

Southland Building Society | 46th Annual Report **2015**

Disclosure Statement No. 28 & Annual Financial Statements



CONTENTS

	Page
General Information	2
Guarantee Arrangements	2
Pending Proceedings or Arbitration	2
Other Material Matters	2
Directorate	2
Credit Rating	4
Conditions of Registration	4
Directors' Statement	8
Historical Summary of Financial Statements	9
Financial Statements	10
Independent Auditor's Report	66
Branch Directory	68

Chairman

Mr J F Ward
B Com FCA FInstD
Chartered Accountant
Invercargill

Deputy Chairman

Mr J B Walker
LLB
Barrister & Solicitor
Invercargill

Directors

Mrs K J Ball
B Com FCA CMIInstD
Chartered Accountant
Invercargill

Mr G J Mulvey
B Com FCA FNZIM
General Manager
Invercargill

Mr J J Grant
Farmer/Company Director
Balfour

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

Mr A G Neill
LLB
Solicitor
Christchurch

Mr M J Skilling
B Agr Sci PGDipBank FINSIA
Company Director
Auckland

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

Group Chief Executive Officer

Mr W L Evans
B Com PGDipSocSci(Psych) CMIInstD
Invercargill

Secretary

Mr T D R Loan
B Com FCA DipBusStuds (IS)
(Chief Financial Officer)
Invercargill

Registered Office

51 Don Street
Invercargill

Solicitors

Buddle Findlay
83 Victoria Street
Christchurch

Auditors

KPMG
10 Customhouse Quay
Wellington

Disclosure Statement for the year ended 31 March 2015

General Information

Southland Building Society (SBS) is registered as a bank under the Reserve Bank of New Zealand Act 1989, and is required to comply with the conditions of registration as laid down by the Reserve Bank of New Zealand. Southland Building Society operates under two brands "SBS Bank" and "HBS Bank".

This Disclosure Statement has been issued by Southland Building Society in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the 'Order').

Words and phrases defined by the Order have the same meanings when used in this 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

As at the signing date of this Disclosure Statement, the material obligations of the Bank are not guaranteed.

Pending Proceedings or Arbitration

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

JF (John) Ward, BCom FCA FlntD
(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, Outdoor World Ltd, Shotover Hardware 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, Southern Department Stores Ltd, SFI Properties Ltd, Corner Trading Ltd, Amtex Corporation Ltd, Hokonui Investments Ltd, Parthenon Investments Ltd, Trio Corporation Ltd, Tanknology (NZ) Ltd, Skippers Canyon Holdings Ltd, Queenstown Bungy Ltd, AJ Gear Ltd, Bungy New Zealand Ltd, Paddington Investments No 8 Ltd, Fun Innovators NZ Ltd, Southcom Ltd, Auckland Bridge Adventures Ltd, Passage Holdings Ltd, Auckland Bridge Climb Ltd, Zephyr NZ Ltd, Avimore Corporation Ltd, H.A.T. Ltd, University of Otago Holdings Ltd, Otago Innovation Ltd, Custos Securities Ltd

JB (Jeff) Walker, LLB
(Deputy Chairman - Board of Directors)
Barrister & Solicitor

External Directorships: Cargill Trustees Ltd, Rakiura Shipping Ltd, Rough Gully Company Ltd, Manchester Enterprises Ltd

KJ (Kathryn) Ball, BCom FCA CMInstD
Chartered Accountant

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

Disclosure Statement for the year ended 31 March 2015

Directorate continued

GJ (Greg) Mulvey, BCom FCA FNZIM
General Manager

External Directorships: DB South Island Brewery Ltd

JJ (Jeff) Grant
Farmer / Company Director

External Directorships: AgResearch Ltd, Mount Linton Station Ltd, Copper Valley Holdings Ltd, Ospri New Zealand Ltd, National Animal Identification and Tracing (NAIT) Ltd, Tbfree New Zealand Ltd, Milford Sound Development Authority Ltd

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

External Directorships: Apex Data Solutions Ltd, Verdure Ltd, Logan Stone Ltd

AG (Alec) Neill, LLB
Solicitor

External Directorships: Hyde Park Industrial Developments Ltd, Hyde Park Exports & Investments Ltd, Hyde Park Australasia Property Developments Pty Ltd

MJ (Mike) Skilling, BAgSci PGDipBank FINSIA
Company Director

External Directorships: Financial Synergy Ltd, Aqua Cars Ltd, Aqua Finance I Ltd, Ruby Bay Real Estate Ltd, Aqua Group Ltd, Hopkins Farming Group Ltd

Audit & Risk Committee

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

KJ Ball (Chairperson) - Independent Non-Executive Director
JF Ward - Independent Non-Executive Director
GJ Mulvey - Independent Non-Executive Director
JJ Grant - 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
83 Victoria Street
Christchurch

Auditors

KPMG
10 Customhouse Quay
Wellington

Disclosure Statement for the year ended 31 March 2015

Credit Rating

As at 31 March 2015, 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 28 October 2014. There have been no changes made to the rating in the two years preceding 31 March 2015. 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 following conditions of registration have been 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. These conditions of registration have applied from 1 November 2014.

The registration of Society Building Society ("the bank") as a registered bank is subject to the following conditions:

- I. That -
 - (a) the Total capital ratio of the banking group is not less than 8 percent;
 - (b) the Tier 1 capital ratio of the banking group is not less than 6 percent;
 - (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5 percent;
 - (d) the Total capital of the banking group is not less than \$30 million; and
 - (e) the process in Subpart 2H of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated July 2014 is followed for the recognition and repayment of capital.

For the purposes of this condition of registration, capital, the Total capital ratio, the Tier 1 capital ratio, and the Common Equity Tier 1 capital ratio must be calculated in accordance with the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated July 2014.

- IA. 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 the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated July 2014; and
 - (c) the bank determines an internal capital allocation for each identified and measured "other material risk".
- IB. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:
 - (a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the bank's earnings
0% - 0.625%	0%
>0.625% - 1.25%	20%
>1.25% - 1.875%	40%
>1.875% - 2.5%	60%

Conditions of Registration *continued*

- (b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
- (c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration, -

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated July 2014.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.
In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.
3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.
For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:
 - (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity and;
 - (b) If the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the banking group's insurance business -

- (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
- (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration, -

"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance;

"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

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 of the Bank ¹	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

¹ This table uses the rating scales of Standard and Poors, Fitch Ratings and Moody's Investor Service. (Fitch Ratings' scale is identical to Standard and Poors).

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 2014.

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.
6. 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 interests 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 July 2014.

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.

Conditions of Registration *continued*

8. That a person must not be appointed as chairperson of the board 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.
9. 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 July 2014.

10. That a substantial proportion of the bank's business is conducted in and from New Zealand.
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 75 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 July 2014 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 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.
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.

14. That -
 - (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
 - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
 - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
 - (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
 - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
 - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
 - (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

15. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can-
 - (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager-
 - (i) all liabilities are frozen in full; and
 - (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
 - (b) apply a *de minimis* to relevant customer liability accounts;
 - (c) apply a partial freeze to the customer liability account balances;
 - (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
 - (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
 - (f) reinstate customers' access to some or all of their residual frozen funds.

Disclosure Statement for the year ended 31 March 2015

Conditions of Registration *continued*

For the purposes of this condition of registration, “*de minimis*”, “partial freeze”, “customer liability account”, “frozen and unfrozen funds” have the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS 17) dated September 2013.

16. That the bank has an Implementation Plan that-
- (a) is up-to-date; and
 - (b) demonstrates that the bank’s prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: “Open Bank Resolution Pre-positioning Requirements Policy” (BS 17).

For the purposes of this condition of registration, “Implementation Plan” has the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS 17) dated September 2013.

17. That the bank has a compendium of liabilities that-
- (a) at the product-class level lists all liabilities, indicating which are-
 - (i) pre-positioned for Open Bank Resolution; and
 - (ii) not pre-positioned for Open Bank Resolution;
 - (b) is agreed to by the Reserve Bank; and
 - (c) if the Reserve Bank’s agreement is conditional, meets the Reserve Bank’s conditions.

For the purposes of this condition of registration, “compendium of liabilities”, and “pre-positioned and non pre-positioned liabilities” have the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS 17) dated September 2013.

18. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank’s prepositioning for Open Bank Resolution as specified in the bank’s Implementation Plan.

For the purposes of this condition of registration, “Implementation Plan” has the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS 17) dated September 2013.

19. That, for a loan-to-valuation measurement period, the total of the bank’s qualifying new mortgage lending amounts must not for residential properties with a loan-to-valuation ratio of more than 80%, exceed 10% of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period.
20. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the bank’s agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.
21. That the bank must not permit a borrower to grant a charge in favour of another person over a residential property used as security for a residential mortgage loan unless the sum of the lending secured by the charge and the loan value for the residential mortgage loan would not exceed 80% of the property value of the residential property when the lending secured by the charge is drawn down.
22. That the bank must not provide a residential mortgage loan if the residential property to be mortgaged to the bank as security for the residential mortgage loan is subject to a charge in favour of another person unless the total amount of credit secured by the residential property would not exceed 80% of the property value when the residential mortgage loan is drawn down.
23. That the bank must not act as broker or arrange for a member of its banking group to provide a residential mortgage loan.

In these conditions of registration,-

“banking group” -

- (a) means Southland Building Society (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act (unless paragraph (b) applies); or
- (b) means Southland Building Society’s financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993) if the Financial Reporting Act 1993 applies to the bank;

“generally accepted accounting practice” -

- (a) has the same meaning as in section 8 of the Financial Reporting Act 2013 (unless paragraph (b) applies); or
- (b) means generally accepted accounting practice within the meaning of section 3 of the Financial Reporting Act 1993 if the bank is required to prepare financial statements in accordance with that practice.

In conditions of registration 19 to 23, -

“loan-to-valuation ratio”, “loan value”, “property value”, “qualifying new mortgage lending amount” and “residential mortgage loan” have the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High-LVR Residential Mortgage Lending” (BS19) dated October 2014:

“loan-to-valuation measurement period” means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of March 2014.

Changes in Conditions of Registration

There have been no changes in the Bank’s conditions of registration during the period since the signing of the previous Disclosure Statement.

Disclosure Statement for the year ended 31 March 2015

Directors' Statement

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

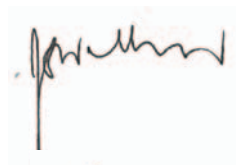
1. As at the date on which the Disclosure Statement is signed:
 - (a) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and
 - (b) the Disclosure Statement is not false or misleading;
2. Each director of the Bank believes, after due enquiry, that during the year ending 31 March 2015:
 - (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 3 June 2015 and has been signed by or on behalf of all the directors.

JF Ward
(Chairman)



JB Walker
(Deputy Chairman)



KJ Ball



GJ Mulvey



JJ Grant



FE Spencer



AG Neill



MJ Skilling



Historical Summary of Financial Statements

All in \$'000's

Income Statements

BANKING GROUP					
	Year ended 31 Mar 2015	Year ended 31 Mar 2014	Year ended 31 Mar 2013	Year ended 31 Mar 2012	Year ended 31 Mar 2011
Interest income	183,307	169,936	176,928	185,200	182,286
Interest expense	11,142	11,524	11,497	13,518	16,037
Dividends on redeemable shares	91,100	88,970	93,991	101,726	102,565
	102,242	100,494	105,488	115,244	118,602
Net interest income	81,065	69,442	71,440	69,956	63,684
Other income	25,525	21,368	20,114	18,611	18,235
Total operating income	106,590	90,810	91,554	88,567	81,919
Operating expenses	68,331	58,237	53,343	48,928	47,554
Provision for credit impairment	12,173	10,529	17,304	21,983	17,057
Operating surplus	26,086	22,044	20,907	17,656	17,308
Net gain/(loss) from financial instruments designated at fair value	(46)	(706)	(1,078)	(588)	5,117
Share of associates profit net of tax	515	-	-	-	-
Revaluation of property	-	46	(46)	-	-
Revaluation of investment properties	-	(200)	(61)	-	(88)
Surplus before income tax	26,555	21,184	19,722	17,068	22,337
Less income taxation expense	7,118	5,545	5,383	5,303	8,087
Net surplus	19,437	15,639	14,339	11,765	14,250
Attributable to:					
Members' interests	18,009	13,915	11,733	9,220	11,761
Non-controlling interests	1,428	1,724	2,606	2,545	2,489
	19,437	15,639	14,339	11,765	14,250

Significant Statement of Financial Position Items

BANKING GROUP					
	As at 31 Mar 2015	As at 31 Mar 2014	As at 31 Mar 2013	As at 31 Mar 2012	As at 31 Mar 2011
Total assets	2,862,657	2,787,776	2,829,669	2,841,896	2,813,833
Individually impaired assets	12,921	20,247	23,758	41,210	38,342
Total liabilities	2,618,981	2,553,563	2,598,079	2,626,535	2,611,793
Equity	243,676	234,213	231,590	215,361	202,040
Regulatory capital					
Tier one capital	235,721	218,418	221,981	215,088	205,191
Total capital	265,645	223,367	238,724	246,562	247,803
Tier one capital expressed as a percentage of total risk weighted assets	13.85%	13.39%	13.34%	12.52%	11.26%
Total capital expressed as a percentage of total risk weighted assets	15.61%	13.69%	14.34%	14.35%	13.60%

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 III "standardised approach" to calculate regulatory capital requirements from 1 January 2013. Prior comparative periods were calculated under the Basel II methodology.

CONTENTS

	Page
Income Statements	11
Statements of Comprehensive Income	11
Statements of Changes in Equity	12
Statements of Financial Position	13
Statements of Cash Flows	14
Notes to the Financial Statements	15 - 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, Associates and Joint Ventures	
16 Other Assets	
17 Property, Plant and Equipment	
18 Goodwill and 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 Contingent Liabilities and Credit Related Commitments	
25 Commitments	
26 Fair Value of Financial Instruments	
27 Liquidity Risk	
28 Credit Risk Exposure	
29 Market Risk	
30 Capital Adequacy	
31 Concentrations of Funding	
32 Related Parties	
33 Accounting Classifications	
34 Fiduciary Activities	
35 Subsequent Events	

Income Statements for the year ended 31 March 2015

All in \$'000's

	Note	BANKING GROUP		PARENT	
		31/3/15	31/3/14	31/3/15	31/3/14
Interest income	(4)	183,307	169,936	160,729	150,498
Interest expense		11,142	11,524	10,914	11,308
Dividends on redeemable shares		91,100	88,970	91,295	89,155
	(5)	102,242	100,494	102,209	100,463
Net interest income		81,065	69,442	58,520	50,035
Other income	(4)	25,525	21,368	4,098	4,805
Total operating income		106,590	90,810	62,618	54,840
Operating expenses	(5)	68,331	58,237	45,783	40,747
Provision for credit impairment	(12)	12,173	10,529	5,990	5,487
Operating surplus		26,086	22,044	10,845	8,606
Dividends from subsidiaries		-	-	2,942	5,726
Net gain/(loss) from financial instruments designated at fair value	(6)	(46)	(706)	(72)	(687)
Share of associates profit net of tax		515	-	-	-
Revaluation of property		-	46	-	-
Revaluation of investment properties		-	(200)	-	(200)
Surplus before income tax		26,555	21,184	13,715	13,445
Less income tax expense	(7)	7,118	5,545	3,109	2,254
Net surplus		19,437	15,639	10,606	11,191
Attributable to:					
Members' interests		18,009	13,915	10,606	11,191
Non-controlling interests		1,428	1,724	-	-
		19,437	15,639	10,606	11,191

Statements of Comprehensive Income for the year ended 31 March 2015

All in \$'000's

	Note	BANKING GROUP		PARENT	
		31/3/15	31/3/14	31/3/15	31/3/14
Net surplus for the year		19,437	15,639	10,606	11,191
Items that may not be reclassified subsequently to profit or loss					
Net change in property, plant and equipment reserve, net of tax		754	351	141	147
Items that may be reclassified subsequently to profit or loss					
Net change in available for sale asset reserve, net of tax		3,729	(4,724)	3,743	(4,785)
Net change in cash flow hedging reserve, net of tax		(11,991)	10,579	(11,591)	10,164
Other comprehensive income for the year, net of tax		(7,508)	6,206	(7,707)	5,526
Total comprehensive income for the year		11,929	21,845	2,899	16,717
Attributable to:					
Members' interests		10,544	20,046	2,899	16,717
Non-controlling interests		1,385	1,799	-	-
		11,929	21,845	2,899	16,717

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 2015

All in \$'000's

	Note	BANKING GROUP		PARENT	
		31/3/15	31/3/14	31/3/15	31/3/14
Revaluation reserve - property, plant and equipment					
Balance at beginning of the year		805	454	601	454
Other comprehensive income for the year		754	351	141	147
Balance at end of the year		1,559	805	742	601
Revaluation reserve - available for sale assets					
Balance at beginning of the year		67	4,803	(5)	4,780
Other comprehensive income for the year		3,732	(4,736)	3,743	(4,785)
Balance at end of the year		3,799	67	3,738	(5)
Revaluation reserve - cash flow hedging					
Balance at beginning of the year		7,775	(2,726)	7,523	(2,641)
Other comprehensive income for the year		(11,951)	10,517	(11,591)	10,164
Acquisition of non-controlling interests		15	(16)	-	-
Balance at end of the year		(4,161)	7,775	(4,068)	7,523
Retained earnings					
Balance at beginning of the year		221,136	222,400	218,901	207,710
Net surplus for the year		18,009	13,915	10,606	11,191
Acquisition of non-controlling interests		(1,590)	(14,875)	-	-
Non-controlling interests present value adjustment		666	(304)	-	-
Balance at end of the year		238,221	221,136	229,507	218,901
Total equity attributable to members' interests		239,418	229,783	229,919	227,020
Non-controlling interests					
Balance at beginning of the year		4,430	6,659	-	-
Net surplus for the year		1,428	1,724	-	-
Other comprehensive income for the year		(43)	74	-	-
Dividends		(652)	(1,334)	-	-
Change in capital of non-controlling interests		(905)	(2,693)	-	-
Balance at end of the year		4,258	4,430	-	-
Total equity at end of the year		243,676	234,213	229,919	227,020
Represented by:					
Equity at beginning of the year		234,213	231,590	227,020	210,303
Net surplus for the year		19,437	15,639	10,606	11,191
Other comprehensive income for the year		(7,508)	6,206	(7,707)	5,526
Total comprehensive income for the year		11,929	21,845	2,899	16,717
Dividends		(652)	(1,334)	-	-
Change in capital of non-controlling interests		(1,814)	(17,888)	-	-
Total equity at end of the year	(22)	243,676	234,213	229,919	227,020

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 2015

All in \$'000's

	Note	BANKING GROUP		PARENT	
		31/3/15	31/3/14	31/3/15	31/3/14
Assets					
Cash on hand and at bank		29,432	17,714	26,503	14,912
Funds with financial institutions	(8)	98,337	92,710	91,347	83,764
Investment securities	(9)	306,273	358,685	304,186	356,890
Derivative financial instruments	(10)	1,792	9,589	1,979	9,589
Current tax assets		-	1,659	1,170	2,748
Advances to customers	(11)	2,391,963	2,278,436	2,221,493	2,162,695
Loans to subsidiaries	(15)	-	-	144,865	95,300
Investments in subsidiaries	(15)	-	-	28,397	25,917
Investments in associates and joint ventures	(15)	4,985	-	-	-
Other assets	(16)	2,763	1,991	2,075	1,182
Investment properties		-	3,130	-	3,130
Property, plant and equipment	(17)	18,738	19,082	7,908	8,937
Goodwill and intangible assets	(18)	4,941	3,993	2,029	2,419
Net deferred tax assets	(19)	3,433	787	5,042	2,563
		2,862,657	2,787,776	2,836,994	2,770,046
Liabilities					
Redeemable shares		2,289,754	2,248,755	2,296,395	2,255,552
Deposits from customers		185,472	164,807	185,472	164,807
Commercial paper		64,639	44,745	64,639	44,745
Due to other financial institutions		-	50,178	-	50,178
Derivative financial instruments	(10)	9,989	1,194	10,034	1,587
Current tax liabilities		21	-	-	-
Other liabilities	(20)	28,057	24,877	9,486	7,150
Subordinated redeemable shares	(21)	41,049	19,007	41,049	19,007
		2,618,981	2,553,563	2,607,075	2,543,026
Net assets		243,676	234,213	229,919	227,020
Equity	(22)				
Reserves		1,197	8,647	412	8,119
Retained earnings		238,221	221,136	229,507	218,901
Attributable to members of the society		239,418	229,783	229,919	227,020
Attributable to non-controlling interests		4,258	4,430	-	-
		243,676	234,213	229,919	227,020
Total interest earning and discount bearing assets		2,826,005	2,747,545	2,788,394	2,713,561
Total interest and discount bearing liabilities		2,580,914	2,527,492	2,587,555	2,534,289

For and on behalf of the Board of Directors:



Chairman
JFWard



Director
KJ Ball

3 June 2015

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 2015

All in \$'000's

	Note	BANKING GROUP		PARENT	
		31/3/15	31/3/14	31/3/15	31/3/14
Cash flows from operating activities					
Interest received		180,107	169,619	161,896	153,670
Fees and other income		34,092	27,689	3,372	5,541
Dividends received		80	81	2,942	6,076
Interest paid		(10,906)	(11,862)	(10,678)	(11,646)
Dividends paid on redeemable shares		(90,046)	(91,155)	(90,252)	(91,339)
Operating expenses		(68,227)	(59,011)	(42,406)	(39,507)
Income taxes received/(paid)		(5,137)	(3,512)	(911)	-
Net cash flows from operating activities before changes in operating assets and liabilities		39,963	31,849	23,963	22,795
Net changes in operating assets and liabilities					
Change in advances		(124,424)	(62,161)	(63,109)	(50,086)
Change in shares and deposits from customers		60,290	29,025	60,145	30,397
Change in commercial paper		19,894	(26)	19,894	(26)
Change in amounts due to other financial institutions		(50,000)	(30,000)	(50,000)	(30,000)
Change in subordinated redeemable shares		21,948	(41,902)	21,948	(41,902)
Net cash flows provided by/(used in) operating activities	(23)	(32,329)	(73,215)	12,841	(68,822)
Cash flows from investing activities					
Change in investment securities		56,590	34,255	56,879	33,355
Change in loans to subsidiaries		-	-	(49,565)	(7,492)
Proceeds of investment properties		3,130	-	3,130	-
Proceeds of property, plant and equipment		85	173	(22)	94
Purchase of property, plant and equipment		(1,358)	(2,140)	(933)	(1,561)
Purchase of intangible assets		(2,235)	(1,964)	(879)	(1,550)
Investment in subsidiaries		-	-	(2,480)	(10,737)
Investment in associates and joint ventures		(3,613)	-	-	-
Net cash flows provided by/(used in) investing activities		52,599	30,324	6,130	12,109
Cash flows from financing activities					
Dividends paid to non-controlling interests		(652)	(1,599)	-	-
Acquisition of non-controlling interests		(2,480)	(10,737)	-	-
Net cash flows provided by/(used in) financing activities		(3,132)	(12,336)	-	-
Net increase/(decrease) in cash held		17,138	(55,227)	18,971	(56,713)
Add opening cash and cash equivalents		109,759	164,986	98,079	154,792
Closing cash and cash equivalents		126,897	109,759	117,050	98,079
Reconciliation of cash and cash equivalents					
Cash on hand and at bank		29,432	17,714	26,503	14,912
Funds with financial institutions	(8)	98,337	92,710	91,347	83,764
Interest accrued on available for sale assets		(872)	(665)	(800)	(597)
		126,897	109,759	117,050	98,079

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 is registered as a bank under the Reserve Bank of New Zealand Act 1989. 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 2013 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 (New Zealand Incorporated Registered Banks) Order 2014 (as amended). 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 3 June 2015.

(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 does not currently intend to apply any of these pronouncements until their effective date and is still assessing their impact on its financial statements.

- NZ IFRS 9 Financial Instruments - was issued in September 2014 and will become effective from 1 January 2018. This final version of NZ IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces NZ IAS 39 Financial Instruments: Recognition and Measurement. The standard includes revised guidance on the classification and measurement of financial assets, including a forward-looking impairment model for expected credit losses, and supplements hedge accounting on a more principles-based approach to assessing hedge effectiveness. For the classification and measurement of financial liabilities, the standard retains most of the existing requirements from NZ IAS 39. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. NZ IFRS 9 will apply to the Banking Group from 1 April 2018.
- NZ IFRS 15 Revenue from Contracts with Customers - was issued in July 2014 and will become effective from 1 January 2017. The standard establishes a five-step model framework specifying the accounting treatment for all revenue arising from contracts with customers. NZ IFRS 15 will apply to the Banking Group from 1 April 2017.

(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 (90% owned subsidiary) - consumer credit, motor vehicle and commercial finance;
- Funds Administration New Zealand Limited (85% 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; 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, exposure or rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power.

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.

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are recorded through equity to reflect a transaction amongst shareholders.

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.

I Statement of Accounting Policies *continued*

(f) Consolidation *continued*

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.

Associates

Associates are entities over which the Banking Group exerts significant influence but does not exercise control, or joint control over the financial and operating policies. Associates are accounted for under the equity method of accounting. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition the consolidated financial statements include the Banking Group's share of profit or loss and other comprehensive income of the associates until the date significant influence ceases.

Joint Ventures

Joint ventures are entities over which the Banking Group exerts joint control over the financial and operating policies, but does not have outright control. Joint ventures are accounted for under the equity method of accounting. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition the consolidated financial statements include the Banking Group's share of profit or loss and other comprehensive income of the joint ventures until the date joint control ceases.

(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.

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, on its statement of financial position, loans and receivables, deposits and redeemable shares at origination date and all other financial assets and liabilities at trade date.

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.

I Statement of Accounting Policies continued

(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 and credit 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.

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 investment securities and derivative financial assets.

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 using the effective interest rate method. 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, commercial paper, 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.

I Statement of Accounting Policies *continued*

(o) Derivative Financial Instruments held for Risk Management Purposes *continued*

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 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 and where recovery is doubtful;
- advances and loans which are past due with insufficient security to cover principal and arrears of interest;
- restructured advances and loans where the interest rate charged is below that of the Banking Group's average cost of funds.

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.

I Statement of Accounting Policies *continued*

(q) Impairment of Financial Assets *continued*

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 properties are acquired through the enforcement of security over advances and loans.

Investment properties are 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.

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

I Statement of Accounting Policies *continued*

(s) Property, Plant and Equipment *continued*

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 asset's 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.

Management Rights

Acquired management rights are intangible assets which have finite useful lives. They are measured at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on a straight line basis over the estimated useful life of the asset as follows:

- Staples Rodway KiwiSaver Scheme management rights - 15 years.

(u) Redeemable Shares, Deposits and Subordinated Redeemable Shares

Redeemable shares, deposits (including commercial paper) 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 (including commercial paper) 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.

I Statement of Accounting Policies continued

(x) Income Tax continued

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.

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 24 - 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

Redeemable shares, deposits (including commercial paper) and subordinated redeemable shares are unsecured. Deposits (including commercial paper) 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 (including commercial paper), unsecured creditors and those creditors given priority by law. Subordinated redeemable shares rank equally amongst themselves and behind redeemable shares, deposits (including commercial paper), unsecured creditors and those creditors given priority by law.

(ae) Lifestages Portfolio Funds

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

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

I Statement of Accounting Policies continued

(af) Lifestages KiwiSaver Scheme

The Lifestages KiwiSaver Scheme was established by trust deed on 30 April 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.

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.

(ag) Loan Securitisation

SBS 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 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 and the SBS Oreti Trust No. 2. SBS receives a fee for providing these management services. This fee is recognised when earned.

(ah) Comparative Data

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

(ai) Changes in Accounting Policies

During the year, the Banking Group acquired a 25% indirect shareholding in Abbott Insurance Brokers Ltd via its subsidiary, Southsure Assurance Ltd. This investment will be accounted for as an associate in line with the following accounting policy adopted:

Associates: Associates are entities over which the Banking Group exerts significant influence but does not exercise control, or joint control over the financial and operating policies. Associates are accounted for under the equity method of accounting. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition the consolidated financial statements include the Banking Group's share of profit or loss and other comprehensive income of the associates until the date significant influence ceases.

During the year, the Banking Group acquired a 50% indirect shareholding in Staples Rodway Asset Management Limited (SRAM) via its subsidiary, Funds Administration New Zealand Ltd. This investment will be accounted for as a joint venture in line with the following accounting policy adopted:

Joint Ventures: Joint Ventures are entities over which the Banking Group exerts joint control over the financial and operating policies but does not have outright control. Joint ventures are accounted for under the equity method of accounting. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition the consolidated financial statements include the Banking Group's share of profit or loss and other comprehensive income of the joint ventures until the date joint control ceases.

All other accounting policies 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 2015 the Banking Group's total provision for credit impairment was \$18.0 million (31 March 2014 \$20.8 million) representing 0.8% of total net loans and advances (31 March 2014 0.9%). The provisions represent provisions against individual loans and collective provisions.

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.

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

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.

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 and lending books.

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.

Securitisation and Special Purpose Entities

The Banking Group has formed special purpose entities (SPEs) primarily for the purpose of 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.

Risk Governance Structure

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.

Audit and Risk Committee

The Audit and Risk Committee is a sub committee of the Board and has 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, Chief Financial Officer and Chief Risk and Innovation Officer are in attendance at meetings. The Audit and Risk Committee meets at least four times a year, and reports directly to the Board.

Lending Committee

The Lending Committee is a sub committee of the Board and has the responsibility of reviewing and approving all lending proposals in excess of \$5 million. The committee is made up of the full Board with senior management in attendance as requested.

Asset and Liability Committee (ALCO)

The ALCO has responsibility for the assessment of exposure to treasury counterparty, credit, market, liquidity and interest rate risk. This includes:

- 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;

3 Risk Management Policies *continued*

- reviewing the liquidity position, investment and funding activity and making recommendations on future action;
- 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;
- reviewing wholesale counterparty credit exposures; and
- monitoring SBS's credit risk position and trends.

The ALCO is made up of members of the senior management team and treasury function. The ALCO usually meets at least twice a month and reports directly to the Board.

Credit Risk Committee (CRC)

The CRC has responsibility for monitoring and reviewing exposure to credit risks in SBS's lending portfolios. This includes:

- monitoring maximum exposure to individual counterparties;
- reviewing the analysis and reporting of individual watch list and impaired loans;
- review and approval of specific provisioning against impaired loans; and
- monitoring the performance of lending portfolios in relation to excesses and past dues, industry and geographic concentrations.

The CRC is made up of members of the senior management team and credit risk management function. The CRC usually meets quarterly and reports to the Board.

Operational Risk Committee (ORC)

The ORC has responsibility for monitoring and reviewing exposure to operational risks arising from SBS's day to day activities. This includes:

- regular measurement, monitoring and reporting of operational risk;
- ensuring appropriate strategies are in place to manage and mitigate operational risks; and
- monitoring compliance with legislative and regulatory obligations.

The ORC is made up of members of the senior management team and the risk and compliance functions. The ORC usually meets quarterly and reports 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 chairperson 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.

IT Committee

The IT Committee has responsibility for monitoring and reviewing exposure to the risks associated with IT, including data security, disaster recovery and business continuity. It also has responsibility for formulating and developing the Banking Group's IT strategy including monitoring and reviewing the impacts resulting from change in the regulatory, business and economic environment and evaluating business cases for technology projects requiring significant investment.

The IT Committee consists of two directors. In addition the Chief Executive Officer, Chief Risk & Innovation Officer and the Chief Digital & IT Officer are in attendance at meetings. The IT Committee meets quarterly and reports directly to the Board.

Specialist Support Functions

Primary responsibility for the identification, control and mitigation of risk rests with each business unit. Oversight and governance are provided through specialist support functions including Risk, Support, Finance and Treasury. The role of these functional specialists is to maintain and review policies, establish limits which are consistent with the Board's risk appetite, monitor and report on compliance with those limits and generally to provide an oversight role in relation to the management of risk.

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 management 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 credit risk management function which is responsible for the collections and recovery process. For wholesale arrangements, credit risk is managed with reference to specific limits as outlined in detailed treasury management policies and reported to the Board on a monthly basis.

3 Risk Management Policies *continued*

Interest Rate Risk Management

Interest rate risk is the risk of loss arising from adverse changes in interest rates. Management's objective is to produce strong and stable net interest income over time. Interest rate risk management focuses on mismatches between the repricing dates of interest bearing assets and liabilities. Interest rate risk is managed using 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 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.

The Banking Group is subject to RBNZ's liquidity requirements as set out in the RBNZ's "Liquidity Policy" (BSI 3/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. SBS aims to minimise the impact of operational risks by ensuring the appropriate risk management policies, controls, systems, staff and processes are in place. Where appropriate, risks are mitigated by insurance.

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

4 Income

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Interest income				
Cash at bank	733	727	667	657
Funds with financial institutions - available for sale	4,949	3,915	4,699	3,655
Investment securities - available for sale	15,500	15,298	15,500	15,298
Investment securities - designated at fair value through profit or loss	53	133	-	-
Derivative financial instruments	(1,271)	(2,467)	(1,315)	(2,136)
Advances to customers - at amortised cost	162,354	150,854	133,474	126,330
Advances to customers - impaired	989	1,476	989	1,476
Loans to subsidiaries	-	-	6,715	5,218
	183,307	169,936	160,729	150,498
Other operating income				
Loan fees	459	713	1,701	2,243
Management fees	5,626	4,588	-	-
Other fee and commission income	8,837	8,499	1,961	1,936
Net insurance income	9,172	6,138	-	-
Dividends	80	81	-	-
Gain on sale of shares	141	-	-	-
Sundry income	1,210	1,349	436	626
	25,525	21,368	4,098	4,805

5 Expenses

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Interest expense				
Redeemable shares	88,498	85,063	88,498	85,063
Deposits from customers	9,537	9,085	9,537	9,085
Other financial institutions	11	4	9	4
Subsidiary companies	-	-	195	183
Other borrowings	1,594	2,434	1,368	2,220
Subordinated redeemable shares	2,602	3,908	2,602	3,908
	102,242	100,494	102,209	100,463
Other operating expenses				
Auditors remuneration	405	316	326	229
Computer expenses	4,001	3,162	3,105	2,459
Fees and commissions	782	5	-	-
Fees to directors	643	578	535	501
Marketing	7,580	5,945	5,086	3,670
Personnel	35,430	31,905	24,743	22,372
Actuarial life adjustment	2,157	(48)	-	-
Amortisation and depreciation	3,843	3,720	2,960	2,805
Rent and leases	2,539	2,543	2,272	2,210
Write off of property, plant and equipment	475	(14)	475	3
Bank charges and funding line fees	2,664	2,948	2,368	2,665
Other expenses	7,812	7,177	3,913	3,833
	68,331	58,237	45,783	40,747

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

5 Expenses continued

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Amounts received, or due and receivable by the auditors:				
KPMG auditing the financial statements	234	237	164	173
KPMG auditing the interim financial statements	47	46	41	40
KPMG other services ¹	124	33	121	16
	405	316	326	229

¹Other services includes due diligence assistance on an acquisition, valuation advice and project consulting.

Amounts received, or due and receivable by directors:				
JF Ward (Chairman)	133	127	109	109
JB Walker (Deputy Chairman)	86	81	62	64
KJ Ball	70	68	70	68
GJ Mulvey	63	62	45	50
JJ Grant	63	62	45	50
FE Spencer	70	68	46	50
AG Neill	64	62	64	62
MJ Skilling (appointed August 2014)	43	-	43	-
RL Smith ²	-	-	-	-
	592	530	484	453
Provision for directors retiring allowance	51	48	51	48
	643	578	535	501

² RL Smith was an executive director until his resignation on 31 July 2014. He received no directors fees in addition to his salary.

Personnel expenses includes key management personnel compensation which comprised:				
Salaries and short-term employee benefits	5,035	4,220	2,777	1,832
Post-employment benefits	158	144	137	125
Other long term benefits	8	31	8	31
	5,201	4,395	2,922	1,988

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

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Net gain/(loss) arising on:				
Investment securities	26	(1)	-	-
Derivative financial instruments	(107)	(592)	(107)	(574)
Hedge ineffectiveness on cash flow hedging	35	(10)	35	(10)
Advances to customers	-	(103)	-	(103)
	(46)	(706)	(72)	(687)

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

7 Taxation

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Reconciliation of the prima facie income tax payable on profit with income tax expense in the income statement				
Surplus before income tax	26,555	21,184	13,715	13,445
Prima facie income tax 28%	7,435	5,932	3,840	3,765
Adjust for the tax effect of:				
Imputed dividends	(18)	(18)	(577)	(1,429)
Revaluation property	-	(13)	-	-
Other permanent items	41	(273)	26	9
Prior period adjustments	(340)	(83)	(180)	(91)
	(317)	(387)	(731)	(1,511)
Taxation expense/(benefit)	7,118	5,545	3,109	2,254
The major components of the income tax expense comprise:				
Amounts recognised in the income statement				
Current income tax				
Current income tax charge	6,802	3,375	2,583	-
Adjustments recognised in the current period in relation to current tax of prior periods	9	83	-	(13)
Deferred income tax				
Deferred tax expenses relating to the origination and reversal of temporary differences	307	2,087	526	2,267
Total income tax expense recognised in the income statement	7,118	5,545	3,109	2,254
The following amounts were charged/(credited) direct to equity:				
Current income tax	-	-	-	-
Deferred income tax	(2,947)	2,410	(3,005)	2,145
Total income tax expense recognised directly in equity	(2,947)	2,410	(3,005)	2,145

8 Funds with Financial Institutions

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Call funds	28,199	27,920	25,502	23,002
Term deposits	70,138	64,790	65,845	60,762
	98,337	92,710	91,347	83,764

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

9 Investment Securities

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Equity securities	1,564	1,589	-	-
Commercial paper	21,461	-	21,461	-
Local authority bonds	47,639	86,511	47,639	86,511
Bank securities	106,018	134,586	105,915	134,586
Other bonds	129,591	135,999	129,171	135,793
	306,273	358,685	304,186	356,890

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 fulfil 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 60% 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' except when the derivative is in a cash flow hedge.

Hedge Accounting

Cash Flow Hedges

The Banking Group hedges the forecasted interest cash flows from floating rate loans and 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 2015 as a result of highly probable cash flows no longer expected to occur (31 March 2014 \$nil).

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. Effectiveness of the hedges is tested on a monthly basis.

Notes to the Financial Statements for the year ended 31 March 2015

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 2015						
Held for risk management - at fair value						
<i>Interest rate related contracts</i>						
Swaps	239,000	-	125	239,000	-	125
Options	-	-	-	-	-	-
Total held for risk management at fair value	239,000	-	125	239,000	-	125
Held for hedging - cash flow hedges						
<i>Interest rate related contracts</i>						
Swaps	1,408,950	1,792	9,864	1,498,950	1,979	9,909
Options	-	-	-	-	-	-
Total held for hedging	1,408,950	1,792	9,864	1,498,950	1,979	9,909
Total derivative financial instruments	1,647,950	1,792	9,989	1,737,950	1,979	10,034
As at 31 March 2014						
Held for risk management - at fair value						
<i>Interest rate related contracts</i>						
Swaps	105,766	136	190	105,766	136	190
Options	-	-	-	-	-	-
Total held for risk management at fair value	105,766	136	190	105,766	136	190
Held for hedging - cash flow hedges						
<i>Interest rate related contracts</i>						
Swaps	1,004,950	9,453	1,004	1,054,950	9,453	1,397
Options	-	-	-	-	-	-
Total held for hedging	1,004,950	9,453	1,004	1,054,950	9,453	1,397
Total derivative financial instruments	1,110,716	9,589	1,194	1,160,716	9,589	1,587

11 Advances to Customers

	Note	BANKING GROUP		PARENT	
		31/3/15	31/3/14	31/3/15	31/3/14
Residential		1,801,746	1,724,904	1,801,746	1,724,904
Agricultural		274,044	303,774	274,044	303,774
Commercial		163,893	154,607	155,596	149,395
Consumer		170,553	116,751	-	-
Gross advances		2,410,236	2,300,036	2,231,386	2,178,073
Provisions for credit impairment	(12)	(17,981)	(20,807)	(12,564)	(16,746)
Deferred fee revenue and expenses		(292)	(793)	2,671	1,368
Total net advances	(27)	2,391,963	2,278,436	2,221,493	2,162,695

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

12 Provision for Credit Impairment

BANKING GROUP as at 31 March 2015

	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Individual provisions against advances and loans				
Balance at beginning of the year	964	-	9,044	10,008
New provisions during the year	1,233	-	5,993	7,226
Balances written off during the year	(1,095)	-	(9,917)	(11,012)
Recoveries/reversals of previously recognised provision	(156)	-	(240)	(396)
Balance at end of the year	946	-	4,880	5,826
Collective provisions against advances and loans				
Balance at beginning of the year	5,380	3,907	1,512	10,799
Charged to income statement	-	1,294	62	1,356
Balance at end of the year	5,380	5,201	1,574	12,155
Total provisions for credit impairment	6,326	5,201	6,454	17,981
Reconciliation of provision movements				
Bad debts written off during the year	(1,217)	4,765	43	3,591
Individual provisions	1,233	-	5,993	7,226
Collective provision	-	1,294	62	1,356
Provision for credit impairment to income statement	16	6,059	6,098	12,173

- Residential mortgages comprise advances to individuals and corporates that are secured against residential properties. They include investments in residential property as well as owner-occupied housing
- Retail exposures comprise consumer personal and consumer finance lending
- Corporate exposures comprise primarily advances to individuals, corporates or small to medium enterprises that are secured against commercial or agricultural properties

PARENT as at 31 March 2015

	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Individual provisions against advances and loans				
Balance at beginning of the year	964	-	9,044	10,008
New provisions during the year	1,233	-	5,993	7,226
Balances written off during the year	(1,095)	-	(9,917)	(11,012)
Recoveries/reversals of previously recognised provision	(156)	-	(240)	(396)
Balance at end of the year	946	-	4,880	5,826
Collective provisions against advances and loans				
Balance at beginning of the year	5,380	-	1,358	6,738
Charged to income statement	-	-	-	-
Balance at end of the year	5,380	-	1,358	6,738
Total provisions for credit impairment	6,326	-	6,238	12,564
Reconciliation of provision movements				
Bad debts written off during the year	(1,217)	-	(19)	(1,236)
Individual provisions	1,233	-	5,993	7,226
Collective provision	-	-	-	-
Provision for credit impairment to income statement	16	-	5,974	5,990

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

12 Provision for Credit Impairment continued

BANKING GROUP as at 31 March 2014

	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Individual provisions against advances and loans				
Balance at beginning of the year	885	-	14,027	14,912
New provisions during the year	1,060	-	5,328	6,388
Balances written off during the year	(981)	-	(10,311)	(11,292)
Recoveries/reversals of previously recognised provision	-	-	-	-
Balance at end of the year	964	-	9,044	10,008
Collective provisions against advances and loans				
Balance at beginning of the year	4,190	3,644	1,537	9,371
Charged to income statement	-	263	(25)	238
Acquired on purchase of loan portfolio	1,190	-	-	1,190
Balance at end of the year	5,380	3,907	1,512	10,799
Total provisions for credit impairment	6,344	3,907	10,556	20,807
Reconciliation of provision movements				
Bad debts written off during the year	60	4,670	(827)	3,903
Individual provisions	1,060	-	5,328	6,388
Collective provision	-	263	(25)	238
Provision for credit impairment to income statement	1,120	4,933	4,476	10,529

PARENT as at 31 March 2014

	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Individual provisions against advances and loans				
Balance at beginning of the year	885	-	14,027	14,912
New provisions during the year	1,060	-	5,328	6,388
Balances written off during the year	(981)	-	(10,311)	(11,292)
Recoveries/reversals of previously recognised provision	-	-	-	-
Balance at end of the year	964	-	9,044	10,008
Collective provisions against advances and loans				
Balance at beginning of the year	4,190	-	1,358	5,548
Charged to income statement	-	-	-	-
Acquired on purchase of loan portfolio	1,190	-	-	1,190
Balance at end of the year	5,380	-	1,358	6,738
Total provisions for credit impairment	6,344	-	10,402	16,746
Reconciliation of provision movements				
Bad debts written off during the year	60	-	(961)	(901)
Individual provisions	1,060	-	5,328	6,388
Collective provision	-	-	-	-
Provision for credit impairment to income statement	1,120	-	4,367	5,487

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

13 Asset Quality

BANKING GROUP as at 31 March 2015

	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
(a) Asset quality - advances to customers				
Neither past due or impaired	1,766,981	154,529	411,248	2,332,758
Individually impaired	1,724	-	11,197	12,921
Past due	35,712	13,716	14,837	64,265
Provision for credit impairment	(6,326)	(5,201)	(6,454)	(17,981)
Carrying amount	1,798,091	163,044	430,828	2,391,963
(b) Ageing of past due but not impaired assets				
Past due 0-29 days	25,674	10,393	4,910	40,977
Past due 30-59 days	3,346	1,892	475	5,713
Past due 60-89 days	2,750	1,032	8,345	12,127
Past due 90 days +	3,942	399	1,107	5,448
Carrying amount	35,712	13,716	14,837	64,265
(c) Impaired assets				
Balance at beginning of the year	2,410	-	17,837	20,247
Additions to individually impaired assets	1,530	-	8,892	10,422
Reductions to individually impaired assets	(1,759)	-	(15,532)	(17,291)
Transfers back to productive ledger	(457)	-	-	(457)
Balance at end of the year	1,724	-	11,197	12,921
Provision at end of the year	(946)	-	(4,880)	(5,826)
Net carrying amount at end of the year	778	-	6,317	7,095
Undrawn balances on individually impaired lending commitments	-	-	-	-

(d) Other assets under administration

There are no other assets under administration as at 31 March 2015.

PARENT as at 31 March 2015

	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
(a) Asset quality - advances to customers				
Neither past due or impaired	1,766,981	-	403,719	2,170,700
Individually impaired	1,724	-	11,197	12,921
Past due	35,712	-	14,724	50,436
Provision for credit impairment	(6,326)	-	(6,238)	(12,564)
Carrying amount	1,798,091	-	423,402	2,221,493
(b) Ageing of past due but not impaired assets				
Past due 0-29 days	25,674	-	4,809	30,483
Past due 30-59 days	3,346	-	470	3,816
Past due 60-89 days	2,750	-	8,338	11,088
Past due 90 days +	3,942	-	1,107	5,049
Carrying amount	35,712	-	14,724	50,436
(c) Impaired assets				
Balance at beginning of the year	2,410	-	17,837	20,247
Additions to individually impaired assets	1,530	-	8,892	10,422
Reductions to individually impaired assets	(1,759)	-	(15,532)	(17,291)
Transfers back to productive ledger	(457)	-	-	(457)
Balance at end of the year	1,724	-	11,197	12,921
Provision at end of the year	(946)	-	(4,880)	(5,826)
Net carrying amount at end of the year	778	-	6,317	7,095
Undrawn balances on individually impaired lending commitments	-	-	-	-

(d) Other assets under administration

There are no other assets under administration as at 31 March 2015.

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

13 Asset Quality continued

BANKING GROUP as at 31 March 2014

	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
(a) Asset quality - advances to customers				
Neither past due or impaired	1,698,559	105,471	430,814	2,234,844
Individually impaired	2,410	-	17,837	20,247
Past due	24,973	9,571	9,608	44,152
Provision for credit impairment	(6,344)	(3,907)	(10,556)	(20,807)
Carrying amount	1,719,598	111,135	447,703	2,278,436
(b) Ageing of past due but not impaired assets				
Past due 0-29 days	14,704	6,771	6,189	27,664
Past due 30-59 days	4,555	1,569	441	6,565
Past due 60-89 days	511	962	558	2,031
Past due 90 days +	5,203	269	2,420	7,892
Carrying amount	24,973	9,571	9,608	44,152
(c) Impaired assets				
Balance at beginning of the year	1,912	-	21,846	23,758
Additions to individually impaired assets	1,439	-	8,787	10,226
Reductions to individually impaired assets	(941)	-	(12,796)	(13,737)
Balance at end of the year	2,410	-	17,837	20,247
Provision at end of the year	(964)	-	(9,044)	(10,008)
Net carrying amount at end of the year	1,446	-	8,793	10,239
Undrawn balances on individually impaired lending commitments	-	-	-	-

(d) Other assets under administration

There are no other assets under administration as at 31 March 2014.

PARENT as at 31 March 2014

	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
(a) Asset quality - advances to customers				
Neither past due or impaired	1,698,559	-	426,164	2,124,723
Individually impaired	2,410	-	17,837	20,247
Past due	24,973	-	9,498	34,471
Provision for credit impairment	(6,344)	-	(10,402)	(16,746)
Carrying amount	1,719,598	-	443,097	2,162,695
(b) Ageing of past due but not impaired assets				
Past due 0-29 days	14,704	-	6,122	20,826
Past due 30-59 days	4,555	-	409	4,964
Past due 60-89 days	511	-	548	1,059
Past due 90 days +	5,203	-	2,419	7,622
Carrying amount	24,973	-	9,498	34,471
(c) Impaired assets				
Balance at beginning of the year	1,912	-	21,846	23,758
Additions to individually impaired assets	1,439	-	8,787	10,226
Reductions to individually impaired assets	(941)	-	(12,796)	(13,737)
Balance at end of the year	2,410	-	17,837	20,247
Provision at end of the year	(964)	-	(9,044)	(10,008)
Net carrying amount at end of the year	1,446	-	8,793	10,239
Undrawn balances on individually impaired lending commitments	-	-	-	-

(d) Other assets under administration

There are no other assets under administration as at 31 March 2014.

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

14 Loan Securitisation

Mortgages assigned by SBS to the SBS Invercargill W Trust during the year ended 31 March 2015 amounted to \$136.29 million (31 March 2014 \$nil). SBS retains some of the risks and rewards of ownership through the provision of a subordinated loan and accordingly the financial statements of SBS Invercargill W Trust have been consolidated within the Parent for financial reporting purposes.

Mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No. 2 during the year ended 31 March 2015 amounted to \$108.08 million (31 March 2014 \$nil). SBS retains some of the risks and rewards of this trust by holding the securities issued by the trust and accordingly the financial statements of SBS Oreti Trust No. 2 have been consolidated within the Parent for financial reporting purposes.

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Securitised loan balances				
SBS Invercargill W Trust	94,545	91,434	94,545	91,434
SBS Oreti Trust No. 2	169,517	95,375	169,517	95,375
	264,062	186,809	264,062	186,809

15 Investments in Subsidiaries, Associates and Joint Ventures

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Investments in subsidiaries	-	-	28,397	25,917
Investments in associates and joint ventures	4,985	-	-	-
	4,985	-	28,397	25,917
Loans to subsidiaries (at amortised cost)	-	-	144,865	95,300
	-	-	144,865	95,300

	Percentage Held		Balance Date	Nature of Business
	31/3/15	31/3/14		
Subsidiaries:				
Fraser Properties Limited	100.0%	100.0%	31 March	Property Holding
Southsure Assurance Limited	80.0%	80.0%	31 March	Insurance Company
Finance Now Limited	90.0%	85.0%	31 March	Finance Company
Funds Administration New Zealand Limited	85.0%	85.0%	31 March	Funds Administration
In-substance subsidiaries:				
SBS Invercargill W Trust	-	-	31 March	Mortgage Securitisation
SBS Oreti Trust No. 2	-	-	31 March	Mortgage Securitisation
Associates				
Abbott Insurance Brokers Limited	25.0%	-	31 March	Insurance Brokers
Joint Ventures				
Staples Rodway Asset Management Limited	50.0%	-	31 March	Investment Advisory

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 32 - Related Parties for further details of loans to subsidiaries.

On 1 April 2014, the Bank acquired a 25% indirect interest in Abbott Insurance Brokers Limited via its subsidiary Southsure Assurance Limited. This investment has been accounted for as an associate company under the equity method of accounting as the Banking Group does not have control over the financial and operating policies. Abbotts provides insurance brokerage services and incorporates wholly owned subsidiaries Abbott Premium Funding Company Limited, Abbott Insurance Brokers Wellington Limited, Abbott Home Loans Limited and Abbott Underwriting Agency (Holdings) Limited. In addition Abbott Underwriting Agency (Holdings) Limited incorporates a 50% joint venture with Clubs New Zealand Insurance Services Limited and a non-trading subsidiary Abbott Underwriting Agency Limited.

On 1 July 2014, the Bank increased its shareholding in its subsidiary Finance Now Ltd (FNL) from 85% to 90%. In accordance with International Financial Reporting Standards, as the Bank has had no change in effective control, the acquisition price was recorded through equity to reflect a transaction amongst shareholders. No adjustment has been made to the fair value of the assets and liabilities of FNL in the consolidated accounts of the Bank in accordance with IFRS, and the associated premium (reflecting the future earnings potential of the entities) is recorded as an adjustment to equity. The put and call options have been adjusted in the financial statements to reflect the new present value of the estimated exercise price of the options. The unwind of the discounted present value is reflected in the Statement of Changes in Equity as 'Non-controlling interests present value adjustment'.

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

15 Investments in Subsidiaries, Associates and Joint Ventures continued

On 31 March 2015, the Bank acquired a 50% indirect interest in Staples Rodway Asset Management Limited (SRAM) via its subsidiary Funds Administration New Zealand Limited. This investment has been accounted for as a joint venture under the equity method of accounting as the Banking Group has joint control and has rights to the net assets of the arrangement. SRAM provides investment advisory services and incorporates wholly owned subsidiary SR Investment Management Limited. Any funds under administration or management by SRAM are not owned by the Banking Group and are therefore not included on the Banking Groups Statement of Financial Position.

16 Other Assets

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Prepayments	582	565	361	290
Receivables from related parties	-	-	974	309
Other receivables	2,181	1,426	740	583
	2,763	1,991	2,075	1,182

17 Property, Plant and Equipment

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Freehold land (at valuation)	2,220	2,150	1,170	1,150
Buildings (at valuation)	10,229	9,397	1,779	1,647
Total carrying amount	12,449	11,547	2,949	2,797
Leasehold assets (at cost)	6,053	6,179	5,495	5,648
Accumulated depreciation	(3,142)	(2,837)	(2,990)	(2,731)
Total carrying amount	2,911	3,342	2,505	2,917
Computer equipment (at cost)	8,259	7,815	7,459	7,140
Accumulated depreciation	(7,190)	(6,249)	(6,594)	(5,726)
Total carrying amount	1,069	1,566	865	1,414
Other assets (at cost)	7,459	8,176	4,361	4,984
Accumulated depreciation	(5,150)	(5,549)	(2,772)	(3,175)
Total carrying amount	2,309	2,627	1,589	1,809
Total property, plant and equipment	18,738	19,082	7,908	8,937

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 2015 by registered valuers. 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 carrying amount of land and buildings had they been recognised under the cost model are as follows:

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
The carrying amount of land and buildings had they been recognised under the cost model are as follows:				
Freehold land	1,910	1,910	569	569
Buildings	7,859	8,012	845	903
	9,769	9,922	1,414	1,472

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

17 Property, Plant and Equipment continued

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
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	11,547	11,129	2,797	2,629
Additions	1	-	1	-
Revaluation	1,019	530	188	201
Disposals	-	-	-	-
Depreciation	(118)	(112)	(37)	(33)
Balance at end of the year	12,449	11,547	2,949	2,797
Leasehold assets				
Balance at beginning of the year	3,342	3,225	2,917	2,763
Additions	59	506	32	499
Disposals	(106)	(2)	(106)	(2)
Depreciation	(384)	(387)	(338)	(343)
Balance at end of the year	2,911	3,342	2,505	2,917
Computer equipment				
Balance at beginning of the year	1,566	2,218	1,414	2,078
Additions	479	610	323	482
Disposals	-	(1)	-	-
Depreciation	(976)	(1,261)	(872)	(1,146)
Balance at end of the year	1,069	1,566	865	1,414
Other assets				
Balance at beginning of the year	2,627	2,432	1,809	1,738
Additions	819	1,021	575	580
Disposals	(454)	(156)	(348)	(95)
Depreciation	(683)	(670)	(447)	(414)
Balance at end of the year	2,309	2,627	1,589	1,809
Total property, plant and equipment	18,738	19,082	7,908	8,937

18 Goodwill and Intangible Assets

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Goodwill (at cost)	1,160	1,160	-	-
Accumulated impairment	(145)	(145)	-	-
Total carrying amount	1,015	1,015	-	-
Software (at cost)	16,138	15,010	11,319	10,620
Accumulated amortisation	(13,538)	(12,032)	(9,290)	(8,201)
Total carrying amount	2,600	2,978	2,029	2,419
Management Rights (at cost)	1,326	-	-	-
Accumulated amortisation	-	-	-	-
Total carrying amount	1,326	-	-	-
Total goodwill and intangible assets	4,941	3,993	2,029	2,419

No impairment losses have been recognised against the gross carrying amount of software and other intangible assets for the year ended 31 March 2015 (31 March 2014 \$nil). Testing for impairment of goodwill is undertaken using models which calculate the valuation with reference to applicable price to earnings ratios.

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

18 Goodwill and Intangible Assets continued

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
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	2,978	2,305	2,419	1,738
Additions	1,307	1,964	879	1,550
Disposals	(3)	-	(3)	-
Amortisation for the year	(1,682)	(1,291)	(1,266)	(869)
Impairment	-	-	-	-
Balance at end of the year	2,600	2,978	2,029	2,419
Management Rights				
Balance at beginning of the year	-	-	-	-
Acquired	1,326	-	-	-
Amortisation for the year	-	-	-	-
Impairment	-	-	-	-
Balance at end of the year	1,326	-	-	-
Total intangible assets	4,941	3,993	2,029	2,419

The acquisition of management rights during the year ended 31 March 2015 relates to an agreement between Funds Administration NZ Limited and Staples Rodway Superannuation Limited to transfer management rights to FANZ for the management of the Staples Rodway KiwiSaver Scheme.

19 Deferred Tax Assets and Liabilities

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Provision for deferred tax				
Balance at beginning of the year	787	5,284	2,563	6,975
Prior period adjustment	6	-	-	-
(Charged)/credited to income statement	(307)	(2,087)	(526)	(2,267)
(Charged)/credited to equity	2,947	(2,410)	3,005	(2,145)
Balance at end of the year	3,433	787	5,042	2,563
Recognised deferred tax assets and liabilities:				
Deferred tax assets/(liabilities) comprise the following temporary differences:				
Provision for credit impairment	4,743	5,394	3,185	4,216
Derivative financial instruments	1,622	(3,041)	1,582	(2,925)
Funds with financial institutions - available for sale	(29)	(35)	-	-
Property, plant and equipment	(2,157)	(2,396)	(99)	(306)
Revaluation of property	(499)	(233)	(201)	(154)
Provisions	541	599	435	544
Tax losses	-	911	-	911
Other	(788)	(412)	140	277
Net deferred tax assets	3,433	787	5,042	2,563

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

19 Deferred Tax Assets and Liabilities continued

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Movements in temporary differences during the year (charged)/credited to the income statement:				
Provision for credit impairment	(651)	(1,206)	(1,031)	(1,272)
Property, plant and equipment	239	(101)	207	(131)
Provisions	(64)	113	(109)	137
Tax losses	545	(950)	545	(950)
Other	(376)	57	(138)	(51)
Total deferred tax (charged)/credited to the income statement	(307)	(2,087)	(526)	(2,267)
Movements in temporary differences during the year (charged)/credited to equity:				
Funds with financial institutions - available for sale	(1,450)	1,837	(1,456)	1,861
Derivative financial instruments	4,663	(4,114)	4,508	(3,952)
Revaluation of property	(266)	(133)	(47)	(54)
Total deferred tax (charged)/credited to equity	2,947	(2,410)	3,005	(2,145)

There are no unrecognised deferred tax assets as at 31 March 2015 (31 March 2014 \$nil).

20 Other Liabilities

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Sundry creditors	16,112	15,774	5,543	3,703
Employee entitlements	5,020	4,335	3,943	3,447
Insurance policy liability	6,925	4,768	-	-
	28,057	24,877	9,486	7,150

21 Subordinated Redeemable Shares

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
SBS Premier Bond	41,049	19,007	41,049	19,007
	41,049	19,007	41,049	19,007

During the year the Bank launched a revised 'SBS Premier Bond' to retail investors. These five-year fixed rate bonds are issued continuously as subordinated redeemable shares and rank behind redeemable shareholders, depositors (including commercial paper) and other unsecured creditors of SBS and are subject to loss absorption provisions.

At 31 March 2015 \$28.37 million of subordinated redeemable shares qualify as lower tier 2 capital for Reserve Bank of New Zealand capital adequacy purposes (31 March 2014 \$4.14 million). This is after adjustments for potential tax and other offsets.

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

22 Equity

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Revaluation reserve - property, plant and equipment	1,559	805	742	601
Revaluation reserve - available for sale assets	3,799	67	3,738	(5)
Revaluation reserve - cash flow hedging	(4,161)	7,775	(4,068)	7,523
Reserves	1,197	8,647	412	8,119
Retained earnings	238,221	221,136	229,507	218,901
	239,418	229,783	229,919	227,020
Non-controlling interests	4,258	4,430	-	-
Total equity	243,676	234,213	229,919	227,020
Movement in reserves:				
Revaluation reserve - property, plant and equipment				
Balance at beginning of the year	805	454	601	454
Surplus on revaluation of land and buildings	1,020	484	188	201
Deferred tax on revaluation	(266)	(133)	(47)	(54)
Net movement for the year	754	351	141	147
Balance at end of the year	1,559	805	742	601
Revaluation reserve - available for sale assets				
Balance at beginning of the year	67	4,803	(5)	4,780
Net gains/(losses) from changes in fair value	5,178	(6,561)	5,199	(6,646)
Current/deferred tax on changes in fair value	(1,449)	1,837	(1,456)	1,861
Non-controlling interests share of net gains/(losses) from changes in fair value	4	(17)	-	-
Non-controlling interests share of current/deferred tax in fair value	(1)	5	-	-
Net movement for the year	3,732	(4,736)	3,743	(4,785)
Balance at end of the year	3,799	67	3,738	(5)
Revaluation reserve - cash flow hedging reserve				
Balance at beginning of the year	7,775	(2,726)	7,523	(2,641)
Net gains/(losses) from changes in fair value	(16,652)	14,693	(16,098)	14,116
Deferred tax on changes in fair value	4,662	(4,114)	4,507	(3,952)
Non-controlling interests share of net gains/(losses) from changes in fair value	55	(86)	-	-
Non-controlling interests share of deferred tax on changes in fair value	(16)	24	-	-
Acquisition of non-controlling interests	15	(16)	-	-
Net movement for the year	(11,936)	10,501	(11,591)	10,164
Balance at end of the year	(4,161)	7,775	(4,068)	7,523
Retained earnings				
Balance at beginning of the year	221,136	222,400	218,901	207,710
Net surplus for the year	19,437	15,639	10,606	11,191
Acquisition of non-controlling interests	(1,590)	(14,875)	-	-
Non-controlling interests present value adjustment	666	(304)	-	-
Non-controlling interests	(1,428)	(1,724)	-	-
Balance at end of the year	238,221	221,136	229,507	218,901

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

23 Reconciliation of Net Surplus to Net Operating Cash Flows

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Net surplus for year	19,437	15,639	10,606	11,191
Add/(less) non cash items				
Depreciation and amortisation	3,843	3,720	2,960	2,805
Provision for credit impairment	12,173	10,529	5,990	5,487
Share of associates profit net of tax	(515)	-	-	-
Write off of property, plant and equipment	475	(14)	475	3
Property revaluations	-	154	-	200
Actuarial life adjustment	2,157	(48)	-	-
Dividend provision	-	-	-	350
Dividend provision - non-controlling interest	-	265	-	-
Deferred fee revenue and expenses	(501)	(1,215)	(1,303)	(1,639)
Derivatives fair value adjustment	72	602	71	585
Advances fair value adjustment	-	103	-	103
Investment securities fair value adjustment	(26)	1	-	-
Net deferred tax assets	304	2,074	533	2,267
	17,982	16,171	8,726	10,161
Deferral or accruals of past or future operating cash receipts or payments				
Change in income tax payable/receivable	1,680	(55)	1,578	(107)
Change in sundry debtors	(772)	463	(893)	493
Change in sundry creditors	435	(770)	2,336	496
Change in accruals relating to interest receivable	118	2,284	534	2,441
Change in accruals relating to accrued interest and dividends payable to customers	1,468	(2,406)	1,457	(2,405)
Change in accruals relating to accrued interest payable to financial institutions	(178)	(117)	(178)	(117)
Change in net advances	(124,424)	(62,161)	(63,109)	(50,086)
Change in shares and deposits	60,290	29,025	60,145	30,397
Change in commercial paper	19,894	(26)	19,894	(26)
Change in amounts due to other financial institutions	(50,000)	(30,000)	(50,000)	(30,000)
Change in subordinated redeemable shares	21,948	(41,902)	21,948	(41,902)
	(69,541)	(105,665)	(6,288)	(90,816)
Items classified as cash				
Change in accruals relating to funds with financial institutions	(207)	640	(203)	642
Net cash flows from operating activities	(32,329)	(73,215)	12,841	(68,822)

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

24 Contingent Liabilities and Credit Related Commitments

	BANKING GROUP			
	Contract or notional amt 31/3/15	Credit equivalent 31/3/15	Contract or notional amt 31/3/14	Credit equivalent 31/3/14
Commitments				
Commitments with uncertain drawdown	55,610	27,805	32,373	16,187
Commitments to extend credit which can be unconditionally cancelled	208,665	-	206,911	-
Total credit related commitments	264,275	27,805	239,284	16,187

	PARENT			
	Contract or notional amt 31/3/15	Credit equivalent 31/3/15	Contract or notional amt 31/3/14	Credit equivalent 31/3/14
Commitments				
Commitments with uncertain drawdown	71,670	35,835	39,904	19,952
Commitments to extend credit which can be unconditionally cancelled	208,665	-	206,911	-
Total credit related commitments	280,335	35,835	246,815	19,952

There are no material contingent liabilities.

25 Commitments

Lease Commitments

As at 31 March 2015 the value of the residual portion of lease commitments between Southland Building Society and its wholly owned subsidiary company, Fraser Properties Ltd was \$1.44 million (31 March 2014 \$1.84 million).

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Lease commitments payable after balance date:				
0-12 Months	2,230	2,190	1,983	1,972
12-24 Months	1,641	1,739	1,567	1,579
24-60 Months	3,284	3,159	2,502	2,724
>60 Months	846	1,566	714	1,153
	8,001	8,654	6,766	7,428

The Banking Group leases land and buildings under operating leases expiring from one to ten 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.

26 Fair Value of Financial Instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost.

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 adjusted with a retail lending margin for the term at original fixing and the wholesale rate for the remaining term at balance date.

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 (including commercial paper) 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.

Due to other financial institutions

Amounts due to other financial institutions are either short term in nature or reprice frequently and therefore the carrying amount is equivalent to fair value.

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. Fair values include adjustment for counterparty credit spreads.

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 24 and 30.

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

26 Fair Value of Financial Instruments continued

Comparison of fair values and carrying amounts:

Carrying values and the fair values of those assets and liabilities that are not presented at fair value in the Statement of Financial Position or where carrying value is not a reasonable approximation of fair value are outlined below:

BANKING GROUP				
	31/3/15		31/3/14	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Advances to customers	2,391,963	2,392,298	2,278,436	2,271,081
Total financial assets	2,391,963	2,392,298	2,278,436	2,271,081
Financial liabilities				
Redeemable shares	2,289,754	2,293,850	2,248,755	2,239,553
Deposits from customers	185,472	185,836	164,807	164,211
Subordinated redeemable shares	41,049	44,288	19,007	19,206
Total financial liabilities	2,516,275	2,523,974	2,432,569	2,422,970

PARENT				
	31/3/15		31/3/14	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Advances to customers	2,221,493	2,221,828	2,162,695	2,155,339
Total financial assets	2,221,493	2,221,828	2,162,695	2,155,339
Financial liabilities				
Redeemable shares	2,296,395	2,300,490	2,255,552	2,246,351
Deposits from customers	185,472	185,836	164,807	164,211
Subordinated redeemable shares	41,049	44,288	19,007	19,206
Total financial liabilities	2,522,916	2,530,614	2,439,366	2,429,768

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

26 Fair Value of Financial Instruments continued

Valuation hierarchy for financial instruments held at fair value:

The Banking Group uses valuation techniques within the following hierarchy for determining the fair value of financial instruments:

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.

Financial assets and liabilities that are recognised and measured at fair value on a recurring basis are categorised below:

31/3/15				
BANKING GROUP	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	1,792	-	1,792
Funds with financial institutions	28,199	70,138	-	98,337
Investment securities	1,564	304,709	-	306,273
Total financial assets	29,763	376,639	-	406,402
Financial liabilities				
Derivative financial instruments	-	9,989	-	9,989
Total financial liabilities	-	9,989	-	9,989
PARENT				
Financial assets				
Derivative financial instruments	-	1,979	-	1,979
Funds with financial institutions	25,502	65,845	-	91,347
Investment securities	-	304,186	-	304,186
Total financial assets	25,502	372,010	-	397,512
Financial liabilities				
Derivative financial instruments	-	10,034	-	10,034
Total financial liabilities	-	10,034	-	10,034
31/3/14				
BANKING GROUP	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	9,589	-	9,589
Funds with financial institutions	27,920	64,790	-	92,710
Investment securities	1,589	357,096	-	358,685
Total financial assets	29,509	431,475	-	460,984
Financial liabilities				
Derivative financial instruments	-	1,194	-	1,194
Total financial liabilities	-	1,194	-	1,194
PARENT				
Financial assets				
Derivative financial instruments	-	9,589	-	9,589
Funds with financial institutions	23,002	60,762	-	83,764
Investment securities	-	356,890	-	356,890
Total financial assets	23,002	427,241	-	450,243
Financial liabilities				
Derivative financial instruments	-	1,587	-	1,587
Total financial liabilities	-	1,587	-	1,587

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

26 Fair Value of Financial Instruments continued

The following table presents the changes in level 3 instruments:

	Note	BANKING GROUP		PARENT	
		31/3/15	31/3/14	31/3/15	31/3/14
Loans and advances at fair value through profit or loss					
Balance at beginning of the year		-	6,121	-	6,121
Total losses recorded in income statement	(6)	-	(103)	-	(103)
Loan repayments		-	(6,018)	-	(6,018)
Balance at end of the year		-	-	-	-

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

27 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.

The Banking Group is subject to the RBNZ's liquidity requirements as set out in the RBNZ's "Liquidity Policy" (BS13/BS13A).

Consistent with the requirements of the RBNZ's Liquidity Policy, liquidity risk is managed in the Banking Group on a cash flow mismatch and also core funding basis to ensure that the Banking Group exceeds RBNZ specified minimum standards for those metrics. This information is measured daily and reported to the Board monthly.

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 2015, the Banking Group had total committed funding lines with other registered banks of \$50.5 million (31 March 2014 \$50.5 million). Of these facilities, \$nil were drawn down at 31 March 2015 (31 March 2014 \$50.0 million).

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	
	31/3/15	31/3/14	31/3/15	31/3/14
Core liquid assets				
Cash on hand and at bank	29,432	17,714	26,503	14,912
Funds with financial institutions	98,337	92,710	91,347	83,764
Investment securities	306,273	358,685	304,186	356,890
Committed and undrawn funding lines	50,500	500	50,500	500
Eligible RMBS collateral (less haircut ¹)	135,302	74,705	135,302	74,705
Total liquidity	619,844	544,314	607,838	530,771

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.

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

27 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 2015 (contractual cash flows including expected interest to maturity)

BANKING GROUP							
	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	29,432	-	-	-	-	-	29,432
Funds with financial institutions	28,200	49,115	20,047	510	465	-	98,337
Investment securities	1,564	37,825	35,676	73,314	153,678	4,216	306,273
Current tax assets	-	-	-	-	-	-	-
Advances to customers	65,838	58,691	48,550	109,146	272,040	1,837,698	2,391,963
Other assets	2,763	-	-	-	-	-	2,763
Total assets	127,797	145,631	104,273	182,970	426,183	1,841,914	2,828,768
Interest	1,700	84,988	82,079	182,601	472,990	1,288,826	2,113,184
Total assets (inclusive of interest)	129,497	230,619	186,352	365,571	899,173	3,130,740	4,941,952
Liabilities							
Redeemable shares	438,552	997,358	631,601	178,897	43,346	-	2,289,754
Deposits from customers	24,462	104,546	50,582	3,052	2,830	-	185,472
Commercial paper	-	64,639	-	-	-	-	64,639
Due to other financial institutions	-	-	-	-	-	-	-
Current tax liabilities	21	-	-	-	-	-	21
Other liabilities	16,112	-	-	-	-	-	16,112
Subordinated redeemable shares	83	1,842	-	-	39,124	-	41,049
Total liabilities	479,230	1,168,385	682,183	181,949	85,300	-	2,597,047
Interest	68	12,038	10,455	25,095	19,467	-	67,123
Total liabilities (inclusive of interest)	479,298	1,180,423	692,638	207,044	104,767	-	2,664,170
Derivatives							
Net derivative cash flows	57	(1,252)	(3,216)	(3,472)	(162)	14	(8,031)
Unrecognised loan commitments	55,610	-	-	-	-	-	55,610

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

27 Liquidity Risk continued

Monetary assets receivable matched against liabilities payable as at 31 March 2015
(contractual cash flows including expected interest to maturity)

	PARENT						
	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	26,503	-	-	-	-	-	26,503
Funds with financial institutions	25,503	45,797	20,047	-	-	-	91,347
Investment securities	-	37,825	35,676	73,314	153,361	4,010	304,186
Current tax assets	1,170	-	-	-	-	-	1,170
Advances to customers	65,838	52,815	31,713	64,962	168,501	1,837,664	2,221,493
Loans to subsidiaries	-	-	-	-	144,865	-	144,865
Other assets	2,075	-	-	-	-	-	2,075
Total assets	121,089	136,437	87,436	138,276	466,727	1,841,674	2,791,639
Interest	1,724	93,454	99,092	191,281	482,186	1,288,747	2,156,484
Total assets (inclusive of interest)	122,813	229,891	186,528	329,557	948,913	3,130,421	4,948,123
Liabilities							
Redeemable shares	445,193	997,358	631,601	178,897	43,346	-	2,296,395
Deposits from customers	24,462	104,546	50,582	3,052	2,830	-	185,472
Commercial paper	-	64,639	-	-	-	-	64,639
Due to other financial institutions	-	-	-	-	-	-	-
Current tax liabilities	-	-	-	-	-	-	-
Other liabilities	5,543	-	-	-	-	-	5,543
Subordinated redeemable shares	83	1,842	-	-	39,124	-	41,049
Total liabilities	475,281	1,168,385	682,183	181,949	85,300	-	2,593,098
Interest	68	12,038	22,455	13,095	19,467	-	67,123
Total liabilities (inclusive of interest)	475,349	1,180,423	704,638	195,044	104,767	-	2,660,221
Derivatives							
Net derivative cash flows	206	(1,256)	(3,147)	(3,442)	(162)	14	(7,787)
Unrecognised loan commitments	71,670	-	-	-	-	-	71,670

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

27 Liquidity Risk continued

Monetary assets receivable matched against liabilities payable as at 31 March 2014
(contractual cash flows including expected interest to maturity)

BANKING GROUP							
	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	17,714	-	-	-	-	-	17,714
Funds with financial institutions	27,920	49,045	15,531	-	214	-	92,710
Investment securities	1,589	25,450	57,575	52,629	166,025	55,417	358,685
Current tax assets	1,659	-	-	-	-	-	1,659
Advances to customers	67,838	77,684	49,446	83,092	232,965	1,767,411	2,278,436
Other assets	1,991	-	-	-	-	-	1,991
Total assets	118,711	152,179	122,552	135,721	399,204	1,822,828	2,751,195
Interest	664	81,040	77,379	139,079	412,255	1,071,975	1,782,392
Total assets (inclusive of interest)	119,375	233,219	199,931	274,800	811,459	2,894,803	4,533,587
Liabilities							
Redeemable shares	447,902	1,173,083	482,042	118,856	26,872	-	2,248,755
Deposits from customers	25,098	99,469	31,214	7,354	1,672	-	164,807
Commercial paper	-	44,745	-	-	-	-	44,745
Due to other financial institutions	-	-	-	-	-	50,178	50,178
Other liabilities	15,774	-	-	-	-	-	15,774
Subordinated redeemable shares	41	14,323	2,718	1,925	-	-	19,007
Total liabilities	488,815	1,331,620	515,974	128,135	28,544	50,178	2,543,266
Interest	73	13,290	9,512	15,758	11,706	1,806	52,145
Total liabilities (inclusive of interest)	488,888	1,344,910	525,486	143,893	40,250	51,984	2,595,411
Derivatives							
Net derivative cash flows	71	(2,414)	(2,718)	(4,009)	(718)	208	(9,580)
Unrecognised loan commitments	32,373	-	-	-	-	-	32,373

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

27 Liquidity Risk continued

Monetary assets receivable matched against liabilities payable as at 31 March 2014
(contractual cash flows including expected interest to maturity)

	PARENT						
	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	14,912	-	-	-	-	-	14,912
Funds with financial institutions	23,002	45,739	15,023	-	-	-	83,764
Investment securities	-	25,450	57,575	52,629	165,819	55,417	356,890
Current tax assets	2,748	-	-	-	-	-	2,748
Advances to customers	67,838	71,564	33,896	46,040	175,992	1,767,365	2,162,695
Loans to subsidiaries	-	-	-	95,300	-	-	95,300
Other assets	1,182	-	-	-	-	-	1,182
Total assets	109,682	142,753	106,494	193,969	341,811	1,822,782	2,717,491
Interest	678	87,262	93,088	177,182	464,246	982,949	1,805,405
Total assets (inclusive of interest)	110,360	230,015	199,582	371,151	806,057	2,805,731	4,522,896
Liabilities							
Redeemable shares	454,699	1,173,083	482,042	118,856	26,872	-	2,255,552
Deposits from customers	25,098	99,469	31,214	7,354	1,672	-	164,807
Commercial paper	-	44,745	-	-	-	-	44,745
Due to other financial institutions	-	-	-	-	-	50,178	50,178
Other liabilities	3,703	-	-	-	-	-	3,703
Subordinated redeemable shares	41	14,323	2,718	1,925	-	-	19,007
Total liabilities	483,541	1,331,620	515,974	128,135	28,544	50,178	2,537,992
Interest	73	13,290	9,512	15,758	11,706	1,806	52,145
Total liabilities (inclusive of interest)	483,614	1,344,910	525,486	143,893	40,250	51,984	2,590,137
Derivatives							
Net derivative cash flows	217	(2,333)	(2,652)	(3,972)	(729)	208	(9,261)
Unrecognised loan commitments	39,904	-	-	-	-	-	39,904

Notes to the Financial Statements for the year ended 31 March 2015

All in \$000's

28 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 75% (31 March 2014 75%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 11% (31 March 2014 13%) of the Banking Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
(a) The maximum exposures to credit risk at the relevant reporting dates are:				
Cash on hand and at bank	29,432	17,714	26,503	14,912
Funds with financial institutions	98,337	92,710	91,347	83,764
Investment securities	306,273	358,685	304,186	356,890
Derivative financial instruments	1,792	9,589	1,979	9,589
Current tax assets	-	1,659	1,170	2,748
Advances to customers	2,391,963	2,278,436	2,221,493	2,162,695
Loans to subsidiaries	-	-	144,865	95,300
Other assets	2,763	1,991	2,075	1,182
Total on-balance sheet credit exposures	2,830,560	2,760,784	2,793,618	2,727,080
(b) Concentrations of credit risk by sector				
Residential	1,459,908	1,426,922	1,459,908	1,426,922
Residential investing	338,183	292,676	338,183	292,676
Agricultural	270,714	299,830	270,714	299,830
Commercial finance	3,307	2,488	144,865	95,300
Commercial other	156,807	145,157	152,688	143,039
Consumer lending	163,044	111,135	-	-
Local authority	47,639	86,739	47,639	86,739
Corporate investments	388,195	392,187	376,376	378,644
Other	2,763	3,650	3,245	3,930
Total concentrations of credit risk by sector	2,830,560	2,760,784	2,793,618	2,727,080
(c) Concentrations of credit risk by geographical location				
North Island	1,066,226	1,002,415	924,273	898,553
Canterbury	581,946	570,914	562,118	559,734
Otago	485,958	503,733	479,130	499,820
Southland	495,863	490,338	631,508	578,614
South Island other	200,567	193,384	196,589	190,359
Overseas	-	-	-	-
Total concentrations of credit risk by geographical location	2,830,560	2,760,784	2,793,618	2,727,080

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

28 Credit Risk Exposure continued

(d) 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). Credit exposures to the central government of any country with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, and connected persons are excluded. Peak end of day credit exposures to individual counterparties are calculated over the last quarter using the Banking Group's end of period equity.

End of Period Exposure	BANKING GROUP as at 31 March 2015			BANKING GROUP as at 31 March 2014		
	Number of Non Bank Counterparties			Number of Non Bank Counterparties		
Percentage of equity	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
10%-14%	2	-	2	2	-	2
15%-19%	1	-	1	2	-	2
20%-24%	-	-	-	-	-	-
Total	3	-	3	4	-	4

Peak Exposure

Percentage of equity	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
10%-14%	3	-	3	2	-	2
15%-19%	1	-	1	2	-	2
20%-24%	-	-	-	-	-	-
Total	4	-	4	4	-	4

Note:

"A" Rated - those counterparties that have a long term credit rating of A- or A3 or above

"B" Rated - those counterparties that have a long term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent

There were no peak or balance date credit exposures to bank counterparties with a credit rating below A- or A3, or its equivalent, which exceeded 10% of the Banking Group's equity for the three months ended 31 March 2015.

(e) 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) in accordance with the banks conditions of registration and the RBNZ's "Connected Exposure Policy" (BS8). 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 1 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 year. 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 year. There are no individual credit impairment allowances against credit exposures to non-bank connected persons as at 31 March 2015 (31 March 2014 \$nil).

	BANKING GROUP	
	31/3/15	31/3/14
Credit exposures to non-bank connected persons at year end	1,920	1,451
Credit exposures to non-bank connected persons at period end expressed as a % of total tier 1 capital	0.81%	0.66%
Peak credit exposures to non-bank connected persons during the quarter	1,926	1,451
Peak credit exposures to non-bank connected persons during the quarter expressed as a % of total tier 1 capital	0.82%	0.66%

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

28 Credit Risk continued

(f) 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 90% of SBS advances are secured by first mortgage over real property as a minimum. Once established, loan performance is monitored regularly. 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	
	31/3/15	31/3/14	31/3/15	31/3/14
Against individually impaired property	8,019	11,348	8,019	11,348
Against past due but not impaired property	156,795	113,938	156,432	112,880
	164,814	125,286	164,451	124,228

29 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.

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, scenario analysis and Value at Risk (VaR).

The Banking Group is not exposed to currency risk as it does not hold any financial instruments whose value is directly linked to changes in foreign exchange rates.

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. Exposure to interest rate risk is also measured, managed and monitored using VaR, scenario analysis (to a 1% shock) and interest rate sensitivity gap. 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 statement of financial position 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 2015

All in \$'000's

29 Market Risk continued

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

BANKING GROUP

As at 31 March 2015	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non- interest sensitive	Total
Assets							
Cash on hand and at bank	29,432	-	-	-	-	-	29,432
Funds with financial institutions	51,413	25,902	20,047	510	465	-	98,337
Investment securities	85,481	9,166	15,451	58,578	137,597	-	306,273
Derivative financial instruments	-	-	-	-	-	1,792	1,792
Current tax assets	-	-	-	-	-	-	-
Advances to customers	882,157	157,795	267,992	531,184	552,835	-	2,391,963
Other assets	-	-	-	-	-	34,860	34,860
	1,048,483	192,863	303,490	590,272	690,897	36,652	2,862,657
Liabilities and equity							
Redeemable shares	981,139	454,772	631,600	178,897	43,346	-	2,289,754
Deposits from customers	52,666	76,342	50,582	3,052	2,830	-	185,472
Commercial paper	64,639	-	-	-	-	-	64,639
Due to other financial institutions	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	9,989	9,989
Current tax liabilities	-	-	-	-	-	21	21
Other liabilities	-	-	-	-	-	28,057	28,057
Subordinated redeemable shares	1,540	385	-	-	39,124	-	41,049
Equity	-	-	-	-	-	243,676	243,676
	1,099,984	531,499	682,182	181,949	85,300	281,743	2,862,657
On-balance sheet interest sensitivity gap	(51,501)	(338,636)	(378,692)	408,323	605,597	(245,091)	-
Net balance of derivative financial instruments	1,150,700	(23,750)	(167,500)	(498,750)	(460,700)	-	-
Total interest rate sensitivity gap	1,099,199	(362,386)	(546,192)	(90,427)	144,897	(245,091)	-

PARENT

Assets							
Cash on hand and at bank	26,503	-	-	-	-	-	26,503
Funds with financial institutions	45,905	25,395	20,047	-	-	-	91,347
Investment securities	83,497	9,165	15,451	58,578	137,495	-	304,186
Derivative financial instruments	-	-	-	-	-	1,979	1,979
Current tax assets	-	-	-	-	-	1,170	1,170
Advances to customers	880,467	153,609	251,155	487,000	449,262	-	2,221,493
Loans to subsidiaries	144,865	-	-	-	-	-	144,865
Other assets	-	-	-	-	-	45,451	45,451
	1,181,237	188,169	286,653	545,578	586,757	48,600	2,836,994
Liabilities and equity							
Redeemable shares	987,780	454,772	631,600	178,897	43,346	-	2,296,395
Deposits from customers	52,666	76,342	50,582	3,052	2,830	-	185,472
Commercial paper	64,639	-	-	-	-	-	64,639
Due to other financial institutions	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	10,034	10,034
Other liabilities	-	-	-	-	-	9,486	9,486
Subordinated redeemable shares	1,540	385	-	-	39,124	-	41,049
Equity	-	-	-	-	-	229,919	229,919
	1,106,625	531,499	682,182	181,949	85,300	249,439	2,836,994
On-balance sheet interest sensitivity gap	74,612	(343,330)	(395,529)	363,629	501,457	(200,839)	-
Net balance of derivative financial instruments	1,230,700	(23,750)	(177,500)	(548,750)	(480,700)	-	-
Total interest rate sensitivity gap	1,305,312	(367,080)	(573,029)	(185,121)	20,757	(200,839)	-

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

29 Market Risk continued

BANKING GROUP

As at 31 March 2014	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non- interest sensitive	Total
Assets							
Cash on hand and at bank	17,714	-	-	-	-	-	17,714
Funds with financial institutions	71,197	5,768	15,531	-	214	-	92,710
Investment securities	92,272	-	47,445	32,348	186,620	-	358,685
Derivative financial instruments	-	-	-	-	-	9,589	9,589
Current tax assets	-	-	-	-	-	1,659	1,659
Advances to customers	1,143,015	109,757	189,787	485,417	350,460	-	2,278,436
Other assets	-	-	-	-	-	28,983	28,983
	1,324,198	115,525	252,763	517,765	537,294	40,231	2,787,776
Liabilities and equity							
Redeemable shares	1,114,061	506,923	482,042	118,857	26,872	-	2,248,755
Deposits from customers	57,913	66,654	31,214	7,353	1,673	-	164,807
Commercial paper	44,745	-	-	-	-	-	44,745
Due to other financial institutions	50,178	-	-	-	-	-	50,178
Derivative financial instruments	-	-	-	-	-	1,194	1,194
Other liabilities	-	-	-	-	-	24,877	24,877
Subordinated redeemable shares	14,364	-	2,718	1,925	-	-	19,007
Equity	-	-	-	-	-	234,213	234,213
	1,281,261	573,577	515,974	128,135	28,545	260,284	2,787,776
On-balance sheet interest sensitivity gap	42,937	(458,052)	(263,211)	389,630	508,749	(220,053)	-
Net balance of derivative financial instruments	842,700	71,250	(100,000)	(384,500)	(429,450)	-	-
Total interest rate sensitivity gap	885,637	(386,802)	(363,211)	5,130	79,299	(220,053)	-

PARENT

Assets							
Cash on hand and at bank	14,912	-	-	-	-	-	14,912
Funds with financial institutions	63,733	5,007	15,024	-	-	-	83,764
Investment securities	90,477	-	47,445	32,348	186,620	-	356,890
Derivative financial instruments	-	-	-	-	-	9,589	9,589
Current tax assets	-	-	-	-	-	2,748	2,748
Advances to customers	1,141,224	105,429	174,237	448,364	293,441	-	2,162,695
Loans to subsidiaries	95,300	-	-	-	-	-	95,300
Other assets	-	-	-	-	-	44,148	44,148
	1,405,646	110,436	236,706	480,712	480,061	56,485	2,770,046
Liabilities and equity							
Redeemable shares	1,120,858	506,923	482,042	118,857	26,872	-	2,255,552
Deposits from customers	57,913	66,654	31,214	7,353	1,673	-	164,807
Commercial paper	44,745	-	-	-	-	-	44,745
Due to other financial institutions	50,178	-	-	-	-	-	50,178
Derivative financial instruments	-	-	-	-	-	1,587	1,587
Other liabilities	-	-	-	-	-	7,150	7,150
Subordinated redeemable shares	14,364	-	2,718	1,925	-	-	19,007
Equity	-	-	-	-	-	227,020	227,020
	1,288,058	573,577	515,974	128,135	28,545	235,757	2,770,046
On-balance sheet interest sensitivity gap	117,588	(463,141)	(279,268)	352,577	451,516	(179,272)	-
Net balance of derivative financial instruments	892,700	71,250	(110,000)	(404,500)	(449,450)	-	-
Total interest rate sensitivity gap	1,010,288	(391,891)	(389,268)	(51,923)	2,066	(179,272)	-

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

29 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 as well as a 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	
	31/3/15	31/3/14	31/3/15	31/3/14
Impact on equity of increase or decrease to market interest rates				
100 bp parallel increase	14,897	10,783	13,550	10,108
100 bp parallel decrease	(15,482)	(11,478)	(14,072)	(10,787)
Impact on profit and loss of increase or decrease to market interest rates				
100 bp parallel increase	9	1	9	1
100 bp parallel decrease	7	(1)	7	(1)

30 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 capital ratio of the banking group is not less than 8%;
- Tier 1 capital ratio of the banking group is not less than 6%;
- Common equity tier 1 capital ratio of the banking group is not less than 4.5%;
- Total capital of the banking group is not less than NZ \$30 million.

For regulatory purposes, capital comprises two elements, eligible tier 1 and tier 2 capital, from which certain deductions are made to arrive at regulatory tier 1 and tier 2 capital as documented in the RBNZ's "Capital Adequacy Framework (Standardised Approach)" document (BS2A). Tier 1 capital is divided into two levels. Common equity tier 1 capital consists of retained profits, revenue and similar reserves, less intangible assets, deferred tax assets, cash flow hedge reserve and certain other deductions. Additional tier 1 capital consists of eligible non-controlling interests net of certain deductions. Tier 2 capital includes term subordinated debt and the property, plant and equipment revaluation reserve. 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 assets. Risk weighted assets 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 III "standardised approach" as per BS2A to calculate regulatory capital requirements. Basel III 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.

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 ratios. 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 relevant Banking Group's Conditions of Registration.

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

30 Capital Adequacy continued

		BANKING GROUP		REGISTERED BANK	
		Unaudited 31/3/15	Unaudited 31/3/14	Unaudited 31/3/15	Unaudited 31/3/14
	Minimum ratio requirement				
Regulatory capital ratios					
Common equity tier 1 capital ratio	4.50%	13.73%	13.26%	13.93%	13.66%
Tier 1 capital ratio	6.00%	13.85%	13.39%	13.93%	13.66%
Total capital ratio	8.00%	15.61%	13.69%	14.35%	12.71%
Buffer ratio	2.50%	7.61%	5.69%		

	BANKING GROUP	
	Unaudited 31/3/15	Unaudited 31/3/14
(i) Qualifying capital		
Tier 1 capital		
Common equity tier 1 (CET1) capital		
Retained earnings	221,136	222,400
Current year's retained earnings	18,009	13,915
Acquisition of non-controlling interests	(1,590)	(14,875)
Non-controlling interests present value adjustment	666	(304)
Available for sale assets reserve	3,799	67
Cash flow hedging reserve	(4,161)	7,775
Less deductions from CET1 capital		
Goodwill & intangible assets	(4,941)	(3,993)
Deferred tax assets	(3,433)	(787)
Cash flow hedging reserve	4,161	(7,775)
Total CET1 capital	233,646	216,423
Additional tier 1 (AT1) capital		
Non-controlling interests (net of deductions and surplus AT1 capital)	2,075	1,995
Total AT1 capital	2,075	1,995
Total tier 1 capital	235,721	218,418
Tier 2 capital		
Revaluation reserves	1,559	805
Subordinated redeemable shares	28,365	4,144
Total tier 2 capital	29,924	4,949
Total capital	265,645	223,367

During the year the Bank launched a revised 'SBS Premier Bond' to retail investors. These five year fixed rate bonds are issued continuously as subordinated redeemable shares and rank behind redeemable shareholders, depositors and unsecured creditors of SBS and are subject to loss absorption provisions.

At 31 March 2015 the balance issued was \$38.9 million. After adjustments for potential tax or other offsets, \$28.0 million has been recognised as tier 2 capital for RBNZ capital adequacy purposes. The balance of tier 2 capital relates to subordinated redeemable shares issued in 2010.

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

30 Capital Adequacy continued

(ii) Total risk weighted assets

BANKING GROUP						
	Total exposure after credit risk mitigation		Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement	
	Unaudited 31/3/15		Unaudited 31/3/15	Unaudited 31/3/15	Unaudited 31/3/15	
On balance sheet credit exposures						
Cash	559		0%	-	-	
Public sector entities	47,638		20%	9,528	762	
Banks	233,552		20%	46,710	3,737	
Corporates (rating grade 1)	39,721		20%	7,944	636	
Corporates (rating grade 2)	91,449		50%	45,725	3,658	
Corporates (rating grade 3-4)	19,671		100%	19,671	1,574	
Corporates (rating grade 5)	211		150%	317	25	
Residential mortgages < 80% loan to value ratio (LVR)	1,407,367		35%	492,578	39,406	
Residential mortgages 80 < 90% LVR	107,274		50%	53,637	4,291	
Residential mortgages 90 < 100% LVR	8,655		75%	6,491	519	
Residential mortgages welcome home loans	271,621		50%	135,811	10,865	
Past due residential mortgages	2,395		100%	2,395	192	
Impaired residential mortgages	778		100%	778	62	
Equity holdings	1,240		300%	3,720	298	
Other assets	632,513		100%	632,513	50,601	
Non-risk weighted assets	(1,987)		0%	-	-	
Total on balance sheet credit exposures	2,862,657			1,457,818	116,626	
	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
	Unaudited 31/3/15	Unaudited 31/3/15	Unaudited 31/3/15	Unaudited 31/3/15	Unaudited 31/3/15	Unaudited 31/3/15
Off balance sheet credit exposures						
Commitments with uncertain drawdown	55,610	50%	27,805	62%	17,354	1,388
Commitments to extend credit which can be unconditionally cancelled	208,665	0%	-	0%	-	-
Market related contracts¹						
Interest rate contracts	1,647,950	n/a	8,707	20%	1,741	139
Credit valuation adjustment (CVA)	-	-	-	-	213	17
Total off balance sheet credit exposures	1,912,225		36,512		19,308	1,544
Total credit risk	4,774,882		36,512		1,477,126	118,170
Operational risk	n/a				168,636	13,491
Market risk	n/a				55,966	4,477
Total risk weighted assets	4,774,882				1,701,728	136,138

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 2015

All in \$'000's

30 Capital Adequacy continued

BANKING GROUP					
	Total exposure after credit risk mitigation		Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	Unaudited 31/3/14		Unaudited 31/3/14	Unaudited 31/3/14	Unaudited 31/3/14
On balance sheet credit exposures					
Cash	531		0%	-	-
Public sector entities	86,511		20%	17,302	1,384
Banks	244,796		20%	48,959	3,917
Corporates (rating grade 1)	48,744		20%	9,749	780
Corporates (rating grade 2)	68,072		50%	34,036	2,723
Corporates (rating grade 3)	19,183		100%	19,183	1,535
Residential mortgages < 80% loan to value ratio (LVR)	1,315,032		35%	460,261	36,821
Residential mortgages 80 < 90% LVR	127,163		50%	63,582	5,087
Residential mortgages 90 < 100% LVR	12,602		75%	9,452	756
Residential mortgages welcome home loans	260,077		50%	130,039	10,403
Past due residential mortgages	3,270		100%	3,270	262
Impaired residential mortgages	1,454		100%	1,454	116
Equity holdings	1,271		300%	3,813	305
Other assets	595,500		100%	595,500	47,640
Non-risk weighted assets	3,570		0%	-	-
Total on balance sheet credit exposures	2,787,776			1,396,600	111,729

	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
	Unaudited 31/3/14	Unaudited 31/3/14	Unaudited 31/3/14	Unaudited 31/3/14	Unaudited 31/3/14	Unaudited 31/3/14
Off balance sheet credit exposures						
Commitments with uncertain drawdown	32,373	50%	16,187	62%	10,079	806
Commitments to extend credit which can be unconditionally cancelled	206,911	0%	-	0%	-	-
Market related contracts¹						
Interest rate contracts	1,110,716	n/a	16,818	20%	3,364	269
Credit valuation adjustment (CVA)	-	-	-	-	391	31
Total off balance sheet credit exposures	1,350,000		33,005		13,834	1,106
Total credit risk	4,137,776		33,005		1,410,434	112,835
Operational risk	n/a				170,590	13,647
Market risk	n/a				50,661	4,053
Total risk weighted assets	4,137,776				1,631,685	130,535

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 2015

All in \$'000's

30 Capital Adequacy continued

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

	BANKING GROUP			
	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
	Unaudited 31/3/15	Unaudited 31/3/15	Unaudited 31/3/14	Unaudited 31/3/14
LVR range				
0 - 80%	1,437,321	168,710	1,338,219	175,016
80 - 90%	238,560	3,031	219,641	4,981
90% +	122,209	2,023	161,738	3,711
Total Residential Mortgages	1,798,090	173,764	1,719,598	183,708

Welcome Home Loans make up 93% of the residential mortgages in the 90% + loan to valuation grouping as at 31 March 2015 (31 March 2014 92%) and 55% of the 80-90% loan to valuation grouping (31 March 2014 42%). The Welcome Home Loan product is fully insured by Housing New Zealand Corporation.

(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 9 of the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014 (as amended). 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	
	Unaudited 31/3/15	Unaudited 31/3/14	Unaudited 31/3/15	Unaudited 31/3/14
Interest rate exposures				
Implied risk weighted exposure	55,966	50,661	60,725	64,350
Aggregate capital charge	4,477	4,053	4,858	5,148

(v) Capital for other material risks

Basel III 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:

- Earnings risk - The risk due to uncertainty in future reported earnings arising from adverse changes in the business environment and from adverse business decisions.
- 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.
- 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.
- 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 \$25.0 million to cover these identified risks (31 March 2014 \$22.50 million).

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

31 Concentrations of Funding

	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
(a) Concentrations of funding by geographical location				
North Island	493,074	517,397	493,074	517,397
Canterbury	535,940	561,298	535,940	561,298
Otago	458,150	441,645	458,150	441,645
Southland	865,914	789,694	872,554	796,491
South Island other	174,525	161,297	174,526	161,297
Overseas	53,311	56,161	53,311	56,161
Total concentrations of funding by geographical location	2,580,914	2,527,492	2,587,555	2,534,289
(b) Concentrations of funding by product				
Redeemable shares	2,289,754	2,248,755	2,289,755	2,248,755
Deposits from customers	185,472	164,807	185,472	164,807
Commercial Paper	64,639	44,745	64,639	44,745
Due to other financial institutions	-	50,178	-	50,178
Subordinated redeemable shares	41,049	19,007	41,049	19,007
Due to subsidiary companies	-	-	6,640	6,797
Total concentrations of funding by product	2,580,914	2,527,492	2,587,555	2,534,289

32 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	
	31/3/15	31/3/14	31/3/15	31/3/14
Loans and advances outstanding at beginning of year	2,646	2,179	-	-
Net loans issued/(repaid) during the year	100	467	-	-
Loans and advances outstanding at end of year	2,746	2,646	-	-
Interest income earned on amounts due from related parties	167	132	-	-

	PARENT			
	Directors and other key management personnel		Associated companies	
	31/3/15	31/3/14	31/3/15	31/3/14
Loans and advances outstanding at beginning of year	2,046	1,449	95,300	87,808
Net loans issued/(repaid) during the year	359	597	49,565	7,492
Loans and advances outstanding at end of year	2,405	2,046	144,865	95,300
Interest income earned on amounts due from related parties	140	97	6,758	4,887

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

32 Related Parties continued

Loans and advances with directors and 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 directors and 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 2015 (31 March 2014 \$nil).

(b) Deposits from related parties

	BANKING GROUP			
	Directors and other key management personnel		Associated companies	
	31/3/15	31/3/14	31/3/15	31/3/14
Deposits at beginning of year	11,844	30,529	-	-
Net deposits received during the year	26,970	(18,685)	-	-
Deposits at end of year	38,814	11,844	-	-
Interest expense on amounts due to related parties	823	1,063	-	-

	PARENT			
	Directors and other key management personnel		Associated companies	
	31/3/15	31/3/14	31/3/15	31/3/14
Deposits at beginning of year	11,835	28,510	6,798	5,424
Net deposits received during the year	26,725	(16,675)	(158)	1,374
Deposits at end of year	38,560	11,835	6,640	6,798
Interest expense on amounts due to related parties	816	906	195	183

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

(c) Other transactions with related parties

	Associated Companies			
	BANKING GROUP		PARENT	
	31/3/15	31/3/14	31/3/15	31/3/14
Payments received from/(made to) subsidiaries under interest rate swap agreements	-	-	(43)	331
Net rent paid to subsidiaries	-	-	(499)	(466)
Technology services fees received from subsidiaries	-	-	129	100
Net commission received from subsidiaries	-	-	209	205
Dividends received/receivable from subsidiaries	-	-	2,942	5,726
Fees received from subsidiaries	-	-	1,242	1,530
	-	-	3,980	7,426

During the year ended 31 March 2015, the Banking Group paid \$0.65 million of dividends to non-controlling interests whom were key management personnel (31 March 2014 \$1.33 million).

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.

(d) Key management compensation

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

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

33 Accounting Classifications

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

BANKING GROUP						
As at 31 March 2015	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	-	-	29,432	-	-	29,432
Funds with financial institutions	-	98,337	-	-	-	98,337
Investment securities	847	305,426	-	-	-	306,273
Derivative financial instruments	1,792	-	-	-	-	1,792
Advances to customers	-	-	2,391,963	-	-	2,391,963
	2,639	403,763	2,421,395	-	-	2,827,797
Liabilities						
Redeemable shares	-	-	-	-	2,289,754	2,289,754
Deposits from customers	-	-	-	-	185,472	185,472
Commercial paper	-	-	-	-	64,639	64,639
Due to other financial institutions	-	-	-	-	-	-
Derivative financial instruments	9,989	-	-	-	-	9,989
Subordinated redeemable shares	-	-	-	-	41,049	41,049
	9,989	-	-	-	2,580,914	2,590,903

PARENT						
As at 31 March 2015	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	-	-	26,503	-	-	26,503
Funds with financial institutions	-	91,347	-	-	-	91,347
Investment securities	-	304,186	-	-	-	304,186
Derivative financial instruments	1,979	-	-	-	-	1,979
Advances to customers	-	-	2,221,493	-	-	2,221,493
Loans to subsidiaries	-	-	144,865	-	-	144,865
	1,979	395,533	2,392,861	-	-	2,790,373
Liabilities						
Redeemable shares	-	-	-	-	2,296,395	2,296,395
Deposits from customers	-	-	-	-	185,472	185,472
Commercial paper	-	-	-	-	64,639	64,639
Due to other financial institutions	-	-	-	-	-	-
Derivative financial instruments	10,034	-	-	-	-	10,034
Subordinated redeemable shares	-	-	-	-	41,049	41,049
	10,034	-	-	-	2,587,555	2,597,589

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

33 Accounting Classifications continued

BANKING GROUP

As at 31 March 2014	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	-	-	17,714	-	-	17,714
Funds with financial institutions	-	92,710	-	-	-	92,710
Investment securities	524	358,161	-	-	-	358,685
Derivative financial instruments	9,589	-	-	-	-	9,589
Advances to customers	-	-	2,278,436	-	-	2,278,436
	10,113	450,871	2,296,150	-	-	2,757,134
Liabilities						
Redeemable shares	-	-	-	-	2,248,755	2,248,755
Deposits from customers	-	-	-	-	164,807	164,807
Commercial paper	-	-	-	-	44,745	44,745
Due to other financial institutions	-	-	-	-	50,178	50,178
Derivative financial instruments	1,194	-	-	-	-	1,194
Subordinated redeemable shares	-	-	-	-	19,007	19,007
	1,194	-	-	-	2,527,492	2,528,686

PARENT

As at 31 March 2014	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	-	-	14,912	-	-	14,912
Funds with financial institutions	-	83,764	-	-	-	83,764
Investment securities	-	356,890	-	-	-	356,890
Derivative financial instruments	9,589	-	-	-	-	9,589
Advances to customers	-	-	2,162,695	-	-	2,162,695
Loans to subsidiaries	-	-	95,300	-	-	95,300
	9,589	440,654	2,272,907	-	-	2,723,150
Liabilities						
Redeemable shares	-	-	-	-	2,255,552	2,255,552
Deposits from customers	-	-	-	-	164,807	164,807
Commercial paper	-	-	-	-	44,745	44,745
Due to other financial institutions	-	-	-	-	50,178	50,178
Derivative financial instruments	1,587	-	-	-	-	1,587
Subordinated redeemable shares	-	-	-	-	19,007	19,007
	1,587	-	-	-	2,534,289	2,535,876

Notes to the Financial Statements for the year ended 31 March 2015

All in \$'000's

34 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.

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.

	31/3/15	31/3/14
Funds under management on behalf of customers	536,700	442,150

Securitised assets

As at 31 March 2015, the Banking Group had securitised assets amounting to \$264 million (31 March 2014 \$187 million). These assets have been sold to 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), 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.

The SBS Oreti Trust No. 2 is an in-house residential mortgage backed securities (RMBS) facility that can issue securities that meet the RBNZ criteria to use as collateral in repurchase transactions with the RBNZ. The facility provides the Bank with additional contingent funding from the RBNZ. Further information on liquidity is provided in Note 27.

Insurance business

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

The total assets of Southsure Assurance Limited as at 31 March 2015 are \$14.8 million (31 March 2014 \$12.7 million) which is 0.5% of the total assets of the Banking Group (31 March 2014 0.5%). 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 27 to 29.

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.

35 Subsequent Events

There have been no material subsequent events after 31 March 2015.

To the Members of Southland Building Society

Report on the Bank and Banking Group Disclosure Statement

We have audited the accompanying financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy) of Southland Building Society (the "Bank") and its subsidiaries (the "Banking Group") on pages 9 to 65 of the Disclosure Statement. The financial statements comprise the statements of financial position as at 31 March 2015, the income statements, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information of the Bank and Banking Group. The supplementary information comprises the information that is required to be disclosed in accordance with Schedules 4, 7, 9, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

Directors' Responsibility for the Disclosure Statement

The directors are responsible for the preparation of the Disclosure Statement, including financial statements prepared in accordance with Clause 24 of the Order and generally accepted accounting practice in New Zealand, and that is a fair presentation 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 Bank and Banking Group's financial statements that are free from material misstatement whether due to fraud or error.

The directors are responsible for the preparation and fair presentation of supplementary information (excluding supplementary information relating to Capital Adequacy), in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order.

Auditor's Responsibility

Our responsibility is to express an opinion on the Disclosure Statement, including the financial statements prepared in accordance with Clause 24 of the Order and the supplementary information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order. 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 Bank and Banking Group's financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Bank and Banking Group's financial statements (excluding supplementary information relating to Capital Adequacy). The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Bank's preparation of the financial statements that present fairly 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'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 financial statements.

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 the form of taxation and IT advisory services. Subject to certain restrictions 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 Bank and Banking Group. 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 on Disclosure Statement

In our opinion the Disclosure Statement of the Bank and Banking Group on pages 9 to 65 (excluding supplementary information):

- complies with generally accepted accounting practice in New Zealand;
- complies with International Financial Reporting Standards; and
- presents fairly, in all material respects, the financial position as at 31 March 2015 and of its financial performance and cash flows for the year ended on that date.

Opinion on Supplementary Information (excluding supplementary information relating to Capital Adequacy)

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order, and is included within notes 12, 13, 27, 28, 29 and 34 of the 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;
- is in accordance with the books and records of the Bank and Banking Group in all material respects; and
- fairly states the matters to which it relates in accordance with those Schedules.



Review Report on the Supplementary Information relating to Capital Adequacy

We have reviewed the Capital Adequacy information, as disclosed in note 30 of the Disclosure Statement for the year ended 31 March 2015.

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 9 of the Order and prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) and described in note 30 of the Disclosure Statement.

Auditor's Responsibility

Our responsibility is to express an opinion on the Capital Adequacy information based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* issued by the New Zealand External Reporting Board. As the auditor of the Bank and Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements and plan and perform the review to obtain limited assurance about whether the Capital Adequacy information is, in all material respects:

- prepared in accordance with the Bank's Conditions of Registration;
- prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A); and
- disclosed in accordance with Schedule 9 of the Order.

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.

Review Opinion on the Supplementary Information relating to Capital Adequacy

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 30 of the Disclosure Statement, is not, in all material respects:

- prepared in accordance with the Bank's Conditions of Registration;
- prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A); and
- disclosed in accordance with Schedule 9 of the Order.

3 June 2015

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 – 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

Cnr Market & Main Streets
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

36 Spring Street
PO Box 13020
Telephone: 07 578 9217
Fax: 07 578 9219

SBS Bank Rural – Invercargill

66 Don Street
PO Box 835
Telephone: 0800 727 2265
Fax: 0508 526 363

HBS Bank

Hastings

Cnr Queen & Market Streets
PO Box 10
Telephone: 0800 727 2265
Fax: 06 878 9631

Napier

97 Dalton Street
PO Box 1041
Telephone: 0800 727 2265
Fax: 06 835 4471

Havelock North

1 Napier Road
PO Box 8604
Telephone: 0800 727 2265
Fax: 06 877 3902





To view this Disclosure Statement online go to sbsbank.co.nz

