

Growing our communities since 1869

Mindful of the rich service left to us by the leaders who founded the Southland Building Society on the acceptance of the no charge to us and will pursue it with steadfast determination

*WE RESOLVE AT ALL TIME
OF OUR MEMBERS AND PR
THE COMMUNITIES TO*

*Our guiding principles in
furthering this resolve are:*

CONTENTS

	Page
General Information	2
Guarantee Arrangements	2
Pending Proceedings or Arbitration	2
Insurance Business	2
Other Material Matters	2
Directorate	2
Credit Rating	4
Conditions of Registration	4
Directors' Statement	7
Historical Summary of Financial Statements	8
Financial Statements	9
Independent Auditor's Report	66
Branch Directory	68

Chairman

Mr J W A Smith
B Com FNZIM FlntD
Company Director
Invercargill

Deputy Chairman

Mr J F Ward
B Com FCA FlntD
Chartered Accountant
Invercargill

Directors

Mrs K J Ball
B Com CA
Chartered Accountant
Invercargill

Mr J B Walker
LLB
Barrister & Solicitor
Invercargill

Mr G J Mulvey
B Com FCA FNZIM
General Manager
Invercargill

Mr G J Diack
MA (Hons)
Corporate Executive
Christchurch

Mr J J Grant
Farmer/Company Director
Balfour

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

Mr R L Smith
B Com FNZIM
Group Managing Director /
Chief Executive Officer of
Southland Building Society
Invercargill

All directors can be
contacted through:
Southland Building Society
51 Don Street
Invercargill

Group Managing Director / Chief Executive Officer

Mr R L Smith
B Com FNZIM
Invercargill

Secretary

Mr T D R Loan
B Com CA DipBusStuds(IS)
(General Manager Finance)

Registered Office

51 Don Street
Invercargill

Solicitors

Buddle Findlay
245 St Asaph Street
Christchurch

Auditors

KPMG
10 Customhouse Quay
Wellington

General Disclosure Statement for the year ended 31 March 2011

General Information

Southland Building Society (SBS) was registered as a bank under the Reserve Bank of New Zealand Act 1989 on 7 October 2008, and was required to comply with the conditions of registration as laid down by the Reserve Bank of New Zealand from that date onwards. Southland Building Society operates under two brands "SBS Bank" and "HBS Bank".

This General Disclosure Statement has been issued by Southland Building Society in accordance with the Registered Bank Disclosure Statement (Full and Half-Year - New Zealand Incorporated Registered Banks) Order 2008 (the 'Order').

Words and phrases defined by the Order have the same meanings when used in this General Disclosure Statement.

Name and Address for Service of Registered Bank

The name of the registered bank is Southland Building Society (referred to either by its full name, as "SBS", or as the "Bank", or as the "Registered Bank") and the address for service is 51 Don Street, Invercargill. The "Banking Group" consists of the Bank and all of its controlled entities. All controlled entities are incorporated in New Zealand.

Details of Incorporation

Southland Building Society was established in 1869 and is incorporated under the Building Societies Act 1965. SBS's registration number is 1781001.

Ownership

Southland Building Society is a mutual building society and is owned by its members by virtue of their membership interests in Southland Building Society. Membership entitlements and voting rights are set out in the Rules of Southland Building Society.

Guarantee Arrangements

Southland Building Society had a guarantee under the New Zealand Deposit Guarantee Scheme ("Crown Guarantee"). This Crown Guarantee expired at 12.01am on 12 October 2010. On 25 August 2009 the Government announced that it would extend the Crown Retail Guarantee to 31 December 2011 and change some of its terms and conditions. The Reserve Bank has stated however that there is no need for banks to partake in the extended scheme, and therefore Southland Building Society, in line with other banks in New Zealand, has elected not to enter into the extended guarantee scheme. Accordingly as at the date this General Disclosure Statement is signed the material obligations of the Bank are not guaranteed.

Pending Proceedings or Arbitration

There are no pending proceedings at the date of this General Disclosure Statement that may have a material adverse effect on the Bank or the Banking Group.

Insurance Business

The Banking Group markets and distributes insurance products through its subsidiary company Southsure Assurance Limited. The total assets of Southsure Assurance Limited as at 31 March 2011 are \$9.4 million (31 March 2010 \$8.2 million), which is 0.3% of the total assets of the Banking Group (31 March 2010 0.3%). This complies with the conditions of registration of Southland Building Society, which allows a maximum of 1% of the total consolidated assets of the Banking Group to be represented by insurance business assets.

Policies and procedures exist to ensure that the insurance activities of the Banking Group are conducted in an appropriate manner. These include regular reviews of the operations of the insurance business by management. Should adverse conditions arise, these policies and procedures are expected to mitigate the impact of the conditions on the Banking Group.

Other Material Matters

The Bank's directors are of the opinion that there are no other matters relating to the business or affairs of the Registered Bank or the Banking Group which would, if disclosed in this General Disclosure Statement, materially adversely affect the decision of a person to subscribe for debt securities of which the Registered Bank or any members of the Banking Group is the issuer.

Directorate

All directors of the Bank reside in New Zealand. All directors can be contacted at Southland Building Society, 51 Don Street, Invercargill.

Independent Non-Executive Directors

JVA (Acton) Smith, BCom FNZIM FInstD
(Chairman - Board of Directors)
Company Director

External Directorships: H&J Smith Holdings Ltd, H&J Smith Ltd, H&J Smith Corporate Ltd, H&J's Hardware Ltd, H&J's Electrical Ltd, H&J's Queenstown Properties Ltd, H&J Smith Parking Building Ltd, H&J Smith Finance Ltd, H&J's Carpet World Ltd, H&J's Properties Ltd, H&J's Cycles and Mowers Ltd, Outdoor World Ltd, Bainfield Investments Ltd, Bogcorp Ltd, Mangamahu Investments Ltd, Symphony Retailing Ltd, Lorneville Discount Centre Ltd, South Island Retail Ltd, Outdoor Adventures Ltd, South Island Sports Ltd, Smith Family Investments Ltd, Cross Roads Properties Ltd, South Island Department Stores Ltd, Sfi Properties Ltd, Sfi Buildings Ltd, Corner Trading Ltd, Steel Core Buildings Ltd, Southcom Ltd, McQuarrie Block Property Ltd

General Disclosure Statement for the year ended 31 March 2011

Directorate continued

JF (John) Ward, BCom FCA FlntD
(Deputy Chairman - Board of Directors)
Chartered Accountant

External Directorships: H&J Smith Holdings Ltd, H&J Smith Ltd, H&J Smith Corporate Ltd, H&J's Hardware Ltd, H&J's Electrical Ltd, H&J's Queenstown Properties Ltd, H&J Smith Parking Building Ltd, H&J Smith Finance Ltd, H&J's Carpet World Ltd, H&J's Properties Ltd, H&J's Cycles and Mowers Ltd, Outdoor World Ltd, Symphony Retailing Ltd, Lorneville Discount Centre Ltd, South Island Retail Ltd, Outdoor Adventures Ltd, South Island Sports Ltd, Simner Investments Ltd, Cross Roads Properties Ltd, South Island Department Stores Ltd, Sfi Properties Ltd, Corner Trading Ltd, Amtex Corporation Ltd, Witrick No 4 Ltd, Hokonui Investments Ltd, Canyon Investments Ltd, Parthenon Investments Ltd, Trio Corporation Ltd, Tanknology (Nz) Ltd, Skippers Canyon Holdings Ltd, Queenstown Bungy Ltd, Auckland Bungy Ltd, Aj Gear Ltd, Bungy New Zealand Ltd, Paddington Investments No 8 Ltd, Fun Innovators Nz Ltd, Southcom Ltd, 595 Frankton Rd Ltd, Auckland Bridge Adventures Ltd, Passage Holdings Ltd, Auckland Bridge Climb Ltd, Kba Limited, Bnzl Properties Ltd, Zephyr Nz Ltd, Salt Kettle Ltd, Aviemore Corporation Ltd, H.A.T. Ltd, H.A.T. 2 Ltd, University of Otago Holdings Ltd, Wilson Holdings Ltd, Rd Petroleum Ltd, Otago Innovation Ltd

KJ (Kathryn) Ball, BCom CA
Chartered Accountant

External Directorships: McIntyre Dick & Partners Ltd, I43 Spey Ltd, I42 Spey Ltd

JB (Jeff) Walker, LLB
Barrister & Solicitor

External Directorships: Rough Gully Company Ltd, Rakiura Shipping Ltd, Craig Printing Co Ltd (In Rec), Cargill Trustees Ltd, Manchester Enterprises Ltd

GJ (Greg) Mulvey, BCom FCA FNZIM
General Manager

External Directorships: DB South Island Brewery Ltd

GJ (Garry) Diack, MA (Hons)
Corporate Executive

External Directorships: Cpi Ltd, Vera Hacienda Ltd, General Cable Superconductors Ltd

JJ (Jeff) Grant
Farmer / Company Director

External Directorships: Milford Sound Development Authority Ltd, National Animal Identification and Tracing (NAIT) Ltd, Wool Partners Co-operative Ltd, Copper Valley Holdings Ltd

FE (Frank) Spencer, BBS (Val & Pty Mgt)
FNZIV FPINZ AREINZ
Registered valuer

External Directorships: Verdure Ltd, Valuation Exchange NZ Ltd, Apex Data Solutions Ltd, Exmoor Properties Ltd, Exmordinary Ltd, Crighton Stone Ltd, Logan Stone Ltd

Executive Directors

RL (Ross) Smith, BCom FNZIM
Group Managing Director / CEO
Southland Building Society

External Directorships: Electricity Invercargill Ltd, Electricity Southland Ltd, Powernet Ltd, PowerServices Ltd, Pylon Ltd, Southern Teamco 2008 Ltd

Audit & Risk Committee

Members of the Southland Building Society Audit & Risk Committee as at the date of this General Disclosure Statement are as follows:

KJ Ball (Chairperson) - Independent Non-Executive Director

JVA Smith - Independent Non-Executive Director

JF Ward - Independent Non-Executive Director

GJ Mulvey - Independent Non-Executive Director

Conflicts of Interest Policy

The policy and current practice of the board of directors (as set out in clause 16.6 of the Rules of Southland Building Society) for avoiding or dealing with conflicts of interest which may arise from personal, professional or business interests of the directors, are that, a director, after becoming aware of the fact that he or she is interested in a transaction or proposed transaction with the Society, shall disclose to the board and cause to be entered in the interests register:

- (i) the nature and monetary value of the director's interest in a transaction if its monetary value is able to be quantified; or
- (ii) the nature and extent of the director's interest in a transaction if its monetary value is not able to be quantified.

A director may not vote on a board resolution in respect of any matter in which that director is interested, nor shall the director be counted in the quorum for the purposes of consideration of that matter.

Interested Transactions

There have been no transactions between the Bank and any director or immediate relative or close business associate of any director which either, has been entered into on terms other than those which would in the ordinary course of business of the Bank be given to any other person of like circumstances or means or; which could be reasonably likely to influence materially the exercise of the director's duties.

Solicitors

Buddle Findlay
245 St Asaph Street
Christchurch

Auditors

KPMG
10 Customhouse Quay
Wellington

General Disclosure Statement for the year ended 31 March 2011

Credit Rating

As at 31 March 2011, and for the period to the date of this Disclosure Statement, the credit rating assigned to Southland Building Society is BBB stable. This credit rating is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. The credit rating was issued by Fitch Ratings on 17 July 2007 and was reaffirmed on 6 September 2010. There have been no changes made to the rating in the two years preceding 31 March 2011. The rating is not subject to any qualifications.

The following is a summary of the descriptions of the major ratings categories of each rating agency for the rating of long-term senior unsecured obligations:

Fitch Ratings	Standard & Poor's	Moody's Investors Service	Description of Grade
AAA	AAA	Aaa	Ability to repay principal and interest is extremely strong. This is the highest investment category.
AA	AA	Aa	Very strong ability to repay principal and interest in a timely manner.
A	A	A	Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.
BBB	BBB	Baa	Adequate ability to repay principal and interest. More vulnerable to adverse changes.
BB	BB	Ba	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.
B	B	B	Greater vulnerability and therefore greater likelihood of default.
CCC	CCC	Caa	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.
CC - C	CC - C	Ca - C	Highest risk of default.
RD to D	D	-	Obligations currently in default.

Credit ratings from Fitch Ratings and Standard & Poor's may be modified by the addition of a plus or minus sign to show relative status within the major rating categories. Moody's Investors Service apply numerical modifiers 1, 2, and 3 to show relative standing within the major rating categories, with 1 indicating the higher end and 3 the lower end of the rating category.

Conditions of Registration

The conditions of registration imposed on Southland Building Society by the Reserve Bank of New Zealand pursuant to section 74 of the Reserve Bank of New Zealand Act 1989, and which apply as at the date of signing of this General Disclosure Statement are as follows. These conditions of registration have applied from 31 March 2011.

1. That the banking group complies with the following requirements:
 - (a) the total capital ratio of the banking group is not less than 8 percent;
 - (b) the tier one capital ratio of the banking group is not less than 4 percent; and
 - (c) the capital of the banking group is not less than \$30 million.

For the purposes of this condition of registration, capital, the total capital ratio and the tier one capital ratio must be calculated in accordance with the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated October 2010.

1A. That—

- (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")" (BS12) dated December 2007;
 - (b) under its ICAAP, the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated October 2010; and
 - (c) the bank determines an internal capital allocation for each identified and measured "other material risk".
2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.
3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition:

 - (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disappplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
 - (ii) In measuring the size of a banking group's insurance business:
 - (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
 - the total consolidated assets of the group headed by that entity; or
 - if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
 - (b) otherwise, the size of each insurance business conducted by any entity within the banking group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;

General Disclosure Statement for the year ended 31 March 2011

Conditions of Registration continued

- (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the banking group. All amounts in parts (a) and (b) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;
 - (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.
4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit rating	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15 percent of the banking group's tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated October 2010.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
- 5A. Before and on 31 March 2012, that the bank complies with the following corporate governance requirements:
- (a) the board of the bank must contain at least two independent directors. In this context an independent director is a director who is not an employee of the bank, and who is not a director, trustee or employee of any holding company of the bank or any other entity capable of controlling or significantly influencing the bank;
 - (b) the chairperson of the bank's board must not be an employee of the bank; and
 - (c) the bank's rules must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the society (i.e. the bank).
6. On and after 1 April 2012, that the bank complies with the following corporate governance requirements:
- (a) the board of the bank must have at least five directors;
 - (b) the majority of the board members must be non-executive directors;
 - (c) at least half of the board members must be independent directors;
 - (d) an alternate director;-
 - (i) for a non-executive director must be non-executive; and
 - (ii) for an independent director must be independent;
 - (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
 - (f) the chairperson of the board of the bank must be independent; and
 - (g) the bank's rules must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interest of the society (i.e. the bank).

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
- (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (b) the Reserve Bank has advised that it has no objection to that appointment.
8. On and after 1 April 2012, that a person must not be appointed as chairperson of the board of the bank unless:
- (i) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (ii) the Reserve Bank has advised that it has no objection to that appointment.
9. On and after 1 April 2012, that the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
- (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
 - (b) the committee must have at least three members;
 - (c) every member of the committee must be a non-executive director of the bank;
 - (d) the majority of the members of the committee must be independent; and
 - (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank document entitled "Corporate Governance" (BS14) dated March 2011.

General Disclosure Statement for the year ended 31 March 2011

Conditions of Registration continued

10. That a substantial proportion of the bank's business is conducted in and from New Zealand.

10A. That the banking group complies with the following quantitative requirements for liquidity-risk management with effect from 1 April 2010:

- (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
- (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
- (c) the one-year core funding ratio of the banking group is not less than 65 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated March 2010 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated March 2010.

This condition does not apply on or after 1 April 2011.

10B. That, with effect from 1 April 2010, the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:

- (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
- (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
- (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
- (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

This condition does not apply on or after 1 April 2011.

11. That the banking group complies with the following quantitative requirements for liquidity-risk management:

- (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
- (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
- (c) the one-year core funding ratio of the banking group is not less than 65 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated March 2011 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated March 2010.

This condition applies on and after 1 April 2011.

12. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:

- (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
- (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
- (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
- (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

This condition applies on and after 1 April 2011.

13. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition -

"total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets

"SPV" means a person -

- (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
- (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
- (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

"covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

This condition applies on and after 1 April 2011.

For the purposes of these conditions of registration, the term "banking group" means Southland Building Society's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993).

Changes in Conditions of Registration

The following changes have been made to the Bank's conditions of registration during the period since the signing of the previous General Disclosure Statement:

Condition 5A has been added and conditions 6 to 9 have been updated to reflect the new RBNZ document "Corporate Governance" (BS14) dated March 2011.

Conditions 10A and 10B have been added and reflect the liquidity risk management conditions which apply to the Bank prior to 1 April 2011.

Conditions 11 and 12 have been updated to reference to the latest version of the RBNZ document "Liquidity Policy" (BS13) which is dated March 2011. These conditions apply from 1 April 2011.

Condition 13 has been added to reflect the RBNZ's policy on the issuance of covered bonds by registered banks.

General Disclosure Statement for the year ended 31 March 2011

Directors' Statement

The directors of Southland Building Society (the "Bank") state that each director of the Bank believes, after due enquiry, that:

1. As at the date on which the General Disclosure Statement is signed:
 - (a) the General Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Full and Half Year - New Zealand Incorporated Registered Banks) Order 2008; and
 - (b) the General Disclosure Statement is not false or misleading.
2. Each director of the Bank believes, after due enquiry, that during the year ended 31 March 2011:
 - (a) Southland Building Society has complied with the conditions of registration; and
 - (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
 - (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk, and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 2nd June 2011 and has been signed by or on behalf of all the directors.

JWA Smith
(Chairman)



JF Ward
(Deputy Chairman)



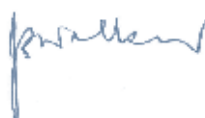
RL Smith
(Group Managing Director /
Chief Executive Officer)



KJ Ball



JB Walker



GJ Mulvey



GJ Diack



JJ Grant



FE Spencer



Historical Summary of Financial Statements

All in \$'000's

Income Statements

BANKING GROUP					
	Year ended 31 Mar 2011	Year ended 31 Mar 2010	Year ended 31 Mar 2009	Year ended 31 Mar 2008	Year ended 31 Mar 2007
Interest income	182,286	172,040	237,227	231,260	196,591
Interest expense	16,037	16,897	39,421	41,433	35,652
Dividends on redeemable shares	102,565	95,598	136,808	130,862	108,632
	118,602	112,495	176,229	172,295	144,284
Net interest income	63,684	59,545	60,998	58,965	52,307
Other income	18,235	18,629	12,871	12,499	11,100
Total operating income	81,919	78,174	73,869	71,464	63,407
Operating expenses	47,554	43,068	42,922	41,074	37,509
Provision for credit impairment	17,057	15,727	12,446	9,074	3,694
Operating surplus	17,308	19,379	18,501	21,316	22,204
Net gain/(loss) from financial instruments designated at fair value	5,117	980	(2,404)	(1,340)	924
Revaluation of property	-	200	60	60	749
Revaluation of investment properties	(88)	-	-	-	-
Surplus before income tax	22,337	20,559	16,157	20,036	23,877
Less income taxation expense	8,087	5,522	4,100	5,709	7,274
Net surplus	14,250	15,037	12,057	14,327	16,603
Attributable to:					
Members' interests	11,761	12,723	10,986	13,567	15,514
Non-controlling interests	2,489	2,314	1,071	760	1,089
	14,250	15,037	12,057	14,327	16,603

Significant Statement of Financial Position Items

BANKING GROUP					
	As at 31 Mar 2011	As at 31 Mar 2010	As at 31 Mar 2009	As at 31 Mar 2008	As at 31 Mar 2007
Total assets	2,813,833	2,627,905	2,541,177	2,426,271	2,214,785
Individually impaired assets	38,342	29,907	21,848	8,355	583
Total liabilities	2,611,793	2,450,241	2,385,597	2,270,905	2,074,264
Equity	202,040	177,664	155,580	155,366	140,521
Regulatory capital					
Tier one capital	205,191	176,797	162,927	151,644	136,702
Total capital	247,803	228,334	205,949	152,750	137,698
Tier one capital expressed as a percentage of total risk weighted exposures	11.26%	10.34%	9.85%	9.52%	9.24%
Total capital expressed as a percentage of total risk weighted exposures	13.60%	13.35%	12.46%	9.59%	9.31%

The amounts included in this summary have been extracted from the audited consolidated financial statements of the Banking Group.

The Banking Group adopted the Basel II "standardised approach" to calculate regulatory capital requirements for the year ended 31 March 2008. Prior comparative periods were calculated under the Basel I methodology.

CONTENTS

	Page
Income Statements	10
Statements of Comprehensive Income	10
Statements of Changes in Equity	11
Statements of Financial Position	12
Statements of Cash Flows	13
Notes to the Financial Statements	14 - 65
1 Statement of Accounting Policies	
2 Critical Estimates and Judgements Used in Applying Accounting Policies	
3 Risk Management Policies	
4 Income	
5 Expenses	
6 Net Gain/(Loss) from Financial Instruments Designated at Fair Value	
7 Taxation	
8 Funds with Financial Institutions	
9 Investment Securities	
10 Derivative Financial Instruments	
11 Advances to Customers	
12 Provision for Credit Impairment	
13 Asset Quality	
14 Loan Securitisation	
15 Investments in Subsidiaries	
16 Other Assets	
17 Property, Plant and Equipment	
18 Intangible Assets	
19 Deferred Tax Assets and Liabilities	
20 Other Liabilities	
21 Subordinated Redeemable Shares	
22 Equity	
23 Reconciliation of Net Surplus to Net Operating Cash Flows	
24 Analysis of Borrowings	
25 Contingent Liabilities and Credit Related Commitments	
26 Commitments	
27 Fair Value	
28 Liquidity Risk	
29 Credit Risk Exposure	
30 Market Risk	
31 Capital Adequacy	
32 Concentrations of Funding	
33 Related Parties	
34 Accounting Classifications	
35 Interest Earning Assets and Interest Bearing Liabilities	
36 Fiduciary Activities	
37 Hastings Building Society Transfer of Engagements	
38 Subsequent Events	

Income Statements for the year ended 31 March 2011

All in \$'000's

	Note	BANKING GROUP		PARENT	
		31/3/11	31/3/10	31/3/11	31/3/10
Interest income	(4)	182,286	172,040	162,273	152,123
Interest expense		16,037	16,897	13,698	14,129
Dividends on redeemable shares		102,565	95,598	102,726	95,749
	(5)	118,602	112,495	116,424	109,878
Net interest income		63,684	59,545	45,849	42,245
Other income	(4)	18,235	18,629	6,054	6,753
Total operating income		81,919	78,174	51,903	48,998
Operating expenses	(5)	47,554	43,068	33,173	29,254
Provision for credit impairment	(12)	17,057	15,727	13,233	10,306
Operating surplus		17,308	19,379	5,497	9,438
Dividends from subsidiaries		-	-	3,674	3,721
Net gain/(loss) from financial instruments designated at fair value	(6)	5,117	980	4,844	(1,342)
Revaluation of property	(22)	-	200	-	-
Revaluation of investment properties		(88)	-	(88)	-
Subvention payment		-	-	(431)	(480)
Surplus before income tax		22,337	20,559	13,496	11,337
Less income tax expense ¹	(7)	8,087	5,522	2,849	801
Net surplus		14,250	15,037	10,647	10,536
Attributable to:					
Members' interests		11,761	12,723	10,647	10,536
Non-controlling interests		2,489	2,314	-	-
		14,250	15,037	10,647	10,536

¹ Income tax expense includes a one off increase of \$2.3 million which relates to the impact of a change in taxation legislation from 1 April 2011 to apply a zero percent depreciation rate to buildings with a life of 50 years or more.

Statements of Comprehensive Income for the year ended 31 March 2011

All in \$'000's

	Note	BANKING GROUP		PARENT	
		31/3/11	31/3/10	31/3/11	31/3/10
Net surplus for the year		14,250	15,037	10,647	10,536
Other comprehensive income					
Net change in property, plant and equipment reserve, net of tax		(355)	(42)	(109)	21
Net change in available for sale asset reserve, net of tax		1,298	22	1,277	(5)
Net change in cash flow hedging reserve, net of tax		(4,796)	7,932	(3,885)	8,127
Other comprehensive income for the year, net of tax		(3,853)	7,912	(2,717)	8,143
Total comprehensive income for the year		10,397	22,949	7,930	18,679
Attributable to:					
Members' interests		8,163	20,686	7,930	18,679
Non-controlling interests		2,234	2,263	-	-
		10,397	22,949	7,930	18,679

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

Statements of Changes in Equity for the year ended 31 March 2011

All in \$'000's

	Note	BANKING GROUP		PARENT	
		31/3/11	31/3/10	31/3/11	31/3/10
Capital reserve					
Balance at beginning of the year		73	73	73	73
Balance at end of the year		73	73	73	73
Revaluation reserve - property, plant and equipment					
Balance at beginning of the year		1,153	1,195	346	325
Other comprehensive income for the year		(355)	(42)	(109)	21
Balance at end of the year		798	1,153	237	346
Revaluation reserve - available for sale assets					
Balance at beginning of the year		(58)	(75)	-	5
Other comprehensive income for the year		1,294	17	1,277	(5)
Balance at end of the year		1,236	(58)	1,277	-
Revaluation reserve - cash flow hedging					
Balance at beginning of the year		(3,322)	(11,309)	(3,182)	(11,309)
Other comprehensive income for the year		(4,537)	7,987	(3,885)	8,127
Balance at end of the year		(7,859)	(3,322)	(7,067)	(3,182)
Retained earnings					
Balance at beginning of the year		174,155	161,432	162,405	151,869
Net surplus for the year		11,761	12,723	10,647	10,536
Acquired on merger	(37)	15,458	-	15,458	-
Balance at end of the year		201,374	174,155	188,510	162,405
Total equity attributable to member's interests		195,622	172,001	183,030	159,642
Non-controlling interests					
Balance at beginning of the year		5,663	4,264	-	-
Net surplus for the year		2,489	2,314	-	-
Other comprehensive income for the year		(255)	(50)	-	-
Dividends		(1,479)	(1,554)	-	-
Change in capital of non-controlling interests		-	689	-	-
Balance at end of the year		6,418	5,663	-	-
Total equity at end of the year		202,040	177,664	183,030	159,642
Represented by:					
Equity at beginning of the year		177,664	155,580	159,642	140,963
Net surplus for the year		14,250	15,037	10,647	10,536
Other comprehensive income for the year		(3,853)	7,912	(2,717)	8,143
Total comprehensive income for the year		10,397	22,949	7,930	18,679
Dividends		(1,479)	(1,554)	-	-
Acquired on merger		15,458	-	15,458	-
Change in capital of non-controlling interests		-	689	-	-
Total equity at end of the year	(22)	202,040	177,664	183,030	159,642

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

Statements of Financial Position as at 31 March 2011

All in \$'000's

	Note	BANKING GROUP		PARENT	
		31/3/11	31/3/10	31/3/11	31/3/10
Assets					
Cash on hand and at bank		22,211	26,504	16,851	17,676
Funds with financial institutions	(8)	48,805	64,080	44,140	60,028
Investment securities	(9)	120,228	47,482	117,553	44,978
Derivative financial instruments	(10)	2,662	506	4,659	1,572
Current tax assets		287	1,176	1,166	2,014
Advances to customers	(11)	2,584,656	2,460,089	2,403,440	2,272,584
Loans to subsidiaries	(15)	-	-	94,838	95,555
Investments in subsidiaries	(15)	-	-	15,180	15,180
Other assets	(16)	2,508	1,575	5,560	6,531
Investment properties		3,391	-	3,391	-
Property, plant and equipment	(17)	18,930	16,005	8,433	5,378
Intangible assets	(18)	2,674	3,094	1,090	1,686
Deferred tax	(19)	7,481	7,394	8,151	6,318
		2,813,833	2,627,905	2,724,452	2,529,500
Liabilities					
Redeemable shares	(24)	2,169,465	1,972,008	2,174,082	1,975,177
Deposits from customers	(24)	240,546	230,051	240,546	230,051
Due to other financial institutions	(24)	-	30,017	-	30,017
Derivative financial instruments	(10)	13,429	13,009	13,431	13,017
Other borrowings		107,096	128,574	41,385	53,802
Other liabilities	(20)	20,025	17,275	10,746	8,487
Subordinated redeemable shares	(21)	61,232	59,307	61,232	59,307
		2,611,793	2,450,241	2,541,422	2,369,858
Net assets		202,040	177,664	183,030	159,642
Equity	(22)				
Reserves		(5,752)	(2,154)	(5,480)	(2,763)
Retained earnings		201,374	174,155	188,510	162,405
Attributable to members of the society		195,622	172,001	183,030	159,642
Attributable to non-controlling interests		6,418	5,663	-	-
		202,040	177,664	183,030	159,642

For and on behalf of the Board of Directors:



Chairman
JWA Smith

2 June 2011



Group Managing Director / Chief Executive Officer
RL Smith

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

Statements of Cash Flows for the year ended 31 March 2011

All in \$'000's

	Note	BANKING GROUP		PARENT	
		31/3/11	31/3/10	31/3/11	31/3/10
Cash flows from operating activities					
Interest received		174,400	167,996	157,792	151,412
Fees and other income		23,864	25,048	7,058	5,699
Dividends received		37	28	2,350	1,139
Interest paid		(15,946)	(16,689)	(13,607)	(13,921)
Dividends paid on redeemable shares		(103,341)	(101,384)	(103,494)	(101,543)
Operating expenses		(47,606)	(44,534)	(29,081)	(33,205)
Income taxes received/(paid)		(5,708)	(8,024)	(2,733)	(5,927)
Net cash flows from operating activities before changes in operating assets and liabilities		25,700	22,441	18,285	3,654
Net changes in operating assets and liabilities					
Change in advances		2,435	(80,391)	(745)	(89,987)
Change in shares and deposits from customers		46,193	121,510	47,633	121,760
Change in amounts due to other financial institutions		(30,000)	13,000	(30,000)	13,000
Change in other borrowings		(21,478)	(45,237)	(12,417)	(15,156)
Change in subordinated redeemable shares		1,901	16,920	1,901	16,920
Change in cash held on behalf of Lifestages Mortgage Portfolio		584	(9,845)	584	(9,845)
Net cash flows provided by/(used in) operating activities	(23)	25,335	38,398	25,241	40,346
Cash flows from investing activities					
Change in investment securities		(69,757)	(44,227)	(69,586)	(43,774)
Change in loans to subsidiaries		-	-	717	(6,170)
Purchase of investment properties		(3,479)	-	(3,479)	-
Proceeds of property, plant and equipment		46	88	26	69
Purchase of property, plant and equipment		(3,143)	(1,323)	(2,524)	(1,107)
Purchase of intangible assets		(1,246)	(1,395)	(729)	(1,137)
Net cash flows provided by/(used in) investing activities		(77,579)	(46,857)	(75,575)	(52,119)
Cash flows from financing activities					
Dividends paid to non-controlling interests		(946)	(507)	-	-
Net cash flows provided by/(used in) financing activities		(946)	(507)	-	-
Net increase/(decrease) in cash held		(53,190)	(8,966)	(50,334)	(11,773)
Add opening cash and cash equivalents		90,460	99,426	77,602	89,375
Add opening cash and cash equivalents on merger		33,583	-	33,583	-
Closing cash and cash equivalents		70,853	90,460	60,851	77,602
Reconciliation of cash and cash equivalents					
Cash on hand and at bank		22,211	26,504	16,851	17,676
Funds with financial institutions	(8)	48,805	64,080	44,140	60,028
Interest accrued on available for sale assets		(163)	(124)	(140)	(102)
		70,853	90,460	60,851	77,602

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

I Statement of Accounting Policies

(a) Basis of Preparation

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 consolidated financial statements presented here are for the reporting entity of the Banking Group comprising SBS and its subsidiaries.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and under New Zealand Generally Accepted Accounting Practice ("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).

These financial statements were authorised for issue by the Board of Directors on 2 June 2011.

(b) Presentation Currency and Rounding

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

(c) Standards Issued but not yet Effective

The following new standards and amendments to standards relevant to the Banking Group are not yet effective and have not yet been applied in preparing the financial statements. The Banking Group is evaluating the potential effect of NZ IFRS 9. The adoption of the other standards will not have any impact on the Banking Group's reported profit or financial position.

- NZ IAS 24 Related Party Disclosures (revised 2009) - will apply to the Banking Group from 1 April 2011.
- NZ IFRS 9 Financial Instruments - It is the intention of the IASB to replace IAS 39 with IFRS 9. This standard will apply to the Banking Group from 1 April 2013.
- NZ IFRS 7 Financial Instruments: Disclosures - will apply to the Banking Group from 1 April 2012.
- NZ IFRS 12 Income Taxes: Recovery of Revalued Non-Depreciable Assets - will apply to the Banking Group from 1 April 2012.

(d) Measurement Base

The financial statements have been prepared on a going concern basis in accordance with historical cost concepts except that the following assets and liabilities are stated at their fair value: derivative financial instruments, certain financial assets and liabilities designated at fair value through profit or loss or as available for sale, and the revaluation of certain non-current assets.

(e) Accounting Estimates

The preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates. For further discussion on judgements and estimates made by the Banking Group, in the process of applying its accounting policies, that have the most effect on the amounts recognised in the financial statements, refer to Note 2 - Critical Estimates and Judgements Used in Applying Accounting Policies.

(f) Consolidation

The Banking Group financial statements consolidate SBS and the following entities:

- Fraser Properties Limited (wholly owned subsidiary) - owns SBS'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 commercial finance;
- Funds Administration New Zealand Limited (57% owned subsidiary) - funds management products and financial advisory services;
- SBS Invercargill W Trust (in substance subsidiary) - special purpose vehicle holding securitised loans purchased from SBS;
- SBS Oreti Trust No 1 (in substance subsidiary) - special purpose vehicle holding securitised loans purchased from SBS; and
- SBS Oreti Trust No 2 (in substance subsidiary) - special purpose vehicle holding securitised loans purchased from SBS.

Subsidiaries

Subsidiaries are those entities over which the Banking Group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

Where subsidiaries have been sold or acquired during the year, their operating results have been included to the date control ceases or from the date control is transferred to the Banking Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

On consolidation, all significant inter-company transactions, balances and unrealised gains on transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Parent, SBS.

Special Purpose Entities

SBS may invest in or establish special purpose entities to enable it to undertake specific types of transactions such as securitisation. Where SBS controls such vehicles, they are consolidated into the Banking Group's financial results.

(g) Revenue and Expense Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Banking Group and that revenue can be reliably measured. Expenses are recognised in the income statement on an accruals basis.

(h) Interest Income and Interest Expense

Interest income and interest expense (including dividends on redeemable and subordinated redeemable shares) for all instruments measured at amortised cost are recognised in the income statement as they accrue, using the effective interest method. Interest income and interest expense for all instruments measured at fair value are recognised in the income statement on a daily accrual basis.

I Statement of Accounting Policies continued

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate over the expected life of the financial asset or liability. The application of the method has the effect of recognising income and expense evenly in proportion to the amount outstanding over the expected life of the financial asset or liability.

Loan commitment fees are deferred and recognised as an adjustment to the effective interest on the loan once drawn or immediately to the income statement for expired commitments.

Fees and commissions payable to brokers in respect of originating lending business, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

(i) Fee and Commission Income

Fee and commission income integral to the effective yield of a financial asset or liability for all instruments measured at amortised cost is recognised as an adjustment to the effective interest calculation and included in net interest income.

Fee and commission income which relates to the execution of a significant act, for example maintaining and administering existing facilities is recognised at the time the services are provided and is recognised as income no later than when the loan is disbursed or the commitment to lend expires.

(j) Net Gain/(Loss) from Financial Instruments Designated at Fair Value

Net gains/(losses) on financial instruments designated at fair value comprises fair value gains and losses from financial instruments designated at fair value through profit or loss.

Interest income and interest expense on all financial instruments designated at fair value through profit or loss is reported within interest income or interest expense and not included in the fair value of these instruments.

Provision for credit impairment on all financial instruments designated at fair value through profit or loss is reported within provision for credit impairment and not included in the fair value of these instruments.

(k) Offsetting of Income and Expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where amounts are collected on behalf of third parties where the Banking Group is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Banking Group is reimbursed.

(l) Recognition and Derecognition of Financial Assets and Financial Liabilities

The Banking Group recognises a financial asset or liability on its statement of financial position when, and only when, the Banking Group becomes a party to the contractual provisions of the financial asset or liability.

The Banking Group derecognises a financial asset from its statement of financial position when, and only when, (i) the contractual rights to the cash flows from the financial asset expire, or (ii) the Banking Group has transferred all or substantially all of the risks and rewards of ownership of the financial asset and no longer controls the asset. The Banking Group derecognises a financial liability from its statement of financial position, when and only when, it is extinguished.

(m) Fair Value Measurement

The determination of fair values of financial assets and financial liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets, or by using valuation techniques. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value and subsequently at valuation.

Valuation techniques include the discounted cash flow method and comparison to similar instruments for which market observable prices exist. The Banking Group uses widely recognised valuation models however some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques may not appropriately reflect all factors market participants take into account when entering a transaction. Valuation adjustments are recorded to allow for liquidity risks as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments at fair value on the statement of financial position.

(n) Financial Instruments

The Banking Group classifies its financial instruments into the following categories at initial recognition: Financial assets at fair value through profit or loss, available for sale financial assets, loans and receivables, held to maturity financial assets, financial liabilities at fair value through profit or loss and other financial liabilities. Designation of financial assets and liabilities into instrument categories is determined by the business purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss are financial assets acquired principally for the purpose of selling in the short term (held for trading), financial assets designated as fair value through profit or loss, and derivative financial instruments which are not designated as a cash flow hedge.

The Banking Group may designate financial assets at fair value through profit or loss when doing so significantly reduces measurement or recognition inconsistencies (accounting mismatch) that would arise from measuring assets and liabilities or recognising the gains and losses on them on different bases. Under this criterion the Banking Group has designated certain advances to customers as fair value through profit or loss. Where derivative financial instruments have been transacted to risk manage these, an accounting inconsistency would arise if such advances were accounted on an amortised cost basis, as the derivatives are measured at fair value with movements in fair value recognised in the income statement. By designating these advances at fair value through profit or loss, fair value movements on the instrument will substantially offset the fair value movements on risk management derivatives in the income statement.

Other financial assets may be classified at fair value through profit or loss where they are part of a group of financial assets that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Once a financial asset has been designated at fair value through profit or loss upon initial recognition, the Banking Group cannot subsequently change the designation. Financial assets at fair value through profit or loss are measured at fair value with realised and unrealised gains and losses included in the income statement. Assets classified in this category include certain advances to customers, certain investment securities, and derivative financial assets.

I Statement of Accounting Policies continued

Available for Sale Financial Assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale. The Banking Group may designate financial assets as available for sale when they may be sold prior to maturity in response to needs for liquidity or due to changes in interest rates.

Available for sale financial assets are initially recognised at fair value plus transaction costs that are directly attributable to acquisition and are subsequently carried at fair value. Gains and losses (not attributable to accrued interest) arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the income statement. Assets classified in this category include certain funds with financial institutions and investment securities.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, not available for sale, and not designated as fair value through profit or loss. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs and are subsequently measured at amortised cost using the effective interest method, less any impairment loss.

Assets classified in this category include cash on hand and at bank, investment securities which are not managed on a fair value basis, advances to customers other than those classified at fair value through profit or loss, and loans to subsidiaries.

Held to Maturity Financial Assets

Held to maturity financial assets are non-derivative financial assets where management has the intention and ability to hold to maturity. Held to maturity financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at amortised cost. The Banking Group has not classified any financial assets as held to maturity.

Other Financial Liabilities

Other financial liabilities includes all financial liabilities other than those classified at fair value through profit or loss. Other financial liabilities are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at amortised cost. Liabilities classified in this category include redeemable shares, deposits from customers, due to other financial institutions, current tax liabilities and subordinated redeemable shares.

(o) Derivative Financial Instruments held for Risk Management Purposes

Derivative financial instruments are contracts whose value is derived from changes in one or more underlying financial instruments or indices. They include swaps, options and combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Banking Group designates certain derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

The Banking Group documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Banking Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective on offsetting changes in cash flows of hedged items.

Cash Flow Hedge

A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in the cash flow hedging reserve. The ineffective portion of a fair value gain or loss is recognised immediately in the income statement. When the transaction or item that the derivative is hedging (including cash flows from the transaction that were forecast when the derivative was effected) affects the income or expense then the associated gain or loss on the hedging derivative is simultaneously transferred from the cash flow hedging reserve to the corresponding income or expenses item in the income statement.

When a hedging derivative expires or is sold, the hedge no longer meets the criteria for hedge accounting, or the Banking Group elects to revoke the hedge designation, the cumulative gain or loss on the hedging derivative remains in the cash flow hedging reserve until the forecast transaction occurs and affects income, at which point it is transferred to the corresponding income or expense line. If a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging derivative previously reported in the cash flow hedging reserve is immediately transferred to the income statement.

Derivative Financial Instruments at Fair Value through Profit or Loss

Certain derivative financial instruments that do not meet the criteria for hedge accounting under NZ IAS 39 are classified as at fair value through profit or loss. Changes in the fair value are reflected in the income statement immediately.

The movement in the fair value of derivative financial instruments is included in the income statement as 'net gain/(loss) from financial instruments designated at fair value'.

(p) Asset Quality

Credit Assessment

All advances and loans are subject to regular scrutiny of credit risk.

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

Impaired assets

Impaired assets are credit exposures where a credit event has occurred and for which it is probable the Banking Group will not be able to collect all amounts owing in terms of the contract and includes:

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

I Statement of Accounting Policies continued

An individual provision is raised to cover the expected loss, where full recovery is doubtful.

Restructured assets

Restructured assets are defined as advances and 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 Banking Group's average cost of funds at the date of restructuring.

Real estate or other assets acquired through security enforcement

Real estate or other assets acquired through security enforcement are those assets which are legally owned by the Banking Group as a result of enforcing security.

Past due assets

Advances and loans are designated as past due assets where a counterparty has failed to make a payment when contractually due and which are not impaired assets.

(q) Impairment of Financial Assets

Advances and loans are regularly reviewed for impairment loss. Credit impairment provisions are raised for exposures that are known to be impaired. Advances and loans are impaired and impairment losses incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the advance or loan and that loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the individual advance or loan or the collective portfolio of advances and loans.

Impairment is assessed initially for assets that are individually significant (or on a portfolio basis for small value loans), and then on a collective basis for those exposures not individually known to be impaired.

For those exposures that are assessed collectively, these are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

The estimated individual impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value at the original effective interest rate. As this discount unwinds during the period between recognition of impairment and recovery of the written down amount, it is recognised in the income statement. The process of estimating the amount and timing of cash flows involves considerable management judgement. These judgements are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The provision for credit impairment (individual and collective) is deducted from advances and loans in the statement of financial position and the movement in the provision for the reporting period is reflected in the income statement as 'provision for credit impairment'.

When an advance or loan is uncollectible, it is written-off against the related provision for impairment. Subsequent recoveries of amounts previously written-off are taken to the income statement.

Where impairment losses recognised in previous periods are subsequently decreased or no longer exist, such impairments are reversed in the income statement.

(r) Investment Properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or both. Investment property has been acquired through the enforcement of security over advances and loans.

Investment property is measured initially at cost, including transaction costs.

After initial recognition, investment properties are measured annually at fair value by an independent valuer. The fair values are based on market values, being the estimated amount for which a property could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.

Any gain or loss arising from a change in fair value is recognised in the income statement. There is no depreciation on investment properties.

Rental income from investment property is accounted for as described in the accounting policy for operating leases.

(s) Property, Plant and Equipment

Asset Recognition

Land and buildings are initially recognised at cost and are subsequently valued by independent registered valuers. Land and buildings are carried at the revalued amount less accumulated depreciation and impairment losses. Items of property, plant and equipment are carried at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of internally developed assets includes the cost of materials and direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

Revaluation

Land and buildings are carried at the revalued amount which is the market value at the date of the revaluation less any subsequent accumulated depreciation of buildings and accumulated impairment losses.

Where the land and building is revalued, any revaluation surplus net of tax is credited to the asset revaluation reserve included in equity unless it reverses a revaluation decrease of the same asset previously recognised in the income statement. Any revaluation deficit is recognised in the income statement unless it directly offsets a previous surplus of the same asset recognised in the asset revaluation reserve. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to a particular asset being disposed is transferred to retained earnings.

Valuations of land and buildings are carried out annually, at market value.

I Statement of Accounting Policies continued

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 net cost or revalued amount of each item of property, plant and equipment over its expected useful life on a straight line basis.

The estimated useful lives are:

	Useful Life
Buildings	50 years
Building Alterations	3 - 11 years
Computer Equipment	2 - 5 years
Other Assets	2 - 5 years

At each reporting date, the carrying amounts of property, plant and equipment are reviewed for indications of impairment in light of commercial and technological developments. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the assets existing carrying value exceeds its recoverable amount the difference is charged to the income statement. An impairment loss recognised in prior periods may be reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

(t) Intangible Assets

Goodwill

Goodwill arising on the acquisition of subsidiary shares represents the excess of the cost of acquisition over the fair value of the Banking Group's share of the net identifiable assets acquired, at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Software

Software comprises acquired and internally developed computer software and is amortised over its expected useful life to the Banking Group. The period of amortisation is between 1 and 3 years. At each reporting date, the software assets are reviewed for impairment against impairment indicators. If any indication of impairment exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the income statement. Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

(u) Redeemable Shares, Deposits and Subordinated Redeemable Shares

Redeemable shares, deposits and subordinated redeemable shares are recorded in the statement of financial position inclusive of accrued interest. Redeemable shares and subordinated redeemable shares are considered to be compound instruments. Interest income on deposits and dividends on redeemable and subordinated redeemable shares are recorded in the income statement on an accruals basis using the effective interest method.

(v) Repurchase Agreements

Securities sold under repurchase agreements are retained in the financial statements when substantially all the risks and rewards of ownership remain with the Banking Group, and counterparty liability is disclosed under the classification of due to other financial institutions or other liabilities, depending on the term of the agreement and the counterparty.

The difference between the sale price and the repurchase price is amortised over the life of the repurchase agreement and charged to interest expense in the income statement.

(w) Operating Leases

Leases as lessee

The leases entered in to by the Banking Group are primarily operating leases. Operating leases are recognised as an expense on a systematic basis over the lease term.

Leases as lessor

Operating lease rentals are included in the income statement on a systematic basis over the lease term. Gross operating lease income comprises amounts received under the lease contracts. Operating lease assets are stated at market value and are included as property, plant and equipment or investment properties.

(x) Income Tax

Income Tax Expense

Income tax expense for the year comprises current and deferred tax. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

Current Tax

Current tax is the expected tax payable on taxable income for the year, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date and including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the balance sheet method. Deferred tax arises by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset or liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Banking Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised. Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

I Statement of Accounting Policies continued

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority and there is a legal right and intention to settle on a net basis and it is allowed under tax law.

(y) Employee Benefits

The amounts expected to be paid in respect of employee's entitlements to annual leave are accrued at expected salary rates. Liability for long service leave is calculated and accrued for in respect of all applicable employees using an actuarial valuation.

(z) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except where the amount of GST incurred is not recoverable from the Inland Revenue Department (IRD). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the IRD is included as 'other assets' or 'other liabilities' in the statement of financial position.

Cash flows are included in the cash flow statement on a net basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the IRD are classified as operating cash flows.

(aa) Offsetting of Assets and Liabilities

Assets and liabilities are offset and the net amount reported in the statement of financial position only where:

- There is a current enforceable legal right to offset the asset and liability; and
- There is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(ab) Contingent Liabilities

Liabilities are no longer contingent, and are recognised on the statement of financial position, when the following requirements are met:

- The transaction is probable in that a contingency is likely to occur; and
- The contingency can be reasonably estimated.

Further disclosure is made within Note 25 - Contingent Liabilities and Credit Related Commitments, where the above requirements are not met but there is a possible obligation that is higher than remote. Specific details are provided together with an estimate of the range or a statement that such an estimate is not possible.

(ac) 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 Banking Group, which are unconditionally convertible at the Banking Group's option within three months.

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 Banking Group. These include customer loans and advances, customer shares and deposits and parent company funding.

(ad) Ranking of Securities

Deposits rank equally amongst themselves and equally with other unsecured creditors and behind creditors given priority by law. Redeemable shares rank equally amongst themselves and behind deposits, unsecured creditors and those creditors given priority by law. Subordinated redeemable shares rank equally amongst themselves and behind redeemable shares, deposits, unsecured creditors and those creditors given priority by law.

(ae) Lifestages Superannuation Scheme

SBS has entered into a trust deed made between SBS and Trustees Executors Limited as Trustee of a registered superannuation scheme known as the Lifestages Superannuation Scheme (previously known as Lifestages Capital Stable Portfolio). Under a Deed of Novation dated 31 March 2007, SBS novated its rights and obligations under this trust deed to Funds Administration New Zealand Limited (FANZ). From this date, FANZ is the founder and promoter of the Lifestages Superannuation Scheme. SBS accepts investments made through SBS's branch network. The fixed interest portion of the Lifestages Superannuation Scheme 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. Under a Deed of Amendment and Restatement of Guarantee dated 31 March 2007, this guarantee is now only applicable to members who joined the registered superannuation scheme before 31 May 2007.

The liability of SBS under the guarantee has not been taken over by FANZ under the Deed of Novation and SBS remains liable under this guarantee. The majority of the funds invested in the Lifestages Superannuation Scheme are invested with or managed by SBS. The Lifestages Superannuation Scheme funds that are invested with SBS are included in the statements of financial position as deposits. FANZ is the investment and administration manager of the Lifestages Superannuation Scheme.

(af) Lifestages Portfolio Funds

FANZ has entered into a trust deed made between FANZ and Trustee Executors Limited as Trustee of five unit trusts registered under the Unit Trusts Act 1960, known as Lifestages Mortgage Portfolio (Distributing), Lifestages Income Portfolio (previously known as the Lifestages Mortgage Non-Distributing Portfolio), Lifestages Australasian Equity Portfolio, Lifestages World Equity Portfolio and the Lifestages Deposit Portfolio. FANZ is the issuer and manager of the above Portfolios.

The fixed interest asset allocations of the Lifestages Portfolio funds have investments invested with SBS and the Lifestages Portfolio is managed by SBS.

The Lifestages Portfolio Funds that are invested with SBS are included in the statements of financial position as deposits.

(ag) Lifestages KiwiSaver Scheme

The Lifestages KiwiSaver Scheme was established by trust deed on 1 June 2007 and is a registered KiwiSaver scheme under the KiwiSaver Act 2006. FANZ & SBS are the "Promoter" of the scheme. FANZ is also the investment and administration manager.

I Statement of Accounting Policies continued

The majority of the fixed interest portion of the investments of this scheme are invested with or managed by SBS. The Lifestages KiwiSaver Scheme funds that are invested with SBS are included in the statements of financial position as deposits.

(ah) 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 Banking Group statements of financial position.

SBS receives from the investment manager (Funds Administration New Zealand Limited – a 57% owned subsidiary) an ongoing fee for the management and administration of loans assigned to the Lifestages Mortgage Portfolio. This fee is recognised when earned.

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. SBS consolidates the financial statements of SBS Invercargill W Trust within the Parent on the basis that SBS retains some of the risks and rewards of ownership through the provision of a subordinated loan. The subordinated loan has been in place since September 2007 and removes the need to purchase lenders mortgage insurance on loans assigned to the Trust.

The SBS Invercargill W Trust sells its interest in certain loans (principally housing mortgage loans) to a trust known as the SBS Oreti Trust No.1 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. These securitised assets are not included in advances in the Parent statement of financial position.

The SBS Invercargill W Trust also sells its interest in certain loans (principally housing mortgage loans) to a trust known as the SBS Oreti Trust No. 2 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. The SBS Oreti Trust No. 2 issues residential mortgage backed securities that qualify as acceptable collateral under the RBNZ liquidity management arrangements. SBS consolidates the financial statements of the SBS Oreti Trust No. 2 within the Parent on the basis that SBS retains a continuing involvement in the transferred assets by holding the securities issued by the trust.

SBS is the manager and servicer of mortgages assigned to the SBS Invercargill W Trust, the SBS Oreti Trust No.1, and the SBS Oreti Trust No. 2. SBS receives a fee for providing these management services. This fee is recognised when earned.

(ai) Comparative Data

To ensure consistency with the current period, comparative figures have been restated where appropriate.

(aj) Changes in Accounting Policies and Estimates

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

These financial statements are 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 in the financial statements. 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 below.

Credit Loss Provisioning

Provisions are raised for losses on 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 a reduced specific provision and interest in the income statement during the period between recognition of impairment and recovery of the written down amount.

Exposures found not 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. This may include data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Banking Group.

At 31 March 2011 the Banking Group's total provision for credit impairment was \$21.7 million (31 March 2010 \$17.2 million) representing 0.8% of total net loans and advances (31 March 2010 0.7%). The provisions represent provisions against individual loans and collective provisions. They also include additional provisioning of \$3.55 million taken by the Banking Group in relation to the Christchurch earthquake of 22 February 2011. This additional provisioning reflects management's current assessment of the potential losses that may arise due to this natural disaster.

Management regularly reviews and adjusts the estimates and methodologies as improved analysis becomes available. Changes in these assumptions and methodologies could have a direct impact on the level of credit provision and credit impairment charge recorded in the financial statements.

Fair Value of Derivatives

The Banking Group enters derivative agreements to hedge its interest rate risk, credit risk and other exposures relating to non-trading positions. The derivative instruments used to hedge the Banking Group's exposures include:

- swaps
- options, and
- combinations of the above instruments.

The Banking Group enters into derivatives for risk management purposes.

Derivatives which are entered into as part of the Banking Group's interest rate risk management strategies are measured at fair value, with any changes in fair value recognised in the income statement. The fair value of all derivatives are based on quoted market prices.

2 Critical Estimates and Judgements Used in Applying Accounting Policies *continued*

Hedge Accounting

A hedging instrument is a designated derivative, the changes in fair value or cash flows of which are expected to offset changes in the fair value or cash flows of a designated hedged item. A hedged item is an asset, liability, firm commitment or highly probable forecast transaction that exposes the Banking Group to risk of changes in fair value or cash flows, and that is designated as being hedged. The Banking Group hedges a portion of its floating rate risk in the funding book.

For a relationship to qualify for hedge accounting, a number of criteria must be met including:

- the hedging relationship must be formally designated and documented at inception of the hedge;
- effectiveness testing must be carried out to ensure the hedge is effective consistent with the originally documented risk management strategy; and
- the instruments must involve a party external to the Banking Group.

Judgement is required by management in selecting and designating hedging relationships and assessing hedge effectiveness. NZ IAS 39 does not specify a single method for assessing hedge effectiveness. The Banking Group adopts the hypothetical derivative approach to determine hedge effectiveness. Hedge ineffectiveness can arise for a number of reasons, and whilst a hedge may pass the effectiveness tests it may not be perfectly effective, thus creating volatility within the income statement through recognition of this ineffectiveness.

Loans and Advances

Certain loans and advances, for which there is an accounting mismatch at origination between the loans and advances and associated derivatives used for risk management, are measured at fair value, with any changes in fair value recognised in the income statement. Fair value is based on valuation techniques including the use of a discounted cash flow model based on wholesale rates adjusted with a retail lending margin. To the extent possible the model uses only observable data. Changes in assumptions used in these models and projections of future cash flows could affect the reported fair value of loans and advances.

Securitisation and Special Purpose Entities

The Banking Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments and for asset securitisation transactions. The Banking Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Banking Group controls an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that considered in isolation indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated.

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 the Audit and Risk Committee

The Board has responsibility for reviewing all aspects of risk management. The Board receives comprehensive monthly reporting covering each area of risk management as outlined below. 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 committee consists of four directors. In addition the Chief Executive Officer; General Manager Finance and the General Manager Risk & Support are in attendance at meetings. The Audit and Risk 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 and Risk Committee. The internal audit function has been carried out by the Dunedin based firm of Chartered Accountants, Deloitte. 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 and Risk Committee.

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

Asset and Liability Committee (ALCO)

The 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:

- reviewing SBS past performance with respect to asset and liability growth, yields, cost of funds, interest rate risk management and net interest margin;
- monitoring the interest rate risk position, liquidity, maturity, funding and credit position, financial investments portfolio, and financial performance;
- reviewing the current and recommended future hedging positions and risk profiles within risk control limits;
- monitoring interest rate pricing levels and interest margin levels for all assets and funding products;
- considering and evaluating the sensitivity of particular asset and liability classes to changes in market interest rates and yield curve shape;
- reviewing the liquidity position, investment and funding activity and making recommendations on future action;

3 Risk Management Policies *continued*

- reviewing the funding strategy and funding risk mitigation;
- considering the level of capital employed, capital adequacy levels and the risk weighting of statement of financial position items; and
- reviewing SBS' credit risk position, credit policy and monitoring credit risk trends.

The ALCO usually meets at least twice a month, and reports directly to the Board.

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 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.

The Banking Group's liquidity risks are governed by a Board approved liquidity strategy that defines policy, systems and procedures for measuring, assessing, reporting and managing liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis. This also meets the Reserve Bank of New Zealand liquidity policy requirements.

From 22 October 2009, the Reserve Bank modified the Banking Group's conditions of registration with respect to liquidity. These revised conditions became effective 1 April 2010 and are stated in clauses 10A-12 of the conditions of registration. These include the requirement to comply with various liquidity ratios which must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BSI 3) and "Liquidity Policy Annex: Liquid Assets" (BSI 3A).

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 and Risk Committee with summarised reporting provided to the Board.

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

All in \$'000's

4 Income

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Interest income				
Cash at bank	1,202	618	904	321
Funds with financial institutions - available for sale	1,201	3,081	1,052	2,943
Investment securities - available for sale	3,893	530	3,868	510
Investment securities - designated at fair value through profit or loss	60	87	-	-
Derivative financial instruments	(13,656)	(28,184)	(11,650)	(24,711)
Advances to customers - at amortised cost	185,129	175,282	155,463	144,275
Advances to customers - designated at fair value through profit or loss	3,364	20,626	3,279	19,929
Advances to customers - impaired	1,093	-	1,093	-
Loans to subsidiaries	-	-	8,264	8,856
	182,286	172,040	162,273	152,123
Other operating income				
Loan fees	1,061	2,254	2,331	3,071
Management fees	3,345	3,794	1,547	1,463
Other fee and commission income	6,720	6,026	1,925	1,896
Net insurance income	5,556	5,032	-	-
Dividends	37	28	-	28
Sundry income	1,516	1,495	251	295
	18,235	18,629	6,054	6,753

5 Expenses

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Interest expense				
Redeemable shares	98,350	91,773	98,350	91,773
Deposits from customers	10,854	10,453	10,854	10,453
Other financial institutions	157	338	157	338
Subsidiary companies	-	-	162	151
Other borrowings	5,027	6,108	2,687	3,340
Subordinated redeemable shares	4,214	3,823	4,214	3,823
	118,602	112,495	116,424	109,878
Other operating expenses				
Auditors remuneration	269	375	185	303
Computer expenses	1,947	1,733	1,469	1,277
Fees and commissions	292	379	-	-
Fees to directors	586	530	540	484
Marketing	4,742	4,008	3,389	2,768
Personnel	23,975	22,230	16,494	15,360
Actuarial life adjustment	630	564	-	-
Amortisation and depreciation	3,256	2,349	2,559	1,706
Rent and leases	2,329	2,197	2,288	2,140
Write off of property, plant and equipment	73	42	73	41
Other expenses	9,455	8,661	6,176	5,175
	47,554	43,068	33,173	29,254

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

All in \$'000's

5 Expenses continued

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Amounts received, or due and receivable by the auditors:				
KPMG auditing the financial statements	238	312	175	242
KPMG other assurance services ¹	31	63	10	61
	269	375	185	303

¹ Other assurance services includes regulatory reporting and other accounting related assistance.

Amounts received, or due and receivable by directors:				
JWA Smith (Chairman)	112	106	112	106
JF Ward (Deputy Chairman)	75	68	65	60
KJ Ball	62	58	62	58
JB Walker	63	58	51	41
GJ Mulvey	57	53	51	47
GJ Diack	63	59	51	47
JJ Grant	57	56	51	53
FE Spencer (appointed November 2010)	25	-	25	-
RL Smith ²	-	-	-	-
	514	458	468	412
Provision for directors retiring allowance	72	72	72	72
	586	530	540	484

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

² RL Smith is an executive director and received no directors fees in addition to his salary.

Personnel expenses includes key management personnel compensation which comprised:				
Salaries and short-term employee benefits	3,614	3,436	1,519	1,424
Post-employment benefits	104	97	104	97
Other long term benefits	36	30	36	30
Termination benefits	-	-	-	-
	3,754	3,563	1,659	1,551

6 Net Gain/(Loss) from Financial Instruments Designated at Fair Value

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Net gain/(loss) arising on:				
Investment securities	(14)	(18)	-	-
Derivative financial instruments	5,609	10,207	5,322	7,867
Hedge ineffectiveness on cash flow hedging	-	379	-	379
Advances to customers	(478)	(9,588)	(478)	(9,588)
	5,117	980	4,844	(1,342)

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

All in \$'000's

7 Taxation

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Reconciliation of the prima facie income tax payable on profit with income tax expense in the income statement				
Surplus before income tax	22,337	20,559	13,496	11,337
Prima facie income tax	6,666	6,303	4,015	3,498
Adjust for the tax effect of:				
Imputation credits received	185	5	171	531
Other permanent items	(843)	(908)	19	177
Loss offset/subvention	-	-	(297)	(509)
Prior period adjustments	(39)	134	5	(1,239)
	(697)	(769)	(102)	(1,040)
Tax on surplus	5,969	5,534	3,913	2,458
Intra - group dividend imputation credits	(419)	(12)	(1,508)	(1,657)
Impact of reduction in corporate tax rate	280	-	354	-
Impact of legislation change for depreciation on buildings	2,257	-	90	-
Taxation expense/(benefit)	8,087	5,522	2,849	801
The major components of the income tax expense comprise:				
Amounts recognised in the income statement				
Current income tax				
Current income tax charge	6,171	7,724	3,116	4,097
Adjustments recognised in the current period in relation to current tax of prior periods	48	80	92	62
Deferred income tax				
Deferred tax expenses relating to the origination and reversal of temporary differences	1,868	(2,282)	(359)	(3,358)
Total income tax expense recognised in the income statement	8,087	5,522	2,849	801
The following amounts were charged/(credited) direct to equity:				
Current income tax	496	-	496	-
Deferred income tax	(1,868)	3,381	(1,388)	3,466
Total income tax expense recognised directly in equity	(1,372)	3,381	(892)	3,466

8 Funds with Financial Institutions

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Call funds	1,392	19,317	-	18,001
Registered certificates of deposit	-	31,943	-	31,943
Term deposits	47,413	12,820	44,140	10,084
	48,805	64,080	44,140	60,028

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

All in \$'000's

9 Investment Securities

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Managed funds	646	627	-	-
NZ government securities	1,045	1,058	-	-
Equity securities	884	718	-	-
Commercial paper	6,476	-	6,476	-
Local authority bonds	61,837	20,883	61,737	20,782
Bank bonds	38,493	20,467	38,493	20,467
Other bonds	10,847	3,729	10,847	3,729
	120,228	47,482	117,553	44,978

10 Derivative Financial Instruments

The Banking Group uses the following derivative instruments for economic or risk management purposes:

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates (for example, fixed rate for floating rate). No exchange of principal takes place. The Banking Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis within treasury policy guidelines, and with reference to a proportion of the notional amount of the contracts and the term to expiry of the contracts. To control the level of credit risk taken, the Banking Group assesses counterparties based on their published credit rating compared with treasury policy limits.

Interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of interest rate risk. The Banking Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Banking Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

The Banking Group undertakes 100% of its transactions in interest rate contracts with other financial institutions. Management has established limits such that, at any time, less than 30% of equity is at risk with any individual counterparty.

The risk management practices and accounting treatment are disclosed in the Statement of Accounting Policies. The movement in fair value of derivative financial instruments are included in the income statement as 'net gain/(loss) from financial instruments designated at fair value'.

Hedge Accounting

Cash Flow Hedges

The Banking Group hedges the forecasted interest cash flows from floating rate deposits using interest rate swaps and interest rate options. There were no transactions where cash flow hedge accounting ceased in the year ended 31 March 2011 as a result of highly probable cash flows no longer expected to occur (31 March 2010 \$nil).

Fair value gains and losses deferred in cash flow hedge reserves will be transferred to the income statement over the next one to five years, as the cash flows under the hedged transactions occur. The hedging practices and accounting treatment are disclosed in the Statement of Accounting Policies.

The gain and loss from re-measuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective. This amount is re-classified into the income statement on the maturity of the interest rate swap. The ineffective portion is recognised in the income statement immediately.

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

All in \$'000's

10 Derivative Financial Instruments continued

	BANKING GROUP			PARENT		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
As at 31 March 2011						
Held for risk management - at fair value						
<i>Interest rate related contracts</i>						
Swaps	405,190	2,657	874	426,517	3,003	876
Options	-	-	-	-	-	-
Total held for risk management at fair value	405,190	2,657	874	426,517	3,003	876
Held for hedging - cash flow hedges						
<i>Interest rate related contracts</i>						
Swaps	654,500	5	12,476	734,500	1,656	12,476
Options	10,000	-	79	10,000	-	79
Total held for hedging	664,500	5	12,555	744,500	1,656	12,555
Total derivative financial instruments	1,069,690	2,662	13,429	1,171,017	4,659	13,431
As at 31 March 2010						
Held for risk management - at fair value						
<i>Interest rate related contracts</i>						
Swaps	359,260	503	1,341	419,278	1,210	1,349
Options	162,000	-	4,750	162,000	-	4,750
Total held for risk management at fair value	521,260	503	6,091	581,278	1,210	6,099
Held for hedging - cash flow hedges						
<i>Interest rate related contracts</i>						
Swaps	484,500	90	5,022	534,500	449	5,022
Options	90,000	(87)	1,896	90,000	(87)	1,896
Total held for hedging	574,500	3	6,918	624,500	362	6,918
Total derivative financial instruments	1,095,760	506	13,009	1,205,778	1,572	13,017

11 Advances to Customers

	Note	BANKING GROUP		PARENT	
		31/3/11	31/3/10	31/3/11	31/3/10
Advances at fair value through profit or loss		50,983	250,129	50,983	250,129
Advances at amortised cost		2,558,374	2,231,236	2,370,983	2,036,193
Gross advances¹		2,609,357	2,481,365	2,421,966	2,286,322
Provisions for credit impairment	(12)	(21,708)	(17,216)	(17,728)	(12,510)
Deferred fee revenue and expenses		(2,993)	(4,060)	(798)	(1,228)
Total net advances	(28)	2,584,656	2,460,089	2,403,440	2,272,584

Advances to customers that met SBS fair value through profit or loss criteria have been designated at fair value through profit or loss. These advances have been matched with interest rate swaps as part of a documented risk management strategy. An accounting mismatch would arise if the advances were accounted for at amortised cost, because the related derivatives are measured at fair value, with movements in the fair value taken through the income statement. It should be noted that no such loans have been designated during the current year.

At 31 March 2011 the maximum credit exposure on these loans at fair value through profit or loss was \$51 million (31 March 2010 \$250 million). The Banking Group has \$nil credit risk derivatives at 31 March 2011 (31 March 2010 \$nil).

There have been no changes in the fair value recognised on these advances on account of credit risk.

¹ At 31 March 2011, the Banking Group has \$nil repurchase agreements for residential mortgage backed securities with the RBNZ (31 March 2010 \$30 million). The underlying collateral accepted by the RBNZ are residential advances to the value of \$nil (31 March 2010 \$36 million). These advances have not been derecognised from the statement of financial position.

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

All in \$'000's

12 Provision for Credit Impairment

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Individual provisions against advances and loans (All relate to impaired assets)				
Balance at beginning of the year	12,510	8,055	12,510	8,055
New provisions during the year	8,592	10,328	8,592	10,328
Balances written off during the year	(9,560)	(5,401)	(9,560)	(5,401)
Recoveries/reversals of previously recognised provision	(293)	(472)	(293)	(472)
Acquired on merger	1,431	-	1,431	-
Balance at end of the year	12,680	12,510	12,680	12,510
Collective provisions against advances and loans				
Balance at beginning of the year	4,706	4,743	-	-
Charged to income statement	3,824	(37)	4,550	-
Acquired on merger	498	-	498	-
Balance at end of the year	9,028	4,706	5,048	-
Total provisions for credit impairment	21,708	17,216	17,728	12,510

As at 31 March 2011, the Banking Group did not have any material restructured assets (31 March 2010 \$nil). The Banking Group acquired assets under enforcement of security during the year of \$3.48 million (31 March 2010 \$nil). These assets are held as investment properties.

The following provides a reconciliation of the above movements in provisions for credit impairment reported in the income statement:

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Bad debts written off during the year	14,494	11,309	9,944	5,851
Movement in individual provisions	(1,261)	4,455	(1,261)	4,455
Movement in collective provision	3,824	(37)	4,550	-
Provision for credit impairment to income statement	17,057	15,727	13,233	10,306

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.

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

All in \$'000's

13 Asset Quality

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
(a) Asset quality - advances to customers				
Neither past due or impaired	2,520,711	2,406,938	2,344,480	2,226,361
Individually impaired	38,342	29,907	38,342	29,907
Past due	47,311	40,460	38,346	28,826
Provision for credit impairment	(21,708)	(17,216)	(17,728)	(12,510)
Carrying amount	2,584,656	2,460,089	2,403,440	2,272,584
(b) Ageing of past due but not impaired assets				
Past due 0-29 days	26,523	15,097	20,712	8,580
Past due 30-59 days	7,456	4,724	5,838	2,956
Past due 60-89 days	7,471	4,172	6,434	2,812
Past due 90-119 days	2,227	2,596	1,971	1,691
Past due 120-365 days	3,634	13,871	3,391	12,787
Past due more than 1 year	-	-	-	-
Carrying amount	47,311	40,460	38,346	28,826
(c) 90 day past due assets				
Balance at beginning of the year	16,467	11,917	14,478	9,806
Additions to 90 day past due assets	5,745	16,310	5,363	14,478
Reductions in 90 day past due assets	(16,351)	(11,760)	(14,479)	(9,806)
Balance at end of the year	5,861	16,467	5,362	14,478
(d) Impaired assets				
Individually impaired assets				
Balance at beginning of the year	29,907	21,848	29,907	21,848
Additions to individually impaired assets	26,191	17,898	26,191	17,898
Reductions to individually impaired assets	(20,773)	(8,319)	(20,773)	(8,319)
Acquired on merger	3,017	-	3,017	-
Transfers back to productive ledger	-	(1,520)	-	(1,520)
Balance at end of the year	38,342	29,907	38,342	29,907
Less provision at end of the year	(12,680)	(12,510)	(12,680)	(12,510)
Net carrying amount at end of the year	25,662	17,397	25,662	17,397

Interest revenue foregone on impaired assets is the amount of interest income that would have been recorded had interest been accrued. This amounts to \$nil for the year ended 31 March 2011 (31 March 2010 \$102,447).

Of monetary assets receivable 0.06% (31 March 2010 0.15%) relate to repayments in arrears in excess of three months.

14 Loan Securitisation

There have been no mortgages assigned by SBS to the Lifestages Mortgage Portfolio unit trust since the year ended March 2008. 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.

SBS 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 SBS and are disclosed as other borrowings. SBS 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.

Mortgages assigned by SBS to the SBS Invercargill W Trust during the year ended 31 March 2011 amounted to \$nil (31 March 2010 \$148.11 million). SBS retains some of the risks and rewards of ownership through the provision of a subordinated loan and accordingly it is appropriate to consolidate the financial statements of SBS Invercargill W Trust within the Parent.

Mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No. 2 during the year ended 31 March 2011 amounted to \$nil (31 March 2010 \$148.11 million). SBS retains some of the risks and rewards of this trust by holding the securities issued by the trust and accordingly it is appropriate to consolidate the financial statements of SBS Oreti Trust No. 2 within the Parent.

There have been no mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No. 1 since the year ended March 2008. SBS does not guarantee the payment of interest or the repayment of principal due on the securities. SBS is not obliged to support any losses that may be suffered by investors and therefore these loans are not included in the statement of financial position of the Parent.

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

All in \$'000's

14 Loan Securitisation continued

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Securitised loan balances				
Lifestages Mortgage Portfolio	41,385	53,802	41,385	53,802
SBS Invercargill W Trust	-	-	-	-
SBS Oreti Trust No. 1	60,912	71,720	-	-
SBS Oreti Trust No. 2	203,779	241,955	203,779	241,955
	306,076	367,477	245,164	295,757

15 Investments in Subsidiaries

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Investments in subsidiaries	-	-	15,180	15,180
	-	-	15,180	15,180
Loans to subsidiaries (at amortised cost)	-	-	94,838	95,555
	-	-	94,838	95,555

	Percentage Held		Balance Date	Nature of Business
	31/3/11	31/3/10		
Subsidiaries:				
Fraser Properties Limited	100.0%	100.0%	31 March	Property Holding
Southsure Assurance Limited	80.0%	80.0%	31 March	Insurance
Finance Now Limited	71.5%	71.5%	31 March	Finance Company
Funds Administration New Zealand Limited	57.0%	57.0%	31 March	Funds Administration
In-substance subsidiaries:				
SBS Invercargill W Trust	-	-	31 March	Mortgage Securitisation
SBS Oreti Trust No. 1	-	-	31 March	Mortgage Securitisation
SBS Oreti Trust No. 2	-	-	31 March	Mortgage Securitisation

All subsidiaries and in-substance subsidiaries are incorporated in New Zealand. For all subsidiaries, the ownership percentage equates to the voting power held. Refer to Note 33 - Related Party Transactions for further details of loans to subsidiaries.

16 Other Assets

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Prepayments	822	400	724	323
Receivables from related parties	-	-	3,743	5,693
Other receivables	1,686	1,175	1,093	515
	2,508	1,575	5,560	6,531

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

All in \$'000's

17 Property, Plant and Equipment

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Freehold land (at valuation)	2,075	1,360	1,075	360
Buildings (at valuation)	9,855	9,380	1,355	410
Total carrying amount	11,930	10,740	2,430	770
Leasehold assets (at cost)	5,001	4,423	4,782	4,203
Accumulated depreciation	(2,506)	(2,129)	(2,411)	(2,052)
Total carrying amount	2,495	2,294	2,371	2,151
Computer equipment (at cost)	6,641	4,838	5,470	3,772
Accumulated depreciation	(4,680)	(3,978)	(3,637)	(2,985)
Total carrying amount	1,961	860	1,833	787
Other assets (at cost)	7,443	6,417	4,661	4,088
Accumulated depreciation	(4,899)	(4,306)	(2,862)	(2,418)
Total carrying amount	2,544	2,111	1,799	1,670
Total property, plant and equipment	18,930	16,005	8,433	5,378

Other assets include plant, furniture and fittings and motor vehicles.

Land and Buildings

Independent valuations of freehold land and buildings were carried out as at 31 March 2011 by Tony Chadderton, a registered valuer with Chadderton & Associates and by Max Plested, a registered valuer with Telfer Young. The valuations were based on capitalisation of net market rental. Such valuations are performed on an open market basis, being the amounts for which the assets could be exchanged between a knowledgeable, willing seller in an arm's length transaction at the valuation date.

The current rateable valuations of land and buildings were notified 1 July 2008, the aggregate of these valuations for all land and buildings owned by the Banking Group as at 31 March 2011 is \$12.50 million (31 March 2010 \$10.92 million).

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
The carrying amount of land and buildings had they been recognised under the cost model are as follows:				
Freehold land	1,910	1,561	569	220
Buildings	8,293	8,019	658	304
	10,203	9,580	1,227	524

Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below:				
Freehold land and buildings				
Balance at beginning of the year	10,740	10,740	770	780
Additions	-	-	-	-
Acquired on merger	1,790	-	1,790	-
Revaluation	(486)	114	(110)	4
Disposals	-	-	-	-
Depreciation	(114)	(114)	(20)	(14)
Balance at end of the year	11,930	10,740	2,430	770
Leasehold assets				
Balance at beginning of the year	2,294	2,401	2,151	2,246
Additions	485	137	485	128
Acquired on merger	37	-	37	-
Disposals	(71)	(29)	(71)	(29)
Depreciation	(250)	(215)	(231)	(194)
Balance at end of the year	2,495	2,294	2,371	2,151

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

All in \$'000's

17 Property, Plant and Equipment continued

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Computer equipment				
Balance at beginning of the year	860	790	787	643
Additions	1,787	569	1,656	513
Acquired on merger	19	-	19	-
Disposals	(3)	(10)	(3)	(9)
Depreciation	(702)	(489)	(626)	(360)
Balance at end of the year	1,961	860	1,833	787
Other assets				
Balance at beginning of the year	2,111	1,973	1,670	1,553
Additions	873	617	383	466
Acquired on merger	123	-	123	-
Disposals	(45)	(91)	(26)	(73)
Depreciation	(518)	(388)	(351)	(276)
Balance at end of the year	2,544	2,111	1,799	1,670
Total property, plant and equipment	18,930	16,005	8,433	5,378

18 Intangible Assets

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Goodwill (at cost)				
Accumulated impairment	1,160	1,160	-	-
	(145)	(145)	-	-
Total carrying amount	1,015	1,015	-	-
Software (at cost)				
Accumulated depreciation	10,367	9,290	7,098	6,475
	(8,708)	(7,211)	(6,008)	(4,789)
Total carrying amount	1,659	2,079	1,090	1,686
Total intangible assets	2,674	3,094	1,090	1,686

No impairment losses have been recognised against the gross carrying amount of software and other intangible assets for the year ended 31 March 2011 (31 March 2010 \$nil). Testing for impairment of goodwill is undertaken using models which calculate the valuation with reference to applicable price to earnings ratios.

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Reconciliation of the carrying amounts for intangible assets are set out below:				
Goodwill				
Balance at beginning of the year	1,015	1,015	-	-
Additions	-	-	-	-
Impairment	-	-	-	-
Balance at end of the year	1,015	1,015	-	-
Software				
Balance at beginning of the year	2,079	1,827	1,686	1,411
Additions	1,246	1,395	729	1,137
Acquired as part of merger	6	-	6	-
Amortisation for the year	(1,672)	(1,143)	(1,331)	(862)
Impairment	-	-	-	-
Balance at end of the year	1,659	2,079	1,090	1,686
Total intangible assets	2,674	3,094	1,090	1,686

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

All in \$'000's

19 Deferred Tax Assets and Liabilities

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Provision for deferred tax				
Balance at beginning of the year	7,394	10,504	6,318	8,425
Prior period adjustment	87	(2,011)	86	(1,999)
(Charged)/credited to income statement	(1,868)	2,282	359	3,358
(Charged)/credited to equity	1,868	(3,381)	1,388	(3,466)
Balance at end of the year	7,481	7,394	8,151	6,318
Recognised deferred tax assets and liabilities:				
Deferred tax assets comprise the following temporary differences:				
Provision for credit impairment	5,818	5,040	4,723	3,753
Financial instruments	3,396	1,803	2,852	1,618
Funds with financial institutions - available for sale	22	16	-	-
Intangible assets	-	4	-	4
Provisions	437	416	371	337
Other	611	707	612	707
Total deferred tax assets	10,284	7,986	8,558	6,419
Deferred tax liabilities comprise the following temporary differences:				
Advances at fair value through profit or loss	41	8	41	8
Property, plant and equipment	2,592	182	313	37
Revaluation of property	170	401	53	55
Other	-	1	-	1
Total deferred tax liabilities	2,803	592	407	101
Net deferred tax assets	7,481	7,394	8,151	6,318
Movements in temporary differences during the year (charged)/credited to the income statement:				
Provision for credit impairment	778	1,467	970	1,337
Financial instruments	(139)	(1,904)	(152)	(1,957)
Advances at fair value through profit or loss	(34)	195	(34)	195
Property, plant and equipment	(2,310)	27	(275)	6
Intangible assets	(4)	(8)	(4)	(8)
Provisions	22	47	34	33
Other	(94)	447	(94)	425
Subsidiary dividends	-	-	-	1,328
Total deferred tax (charged)/credited to the income statement	(1,781)	271	445	1,359
Movements in temporary differences during the year (charged)/credited to equity:				
Funds with financial institutions - available for sale	5	(26)	-	-
Cash flow hedges	1,732	(3,399)	1,385	(3,483)
Revaluation of property	131	44	3	17
Total deferred tax (charged)/credited to equity	1,868	(3,381)	1,388	(3,466)

There are no unrecognised deferred tax assets as at 31 March 2011 (31 March 2010 \$nil).

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

All in \$'000's

20 Other Liabilities

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Sundry creditors	8,863	7,477	6,154	4,174
Employee entitlements	2,814	3,196	2,162	2,467
Insurance policy liability	4,914	4,285	-	-
Provision for dividend	1,004	471	-	-
Other	2,430	1,846	2,430	1,846
	20,025	17,275	10,746	8,487

21 Subordinated Redeemable Shares

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
SBS Premier Bond	61,232	59,307	61,232	59,307
	61,232	59,307	61,232	59,307

These five-year fixed rate bonds are issued continuously as subordinated redeemable shares and rank behind redeemable shareholders, depositors and other unsecured creditors of SBS.

At 31 March 2011 \$40.58 million of subordinated redeemable shares qualify as lower tier 2 capital for Reserve Bank of New Zealand capital adequacy purposes (31 March 2010 \$50.44 million).

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

All in \$'000's

22 Equity

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Capital reserve	73	73	73	73
Revaluation reserve - property, plant and equipment	798	1,153	237	346
Revaluation reserve - available for sale assets	1,236	(58)	1,277	-
Revaluation reserve - cash flow hedging	(7,859)	(3,322)	(7,067)	(3,182)
Reserves	(5,752)	(2,154)	(5,480)	(2,763)
Retained earnings	201,374	174,155	188,510	162,405
	195,622	172,001	183,030	159,642
Non-controlling interests	6,418	5,663	-	-
Total equity	202,040	177,664	183,030	159,642
Movement in reserves:				
Revaluation reserve - property, plant and equipment				
Balance at beginning of the year	1,153	1,195	346	325
Surplus on revaluation of land and buildings	(486)	114	(112)	4
Deferred tax on revaluation	131	44	3	17
Transfer to income statement	-	(200)	-	-
Net movement for the year	(355)	(42)	(109)	21
Balance at end of the year	798	1,153	237	346
Revaluation reserve - available for sale assets				
Balance at beginning of the year	(58)	(75)	-	5
Net gains/(losses) from changes in fair value	1,789	46	1,773	(7)
Current/deferred tax on changes in fair value	(491)	(24)	(496)	2
Non-controlling interests share of net gains/(losses) from changes in fair value	(3)	(10)	-	-
Non-controlling interests share of current/deferred tax in fair value	(1)	5	-	-
Net movement for the year	1,294	17	1,277	(5)
Balance at end of the year	1,236	(58)	1,277	-
Revaluation reserve - cash flow hedging reserve				
Balance at beginning of the year	(3,322)	(11,309)	(3,182)	(11,309)
Net gains/(losses) from changes in fair value	(6,528)	11,331	(5,270)	11,610
Deferred tax on changes in fair value	1,732	(3,399)	1,385	(3,483)
Non-controlling interests share of net gains/(losses) from changes in fair value	358	79	-	-
Non-controlling interests share of deferred tax on changes in fair value	(99)	(24)	-	-
Net movement for the year	(4,537)	7,987	(3,885)	8,127
Balance at end of the year	(7,859)	(3,322)	(7,067)	(3,182)
Retained earnings				
Balance at beginning of the year	174,155	161,432	162,405	151,869
Net surplus for the year	14,250	15,037	10,647	10,536
Acquired on merger	15,458	-	15,458	-
Non-controlling interests	(2,489)	(2,314)	-	-
Balance at end of the year	201,374	174,155	188,510	162,405

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

All in \$'000's

23 Reconciliation of Net Surplus to Net Operating Cash Flows

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Net surplus for year	14,250	15,037	10,647	10,536
Add/(less) non cash items				
Depreciation and amortisation	3,256	2,349	2,559	1,706
Provision for credit impairment	17,057	15,727	13,233	10,306
Write off of property, plant and equipment	73	42	73	41
Property revaluations	88	(200)	88	-
Actuarial life adjustment	630	564	-	-
Dividend provision	-	-	(1,324)	(2,610)
Dividend provision - non-controlling interest	(532)	(359)	-	-
Deferred fee revenue and expenses	(1,067)	(1,753)	(430)	(521)
Derivatives fair value adjustment	(6,106)	(10,586)	(5,818)	(8,244)
Advances fair value adjustment	478	9,588	478	9,588
Investment securities fair value adjustment	14	18	-	-
Acquisition adjustments	(157)	-	(157)	-
Interest free loans fair value adjustment	(10)	(130)	(10)	(130)
Net deferred tax assets	1,853	(269)	(370)	(1,359)
	15,577	14,991	8,322	8,777
Deferral or accruals of past or future operating cash receipts or payments				
Change in income tax payable/receivable	525	(2,233)	485	(3,769)
Change in sundry debtors	(928)	3,349	2,300	(1,643)
Change in sundry creditors	652	(4,142)	790	(5,506)
Change in accruals relating to interest receivable	(4,042)	633	(3,934)	481
Change in accruals relating to accrued interest and dividends payable to customers	(551)	(5,593)	(543)	(5,601)
Change in accruals relating to accrued interest payable to financial institutions	(17)	15	(17)	15
Change in net advances	2,435	(80,391)	(745)	(89,987)
Change in shares and deposits	16,193	134,510	17,633	134,760
Change in other borrowings	(21,478)	(45,237)	(12,417)	(15,156)
Change in subordinated redeemable shares	1,901	16,920	1,901	16,920
Change in cash held on behalf of Lifestages Mortgage Portfolio	584	(9,845)	584	(9,845)
	(4,726)	7,986	6,037	20,669
Items classified as cash				
Change in accruals relating to funds with financial institutions	234	384	235	364
Net cash flows from operating activities	25,335	38,398	25,241	40,346

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

All in \$'000's

24 Analysis of Borrowings

BANKING GROUP					
		Total	Weighted average interest rate	Total	Weighted average interest rate
	Note	31/3/11	%	31/3/10	%
Redeemable shares					
Between 0 and 1 year		2,080,123	4.83	1,878,098	4.66
Between 1 and 2 years		70,451	5.61	79,817	5.65
Between 2 and 3 years		11,903	6.95	12,495	5.44
Between 3 and 4 years		498	7.00	1,299	6.80
Between 4 and 5 years		6,490	7.00	299	7.65
Over 5 years		-	-	-	-
Total redeemable shares	(28)	2,169,465	4.85	1,972,008	4.71
Deposits from customers					
Between 0 and 1 year		224,200	4.55	219,630	4.24
Between 1 and 2 years		15,125	5.28	9,286	5.46
Between 2 and 3 years		1,221	7.41	132	5.17
Between 3 and 4 years		-	-	1,003	8.00
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
Total deposits from customers	(28)	240,546	4.61	230,051	4.30
Due to other financial institutions					
Between 0 and 1 year		-	-	30,017	2.58
Between 1 and 2 years		-	-	-	-
Between 2 and 3 years		-	-	-	-
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
Total due to other financial institutions ¹	(28)	-	-	30,017	2.58
Subordinated redeemable shares					
Between 0 and 1 year		-	-	-	-
Between 1 and 2 years		-	-	-	-
Between 2 and 3 years		42,226	6.95	-	-
Between 3 and 4 years		17,081	7.00	42,226	6.95
Between 4 and 5 years		1,925	7.00	17,081	7.00
Over 5 years		-	-	-	-
Total subordinated redeemable shares	(28)	61,232	6.97	59,307	6.96
		2,471,243	4.88	2,291,383	4.70

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

All in \$'000's

24 Analysis of Borrowings continued

		PARENT			
		Total	Weighted average interest rate	Total	Weighted average interest rate
	Note	31/3/11	%	31/3/10	%
Redeemable shares					
Between 0 and 1 year		2,084,740	4.83	1,881,267	4.66
Between 1 and 2 years		70,451	5.61	79,817	5.65
Between 2 and 3 years		11,903	6.95	12,495	5.44
Between 3 and 4 years		498	7.00	1,299	6.80
Between 4 and 5 years		6,490	7.00	299	7.65
Over 5 years		-	-	-	-
Total redeemable shares	(28)	2,174,082	4.85	1,975,177	4.71
Deposits from customers					
Between 0 and 1 year		224,200	4.55	219,630	4.24
Between 1 and 2 years		15,125	5.28	9,286	5.46
Between 2 and 3 years		1,221	7.41	132	5.17
Between 3 and 4 years		-	-	1,003	8.00
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
Total deposits from customers	(28)	240,546	4.61	230,051	4.30
Due to other financial institutions					
Between 0 and 1 year		-	-	30,017	2.58
Between 1 and 2 years		-	-	-	-
Between 2 and 3 years		-	-	-	-
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
Total due to other financial institutions ¹	(28)	-	-	30,017	2.58
Subordinated redeemable shares					
Between 0 and 1 year		-	-	-	-
Between 1 and 2 years		-	-	-	-
Between 2 and 3 years		42,226	6.95	-	-
Between 3 and 4 years		17,081	7.00	42,226	6.95
Between 4 and 5 years		1,925	7.00	17,081	7.00
Over 5 years		-	-	-	-
Total subordinated redeemable shares	(28)	61,232	6.97	59,307	6.96
		2,475,860	4.88	2,294,552	4.70

Redeemable shares, deposits and subordinated 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 14 and 15.

¹ Due to other financial institutions includes \$nil (31 March 2010 \$30 million) of securities sold under agreements to repurchase from the RBNZ. The underlying collateral accepted by the RBNZ are residential advances to the value of \$nil (31 March 2010 \$36 million).

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

All in \$'000's

25 Contingent Liabilities and Credit Related Commitments

BANKING GROUP				
	Contract or notional amt 31/3/11	Credit equivalent 31/3/11	Contract or notional amt 31/3/10	Credit equivalent 31/3/10
Commitments				
Commitments with uncertain drawdown	21,994	10,997	23,934	11,967
Commitments to extend credit which can be unconditionally cancelled	177,852	-	181,270	-
Total contingent liabilities and credit related commitments	199,846	10,997	205,204	11,967

PARENT				
	Contract or notional amt 31/3/11	Credit equivalent 31/3/11	Contract or notional amt 31/3/10	Credit equivalent 31/3/10
Commitments				
Commitments with uncertain drawdown	30,483	15,242	22,146	11,073
Commitments to extend credit which can be unconditionally cancelled	177,852	-	181,270	-
Total contingent liabilities and credit related commitments	208,335	15,242	203,416	11,073

There are no material contingent liabilities.

26 Commitments

Lease Commitments

As at 31 March 2011 the value of the residual portion of lease commitments between Southland Building Society and its wholly owned subsidiary company, Fraser Properties Ltd was \$0.32 million (31 March 2010 \$0.78 million).

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Lease commitments payable after balance date:				
0-12 Months	2,171	1,807	1,673	1,808
12-24 Months	1,723	1,295	1,016	1,366
24-60 Months	3,660	1,844	1,764	1,492
>60 Months	1,960	669	525	541
	9,514	5,615	4,978	5,207

The Banking Group leases land and buildings under operating leases expiring from one to eight years. Leases generally provide the Banking Group with a right of renewal at which time all terms are renegotiated. There are no restrictions placed upon the lessee by entering into these leases.

27 Fair Value

The estimated fair value of the Banking Group's financial instruments is disclosed below. It is intended to provide an indication of the fair value of financial instruments and not the fair value of the Banking 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 Banking 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:

Cash on hand and at bank

These assets are short term in nature and the related carrying amount is equivalent to their fair value.

Funds with financial institutions

Funds with financial institutions are recognised in the financial statements as available for sale therefore carrying amount equals fair value. The fair values are based on market prices.

Investment securities

Investment securities are recognised in the financial statements as either fair value through profit or loss or available for sale, therefore carrying amount equals fair value. The fair values are based on quoted market prices.

Advances to customers

Advances at amortised cost

For variable rate advances the carrying amount is a reasonable estimate of fair value as they can be settled the following day at balance outstanding. For fixed rate advances fair values have been estimated using the discounted cash flow approach by reference to relative wholesale rates for the term at original fixing and the wholesale rate for the remaining term at balance date.

Advances include some interest free advances made in support of community projects. As at 31 March 2011 total interest free advances were \$0.09 million (31 March 2010 \$0.25 million). These advances 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. As at 31 March 2011 the fair value of these interest free advances as reported in the statement of financial position were \$0.09 million (31 March 2010 \$0.23 million).

Advances at fair value through profit or loss

Designated advances are recognised in the financial statements at fair value through profit or loss, therefore carrying amount equals fair value. Fair value is based on valuation techniques including the use of a discounted cash flow model based on wholesale rates adjusted with a retail lending margin.

Redeemable shares, deposits and subordinated redeemable shares

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

For liabilities with maturities of three 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.

Derivative financial instruments

Interest rate contracts

Interest rate contracts are recognised in the financial statements at fair value, therefore carrying amount equals fair value.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

For 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 25 and 31.

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

All in \$'000's

27 Fair Value continued

BANKING GROUP				
	31/3/11		31/3/10	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash on hand and at bank	22,211	22,211	26,504	26,504
Funds with financial institutions	48,805	48,805	64,080	64,080
Investment securities	120,228	120,228	47,482	47,482
Derivative financial instruments	2,662	2,662	506	506
Current tax assets	287	287	1,176	1,176
Advances to customers	2,584,656	2,591,148	2,460,089	2,461,291
Other assets	2,508	2,508	1,575	1,575
Total financial assets	2,781,357	2,787,849	2,601,412	2,602,614
Financial liabilities				
Redeemable shares	2,169,465	2,185,190	1,972,008	1,977,538
Deposits from customers	240,546	241,719	230,051	230,202
Due to other financial institutions	-	-	30,017	30,017
Derivative financial instruments	13,429	13,429	13,009	13,009
Other borrowings	107,096	107,096	128,574	128,574
Other liabilities	12,297	12,297	9,794	9,794
Subordinated redeemable shares	61,232	61,574	59,307	57,772
Total financial liabilities	2,604,065	2,621,305	2,442,760	2,446,906

PARENT				
	31/3/11		31/3/10	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash on hand and at bank	16,851	16,851	17,676	17,676
Funds with financial institutions	44,140	44,140	60,028	60,028
Investment securities	117,553	117,553	44,978	44,978
Derivative financial instruments	4,659	4,659	1,572	1,572
Current tax assets	1,166	1,166	2,014	2,014
Advances to customers	2,403,440	2,409,764	2,272,584	2,273,503
Loans to subsidiaries	94,838	94,838	95,555	95,555
Other assets	5,560	5,560	6,531	6,531
Total financial assets	2,688,207	2,694,531	2,500,938	2,501,857
Financial liabilities				
Redeemable shares	2,174,082	2,189,806	1,975,177	1,980,706
Deposits from customers	240,546	241,719	230,051	230,202
Due to other financial institutions	-	-	30,017	30,017
Derivative financial instruments	13,431	13,431	13,017	13,017
Other borrowings	41,385	41,385	53,802	53,802
Other liabilities	8,584	8,584	6,020	6,020
Subordinated redeemable shares	61,232	61,574	59,307	57,772
Total financial liabilities	2,539,260	2,556,499	2,367,391	2,371,536

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

All in \$'000's

27 Fair Value continued

The Banking Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Fair values are determined using quoted (unadjusted) prices in active markets for identical assets and liabilities.

Level 2: Fair values are determined using other techniques where all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Fair values are determined using techniques that use inputs which have a significant effect on the recorded fair value and are not based on observable market data.

	31/3/11			
BANKING GROUP	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	2,662	-	2,662
Interest rate options	-	-	-	-
Financial assets designated at fair value through profit or loss				
Loans and advances to customers	-	-	50,983	50,983
NZ government securities	1,045	-	-	1,045
Equity securities	300	-	-	300
Managed funds	-	9	-	9
Financial assets designated as available for sale				
Call funds	1,392	-	-	1,392
Term deposits	-	47,413	-	47,413
Registered certificates of deposit	-	-	-	-
Commercial paper	-	6,476	-	6,476
Local authority bonds	-	61,837	-	61,837
Bank bonds	-	38,493	-	38,493
Other bonds	-	10,847	-	10,847
Equity securities	584	-	-	584
Managed funds	-	637	-	637
Total financial assets	3,321	168,374	50,983	222,678
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	13,350	-	13,350
Interest rate options	-	79	-	79
Total financial liabilities	-	13,429	-	13,429
PARENT				
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	4,659	-	4,659
Interest rate options	-	-	-	-
Financial assets designated at fair value through profit or loss				
Loans and advances to customers	-	-	50,983	50,983
Financial assets designated as available for sale				
Call funds	-	-	-	-
Term deposits	-	44,140	-	44,140
Registered certificates of deposit	-	-	-	-
Commercial paper	-	6,476	-	6,476
Local authority bonds	-	61,737	-	61,737
Bank bonds	-	38,493	-	38,493
Other bonds	-	10,847	-	10,847
Total financial assets	-	166,352	50,983	217,335
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	13,352	-	13,352
Interest rate options	-	79	-	79
Total financial liabilities	-	13,431	-	13,431

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

All in \$'000's

27 Fair Value continued

31/3/10				
BANKING GROUP	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	593	-	593
Interest rate options	-	(87)	-	(87)
Financial assets designated at fair value through profit or loss				
Loans and advances to customers	-	-	250,129	250,129
NZ government securities	1,058	-	-	1,058
Equity securities	300	-	-	300
Managed funds	-	9	-	9
Financial assets designated as available for sale				
Call funds	19,317	-	-	19,317
Term deposits	-	12,820	-	12,820
Registered certificates of deposit	-	31,943	-	31,943
Local authority bonds	-	20,883	-	20,883
Bank bonds	-	20,467	-	20,467
Other bonds	-	3,729	-	3,729
Equity securities	418	-	-	418
Managed funds	-	618	-	618
Total financial assets	21,093	90,975	250,129	362,197
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	6,363	-	6,363
Interest rate options	-	6,646	-	6,646
Total financial liabilities	-	13,009	-	13,009
PARENT				
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	1,659	-	1,659
Interest rate options	-	(87)	-	(87)
Financial assets designated at fair value through profit or loss				
Loans and advances to customers	-	-	250,129	250,129
Financial assets designated as available for sale				
Call funds	18,001	-	-	18,001
Term deposits	-	10,084	-	10,084
Registered certificates of deposit	-	31,943	-	31,943
Local authority bonds	-	20,782	-	20,782
Bank bonds	-	20,467	-	20,467
Other bonds	-	3,729	-	3,729
Total financial assets	18,001	88,577	250,129	356,707
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	6,371	-	6,371
Interest rate options	-	6,646	-	6,646
Total financial liabilities	-	13,017	-	13,017

Loans and advances designated at fair value through profit or loss

For loans and advances designated at fair value through profit or loss, a discounted cash flow model is used based on various assumptions, including prepayments and wholesale interest rates adjusted for retail lending margin. At balance date, a one basis point movement in retail margin or the underlying interest rate would impact the income statement by \$6,000 (31 March 2010 \$17,000).

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

All in \$'000's

27 Fair Value continued

The following table presents the changes in level 3 instruments:

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Loans and advances at fair value through profit or loss				
Balance at beginning of the year	250,129	521,831	250,129	521,831
Total losses recorded in income statement	(478)	(9,588)	(478)	(9,588)
Loan repayments	(198,668)	(262,114)	(198,668)	(262,114)
Balance at end of the year	50,983	250,129	50,983	250,129

There were no transfers in or out of level 3, or between levels 1 and 2 during the year.

28 Liquidity Risk

Liquidity risk is the risk that the Banking Group will encounter difficulty in meeting commitments associated with its financial liabilities, e.g. overnight deposits, current accounts, maturing deposits, and future commitments such as loan draw-downs and guarantees.

The Banking Group has a Board approved liquidity strategy that defines policy, systems and procedures for measuring, assessing, reporting and managing liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis.

From 22 October 2009, the Reserve Bank modified the Banking Group's conditions of registration with respect to liquidity policy and this included the requirement to comply with various liquidity ratios. These revised conditions became effective 1 April 2010 and are outlined in parts 10A-12 of the conditions of registration. The liquidity ratios must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) and "Liquidity Policy Annex: Liquid Assets" (BS 13A). The Banking Group has systems and processes in place to comply with these regulations.

The Banking Group manages its exposure to liquidity risk primarily by forecasting future daily cash flow requirements. The Banking Group forecasts cash flows from operating activities taking into account the cash flow 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 cash flow effect.

To meet both expected and unexpected patterns in operating cash flows the Banking Group maintains a stock of core liquid assets to adequately meet day-to-day operational requirements, a potential crisis, or 'funding stress' scenario.

Total liquidity includes committed but undrawn funding lines. As at 31 March 2011, the Banking Group had total committed funding lines with other registered banks of \$125 million (31 March 2010 \$160 million). Of these facilities \$nil were drawn down at 31 March 2011 (31 March 2010 \$nil).

The Banking Group also has an in-house residential mortgage backed security (RMBS) facility (the SBS Oreti Trust No.2) that issues securities which can be used as collateral for borrowing from the RBNZ under its liquidity management arrangements. Whilst not intended to be used for standard daily liquidity requirements, this facility is available as contingent funding and accordingly core liquid assets includes this RMBS. The eligible RMBS collateral is discounted for the 'haircut'¹ that applies to those securities under the RBNZ's Domestic Operations for the purposes of those operations.

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Core liquid assets				
Cash on hand and at bank	22,211	26,504	16,851	17,676
Funds with financial institutions	48,805	64,080	44,140	60,028
Investment securities	120,228	47,482	117,553	44,978
Committed and undrawn funding lines	125,000	160,000	125,000	160,000
Eligible RMBS collateral (less haircut ¹)	160,254	162,434	160,254	162,434
Total liquidity	476,498	460,500	463,798	445,116

¹ 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.

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

All in \$'000's

28 Liquidity Risk continued

The maturity profiles of assets and liabilities and loan commitments show the cash flows and have been prepared on both a contractual and undiscounted maturity basis as at balance date. These have been created using a run-off scenario which assumes no further origination of assets or liabilities.

The maturity profiles reflect the remaining period to contractual maturity of assets and liabilities as at balance date. This is not considered by the Banking Group to be in any way indicative of future cash flows. This is primarily because a significant proportion of the Banking Group's redeemable shares and deposits are renewed at maturity and therefore do not have a cash flow impact. Historical experience has shown that such balances are a stable source of funding for the Banking Group. The maturity profile has also been prepared on the basis of the agreed terms of the advance with the customer. However, SBS mortgages include a term giving SBS the ability to call mortgage advances which are repayable on demand, or repayable on three months notice of demand, at the Banking Group's discretion. While the Banking Group is not likely to call advances on demand the contractual maturity date is not indicative of future cash flows due to early repayments, further drawdowns and principal reductions.

The maturity profiles include interest cash flows expected to maturity. Note that the resulting undiscounted financial assets and liabilities do not reflect how the Bank or Banking Group manages its liquidity risk. As set out on the previous page, the Bank and Banking Group manages liquidity through the maintenance of a portfolio of liquid assets and committed funding lines and as such no expected maturity profile is presented.

Monetary assets receivable matched against liabilities payable as at 31 March 2011 (contractual cash flows including expected interest to maturity)

BANKING GROUP							
	0-6 * Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	22,211	-	22,211	-	-	-	22,211
Funds with financial institutions	48,054	751	48,805	-	-	-	48,805
Investment securities	15,304	4,718	20,022	2,073	98,133	-	120,228
Derivative financial instruments	2,662	-	2,662	-	-	-	2,662
Current tax assets	287	-	287	-	-	-	287
Advances to customers	229,833	96,925	326,758	175,226	199,765	1,882,907	2,584,656
Other assets	2,508	-	2,508	-	-	-	2,508
Total assets	320,859	102,394	423,253	177,299	297,898	1,882,907	2,781,357
Interest	96,832	86,776	183,608	148,009	506,755	991,562	1,829,934
Total assets (inclusive of interest)	417,691	189,170	606,861	325,308	804,653	2,874,469	4,611,291
Current Liabilities							
Liabilities							
Redeemable shares	1,550,355	529,767	2,080,122	70,451	18,892	-	2,169,465
Deposits from customers	185,942	38,258	224,200	15,125	1,221	-	240,546
Derivative financial instruments	13,429	-	13,429	-	-	-	13,429
Other borrowings	41,385	-	41,385	-	-	65,711	107,096
Other liabilities	12,297	-	12,297	-	-	-	12,297
Subordinated redeemable shares	-	-	-	-	61,232	-	61,232
Total liabilities	1,803,408	568,025	2,371,433	85,576	81,345	65,711	2,604,065
Interest	25,153	31,257	56,410	11,887	19,446	64,278	152,021
Total liabilities (inclusive of interest)	1,828,561	599,282	2,427,843	97,463	100,791	129,989	2,756,086
Unrecognised loan commitments	21,994	-	21,994	-	-	-	21,994

* 0-6 months includes on-call amounts of redeemable shares \$324 million and deposits from customers \$56 million.

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

All in \$'000's

28 Liquidity Risk continued

Monetary assets receivable matched against liabilities payable as at 31 March 2011
(contractual cash flows including expected interest to maturity)

	PARENT						Total
	0-6 * Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	
Assets							
Cash on hand and at bank	16,851	-	16,851	-	-	-	16,851
Funds with financial institutions	44,140	-	44,140	-	-	-	44,140
Investment securities	13,673	3,674	17,347	2,073	98,133	-	117,553
Derivative financial instruments	4,659	-	4,659	-	-	-	4,659
Current tax assets	1,166	-	1,166	-	-	-	1,166
Advances to customers	220,188	76,475	296,663	126,897	151,253	1,828,627	2,403,440
Loans to subsidiaries	-	-	-	-	-	94,838	94,838
Other assets	5,560	-	5,560	-	-	-	5,560
Total assets	306,237	80,149	386,386	128,970	249,386	1,923,465	2,688,207
Interest	104,283	104,329	208,612	189,864	535,845	883,687	1,818,008
Total assets (inclusive of interest)	410,520	184,478	594,998	318,834	785,231	2,807,152	4,506,215
			Current Liabilities				
Liabilities							
Redeemable shares	1,554,971	529,767	2,084,738	70,451	18,893	-	2,174,082
Deposits from customers	185,942	38,258	224,200	15,125	1,221	-	240,546
Derivative financial instruments	13,431	-	13,431	-	-	-	13,431
Other borrowings	41,385	-	41,385	-	-	-	41,385
Other liabilities	8,584	-	8,584	-	-	-	8,584
Subordinated redeemable shares	-	-	-	-	61,232	-	61,232
Total liabilities	1,804,313	568,025	2,372,338	85,576	81,346	-	2,539,260
Interest	23,458	31,257	54,715	11,868	19,447	-	86,030
Total liabilities (inclusive of interest)	1,827,771	599,282	2,427,053	97,444	100,793	-	2,625,290
Unrecognised loan commitments	30,483	-	30,483	-	-	-	30,483

* 0-6 months includes on-call amounts of redeemable shares \$328 million and deposits from customers \$56 million.

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

All in \$'000's

28 Liquidity Risk *continued*

Monetary assets receivable matched against liabilities payable as at 31 March 2010
(contractual cash flows including expected interest to maturity)

BANKING GROUP							
	0-6 * Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	26,504	-	26,504	-	-	-	26,504
Funds with financial institutions	64,080	-	64,080	-	-	-	64,080
Investment securities	1,445	-	1,445	4,787	36,228	5,022	47,482
Derivative financial instruments	506	-	506	-	-	-	506
Current tax assets	1,176	-	1,176	-	-	-	1,176
Advances to customers	116,138	157,857	273,995	106,070	187,104	1,892,920	2,460,089
Other assets	1,575	-	1,575	-	-	-	1,575
Total assets	211,424	157,857	369,281	110,857	223,332	1,897,942	2,601,412
Interest	89,506	89,946	179,452	177,740	475,682	1,003,008	1,835,882
Total assets (inclusive of interest)	300,930	247,803	548,733	288,597	699,014	2,900,950	4,437,294
Current Liabilities							
Liabilities							
Redeemable shares	1,492,265	385,833	1,878,098	79,817	14,093	-	1,972,008
Deposits from customers	173,414	46,216	219,630	9,286	1,135	-	230,051
Due to other financial institutions	30,017	-	30,017	-	-	-	30,017
Derivative financial instruments	13,009	-	13,009	-	-	-	13,009
Other borrowings	53,802	-	53,802	-	-	74,772	128,574
Other liabilities	9,794	-	9,794	-	-	-	9,794
Subordinated redeemable shares	-	-	-	-	59,307	-	59,307
Total liabilities	1,772,301	432,049	2,204,350	89,103	74,535	74,772	2,442,760
Interest	14,698	4,710	19,408	19,014	23,354	73,144	134,920
Total liabilities (inclusive of interest)	1,786,999	436,759	2,223,758	108,117	97,889	147,916	2,577,680
Unrecognised loan commitments	23,934	-	23,934	-	-	-	23,934

* 0-6 months includes on-call amounts of redeemable shares \$273 million; deposits from customers \$55 million; and amounts due to other financial institutions \$30 million.

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

All in \$'000's

28 Liquidity Risk continued

Monetary assets receivable matched against liabilities payable as at 31 March 2010
(contractual cash flows including expected interest to maturity)

PARENT							
	0-6 * Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	17,676	-	17,676	-	-	-	17,676
Funds with financial institutions	60,028	-	60,028	-	-	-	60,028
Investment securities	-	-	-	3,728	36,228	5,022	44,978
Derivative financial instruments	1,572	-	1,572	-	-	-	1,572
Current tax assets	2,014	-	2,014	-	-	-	2,014
Advances to customers	106,922	136,878	243,800	62,005	140,853	1,825,926	2,272,584
Loans to subsidiaries	-	-	-	-	-	95,555	95,555
Other assets	6,531	-	6,531	-	-	-	6,531
Total assets	194,743	136,878	331,621	65,733	177,081	1,926,503	2,500,938
Interest	76,599	73,695	150,294	169,008	513,518	1,008,569	1,841,389
Total assets (inclusive of interest)	271,342	210,573	481,915	234,741	690,599	2,935,072	4,342,327
	Current Liabilities						
Liabilities							
Redeemable shares	1,495,434	385,833	1,881,267	79,817	14,093	-	1,975,177
Deposits from customers	173,414	46,216	219,630	9,286	1,135	-	230,051
Due to other financial institutions	30,017	-	30,017	-	-	-	30,017
Derivative financial instruments	13,017	-	13,017	-	-	-	13,017
Other borrowings	53,802	-	53,802	-	-	-	53,802
Other liabilities	6,020	-	6,020	-	-	-	6,020
Subordinated redeemable shares	-	-	-	-	59,307	-	59,307
Total liabilities	1,771,704	432,049	2,203,753	89,103	74,535	-	2,367,391
Interest	14,383	4,712	19,095	19,017	23,355	-	61,467
Total liabilities (inclusive of interest)	1,786,087	436,761	2,222,848	108,120	97,890	-	2,428,858
Unrecognised loan commitments	22,146	-	22,146	-	-	-	22,146

* 0-6 months includes on-call amounts of redeemable shares \$276 million; deposits from customers \$55 million; and amounts due to other financial institutions \$30 million.

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

All in \$'000's

29 Credit Risk Exposure

The nature of SBS's activities as a financial intermediary necessitates SBS dealing in financial instruments that contain an inherent element of credit risk. Credit exposure means the amount of the maximum loss that SBS 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. SBS's activities are conducted within the bounds of prudent and conservative banking practice.

The Banking Group's dominant activity is the provision of residential mortgage finance which comprises 70% (31 March 2010 70%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 16% (31 March 2010 16%) of the Banking Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
(a) The maximum exposures to credit risk at the relevant reporting dates are:				
Cash on hand and at bank	22,211	26,504	16,851	17,676
Funds with financial institutions	48,805	64,080	44,140	60,028
Investment securities	120,228	47,482	117,553	44,978
Derivative financial instruments	2,662	506	4,659	1,572
Current tax assets	287	1,176	1,166	2,014
Advances to customers	2,584,656	2,460,089	2,403,440	2,272,584
Loans to subsidiaries	-	-	94,838	95,555
Other assets	2,508	1,575	5,560	6,531
Total on-balance sheet credit exposures	2,781,357	2,601,412	2,688,207	2,500,938
(b) Concentrations of credit risk by sector				
Residential	1,565,145	1,462,496	1,515,270	1,402,121
Residential investing	248,044	252,667	237,007	241,321
Agricultural	410,468	403,581	410,468	403,581
Commercial finance	5,258	10,925	94,838	95,555
Commercial other	246,854	226,681	240,422	225,271
Consumer lending	108,614	103,450	-	-
Local authority	62,110	21,172	62,010	21,071
Corporate investments	132,069	117,689	121,466	103,472
Other	2,795	2,751	6,726	8,546
Total concentrations of credit risk by sector	2,781,357	2,601,412	2,688,207	2,500,938
(c) Concentrations of credit risk by geographical location				
North Island	789,781	630,960	685,217	519,228
Canterbury	668,226	679,543	630,985	643,334
Otago	584,695	590,178	569,733	570,237
Southland	523,577	509,946	606,200	586,420
South Island other	215,078	190,785	196,072	181,719
Overseas	-	-	-	-
Total concentrations of credit risk by geographical location	2,781,357	2,601,412	2,688,207	2,500,938

(d) Currency risk

The Banking Group is not exposed to currency risk.

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

All in \$'000's

29 Credit Risk Exposure continued

(e) Credit exposures to individual counterparties and groups of closely related counterparties

The Banking Group's disclosure of concentrations of credit exposure to individual counterparties and groups of closely related counterparties, which equalled or exceeded 10% of the Banking Group's equity, is based on actual credit exposures and calculated on a gross basis (net of specific provisions) and excludes credit exposures to connected persons and the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent. Peak end of day credit exposures to individual counterparties are calculated using the Banking Group's end of period equity.

BANKING GROUP				
Balance sheet date credit exposures to individual counterparties and groups of closely related counterparties				
	Number of non-bank counterparties		Number of bank counterparties	
Percentage of equity %	31/3/11	31/3/10	31/3/11	31/3/10
10-19	-	-	1	-
20-29	-	-	1	2
30-39	-	-	-	-

BANKING GROUP				
Peak end of day credit exposures to individual counterparties and groups of closely related counterparties				
	Number of non-bank counterparties		Number of bank counterparties	
Percentage of equity %	31/3/11	31/3/10	31/3/11	31/3/10
10-19	-	-	1	-
20-29	-	-	2	1
30-39	-	-	-	-
40-49	-	-	-	-
50-59	-	-	-	1

(f) Credit exposures by credit rating

The following table presents the Banking Group's credit exposures based on the credit rating of the issuer. Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis (net of specific provisions and excluding advances of a capital nature). An investment grade credit rating means a credit rating of BBB- or Baa3 or above, or its equivalent. The amount and percentage of the Bankings Group's credit exposure, excluding connected persons and the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, where the period end aggregate exposure equalled or exceeded 10% of the Banking Group's equity, as at period end are:

BANKING GROUP				
	Amount	% of total credit exposure	Amount	% of total credit exposure
	31/3/11	31/3/11	31/3/10	31/3/10
Non-bank counterparties				
Investment grade credit rating	-	0%	-	0%
Below investment grade credit rating	-	0%	-	0%
Not rated	-	0%	-	0%
Total non-bank exposures	-	0%	-	0%
Bank counterparties				
Investment grade credit rating	74,024	100%	84,283	100%
Below investment grade credit rating	-	0%	-	0%
Not rated	-	0%	-	0%
Total bank exposures	74,024	100%	84,283	100%

(g) Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature). The Banking Group does not have credit exposures to connected persons other than non-bank connected persons. Peak end of day credit exposures to non-bank connected persons have been calculated using the Banking Group's tier one capital at the end of the period. The rating-contingent limit, which is applicable to the Banking Group, based on the conditions of registration imposed by the RBNZ is 15%. There have been no rating-contingent limit changes during the last quarter. Within the rating-contingent limit there is a sub-limit of 15%, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Banking Group's conditions of registration have been complied with at all times over the last quarter. There are no individual credit impairment allowances against credit exposures to non-bank connected persons as at 31 March 2011 (31 March 2010 \$nil).

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

All in \$'000's

29 Credit Risk Exposure continued

	BANKING GROUP	
	31/3/11	31/3/10
Credit exposures to non-bank connected persons at year end	1,045	997
Credit exposures to non-bank connected persons at period end expressed as a % of total tier one capital	0.51%	0.56%
Peak credit exposures to non-bank connected persons during the quarter	1,051	1,008
Peak credit exposures to non-bank connected persons during the quarter expressed as a % of total tier one capital	0.51%	0.57%

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
(h) Percentage of borrowers owing the six largest amounts				
The six largest borrowers as a percentage of monetary assets receivable	2.11%	2.32%	5.43%	5.91%

(i) Collateral held

SBS 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 and financial covenants.

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.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against financial assets that are individually impaired or past due are shown below:

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Against individually impaired property	24,943	19,269	24,943	19,269
Against past due but not impaired property	150,257	134,914	147,297	129,160
	175,200	154,183	172,240	148,429

30 Market Risk

Market risk is the risk that changes in market prices, such as interest rate, and credit spreads will affect the Banking Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Banking Group's exposure to market risk is governed by a policy approved by the Audit and Risk Committee and managed by the Asset and Liability Committee (ALCO). This policy sets out the nature of risk which may be taken and aggregate risk limits, and the ALCO must conform with this. The objective of the ALCO is to derive the most appropriate strategy for the Banking Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints and capital adequacy.

The Banking Group's exposure to market risk is managed operationally by Treasury. Treasury manages market risk by using appropriate risk management instruments. Market risk is managed within a clearly defined framework of policy limits. Treasury reports to and is represented on the ALCO Committee.

Market risk is measured and reported using a variety of techniques, according to the appropriateness of the technique to the exposure concerned. The techniques used include interest rate gap analysis and scenario analysis.

Policies for Managing Interest Rate Risk

Interest rate risk is the risk of loss to the Banking Group arising from adverse changes in interest rates. The Banking Group is exposed to interest rate risk in respect of the 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 risk management purposes. Changes in interest rates can impact the Banking Group's financial results by affecting the spread earned on interest earning assets and interest paying liabilities 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 Banking Group's assets, liabilities and unrecognised financial instruments. Exposures are monitored continuously and reported to the board on a monthly basis.

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

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

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

All in \$'000's

30 Market Risk continued

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

BANKING GROUP						
As at 31 March 2011	0-6 Months	6-12 Months	12-24 Months	>24 Months	Non-interest sensitive	Total
Assets						
Cash on hand and at bank	22,211	-	-	-	-	22,211
Funds with financial institutions	48,054	751	-	-	-	48,805
Investment securities	15,304	4,718	2,073	98,133	-	120,228
Derivative financial instruments	-	-	-	-	2,662	2,662
Current tax assets	-	-	-	-	287	287
Advances to customers	1,963,554	212,857	290,559	117,686	-	2,584,656
Other assets	-	-	-	-	34,984	34,984
	2,049,123	218,326	292,632	215,819	37,933	2,813,833
Liabilities and equity						
Redeemable shares	1,550,356	529,767	70,451	18,891	-	2,169,465
Deposits from customers	185,942	38,258	15,125	1,221	-	240,546
Derivative financial instruments	-	-	-	-	13,429	13,429
Other borrowings	107,096	-	-	-	-	107,096
Other liabilities	-	-	-	-	20,025	20,025
Subordinated redeemable shares	-	-	-	61,232	-	61,232
Equity	-	-	-	-	202,040	202,040
	1,843,394	568,025	85,576	81,344	235,494	2,813,833
On-balance sheet interest sensitivity gap	205,729	(349,699)	207,056	134,475	(197,561)	-
Net balance of derivative financial instruments	393,500	(4,000)	(262,000)	(127,500)	-	-
Total interest rate sensitivity gap	599,229	(353,699)	(54,944)	6,975	(197,561)	-

PARENT						
As at 31 March 2011	0-6 Months	6-12 Months	12-24 Months	>24 Months	Non-interest sensitive	Total
Assets						
Cash on hand and at bank	16,851	-	-	-	-	16,851
Funds with financial institutions	44,140	-	-	-	-	44,140
Investment securities	13,673	3,675	2,073	98,132	-	117,553
Derivative financial instruments	-	-	-	-	4,659	4,659
Other tax assets	-	-	-	-	1,166	1,166
Advances to customers	1,796,768	208,016	283,186	115,470	-	2,403,440
Loans to subsidiaries	94,838	-	-	-	-	94,838
Other assets	-	-	-	-	41,805	41,805
	1,966,270	211,691	285,259	213,602	47,630	2,724,452
Liabilities and equity						
Redeemable shares	1,554,973	529,767	70,451	18,891	-	2,174,082
Deposits from customers	185,942	38,258	15,125	1,221	-	240,546
Derivative financial instruments	-	-	-	-	13,431	13,431
Other borrowings	41,385	-	-	-	-	41,385
Other liabilities	-	-	-	-	10,746	10,746
Subordinated redeemable shares	-	-	-	61,232	-	61,232
Equity	-	-	-	-	183,030	183,030
	1,782,300	568,025	85,576	81,344	207,207	2,724,452
On-balance sheet interest sensitivity gap	183,970	(356,334)	199,683	132,258	(159,577)	-
Net balance of derivative financial instruments	459,547	(39,389)	(264,871)	(155,287)	-	-
Total interest rate sensitivity gap	643,517	(395,723)	(65,188)	(23,029)	(159,577)	-

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

All in \$'000's

30 Market Risk continued

BANKING GROUP						
As at 31 March 2010	0-6 Months	6-12 Months	12-24 Months	>24 Months	Non-interest sensitive	Total
Assets						
Cash on hand and at bank	26,504	-	-	-	-	26,504
Funds with financial institutions	64,080	-	-	-	-	64,080
Investment securities	11,460	-	4,787	31,235	-	47,482
Derivative financial instruments	-	-	-	-	506	506
Current tax assets	-	-	-	-	1,176	1,176
Advances to customers	1,571,722	336,017	345,392	206,958	-	2,460,089
Other assets	-	-	-	-	28,068	28,068
	1,673,766	336,017	350,179	238,193	29,750	2,627,905
Liabilities and equity						
Redeemable shares	1,492,265	385,833	79,817	14,093	-	1,972,008
Deposits from customers	173,414	46,216	9,286	1,135	-	230,051
Due to other financial institutions	30,017	-	-	-	-	30,017
Derivative financial instruments	-	-	-	-	13,009	13,009
Other borrowings	128,574	-	-	-	-	128,574
Other liabilities	-	-	-	-	17,275	17,275
Subordinated redeemable shares	-	-	-	59,307	-	59,307
Equity	-	-	-	-	177,664	177,664
	1,824,270	432,049	89,103	74,535	207,948	2,627,905
On-balance sheet interest sensitivity gap	(150,504)	(96,032)	261,076	163,658	(178,198)	-
Net balance of derivative financial instruments	508,500	(113,000)	(229,500)	(166,000)	-	-
Total interest rate sensitivity gap	357,996	(209,032)	31,576	(2,342)	(178,198)	-

PARENT						
As at 31 March 2010	0-6 Months	6-12 Months	12-24 Months	>24 Months	Non-interest sensitive	Total
Assets						
Cash on hand and at bank	17,676	-	-	-	-	17,676
Funds with financial institutions	60,028	-	-	-	-	60,028
Investment securities	10,014	-	3,729	31,235	-	44,978
Derivative financial instruments	-	-	-	-	1,572	1,572
Current tax assets	-	-	-	-	2,014	2,014
Advances to customers	1,409,057	325,617	335,907	202,003	-	2,272,584
Loans to subsidiaries	95,555	-	-	-	-	95,555
Other assets	-	-	-	-	35,093	35,093
	1,592,330	325,617	339,636	233,238	38,679	2,529,500
Liabilities and equity						
Redeemable shares	1,495,434	385,833	79,817	14,093	-	1,975,177
Deposits from customers	173,414	46,216	9,286	1,135	-	230,051
Due to other financial institutions	30,017	-	-	-	-	30,017
Derivative financial instruments	-	-	-	-	13,017	13,017
Other borrowings	53,802	-	-	-	-	53,802
Other liabilities	-	-	-	-	8,487	8,487
Subordinated redeemable shares	-	-	-	59,307	-	59,307
Equity	-	-	-	-	159,642	159,642
	1,752,667	432,049	89,103	74,535	181,146	2,529,500
On-balance sheet interest sensitivity gap	(160,337)	(106,432)	250,533	158,703	(142,467)	-
Net balance of derivative financial instruments	543,549	(112,621)	(260,025)	(170,903)	-	-
Total interest rate sensitivity gap	383,212	(219,053)	(9,492)	(12,200)	(142,467)	-

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

All in \$000's

30 Market Risk continued

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Banking Group's financial assets and liabilities to various standard interest rate scenarios. The Banking Group's market risk model determines the mismatch between assets and liabilities after taking derivatives into account. The present value of the mismatched cash flows are discounted using the current yield curve at period end and the assessed most probable scenarios (100 basis point (bp) parallel rise or fall in the New Zealand yield curve). The difference in the present value of the scenario and the present value of the current yield curve are identified for each of the scenarios. Differences between equity and profit and loss are a result of interest rate derivatives designated in cash flow relationships which have most of the fair value movements in the derivatives taken directly to the cash flow hedge reserve in equity. An analysis of the Banking Group's sensitivity to an increase or decrease in market interest rates is as follows:

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Impact on equity of increase or decrease to market interest rates				
100 bp parallel increase	6,897	684	8,643	309
100 bp parallel decrease	(6,987)	(702)	(8,893)	(315)
Impact on profit and loss of increase or decrease to market interest rates				
100 bp parallel increase	1,507	152	3,253	31
100 bp parallel decrease	(1,472)	(341)	(3,378)	(37)

31 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.

For regulatory purposes, capital comprises two elements, eligible tier one and tier two capital, from which certain deductions are made to arrive at tier one and tier two capital as documented in the RBNZ's "Capital Adequacy Framework" document (BS2A). Tier one capital includes revenue and similar reserves, retained profits, non-controlling interests, less intangible assets and certain other deductions. Tier two capital is divided into two levels. Upper tier two capital consists of revaluation reserves and perpetual subordinated debt while lower tier two capital consists of term subordinated debt and other qualifying capital instruments. Tier two capital is limited to 100% of net tier one capital. Lower tier two capital is limited to 50% of tier one capital. The tangible element of investments in subsidiaries that are not wholly owned or funded is deducted from the sum of tier one and tier two capital to arrive at total regulatory capital.

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.

The Banking Group has adopted the Basel II "standardised approach" as per BS2A to calculate regulatory capital requirements. Basel II consists of 3 pillars - Pillar One covers the capital requirements for banks for credit, operational, and market risks. Pillar Two covers all other material risks not already included in Pillar One, and Pillar Three relates to market disclosure.

Pillar Two of Basel II is intended to ensure that banks have adequate capital to support all material risks inherent in their business activities and includes the requirement on banks to have an "Internal Capital Adequacy Assessment Process (ICAAP)" for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining adequate capital to support risk. Southland Building Society's ICAAP has identified other areas of risk and requires it to hold capital against them. These risks include but are not limited to:

- i Earnings risk - The risk due to uncertainty in future reported earnings arising from adverse changes in the business environment and from adverse business decisions.
- ii Liquidity risk - The risk that the Bank cannot meet or generate sufficient cash resources to meet its cash out goings as they fall due. Capital is not held for day to day liquidity. Instead a portfolio of cash, highly liquid instruments and committed funding lines is held. This largely mitigates the requirement to hold additional capital for liquidity risk, however capital is held to allow for excessive costs of raising suitable funds in adverse market conditions.
- iii Access to capital - The risk that the Bank may not be able to raise additional capital as required in a timely manner, particularly arising from the mutual status of SBS.
- iv Reputational risk - The potential that negative publicity regarding the banks business practices or financial position, whether true or not, will cause a decline in the customer base, costly litigation or impact future earnings and funding.

The Bank has made an internal capital allocation of \$22.50 million to cover these identified risks.

The Board of Directors has ultimate responsibility for capital adequacy, approves capital policy and establishes minimum internal capital levels and limits. These are typically higher than the regulatory minimum.

The capital adequacy calculations set out below summarise the composition of regulatory capital and capital adequacy ratio's. For the purposes of calculating the capital adequacy ratios for the Registered Bank, wholly-owned and wholly-funded subsidiaries of the Banking Group are consolidated with the Registered Bank. In this context, wholly funded by the Registered Bank means that there are no liabilities (including off-balance sheet obligations) to anyone other than the Registered Bank, the Inland Revenue Department, and trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's equity. Wholly owned means that all the equity issued by the subsidiary is held by the Registered Bank. During the periods shown the Banking Group fully complied with all RBNZ capital requirements as set out in the Banking Group's conditions of registration.

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

All in \$'000's

31 Capital Adequacy continued

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Regulatory capital ratios				
Tier one capital expressed as a percentage of total risk weighted exposures	11.26%	10.34%	10.57%	10.08%
Capital expressed as a percentage of total risk weighted exposures	13.60%	13.35%	12.38%	12.61%
(i) Qualifying capital				
Tier one capital				
Retained earnings	189,613	161,432	183,740	156,986
Current year's retained earnings	11,761	12,723	9,219	11,298
Revenue and similar reserves	73	73	73	73
Cash flow hedging reserve	(7,859)	(3,322)	(7,068)	(3,182)
Non-controlling interests	6,418	5,663	-	-
Less deductions from tier one capital				
Intangible assets	(2,674)	(3,094)	(1,090)	(1,686)
Cash flow hedging reserve	7,859	3,322	7,068	3,182
Total tier one capital	205,191	176,797	191,942	166,671
Tier two capital				
Upper tier two capital				
Revaluation reserves	2,034	1,095	2,074	1,152
Total upper tier two capital	2,034	1,095	2,074	1,152
Lower tier two capital				
Subordinated redeemable shares	40,578	50,442	40,578	50,442
Total lower tier two capital	40,578	50,442	40,578	50,442
Total tier two capital	42,612	51,537	42,652	51,594
Total tier one and tier two capital	247,803	228,334	234,594	218,265
Less deductions from capital	-	-	(9,756)	(9,756)
Total capital	247,803	228,334	224,838	208,509

(ii) Total risk weighted exposures

	BANKING GROUP			
	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	31/3/11	31/3/11	31/3/11	31/3/11
On balance sheet exposures				
Cash	514	0%	-	-
Sovereigns and central banks	1,044	0%	-	-
Public sector entities	61,838	20%	12,368	989
Banks	108,993	20%	21,799	1,744
Corporates	17,324	20%	3,465	277
Residential mortgages < 80% loan to value ratio (LVR)	1,427,811	35%	499,734	39,979
Residential mortgages 80 < 90% LVR	63,175	50%	31,588	2,527
Residential mortgages 90 < 100% LVR	63,138	75%	47,354	3,788
Residential mortgages welcome home loans	251,389	50%	125,695	10,056
Past due residential mortgages	4,261	100%	4,261	341
Impaired residential mortgages	3,417	100%	3,417	273
Equity holdings	884	300%	2,652	212
Other assets	814,121	100%	814,121	65,130
Non-risk weighted assets	(4,076)	0%	-	-
Total on balance sheet exposures	2,813,833		1,566,454	125,316

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

All in \$'000's

31 Capital Adequacy continued

	Total exposure after credit risk mitigation	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure / implied risk weighted exposure	Minimum pillar one capital requirement
	31/3/11	31/3/11	31/3/11	31/3/11	31/3/11	31/3/11
Off balance sheet exposures						
Commitments with uncertain drawdown	21,994	50%	10,997	65%	7,143	571
Commitments to extend credit which can be unconditionally cancelled	177,852	0%	-	0%	-	-
Market related contracts ¹						
Interest rate contracts	1,069,690	n/a	5,995	20%	1,199	96
Total off balance sheet exposures	1,269,536		16,992		8,342	667
Total credit risk	4,083,369		16,992		1,574,796	125,983
Operational risk	n/a				174,176	13,934
Market risk	n/a				72,819	5,826
Total risk weighted exposure	4,083,369				1,821,791	145,743

¹ The credit equivalent amount for market related contracts was calculated using the current exposure method.

REGISTERED BANK					
	Total exposure after credit risk mitigation		Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	31/3/11		31/3/11	31/3/11	31/3/11
On balance sheet exposures					
Cash	491		0%	-	-
Public sector entities	61,737		20%	12,347	988
Banks	98,993		20%	19,799	1,584
Corporates	17,324		20%	3,465	277
Residential mortgages < 80% loan to value ratio (LVR)	1,367,285		35%	478,550	38,284
Residential mortgages 80 < 90% LVR	62,923		50%	31,462	2,517
Residential mortgages 90 < 100% LVR	63,138		75%	47,354	3,788
Residential mortgages welcome home loans	251,389		50%	125,695	10,056
Past due residential mortgages	4,126		100%	4,126	330
Impaired residential mortgages	3,417		100%	3,417	273
Other assets	784,904		100%	784,904	62,792
Non-risk weighted assets	10,457		0%	-	-
Total on balance sheet exposures	2,726,184			1,511,119	120,889

	Total exposure after credit risk mitigation	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure / implied risk weighted exposure	Minimum pillar one capital requirement
	31/3/11	31/3/11	31/3/11	31/3/11	31/3/11	31/3/11
Off balance sheet exposures						
Commitments with uncertain drawdown	30,483	50%	15,242	89%	13,547	1,084
Commitments to extend credit which can be unconditionally cancelled	177,852	0%	-	0%	-	-
Market related contracts ¹						
Interest rate contracts	1,171,017	n/a	8,556	20%	1,711	137
Total off balance sheet exposures	1,379,352		23,798		15,258	1,221
Total credit risk	4,105,536		23,798		1,526,377	122,110
Operational risk	n/a				170,323	13,626
Market risk	n/a				119,709	9,577
Total risk weighted exposure	4,105,536				1,816,409	145,313

¹ The credit equivalent amount for market related contracts was calculated using the current exposure method.

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

All in \$'000's

31 Capital Adequacy continued

BANKING GROUP

	Total exposure after credit risk mitigation		Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	31/3/10		31/3/10	31/3/10	31/3/10
On balance sheet exposures					
Cash	407		0%	-	-
Sovereigns and central banks	1,058		0%	-	-
Public sector entities	20,884		20%	4,177	334
Banks	110,433		20%	22,087	1,767
Corporate - rating grade 1	3,729		20%	746	60
Corporate - rating grade 3	210		100%	210	17
Residential mortgages < 80% loan to value ratio (LVR)	1,311,135		35%	458,897	36,712
Residential mortgages 80 < 90% LVR	74,449		50%	37,225	2,978
Residential mortgages 90 < 100% LVR	83,118		75%	62,339	4,987
Residential mortgages welcome home loans	238,871		50%	119,436	9,555
Past due residential mortgages	2,401		100%	2,401	192
Impaired residential mortgages	5,188		100%	5,188	415
Equity holdings	718		300%	2,154	172
Other assets	776,410		100%	776,410	62,113
Non-risk weighted assets	(1,106)		0%	-	-
Total on balance sheet exposures	2,627,905			1,491,270	119,302

	Total exposure after credit risk mitigation	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure / implied risk weighted exposure	Minimum pillar one capital requirement
	31/3/10	31/3/10	31/3/10	31/3/10	31/3/10	31/3/10
Off balance sheet exposures						
Commitments with uncertain drawdown	23,934	50%	11,967	65%	7,797	624
Commitments to extend credit which can be unconditionally cancelled	181,270	0%	-	0%	-	-
Market related contracts ¹						
Interest rate contracts	1,095,760	n/a	3,205	20%	641	51
Total off balance sheet exposures	1,300,964		15,172		8,438	675
Total credit risk	3,928,869		15,172		1,499,708	119,977
Operational risk	n/a				169,357	13,549
Market risk	n/a				41,008	3,281
Total risk weighted exposure	3,928,869				1,710,073	136,807

¹ The credit equivalent amount for market related contracts was calculated using the current exposure method.

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

All in \$'000's

31 Capital Adequacy continued

REGISTERED BANK						
	Total exposure after credit risk mitigation		Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement	
	31/3/10		31/3/10	31/3/10	31/3/10	
On balance sheet exposures						
Cash	407		0%	-	-	
Public sector entities	20,783		20%	4,157	333	
Banks	97,763		20%	19,553	1,564	
Corporate	3,729		20%	746	60	
Residential mortgages < 80% loan to value ratio (LVR)	1,240,194		35%	434,068	34,725	
Residential mortgages 80 < 90% LVR	73,741		50%	36,871	2,950	
Residential mortgages 90 < 100% LVR	83,046		75%	62,285	4,983	
Residential mortgages welcome home loans	238,871		50%	119,436	9,555	
Past due residential mortgages	2,401		100%	2,401	192	
Impaired residential mortgages	5,188		100%	5,188	415	
Other assets	754,473		100%	754,473	60,358	
Non-risk weighted assets	13,013		0%	-	-	
Total on balance sheet exposures	2,533,609			1,439,178	115,135	
	Total exposure after credit risk mitigation	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure / implied risk weighted exposure	Minimum pillar one capital requirement
	31/3/10	31/3/10	31/3/10	31/3/10	31/3/10	31/3/10
Off balance sheet exposures						
Commitments with uncertain drawdown	22,146	50%	11,073	87%	9,684	775
Commitments to extend credit which can be unconditionally cancelled	181,270	0%	-	0%	-	-
Market related contracts ¹						
Interest rate contracts	1,205,778	n/a	4,447	20%	889	71
Total off balance sheet exposures	1,409,194		15,520		10,573	846
Total credit risk	3,942,803		15,520		1,449,751	115,981
Operational risk	n/a				160,093	12,807
Market risk	n/a				43,352	3,468
Total risk weighted exposure	3,942,803				1,653,196	132,256

¹ The credit equivalent amount for market related contracts was calculated using the current exposure method.

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

All in \$'000's

31 Capital Adequacy continued

(iii) Residential mortgages by loan-to-valuation ratio

	BANKING GROUP		REGISTERED BANK	
	31/3/11	31/3/10	31/3/11	31/3/10
LVR range				
0 - 80%	1,434,865	1,317,910	1,374,191	1,246,931
80 - 90%	63,487	74,833	63,241	74,142
90% +	314,839	322,419	314,846	322,368

Welcome Home Loans make up 80% of the residential mortgages in the 90% + loan to valuation grouping. The Welcome Home Loan product is fully insured by Housing New Zealand Corporation. In addition all loans written with a loan to valuation ratio greater than 80% are required to have lenders mortgage insurance.

(iv) Market risk exposures

Market risk exposures have been calculated in accordance with the methodology detailed in Part 10 of the RBNZ's BS2A Capital Adequacy Framework, and Schedule 5A of the Registered Bank Disclosure Statement (Full and Half-Year - New Zealand Incorporated Registered Banks) Order 2008. Peak exposures are calculated using the Banking Group's equity at the end of the period.

	BANKING GROUP			
	End of period		Peak end of day	
	31/3/11	31/3/10	31/3/11	31/3/10
Interest rate exposures				
Implied risk weighted exposure	72,819	41,008	87,975	41,513
Aggregate capital charge	5,826	3,281	7,038	3,321
Aggregate capital charge expressed as a percentage of the Banking Group's equity	2.88%	1.85%	3.48%	1.87%

32 Concentrations of Funding

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
(a) Concentrations of funding by geographical location				
North Island	483,799	343,785	483,799	343,786
Canterbury	586,866	561,550	586,866	561,550
Otago	454,050	447,373	454,050	447,373
Southland	827,015	838,911	765,946	767,301
South Island other	158,112	161,955	158,087	161,961
Overseas	68,497	66,383	68,497	66,383
Total concentrations of funding by geographical location	2,578,339	2,419,957	2,517,245	2,348,354
(b) Concentrations of funding by product				
Redeemable shares	2,169,465	1,972,008	2,169,465	1,972,008
Deposits from customers	240,546	230,051	240,546	230,051
Due to other financial institutions	-	30,017	-	30,017
Other borrowings	107,096	128,574	41,385	53,802
Subordinated redeemable shares	61,232	59,307	61,232	59,307
Due to subsidiary companies	-	-	4,617	3,169
Total concentrations of funding by product	2,578,339	2,419,957	2,517,245	2,348,354

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

All in \$'000's

33 Related Parties

The Banking Group is controlled by SBS who is also the ultimate parent. A number of transactions are entered into with related parties (including key management personnel)¹ in the normal course of business. Details of these transactions are outlined below.

¹ Key management personnel are defined as being directors and senior management of the Banking Group. The information relating to key management personnel disclosed below includes transactions with those individuals, their close family members and their controlled entities.

(a) Loans and advances to related parties

	BANKING GROUP			
	Directors and other key management personnel		Associated companies	
	31/3/11	31/3/10	31/3/11	31/3/10
Loans and advances outstanding at beginning of year	3,748	3,458	-	-
Net loans issued/(repaid) during the year	104	290	-	-
Loans and advances outstanding at end of year	3,852	3,748	-	-
Interest income earned on amounts due from related parties	258	264	-	-

	PARENT			
	Directors and other key management personnel		Associated companies	
	31/3/11	31/3/10	31/3/11	31/3/10
Loans and advances outstanding at beginning of year	2,917	2,671	95,555	89,385
Net loans issued/(repaid) during the year	35	246	(717)	6,170
Loans and advances outstanding at end of year	2,952	2,917	94,838	95,555
Interest income earned on amounts due from related parties	203	210	6,258	5,383

Loans and advances with directors of the Banking Group are made in the ordinary course of business on commercial terms and conditions. Loans and advances with key management personnel of the Banking Group are made either:

- on normal terms and conditions; or
- on terms and conditions which apply to other employees in the Banking Group.

All loans made to key management personnel have been made in accordance with the Banking Group's lending policies.

No provisions have been recognised in respect of loans given to related parties. There were no debts with any of the above parties written off or forgiven during the year ended 31 March 2011 (31 March 2010 \$nil).

(b) Deposits from related parties

	BANKING GROUP			
	Directors and other key management personnel		Associated companies	
	31/3/11	31/3/10	31/3/11	31/3/10
Deposits at beginning of year	1,441	2,633	-	-
Net deposits received during the year	10,521	(1,192)	-	-
Deposits at end of year	11,962	1,441	-	-
Interest expense on amounts due to related parties	558	85	-	-

	PARENT			
	Directors and other key management personnel		Associated companies	
	31/3/11	31/3/10	31/3/11	31/3/10
Deposits at beginning of year	1,253	2,323	3,168	2,927
Net deposits received during the year	10,692	(1,070)	1,448	241
Deposits at end of year	11,945	1,253	4,616	3,168
Interest expense on amounts due to related parties	556	69	162	156

The above deposits are unsecured, carry variable interest rates and are repayable on demand.

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

All in \$'000's

33 Related Parties continued

(c) Other transactions with related parties

	Associated Companies			
	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Payments received from/(made to) subsidiaries under interest rate swap agreements	-	-	2,006	3,473
Net rent paid to subsidiaries	-	-	(456)	(451)
Technology services fees received from subsidiaries	-	-	112	121
Net commission received from subsidiaries	-	-	221	198
Management fees received from subsidiaries	-	-	1,613	1,545
Dividends received/receivable from subsidiaries	-	-	3,675	3,721
Fees received from subsidiaries	-	-	1,275	913
	-	-	8,446	9,520

All other transactions with key management personnel are conducted on an arm's length basis in the ordinary course of business and on normal terms and conditions.

During the year ended 31 March 2011, the Parent made subvention payments of \$515,633 (31 March 2010 \$351,707).

(d) Key management compensation

Details of remuneration paid or payable to the directors and other key management personnel are outlined in Note 5 - Expenses.

34 Accounting Classifications

The table below sets out the Banking Group's classification of each class of financial assets and liabilities.

As at 31 March 2011	BANKING GROUP					
	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Other amortised cost	Total carrying amount
Assets						
Cash on hand and at bank	-	-	22,211	-	-	22,211
Funds with financial institutions	-	48,805	-	-	-	48,805
Investment securities	1,453	118,775	-	-	-	120,228
Derivative financial instruments	2,662	-	-	-	-	2,662
Advances to customers	50,983	-	2,533,673	-	-	2,584,656
	55,098	167,580	2,555,884	-	-	2,778,562
Liabilities						
Redeemable shares	-	-	-	-	2,169,465	2,169,465
Deposits from customers	-	-	-	-	240,546	240,546
Derivative financial instruments	13,429	-	-	-	-	13,429
Other borrowings	-	-	-	-	107,096	107,096
Subordinated redeemable shares	-	-	-	-	61,232	61,232
	13,429	-	-	-	2,578,339	2,591,768

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

All in \$'000's

34 Accounting Classifications continued

PARENT						
As at 31 March 2011	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Other amortised cost	Total carrying amount
Assets						
Cash on hand and at bank	-	-	16,851	-	-	16,851
Funds with financial institutions	-	44,140	-	-	-	44,140
Investment securities	-	117,553	-	-	-	117,553
Derivative financial instruments	4,659	-	-	-	-	4,659
Advances to customers	50,983	-	2,352,457	-	-	2,403,440
Loans to subsidiaries	-	-	94,838	-	-	94,838
	55,642	161,693	2,464,146	-	-	2,681,481
Liabilities						
Redeemable shares	-	-	-	-	2,174,082	2,174,082
Deposits from customers	-	-	-	-	240,546	240,546
Derivative financial instruments	13,431	-	-	-	-	13,431
Other borrowings	-	-	-	-	41,385	41,385
Subordinated redeemable shares	-	-	-	-	61,232	61,232
	13,431	-	-	-	2,517,245	2,530,676

BANKING GROUP						
As at 31 March 2010	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Other amortised cost	Total carrying amount
Assets						
Cash on hand and at bank	-	-	26,504	-	-	26,504
Funds with financial institutions	-	64,080	-	-	-	64,080
Investment securities	1,467	46,015	-	-	-	47,482
Derivative financial instruments	506	-	-	-	-	506
Advances to customers	250,129	-	2,209,960	-	-	2,460,089
	252,102	110,095	2,236,464	-	-	2,598,661
Liabilities						
Redeemable shares	-	-	-	-	1,972,008	1,972,008
Deposits from customers	-	-	-	-	230,051	230,051
Due to other financial institutions	-	-	-	-	30,017	30,017
Derivative financial instruments	13,009	-	-	-	-	13,009
Other borrowings	-	-	-	-	128,574	128,574
Subordinated redeemable shares	-	-	-	-	59,307	59,307
	13,009	-	-	-	2,419,957	2,432,966

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

All in \$'000's

34 Accounting Classifications continued

As at 31 March 2010	PARENT					
	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Other amortised cost	Total carrying amount
Assets						
Cash on hand and at bank	-	-	17,676	-	-	17,676
Funds with financial institutions	-	60,028	-	-	-	60,028
Investment securities	-	44,978	-	-	-	44,978
Derivative financial instruments	1,572	-	-	-	-	1,572
Advances to customers	250,129	-	2,022,455	-	-	2,272,584
Loans to subsidiaries	-	-	95,555	-	-	95,555
	251,701	105,006	2,135,686	-	-	2,492,393
Liabilities						
Redeemable shares	-	-	-	-	1,975,177	1,975,177
Deposits from customers	-	-	-	-	230,051	230,051
Due to other financial institutions	-	-	-	-	30,017	30,017
Derivative financial instruments	13,017	-	-	-	-	13,017
Other borrowings	-	-	-	-	53,802	53,802
Subordinated redeemable shares	-	-	-	-	59,307	59,307
	13,017	-	-	-	2,348,354	2,361,371

35 Interest Earning Assets and Interest Bearing Liabilities

	BANKING GROUP		PARENT	
	31/3/11	31/3/10	31/3/11	31/3/10
Total interest earning and discount bearing assets	2,775,900	2,598,155	2,676,822	2,490,821
Total interest and discount bearing liabilities	2,578,339	2,419,957	2,517,245	2,348,354

36 Fiduciary Activities

Funds management

The Banking Group markets and manages unit trusts, investment and superannuation funds through its subsidiary Funds Administration New Zealand Limited (FANZ). FANZ is a registered unit trust manager, an approved KiwiSaver provider and also operates a financial advisory business providing custodial services, investment advice and portfolio management called SBS Financial Advisers. The Banking Group derives fee and commission income from these activities but is not responsible for any decline in performance of the underlying assets of the investors due to market forces.

SBS has entered into a trust deed made between SBS and Trustees Executors Limited, as Trustee of a registered superannuation scheme known as the Lifestages Superannuation Scheme (previously known as Lifestages Capital Stable Portfolio). Under a Deed of Novation dated 31 March 2007 SBS novated its rights and obligations under this Trust Deed to FANZ. From this date FANZ is the founder and promoter of the Lifestages Superannuation Scheme. 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, SBS unconditionally guarantees the capital invested in the Lifestages Superannuation Scheme providing investment is maintained for at least three years. A Deed of Amendment dated 31 March 2007 amended the terms of this guarantee provided by SBS, such that the guarantee will now only be applicable to members who joined the registered superannuation scheme prior to 31 May 2007. The liability of SBS under the guarantee has not been taken over by FANZ under the Deed of Novation and SBS remains liable under this guarantee. At 31 March 2011 the amount guaranteed by SBS was \$nil (31 March 2010 \$nil). The majority of the funds invested in the Lifestages Superannuation Scheme are reinvested with SBS.

The outstanding value of assets related to funds management activities is set out in the table below. These assets are not owned by the Banking Group and are therefore not included on the Banking Group's statement of financial position.

	31/3/11	31/3/10
Funds under management on behalf of customers	321,700	298,300

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

All in \$000's

36 Fiduciary Activities continued

Securitised assets

As at 31 March 2011, the Banking Group had securitised assets amounting to \$306 million (31 March 2010 \$367 million). These assets have been sold to the Lifestages Mortgage Portfolio (a unit trust managed by Funds Administration New Zealand Limited, a subsidiary of the Bank), the SBS Invercargill W Trust (a special purpose vehicle established for the purpose of purchasing residential mortgages from the Bank and funded through wholesale funding lines), the SBS Oreti Trust No. 1 (a special purpose vehicle investing in residential mortgages originated by the Bank and funded by institutional investors in New Zealand & Australia), and the SBS Oreti Trust No. 2 (a special purpose vehicle investing in residential mortgages originated and funded by the Bank through issue of residential mortgage backed securities). Note 14 provides further information on securitised assets. The Banking Group receives fees for various services provided to the securitisation vehicles on an arm's length basis, including servicing fees. These fees are recognised as earned. All securitisation vehicles form part of the Banking Group.

In May 2008, the RBNZ expanded the range of acceptable collateral that financial institutions can pledge and borrow against as part of changes to its liquidity management arrangement designed to ensure adequate liquidity for New Zealand financial institutions in the event that global market disruptions were to intensify. From 31 July 2008, acceptable collateral includes residential mortgage backed securities (RMBS) that satisfy RBNZ criteria. During the year ended 31 March 2009, the Banking Group established the SBS Oreti Trust No. 2, an in-house facility that could issue securities meeting the RBNZ criteria. This facility has increased the Bank's contingent funding ability from the RBNZ. Further information on liquidity is provided in Note 28.

Insurance business

The Banking Group markets and distributes insurance products through its subsidiary company Southsure Assurance Limited. The Banking Group derives commission income from the sale of insurance products.

The total assets of Southsure Assurance Limited as at 31 March 2011 are \$9.4 million (31 March 2010 \$8.2 million) which is 0.3% of the total assets of the Banking Group (31 March 2010 0.3%). This complies with the Conditions of Registration of Southland Building Society, which allows a maximum of 1% of the total consolidated assets of the Banking Group to be represented by insurance business assets.

Policies and procedures exist to ensure that the insurance activities of the Banking Group are conducted in an appropriate manner. These include regular reviews of the operations of the insurance business by management. Should adverse conditions arise, these policies and procedures are expected to mitigate the impact of the conditions on the Banking Group.

Risk management

The Banking Group has in place policies and procedures to ensure that the fiduciary activities identified above are conducted in an appropriate manner. It is considered that these policies and procedures will ensure that any difficulties arising from these activities will not impact adversely on the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and internal auditors. Further information on SBS risk management policies and practices is included in notes 3 and 28 to 30.

Provision of financial services

Financial services provided by the Banking Group to entities which are involved in trust, custodial, funds management and other fiduciary activities, are provided on arm's length terms and conditions and at fair value. Any assets purchased from such entities have been purchased on an arm's length basis and at fair value.

The Banking Group has not provided any funding to individual unit trusts which the Banking Group distributes on behalf of third parties. All entities involved in securitisation and insurance activities are members of the Banking Group.

37 Hastings Building Society Transfer of Engagements

On 31 August 2010 qualifying Hastings Building Society (HBS) members voted at an extraordinary meeting to merge with SBS. The merger occurred on 1 October 2010 and was effected by way of a transfer of engagements under section 33 of the Building Societies Act 1965. Under NZ IFRS 3 - Business Combinations, a merger between mutual entities is accounted for using the acquisition method.

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. From SBS's perspective, the merger provides an opportunity to create a stronger regional community bank in the Hawke's Bay.

The assets and liabilities of HBS have been included within the accounts of SBS at their fair value as at the date of acquisition. Financial assets and liabilities, which, following the Group's accounting policies would be carried at amortised cost, are brought on to the statement of financial position at fair value and subsequently carried at amortised cost using the effective interest rate method.

The initial accounting of the acquisition including the fair values of the assets acquired and liabilities assumed is provisional while valuations of the assets acquired and liabilities assumed are finalised.

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

All in \$'000's

37 Hastings Building Society Transfer of Engagements continued

Fair values of assets acquired and liabilities assumed as at 1 October 2010 (provisional):

	Notes	Cessation Accounts (f)	Fair Value Adjustments	Take - on Balances
Cash on hand and at bank		3,583	-	3,583
Funds with financial institutions		30,273	-	30,273
Advances to customers	(a)	144,345	(728)	143,617
Property, plant and equipment	(b)	1,970	-	1,970
Other assets		217	-	217
Redeemable shares	(c)	(162,052)	(626)	(162,678)
Derivative financial instruments		(598)	-	(598)
Other liabilities	(d)	(484)	(442)	(926)
Net identifiable assets and liabilities	(e)	17,254	(1,796)	15,458
Goodwill on acquisition				-
Acquisition value (deemed consideration)				15,458

For the period 1 April 2010 to 30 September 2010 HBS had revenue of \$6,250,000 and net surplus of \$229,000.

Notes:

- The mortgage portfolio has been adjusted to fair value the fixed rate mortgage portfolio by comparison to market rates, and secondly to adjust for SBS provisioning policies.
- The fair value of property has been determined by reference to independent valuations.
- The fair value adjustments on shares and deposits reflect the interest rate risk associated with these liabilities, and includes the bonus interest rate of 0.5% per annum above the normal rates, for which HBS members are eligible, for any call or term investments which are renewed or placed with SBS within 12 months after the transfer of engagements for a term of at least six months, for either the term of the renewed investment or 12 months (whichever is shorter).
- An adjustment has been made for other commitments.
- The net assets and liabilities, including fair value adjustments that result from the transaction, have been recognised in equity.
- The cessation accounts of HBS have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards. They have also been prepared on the basis of taxation legislation in respect to amalgamations that is expected to be enacted retrospectively during 2011.

38 Subsequent Events

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

To the Members of Southland Building Society

Report on the Bank and Banking Group General Disclosure Statement

We have audited the accompanying General Disclosure Statement and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed in note 31) of Southland Building Society (the "Bank") and its subsidiaries (the "Banking Group") on pages 10 to 65. The General Disclosure Statement comprises the balance sheets as at 31 March 2011, the income statements and statements of comprehensive income, changes in equity and cash flows for the year ended, and a summary of significant accounting policies and other explanatory information of the Bank and the Banking Group. The supplementary information comprises the information that is required to be disclosed under the Registered Bank Disclosure Statement (Full and Half Year – New Zealand Incorporated Registered Banks) Order 2008, as amended (the "Order") and is presented in notes 29, 31, 35 and 36 of the General Disclosure Statement.

Directors' Responsibility for the General Disclosure Statement

The directors are responsible for the preparation of the General Disclosure Statement in accordance with Clause 22 of the Order; and generally accepted accounting practice in New Zealand, that gives a true and fair view of the matters to which they relate. The directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the General Disclosure Statement that is free from material misstatement whether due to fraud or error.

The directors are responsible for the preparation and fair presentation of supplementary information, in accordance with Schedules 4 and 6 to 9 and Clause 17 of Schedule 3 of the Order; and which is prepared in accordance with the guidelines issued pursuant to Section 78(3) of the Reserve Bank of New Zealand Act 1989 and any Conditions of Registration.

Auditor's Responsibility

Our responsibility is to express an opinion on the General Disclosure Statement, including the supplementary information presented in notes 29, 35 and 36, based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the General Disclosure Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the General Disclosure Statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the General Disclosure Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Bank and Banking Group's preparation of the General Disclosure Statement that gives a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and Banking Group's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the General Disclosure Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion the General Disclosure Statement of Southland Building Society and its subsidiaries ("the Bank and Banking Group") on pages 10 to 65 (excluding the supplementary information included in notes 29, 35 and 36):

- complies with generally accepted accounting practice in New Zealand; and
- gives a true and fair view of the financial position as at 31 March 2011 and of their financial performance and cash flows for the year ended on that date.

In our opinion, the supplementary information that is required to be disclosed under Schedules 4 and 6 to 9 and clause 17 of Schedule 3 of the Order, and is included within notes 29, 35 and 36 of the General Disclosure Statement:

- has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any Conditions of Registration and is in accordance with the books and records of the Bank and Banking Group; and
- presents fairly, in all material respects, the matters to which it relates, in accordance with those Schedules.



Report on Other Legal and Regulatory Requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, and clauses 2(d) and 2(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Bank and Banking Group, as far as appears from our examination of those records.

Report on the Supplementary Information Relating to Capital Adequacy

We have reviewed the supplementary information relating to Capital Adequacy, as disclosed in note 31 of the General Disclosure Statement.

Directors' Responsibility for the Supplementary Information Relating to Capital Adequacy

The directors are responsible for the preparation of supplementary information relating to Capital Adequacy that is required to be disclosed under Schedule 5A of the Order and prepared in accordance with the Bank's Conditions of Registration and described in note 31 of the General Disclosure Statement.

Auditor's Responsibility

Our responsibility is to express an opinion on the supplementary information relating to Capital Adequacy based on our review. We conducted our review in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. Those standards require that we comply with ethical requirements and plan and perform the review to obtain limited assurance about whether the supplementary information relating to Capital Adequacy is free from material misstatement.

A review is limited primarily to enquiries of Bank and Banking Group personnel and analytical review procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit in respect of the Capital Adequacy disclosures, and accordingly, we do not express an audit opinion on these disclosures.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy, disclosed in note 31 of the General Disclosure Statement, as required by Schedule 5A of the Order, derived from the Registered Bank's financial statements and sources other than the Banks' accounting records, is not in all material respects derived in accordance with the Bank's Conditions of Registration, with the Reserve Bank of New Zealand document Capital Adequacy Framework (standardised approach) (BS2A), and disclosed in accordance with Schedule 5A of the Order.

2 June 2011

KPMG 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

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

