

## SUPPLEMENTARY INVESTOR RISK ASSESSMENT INFORMATION



*(To be read in conjunction with WBS' Investment Statement and  
Registered Prospectus)*

New regulations for Non-Bank Deposit Takers such as WBS have been developed over recent years in the wake of the many finance company collapses in New Zealand since 2006. This document highlights the two primary regulations with which all Non-Bank Deposit Takers must now comply and that give investors a quick gauge on the relative riskiness of the entity with which they are considering investing.

### 1. Capital Adequacy

Possibly the most significant change to the Non-Bank Deposit Taker sector is the introduction of standard capital adequacy requirements and specific risk-weightings allocated to the assets that Non-Bank Deposit Takers invest in. As the name suggests, this regulatory requirement is to ensure that Non-Bank Deposit Takers operate with a sufficient amount of capital in their business relative to the risk of their business.

Whereas credit ratings provide a rating agency's assessment of an entity defaulting on a payment, capital adequacy is a measure of the risk of incurring a loss of investor's funds in the event of a default by the Non-Bank Deposit Taker.

Before now, investors have not had much indication of how much risk Non-Bank Deposit Takers were taking with the funds that they received from investors. The new regulations require that all Non-Bank Deposit Takers apply standard weightings of risk to the type of asset that the Non-Bank Deposit Taker invests in. Irrespective of the type of asset that Non-Bank Deposit Takers invest in, they must maintain a minimum capital adequacy of 8%<sup>1</sup>. Those Non-Bank Deposit

<sup>1</sup> That means that for every \$100 of funds borrowed and invested the Non-Bank Deposit Taker must have a minimum of \$8 of its own money.

Takers that invest in less risky asset types will have a higher capital adequacy ratio for the same amount of capital. Non-Bank Deposit Takers that have a low level of capital invested in their business will operate closer to the 8% minimum.

Capital adequacy is monitored by Trustees and the Reserve Bank of New Zealand but is not required to be reported to investors. Investors may request this information from Non-Bank Deposit Taker itself or its Trustee.

Non-Bank Deposit Takers are generally required to hold more capital than registered banks for the same class of assets. That is, they will have a higher risk-weighting allocated under the regulatory framework, but both must meet a minimum ratio of 8%.

Throughout 2009 New Zealand's major banks had an average capital adequacy ratio<sup>2</sup> of between 9% and 10%<sup>3</sup>. Under the new capital adequacy regulations for Non-Bank Deposit Takers WBS has a capital adequacy ratio of 13%.

### 2. Credit Rating

All Non-Bank Deposit Takers were required to have a credit rating from a rating agency approved by the Reserve Bank of New Zealand from 1 March 2010.

The Securities Commission has made the following disclosure regarding credit ratings mandatory.

#### Disclosure requirements

- (a) The creditworthiness of WBS is rated by a rating agency approved by the Reserve Bank of New

<sup>2</sup> Registered banks have two tiers of capital types available to them whereas Non-Bank Deposit Takers only have one. For the purposes of this comparison the capital adequacy level shown for the registered banks is only their Tier 1 capital.

<sup>3</sup> Source: RBNZ

Zealand under section 157J of the Reserve Bank Act 1989.

- (b) Wairarapa Building Society (WBS) is rated 'BB+' with a 'Stable' outlook.
- (c) The rating is a local currency (New Zealand dollar), long-term, issuer rating. This type of rating expresses an opinion about the overall financial capacity of an issuer to meet its financial obligations (in contrast to an issue rating, which relates only to a specific financial obligation).
- (d) WBS is rated by Fitch Ratings.
- (e) Fitch define their 'BB' ratings as indicating an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.
- (f) WBS received its initial rating from Fitch Ratings on 5 March 2009. The rating has not changed since that date.
- (g) Ratings assigned by Fitch are opinions. Ratings are not facts, and therefore cannot be described as being "accurate" or "inaccurate". Ratings are relative measures of risk (specifically the vulnerability to default and not an assessment of potential loss); as a result, the assignment of ratings in the same category to entities and obligations may not fully reflect small differences in the degrees of risk. Credit ratings are opinions on relative credit quality and not a predictive measure of specific default probability. Ratings do not constitute recommendations to buy, sell, or hold any security.

- (h) The following is a summary of Fitch Rating's rating scale. Please note that the modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' category, or to categories below 'B':

Rating category	General category description
<b>AAA</b>	'AAA' ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
<b>AA</b>	'AA' ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
<b>A</b>	'A' ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
<b>BBB</b>	'BBB' ratings indicate that expectations of default risk are currently low. The capacity for payment of financial

	commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.
<b>BB</b>	<b>'BB' ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.</b>
<b>B</b>	'B' ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.
<b>CCC</b>	Default is a real possibility.
<b>CC</b>	Default of some kind appears probable.
<b>C</b>	Default is imminent or inevitable, or the issuer is in standstill. Conditions that are indicative of a 'C' category rating for an issuer include: <ul style="list-style-type: none"> <li>a. the issuer has entered into a grace or cure period following non-payment of a material financial obligation;</li> <li>b. the issuer has entered into a temporary negotiated waiver or standstill agreement following a payment default on a material</li> </ul>

	financial obligation; or c. Fitch Ratings otherwise believes a condition of 'RD' or 'D' to be imminent or inevitable, including through the formal announcement of a coercive debt exchange.
<b>RD</b>	'RD' ratings indicate an issuer that in Fitch Ratings' opinion has experienced an uncured payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased business. This would include: <ul style="list-style-type: none"> <li>a. the selective payment default on a specific class or currency of debt;</li> <li>b. the uncured expiry of any applicable grace period, cure period or default forbearance period following a payment default on a bank loan, capital markets security or other material financial obligation;</li> <li>c. the extension of multiple waivers or forbearance periods upon a payment default on one or more material financial obligations, either in series or in parallel; or</li> <li>d. execution of a coercive debt exchange on one or more material financial obligations.</li> </ul>
<b>D</b>	Default.