



Annual General Meeting 18 September 2008

CHAIRMAN'S ADDRESS (Geoff Ricketts)

First of all my overview of the past year:

1. ANNUAL RESULTS

The Society has reported a very satisfactory result in a particularly challenging year. It is therefore pleasing that the Society has demonstrated its resilience in turbulent market conditions, largely brought about by the flow on effect of the credit crunch crisis initiated in overseas financial markets.

The Society's net profit after tax of \$5.2 million was almost double that of the prior year. Net operating profit before tax, a key performance measure of the Society was \$5 million – 80% higher than 2007.

The Society's equity at 30 June 2008 was \$60.4 million – affected slightly by some mark to market adjustments in its investments required under NZ IFRS – but still almost 6% higher than the prior year. The Society's financial position remained very strong with equity representing 13.2% of total assets – one of the highest ratios in the Savings institutions sector.

2. LIQUIDITY

As at 30 June 2008, the Society's liquidity reserves were \$177 million (including undrawn bank facilities) – almost double that of the previous

year. The Society's strong liquidity position was achieved by means of a combination of initiatives. These included:

- ❖ the sale of the Society's non-core investment property in November 2007 for \$19 million (as was announced to Members at last years' AGM).
- ❖ the entering into of new banking arrangements giving the Society access to \$80 million in bank funding. These facilities were undrawn as at 30 June 2008 and as at today.
- ❖ A cautious and measured approach to new lending, given the volatile market conditions, even though this resulted in the level of assets declining slightly year on year.

The Society's liquidity ratio remaining at over 40% – approaching 3 times the minimum liquidity ratio required under the Society's trust deed of 15%.

3. OPERATING ENVIRONMENT

The impact of the credit crunch on financial markets around the world, including the New Zealand, has manifested itself in a series of business failures and announcements by various finance companies and mortgage trusts concerning the suspension of investor capital repayments. This has led to some reduction in investor confidence brought about by uncertainty – leading to liquidity concerns particularly in the finance company sector. As a building society trading for over 85 years, we have been less affected. Because of our experience of previous business cycles, we recognised access to liquidity is essential. As already mentioned, in this volatile market we have managed the Society so as to maintain a very high level of liquidity, positioning the Society well to undertake new lending opportunities – albeit on a very cautious basis.

As is evident from the Society's annual report, the market conditions have impacted on the Society's level of loans in arrears. Whilst in absolute terms the total level of arrears has increased compared to the prior year, the Society's management has acted quickly to address any arrears as these arise. Additionally, the Society's security position and current level of provisioning is considered to be adequate to ensure the Society does not incur any material loss not already taken into account in the Society's financial statements as at 30 June 2008.

4. REGULATORY CHANGES

After a prolonged period of deliberation by central government in conjunction with the Reserve Bank and following consultation with industry participants, the non-bank sector will see new regulatory changes involving the Reserve Bank as prudential regulator, and trustee companies as overseeing intermediaries. The Board of the Society views these proposed changes, which will take effect in 2010, as very positive for the Society and the sector in which it operates.

5. THE NEW ZEALAND SAVINGS INSTITUTIONS ASSOCIATION

In August 2008, The New Zealand Savings Institution Association was formed – of which the Society is a member. The Association, which includes most of the building societies and PSIS (representing in aggregate, 660 years of service), was formed as an umbrella organisation to promote the savings institutions and their place in the financial services market but also to differentiate the savings institutions from finance companies and mortgage trusts. All the members of the Association operate only in New Zealand and are substantially New Zealand owned. Each member has strong governance, ethical standards, liquidity, reserves and quality assets. Also, each member has good relationships with their customers being either regionally or community-based with a long tradition of helping New Zealanders.

6. STRATEGIC INITIATIVES

As previously indicated to Members, in addition to organic growth initiatives, the Society will seek to participate in industry consolidation initiatives, which may include friendly mergers with like-minded financial institutions in the Savings sector. In this regard the Board will advise you concerning any strategic proposal that the Board considers would be in members' interests.

7. OUTLOOK

The Society will continue to adopt a conservative approach in the conduct of its business and the Board will use its best endeavours to ensure the business is managed appropriately in accordance with the changing environment in which the Society operates. In particular, if required, the Society is prepared to continue managing its balance sheet to ensure that its strong liquidity position is preserved. The Board is confident that the Society's strength will position the Society well to participate in both organic and inorganic growth initiatives.

I will now pass to Bob Smith, the Society's Chief Executive to address you.

CEO Address (Bob Smith)

Welcome everyone and it is a pleasure to be addressing you as CEO at my second AGM.

I would like to touch on the operational highlights for the 2008 year.

1. Trading results

- The key highlight is that in what was a challenging trading environment, we were able to achieve a strong result for the Society that was similar to its previous best result.

This reflects the effort that both the Board and Senior Management have put in over the year.

- Arrears management, as you would appreciate, in such difficult trading conditions is crucial.

At January this year the Society had a very low arrears position, as far as we can determine the lowest for up to 20 years, this reflects the effort that had gone into resolving some difficult cases that were on the books as at 30 June 2007.

Since balance date the Board has considered it prudent to further increase the total provisioning to \$4.2M – an increase of 1.3% on the sum of total past due and impaired loans as at 15 September 2008.

- During the year it is pleasing to note that we managed to increase our net interest margin from 2.1% to 2.24%.
- As the Chairman has stated we have a very strong liquidity position, however the funding side of the business has been very competitive as a result of the Global Markets and local market conditions. A key

strength in such market conditions is that we have a personal banking type relationship with our customers through our Branch and Agency network. This assists greatly in dealing with customers over any security concerns that they may have.

2. Restructuring

During the year all aspects of the business were reviewed and where appropriate, changes initiated. These involved.

- Re organising functions with clearer lines of accountability.
- Reviewing IT platforms and implementing an outsourcing programme.
- Refreshing the Society's proud and long established branding and implementing a new marketing approach that builds on the heritage of the Society. Later in the year we will be on TV for the first time. We are sponsoring a programme, hosted by Te Radar that reviews the heritage of some New Zealand cultural ICONS. On display here today are some examples of our new branding. All our branches have been updated with this new look.
- Initiating Internet and Telephone Banking which will be launched in November. This will over time significantly improve the flexibility for customers, reduce our transactional costs within the branch and enable us to better focus on value added services.

3. Key Focus for this coming year.

During the coming financial year our key operational focus will be to continue to further develop the key building block platforms of change, (People, Brand and Information Technology) that we have put in place in the last financial year, and in addition, developing improved sales capability in the culture of the Society.

Thank you