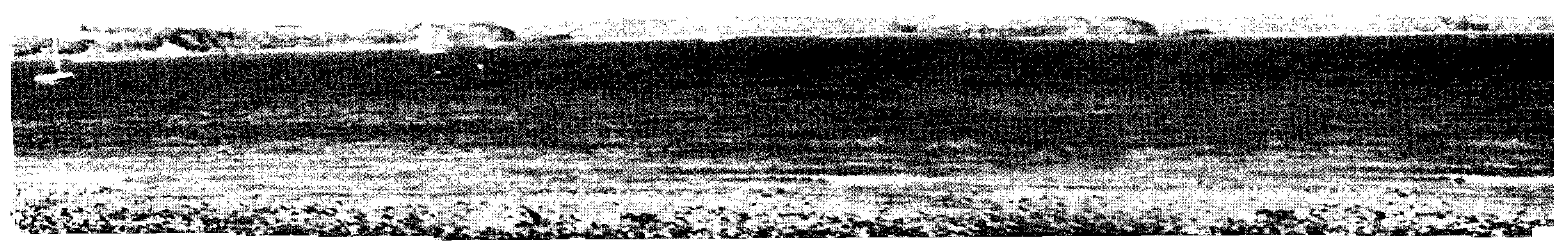
Southern Cross Building Society

Investing in New Zealanders Since 1923



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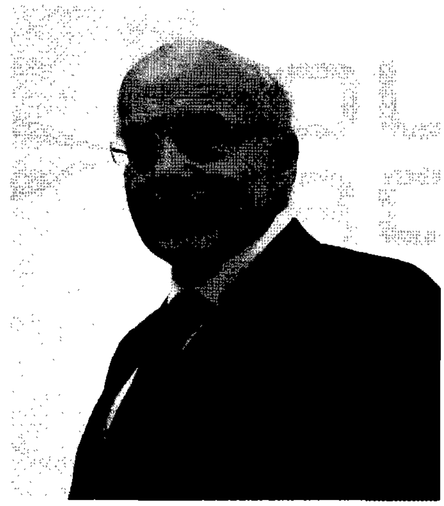
SOUTHERN CROSS BUILDING SOCIETY. Incorporated under the BUILDING SOCIETIES ACT 1965

Chairman's Report

On behalf of the Board and management of Southern Cross Building Society ("The Society"), I report to Members on the performance of the Society for the year ended 30 June 2010.



Since the last annual report to Members the Society has continued to maintain a strong financial position amidst external market conditions that remained problematic. Whilst there appears to have been some restoration in investor confidence, the property market has remained weak and, notwithstanding signs that the New Zealand is emerging from a prolonged recession and interest rates are at the lowest levels for decades, demand for lending in all sectors in which the Society participates, remains soft, a trend which is consistent with Reserve Bank statistics.

The Society reported an operating profit before impairment and non-recurring items of $2.2 million. Whilst this performance is below the expectations of your Board and management, it does reflect two key strategies reported previously to shareholders, namely a re-weighting of the Society's lending toward residential lending (as opposed to commercial and rural lending), and a conscious decision to carry strong levels of liquidity. These conservative strategies have resulted in lower net interest margins for the period. However, the Board considers it prudent for the Society to carry surplus liquidity on its balance sheet given the prolonged uncertainties prevailing in financial markets, notwithstanding the significant excess liquidity position does carry a very high opportunity cost. This cost (sometimes referred to as a "cost of carry") arises because the interest yields on the Society's treasury assets are low relative to the Society's cost of funding on its deposits and the opportunity cost associated with deploying the liquidity in higher yielding first mortgage property loans. By way of illustration, the estimated annual cost of carry based on the Society's liquidity position as at 30 June 2010, was around $2.0 million.

Overhead costs were contained at almost the same level as last year, namely $7.5 million. Impairment expenses were $5.8 million which despite being below the prior year, reflect the difficulties experienced by some of the Society's borrowers and suppressed property values. The Board has continued to adopt a prudent and conservative position concerning the Society's provisioning – which increased by $3.5 million year on year.

The bottom line performance of the Society was impacted by the following non-operating factors:

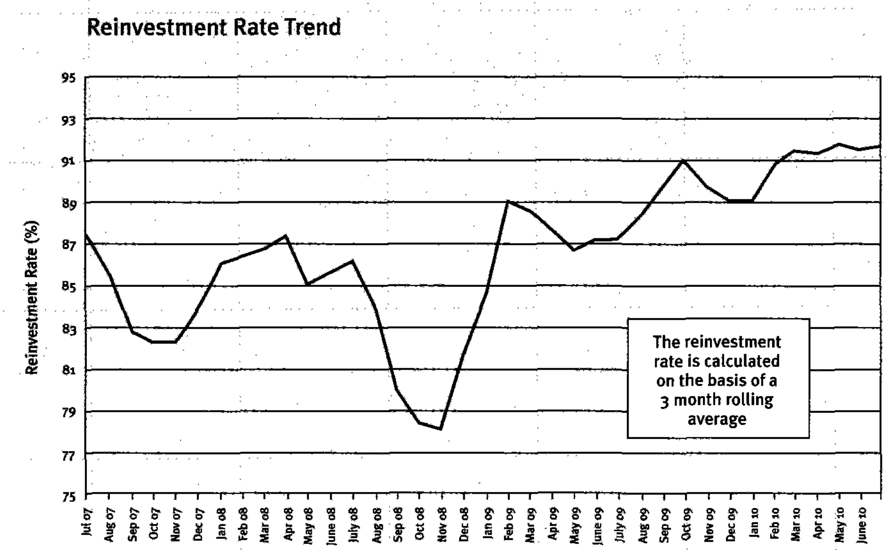
- Costs associated with the proposed merger initiative of $0.5m and described further below. This item is disclosed as a separate item - "Restructuring costs".
- A reduction in the book value of the Society's Hamilton branch property of $1.2 million. The reduction followed a valuation undertaken as part of the Society's policy to revalue its owned branch properties every three years. The adjustment is a non-cash item and in accordance with the Society's accounting Society's policy, required the adjustment to be made in the income statement. This has been disclosed as a separate item - "Revaluation loss on land and buildings".
- Changes announced in the May 2010 NZ Government Fiscal Budget resulted in the Society being required to write off the tax value of its buildings, no longer able to be depreciated for tax purposes and a reduction in the corporate tax rate from 30% to 28%. Both the above items will not be effective until 1 July 2011, however as the announcements were made before the Society's balance date of 30 June 2010, the Society is required to recognise the impact of the changes in the financial statements for the year ended 30 June 2010.

These non-recurring tax adjustments resulted in an increase in the Society's tax expense for the year of $1.0 million.

After taking into account the non-operating adjustments referred to above, the Society reported a net loss for the year of $4.7 million.

The Society's capital position at 30 June 2010 remained strong with shareholder's funds of $47.6 million and liquidity of over $136 million – equivalent to one-third of the Society's total assets. The Society continues to be in a very sound financial position.

A key strategy of the Society since its capital restructure in June 2007 has been to pursue consolidation initiatives with like-minded institutions. As a consequence of following this strategy, it was therefore pleasing to announce on 1 June 2010 that the Society had entered into a memorandum of understanding with Canterbury Building Society and Pyne Gould Corporation Limited with a view to merging their respective financial services activities. This will create a larger entity, substantially New Zealand-owned, with a view to ultimately becoming a New Zealand-owned bank which would be listed on the New Zealand Stock Exchange (NZX). Further details of the proposed merger are outlined later in this report.



Operating Environment

As reported to Members last year, the strong support from depositors and investors was once again evident in the year to 30 June 2010 - with average re-investment rates of around 90% - the highest levels experienced since the Society started actively monitoring re-investment trends when the Society was restructured in June 2007.

The Society's overall level of deposits year on year has remained fairly stable, a reflection of the support of our depositor customers who appreciate the Society's financial strength and the service our branches and agencies provide.

Liquidity

The Society's liquidity position remains exceptionally strong relative to the size of its balance sheet. As at 30 June 2010 the Society's liquid assets were $136.2 million, compared with $115.8 million as at 30 June 2009. Relative to the minimum liquidity required by the Society's trust deed, the Society held almost $80 million excess liquidity at 30 June 2010 - and a liquidity ratio of almost 38% - compared with 15% required under the trust deed.

From an operating perspective, and to be prudent, the Society maintains an internal minimum liquidity ratio significantly higher than the trust deed minimum.

The additional liquidity has largely arisen from the Society's ongoing active management of its loan portfolio – particularly some of its larger commercial exposures that were either non-performing or capable of being refinanced by other lenders.

Funding

The Society's total level of deposits has remained fairly constant during the year. As referred to earlier, high levels of re-investment coupled with new deposit flows reflect strong support from the Society's loyal depositor base of around 20,000 customers. The Society's deposits are covered by the Crown Retail Deposit Guarantee scheme ("Guarantee") until 12 October 2010, and thereafter will be covered under the extended Crown Retail Deposit Guarantee scheme ("Guarantee Extension") until 31 December 2011.

Whilst the Society somewhat reluctantly applied to be included in the Guarantee Extension having regard to its strong liquidity position, the Board considered it prudent to do so. Given the Society's "BB" (with stable outlook) credit rating from Standard & Poor's, as a building society the Society will incur a fee of 0.6% p.a. on all "eligible" deposits covered under the Guarantee Extension effective from 12 October 2010. This fee may have a significant impact on the Society's operating profitability – depending on the level of the Society's guaranteed deposits. In this regard, the Society's prospectus and investment statement have been amended to enable the Society to offer both "guaranteed" and "non-guaranteed" investment products to its customers.

A key strength of the Society is its distribution network of seven branches and around forty agencies scattered around the North Island. Almost a quarter of the Society's deposits are sourced through its agency network. These form an important and unique part of the Society's distribution footprint and the Society will continue to seek new opportunities to extend its agency network by opening new agencies in locations considered to add strategic value.

Lending

During the year under review the Society advanced some $52 million in new loans, primarily to residential borrowers. However, repayments of loans in the period were $74 million - resulting in a net reduction in the Society's gross loan portfolio year on year of $22 million - and adding to the Society's already strong liquidity position. Lending is on first mortgages and accordingly the Society's security position remains strong.

Whilst the soft demand for quality lending somewhat constrained the Society's ability to lend, it is pleasing to note the shift in the mix of the Society's loan portfolio. As at 30 June 2010, lending secured by residential property was 59% of the total portfolio (June 2009: 51%), commercial lending was 21% (June 2009: 27%) and rural lending was 20% (June 2009: 22%). The re-weighting towards residential lending is consistent with the Society's strategy and will serve to enable the Society to grow its customer base whilst reducing credit risk in its loan portfolio. The Society's focus on residential lending was further supported by the recent appointment of additional residential lending staff (in particular a Residential Lending Manager and a Mobile Lending Manager), coupled with a drive to originate new lending opportunities through the branch and agency network.

Although the Society will continue to lend on first mortgage to commercial and rural customers, the strategy will be to do so on a niche basis and to limit any new exposures to any single borrowers to a maximum of $5 million (or approximately 10% of shareholders funds).

As was the case last year, the Society has a policy against related party lending.

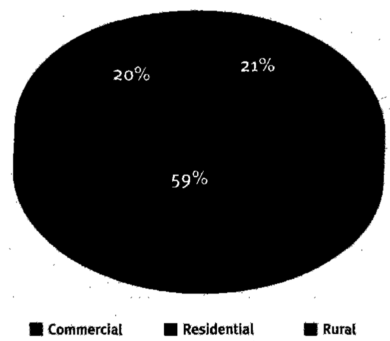
Impairment Provisioning

The further deterioration in the property market referred to earlier has resulted in a number of inevitable consequences for lenders such as the Society.

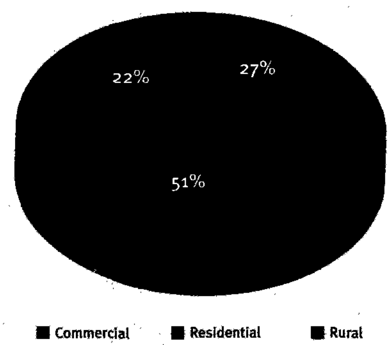
Firstly, those loans already treated as impaired are taking longer to resolve. It is the Society's preference to work with its borrowers rather than resort to forced mortgagee sales in a soft property market – thereby preserving value for the Society's Members. Impaired loans at 30 June 2010 were $31.6 million, below the level of $35.7 million last year. Since balance date, the position has improved further to a level of $24.7 million.

Secondly, the Society experienced an increase in the level of past due assets to $34.8 million at 30 June 2010 from $12.9 million a year ago. This is particularly disappointing because as noted in last year's annual report, the level of past dues was showing a declining trend. Whilst the Society remains well secured in respect of these exposures given its first mortgage position, the trend reflects continuing stress on some borrowers. However, it is pleasing to note that since balance date the level of past due assets has significantly reduced by $18.4 million to $16.4 million.

Loan Portfolio by security type as at 30 June 2010



Loan Portfolio by security type as at 30 June 2009



The Society increased its overall provisioning as at 30 June 2010 to $12.5 million (30 June 2009: $9.0 million) largely to take into account the expected delays in exiting some of its impaired loans - as required by NZ IFRS accounting standards. Included in the year end provisioning of $12.5 million is a collective provision of $1.6 million (30 June 2009: $1.1 million) which remains unallocated to any specific loan exposures. The total impairment provisioning at 30 June 2010 represents 4.8% of total gross loan advances (30 June 2009: 3.2%) and 39% of total impaired assets (30 June 2009: 25%).

Accordingly, in the opinion of the Society's Board, the level of provisioning represents a realistic position for the Society's loan portfolio, particularly since almost 99% of the Society's loan advances are secured by a first mortgage over property.

Equity

The Society's equity position remains strong relative to the size of its balance sheet, but was affected by a number of one off or non operating factors . These were referred to earlier. Accordingly, shareholders' funds at 30 June 2010 were $47.6 million (30 June 2009: $52.2 million) or 11.8% of total assets (30 June 2009: 12.7%). The Society expects to comfortably meet the requirements of the Reserve Bank in relation to a new capital adequacy regime for non-bank deposit takers which will take effect from December 2010.

As at 30 June 2010 the Society's number of ordinary shares and share options remained unchanged at 51.5 million and 17.6 million respectively. The undiluted net asset backing per share at that date was $0.95 per share.

Merger Transaction

On 1 June 2010 the Society announced that it had signed a non-binding memorandum of understanding with Canterbury Building Society (CBS-in which the Society has held a shareholding of approximately 12% since August 2007) and Pyne Gould Corporation Limited (PGC) regarding a proposed merger of their respective banking type activities with the objective of becoming a New Zealand-controlled bank, listed on the NZX.

This proposed merger of compatible financial businesses will address the growing need for an alternative bank that can service the requirements of individual customers, small to medium businesses and farming customers throughout New Zealand – the strategy will be to serve the needs of "Heartland" New Zealand. The merged group business will operate nationally.

It is envisaged the holding company under the merger will be listed on the NZX following completion. The respective shareholding interests in the new holding company (which has of yet not been named) have not yet been finally determined but it is expected that PGC will become the majority shareholder in the merged entity.

The Board and Management of the Society are enthusiastic about the proposed merger and the vision to create a New Zealand-controlled New Zealand bank servicing "heartland" New Zealand with a full range of banking services and products. A key strategy of the merged group will be growth and it is expected that greater scale, diversity of assets, expanded capital and broader national distribution will grow revenue, profitability and shareholder wealth.

Further details of the merger and timelines will be circulated by the Society within the next few months and shareholders and depositors of the Society will be requested to vote on the merger transaction at special shareholder and depositor meetings to be held as part of the transaction approval process.

In the meantime we hope to share more details of the proposed merger with our Members at the Society's Annual General Meeting on 22 September this year.

Regulatory Environment

The environment in which the Society operates is experiencing greater levels of regulation. In particular, non-bank deposit taking institutions are subject to increasing compliance by the Reserve Bank. The Board and management of the Society are confident that the Society will comply with all the new regulatory requirements relevant to the Society. The Society already complies with measures such as, the requirement to have a risk management programme approved by the Society's trustee on behalf of the Reserve Bank and the minimum capital regime for non-bank deposit takers (effective from December 2010).

Dividend

The Board has resolved not to pay a dividend to Members for the year ended 30 June 2010 in light of the Society's financial performance. The Board also considers it prudent to retain, and over time, build on the Society's already strong capital position to enable the Society (and as part of the merged entity), to grow. However, it is envisaged that if the proposed merger proceeds, the board of the merged entity will introduce an appropriate dividend policy.

Community

The Southern Cross Building Society Charitable Trust once again supported the local communities where the Society operates by sponsoring various activities (as detailed elsewhere in this annual report). The Trust is a shareholder in the Society and over time the success of the Society (and as part of the merged entity), will enable the Trust to provide further support to the local communities.

Directors

In December 2009 our Deputy Chairman and director since June 2007, Gavin Walker, resigned from the Board of the Society because of a potential conflict of interest. Gavin played a significant role in developing the Society's strategic positioning and was chairman of the Society's Treasury Committee. The Board and Management of the Society are most grateful to Gavin for his valuable contribution.

Dr Don Turkington was appointed as a director in December 2009 and brings a wealth of experience to the Society given his investment banking and capital markets background. Don now chairs the Treasury Committee.

Staff Acknowledgement

On behalf of the Board I would like to extend sincere thanks to the management and staff of the Society. The last year was challenging - as the prolonged effect of the Global Financial Crisis continued to be felt. The pressures facing our people have increased as the regulatory environment and compliance requirements change.

Outlook

Overall, risk to the New Zealand economy is now emerging on the upside, unemployment is stabilising at a level lower than previously forecast, government spending continues in well directed areas and there are increasing signs of foreign and commercial investment. While the risk of a double recession remains and will be monitored closely by your Board to ensure credit quality is maintained, in general your Board considers the economy is expected to trend towards historical growth rates during 2011. If this proves to be the case, given the Society's strong financial position, the Board would anticipate the Society will trend towards its traditional long term record of profitability.

Specifically the key focus for the Board and management in the ensuing year will be to maintain the Society's strength whilst working towards successfully completing the proposed merger. The inevitable industry consolidation will enable the Society to participate in further growth as part of a larger entity and benefit from the associated economies of scale.

Annual General Meeting

The Society's Annual General Meeting will be held in Auckland on 22 September 2010 in the Victoria Room of the Crowne Plaza Hotel, Auckland, commencing at 11.00am. The Board and management look forward to updating the Society's Members on the further progress of the Society since balance date and, in particular, on the proposed merger as previously announced.

Mr G.T. Ricketts
Chairman

11 August 2010

Director's Report

The Directors present the Annual Report, together with the financial statements of the Society for the year ended 30 June 2010.

Principal Activities

The Society provides financial services to mainly retail investors (largely through its deposit-taking activities) and to borrowers for the purposes of residential, commercial and rural lending. Substantially all lending is undertaken on a first mortgage basis. The Society adopts conservative lending criteria and, in particular, conservative loan to value ratios, i.e. loan amount compared to an independently determined value of underlying property security.

Results

Revenue from lending activities and interest from investments in the year to 30 June 2010 was 28% lower than the prior year at $27.4 million (2009: $38.1 million) – reflecting the general decline in market interest yields. Total operating income was $9.7 million (2009: $11 million), a decrease of 12% over prior year. This reflects largely a change in the mix of assets as the Society's treasury assets grew 18% and yielded returns below the Society's cost of deposits (i.e. the Society incurred a significant "cost of carry").

Operating expenses for the year were $7.5 million (2009: $7.8 million) resulting in a net operating profit before impairment of $2.2 million (2009: $3.2 million) The Society's loan impairment expense was $5.8 million (2009: $11.4 million), a reduction of 49%. Included in the loan impairment expense was an increase in provisioning of $3.5 million for the year.

Non-recurring items totalling $1.6 million comprising one-time items, devaluation in the Society's Hamilton property, and tax changes arising from the May 2010 NZ Government Fiscal Budget (as described in the Chairman's Report) resulted in a net loss after tax being reported of $4.7 million (2009: loss of $8.7 million).

The softer market conditions resulted in lower demand for lending, which taken together with loans being repaid and active management of non-performing loans, resulted in net loans and advances of $249.8 million (2009: $275.6 million). This resulted in an increase in the level of the Society's already strong liquidity position as treasury assets increased to $136.2 million (2009: $115.8 million).

Total deposits were $353.7 million (2009: $358.2 million) which was in line with the Society's strategy to maintain its overall level of deposits given the high level of liquidity.

Total assets as at 30 June 2010 were $403 million (2009: $412 million).

Equity as at 30 June 2010 was $47.6 million (2009: $52.2 million).

Dividend

The Directors have resolved that no dividend be payable for the year ended 30 June 2010. In the event the proposed merger referred to in the Chairman's Report proceeds, it is envisaged that an appropriate dividend policy will be adopted by the board of the merged entity.

Directors

In 16 December 2009 Mr Gavin Walker resigned as a director and on 21 December 2009 Dr Don Turkington was appointed as a director of the Society to the casual vacancy arising on the resignation of Mr Gavin Walker as a director. Dr. Turkington retires under the Society's Rules but offers himself for re-election at the Society's Annual General Meeting. Messrs Tony Beasley and Chris Mace retire by rotation in accordance with the Society's Rules and being eligible, offer themselves for re-election.

Directors' Remuneration

The level of Directors' fees for the year was $110,000 in aggregate. No change in the level of Directors' fees is proposed for the new financial year that commenced 1 July 2010.

Auditor

Deloitte were appointed as auditor for the year ended 30 June 2010. Deloitte, having indicated their willingness, will continue to act as the Society's auditor for the new financial year that commenced 1 July 2010.

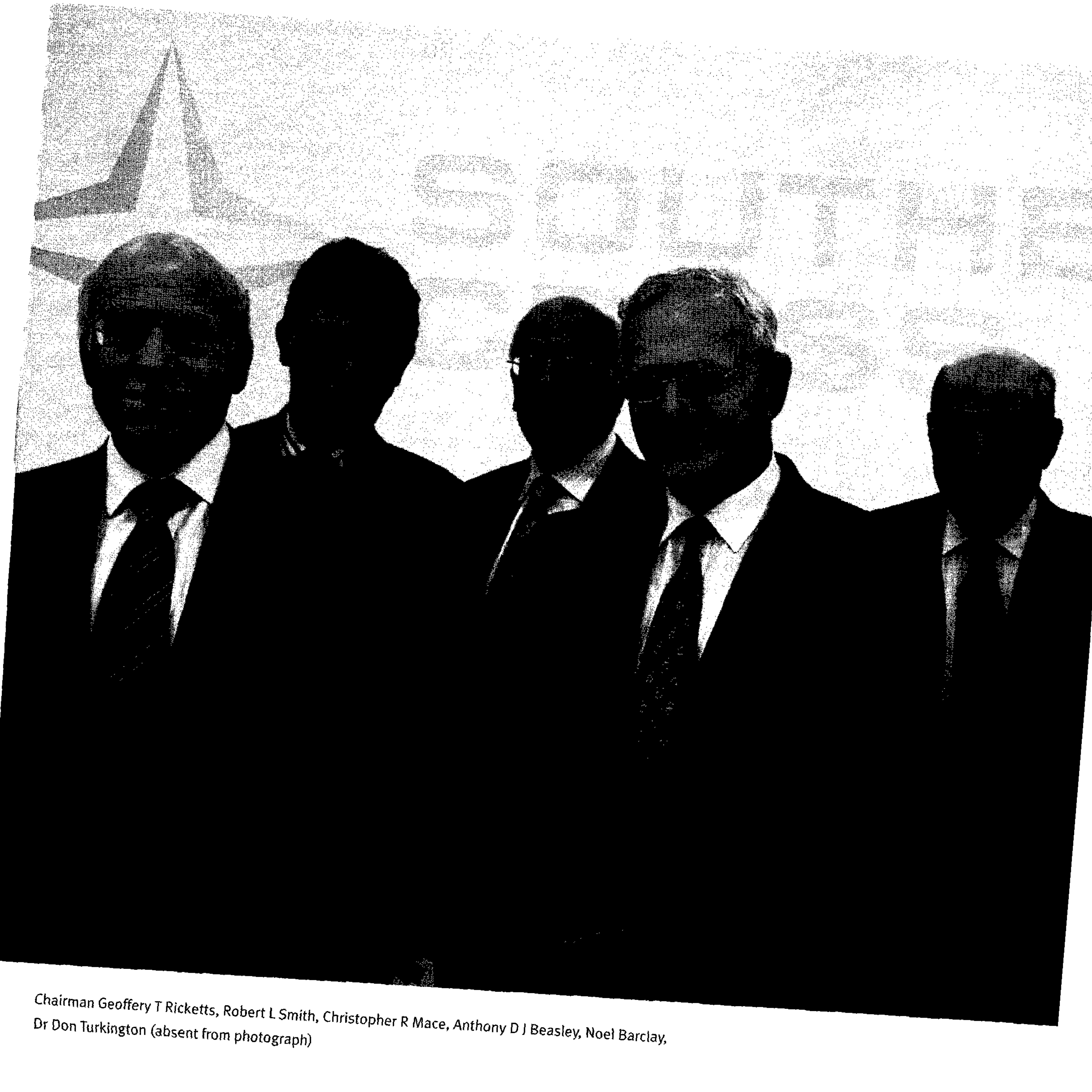
Directors' Approval of Financial Statements

The Board of Directors is pleased to present the Financial Statements for the year ended 30 June 2010 set out on pages 14 to 68 and have authorised their issue.

The 2010 annual report is signed for and on behalf of the Board of Directors as at 11 August 2010.

Mr G. T. Ricketts - Chairman

Mr R. L. Smith - Director



Chairman Geoffery T Ricketts, Robert L Smith, Christopher R Mace, Anthony D J Beasley, Noel Barclay,
Dr Don Turkington (absent from photograph)

Sticking to the basics

For 87 years, the Society has been helping New Zealanders to invest their savings and to purchase property. Our long history and experience have enabled the Society to build a solid business that continues to develop its capabilities in the residential lending market, so we can keep helping Kiwis into the future.

To keep things fresh we're always looking for new initiatives that will add value and meet the financial needs of our customers, who remain our top priority. While we will continue to do what we've been doing well for so long, a continuing focus is to do the "basics" as best we can.

As such, our strategy is to continue to grow our deposit base and to become recognised as a credible alternative to the banks when catering to the lending requirements of our customers. This strategy requires proactive innovations and understanding our customers' needs. In this regard we have implemented a number of new things. For example, this year we introduced a brand-new, user-friendly website with new features and functions. Also, we have been recognised for the products we offer - gaining 5-star credit ratings from Canstar for two of our savings accounts this year.

Our new website

As mentioned, the Society's website has been updated to reflect what we stand for and to better convey the services we provide. It now has a fresh, modern design, simple navigation and content that is easily accessible to our customers. If you haven't seen the site yet you can view it at www.buildingsociety.co.nz. One of the exciting new resources you will find on the site are the new home loan calculators, which help our customers figure out how much they can save on their interest repayments by making lump sum repayments on their fixed rate home loans. This is just another way we're continuing to improve our service to benefit our valued customers.

Our 5-star Canstar ratings

Canstar Cannex is an independent industry monitoring organisation that compares product features and interest rates, and provides ratings across all New Zealand banks and financial institutions. This year Canstar awarded the Society star ratings for both our "Netsaver" and "Current Account Saver" products. In particular, our Netsaver product received the highest possible 5-star rating - being rated as "outstanding value". This stand-out performance recognises the Society as one of New Zealand's best providers of accounts designed to help people save money. More details can be obtained at www.canstar.co.nz.

Advertising

Our advertising continues to convey the key message of: "We are proud to be Kiwis. We only lend in New Zealand, on New Zealand-based properties, to New Zealand residents." Our campaign has proven to be popular, while still presenting important messages about all of the products and services that we offer. We will continue to review each piece of advertising material created, to ensure that it promotes the Society in a positive way, connects with New Zealanders and works to increase our market profile.

Community Activities

As a long-standing Kiwi business, looking after other New Zealanders is an important part of what Southern Cross Building Society stands for. We wish to help other Kiwis get ahead, especially those who may be disadvantaged, and we welcome sponsorship enquiries through our branch and agency network.

Here are some of the organisations that we have worked with and sponsored over the past year:

Angels for Children
Auckland Bowling Club
Auckland City Mission
Auckland Rotary Club
Multiple Sclerosis Society
BOP Symphony Orchestra
BOP Bowling club
City to Surf Marathon, Tauranga
Frankton Junction Bowling Club
Hamilton Special Children's Pool Party
Heart Children
Kapiti Bowling Club
Lions Club World Festival of Magic
Matua Bowling Club
Milford Bowling Club
Northcote Bowling Club
Otonga Primary School
Papatoetoe Market Day
Papatoetoe Ladies Classic Fours Bowling
Probus Golf Tournament
Pyes Pa School Sponsorship
Rotorua Bowling Club
Rotorua Community Festival
Rotorua RSA Sausage Sizzle
Rotorua School Gala Day
Seniors Expo, Tauranga & Auckland
Special Childrens' Xmas Party
Takapuna Bowling Club
Tauranga Beach Dig
Tauranga Combined Womens' Club
Tawa Bowling Club
Te Awamutu Bowling Club
The Kids Foundation
The Milan Society of NZ
The Young NZ Foundation
Torbay Tennis Club
Wellington Business Expo
Wellington Rotary Club Quirkus Circus

Corporate Governance

Nature of Business

The Society was formed in 1923 and has operated as a building society throughout its history. The business is incorporated under the Building Societies Act 1965 and its financial statements are prepared in accordance with the Financial Reporting Act 1993. The Society operates under a Debt Securities Trust Deed, which is administered by Trustees Executors Limited.

The Society provides financial services to mainly retail investors (largely through its deposit-taking activities) and to borrowers for the purposes of residential, commercial and rural lending. Substantially all lending is undertaken on a first mortgage basis. The Society adopts conservative lending criteria and, in particular, conservative loan to value ratios, i.e. loan amount compared to an independently determined value of underlying property security.

Role of the Board

The Board oversees the Society's business affairs and is committed to protecting and enhancing the value of the Society's assets in the best interests of the Members, subject to full compliance with legal requirements. The Board's primary responsibilities include the following:

- directing and controlling the Society's activities and its strategic development;
- ensuring systems and processes are in place so that the business of the Society is conducted honestly, ethically and responsibly;
- overseeing the conduct of the Society's business; and
- ensuring the Society is appropriately resourced to manage all the risks that arise from its activities.

Directors are required to disclose, and avoid, wherever possible, any potential conflicts of interest.

Composition of the Board

The Board currently comprises six Directors, all of whom, except for the Chief Executive Officer, are non-executive Directors. Each Director has been selected to ensure that a broad range of skills, knowledge and experience are available to the Society. The day-to-day management of the Society is delegated to the Chief Executive Officer, who is accountable to the Board.

Procedures for the appointment and removal of Directors are governed by the Society's Rules.

Board Committees

The Board has constituted the following committees to focus in the specified areas of the Board's responsibility. Each committee has allocated duties and responsibilities. Where necessary the Board will establish special committees to deal with specific issues on its behalf. The present committees are:

Credit Committee

The Credit Committee comprises three directors and is responsible for the review of policies related to the Society's lending, and credit approval for lending proposals. The members are Messrs G.T Ricketts (Chair), C.R. Mace, and R.L. Smith.

Treasury Committee

The Treasury Committee comprises two directors, Messrs D.J. Turkington (Chair) and R.L. Smith, members of the senior management team and an external treasury consultant. The Committee is responsible for ensuring that the following key areas of risk are managed within the requirements of the Treasury policy, as approved by the Board:

- Interest Rate Risk Management - the risk of a loss arising from an adverse change in interest rates. The Committee is authorised under the Treasury policy to use financial instruments to ensure that the risks are maintained within the policy limits.
- Liquidity Risk Management – the risk that cash outflows are materially different to cash inflows in a given period. The Society maintains sufficient liquid funds to meet its commitments based on historical and forecast cash flows and Trust Deed financial covenants.

Remuneration Committee

The Remuneration Committee comprises two directors, Messrs G.T. Ricketts and D.J.Turkington. The Committee is responsible for ensuring the Society's Directors and senior management are fairly rewarded for their contribution to the Society's performance.

Shareholder Access to Information

The Board of Directors ensures that the Society's Members are kept informed of important developments affecting the Society by communicating with Members through interim and annual reports and at the annual meetings. Additionally, the Society's website contains details of any announcements of interest to Members.

Statement Of Accounting Policies FOR THE YEAR ENDED 30 JUNE 2010

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 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.

Judgements in applying accounting policies

No significant judgements have been applied.

Major sources of estimation uncertainty

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 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. Loans and advances 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

Use of Significant Judgements, Estimates and Assumptions continued

Allowance for impairment loss continued

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 29).

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 17).

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 using 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 recognises revenue arising from penalty interest when the penalty interest monies are received.

Specific Accounting Policies continued

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.

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.

Financial assets

Financial assets 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.

Following the early adoption of NZ IFRS 9 *Financial Instruments*, financial assets are classified into the following specified categories: financial assets at "amortised cost", financial assets at "fair value through other comprehensive income" and financial assets "at fair value through profit or loss". The classification depends on the business model for managing financial assets and the contractual cash flow characteristics of the financial asset and is determined at the time of initial recognition or when a change in the business model occurs (with the exception of equity instruments).

Specific Accounting Policies continued

Loans and advances and trade and other receivables

Advances, accounts receivable and other receivables are recorded as financial assets 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.

Local authority stock, corporate bonds and short term deposits

Local authority stock, corporate bonds, call deposits, term deposits, and promissory notes are recorded as financial assets at "amortised cost" less impairment (if any).

Listed securities

The Society has made an irrevocable decision to record listed securities as financial assets at "fair value through other comprehensive income". Dividend income is recognised when the Society's right to received payment is established.

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.

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.

Specific Accounting Policies continued

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 (including 90-days 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 Society 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 at "amortised cost"

Financial assets at "amortised cost" 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.

Financial assets designated at "fair value through other comprehensive income"

Financial Assets at "fair value through other comprehensive income" are measured at fair value and not further assessed for impairment.

Financial assets at "fair value through profit and loss"

Financial Assets at "fair value through profit and loss" are measured at fair value and not further assessed for impairment.

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.

Specific Accounting Policies *continued*

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.

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 expensed 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 Society, 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.

Specific Accounting Policies continued

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.

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.

Cash Flow Statement

The following are definitions of the terms used in the Cash Flow Statement:

- 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.

Specific Accounting Policies continued

Changes in accounting policy and standards and interpretations effective in the current period

The Society has elected to adopt early NZ IFRS 9 *Financial Instruments* with an application date of 31 December 2009. An application date other than balance date has been used to enable the Society to take advantage of the standard as soon as it was released. In accordance with the transition relief provided by NZ IFRS 9 *Financial Instruments* to entities that elect to adopt early, prior period comparatives have not been restated. Refer to Note 36 for the impact of adopting this standard in the financial statements.

The revisions to NZ IAS 1 *Presentation of Financial Statements* (revised 2007) adopted in the year has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

The amendments to NZ IFRS 7 *Financial Instruments: Disclosures* expand the disclosures required in respect of fair value measurements and liquidity risk.

Other standards, interpretations and amendments adopted in the year did not lead to any changes in the Society's accounting policies with measurement or recognition impact on the periods presented in these financial statements.

There have been no other material changes to accounting policies. All other 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 2010 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 statements, 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
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2009	*	30 June 2011
Amendments to NZ IFRS 2 *Share-Based Payment* – Group Cash-Settled Share-Based Payment Transactions	1 January 2010	30 June 2011
Amendment to NZ IAS 32 *Financial Instruments: Presentation* – Classification of Rights Issues	1 February 2010	30 June 2011
Amendments to NZ IAS 24 *Related Party Disclosures*	1 January 2011	30 June 2012
NZ IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010	30 June 2011
Amendments to NZ IFRIC 14 *Prepayments of a Minimum Funding Requirement*	1 January 2011	30 June 2012
Improvements to International Financial Reporting Standards 2010	1 July 2010 or 1 January 2011	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 2010, with earlier adoption permitted.

Income Statement FOR THE YEAR ENDED 30 JUNE 2010

Parent and Consolidated	Note	30.6.2010 $000	30.6.2009 $000
Interest income	1	27,372	38,125
Interest expense and funding costs	2	17,675	27,545
Net interest income		**9,697**	**10,580**
Other operating income	3	322	403
Change in financial instruments at fair value through profit and loss	4	(283)	25
Total operating income		**9,736**	**11,008**
Operating expenses	5	7,509	7,789
Profit before impairment, other net gains, restructuring costs and tax		**2,227**	**3,219**
Impairment expense	7	5,765	14,625
Loss before non-recurring items and tax		**(3,538)**	**(11,406)**
Restructuring costs		(458)	47
Revaluation loss on land and buildings		(1,183)	-
Total non-recurring items	8	**(1,641)**	**47**
Net loss before tax		**(5,179)**	**(11,359)**
Tax benefit	9	(477)	(2,614)
Net loss after tax		**(4,702)**	**(8,745)**
Basic loss per share ($)	34	(0.09)	(0.17)
Diluted loss per share ($)	34	(0.09)	(0.17)

Statement of Comprehensive Income FOR THE YEAR ENDED 30 JUNE 2010

Net loss after tax		(4,702)	(8,745)
Other comprehensive income			
Net change in asset revaluation reserve, net of tax	24(c)	(174)	-
Net change in available-for-sale reserve, net of tax	24(d)	-	1,015
Net change in defined benefit plan reserve, net of tax	24(e)	-	(502)
Net change in fair value through other comprehensive income reserve	24(f)	(353)	-
Other comprehensive (loss) / income for the period, net of tax		**(527)**	**513**
Total comprehensive loss for the period, net of tax		**(5,229)**	**(8,232)**
Total comprehensive loss attributable to owners of the Society		**(5,229)**	**(8,232)**

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.

Statement of Change in Equity FOR THE YEAR ENDED 30 JUNE 2010

Parent and Consolidated	Share capital $000	Retained earnings $000	Available-for-sale financial assets $000	Capital reserve $000	Revaluation reserve $000	Defined benefit reserve $000	Fair value through other comprehensive income reserve $000	Total equity $000
Balance at 30 June 2009	**10,450**	**1,026**	**(612)**	**40,000**	**1,248**	**86**	**-**	**52,198**
Change in accounting policy - early adoption of NZ IFRS 9	-	-	612	-	-	-	-	612
Balance at 30 June 2009 restated	**10,450**	**1,026**	**-**	**40,000**	**1,248**	**86**	**-**	**52,810**
Changes in equity for:								
Net loss for the period	-	**(4,702)**	-	-	-	-	-	**(4,702)**
Total other comprehensive loss for the period	-	-	-	-	(174)	-	(353)	(527)
Total comprehensive loss for the period	**-**	**(4,702)**	**-**	**-**	**(174)**	**-**	**(353)**	**(5,229)**
Executive share scheme	25	-	-	-	-	-	-	25
Balance as at 30 June 2010	**10,475**	**(3,676)**	**-**	**40,000**	**1,074**	**86**	**(353)**	**47,606**

Statement of Change in Equity FOR THE YEAR ENDED 30 JUNE 2009

Balance at 30 June 2008	**10,425**	**9,771**	**(1,627)**	**40,000**	**1,248**	**588**	**-**	**60,405**
Changes in equity for:								
Net loss for the period	-	(8,745)	-	-	-	-	-	(8,745)
Total other comprehensive income / (loss) for the period	-	-	1,015	-	-	(502)	-	513
Total comprehensive income/(loss) for the period	**-**	**(8,745)**	**1,015**	**-**	**-**	**(502)**	**-**	**(8,232)**
Executive share scheme	25	-	-	-	-	-	-	25
Balance as at 30 June 2009	**10,450**	**1,026**	**(612)**	**40,000**	**1,248**	**86**	**-**	**52,198**

Balance Sheet AS AT 30 JUNE 2010

Parent and Consolidated	Note	30.6.2010 $000	30.6.2009 $000
Assets			
Cash and cash equivalents	10	681	1,006
Short term deposits	11	122,013	95,368
Investment securities	12	19,123	25,477
Trade and other receivables	14	631	2,311
Income tax receivable		-	39
Derivative financial instruments	13	-	25
Loans and advances	16	249,822	275,621
Property, plant and equipment	17	4,711	6,171
Intangible assets	18	160	333
Deferred tax asset	9	5,572	5,414
Defined benefit plan asset	15	283	247
Total assets		**402,996**	**412,012**
Liabilities			
Deposits	19	353,737	358,162
Derivative financial instruments	13	108	-
Employee entitlements and other provisions	22	213	262
Trade and other payables	21	1,332	1,390
Total liabilities		**355,390**	**359,814**
Net assets		**47,606**	**52,198**
Equity			
Share capital	23	10,475	10,450
Reserves	24	37,131	41,748
Total equity		**47,606**	**52,198**

Authorised for issue and signed for and on behalf of the Board of Directors on the 11th day of August 2010.

Geoff Ricketts — Director

Robert L. Smith — 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.

Cash Flow Statement FOR THE YEAR ENDED 30 JUNE 2010

Parent and Consolidated	Note	30.6.2010 $000	30.6.2009 $000
Cash flows from operating activities			
Cash was provided from:			
Interest on loans & advances		22,791	31,319
Interest on short term deposits and investment securities		4,451	7,543
Derivative financial instruments		(283)	25
Rentals received		321	315
Income from fees		20	55
Interest on deposits and profit and ballot rights paid on redeemable shares		(7,320)	(13,918)
Payments to employees		(3,524)	(4,383)
Operating expenses		(2,477)	(7,037)
Tax refund		39	890
Net cash flows from operating activities before changes in operating assets and liabilities		14,018	14,809
Net changes in operating assets and liabilities			
Net decrease in loans and advances		19,889	51,025
Net increase in short term deposits and investment securities		(19,518)	(18,586)
Net decrease/(increase) in derivative financial instruments		133	(25)
Net decrease in deposits and redeemable shares		(14,804)	(47,224)
Net cash flows used in operating activities	**25**	**(282)**	**(1)**
Cash flows used in investing activities			
Purchase of property, plant and equipment		(43)	(299)
Net cash flows used in investing activities		(43)	(299)
Net cash flows used in financing activities		-	-
Net decrease in cash held		(325)	(300)
Add opening cash brought forward:			
Cash on hand and at bank		1,006	1,306
Closing cash carried forward		**681**	**1,006**
Comprising: Cash on hand and at bank		681	1,006

Certain cash flows have been netted in order to provide more meaningful disclosure:

- loans and 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 cash flows 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.

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
1. INTEREST INCOME		
Loans and advances – at amortised cost	19,858	31,041
Loans and advances – impaired assets	2,812	91
Short term deposits	3,780	4,524
Investment securities	922	2,469
Total interest income	**27,372**	**38,125**
2. INTEREST EXPENSE AND FUNDING COSTS		
Deposits	17,097	26,894
Redeemable shares	(12)	(915)
Agency commissions	603	678
Loan acquisition costs	118	116
Crown retail deposit guarantee scheme (refund) / cost	(260)	260
Other funding costs	129	512
Total interest expense and funding costs – at amortised cost	**17,675**	**27,545**

Under the Crown retail deposit guarantee scheme a fee of $0.3 million was payable on deposits in excess of the amount held as at 12 October 2008. This was refunded during the year ended 30 June 2010 after the Society obtained a "BB" (with stable outlook) credit rating from Standard & Poor's.

3. OTHER OPERATING INCOME		
Rental income	322	265
Dividend income	-	138
Total other operating income	**322**	**403**
4. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS		
Net (loss) / gain arising on:		
Derivative financial instruments	(283)	25
Total change in financial instruments at fair value through profit and loss	**(283)**	**25**

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
5. OPERATING EXPENSES		
Employee entitlements		
Wages and salaries	3,236	3,264
Other employment related expenses	77	88
Total employee entitlements	**3,313**	**3,352**

Employee entitlements include employer contributions to defined contribution superannuation schemes totalling $0.07 million (30 June 2009: $0.05 million).

Rental and occupancy		
Rental expense	597	521
Other occupancy expenses	177	196
Total rental and occupancy	**774**	**717**
Auditor's remuneration		
Audit of the financial statements	148	203
Taxation services	41	37
Other assurance services	9	19
Total auditor's remuneration	**198**	**259**

Other assurance services comprise primarily of costs incurred in issuing the prospectus, the early adoption of NZ IFRS9 and tax changes arising from the May 2010 NZ Government Fiscal Budget.

Amortisation		
Software	181	167
Depreciation		
Buildings and freehold improvements	78	77
Other property, plant and equipment	118	113
Total depreciation	**196**	**190**
Total amortisation and depreciation	377	357
Information technology and communication	595	552
Marketing	684	998
Directors' fees	110	110
Other expenses	1,458	1,444
Total operating expenses	**7,509**	**7,789**

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
6. KEY MANAGEMENT PERSONNEL		
The following total compensation was paid to directors and key management personnel:		
Short term benefits	1,190	1,200
Share based payment	25	25
Total key management personnel	**1,215**	**1,225**

Details of the share based payment to senior executives are contained in Note 32.
Remuneration to non-executive directors is referred to in Note 33.

7. IMPAIRMENT EXPENSE		
Bad debts		
Written off	3,090	5,442
Recovered	(781)	(4)
Total bad debt expense	2,309	5,438
Movement in provision for impairment - loans and advances		
Collective increase / (decrease)	529	(1,069)
Specific increase	2,927	7,032
Net movement in provision for impairment - loans and advances	3,456	5,963
Total impairment - loans and advances	5,765	11,401

As a result of economic conditions, a reduction in the fair value of investment securities of $3.2 million was reported through income in the year ended 30 June 2009 as an impairment expense. The fair value reduction related primarily to the Society's 11.56% (30 June 2009: 11.73%) shareholding in Canterbury Building Society, which was acquired in August 2007. This treatment is disclosed in more detail in Notes 12 and 24(d).

Movement in impairment– investment securities		
Revaluation previously recognised in equity	-	1,089
Revaluation recognised through profit and loss	-	2,135
Net movement in impairment– investment securities	-	3,224
Total impairment – loans and advances and investment securities	**5,765**	**14,625**

Details of impairment provisions are contained in Note 16.

Parent and Consolidated	Note	Corporate bonds $000	Listed securities $000	Total $000
7. IMPAIRMENT EXPENSE CONTINUED				
As at 30 June 2009				
Impairment loss previously recognised - investment securities				
Revaluation previously recognised in equity		73	1,016	1,089
Revaluation recognised through profit and loss		177	1,958	2,135
Total impairment loss previously recognised - investment securities		**250**	**2,974**	**3,224**

8. NON-RECURRING ITEMS

Parent and Consolidated	Note	30.6.2010 $000	30.6.2009 $000
Restructuring costs	a)	(458)	47
Revaluation loss on land and buildings:			
Revaluation surplus transferred from equity		75	-
Current year revaluation loss recognised through profit and loss		(1,258)	-
Total revaluation loss on land and buildings	b)	(1,183)	-
Total non-recurring items		**(1,641)**	**47**

a) On 1 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 (refer Note 37). The restructuring costs incurred in the year ending 30 June 2010 relate primarily to professional fees incurred in progressing the proposal to a binding agreement.

b) As per the Society's accounting policy, land and buildings are revalued every three years and to the extent that a decrease in the value of an asset exceeds the cumulative increases of any previous valuations, the excess is to be reported in the current year income statement.

The revaluation loss on land and buildings reported through income for the year ended 30 June 2010 arises from the revaluation of the Society's Hamilton property to a value below its initial cost.

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
9. 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 before tax	**(5,179)**	**(11,359)**
Tax benefit at 30%	**(1,554)**	**(3,408)**
Defined benefit plan surplus & subsidiaries	(11)	(23)
Non deductible expenditure	13	8
Impairment loss on investment securities – listed securities	-	892
Revaluation of land and buildings	(12)	-
Prior year adjustments	80	43
Imputation credits	(21)	(126)
Total tax effect of non deductible /(taxable) items and prior period adjustments	**49**	**794**
The May 2010 NZ Government Fiscal Budget was substantively enacted on 20 May 2010. As a result the following non-recurring items are required to be recognised as a tax expense:		
The impact of tax depreciation on buildings being non-deductible from 1 July 2011	629	-
The impact of deferred tax as a result of reducing the corporate tax rate from 30% to 28% from 1 July 2011	399	-
Total non-recurring items arising from May 2010 NZ Government Fiscal Budget	**1,028**	**-**
Tax benefit	**(477)**	**(2,614)**
Comprising:		
Current taxation	(262)	(24)
Deferred taxation	(215)	(2,590)
Tax benefit	**(477)**	**(2,614)**
b) Income tax recognised directly in equity:		
Opening balance	356	356
Change in accounting policy - early adoption of NZ IFRS 9	(262)	-
Opening balance restated	**94**	**356**
Net movement – revaluation of land and buildings	(57)	-
Closing balance	**37**	**356**

Parent and Consolidated	Opening balance $000	Charged to income $000	Charged to equity $000	Closing balance $000
9. TAXATION CONTINUED				
c) Deferred tax				
Deferred tax arises from the following:				
30 June 2010				
Gross deferred tax assets:				
Investment securities	-	70	-	70
Loans and advances	3,976	(59)	-	3,917
Employee entitlements and other provisions	214	(85)	-	129
Trade and other payables	129	(16)	-	113
Tax losses carried forward	1,350	421	-	1,771
Gross deferred tax liabilities:				
Property, plant and equipment	(255)	(116)	(57)	(428)
Deferred tax asset	**5,414**	**215**	**(57)**	**5,572**
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 payables	209	(80)	-	129
Tax losses carried forward	-	1,350	-	1,350
Gross deferred tax liabilities:				
Property, plant and equipment	(246)	(9)	-	(255)
Deferred tax asset	**2,824**	**2,590**	**-**	**5,414**

9. TAXATION CONTINUED

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 it is probable sufficient taxable amounts will be available against which to deduct temporary differences and unutilised tax losses.

In this regard, the Society reviews the carrying amount of any deferred tax asset at each balance date by reference to the Society's near and long term financial forecasts.

Upon performing the above review the Society expects to earn sufficient taxable amounts to utilise the temporary timing differences and unutilised tax losses. Accordingly, and subject to the comments below, it is considered appropriate to recognise the future economic benefit represented by the deferred tax asset.

On 1 June 2010, the Society signed a non-binding Memorandum of Understanding with Canterbury Building Society and Pyne Gould Corporation Limited involving a proposed merger of their respective finance activities (refer Note 37).

In the event that the proposed merger proceeds, it is likely to be implemented by way of transfer of engagements in accordance with the provisions of the Building Societies Act 1965. This may result in the surviving entity being unable to maintain a minimum 49% continuity of ownership and would consequently result in the loss of any future economic benefit of the deferred tax asset, at that date, represented by unutilised tax losses.
As at 30 June 2010 the value of the Society's unutilised tax loss is $1.8 million (30 June 2009: $1.4 million). However, the ability of the surviving entity in the proposed merger to retain any amount of a deferred tax asset will depend upon on the final structure of the proposed merger.

In the event the proposed merger does not proceed and the Society continues to operate in its existing form, it is expected that a minimum 49% continuity of ownership will be maintained. Accordingly the future economic benefit represented by the deferred tax asset, including the future economic benefit of unutilised tax losses, will be realised.

Unrecognised tax losses / unrecognised temporary differences

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

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
d) Imputation credit account		
Opening balance	1,448	369
Attached to dividends received	168	193
Tax refunded	(192)	886
Closing balance	**1,424**	**1,448**

Imputation credits are reported on the basis that the Society maintains a minimum 67% continuity of shareholding. In the event that the proposed merger proceeds (as referred to above and in more detail in Note 37), the minimum 67% continuity of shareholding may not be maintained.
This event would result in the imputation credit balance held as at that date, no longer being available for distribution to shareholders.

As the merger proposal is a non-binding agreement at the reporting date, the imputation credit balance is reported on the basis that the minimum 67% continuity of shareholding will be maintained.

10. CASH AND CASH EQUIVALENTS

Cash at bank	506	853
Cash held at branches	127	105
Cash held at agencies	48	48
Total cash and cash equivalents	**681**	**1,006**

As at 30 June 2010, the Society's overdraft facility was $0.5 million (30 June 2009: $0.5 million) and undrawn.

Parent and Consolidated	Note	30.6.2010 $000	30.6.2009 $000
11. SHORT TERM DEPOSITS			
Call deposits		5,425	10,733
Term deposits		116,588	59,415
Promissory notes		-	25,220
Total short term deposits		**122,013**	**95,368**

The carrying values of short term deposits approximate their fair value.

12. INVESTMENT SECURITIES			
Local authority stock		4,446	6,696
Corporate bonds		10,582	14,333
Listed securities	a	4,095	4,448
Total investment securities		**19,123**	**25,477**

a) Listed securities

Canterbury Building Society shares – at fair value through other comprehensive income	4,095	-
Canterbury Building Society shares – available for sale	-	4,448
Total listed securities	**4,095**	**4,448**

As at 30 June 2009, investment securities were classified as financial assets "available for sale" and stated at fair value. These values were derived by reference to published price quotations in an active market.

Prior to, and including 30 June 2009, movements in fair value were recognised in the "available for sale" reserve and as referred to in Note 7 and explained in more detail in Note 24(d), significant reductions in the fair value of equity instruments classified as "available for sale" and financial assests determined to be impaired, are required to be reported through current year income as an impairment expense.

On 31 December 2009, the Society elected to early adopt NZ IFRS 9 Financial Instruments and to report listed securities on the basis of fair value through other comprehensive income. In addition, local authority stock and corporate bonds are now measured at amortised cost (refer to Note 36).

As at 30 June 2010, listed securities represented 1,411,905 ordinary shares in Canterbury Building Society, equivalent to 11.56% of Canterbury Building Society (30 June 2009: 11.73%). The Society holds these shares for long-term strategic purposes.

Parent and Consolidated	Notional principal 30.6.2010 $000	Fair value asset 30.6.2010 $000	Fair value liability 30.6.2010 $000	Notional principal 30.6.2009 $000	Fair value asset 30.6.2009 $000	Fair value liability 30.6.2009 $000
13. DERIVATIVE FINANCIAL INSTRUMENTS						
Held for risk management - at fair value through profit and loss						
Interest rate related contracts						
Swaps	14,500	-	(108)	10,500	25	-
Total interest rate related contracts	**14,500**	**-**	**(108)**	**10,500**	**25**	**-**

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
14. TRADE AND OTHER RECEIVABLES		
Trade receivables	14	18
Prepayments	102	78
Deferred broker fees	276	257
Other receivables	239	1,958
Total trade and other receivables	**631**	**2,311**

Other receivables represent sundry deferred receivables arising from the discharge of mortgage security and settlement proceeds of unconditional sale and purchase agreements on property provided as mortgage security for loan advances.

The carrying value of trade and other receivables approximate their fair value. As at 30 June 2010 there were no receivables classified as past due (30 June 2009: nil).

15. DEFINED BENEFIT PLAN ASSET

The Society operates a defined benefit superannuation scheme ("Scheme" or "Plan") 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 2010 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. Given the current surplus within the scheme, the Society does not expect to be required to provide any contributions to the scheme during the twelve months following 30 June 2010.

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 2010 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.

Parent and Consolidated	30.6.2010 % p.a.	30.6.2009 % p.a.

15. DEFINED BENEFIT PLAN ASSET CONTINUED

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

Expected return on plan assets	5.8	5.7
CPI inflation	2.5	2.5
Interest rate for valuing pensions (discount rate)	3.8	2.5

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

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
Amounts recognised in the income statement in respect of the Scheme were as follows:		
Expected return on plan assets	99	152
Interest cost	63	76
Total impact on income statement	**36**	**76**

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	1,841	1,795
Present value of funded obligations	1,558	1,548
Defined benefit plan asset recognised in the balance sheet	**283**	**247**

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.

Defined benefit plan assets

Changes in the fair value of the plan assets are as follows:

Opening fair value of plan assets	1,795	2,381
Expected return on plan assets	99	152
Actuarial gain/(losses)	72	(352)
Benefits paid	(125)	(386)
Closing fair value of plan assets	**1,841**	**1,795**

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000

15. DEFINED BENEFIT PLAN ASSET CONTINUED

Defined benefit plan obligation

Changes in the present value of the defined benefit obligation are as follows:

Opening defined benefit obligation	1,548	1,708
Interest cost	63	76
Actuarial losses	72	150
Benefits paid	(125)	(386)
Closing defined benefit obligation	**1,558**	**1,548**

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

Parent and Consolidated	30.6.2010 % p.a.	30.6.2009 % p.a.
Expected return by asset class		
Equities	6.8	6.8
Corporate bonds	5.0	5.0
Government bonds	4.0	4.0
Other (i.e. property)	5.0	5.0
Weighted average expected return	**5.8**	**5.7**

As at 30 June 2010, 99% of the Scheme's assets were invested in ING's SIL Balanced Fund (30 June 2009: 96%), with the remaining 1% (30 June 2009: 4%) invested by the Trustee in call deposits.

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
The distribution of these assets is as follows:		
Scheme assets		
Equities	1,011	915
Corporate bonds	289	341
Government bonds	289	341
Other (i.e. property)	252	198
Total scheme assets	**1,841**	**1,795**

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.

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
16. LOANS AND ADVANCES		
Advances at amortised cost	262,318	284,661
Provisions	(12,496)	(9,040)
Total loans and advances	**249,822**	**275,621**
Loans and advances by security type		
Secured by mortgage	246,900	272,621
Secured by General Security Agreement	2,881	2,931
Secured by Personal Property Security Act	41	69
Total loans and advances by security type	**249,822**	**275,621**

Substantially all loans and advances held by the Society are secured by a first mortgage. As at 30 June 2010 the Society had $0.2 million secured by second mortgage (30 June 2009: $0.2 million).

Loans and advances by status		
Neither past due or impaired	195,979	236,107
Past due but not impaired	34,760	12,886
Impaired assets	31,579	35,668
Provisions	(12,496)	(9,040)
Total loans and advances by status	**249,822**	**275,621**
Ageing of past due but not impaired assets		
Less than 7 days past due	5,674	852
Greater than 7 days and less than 35 days past due	19,715	1,461
Greater than 35 days and less than 65 days past due	2,197	7,736
Greater than 65 days and less than 90 days past due	3,748	1,804
More than 90 days past due	3,426	1,033
Total past due but not impaired assets	**34,760**	**12,886**
More than 90 days past due but not impaired		
Balance at beginning of period	1,033	27,891
Additions to more than 90 days past due status	3,426	11,496
Amounts written off	(18)	(1,275)
Deletions from more than 90 days past due status	(1,015)	(37,079)
Balance at end of period	**3,426**	**1,033**

Parent and Consolidated	Note	30.6.2010 $000	30.6.2009 $000
16. LOANS AND ADVANCES CONTINUED			
Impaired assets			
Balance at beginning of period		35,668	5,519
Additions to impaired assets status		8,671	42,259
Amounts written off		(3,398)	(2,616)
Deletions from impaired assets status		(9,362)	(9,494)
Balance at end of period		**31,579**	**35,668**

Subsequent to the Society's balance date of 30 June 2010 and as at 11 August 2010, actions undertaken by the Society reduced the amount reported as "past due but not impaired assets" by $18.4 million, and reduced the amount reported as "impaired assets" by $6.8 million.

As at 30 June 2010 there were no restructured assets (30 June 2009: nil) nor financial assets acquired through the enforcement of security (30 June 2009: nil).

	Note	30.6.2010 $000	30.6.2009 $000
Valuation and nature of security - past due assets			
Residential		17,701	27,850
Commercial		11,690	12,992
Rural		36,832	953
Total valuation and nature security - past due assets		**66,223**	**41,795**
Valuation and nature of security - impaired assets			
Commercial		14,179	23,550
Residential		6,503	7,100
Total valuation and nature of security - impaired assets		**20,682**	**30,650**
Provision for impairment			
Collective provision	a	1,600	1,071
Specific provision	b	10,896	7,969
Total provision for impairment		**12,496**	**9,040**
a) Collective provision			
Balance at beginning of period		1,071	2,140
Charged to income statement		529	835
Released to income statement		-	(1,904)
Net charged / (released) to income statement		529	(1,069)
Balance at end of period		**1,600**	**1,071**

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
16. LOANS AND ADVANCES CONTINUED		
b) Specific provision		
Balance at beginning of period	7,969	937
Charged to income statement	4,869	9,726
Released to income statement	(1,941)	(2,694)
Net charged to income statement	**2,927**	**7,032**
Balance at end of period	**10,896**	**7,969**

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.

Lending commitments

Undrawn committed loan facilities to customers	**6,651**	**6,914**

Parent and Consolidated	Land and buildings $000	Office equipment $000	Computer hardware $000	Total $000
17. PROPERTY, PLANT AND EQUIPMENT				
Gross carrying amount				
Balance as at 30 June 2008	5,986	268	306	6,560
Additions	36	4	82	122
Balance as at 30 June 2009	**6,022**	**272**	**388**	**6,682**
Additions	25	1	9	35
Revaluation recognised in profit and loss	(1,183)	-	-	(1,183)
Revaluation recognised in equity	(300)	-	-	(300)
Balance as at 30 June 2010	**4,564**	**273**	**397**	**5,234**
Accumulated depreciation and impairment				
Balance as at 30 June 2008	71	138	112	321
Depreciation expense	77	33	80	190
Balance as at 30 June 2009	**148**	**171**	**192**	**511**
Disposals	(1)	-	-	(1)
Depreciation expense	78	31	87	196
Revaluation	(183)	-	-	(183)
Balance as at 30 June 2010	**42**	**202**	**279**	**523**
Net book value				
As at 30 June 2008	5,915	130	194	6,239
As at 30 June 2009	5,874	101	196	6,171
As at 30 June 2010	**4,522**	**71**	**118**	**4,711**

Carrying value of land and buildings includes leasehold improvements of $0.2 million (30 June 2009: $0.2 million).

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 2010:

Property	Valuer	Qualification	30.6.2010 $000	30.6.2007 $000
452-456 Lake Road, Takapuna, Auckland	Eyles McGough Ltd	ANZIV Registered Valuers	1,250	1,400
411-415 Victoria Street, Hamilton	Brian Hamill and Associates	ANZIV Registered Valuers	1,255	2,335
24 Devonport Road, Tauranga	Hills Haden Ltd (incorporating Almao and Green)	FPINZ Registered Valuers	1,020	1,123
1132-1136 Hinemoa Street, Rotorua	Cleghorn Gillespie Jenson Ltd	FNZIV Registered Valuers	820	715
			4,345	**5,573**

Property	Model used or referred to	Lease term Years	OPEX p.a. $000	Cap. rate % p.a.

17. PROPERTY, PLANT AND EQUIPMENT CONTINUED

The valuations have been prepared in accordance with NZ IAS 16 Property, Plant and Equipment and determined by using a valuation model, or models, and where available, references to market evidence of transaction prices for similar properties.

The following table summarises the valuation models and the key assumptions used in determining the valuations. Where the Society occupies the property as a tenant, the tenancy agreement is assumed to be based upon a standard Auckland District Law Society tenancy agreement with an 6 - 8 year lease term.

Property	Model used or referred to	Lease term Years	OPEX p.a. $000	Cap. rate % p.a.
452-456 Lake Road, Takapuna, Auckland	Income capitalisation and depreciated replacement value	5-6	16	7.75
411-415 Victoria Street, Hamilton	Income capitalisation and depreciated replacement value	2-8	21	6.00 - 7.00
24 Devonport Road, Tauranga	Income capitalisation and depreciated replacement value	8	not specified	7.00
1132-1136 Hinemoa Street, Rotorua	Income capitalisation and depreciated replacement value	3-6	4	8.75 – 9.25

The carrying value of the above properties as at 30 June 2010, on the basis these were carried under the "cost less accumulative amortisation model", would have been $4.0 million (30 June 2009: $3.7 million).

Parent and Consolidated	Computer software $000

18. INTANGIBLE ASSETS

The following intangible assets relate to computer software capitalised.

Parent and Consolidated	Computer software $000
Gross carrying amount	
Balance as at 30 June 2008	564
Additions	177
Balance as at 30 June 2009	741
Additions	8
Balance as at 30 June 2010	749
Accumulated amortisation	
Balance as at 30 June 2008	241
Amortisation expense	167
Balance as at 30 June 2009	408
Amortisation expense	181
Balance as at 30 June 2010	589
Net book value	
As at 30 June 2008	323
As at 30 June 2009	333
As at 30 June 2010	**160**

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
19. DEPOSITS		
Deposits maturing within 1 year	328,627	344,439
Between 1 & 2 years	22,595	9,327
Between 2 & 3 years	2,492	4,395
Between 3 & 4 years	-	1
Between 4 & 5 years	23	-
Total deposits	**353,737**	**358,162**

Parent and Consolidated	30.6.2010 % p.a.	30.6.2009 % p.a.
Weighted average interest rates		
Deposits maturing within 1 year	4.7	5.5
Between 1 & 2 years	5.7	5.4
Between 2 & 3 years	6.2	6.0
Between 3 & 4 years	0.0	6.3
Between 4 & 5 years	6.6	0.0
Total weighted average interest rates	**4.8**	**5.5**

All deposits are unsecured under the Trust Deed.

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000

20. REDEEMABLE SHARES

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 shares were redeemed.

"B" terminating shares - subscriptions	-	-
Total "B" terminating shares - subscription	**-**	**-**
"B" terminating shares profit & ballot rights paid		
Opening balance	-	4,355
Current year profit & ballot payments	12	(3,440)
Movement in profit & ballot rights	(12)	(915)
Closing balance	**-**	**-**
Total redeemable shares	**-**	**-**

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000

20. REDEEMABLE SHARES CONTINUED

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.

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.

21. TRADE AND OTHER PAYABLES

Trade creditors	1,049	1,065
Withholding tax payable	283	325
Total trade and other payables	**1,332**	**1,390**

All amounts included within trade and other payables are unsecured.

The carrying value of trade and other payables approximate their fair value. As at 30 June 2010 there were no payables classified as past due (30 June 2009: nil).

22. EMPLOYEE ENTITLEMENTS AND OTHER PROVISIONS

Current employee entitlements		
Opening balance - employee entitlements	211	177
Movement in employee entitlements	(26)	34
Closing balance - employee entitlements	**185**	**211**
Opening balance - other provisions	51	1,005
Movement in other provisions	(23)	(954)
Closing balance - other provisions	**28**	**51**
Closing balance - employee entitlements & other provisions	**213**	**262**

Other provisions relate to expected future broker liabilities associated with loans and advances purchased from third parties.

Parent and Consolidated	Note	30.6.2010 $000	30.6.2009 $000
23. SHARE CAPITAL			
Fully paid ordinary shares	a	10,475	10,450
Total share capital		**10,475**	**10,450**
a) Ordinary shares			
Opening balance		10,450	10,425
Executive share scheme		25	25
Closing balance		**10,475**	**10,450**

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
b) Number of fully paid ordinary shares		
Balance at beginning of period	51,500	51,500
Number of ordinary shares at end of period	**51,500**	**51,500**
c) Number of ordinary share options		
Balance at beginning of period	17,567	17,567
Number of ordinary options at end of period	**17,567**	**17,567**

Description:

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.

Executive share scheme

As referred to in Note 32, 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 2010 17,566,666 (30 June 2009: 17,566,666) ordinary share options had been issued.

During the year ended 30 June 2010 no ordinary share options have been issued (30 June 2009: nil).

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 2010, no options had been exercised.

Parent and Consolidated	Note	30.6.2010 $000	30.6.2009 $000

23. SHARE CAPITAL CONTINUED

Voting rights

Each ordinary share carries the right to one vote. The ordinary share options also have 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, the Society has no authorised capital but the Rules empower the Directors to issue new shares under certain circumstances.

24. RESERVES

	Note	30.6.2010 $000	30.6.2009 $000
Capital reserve	a	40,000	40,000
Retained earnings	b	(3,676)	1,026
Asset revaluation reserve	c	1,074	1,248
Available for sale reserve	d	-	(612)
Defined benefit reserve	e	86	86
Fair value through other comprehensive income reserve	f	(353)	-
Total reserves		**37,131**	**41,748**

a) Capital reserve

Opening balance		40,000	40,000
Closing balance		**40,000**	**40,000**

On 28 June 2007, at a Special Meeting of members, a special resolution was passed to effect a bonus issue to members by capitalising $40 million of accumulated reserves into a new permanent capital reserve.

b) Retained earnings

Opening balance		1,026	9,771
Losses transferred from income statement		(4,702)	(8,745)
Closing balance		**(3,676)**	**1,026**

c) Asset revaluation reserve

Opening balance		1,248	1,248
Revaluation of land and buildings		(42)	-
Deferred tax impact of current year revaluations		(57)	-
Prior year revaluation movements transferred to income statement		(75)	-
Closing balance		**1,074**	**1,248**

The asset revaluation reserve represents the cumulative net valuation increase net of deferred tax for land and buildings held as at balance date. Loss on revaluation of land and building in Hamilton has resulted in $0.08 million being transferred to profit and loss from asset revaluations reserves.

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
24. RESERVES CONTINUED		
d) Available for sale reserve		
Opening balance	(612)	(1,627)
Change in accounting policy - early adoption of NZ IFRS 9 *Financial Instruments*	612	-
Opening balance restated	-	(1,627)
Prior year revaluation movements transferred to income statement	-	1,089
Revaluation of investment securities	-	(74)
Closing balance	**-**	**(612)**

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 under NZ IAS 39 *Financial Instruments: Recognition and Measurement.*

Early adoption of NZ IFRS 9 *Financial Instruments* on 31 December 2009 has changed the accounting treatment for fair value movements of investment securities. These assets are no longer classified as available for sale (refer to Note 36). Corporate bonds and local authority stock are now measured at amortised cost and listed securities at fair value through other comprehensive income reserve. As the fair value of the corporate bonds at 1 July 2010 is the amortised cost under NZ IFRS 9 *Financial Instruments*, the revaluation reserve amount of $0.6 million is written back. Transition relief for early adoption of NZ IFRS 9 does not require prior year comparatives to be restated. Current year changes in the fair value of listed securities at fair value through other comprehensive income are now in a new reserve at Note 24(f).

Under NZ IAS 39 *Financial Instruments: Measurement and Recognition* this decline in fair value shown in Note 24(f) would have been reclassified to profit and loss.

e) Defined benefit plan reserve		
Opening balance	86	588
Decrease in value of defined benefit asset	-	(502)
Closing balance	**86**	**86**

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.

f) Fair value through other comprehensive income reserve		
Opening balance	-	-
Revaluation decrease in investment securities	(353)	-
Closing balance	**(353)**	**-**

The Society has elected to adopt NZ IFRS 9 *Financial Instruments* early with initial application on 31 December 2009. Under the transition relief for early adoption, prior year comparatives have not been restated.

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
25. RECONCILIATION OF NET LOSS AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss after tax	(4,702)	(8,745)
Add / (less) non-cash items:		
Depreciation and amortisation	377	357
Revaluation loss on land and buildings	1,183	-
Deferred tax recognised in equity	(320)	-
Increase in deferred tax	(158)	(2,590)
Actuarial gain on defined benefit plan asset	(36)	(76)
Executive share scheme expense	25	25
Impairment on loans and advances	6,546	11,405
Impairment on investment securities	-	2,135
Revaluation surplus transferred from available for sale reserve to profit and loss	-	1,089
Fair value movement in derivatives	133	(25)
Change in accounting policy - adoption of NZ IFRS 9	874	-
Total non-cash items	**8,624**	**12,320**
Deferral or accruals of past or future operating cash receipts or payments:		
Increase in short term deposits	(26,645)	(39,976)
Decrease in investments	6,001	21,808
(Increase) / decrease in trade and other receivables	1,680	(2,052)
Decrease in tax receivable	39	875
Decrease in loans and advances	19,253	51,466
Decrease in deposits	(4,425)	(26,629)
Decrease in redeemable shares	-	(7,845)
Decrease in employee entitlements and other provisions	(49)	(920)
Decrease in trade and other payables	(58)	(303)
	(4,204)	(3,576)
Net cash flows used in operating activities	**(282)**	**(1)**

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000

26. CAPITAL COMMITMENTS

Capital expenditure approved by the Board of Directors for the period subsequent to the reporting date totalled $0.05 million (30 June 2009: $0.08 million). This expenditure is expected to be incurred within the next 12 months.

27. CONTINGENT LIABILITIES

As at 30 June 2010 the Society had no contingent liabilities (30 June 2009: nil).

28. LEASE COMMITMENTS

Lease revenue commitments

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

Not longer than 1 year	67	101
Longer than 1 year and not longer than 5 years	3	71
Total lease revenue commitments	**70**	**172**

The Society leases excess space in the buildings owned and occupied by the Society 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 is as follows:

Not longer than 1 year	523	453
Longer than 1 year and not longer than 5 years	1,006	1,005
Total lease payment commitments	**1,529**	**1,458**

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.

29. 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.

29. FINANCIAL INSTRUMENTS CONTINUED

As required by Reserve Bank non-bank deposit taker (NBDT) regulations and approved by the Trustee, the Society has implemented a Risk Management Programme (RMP) that outlines how the Society identifies and manages its key risks. Management formally reports on all aspects of the RMP to the Board on a monthly basis. 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.

Advances are secured by first mortgage except for a few advances that are either secured by either a general security agreement, registered under the Personal Property Security Act or second mortgage (refer Note 16). All lending approvals are by management, 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 13).

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. The Society's liquidity management is described further in Note 30.

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.

29. FINANCIAL INSTRUMENTS CONTINUED

Capital management

The Society's capital includes share capital and reserves.

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 allowed is 5% of total tangible assets. As at 30 June 2010 the Society had capital of 11.8% of total tangible assets (30 June 2009: 12.6%). 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 *Financial Instruments: Disclosures*, the sensitivity of the Society's net profit after tax for the year and shareholders equity, to a possible change in interest rates and equity prices is as follows:

Parent and Consolidated	Decrease 30.6.10 $000	Increase 30.6.10 $000	Decrease 30.6.2009 $000	Increase 30.6.2009 $000
Impact of a change in interest rates:				
Movement in rates by 1.00%				
Net profit after tax	486	(486)	347	(347)
Equity	486	(486)	347	(347)
Impact of a change in equity prices:				
Movement in equity prices by 10%				
Net profit after tax	(409)	409	(445)	445
Equity	(409)	409	(445)	445

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

- The sensitivity analysis is not a forward looking exercise; rather the analysis is based on the year to 30 June 2010;
- The balance sheet position as at 30 June 2010 is used as a proxy for the year ending 30 June 2010;
- The Society's exposure to fixed interest rates in its loan portfolio as at 30 June 2010 is used as a proxy for the year ending to 30 June 2010; 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 50% of total loans by value as at 30 June 2010 (30 June 2009: 72%).

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 disclosed in more detail in Note 30. It is not considered that exposure to these risks is likely to lead to material change over the next reporting period and accordingly, a sensitivity analysis of these risks is not included.

29. FINANCIAL INSTRUMENTS CONTINUED

Interest rate repricing schedule

The following tables include the Society's assets and liabilities at their carrying amounts (other than derivatives which are shown at their notional value), categorised by the earlier of contractual repricing or maturity dates.

Parent and Consolidated	Effective interest rate % p.a.	Within 6 months $000	6-12 months $000	1-2 years $000	2-5 years $000	Over 5 years $000	Non-interest bearing $000	Total $000
As at 30 June 2010								
Assets								
Cash and cash equivalents	2.75	681	-	-	-	-	-	681
Short term deposits	3.97	122,013	-	-	-	-	-	122,013
Investment securities	5.46	2,445	1,000	7,681	-	3,903	4,095	19,123
Loans and advances	7.68	171,117	41,252	23,963	12,321	1,169	-	249,822
Other assets	0.00	-	-	-	-	-	11,357	11,357
Total assets		296,256	42,252	31,644	12,321	5,072	15,452	402,996
Liabilities and equity								
Deposits	4.81	280,337	49,470	21,419	2,511	-	-	353,737
Derivative financial instruments	0.00	-	-	-	-	-	108	108
Other liabilities	0.00	-	-	-	-	-	1,545	1,545
Equity	0.00	-	-	-	-	-	47,606	47,606
Total liabilities and equity		280,337	49,470	21,419	2,511	-	49,259	402,996
On-balance sheet interest sensitivity gap		15,919	(7,218)	10,225	9,810	5,072	(33,807)	-
Net balance of derivative financial instruments	1.10	14,500	(2,800)	(8,700)	(3,000)	-	-	-
Total interest rate sensitivity gap		**30,419**	**(10,018)**	**1,525**	**6,810**	**5,072**	**(33,807)**	**-**

29. 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
	% p.a.	$000	$000	$000	$000	$000	$000	$000
As at 30 June 2009								
Assets								
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
Total assets		**339,600**	**28,283**	**12,021**	**11,786**	**1,334**	**18,988**	**412,012**
Liabilities and equity								
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
Total liabilities and equity		**286,353**	**58,087**	**11,886**	**1,836**	**-**	**53,850**	**412,012**
On-balance sheet interest sensitivity gap		53,247	(29,804)	135	9,950	1,334	(34,862)	-
Net balance of derivative financial instruments	1.06	10,500	-	(2,800)	(7,700)	-	-	-
Total interest rate sensitivity gap		**63,747**	**(29,804)**	**(2,665)**	**2,250**	**1,334**	**(34,862)**	**-**

29. FINANCIAL INSTRUMENTS CONTINUED

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 $000	Within 6 months $000	6-12 months $000	1-2 years $000	2-5 years $000	Over 5 years $000	Not specified $000	Total $000
As at 30 June 2010								
Assets								
Cash and cash equivalents	681	-	-	-	-	-	-	681
Short term deposits	5,425	117,283	-	-	-	-	-	122,708
Investment securities	-	2,808	1,341	8,926	189	4,230	4,095	21,589
Loans and advances	-	65,488	38,859	47,197	52,760	186,730	-	391,034
Trade and other receivables	-	631	-	-	-	-	-	631
Total monetary assets	6,106	186,210	40,200	56,123	52,949	190,960	4,095	536,643
Liabilities								
Deposits	59,553	223,557	51,472	23,015	2,934	-	-	360,531
Derivative financial instruments	-	-	3	28	77	-	-	108
Employee entitlements and other provisions	-	213	-	-	-	-	-	213
Trade and other payables	-	1,332	-	-	-	-	-	1,332
Total monetary liabilities	59,553	225,102	51,475	23,043	3,011	-	-	362,184
Net monetary assets	(53,447)	(38,892)	(11,275)	33,080	49,938	190,960	4,095	174,459
Undrawn overdraft facility	500	-	-	-	-	-	-	500
Unrecognised loan commitments	-	(6,651)	-	-	-	-	-	(6,651)
Net liquidity gap	(52,947)	(45,543)	(11,275)	33,080	49,938	190,960	4,095	168,308
Net liquidity gap - cumulative	**(52,947)**	**(98,490)**	**(109,765)**	**(76,685)**	**(26,747)**	**164,213**	**168,308**	**-**

Parent and Consolidated	On demand $000	Within 6 months $000	6-12 months $000	1-2 years $000	2-5 years $000	Over 5 years $000	Not specified $000	Total $000

29. FINANCIAL INSTRUMENTS CONTINUED

Maturity analysis for undiscounted contracted cash flows continued

As at 30 June 2009

Parent and Consolidated	On demand $000	Within 6 months $000	6-12 months $000	1-2 years $000	2-5 years $000	Over 5 years $000	Not specified $000	Total $000
Assets								
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
Total monetary assets	11,778	182,576	35,598	57,351	99,444	96,493	4,448	487,688
Liabilities								
Deposits	34,871	262,154	61,591	13,269	2,189	-	-	374,074
Employee entitlements and other provisions	-	262	-	-	-	-	-	262
Trade and other payables	-	1,390	-	-	-	-	-	1,390
Total monetary liabilities	34,871	263,806	61,591	13,269	2,189	-	-	375,726
Net monetary assets	(23,093)	(81,230)	(25,993)	44,082	97,255	96,493	4,448	111,962
Undrawn overdraft facility	500	-	-	-	-	-	-	500
Unrecognised loan commitments	-	(6,914)	-	-	-	-	-	(6,914)
Net liquidity gap	(22,593)	(88,144)	(25,993)	44,082	97,255	96,493	4,448	105,548
Net liquidity gap - cumulative	(22,593)	(110,737)	(136,730)	(92,648)	4,607	101,100	105,548	-

29. 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.

The expected maturity date of deposits used in the following tables has been based upon the current reinvestment rate of 91.48% (30 June 2009: 87.18%). Therefore the expected maturity dates differ from that of the contractual maturity date because a significant proportion of deposits are renewed at maturity and therefore do not have a cash flow effect.

Parent and Consolidated	On demand $000	Within 6 months $000	6-12 months $000	1-2 years $000	2-5 years $000	Over 5 years $000	Not specified $000	Total $000
As at 30 June 2010								
Assets								
Cash and cash equivalents	681	-	-	-	-	-	-	681
Short term deposits	5,425	117,283	-	-	-	-	-	122,708
Investment securities	-	2,808	1,341	8,926	189	4,230	4,095	21,589
Loans and advances	-	65,488	38,859	47,197	132,781	-	-	284,325
Trade and other receivables	-	631	-	-	-	-	-	631
Total monetary assets	6,106	186,210	40,200	56,123	132,970	4,230	4,095	429,934
Liabilities								
Deposits	5,074	21,346	28,588	49,487	60,595	234,870	-	399,960
Derivative financial instruments	-	-	3	28	77	-	-	108
Employee entitlements & other provisions	-	213	-	-	-	-	-	213
Trade and other payables	-	1,332	-	-	-	-	-	1,332
Total monetary liabilities	5,074	22,891	28,591	49,515	60,672	234,870	-	401,613
Net monetary assets	1,032	163,319	11,609	6,608	72,298	(230,640)	4,095	28,321
Undrawn overdraft facility	500	-	-	-	-	-	-	500
Unrecognised loan commitments	-	(6,651)	-	-	-	-	-	(6,651)
Net liquidity gap	1,532	156,668	11,609	6,608	72,298	(230,640)	4,095	22,170
Net liquidity gap - cumulative	**1,532**	**158,200**	**169,809**	**176,417**	**248,715**	**18,075**	**22,170**	**-**

29. FINANCIAL INSTRUMENTS CONTINUED

Maturity analysis for undiscounted expected cash flows continued

Parent and Consolidated	On demand $000	Within 6 months $000	6-12 months $000	1-2 years $000	2-5 years $000	Over 5 years $000	Not specified $000	Total $000
As at 30 June 2009								
Assets								
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
Total monetary assets	11,778	182,576	50,790	55,759	129,756	3,508	4,448	438,615
Liabilities								
Deposits	4,469	35,520	46,706	69,462	77,966	172,525	-	406,648
Employee entitlements & other provisions	-	262	-	-	-	-	-	262
Trade and other payables	-	1,390	-	-	-	-	-	1,390
Total monetary liabilities	4,469	37,172	46,706	69,462	77,966	172,525	-	408,300
Net monetary assets	7,309	145,404	4,084	(13,703)	51,790	(169,017)	4,448	30,315
Undrawn overdraft facility	500	-	-	-	-	-	-	500
Unrecognised loan commitments	-	(6,914)	-	-	-	-	-	(6,914)
Net liquidity gap	7,809	138,490	4,084	(13,703)	51,790	(169,017)	4,448	23,901
Net liquidity gap - cumulative	7,809	146,299	150,383	136,680	188,470	19,453	23,901	-

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
Ranking of securities		
Secured creditors	768	812
Deposits	353,737	358,162
Unsecured creditors	885	840
Total first ranking securities	355,390	359,814

Deposits are unsecured, subject to a separate trust deed that contains financial covenants and rank before ordinary shares.

Parent and Consolidated	Carrying amount 30.6.2010 $000	Fair value 30.6.2009 $000	Carrying amount 30.6.2010 $000	Fair value 30.6.2009 $000
29. FINANCIAL INSTRUMENTS CONTINUED				
Fair value of financial instruments				
Financial assets				
Cash and cash equivalents	681	681	1,006	1,006
Short term deposits	122,013	122,013	95,368	95,368
Investment securities	19,123	18,372	25,477	25,477
Trade and other receivables	631	631	2,311	2,311
Derivative financial instruments	-	-	25	25
Loans and advances	249,822	250,120	275,621	277,409
Total financial assets	392,270	391,817	399,808	401,596
Non-financial assets	10,726	10,726	12,204	12,204
Total assets	**402,996**	**402,543**	**412,012**	**413,800**
Financial liabilities				
Deposits	353,737	354,320	358,162	369,809
Derivative financial instruments	108	108	-	-
Trade and other payables	1,332	1,332	1,390	1,390
Total financial liabilities	355,177	355,760	359,552	371,199
Non-financial liabilities	213	213	262	262
Total liabilities	**355,390**	**355,973**	**359,814**	**371,461**

Early adoption of NZ IFRS 9 *Financial Instruments* on 31 December 2009 has changed the accounting treatment for fair value movements of investment securities. These assets are no longer classified as available for sale (refer to Note 36). Corporate bonds and local authority stock are now measured at amortised cost and listed securities at fair value through other comprehensive income reserve.

Assumptions used in determining fair value of loans and advances

The fair value of loans and advances is calculated using discounted cash flow models based on the interest rate re-pricing and maturity of the loans and advances.

Discount rates applied in this calculation are based on the following observable information as at 30 June 2010:

- wholesale market yields (ranging from 2.94% to 4.77%)
- the Society's weighted average funding margin of 1.43%
- and the Society's risk margin for counterparties of similar credit profiles (ranging from 1.50% to 5.00%)

29. FINANCIAL INSTRUMENTS CONTINUED

Assumptions used in determining fair value of investment securities

The fair value of investment in securities is based on quoted market prices.

Assumptions used in determining fair value of deposits

The fair value of loans and advances is calculated using discounted cash flow models based on the interest rate re-pricing and maturity of deposits.

Discount rates applied in this calculation are based on the following observable information as at 30 June 2010:

- wholesale market yields (ranging from 2.94% to 4.77%)
- the Society's weighted average funding margin of 1.43%

Fair value measurement recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Parent and Consolidated	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
As at 30 June 2010				
Financial assets at fair value through other comprehensive income				
Investment securities	4,095	-	-	4,095
Financial liabilities at fair value through profit and loss				
Derivative financial instruments	-	108	-	108
Total	**4,095**	**108**	**-**	**4,203**
As at 30 June 2009				
Financial assets at fair value through profit and loss				
Derivative financial instruments	-	25	-	25
Available for sale financial assets				
Investment securities	25,477	-	-	25,477
Total	**25,477**	**25**	**-**	**25,502**

29. FINANCIAL INSTRUMENTS CONTINUED

Reconciliation of Level 1 fair value measurements of financial assets

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
Investment securities		
Balance at beginning of the year	25,477	49,488
Change in accounting policy – adoption of NZ IFRS 9 *Financial Instruments*	(21,029)	-
Opening balance restated	4,448	49,488
Losses recognised in profit or loss	-	(3,224)
(Losses)/gains recognised in other comprehensive income	(353)	1,089
Bonus issue	-	138
Settlements	-	(22,014)
Balance at end of the year	**4,095**	**25,477**

Due to the early adoption of NZ IFRS 9 *Financial Instruments*, the opening balance of investment securities totalling $21.0 million (comprising of local authority stock $6.7 million and corporate bonds $14.3 million) was transferred out of the Level 1. Previous measurement under NZ IAS 39, these assets were classified as available for sale assets and measured at fair value, however under NZ IFRS 9, these assets are measured at amortised cost.

Of the total gains or losses for the period included in profit or loss $nil (30 June 2009: $0.3 million loss) relates to listed securities. Fair value losses of $0.4 million (30 June 2009: $1.1 million fair value gain) is included in other comprehensive income and relate to listed securities held at the end of the reporting period.

Geographical distribution of loans and advances

Northland	9,314	7,583
Auckland	111,176	133,170
Waikato	59,769	64,230
Bay of Plenty	29,846	37,637
Hawkes Bay	5,967	6,566
Taranaki/Manawatu	10,649	8,862
Wellington	13,607	11,339
South Island	9,494	6,234
Total loans and advances	**249,822**	**275,621**

29. FINANCIAL INSTRUMENTS CONTINUED

Concentration of funding

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

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

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
Geographical distribution of depositors		
Northland	3,253	3,417
Auckland	138,485	147,904
Waikato	59,044	61,314
Bay of Plenty	85,169	83,168
Hawkes Bay	2,234	2,349
Taranaki	413	1,760
Wellington	19,956	21,403
South Island	4,670	4,914
Total within New Zealand	313,224	326,229
Australia	9,205	8,962
United Kingdom	7,676	6,001
United States of America	6,287	4,287
French Polynesia	3,747	4,208
Malaysia	2,434	-
Thailand	1,623	1,570
Japan	1,283	-
Canada	1,035	832
Other	7,223	6,073
Total outside New Zealand	40,513	31,933
Total deposits	***353,737***	***358,162***

As at 30 June 2010, approximately 39% of the Society's funding was sourced from customers within the Auckland region (30 June 2009: 41%).

29. FINANCIAL INSTRUMENTS CONTINUED

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.

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
All credit risks are within New Zealand.		
Cash at bank	506	853
Cash held at branches	127	105
Cash held at agencies	48	48
Trade receivables	14	18
Deferred broker fees	276	257
Other receivables	239	1,958
Registered banks	125,907	77,584
Government, local authority and state owned enterprises	4,446	6,696
Other corporate investments	10,783	36,590
Unrecognised loan commitments	6,651	6,914
Loans and advances (based on the purpose of the loan)		
- Residential	104,392	75,674
- Rural	48,607	59,853
- Commercial	96,823	140,094
Total loans and advances	249,822	275,621
Total	**398,819**	**406,644**

Loans and advances (based on the security of the loan)

- Residential	148,516	140,349
- Rural	47,786	59,905
- Commercial	53,520	75,367
Total loans and advances	**249,822**	**275,621**

Financial assets are presented at their carrying values.

Of the total amount recorded as loans and advances at 30 June 2010, 14.2% (30 June 2009: 13.3%) have repayments in arrears more than three months.

Of the total amount recorded as loans advances at 30 June 2010, 19.1% (30 June 2009: 21.6%) is owed by the six largest debtors.

29. FINANCIAL INSTRUMENTS CONTINUED

Credit exposures to individual counterparties as a % of equity

Parent and Consolidated	Peak 30.6.2010 0's	As at 30.6.2010 0's	Peak 30.6.2009 0's	As at 30.6.2009 0's
Banks				
20 to 29%	1	-	1	-
30 to 39%	1	-	-	1
40 to 49%	-	-	-	2
60 to 69%	2	-	-	-
70 to 79%	-	1	-	-
80 to 89%	-	1	-	-
90 to 99%	-	1	-	-
120% to 129%	-	-	1	-
Others				
10 to 19%	8	3	9	8
20 to 29%	2	2	2	3

Exposures are shown net of allowances for impairment loss on individual assets though gross of set-offs and do not include guarantee arrangements. Percentages are calculated using the equity as at balance date.

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 129%" banding as at 30 June 2009 represents treasury assets with ANZ National Bank Limited and consists primarily of "on call" deposits and short dated term 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 with effect from 30 June 2009, 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. 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. The waiver was no longer required as at 30 June 2010, and accordingly lapsed.

Percentage of borrowers owing the six largest amounts

Parent and Consolidated	30.6.2010 %	30.6.2009 %
The six largest borrowers as a percentage of monetary assets receivable	12.17	15.01

30. 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 contractual maturity profile of assets and liabilities presented in Note 29 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 2010 the Society had a very strong on-balance sheet liquidity position of $136 million (30 June 2009: $116 million). The Society prudently manages 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 2010.

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
Liquid assets	136,209	115,782
Total liquidity	**136,209**	**115,782**

Liquid assets include cash and cash equivalents, short term deposits, corporate bonds and local authority stock. Maturing liquid investments and raising new deposits usually meet cash demands.

31. SEGMENTAL REPORTING

The Society only operates in one operating segment, namely the provision of financial services in New Zealand. The operating segment is determined by the regulatory and service nature of the business. This is consistent with internal reporting evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance of the entity. The chief operating decision maker has been identified as the Chief Executive Officer and the board of directors.

All revenues are derived from customers within New Zealand. All assets, other than certain financial instruments totalling $0.5 million, are held in New Zealand.

No revenue from a single customer amounts to 10 per cent or more of the Society's revenues.

32. 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 (12 months remaining as at 30 June 2010). The fair value is determined on the basis of comparison to an observable market price of options issued with similar terms.

33. RELATED PARTY DISCLOSURES

All related party transactions were entered into on the basis of normal commercial terms, at an arms lengths basis.

Entities with joint control or significant influence over the entity:

Oceania and Eastern Limited

The following directors of the Society are directors and shareholders of Oceania and Eastern Limited:

- Geoffrey Thomas Ricketts
- Christopher Robert Mace

Southern Cross Building Society Charitable Trust

The directors of the Society are trustees of Southern Cross Building Society Charitable Trust.

No related party transactions with entities with joint control or significant influence over the entity have occurred during the period, other than the reinvestment of an existing term deposit.

Parent and Consolidated	30.6.2010 0's	30.6.2009 0's
Shareholdings by entities with joint control or significant influence over the entity are as follows:		
Ordinary shares		
Oceania and Eastern Limited	14,429,432	14,429,432
Southern Cross Building Society Charitable Trust – beneficial basis	250,000	250,000
Southern Cross Building Society Charitable Trust – legal / non beneficial basis	4,148,975	4,261,571
Option holdings by entities with joint control or significant influence over the entity are as follows:		
Ordinary options		
Oceania and Eastern Limited	5,709,811	5,709,811
Southern Cross Building Society Charitable Trust – legal / non beneficial basis	1,382,990	1,420,521

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
Related party payables to entities with joint control or significant influence over the entity are as follows:		
Deposits		
Deposits – beneficial basis	570	549
Deposits – legal / non beneficial basis	967	983

The ordinary shares and options held by the Southern Cross Building Society Charitable Trust on a legal/non beneficial basis represent holdings of members that are untraceable.

In the event that the Society, having used commercially reasonable efforts to do so, is unable to locate such holders before 29 June 2012, then beneficial ownership of those holdings will transfer to the Southern Cross Building Society Charitable Trust. In addition, proceeds arising on redemption of the redeemable shares in respect of which the members are untraceable are held by the Southern Cross Building Society Charitable Trust in accordance with the Rules of the Society.

33. RELATED PARTY DISCLOSURES CONTINUED

Key management personnel of the entity:

Per NZ IAS 24 *Related Party Disclosures*, key management personnel include non-executive directors of the Society.

Related party transactions

There were no related party transactions with key management personnel in the year to 30 June 2010.

In the year ended 30 June 2009, the Society entered into the following related party transaction:

- 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.

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000
Short-term benefits paid:		
Fees paid to non-executive directors		
Geoffrey Thomas Ricketts	30	30
Gavin Ronald Walker	10	20
Christopher Robert Mace	20	20
Noel Barclay	20	20
Anthony Donald James Beasley	20	20
Don James Turkington	10	-

Gavin Ronald Walker resigned as a director of the Society on 16 December 2009 and Don James Turkington was appointed on 21 December 2009.

Post-employment benefits payable:		
Retirement allowance payable on retirement		
Noel Barclay	137	137

Related party payables and receivables to key management personnel are as follows:

Deposits	468	460
Loans and advances	160	146

Parent and Consolidated	30.6.2010 $000	30.6.2009 $000

34. EARNINGS PER SHARE

Earnings per share	(0.09)	(0.17)

For the purposes of calculating earnings per share, the following figures have been used:

Net loss after tax	(4,702)	(8,745)
Weighted average number of shares	51,500	51,500

The outstanding ordinary share options do not give rise to any dilutionary effect on earnings per share.

The calculations are based on the weighted average number of shares issued for the period.

Earnings per share would be (0.10) as at 30 June 2010, had the Society not elected to early adopt NZ IFRS 9 *Financial Instruments*.

35. SUBSIDIARIES

Southern Cross Building and Investments Limited and Southern Cross Nominees Limited are wholly owned subsidiaries of Southern Cross Building Society. As at the reporting date, neither entity was trading.

All subsidiaries are incorporated in New Zealand and have a 30 June balance date.

36. TRANSITION NOTE

NZ IFRS 9 *Financial Instruments*

The Society has adopted NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) on 31 December 2009 in advance of its effective date. The Society has chosen 31 December 2009 as its date of initial application (i.e. the date on which the Society has assessed its existing financial assets) to take advantage of the revised financial asset treatment when the Standard was issued on 12 November 2009. The Society has taken advantage of the transition relief for early adoption, therefore retrospective application and comparative amounts have not been restated.

NZ IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

Debt instruments are measured at amortised cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the two criteria is not met the financial instrument is classified as at fair value through profit or loss (FVTPL).

Additionally, even if the asset meets the amortised cost criteria, the Society may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. In the current period, the Society has not elected to designate any debt instruments meeting the amortised cost criteria as at FVTPL.

Only financial assets that are classified as measured at amortised cost are tested for impairment.

As the Society has no hedge accounting relationships, all derivatives are classified as at FVTPL.

Investments in equity instruments are classified and measured as at FVTPL except if the equity investment is not held for trading and is designated by the Society as at fair value through other comprehensive income (FVTOCI). If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income recognised in accordance with NZ IAS 18 *Revenue*, are recognised in other comprehensive income and are not subsequently reclassified to profit and loss.

The directors have reviewed and assessed all of the Society's existing financial assets as at the date of initial application of NZ IFRS 9. As a result, the following summarises the Society's application of the classification requirements of NZ IFRS 9 and those assets whose classification changed as a result of applying NZ IFRS 9.

Financial asset	NZ IAS 39 Original measurement category	NZ IFRS 9 Measurement category	NZ IFRS 9 Justification for classification
Short term deposits	Available for sale	Amortised cost	Contractual cash flows are solely payments of principal and interest on the principal amount outstanding. All interest payments are the consideration of the time value of money and credit risk associated with the principal amount outstanding.
Investment securities – corporate bonds / local authority stock	Available for sale	Amortised cost	
Cash and cash equivalents	Loans and receivables (amortised cost)	Amortised cost	
Loans and advances	Loans and receivables (amortised cost)	Amortised cost	
Trade and other receivables	Loans and receivables (amortised cost)	Amortised cost	
Investment securities – listed securities	Available for sale	FVTOCI	Equity investments held for strategic purposes – not held for trading.
Derivative financial instruments	FVTPL	FVTPL	Derivative instrument to be measured at FVTPL

Had the Society not elected to early adopt NZ IFRS 9 the following would have been recognised in the financial statements for the year ended 30 June 2010:

- the decrease in fair value of Canterbury Building Society shares of $0.4 million reported as an impairment expense in profit and loss.
- the mark to market revaluation on local authority stock and corporate bonds totalling $0.8 million would have been reported as a revaluation loss in the available for sale reserve (equity).

The table below shows the current effect the adoption of NZ IFRS 9 has on the carrying values of financial assets as at 30 June 2010 and at initial application on 31 December 2009:

	Original carrying amount NZ IAS 39 30.6.2010 $000	New carrying amount NZ IFRS 9 30.6.2010 $000	Original carrying amount NZ IAS 39 30.12.2009 $000	New carrying amount NZ IFRS 9 30.12.2009 $000
Assets				
Cash and cash equivalents	681	681	1,572	1,572
Short term deposits	122,013	122,013	96,264	96,264
Trade and other receivables	631	631	4,237	4,237
Investment securities - corporate bonds / local authority stock	14,278	15,028	16,859	17,643
Investment securities - listed securities	4,095	4,095	4,306	4,306
Derivative financial instruments	-	-	65	65
Loans and advances	249,822	249,822	267,390	267,390
	391,520	**392,270**	**390,693**	**391,477**

37. OTHER SIGNIFICANT EVENTS

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.

38. POST BALANCE DATE EVENTS

There were no material post balance date events.