**Crown Guarantee**").

##### **The Deposits**

The securities being offered to the public in New Zealand by the Society under this Prospectus are Deposits.

A Deposit is an unsecured interest-bearing debt security denominated in New Zealand dollars that is issued by the Society. A Deposit may be made on an at-call basis or for a fixed term and, in either case, may be offered with or without the benefit of the Crown Guarantee.

##### *At Call Deposits*

An "**At Call Deposit**" is a Deposit invested with the Society that has no fixed term of investment and a variable interest rate. The principal sum invested is repayable by the Society to you when called (demanded/requested by you).

Interest is paid to you, or added to the principal sum of the Deposit, on a monthly or quarterly basis (depending on your account type), at a rate that is determined by the Board of the Society from time to time. A schedule of the current interest rates payable by the Society on At Call

Deposits is available from the Society on request and can be found at: [www.buildingsociety.co.nz](http://www.buildingsociety.co.nz).

The Society may offer a range of different types of At Call Deposits from time to time, and at the date of this Prospectus it offers a Current Account Saver, Maxi Month Account, Tertiary Education Account and Net Saver Account (an online savings account). The Society currently issues passbooks to record investments in At Call Deposit accounts (other than the Net Saver account), but reserves the right to alter this in the future.

#### *Term Deposits*

A “**Term Deposit**” is a Deposit invested with the Society for a fixed term of investment and at a fixed interest rate. The principal sum invested is repayable by the Society to you on maturity of the investment.

The term of a Term Deposit currently ranges between one month and 36 months, but could be longer at the Society’s discretion. The Society may change timeframes from time to time at its discretion.

Interest, at the fixed rate, is paid to you or added to the principal sum of the Deposit on maturity in the case of a term of less than six months, or, in the case of a term of six months or greater, on the last basis set out on your Application Form (quarterly, six-monthly, annually or at maturity) at the rate agreed between you and the Society at the time that you make your Term Deposit. A schedule of the current interest rates payable on new investments in Term Deposits is available from the Society on request and can be found at: [www.buildingsociety.co.nz](http://www.buildingsociety.co.nz).

Unless you instruct the Society otherwise, on maturity, the Society will reinvest your Term Deposit for the same investment term.

The Society may also issue Term Deposits that convert into At Call Deposits after a fixed minimum investment term (for example, the Maxi Month Account, which requires a minimum fixed investment term of one month, following which your investment is repayable to you when called).

#### **Guaranteed and Non-Guaranteed Deposits**

The Society may offer investors the choice of investing in Deposits with or without the benefit of the Crown Guarantee, as set out below.

#### *Guaranteed Term Deposits and Guaranteed At Call Deposits*

“**Guaranteed Term Deposits**” and “**Guaranteed At Call Deposits**” are, respectively, Term Deposits and At Call Deposits offered by the Society which are covered by the Crown Guarantee, subject to the terms and conditions of the Crown Guarantee. Potential investors in Guaranteed Term Deposits or Guaranteed At Call Deposits should satisfy themselves that the Crown Guarantee applies to them.

If an investor subscribes for Guaranteed Term Deposits or Guaranteed At Call Deposits, then the Society’s obligations under or in respect of that investment will be covered by the Crown Guarantee. If the Society defaults on its obligations, an investor may be able to make a claim under the Crown Guarantee, subject to its terms.

Further detail regarding the Crown Guarantee is set out on pages 20 to 21.

#### *Non-Guaranteed Term Deposits and Non-Guaranteed At Call Deposits*

“**Non-Guaranteed Term Deposits**” and “**Non-Guaranteed At Call Deposits**” are, respectively, Term Deposits and At Call Deposits offered by the Society which are not covered by the guarantee given under the Crown Retail Deposit Guarantee Scheme.

Non-Guaranteed Term Deposits and Non-Guaranteed At Call Deposits are, in each case, an “excluded security” for the purposes of the Crown Deed of Guarantee. If an investor subscribes for Non-Guaranteed Term Deposits or Non-Guaranteed At Call Deposits, then none of the Society’s obligations under or in respect of that investment will be covered by the Crown Guarantee.

### **Trust Deed**

The Deposits are governed by a Trust Deed dated 21 December 1990 (as amended on 24 September 1999) between Trustees Executors Limited and the Society. The terms of the Trust Deed are summarised on pages 15 to 17 under the heading “Provisions of the Trust Deed and Other Restrictions on Borrowing Group”.

### **Minimum investment**

As at the date of this Prospectus, there is no minimum investment amount in the case of At Call Deposits, and the minimum investment in Term Deposits is \$1,000 (although the Society may alter these minimum investment amounts from time to time, and will publish any such alterations on its website: [www.buildingsociety.co.nz](http://www.buildingsociety.co.nz)).

Otherwise, you may invest any sum that you choose, and once you have made the minimum deposit in an At Call Deposit you may make regular investments of any amount that you choose, at any time that you choose.

### **How to invest**

Your investment is payable in full to the Society at the time the Deposit is made.

Investing in Deposits is easy. Call into any of the Society’s Branches or agencies (details of which are set out on pages 74 to 75 under the heading “Deposit and Withdrawal Agencies”) to make your payment in cash or by cheque, or send a cheque for the full sum of the investment, crossed “non-transferable” and made out to the “Southern Cross Building Society” to the Society’s mailing address set out in the Directory on page 73.

The Society also accepts investments by electronic funds transfer.

### **Alterations to the At Call Deposit interest rate**

The Board of the Society may vary the “At Call Interest Rate” (being the interest payable on At Call Deposits) from time to time. Information regarding the then-applicable At Call Interest Rate is available from the Society on request or can be found at: [www.buildingsociety.co.nz](http://www.buildingsociety.co.nz).

### **Alterations to the Term Deposit interest rates**

The Board of the Society may vary all or any of the interest rates offered in respect of new investments in Term Deposits from time to time. Information regarding the then-applicable Term Deposit interest rates is available from the Society on request or can be found at: [www.buildingsociety.co.nz](http://www.buildingsociety.co.nz).

If a person applies to invest in a Term Deposit account on or before the date on which the Board varies the interest rate applicable to that account and the applicant’s investment moneys are received by the Society after the variation date, the applicant will be advised of the variation and requested to confirm the application. If the applicant does not wish to proceed with the investment, the investment moneys (plus interest at the At Call Interest Rate) will be refunded to the applicant.

### **Withdrawal of At Call Deposits**

As At Call Deposits are invested on an at call basis, in general you may withdraw your At Call Deposit by written notice or request to the Society.

You can make withdrawals from your At Call Deposit account in person at any of the Society’s Branches or agencies, by using the passbook for your account. Alternatively, if you have registered for the Society’s Internet Banking, our telephone transfer system or Telephone

Banking, you may make a withdrawal from your At Call Deposit account and transfer funds into a trading bank account online or by telephone (subject to any rules that the Society may apply to online or telephone transfers). You can register for Internet Banking, our telephone transfer service or Telephone Banking by contacting the Branch at which your Deposit account was opened (for the avoidance of doubt, the Society is not a registered bank).

You are not required to pay any fee or charge to withdraw an At Call Deposit (including a withdrawal online by means of Internet Banking, by telephone transfer or Telephone Banking). However, the Society does charge fees in certain circumstances, as set out below under the heading "Fees and charges".

#### **Early withdrawal of Term Deposits**

Once a Term Deposit investment is made, its terms, including the fixed investment term and fixed interest rate, cannot generally be altered. However, you may request early repayment of a Term Deposit if your personal needs change or if circumstances arise that were not foreseen by you at the time of your investment. The Society will consider such requests at its complete discretion. If the Society agrees to early repayment of your Term Deposit, the Society may reduce the interest rate payable on your Term Deposit to reflect the withdrawal.

Any tax that has already been paid on interest earned cannot be refunded back to you and tax must be claimed from the IRD directly.

#### **Fees and charges**

There are currently no fees or charges associated with making Deposits with the Society. However, fees and charges are subject to change by the Society from time to time.

While the Society does not presently charge fees for direct credit or direct debit services, a fee will apply in the case of dishonoured transactions, dishonoured cheques, overdrawn accounts, international telegraphic transfers and certain other services. The Society also charges a nominal fee for outbound automatic payments and, in some cases, may on-charge certain transaction fees imposed on the Society by trading banks (these trading bank fees are beyond the Society's control). Information regarding the fees and charges referred to in this paragraph (which the Society may vary from time to time) is available from the Society on request or can be found at: [www.buildingsociety.co.nz](http://www.buildingsociety.co.nz).

#### **The Society's right to refuse or suspend applications**

The Society reserves the right (at its sole discretion) to refuse, or accept in part only, any application to invest in Deposits and to close the offer of Deposits under this Prospectus at any time, or to suspend acceptance of applications for Deposits for any particular investment term or interest rate.

Should the Society refuse to accept an application to invest in Deposits (in whole or in part), it will refund the investment moneys that are not accepted (plus interest at the At Call Interest Rate) to the applicant as soon as practicable after receipt.

#### **No Membership**

An investment in Deposits does not, in its own right, entitle an investor to membership of the Society. The Trustee is entitled to attend and be heard at meetings of the Society's Members on any part of the business of the meeting, which concerns the Trustee or holders of Deposits.

#### **Deposits**

You are not entitled to transfer, sell or assign your Deposit investment to another person.

#### **Continuous issue**

The Society is a continuous issuer of Deposits. Therefore, there is no maximum amount of the Deposits being offered under this Prospectus.

**Purpose of the offer**

The purpose of the offer of Deposits under this Prospectus is to raise funds for the Society's activities as a financial intermediary (as described on page 11 under the heading "Description of Activities of Borrowing Group").

**Credit Rating**

The Society was issued a "BB" (with stable outlook) long term credit rating on 27 August 2009 by Standard & Poor's. For further information about the Society's credit rating see page 21.

**2. NAME AND ADDRESS OF OFFEROR**

The Society, the issuer of the Deposits, is the offeror of the Deposits.

**3. DETAILS OF INCORPORATION OF ISSUER**

The Society was originally established on 12 March 1923 as the Southern Cross Permanent Building Society under the Building Societies Act 1908. It is now incorporated as a building society under the Building Societies Act 1965. The Society adopted its current name on 26 March 1982.

The Society's registration number is 1923/1.

The public register relating to the Society is kept at the Companies Office of the Ministry of Economic Development and may be viewed on the Companies Office website at: [www.companies.govt.nz](http://www.companies.govt.nz). (under "Search Other Registers"). Copies of documents may also be obtained by telephoning the Companies Office on 0508 266 726. The Companies Office may charge a nominal fee for certain documents.

The Society has two wholly owned subsidiaries, Southern Cross Building & Investment Limited and Southern Cross Nominees Limited. The public registers relating to these companies are also kept at the Companies Office and documents relating to these companies may be viewed or obtained from the Companies Office in the fashion set out in the preceding paragraph (under "Register Search").

**4. GUARANTORS****New Zealand Deposit Guarantee Scheme**

The Society has a guarantee under a Crown Retail Deposit Guarantee Scheme, being a guarantee that expires on 31 December 2011.

The Crown Guarantee comprises:

- A guarantee under the New Zealand Deposit Guarantee Scheme, which expires on 12 October 2010.
- A guarantee under the Crown Retail Deposit Guarantee Scheme Act 2009, which commences on 12 October 2010 and expires on 31 December 2011.

Further detail regarding the Crown Guarantee is set out on pages 20 to 21.

### **Guaranteeing Subsidiaries**

The Society's wholly owned subsidiaries, Southern Cross Building & Investment Limited and Southern Cross Nominees Limited (together, the "**Guaranteeing Subsidiaries**"), guarantee the Society's obligations under the Trust Deed. This guarantee is unsecured, unconditional, unlimited in nature and enforceable by the Trustee (although the Trustee may, at its discretion, determine whether to enforce the guarantee unless otherwise directed by a resolution of the holders of the Deposits).

None of, the Trustee, its directors, officers, employees or representatives guarantees repayment of the Deposits or payment of any interest on the Deposits.

None of the Society's shareholders guarantee repayment of the Deposits or payment of any interest on the Deposits.

## **5. DIRECTORATE AND ADVISERS**

### **Directors**

The full names and details of any technical or professional qualifications of the Directors of the Society and the city or town in which they have their principal residence, are set out in the Directory on page 73. The address at which each of the Directors may be contacted is the Society's registered office, which is set out in the Directory.

Mr Robert Smith, a Director of the Society, is also Chief Executive Officer of the Society.

No other Directors are employees of the Society.

No Director has been adjudged bankrupt during the five years preceding the date of this Prospectus.

### **Advisers**

The names of the auditors and solicitors involved in the preparation of this Prospectus are set out in the Directory on page 73.

### **Trustee**

The trustee for the holders of the Deposits is Trustees Executors Limited. The Trustee's address is Level 12, 45 Queen Street, Auckland. Its mailing address is PO Box 4197, Shortland Street, Auckland, 1140 and its website address is: [www.trustees.co.nz](http://www.trustees.co.nz).

You can contact the Trustee by calling 09 308 7100 (in Auckland) or 0800 878 783 (Freephone).

### **Secretary**

The name of the Society's secretary is set out in the Directory on page 73.

## **5A. RESTRICTIONS ON DIRECTORS' POWERS**

As the Society is a building society rather than a company, the restrictions on the powers of company directors, as set out in the Companies Act 1993, are not applicable.

## **6. DESCRIPTION OF ACTIVITIES OF BORROWING GROUP**

### **Activities of the Society**

The Society has provided financial services to New Zealanders for over 86 years and continues to offer a broad range of facilities for savings, loans and investment, including the raising of funds through the issue of the Deposits and the advancement of loans.

During the five years prior to the date of this Prospectus, the Society and the Guaranteeing Subsidiaries (which are the Society's only subsidiaries at the date of this Prospectus) have been engaged in the provision and development of these activities.

The Society may, pursuant to its Rules, undertake any function authorised by the Building Societies Act 1965 (including the functions set out in section 9A of that Act).

In June 2010, the Society entered into a non-binding Memorandum of Understanding with Canterbury Building Society and Pyne Gould Corporation Limited relating to a proposal to merge their respective financial services activities with a view to ultimately becoming a registered bank (none of the merger participants are currently registered banks). For further information concerning the proposed merger, see page 21

**No assets are charged as security for the Deposits**

The Society's principal assets are:

- mortgage advances to customers on residential, farming and commercial properties;
- buildings used in part as office accommodation (the remaining office space having been leased);
- listed securities (in particular a 11.7% shareholding in NZAX-listed Canterbury Building Society); and
- bank deposits, local authority stock, corporate debt and other money market securities.

As at the date of this Prospectus, none of the Society's assets (including assets held by a Guaranteeing Subsidiary) are charged as security for the Deposits offered under this Prospectus or as security for any other securities issued by the Society or for any borrowings of the Society.

The Society has entered into a bank overdraft arrangement with ANZ National Bank Limited of \$0.5 million. This uncommitted facility is unsecured and ranks equally with depositors of the Society.

## 7. SUMMARY OF FINANCIAL STATEMENTS

### Income Statement

	12 months to 30.06.09 audited \$000	12 months to 30.06.08 audited \$000	12 months to 30.06.07 audited \$000	12 months to 30.06.07 audited \$000	12 months to 30.06.06 audited \$000	12 months to 30.06.05 audited \$000
Interest Income	38,125	44,451	39,706	38,875	39,297	34,372
"D" Investment Shares	-	-	-	-	3	3
"B" Terminating Shares - Movement in Profit & Ballot Rights	(915)	279	(264)	(264)	(641)	525
Interest on Deposits	28,460	33,025	30,972	30,642	29,112	23,457
Total Interest & Profits & Ballot Rights Expense	27,545	33,304	30,708	30,378	28,474	23,985
<b>Net Interest Income</b>	<b>10,580</b>	<b>11,147</b>	<b>8,998</b>	<b>8,497</b>	<b>10,823</b>	<b>10,387</b>
Property Income	265	827	1,857	1,855	1,827	1,846
Other Income	-	407	-	492	925	1,368
Dividend Income	138	590	297	297	266	199
Change in Financial Instruments designated at Fair Value through Profit and Loss	25	-	-	-	-	-
Total Other Operating Income	428	1,824	2,154	2,644	3,018	3,413
<b>Total Operating Income Before Other Gains</b>	<b>11,008</b>	<b>12,971</b>	<b>11,152</b>	<b>11,141</b>	<b>13,841</b>	<b>13,800</b>
Depreciation & Amortisation	357	270	199	197	156	144
Loss on Sale of Property, Plant & Equipment	-	7	-	2	28	-
Other Operating Expenses	7,432	7,060	6,951	6,918	6,650	7,277
Total Operating Expenses	7,789	7,337	7,150	7,117	6,834	7,421
<b>Profit Before Impairment, Other Gains, Restructuring Costs and Tax</b>	<b>3,219</b>	<b>5,634</b>	<b>4,002</b>	<b>4,024</b>	<b>7,007</b>	<b>6,379</b>
Impairment (i)	14,625	593	1,222	1,184	433	539
<b>(Loss) / Profit Before Other Gains, Restructuring Costs and Tax</b>	<b>(11,406)</b>	<b>5,041</b>	<b>2,780</b>	<b>2,840</b>	<b>6,574</b>	<b>5,840</b>
Profit on Sale of Investment Property (ii)	-	2,589	-	-	210	-
Revaluation of Investment Property	-	-	2,871	-	-	-
Reversal of Prior Impairment upon Valuation of Land & Buildings	-	-	-	-	1,185	-
Other Net Gains	-	79	-	-	-	-
Total Other Net Gains	-	2,668	2,871	-	1,395	-
Restructuring Costs (iii)	(47)	1,905	1,600	1,600	-	-
Total Other Net Gains and Restructuring Costs	47	763	1,271	(1,600)	1,395	-
<b>Net (Loss) / Profit Before Tax</b>	<b>(11,359)</b>	<b>5,804</b>	<b>4,051</b>	<b>1,240</b>	<b>7,969</b>	<b>5,840</b>
Tax (Benefit) / Expense	(2,614)	636	1,386	531	2,405	1,635
<b>Net (Loss) / Profit After Tax</b>	<b>(8,745)</b>	<b>5,168</b>	<b>2,665</b>	<b>709</b>	<b>5,564</b>	<b>4,205</b>

The above amounts for the years ended 30 June have been extracted from the unqualified audited Financial Statements of Southern Cross Building Society subject to certain reclassifications and adjustments of equity due to changes in the accounting policy for debt and equity classification as disclosed in the Financial Statements for the year ended 30 June 2006.

The figures for years ended 30 June 2009, 2008 and 2007 have been prepared in accordance with NZ IFRS. The figures for the previous years and comparative figures for the year ended 30 June 2007 were prepared in accordance with previous NZ GAAP.

Notes:

- (i) Refer Appendix One, Note 7
- (ii) Refer Appendix One, Note 9
- (iii) Refer Appendix One, Note 10

## Balance Sheet

As at	30.06.09 audited \$000	30.06.08 audited \$000	30.06.07 audited \$000	30.06.07 audited \$000	30.06.06 audited \$000	30.06.05 audited \$000
Total Assets	412,012	455,916	493,367	494,083	480,736	454,731
Total Tangible Assets	411,679	455,593	493,070	494,083	480,736	454,731
Total Liabilities	359,814	395,511	436,227	436,227	436,573	417,271
<b>Total Equity</b>	<b>52,198</b>	<b>60,405</b>	<b>57,140</b>	<b>57,856</b>	<b>44,163</b>	<b>37,460</b>

## Statement of Changes in Equity

	12 months to 30.06.09 audited \$000	12 months to 30.06.08 audited \$000	12 months to 30.06.07 audited \$000	12 months to 30.06.07 audited \$000	12 months to 30.06.06 audited \$000	12 months to 30.06.05 audited \$000
<b>Opening Equity</b>	<b>60,405</b>	<b>57,140</b>	<b>43,675</b>	<b>44,163</b>	<b>37,460</b>	<b>32,491</b>
<b>Net (Loss) / Profit After Tax</b>	<b>(8,745)</b>	<b>5,168</b>	<b>2,665</b>	<b>709</b>	<b>5,564</b>	<b>4,205</b>
<b>Other Recognised Revenues and Expenses</b>						
Net Change in Revaluation of Properties, Net of Tax	-	-	691	2,484	1,139	764
Net Change in Available for Sale Reserve, Net of Tax	1,015	(1,504)	(391)	-	-	-
Net Change in Defined Benefit Plan Reserve, Net of Tax	(502)	(286)	-	-	-	-
Premium on cancellation of Ordinary Shares	-	(38)	-	-	-	-
<b>Net Income Recognised Directly in Equity</b>	<b>513</b>	<b>(1,828)</b>	<b>300</b>	<b>2,484</b>	<b>1,139</b>	<b>764</b>
<b>Total Recognised Revenues and Expenses</b>	<b>(8,232)</b>	<b>3,340</b>	<b>2,965</b>	<b>3,193</b>	<b>6,703</b>	<b>4,969</b>
Movements in Share Capital	25	(75)	10,500	10,500	-	-
<b>Total Change in Equity</b>	<b>(8,207)</b>	<b>3,265</b>	<b>13,465</b>	<b>13,693</b>	<b>6,703</b>	<b>4,969</b>
<b>Closing Equity</b>	<b>52,198</b>	<b>60,405</b>	<b>57,140</b>	<b>57,856</b>	<b>44,163</b>	<b>37,460</b>

The above amounts for the years ended 30 June have been extracted from the unqualified audited Financial Statements of Southern Cross Building Society subject to certain reclassifications and adjustments of equity due to changes in the accounting policy for debt and equity classification as disclosed in the Financial Statements for the year ended 30 June 2006.

The figures for the years ended 30 June 2009, 2008 and 2007 have been prepared in accordance with NZ IFRS. The figures for the previous years and comparative figures for the year ended 30 June 2007 were prepared in accordance with previous NZ GAAP.

**8. ACQUISITION OF BUSINESS OR SUBSIDIARY**

Neither the Society, nor its Guaranteeing Subsidiaries, has acquired any business or subsidiary in the past two years.

**9. MATERIAL CONTRACTS**

The Society and Her Majesty the Queen in right of New Zealand entered into a Crown Deed of Guarantee (Building Society/Credit Union) dated 21 November 2008. Pursuant to this deed the Crown guaranteed certain obligations of the Society for a period of two years from 12 October 2008. This is the only material contract (not being a contract entered into in the ordinary course of business) that was entered into by the Society and its Guaranteeing Subsidiaries in the two years preceding the date of this Prospectus (30 September 2009).

However, since the date of this Prospectus, the Society has entered into the following:

- The Society and Her Majesty the Queen in right of New Zealand entered into a Crown Deed of Guarantee (Building Society/Credit Union) dated 9 December 2009. This deed replaced the existing Crown Deed of Guarantee referred to above from 1 January 2010 and has effect to 12.01am on 12 October 2010. This deed clarifies the operation of the Crown Guarantee imposes additional obligations on the Society and permits the offer of “excluded securities” that do not have the benefit of the guarantee (in this regard, the Non-Guaranteed At Call Deposits and Non-Guaranteed Term Deposits which may be offered under this Prospectus are “excluded securities”).
- The Society and Her Majesty the Queen in right of New Zealand entered into a Crown Deed of Guarantee (Building Society/Credit Union) dated 28 May 2010. This Deed commences at 12.01am on 12 October 2010 and expires at 11.59pm on 31 December 2011.

**10. PENDING PROCEEDINGS**

There are no legal proceedings or arbitrations pending at the date of this Prospectus that may have a material adverse affect on the Society or the Guaranteeing Subsidiaries.

**11. ISSUE EXPENSES**

**Estimated costs**

The Directors estimate the Society will incur costs of \$20,000 in connection with the issue of Deposits under this Prospectus (including legal and audit fees).

**Commission**

The Society pays a commission to certain agents based on the total amount of Deposits invested with the Society through those agents. The commission rate payable by the Society ranges from 0.40% to 0.70% per annum of total balance invested through an agent.

**12. RANKING OF SECURITIES**

Should the Society be put into liquidation, secured creditors and those creditors preferred by statute will rank ahead of the claims of investors in Deposits. After the payment of these preferred creditors the claims of investors in Deposits will rank equally with all unsecured creditors.

As at 30 June 2009 and at the date of this Prospectus:

- none of the Society’s assets (including assets held by a Guaranteeing Subsidiary) are charged as security for the Deposits offered under this Prospectus or as security for any other securities or instruments issued by the Society;
- there are no securities issued by the Society (or a Guaranteeing Subsidiary) that rank in priority to, or equally with, the Deposits; and

- the uncommitted overdraft facility with ANZ National Bank Limited of \$0.5 million is unsecured and ranks equally with depositors of the Society.

Investors will not be obliged to make any payment to the Society (including in the event of insolvency) in connection with an investment in Deposits, other than the amount of the investment (and any applicable charges).

### **13. PROVISIONS OF THE TRUST DEED AND OTHER RESTRICTIONS ON BORROWING GROUP**

#### **Trust Deed**

The Deposits offered under this Prospectus are issued under a Trust Deed dated 21 December 1990 (as amended by the Deed of Amendment dated 24th September 1999) between the Society and Trustees Executors Limited (as trustee), which came into effect on 1 January 1991.

#### *Securities constituted by the Trust Deed*

The securities constituted under the Trust Deed are the Society's Deposits.

The holder of any Deposits issued before 1 January 1991 has the benefit of the Trust Deed unless and until the holder notifies the Trustee or the Society that he or she does not wish to be a beneficiary or be bound by the terms of the Trust Deed.

#### *Guaranteeing Subsidiaries*

The Guaranteeing Subsidiaries guarantee the Society's obligations under the Trust Deed (as further described on page 10 under the heading "Guarantors").

Neither the Trustee nor any of its directors, officers, employees or representatives guarantees repayment of the Deposits or payment of any interest on the Deposits.

#### *Ranking of securities*

All Deposits rank equally on a winding up with all other Deposits and unsecured liabilities of the Society.

In turn, Deposits and unsecured liabilities rank before equity securities issued by the Society (being, at the date of this Prospectus, Ordinary Shares and options to subscribe for Ordinary Shares).

#### *Limitations*

The Trust Deed prohibits the creation of any mortgage or charge over any assets of the Society securing the payment of any moneys owing in relation to any debt securities.

In addition the Trust Deed restricts the creation of secured liabilities in excess of a specified percentage of the Society's total tangible assets (as described below under the heading "Financial covenants").

#### *Financial covenants*

The Trust Deed contains continuing covenants from the Society with the Trustee that it will not permit:

- total liabilities to exceed 95% of total tangible assets;
- total secured liabilities to exceed 3% of total tangible assets (except that the Society may permit total secured liabilities of up to 8% of total tangible assets in certain prescribed circumstances);
- total liquid assets to be less than 15% of total tangible assets minus reserves (subject to the Trustee waiver dated 30 June 2009 referred to below);
- the total amount payable in cash over any half-year as interest and dividends to exceed income actually received in cash over the same period from investments;

- the aggregate of total secured indebtedness (other than that secured by mortgages within the limits specified within the Trust Deed) and total unsecured indebtedness owing to the Society and the total listed securities and the total unlisted securities of the Society to exceed 15% of total tangible assets; and
- the aggregate of total unsecured indebtedness, total listed securities and total unlisted securities to exceed 5% of total tangible assets.

In addition, the Society must ensure that its assets are sufficient or likely to be sufficient to enable its liabilities to be discharged as they become due. The definitions of the various financial terms referred to above are set out in the Trust Deed.

#### *Trustee Waiver*

Pursuant to clause 7.2 of the Trust Deed, the Trustee provided a waiver to the Society on 30 June 2009 that provides that, from the date of the waiver until 30 June 2010 or until revoked by the Trustee on twenty business days written notice to the Society, the Society's maximum permitted holding of debt securities (as defined in the Trust Deed) issued by any single counterparty (which has an appropriate credit rating permitted under the Trust Deed), is increased from 15% to a maximum of 25% of total liquid assets (as defined in the Trust Deed). Although the above waiver is not strictly required by the Society based on its current liquidity position, the waiver requested by the Society and granted by the Trustee provides clarity regarding the treatment of the Society's exposure to counterparties in regard to the Society's liquid assets. As at 29 June 2010, there is no expectation that an extension of the waiver will be sought.

#### *Transactions with Associated Person*

Under the Trust Deed, the Society covenants not to:

- lend to, invest in or guarantee the obligations of an "Associated Person" unless security is taken by way of mortgage on normal commercial terms (except in the case of employee loans); or
- purchase or dispose of any asset or services to or from any "Associated Person" other than for full market value, on an arms length basis and in the ordinary course of business.

An Associated Person is (broadly) any person (including a body corporate) or relative of any person who controls or manages the Society, or who is controlled by the Society or one or more of the same persons who controls or manages the Society, and includes any non-guaranteeing body corporate which is related to or associated (in terms of accounting standards) with the Society.

#### *Reports to Trustee*

To enable the Trustee to monitor the financial position of the Society (and facilitate the exercise, by the Trustee, of its rights under the Trust Deed), the Society covenants to report regularly to the Trustee on the Society's affairs, as follows:

- the Society must present the Trustee with monthly management accounts, six monthly unaudited interim Financial Statements and annual audited Financial Statements; and
- the Directors must report to the Trustee every three months on various matters specified in detail in the Trust Deed, including on the Society's compliance with the financial covenants summarised above.

The Trustee may also request (in special circumstances) that the Society provide further accounts and relevant information.

#### *Duties of Trustee*

The Trustee shall exercise reasonable diligence:

- to ascertain whether or not the Society has breached the covenants in the Trust Deed; and

- to ascertain whether or not the assets of the Society that are, or may be, available are, or are likely to be, sufficient to discharge the Society's liabilities under the Trust Deed as they become due.

#### *Extraordinary resolutions*

An extraordinary resolution (being a resolution passed by 75% of the votes cast at a meeting where there was a quorum of the holders of not less than a majority in principal amount of the relevant securities) of the holders of Deposits (or a class thereof) generally binds all the members of that class (whether they vote or not).

A resolution altering the rights of a class of security holders to recover principal and interest (and certain other resolutions) will not be of any force or effect unless passed by an extraordinary resolution of that class of security holders or unless it has been assented to in writing by not less than 75% in principal amount of that class of security holders.

#### *Modifications to Trust Deed*

The Trust Deed may be changed in certain circumstances, including if the Trustee is satisfied that a change is justified and is not, or is not likely, to be prejudicial to the interests of the holders of Deposits, or with the approval of an extraordinary resolution, or for technical reasons.

#### *Release of Trust Deed*

The Trust Deed will be discharged if the Society becomes a registered bank or transfers its engagements to a bank 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.

#### **Other restrictions on borrowing**

Other than as set out in the Trust Deed (summarised above), there are no restrictions on the ability of the Society or its Guaranteeing Subsidiaries to borrow.

The Society's power to issue Deposits is provided for in the Society's Rules (which permit the Society to borrow subject to the terms of the Trust Deed). The Members of the Society may alter the Rules by special resolution in accordance with the Building Societies Act 1965.

#### **Trustee's statement**

A copy of the Trustee's statement, as required by clause 13(3) of the Second Schedule to the Securities Regulations, is set out in Appendix Three to this Prospectus on page 71.

## **14. OTHER TERMS OF OFFER AND SECURITIES**

All of the terms of the offer of the Deposits, and all terms of the Deposits offered under this Prospectus, are set out in this Prospectus, except for those terms implied by law or set out in a document that has been registered with a public official, which is available for public inspection and referred to in this Prospectus.

## **15-32. FINANCIAL STATEMENTS**

The Borrowing Group's most recent audited Financial Statements for the year ended 30 June 2009, prepared in compliance with clauses 15 to 32 of the Second Schedule to the Securities Regulations, are set out in Appendix One to this Prospectus on pages 27 to 66.

## **33. PLACES OF INSPECTION OF DOCUMENTS**

Copies of the Society's Rules and the material contract referred to in this Prospectus may be viewed on the Companies Office website at: [www.companies.govt.nz](http://www.companies.govt.nz) (under "Search Other Registers"), may be obtained by telephoning the Companies Office on 0508 266 726, or may be

inspected by any person who so requests during the currency of this Prospectus during normal business hours at the registered office of the Society set out in the Directory on page 73 of this Prospectus. The Companies Office may charge a nominal fee for certain documents.

Further information regarding publicly available documents in respect of the Society and Deposits (including, for example, the Society's Financial Statements) is set out in the Investment Statement in respect of the Deposits, which is available from the Society on request and can be found on the Society's website at: [www.buildingsociety.co.nz](http://www.buildingsociety.co.nz).

## 34. OTHER MATERIAL MATTERS

### **Risks**

A Deposit investment with the Society is expected to be a low risk investment. The main risk of you not recovering the sum which you paid for the investment, or of not receiving the returns described in the Prospectus, is the insolvency or statutory management of the Society. This could arise as a result of circumstances such those set out below.

#### *Default under loans*

Borrowers from the Society may default on payments. In such cases if the value of the mortgage security held by the Society is insufficient to meet the debt and the cost of enforcing such security, then the Society could suffer an overall loss.

The Society manages this risk by adopting conservative lending criteria and policies, and by lending almost exclusively on a first mortgage security basis.

Details of the Society's loan arrears position as at 30 June 2009 are contained in Note 17 of the Financial Statements set out in Appendix One. All the amounts shown as being in arrears are secured by first mortgage over property and provision has been made in the Society's accounts for any losses expected by the Society in respect of these loans, as described below.

As at 28 September 2009, the total amount of "net non-performing assets" (i.e. impaired assets and greater than 90 days past due assets, net of impairment provisions), adjusted for those amounts expected to be resolved by 30 September 2009, was \$26.5 million (compared to \$28.7 million as at 30 June 2009).

The Society's impairment provisioning as at 3 September 2009 was \$10.1 million, representing 3.6% of total gross advances (compared to \$9.0 million as at 30 June 2009 representing 3.2% of total gross advances as at that date).

Given the inherent uncertainties of both the current and future property market in which the Society operates, it is not possible for the Society to accurately assess the likelihood of loss to the Society in the event the Society is required to enforce its security rights to recover any non performing loans. The Board of the Society considers that, based on the strong capital position of the Society (\$52.2 million as at 30 June 2009), there is more than sufficient equity in the Society to avoid any loss to depositors.

#### *Property risk*

The Society lends to borrowers based on mortgage security over residential, commercial and rural properties based only in New Zealand. Each of those property sectors has their own particular risks associated with them.

The Society is an Auckland based organisation. The Society manages the geographic exposure in its lending portfolio by diversifying lending across a range of locations within New Zealand. Approximately 50% of the Society's lending is on properties located in the Auckland region. Details of the Society's geographic loan distribution as at 30 June 2009 are contained in Note 32 of the Financial Statements set out in Appendix One.

The value of some properties against which the Society has security will have been adversely affected by current property and financial market conditions. Ongoing uncertainty prevailing in the property market will have a material impact on the ability of the Society to recover all its exposure in respect of certain loan advances. However, the Board considers that factors such as the diversity of the Society's loan portfolio, the limited concentration of the Society's lending to any particular customer(s) (both referred to in the Financial Statements set out in Appendix One), and the relatively conservative loan to value ratios in the Society's loan portfolio at the time of making the loans, offer the Society some degree of protection, in these uncertain times, in the event of any further deterioration in property values in New Zealand.

#### *Liquidity risk*

The Society relies largely on Deposits as its primary source of funding. Any significant change in the level of the Society's Deposits could affect the ability of the Society to meet its obligations to its depositors.

The Society manages this risk by holding a considerable percentage of the Society's tangible assets in liquid assets such as cash and investments approved by the Trustee in accordance with the Trust Deed governing Deposits. As at the date of this Prospectus, the Trust Deed provides that the Society's Liquidity Ratio (defined as the Society's liquid assets as a percentage of the Society's total tangible assets minus reserves) must be at least 15%. The Society's liquid assets as at 3 September 2009 were \$122 million and its Liquidity Ratio as at that date was approximately 33% (compared to \$116 million and 32% respectively as at 30 June 2009).

Given the Society's strong on-balance sheet liquidity position and the significant increased costs and other terms of maintaining its \$80 million of wholesale banking facilities, the Society elected to discontinue those facilities, with effect from 30 June 2009. The Society continues to prudently manage its liquidity position to ensure that it is able to fulfil its obligations to all its stakeholders.

The Directors of the Society are of the opinion that, having regard to the Society's current and projected liquidity position as at the date of this Prospectus, the Society has sufficient liquidity, or access to liquidity, to enable the Society to continue to meet its obligations.

#### *Regulatory environment*

As in the case with other non bank deposit-taking institutions ("NBDT"), the Society faces increasing levels of regulation. In particular the Reserve Bank is imposing new regulations such as minimum capital requirements, restrictions on related party transactions, the need to obtain and maintain a credit rating and the requirement to develop and comply with risk management programmes appropriate for the size of the financial institution.

The Board of the Society is confident that each of these compliance requirements will be met in a timely manner by the Society.

The Society has already satisfied a number of key requirements of the new regulation. In particular, the Society obtained a "BB" (with stable outlook) long term credit rating on 27 August 2009 from Standard & Poor's. This is the first credit rating awarded to a building society in New Zealand by Standard & Poor's (for further information see pages 21 to 23). Also, the Society's risk management programme has been reviewed and approved by the Society's Trustee in accordance with the requirements of the Reserve Bank of New Zealand Act 2008

#### *Changes in economic conditions*

Changes in economic conditions include changes in interest rates and the demand for loans secured by mortgage, changes in legal and compliance requirements, general economic conditions and financial markets that could result in a decrease in both investor and borrower confidence.

Since the Society's last prospectus dated 31 March 2009, the difficult global and domestic economic conditions have continued and thus access to liquidity continues to be important to enable financial institutions to meet their obligations to investors. For the reasons outlined under the heading "Liquidity risk" above, the Directors of the Society consider the Society's current and projected liquidity position to be sufficient to meet its obligations to investors.

In addition, the current negative condition of the New Zealand property and financing markets is resulting in certain borrowers having limited ability to refinance or dispose of assets, and gives rise to a significant and unquantifiable risk that the Society may incur losses in respect of those assets. The Society addresses this risk through pro-actively reviewing its exposures and management of defaulting loans (including, exercising rights as a secured party, claiming on personal guarantees, and mortgagee sales).

#### **No NZX listing**

As at the date of this Prospectus, there is no intention to seek a listing of the Society or quotation of any securities issued by the Society on any market operated by NZX Limited.

#### **Crown Retail Deposit Guarantee Scheme**

The Society has a guarantee under a Crown Retail Deposit Guarantee Scheme, being a guarantee that expires on 31 December 2011.

The Crown Guarantee comprises:

- A guarantee under the New Zealand Deposit Guarantee Scheme, which expires on 12 October 2010.
- A guarantee under the Crown Retail Deposit Guarantee Scheme Act 2009, which commences on 12 October 2010 and expires on 31 December 2011.

The Crown Guarantee does not apply to Non-Guaranteed Term Deposits and Non-Guaranteed At Call Deposits or any other "excluded securities" which the Society may offer from time to time.

The Society may offers investors the choice of investing in Deposits with or without the benefit of the Crown Guarantee, as detailed in section under the heading "Crown Retail Deposit Scheme" and on pages 6 to 7.

Under the Crown Guarantee, the Crown guarantees to each eligible investor that if the Society fails to repay the amount invested plus any accrued interest when it is due and payable, then the Crown will pay that amount to the investor. In general terms, eligible investors in Deposits (other than Non-Guaranteed Term Deposits and Non-Guaranteed At Call Deposits or any other "excluded securities") will have the benefit of the Crown Guarantee given under the:

- New Zealand Deposit Guarantee scheme, up to \$1 million until 12 October 2010; and
- Crown Retail Deposit Guarantee Scheme Act 2009, up to \$250,000 from 12 October 2010 to 31 December 2011.

The Crown Guarantee also covers Deposits (other than Non-Guaranteed Term Deposits and Non-Guaranteed At Call Deposits or any other "excluded securities") which are due and payable to investors later than the above dates if a "default event" occurs during the relevant period.

A "default event" under the Crown Guarantee is where: the Society becomes insolvent or fails to pay its debts when due; the Society is subject to insolvency proceedings; a voluntary administrator, liquidator or receiver is appointed; a secured party takes possession of the Society's assets; the Society enters into an arrangement or compromise with its creditors; the

Society enters into a moratorium; or a statutory manager is appointed. *As at 29 June 2010*, the Board considers it unlikely that a default event will occur

The Crown will only make payment to an investor under the Crown Guarantee if the investor makes a claim and the Crown is satisfied as to its liability to the investor and as to the amount payable to them.

The “extended” Crown Guarantee (which applies from 12 October 2010 to 31 December 2011), differs from the “existing” Crown Guarantee (which applies to 12 October 2010). In particular, the “extended” Crown Guarantee:

- does not cover any interest that accrues after a “default event”;
- requires an investor must make any claim for payment with the Crown within 180 days of the date of their investment becoming due and payable (and the Society has not paid); and
- only covers investments which are due and payable to investors during the period from 12 October 2010 to 31 December 2011. It does not cover investments which are due and payable after the expiry of that period.

Further information about the Crown Retail Deposit Guarantee Scheme and the most recent audited financial statements of the Crown are available free of charge, at all reasonable times, on the internet site maintained by or on behalf of the Treasury at [www.treasury.govt.nz](http://www.treasury.govt.nz).

The full terms and conditions of each guarantee are set out in the relevant Crown Deed of Guarantee.

Potential investors in Guaranteed Term Deposits or Guaranteed At Call Deposits should satisfy themselves that the Crown Guarantee applies to them. If you are in doubt as to the application of the Crown Guarantee, you should seek independent professional advice.

#### **Memorandum of Understanding**

On 1 June 2010, the Society signed a non-binding Memorandum of Understanding with Canterbury Building Society and Pyne Gould Corporation Limited.

Under the Memorandum of Understanding, the parties have agreed to evaluate a proposed merger of their respective financial services activities with a view to ultimately becoming a New Zealand owned registered bank which would list on the New Zealand Stock Exchange (none of the merger participants are currently registered banks). At this stage, this is just a proposal and there is no certainty that the aim of the parties will be achieved as numerous requirements must be met even if all parties agree to the proposal. Further details of the proposed merger are available on the Society’s website at [www.buildingsociety.co.nz](http://www.buildingsociety.co.nz).

#### **Credit Rating**

The creditworthiness of the Society is rated by Standard & Poor’s, a ratings agency approved by the Reserve Bank under section 157J of the Reserve Bank Act.

Standard & Poor’s assigned a “**BB**” (with stable outlook) long term credit rating to the Society on 27 August 2009.

It is important to note that Standard & Poor’s credit rating of the Society is not a statement of fact, an endorsement of the Society, or a recommendation to invest in the Society’s Deposits. Rather, it is a statement of opinion issued by Standard & Poor’s.

As described in Standard & Poor’s website ([www.standardandpoors.com](http://www.standardandpoors.com)):

*“Since there are future events and developments that cannot be foreseen, the assignment of credit ratings is not an exact science. For this reason, Standard & Poor’s ratings opinions are*

*not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default”.*

*“A Standard & Poor's issuer credit rating is a forward-looking opinion about an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation.”*

*“A Standard & Poor's rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions”.*

The designation of “stable outlook” assigned by Standard & Poor’s to the Society means that a rating is not likely to change.

Also, the credit rating that has been assigned to the Society is a local currency issuer rating as opposed to a foreign currency issuer rating. This means the country (or sovereign) risk that is taken into account by Standard & Poor’s is that of New Zealand only and the currency of repayment is the New Zealand dollar.

Standard & Poor’s adopts the following scale and meanings to its credit rating opinions:

<b>Scale</b>	<b>Meaning</b>
AAA	Extremely strong capacity to meet financial commitments. Highest Rating.
AA	Very strong capacity to meet financial commitments.
A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.
BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.
BBB-	Considered lowest investment grade by market participants.
BB+	Considered highest speculative grade by market participants.
<b>BB</b>	<b>Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.</b>
B	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments.
CCC	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments.
CC	Currently highly vulnerable.

C	Currently highly vulnerable obligations and other defined circumstances.
D	Payment default on financial commitments.

Note: Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Source: [www.standardandpoors.com](http://www.standardandpoors.com)

#### **Non Bank Deposit Taker regulations**

Part 5D of the Reserve Bank Act regulates NBDTs such as the Society. The Reserve Bank has regulation making powers under the Reserve Bank Act to specify the type of credit rating that must be held in order to meet the definition of a NBDT and to require NBDTs to:

- maintain a minimum dollar amount of capital;
- meet a minimum capital ratio requirement;
- meet related party restrictions;
- meet liquidity requirements; and
- Meet prescribed governance requirements (i.e.; board composition)

In December 2008, the Reserve Bank published a consultation paper on draft NBDT policies in relation to the proposed regulations regarding related party requirements and minimum capital ratio requirements. The Reserve Bank has proposed that a minimum capital ratio be set at 8% of tier one capital.

As at 29 June 2010, the proposed regulations are not yet operational but the Society expects to comply with these regulations as and when they become effective.

### **35. DIRECTORS' STATEMENT**

The Directors of the Society, after due enquiry by them in relation to the period between 30 June 2009 and the date of this Prospectus (being the "specified date" for the purposes of the Securities Regulations), are of the opinion that, other than as set out under the heading "Other Material Matters" above, no circumstances have arisen that materially adversely affect the trading or operating profitability of the Society and its Guaranteeing Subsidiaries, the value of the assets of the Society and its Guaranteeing Subsidiaries, or the ability of the Society and its Guaranteeing Subsidiaries to pay their liabilities due within the next 12 months.

### **36. AUDITORS' REPORT**

A copy of the auditors' report, as required by clause 36 of the Second Schedule to the Securities Regulations is set out in Appendix Two to this Prospectus on pages 67 to 70.

## SIGNATURES

This Prospectus has been duly signed by or on behalf of the Directors of the Society:

\_\_\_\_\_  
**Geoffrey Thomas Ricketts \***  
Director

\_\_\_\_\_  
**Gavin Ronald Walker \***  
Director

\_\_\_\_\_  
**Robert Leslie Smith**  
Director

\_\_\_\_\_  
**Christopher Robert Mace \***  
Director

\_\_\_\_\_  
**Anthony Donald James Beasley \***  
Director

\_\_\_\_\_  
**Noel Barclay \***  
Director

*\* Signed by his duly appointed agent, Robert Leslie Smith (Director and Chief Executive Officer)*

**NOTE:** Gavin Ronald Walker is named above, as he was an original signatory to this Prospectus (which is dated 30 September 2009). However, Mr Walker resigned as a Director of the Society on 16 December 2009. Don Turkington, who was subsequently appointed as a Director of the Society on 21 December 2009 is not named above, as he was not a Director on the date of this Prospectus.

## **GLOSSARY**

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**At Call Deposit** means a Deposit invested with the Society that has no fixed term of investment and a variable interest rate, as further described on page 5.

**At Call Interest Rate** means the interest rate applicable to At Call Deposits, as determined by the Board from time to time.

**Board** means the board of Directors of the Society.

**Borrowing Group** means the Society and the Guaranteeing Subsidiaries.

**Crown Guarantee** means the Society's guarantee under a Crown Retail Deposit Guarantee Scheme, expiring on 31 December 2011.

**Deposit** means an investment of moneys in an at-call or fixed term deposit account with the Society.

**Directors** means the directors of the Society.

**Guaranteed At Call Deposit** means an At Call Deposit which is covered by the Crown Guarantee.

**Guaranteed Term Deposit** means a Term Deposit which is covered by the Crown Guarantee.

**Guaranteeing Subsidiaries** means (as the context requires) each, or both of, Southern Cross Building & Investment Limited and Southern Cross Nominees Limited (being wholly owned subsidiaries of the Society).

**NBDT** means Non Bank Deposit Taker as referred to in Reserve Bank Act.

**Non-Guaranteed At Call Deposit** means an At Call Deposit which is not covered by the Crown Guarantee.

**Non-Guaranteed Term Deposit** means a Term Deposit which is not covered by the Crown Guarantee.

**NZ IFRS** means the New Zealand Equivalent to International Financial Reporting Standards.

**Previous NZ GAAP** means the basis of accounting that Southern Cross Building Society used to prepare its historical financial statements prior to adopting NZ IFRS.

**Prospectus** means this prospectus.

**Reserve Bank Act** means the Reserve Bank of New Zealand Act 1989.

**Securities Act** means the Securities Act 1978.

**Securities Regulations** means the Securities Regulations 1983.

**Society** means the Southern Cross Building Society.

**Term Deposit** means a Deposit invested with the Society for a fixed term of investment and at a fixed rate, as further described on page 6.

**Trust Deed** means the trust deed between the Trustee and the Society dated 21 December 1990, as amended on 24 September 1999, and any further amendment thereto.

**Trustee** means Trustees Executors Limited.

**APPENDIX ONE:**

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**AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

# SOUTHERN CROSS BUILDING SOCIETY

## STATEMENT OF ACCOUNTING POLICIES

For the Year Ended 30 June 2009

### REPORTING ENTITY

Southern Cross Building Society is a profit-oriented Building Society registered in New Zealand under the Building Societies Act 1965. The Society is an issuer for the purposes of the Financial Reporting Act 1993.

The group consists of the Society and its wholly owned subsidiaries, Southern Cross Building and Investments Limited and Southern Cross Nominees Limited ("the Society").

The registered office of the Society is Level 1, Corner Victoria and High Streets, Auckland.

The Society's principal activities during the period were receiving deposits for investments, providing call accounts, and making advances generally on first mortgage security.

### STATEMENT OF COMPLIANCE

The consolidated financial statements of the Society have been prepared in accordance with the Financial Reporting Act 1993 and the Building Societies Act 1965.

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

The financial statements also comply with International Financial Reporting Standards ("IFRS").

### GENERAL ACCOUNTING POLICIES

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments, and investment properties and certain property, plant and equipment.

Cost is based on the fair value of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported.

The reporting currency is New Zealand dollars and has been rounded to the nearest thousand (\$000) unless otherwise stated.

### USE OF SIGNIFICANT JUDGEMENTS, ESTIMATES 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.

Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

#### **Allowance for Impairment Loss**

Advances and loans are regularly reviewed for impairment loss.

Credit impairment provisions are raised for exposures that are known to be impaired. Advances and 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 advance or loan and that loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the individual advance or loan.

Impairment is assessed initially for assets that are individually significant, and then on a collective basis for those exposures not individually known to be impaired. Exposures that are assessed collectively are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data. The judgements adopted in estimating a collective provision required are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The provision for credit impairment (individual and collective) is deducted from advances and loans in the Balance Sheet and the movement in the provision for the reporting period is reflected in the Income Statement as 'Impairment Expense'. When an advance or loan is uncollectible, it is written off against the related provision for impairment. Subsequent recoveries of amounts previously written off are taken to the Income Statement. Where impairment losses recognised in previous periods are subsequently decreased or no longer exist, such impairments are reversed in the Income Statement.

#### **Estimation of Average Loan Lives Used to Apportion Fees and Costs Over Time**

The estimation of the average duration or life of loans has been based on historical experience. In addition, the average life of loans is assessed at least annually and considered against the remaining legal maturity. Adjustments to the average loan life are made when considered necessary. The average life of loans is used to apportion fees and costs under the effective interest rate method (Note 32).

# SOUTHERN CROSS BUILDING SOCIETY

## STATEMENT OF ACCOUNTING POLICIES (continued)

### Property Plant and Equipment

The valuations of independent valuers are used as a measure of fair value. Valuations are performed every three years and are based on the capitalisation of net income and open market value, using methods and assumptions that are based on observable market conditions and risks existing at the date of the valuation (Note 19).

## SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies that materially affect the measurement of financial performance and the financial position have been applied.

### Consolidation of Subsidiaries

Subsidiaries are those entities that are controlled by the Society. Control exists when the Society has the power, directly or indirectly, to govern the financial and operating policies of entities so as to obtain benefits from its activities.

The consolidated financial statements are prepared by combining the financial statements of the Society and its subsidiaries. All inter-company transactions, balances and unrealised profits are eliminated on consolidation.

The subsidiaries of the Society are non-trading. The only assets are minor inter-group balances and therefore the Society has only disclosed consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

### Revenue and Expense Recognition

Revenue is measured at the fair value of consideration received or receivable. The principal sources of revenue are lending and investment interest income, dividend income, rental income and loan establishment fees.

### Interest Income and Expense

Interest revenue on financial instruments recorded at amortised cost is recognised on the effective interest method and on an accrual basis for financial instruments recorded at fair value.

### Loan Establishment Fees

Fees and direct costs relating to loan origination are amortised using the effective interest rate method.

### Dividend Income

Dividend income from listed securities is recognised when the shareholders' rights to receive payments have been established.

### Penalty interest

Penalty interest on loan advances is charged in circumstances where the borrower has defaulted on the terms of the mortgage contract, such as in the case of past due assets. Due to the uncertainty of recovering accrued penalty interest, the Society provides against such accrued penalty interest in its accounts and only substantially recognises revenue arising from penalty interest when the penalty interest monies are received.

### Rental Income

Rental Income from land and buildings is recognised on a straight-line basis over the term of the contract.

### Expense Recognition

All expenses are recognised in the income statement on an accrual basis.

### Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

### Amortised Cost

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

### Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. Transaction costs are expensed immediately. The resulting gain or loss is recognised in profit or loss immediately. The Society has elected not to adopt hedge accounting.

### Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and is capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rates expected to apply at the time of settlement.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Society in respect of services provided by employees up to reporting date.

# SOUTHERN CROSS BUILDING SOCIETY

## STATEMENT OF ACCOUNTING POLICIES (continued)

### Defined Benefit Plan

The cost of providing benefits for defined benefit superannuation plans is determined using the Projected Unit Credit Method. Actuarial gains and losses are recognised in full in the period in which they occur by way of a movement in the Defined Benefit Plan Reserve, and are presented in the Statement of Changes in Equity.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefit becomes vested.

The defined benefit obligation is deducted from the fair value of the Defined Benefit Plan Asset to derive the Defined Benefit Plan surplus recognised on the Balance Sheet.

### Executive Share Scheme

Equity settled share based payments are measured at the fair value on the effective date of grant.

The fair value, determined on the basis of comparison to an observable market price of options issued with similar terms, is expensed on a straight line basis over the vesting period.

### Investment Property

Investment property has been valued at fair value based on independent valuation undertaken annually. Gains or losses on investment property are separately disclosed within the Income Statement.

### Financial Assets

Financial assets are classified into the following specified categories: "loans and receivables", "available for sale" financial assets and financial assets "at fair value through profit or loss". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### Loans and Advances and Trade and Other Receivables

Advances, accounts receivable and other receivables are classified as "loans and receivables" and are recorded at amortised cost less impairment (if any). Interest income calculated using the effective interest method is recognised in profit or loss.

Loans issued at a non-market interest rate are recorded at fair value upon initial recognition and the resulting discount is amortised to interest income using the effective interest method.

#### Investment Securities and Short Term Deposits

Local authority stock, corporate bonds, listed securities, call deposits, term deposits, registered certificates of deposit and promissory notes are classified as "available for sale" financial assets and are recorded at fair value.

Gains and losses arising from changes in fair value are recognised directly in the available for sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available for sale revaluation reserve is included in profit or loss for the period. Investment Securities and Short Term Deposits are recognised and derecognised on trade date where the purchase or sale of that financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs that are directly attributable to the acquisition or issue of the financial asset.

#### Derivative Financial Instruments

Interest Rate Swaps are classified as financial assets "at fair value through profit and loss" and are recorded at fair value. Gains and losses arising from a change in fair value are recognised in profit or loss. The Society has not designated any derivatives as hedges.

### Financial Liabilities

Financial liabilities include all forms of funding.

#### Deposits

Deposits include transactional and savings accounts, term deposits and wholesale funding and are recorded at amortised cost. Interest expense calculated using the effective interest method is recognised in profit or loss.

#### Redeemable Shares Profit and Ballot Rights

Redeemable shares profit and ballot rights represent the net present value of the expected future liability over and above the "B" terminating shares subscriptions and are classified as financial liabilities "at fair value through profit and loss" and are recorded at fair value.

### Derecognition of Financial Assets and Liabilities

The Society derecognises financial assets when it no longer has any rights to further cash flows from the asset, similarly financial liabilities when it no longer has obligations to provide further cash flows relating to the liability.

### Financial Instruments Issued by the Society

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

### Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

# SOUTHERN CROSS BUILDING SOCIETY

## STATEMENT OF ACCOUNTING POLICIES (continued)

### Asset Quality

All loans and advances are subject to regular scrutiny of credit risk.

The Society classifies its non-performing assets into the following categories:

#### Impaired Assets

Loans and advances where a credit event (i.e. a downgrading of security valuation) has occurred and for which it is probable the Society will not be able to collect all amounts owing in terms of the contract and include the following:

- Loans and advances which are past due with insufficient security to cover principal and arrears;
- Restructured loans and advances where the interest rate charged is below that of the Society's average cost of funds

#### Restructured items

Loans and advances where the original contractual terms have been concessionally modified due to the financial difficulties of the borrower, and on which interest continues to accrue at a rate that is equal or greater to the Society's average cost of funds at the date of the restructuring.

#### Past Due Assets

Loans and advances where a counterparty has failed to make a payment when contractually due and which are not impaired assets.

### Impairment of Assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. 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.

#### Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments that are considered significant are subject to this approach.

#### Non-Financial Assets

The carrying amounts of the Society's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any indication exists then the asset's recoverable amount is estimated.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Taxation

Income tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax or current tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

#### Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

#### Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

# SOUTHERN CROSS BUILDING SOCIETY

## STATEMENT OF ACCOUNTING POLICIES (continued)

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets and liabilities for temporary differences relating to goodwill are not recognised to the extent they arise from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the consolidated entity is able to control reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period(s) when the asset and liability giving rise to them will be realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Society intends to settle its current tax assets and liabilities on a net basis.

Management perform a review of the carrying amount of the deferred tax asset or liability at each balance date.

### Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority in which case the GST is recognised as part of the cost of the acquisition of the assets or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a net basis. The GST component of cash flows arising from investing and financing activities that is recoverable from, or payable to, the taxation authority is included as an operating activity.

### Property, Plant and Equipment

Land and buildings are measured at fair value. An independent valuation expert determines fair value every three years, on the basis of capitalisation of net income and open market value. The fair values are recognised in the financial statements of the consolidated entity, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the Income Statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense to the Income Statement to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged as an expense to the Income Statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land.

Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following annual rates are used in the calculation of depreciation:

Buildings	1.0% - 2.5%
Office furniture	8.5% - 15.0%
Office equipment	17.5% - 30.0%
Computer equipment	20.0% - 40.0%

### Intangible Assets

#### Computer Software

Acquired computer software is recognised at cost less amortisation. Amortisation is charged on a straight line basis over the estimated useful lives (not exceeding three years).

### Operating Leases

Operating lease payments (or receipts) are recognised as an expense (or income) on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

# SOUTHERN CROSS BUILDING SOCIETY

## STATEMENT OF ACCOUNTING POLICIES (continued)

### Trade and Other Receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowance is estimated for irrecoverable amounts that are recognised in the income statement when there is objective evidence that the asset is impaired.

### Trade and Other Payables

Trade and other payables are recognised when the Society becomes obliged to make future payments resulting from the purchase of goods and services. They are measured at amortised cost.

### Cash

Cash comprises cash on hand at branches and agencies, and on call bank balances.

### Segmental Reporting

The Society only operates in one principal business and sector, namely the provision of financial services in New Zealand. These services involve the acceptance of funds on deposit, the making of advances to borrowers (primarily secured on a first mortgage basis over property) and investment in Board approved investments such as money market assets, central government and local government stock and other investments.

### Statement of Cash flows

The following are definitions of the terms used in the statement of cash flows:

- Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment and investments. Investments can include movements in related party balances and securities not falling within the definition of cash.
- Financing activities are those activities that result in changes in the size, composition and the capital structure of the Society. This includes both equity and debt not falling within the definition of cash.
- Operating activities include all transactions and other events that are not investing or financing activities.

### Changes in Accounting Policies

There have been no material changes to accounting policies. All policies have been applied on the basis consistent with those used in the previous year.

### Standards and Interpretations in issue not yet adopted

At the date of authorisation of the June 2009 financial statements, a number of Standards and Interpretations were in issue but not yet effective. Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but may change the presentation and disclosures presently made in relation to the Society's and group's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS 8 'Operating Segments'	1 January 2009	30 June 2010
NZ IAS 1 'Presentation of Financial Statements' – Revised Standard	1 January 2009	30 June 2010
Amendments to NZ IFRS-4 'Insurance Contracts' – The Scope of Insurance Activities and Differential Reporting Concessions	1 January 2009	30 June 2010
NZ IFRIC 15 'Agreements for the Construction of Real Estate'	1 January 2009	30 June 2010
NZ IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'	1 October 2008	30 June 2010
NZ IFRIC 17 'Distributions of Non-Cash Assets to Owners'	1 July 2009	30 June 2011
NZ IFRIC 18 'Transfers of Assets from Customers'	1 July 2009	30 June 2011
NZ IAS 23 'Borrowing Costs' – revised 2007	1 January 2009	30 June 2010
Amendments to NZ IFRS-2 'Share-Based Payment' – Vesting Conditions and Cancellations	1 January 2009	30 June 2010
NZ IFRS 3 'Business Combinations' – revised 2008	1 July 2009	30 June 2011
NZ IAS 27 'Consolidated and Separate Financial Statements' – revised 2008	1 July 2009	30 June 2011
Revised Amendments to NZ IAS 32 'Financial Instruments: Presentation' and NZ IAS 1 'Presentation of Financial Statements' – Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009	30 June 2010
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2008	Various*	30 June 2010
Amendments to NZ IFRS 1 'First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards' and NZ IAS 27 'Consolidated and Separate Financial Statements' – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009	30 June 2010
Omnibus Amendments (2008)	1 January 2009	30 June 2010
Amendments to NZ IAS 39 'Financial Instruments: Recognition and Measurement' – Eligible Hedged Items	1 July 2009	30 June 2011

## SOUTHERN CROSS BUILDING SOCIETY

### STATEMENT OF ACCOUNTING POLICIES (continued)

Improving Disclosures about Financial Instruments (Amendments to NZ IFRS 7 Financial Instruments: Disclosures)	1 January 2009	30 June 2010
Omnibus Amendments (2009)	1 July 2009	30 June 2011
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2009	**	30 June 2011

\* The effective date and transitional provisions vary by Standard. Most of the improvements are effective for annual periods beginning on or after 1 January 2009, with earlier adoption permitted, and they are to be applied retrospectively.

\*\*The effective date and transitional provisions vary by Standard. Most of the improvements are effective for annual periods beginning on or after 1 January 2010, with earlier adoption permitted.

# SOUTHERN CROSS BUILDING SOCIETY

## INCOME STATEMENT For The Year Ended 30 June 2009

Parent and Consolidated	Note	30/06/2009 \$000	30/06/2008 \$000
Interest Income	1	38,125	44,451
Interest Expense and Funding Costs	2	27,545	33,304
<b>Net Interest Income</b>		<b>10,580</b>	<b>11,147</b>
Other Operating Income	3	403	1,824
Change in Financial Instruments Designated at Fair Value Through Profit and Loss	4	25	-
<b>Total Operating Income Before Other Gains</b>		<b>11,008</b>	<b>12,971</b>
Operating Expenses	5	7,789	7,337
<b>Profit Before Impairment, Other Net Gains, Restructuring Costs and Tax</b>		<b>3,219</b>	<b>5,634</b>
Impairment Expense	7	14,625	593
<b>(Loss) / Profit Before Other Net Gains, Restructuring Costs and Tax</b>		<b>(11,406)</b>	<b>5,041</b>
Other Net Gains	9	-	2,668
Restructuring Costs	10	(47)	1,905
Other Net Gains and Restructuring Costs		47	763
<b>Net (Loss) / Profit Before Tax</b>		<b>(11,359)</b>	<b>5,804</b>
Tax (Benefit) / Expense	8	(2,614)	636
<b>Net (Loss) / Profit After Tax</b>		<b>(8,745)</b>	<b>5,168</b>
Basic Earnings / (Loss) per Share (\$)	37	(0.17)	0.10
Diluted Earnings / (Loss) per Share (\$)	37	(0.17)	0.10

## STATEMENT OF CHANGES IN EQUITY For The Year Ended 30 June 2009

<b>Net (Loss) / Profit After Tax</b>	<b>(8,745)</b>	<b>5,168</b>
<b>Other Recognised Revenues and Expenses</b>		
Net Change in Available for Sale Asset Reserve, Net of Tax	1,015	(1,504)
Net Change in Defined Benefit Plan Reserve, Net of Tax	(502)	(286)
Premium on buyback and cancellation of Ordinary Shares	-	(38)
<b>Net Income / (Loss) Recognised Directly in Equity</b>	<b>513</b>	<b>(1,828)</b>
<b>Total Recognised Revenues and Expenses</b>	<b>(8,232)</b>	<b>3,340</b>
Movement in Share Capital	25	(75)
<b>Total Change in Equity</b>	<b>(8,207)</b>	<b>3,265</b>
Opening Equity	60,405	57,140
<b>Closing Equity</b>	<b>52,198</b>	<b>60,405</b>

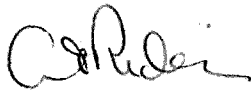
The statement of accounting policies and notes to the financial statements form part of and are to be read in conjunction with these financial statements.

**SOUTHERN CROSS BUILDING SOCIETY**

**BALANCE SHEET**  
As At 30 June 2009

Parent and Consolidated		30/06/2009	30/06/2008
	Note	\$000	\$000
<b>Assets</b>			
Cash and Cash Equivalents	11	1,006	1,306
Short Term Deposits	12	95,368	55,392
Investment Securities	13	25,477	49,488
Trade and Other Receivables	16	2,311	259
Income Tax Receivable		39	914
Derivative Financial Instruments	14	25	-
Loans and Advances	18	275,621	338,498
Property, Plant and Equipment	19	6,171	6,239
Intangible Assets	21	333	323
Deferred Tax Asset	8	5,414	2,824
Defined Benefit Plan Asset	17	247	673
<b>Total Assets</b>		<b>412,012</b>	<b>455,916</b>
<b>Liabilities</b>			
Deposits	22	358,162	384,791
Redeemable Shares	23	-	7,845
Employee Entitlements and Other Provisions	25	262	1,182
Trade and Other Payables	24	1,390	1,693
<b>Total Liabilities</b>		<b>359,814</b>	<b>395,511</b>
<b>Net Assets</b>		<b>52,198</b>	<b>60,405</b>
<b>Equity</b>			
Share Capital	26	10,450	10,425
Reserves	27	41,748	49,980
<b>Total Equity</b>		<b>52,198</b>	<b>60,405</b>

Authorised for issue for and on behalf of the Directors on the 12th day of August 2009.



SIGNED: \_\_\_\_\_  
Director



\_\_\_\_\_  
Director

The statement of accounting policies and notes to the financial statements form part of and are to be read in conjunction with these financial statements.

# SOUTHERN CROSS BUILDING SOCIETY

## STATEMENT OF CASH FLOWS For The Year Ended 30 June 2009

Parent and Consolidated	Note	30/06/2009 \$000	30/06/2008 \$000
<b>Cash flows from Operating Activities</b>			
Interest on Loans and Advances		30,740	36,934
Interest on Investment Securities and Short Term Deposits		7,543	7,407
Rentals Received		315	804
Income from Fees		171	763
Interest on Deposits and Profit and Ballot Rights Paid on Terminating Shares		(14,032)	(11,405)
Payments to Employees		(3,412)	(3,117)
Operating Expenses		(5,992)	(5,985)
Tax Refund Received		890	-
<b>Net Cash flows from Operating Activities before Changes in Operating Assets and Liabilities</b>		<b>16,223</b>	<b>25,401</b>
<b>Net Changes in Operating Assets and Liabilities</b>			
Net Decrease in Advances		46,403	33,082
Net Increase In Short Term Deposits and Investment Securities		(15,362)	(18,097)
Net Decrease in Deposits and Redeemable Shares		(47,265)	(62,425)
<b>Net Cash flows used in Operating Activities</b>	28	<b>(1)</b>	<b>(22,039)</b>
<b>Cash flows from Investing Activities</b>			
Proceeds on Sale of Investment Property		-	18,589
Purchase of Property, Plant and Equipment		(299)	(602)
<b>Net Cash flows (used in) / from Investing Activities</b>		<b>(299)</b>	<b>17,987</b>
<b>Cash flows from Financing Activities</b>			
Proceeds on issue of Ordinary Shares		-	5,000
Redemption of Ordinary Shares		-	(287)
<b>Net Cash flows from Financing Activities</b>		<b>-</b>	<b>4,713</b>
<b>Net (Decrease) / Increase in Cash and Cash Equivalents</b>		<b>(300)</b>	<b>661</b>
Cash and Cash Equivalents at the beginning of the year		1,306	645
<b>Closing Cash Carried Forward</b>		<b>1,006</b>	<b>1,306</b>

Comprising:

<b>Cash on Hand and at Bank</b>	<b>1,006</b>	<b>1,306</b>
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Certain cash flows have been netted in order to provide more meaningful disclosure.

Advances are netted as the cash flows received and disbursed to customers are continually rolled into new loans.

Short Term Deposits and Investment Securities are netted because these mature on a regular basis and subsequently reinvested on similar terms.

Deposits are netted to more accurately reflect the actual cashflows of the Society.

The statement of accounting policies and notes to the financial statements form part of and are to be read in conjunction with these financial statements.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

<b>Parent and Consolidated</b>	<b>30/06/2009</b>	<b>30/06/2008</b>
<b>1. Interest Income</b>	<b>\$000</b>	<b>\$000</b>
Loans and Advances – At Amortised Cost	31,041	37,204
Loans and Advances – Impaired Assets	91	623
Short Term Deposits - Available for Sale	4,524	2,861
Investment Securities - Available for Sale	2,469	3,763
<b>Total Interest Income</b>	<b>38,125</b>	<b>44,451</b>

**2. Interest Expense and Funding Costs**

Deposits	26,894	31,609
Terminating Shares	(915)	279
Agency Commissions	678	816
Loan Acquisition Costs	116	198
New Zealand Deposit Guarantee Scheme	260	-
Other Funding Costs	512	402
<b>Total Interest Expense and Funding Costs</b>	<b>27,545</b>	<b>33,304</b>

Under the New Zealand Government Deposit Guarantee Scheme a fee of \$260,000 was payable on deposits in excess of the amount held as at 12 October 2008.

**3. Other Operating Income**

Rental Income	265	827
Dividend Income	138	590
Gain on Sale of Listed Shares	-	407
<b>Total Other Operating Income</b>	<b>403</b>	<b>1,824</b>

**4. Financial Instruments Designated at Fair Value through Profit and Loss**

Derivative Financial Instruments	25	-
<b>Total Change in Financial Instruments Designated at Fair Value through Profit and Loss</b>	<b>25</b>	<b>-</b>

**5. Operating Expenses**

**Employee Entitlements**

Wages and Salaries	3,264	2,956
Other Employment Related Expenses	88	152
<b>Total Employee Entitlements</b>	<b>3,352</b>	<b>3,108</b>

**Rental and Occupancy**

Rental Expense	521	499
Other Occupancy Expenses related to Investment Property	-	127
Other Occupancy Expenses	196	162
<b>Total Rental and Occupancy</b>	<b>717</b>	<b>788</b>

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

Parent and Consolidated	30/06/2009	30/06/2008
<b>5. Operating Expenses (continued)</b>	<b>\$000</b>	<b>\$000</b>
<b>Auditor's Remuneration</b>		
Audit of the Financial Statements	203	152
Taxation Services	37	63
Other Non-Audit Services	19	78
<b>Total Auditor's Remuneration</b>	<b>259</b>	<b>293</b>

Other Non-Audit Services comprises primarily of advisory costs relating to the transition to NZ IFRS.

<b>Amortisation</b>		
Software	167	100
<b>Depreciation</b>		
Buildings and Freehold Improvements	77	69
Other Property, Plant and Equipment	113	101
Loss on Disposal of Property, Plant and Equipment	-	7
<b>Total Depreciation</b>	<b>190</b>	<b>177</b>
<b>Total Amortisation and Depreciation</b>	<b>357</b>	<b>277</b>
Information Technology and Communication	552	402
Marketing	998	1,079
Directors' Fees	110	110
Other Expenses	1,444	1,280
<b>Total Operating Expenses</b>	<b>7,789</b>	<b>7,337</b>

**6. Key Management Personnel**

The following total compensation was paid to Executives and Directors, being the key management personnel:

Short Term Benefits	1,090	692
Termination Benefit	-	13
Share Based Payment	25	25
<b>Total Key Management Personnel</b>	<b>1,115</b>	<b>730</b>

The increase in total compensation paid to key management personnel for the year ended 30 June 2009 includes an increase in the number of members of key management personnel and payments in respect of incentives relating to the prior year. The Share Based Payment is discussed in more detail in Note 35.

**7. Impairment Expense**

<b>Bad Debts</b>		
- Written Off	5,442	2,760
- Recovered	(4)	(780)
<b>Total Bad Debt Expense</b>	<b>5,438</b>	<b>1,980</b>

**Movement in Provision for Impairment - Loans and Advances**

- Collective (Decrease) / Increase	(1,069)	291
- Specific Increase / (Decrease)	7,032	(1,678)
<b>Net Movement in Provision for Impairment - Loans and Advances</b>	<b>5,963</b>	<b>(1,387)</b>

<b>Total Impairment - Loans and Advances</b>	<b>11,401</b>	<b>593</b>
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**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

<b>Parent and Consolidated</b>	<b>30/06/2009</b>	<b>30/06/2008</b>
<b>7. Impairment (continued)</b>	<b>\$000</b>	<b>\$000</b>

**Movement in Provision for Impairment – Investment Securities**

Total Revaluation previously in Equity	1,089	-
Current Year Revaluation recognised through Profit and Loss	2,135	-
<b>Net Movement in Provision for Impairment – Investment Securities</b>	<b>3,224</b>	<b>-</b>
<b>Total Impairment</b>	<b>14,625</b>	<b>593</b>

	30/06/2009			30/06/2008		
	Corporate Bonds	Listed Securities	Total	Corporate Bonds	Listed Securities	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Revaluation previously recognised in Equity	73	1,016	1,089	-	-	-
Current year revaluation recognised through Profit and Loss	177	1,958	2,135	-	-	-
<b>Total Provision for Impairment – Investment Securities</b>	<b>250</b>	<b>2,974</b>	<b>3,224</b>	<b>-</b>	<b>-</b>	<b>-</b>

During the year ended 30 June 2009, given the current economic conditions and concerns about the downturn in property values, the Society experienced an increase in the level of loans in arrears leading to an increase in the bad debt expense for the year ended 30 June 2009 to \$5.4 million (30 June 2008: \$2.0 million).

The Society also increased its impairment provisions by \$6.0 million (30 June 2008: reduction of \$1.4 million). Therefore the total impairment expense from lending activities is \$11.4 million (30 June 2008: \$0.6 million). The impairment provisions are discussed in more detail in Note 18.

In addition to the above impairment expense relating to lending activity, though also as a result of the current economic conditions, a reduction in the fair value of Investment Securities of \$3.2 million (30 June 2008: nil) is reported through current year income as an impairment expense. The fair value reduction relates primarily to the Society's 11.73% strategic shareholding in Canterbury Building Society, which was acquired in August 2007, at a cost exceeding fair value as at 30 June 2009. This treatment is discussed in more detail in Notes 13 and 27.

**8. Taxation**

a) **The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:**

Net (Loss) / Profit Before Tax	(11,359)	5,804
Taxation at 30% (2008: 33%)	(3,408)	1,915
Prior year adjustments	43	77
	<b>(3,365)</b>	<b>1,992</b>
<b>Add/(Deduct) Tax Effect of Non Deductible (Taxable) Items:</b>		
Defined Benefit Plan Surplus and Subsidiaries	(23)	(29)
Non Deductible Expenditure	8	58
Impairment loss on Investment Securities – Listed Securities	892	-
Release of deferred tax on revaluation of Investment Property - Building	-	(407)
Profit on sale of Investment Property	-	(854)
Profit on Sale of Investment Securities - Listed Securities	-	(134)
Imputation Credits	(126)	(247)
Impact of Change in Tax Rate on Deferred Tax	-	257
<b>Tax (Benefit) / Expense</b>	<b>(2,614)</b>	<b>636</b>

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

8. Taxation (continued)	30/06/2009	30/06/2008
Parent and Consolidated	\$000	\$000
Comprising:		
Current Taxation	(24)	1,088
Deferred Taxation	(2,590)	(452)
<b>Tax (Benefit) / Expense</b>	<b>(2,614)</b>	<b>636</b>

**b) Income tax recognised directly in equity:**

Opening Balance	262	61
Net movement	-	201
<b>Closing Balance</b>	<b>262</b>	<b>262</b>

	Opening Balance	Charged To Income	Charged To Equity	Closing Balance
	\$000	\$000	\$000	\$000

**c) Deferred Tax**

Deferred tax arises from the following:

**30 June 2009**

**Gross Deferred Tax Assets:**

Loans and Advances	1,199	2,777	-	3,976
Deposits and Redeemable Shares	1,306	(1,306)	-	-
Employee Entitlements and Other Provisions	356	(142)	-	214
Trade and Other Receivables	-	-	-	-
Tax losses carried forward	-	1,350	-	1,350
Trade and Other Payables	209	(80)	-	129
<b>Gross Deferred Tax Liabilities:</b>				
Property, Plant and Equipment	(246)	(9)	-	(255)
<b>Deferred Tax Asset</b>	<b>2,824</b>	<b>2,590</b>	<b>-</b>	<b>5,414</b>

**30 June 2008**

**Gross Deferred Tax Assets:**

Investment Securities	61	(262)	201	-
Loans and Advances	1,983	(784)	-	1,199
Deposits and Redeemable Shares	1,737	(431)	-	1,306
Employee Entitlements and Other Provisions	52	304	-	356
Trade and Other Receivables	429	(429)	-	-
Trade and Other Payables	(104)	313	-	209
<b>Gross Deferred Tax Liabilities:</b>				
Investment Property	(1,747)	1,747	-	-
Property, Plant and Equipment	(240)	(6)	-	(246)
<b>Deferred Tax Asset</b>	<b>2,171</b>	<b>452</b>	<b>201</b>	<b>2,824</b>

**Change in tax rate**

The legislated change in tax rates effective for the tax year beginning 1 July 2008, tax rates were reduced from 33% to 30%. Deferred tax is recognised at the rates of tax that are expected to be in effect when the items giving rise to the deferred tax crystallise.

**Deferred Tax Asset**

As referred to in the Society's accounting policies, the Society considers it appropriate to recognise a deferred tax asset to the extent that is probable that sufficient taxable amounts will be available against which to deduct temporary differences.

**Unrecognised Tax Losses / Unrecognised Temporary Differences**

The Society does not have any unrecognised tax losses or unrecognised temporary differences.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

Parent and Consolidated	30/06/2009	30/06/2008
<b>8. Taxation (continued)</b>	<b>\$000</b>	<b>\$000</b>
<b>d) Imputation Credit Account</b>		
Opening Balance	369	17,139
Forfeiture of credits due to change in shareholding	-	(17,139)
Attached to Dividends Received	193	369
<b>Tax Paid</b>	<b>886</b>	<b>-</b>
<b>Closing Balance</b>	<b>1448</b>	<b>369</b>

**9. Other Net Gains**

Non-operating gains reported during the period:

Net gain on sale of Investment Property	-	2,589
Non recurring Investment Property related expenditure	-	(130)
Prior Period GST Claim /Adjustment	-	261
Other	-	89
Adjustment to Terminating Share Liability	-	(141)
<b>Total Other Net Gains</b>	<b>-</b>	<b>2,668</b>

**10. Restructuring Costs**

Restructuring Costs	(47)	1,905
<b>Total Restructuring Costs</b>	<b>(47)</b>	<b>1,905</b>

The restructuring costs for the year ended 30 June 2009 totalling \$(0.05) million (30 June 2008: \$1.9 million) include further expenditure relating to activities undertaken as part of "Project Reinvent" as described in the financial statements for the year ended 30 June 2008. In particular, expenditure was incurred on strategic initiatives that enable the Society to better meet future expected regulatory and customer requirements.

The restructuring cost for the year ended 30 June 2008 included a review of the Society's IT platform, (Project Reinvent) and a review of its loan portfolio (with particular reference to any security deficiencies in the Society's loan portfolio as at 30 June 2007). These costs included IT consultancy fees (internal and external project management), legal fees, consultancy fees, bank facility establishment fees and staff costs associated with the restructure.

**11. Cash and Cash Equivalents**

Cash at Bank	853	1,166
Cash held at Branches	105	80
Cash held at Agencies	48	60
<b>Total Cash</b>	<b>1,006</b>	<b>1,306</b>

As at 30 June 2009, the Society's overdraft facility was \$0.5 million (30 June 2008: \$0.5 million) and undrawn. During the year ended 30 June 2009, the Society elected to discontinue its syndicated bank facilities and is discussed in more detail in Note 33.

**12. Short Term Deposits**

Call Deposits	10,733	6,323
Term Deposits	59,415	23,235
Registered Certificates of Deposit	-	14,942
Promissory Notes	25,220	10,892
<b>Total Short Term Deposits</b>	<b>95,368</b>	<b>55,392</b>

The carrying value of Short Term Deposits approximate their fair value.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

Parent and Consolidated	30/06/2009	30/06/2008
<b>13. Investment Securities</b>	<b>\$000</b>	<b>\$000</b>
Local Authority Stock	6,696	17,736
Corporate Bonds	14,333	25,375
Listed Securities	4,448	6,377
<b>Total Investment Securities</b>	<b>25,477</b>	<b>49,488</b>

Investment Securities are classified as financial assets "available for sale" and are stated at fair value. These values are derived by reference to published price quotations in an active market.

As at 30 June 2009, the Society held 1,411,905 ordinary shares in Canterbury Building Society (equivalent to 11.73% of Canterbury Building Society). These are shown as listed securities.

Movements in fair value are recognised in the "available for sale" reserve, however as referred to in Note 7 and explained in more detail in Note 27, significant reductions in the fair value of financial assets "available for sale" are required to be reported through current year income as an impairment expense.

	30/06/2009		30/06/2008	
	Notional Principal	Fair Value Assets	Notional Principal	Fair Value Assets
<b>Parent and Consolidated</b>				
<b>14. Derivative Financial Instruments</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Held for Risk Management - At Fair Value through Profit and Loss				
<b>Interest Rate Related Contracts</b>				
Swaps	10,500	25	-	-
<b>Total Interest Rate Related Contracts</b>	<b>10,500</b>	<b>25</b>	<b>-</b>	<b>-</b>

Parent and Consolidated	30/06/2009	30/06/2008
<b>15. Investment Property</b>	<b>\$000</b>	<b>\$000</b>
<b>Gross Carrying Amount</b>		
Opening Balance	-	16,000
Gain on Disposal	-	2,589
Disposals	-	(18,589)
<b>Closing Balance</b>	<b>-</b>	<b>-</b>

In October 2007, the Society sold its investment property to an independent purchaser for a gross purchase price of \$19 million (net \$18.59 million). This resulted in a net gain to the Society (net of disposal costs) of \$2.59 million and has been treated in the Society's financial statements as "Other Net Gains" - refer Note 9.

As part of the sale of the Investment Property, the Society has entered into a long term lease arrangement with the purchaser on market related terms. Details of the lease obligations are contained in Note 31.

Prior to the above sale, it was the Society's policy to revalue its investment property on an annual basis. The value of the Society's investment property at 30 June 2007 was arrived at on the basis of a valuation carried out as at 30 June 2007 by Eyles McGough Limited (ANZIV Registered Valuers), an independent firm of valuers not related to the Society. The valuation was arrived at by reference to market evidence of transaction prices for similar properties (excluding GST). The principals of Eyles McGough have considerable experience in valuing similar commercial properties in the Auckland CBD.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

Parent and Consolidated	30/06/2009	30/06/2008
<b>16. Trade and Other Receivables</b>	<b>\$000</b>	<b>\$000</b>
Trade Receivables	18	1
Prepayments	78	127
Deferred Broker Fees	257	131
Other Receivables	1,958	-
<b>Total Trade and Other Receivables</b>	<b>2,311</b>	<b>259</b>

Other Receivables represent settlement proceeds on property provided as security for loan advances that have unconditional sale and purchase agreements as at 30 June 2009. The carrying value of Trade and Other Receivables approximate their fair value. As at 30 June 2009 there were no receivables classified as past due.

**17. Defined Benefit Plan Asset**

The Society operates a defined benefit superannuation scheme ("Scheme") for qualifying employees under the Superannuation Schemes Act 1989. The Scheme is administered under a Trust Deed with the Society acting as Trustee. The assets of the Scheme are held separately from those of the Society in funds under the control of the Trustees.

The Scheme is now closed to new members. As at 30 June 2009 there were six pensioners participating in the Scheme. None of the Society's key executives are members of the Scheme.

Given the strong financial position of the Scheme as at the last actuarial valuation date, and upon advice of the actuary, the Society (as employer) ceased contributing to the Scheme.

**Member Entitlements**

Under the Scheme, members are entitled to retirement benefits based on the average Scheme salary, which is determined by the members' average salary over the last three annual reviews of the Scheme prior to the members' retirement.

Scheme salary is defined as the annual base salary at the start of each Scheme year, reduced by 20% of the national average ordinary time wage as disclosed by the Department of Statistics' last available survey.

**Actuarial Valuation**

The most recent actuarial valuation of the Schemes' assets and the present value of the defined benefit obligations were carried out at 30 June 2009 by Mr Greg Lee, Fellow of New Zealand Society of Actuaries. The present value of the defined benefit obligation, and the relevant current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purpose of the actuarial valuation were as follows:

	%	%
Expected return on Plan Assets	5.7	6.4
CPI Inflation	2.5	2.5
Interest rate for valuing Pensions	2.5	2.5

The demographic assumptions used were based on the experience of similar schemes in New Zealand and New Zealand population mortality.

Amounts recognised in the Income Statement in respect of the Scheme were as follows:

	\$000	\$000
Current Service Cost (net of withholding tax)	-	(9)
Interest Cost	(76)	(87)
Expected return on Plan Assets	152	181
<b>Total Impact on Income Statement</b>	<b>76</b>	<b>85</b>

The credit for the year is reported in the employee entitlements expense in the Income Statement. All other changes in the value of the Defined Benefit Plan Asset are reflected in the Defined Benefit Reserve.

The amount included in the Society's balance sheet arising from its obligation in respect of its defined benefit plan is as follows:

Fair value of Plan Assets	1,795	2,381
Present Value of funded obligations	1,548	1,708
<b>Defined Benefit Plan Asset recognised in Balance Sheet</b>	<b>247</b>	<b>673</b>

The Defined Benefit Plan Asset is subject to variations caused by changes in investment yields and inflation. Therefore the Defined Benefit Plan Asset and associated surplus within Equity are classified on the Balance Sheet as a Defined Benefit Plan Asset and Defined Benefit Reserve respectively.

In the event of there being a surplus of funds upon a wind up of the plan, per the terms of the plan Trust Deed, the surplus would revert to the Employer. Per the terms of the Trust Deed, the Employer is the Society.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

<b>Parent and Consolidated</b>	<b>30/06/2009</b>	<b>30/06/2008</b>
<b>17. Defined Benefit Plan Asset (continued)</b>	<b>\$000</b>	<b>\$000</b>
Changes in the Fair Value of the Plan Assets are as follows:		
Opening Fair Value of Plan Assets	2,381	2,496
Adjustment to current year valuation relating to a prior period	-	334
	<b>2,381</b>	<b>2,830</b>
Expected return on Plan Assets	152	181
Actuarial Losses	(352)	(349)
Contributions Paid by Employees	-	3
Benefits Paid	(386)	(284)
<b>Closing Fair Value of Plan Assets</b>	<b>1,795</b>	<b>2,381</b>

Changes in the present value of the Defined Benefit Obligation are as follows:		
Opening Defined Benefit Obligation	1,708	1,539
Adjustment to Current Year Valuation relating to a Prior Period	-	385
	<b>1,708</b>	<b>1,924</b>
Interest Cost	76	87
Current Service Cost	-	9
Actuarial Gains / (Losses )	150	(31)
Benefits Paid	(386)	(284)
Contributions Paid by Employees	-	3
<b>Closing Defined Benefit Obligation</b>	<b>1,548</b>	<b>1,708</b>

The adjustment to the valuation for the year ended 30 June 2008 that related to the prior period arose from the transition to an annual IFRS valuation from a triennial actuarial valuation. The net impact of the adjustment is a reduction to the Defined Benefit Plan Asset of \$51,000.

NZ IAS 19 requires use of one rate of return on plan assets. The overall expected rate of return is calculated by weighing the following individual rates with the anticipated balance in the plan's investment portfolio.

<b>Parent and Consolidated</b>	<b>%</b>	<b>%</b>
Equities	6.8	7.5
Corporate Bonds	5.0	5.0
Government Bonds	4.0	4.3
Other (i.e. property)	5.0	7.0
<b>Weighted Average Expected Return</b>	<b>5.7</b>	<b>6.4</b>

**Scheme Assets**

As at 30 June 2009, 96% of the Scheme's assets were invested in ING's SIL Balanced Fund, with the remaining 4% invested by the Trustee in fixed interest securities.

The distribution of these assets is as follows:		
	<b>\$000</b>	<b>\$000</b>
Equities	915	1,119
Corporate Bonds	341	662
Government Bonds	341	274
Other (i.e. property)	198	326
<b>Total Scheme Assets</b>	<b>1,795</b>	<b>2,381</b>

The Scheme's assets do not include any of the Society's own financial instruments, nor any property occupied by, or other assets used by, the Society.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

<b>Parent and Consolidated</b>	<b>30/06/2009</b>	<b>30/06/2008</b>
<b>18. Loans and Advances</b>	<b>\$000</b>	<b>\$000</b>
Advances at Amortised Cost	284,661	341,575
Provisions	(9,040)	(3,077)
<b>Total Loans and Advances</b>	<b>275,621</b>	<b>338,498</b>

**Loans and Advances by Security Type**

Secured by Mortgage	272,621	335,578
Secured by General Security Agreement	2,931	2,831
Secured by Personal Property Security Act	69	89
<b>Total Loans and Advances by Security Type</b>	<b>275,621</b>	<b>338,498</b>

The majority of Loans and Advances held by the Society are secured by a 1st mortgage. As at 30 June 2009 the Society had \$225,050 secured by 2<sup>nd</sup> mortgage (30 June 2008: \$157,497).

Neither Past Due nor Impaired	236,107	291,890
Past Due but not Impaired	12,886	44,166
Impaired Assets	35,668	5,519
Provisions	(9,040)	(3,077)
<b>Total Advances to Customers</b>	<b>275,621</b>	<b>338,498</b>

**Ageing of Past Due Assets**

Less than 7 days past due	852	3,524
Less than 35 days past due	1,461	2,787
Less than 65 days past due	7,736	7,981
Less than 90 days past due	1,804	1,983
More than 90 days past due	1,033	27,891
<b>Total Past Due Assets</b>	<b>12,886</b>	<b>44,166</b>

**More than 90 days past due**

Balance at Beginning of Period	27,891	5,366
Additions to more than 90 days past due status	11,496	27,256
Amounts written off	(1,275)	(304)
Deletions from 90 days past due assets status	(37,079)	(4,427)
<b>Balance at End of Period</b>	<b>1,033</b>	<b>27,891</b>

**Impaired Assets**

Balance at Beginning of Period	5,519	7,571
Additions to Impaired Assets status	42,259	5,519
Amounts Written Off	(2,616)	(2,434)
Deletions from Impaired Assets status	(9,494)	(5,137)
<b>Balance at End of Period</b>	<b>35,668</b>	<b>5,519</b>

“Non-performing” assets as at 30 June 2009, comprising of past due assets of \$12.9 million (30 June 2008: \$44.2 million) and impaired assets of \$35.7 million (30 June 2008: \$5.5 million), totalled \$48.6 million (30 June 2008: \$49.7 million).

During the year ended 30 June 2009 the Society increased its impairment provisioning to \$9.0 million (30 June 2008: \$3.1 million) of which \$7.9 million (30 June 2008: \$0.9 million) relates to specific provisioning and \$1.1 million (30 June 2008: \$2.1 million) to collective provisioning.

As at 30 June 2009 there were no restructured assets (30 June 2008: nil) nor financial assets acquired through the enforcement of security (30 June 2008: nil). Note 20 includes details of the disposal of assets acquired through enforcement of security during the year ended 30 June 2008.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

Parent and Consolidated	30/06/2009	30/06/2008
<b>18. Loans and Advances (continued)</b>	<b>\$000</b>	<b>\$000</b>
<b>Valuation and Nature of Security</b>		
<b>Past Due Assets</b>		
Residential	27,850	22,891
Commercial	12,992	39,681
Rural	953	959
<b>Total Valuation of Past Due Assets Security</b>	<b>41,795</b>	<b>63,531</b>
<b>Impaired Assets</b>		
Commercial	23,550	-
Residential	7,100	4,495
<b>Total Valuation of Impaired Assets Security</b>	<b>30,650</b>	<b>4,495</b>
<b>Provision for Impairment</b>		
Collective Provision	a 1,071	2,140
Specific Provision	b 7,969	937
<b>Total Provision for Impairment</b>	<b>9,040</b>	<b>3,077</b>
<b>a) Collective Provision</b>		
Balance at Beginning of Period	2,140	1,849
Charged to Income Statement	835	291
Released to Income Statement	(1,904)	-
<b>Net (Released) / Charged to Income Statement</b>	<b>(1,069)</b>	<b>291</b>
<b>Balance at End of Period</b>	<b>1,071</b>	<b>2,140</b>
<b>b) Specific Provision</b>		
Balance at Beginning of Period	937	2,615
Charged to Income Statement	9,726	937
Released to Income Statement	(2,694)	(2,615)
<b>Net Charged / (Released) to Income Statement</b>	<b>7,032</b>	<b>(1,678)</b>
<b>Balance at End of Period</b>	<b>7,969</b>	<b>937</b>

As set out in the accounting policies, under NZ IFRS the Society recognises a loan impairment provision when there is objective evidence of impairment.

In determining whether an impairment loss should be recorded, the Society makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within individual loans in that loan portfolio. In making these judgements, the Society uses estimates based on a combination of historical loss experience and judgemental assessments for assets with credit risk characteristics and objective evidence of impairment to those in the portfolio. The methodology and assumptions used in estimating the key data inputs, including the timing and amount of future cash flows, will be subject to ongoing review to reduce any differences between loss estimates and actual loss experience.

Parent and Consolidated	Land and Buildings	Office Equipment	Computer Hardware	Total
<b>19. Property, Plant and Equipment</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Gross Carrying Amount</b>				
Balance as at 30 June 2007	5,715	252	250	6,217
Additions	271	40	166	477
Disposals	-	(24)	(110)	(134)
<b>Balance as at 30 June 2008</b>	<b>5,986</b>	<b>268</b>	<b>306</b>	<b>6,560</b>
Additions	36	4	82	122
<b>Balance as at 30 June 2009</b>	<b>6,022</b>	<b>272</b>	<b>388</b>	<b>6,682</b>

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

Parent and Consolidated	Land and Buildings	Office Equipment	Computer Hardware	Total
19. Property, Plant and Equipment (continued)	\$000	\$000	\$000	\$000
<b>Accumulated Depreciation and Impairment</b>				
Balance as at 30 June 2007	2	117	153	272
Disposals	-	(13)	(108)	(121)
Depreciation Expense	69	34	67	170
<b>Balance as at 30 June 2008</b>	<b>71</b>	<b>138</b>	<b>112</b>	<b>321</b>
Depreciation Expense	77	33	80	190
<b>Balance as at 30 June 2009</b>	<b>148</b>	<b>171</b>	<b>192</b>	<b>511</b>

**Net Book Value**

As at 30 June 2007	5,713	135	97	5,945
As at 30 June 2008	5,915	130	194	6,239
<b>As at 30 June 2009</b>	<b>5,874</b>	<b>101</b>	<b>196</b>	<b>6,171</b>

**Property Revaluations**

A cyclical method of valuation of the Society's land and building has been adopted. Land and buildings classified as items of Property, Plant and Equipment are valued at least once every three years by independent registered valuers. The dates of the latest valuation are disclosed in the table below. These valuations were performed on the capitalisation of net income and open market values basis excluding GST.

The following properties were revalued as at 30 June 2007:

Property	Valuer	Qualification	Valuation \$000
456 Lake Road, Takapuna, Auckland	Eyles McGough Ltd	ANZIV Registered Valuers	1,400
411-415 Victoria Street, Hamilton	Brian Hamill and Associates	ANZIV Registered Valuers	2,335
24 Devonport Road, Tauranga	Almao and Green	FNZIV Registered Valuers	1,123
1132-1136 Hinemoa Street, Rotorua	Cleghorn Gillespie Jenson Ltd	FNZIV Registered Valuers	715

The carrying value of the above properties as at 30 June 2009, on the basis these were carried under the "cost less accumulative amortisation model", would have been \$3.7 million (30 June 2008: \$3.8 million).

Parent and Consolidated	30/06/2009	30/06/2008
20. Non Current Assets Held for Sale	\$000	\$000
Opening Balance	-	722
Disposals	-	(722)
<b>Closing Balance</b>	<b>-</b>	<b>-</b>

The non current assets disposed of in the year ended 30 June 2008 related to freehold apartments at Ambrico Place, New Lynn, Auckland. The Society took possession of these assets to settle a loan previously classified as non-performing and these assets were subsequently sold.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

**Parent and Consolidated**

**21. Intangible Assets** **\$000**

The following intangible assets relate to computer software capitalised.

**Gross Carrying Amount**

Balance as at 30 June 2007	441
Additions	136
Disposals	(13)
<b>Balance as at 30 June 2008</b>	<b>564</b>
Additions	177
<b>Balance as at 30 June 2009</b>	<b>741</b>

**Accumulated Amortisation and Impairment**

Balance as at 30 June 2007	144
Disposals	(3)
Amortisation Expense	100
<b>Balance as at 30 June 2008</b>	<b>241</b>
Amortisation Expense	167
<b>Balance as at 30 June 2009</b>	<b>408</b>

**Net Book Value**

As at 30 June 2007	297
As at 30 June 2008	323
As at 30 June 2009	333

<b>Parent and Consolidated</b>	<b>30/06/2009</b>	<b>30/06/2008</b>
<b>22. Deposits</b>	<b>\$000</b>	<b>\$000</b>
Deposits maturing within 1 year	344,439	379,862
Between 1 and 2 years	9,327	4,686
Between 2 and 3 years	4,395	206
Between 3 and 4 years	1	37
<b>Total</b>	<b>358,162</b>	<b>384,791</b>

	<b>Weighted Average Interest Rate (%)</b>	<b>Weighted Average Interest Rate (%)</b>
Deposits maturing within 1 year	5.5	8.7
Between 1 and 2 years	5.4	8.9
Between 2 and 3 years	6.0	7.7
Between 3 and 4 years	6.3	8.0
<b>Total</b>	<b>5.5</b>	<b>8.7</b>

All deposits are unsecured under the Trust Deed.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

Parent and Consolidated	30/06/2009	30/06/2008
23. Redeemable Shares	\$000	\$000
Redeemable Shares maturing within 1 year	-	1,972
Between 1 and 2 years	-	937
2 years and above	-	581
<b>Total</b>	<b>-</b>	<b>3,490</b>

	Weighted Average Interest Rate (%)	Weighted Average Interest Rate (%)
Redeemable Shares maturing within 1 year	-	6.0
Between 1 and 2 years	-	6.0
2 years and above	-	6.0
<b>Total</b>	<b>-</b>	<b>6.0</b>

The Redeemable Shares relate to the class of shares called "B" Terminating Shares.

During the year ended 30 June 2009, in order to further simplify the capital structure of the Society and as provided for in the Rules of the Society, the Society elected to redeem all remaining "B" Terminating Shares by way of appropriation.

As at 30 June 2009 all "B" Terminating Shareholders had taken up their rights.

	\$000	\$000
"B" Terminating Shares - Subscriptions	-	3,490
<b>Total "B" Terminating Shares - Subscriptions</b>	<b>-</b>	<b>3,490</b>

**"B" Terminating Shares Profit and Ballot Rights**

Opening Balance	4,355	5,264
Profit and Ballot Payments	(3,440)	(1,329)
Current year movement in Profit and Ballot Rights	(915)	420
<b>Closing Balance</b>	<b>-</b>	<b>4,355</b>
<b>Total Redeemable Shares</b>	<b>-</b>	<b>7,845</b>

The "B" Terminating Shares represented a class of shares comprising both fully paid up and deferred payments on shares entitling the holder to receive profits and participate in a ballot for an interest free loan or the calculated cash equivalent.

These were classified as Liabilities of the Society and were held in Terminating Groups as described in the schedule issued at the time the shares were originally taken up.

	000's	000's
Number of allotted "B" Terminating Shares (Nominal Value per Share of \$1.00)	-	26,365

The "B" Terminating Shares carried the following voting rights:

Where a member holds shares to the value of:	Number of Votes
Less than \$50	None
\$50 or more, but not more than \$200	1
More than \$200, but not more than \$400	2
More than \$400, but not more than \$600	3
More than \$600, but not more than \$800	4
More than \$800	5

The maturity dates for "B" Terminating Shares were nominated at the time of issue of each share. On 31 March 1981, the Society ceased to issue "B" Terminating Shares.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

Parent and Consolidated	30/06/2009	30/06/2008
<b>24. Trade and Other Payables</b>	<b>\$000</b>	<b>\$000</b>
Trade Creditors	1,065	1,277
Withholding Tax Payable	325	416
<b>Total Trade and Other Payables</b>	<b>1,390</b>	<b>1,693</b>

All amounts included within Trade and Other Payables are unsecured.

**25. Employee Entitlements and Other Provisions**

<b>Current Employee Entitlements</b>		
Opening balance – Employee Entitlements	177	158
Movement in Employee Entitlements	34	19
<b>Closing Balance – Employee Entitlements</b>	<b>211</b>	<b>177</b>
Opening balance – Other Provisions	1,005	-
Movement in Other Provisions	(954)	1,005
<b>Closing Balance - Other Provisions</b>	<b>51</b>	<b>1,005</b>
<b>Closing Balance - Employee Entitlements and Other Provisions</b>	<b>262</b>	<b>1,182</b>

Other Provisions as at 30 June 2009 relate to expected future broker liabilities associated with Loans and Advances purchased from third parties. The prior year balance includes a restructuring provision relating to "Project Reinvent" (refer to Note 10). The restructure initiatives were completed during the year ended 30 June 2009.

**26. Share Capital**

"A" Capital Shares	a	-	-
Fully paid Ordinary Shares	b	10,450	10,425
<b>Total Share Capital</b>		<b>10,450</b>	<b>10,425</b>

**a) "A" Capital Shares**

Opening balance	-	500
Conversion to Ordinary Shares	-	(500)
<b>Closing Balance</b>	<b>-</b>	<b>-</b>

**b) Ordinary Shares**

Opening balance	10,425	10,000
Conversion from "A" Capital Shares	-	500
Buyback and cancellation of Shares	-	(250)
Executive Share Scheme	25	25
Issue of Ordinary Share Options	-	150
<b>Closing Balance</b>	<b>10,450</b>	<b>10,425</b>

**c) Number of Fully paid Ordinary Shares**

Balance at beginning of period	<b>000's</b>	<b>000's</b>
	51,500	50,000
Conversion of Capital "A" Shares	-	500
Buy Back of Shares	-	(250)
Executive Share Scheme	-	1,250
<b>Number of Ordinary Shares at end of period</b>	<b>51,500</b>	<b>51,500</b>

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

Parent and Consolidated	30/06/2009	30/06/2008
26. Share Capital (continued)	000's	000's
<b>d) Number of Capital "A" Shares</b>		
Balance at beginning of period	-	1,000
Conversion into Ordinary Shares	-	(1,000)
<b>Number of Capital "A" Shares at end of period</b>	<b>-</b>	<b>-</b>
<b>e) Number of Ordinary Share Options</b>		
Balance at beginning of period	17,567	16,667
Issue of Ordinary Share Options	-	900
<b>Number of Ordinary Options at end of period</b>	<b>17,567</b>	<b>17,567</b>

**Description:**

**"A" Capital Shares**

Shares called "A" Capital Shares, fully paid up. These were classified as Equity. All "A" Capital Shares were converted into Ordinary Shares of \$1 each on 4 September 2007.

**Ordinary Shares**

10,250,000 shares called Ordinary Shares of a value of \$1 each. These are classified as Equity.

40,000,000 shares called Ordinary Shares of a value of \$1 each, issued by way of bonus issue to holders of "B" Terminating Shares in terms of their entitlements as "B" Terminating shareholders. These are classified as Equity, although recorded as nil value because they were issued by way of Bonus Issue.

On 14 December 2007, 250,000 Ordinary Shares were cancelled pursuant to a share buyback at a price of \$1.15 (representing the then fully diluted tangible net asset value (NTA) per share at that date).

**Executive Share Scheme**

As referred to in Note 35, the Board of the Society approved an Executive Share Scheme ("Scheme") in the year ended 30 June 2008. Under the Scheme the Society issued 1,250,000 new Ordinary Shares of a value of \$1 each to participants of the Scheme.

The issue of Ordinary Shares is subject to vesting rights that are in turn dependant on the achievement of pre-determined objectives by the Scheme's participants.

**Ordinary Share Options**

As at 30 June 2009 17,566,666 (30 June 2008: 17,566,666) Ordinary Share Options had been issued.

During the year ended 30 June 2009 no Ordinary Share Options have been issued. During the year ended 30 June 2008 900,000 Ordinary Share Options were issued to Oceania and Eastern Limited pursuant to a services contract arrangement (refer Note 36). The value of these options was determined by reference to the fair market value of the services exchanged.

All Ordinary Share Options have the same terms, namely each option entitles the holder to purchase one new Ordinary Share for \$1 at any time on or before 30 June 2012.

As at 30 June 2009, no options had been exercised.

**Voting Rights:**

Each Ordinary Share carries the right to one vote. The Ordinary Share Options do not have any voting rights.

**Other Rights and Privileges:**

All Ordinary Shares carry an equal share in any distributions authorised by the Board and in any distribution of surplus assets of the Society. There are no rights of conversion, withdrawal or termination of Ordinary Shares.

**New Issues of Ordinary Shares:**

In accordance with the Rules of the Society (adopted on 17 September 2007), the Society has no authorised capital but the Rules empower the Directors to issue new shares under certain circumstances.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

Parent and Consolidated		30/06/2009	30/06/2008
27. Reserves	Note	\$000	\$000
Capital Reserve	a	40,000	40,000
Retained Earnings	b	1,026	9,771
Revaluation Reserve	c	1,248	1,248
Available for Sale Reserve	d	(612)	(1,627)
Defined Benefit Reserve	e	86	588
<b>Total Reserves</b>		<b>41,748</b>	<b>49,980</b>

<b>a) Capital Reserve</b>			
Opening balance		40,000	40,000
<b>Closing Balance</b>		<b>40,000</b>	<b>40,000</b>

<b>b) Retained Earnings</b>			
Opening balance		9,771	(729)
Transferred from Income Statement		(8,745)	5,168
Transfer from Asset Revaluation Reserve		-	5,370
Premium on buyback and cancellation of Ordinary Shares		-	(38)
<b>Closing Balance</b>		<b>1,026</b>	<b>9,771</b>

<b>c) Asset Revaluation Reserve</b>			
Opening balance		1,248	6,618
Transfer to Retained Earnings		-	(5,370)
<b>Closing Balance</b>		<b>1,248</b>	<b>1,248</b>

The asset revaluation reserve represents the net valuation increase on Investment Property and Land and Buildings held as at balance date.

<b>d) Available for Sale Reserve</b>			
Opening balance		(1,627)	(123)
Cumulative Loss transferred to Income Statement		1,089	-
Revaluation of Investment Securities		(74)	(1,705)
Tax Impact of Current Year Revaluations		-	201
<b>Closing Balance</b>		<b>(612)</b>	<b>(1,627)</b>

The available for sale reserve represents the cumulative fair value adjustment net of any deferred tax impact of financial assets classified as "available for sale" held as at balance date.

In the event of significant reductions in the fair value of financial assets classified as "available for sale", the cumulative change in fair value of those financial assets is required to be reported through current year income as an impairment expense.

The available for sale reserve balance as at 30 June 2008 of \$(1.6) million includes the following fair value adjustments:

- \$(1.0) million relating to a strategic shareholding of 11.73% in Canterbury Building Society, which was acquired in August 2007, and
- \$(0.1) million relating to an investment in Corporate Bonds as a result of an issuer being placed in administration.

In accordance with the required accounting treatment the fair value adjustments referred to above were transferred to current year income and reported as an impairment expense (refer Note 7).

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

Parent and Consolidated	30/06/2009	30/06/2008
<b>27. Reserves (continued)</b>	<b>\$000</b>	<b>\$000</b>
<b>e) Defined Benefit Plan Reserve</b>		
Opening balance	588	874
Increase in value of Defined Benefit Asset	(502)	(286)
<b>Closing Balance</b>	<b>86</b>	<b>588</b>

The Defined Benefit Plan Reserve represents the excess of the fair value of the assets of the Society's defined benefit superannuation plan over the net present value of the defined benefit obligations

**28. Reconciliation of Net (Loss) / Profit after Tax with Net Cash flows from Operating Activities**

Net ( Loss) / Profit After Tax	(8,745)	5,168
<b>Add / (Less) Non Cash Items:</b>		
Gain on Sale of Investment Property	-	(2,589)
Depreciation and Amortisation	357	277
Increase in Defined Benefit Asset Surplus	(76)	(85)
Issue of Ordinary Share Options in exchange for services	-	150
Executive Share Scheme Expense	25	25
Net Movement in Provision for Impairment - Loans and Advances	5,963	(1,387)
Net Movement in Provision for Impairment - Investment Securities	3,224	-
<b>Total Non Cash Items</b>	<b>9,493</b>	<b>(3,609)</b>

**Deferral or Accruals of Past or Future Operating Cash Receipts or Payments**

(Increase) / Decrease in Income Tax Receivable	(1,715)	955
(Increase) / Decrease in Trade and Other Receivables	(42)	115
Increase in Deferred Tax	-	(653)
Decrease in Deferred Tax Recognised Directly to Equity	-	201
(Decrease) / Increase in Employee Entitlements and Other Provisions	(920)	1,024
Decrease in Trade and Other Payables	(366)	(626)
Decrease in Loans and Advances	54,759	34,700
Decrease / (Increase) in Interest Relating to Interest Receivable	194	(106)
Increase in Investments	(18,199)	(18,097)
Decrease in Deposits and Redeemable Shares	(31,867)	(42,116)
(Decrease) / Increase in Interest Relating to Interest Payable and Profit and Ballot Rights	(2,593)	1,005
	<b>(749)</b>	<b>(23,598)</b>
<b>Net Cash flows used In Operating Activities</b>	<b>(1)</b>	<b>(22,039)</b>

**29. Capital Commitments**

Capital expenditure approved by the Board of Directors for the period subsequent to the reporting date totalled \$80,500 (30 June 2008: \$253,000). This expenditure is expected to be incurred within the next 12 months.

**30. Contingent Liabilities**

As at 30 June 2009 the Society had no contingent liabilities (30 June 2008: nil).

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

<b>Parent and Consolidated</b>	<b>30/06/2009</b>	<b>30/06/2008</b>
<b>31. Commitments</b>	<b>\$000</b>	<b>\$000</b>

**Lease Revenue Commitments**

The total of future minimum lease revenue receivable under non-cancellable operating leases are as follows:

Not longer than 1 year	101	122
Longer than 1 year and not longer than 5 years	71	121
Longer than 5 years	-	3
<b>Total Lease Commitments</b>	<b>172</b>	<b>246</b>

The Society leases excess space in the buildings owned and occupied by the Society (and disclosed in Notes 15 & 19) under non-cancellable lease agreements. Lease revenue is recognised in the Income Statement. The leases have varying terms and right of renewal options on the expiry of each of the leases.

**Lease Payment Commitments**

The total of future minimum lease payments under non-cancellable operating leases are as follows:

Not longer than 1 year	453	571
Longer than 1 year and not longer than 5 years	1,005	1,438
Longer than 5 years	-	89
<b>Total Lease Commitments</b>	<b>1,458</b>	<b>2,098</b>

The Society leases various premises under non-cancellable operating lease agreements in addition to those properties owned by the Society. The third party leases have varying terms and renewal rights. Lease expenditure is charged to the Income Statement. All the leases relating to the rental of property provide renewal options on the expiry date of each of the leases.

**Lending Commitments**

Undrawn Committed Loan Facilities to customers	6,914	16,940
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**32. Financial Instruments**

**Introduction**

The Society and its subsidiaries ("Society") are defined in NZ IFRS 7 as a financial institution. The Society is committed to the management of risk to achieve sustainability of service, employment and profits, and therefore, take on controlled amounts of risk when considered appropriate.

The primary risks are those of credit, market (price and interest rate), liquidity, funding, and operations risk.

The Board of Directors is responsible for the review and ratification of the Society's systems of risk management, internal compliance and control, code of conduct and legal compliance.

The Board maintains a formal set of delegated financial authorities (including policies for credit and treasury operations) that clearly define the responsibilities delegated to management and those retained by the Board. The Board approves these delegated authorities and reviews them annually.

Management formally reports on all aspects of key risks to the Board at least annually. In addition, the following committees review and manage key risks:

- The Senior Management Team meets regularly to consider new and emerging risks, reviews actions required to manage and mitigate key risks, and to monitor progress;
- A Treasury Committee (including an independent consultant) meets at least monthly to consider, monitor and review exposure to interest rate risk, liquidity, funding, and investments; and
- An External Credit Committee (including non-executive directors) meets regularly to consider, monitor and review credit risk and credit policy.

Additionally, the Society employs an internal auditor who reports separately to the Board on a monthly basis.

**Financial Risk Management Policies**

**Credit Risk**

Credit risk is the risk that a counterparty will default on its contractual obligation resulting in a financial loss to the Society. The Society has comprehensive, clearly defined credit policies for the approval and management of all credit risk including risks to banks and related counterparties. All prospective mortgagors are subject to lending criteria established by the Board of Directors. These include maximum loan to security value ratios and demonstrated debt servicing ability.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

**32. Financial Instruments (continued)**

Advances are secured by first mortgage except for a few advances that are either secured by either a general security arrangement, registered under the Personal Property Security Act or second mortgage (refer Note 18). All approvals are by management, Internal Credit Committee, External Credit Committee or Board of Directors depending on the size of the advance.

**Market Risk**

Market risk is the potential for change in the value of on balance sheet and off balance sheet positions caused by a change in the value, volatility or relationship between market risks and prices. Market risk arises from the mismatch between assets and liabilities, on and off balance sheet, and from controlled trading undertaken in pursuit of profit. Market risk includes price and interest rate risk, which are explained below.

**Price and Interest Rate Risk**

Price and interest rate risk is the risk that the value of financial instruments and the interest margin will fluctuate as a result of changes in market interest rates. The risk is that financial assets may reprice at a different time and/or by a different amount than financial liabilities.

This risk is managed by setting control limits under the Society's treasury policy to measure and monitor the present value amount of interest margin at risk using an *interest rate gap approach*. When required to limit interest rate risk within policy, the Society may use interest rate hedging instruments (including fixed rate agreements, options and interest rate swaps) though only interest rate swaps were in use during the reporting period (refer Note 14).

**Liquidity Risk**

Liquidity risk is the risk that the Society will encounter difficulties in raising funds at short notice to meet commitments associated with financial instruments. The Society monitors its liquidity daily, weekly and monthly and maintains appropriate liquid assets to meet all obligations in a timely and cost efficient manner. Management of liquidity risk is designed to ensure that the Society has the ability to meet financial obligations as they fall due.

The objectives of the Society's funding and liquidity policies are to:

- ensure all financial obligations are met when due;
- provide adequate protection, even under crisis scenarios, at lowest cost; and
- achieve sustainable, lowest-cost funding within the limitations of funding diversification requirements.

The Society monitors this risk by forecasting daily cash requirements and ensuring an adequate liquidity buffer is maintained of readily realisable investments and committed bank funding facilities, as appropriate. The Society's liquidity management is described further in Note 33.

**Funding Risk**

Funding risk is the risk of concentration on a particular funding source to the extent that a change in that funding source could increase overall funding costs or cause difficulty in raising funds. The Society has a policy of funding diversification that augments the Society's liquidity policy with its aim to ensure the Society has a stable diversified funding base without over-reliance on any one source of funding or market sector.

**Capital Management**

The Society's capital includes share capital, reserves and retained earnings.

The Society'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 Society is subject to externally imposed requirements via its Trust Deed. The minimum capital is 5% of Total Tangible Assets. As at 30 June 2009 the Society had capital of 12.7% (30 June 2008: 13.2%). The Society has complied with these requirements throughout the period.

The Society's policy in respect of capital management and allocation is reviewed regularly by the Board of Directors. There have been no material changes in the Society's management of capital during the period.

**Quantitative Risk Exposure Disclosures**

**Sensitivity Analysis**

The Board of the Society has identified that a key sensitivity affecting the Society's financial performance and financial position is a change in market interest rates. In accordance with NZ IFRS 7, the sensitivity of the Society's net profit after tax for the year and shareholders equity, to a possible change in interest rates, is as follows:

<b>Parent and Consolidated</b>	<b>30/06/2009</b>	<b>30/06/2008</b>
	<b>\$000</b>	<b>\$000</b>
<b>Interest Rates Increase by 1.00%</b>		
Decrease in Net Profit after Tax	(347)	(508)
Decrease in Equity	(347)	(508)
<b>Interest Rates Decrease by 1.00%</b>		
Increase in Net Profit after Tax	347	508
Increase in Equity	347	508

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

**32. Financial Instruments (continued)**

**30/06/2009**      **30/06/2008**

**Parent and Consolidated**

**\$000**              **\$000**

In accordance with NZ IFRS 7, the sensitivity of the Society's net profit after tax for the year and shareholders equity, to a change in equity prices, is as follows:

**Equity Prices Increase by 10%**

Increase in Net Profit after Tax	445	-
Increase in Equity	445	658

**Equity Prices Decrease by 10%**

Decrease in Net Profit after Tax	(445)	-
Decrease in Equity	(445)	(658)

The sensitivity analysis outlined above is based on the following key assumptions:

- The sensitivity analysis is not a forward looking exercise; rather the analysis is based on the twelve months to 30 June 2009;
- The balance sheet position as at 30 June 2009 is used as a proxy for the twelve months to 30 June 2009;
- The Society's exposure to fixed interest rates in its loan portfolio as at 30 June 2009 is used as a proxy for the twelve months to 30 June 2009; and
- The Society is able to recover any increase (and will pass on any decrease) in interest rates by increasing (or decreasing) its lending rates on variable rate loans (which comprised approximately 72% of total loans by value as at 30 June 2009).

As referred to above, as part of the Society's treasury management function, the Society does focus on prospective interest rate risk management through ongoing monitoring and review using an interest rate gap approach.

Other risks such as funding and liquidity risk are discussed in more detail in Note 33. It is not considered that exposure to these risks are likely to lead to material change over the next reporting period and accordingly, a sensitivity analysis of these risks is not included.

**Interest Rate Repricing Schedule**

The following tables include the Society's assets and liabilities at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Parent and Consolidated	Effective Interest Rate	Within 6 months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Non Interest Bearing	Total
	%	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>As at 30 June 2009</b>								
<b>Assets</b>								
Cash and Cash Equivalents	2.50	1,006	-	-	-	-	-	1,006
Short Term Deposits	3.22	95,368	-	-	-	-	-	95,368
Investment Securities	4.20	10,346	2,415	1,692	6,326	250	4,448	25,477
Derivative Financial Instruments	0.00	-	-	-	-	-	25	25
Loans and Advances	9.21	232,880	25,868	10,329	5,460	1,084	-	275,621
Other Assets	0.00	-	-	-	-	-	14,515	14,515
<b>Total Assets</b>		<b>339,600</b>	<b>28,283</b>	<b>12,021</b>	<b>11,786</b>	<b>1,334</b>	<b>18,988</b>	<b>412,012</b>
<b>As at 30 June 2009</b>								
<b>Liabilities</b>								
Deposits	5.61	286,353	58,087	11,886	1,836	-	-	358,162
Other Liabilities	0.00	-	-	-	-	-	1,652	1,652
Equity	0.00	-	-	-	-	-	52,198	52,198
<b>Total Liabilities and Equity</b>		<b>286,353</b>	<b>58,087</b>	<b>11,886</b>	<b>1,836</b>	<b>-</b>	<b>53,850</b>	<b>412,012</b>
On-Balance Sheet Interest Sensitivity Gap		53,247	(29,804)	135	9,950	1,334	(34,862)	-
Net Balance of Derivative Instruments		10,500	-	(2,800)	(7,700)	-	-	-
<b>Total Interest Rate Sensitivity Gap</b>		<b>63,747</b>	<b>(29,804)</b>	<b>(2,665)</b>	<b>2,250</b>	<b>1,334</b>	<b>(34,862)</b>	<b>-</b>

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

**32. Financial Instruments (continued)**

Parent and Consolidated	Effective Interest Rate	Within 6 months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Non Interest Bearing	Total
	%	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>As at 30 June 2008</b>								
<b>Assets</b>								
Cash and Cash Equivalents	8.25	1,306	-	-	-	-	-	1,306
Short Term Deposits	8.77	55,392	-	-	-	-	-	55,392
Investment Securities	7.48	13,897	16,386	5,375	4,150	3,303	6,377	49,488
Loans and Advances	10.41	258,773	46,057	20,100	9,940	5	3,623	338,498
Other Assets	0.00	-	-	-	-	-	11,232	11,232
<b>Total Assets</b>		<b>329,368</b>	<b>62,443</b>	<b>25,475</b>	<b>14,090</b>	<b>3,308</b>	<b>21,232</b>	<b>455,916</b>
<b>Liabilities</b>								
Deposits	8.46	309,293	69,509	5,746	206	37	-	384,791
Redeemable Shares	6.00	3,282	1,038	2,216	1,309	-	-	7,845
Other Liabilities	0.00	-	-	-	-	-	2,875	2,875
Equity	0.00	-	-	-	-	-	60,405	60,405
<b>Total Liabilities and Equity</b>		<b>312,575</b>	<b>70,547</b>	<b>7,962</b>	<b>1,515</b>	<b>37</b>	<b>63,280</b>	<b>455,916</b>
On-Balance Sheet Interest Sensitivity Gap		16,793	(8,104)	17,513	12,575	3,271	(42,048)	-
Net Balance of Derivative Instruments		-	-	-	-	-	-	-
<b>Total Interest Rate Sensitivity Gap</b>		<b>16,793</b>	<b>(8,104)</b>	<b>17,513</b>	<b>12,575</b>	<b>3,271</b>	<b>(42,048)</b>	<b>-</b>

**Maturity Analysis for Undiscounted Contracted Cash flows**

The following tables analyse the Society's assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts shown in the tables are based on the contractual undiscounted cash flows and therefore will not agree to the carrying values on the Balance Sheet. The tables include estimates made by management as to the average interest rate applicable for each class during the contractual term.

The majority of the longer term loans and advances are commercial loans, which, based on the historical experience of the Society, are likely to be repaid earlier than their contractual terms. Deposits include both term deposits and deposits at call. Historic experience of the Society has shown that such deposits provide a stable source of long term funding for the Society.

Parent and Consolidated	On Demand	Within 6 months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Not Specified	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>As at 30 June 2009</b>								
<b>Assets</b>								
Cash and Cash Equivalents	1,006	-	-	-	-	-	-	1,006
Short Term Deposits	10,733	84,918	-	-	-	-	-	95,651
Investment Securities	-	4,136	3,916	4,460	8,948	3,508	4,448	29,416
Derivative Financial Instruments	-	-	-	3	22	-	-	25
Loans and Advances	-	91,211	31,682	52,888	90,474	92,985	-	359,240
Trade and Other Receivables	-	2,311	-	-	-	-	-	2,311
Income Tax Receivable	39	-	-	-	-	-	-	39
<b>Total Monetary Assets</b>	<b>11,778</b>	<b>182,576</b>	<b>35,598</b>	<b>57,351</b>	<b>99,444</b>	<b>96,493</b>	<b>4,448</b>	<b>487,688</b>

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

**32. Financial Instruments (continued)**

	On Demand	Within 6 months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Not Specified	Total
Parent and Consolidated	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Liabilities</b>								
Deposits	-	297,024	61,591	13,269	2,190	-	-	374,074
Redeemable Shares	-	-	-	-	-	-	-	-
Employee Entitlements and Other Provisions	-	262	-	-	-	-	-	262
Trade and Other Payables	-	1,390	-	-	-	-	-	1,390
<b>Total Monetary Liabilities</b>	<b>-</b>	<b>298,676</b>	<b>61,591</b>	<b>13,269</b>	<b>2,190</b>	<b>-</b>	<b>-</b>	<b>375,726</b>
<b>Net Monetary Assets</b>	<b>11,778</b>	<b>(116,100)</b>	<b>(25,993)</b>	<b>44,082</b>	<b>97,254</b>	<b>96,493</b>	<b>4,448</b>	<b>111,962</b>
Undrawn Overdraft Facility	500	-	-	-	-	-	-	500
Undrawn Committed Funding Lines	-	-	-	-	-	-	-	-
Unrecognised Loan Commitments	-	(6,914)	-	-	-	-	-	(6,914)
<b>Net Liquidity Gap</b>	<b>12,278</b>	<b>(123,014)</b>	<b>(25,993)</b>	<b>44,082</b>	<b>97,254</b>	<b>96,493</b>	<b>4,448</b>	<b>105,548</b>
<b>Net Liquidity Gap - Cumulative</b>	<b>12,278</b>	<b>(110,736)</b>	<b>(136,729)</b>	<b>(92,647)</b>	<b>4,607</b>	<b>101,100</b>	<b>105,548</b>	<b>-</b>

	On Demand	Within 6 months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Not Specified	Total
Parent and Consolidated	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>As at 30 June 2008</b>								
<b>Assets</b>								
Cash and Cash Equivalents	1,306	-	-	-	-	-	-	1,306
Short Term Deposits	6,323	49,555	-	-	-	-	-	55,878
Investment Securities	-	7,201	20,838	8,248	10,018	4,180	6,377	56,862
Loans and Advances	-	83,826	86,072	87,563	98,939	92,426	-	448,826
Trade and Other Receivables	-	259	-	-	-	-	-	259
Income Tax Receivable	-	914	-	-	-	-	-	914
<b>Total Monetary Assets</b>	<b>7,629</b>	<b>141,755</b>	<b>106,910</b>	<b>95,811</b>	<b>108,957</b>	<b>96,606</b>	<b>6,377</b>	<b>564,045</b>
<b>Liabilities</b>								
Deposits	-	309,159	69,509	5,746	243	-	-	384,657
Redeemable Shares	-	3,282	1,038	2,216	1,309	-	-	7,845
Employee Entitlements and Other Provisions	-	1,182	-	-	-	-	-	1,182
Trade and Other Payables	-	1,693	-	-	-	-	-	1,693
<b>Total Monetary Liabilities</b>	<b>-</b>	<b>315,316</b>	<b>70,547</b>	<b>7,962</b>	<b>1,552</b>	<b>-</b>	<b>-</b>	<b>395,377</b>
<b>Net Monetary Assets</b>	<b>7,629</b>	<b>(173,561)</b>	<b>36,363</b>	<b>87,849</b>	<b>107,405</b>	<b>96,606</b>	<b>6,377</b>	<b>168,668</b>
Undrawn Overdraft Facility	500	-	-	-	-	-	-	500
Undrawn Committed Funding Lines	80,000	-	-	-	-	-	-	80,000
Unrecognised Loan Commitments	-	(16,940)	-	-	-	-	-	(16,940)
<b>Net Liquidity Gap</b>	<b>88,129</b>	<b>(190,501)</b>	<b>36,363</b>	<b>87,849</b>	<b>107,405</b>	<b>96,606</b>	<b>6,377</b>	<b>232,228</b>
<b>Net Liquidity Gap - Cumulative</b>	<b>88,129</b>	<b>(102,372)</b>	<b>(66,009)</b>	<b>21,840</b>	<b>129,245</b>	<b>225,851</b>	<b>232,228</b>	<b>-</b>

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

**32. Financial Instruments (continued)**

**Maturity Analysis for Undiscounted Expected Cash flows**

The following tables analyse the Society's assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the expected maturity date. The amounts shown in the tables are based on the contractual undiscounted cash flows from the expected maturity dates estimated by management and therefore will not agree to the carrying values on the Balance Sheet. The tables include estimates made by management as to the average interest rate applicable for each class during the estimated term.

The expected maturity date of Loans and Advances used in the following tables has been based upon historical term data and has been estimated to be an average of three years. Expected maturity dates differ from that of contractual maturity dates due to the average loan being repaid earlier than the contractual term used for calculating minimum monthly loan repayments.

Based on current reinvestment rates and historical data regarding the Society's deposit base, management has estimated that the contractual term for Deposits is a fair reflection of the expected term. The liquidity profile of assets and liabilities presented above is not considered to be indicative of future cash flows, primarily because a significant proportion of deposits are renewed at maturity and therefore do not have a cash flow effect.

Parent and Consolidated	On Demand	Within 6 months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Not Specified	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>As at 30 June 2009</b>								
<b>Assets</b>								
Cash and Cash Equivalents	1,006	-	-	-	-	-	-	1,006
Short Term Deposits	10,733	84,918	-	-	-	-	-	95,651
Investment Securities	-	4,136	3,916	4,460	8,948	3,508	4,448	29,416
Derivative Financial Instruments	-	-	-	3	22	-	-	25
Loans and Advances	-	91,211	46,874	51,296	120,786	-	-	310,167
Trade and Other Receivables	-	2,311	-	-	-	-	-	2,311
Income Tax Receivable	39	-	-	-	-	-	-	39
<b>Total Monetary Assets</b>	<b>11,778</b>	<b>182,576</b>	<b>50,790</b>	<b>55,759</b>	<b>129,756</b>	<b>3,508</b>	<b>4,448</b>	<b>438,615</b>
<b>Liabilities</b>								
Deposits	-	39,990	46,706	69,462	77,966	172,525	-	406,649
Redeemable Shares	-	-	-	-	-	-	-	-
Employee Entitlements and Other Provisions	-	262	-	-	-	-	-	262
Trade and Other Payables	-	1,390	-	-	-	-	-	1,390
<b>Total Monetary Liabilities</b>	<b>-</b>	<b>41,642</b>	<b>46,706</b>	<b>69,462</b>	<b>77,966</b>	<b>172,525</b>	<b>-</b>	<b>408,301</b>
<b>Net Monetary Assets</b>	<b>11,778</b>	<b>140,934</b>	<b>4,084</b>	<b>(13,703)</b>	<b>51,790</b>	<b>(169,017)</b>	<b>4,448</b>	<b>30,314</b>
Undrawn Overdraft Facility	500	-	-	-	-	-	-	500
Undrawn Committed Funding Lines	-	-	-	-	-	-	-	-
Unrecognised Loan Commitments	-	(6,914)	-	-	-	-	-	(6,914)
<b>Net Liquidity Gap</b>	<b>12,278</b>	<b>134,020</b>	<b>4,084</b>	<b>(13,703)</b>	<b>51,790</b>	<b>(169,017)</b>	<b>4,448</b>	<b>23,900</b>
<b>Net Liquidity Gap - Cumulative</b>	<b>12,278</b>	<b>146,298</b>	<b>150,382</b>	<b>136,679</b>	<b>188,469</b>	<b>19,452</b>	<b>23,900</b>	

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

**32. Financial Instruments (continued)**

Parent and Consolidated	On Demand	Within 6 months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Not Specified	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>As at 30 June 2008</b>								
<b>Assets</b>								
Cash and Cash Equivalents	1,306	-	-	-	-	-	-	1,306
Short Term Deposits	6,323	49,555	-	-	-	-	-	55,878
Investment Securities	-	7,201	20,838	8,248	10,018	4,180	6,377	56,862
Loans and Advances	-	83,826	100,121	86,232	124,529	-	-	394,708
Trade and Other Receivables	-	259	-	-	-	-	-	259
Income Tax Receivable	-	914	-	-	-	-	-	914
<b>Total Monetary Assets</b>	<b>7,629</b>	<b>141,755</b>	<b>120,959</b>	<b>94,480</b>	<b>134,547</b>	<b>4,180</b>	<b>6,377</b>	<b>509,927</b>
<b>Liabilities</b>								
Deposits	-	43,041	52,284	78,316	91,807	200,062	-	465,510
Redeemable Shares	-	3,282	1,038	2,216	1,309	-	-	7,845
Employee Entitlements and Other Provisions	-	1,182	-	-	-	-	-	1,182
Trade and Other Payables	-	1,693	-	-	-	-	-	1,693
<b>Total Monetary Liabilities</b>	<b>-</b>	<b>49,198</b>	<b>53,322</b>	<b>80,532</b>	<b>93,116</b>	<b>200,062</b>	<b>-</b>	<b>476,230</b>
<b>Net Monetary Assets</b>	<b>7,629</b>	<b>92,557</b>	<b>67,637</b>	<b>13,948</b>	<b>41,431</b>	<b>(195,882)</b>	<b>6,377</b>	<b>33,697</b>
Undrawn Overdraft Facility	500	-	-	-	-	-	-	500
Undrawn Committed Funding Lines	80,000	-	-	-	-	-	-	80,000
Unrecognised Loan Commitments	-	(16,940)	-	-	-	-	-	(16,940)
<b>Net Liquidity Gap</b>	<b>88,129</b>	<b>75,617</b>	<b>67,637</b>	<b>13,948</b>	<b>41,431</b>	<b>(195,882)</b>	<b>6,377</b>	<b>97,257</b>
<b>Net Liquidity Gap - Cumulative</b>	<b>88,129</b>	<b>163,746</b>	<b>231,383</b>	<b>245,331</b>	<b>286,762</b>	<b>90,880</b>	<b>97,257</b>	

**Parent and Consolidated**

30/06/2009 30/06/2008

\$000 \$000

**Ranking of Securities**

Deposits	358,162	384,791
Unsecured Creditors	840	1,265
Drawn Banking Facilities	-	-

**Total First Ranking Securities**

**359,002 386,056**

Redeemable Shares

- 3,490

"B" Terminating Shares Profit and Ballot Rights

- 4,355

**Total Second Ranking Securities**

**- 7,845**

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Ordinary Shares

10,450 10,425

Capital Reserve

40,000 40,000

**Total Issued Shares (Equity)**

**50,450 50,425**

Deposits are unsecured and subject to a separate trust deed that contains financial covenants.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

Parent and Consolidated	Carrying Amount 30/06/2009	Fair Value 30/06/2009	Carrying Amount 30/06/2008	Fair Value 30/06/2008
32. Financial Instruments (continued)	\$000	\$000	\$000	\$000
<b>Financial Assets</b>				
Cash and Cash Equivalents	1,006	1,006	1,306	1,306
Short Term Deposits	95,368	95,368	55,392	55,392
Investment Securities	25,477	25,477	49,488	49,488
Derivative Financial Instruments	25	25	-	-
Loans and Advances	275,621	277,409	338,498	342,156
<b>Total Financial Assets</b>	<b>397,497</b>	<b>399,285</b>	<b>444,684</b>	<b>448,342</b>
Non-Financial Assets	14,515	14,515	11,232	11,232
<b>Total Assets</b>	<b>412,012</b>	<b>413,800</b>	<b>455,916</b>	<b>459,574</b>
<b>Financial Liabilities</b>				
Deposits	358,162	369,809	384,791	383,560
Redeemable Shares	-	-	7,845	7,845
<b>Total Financial Liabilities</b>	<b>358,162</b>	<b>369,809</b>	<b>392,636</b>	<b>391,405</b>
Non-Financial Liabilities	1,652	1,652	2,875	2,875
<b>Total Liabilities</b>	<b>359,814</b>	<b>371,461</b>	<b>395,511</b>	<b>394,280</b>

The fair value of loans and advances are calculated using discounted cash flow models based on the interest rate re-pricing and maturity of the financial assets. Discount rates applied in this calculation are based on current market interest rates for loans and advances with similar credit profiles. The fair value of investment in securities is based on quoted market prices, where available, or calculated using discounted cash flow models based on current market rates. The fair value of all financial liabilities are calculated using discounted cash flow models based on the interest rate re-pricing and maturity of the instruments. The discount rate applied in this calculation is based on current market rates.

Parent and Consolidated	30/06/2009	30/06/2008
Geographical Distribution of Loans and Advances	\$000	\$000
Northland	7,583	8,014
Auckland	133,170	184,299
Waikato	64,230	73,578
Bay of Plenty	45,800	49,295
Hawkes Bay	6,566	5,485
Taranaki/Manawatu	699	1,763
Wellington	11,339	15,765
South Island	6,234	299
<b>Total Loans and Advances</b>	<b>275,621</b>	<b>338,498</b>

**Concentration of Funding**

Funding comprises of deposits and in the prior year terminating shares and is presented at amortised cost:

- All deposits are unsecured under the Trust Deed. A geographical distribution of deposits follows.
- The terminating shares were all redeemed as at 30 June 2009 and were unsecured obligations and treated in the Society's balance sheet as a liability.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

**32. Financial Instruments (continued)**

<b>Parent and Consolidated</b>	<b>30/06/2009</b>	<b>30/06/2008</b>
<b>Geographical Distribution of Depositors</b>	<b>\$000</b>	<b>\$000</b>
<b>Within New Zealand</b>	<b>326,229</b>	<b>352,523</b>
Outside New Zealand:		
Australia	8,962	9,171
United Kingdom	6,001	5,185
United States of America	4,287	6,220
French Polynesia	4,208	3,398
Thailand	1,570	750
Canada	832	1,144
Netherlands	572	816
Cyprus	540	-
France	522	-
Germany	490	-
Other	3,949	5,584
<b>Total Outside New Zealand</b>	<b>31,933</b>	<b>32,268</b>
<b>Total Deposits</b>	<b>358,162</b>	<b>384,791</b>

As at 30 June 2009, approximately 41% of the Society's funding is sourced from customers within the Auckland region (30 June 2008: 41%).

**Concentration of Credit Exposures**

The Society is selective in targeting credit risk exposures and avoids exposures to any high risk area. Before approving a loan, the Society generally undertakes an independent credit check, seeks an asset valuation where appropriate and assesses the customer's capacity to make repayments, their financial position and their credit history with the Society. Following any loan approval, the Society regularly monitors loan repayment arrears, takes prompt action to address arrears/default situations and takes fair but firm action to realise securities and minimise losses in the event of default.

All credit risks are within New Zealand.

Cash held at Bank	853	1,166
Cash held at Branches	105	80
Cash held at Agencies	48	60
Trade Receivables	18	1
Deferred Broker Fees	257	131
Other Receivables	1,958	-
Registered Banks	77,584	58,624
Government, Local Authority and State Owned Enterprises	6,696	17,736
Other Corporate Investments	36,590	28,520
Unrecognised Loan Commitments	6,914	16,940
<b>Loans and Advances (based on purpose)</b>		
- Residential	75,674	80,458
- Rural	59,853	67,155
- Commercial	140,094	190,885
<b>Total Loans and Advances</b>	<b>275,621</b>	<b>338,498</b>
<b>Total</b>	<b>406,644</b>	<b>461,756</b>

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

<b>Parent and Consolidated</b>	<b>30/06/2009</b>	<b>30/06/2008</b>
<b>32. Financial Instruments (continued)</b>	<b>\$000</b>	<b>\$000</b>
Loans and Advances (based on security)		
- Residential	140,349	177,652
- Rural	59,905	67,864
- Commercial	75,367	92,982
<b>Total Loans and Advances</b>	<b>275,621</b>	<b>338,498</b>

Financial Assets are presented at their carrying values.

Of the total amount recorded as loans and advances at 30 June 2009, 13.32% (30 June 2008: 7.97%) have repayments in arrears more than three months.

Of the total amount recorded as loans advances at 30 June 2009, 21.64% (30 June 2008: 14.30%) is owed by the six largest debtors.

<b>Parent and Consolidated</b>	<b>Peak</b>		<b>As at Balance Date</b>	
<b>Credit exposures to individual counterparties as a % of Equity</b>	<b>30/06/2009</b>	<b>30/06/2008</b>	<b>30/06/2009</b>	<b>30/06/2008</b>
<b>Banks</b>				
10% to 19%	-	1	-	1
20% to 29%	1	-	-	-
30% to 39%	-	-	1	-
40% to 50%	-	-	2	-
70% to 80%	-	1	-	1
120% to 130%	1	-	-	-
<b>Others</b>				
10% to 19%	9	2	8	2
20% to 29%	2	2	3	2

Exposures are shown net of allowances for impairment loss on individual assets and gross of set-offs. Percentages are calculated using the equity as at balance date.

The above tables have been compiled using gross exposures and do not include any guarantee arrangements.

The increase in the number of other individual counterparties as at 30 June 2009 arises because counterparties are now determined on the basis of the Trust Deed definition.

The Trust Deed definition of a single counterparty (defined as "single group") includes all persons or entities that for commercial purposes should be reasonably considered or credit rated as one financial entity. Thus it is considered appropriate to include within a single counterparty all counterparties that are related to each other by a personal guarantee provided by a common shareholder of those counterparties.

All of the individual counterparties included in the Bank category of the above tables have an investment Grade rating (equivalent to BBB - or above).

The peak credit exposure within the "120 to 130%" banding represents treasury assets with ANZ National Bank Limited and consists primarily of "on call" deposits and short dated term deposits and registered certificates of deposits. This counterparty exposure arises from a strategic decision to maintain treasury assets in short dated liquid deposits. This exposure has subsequently been reduced as the Society has diversified its investments in short term deposits across a number of New Zealand Registered banks.

As a consequence of the Society electing to discontinue its syndicated bank facilities as referred to in Note 33, the Society has sought, and received, a waiver from its trustee, Trustees Executors Limited, in relation to the maximum counterparty exposures permitted under the Society's trust deed. The need for a waiver arose due to the change in the Society's total liquidity position arising from the discontinuance of its bank facilities with effect from 30 June 2009. The waiver granted by the Society's trustee permits the Society to increase its exposure to qualifying counterparties (as prescribed in the Society's trust deed) in respect of its treasury assets until the earlier of 30 June 2010 or until revoked by the trustee on 20 days prior written notice to the Society.

<b>Parent and Consolidated</b>	<b>30/06/2009</b>	<b>30/06/2008</b>
<b>Percentage of Borrowers owing the Six Largest Amounts</b>	<b>%</b>	<b>%</b>
The six largest borrowers as a percentage of Monetary Assets Receivable	15.01	14.43

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

**33. Liquidity**

The Society's Treasury Committee monitors the Society's liquidity position on a continuous basis and forecasts cash flows from operating activities taking account of the cash flow characteristics of, and expected volatility in, the balances of various classes of recognised assets and liabilities and unrecognised items that have or can have a significant cash flow effect.

The maturity profile of assets and liabilities presented in Note 32 is not considered by the Society to be in any way indicative of future cash flows. This is primarily because significant proportions of the Society's deposits are renewed at maturity and therefore does not, generally, have a cash flow impact. The contractual maturity date of advances is not indicative of future cash flows due to early repayment, further drawdowns and loan principal reductions.

To meet both expected and unexpected fluctuations in operating cash flows, the Society maintains a stock of liquid investments that it considers from analysis of historical cash flows, forecast cash flows and the current composition of the statement of financial position to be adequate.

The Society's Trust Deed prescribes that minimum liquid assets are to be maintained of at least 15% of "Total Tangible Assets less Reserves". Included in the definition of liquid assets are undrawn money market lines, standby and overdraft facilities.

As at 30 June 2009 the Society had a very strong on-balance sheet liquidity position of \$116 million (30 June 2008: \$97 million), excluding undrawn bank facilities. Since the \$80 million syndicated bank facilities were put in place in November 2007, these facilities had never been drawn by the Society. Given the ongoing cost and other terms of maintaining these facilities and the Society's strong on-balance sheet liquidity position, the Society has elected to discontinue its \$80 million bank facilities with effect from 30 June 2009. Instead, the Society will continue to prudently manage its liquidity requirements by means of increasing, as appropriate, its on-balance sheet treasury assets relative to the minimum liquidity requirements prescribed under the Society's trust deed.

The Society has retained its uncommitted overdraft facility with ANZ National Bank Limited of \$500,000 which is subject to review in December 2009.

<b>Parent and Consolidated</b>	<b>\$000</b>	<b>\$000</b>
Liquid Assets	115,782	96,633
Committed and Undrawn Funding Lines	-	80,000
<b>Total Liquidity</b>	<b>115,782</b>	<b>176,633</b>

Liquid Assets includes short term deposits, corporate and local authority stock, cash on hand and at bank. Redeeming liquid investments and raising new deposits usually meet cash demands.

**34. Segmental Reporting**

The Society only operates in one principal business and sector, namely the provision of Financial Services in New Zealand. These services involve the acceptance of funds on deposit, the making of advances to borrowers (primarily secured on a first mortgage basis over property) and investment in Board approved investments such as money market assets, central government and local government stock and other investments.

**35. Executive Share Scheme**

In June 2008, the Board of the Society approved an Executive Share Scheme ("Scheme") in terms of which 1,250,000 Ordinary Shares were issued to participants of the Scheme. The terms of the Scheme were independently reviewed by Grant Samuel and Associates and considered to be fair and reasonable to the Society and its members. Under the Scheme, the new Ordinary Shares were issued at \$1.00 per share and vesting rights are subject to the participants achieving pre-determined performance objectives as determined by the Board on an annual basis.

The Society has granted an interest free loan of \$1,250,000 to the participants of the Scheme, which is subject to repayment terms specified in the Scheme documents.

The establishment of the Scheme requires the recognition of the share based compensation expense.

The share based compensation expense is derived from the fair value of the optionality inherent in the incentive entitlement at the effective date of grant, amortised on a straight-line basis over the life of the vesting period scheme of approximately 4 years (2 years remaining as at 30 June 2009). The fair value is determined on the basis of comparison to an observable market price of options issued with similar terms.

**36. Related Party Disclosures**

During the 12 months to 30 June 2009, the Society entered in to the following related party transactions:

- the purchase of five first mortgages totalling \$4.3 million from a party in respect of which Mr G.T. Ricketts is a director of that party's ultimate holding company, Suncorp-Metway Limited. The transaction was undertaken on an arm's length basis.

During the 12 months to 30 June 2008, the Society entered in to the following related party transactions:

- the issue of 900,000 Ordinary Share Options to Oceania and Eastern Limited as part of a services contract for the period. The key terms of the Ordinary Share Options are described in Note 26.
- the buyback of 250,000 Ordinary Shares from Southern Cross Building Society Charitable Trust.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

36. Related Party Disclosures (continued)	Ordinary Shares		Ordinary Options	
	30/06/2009	30/06/2008	30/06/2009	30/06/2008
Related party shareholdings are as follows:				
Oceania and Eastern Limited	14,429,432	14,429,432	5,709,811	5,709,811
Southern Cross Building Society Charitable Trust – beneficial basis	250,000	250,000	-	-
Southern Cross Building Society Charitable Trust – nominee basis	4,261,571	3,658,292	1,420,521	1,219,428

The ordinary shares held by Southern Cross Building Society Charitable Trust on a nominee basis represent shareholdings that are recorded on the ordinary share register as "Address Unknown".

In the event that the Society, having used commercially reasonable efforts to do so, is unable to locate a shareholder recorded on the ordinary share register as "Address Unknown" before 29 June 2012, then beneficial ownership of those shares will transfer to Southern Cross Building Society Charitable Trust.

Payments to Directors:	30/06/2009	30/06/2008
	\$000	\$000
<b>Directors' Fees to Current Directors:</b>		
Geoffrey Thomas Ricketts	30	30
Gavin Ronald Walker	20	20
Christopher Robert Mace	20	20
Noel Barclay	20	20
Anthony Donald James Beasley	20	20

**Entities with joint control or significant influence over the entity:**

The following Directors of the Society are directors and shareholders of Oceania and Eastern Limited:

Geoffrey Thomas Ricketts  
 Christopher Robert Mace

**Outstanding Balances payable to Related Parties**

Noel Barclay (Retirement allowance payable on retirement)	137	137
Gordon Stan Spencer Brent (Retirement allowance fully paid in November 2008)	-	13
Related Party Deposits	1,009	1,016
Related Party Lending	146	155

Related Party Deposits and Lending arises from transactions with parties related to a current director or with the Southern Cross Building Society Charitable Trust. These deposits and loans were entered into on the basis of normal commercial terms.

**37. Earnings Per Share**

For the purposes of calculating Earnings per Share, the following figures have been used:

Net Profit/(Loss) After Tax	(8,745)	5,168
Weighted average number of shares (000's)	51,500	50,364

The outstanding Ordinary Share Options do not give rise to any dilutionary effect on earnings per share.

The calculation of Basic and Diluted Earnings per Share takes into account the bonus issue of Ordinary Shares to members and placement of Ordinary Shares to Oceania and Eastern Limited on 27 June 2007. The calculations are based on the weighted average number of shares issued for the period.

**38. Subsidiaries**

Southern Cross Building and Investments Limited is a wholly owned subsidiary of Southern Cross Building Society. Prior to 28 June 2007 the subsidiary had been non-trading for many years. It was used during the 2008 year as a short-term holding company for assets held for sale.

Southern Cross Nominees Limited is a wholly owned subsidiary of Southern Cross Building Society. As at balance date the entity was non-trading. All subsidiaries are incorporated in New Zealand and have a 30 June balance date.

**SOUTHERN CROSS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 30 June 2009**

Parent and Consolidated	Loans and Receivables	Designated at Fair Value	Available for Sale	Financial Liabilities at Amortised Cost	Total Carrying Amount
39. Accounting Classifications	\$000	\$000	\$000	\$000	\$000
<b>30 June 2009</b>					
<b>Assets</b>					
Cash and Cash Equivalents	1,006	-	-	-	1,006
Short Term Deposits	-	-	95,368	-	95,368
Trade and Other Receivables	2,311	-	-	-	2,311
Investment Securities	-	-	25,477	-	25,477
Derivative Financial Instruments	-	25	-	-	25
Loans and Advances	275,621	-	-	-	275,621
	<b>278,938</b>	<b>25</b>	<b>120,845</b>	<b>-</b>	<b>399,808</b>
<b>Liabilities</b>					
Deposits	-	-	-	358,162	358,162
Redeemable Shares	-	-	-	-	-
Trade and Other Payables	1,390	-	-	-	1,390
	<b>1,390</b>	<b>-</b>	<b>-</b>	<b>358,162</b>	<b>359,552</b>
<b>30 June 2008</b>					
<b>Assets</b>					
Cash and Cash Equivalents	1,306	-	-	-	1,306
Short Term Deposits	-	-	55,392	-	55,392
Trade and Other Receivables	259	-	-	-	259
Investment Securities	-	-	49,488	-	49,488
Derivative Financial Instruments	-	-	-	-	-
Loans and Advances	338,498	-	-	-	338,498
	<b>340,063</b>	<b>-</b>	<b>104,880</b>	<b>-</b>	<b>444,943</b>
<b>Liabilities</b>					
Deposits	-	-	-	384,791	384,791
Redeemable Shares	-	-	-	7,845	7,845
Trade and Other Payables	1,693	-	-	-	1,693
	<b>1,693</b>	<b>-</b>	<b>-</b>	<b>392,636</b>	<b>394,329</b>

**40. Post Balance Date Events**

In August 2009 the Society received a "BB" (with stable outlook) long term credit rating from Standard and Poors.

**APPENDIX TWO: AUDITORS' REPORT**

---

29 June 2010

The Directors  
Southern Cross Building Society  
P O Box 554  
AUCKLAND 1140

Dear Directors

## AUDITORS' REPORT FOR INCLUSION IN PROSPECTUS

As auditors of Southern Cross Building Society (the 'Society' and 'Borrowing Entity') and subsidiaries (the 'Group' and 'Borrowing Group'), we have prepared this report pursuant to clause 36 of the Second Schedule of the Securities Regulations 1983 for inclusion in a prospectus dated 30 September 2009 as amended by Memoranda of Amendments dated 21 December and 29 June 2010 for the issue of deposits. Our report dated 30 September 2009 is reissued as at 29 June 2010 to take account of the Memorandum of Amendments dated 29 June 2010 to the Registered Prospectus No 44 of Southern Cross Building Society (the 'Memorandum of Amendments'). The changes outlined in the Memorandum of Amendments and incorporated in the prospectus dated 30 September 2009 as amended by Memoranda of Amendments dated 21 December and 29 June 2010 do not affect our Opinion on the Financial Statements, Opinion on the Summary of Financial Statements or Opinion on the Ranking of Securities as set out in our report dated 30 September 2009 except in respect of the page numbers referred to in that report. We have not performed any additional procedures since the date of our original report of 30 September 2009.

### Board of Directors' Responsibilities

The Board of Directors (the 'Directors') are responsible for the preparation and presentation of:

- (a) the financial statements as required by clauses 16 to 31 of the Second Schedule of the Securities Regulations 1983, that comply with the regulations; and subject to the regulations comply with generally accepted accounting practice in New Zealand; and give a true and fair view of the state of affairs of the Borrowing Group as at 30 June 2009 and its financial performance and cash flows for the financial year ended on that date;
- (b) the summary of financial statements of the Borrowing Group for the financial years ended 30 June 2009, 2008, 2007, 2006, and 2005, as required by clauses 7(2) and 7(3) of the Second Schedule of the Securities Regulations 1983;
- (c) the financial statements which give a true and fair view of the financial position of the Society and Group as at 30 June 2009 and their financial performance and cash flows for the year ended on that date which are provided by the directors for investors information; and
- (d) the details and amounts in respect of the ranking of securities of the Borrowing Group as at 30 June 2009 as required by clause 12 of the Second Schedule of the Securities Regulations 1983.



## **Auditors' Responsibilities**

It is our responsibility to:

- (a) express an independent opinion on the financial statements of the Borrowing Group as at 30 June 2009 and for the year ended on that date, prepared and presented by the directors, and report our opinion in accordance with clause 36(1) of the Second Schedule of the Securities Regulations 1983;
- (b) express an independent opinion on the financial statements of the Society and Group as at 30 June 2009 and for the year ended on that date prepared and presented by the directors; and
- (c) report in accordance with clause 36(1)(g) of the Second Schedule of the Securities Regulations 1983
  - i) on the amounts included in the summary of financial statements of the Borrowing Group for the financial years ended 30 June 2009, 2008, 2007, 2006, and 2005 presented by the directors; and on the amounts included in the ranking of securities of the Borrowing Group as at 30 June 2009 presented by the directors.

This report has been prepared for inclusion in the prospectus for the purpose of meeting the requirements of clause 36 of the Second Schedule of the Securities Regulations 1983. We disclaim any assumptions of responsibility for reliance on this report or the amounts included in the financial statements, the summary financial statements, the amounts included in the ranking of securities, for any other purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the prospectus not specifically mentioned in this report.

## **Basis of Opinion on the Financial Statements**

An audit of the financial statements for the year ended 30 June 2009 includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Board of Directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Borrowing Group circumstances, consistently applied and adequately disclosed.

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

## **Basis of Opinion on the Summary of Financial Statements**

We have undertaken procedures to provide reasonable assurance that the amounts set out in the summary of financial statements on pages 12 and 13 of this prospectus, pursuant to clauses 7(2) and 7(3) of the Second Schedule of the Securities Regulations 1983, have been correctly taken from the audited financial statements of the Borrowing Group for the financial years ended 30 June 2009, 2008, 2007, 2006, and 2005. For a better understanding of the financial position and results of the Borrowing Group's operations for the financial period the summary financial information should be read in conjunction with the related annual financial statements.

## **Basis of Opinion on the Ranking of Securities**

We have undertaken procedures to provide reasonable assurance that the amounts set out in the ranking of securities on page 14 and 15 pursuant to clause 12 of the Second Schedule of the Securities

# Deloitte

Regulations 1983, have been correctly taken from the audited financial statements of the Borrowing Group as at 30 June 2009.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in Southern Cross Building Society or any of its subsidiaries.

## Unqualified Opinion on the Financial Statements

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

In our opinion:

- proper accounting records have been kept by the Borrowing Group as far as appears from our examination of those records; and
- the financial statements of the Society, Borrowing Group and Group on pages 26 to 66 of Appendix 1 to this prospectus, as required by clauses 16 to 31 of the Second Schedule of the Securities Regulations 1983, and that are required to be audited, have been drawn up to:
  - comply with the Securities Regulations 1983;
  - subject to these Regulations, comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the financial position of the Society, Borrowing Group and Group as at 30 June 2009 and the results of their operations and cash flows for the financial year ended on that date.

Our audit for the Society and Group was completed on 12 August 2009 and our unqualified opinion is expressed as at that date.

## Unqualified Opinion on the Summary of Financial Statements

In our opinion the amounts set out in the summary of financial statements, on pages 12 and 13 of this prospectus, as required by clauses 7(2) and 7(3) of the Second Schedule of the Securities Regulations 1983, have been correctly taken from the audited financial statements of the Borrowing Group for the financial years ended 30 June 2009, 2008, 2007, 2006, 2005 from which they were extracted.

## Unqualified Opinion on the Ranking of Securities

In our opinion the amounts set out in the ranking of securities, on page 14 and 15 of this prospectus, as required by clause 12 of the Second Schedule of the Securities Regulations 1983, have been correctly taken from the audited financial statements of the Borrowing Group for the year ended 30 June 2009.

In terms of Regulations 7(1) (b) (ii) of the Securities Regulations 1983 we hereby give our consent to the inclusion in the above mentioned prospectus of this report in the form in which it is included. We also confirm that we have not, before delivery of this prospectus for registration, withdrawn our consent to the issue thereof.

Yours faithfully



**DELOITTE**

Chartered Accountants

Auckland, New Zealand

This audit report relates to the prospectus of Southern Cross Building Society dated 30 September 2009 included on Southern Cross Building Society's website. The Board of Directors is responsible for the maintenance and integrity of Southern Cross Building Society's website. We have not been engaged to report on the integrity of Southern Cross Building Society's website. We accept no responsibility for any changes that may have occurred to the prospectus since it was initially presented on the website. The audit report refers only to the prospectus named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the prospectus. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the prospectus and related audit report dated 30 September 2009 to confirm the information included in the prospectus presented on this website. Legislation in New Zealand governing the preparation and dissemination of prospectuses may differ from legislation in other jurisdictions.

**APPENDIX THREE: TRUSTEE'S LETTER**

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30 September 2009

The Directors  
Southern Cross Building Society  
P O Box 554  
AUCKLAND

Dear Sirs

Clause 13(3) of the Second Schedule to the Securities Regulations requires us to confirm that the offer of deposits (in this Statement referred to generally as "the Securities") set out in the Prospectus dated 30 September 2009 ("the Prospectus") complies with any relevant provisions of the Trust Deed dated 21 December 1990, as amended by a Deed of Amendment dated 24 September 1999. These provisions are those which:

- (i) Entitle the Society to constitute and issue under or with the benefit of the Trust Deed (as the case may be) the Securities offered in the Prospectus;
- (ii) Impose restrictions on the right of the Society to offer the 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 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 Fifth Schedule of the Securities Regulations 1983, the Trustee relies on the information supplied to it by the Society pursuant to the Trust Deed and does not carry out an independent check of the figures supplied to it in that information.

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

Yours sincerely  
**TRUSTEES EXECUTORS LIMITED**

**Shahazad Contractor**  
**CORPORATE BUSINESS MANAGER**  
**CORPORATE TRUST**

## DIRECTORY

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- Issuer:** Southern Cross Building Society  
Level 1 Southern Cross Building  
Corner Victoria and High Streets, PO Box 554, Auckland  
[www.buildingsociety.co.nz](http://www.buildingsociety.co.nz)  
Phone: 0800 657 935  
Fax: 09 3009527
- Directors:** Chairman: Geoffrey Thomas Ricketts, LLB (Hons) First D  
3/10 Crescent Road, Parnell, Auckland
- Don James Turkington, BCA, MCom, PhD  
8/3 Morwong Drive,  
Noosa Heads,  
Queensland 4567  
Australia
- Robert Leslie Smith B Comm  
45 Clarendon Road, St Heliers, Auckland
- Christopher Robert Mace, CNZM  
31 Bassett Road, Remuera, Auckland
- Anthony Donald James Beasley, BE(Mech) MIPENZ  
57 St Martins Road, Christchurch
- Noel Barclay, FCA  
42 Golf Road, Epsom, Auckland
- Secretary:** Michael Wesley Finlay CA
- Trustee:** Trustees Executors Limited  
Level 12, 45 Queen Street, PO Box 4197, Auckland  
[www.trustee.co.nz](http://www.trustee.co.nz)  
Phone: 0800 878 783  
Fax: 09 308 7101
- Securities Registrar:** The Society Secretary  
Level 1 Southern Cross Building  
Corner Victoria and High Streets, PO Box 554, Auckland
- Solicitors to the Society:** Harnos Horton Lusk  
Level 37, Vero Centre, 48 Shortland Street, PO Box 28, Auckland  
[www.hhl.co.nz](http://www.hhl.co.nz)  
Phone: 09 921 4300  
Fax: 09 921 4319
- Solicitors to the Trustee:** Buddle Findlay  
Level 18, PricewaterhouseCoopers Tower, 188 Quay Street,  
PO Box 1433, Auckland  
[www.buddlefindlay.com](http://www.buddlefindlay.com)  
Phone: 09 358 2555  
Fax: 09 358 2055
- Auditors:** Deloitte  
Deloitte House, 8 Nelson Street, PO Box 33 Auckland  
[www.deloitte.co.nz](http://www.deloitte.co.nz)  
Phone: 09 309 4944  
Fax: 09 309 4947

## DIRECTORY OF DEPOSIT & WITHDRAWAL AGENCIES

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### NORTHERN REGION

<u>Suburb / Town</u>	<u>Address</u>	<u>Telephone</u>
<b>TAKAPUNA BRANCH</b>	456 Lake Road, Takapuna	(09) 489 5264
Browns Bay	Browns Bay Toyworld, 71 Clyde Road	(09) 478 9464
Kerikeri	PKF Poutsma Lemon Limited, Chartered Accountants, 9 Hobson Avenue	(09) 407 7142
Mairangi Bay	Janbells School Uniforms, Shop 7, 404 Beach Road	(09) 478 3450
Orewa	Orewa Care Chemist, 312 Hibiscus Coast Highway	(09) 426 4087
Paihia	PKF Poutsma Lemon Limited, Chartered Accountants, Williams Road	(09) 402 7926

### AUCKLAND REGION

<u>Suburb / Town</u>	<u>Address</u>	<u>Telephone</u>
<b>AUCKLAND BRANCH</b>	Ground Floor, Southern Cross Building, Corner High & Victoria Streets, Auckland	(09) 303 1004
Blockhouse Bay	Blockhouse Bay Pharmacy, 526 Blockhouse Bay Road	(09) 627 9913
Eastridge – Orakei	Eastridge Paper Plus, Eastridge Shopping Mall, Kepa Road	(09) 521 5402
Mt Roskill	Bradburns Value Pharmacy, 1250 Dominion Road	(09) 620 8671
Remuera	Village Bookshop, 545 Remuera Road	(09) 524 5553
Westgate	Westgate Paper Plus, Westgate Shopping Centre, Hobsonville Rd	(09) 831 0230
<b>PAPATOETOE BRANCH</b>	183 Great South Road, Hunters Corner	(09) 279 9171
Howick	Readaway Books, 83 Picton Street	(09) 534 5610
Mangere Bridge	Mangere Bridge Stationers Ltd, 21a Coronation Road	(09) 636 5366
Papakura	Papakura Taxation Services Ltd, 81 O'Shannessey Street	(09) 298 4734

### WAIKATO REGION

<u>Suburb / Town</u>	<u>Address</u>	<u>Telephone</u>
<b>HAMILTON BRANCH</b>	415 Victoria Street, Hamilton	(07) 838 0136
Beerescourt	DispensaryFirst Beerescourt Pharmacy, 1365 Victoria Street	(07) 838 2319
Cambridge	Munro-Burgess Ltd, 52 Victoria Street	(07) 823 0700
Chartwell	Life Pharmacy, Westfield Shopping Centre	(07) 855 6024
Coromandel	Hauraki Taxation Services Ltd, 95 Kapanga Road	(07) 866 8660
Dinsdale	Barrett Pharmacy Ltd, Whatawhata Road	(07) 847 8478
Matamata	Frasers Take Note, 58-60 Arawa Street	(07) 888 7787
Morrinsville	The Woolbar/Top Gear, 232 Thames Street	(07) 889 7772
Paeroa	Take Note Paeroa, 46 Belmont Road	(07) 862 7213
Te Aroha	Piako Stationery Supplies, 160 Whitaker Street	(07) 884 9110
Te Awamutu	Selectrix, 174 Alexandra Street	(07) 871 7191
Te Kuiti	Kidd Falconer & Co, Chartered Accountants, 46 Taupiri Street	(07) 878 8145
Thames	Thames Mitre 10, 460 Pollen Street	(07) 868 7155
Thames	Hauraki Taxation Services Ltd, 328a Pollen Street	(07) 868 9710

## BAY OF PLENTY REGION

<u>Suburb / Town</u>	<u>Address</u>	<u>Telephone</u>
<b>TAURANGA BRANCH</b>	24 Devonport Road, Tauranga	(07) 578 3212
Bayfair	Bayfair Pharmacy Ltd, Bayfair Shopping Centre, Girven Road	(07) 575 3830
Cherrywood	Cherrywood Bookshop, 42 Cherrywood Drive	(07) 576 4128
Greerton	Greerton Newsagency, 1295 Cameron Road	(07) 578 4907
Katikati	Ingham Mora Limited, 80 Main Road	(07) 549 1572
Te Puke	Blackett Pharmacies Ltd, Corner Oxford & Jellicoe Street	(07) 573 7445
Waihi	Lynch & Partners, 102 Upper Seddon Street	(07) 863 7372
Whangamata	Blue Water Real Estate, 503 Port Road	(07) 865 8424
Whitianga	Business One Limited, Chartered Accountants, 26a Albert Street	(07) 866 4708

## ROTORUA REGION

<u>Suburb / Town</u>	<u>Address</u>	<u>Telephone</u>
<b>ROTORUA BRANCH</b>	1132 Hinemoa Street, Rotorua	(07) 348 4733
Turangi	Turangi Pharmacy Ltd, Town Centre	(07) 386 8565

## WELLINGTON REGION

<u>Suburb / Town</u>	<u>Address</u>	<u>Telephone</u>
<b>WELLINGTON BRANCH</b>	Shop 2, 86-96 Victoria Street, Wellington	(04) 472 1313
Hastings	Centracorp Finance 2000 Ltd, 727 Heretaunga Street	(06) 870 8702
Upper Hutt	Hoppers Pharmacy, 147 Main Street	(04) 528 3270
Waikanae	Take Note Waikanae, 46 Main Road	(04) 293 6203

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**Crown Deed of Guarantee  
(Building Society/Credit Union)**

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Her Majesty the Queen in right of New Zealand

and

Southern Cross Building Society

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Date: 28 May 2010

**PARTIES**

**Her Majesty the Queen in right of New Zealand** acting by and through the Minister of Finance (*Crown*)

**Southern Cross Building Society** (*Principal Debtor*)

**BACKGROUND**

A Under the Act:

- (1) the Minister of Finance, may on behalf of the Crown, give a guarantee in writing for a period that ends on or before 31 December 2011 in respect of any or all debt securities issued by an eligible entity if it appears to the Minister to be necessary or expedient in the public interest to do so; and
- (2) the Minister may give the guarantee on any terms and conditions that the Minister thinks fit.

B The Principal Debtor is an eligible entity.

C It appears to the Minister of Finance that it is necessary and expedient in the public interest that the Crown guarantees certain obligations of the Principal Debtor on the terms of this Deed.

**THE PARTIES AGREE** as follows:

**1 INTERPRETATION**

**1.1 Definitions**

In this Deed, unless the context requires otherwise:

*Act* means the Crown Retail Deposit Guarantee Scheme Act 2009.

*Announcement Date* means 12 October 2008.

*Building Society* has the meaning given under the Building Societies Act.

*Building Societies Act* means the Building Societies Act 1965.

*Credit Union* has the meaning given under the Friendly Societies and Credit Unions Act.

*Creditor* has the meaning given in clause 1.3.

*Crown Guarantee* means the Crown guarantee in clause 2.2 of this Deed.

*Debt Security*:

- (a) has the meaning given to that term in section 3 of the Act, but as if the phrase "deposited with, lent to or otherwise owing by any person" (as contained in the definition of that term in section 2(1) of the Securities Act 1978) read "deposited with or lent to any person";
- (b) in relation to the Principal Debtor, means a debt security (as defined in paragraph (a) of this definition) issued or to be issued by the Principal Debtor;
- (c) in relation to a Principal Debtor that is a Credit Union, includes a Debt Security that is, or has been, transferred to that Principal Debtor as part of a transfer of engagements under section 135 of the Friendly Societies and Credit Unions Act and shall be deemed, from the date such transfer of engagement takes effect, to be a Debt Security issued by the Principal Debtor; and
- (d) includes each Share.

*Default Event* means:

- (a) failure of the Principal Debtor to make payment to a Creditor in the amount and at the date lawfully due and payable in accordance with the terms of any Indebtedness, other than:
  - (i) any such failure due solely to a bona fide dispute, or
  - (ii) any such failure in respect of Indebtedness in respect of which the Crown, in accordance with clause 2.2(b), is not required to make payment under clause 2.2;
- (b) the Principal Debtor institutes or has instituted against it any form of proceeding seeking:
  - (i) the appointment of a liquidator, provisional liquidator, voluntary administrator, receiver, receiver and manager, or similar person; or
  - (ii) a judgement of insolvency or bankruptcy;

or any similar relief in respect of the Principal Debtor, provided that, if any such proceeding is, within 14 days after it is instituted, withdrawn or challenged by proceedings which the Principal Debtor is advised by its legal advisors have a reasonable prospect of success, it shall be deemed not to have occurred for the purposes of this Deed (unless and until such challenge is unsuccessful);

- (c) the Principal Debtor becomes subject to the appointment of a voluntary administrator, liquidator, provisional liquidator, receiver, receiver and manager, or similar person;
- (d) the Principal Debtor has a secured party take possession of all or substantially all its assets, or has a distress, execution or attachment or other legal process instigated or enforced against all or substantially all of its assets;
- (e) the Principal Debtor makes a general assignment, arrangement or compromise with, or for the benefit of, all or a material number of its creditors (including a moratorium);
- (f) if the Principal Debtor is a Credit Union, the Principal Debtor has been prohibited from carrying on each of the activities listed in section 139(1) of the Friendly Societies and Credit Unions Act;
- (g) if the Principal Debtor is a Credit Union, the registration of the Principal Debtor as a credit union has been suspended or cancelled under section 140 of the Friendly Societies and Credit Unions Act;
- (h) if the Principal Debtor is a Building Society, the registration of the Principal Debtor as a Building Society has been suspended or cancelled under section 124 of the Building Societies Act; or
- (i) a statutory manager is appointed to the Principal Debtor under the Reserve Bank Act or the Corporations (Investigation and Management) Act 1989, or any equivalent action is taken in any other jurisdiction in which the Principal Debtor is incorporated or carries on a material part of its business.

*Excluded Debt Security* means:

- (a) a Debt Security which:
  - (i) is or was issued prior to the Guarantee Period pursuant to the terms of a registered prospectus or an investment statement under the Securities Act 1978 which states or stated that the Debt Security is

an "Excluded Security" or "Excluded Debt Security" for the purposes of the deed of guarantee between the Crown and the Principal Debtor dated 9 December 2009 ("Previous Deed") and that accordingly none of the obligations of the Principal Debtor in respect of that Excluded Debt Security have the benefit of the "Crown Guarantee" under the Previous Deed; or

- (ii) is issued during the Guarantee Period pursuant to the terms of a registered prospectus or an investment statement under the Securities Act 1978 which states that the Debt Security is an "Excluded Debt Security" for the purposes of this Deed and that accordingly none of the obligations of the Principal Debtor in respect of that Excluded Debt Security have the benefit of the Crown Guarantee; and
- (b) any other Debt Security which the Crown, in its sole discretion (and on such conditions, if any, as it may specify) agrees or has agreed with the Principal Debtor, prior to that Debt Security being offered to any Person by or on behalf of the Principal Debtor, will be an Excluded Debt Security for the purposes of this Deed (and/or an "Excluded Security" or "Excluded Debt Security" for the purposes of the Previous Deed), and that accordingly none of the obligations of the Principal Debtor in respect of that Excluded Debt Security have the benefit of the Crown Guarantee (and/or the "Crown Guarantee" under the Previous Deed).

*Execution Date* means the date of this Deed.

*Financial Institution* means a "financial institution" as that term is defined in section 2 of the Reserve Bank Act and, without prejudice to the generality of the foregoing, includes:

- (a) a "collective investment scheme" as that term is defined in section 157B of the Reserve Bank Act (as if that term also included any "superannuation fund" or "superannuation scheme" as those terms are defined in section YA1 of the Income Tax Act 2007) or an issuer, trustee or manager of any such scheme acting in that capacity;
- (b) an "insurer" as that term is defined in section 2 of the Insurance Companies (Ratings and Inspections) Act 1994 or any other Person carrying on the business of providing insurance cover (of whatever nature);
- (c) a Person carrying on business as a sharebroker, an investment adviser or a fund manager (to the extent that Person is acting in that capacity); or

(d) a Person who is controlled by a financial institution as defined above.

*Friendly Societies and Credit Unions Act* means the Friendly Societies and Credit Unions Act 1982.

*GAAP* means "generally accepted accounting practice" within the meaning of that term under the Financial Reporting Act 1993.

*Guarantee Period* means the period commencing at 12:01am on 12 October 2010 and expiring at 11:59pm (in both cases New Zealand time) on 31 December 2011.

*Guaranteed Amount* means, in respect of any date, the maximum amount for which the Crown would be liable on that date under the Crown Guarantee, in accordance with the terms of this Deed, if all Indebtedness existing on that date was (and had been, for 15 days) due and payable and was not paid by the Principal Debtor.

*Indebtedness* means any obligation of the Principal Debtor to pay money (whether present or future) to a Creditor under Debt Securities, but:

- (a) in the case of Shares, only includes an obligation to pay money that relates to an interest in, or right to be paid, money that is deposited with, or lent to, the Principal Debtor, and excludes any obligation:
  - (i) to pay a dividend from the annual surplus or accumulated reserves of the Principal Debtor;
  - (ii) to pay a redemption amount following redemption at the option of the Principal Debtor;
  - (iii) to make a payment arising out of the holder's right to participate in the assets of the Principal Debtor on liquidation after the payment of all its other liabilities;
  - (iv) to make a payment arising out of terms of issue of the share that are materially different to the terms of issue of shares that:
    - (A) were issued by the Principal Debtor prior to the Announcement Date; and
    - (B) remained on issue on the Announcement Date; and
- (b) excludes any obligation which in terms of priority of payment and otherwise on a winding up, dissolution or liquidation of the Principal Debtor

would rank behind the unsecured unsubordinated obligations of the Principal Debtor, but for the avoidance of doubt, and without limiting paragraph (a) above, this exclusion shall not extend to the Principal Debtor's obligations in respect of Shares;

- (c) excludes any obligation under a Debt Security in respect of which the Crown has provided a guarantee (by issue of a "guarantee eligibility certificate") under the Crown Wholesale Funding Guarantee Facility (as defined in the Act);
- (d) excludes at any time, any obligation which at that time is guaranteed by the Crown under a deed of guarantee entered into between the Announcement Date and 12 October 2010 under the "Retail Deposit Guarantee Scheme" announced on or about the Announcement Date;
- (e) excludes any obligation under an Excluded Debt Security;
- (f) excludes any obligation excluded by clause 2.4, clause 10.6(b) or clause 10.7; and
- (g) excludes any Post-Default Interest.

*Net Tangible Assets* means, at any time, the difference (which may be expressed as a negative number) between the value of the Total Tangible Assets of the Principal Debtor and the Total Liabilities of the Principal Debtor at that time.

*New Zealand Citizen* has the meaning given under the Citizenship Act 1977.

*New Zealand Resident* means a Person defined as resident in New Zealand pursuant to the Income Tax Act 2007.

*Nomination* means a deed or agreement between the Crown and a Person (or a written notice from the Crown to a Person or to the public) under which the Crown designates that Person (whether specifically or by reference to a class of Persons) as a "Nominated Beneficiary" for the purposes of this Deed (whether that deed, agreement or notice identifies this Deed specifically or by reference to a class).

*Nominated Beneficiary* means, at any time, a Person who has been designated as a "Nominated Beneficiary" under, and at that time remains a "Nominated Beneficiary" in accordance with, a Nomination.

*Notice of Claim* means a notice, deed or agreement duly executed by or on behalf of a Creditor in a form to be determined by the Crown under which the Creditor requires the Crown to make payment to that Creditor under this Deed.

*Party* means the Crown or the Principal Debtor, and *Parties* means them collectively.

*Person* includes an individual, a body corporate, any association of persons (whether corporate or not), a trust (including the trustees of a trust acting in that capacity), and a state and any agency of a state (in each case whether or not having separate legal personality).

*Post-Default Interest* means, in respect of a Debt Security, any amount of interest and any amounts in the nature of interest, or having a similar purpose or effect to interest, including without limitation:

- (a) the face amount of that Debt Security less the net proceeds received after its discount or issue;
- (b) any capitalised interest;
- (c) any fee or other amount incurred on a regular or recurring basis payable in respect of that Debt Security; and
- (d) any amount that is required by GAAP to be treated as interest or a financing cost;

in each case to the extent accrued following a Default Event (other than a Default Event as defined in paragraph (a) of the definition thereof that does not relate to that Debt Security); and includes any amount which the Crown reasonably considers to be economically equivalent to interest accrued following such a Default Event.

*Registered Bank* means a Person registered as a bank under the Reserve Bank Act.

*Related Party* of the Principal Debtor means a Person who is, or at any date after the Announcement Date was, a Person who would be a "related party" as that term is defined in section 157B of the Reserve Bank Act 1989, as if:

- (a) the Principal Debtor was a "deposit taker"; and
- (b) "related party" included any Person who controls the Principal Debtor and any Person who is controlled by any such Person or by the Principal Debtor.

*Reserve Bank Act* means the Reserve Bank of New Zealand Act 1989.

*Share* means:

- (a) in relation to a Building Society, a redeemable share or a redeemable preference share that is either a debt security, or a debt security and a participatory security (as those terms are defined in the Securities Act 1978) issued by the Principal Debtor; and
- (b) in relation to a Credit Union, a share that is either a debt security, or a debt security and a participatory security (as those terms are defined in the Securities Act 1978) issued by the Principal Debtor.

*Total Liabilities* means, at any time, the aggregate values of all liabilities which would be recognised in a consolidated balance sheet of the Principal Debtor prepared as at that time in accordance with GAAP and (to the extent consistent with GAAP at that time) the Principal Debtor's accounting policies as at the date of this Deed, as if that time was the annual balance date of the Principal Debtor. For the purposes of this definition, the "value" of a liability is the measurement of that liability which would be recognised in that balance sheet.

*Total Tangible Assets* means, at any time, the aggregate values of all assets (other than goodwill, deferred tax assets and other assets classified as "intangible assets" under GAAP) which would be recognised in a consolidated balance sheet of the Principal Debtor prepared as at that time in accordance with GAAP and (to the extent consistent with GAAP at that time) the Principal Debtor's accounting policies as at the date of this Deed, as if that time was the annual balance date of the Principal Debtor. For the purposes of this definition, the "value" of an asset is the measurement of that asset which would be recognised in that balance sheet.

## 1.2 Construction

In this Deed, unless the context requires otherwise:

- (a) *Headings*: headings are for convenience only, and do not affect interpretation;
- (b) *Sections, Clauses and Schedules*: a reference to a Section or a clause or Schedule is a reference to a Section or clause in, or Schedule to, this Deed;
- (c) *Singular and plural*: the singular includes the plural and the converse;
- (d) *Deed or document*: a reference to a deed or a document is to the deed or document as amended, novated, supplemented or replaced from time to time;

- (e) *Legislation*: a reference to legislation or to a provision of legislation includes any amendments and re-enactments of it, a legislative provision substituted for it and a statutory regulation, rule, order or instrument made under or issued pursuant to it; and
- (f) *Control*: a Person ("A") is "controlled" by another Person ("B") if:
  - (i) A is a subsidiary of B under the law of incorporation of A or for the purposes of GAAP; or
  - (ii) B is able to exercise real or effective control, directly or indirectly, over A or over a material part of A's business or affairs (whether pursuant to a contract, an arrangement or an understanding, as a result of the ownership or control of securities or other interests in or issued by A, or otherwise) except where A is a natural person and B's control arises solely under an enduring power of attorney granted by A in favour of B.

### 1.3 Creditor

- (a) Subject to clauses 1.3(b), (c) and (d), in this Deed a "Creditor" is a Person to whom the Principal Debtor has an obligation to pay money (whether present or future) under a Debt Security. For the avoidance of doubt, the Principal Debtor shall be regarded as having such an obligation to a Person if, under the terms of a Debt Security, that obligation is owed:
  - (i) directly to that Person; or
  - (ii) to the trustee under the trust deed under which that Debt Security is constituted, if that Person holds that Debt Security.
- (b) Subject to clauses 1.3(c) and (d), a Person to whom the Principal Debtor has an obligation to pay money (whether present or future) under a Debt Security is not a Creditor:
  - (i) if that Person is:
    - (A) a Related Party of the Principal Debtor;
    - (B) controlled by a Related Party of the Principal Debtor;
    - (C) a Financial Institution;
    - (D) neither a New Zealand Citizen nor a New Zealand Resident; or

- (E) a Person acting (directly or indirectly) as a nominee of or trustee for a Person referred to in (i)(A), (B), (C) or (D) above;
- (ii) if:
- (A) that Person consists of two or more Persons who jointly hold that Debt Security; and
  - (B) one or more of those Persons would not be a Creditor if the Principal Debtor had a direct obligation to pay money (whether present or future) to that Person individually under that Debt Security.
- (c) A Person to whom the Principal Debtor has an obligation to pay money (whether present or future) under a Debt Security is not excluded by clause 1.3(b) from being a Creditor to the extent that that Person is:
- (i) a Nominated Beneficiary that is deemed to be a Creditor under clause 2.5;
  - (ii) a bare trustee for another Person if that other Person would be a "Creditor" if the Principal Debtor had a direct obligation to pay money (whether present or future) to that Person under a Debt Security;
  - (iii) acting as trustee/s or nominee/s for any one or more Persons (each a "Beneficiary") if that Person (i.e. the Person acting as trustee/s or nominee/s) is not excluded by clause 1.3(b)(i)(A), (B) or (C) from being a Creditor and the Crown (in its sole and unfettered discretion), having regard to (among other things):
    - (A) the identity and nature of each of the Beneficiaries (where known);
    - (B) how many of those Beneficiaries (where known) would be Creditors if the Principal Debtor had a direct obligation to pay money (whether present or future) to each of them under that Debt Security,

gives notice in writing to that Person (i.e. that Person acting as trustee/s or nominee/s (which may be by way of public notice and may or may not be subject to such conditions (if any) as the Crown may specify) that that Person (acting in that capacity of trustee/s or nominee/s) is a Creditor.
- (d) A Person ("Joint Holder") consisting of two or more Persons who jointly hold a Debt Security under which the Principal Debtor has an obligation to pay money (whether present or future) to that Joint Holder is not excluded by clause 1.3(b) from being a Creditor if:

- (i) none of those Persons are excluded by clause 1.3(b)(i)(A), (B), (C) or (E) from being a Creditor;
- (ii) at least one of those Persons would be a Creditor if the Principal Debtor had a direct obligation to pay money (whether present or future) to that Person individually (rather than jointly) under that Debt Security;
- (iii) the Joint Holder would not be excluded by clause 1.3(b)(i)(A), (B), (C) or (E) from being a Creditor; and
- (iv) the Joint Holder does not hold that Debt Security in its capacity as trustee or nominee for one or more other Persons.

## 2 **GUARANTEE**

### 2.1 **Eligibility**

Notwithstanding any other provision of this Deed, except to the extent (if any) otherwise agreed in writing by the Crown (in its sole and unfettered discretion), the Crown has no obligations under this Deed if, prior to the commencement of the Guarantee Period, a Default Event with respect to the Principal Debtor occurs.

### 2.2 **Crown Guarantee**

On and subject to the terms of this Deed the Crown:

- (a) absolutely and irrevocably guarantees to each Creditor from time to time the due and punctual payment by the Principal Debtor of all Indebtedness that becomes due and payable during the Guarantee Period; and
- (b) undertakes to each Creditor from time to time that if the Principal Debtor does not pay to any Creditor any Indebtedness guaranteed under clause 2.2(a) when due and payable, the Crown will pay the amount of that Indebtedness to the Creditor no later than the day which is 14 days after the due date of that Indebtedness (or such earlier day as the Crown may specify) if that Indebtedness is not otherwise paid on or before that day.

To avoid doubt, the Crown shall have no liability at any point in time under the Crown Guarantee to a Person who is not, at that time, a Creditor (whether or not that Person was previously a Creditor).

### 2.3 **Notice and Quantification**

The Crown shall not be obliged to make a payment to a Creditor under clause 2.2 unless and until the Crown:

- (a) receives a Notice of Claim from the Creditor in respect of the relevant Indebtedness within 180 days following the date on which that

Indebtedness becomes due and payable (or such longer period as the Crown may agree to in its sole and unfettered discretion); and

- (b) has satisfied itself as to the amount of that Indebtedness and as to such other matters as the Crown reasonably considers appropriate in order to ascertain the extent of its liability under the Crown Guarantee in respect of that Indebtedness.

Despite clause 2.3(a), the Crown may (in its sole and unfettered discretion) waive in writing (generally or in any specific case) the requirement for it to receive a Notice of Claim.

**2.4 Indebtedness Incurred or Acquired after Default Event not Covered**

- (a) An obligation of the Principal Debtor to pay money (whether present or future) to a Creditor under a Debt Security shall not constitute "Indebtedness" (and accordingly shall not be covered by the Crown Guarantee) to the extent that that Debt Security:

- (i) is issued after a Default Event; or
- (ii) is acquired (whether by contract, statute, operation of law or otherwise) by that Creditor after the occurrence of a Default Event except:

- (A) to the extent otherwise agreed by the Crown in writing (in its sole and unfettered discretion); or

- (B) where:

- (x) the Creditor is a trustee, executor or administrator of a deceased person's will or estate and acquired that Debt Security in that capacity from the deceased person; and

- (y) the obligation would have constituted "Indebtedness" if that person had not died and had continued to hold that Debt Security.

For the avoidance of doubt clause 2.4(a)(ii)(B) is to be read subject to clauses 1.3(b) and 1.3(c).

- (b) For the purposes of clause 2.4(a), a Debt Security shall be deemed to have been issued after a Default Event (and accordingly no obligations of the Principal Debtor in respect of that Debt Security shall constitute "Indebtedness" for the purposes of the Crown Guarantee) if:

- (i) the terms of that Debt Security are varied or supplemented (whether by agreement between the Principal Debtor and a Creditor, by agreement

between the Principal Debtor and the trustee for that Debt Security, by Court order, or otherwise); or

- (ii) any other arrangement is entered into by the Principal Debtor which in substance is equivalent to a variation or supplement to the terms of that Debt Security,

in each case under the terms of, or in contemplation of entry by the Principal Debtor into, a compromise or arrangement with any creditors of the Principal Debtor (including (without limitation) any moratorium or debt rescheduling) (any such variation, supplement or arrangement being a "Variation"), except to the extent (if any) that the Crown (in its sole and unfettered discretion) agrees otherwise in writing (which may be by way of public notice).

## 2.5 **Nominated Beneficiaries**

Nominated Beneficiaries shall be deemed to be Creditors for the purposes of this Deed, provided that the Crown's liability to a Nominated Beneficiary shall be limited to the amount (if any) specified in or determined in accordance with the relevant Nomination.

## 2.6 **Liability cap**

- (a) The Maximum Aggregate Liability of the Crown to each Creditor is:
  - (i) in respect of a Nominated Beneficiary, such amount as may be specified in or determined in accordance with the relevant Nomination; and
  - (ii) in all other cases, two hundred and fifty thousand New Zealand dollars (\$250,000.00), or such greater amount as the Crown may (in its sole and unfettered discretion), in connection with any merger, amalgamation, conversion, acquisition or other reorganisation involving the Principal Debtor, agree in respect of one or more Creditors, (which agreement may identify such Creditor/s either individually or by reference to a class).
- (b) For the purposes of clause 2.6(a), "Maximum Aggregate Liability" means the maximum aggregate liability of the Crown to a Creditor under the Crown Guarantee and any Replacement Guarantee/s, for which purpose "Replacement Guarantee" means any guarantee provided by the Crown as a result of the acceptance by the Principal Debtor of an offer made by the Crown under clause 10.5 (in connection with the withdrawal of the Crown Guarantee pursuant to that clause), any third guarantee provided by the Crown in connection with the withdrawal of that second guarantee under any similar provision, any fourth guarantee provided by the Crown in connection with the withdrawal of that third guarantee under any similar provision, any fifth guarantee provided by the Crown in connection with the withdrawal of that fourth guarantee under any similar provision, and so on.

### 3 FEE

- 3.1 Subject to clause 3.3, the Principal Debtor will pay to the Crown (in accordance with clause 3.2), in respect of each calendar month during the Guarantee Period (each a "Relevant Month"), a non-refundable fee calculated as follows:

$$F = \text{GA multiplied by Percentage divided by 12}$$

where:

"F" means the fee payable by the Principal Debtor in respect of that Relevant Month;

"GA" means the Guaranteed Amount on the last day of that Relevant Month;

"Percentage" means the relevant percentage figure specified in the Ratings Table below by reference to the organisation credit rating of the Principal Debtor on the last date of that Relevant Month from Standard & Poors Ratings Services, for which purpose the ratings in that table shall be deemed to refer also to the equivalent ratings from Moody's Investors Service Inc, Fitch Inc and any other rating agency approved by the Crown in writing - provided that:

- (a) if the Principal Debtor has two or more such credit ratings, the Principal Debtor's credit rating for the purposes of this definition shall be deemed to be the lowest of them; and
- (b) if the Principal Debtor has no such credit rating current on the last date of that Relevant Month it shall be deemed to have such a credit rating of lower than BB.

**Ratings Table**

<b>Credit rating</b>	<b>Percentage</b>
AAA- or higher	0.15%
AA+	0.15%
AA	0.15%
AA-	0.15%
A+	0.20%

<b>Credit rating</b>	<b>Percentage</b>
A	0.20%
A-	0.20%
BBB+	0.25%
BBB	0.30%
BBB-	0.40%
BB+	0.50%
BB or lower	0.60%

- 3.2 The following provisions shall apply in respect of all payments by the Principal Debtor required under clause 3.1:
- (a) The Principal Debtor will prepare an estimate of the amount payable by it under clause 3.1 and provide that estimate (together with details of its calculation), and make payment of the estimated amount, to the Crown within 14 days after the end of the Relevant Month. That estimate must constitute the best estimate the Principal Debtor is reasonably able to make of the relevant amount in the time available.
  - (b) In respect of each such payment, the Principal Debtor must provide to the Crown a final calculation of the amount payable by it under clause 3.1 in respect of the Relevant Month, together with sufficient details of that calculation (and the information on which it relies) to enable the Crown to assess its accuracy, no later than the date which is three (3) months after the end of that Relevant Month (or such later date as the Crown may, in its sole discretion, agree in writing with the Principal Debtor).
  - (c) The Crown shall review each final calculation and, after considering any additional information provided to it by the Principal Debtor at its request, will notify the Principal Debtor either that:
    - (i) it agrees with the amount calculated by the Principal Debtor (and that amount shall then be the "Final Amount" in respect of the Relevant Month); or
    - (ii) it disagrees with the amount calculated by the Principal Debtor, in which case the Crown shall also notify the Principal Debtor of the amount which (acting reasonably) it considers the Principal Debtor

should have calculated (and that amount shall then be the "Final Amount" in respect of the Relevant Month).

- (d) Within 7 days of notice being given by the Crown under clause 3.2(c):
- (i) if the Final Amount is less than the relevant estimated amount paid to the Crown in respect of the Relevant Month, the Crown will refund the difference to the Principal Debtor; and
  - (ii) if the Final Amount is greater than the relevant estimated amount paid to the Crown, the Principal Debtor will pay the difference to the Crown in respect of the Relevant Month.

- 3.3 The part month ending on 31 October 2010 shall be deemed to be a month (and accordingly a Relevant Month) for the purposes of this clause 3, but the fee payable by the Principal Debtor in respect of that part month shall be the amount calculated in accordance with clause 3.1 multiplied by 0.6.
- 3.4 As soon as practicable after becoming aware that a Person has become a Nominated Beneficiary, the Principal Debtor shall pay to the Crown such additional amount/s (if any) as would have been payable by it under this clause 3 had that Person been a Nominated Beneficiary on the first day of the Guarantee Period.
- 3.5 To avoid doubt, the agreement of the Crown to (and any notice from the Crown concerning) any amount or amounts payable under this clause 3 (including any Final Amount) shall be solely for the purposes of this clause 3, and shall not constitute evidence of, or the agreement of the Crown as to the extent of, its liability under this Deed (or in any other way limit or prejudice the rights of the Crown in relation to such liability).
- 3.6 If, on the last date of a Relevant Month, the Principal Debtor holds an organisation credit rating higher than its organisation credit rating on 31 October 2010 ("New Rating"), the Crown will rebate to the Principal Debtor the amount (if any) by which:
- (a) the aggregate amount paid by the Principal Debtor under clauses 3.1 and 3.2 in respect of the part of the Guarantee Period prior to the Relevant Month, less any amount already refunded to the Principal Debtor under this clause 3.6,
- exceeds
- (b) the aggregate amount that would have been paid by the Principal Debtor under clauses 3.1 and 3.2 in respect of that period if the Principal Debtor

had had (and retained) the New Rating from the commencement of the Guarantee Period.

To avoid doubt, the Crown shall not be required to make any such rebate until all relevant "Final Amounts" in respect of the part of the Guarantee Period prior to the Relevant Month have been determined in accordance with clause 3.2.

#### 4 **REPORTING**

##### 4.1 **Principal Debtor to Supply Information to the Crown**

The Crown may at any time require from the Principal Debtor:

- (a) any information in the possession or under the control of the Principal Debtor or any of its subsidiaries relating to the financial position or affairs, or the business, management, ownership or operation, of the Principal Debtor and/or any of its subsidiaries (including, without limitation, previous or proposed transactions involving the Principal Debtor and/or any of its subsidiaries); or
- (b) any other information in the possession or under the control of the Principal Debtor or any of its subsidiaries concerning the financial position or affairs, or the business, management, ownership or operation, of any Person (or group of Persons) by whom the Principal Debtor (or any subsidiary of the Principal Debtor) is (or was, at any time since the Announcement Date) controlled; or
- (c) any information concerning any investor in securities issued or proposed to be issued by the Principal Debtor to the extent the Crown reasonably requires such information for the purposes of:
  - (i) determining the nature and extent of any of its rights and obligations under this Deed;
  - (ii) exercising its rights and remedies under this Deed; or
  - (iii) administering payments to be made by it under this Deed.

##### 4.2 **Third Party Information**

The Principal Debtor authorises the Crown to contact and request information from those third parties that the Crown requires, including (but not limited to):

- (a) the trustee of any Debt Security issued by the Principal Debtor;
- (b) the auditors of the Principal Debtor;

- (c) the Principal Debtor's bankers or any other providers of finance;
- (d) the Securities Commission;
- (e) the Registrar of Building Societies or the Registrar of Friendly Societies and Credit Unions (as applicable);
- (f) any rating agency contracted to provide rating information in respect of the Principal Debtor or any of its subsidiaries (or any Debt Securities issued by the Principal Debtor or any of its subsidiaries); and
- (g) the Reserve Bank of New Zealand,

and hereby authorises (and shall take any other step requested by the Crown to authorise) all such requested disclosure, and will use its best endeavours to ensure that any such person provide the requested information as soon as practicable.

#### 4.3 **Sharing of Information**

The Principal Debtor authorises the Crown to share information provided in accordance with clauses 4.1 and 4.2 with the Reserve Bank of New Zealand, the Securities Commission and any "Inspector" appointed under clause 6.5.

#### 4.4 **Failure to Comply with Information Request**

- (a) If the Crown considers that the Principal Debtor has failed to comply with clause 4.1 or clause 4.2, or has supplied information or data that is false or misleading in a material particular, the Crown may give the Principal Debtor notice (which may be by way of public notice) that:
  - (i) it considers that the Principal Debtor has failed to comply with the relevant provision or has supplied information or data that is false or misleading in a material particular; and
  - (ii) the Principal Debtor has 14 days to rectify that failure or supply, for which purpose "rectify" means:
    - (A) complying with that provision to the satisfaction of the Crown or supplying such additional information or data as (in the reasonable opinion of the Crown) is required to ensure that the information or data previously supplied is not false or misleading in a material particular (as the case may be); or
    - (B) satisfying the Crown that it has already complied with that provision or that the relevant information or data is not false or misleading in a material particular (as the case may be).

- (b) If the Principal Debtor fails to so rectify that failure or supply within the 14 day period referred to in clause 4.4(a)(ii) the Crown may give public notice that the Crown Guarantee is withdrawn on the date of that notice (or will be withdrawn at such later date as may be specified in that notice).
- (c) On the day of (or, as the case may be, the date specified in) that notice, the Crown Guarantee is withdrawn in respect of all obligations which arise under any Debt Security issued following the date of withdrawal and such obligations shall not be covered by the Crown Guarantee, and the provisions of clause 10.7 shall apply in respect of all such obligations.

## 5 COMPLIANCE WITH PRUDENTIAL SUPERVISION OR OTHER MATTERS

5.1 If the Crown considers that the Principal Debtor has failed to comply with:

- (a) any applicable provision of the Reserve Bank Act, the Building Societies Act, the Friendly Societies and Credit Unions Act, or any prudential supervision direction, notice or requirement under the Reserve Bank Act, the Building Societies Act, the Friendly Societies and Credit Unions Act (as applicable) or otherwise; or
- (b) the terms of any Debt Securities or of any trust deed for Debt Securities issued by the Principal Debtor to a Creditor or otherwise relating to the Principal Debtor; or
- (c) any rules and other constituting documents relating to the Principal Debtor or any securities issued by the Principal Debtor to a Creditor,

then the Crown may give the Principal Debtor notice (which may be by way of public notice) that:

- (d) it considers that the Principal Debtor has failed to comply with that provision, direction, notice or requirement or those rules, constituting documents or terms (as the case may be); and
- (e) the Principal Debtor has 14 days to rectify that failure, for which purpose "rectify" means:
  - (i) complying with that provision, direction, notice or requirement or those rules, constituting documents or terms to the Crown's satisfaction; or
  - (ii) satisfying the Crown that it has not failed to comply with it.

- 5.2 If the Principal Debtor fails to so rectify that failure within the 14 day period referred to in clause 5.1(e) the Crown may give public notice that the Crown Guarantee is withdrawn on the date of that notice (or will be withdrawn at such later date as may be specified in that notice).
- 5.3 On the day of (or, as the case may be, the date specified in) that notice, the Crown Guarantee is withdrawn in respect of all obligations which arise under any Debt Security issued following the date of withdrawal and such obligations shall not be covered by the Crown Guarantee, and the provisions of clause 10.7 shall apply in respect of all such obligations.

## 6 ONGOING OBLIGATIONS

### 6.1 Prohibited capital and other transactions

During the Guarantee Period the Principal Debtor shall not (and shall ensure that its subsidiaries shall not), except with the prior written consent of the Crown:

- (a) authorise or pay or effect any dividend;
- (b) redeem or acquire any shares issued by it;
- (c) provide any financial assistance for the purpose of or in connection with the acquisition of any shares issued or to be issued by it ("financial assistance");
- (d) cancel or reduce the liability to it of any of its shareholders (to the extent that liability arises under the terms of issue of any shares issued by it, under its constitution, rules or other constituting document, or under the terms of any contract or deed for the issue of those shares);
- (e) make any other distribution (as defined in the Companies Act 1993); or
- (f) if not a company incorporated in New Zealand, take any equivalent action or do any equivalent thing;  
  
other than:
  - (g) to any extent required by law;
  - (h) the redemption of any Shares, or any shares which is required to be made under the terms of those shares (as they existed at 12 October 2008), other than any shares which are redeemable at the option of the holder and which are held by any person who controls or is under common control with the Principal Debtor;

- (i) the payment of fixed dividends on any Shares, or any shares which are required to be made under the terms of those shares (as they existed at 12 October 2008);
- (j) the payment of dividends by the Principal Debtor if the aggregate amount of such dividends in any financial year does not exceed the after tax profit for the previous financial year of the Principal Debtor (as shown in the annual financial statements of the Principal Debtor for the immediately preceding financial year which comply with the Financial Reporting Act 1993);
- (k) the making of any distribution by a subsidiary of the Principal Debtor to the Principal Debtor or to any wholly-owned subsidiary of the Principal Debtor; or
- (l) the provision of financial assistance by a wholly-owned subsidiary of the Principal Debtor to the Principal Debtor or to any wholly-owned subsidiary of the Principal Debtor.

## 6.2 Other transactions

### (a) *Arms' length transactions*

The Principal Debtor shall not (and shall ensure that its subsidiaries shall not), without the prior written consent of the Crown, enter into any transaction (or series of linked or related transactions) having a value (at the time of entry) exceeding one percent (1%) of the Total Tangible Assets of the Principal Debtor (at the time of entry) otherwise than on arms' length terms. For the purposes of this clause 6.2(a) (but without limiting the generality of the meaning of the phrase "arms' length terms") a transaction is not at arms' length terms if:

- (i) in the case of the acquisition by the Principal Debtor (or any of its subsidiaries) of any business, property or services, the value of the consideration given or to be given for the acquisition of that business, property or services at the time of the acquisition exceeds the open market value (as between a willing but not anxious seller and a willing but not anxious buyer) of the business, property or services acquired or to be acquired;
- (ii) in the case of the disposition or provision by the Principal Debtor (or any of its subsidiaries) of any business, property or services, or the issue of any shares, the open market value (as between a willing but not anxious seller or issuer and a willing but not anxious buyer or subscriber) of the business, property, services or shares at the time of the disposition, provision or issue exceeds the value of consideration received or to be received by the Principal Debtor (or its relevant subsidiary).

(b) *Related Party transactions*

The Principal Debtor shall not (and shall ensure that its subsidiaries shall not), without the prior written consent of the Crown, enter into any transaction (or series of linked or related transactions) having a value (at the time of entry) exceeding one percent (1%) of the Total Tangible Assets of the Principal Debtor (at the time of entry):

- (i) to which a Related Party (other than a wholly-owned subsidiary of the Principal Debtor) is party (by itself or through a nominee, custodian or trustee); or
- (ii) in which any Related Party (other than a wholly-owned subsidiary of the Principal Debtor) derives a material financial benefit or is otherwise materially interested (ignoring for these purposes any interest resulting from any ownership interest of that Related Party (or any of any Person controlled by it) in the Principal Debtor or its relevant subsidiary/ies.

**6.3 Conduct of business**

During the Guarantee Period the Principal Debtor shall ensure its business and operations (and the business and operations of its subsidiaries) are conducted in a proper, businesslike, efficient and prudent manner. In particular, but without limiting the foregoing, the Principal Debtor shall:

- (a) use its best endeavours to maintain its shareholders' funds at a prudent level, for which purpose "shareholders' funds" means, at any time, the amount which is the lesser of the aggregate amount which would be required to be disclosed as issued capital and reserves attributable to owners of the Principal Debtor in:

- (i) a consolidated balance sheet of the Principal Debtor; or
- (ii) a non consolidated balance sheet of the Principal Debtor,

in both cases prepared as at that time in accordance with GAAP and (to the extent consistent with GAAP at that time) the Principal Debtor's accounting policies at the date of this Deed, as if that time was the annual balance date of the Principal Debtor;

- (b) ensure transactions entered into by it or any of its subsidiaries that (directly or indirectly) involve, and exposures of it and its subsidiaries to, Related Parties (and other Persons controlled by Related Parties) do not exceed prudent levels;

- (c) use its best endeavours to ensure arrears on loans and other financial accommodation made by the Principal Debtor (or any of its subsidiaries) do not exceed prudent levels;
- (d) adopt and maintain (and ensure its subsidiaries adopt and maintain) prudent policies and practices in relation to provisioning of bad or doubtful debts;
- (e) adopt and maintain (and ensure its subsidiaries adopt and maintain) prudent policies and practices in relation to the obtaining, retaining and valuation of security and required "loan to value" ratios;
- (f) ensure it and each of its subsidiaries avoid imprudent concentration of maturities of Debt Securities and other financial obligations;
- (g) ensure it and each of its subsidiaries avoid imprudent concentration of loans and other financial accommodation (i) on any party (or any group of associated or related parties) and (ii) in any sector; and
- (h) ensure it and each of its subsidiaries adopts and maintains prudent policies and practices in relation to management of loans and other financial accommodation provided by it.

#### 6.4 **Reporting**

The Principal Debtor shall prepare and provide to the Crown, as soon as practicable after requested, any reports concerning the business, management, ownership, operations, or financial position or affairs of the Principal Debtor and/or its subsidiaries, and shall ensure that all such reports are accurate, complete and not misleading.

#### 6.5 **Inspector**

The Crown may:

- (a) appoint a person; or
- (b) require the Principal Debtor to immediately appoint any person nominated by the Crown,

(an "inspector") to report to the Crown on such matters as the Crown may specify. The Principal Debtor shall provide access at all reasonable times to all its books and records, and to such of its directors and senior officers as may be specified, to any such inspector, and otherwise take all reasonable steps to facilitate that inspector's inspection and review and report. The Crown may require the Principal Debtor to reimburse the Crown, and the Principal Debtor shall thereupon reimburse the Crown, for all or part of the fees, costs and

expenses of any inspector appointed under clause 6.5(a) which have been paid by the Crown. The Principal Debtor shall be responsible for all fees, costs and expenses of any inspector appointed under clause 6.5(b).

**6.6 Excluded Securities**

The Principal Debtor shall ensure that:

- (a) the prospectus (if any) and investment statement (if any), or, if applicable, other offering document, pursuant to which an Excluded Debt Security is offered, and each application form for subscription for any Excluded Debt Security, contains a prominent warning statement in bold font at least as large as the font predominantly used elsewhere in that document to the effect that none of the Principal Debtor's obligations under or in respect of that Excluded Debt Security will have the benefit of the Crown Guarantee;
- (b) each advertisement (as that term is defined in the Securities Act 1978) relating to that Excluded Debt Security contains a prominent statement to the same effect; and
- (c) in respect of any Debt Security which the Crown has agreed shall be an Excluded Debt Security (for the purposes of paragraph (b) of the definition of that term in clause 1.1), the Principal Debtor complies with any conditions specified by the Crown in or for the purposes of that consent.

**6.7 Default Events**

The Principal Debtor shall immediately give notice to the Crown of any Default Event or any circumstance or event which, with the passage of time, the giving of notice or the taking of any other action would, or would be likely to, constitute or give rise to a Default Event.

**6.8 Change in Control**

The Principal Debtor must:

- (a) give notice to the Crown as soon as it is aware of any actual or proposed event or circumstance as a result of which the Principal Debtor will or has become, or will cease or has ceased to be, controlled by a Person; and
- (b) provide the Crown with such information as the Crown may request in connection with that actual or proposed change in control.

**6.9 Prior Charges**

- (a) Except to the extent (if any) otherwise agreed in writing by the Crown, the Principal Debtor will:

- (i) ensure that, at all times, the aggregate amount of its liabilities and those of the Guarantors (actual or contingent, present or future) that are secured by Prior Charges do not exceed the lesser of:
    - (A) the amount permitted by the Trust Deed's Prior Charge Ratio; or
    - (B) the amount actually secured by Prior Charges,
 in each case as at the date this Deed comes into effect;
  - (ii) not agree to any change in the Trust Deed's Prior Charge Ratio, or seek or accept any waiver in respect of the Trust Deed's Prior Charge Ratio in the Trust Deed.
- (b) For the purposes of this clause 6.9:

"Charged Asset" means any asset subject to the Trustee's Security.

"Guarantor" means each subsidiary of the Principal Debtor that has guaranteed its obligations in respect of any Indebtedness.

"Prior Charge" means any Security Interest over any Charged Asset ranking *pari passu* with or in priority to the Trustee's Security.

"Security Interest" means any mortgage, charge, encumbrance, lien, pledge or similar interest (including any "security interest" as defined in the Personal Property Securities Act 1999 other than excluding any interest under section 17(1)(b) thereof).

"Trust Deed's Prior Charge Ratio" means that restriction or those restrictions (if any) set forth in any trust deed pursuant to which any Indebtedness is created and/or issued limiting or restricting Security Interests (other than the Trustee's Security and any other Security Interests ranking behind the Trustee's Security) which may be granted over or in respect of Charged Assets or the amount which may be secured thereby.

"Trustee's Security" means any Security Interest created in favour of the trustee of any Debt Security which constitutes Indebtedness as security for any of the Principal Debtor's obligations in respect of that Debt Security.

#### 6.10 Undertakings

The Crown may require the Principal Debtor to ensure that (in the case of a Credit Union) the trustee or principal officers, and (in the case of a Building Society) each director of the Principal Debtor provides an undertaking to the Crown, in such form as the Crown requires, to:

- (a) use his or her best endeavours to ensure that the Principal Debtor complies with its obligations under this Deed; and
- (b) notify the Crown immediately he or she becomes aware that the Principal Debtor has not complied with any of its obligations under this Deed.

#### 6.11 Assistance

The Principal Debtor shall (at its own cost), during the Guarantee Period and at any times or during any periods thereafter as the Crown may reasonably specify, provide such assistance to the Crown as the Crown may reasonably request for the purposes of or in connection with the administration of or the discharging of its obligations under this Deed - including, without limitation, such assistance as the Crown may require for the purposes of verifying the extent of the Crown's liability (and accordingly the entitlements of Creditors) under this Deed, and taking such actions as the Crown may require for the purposes of making payments under this Deed (including making such payments on behalf of the Crown out of funds provided by the Crown for the purpose).

#### 6.12 Changes to Debt Security Terms

As soon as possible after becoming aware of:

- (a) any proposed change to the terms of any Debt Securities and/or any changes to the terms of the trust deed (and/or other documents) under which any Debt Securities are constituted or which otherwise contain the terms and conditions of or relating to any Debt Securities (each a "Variation") which will or may increase the potential liability of the Crown under this Deed in respect of those Debt Securities or which will or may increase the likelihood of a Default Event occurring, other than a Variation the sole effect of which is to permit or effect the issue of additional Debt Securities on the same terms as the existing Debt Securities; or
- (b) in the case of a Principal Debtor that is a Building Society, any proposal to members to approve a scheme for conversion of that Building Society into a company pursuant to section 113A of the Building Societies Act;

the Principal Debtor will notify the Crown of the proposed Variation or the conversion scheme (whichever is the case) together with the reasons for it and all other material information relating to it.

#### 6.13 No challenge

The Principal Debtor undertakes to the Crown that it shall not take any action to challenge or adversely affect any rights or remedies the Crown may at any time have (including by way of subrogation or indemnity, under statute, or otherwise) against the Principal Debtor which arise under or in connection with this Deed

(whether as a result of the payment of any amounts by the Crown to Creditors under this Deed or otherwise).

**6.14 Crown may notify Principal Debtor of suspected failure to comply**

If the Crown considers that the Principal Debtor has failed to comply with any of its obligations under this clause 6, the Crown may give the Principal Debtor notice (which may be by way of public notice) that:

- (a) it considers that the Principal Debtor has failed to comply with its obligations under this clause 6; and
- (b) the Principal Debtor has 14 days to rectify that failure, for which purpose "rectify" means:
  - (i) complying with its obligations under this clause 6 to the satisfaction of the Crown; or
  - (ii) satisfying the Crown that it has not failed to comply with its obligations under this clause 6.

**6.15 Crown may give public notice of withdrawal of guarantee**

If the Principal Debtor fails to so rectify that failure within the 14 day period referred to in clause 6.14(b), the Crown may give public notice that the Crown Guarantee is withdrawn on the date of that notice (or will be withdrawn at such later date as may be specified in that notice).

**6.16 Withdrawal of guarantee**

On the day of (or, as the case may be, the date specified in) that notice, the Crown Guarantee is withdrawn in respect of all obligations which arise under any Debt Security issued following the date of withdrawal and such obligations shall not be covered by the Crown Guarantee, and the provisions of clause 10.7 shall apply in respect of all such obligations.

**7 ACKNOWLEDGEMENT**

The Parties acknowledge that the offering or entering into of this Deed does not in any respect restrict any regulatory or supervisory action by the Reserve Bank of New Zealand or any action the Crown may take, including but not limited to offering a guarantee to any person whether under the same terms or different.

**8 NO ASSIGNMENT**

Neither Party may assign or transfer any of its rights under this Deed.

## 9 **GOVERNING LAW AND JURISDICTION**

### 9.1 **Governing Law**

This Deed is governed by and is to be construed in accordance with New Zealand law.

### 9.2 **New Zealand Courts**

Each of the Parties irrevocably and unconditionally agrees that the Courts of New Zealand shall have non-exclusive jurisdiction to hear and determine each suit, action or proceeding (proceedings) and to settle disputes that may arise out of or in connection with this Deed and for these purposes irrevocably submits to the non-exclusive jurisdiction of those courts.

## 10 **GENERAL**

### 10.1 **Contracts (Privity) Act 1982**

The promises and obligations of the Crown under this Deed are intended to confer a benefit on, and accordingly are enforceable against the Crown under the Contracts (Privity) Act 1982 by, each Creditor, provided that the parties to this Deed may, on request of the Crown, by deed vary or discharge any of the provisions of this Deed, without the consent or agreement of any Creditor.

### 10.2 **Entire Agreement**

This Deed constitutes the entire agreement between the Parties in relation to its subject matter. It replaces all earlier discussions, negotiations and agreements relating to that subject matter, except that any rights of the Crown and obligations of the Principal Debtor arising as a result of any misrepresentation by or on behalf of the Principal Debtor prior to execution of this Deed shall continue.

### 10.3 **Withdrawal as a result of Inappropriate Activity**

If the Crown considers that:

- (a) the business or affairs of the Principal Debtor and/or any of its subsidiaries and/or any other Person who controls, is controlled by or is under common control with the Principal Debtor have been, are being, or are intended or likely to be carried on in a manner which:
  - (i) will or may extend the effective benefit of the Crown Guarantee to Persons who are not intended to receive that benefit; or
  - (ii) is or would be otherwise inconsistent with the Crown's intentions in entering into this Deed; or
- (b) the Principal Debtor will, is likely to or has become, or will or is likely to cease or has ceased to be, controlled by a Person, in each case without the

Crown's prior written consent,

In each case an "Inappropriate Activity", the Crown may withdraw the Crown Guarantee by written notice to the *Principal Debtor*.

**10.4 Withdrawal as a result of change in circumstances**

If the Crown considers at any time that:

- (a) there has been a material reduction in the Net Tangible Assets of the *Principal Debtor* since date of this Deed; and
- (b) the Crown's net liability under the Crown Guarantee (should claims be made thereunder) will or may be materially greater as a result of that reduction,

the Crown may (whether or not it is able to exercise any other right or remedy under this Deed) withdraw the Crown Guarantee by written notice to the *Principal Debtor*. For the purposes of this clause 10.4, the term "net liability" in relation to the Crown means the Crown's estimate of the difference between:

- (c) the Crown's liability under the Crown Guarantee if claims were made thereunder; and
- (d) the value of the recoveries (if any) that the Crown would receive (as a result of paying those claims) by virtue of its statutory, contractual and other rights of indemnity, contribution and subrogation.

**10.5 Withdrawal for other reasons**

If the Crown for any other reason considers it appropriate to do so, (including but without limitation, if in the case of a *Principal Debtor* that is a Building Society, that Building Society approves a scheme for the conversion of that Building Society into a company pursuant to section 113A of the Building Societies Act) it may withdraw the Crown Guarantee by written notice to the *Principal Debtor*. However, the Crown may not give a notice under this clause 10.5 (and no such purported notice shall be effective) unless the Crown offers, before such notice is given, to enter into a new deed of guarantee with the *Principal Debtor*, with effect from such notice taking effect, under which:

- (a) the Crown provides a guarantee to substantially all those Persons who, during the period for which the guarantee subsists ("New Deed Period"), would have had the benefit of the Crown Guarantee were it not withdrawn before the end of the *New Deed Period*; and
- (b) the aggregate maximum liability of the Crown to a Person in respect of that guarantee and the Crown Guarantee is no less than the aggregate

maximum liability of the Crown to that Person under clause 2.5 or clause 2.6 (as applicable) of this Deed,

and which is otherwise on such terms and conditions as the Crown (in its sole and unfettered discretion) considers appropriate.

**10.6 Operation and effect of withdrawal**

- (a) Any notice given under clause 10.3, 10.4 or 10.5, may be expressed to take effect immediately on delivery or at any time thereafter, and shall take effect accordingly. On the day of (or, as the case may be, the date specified in) a notice given by the Crown under clause 10.3, 10.4 or 10.5 the Crown Guarantee is withdrawn in respect of all obligations which arise under any Debt Security issued following the date of withdrawal and such obligations shall not be covered by the Crown Guarantee, and the provisions of clause 10.7 shall apply in respect of all such obligations.
- (b) Without limiting clause 10.6(a) or clause 10.7, on the taking effect of a notice given under clause 10.3, the Crown Guarantee will be withdrawn in respect of all obligations of the Principal Debtor under Debt Securities (whether existing at that time or subsequently arising) owed to any Creditor who is concerned in, and has or ought to have knowledge of, any Inappropriate Activity, and no such obligations shall constitute "Indebtedness" (and accordingly no such obligations shall be covered by the Crown Guarantee).

**10.7 Indebtedness incurred or acquired after withdrawal**

An obligation of the Principal Debtor to pay money (whether present or future) to a Creditor under a Debt Security shall not constitute "Indebtedness" (and accordingly shall not be covered by the Crown Guarantee) to the extent that that Debt Security:

- (a) is issued after the taking effect of a notice given under clause 4.4(b), 5.2, 6.15, 10.3, 10.4 or 10.5 ("Effective Time"); or
- (b) is acquired (whether by contract, statute, operation of law or otherwise) by that Creditor after the Effective Time, except:
- (i) to the extent (if any) otherwise agreed by the Crown in writing (in its sole and unfettered discretion); or
- (ii) where:
- (A) that Creditor is a trustee, executor or administrator of a deceased person's will or estate and acquired that Debt Security in that capacity from the deceased person; and

- (B) that obligation would have constituted "Indebtedness" if that person had not died and had continued to hold that Debt Security.
- (c) For the avoidance of doubt clause 10.7(b)(ii) is to be read subject to clauses 1.3(b) and 1.3(c).

#### 10.8 **Currency amounts**

Any reference in this Deed to an amount shall, to the extent that that amount is not already denominated in New Zealand Dollars, mean the amount determined by the Crown to be the New Zealand Dollar equivalent of that amount as at the time relevant to its calculation or determination.

#### 10.9 **Public Notice**

A certificate from the Crown (i) to the effect that it is satisfied that it has given public notice for the purposes of this Deed and (ii) as to the date on which that public notice was given shall, in the absence of manifest error, be conclusive evidence of that public notice and that date.

#### 10.10 **Other guarantor/s**

- (a) If any Indebtedness is or becomes the subject of any guarantee, indemnity or other arrangement under which it is effectively guaranteed, or the relevant Creditor is effectively indemnified in respect of any non-payment of that Indebtedness by, any other person ("Other Guarantee"), whether or not that Other Guarantee extends to all Indebtedness owed to the relevant Creditor:
  - (i) the Principal Debtor must notify the Crown of the material particulars of that Other Guarantee and use all reasonable endeavours to ensure that Creditors who have the benefit of that Other Guarantee claim under it before claiming against the Crown under the Crown Guarantee and/or that the Crown has the benefit of that Other Guarantee in respect of any amounts paid to relevant Creditors under the Crown Guarantee; and
  - (ii) notwithstanding any other provision of this Deed, except to the extent (if any) otherwise agreed by the Crown in its absolute and unfettered discretion, the Crown shall not be obliged to make any payment under this Deed in respect of any Indebtedness to any Creditor who has the benefit of, and is entitled to claim under, that Other Guarantee in respect of that Indebtedness except to the extent that that Creditor has made a claim under that Other Guarantee in respect of that Indebtedness and has not, within 14 days of the date of that claim, received payment in respect of that Indebtedness under that Other Guarantee.

**10.11 Warranty**

The Principal Debtor represents and warrants to the Crown that it is duly authorised to execute and deliver this Deed, and that upon execution of this Deed by it and the Crown it will constitute the legal, valid and binding obligations of the Principal Debtor enforceable against the Principal Debtor in accordance with its terms.

**10.12 Subrogation**

Without prejudice to any rights the Crown may at any time have against or in respect of the Principal Debtor (including by way of subrogation or indemnity, under statute, or otherwise), the Principal Debtor irrevocably acknowledges and agrees that any money paid by the Crown to a Creditor under this Deed shall, immediately upon such payment, constitute a debt due from the Principal Debtor to the Crown, which debt shall be payable by the Principal Debtor to the Crown over any period of time and on any terms and conditions that the Crown (in its sole and unfettered discretion) considers appropriate.

**10.13 Counterparts**

This Deed may be executed in any number of counterparts. Once a party has executed a counterpart, and the other party has received a copy of the signed counterpart, that counterpart shall be deemed to be as valid and binding on the party executing it as if it had been executed by both parties.

**10.14 Waiver**

- (a) A waiver of any provision of this Deed shall not be effective unless given in writing, and then it shall be effective only to the extent that it is expressly stated to be given.
- (b) A failure, delay or indulgence by any party in exercising any power or right shall not operate as a waiver of that power or right. A single exercise or partial exercise of any power or right shall not preclude further exercises of that power or right or the exercise of any other power or right.

**10.15 Severability**

If any part of this Deed is held by any court or administrative body of competent jurisdiction to be illegal, void or unenforceable, such determination shall not impair the enforceability of the remaining parts of this Deed, but the Principal Debtor and the Crown shall, if requested by either of them, negotiate in good faith in an endeavour to agree on such alternative provisions and/or amendments as shall achieve as nearly as possible the original intent of this Deed (including the severed part).

10.16 Working days

Any payment required to be made, or other action required to be taken, by this Deed on or by a date which is not a working day (as defined in the Companies Act 1993) shall be validly done if made or taken on or by (as the case may be) the next working day (as so defined) following that date.

EXECUTED AND DELIVERED as a Deed by

Her Majesty the Queen in right of )  
New Zealand acting by and through )  
Dr Brian McCulloch for and on behalf of )  
the Minister of Finance in the presence of: )

  
\_\_\_\_\_  
Dr Brian McCulloch

Witness' signature:  )

Witness' occupation: *Personal Assistant* )

Witness' address: *40 Treasury, Wellington* )

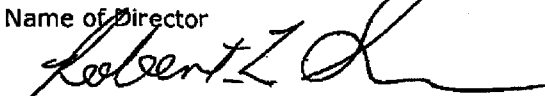
Southern Cross Building Society the  
common seal of which was hereto affixed  
by and in the presence of:



Signature of Director

GEOFFREY T. RICKETTS

Name of Director



Signature of Director

ROBERT L. SMITH

Name of Director

# CERTIFICATE OF AMENDMENT OF REGISTERED PROSPECTUS

(Under Section 43(6) of the Securities Act 1978)

## SOUTHERN CROSS BUILDING SOCIETY

**1780995**

This is to certify that a Memorandum dated the 29th day of June 2010, for the above issuer, containing amendments to a registered prospectus dated the 30th day of September 2009, was registered on the 29th day of June 2010.

*Neville Harris*

Neville Harris  
Registrar of Building Societies  
8 July 2010

