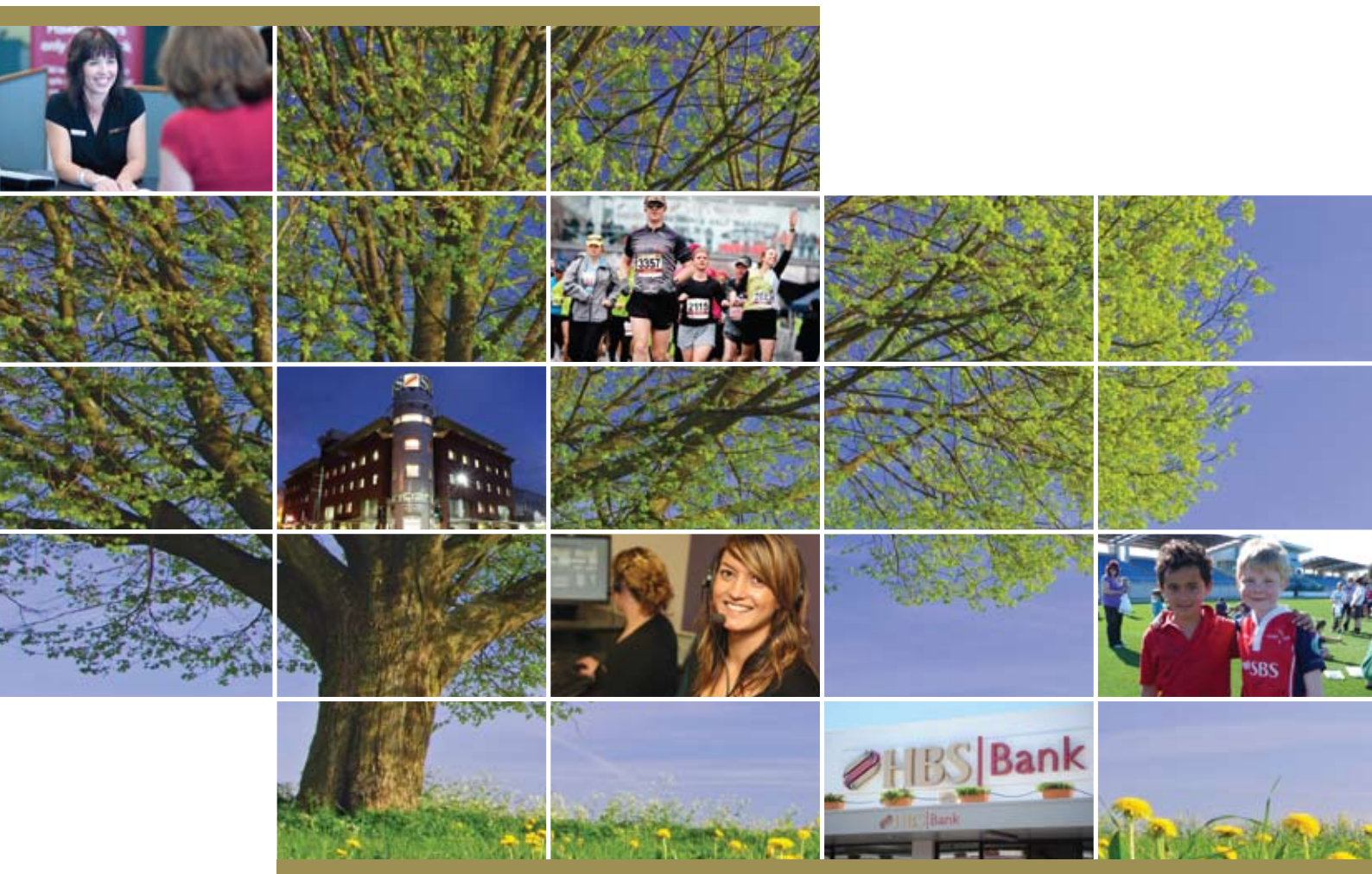
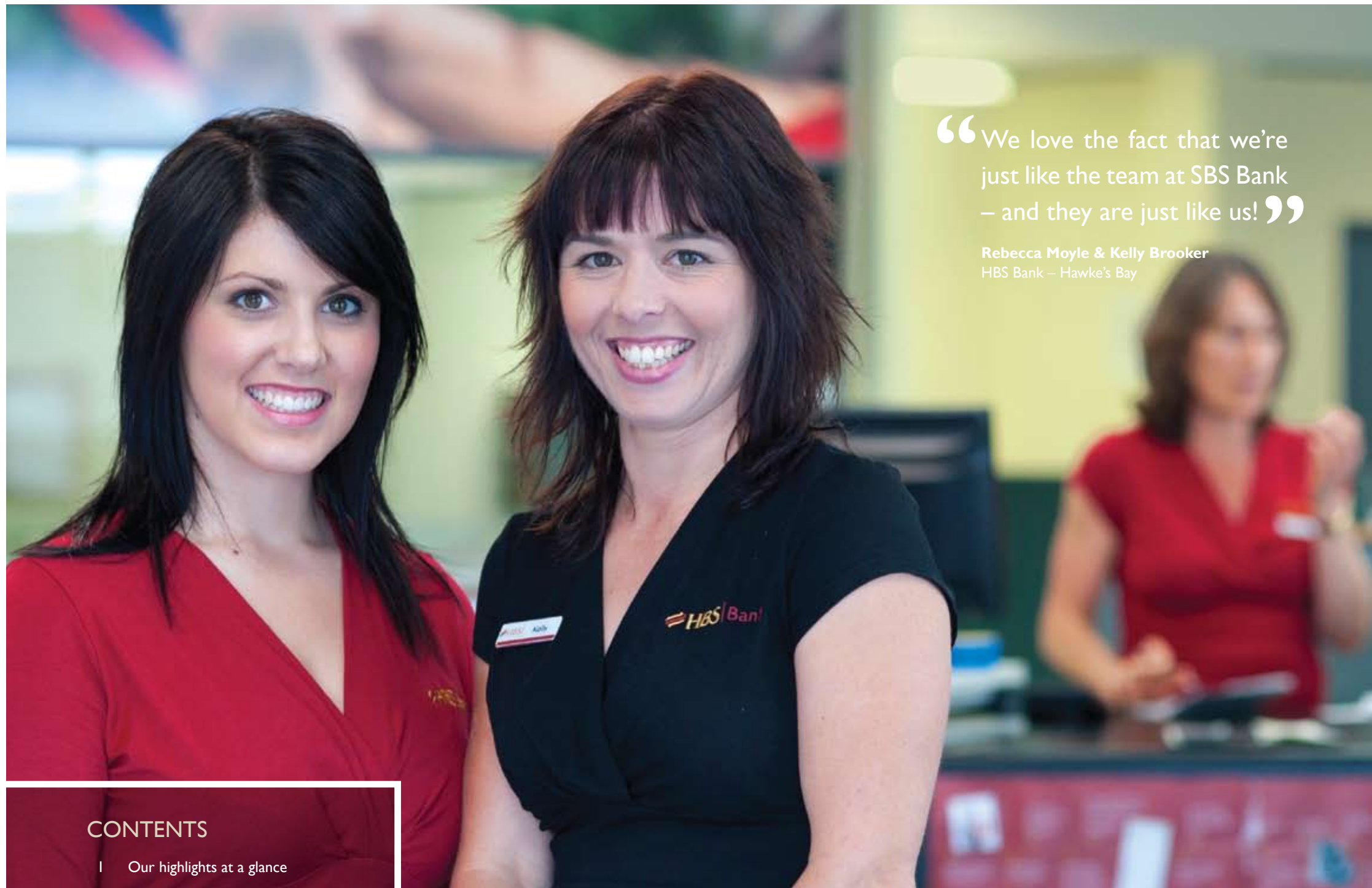


# Growing our communities since 1869







“We love the fact that we’re just like the team at SBS Bank – and they are just like us!”

Rebecca Moyle & Kelly Brooker  
HBS Bank – Hawke’s Bay

## HIGHLIGHTS AT A GLANCE

**Successful merger** of HBS Bank resulting in an additional three branches in Hawke’s Bay

 **HBS Bank**

**Total assets** up \$186 million (7%) to

**\$2.8 billion**

**Loan advances** up \$125 million (5.1%) to

**\$2.6 billion**

**Regulatory capital** up \$19.5 million (8.5%) to

**\$248 million**

**Depositors’ funds** up \$210 million (9.3%) to

**\$2.5 billion**

**Liquidity levels** up \$16 million (3%) to

**\$476 million**

**Operating surplus** before tax

**\$17.3 million**

## CONTENTS

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## OUR VALUES

### *Commitment to mutual benefit*

We will ensure members’ interests are at the heart of our purpose and at the forefront of decisions made. The society must prosper, but members’ common interests will always be paramount in commercial decisions.

### *Sustainability through prudence*

Through careful stewardship, based on commercial robustness and operational prudence, we will continue to exercise ethical practices and due care in growing the value of SBS Bank.

### *Our people make the difference*

The people of SBS Bank are the driving force behind our purpose. Our charge is to provide an environment offering challenge, encouragement and fair recognition, thereby allowing delivery of professional service to members.

### *The prosperity of our community*

We will contribute to community development and prosperity on behalf of, and for the ultimate benefit of, our members.

## OUR VISION

SBS Bank – New Zealand’s Community Bank.

## OUR MISSION

SBS Bank will be the essential partner on an individual’s path to financial independence ... a continuous relationship.

 **SBS Bank**

 **HBS Bank**





“How do I feel about my face on the back of a bus? I love it! I’m excited about the future of Christchurch and I’m ready to be a part of it.”

Ian Pollock, SBS Bank manager, Ferrymead

## CHRISTCHURCH – BEYOND SURVIVAL

The city may be broken but the spirit of our SBS Bank staff in Christchurch isn't. Their resilience and dedication to our customers and our communities in their time of need is inspirational.

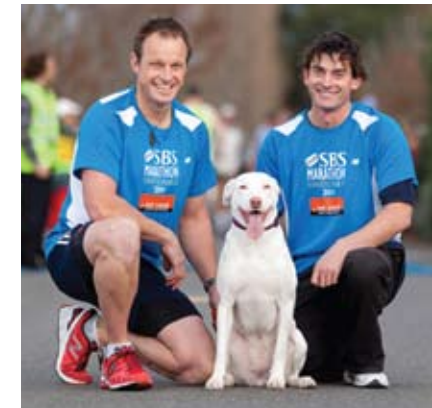


Photo: The Press

### SBS MARATHON GOES AHEAD

They came from as far afield as Japan, Malaysia, Brazil, the UK and Australia. A huge field of 4000 runners and walkers flocked to a new course at this year's 31st annual SBS Marathon. For runners from abroad it was an expression of rebellious support for local Cantabrians under earthquake siege.

"If you hold the event, I'm coming" was the message scrawled on the entry form of one young woman runner from Southland. It was that spirit of determination that spurred SBS Bank, principal sponsor for 10 years, to ensure the event went ahead.

It warmed the hearts of many participants to see our Riccarton manager Matthew Mark running the 10km with Boo, one of the NZ USAR Search Dogs that worked tirelessly as part of rescue and recovery operations.

"It was an honour to make Boo's acquaintance – she's quite a dog," says Matthew. USAR president Tim Drennan was thrilled they were chosen to be the SBS Marathon charity of choice and to receive more than \$10,000. While Boo was just happy to have a nap in the back of Tim's truck after towing Matt around the 10km course.

### HELPING HAND FUND FOR OUR SBS STAR MEMBERS

Following the events of the February earthquake and beyond, we knew our Canterbury Star community needed support over and above the norm. So we created a dedicated recovery fund – the SBS Bank Helping Hand – for existing Star account holders looking to get back on their feet after the earthquakes.

SBS Bank Helping Hand has committed \$100,000 for each of the next three years, which is available to match the fundraising efforts made by SBS Star non-profit organisations in Canterbury to a maximum value of \$2000. To find out if you're eligible to receive a Helping Hand from SBS Bank, please don't hesitate to contact us.

#### Member benefits

- \$100,000 sponsorship annually for three years
- Additional support for SBS Star non-profit account holders affected by the earthquakes
- Ability for SBS Star account holders to apply each year
- Existing and new SBS Star groups are eligible for the fund

### OUR PEOPLE – OUR HEROES

While shops and offices continue to tumble down around the SBS Bank building on Manchester Street, the sight of our flagship inner city branch standing alone amidst the rubble is a sobering wake up to the devastation of the Christchurch earthquakes.

Following the first quake in September, SBS Bank learnt much about the challenges of responding to an emergency of this magnitude. These lessons came to the fore after the February earthquakes. Despite communication difficulties, within 12 hours we had connected with every staff member to understand how they and their families were affected and within 24 hours we had organised a relief package for staff to help with emergency costs.

What continually amazes us is the determination of our people to return to work. They are driven by many motives – the need to restore routine to their lives, the need to get back to their SBS Bank family for empathy and support and the need to get back to SBS Bank customers and be there to help them in their hour of need.

There are few words to describe how inspirational our Christchurch people are to us. They are our heroes.



# YOUR DIRECTORS' REVIEW

To complete a merger and grow the business during an extended Global Financial Crisis and a year of natural disasters is testament to the strength of our SBS Bank model and management practices and why we remain steadfast to being a New Zealand bank owned by its customers.



The past four years have seen SBS Bank navigate through tumultuous times. We have experienced highs from gaining bank registration and our recent merger with the Hastings Building Society (HBS) and lows from the impacts of the Global Financial Crisis (GFC).

While the New Zealand economy has escaped the severe economic impact of the GFC suffered by many overseas economies, we – like most – have still been affected. Many have failed and, of those remaining, most have suffered losses or had their profitability severely impacted.

By mid-2010 it appeared the recessionary times were behind us and the economy was on the mend. However, nature had her say with a number of devastating disasters across the country, which dampened the economy and delayed recovery.

We are pleased to be in a position to say we have remained profitable, achieving a healthy tax-paid surplus of \$14.25 million for the March 2011 year. However, we have not been immune to the economic downturn, with a significant increase in loan provisioning over the past three years.

Our pre-tax operating surplus of \$17.3 million, while down on the previous year's \$19.4 million, is satisfying given it is after making a special provision of \$3.55 million for potential losses in relation to the Christchurch earthquakes. We are also delighted to reach a significant milestone for the first time this year with total equity exceeding \$200 million.

It certainly is a pleasure to inform members of this excellent result given the environment and the fact that our increased capital and liquidity ratios remain well above the required Reserve Bank minimums.

## THE YEAR IN REVIEW

The path to merger between SBS Bank and HBS came about after several months of discussion between the respective boards. Based around the co-operative principles of customer ownership, the values and objectives of each board were well aligned.

HBS was facing a significant challenge complying with the new regulatory regime applying to non-banks and transitioning its business to meet the demands of modern day banking. This was not lost on the members of Hastings Building Society. When invited to decide whether HBS and SBS Bank should merge, an overwhelming 98% of HBS members voted in favour of joining forces, with the merger taking effect from 1 October.

By February 2010 an expanded range of everyday banking products and services under local brand HBS Bank was made available to our Hawke's Bay members following six months of intense integration activity by both HBS and SBS Bank teams. While it is still early days, we are very pleased with the progress made to date. Staff involved at both SBS Bank and HBS Bank are to be congratulated for an outstanding effort to merge the interests of two proud, customer-owned organisations.

The low for the year was undoubtedly centred round the Christchurch earthquakes. The devastation from the first earthquake was significant enough, but could still not prepare us for the death and destruction that was to occur in February. The impact on land and buildings will diminish over time, but the impact on the people of Christchurch and the country as a whole will remain with us for generations. More than 180 deaths; hundreds injured; cost to repair, \$20 billion to \$30 billion; time to repair, 15 to 20 years; impact on economy, extensive.

We were fortunate that none of our staff or their families incurred significant physical injuries, but many have been affected both directly and indirectly by the devastation. In addition, many of our members have also been affected by partial or total destruction of their homes, with more than 500 receiving special assistance from SBS Bank as we work with them to manage their way through this crisis. Our thoughts have been with those members who have been directly affected. Our inner-city Christchurch branch is currently closed, with all staff relocated to our Ferrymead, Riccarton and Papanui branches.

Your directors are aware it will take time to understand the impact of the earthquakes on our lending portfolio in Christchurch. Though we have the comfort of knowing our lending is secured by first mortgage security, with replacement insurance a mandatory requirement, we have taken a precautionary \$3.55 million provision against potential, but unknown, losses from the earthquake.

Members can also be assured that our insurance subsidiary Southsure sells fire and general insurance cover as an agent only and consequently has no underwriting residual liability for any earthquake claims.

## FUNDING AND LIQUIDITY

SBS Bank has maintained a healthy funding position with retail funding growth for the year of \$210 million (9.3%). We are encouraged by this level of support from our members in what was an extremely competitive market. Strong retail funding has enabled SBS Bank to retain healthy liquidity ratios, well above Reserve Bank minimums, while total liquidity has increased to more than \$475 million, much of which is in cash or highly liquid investments.

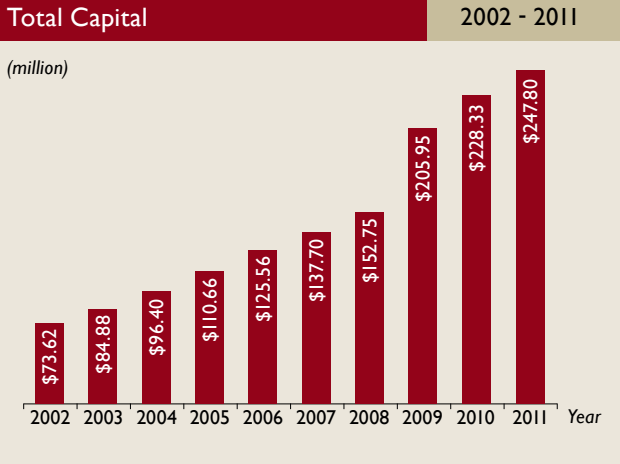
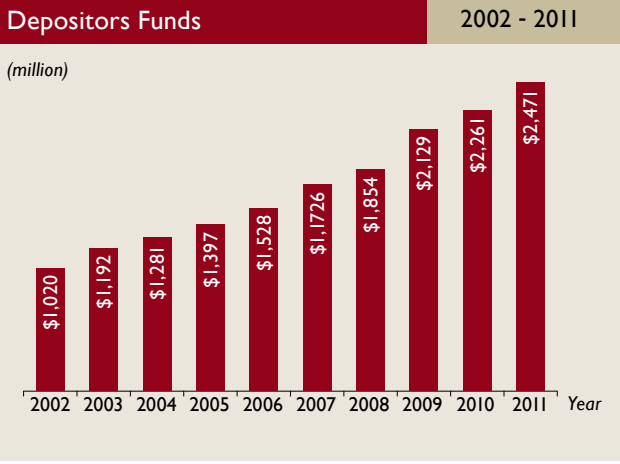
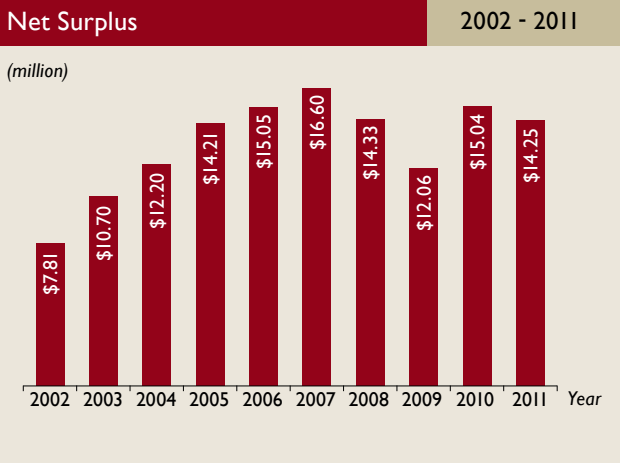
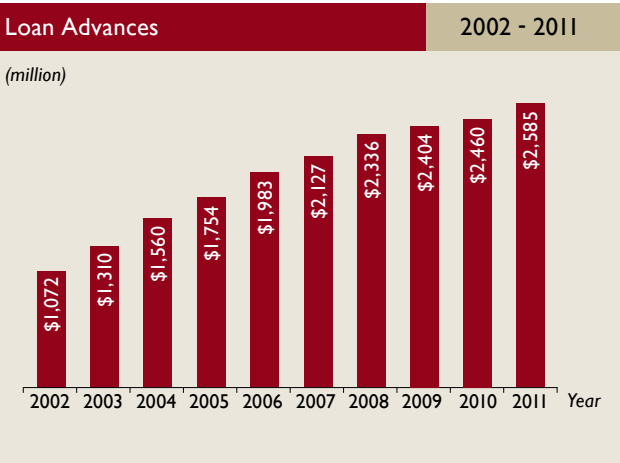
SBS Bank has been approved as a Qualifying Financial Entity (QFE) under the Financial Advisers Act 2008. When the full enforcement of this Act comes into effect from 1 July, the service our members receive will not be impacted. However, you may notice more frequent disclosure of key information to assist you when making a financial decision as the new law is designed to promote the sound and efficient delivery of financial adviser services.

## LENDING

While the Christchurch earthquakes dampened what was already a sluggish housing market, our key lending focus has centred around supporting our existing members in both the home loan and farm lending markets.

As expected, our lending book has grown modestly by a net \$125 million over the year. If we removed the \$144 million of lending that flowed into our book as a result of the HBS merger, there would have been a small net decline, reflecting an encouraging trend in these difficult times by both our members and the wider New Zealand public to repay debt. Lending approvals of \$205 million are down on \$305 million last year, reflecting a more conservative approach to lending, which has included the Housing New Zealand Corporation-insured Welcome Home Loan and lower loan to valuation (LVR) lending. In the current environment, your directors have continued to steer clear of loans which have a higher risk profile.

# YOUR DIRECTORS' REVIEW



# WELCOME ABOARD HAWKE'S BAY

When HBS members voted 98% in favour of a merger between SBS Bank and HBS, it wasn't just about the survival of HBS, it was about their belief in the need for a New Zealand bank owned 100% by its customers.



HBS Bank customer services officer Rebecca Moyle.

**Born, bred, local.**  
We are Hawke's Bay's local bank

**HBS Bank**

0800 427 2265 [www.hbsbank.co.nz](http://www.hbsbank.co.nz)  
Hastings: Cnr Queen & Market Streets, Hastings Napier: 93 Dalton Street, Napier Hawke's Bay: Napier Road, (from June 2011)



## RECORDS SET AS HBS BANK TEAM SWINGS INTO ACTION

The records for sales of transactional banking products were smashed in quick fire when HBS Bank staff like Rebecca Moyle got their hands on the First 500 everyday banking pack. Within two weeks of launching the new range of products, more than 300 of the special edition First 500 were spoken for as our loyal Hawke's Bay members responded to the call of our unstoppable HBS Bank team.

Now our Hawke's Bay members have the benefit of telephone and internet banking, debit cards, cheque books and transactional accounts that range in features tailored to meet the particular needs of members.

Many more services have since been introduced, including new savings and investment specials, KiwiSaver, the Welcome Home Loan, insurance products and tailored banking packages for non-profit organisations. Early signs from Hawke's Bay suggest that transactional banking will not be the only product territory that the HBS Bank team will excel in.

## HALF A MILLION TO GIVE BACK

True to the agreement between the boards of HBS and SBS Bank, we are committed to pledging \$500,000 to the community via sponsorships over the next five years.

It's a promise we were only too happy to put quickly into action when we became the principal naming sponsor of HBS Bank Christmas in the Park joining more than 25,000 locals for a night of great family entertainment.

To top off around 50 other local Hawke's Bay sponsorships during the year, we were thrilled to become the lead sponsor of the HBS Bank Hawks for the next three years. A proud Hawke's Bay sporting success, the HBS Bank Hawks launched their season with eight consecutive wins, catapulting them into the quarter-finals and driving their loyal audiences into a frenzy.

## SUBSIDIARY COMPANIES

The contribution of our subsidiaries reached another record high with a combined \$11.8 million added to our pre-tax operating surplus. It reflects a performance that continues to grow from strength to strength and reinforces the decision made to expand the SBS Bank stable into new financial markets.



### Southsure Assurance Ltd

Southsure posted a record operating surplus reflecting another year of growth and increased contribution to the SBS Banking Group. In response to member demand, it was pleasing to add a number of additions to the suite of fire and general insurance products while new legislation, requiring insurance companies to be licensed to operate under the supervision of the Reserve Bank, has the team working through the process of obtaining a provisional licence with an aim to obtain a full licence by September 2013.

The vast majority of claims notified following the quakes have been in relation to property damage, with the liability for these falling firstly on the Earthquake Commission and then on our general insurance underwriter, Lumley Insurance, which has substantial reinsurance arrangements in place. Claim liabilities underwritten by Southsure directly have been light and have had no material effect on the forecast result for the year ahead.



### Finance Now Ltd (FNL)

Commitment to quality service has resulted in Finance Now's credit sales facility now being used by more than 1200 retail stores nationwide, while an experienced lending team has provided assistance to more than 220,000 customers. These factors have resulted in continued growth of the Finance Now loan book, market share and profitability.

As a 100% New Zealand-grown organisation, the efforts of the dedicated team at Finance Now have resulted in a continued decline in arrears and bad debt levels – a remarkable achievement in the current economic climate.

The business continues to demonstrate an intimate understanding of the home market and a determination to provide memorable customer service, with the results allowing Finance Now to produce a healthy increase in its return to SBS Bank and its customers.

Not resting on their achievements, Finance Now is investing in eMoney capability, allowing customers to manage their finances via their mobile electronic device or web services. With such a solid foundation, Finance Now is making its 'Money Your Way' promise a reality.



### Funds Administration NZ Ltd (FANZ)

Focusing on quality has meant that FANZ continues to be one of New Zealand's fastest growing financial advisory firms. FANZ produced another solid financial performance during the year with an 8% increase in funds under management, which now total more than \$320 million, along with solid returns for investors and strong financial management. Strong growth in the Lifestages KiwiSaver Scheme continued and it is believed that the KiwiSaver proposition will be a key part of the business for many years to come.

Considerable time and resources during the year were put into ensuring the FANZ team of financial advisers met the requirements set by the Financial Markets Authority to become designated Authorised Financial Advisers. This was achieved by all of the FANZ advisers, who are now authorised to provide financial advice. A key thrust of the new legislation is a focus on compliance and ongoing improvement and FANZ remains committed to a philosophy of quality, focus to deliver consistent returns and ensure there are 'no surprises' for investors.

### Fraser Properties Ltd

Fraser Properties owns our head office building in Invercargill and it continues to perform well and contribute to group profitability.

David Newman  
Chief Executive

Southsure Assurance Ltd  
11 Don Street  
Invercargill, (PO Box 1404)  
Telephone: 0800 002 002  
Fax: 03 211 1167



Graham Duston  
Executive Director

FANZ Ltd  
Level 1, SBS House  
180 Manchester Street  
Christchurch, (PO Box 13801)  
Telephone: 0800 502 442  
Fax: 03 963 4915

Phil Ellison  
Chief Executive (Joint)

Finance Now Ltd  
118 Spey Street  
Invercargill, (PO Box 1204)  
Telephone: 0508 888 999  
Fax: 03 218 6278





COMMUNITY SUPPORT

As avid supporters of our grassroots communities, we are delighted to see the number of sponsorships grow from 270 to around 320 during the past year. Ranging from little local groups such as preschools and sporting clubs to major sponsorship partners, including Otago Cricket, the SBS Events Centre in Timaru and the Tasman Makos, each and every sponsorship is of equal importance to us.

Following four years as the principal sponsor of the Tasman Makos, it was pleasing to be able to renew a two-year major sponsorship in recognition of how strongly our SBS Bank profile and market share have grown in the Nelson and Marlborough regions. The continued partnership means the ongoing benefits fall both ways for the Makos and SBS Bank.

As we continue to find new ways of giving back, we were able to provide more incentive for SBS Bank members to support their local cricket team with a ticket discount to southern matches through our major sponsorship with the Otago Volts Twenty20 cricket team. Through the year, new member benefits continued to grow as we created new opportunities through our community sponsorships.



HBS Bank Hawks players vie for possession.

Photo: Hawke's Bay Today



SBS Bank Makos Kids Fun Day, Nelson.



Hakonui Moonshiners' Festival, Gore.

YOUR COMMUNITY SPONSORSHIP

Major sponsorships for 2011 - 2012

SBS Sports House/ILT Velodrome – Invercargill | SBS Events Centre – Timaru | SBS St James Theatre – Gore | SBS Marathon – Christchurch | Tasman Makos – Nelson/Marlborough | SBS Bank Hamilton Half Marathon | Dunedin Chinese Garden | SBS Bank Southland on Show A & P Association | Otago Cricket | SBS Bank Golf Invitational – Invercargill | SBS Bank Cromwell Golf Club | Rugby Southland Referees | Sport Southland Awards | Central Stories Museum and Art Gallery | HBS Bank Hawks | HBS Bank Christmas in the Park

TAURANGA

Bethlehem College  
Bethlehem Foundation  
Exult Non-profit Conference  
Kaimai School  
Katikati Junior Football Inc  
Omokoroa Bowling Club  
Omokoroa Golf Club  
Otumoetai Tennis Club  
Tauranga Arts Festival  
Tauranga Bowling Club  
Tauranga Bridge Club  
Tauranga Country Music  
Tennis NZ Seniors Inc  
Te Puke Tennis Club  
Welcome Bay Community  
Playgroup  
Western Bay of Plenty  
Tennis Seniors

HAMILTON

Annual Rotary Book Fair  
Cambridge Contract  
Bridge Club  
Cantando Choir Anzac Day  
Concert  
Hamilton North East  
Development Trust  
Hamilton Performing Arts  
Trust  
Lochiel Golf Club  
Newton School Art Awards  
Netball Waikato Umpire  
Development  
Newstead School Agri Day  
Rotary Golf Day  
SBS Bank Half Marathon  
United Women's Bowls

NELSON

Angel Women's Loan Fund  
Families in Touch  
Competition – Nelson Bays  
Nelson Endurance Club  
Nelson Trolley Derby  
Nelson School of Music  
Off Your Rocker Musical  
Group  
Property Investors  
Association  
United Bowling Club  
Waimea College  
Wakefield Bowling Club

BLENHEIM

Awatere Golf Club  
Awatere Playcentre  
Marlborough Cricket  
Association  
Marlborough Golf Club  
Marlborough Harriers Club  
Marlborough Tennis  
Association  
Rapaura Tennis Club  
Riding for the Disabled  
Springlands School  
Wairau Valley Golf Club  
Whitney Street School

CHRISTCHURCH

Burwood Community Fair  
Canterbury Basketball  
Association  
Canterbury District Law  
Society  
Canterbury Education  
Services

Canterbury Veteran Golfers  
Association  
Cashmere Bowling Club  
Clearwater Golf Club  
Fendalton Bowling Club  
Halswell Bowling Club  
Harewood Golf Club  
Naval Point Yacht Club  
NZ Spinal Trust  
New Brighton Running Club  
Olympic Harriers 15km Run  
/ Walk  
Parafed  
Richmond Bowling Club  
Sport Canterbury

RICCARTON

Barrington United Bowling  
Club  
Burnside Bowling Club  
Canterbury Tri Club  
Central Riccarton Residents  
Association Inc  
Crockfords Bridge Club  
Elmwood Bowling Club  
Life Education Trust  
Malvern Lions Great Alpine  
Mountain Bike Challenge  
Riccarrton Racecourse  
Bowling Club  
Riccarrton Rotary Club  
Riding for the Disabled  
Rolleston Probuss

PAPANUI

Avondale Golf Club  
Belfast Bowling Club  
Canterbury Indoor Bowls  
Association

Kaipoi Golf Club  
Papanui Bowls  
Papanui Toc H Athletic Club  
Parklands Bowls  
St Albans Merivale Bowls  
St Albans Swimming Club  
Tiddlers Multisport  
West Eyreton School  
Woodend Probuss

FERRYMEAD

Ferrymead Bays Football  
Club  
Mt Pleasant Bowls Club  
Mt Pleasant Tennis Club  
Sumner Bowls Club  
Redcliffs Bowls  
Redcliffs School  
Sumner Cricket Club  
Waimairi Beach Golf Club

TIMARU

Aorangi Bowling Club  
Ashbury Bowling Club  
Awamoa Bowling Club  
Bowls South Canterbury  
Caroline Bay Association  
Central South Island Charity  
Bike Ride  
Eastern Districts Swimming  
Gleniti Golf Club  
Ophi College  
Otupua Pony Club  
Parent 2 Parent  
Parkinsons South Canterbury  
Plunket Art Show  
Roncalli College Rowing  
Soccer South Canterbury

South Canterbury Croquet  
Association  
South Canterbury Drama  
League  
South Canterbury Rose  
Society  
Temuka Golf Club  
Timaru Bowling Club  
Timaru Bridge Club  
West End Croquet Club  
Zonta Club of Timaru

CROMWELL

Alexandra Bowling Club  
Alexandra Golf Club  
Alexandra RSA Bowling Club  
Central Otago 10th Grade  
Soccer Team  
Central Otago Arts Society  
Blossom Festival Art  
Exhibition  
Central Otago Sports Awards  
Central Otago Umpires  
Association  
Central Otago Veterans Golf  
Cromwell Bridge Club  
Cromwell College  
Cromwell Ladies Winter Golf  
Clyde Bowling Club  
Dunstan High School  
Scholarship  
Goldfields Primary School  
Production  
Terraces Primary School  
Production  
Wanaka Bowling Club  
Wanaka Golf Club

DUNEDIN

Botanic Gardens Aviary  
City of Dunedin Choir  
Dunedin Council of Social  
Services  
Dunedin Junior Rugby Club –  
Under 13 team  
Dunedin Triathlon and  
Multisport Club  
Falcons Basketball Club  
Kavanagh College  
King's High School  
Malcam Charitable Trust  
Foundation St Clair Golf Club  
Macandrew Bay Bowling  
Club  
Otago Children's Athletics  
Otago Community Hospice  
– SBS Memorial Walkway

QUEENSTOWN

Altrusa Charity Golf  
Arrowtown Bowling Club  
Lumsden Golf Club  
Queenstown Bowling Club  
Queenstown Ladies Golf Club  
Queenstown Golf Ladies  
Classic  
Queenstown Mountain  
Bike Club  
Queenstown Primary School  
SBS Bank Winter Classic  
Ski Team  
U3A Wakatipu  
Wakatipu High School  
Annual Production  
Wakatipu Walkers Group  
Wanaka Bridge Club

Otago Girls' High School  
Otago Golf Club  
Otago Tramping and  
Mountaineering Club

GORE

Baldutha Golf Club  
Clinton Bowling Club  
Gore Bowling Club  
Gore Boxing Club  
Gore Dancesport  
Gore Gallops  
Gore Gold Guitars  
Gore Golf Club  
Gore Harness Racing  
Gore RSA Bowling Club  
Hakonui Moonshiners'  
Festival  
NZ Country Music Awards  
Pioneer Rugby Club  
Riversdale Golf Club  
SBS Bank Gore Half  
Marathon and Fun Walk  
Southland Dressage

INVERCARGILL

Association of Blind Citizens  
of NZ  
Bluff Bowling Club  
Bowls Southland  
Central Southland Indoor  
Bowls  
Computer Capers  
Drummond Women's Golf  
Georgetown Bowling Club  
Golf Southland  
Grassmere Netball Club  
Greenacres Country Club  
Greenacres Country Club  
– LGU  
ILT Interclub Golf  
ILT Kidzone Festival  
Inner Wheel NZ  
Invercargill Athletics Club  
Invercargill Citizens Bowling  
Club  
Invercargill Contract Bridge  
Club  
Invercargill Dodgers Softball  
Invercargill Harness Racing  
Club  
Invercargill Irish Society

Invercargill Kart Club  
Invercargill Parents Centre  
Invercargill Poultry & Pigeon  
Club  
Invercargill Sunrise Rotary  
Club  
Invercargill Working Men's  
Club – 8 Ball Pool Section  
James Hargest College  
James MacPherson Bowling  
Club  
Limehills Bowling Club –  
Women's Section  
Limehills Bowling Club  
Miniature Horse Club –  
Southland  
Ohai Golf Club  
Orca Swimming Club  
Oreti Plains Indoor Bowls  
Otatau Ladies Golf Club  
Otatau Men's Golf Club  
Otatau Bowling Club  
Otataru Bowling Club  
Oteramika Indoor Bowls  
Club  
Queens Park Men's Golf  
Queens Park Ladies Golf  
Ringa Ringa Heights Golf  
Club  
Riverton Golf Club  
Riverton Rocks Bowling Club  
Rotary Club of Invercargill  
Shakespeare in the Park  
Sixties Up Movement  
of NZ  
Southend United Football  
Club  
Southland Billiards and  
Snooker Association  
Southland Bowling Club  
Southland Children's  
Athletics  
Southland Cricket  
Association  
Southland German  
Shepherd Dog Club Inc  
Southland Girls' High –  
Netball  
Southland Golf Club  
Southland Indoor Bowls Club  
Southern Institute of  
Technology

Southland Junior Football  
Southland Justice of the  
Peace Association –  
Conference  
Southland Marathon –  
SBS Bank Kids Marafun  
Southland Multi Breed  
Stallion Expo  
Southland Rodeo  
Association  
Southland Under 65kg  
Rugby Team  
Southland Veterans Golf  
Table Tennis Southland  
Te Anau Contract Bridge  
Club  
Te Rangi Bowling Club  
Tokanui School  
Tuatapere Golf Club  
Waiau Valley Lions Club  
Waihapai Junior  
Football Club  
Waihapai Women's  
Bowling Club  
Waikivi Bowling Club  
Waikivi Rugby Club  
Western Districts Indoor  
Bowling Sub Centre  
Western District Bowling  
Sub Centre  
Western Social Netball  
Winton and District  
Horticultural Society  
Winton Contract  
Bridge Club  
Winton Central  
Bowling Club  
Winton Golf Club  
Woodlands Bowling Club  
Wyndham Ladies Golf Club

RURAL

Arapahoe Hockey Club  
Balfour School  
Balfour Theatre Company  
Central Otago Sports  
Awards  
Southland Rural Primary  
School Golf Tournament  
Clinton Golf Club  
Clyde Fruitgrowers  
Cromwell College

NON-PROFITS STILL REAPING  
BENEFITS OF OWNING THE BANK

If your non-profit organisation hasn't tapped into our Star banking package yet, please **don't miss out!**

1500 clubs and societies are now privy to the outstanding benefits of bringing their everyday banking to us. So if you are involved with, or know of, a hard-working non-profit group, ask how we can help.

Star vital statistics

**\$370,000** – The amount of money deposited into the accounts of 231 Star account holders via the monthly prize draw to 31 March 2011.

**1500** – The number of non-profit organisations that have brought their banking to us up until 31 March 2011.

**\$10,000** – The total donation received by Star account holder Hospice Southland after SBS Bank members voted for them to be the charity of choice for the 2011 SBS Bank Golf Invitational.

**\$11,190** – The amount of money gifted to 165 Star account holders nominated by SBS Bank investors as their chosen non-profit group through our Star Investment Specials.

HBS BANK

HASTINGS

Age Concern Hawke's Bay  
Alzheimers Society  
Bowls Hawke's Bay  
Bowls Heretaunga  
Farmlands Golf Tournament  
Flaxmere Pony Club  
Hastings Bridge Club  
Hastings Citizens Band  
Hastings Coral Society  
Hastings Riding for the  
Disabled  
Hawke's Bay Golf Club  
Twilight Golf  
Hawke's Bay Polo Inc  
Hawke's Bay Rugby Union  
Hawke's Bay Vintage  
Car Club  
HBS Bank Art Hawke's Bay  
Annual Exhibition  
HBS Bank Hastings City  
Business Awards  
HBS Bank Summer in  
the Park  
Havelock North Bowling  
Club  
Havelock North Bridge Club  
Havelock North 150th  
Celebration  
Havelock North Peak Trail  
Blazer  
Heretaunga Seniors  
Keirunga Gardens Art  
Weekend  
Kia Toa Bowling Club  
Kings Empire Veterans  
Society

National Service Club  
Tournament  
New Zealand Singing  
School  
Ocean Beach Surf  
Lifesaving  
Opera House Hawke's  
Bay  
St Matthews Conservation  
Fundraising Committee  
Te Awanga Progressive  
Association  
Te Kowhai School  
Tremains Corporate  
Triathlon  
Western Rangers Netball  
Club

NAPIER

Art Deco Weekend  
Bay View Bowling Club  
Bowls Taradale  
Bluff Hill Bowling Club  
Deco Decanted  
Napier City Business  
Awards  
Napier Civic Choir  
Napier Family Centre  
Jeans Friday  
Port Ahuriri Bowling Club  
Tamatea Kindergarten



## AT THE GRASSROOTS – WHERE IT COUNTS

When we take on a community partnership, we are serious about getting the best possible results for everyone involved. That's what being there for our people and our community is all about.



### DROP GOAL FOR RUGBY REFS

The fantastic success of international rugby referee and Southland boy Keith Brown is not the only thing that brightens the day of Rugby Southland club rugby manager and referee education officer Keith Crothers. He is relishing the fact that SBS Bank has cemented a major sponsorship with his passionate team of whistle-blowing and flag-waving volunteers involved with Rugby Referees Southland.

"For around six months of every year our team play an integral role on rugby fields throughout Southland, allowing thousands of players of all ages and levels to enjoy their sport and make the best of their games. Rugby Southland couldn't function without them."

Referees board chairman Barry Simmonds says "to have the backing of SBS Bank as our major sponsor for the next three years is a great vote of confidence for us and will help to ensure we can continue to provide the sport of rugby with great service over the coming seasons, for the benefit of players, their families and spectators alike."

### SPROUTING GREEN FINGERS

A green finger revival was sparked in the Lakes District over the summer months following a SBS Bank Queenstown seed giveaway that had hundreds of locals harvesting the rewards of their planting projects.

SBS Bank Queenstown staff Honor Mathieson and Lisandra Macaes say the community giveaway had a feel-good factor of being hands-on and sustainable while being something everyone could have a go at.

"Much to our delight, a mass of colourful thank you messages and cards flooded into our branch, so we shot out to Arrowtown Preschool to check out their fantastic array of veges, herbs and flowers that the kids were savouring.

"We were so impressed with their efforts – they had done a brilliant job."

### PERFECT FIT FOR JEANS DAY

Just like a good pair of jeans, HBS Bank Napier found it was a comfy fit partnering the Napier Family Centre for their annual Jeans Friday fundraiser.

HBS Bank Napier manager Kerry Harding said as the major sponsor they were among more than 120 workplaces to heed the call and don their denim for the day, while acting as the official collection point for donations in Napier and Hastings.

"What a buzz! It was fantastic to see the community get behind the Napier Family Centre and support such a worthy non-profit organisation that gives so much back to our local community.

"But that event was topped off when I was able to ring the team up at the centre and share the news they had an additional \$1000 to put towards their organisation's valued community work after they became our first-ever HBS Star prize draw winner."

## BRANCH NETWORK

Making the move to expand the SBS Banking Group network with the HBS merger provided us with a greater North Island retail network footprint through the addition of two branches in Hastings and Napier and a third scheduled to open in July in Havelock North. In our unique style of modern-day banking, the Hastings branch underwent a major refurbishment, transforming to our customised, lounge-like ambience complete with comfortable couches, fireplaces and a welcoming cup of coffee. Meanwhile, due to growing demand in Christchurch, our Riccarton branch was doubled in size by an expansion of our premises into adjoining retail space.

## SBS BANK RURAL

While the rural market had a subdued year, it also saw high incomes across most farming sectors providing improved opportunity to reduce farm debt. Agricultural commodity markets have risen strongly and this, coupled with elevated New Zealand agricultural export prices, is set to see farming continue to boost the economy and contribute strongly to the country's financial recovery.

Working hand-in-hand with our rural members, we continue to ensure that our rural bank managers are equipped with the specialist farming knowledge that is welcomed by our many valued and loyal partners on the land. To better communicate our specialised range of products, services, expert knowledge and genuine commitment to our rural members, we took the opportunity to create the SBS Bank Rural sub-brand of SBS Bank, creating a more informative marker of who we are and what we can offer.



SBS Bank Rural managers

## GROWING PRODUCTS AND SERVICES

For the second year running since SBS Bank became eligible to be included, we attained a positive result in the fifth annual Canstar Banking Awards topping two award categories for best fully featured transactional account, for the second consecutive year, and best term deposit for 12 months.

We launched the highly successful SBS Lite flat-fee transactional account, offering our members an everyday account designed specifically for members who like to manage their own money through electronic channels such as telephone and internet banking. The SBS Lite account offers a competitive alternative to our SBS Classic transactional account in the ever-growing suite of everyday products and services we offer.

We also partnered with Xero – a leading provider of online accounting software and account aggregation for small businesses. Xero provides the link between cash transactions and accrual accounting information and invoicing. Our members now have the ability to view their overall financial position at a glance via automated daily datafeeds between SBS Bank and Xero.

## DIRECTORS

Following the merger with HBS, their previous board chairman Frank Spencer was appointed to our SBS Bank Board of Directors. As a registered valuer, Frank brings in-depth knowledge of the Hawke's Bay real estate market to the board table, along with a passionate belief in the benefits mutuality brings to its members. In line with our society rules, Frank stood for re-election and it is pleasing to announce his reappointment for a further three-year term.

It is with regret that we announce Garry Diack will be resigning from the directorate following the Annual General Meeting in July. SBS Bank's association with Garry spans 15 years, first as a consultant to the board when we were challenging the future direction of SBS Bank and, for the past six years, as a director. We wish Garry well and acknowledge his outstanding contribution to SBS Bank.

In true SBS Bank style, our dedicated team across the SBS Banking Group rose to the challenges before them to ensure our focus remained on providing exceptional service to members – no matter what the circumstances. We proudly thank and commend all of our staff throughout the country for helping to maintain a profitable organisation and welcome aboard our new family in Hawke's Bay. The willingness of our staff to accept the extra workload required to effect a substantial merger, while continuing to provide first-class member service, is testimony to the culture of a mutual society.

Overall, members can be proud that SBS Bank has performed strongly through the most challenging economic period for 80 years, coupled with one of the worst years of natural disasters in New Zealand history. Our 142-year history and a diverse group of high-performing companies focused on the financial sector position us well to succeed in even the most difficult times.

*Ross Smith*

R L (Ross) Smith  
Chief Executive

*J W A (Acton) Smith*

J W A (Acton) Smith  
Chairman





## LOOKING BEYOND THE NUMBERS

Respect comes in many forms. For the folk at SBS Bank it means looking beyond the numbers into the hearts and minds of our customers.



**Paul Grant**

WELCOME BAY PASTOR

With a 25-year history of providing an array of community and welfare services, the concept of starting from scratch was far from ideal for Paul Grant and his team at the Welcome Bay Community Church, in Tauranga.

“After sharing a site for quarter of a century we were evicted, so we were basically left with some chairs and bits. We were down, but not out. Whatever happened, we knew we wanted to keep the DNA of what our organisation stood for.

“We approached all the other banks about buying a property where we could establish our ministry offices and a childcare centre, but the answer was always the same – ‘No!’ Then we approached SBS Bank and we had no doubt the relationship was going to be a success right from the start – they trusted us.

“SBS Bank gives us the confidence to be the best community church and interface services provider we can possibly be and we can truly say we’re committed to the relationship. It’s been an incredible journey that’s only just begun.”



**Terri Gregory**

TAURANGA MANAGER

When Terri Gregory joined SBS Bank four years ago, she never imagined she would be preaching about SBS Bank to a church congregation on a Sunday morning. After the Welcome Bay Community Church won its first SBS Star prize draw, an invitation was extended to do exactly that!

“I went along with the big SBS Bank cheque to make the official presentation but I just couldn’t talk business, it didn’t seem the right time and place. Instead I said: ‘I’ve been asked to come here to talk about SBS Bank – but that’s not really what today’s about’ and I cast my glance skyward.

“That’s what our relationships with our members are about, coming up with the right scenarios at the right time.

“While they’re still holding church services at a local school hall they are fundraising and we’re looking forward to helping them into their very own, brand new church building in the future.”



**Cliff Gawler**

BANKING CONSULTANT

Helping community groups like the Welcome Bay Community Church achieve their goals is why Cliff Gawler gets out of bed in the morning. After nearly 40 years in banking he never gets tired of it.

“To be able to see them into their very own property is something really special. It’s a buzz to help out a local group who are so sincere and dedicated to doing good for their members and their community. You know you’re helping not just one person or one organisation but a wider community circle and that fits perfectly with our SBS Bank ethos.

“It’s exactly the same scenario when I’m dealing with a first-time home owner – it’s about creating that sense of wellbeing and excitement all at the same time.

“The effect our support has had within the wider community of the church has been hugely rewarding and it creates a ripple effect of goodwill in the community.”



# YOUR DIRECTORS

It is an honour to represent the best interests of our customers and our community while ensuring the future of SBS Bank remains true to its proud 142-year history.



STANDING: From left to right

- Jeff Walker**  
LLB
- Garry Diack**  
MA (Hons)
- Jeff Grant**
- Greg Mulvey**  
BCom, FCA, FNZIM
- Frank Spencer**  
BBS (Val & Pty Mgt),  
FNZIV, FPINZ, AREINZ

SEATED: From left to right

- Ross Smith**  
BCom, FNZIM
- John Ward**  
BCom (Otago) FCA,  
FlntSD  
*Deputy Chairman*
- Acton Smith**  
BCom, FNZIM,  
FlntSD  
*Chairman*
- Kathryn Ball**  
BCom, CA

**J W A (Acton) Smith**  
*BCom, FNZIM, FlntD*  
*Chairman*

Mr Smith is managing director of H & J Smith Limited, a large, privately-owned retail company that operates five department stores and several allied businesses throughout the South Island.

He is chairman of the Southland Leisure Centre Charitable Trust, was a founding director of Foveaux Radio and recently retired as deputy chairman of Mitre 10 New Zealand Limited. He is also a Fellow of the Institute of Directors.

Mr Smith was elected to the board in 1991 and served as vice-chairman until his appointment as chairman in 1994.

- Member:* Audit & Risk Committee  
*Trustee:* SBS Charitable Trust  
*Member:* Board Appointment Committee

**J F (John) Ward**  
*B Com, FCA, FlntD*  
*Deputy Chairman*

A chartered accountant, Mr Ward was appointed to the board in 2002.

He is chairman of H & J Smith Holdings Ltd, the A J Hackett Bungy Group and is a director of various private companies, including Wilson Holdings Ltd and Otago Innovation Ltd. He chairs the Transport for Disabled Trust (Southland), is a Fellow of both the New Zealand Institute of Directors and the Institute of Chartered Accountants and is a trustee for a number of charitable trusts.

Mr Ward is the Chancellor of the University of Otago.

- Chairman:* Finance Now Ltd  
*Trustee:* SBS Charitable Trust  
*Member:* Audit & Risk Committee  
*Chairman:* Remuneration Committee  
*Chairman:* Board Appointment Committee

**K J (Kathryn) Ball**  
*BCom CA*

Mrs Ball, a practising chartered accountant and taxation specialist, was appointed to the board of SBS Bank in April 2006.

She is a principal in Invercargill accounting firm McIntyre Dick & Partners Ltd and a member of the New Zealand Institute of Chartered Accountants.

Prior to becoming a director, Mrs Ball had been the independent representative on SBS Bank's audit committee for five years and was a member of the SIT council until December 2005, serving periods as deputy chairperson and the audit and finance committee's chairperson.

- Chairperson:* Audit & Risk Committee  
*Trustee:* SBS Charitable Trust

**J J (Jeff) Grant**

Mr Grant, in partnership with his wife Julia, is farming sheep and deer at Balfour. He joined the board of SBS in 2007.

Formerly a Member of Parliament from 1987 to 1993, Mr Grant has since then been involved in agribusiness directorships with a range of companies and organisations, including Landcorp, Wrightson and Beef and Lamb NZ, and he recently retired as chairman of the NZ Meat Board and Meat and Wool NZ.

Mr Grant is chairman of the Milford Development Authority, the Agricultural and Marketing Research and Development Trust (AGMARDT) and Southland Shared Services and is a director of the Animal Health Board, National Animal Identification and Tracing (NAIT) and Wool Partners International.

- Director:* Finance Now Ltd

**F E (Frank) Spencer**  
*BBS (Val & Pty Mgt), FNZIV, FPINZ, AREINZ*

Mr Spencer joined the board in November 2010, following the merger of HBS with SBS Bank. Mr Spencer was appointed to the Hastings Building Society board as a director in 2001 and became chairman in 2008 – a role he held until HBS merged with SBS Bank on 1 October 2010.

The managing director of Crighton Stone Limited, Mr Spencer is a registered valuer specialising in provincial property markets for commercial, industrial, investment, special purpose and operational property. His areas of expertise include valuation, property management, investment advice and strategic property planning, including negotiation and transaction advisory.

Mr Spencer is a Fellow of both the New Zealand Institute of Valuers and the Property Institute of New Zealand and an Associate of the Real Estate Institute of New Zealand.

**J B (Jeff) Walker**  
*LLB*

Mr Walker, a practising barrister and solicitor in Invercargill, was elected to the board in 1998.

He was a member of Southland District Law Society Council from 1991 until 2009, when he retired as past president.

Mr Walker is both a past president and a life member of Relationship Services. He is president of Football South, Southland Football Inc and Southland WEA. He is vice-president and treasurer of the Federation of WEAs.

- Chairman:* Funds Administration New Zealand Ltd  
*Member:* IT Committee  
*Member:* Board Appointment Committee

**G J (Garry) Diack**  
*MA (Hons)*  
*(Retiring July 2011)*

Mr Diack was appointed to the board in 2005. He is a senior executive with Solid Energy and has a long career in providing corporate performance and strategy advice to companies throughout Australia and New Zealand.

He also chairs General Cable Superconductors and is a member of the New Zealand Institute of Directors and the Australian Institute of Company Directors.

A long-standing supporter of SBS Bank, Mr Diack provided governance, strategy and corporate performance advice to SBS Bank for nine years before joining the board.

- Chairman:* Southsure Assurance Ltd  
*Member:* Remuneration Committee  
*Member:* IT Committee

**R L (Ross) Smith**  
*BCom, FNZIM*

Mr Smith was appointed SBS Bank chief executive in 1992, joining the board as an executive director later that year.

He has a financial accounting background and has held various executive positions in the banking and travel industries, both in New Zealand and overseas.

Mr Smith attended the prestigious Harvard Business School Advanced Management Programme. Mr Smith is also a director of Electricity Invercargill Limited, PowerNet Limited and Power Services Limited.

- Managing Director:* SBS Group  
*Director:* Southsure Assurance Ltd  
*Director:* Funds Administration New Zealand Ltd  
*Director:* Finance Now Ltd  
*Trustee:* SBS Charitable Trust  
*Member:* IT Committee

**G J (Greg) Mulvey**  
*BCom, FCA, FNZIM*

The Invercargill Licensing Trust's general manager for more than two decades, Mr Mulvey joined the board of SBS Bank in 2004.

He is a fellow of the New Zealand Institute of Chartered Accountants (FCA) and a fellow of the New Zealand Institute of Management.

A director of DB South Island Brewery Limited, Mr Mulvey is also a trustee of the Stadium Southland Charitable Trust.

- Director:* Funds Administration New Zealand Ltd  
*Trustee:* SBS Charitable Trust  
*Member:* Audit & Risk Committee  
*Member:* Remuneration Committee  
*Chairman:* IT Committee



YOUR BRANCH MANAGERS

With a commitment to developing real relationships with our customers, nothing beats being able to put our key focus on delivering exceptional customer service – no matter what the circumstances.



STANDING: From left to right

- Matthew Isbister**  
Nelson

**Lynn Manson**  
Cromwell
- Patricia Muir**  
Queenstown

**Blair Cross**  
HBS Bank, Hastings
- Greg Stretch**  
Blenheim
- Scott Bowden**  
Gore
- Nicki Bennett**  
Christchurch -  
*Manchester Street*

SEATED: From left to right

- Ian Pollock**  
Christchurch -  
*Ferrymead*

**Neil Bramley**  
Invercargill
- Terri Gregory**  
Tauranga

**Glen Clarkson**  
Timaru
- Rod Fox**  
Hamilton

**Matthew Mark**  
Christchurch -  
*Riccarton*
- Carmen Moran**  
Dunedin
- Kerry Harding**  
HBS Bank, Napier

YOUR EXECUTIVE

We applaud the passion of our staff and their willingness to go the extra mile for their customers and their communities because it is what sets SBS Bank apart from all the others.



From left to right

- Martin Gale**  
General Manager  
Information & Technology  
Services

**Ross Smith**  
Group Managing Director /  
CEO
- Malcolm Little**  
General Manager  
SBS Bank Rural

**Mark McLean**  
General Manager  
Risk & Support
- Paul Atkinson**  
General Manager  
Retail

**Tim Loan**  
General Manager  
Finance
- Lana Winders**  
General Manager  
Corporate Performance



**Southland Building Society Summary Financial Statements**  
**Summary Income Statement - Banking Group** for the year ended 31 March 2011

	31/3/11 \$000	31/3/10 \$000
Interest income	182,286	172,040
Interest expense	16,037	16,897
Dividends on redeemable shares	102,565	95,598
	118,602	112,495
<b>Net interest income</b>	<b>63,684</b>	<b>59,545</b>
Other income	18,235	18,629
<b>Total operating income</b>	<b>81,919</b>	<b>78,174</b>
Operating expenses	47,554	43,068
Provision for credit impairment	17,057	15,727
<b>Operating surplus</b>	<b>17,308</b>	<b>19,379</b>
Net gain/(loss) from financial instruments designated at fair value	5,117	980
Revaluation of property	(88)	200
<b>Surplus before income tax</b>	<b>22,337</b>	<b>20,559</b>
Less income tax expense	8,087	5,522
<b>Net surplus</b>	<b>14,250</b>	<b>15,037</b>
<b>Attributable to:</b>		
Members' interests	11,761	12,723
Non-controlling interests	2,489	2,314
	<b>14,250</b>	<b>15,037</b>

**Summary Statement of Comprehensive Income - Banking Group** for the year ended 31 March 2011

Net surplus for the year	14,250	15,037
<b>Other comprehensive income</b>		
Net change in reserves, net of tax	(3,853)	7,912
<b>Total comprehensive income for the year</b>	<b>10,397</b>	<b>22,949</b>
<b>Attributable to:</b>		
Members' interests	8,163	20,686
Non-controlling interests	2,234	2,263
	<b>10,397</b>	<b>22,949</b>

**Summary Statement of Changes in Equity - Banking Group** for the year ended 31 March 2011

Equity at beginning of the year	177,664	155,580
Net surplus for the year	14,250	15,037
Other comprehensive income for the year	(3,853)	7,912
<b>Total comprehensive income for the year</b>	<b>10,397</b>	<b>22,949</b>
Dividends paid to minority interests	(1,479)	(1,554)
Acquired on merger	15,458	-
Change in capital of minority interests	-	689
<b>Total equity at end of the year</b>	<b>202,040</b>	<b>177,664</b>

**Southland Building Society Summary Financial Statements**  
**Summary Statement of Financial Position - Banking Group** as at 31 March 2011

	31/3/11 \$000	31/3/10 \$000
<b>Assets</b>		
Liquid assets and securities	191,244	138,066
Advances	2,584,656	2,460,089
Other assets	37,933	29,750
	<b>2,813,833</b>	<b>2,627,905</b>
<b>Liabilities</b>		
Redeemable shares	2,169,465	1,972,008
Deposits	240,546	260,068
Subordinated redeemable shares	61,232	59,307
Other liabilities	140,550	158,858
	<b>2,611,793</b>	<b>2,450,241</b>
<b>Equity</b>		
Attributable to members of the society	195,622	172,001
Attributable to non-controlling shareholders	6,418	5,663
	<b>202,040</b>	<b>177,664</b>
	<b>2,813,833</b>	<b>2,627,905</b>

**Summary Statement of Cash Flows - Banking Group** for the year ended 31 March 2011

Net cash flows provided by/(used in) operating activities	25,335	38,398
Net cash flows provided by/(used in) investing activities	(77,579)	(46,857)
Net cash flows provided by/(used in) financing activities	(946)	(507)
<b>Net increase/(decrease) in cash held</b>	<b>(53,190)</b>	<b>(8,966)</b>
Add opening cash and cash equivalents	90,460	99,426
Add opening cash and cash equivalents on merger	33,583	-
<b>Closing cash and cash equivalents</b>	<b>70,853</b>	<b>90,460</b>

  
Chairman  
J W A Smith

2 June 2011

  
Group Managing Director/ Chief Executive Officer  
R L Smith



Southland Building Society  
Notes to the Summary Financial Statements for the year ended 31 March 2011

1 Accounting Policies

Southland Building Society (SBS) was established in 1869, is incorporated under the Building Societies Act 1965, and was registered as a bank under the Reserve Bank of New Zealand Act 1989 on 7 October 2008. The summary financial statements presented here are consolidated statements for the reporting entity of the Banking Group comprising SBS and its subsidiaries.

These summary financial statements have been prepared in compliance with FRS-43: Summary Financial Statements and comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as it relates to summary financial statements. SBS has prepared the summary financial statements for members who have made an election under section 97B of the Building Societies Act 1965 to receive summary financial statements. The specific disclosures included in the summary financial statements have been extracted from the full financial statements dated 2 June 2011. The full financial statements from which the summary financial statements have been produced have been audited by KPMG, who expressed an unmodified opinion in relation to those financial statements as at 2 June 2011. These summary financial statements have been examined by KPMG for consistency with the full financial statements.

Users of the summary financial statements should note that the information contained therein cannot be expected to provide as complete an understanding as provided by the full financial statements of the income statements, statements of financial position and statements of cash flows of the Banking Group.

Users who require additional information are encouraged to access the SBS General Disclosure Statement and Annual Financial Statements on the SBS website at www.sbs.net.nz. Alternatively a hard copy of the SBS General Disclosure Statement and Annual Financial Statements will be provided immediately at no charge to any person requesting a copy where the request is made at SBS's head office, 51 Don Street, Invercargill, and within five working days where the request is made at any branch or agency of SBS.

The full financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and under NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities and the Registered Bank Disclosure Statement (Full and Half-Year - New Zealand Incorporated Registered Banks) Order 2008. The financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

The functional and presentation currency of the Banking Group is New Zealand dollars. All amounts contained in the summary financial statements are presented in thousands of New Zealand dollars, unless otherwise stated.

There have been no changes in accounting policies and all accounting policies adopted are consistent with those used in previous periods.

2 Critical Estimates and Judgements Used in Applying Accounting Policies

The full financial statements upon which the summary financial statements are based have been prepared in accordance with stated accounting policies which are based on New Zealand equivalents of International Financial Reporting Standards (NZ IFRS) and other authoritative accounting pronouncements. Notwithstanding the existence of relevant accounting standards, there are a number of critical accounting treatments which include complex or subjective judgements and estimates that may affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

An explanation of the judgements and estimates made by the Banking Group in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements are set out in the full 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 its 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 Committees

The Board has responsibility for reviewing all aspects of risk management. The Board receives comprehensive monthly reporting covering credit risk, interest rate risk and liquidity risk. In addition SBS has specific policies in relation to liquidity and capital management which contain trigger points at which Board involvement is required.

The lending committee is made up of the full Board and is responsible for reviewing and approving all lending proposals in excess of \$1 million.

The Audit and Risk 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;
- SBS's compliance with regulatory requirements that impact on the business; and
- The external and internal audit functions.

The Asset and Liability Committee (ALCO) is made up of members of the senior management team and treasury function. Up to two non-executive directors may also form part of this committee. The ALCO has responsibility for all aspects of balance sheet risk management and strategy including interest rate, liquidity, funding, credit and margin.

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 off-balance 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.

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 financial instruments to manage the risks 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. Management of liquidity risk is achieved by maintaining a prudent level of liquid assets, use of committed and uncommitted wholesale funding facilities, utilisation of securitisation vehicles and, management control of the growth of the business.

Southland Building Society  
Notes to the Summary Financial Statements for the year ended 31 March 2011

4 Advances - Banking Group

	31/3/11 \$000	31/3/10 \$000
Gross advances	2,609,357	2,481,365
Provisions for credit impairment	(21,708)	(17,216)
Deferred fee revenue and expenses	(2,993)	(4,060)
<b>Total net advances</b>	<b>2,584,656</b>	<b>2,460,089</b>

5 Provision for Credit Impairment - Banking Group

	31/3/11 \$000	31/3/10 \$000
<b>Individual provisions against advances and loans</b>		
Balance at beginning of the year	12,510	8,055
Net increase/(decrease) charged to income statement	(1,261)	4,455
Acquired on merger	1,431	-
Balance at end of the year	12,680	12,510
<b>Collective provisions against advances and loans</b>		
Balance at beginning of the year	4,706	4,743
Charged to income statement	3,824	(37)
Acquired on merger	498	-
Balance at end of the year	9,028	4,706
<b>Total provisions for credit impairment</b>	<b>21,708</b>	<b>17,216</b>
<b>Movements taken to income statement</b>		
Bad debts written off during the year	14,494	11,309
Movement in individual provisions	(1,261)	4,455
Movement in collective provisions	3,824	(37)
Provision for credit impairment to income statement	<b>17,057</b>	<b>15,727</b>
Provision for credit impairment includes an additional \$3.55 million of collective provisioning taken based on the Banking Group's assessment of potential losses arising due to the Christchurch earthquake of 22 February 2011.		

6 Asset Quality - Banking Group

	31/3/11 \$000	31/3/10 \$000
<b>Advances to customers</b>		
Neither past due or impaired	2,520,711	2,406,938
Individually impaired	38,342	29,907
Past due	47,311	40,460
Provision for credit impairment	(21,708)	(17,216)
<b>Total carrying amount</b>	<b>2,584,656</b>	<b>2,460,089</b>

7 Liquidity Risk - Banking Group

Liquidity risk is the risk that the Banking Group will encounter difficulty in meeting commitments associated with its financial liabilities. The Banking Group manages its exposure to liquidity risk by maintaining sufficient liquid funds to meet its commitments based on historical and forecasted cash flow requirements. The following maturity profile of assets, liabilities and commitments show cash flows prepared on a contractual maturity basis as at balance date. These have been created using a run-off scenario which assumes no further origination of assets or liabilities. Further detail on this maturity profile and the contractual undiscounted maturity profile, including the assumptions underlying them, can be obtained from the full financial statements. Note that the contractual maturity profile is not indicative of future cash flows.

Contractual Maturity Profile	31/3/11			31/3/10		
	Current Assets \$000	Non-current Assets \$000	Total \$000	Current Assets \$000	Non-current Assets \$000	Total \$000
<b>Assets</b>						
Advances	326,758	2,257,898	2,584,656	273,995	2,186,094	2,460,089
Liquid assets and securities	91,038	100,206	191,244	92,029	46,037	138,066
Other monetary assets	5,457	-	5,457	3,257	-	3,257
	<b>423,253</b>	<b>2,358,104</b>	<b>2,781,357</b>	<b>369,281</b>	<b>2,232,131</b>	<b>2,601,412</b>
	Current Liabilities \$000	Non-current Liabilities \$000	Total \$000	Current Liabilities \$000	Non-current Liabilities \$000	Total \$000
<b>Liabilities</b>						
Redeemable shares	2,080,122	89,343	2,169,465	1,878,098	93,910	1,972,008
Other deposits	224,200	16,346	240,546	249,647	10,421	260,068
Subordinated redeemable shares	-	61,232	61,232	-	59,307	59,307
Other monetary liabilities	67,111	65,711	132,822	76,605	74,772	151,377
	<b>2,371,433</b>	<b>232,632</b>	<b>2,604,065</b>	<b>2,204,350</b>	<b>238,410</b>	<b>2,442,760</b>
Unrecognised loan commitments	21,994	-	21,994	23,934	-	23,934



Southland Building Society

Notes to the Summary Financial Statements for the year ended 31 March 2011

7 Liquidity Risk - Banking Group continued

The following table outlines the liquid investments and committed funding lines that are available to SBS to meet both expected and unexpected fluctuations in operating cash flows. Included within total liquidity are residential mortgage backed securities ('RMBS') that are eligible under the Reserve Bank of New Zealand liquidity management arrangements.

	31/3/11 \$000	31/3/10 \$000
Asset liquidity	191,244	138,066
Committed and undrawn funding lines	125,000	160,000
Eligible RMBS collateral (less haircut*)	160,254	162,434
<b>Total liquidity</b>	<b>476,498</b>	<b>460,500</b>

\*A haircut is a percentage that is subtracted from the par value of the assets that are being used as collateral. The size of the haircut reflects the perceived risk associated with holding the assets.

8 Capital Adequacy

The Banking Group's objectives in relation to the management of capital adequacy are to comply at all times with the regulatory capital requirements set out by the Reserve Bank of New Zealand (RBNZ); to maintain a strong capital base to cover the inherent risks of the business and maintain a targeted credit rating; and to support future business development and growth.

The Banking Group is subject to regulation by the RBNZ. The RBNZ has set minimum regulatory capital requirements for banks that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision. These requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by the Banking Group. The Banking Group must comply with RBNZ minimum capital adequacy ratios as determined in its Conditions of Registration which are as follows:

- Total qualifying capital must not be less than 8% of risk weighted exposures
- Tier one capital must not be less than 4% of risk weighted exposures
- Capital must not be less than NZ \$30 million.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk weighted exposures. Risk weighted exposures are derived by assigning risk weight percentages to certain material risk categories of exposures. These exposures are measured or estimated from selected balance sheet assets and off balance sheet exposures and market contracts. It should be noted that the regulatory risk weightings may not necessarily be consistent with the loss experience of the Banking Group.

	31/3/11	31/3/10
<b>Regulatory Capital Ratios</b>		
Tier one capital expressed as a percentage of total risk weighted exposures	11.26%	10.34%
Capital expressed as a percentage of total risk weighted exposures	13.60%	13.35%

9 Directors Fees

	31/3/11 \$000	31/3/10 \$000
Amounts received, or due and receivable by directors:		
JWA Smith (Chairman)	112	106
JF Ward (Deputy Chairman)	75	68
KJ Ball	62	58
JB Walker	63	58
GJ Mulvey	57	53
GJ Diack	63	59
JJ Grant	57	56
FE Spencer (appointed November 2010)	25	-
RL Smith*	-	-
	<b>514</b>	<b>458</b>
Provision for directors retiring allowance	72	72
	<b>586</b>	<b>530</b>

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.

Southland Building Society

Notes to the Summary Financial Statements for the year ended 31 March 2011

10 Hastings Building Society Transfer of Engagements

On 1 October 2010 Hastings Building Society (HBS) merged with SBS by way of a transfer of engagements under section 33 of the Building Societies Act 1965. The Board of HBS independently reached a conclusion that merging with SBS was in the best interests of their members, given the changing operating, market and regulatory environments. For SBS, the merger provides an opportunity to create a stronger regional community bank in the Hawke's Bay.

The fair value of assets acquired and liabilities assumed (provisionally calculated) as at 1 October 2010 were:

	\$000
Liquid assets and securities	33,856
Advances	143,617
Other assets	2,187
Redeemable shares	(162,678)
Other liabilities	(1,524)
<b>Net identifiable assets and liabilities</b>	<b>15,458</b>

11 Subsequent Events

There have been no material subsequent events after 31 March 2011.

Independent Auditor's Report on the Summary Financial Statements



To the Members of Southland Building Society

The accompanying summary financial statements on pages 18 to 23, which comprise the summary statement of financial position as at 31 March 2011 and the summary income statement and summary statements of comprehensive income, changes in equity and cash flows for the year ended, and notes, are derived from the audited financial statements of Southland Building Society ("the Banking Group") for the year ended 31 March 2011. We expressed an unmodified audit opinion on those financial statements in our report dated 2 June 2011.

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Southland Building Society.

Directors' Responsibility for the Financial Statements

The directors' are responsible for the preparation of a summary of the audited financial statements, in accordance with FRS-43 *Summary Financial Statements*.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standards on Auditing (New Zealand) (ISA (NZ)) 810 *Engagements to Report on Summary Financial Statements*.

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

Opinion

In our opinion, the summary financial statements, derived from the audited financial statements of Southland Building Society for the year ended 31 March 2011, are a fair summary of those financial statements, in accordance with FRS-43 *Summary Financial Statements*.

KPMG

2 June 2011  
Wellington



## NOTICE OF 2011 ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of members of the Southland Building Society (SBS) will be held on the 6th floor of the Kelvin Hotel, Invercargill on Wednesday 27 July 2011, at 2.30pm.

### I. Ordinary Business

#### I.1 Adoption of Annual Report

To receive and consider the Financial Statements together with the reports of the Directors and Auditors of Southland Building Society for the year ended 31 March 2011.

#### I.2 Election of Directors

Messrs J W A Smith and F E Spencer retire by rotation and, being eligible, are offering themselves for re-election. There being no other candidates, the re-appointment of Messrs J W A Smith and F E Spencer is to be confirmed.

#### I.3 Approval of Directors Fees

To authorise the Directors to fix their remuneration.

#### I.4 Appointment of Auditors

To record the appointment of the auditors for the 2011/2012 year.

#### I.5 General Business

To transact any other business which may be properly submitted to the Annual General Meeting.

*By order of the Board*

T D R Loan  
Secretary  
2 June 2011

### NOTE:

#### I. Proxies

In compliance with Section 79 of the Building Societies Act 1965, members are reminded that a member entitled to attend and vote at the above meeting, is entitled to appoint a proxy to attend and vote instead of him/her and that a proxy need not also be a member. Proxy forms are available from SBS's registered office.

To be valid, proxies must be deposited at SBS's registered office not less than 48 hours before the scheduled meeting time of the Annual General Meeting.

## DIRECTORY

### Chairman

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

### Deputy Chairman

Mr J F Ward  
BCom, FCA, FlntD  
Chartered Accountant  
Invercargill

### Directors

Mr J B Walker  
LLB  
Barrister & Solicitor  
Invercargill

Mr G J Mulvey  
BCom, FCA, FNZIM  
General Manager  
Invercargill

Mr G J Diack  
MA (Hons)  
Corporate Executive  
Christchurch

Mrs K J Ball  
BCom, CA  
Chartered Accountant  
Invercargill

Mr R L Smith  
BCom, FNZIM  
Group Managing Director/  
Chief Executive Officer  
SBS Bank  
Invercargill

Mr J J Grant  
Farmer / Company Director  
Balfour

Mr F E Spencer  
BBS (Val & Pty Mgt)  
FNZIV, FPINZ, AREINZ  
Registered Valuer  
Hastings

All Directors can  
be contacted:  
c/- Southland Building Society  
51 Don Street  
Invercargill

### Group Managing Director/ Chief Executive Officer

Mr R L Smith  
BCom, FNZIM  
Invercargill

### Secretary

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

### Registered Office

51 Don Street  
Invercargill

### Solicitors

Buddle Findlay  
245 St Asaph Street  
Christchurch

### Auditors

KPMG  
10 Customhouse Quay  
Wellington

## BRANCH DIRECTORY

### SBS BANK

#### Invercargill – Head Office

51 Don Street  
PO Box 835  
Invercargill  
Telephone: 03 211 0700  
Fax: 03 211 0793

#### North Invercargill

54 Windsor Street  
Telephone: 03 211 0745  
Fax: 03 217 7933

#### Gore

80 Main Street  
PO Box 212  
Telephone: 03 209 0080  
Fax: 03 209 0077

#### Dunedin

Cnr George & Hanover Streets  
PO Box 5492  
Telephone: 03 477 5100  
Fax: 03 471 4439

#### Queenstown

7 Shotover Street  
PO Box 710  
Telephone: 03 441 0033  
Fax: 03 441 0279

#### Cromwell

21 The Mall  
PO Box 226  
Telephone: 03 445 0672  
Fax: 03 445 0697

#### Timaru

235 Stafford Street  
PO Box 844  
Telephone: 03 684 9536  
Fax: 03 688 4598

#### Christchurch – Manchester Street (Not accessible)

180 Manchester Street  
PO Box 13801  
Telephone: 03 962 5900  
Fax: 03 962 5905

#### Christchurch – Ferrymead

23 Humphreys Drive  
PO Box 19835  
Telephone: 03 376 6198  
Fax: 03 376 6298

#### Christchurch – Riccarton

109 Riccarton Road  
PO Box 80058  
Telephone: 03 982 5700  
Fax: 03 982 5706

#### Christchurch – Papanui

2-6 Main North Road  
PO Box 5038  
Telephone: 03 375 0840  
Fax: 03 375 0841

#### Nelson

126 Trafalgar Street  
PO Box 211  
Telephone: 03 548 9200  
Fax: 03 545 9839

#### Blenheim

76 Market Street  
PO Box 1188  
Telephone: 03 579 5293  
Fax: 03 579 5249

#### Hamilton

Cnr Victoria & Bryce Streets  
PO Box 19222  
Telephone: 07 957 6350  
Fax: 07 957 6351

#### Tauranga

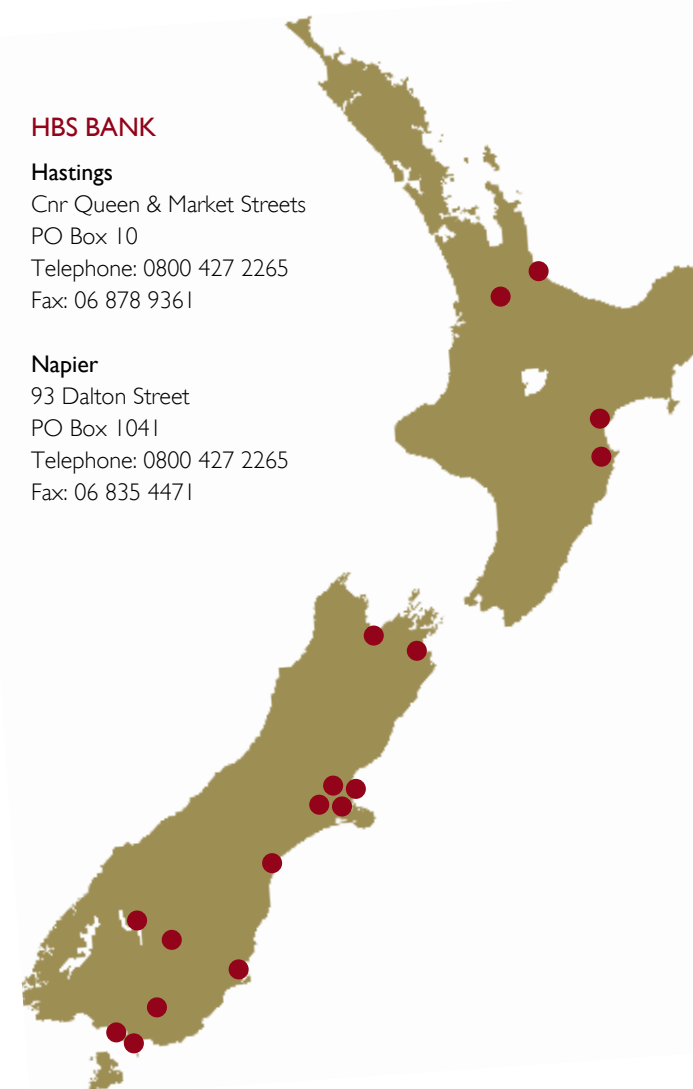
Cnr Elizabeth Street &  
Devonport Road  
PO Box 13020  
Telephone: 07 578 9217  
Fax: 07 578 9219

#### SBS Bank Rural – Invercargill

66 Don Street  
PO Box 835  
Telephone: 0800 502 442  
Fax: 0508 526 363



SBS Bank head office – Invercargill



### HBS BANK

#### Hastings

Cnr Queen & Market Streets  
PO Box 10  
Telephone: 0800 427 2265  
Fax: 06 878 9361

#### Napier

93 Dalton Street  
PO Box 1041  
Telephone: 0800 427 2265  
Fax: 06 835 4471



COMMUNITY BANKING SINCE 1869

