Southland Building Society

138th Annual Report 2007

FINANCIAL STATEMENTS

CONTENTS

DIRECTORY

Chairman
Mr J W A Smith
BCom, FNZIM
Company Director
Invercargill

Deputy Chairman
Mr M H Piper
BCom FCA
Chartered Accountant
Invercargill

Mr W H Conway
Company Director
Invercargill

Mr J B Walker
LLB
Barrister & Solicitor
Invercargill

Mr J F Ward
BCom CA
Chartered Accountant
Invercargill

Mr G J Mulvey
BCom CA, FNZIM
General Manager
Invercargill Licensing Trust
Invercargill

Mr G J Diack
MA (Hons)
Management Consultant
Christchurch

Mrs K J Ball
BCom CA
Chartered Accountant
Invercargill

Mr R L Smith
BCom, FNZIM
Chief Executive
Southland Building Society
Invercargill

All Directors can be contacted
c/- SBS
51 Don Street
Invercargill

Chief Executive
Mr R L Smith
BCom, FNZIM
Invercargill

Secretary
Mr T D R Loan
BCom CA, DipBusStuds(IS)
General Manager Finance

Registered Office
51 Don Street
Invercargill

Solicitors
Buddle Findlay
78 Worcester Street
Christchurch

Cruickshank Pryde
42 Don Street
Invercargill

Auditors
KPMG
10 Customhouse Quay
Wellington

Banker
Westpac Banking Corporation
188 Quay Street
Auckland

Trustee
Trustees Executors Limited
50-64 Customhouse Quay
Wellington

Statement of Financial Performance for the year ended 31 March 2007

All in $000's	Note	GROUP		PARENT	
		31/3/07	31/3/06	31/3/07	31/3/06
Interest Income	(5)	194,456	170,695	170,014	154,590
Interest Expense		35,652	33,962	23,282	27,560
Dividends on Redeemable Shares		108,632	90,427	108,632	90,427
		144,284	124,389	131,914	117,987
Net Interest Income		**50,172**	**46,306**	**38,100**	**36,603**
Other Income	(6)	15,155	12,879	6,235	4,907
Total Operating Income		**65,327**	**59,185**	**44,335**	**41,510**
Operating Expenses	(7)	43,392	38,686	25,958	23,515
Operating Surplus		**21,935**	**20,499**	**18,377**	**17,995**
Add Revaluation of Property	(22)	952	770	-	-
Less Subvention Payment		-	-	816	317
Surplus Before Taxation		**22,887**	**21,269**	**17,561**	**17,678**
Less Taxation Expense	(8)	6,659	6,223	5,077	5,606
Net Surplus		**16,228**	**15,046**	**12,484**	**12,072**
Net Surplus Comprises:					
Members' Interests		15,258	14,296	12,484	12,072
Minorities' Interests		970	750	-	-

Statement of Movements in Equity for the year ended 31 March 2007

Net Surplus for the year					
Members' Interests		15,258	14,296	12,484	12,072
Minorities' Interests		970	750	-	-
Other Recognised Revenues and Expenses					
Revaluation of Land and Buildings	(22)	701	-	94	125
Total Recognised Revenues and Expenses for the year		**16,929**	**15,046**	**12,578**	**12,197**
Contributions					
Minority Interests Share of Revaluation		80	-	-	-
		80	**-**	**-**	**-**
Distributions					
Repayment of Capital to Minority Interests		(200)	-	-	-
Dividends to Minority Interests		(474)	(203)	-	-
		(674)	**(203)**	**-**	**-**
Movements in Equity for the year		16,335	14,843	12,578	12,197
Opening Equity		126,575	111,732	116,364	104,167
		142,910	**126,575**	**128,942**	**116,364**
Comprising:					
Members' Interests		139,627	123,668	128,942	116,364
Minorities' Interests		3,283	2,907	-	-
Closing Equity		**142,910**	**126,575**	**128,942**	**116,364**

The Notes to the Financial Statements (pages 5 to 25) form part of and should be read in conjunction with these Financial Statements.

Statement of Financial Position as at 31 March 2007

All in $000's	Note	GROUP		PARENT	
		31/3/07	31/3/06	31/3/07	31/3/06
Assets					
Cash on Hand and at Bank		9,035	3,025	7,273	733
Call Funds with Financial Institutions		-	6,301	-	6,301
Investment Securities	(9)	4,279	3,796	-	-
Other Securities	(10)	41,501	40,361	41,501	40,361
Advances	(11)	2,136,072	1,983,115	1,850,675	1,780,955
Investments in Subsidiaries	(16)	-	-	9,187	9,487
Loans to Subsidiaries	(16)	-	-	78,733	64,899
Investments in Associates	(16)	1,090	-	1,090	-
Other Assets	(17)	6,312	4,101	3,144	2,642
Property, Plant and Equipment	(19)	17,907	16,637	6,764	6,014
Intangible Assets	(20)	957	1,015	-	-
	(24)	**2,217,153**	**2,058,351**	**1,988,367**	**1,911,392**
Liabilities					
Redeemable Shares	(24)	1,604,023	1,426,730	1,604,124	1,426,730
Deposits	(24)	152,306	255,210	152,306	255,210
Other Borrowings	(24)	300,636	232,499	102,736	100,793
Other Liabilities	(21)	17,278	17,337	10,259	12,295
	(24)	**2,074,243**	**1,931,776**	**1,869,425**	**1,795,028**
Equity	(22)				
Attributable to Members of the Society		139,627	123,668	128,942	116,364
Attributable to Minority Shareholders		3,283	2,907	-	-
		2,217,153	**2,058,351**	**1,988,367**	**1,911,392**

For and on behalf of the Board of Directors

Chairman
JWA Smith
17 May 2007

Deputy Chairman
MH Piper

The Notes to the Financial Statements (pages 5 to 25) form part of and should be read in conjunction with these Financial Statements.

Statement of Cash Flows for the year ended 31 March 2007

All in $000's	Note	GROUP		PARENT	
		31/3/07	31/3/06	31/3/07	31/3/06
Cash Flows From Operating Activities					
Cash Provided From (Applied To):					
Advances and Treasury Income		193,671	167,940	169,533	152,596
Sundry Income		15,179	12,879	5,619	4,747
Dividends Received		-	-	616	160
Interest Paid		(35,202)	(34,171)	(23,229)	(27,901)
Dividends Paid on Redeemable Shares		(107,597)	(86,443)	(107,597)	(86,443)
Operating Expenses		(37,135)	(35,576)	(24,072)	(23,025)
Income Taxes Paid		(6,910)	(6,335)	(5,324)	(5,327)
Net Cash Flows From Operating Activities	**(23)**	**22,006**	**18,294**	**15,546**	**14,807**
Cash Flows From Investing Activities					
Cash Provided From (Applied To):					
Sale of Property, Plant and Equipment		15	7	14	7
Net Proceeds from Securitised Loans	(15)	-	-	135,197	113,866
Loan from Minority Interests		428	-	-	-
Purchase of Property, Plant and Equipment		(3,309)	(2,689)	(2,330)	(1,831)
Net Decrease/(Increase) in Investment Securities		(469)	(1,201)	-	-
Net Decrease/(Increase) in Loans to Subsidiaries		-	-	(13,834)	136
Repayment of Minority Interests Share Capital		(200)	-	-	-
Investment in Subsidiary		-	-	300	-
Investment in Associates		(1,090)	-	(1,090)	-
Net Increase in Advances		(154,658)	(227,239)	(205,059)	(262,655)
Net Cash Flows Applied To Investing Activities		**(159,283)**	**(231,122)**	**(86,802)**	**(150,477)**
Cash Flows From Financing Activities					
Cash Provided From (Applied To):					
Net Increase in Shares and Deposits		73,301	133,501	73,402	133,314
Net Increase in Other Borrowings		67,740	81,024	1,943	4,748
Net Increase/(Decrease) in Cash held on behalf of Lifestages Mortgage Portfolio		(3,228)	575	(3,228)	575
Dividends Paid to Minority Interests		(214)	(40)	-	-
Net Cash Flows From Financing Activities		**137,599**	**215,060**	**72,117**	**138,637**
Net Increase in Cash Held		322	2,232	861	2,967
Add Opening Cash and Cash Equivalents		49,310	47,078	47,033	44,066
Closing Cash and Cash Equivalents		**49,632**	**49,310**	**47,894**	**47,033**
Reconciliation of Cash and Cash Equivalents					
Cash on Hand and at Bank		9,035	3,025	7,273	733
Call Funds with Financial Institutions		-	6,301	-	6,301
Other Securities	(10)	41,501	40,361	41,501	40,361
Less Interest Accrued		(904)	(377)	(880)	(362)
		49,632	**49,310**	**47,894**	**47,033**

The Notes to the Financial Statements (pages 5 to 25) form part of and should be read in conjunction with these Financial Statements.

1 Statement of Accounting Policies

Southland Building Society (SBS) was established in 1869 and was incorporated under the Building Societies Act 1880 on 13 August 1883. The consolidated financial statements presented here are for the reporting entity of the Group comprising SBS and its subsidiaries.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and comprise statements of the following: financial performance, movements in equity, financial position, cash flows, as well as the notes to these statements contained on pages 5 to 25. The Group is an issuer under the Financial Reporting Act 1993.

The financial statements have been prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are identified.

(a) Consolidation

The Group accounts are consolidated using the purchase price method of consolidation. The consolidated financial statements include the financial statements of SBS and its subsidiaries:

- Fraser Properties Limited (wholly owned subsidiary) - owns the Southland Building Society's Head Office building;
- Southsure Assurance Limited (80% owned subsidiary) - life insurance and related products;
- Finance Now Limited (71.5% owned subsidiary) - consumer credit and insurance services;
- Funds Administration New Zealand Limited (60% owned subsidiary) - funds management products and financial advisory services; and
- SBS Invercargill W Trust (in substance subsidiary) - special purpose vehicle housing securitised loans purchased from SBS.

On consolidation all significant inter-company transactions have been eliminated.

Southsure Assurance Limited's financial statements have been prepared in accordance with Financial Reporting Standard No. 34 "Life Insurance Business". The adoption of accounting policies in accordance with Financial Reporting Standard No. 34 is not material in the Group financial statements.

Associates are entities over which SBS exerts significant influence but does not exercise control. Associates are accounted for utilising the equity method.

SBS records its investment in subsidiaries at cost.

(b) Property, Plant and Equipment

Land and Buildings are initially recorded at cost and are subsequently valued by independent registered valuers. Property revaluations are credited or debited to a Revaluation Reserve. Where revaluations result in a debit balance in the Revaluation Reserve they are expensed in the Statement of Financial Performance. Subsequent upward revaluations of these assets are taken to the Statement of Financial Performance only to the extent of the earlier charge and any remaining surplus is credited to the Revaluation Reserve.

Valuations of Land and Buildings are carried out annually, at highest and best use. All other plant and equipment including internally developed assets are recorded at cost.

(c) Depreciation

Depreciation is provided in the financial statements, on all property, plant and equipment, other than land, on a basis which will write down the value of the property, plant and equipment over their expected useful lives to their estimated realisable value. The primary annual rates used are:-

(i) Buildings – 1 % to 4% on diminishing value.

(ii) Building Alterations – 9% to 39.6% on diminishing value.

(iii) Computer Equipment – 20% to 60% on diminishing value.

(iv) Computer Software - 40% to 60% on diminishing value.

(v) Other assets - 9% to 60% on diminishing value.

(d) Investment Securities

Investment Securities are negotiable and comprise debt and equity securities, which are purchased with the intention to hold for the long term or until maturity. Investment Securities are not primarily intended to provide a liquidity reserve to meet expected and unexpected fluctuations in operating cashflows; however they can be used for liquidity purposes.

Bond Securities are recorded at cost adjusted for the amortisation of premiums and discounts. Equity Securities are recorded at market value and unrealised gains and losses on revaluation are taken to the Statement of Financial Performance. The remainder of Investment Securities are recorded at cost adjusted for accruals. Gains and losses due to changes in market value are only taken to account if a security is sold.

Market value for listed securities is determined by reference to quoted prices at the reporting date.

Interest income and discounts on Investment Securities are recognised on an accrual basis. Investment Securities are recorded on a trade date basis.

(e) Other Securities

Other Securities are negotiable and comprise debt securities which are not purchased with the primary intent to hold for the long term or until maturity. Other securities provide a liquidity reserve to meet expected and unexpected fluctuations in operating cash flows.

Bond Securities are recorded at cost adjusted for the amortisation of premiums and discounts. The remainder of Other Securities are recorded at cost adjusted for accruals. Gains and losses due to changes in market value are only taken to account if a security is sold.

Interest income and discounts on Other Securities are recognised on an accrual basis. Other Securities are recorded on a trade date basis.

(f) Financial Instruments

A financial asset or financial liability is recognised in the Statement of Financial Position if it is probable that any future economic benefit or service potential associated with the item will flow to or from the Group and the item has a cost or value that can be measured with reliability.

Unrecognised financial instruments are from time to time used to hedge underlying financial asset/liability exposures, commitments and anticipated transactions and are accounted for on the same basis as the underlying exposures. They can include forward rate agreements, interest rate swap agreements including more complex options and swaps and interest rate futures and options.

(g) Nature and Extent of Activities with Respect to Financial Instruments

The Group is party to recognised and unrecognised financial instruments, which are used to manage interest rate and credit risks in the normal course of business. This is to meet the financing and banking needs of customers, for liquidity purposes, and to reduce the Group's exposure to fluctuations in interest rates. Further disclosure of the nature and extent of activities in financial instruments is incorporated in the financial statements.

(h) Advances and Sundry Debtors

Advances and Sundry Debtors are recorded at expected net realisable value including accrued interest.

(i) Redeemable Shares and Deposits

Redeemable Shares and Deposits are recorded in the Statement of Financial Position inclusive of accrued interest.

(j) Taxation

The income tax expense charged to the consolidated Statement of Financial Performance includes both the current year expense and the income tax effects of timing differences calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all timing differences.

A debit balance in the deferred tax account, arising from timing differences is only recognised if there is virtual certainty of realisation.

(k) Recognition of Interest Revenue and Expenses

Interest revenue and expenses are recognised on a daily accrual basis. Interest is accrued on advances and deposits according to the yield associated with the outstanding principal. For finance company loans with a commencement date prior to 1 April 2005 interest revenue is recognised on an actuarial basis for Personal Loans and on a Rule of 78 basis for Hire Purchase finance. For loans with a commencement date on or after 1 April 2005, interest bearing Consumer Credit Contracts have interest revenue calculated daily on their daily balance. Pre-computed interest free loan revenue is recognised on a straight line basis over the original term of the loan. Upon early settlement, the outstanding interest is recognised. Penalty interest for all loans is recognised on a daily accrual basis.

(l) Income Recognition on Non-Accrual Loans

When a loan is classified as non-accrual, income ceases to be recognised in the Statement of Financial Performance on an accruals basis as reasonable doubt exists as to the collectibility of interest and principal.

All cash receipts on non-accrual loans are applied against the carrying value of the loans and are not recognised in the Statement of Financial Performance as interest income until the principal has been fully repaid or the loan has been transferred out of the non-accrual category.

(m) Recognition of Fee Income

Fee income is recognised at the time the service is provided. The majority of fee income is non yield related. Non yield related application and activation lending fees are recognised as income no later than when the loan is disbursed or the commitment to lend expires.

(n) Offsetting

Costs that represent expenditure that is reimbursed under a contract arrangement have been netted against the related revenue. Included in this category are brokerage fees, and insurance premiums.

(o) Impaired Assets

The Group has classified its impaired assets into the following categories:

Non-accrual assets

Non-accrual assets are credit exposures for which it is probable the Group will not be able to collect all amounts owing in terms of the contract and includes:

- loans that are not contractually past due but where there is insufficient security to cover principal outstanding;
- loans which are past due with insufficient security to cover principal and arrears of interest;
- restructured loans where the interest rate charged is below the Group's average cost of funds; and

- loans not included in the above, that are maintained on a cash basis because of a significant deterioration in the financial performance or position of the borrower.

Restructured Loans

Restructured loans are defined as loans on which the original contractual terms have been concessionally modified due to the financial difficulties of borrowers, and on which interest continues to be accrued at a rate which is equal to or greater than the Group's average cost of funds at the date of restructuring.

Real estate or other assets acquired through security enforcement

A specific provision is raised to cover the expected loss where full recovery of principal is doubtful.

(p) Past Due Assets

Past due assets are loans which have not been operated by the borrower within its key terms for at least 90 days and which are not impaired assets.

(q) Bad and Doubtful Debts

Specific provisions are made against advances, investment and other securities and unrecognised financial instruments where recovery of part or the whole of individual assets is considered to be in doubt. Specific provisions are based on identification on a counterparty by counterparty basis.

Finance Now Limited maintains a general provision to reflect potential credit losses inherent in their lending portfolios.

All loans are subject to regular management review.

Provisions for doubtful debts are deducted from loans and advances in the Statement of Financial Position. The amount necessary to bring the provisions to their assessed levels, after net write-offs, is charged to the Statement of Financial Performance.

(r) Leases

Payments made under operating leases are recognised in the Statement of Financial Performance on a basis representative of the pattern of benefits expected to be derived from the leased asset.

(s) Statement of Cash Flows

Basis of Preparation

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

Cash and Cash Equivalents

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day to day cash management of the Group, which are unconditionally convertible at the Group's option within no more than two working days.

Netting of Cash Flows

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Group. These include customer loans and advances, customer shares and deposits and parent company funding.

(t) Ranking of Securities

Deposits rank equally with other unsecured creditors and behind creditors given priority by law. Redeemable Shares rank equally with other existing securities of their own class and behind Deposits, unsecured creditors and those creditors given priority by law.

(u) Lifestages Capital Stable Portfolio

SBS has entered into a trust deed made between SBS and Trustee Executors Limited as Trustee of a registered superannuation scheme known as the Lifestages Capital Stable Portfolio. Funds Administration New Zealand Limited (FANZ) is a promoter of the Lifestages Capital Stable Portfolio and SBS accepts investments made through SBS's branch network. The fixed interest portion of the Lifestages Capital Stable Portfolio is invested with or managed by SBS who unconditionally guarantees the capital invested in it providing the investment is maintained for at least three years. A minimum of 80% of the funds invested in the Lifestages Capital Stable Porftolio are invested with or managed by SBS. The Lifestages Capital Stable Portfolio funds that are invested with SBS are included in the Statement of Financial Position as Deposits. FANZ is the Investment and Administration Manager of the Lifestages Capital Stable Portfolio.

(ui) Lifestages Portfolio Funds

FANZ has entered into a trust deed made between FANZ and Trustee Executors Limited as Trustee of four unit trusts registered under the Unit Trusts Act 1960, known as Lifestages Mortgage Portfolio (Distributing), Lifestages Mortgage Portfolio (Non-distributing), Lifestages Australasian Equity Portfolio and Lifestages World Equity Portfolio. FANZ is the issuer and manager of the above Portfolios. In addition, FANZ acts as Investment and Administration Manager with respect to the Lifestages Capital Stable Portfolio under an agreement entered into between Trustee Executors (as trustee and issuer), FANZ and SBS.

The fixed interest portion (2.5% to 10% of the portfolio) and the mortgage portfolio of the Lifestages Mortgage Portfolios are invested with or managed by SBS. The fixed interest portion (2.5% to 10% of the portfolio) of the Lifestages Australasian Equity Portfolio and Lifestages World Equity Portfolio are invested with or managed by SBS.

The Lifestages Portfolio Funds that are invested with SBS are included in the Statement of Financial Position as Deposits.

(v) Loan Securitisation

SBS sells its interest in certain loans to a unit trust known as the Lifestages Mortgage Portfolio by way of an equitable assignment. At the time of the sale all legal, equitable and certain beneficial interests in the mortgages are transferred to the purchaser. SBS has agreed from time to time to repurchase loans in order to facilitate liquidity in the Lifestages Mortgage Portfolio at the request of the Trustee. Securitised assets are recognised in the Parent and Group Statement of Financial Position.

SBS receives from the investment manager (FANZ) an ongoing fee for the management and administration of loans assigned to the Lifestages Mortgage Portfolio. This fee is recognised when received.

SBS also sells its interest in certain loans (principally housing mortgage loans) to a trust known as the SBS Invercargill W Trust by way of an equitable assignment. At the time of the sale all legal, equitable and beneficial interests in the mortgages are transferred to the purchaser. On sale to the SBS Invercargill W Trust the securitised assets are removed from advances in the Parent Statement of Financial Position.

SBS is the manager and servicer of mortgages assigned to the SBS Invercargill W Trust. SBS receives a fee for providing these management services. This fee is recognised when earned.

(w) Goodwill

Goodwill arising on the acquisition of subsidiary shares represents the excess of the purchase consideration over the fair value of the identifiable net assets acquired. Goodwill is amortised to the Statement of Financial Performance on a straight line basis over the period during which benefits are expected to be derived – a period of 20 years.

(x) Comparatives

Certain comparative information has been reclassified in order to ensure consistency with the current year treatment.

2 Changes in Accounting Policies

There have been no changes in accounting policies covered by these financial statements.

3 Risk Management Policies

SBS's objective is to appropriately manage all the risks that arise from its activities. SBS does not naturally seek treasury and financial risk from it's involvement in the financial markets and consequently minimises risks wherever possible. Reviews of risk management policies, systems and reporting are conducted on a regular basis.

Role of the Board and Audit Committee

The Board has responsibility for reviewing all aspects of risk management. The Audit Committee which is a sub committee of the Board is charged with the responsibility of:

- Overseeing the quality of financial information presented to the board;
- The effectiveness and integrity of the internal control environment; and
- SBS's compliance with regulatory requirements that impact on the business and the external and internal audit functions.

The Committee consists of four directors. In addition the Chief Executive Officer and GM Finance are in attendance at meetings. The Audit Committee meets at least four times a year, and reports directly to the Board.

Internal Audit

SBS's internal audit function conducts independent reviews that assist the Board of Directors and management to meet their statutory and other obligations. The internal audit function has no reporting line to SBS management. The function reports directly to the Chairman of the Audit Committee. The internal audit function is carried out by the Invercargill based firm of Chartered Accountants, Ward Wilson. In performing this role, the internal audit function adopts a risk-based approach, encompassing reviews of the major risks that could impact upon SBS. Significant findings are reported quarterly to the Audit Committee.

An audit plan is prepared annually covering each business area of SBS, with greater emphasis placed on those areas where highest risk exists. The plan is endorsed by the Audit Committee.

Specific areas of risk management

Credit Risk Management

Credit risk is the risk of loss arising from the non-performance of a counterparty to an instrument or facility. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual arrangements, and encompasses both on and offbalance sheet instruments. Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent on the level of risk. Credit risk at a retail level is managed by the branch retail network and lending committee and involves a thorough evaluation of the credit risk associated with potential borrowers, the taking of security against the loan and close ongoing monitoring of account performance. Loans which show signs of adverse performance are managed by the debt management team which is responsible for the collections and recovery process. At a wholesale level credit risk is managed with reference to specific limits as outlined in detailed treasury management policies and reported to the Board on a monthly basis.

3 Risk Management Policies Continued

Interest rate risk management

Interest rate risk is the risk of loss arising from adverse changes in interest rates. Management's objective is to produce strong and stable net interest income over time. Interest rate risk management focuses on mismatches between the repricing dates of interest bearing assets and liabilities. Interest rate risk is managed using appropriate hedging within set limits as defined by SBS treasury policy. Regular reporting of interest rate risk against limits is provided to the Board.

Liquidity risk management

Liquidity risk is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. SBS maintains sufficient liquid funds to meet its commitments based on historical and budgeted cash flow forecasts and the requirements of SBS's Trust Deed. Management of liquidity risk is achieved by maintaining a prudent level of liquid assets, through the use of committed and uncommitted wholesale funding facilities, through utilisation of securitisation vehicles and through management control of the growth of the business.

Operational risk management

Operational risk is the risk arising from day to day operational activities which may result in direct or indirect loss. These losses may result from failure to comply with policies, procedures, laws and regulations, from fraud or forgery, from a breakdown in the availability or integrity of services, systems and information, or damage to SBS's reputation. Examples include failure to comply with policy and legislation, human error, natural disasters, fraud and other malicious acts. Where appropriate, risks are mitigated by insurance.

Business units have primary responsibility for the identification and management of operational risk. Regular measurement, monitoring and reporting of operational risk is managed by the Audit Committee with summarised reporting provided to the Board.

4 Adoption of International Financial Reporting Standards

SBS is required to prepare financial statements using the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") from 1 April 2007. The first financial statements that SBS and the Group will prepare in accordance with NZ IFRS will be for the half year ending 30 September 2007 and the financial year ending 31 March 2008. Hence, from this date, the Society and its subsidiaries will prepare financial statements using NZ IFRS as issued by the International Accounting Standards Board and approved by the the Accounting Standards Review Board.

In accordance with NZ IFRS, the comparative financial statements for each of these periods will be restated using the new accounting standards from 1 April 2006. Adjustments required on transition to NZ IFRS will be made retrospectively, mostly against opening retained earnings at that date. The balances as at 31 March 2007 and transactions incurred during the year ended 31 March 2007 will also be restated and will impact the Statements of Financial Performance and Financial Position for that period.

NZ IFRS is not expected to change the economics of the business, or the risk being carried.

Transition Management

A conversion project has been established, with the project team being responsible for assessing the impact that NZ IFRS will have on the accounting and reporting of SBS and the Group, and managing the transition to NZ IFRS. The project team is responsible for keeping abreast of developments in NZ IFRS. The project team regularly reports to the Chief Executive and the Audit Committee. The team involves professional advisors and finance staff. The project is divided into a number of distinct phases:

- assessing the impact of changes in financial reporting standards on SBS financial reporting and other related activities;
- designing and implementing processes to deliver financial reporting under NZ IFRS; and
- dealing with any related business impacts.

Impact of transition to NZ IFRS

The purpose of this disclosure is to highlight the expected impact to SBS as a result of transition from current policies to NZ IFRS based on the standards and known interpretations that exist at the date of issue of these financial statements. As we progress towards 31 March 2008, SBS intends to continue to provide users of the financial statements with updated information about the likely impacts of NZ IFRS on the Statements of Financial Performance, Financial Position and Cash Flows. This note, therefore, only provides a summary of the significant potential impacts resulting from transition to NZ IFRS and should not be taken as an exhaustive list of all the differences between existing NZ GAAP and NZ IFRS. NZ IFRS 1 also allows a number of exemptions to assist in the transition to reporting under NZ IFRS. The explanatory comments below include details of the NZ IFRS 1 treatments adopted.

The estimated impact of transition to NZ IFRS from existing NZ GAAP is set out below. The first table details the estimated impact on Retained Earnings, Total Equity, Total Liabilities and Total Assets as at the date of transition. The second table details the estimated impact of the restatement as at 31 March 2007 on the Statement of Financial Position and also the estimated impact on the Statement of Financial Performance for the period ended 31 March 2007. The tables show the estimated impact on the financial statements for the Group. It is not expected that the impact within the Parent financial statements will differ materially from the impacts as shown below for the Group.

It is possible that the actual impact of adopting NZ IFRS may vary from the information presented below, and the variation may be material.

Estimated impact on Equity, Total Liabilities and Total Assets on transition to NZ IFRS on 1 April 2006

	Retained Earnings $000	Total Equity $000	Total Liabilities $000	Total Assets $000
Total Reported under NZ GAAP	**123,174**	**126,575**	**1,931,776**	**2,058,351**
Goodwill	-	-	-	-
Tax - Deferred	1,104	1,104	-	1,104
Employee Benefits	(32)	(32)	32	-
Fee Revenue	(3,444)	(3,444)	-	(3,444)
Interest Free Loans	(1,061)	(1,061)	-	(1,061)
Financial Instruments	586	586	1,029	1,615
Total NZ IFRS adjustments	**(2,847)**	**(2,847)**	**1,061**	**(1,786)**
Restated totals under NZ IFRS at 1 April 2006	**120,327**	**123,728**	**1,932,837**	**2,056,565**

Estimated impact on Equity, Total Liabilities, Total Assets and Income of transition to NZ IFRS at 31 March 2007

	Opening Retained Earnings $000	Total Equity $000	Total Liabilities $000	Total Assets $000	Surplus Before Taxation $000	Net Surplus $000
Total Reported under NZ GAAP	**123,174**	**142,910**	**2,074,243**	**2,217,153**	**22,887**	**16,228**
Goodwill	-	58	-	58	58	58
Tax - Deferred/Current	1,104	(499)	499	-	-	(1,603)
Employee benefits	(32)	-	-	-	32	32
Fee Revenue	(3,444)	(3,113)	-	(3,113)	331	331
Interest Free Loans	(1,601)	(846)	-	(846)	215	215
Financial Instruments	586	6,317	19	6,336	5,731	5,731
Total NZ IFRS adjustments	**(2,847)**	**1,917**	**518**	**2,435**	**5,731**	**4,764**
Restated totals under NZ IFRS at 31 March 2007	**120,327**	**144,827**	**2,074,761**	**2,219,588**	**29,254**	**20,992**

4 Adoption of International Financial Reporting Standards Continued

Changes in accounting policies on transition to NZ IFRS

Goodwill

Potential volatility in future earnings

The current policy of amortising goodwill over the expected period of benefit (a period of 20 years) will cease. Instead, goodwill will be subject to impairment testing annually, or more frequently if events or circumstances indicate that it might be impaired. This change in policy will result in increased volatility of future earnings where impairment losses may occur. There is no initial impact on retained earnings, however, the Group amortisation expense for the NZ IFRS comparative year ended 31 March 2007 of $58,000 will be reversed.

Intangible Assets - Software

No impact on earnings; Reclassification only

Capitalised software assets will be reclassified from Property, Plant and Equipment to a separately identifiable intangible asset on transition to NZ IFRS. This will result in a reclassification for the Group of $1,431,000 (Parent $771,000) at 1 April 2006 and $1,943,000 (Parent $726,000) at 31 March 2007. There will be no impact on the Statement of Financial Performance.

Taxation

Change in methodology

Under NZ IAS-12: 'Income Taxes', a balance sheet method of tax effect accounting will be adopted, replacing the Statement of Financial Performance method currently used by the Group.

Income tax expense comprises current and deferred taxes, with income tax expense recognised in the Statement of Financial Performance, or recognised in equity to the extent that it relates to items recognised directly in equity.

Deferred tax is calculated using the balance sheet method by determining temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the tax base of those assets and liabilities as used for taxation purposes.

The initial impact of this change in methodology as at 1 April 2006 is expected to result in an additional net deferred tax asset of $1,104,000 with a corresponding increase to retained earnings of $1,104,000. For the comparative year ending 31 March 2007 the deferred tax asset adjustment will be reversed and an additional net deferred tax liability of $499,000 will be created resulting in a decrease to Net Surplus of $1,603,000.

Employee Benefits

Impact on retained earnings; Some impact on future earnings

Currently employee entitlements to salaries and wages, annual leave, long service leave, and other benefits are recognised when they accrue to employees and are fully vested.

Under NZ IFRS long service leave together with other forms of accrued leave are recognised on an actuarial basis over the period of service.

The initial impact of this change is expected to be an increase to long service leave liabilities at 1 April 2006 of $32,000 together with a corresponding decrease to retained earnings. The new method of calculation has been adopted for the year ended 31 March 2007 which means that the opening adjustment to retained earnings will need to be reversed.

Fee Revenue

Reduction in retained earnings; Some impact on future earnings

Under NZ IAS-18: 'Revenue', certain service type fees (such as administration fees) which had been recognised when billed, will be deferred and amortised over the period of service. Further, under NZ IAS-39: 'Financial Instruments: Recognition and Measurement', certain fee income (such as loan approval fees) integral to the yield of an originated financial instrument (such as Loans and Advances measured at amortised cost), net of any direct incremental costs, will be capitalised and deferred over the expected life of the financial instrument.

These changes are expected to cause a reduction to retained earnings at 1 April 2006 of $3,444,000 with a corresponding decrease to Loans and Advances. The impact of this change on the Statement of Financial Performance for the year ended 31 March 2007 is expected to be an increase to income of $331,000, with a corresponding decrease in Loans and Advances.

Interest Free Loans

Reduction in retained earnings; Some impact on future earnings

As disclosed in Note 29, SBS provides some interest free advances in support of community projects. Under NZ IAS-39: 'Financial Instruments: Recognition and Measurement' certain financial assets of SBS and the Group currently carried at amortised cost will be reclassified as financial assets held at fair value through the profit and loss, with movements in fair value being taken to the Statement of Financial Performance.

This change is expected to cause a reduction to retained earnings at 1 April 2006 of $1,061,000 with a corresponding decrease to Loans and Advances. For the comparative year ending 31 March 2007 there will be an increase to income of $215,000, with a corresponding increase to Loans and Advances.

Credit Loss Provisioning

Impact on retained earnings; Volatility in future earnings

NZ IAS-39: 'Financial Instruments: Recognition and Measurement' adopts an approach known as 'incurred losses' for credit loss provisioning and provides guidance on measurement of incurred losses. Provisions are raised for losses that have already been incurred for exposures that are known to be impaired. The estimates of the cash flows on impaired exposures are then discounted to their present value. As this discount unwinds, there is a resulting recognition of interest income in the Statement of Financial Performance and a reduced specific provision during the period between recognition of impairment and recovery of the written down amount.

The current General Provision in the Statement of Financial Position will be replaced on adoption of NZ IFRS by a Collective Provision.

Exposures not individually known to be impaired are placed into pools of similar assets with similar risk characteristics to be collectively assessed for losses that have been incurred, but not yet identified. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

It is expected that the proposed changes will have an immaterial impact on the overall level of provisioning which the Group holds against its credit exposures on initial adoption. Subsequent to initial adoption it is likely there will be more volatility in the level of impairment expense included in future earnings.

Derivative Financial Instruments and Hedging

Impact on retained earnings; Volatility in future earnings

Under NZ IFRS all derivative contracts, whether used as hedging instruments or otherwise, will be measured at fair value and recognised in the Statement of Financial Position. NZ IFRS permits hedge accounting (if certain criteria are met) for fair value hedges and cash flow hedges. Fair value and cash flow hedge accounting can only be considered where prospective and retrospective effectiveness tests are met and the hedge relationship has been adequately documented. Ineffectiveness outside the prescribed range precludes the use of hedge accounting and can result in significant volatility in the Statement of Financial Performance. The hedging rules will impact the way SBS accounts for hedges of its funding and for hedges of its interest rate exposures / gaps. SBS expects to use a mixture of fair value and cash flow hedging in respect of its interest rate risk hedges.

As a result of the complexity of the hedge accounting policy choices, SBS have been working through the various methodologies and approaches in order to ascertain the most appropriate approach for SBS and the Group to adopt. As a result of this work, SBS has decided to make its hedge designations from 1 April 2007, rather than 1 April 2006.

The initial impact of accounting for derivative financial instruments at 1 April 2006 is expected to increase retained earnings by a net $586,000 with a corresponding asset of $1,615,000 and liability of $1,029,000 recognised in the Statement of Financial Position. For the comparative year ended 31 March 2007 an increase is expected of $5,731,000 to Net Surplus, with a corresponding increase in assets of $4,721,000 and reduction in liabilities of $1,010,000 in the Statement of Financial Position.

These adjustments as required under NZ IFRS will result in significant volatility to the financial statements. The fair value adjustment that will be shown in the Statement of Financial Performance to 31 March 2007 of $5,731,000 will be reversed through the Statement of Financial Performance in future periods. SBS has not changed its management of interest rate risk, nor the way these risks are mitigated through the use of interest rate swaps and similiar instruments. The volatility to be experienced in the Statement of Financial Performance represents the impact of market interest rate movements at the reporting date, rather than the long term impact from SBS's management of interest rate risk. To whatever extent is possible SBS will endeavour to highlight to readers of the financial statements the underlying profitability of the Society prior to these adjustments caused by NZ IFRS.

Business Combinations

No impact

SBS proposes to use the election under NZ IFRS 1: 'First-time adoption of New Zealand Equivalents to IFRS' to not restate the classification and accounting treatment of business combinations that occurred prior to 1 April 2006.

Redeemable Shares

No impact

SBS have considered the treatment of the Redeemable Shares under NZ IAS-32: 'Financial Instruments, Disclosure and Presentation', as to whether these shares should be treated as debt or equity instruments. After due consideration, SBS believes that these shares are compound instruments. However, as a result of the measurement of the debt or liability component of these instruments, no material balance is attributable to the equity portion, and as such no amendment is required to the Statement of Financial Position.

The impacts outlined above are based on the project team's current interpretation of the standards that have been released to date. There is potential for the significance of the impact to change when SBS prepares its first set of NZ IFRS financial statements due to changes in the standards, changes to the business, or changes in interpretation of the standards. As already indicated SBS will continue to provide users of the financial statements with updated information about the likely impacts of NZ IFRS on the Group's earnings, cash flows and financial position as we progress towards full adoption.

Notes to the Financial Statements for the year ended 31 March 2007

All in $000's	Note	GROUP 31/3/07	GROUP 31/3/06	PARENT 31/3/07	PARENT 31/3/06
5 Interest Income					
Advances		190,874	167,099	161,165	145,822
Loans to Subsidiaries		-	-	5,671	5,460
Investment Securities		307	181	-	-
Other Securities		3,275	3,415	3,178	3,308
		194,456	**170,695**	**170,014**	**154,590**
6 Other Income					
Loan Fees		5,063	4,832	2,335	2,466
Management Fees		2,751	2,387	920	446
Other Fees		1,980	1,460	1,119	920
Net Insurance Income		2,752	2,955	-	-
Dividends		-	-	1,106	598
Other		2,609	1,245	755	477
		15,155	**12,879**	**6,235**	**4,907**
7 Operating Expenses					
Auditor's Remuneration		209	174	130	92
Fees to Directors *		490	475	440	430
Depreciation		2,447	2,248	1,578	1,539
Personnel		17,632	15,285	12,930	11,132
Marketing		4,031	3,601	3,134	2,893
Computer Expenses		998	933	748	899
Other Expenses		10,199	9,461	4,808	4,620
Actuarial Life Adjustment		874	935	-	-
Write Off of Property, Plant and Equipment		84	46	84	46
Amortisation of Goodwill		58	58	-	-
Bad and Doubtful Debts **	(12(ii))	4,528	3,779	83	(47)
Rent and Leases		1,842	1,691	2,023	1,911
		43,392	**38,686**	**25,958**	**23,515**

*An increase in provision for Directors Retiring Allowance of $65,000 was made this year (2006 $79,000).

**Note that the group charge for bad and doubtful debts is primarily in relation to consumer finance lending by Finance Now Limited. The increase in the current year relates largely to provisions on loans acquired from Western Bay Finance Limited (in Receivership). The original discounted price was negotiated in anticipation of the need for doubtful debt provisioning related to these loans.

	GROUP 31/3/07	GROUP 31/3/06	PARENT 31/3/07	PARENT 31/3/06
Amounts received, or due and receivable by the auditors:				
KPMG Auditing the Financial Statements	203	172	129	92
KPMG Other Assurance Services	6	2	1	-
	209	**174**	**130**	**92**

	GROUP 31/3/07	GROUP 31/3/06	PARENT 31/3/07	PARENT 31/3/06
Amounts received, or due and receivable by Directors:				
JWA Smith (Chairman)	80	80	80	80
MH Piper (Deputy Chairman)	60	60	55	55
WH Conway	50	54	40	44
JB Walker	56	56	36	36
JF Ward	46	55	41	50
GJ Mulvey	46	46	41	41
GJ Diack	45	45	40	45
KJ Ball (appointed April 2006)	42	-	42	-
RL Smith*	-	-	-	-
	425	**396**	**375**	**351**
Provision for Directors Retiring Allowance	65	79	65	79
	490	**475**	**440**	**430**

Fees to directors' include chairman fees, travel and other allowances.

* RL Smith is an executive director and received no directors fees in addition to his salary

All in $000's	Note	GROUP 31/3/07	GROUP 31/3/06	PARENT 31/3/07	PARENT 31/3/06
8 Taxation					
Tax on Surplus for the year at 33%		7,553	7,019	5,795	5,833
Adjust for the Tax Effect of :					
Imputation Credits Received		100	26	100	26
Other Permanent Items		(723)	(659)	198	130
Prior Period Adjustments		39	31	40	13
		(584)	**(602)**	**338**	169
Tax on Operating Surplus		6,969	6,417	6,133	6,002
Imputation Credits		(303)	(79)	(303)	(79)
Loss Offset / Subvention		(7)	(115)	(753)	(317)
Taxation Expense		**6,659**	**6,223**	**5,077**	**5,606**
COMPRISING:					
Current Taxation		7,323	6,467	5,000	5,505
Deferred Tax (Asset) / Liability	(18)	(664)	(244)	77	101
		6,659	**6,223**	**5,077**	**5,606**
9 Investment Securities					
NZ Government Securities		999	518	-	-
Bank Deposits and Money Market		2,398	2,496	-	-
Equity Securities		321	247	-	-
Managed Funds in Lifestages Portfolio		561	535	-	-
	(24)	**4,279**	**3,796**	**-**	**-**
10 Other Securities					
Bank Deposits and Money Market		41,501	40,361	41,501	40,361
Total Other Securities		**41,501**	**40,361**	**41,501**	**40,361**
11 Advances					
Performing Advances		2,138,493	1,983,982	1,850,357	1,780,600
Impaired Advances		1,535	816	583	520
Gross Advances		**2,140,028**	**1,984,798**	**1,850,940**	**1,781,120**
Less Provisions for Doubtful Debts	(12i)	3,956	1,683	265	165
Advances Net of Specific and General Provisions	(24)	**2,136,072**	**1,983,115**	**1,850,675**	**1,780,955**
Total Advances Secured by Mortgage		2,047,762	1,911,540		
Total Personal Loans		92,266	73,258		
Gross Advances		**2,140,028**	**1,984,798**		

12 (i) Provision for Bad and Doubtful Debts

Group Provisions as at 31 March 2007		General	Specific Performing	Specific NonAccrual	Total
Balances at Beginning of Year		1,312	45	326	**1,683**
Less					
Provisions Utilised		(1,574)	(20)	(290)	**(1,884)**
Provisions Released		(196)	-	(4)	**(200)**
Add					
New Provisions Made		1,193	-	1,048	**2,241**
Net Change in Provisions to Statement of Financial Performance		(577)	(20)	754	**157**
Provision on Acquisition		2,116	-	-	**2,116**
Balance at End of Year		2,851	25	1,080	**3,956**
Parent Provisions as at 31 March 2007					
Balances at Beginning of Year		-	45	120	**165**
Less					
Provisions Utilised		-	(20)	(290)	**(310)**
Provisions Released		-	-	(4)	**(4)**
Add					
New Provisions Made		-	-	414	**414**
Net Change in Provisions to Statement of Financial Performance		-	(20)	120	**100**
Balance at End of Year		-	25	240	**265**

All in $000's

12 (i) Provision for Bad and Doubtful Debts Continued

Group Provisions as at 31 March 2006		General	Specific Performing	Specific NonAccrual	Total
Balances at Beginning of Year		850	90	649	**1,589**
Less					
Provisions Utilised		-	(60)	(99)	**(159)**
Provisions Released		-	-	(126)	**(126)**
Transfer from Specific Provision to General Provision		293	-	(293)	**-**
Add					
New Provisions Made		169	15	195	**379**
Net Change in Provisions to Statement of Financial Performance		462	(45)	(323)	**94**
Balance at End of Year		1,312	45	326	**1,683**

Parent Provisions as at 31 March 2006		General	Specific Performing	Specific NonAccrual	Total
Balances at Beginning of Year		-	90	150	**240**
Less					
Provisions Utilised		-	(60)	(99)	**(159)**
Provisions Released		-	-	(126)	**(126)**
Add					
New Provisions Made		-	15	195	**210**
Net Change in Provisions to Statement of Financial Performance		-	(45)	(30)	**(75)**
Balance at End of Year		-	45	120	**165**

12 (ii) Bad and Doubtful Debts Expense

		GROUP		PARENT	
		31/3/07	31/3/06	31/3/07	31/3/06
Bad Debts Written Off for Year		4,371	3,685	(17)	28
Less Provisions Utilised		(1,884)	(159)	(310)	(159)
Less Provisions Released		(200)	(126)	(4)	(126)
Add New Provisions Made		2,241	379	414	210
Net Bad Debts Expensed to Statement of Financial Performance		**4,528**	**3,779**	**83**	**(47)**

13 Asset Quality

Asset Quality Information as at 31 March 2007	Note	Recognised	Total Pre Provisioned Amount	Specific Provisions	Balance
GROUP					
Non-Accrual Assets	(14)	1,535	1,535	1,080	455
Past Due Assets	(14)	3,760	3,760	25	3,735
		5,295	**5,295**	**1,105**	**4,190**
PARENT					
Non-Accrual Assets	(14)	583	583	240	343
Past Due Assets	(14)	1,504	1,504	25	1,479
		2,087	**2,087**	**265**	**1,822**

Asset Quality Information as at 31 March 2006	Note	Recognised	Total Pre Provisioned Amount	Specific Provisions	Balance
GROUP					
Non-Accrual Assets	(14)	816	816	326	490
Past Due Assets	(14)	1,959	1,959	45	1,914
		2,775	**2,775**	**371**	**2,404**
PARENT					
Non-Accrual Assets	(14)	520	520	120	400
Past Due Assets	(14)	941	941	45	896
		1,461	**1,461**	**165**	**1,296**

Note: Pre-provisioned amount relates to asset balances prior to provisions.

All in $000's

14 Movements in Pre-Provision Balances of Impaired and Past Due Assets

Pre-Provision Balances as at 31 March 2007	Non-Accrual	Past Due	Total
GROUP			
Opening Balance	816	1,959	2,775
Loan Balance Written Off	(296)	-	(296)
Transfer to Performing Ledger	(267)	(374)	(641)
Customer Repayments	(1)	(1,023)	(1,024)
Interest	-	19	19
Transfer from Performing Ledger	1,283	3,170	4,453
Sundry Advances and Fees	-	9	9
Closing Balance	**1,535**	**3,760**	**5,295**
PARENT			
Opening Balance	520	941	1,461
Transfer to Performing Ledger	(267)	(374)	(641)
Customer Repayments	(1)	(1,023)	(1,024)
Interest	-	19	19
Transfer from Performing Ledger	331	1,932	2,263
Sundry Advances and Fees	-	9	9
Closing Balance	**583**	**1,504**	**2,087**

Pre-Provision Balances as at 31 March 2006	Non-Accrual	Past Due	Total
GROUP			
Opening Balance	1,119	2,712	3,831
Loan Balance Written Off	(333)	-	(333)
Transfer to Performing Ledger	-	(1,714)	(1,714)
Customer Repayments	(532)	(1,143)	(1,675)
Interest	-	38	38
Transfer from Performing Ledger	514	2,045	2,559
Sundry Advances and Fees	48	21	69
Closing Balance	**816**	**1,959**	**2,775**
PARENT			
Opening Balance	618	1,045	1,663
Loan Balance Written Off	(128)	-	(128)
Transfer to Performing Ledger	-	(1,065)	(1,065)
Customer Repayments	(532)	(1,143)	(1,675)
Interest	-	38	38
Transfer from Performing Ledger	514	2,045	2,559
Sundry Advances and Fees	48	21	69
Closing Balance	**520**	**941**	**1,461**

15 Loan Securitisation

Mortgages assigned by the Southland Building Society to the Lifestages Mortgage Portfolio unit trust during the 12 months ended 31 March 2007 amounted to $42,584,000 (2006 $49,555,000). SBS retains the majority of the risks and rewards of ownership and accordingly it is appropriate to record these securitised assets within the Statement of Financial Position. Southland Building Society has an obligation to repurchase loans in certain circumstances, when the securitised loans cease to conform with the terms and conditions of the assignment agreement or in order to facilitate liquidity in the trust as requested by the Trustee.

The securities issued by the Lifestages Mortgage Portfolio do not represent deposits or other liabilities of the Southland Building Society. The Southland Building Society does not in any way stand behind the capital value and/or the performance of the securities or the assets of the trust except to the limited extent provided in the assignment agreement documents, through the provision of arms length services and facilities (refer note 1 (v)).

Mortgages assigned by the Southland Building Society to the SBS Invercargill W Trust during the 12 months ended 31 March 2007 amounted to $135,197,000 (2006 $113,866,000).

The Southland Building Society does not guarantee the payment of interest or the repayment of principal due on the securities. The Southland Building Society is not obliged to support any losses that may be suffered by investors.

Securitised Loan Balances	31/3/07	31/3/06
Lifestages Mortgage Portfolio	102,736	100,793
SBS Invercargill W Trust	196,821	130,420
	299,557	**231,213**

All in $000's

16 Investments in Subsidiaries and Associates

	PARENT 31/3/07	PARENT 31/3/06
Investments in Subsidiaries	9,187	9,487
Loans to Subsidiaries	78,733	64,899
	87,920	**74,386**
Investments in Associates	**1,090**	**-**

Significant Subsidiaries and Associates:

		Percentage Held 31/3/07	Percentage Held 31/3/06	Balance Date	Nature of Business
Subsidiaries:					
Fraser Properties Limited		100.0%	100.0%	31 March	Property Holding
Southsure Assurance Limited	(1)	80.0%	80.0%	31 March	Insurance
Finance Now Limited		71.5%	71.5%	31 March	Finance Company
Funds Administration New Zealand Limited		60.0%	60.0%	31 March	Funds Administration
Southsure Investment Holdings Limited		80.0%	80.0%	31 March	Property Holding
In Substance Subsidiary:					
SBS Invercargill W Trust		-	-	31 March	Mortgage Securitisation
Associates:					
Rural Livestock Finance Limited		25.67%	-	30 June	Livestock Finance
RLF Management Limited		25.67%	-	30 June	Management Company

(1) Southsure Assurance Limited has a 100% shareholding in Southsure Investment Holdings Limited (31 March Balance Date). Southsure Investment Holdings Limited owns Southsure Assurance Limited's Head Office.

Material Related Party Transactions:

During the period Southland Building Society has entered into, or had in place financial transactions with members of the group, which includes directors. In all cases these arrangements were conducted on normal market terms and conditions. Transactions with directors are disclosed in note 24.

As at 31 March 2007:

The Southland Building Society had advanced $78,732,711 (2006 $64,533,652) to Finance Now Limited
The Southland Building Society had advanced $nil (2006 $365,080) to Southsure Investment Holdings Limited
The Southland Building Society had advanced $nil (2006 $nil) to Fraser Properties Limited
Southsure Assurance Limited had Redeemable Shares of $100,556 (2006 $nil) in the Southland Building Society

In respect of Mortgage Securitisations see note 15.

	PARENT 31/3/07	PARENT 31/3/06
Net Interest Received from Subsidiaries	6,841	6,190
Payments Made to Subsidiaries		
Under Interest Rate Swap Agreements	799	468
Net Rent Paid to Subsidiaries	400	393
Technology Services Fees Received from Subsidiaries	199	323
Net Commission Received from Subsidiaries	96	40
Management Fees Received from Subsidiaries	1,084	606
Dividends Received/Receivable from Subsidiaries	1,106	598
Fees Received from Subsidiaries	164	80

All in $000's	Note	GROUP 31/3/07	GROUP 31/3/06	PARENT 31/3/07	PARENT 31/3/06
17 Other Assets					
Sundry Debtors		3,619	2,877	2,296	2,041
Deferred Tax	(18)	1,338	674	68	145
Building Available for Sale		1,219	-	-	-
Taxation Refund		136	550	780	456
		6,312	**4,101**	**3,144**	**2,642**
18 Deferred Taxation					
Deferred Taxation Benefit Brought Forward		674	430	145	246
Current Movement		642	156	(91)	(193)
Prior Period Adjustment		22	88	14	92
Total Movement	(8)	664	244	(77)	(101)
Deferred Taxation Benefit		**1,338**	**674**	**68**	**145**
19 Property, Plant and Equipment					
Freehold Land (at valuation)		910	1,153	230	220
Buildings (at valuation)		9,035	8,408	425	355
		9,945	**9,561**	**655**	**575**
Leasehold Assets (at cost)		4,123	3,231	3,991	3,122
Less Accumulated Depreciation		1,284	943	1,263	935
		2,839	**2,288**	**2,728**	**2,187**
Computer Equipment and Software (at cost)		9,578	8,509	6,726	6,509
Less Accumulated Depreciation		6,595	5,787	5,128	4,950
		2,983	**2,722**	**1,598**	**1,559**
Other Assets (at cost)		5,636	5,202	3,564	3,219
Less Accumulated Depreciation		3,496	3,136	1,781	1,526
		2,140	**2,066**	**1,783**	**1,693**
Total Property, Plant and Equipment		**17,907**	**16,637**	**6,764**	**6,014**

Other Assets include Plant, Furniture and Fittings and Motor Vehicles.

Land and Buildings

Independent valuations of Subsidiary Company freehold land and buildings were carried out as at 31 March 2007 by Chadderton & Associates. The valuations were based on capitalisation of net market rental.

The current Rateable Valuations of Land and Buildings were notified on 1 July 2005, the aggregate of these valuations for all Land and Buildings owned by the Group as at 31 March 2007 is $10,775,000 (2006 $10,600,000).

20 Intangible Assets

	GROUP 31/3/07	GROUP 31/3/06	PARENT 31/3/07	PARENT 31/3/06
Goodwill at Cost	1,160	1,160	-	-
Less Accumulated Amortisation of Goodwill	145	87	-	-
Balance at Beginning of Year	1,015	1,073	-	-
Less Amortisation for the Year	58	58	-	-
Balance at End of Year	**957**	**1,015**	**-**	**-**

Notes to the Financial Statements for the year ended 31 March 2007

All in $000's	Note	GROUP 31/3/07	GROUP 31/3/06	PARENT 31/3/07	PARENT 31/3/06
21 Other Liabilities					
Sundry Creditors		8,947	6,913	5,554	4,507
Employee Entitlements		2,598	2,338	2,071	1,926
Life Fund		3,098	2,224	-	-
Other		2,635	5,862	2,634	5,862
		17,278	**17,337**	**10,259**	**12,295**
22 Equity					
Capital Reserve		73	73	73	73
Revaluation Reserve - Property, Plant and Equipment		716	15	234	140
Revaluation Reserve - Investment Properties		-	-	-	-
Realised Revaluation Reserves		406	406	413	413
Retained Earnings		138,432	123,174	128,222	115,738
		139,627	**123,668**	**128,942**	**116,364**
Minorities' Interests		3,283	2,907	-	-
		142,910	**126,575**	**128,942**	**116,364**
Movement in Reserves:					
Revaluation Reserve - Property, Plant and Equipment					
Balance at Beginning of Year		15	-	140	-
Transfer from Investment Property Revaluation Reserve		-	15	-	15
Surplus on Revaluation of Land and Buildings		1,733	770	94	125
		1,748	785	234	140
Transfer to Statement of Financial Performance		952	770	-	-
Minority Interests Share of Revaluation Reserve		80	-	-	-
Balance at End of Year		**716**	**15**	**234**	**140**
Revaluation Reserve - Investment Properties					
Balance at Beginning of Year		-	15	-	15
Surplus on Revaluation of Land and Buildings		-	-	-	-
		-	15	-	15
Transfer to Property, Plant and Equipment Revaluation Reserve		-	15	-	15
Balance at End of Year		**-**	**-**	**-**	**-**
Retained Earnings					
Balance at Beginning of Year		123,174	108,878	115,738	103,666
Add Net Surplus for the Year		16,228	15,046	12,484	12,072
Less Minorities' Interests		(970)	(750)	-	-
Balance at End of Year		**138,432**	**123,174**	**128,222**	**115,738**
Revaluation of Land and Buildings					
Total Surplus/(Deficit) on Revaluation		1,733	770	94	125
Transfer to Statement of Financial Performance		952	770	-	-
Minority Interests Share of Revaluation Reserve		80	-	-	-
Revaluation of Land and Buildings Recognised Through Movements in Equity		**701**	**-**	**94**	**125**

23 Reconciliation Of Net Surplus To Net Operating Cash Flows

All in $000's	Note	GROUP 31/3/07	GROUP 31/3/06	PARENT 31/3/07	PARENT 31/3/06
Net Surplus for Year		16,228	15,046	12,484	12,072
Add/(Less) Non Cash Items					
Depreciation		2,447	2,248	1,578	1,539
Amortisation Goodwill		58	58	-	-
Actuarial Life Adjustment		874	935	-	-
Revaluation of Investment Securities		(6)	(15)	-	-
Dividend Provision - Minority Interests		(260)	(162)	-	-
Building Revaluations		(952)	(770)	-	-
Write Off Property, Plant and Equipment		84	46	84	46
Deferred Tax		(664)	(248)	77	101
		1,581	**2,092**	**1,739**	**1,686**
Add/(Less) Items Classified as Investing					
Accruals Relating to Advances		1,701	(2,217)	141	(1,631)
Add Items Classified as Financing					
Accruals Relating to Shares and Deposits		1,485	3,775	1,088	3,643
(Less) Items Classified as Cash					
Accruals Relating to Investment and Other Securities		(526)	(304)	(518)	(312)
Add/(Less) Net Movements in Working Capital					
Sundry Debtors		(742)	(1,292)	(256)	(511)
Sundry Creditors		1,866	1,058	1,192	(318)
Provision for Tax		413	136	(324)	178
		1,537	**(98)**	**612**	**(651)**
Net Cash Flows From Operating Activities		**22,006**	**18,294**	**15,546**	**14,807**

All in $000's

24 Maturity Profile

The maturity profile reflects on-balance sheet financial assets and liabilities and has been prepared on the basis of contractual maturity dates.

Monetary assets receivable matched against liabilities payable as at 31 March 2007

GROUP	Note	0-6 Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total
Assets								
Advances	(11)	61,160	72,037	133,197	88,868	103,221	1,810,786	2,136,072
Other Securities and Call Funds with Financial Institutions		41,501	-	41,501	-	-	-	41,501
Investment Securities	(9)	3,280	-	3,280	-	999	-	4,279
Cash on Hand and at Bank		9,035	-	9,035	-	-	-	9,035
Other Assets		4,974	-	4,974	-	-	-	4,974
Total		**119,950**	**72,037**	**191,987**	**88,868**	**104,220**	**1,810,786**	**2,195,861**
Non Monetary Assets								21,292
Total Assets								**2,217,153**
Liabilities				**Current Liabilities**				**Total**
Redeemable Shares	(25)	1,281,523	291,891	1,573,414	24,917	5,692	-	1,604,023
Deposits	(25)	126,995	23,349	150,344	1,061	901	-	152,306
Other Borrowings		102,736	-	102,736	-	-	197,900	300,636
Other Liabilities		11,582	-	11,582	-	-	-	11,582
Total		**1,522,836**	**315,240**	**1,838,076**	**25,978**	**6,593**	**197,900**	**2,068,547**
Non Monetary Liabilities								5,696
Total Liabilities								**2,074,243**

PARENT	Note	0-6 Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total
Assets								
Advances	(11)	39,564	55,713	95,277	47,081	85,177	1,623,140	1,850,675
Other Securities and Call Funds with Financial Institutions		41,501	-	41,501	-	-	-	41,501
Loans to Subsidiaries	(16)	78,733	-	78,733	-	-	-	78,733
Cash on Hand and at Bank		7,273	-	7,273	-	-	-	7,273
Other Assets		3,076	-	3,076	-	-	-	3,076
Total		**170,147**	**55,713**	**225,860**	**47,081**	**85,177**	**1,623,140**	**1,981,258**
Non Monetary Assets								17,109
Total Assets								**1,998,367**
Liabilities				**Current Liabilities**				**Total**
Redeemable Shares	(25)	1,281,624	291,891	1,573,515	24,917	5,692	-	1,604,124
Deposits	(25)	126,995	23,349	150,344	1,061	901	-	152,306
Other Borrowings		102,736	-	102,736	-	-	-	102,736
Other Liabilities		8,188	-	8,188	-	-	-	8,188
Total		**1,519,543**	**315,240**	**1,834,783**	**25,978**	**6,593**	**-**	**1,867,354**
Non Monetary Liabilities								2,071
Total Liabilities								**1,869,425**

All in $000's

24 Maturity Profile Continued

Monetary assets receivable matched against liabilities payable as at 31 March 2006

GROUP	Note	0-6 Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total
Assets								
Advances	(11)	142,457	61,641	204,098	85,608	143,800	1,549,609	1,983,115
Other Securities and Call Funds								
with Financial Institutions		46,662	-	46,662	-	-	-	46,662
Investment Securities	(9)	3,278	518	3,796	-	-	-	3,796
Cash on Hand and at Bank		3,025	-	3,025	-	-	-	3,025
Other Assets		3,427	-	3,427	-	-	-	3,427
Total		**198,849**	**62,159**	**261,008**	**85,608**	**143,800**	**1,549,609**	**2,040,025**
Non Monetary Assets								18,326
Total Assets								**2,058,351**
Liabilities				**Current Liabilities**				**Total**
Redeemable Shares	(25)	1,200,107	180,937	1,381,044	36,447	9,239	-	1,426,730
Deposits	(25)	240,201	7,392	247,593	7,354	263	-	255,210
Other Borrowings		100,793	-	100,793	-	-	131,706	232,499
Other Liabilities		12,775	-	12,775	-	-	-	12,775
Total		**1,553,876**	**188,329**	**1,742,205**	**43,801**	**9,502**	**131,706**	**1,927,214**
Non Monetary Liabilities								4,562
Total Liabilities								**1,931,776**

PARENT	Note	0-6 Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total
Assets								
Advances	(11)	116,991	49,899	166,890	54,402	130,576	1,429,087	1,780,955
Other Securities and Call Funds								
with Financial Institutions		46,662	-	46,662	-	-	-	46,662
Loans to Subsidiaries	(16)	64,899	-	64,899	-	-	-	64,899
Cash on Hand and at Bank		733	-	733	-	-	-	733
Other Assets		2,497	-	2,497	-	-	-	2,497
Total		**231,782**	**49,899**	**281,681**	**54,402**	**130,576**	**1,429,087**	**1,895,746**
Non Monetary Assets								15,646
Total Assets								**1,911,392**
Liabilities				**Current Liabilities**				**Total**
Redeemable Shares	(25)	1,200,107	180,937	1,381,044	36,447	9,239	-	1,426,730
Deposits	(25)	240,201	7,392	247,593	7,354	263	-	255,210
Other Borrowings		100,793	-	100,793	-	-	-	100,793
Other Liabilities		10,369	-	10,369	-	-	-	10,369
Total		**1,551,470**	**188,329**	**1,739,799**	**43,801**	**9,502**	**-**	**1,793,102**
Non Monetary Liabilities								1,926
Total Liabilities								**1,795,028**

The Group's six largest borrowers owe 1.94% (2006 2.04%) of Monetary Assets Receivable.

$1,303,000 (2006 $1,054,000) of Current Liabilities are owed to directors and $10,100 (2006 $1,000) of Term Liabilities are owed to directors. Of advances made, $975,000 (2006 $567,000) are made to directors. On 31 March 2007 interest rates on directors advances ranged from 9.05% to 9.35% (2006 9.10% to 9.35%) per annum. Directors loans and investments are made in the ordinary course of business under normal terms and conditions. Additionally $2,444,000 (2006 $3,970,000) of floating rate advances had been made to employees of the Group with a discount from market rates of 0.25%. Certain other immaterial transactions have occured between SBS and Directors or their business interests and these have been conducted in the ordinary course of business and on normal terms and conditions.

Of Monetary Assets Receivable 0.033% (2006 0.026%) relate to repayments in arrears in excess of three months.

All in $000's

25 Analysis of Borrowings

GROUP	Note	31/3/07 Total	31/3/07 Weighted Average Interest Rate %	31/3/06 Total	31/3/06 Weighted Average Interest Rate %
DEPOSITS MATURING					
Between 0 and 1 year		150,344	7.45	247,593	7.42
Between 1 and 2 years		1,061	6.85	7,354	6.74
Between 2 and 3 years		901	7.41	263	6.19
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
Total Deposits	(24)	**152,306**	**7.44**	**255,210**	**7.40**
REDEEMABLE SHARES MATURING					
Between 0 and 1 year		1,573,414	7.40	1,381,044	7.11
Between 1 and 2 years		24,917	7.15	36,447	6.71
Between 2 and 3 years		5,688	6.68	5,835	6.65
Between 3 and 4 years		4	3.56	3,403	6.59
Between 4 and 5 years		-	-	1	3.00
Over 5 years		-	-	-	-
Total Redeemable Shares	(24)	**1,604,023**	**7.39**	**1,426,730**	**7.10**
Total Deposits and Redeemable Shares		**1,756,329**	**7.39**	**1,681,940**	**7.14**

PARENT	Note	31/3/07 Total	31/3/07 Weighted Average Interest Rate %	31/3/06 Total	31/3/06 Weighted Average Interest Rate %
DEPOSITS MATURING					
Between 0 and 1 year		150,344	7.45	247,593	7.42
Between 1 and 2 years		1,061	6.85	7,354	6.74
Between 2 and 3 years		901	7.41	263	6.19
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
Total Deposits	(24)	**152,306**	**7.44**	**255,210**	**7.40**
REDEEMABLE SHARES MATURING					
Between 0 and 1 year		1,573,515	7.40	1,381,044	7.11
Between 1 and 2 years		24,917	7.15	36,447	6.71
Between 2 and 3 years		5,688	6.68	5,835	6.65
Between 3 and 4 years		4	3.56	3,403	6.59
Between 4 and 5 years		-	-	1	3.00
Over 5 years		-	-	-	-
Total Redeemable Shares	(24)	**1,604,124**	**7.39**	**1,426,730**	**7.10**
Total Deposits and Redeemable Shares		**1,756,430**	**7.39**	**1,681,940**	**7.14**

Deposits and Redeemable Shares are unsecured.

Floating rate Redeemable Shares and Deposits have been included above, therefore the weighted average interest rates provided are only meaningful at the balance date noted. No analysis of other borrowings has been included above, on the basis that these amounts relate to the Loan Securitisation vehicles discussed in Notes 15 and 16. The Lifestages Mortgage Portfolio borrowings are in the nature of a Unit Trust and therefore, no weighted average interest rate is available.

All in $000's	Note	GROUP		PARENT	
		31/3/07	31/3/06	31/3/07	31/3/06

26 Commitments

Advances which have been approved at balance date but not yet drawn		55,555	36,186	55,372	35,318
Undrawn balances under Revolving Credit Mortgage Facilities		210,680	182,333	205,619	180,726

SBS has entered into a trust deed made between SBS and Trustees Executors Limited, as Trustee of a registered superannuation scheme known as Lifestages Capital Stable Portfolio (formerly known as SBS Capital Stable Fund). The trust deed was effective from the 1st day of April 1992. Under the Deed of Guarantee executed on the 26th day of March 1992, the Society unconditionally guarantees the capital invested in the Lifestages Capital Stable Portfolio of $3,225,000 (2006 $10,677,000) providing investment is maintained for at least three years. A minimum of 80% of the funds invested in the Lifestages Capital Stable Portfolio are reinvested with the Society.

Lease Committments

As at 31 March 2007 the value of the residual portion of lease commitments for SBS was $6,925,000 (2006 $5,560,000). Of this amount $2,016,000 (2006 $304,000) relates to lease commitments between SBS and its wholly owned subsidiary company, Fraser Properties Ltd.

Lease commitments payable after balance date:					
0-12 months		1,452	1,324	1,607	1,415
12-24 months		1,182	1,231	1,436	1,028
24-60 months		2,188	2,307	3,180	2,104
>60 months		702	1,013	702	1,013
		5,524	**5,875**	**6,925**	**5,560**

27 Segmental Analysis

Parent

SBS is a financial institution operating solely in the New Zealand retail financial markets.

Subsidiaries

Southsure Assurance Limited is a life insurance company operating in the New Zealand domestic market.

Fraser Properties Limited owns Southland Building Society's Head Office building which is located in the central business district of Invercargill. Major tenants are New Zealand Post, the Alliance Group Ltd and SBS.

Finance Now Limited is a finance company operating in the New Zealand financial market.

Funds Administration New Zealand Limited (FANZ) is a funds management company operating in the New Zealand wholesale and retail financial market.

Associates

Rural Livestock Finance Limited is a livestock financing company operating in the New Zealand domestic market.

RLF Management Limited is a management company operating in the New Zealand domestic market.

28 Fair Value

Disclosed below is the estimated fair value of the Group's financial instruments disclosed in terms of FRS-33: Disclosure of Information by Financial Institutions issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants. It is intended to provide an indication of the fair value of financial instruments and not the fair value of the Group's business as a whole. It specifically excludes certain non-financial instruments and a range of intangible and relationship benefits which are integral to a full assessment of the Group's financial position and the value of its business.

Methodologies

The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments. The following methods have been used:

Statement of Financial Position Items

Cash, Cash at Bank

Carrying amount is equivalent to fair value.

Investment Securities

For Investment Securities maturing in less than 3 months and Equity Securities, carrying amount is equal to fair value. For securities with terms to maturity between 3 months and 12 months, fair values are based on quoted market prices. For securities with terms to maturity greater than 12 months, estimated fair values are based on quoted market prices which are also the carrying amounts.

Other Securities

For Other Securities maturing in less than 3 months, carrying amount is equivalent to fair value. For securities with terms to maturity between 3 months and 12 months, fair values are based on quoted market prices. For securities with terms to maturity greater than 12 months, estimated fair values are based on quoted market prices which are also the carrying amounts.

Advances

For variable rate advances the carrying amount is a reasonable estimate of fair value. For fixed rate advances, fair values have been estimated using the discounted cash flow approach by reference to current rates at which similar advances would be made to other borrowers with a similar credit rating and the same remaining maturities.

Advances include some interest free advances made in support of community projects. As at 31 March 2007 total interest free advances were $5,430,000 (2006 $4,825,000) which are carried at their face value.

Redeemable Shares and Deposits

The fair value of demand deposits is the amount payable on demand at the reporting date. For other liabilities with maturities of less than 3 months the carrying amount is a reasonable estimate of fair value.

For liabilities with maturities of 3 months or longer, fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values have been estimated using the discounted cash flow approach by reference to rates currently offered for similar liabilities of similar remaining maturities.

Unrecognised Financial Instruments

Interest Rate Contracts

Hedge contracts are not recognised in the financial statements therefore no carrying amount is shown, other than accrued interest.

Fair values of interest rate swaps and caps are based on quoted market prices.

For other unrecognised financial instruments which include financial guarantees and lending commitments, no secondary market exists, so no fair value can be calculated. The face value of these items are given in Notes 26, 28 and 29.

All in $000's

28 Fair Value Continued

	31/3/07		31/3/06	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
GROUP				
Statement of Financial Position Items				
Assets				
Cash on Hand and at Bank	9,035	9,035	3,025	3,025
Investment Securities	4,279	4,279	3,796	3,796
Other Securities and Call Funds with Financial Institutions	41,501	41,501	46,662	46,662
Advances	2,136,072	2,118,169	1,983,115	1,976,736
Total	**2,190,887**	**2,172,984**	**2,036,598**	**2,030,219**
Liabilities				
Redeemable Shares and Deposits	1,756,329	1,754,708	1,681,940	1,684,598
Other Borrowings	300,636	300,636	232,499	232,499
Total	**2,056,965**	**2,055,344**	**1,914,439**	**1,917,097**
Unrecognised Financial Instruments				
Derivative Contracts Used for Hedging Purposes				
In a Net Receivable/(Payable) Position	**408**	**6,317**	**725**	**586**
PARENT				
Statement of Financial Position Items				
Assets				
Cash on Hand and at Bank	7,273	7,273	733	733
Other Securities and Call Funds with Financial Institutions	41,501	41,501	46,662	46,662
Advances	1,850,675	1,834,344	1,780,955	1,775,022
Loans to Subsidiaries	78,733	78,733	64,899	64,899
Total	**1,978,182**	**1,961,851**	**1,893,249**	**1,887,316**
Liabilities				
Redeemable Shares and Deposits	1,756,430	1,754,809	1,681,940	1,684,598
Other Borrowings	102,736	102,736	100,793	100,793
Total	**1,859,166**	**1,857,545**	**1,782,733**	**1,785,391**
Unrecognised Financial Instruments				
Derivative Contracts Used for Hedging Purposes				
In a Net Receivable/(Payable) Position	**380**	**5,525**	**693**	**512**

29 Credit Risk Exposure

The nature of the Group's activities as a financial intermediary necessitates the Group dealing in financial instruments that contain an inherent element of credit risk. Credit exposure means the amount of the maximum loss that the Group could incur as a result of the counterparty to a contract failing to discharge its obligations, without taking into account the value of collateral, guarantees, indemnities, other support arrangements and any potential recoveries. The Group's activities are conducted within the bounds of prudent and conservative banking practice.

(a) Collateral Held

The Group takes collateral where it is considered necessary to support credit risk on financial instruments including both recognised and unrecognised financial instruments. An evaluation is undertaken of the customer's credit risk on a case by case basis and the amount of collateral taken if deemed necessary, is based on management's credit evaluation of the counterparty. The collateral taken varies but could include cash deposits, mortgages, debentures, investments, financial covenants, guarantees and registered securities.

In terms of SBS retail lending activity credit is extended within predetermined loan to security valuation ratios, which vary depending on the class of an advance, and within established and proven repayment to income ratios. Independent credit evaluations are undertaken where this is deemed necessary. Additionally some advances are insured with an independent third party mortgage insurer. In excess of 95% of SBS advances are secured by first mortgage over real property as a minimum. Once established, loan performance is monitored constantly. The Debt Management team monitor exposures to non-performing loans on a daily basis and provide monthly reports to senior management and the board.

In terms of consumer finance lending by Finance Now Limited, it is estimated that 29% of lending is secured by registered securities.

Investment and Other Securities are restricted to high quality credits only. These credits include the New Zealand Government, selected local authorities, banks, quasi government institutions, State Owned Enterprises and marketable debt securities.

(b) Risk Weighted Assets and Unrecognised Financial Instruments

Based on the Reserve Bank's risk based capital adequacy framework for registered banks risk weightings have been applied to the Statement of Financial Position assets and unrecognised financial instruments to determine total risk weighted assets. Categories of risk weightings are assigned based upon factors such as the nature of the counterparty, the collateral held, and the residual maturity of the exposure. For unrecognised financial instruments the Group's exposure to credit loss is only a fraction of the contract or notional amount. Exposures are measured by applying credit conversion factors to calculate the credit equivalent amounts. The credit equivalents are determined in accordance with the Reserve Bank's risk weighted capital adequacy guidelines. The Group's maximum credit exposure for each class of financial asset are the carrying values which are disclosed in the Statement of Financial Position.

All in $000's

29 Credit Risk Exposure Continued

GROUP	Balance 31/3/07	Balance 31/3/06	Risk Weighting	Risk Adjusted Balance 31/3/07	Risk Adjusted Balance 31/3/06
Statement of Financial Position Exposures					
Cash and Claims on Qualifying					
Governments with Maturities < 1 Year	267	205	0%	-	-
Cash and Claims on Qualifying					
Governments with Maturities > 1 Year	999	518	10%	100	52
Claims on Banks and NZ Local Authorities	52,667	51,978	20%	10,533	10,396
Loans Secured by Residential Mortgage	1,419,239	1,320,888	50%	709,620	660,444
All Other Assets	745,875	685,059	100%	745,875	685,059
	2,219,047	2.058,648		1,466,128	1,355,951
Non Risk Adjusted	(1,894)	(297)	0%	-	-
Total Statement of Financial Position Exposures	**2,217,153**	**2,058,351**		**1,466,128**	**1,355,951**

	Contract or Notional Amount 31/3/07	Contract or Notional Amount 31/3/06	Credit Equivalent Amount 31/3/07	Credit Equivalent Amount 31/3/06	Risk Weighting	Risk Adjusted Balance 31/3/07	Risk Adjusted Balance 31/3/06
Lifestages Capital Stable Portfolio	3,225	10,677	3,225	10,677	100%	3,225	10,677
Commitments with							
uncertain drawdown	55,555	36,186	27,778	18,093	50-100%	18,550	12,068
Commitments to extend credit which							
can be unconditionally cancelled	210,680	182,333	-	-	50-100%	-	-
Interest Rate Contacts	406,675	675,500	2,567	3,420	20%	513	684
Option Contracts	779,875	254,500	7,657	920	20%	1,531	184
Total Unrecognised Financial Instruments Exposures	**1,456,010**	**1,159,196**	**41,227**	**33,110**		**23,819**	**23,613**

(c) Concentrations of Credit Risk

The Group's dominant activity is the provision of residential mortgage finance which comprises 66% (2006 67%) of the Group's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 18% (2006 20%) of the Group's loan portfolio are predominantly concentrated in the Southland/South Otago region. The residential lending portfolio has an even geograpical spread so there are no material concentrations.

The table below shows the numbers of counterparties where the Group has large credit exposures. These have been disclosed in bands of 10% of the Group's equity at balance date.

Percentage of Equity %	Bank 31/3/07 Number	Bank 31/3/07 $000	Bank 31/3/06 Number	Bank 31/3/06 $000	Other 31/3/07 Number	Other 31/3/07 $000	Other 31/3/06 Number	Other 31/3/06 $000
10-19	1	18,400	1	22,000	-	-	-	-
20-29	-	-	-	-	-	-	-	-
30-39	-	-	-	-	-	-	-	-

Counterparties

In terms of the other counterparty exposures disclosed above, the Group's policy in respect of collateral taken is set out in note 29 (a).

30 Interest Rate Risk

Policies for Managing Interest Rate Risk

Interest rate risk is the risk of loss to the Group arising from adverse changes in interest rates. The Group is exposed to interest rate risk in respect of its following activities: borrowing from and lending to customers, investing in physical money market instruments as well as derivatives such as interest rate contracts used for hedging purposes.

Changes in interest rates can impact the Group's financial results by affecting the spread earned on interest earning assets and impacting on the market value of other financial instruments held.

Exposure to interest rate risk is measured primarily through the analysis of repricing maturities of the Group's assets, liabilities and unrecognised financial instruments. Exposures are monitored continuously and reported to the board on a monthly basis.

The Group actively manages its portfolios and may take positions to maximise the potential gain from anticipated rate movements.

Effective interest rates on hedged transactions within classes of financial assets or liabilities are disclosed exclusive of the impact of the hedging transaction. The financial assets or liabilities carrying values do not incorporate the values of the hedging transactions.

The interest rate repricing schedule reflects on-balance sheet financial assets and liabilities and has been prepared on the basis of the next repricing date.

The following schedule details the Group's interest rate repricing profile:

All in $000's

30 Interest Rate Risk Continued

As at 31 March 2007	Weighted Average Interest Rate %	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
GROUP							
Assets							
Advances	9.11	972,559	216,252	405,091	542,170	-	**2,136,072**
Other Securities and Call Funds with Financial Institutions	7.74	41,501	-	-	-	-	**41,501**
Investment Securities	6.96	3,280	-	-	999	-	**4,279**
Cash on Hand and at Bank	-	9,035	-	-	-	-	**9,035**
		1,026,375	216,252	405,091	543,169	-	**2,190,887**
Liabilities							
Redeemable Shares	7.39	1,281,523	291,891	24,917	5,692	-	**1,604,023**
Deposits	7.44	126,995	23,349	1,061	901	-	**152,306**
Other Borrowings		300,636	-	-	-	-	**300,636**
		1,709,154	315,240	25,978	6,593	-	**2,056,965**
Net Interest Earning Assets		(682,779)	(98,988)	379,113	536,576	-	**133,922**
Net Unrecognised Financial Instruments		906,550	(129,000)	(354,050)	(423,500)	-	**-**
Net Open Position		223,771	(227,988)	25,063	113,076	-	**133,922**
PARENT							
Assets							
Advances	8.67	854,572	179,862	345,920	470,321	-	**1,850,675**
Other Securities and Call Funds with Financial Institutions	7.74	41,501	-	-	-	-	**41,501**
Loans to Subsidiaries	9.37	78,733	-	-	-	-	**78,733**
Cash on Hand and at Bank	-	7,273	-	-	-	-	**7,273**
		982,079	179,862	345,920	470,321	-	**1,978,182**
Liabilities							
Redeemable Shares	7.39	1,281,624	291,891	24,917	5,692	-	**1,604,124**
Deposits	7.44	126,995	23,349	1,061	901	-	**152,306**
Other Borrowings		102,736	-	-	-	-	**102,736**
		1,511,355	315,240	25,978	6,593	-	**1,859,166**
Net Interest Earning Assets		(529,276)	(135,378)	319,942	463,728	-	**119,016**
Net Unrecognised Financial Instruments		666,238	(119,000)	(354,050)	(193,188)	-	**-**
Net Open Position		136,962	(254,378)	(34,108)	270,540	-	**119,016**
As at 31 March 2006							
GROUP							
Assets							
Advances	8.93	1,034,232	309,310	467,610	171,963	-	**1,983,115**
Other Securities and Call Funds with Financial Institutions	7.50	46,662	-	-	-	-	**46,662**
Investment Securities	6.85	3,278	518	-	-	-	**3,796**
Cash on Hand and at Bank	-	3,025	-	-	-	-	**3,025**
		1,087,197	309,828	467,610	171,963	-	**2,036,598**
Liabilities							
Redeemable Shares	7.10	1,200,107	180,937	36,447	9,239	-	**1,426,730**
Deposits	7.40	240,201	7,392	7,354	263	-	**255,210**
Other Borrowings		232,499	-	-	-	-	**232,499**
		1,672,807	188,329	43,801	9,502	-	**1,914,439**
Net Interest Earning Assets		(585,610)	121,499	423,809	162,461	-	**122,159**
Net Unrecognised Financial Instruments		750,000	(205,000)	(409,000)	(136,000)	-	**-**
Net Open Position		164,390	(83,501)	14,809	26,461	-	**122,159**
PARENT							
Assets							
Advances	8.57	937,905	275,953	412,962	154,135	-	**1,780,955**
Other Securities and Call Funds with Financial Institutions	7.50	46,662	-	-	-	-	**46,662**
Loans to Subsidiaries	9.29	64,899	-	-	-	-	**64,899**
Cash on Hand and at Bank	-	733	-	-	-	-	**733**
		1,050,199	275,953	412,962	154,135	-	**1,893,249**

All in $000's

30 Interest Rate Risk Continued

As at 31 March 2006	Weighted Average Interest Rate %	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
PARENT							
Liabilities							
Redeemable Shares	7.10	1,200,107	180,937	36,447	9,239	-	**1,426,730**
Deposits	7.40	240,201	7,392	7,354	263	-	**255,210**
Other Borrowings		100,793	-	-	-	-	**100,793**
		1,541,101	188,329	43,801	9,502	-	**1,782,733**
Net Interest Earning Assets		(490,902)	87,624	369,161	144,633	-	**110,516**
Net Unrecognised Financial Instruments		628,000	(190,000)	(379,000)	(59,000)	-	**-**
Net Open Position		137,098	(102,376)	(9,839)	85,633	-	**110,516**

31 Capital Adequacy

The Southland Building Society is subject to minimum capital requirements (Primary Capital) as specified in its Trust Deed dated 20 December 1990. New Zealand registered banks are subject to minimum capital requirements as specified by the Reserve Bank of New Zealand (RBNZ). These requirements are based on international banking conventions and are generally accepted by all banking supervisory authorities. The current minimum risk adjusted capital ratio set by the RBNZ is 8%. The Primary Capital Trust Deed minimum is 4%. In calculating these ratios, securitised assets are excluded from the Parent assets. In addition, Fraser Properties Limited, which is both wholly owned and wholly funded by SBS, is consolidated into the Parent (in terms of the Trust Deed this is referred to as the Guaranteeing Group).

Set out below are the Southland Building Society's Capital Adequacy Ratios in relation to the above specified benchmarks.

	GROUP		PARENT	
(a) Primary Capital Adequacy Ratio Calculation	**31/3/07**	**31/3/06**	**31/3/07**	**31/3/06**
Tier One Capital				
Retained Earnings	122,204	108,128	118,826	105,676
Current Years Retained Surplus	16,228	15,046	14,224	13,151
Minorities' Interests	3,283	2,907	-	-
Realised Reserve	406	406	406	406
Capital Reserve	73	73	73	73
Goodwill	(957)	(1,015)	-	-
Total Tier One Capital	**141,237**	**125,545**	**133,529**	**119,306**
Total Assets	2,217,153	2,058,351	2,003,132	1,914,395
Less Securitised Assets	-	-	102,736	100,793
Net Assets	**2,217,153**	**2,058,351**	**1,900,396**	**1,813,602**
Primary Capital Adequacy Ratio (Trust Deed Minimum Parent 4%)	**6.37%**	**6.10%**	**7.03%**	**6.58%**
(b) Risk Adjusted Capital Adequacy Ratio Calculation				
Risk Adjusted Capital				
Tier One Capital	141,237	125,545	133,529	119,306
Revaluation Reserve	716	15	234	140
Less Equity Investments in Subsidiaries	-	-	(3,762)	(4,062)
Total Risk Adjusted Capital	**141,953**	**125,560**	**130,001**	**115,384**

	Principal Amount / Credit Equivalent Amount 31/3/07	Principal Amount / Credit Equivalent Amount 31/3/06	Risk Weighting	Risk-Weighted Exposure 31/3/07	Risk-Weighted Exposure 31/3/06
GROUP					
On Balance Sheet Exposures					
Cash and Claims on Qualifying Governments with Maturities < 1 Year	267	205	0%	-	-
Cash and Claims on Qualifying Governments with Maturities > 1 Year	999	518	10%	100	52
Claims on banks and NZ Local Authorities	52,667	51,978	20%	10,533	10,396
Loans Secured by Residential Mortgage	1,419,239	1,320,888	50%	709,620	660,444
All Other Assets	745,875	685,059	100%	745,875	685,059
	2,219,047	2,058,648		1,466,128	1,355,951
Non Risk Adjusted	(1,894)	(297)	0%	-	-
	2,217,153	**2,058,351**		**1,466,128**	**1,355,951**
Off Balance Sheet Exposures					
Lifestages Capital Stable Portfolio	3,225	10,677	100%	3,225	10,677
Residential Mortgage Commitments	18,456	12,051	50%	9,228	6,026
Other Mortgage Commitments	9,322	6,042	100%	9,322	6,042
Interest Rate Swaps and Options	10,224	4,340	20%	2,045	868
	41,227	**33,110**		**23,820**	**23,613**
Total Risk Adjusted Assets				**1,489,948**	**1,379,564**
Risk Adjusted Capital Adequacy Ratio (RBNZ Minimum 8%)				**9.53%**	**9.10%**

All in $000's

31 Capital Adequacy Continued

	Principal Amount / Credit Equivalent Amount 31/3/07	31/3/06	Risk Weighting	Risk-Weighted Exposure 31/3/07	31/3/06
PARENT					
On Balance Sheet Exposures					
Cash and Claims on Qualifying Governments with Maturities < 1 Year	267	205	0%	-	-
Cash and Claims on Qualifying Governments with Maturities > 1 Year	-	-	10%	-	-
Claims on banks and NZ Local Authorities	49,212	47,342	20%	9,842	9,468
Loans Secured by Residential Mortgage	1,182,077	1,141,321	50%	591,039	570,661
All Other Assets	668,840	624,734	100%	668,840	624,734
	1,900,396	1,813,602		1,269,721	1,204,863
Non Risk Adjusted	-	-	0%	-	-
	1,900,396	**1,813,602**		**1,269,721**	**1,204,863**
Off Balance Sheet Exposures					
Lifestages Capital Stable Portfolio	3,225	10,677	100%	3,225	10,677
Residential Mortgages	17,684	11,317	50%	8,842	5,659
Other Mortgage Commitments	10,002	6,342	100%	10,002	6,342
Interest Rate Swaps and Options	10,664	4,586	20%	2,133	917
Total Off Balance Sheet Exposures	**41,575**	**32,922**		**24,202**	**23,595**
Total Risk Adjusted Assets				**1,293,923**	**1,228,458**
Risk Adjusted Capital Adequacy Ratio				**10.05%**	**9.39%**

32 Concentrations of Funding

Funding consists of Deposits, Redeemable Shares, Loans from Financial Institutions and Other Borrowings. The funding portfolio has an even geograghical spread so there are no material concentrations within New Zealand.

	GROUP 31/3/07	31/3/06	PARENT 31/3/07	31/3/06
Geographical Areas				
Within New Zealand	1,991,486	1,855,236	1,793,687	1,723,530
Outside New Zealand	65,479	59,203	65,479	59,203
	2,056,965	**1,914,439**	**1,859,166**	**1,782,733**
Concentrations By Product				
Due to Other Financial Institutions	30,313	154,232	30,313	154,232
Deposits	121,993	100,978	121,993	100,978
Redeemable Shares	1,604,023	1,426,730	1,604,023	1,426,730
Other Borrowings	300,636	232,499	102,736	100,793
Due to Subsidiary Companies	-	-	101	-
	2,056,965	**1,914,439**	**1,859,166**	**1,782,733**

33 Liquidity

The Group monitors its liquidity position on a daily basis and forecasts cashflows from operating activities taking account of the cashflow characteristics of and expected volatility in the balances of the various classes of recognised assets and liabilities and unrecognised items that have or can have a significant cashflow effect.

The maturity profile of assets and liabilities presented in note 24 is not considered by the Group to be in any way indicative of future cashflows. This is primarily because a significant proportion of the Southland Building Society's Redeemable Shares and Deposits are renewed at maturity and therefore do not have a cashflow impact. In addition, all mortgage advances are repayable on demand, or repayable on three months notice of demand, at the Southland Building Society's discretion. While the Southland Building Society is not likely to call advances on demand the contractual maturity date is not indicative of future cashflows due to early repayments, further drawdowns and principal reductions.

To meet both expected and unexpected fluctuations in operating cashflows the Group maintains a stock of liquid investments which it considers from analysis of historical cashflows, forecast cashflows and the current composition of the Statement of Financial Position to be adequate.

The Southland Building Society's Trust Deed prescribes that liquid assets are to be maintained at at least 12% of Total Redeemable Shares and Deposits with less than 12 months to maturity. Total Liquidity must exceed 50% of Redeemable Shares and Deposits on call.

Included in the definition of liquid assets are committed but undrawn funding lines. As at 31 March 2007 the Southland Building Society had total committed funding lines with Registered Banks of $265,000,000 (2006 $265,000,000). Of these facilities $30,300,000 (2006 $109,200,000) were drawn down on 31 March 2007.

Asset Liquidity	54,815	53,483	48,774	47,395
Committed and Undrawn Funding Lines	234,700	155,800	234,700	155,800
Total Liquidity	**289,515**	**209,283**	**283,474**	**203,195**

Asset liquidity includes Other Securities, Investment Securities, Cash on Hand and at Bank and Call Funds with Financial Institutions.

In addition to committed lines the Southland Building Society has $nil (2006 $45,000,000) of utilised with $30,000,000 (2006 $2,000,000) of undrawn funding arrangements in place with registered banks at 31 March 2007.

Cash demands are usually met by realising liquid investments, drawing uncommitted lines and raising new deposits.

34 Subsequent Events

On 3 April 2007 SBS set up the SBS Oreti Trust No. 1. On 11 April 2007 $190,000,000 of residential mortgage backed securities were issued from this trust to wholesale investors. These securities were sourced from the SBS Invercargill W Trust, an in substance subsidiary. It is expected that the SBS Oreti Trust No. 1 will also be accounted for as an in substance subsidiary for the year ending 31 March 2008.

Southsure Investment Holdings Limited has an unconditional contract of $1,250,000 for the sale of the land and buildings it owned. Land and buildings were revalued at 31 March 2007 to reflect this sale price. Southsure is expected to enter into a 9 year lease of the property at an annual rental based on market rates.

KPMG

Audit Report

To the Members of Southland Building Society

We have audited the financial statements on pages 2 to 25. The financial statements provide information about the past financial performance and financial position of the Southland Building Society ("the Society") and its subsidiary companies ("the Group") as at 31 March 2007. This information is stated in accordance with the accounting policies set out on pages 5 to 6.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Society and Group as at 31 March 2007 and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

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

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

Our firm has also provided audit related services to the Society and Group. Partners and employees of our firm may also deal with the Society and Group on normal terms within the ordinary course of trading activities of the business of the Society and Group. There are, however, certain restrictions on borrowings which the partners and employees of our firm can have with the Society and Group. These matters have not impaired our independence as auditors of the Society and Group. The firm has no other relationship with, or interest in, the Society or any of its subsidiaries.

Unqualified opinion

We have obtained all the information and explanations we have required.
In our opinion:

- proper accounting records have been kept by the Society and Group as far as appears from our examination of those records;
- the financial statements on pages 2 to 25:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Society and Group as at 31 March 2007 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 17 May 2007 and our unqualified opinion is expressed as at that date.

KPMG

Wellington

OUR PEOPLE MAKE THE DIFFERENCE

SBS