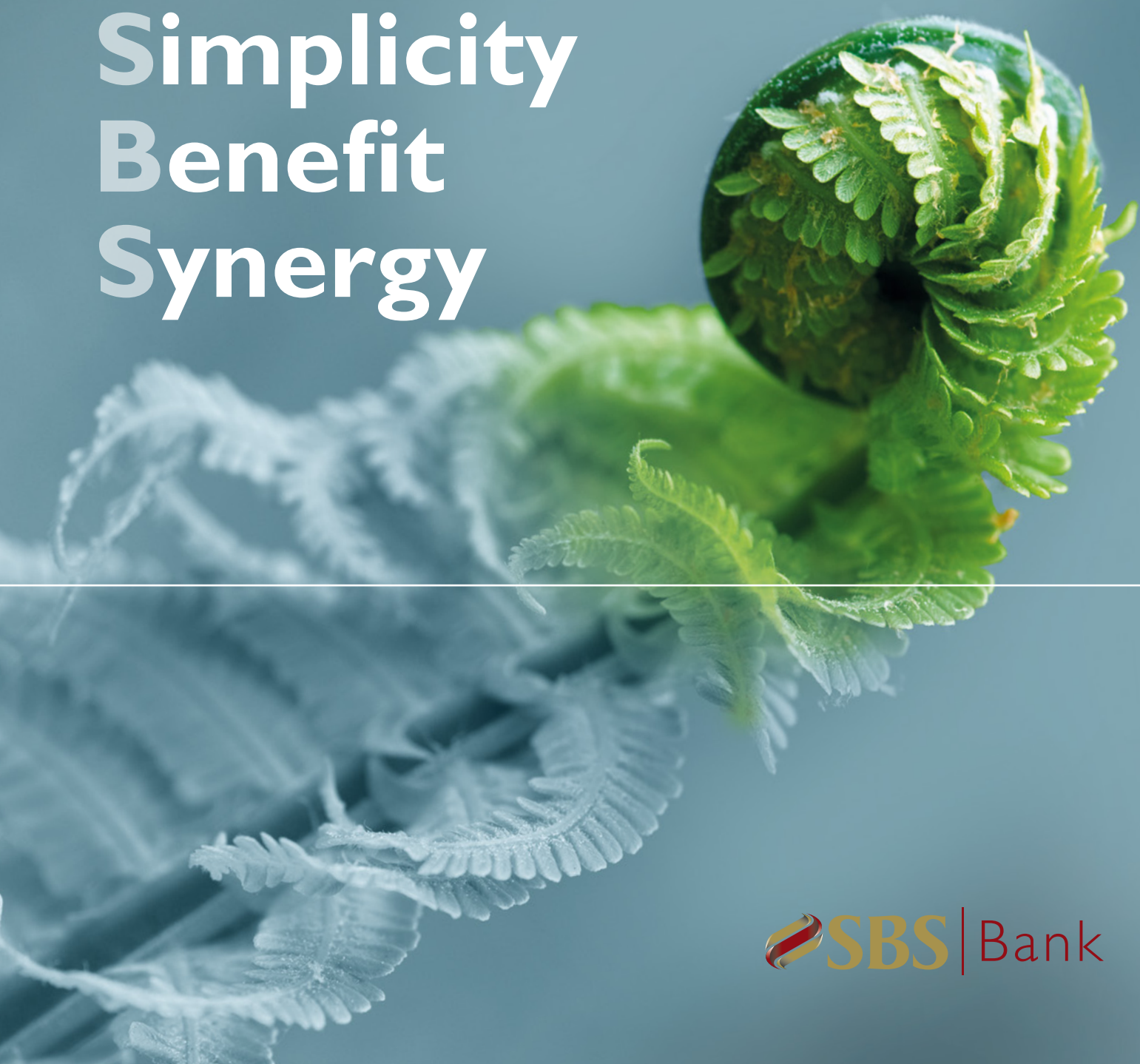


Southland Building Society | 46th Annual Report and Financial Summary **2015**

Simplicity Benefit Synergy



Our vision is to be

New Zealand's Member Bank



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Chairman's Report

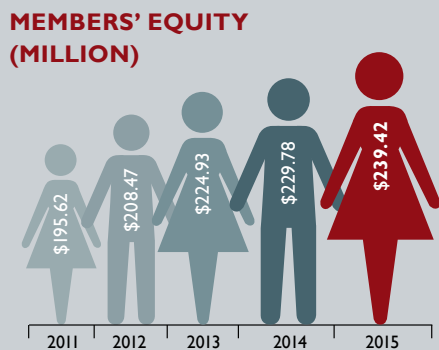
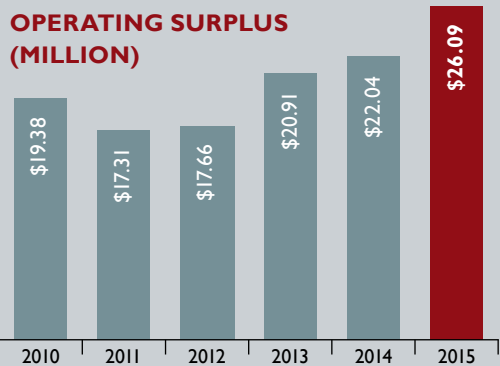
Welcome to the SBS Bank Annual Report which is based on the financial year ended 31 March 2015. It is pleasing to record a strong performance in what has been an extremely competitive market, especially in the residential lending sector.

A founding shareholder and Director of subsidiary company Finance Now Ltd, Wayne's industry experience, strategic insight and leadership capability made him a worthy choice for the role. We are very pleased with the progress Wayne and his Executive group are making and

on ways to further align our philosophy with tangible member benefits. Our reaffirmed focus ensures profits remain within the bank to support future growth and to provide you all with real and compelling reasons to continue your relationship with SBS Bank.



SBS Chairman, John Ward.



“While our business has continued to grow in the financial year, our strategic plan is to make SBS simpler, easier to do business with, and more focused on serving the needs of our members.”

John Ward, SBS Bank Chairman.

The operating surplus of \$26.1 million exceeded the 2014 result of \$22.0 million by 18.3%. Pleasingly, this result factored in solid contributions across the Group with all business units performing well. Our competitive interest rates resulted in increased residential lending with our advances having increased 5% on the previous year to \$2.39 billion. Our subsidiaries, which are strategically placed in the consumer finance, wealth management and insurance sectors, all made meaningful contributions to the group result.

There have been significant changes both in personnel and at an operational basis since our last report. At the 2014 Annual General Meeting we announced that Chief Executive Ross Smith was stepping aside from that role. His service and commitment to SBS over many years has been duly acknowledged. To facilitate a replacement, your Directors implemented an independent executive search process with the outcome being the appointment of Wayne Evans as Group Chief Executive Officer, effective from 1 August 2014.

their rejuvenated focus on strategy and direction. We also welcomed Mike Skilling to the Board following his appointment as a Director in August 2014. Mike has extensive banking experience at a high level and the fact that he resides in the Auckland region has also been most helpful as we quietly move into this geographic area.

As a board we recognise the need to understand our members and we are endeavouring to become more pragmatic and visible, while still adopting a philosophical approach to membership value. Our Executive are concentrating intently

While our business has continued to grow in the financial year, our strategic plan is to make SBS simpler, easier to do business with, and more focused on serving the needs of our members. In doing so we will maintain the strong momentum generated in recent times.

I acknowledge the contribution of all Directors to what has been a challenging but productive year and, personally too, I thank them for their support that they have given to our Executive and myself.

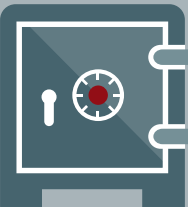
CEO's Report

August 2014 saw the SBS Bank Board appoint me as your Group CEO and assume the reins of a uniquely successful organisation. SBS has always had a fond place in my heart and I'm proud to be leading a member-owned society, steeped in rich history with a truly Kiwi culture and a dynamic future ahead.

of our products, services and processes. We will generate greater benefit (value) to our members with genuine and tangible reasons for banking with SBS. We will compete successfully and flourish in a competitive industry utilising the collective strengths and talents of the SBS Group.

we generate for our current members while attracting and retaining the next generation of members. To achieve this we have initiated a number of important streams of work. We will enhance the capability and engagement of our people, expand our range of channels, products

CAPITAL ADEQUACY



15.6%
(Regulatory minimum 8%)

NET SURPLUS

\$19.4
MILLION

RETAIL DEPOSITS

\$2.52
BILLION

MEMBERS' REBATES

We've given back more than \$1 million to our members in rebates over the past year.



“Looking forward, we are embarking on a journey to transform SBS to enhance the value we generate for our current members while attracting and retaining the next generation of members.”

Wayne Evans, SBS Group CEO.

SBS Group CEO, Wayne Evans.

After getting to know the team, one of my first tasks was to complete a strategic review of the SBS Group to understand the dynamics of the industry - both internationally and domestically, the regulatory and competitive environment, SBS's historical performance, along with the influence of technology and, most importantly, the changing expectations of the Society from its members.

With the clarity this review provided and in consultation with the Board and Executive, a roadmap for SBS's future has been developed.

The starting point for the next stage in our journey is our vision to be *New Zealand's Member Bank*. Our history of generating value for our members provides the foundation for a successful future. Uniquely, our customers are our shareholders; a difference that will become a powerful competitive advantage in the years to come.

To turn our Member Bank vision into reality, we will be guided by three key themes: Simplicity, Benefit and Synergy. We will create a more responsive, nimble bank through the simplification

The Group experienced a tidal change over the past 12 months with rising inflation expectations, appreciating interest rates and margins replaced with moderating economic conditions and falling rates. In a similar fashion, early portfolio declines have been replaced with solid asset growth for the Group, achieved in the face of a pronounced increase in competitive intensity. Despite this volatility, our operating surplus, total assets and members' equity saw very pleasing growth.

Looking forward, we are embarking on a journey to transform SBS to enhance the value

and services, embrace mobile and digital capability and reinvigorate our brand.

I am grateful for the warm welcome I have received from the SBS and subsidiary teams, our many clients and the members I have been fortunate to meet. All have been free with compliments regarding the difference SBS has made to their lives and their community over many years.

The future for SBS is bright and I look forward to leading this proud organisation into the next exciting chapter of a wonderful story.

Members

As a Building Society, our investors and borrowers can become a member of SBS Bank when they do business with us. Essentially it is an unlooked for legal outcome, rather than a choice, to join SBS Bank. While this is an important element of our mutuality and our history, as we move forward membership will have a deeper and more meaningful definition.

By understanding what our members want and expect from a financial partner we can build broader, deeper and more enduring relationships, delivering long-term benefits. Membership and the benefit it creates has been our history and it will define us as we proudly move forward as New Zealand's Member Bank.

Membership is about choice, brand association and loyalty. It is something that should generate pride, recognition, shared value and, most importantly, benefit.

By working together, SBS, Finance Now, FANZ and Southsure can take advantage of our collective strengths to achieve better economies of scale and to provide benefits to our members, based on the length and depth of their relationship with the SBS Group.

Our staff have commenced work to define, create and introduce products and services which provide greater value to our members. Like the

highly publicised, Member Exclusive 4.99%p.a. home loan offer and our earlier CEO Offer which, for the first time, saw the SBS Group collectively provide members with a range of discounts and preferential pricing on home loans, personal loans, investments and insurances.

We recognise the needs of members are evolving. By working together in a cohesive, unified manner to become more capable, accessible and flexible, the SBS Group will successfully meet the needs of members in the years and generations to come.

To turn our Member Bank vision into reality, we will be guided by three key themes: ***Simplicity, Benefit and Synergy.***

Simplicity

Through the simplification of our products, services and processes we will create a nimble bank which is more responsive to your needs.

Benefit

By generating greater benefit (value) to our members with genuine and tangible reasons for banking with SBS.

Synergy

By utilising the collective strengths and talents of the wider SBS Group, we will compete successfully and flourish in a highly competitive industry.

Team Members

The needs of our members are at the heart of our vision to become *New Zealand's Member Bank*. Our goal is to excel in delivering positive, rewarding and memorable experiences for our members. In order to do that we need to ensure our staff are fully equipped with the best resources and tools available.



Finance Now
Phil Ellison *Chief Executive*

Southsure Insurance
David Newman *Chief Executive*

FANZ
Graham Duston *Executive Director*



Our Regional and National Retail Managers
Left to right: Michael Oliver, Regional Manager Southern, Peter Garland, Regional Manager Northern, Christina Scott, National Manager Member Contact Centre, Matthew Isbister, National Manager Mobile & Alliances, James Tufui, National Manager Intermediaries.

Our Executive Team
Sitting left to right: Tim Loan, Chief Financial Officer, Wayne Evans, Group CEO, Standing left to right: Mark McLean, Chief Risk & Innovation Officer, Richard Hutton, Chief Digital & IT Officer, Hamish McKenzie, General Manager People & Support, Jared Stockman, General Manager Agribusiness & Commercial, Phil Jamieson, General Manager Strategy & Marketing.

To provide our teams with increased support and leadership, a number of our senior management roles have changed; GM Strategy and Marketing – responsible for strategy, marketing, products, business intelligence and communications, GM Agribusiness and Commercial – responsible for our rural and commercial portfolios and Chief Digital and IT Officer - responsible for driving our digital and IT capability. The previous roles of GM Finance and GM Risk and IT have been retitled to Chief Financial Officer and Chief Risk and Innovation Officer respectively. This stronger

alignment of internal capability and enhanced engagement will allow SBS to respond, more rapidly, to ever-evolving member and market demands. We have focussed on investing in, and enabling, our team to operate more effectively and efficiently with members across a number of different channels. In June 2013 SBS Bank launched its biggest investment in staff training. Over the past 12 months, this training has intensified. Our retail staff are the leaders of our service experience within SBS and set the tone in which we interact with our members, so ensuring they're armed

with both functional and technical training and resources is a must. To provide our members with better access to our lending services, we've introduced a fleet of Mobile Mortgage Managers in Auckland and Christchurch. These mobile staff are able to meet members on their terms; day and night, weekdays and weekends and in most cases, can provide instant approval, allowing members to continue with buying their next home or business. The recent joint venture between FANZ and Staples Rodway has also allowed SBS greater coverage in the Wealth Management sector. With a 50% shareholding in Staples Rodway Asset Management, SBS will look to add value and lower costs for investors by utilising our current existing size capability and scale. Over the next 12 months, we'll continue to invest heavily in our brand and digital capability. We will also continue to refresh our products and services to ensure they continue to deliver great value and to ensure members are better off by banking with SBS.

Strategy

We have made significant progress towards achieving our vision to become *New Zealand's Member Bank* and this focus will only intensify over the next year.

The member bank proposition offers SBS Bank a unique opportunity. By redefining our purpose we can start to cement our place in the world. Membership has been our history and it will define us for future generations.

We will improve our performance by increasing the productivity of our assets, processes and operations. By becoming an efficient and effective financial partner we can make banking better by saving time and money for our members.

Our vision will be achieved by keeping the themes of Simplicity, Benefit and Synergy at the heart of everything we do. We'll create benefits through our financial products and superior service while ensuring it's easy and accessible to use those services. Coupled with benefits which grow over time to reflect the depth of loyalty, we will become more relevant and significant in our members' lives.

Our strategy also involves an organisational response to the rapid pace of technological and behavioural change. We will invest in a capital expenditure programme focussed on increasing

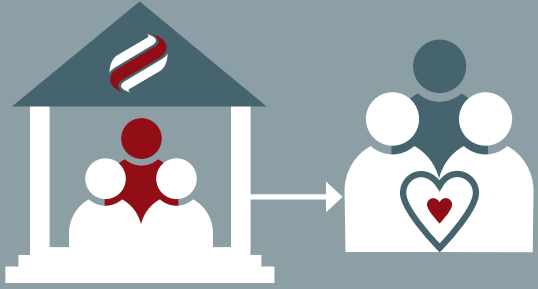
and strengthening our reliability and capability through a technology and branch network upgrade and refresh.

In particular, the growing use of mobile devices is driving and influencing trends in the market-place. We will improve our offering to members by understanding the possibilities these shifts offer and how they can be used to deliver and design smarter products and services.

We exist for our members and over the next 12 months our aim is to ensure our members are better off each and every time they interact with us.

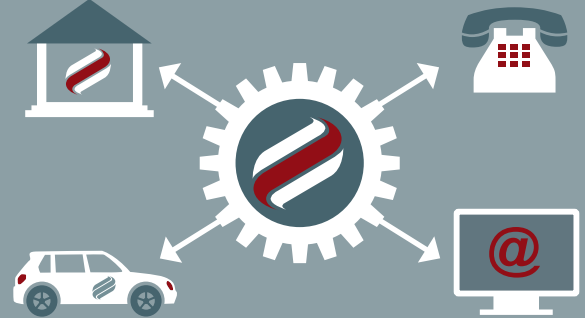
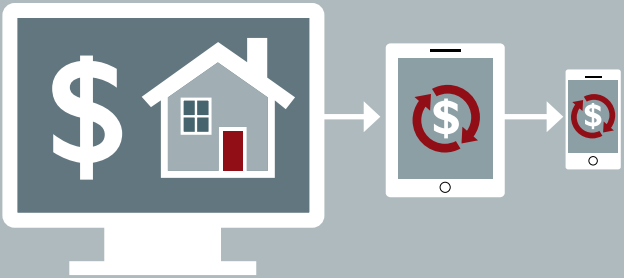
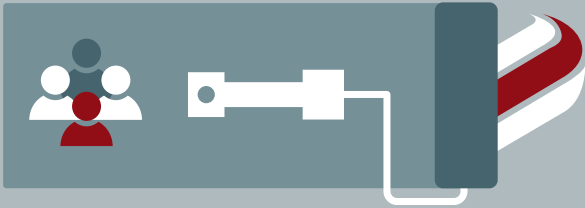
TEAM MEMBER ADVOCACY AND CAPABILITY

We will continue to empower and support our people in their roles. Enhancing the capability of our staff improves the delivery of service our members receive. By ensuring staff feel rewarded in a workplace they are proud of we will create memorable experiences for members, each and every time they interact with us.



MEMBER GROUP ENGAGEMENT

We will invigorate our brand to appeal to current members, emerging generations and potential SBS Bank members. While this will include the 'look and feel' of our brand, part of this refresh will be focussed on realigning our products and services to that of a 'member bank'. This will come in the form of real and tangible benefits for our members.



BANKING AUTOMATION

We will build on our strong foundations for long-term sustainable growth by continuously investing in our capital infrastructure to support the requirements of both the Bank and our members. Through the introduction of new technology, members will be able to increasingly complete their banking on the go or in the comfort of their own home.

OPTIMISE MEMBER BANKING DISTRIBUTION

We will strengthen our retail, mobile, Agri and Commercial businesses to ensure we can respond to evolving customer needs. This means increasing the range of products and services we provide, delivered through a variety of physical and digital channels.

The Board

John Ward B.Com, FCA, CFInstD (Chairman)

A chartered accountant, Mr Ward was appointed Chairman in 2012. He is Chairman of H & J Smith Holdings Ltd, the A J Hackett Bungy Group, Otago Innovation Ltd and is a director of various private companies. He chairs the Transport for Disabled Trust (Southland), is a Chartered Fellow of the New Zealand Institute of Directors, a Fellow of the Institute of Chartered Accountants and is a trustee for a number of charitable trusts. Mr Ward is also the Chancellor of the University of Otago and President of the Otago Cricket Association.

Chairman: SBS, Finance Now Ltd and Board Appointment Committee.
Member: Audit and Risk Committee and Remuneration Committee.
Trustee: SBS Charitable Trust.

Jeff Walker LLB (Deputy Chairman)

Mr Walker, a practising barrister and solicitor in Invercargill, was elected to the board in 1998. He was a member of Southland District Law Society Council from 1991 until 2009 when he retired as past president. Mr Walker is both a past president and a life member of Relationships Aotearoa. He is president of Football South, Southland Football Inc, Southland WEA and FWEA.

Chairman: Funds Administration New Zealand Ltd.
Member: IT Committee and Board Appointment Committee.

Mike Skilling BAgrSci, PGDipBank

Mr Skilling joined the board in August 2014. He has in-depth experience in retail, private, rural and business banking together with insurance, managed funds and finance companies. Mr Skilling is a director of six boards - three large-scale farming enterprises, a motor vehicle importer and financier, an investment house rental business and a finance company. He was a founding director of The ICEHOUSE and Board Member and Trustee for eight years. He has been a judge of the Auckland Business Awards and the Indian Business Awards. He is a senior fellow of FINSIA (Financial Services Institute of Australasia) and a chartered member of the NZ Institute of Directors.

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

A registered valuer, Mr Spencer joined the board in November 2010, following the merger of HBS with SBS Bank. Mr Spencer was appointed to the Hastings Building Society board as a director in 2001 and became chairman in 2008. The managing director of Logan Stone Ltd, Mr Spencer has expertise in real property and commerce and provides property advice to a broad range of clients. He is active in the Hawke's Bay business community and is a Fellow of both the New Zealand Institute of Valuers and the Property Institute of New Zealand, a member of the Institute of Directors and an Associate of the Real Estate Institute of New Zealand.

Chairman: Southsure Assurance Ltd.



Greg Mulvey B.Com, FCA, FNZIM

The Invercargill Licensing Trust's general manager for more than two decades, Mr Mulvey joined the board of SBS Bank in 2004. He is a fellow of the New Zealand Institute of Chartered Accountants (FCA) and a fellow of the New Zealand Institute of Management. A director of DB South Island Brewery Ltd, Mr Mulvey is also a trustee of the Stadium Southland Charitable Trust.

Chairman: Remuneration Committee and IT Committee.
Director: Funds Administration New Zealand Ltd.
Member: Audit and Risk Committee.
Trustee: SBS Charitable Trust.

Kathryn Ball B.Com, FCA, CMInstD

Mrs Ball, a practising chartered accountant and taxation specialist, was appointed to the board of SBS Bank in April 2006. She is a principal in Invercargill accounting firm McIntyre Dick & Partners Ltd and a Fellow of the New Zealand Institute of Chartered Accountants. Kathryn is a Chartered Member of the Institute of Directors and a member of the Otago Southland Branch Committee of the IOD. Prior to becoming a director of SBS, Mrs Ball had been the independent representative on SBS Bank's audit committee and she was a member of the SIT council until December 2005, serving periods as deputy chairwoman and the audit and finance committee's chairwoman.

Chairperson: Audit and Risk Committee.
Member: Board Appointment Committee.
Trustee: SBS Charitable Trust.

Jeff Grant

Mr Grant, in partnership with his wife Julia, farms sheep, beef and deer at Balfour. He joined the board of SBS Bank in 2007. Formerly a Member of Parliament from 1987 to 1993, Mr Grant has been involved in agribusiness directorships with a range of companies and organisations since 1994, including Landcorp, Wrightson and Beef and Lamb NZ. Mr Grant was previously chairman of the NZ Meat Board and Meat and Wool NZ. He is the chairman of the Milford Sound Development Authority, Southland Shared Services, OSPRI and Mt Linton Station. He is also a Director of AgResearch and a Board member of the Southern Institute of Technology (SIT).

Director: Finance Now Ltd.
Member: Audit and Risk Committee, Board Appointment Committee, and Remuneration Committee.
Trustee: SBS Charitable Trust.

Alec Neill LLB

A solicitor with Lane Neave Lawyers in Christchurch, specialising in commercial and property law, Mr Neill was appointed to the SBS Bank Board in 2012. He is a registered Resource Consents Hearing Commissioner, and recently was a member of the Board of Enquiry considering the Ruataniwha Irrigation Scheme consent application in the Hawke's Bay. Mr Neill was a former partner in Oamaru-based law firm, Berry & Co, before becoming an elected Member of Parliament for Waitaki in 1990. He also spent seven years as an elected councillor on the Canterbury Regional Council.

SOUTHLAND BUILDING SOCIETY: SUMMARY FINANCIAL STATEMENTS

Summary Income Statement – Banking Group for the year ended 31 March 2015

	31/3/15 \$000	31/3/14 \$000
Interest income	183,307	169,936
Interest expense	11,142	11,524
Dividends on redeemable shares	91,100	88,970
	102,242	100,494
Net interest income	81,065	69,442
Other income	25,525	21,368
Total operating income	106,590	90,810
Operating expenses	68,331	58,237
Provision for credit impairment	12,173	10,529
Operating surplus	26,086	22,044
Net gain/(loss) from financial instruments designated at fair value	(46)	(706)
Share of associates profit net of tax	515	-
Revaluation of property	-	46
Revaluation of investment properties	-	(200)
Surplus before income tax	26,555	21,184
Less income tax expense	7,118	5,545
Net surplus	19,437	15,639
Attributable to:		
Members' interests	18,009	13,915
Non-controlling interests	1,428	1,724
	19,437	15,639

Summary Statement of Comprehensive Income – Banking Group for the year ended 31 March 2015

Net surplus for the year	19,437	15,639
Other comprehensive income		
Net change in reserves, net of tax	(7,508)	6,206
Total comprehensive income for the year	11,929	21,845
Attributable to:		
Members' interests	10,544	20,046
Non-controlling interests	1,385	1,799
	11,929	21,845

Summary Statement of Changes in Equity – Banking Group for the year ended 31 March 2015

Equity at beginning of the year	234,213	231,590
Net surplus for the year	19,437	15,639
Other comprehensive income for the year	(7,508)	6,206
Total comprehensive income for the year	11,929	21,845
Dividends	(652)	(1,334)
Change in capital of non-controlling interests	(1,814)	(17,888)
Total equity at end of the year	243,676	234,213
Equity represented by:		
Revaluation reserves	1,197	8,647
Retained earnings	238,221	221,136
Total equity attributable to member's interests	239,418	229,783
Non-controlling interests	4,258	4,430
Total equity at end of the year	243,676	234,213

SOUTHLAND BUILDING SOCIETY: SUMMARY FINANCIAL STATEMENTS

Summary Statement of Financial Position – Banking Group as at 31 March 2015

	31/3/15 \$000	31/3/14 \$000
Assets		
Liquid assets and securities	434,042	469,109
Advances to customers	2,391,963	2,278,436
Other assets	36,652	40,231
	2,862,657	2,787,776
Liabilities		
Redeemable shares	2,289,754	2,248,755
Deposits from customers	185,472	164,807
Commercial paper	64,639	44,745
Subordinated redeemable shares	41,049	19,007
Other liabilities	38,067	76,249
	2,618,981	2,553,563
Equity		
Attributable to members of the society	239,418	229,783
Attributable to non-controlling interests	4,258	4,430
	243,676	234,213

Summary Statement of Cash Flows – Banking Group for the year ended 31 March 2015

Net cash flows provided by/(used in) operating activities	(32,329)	(73,215)
Net cash flows provided by/(used in) investing activities	52,599	30,324
Net cash flows provided by/(used in) financing activities	(3,132)	(12,336)
Net increase/(decrease) in cash held	17,138	(55,227)
Add opening cash and cash equivalents	109,759	164,986
Closing cash and cash equivalents	126,897	109,759

Chairman
J F Ward

Director
K J Ball

3 June 2015

I Accounting Policies

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

These summary financial statements have been prepared in compliance with FRS-43: *Summary Financial Statements* and comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as it relates to summary financial statements. The specific disclosures included in the summary financial statements have been extracted from the full financial statements dated 3 June 2015. The full financial statements from which the summary financial statements have been produced have been audited by KPMG, who expressed an unmodified opinion in relation to those financial statements as at 3 June 2015. These summary financial statements have been examined by KPMG for consistency with the full financial statements.

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

Users who require additional information are encouraged to access the SBS Disclosure Statement and Annual Financial Statements on the SBS website at www.sbsbank.co.nz. Alternatively a hard copy of the SBS Disclosure Statement and Annual Financial Statements can be requested by any person and will be dispatched within two working days after the day on which the request is made at no charge.

The full financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013 and under NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities and the Registered Bank Disclosure Statements (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).

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

During the year, the Banking Group acquired a 25% indirect shareholding in Abbott Insurance Brokers Ltd via its subsidiary, Southsure Assurance Ltd and a 50% indirect shareholding in Staples Rodway Asset Management Limited (SRAM) via its subsidiary, Funds Administration New Zealand Ltd. These investments are accounted for under new accounting policies adopted by the Banking Group as an associate and joint venture respectively. There have been no other changes in accounting policies and all other accounting policies adopted are consistent with those used in previous periods. To ensure consistency with the current period, comparative figures have been restated where appropriate.

2 Critical Estimates and Judgements Used in Applying Accounting Policies

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

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

3 Risk Management Policies

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

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. In addition SBS has specific policies in relation to liquidity and capital management that contain trigger points at which Board involvement is required. The following committees also report into the Board.

Audit and Risk Committee – responsible for overseeing the effectiveness and integrity of the internal control environment and the quality of financial information presented to the Board;

Lending Committee – responsible for reviewing and approving all lending proposals in excess of \$5 million;

Asset and Liability Committee (ALCO) – responsible for all aspects of balance sheet risk management and strategy including interest rate, liquidity, funding, credit and margin;

Credit Risk Committee (CRC) – responsible for monitoring and reviewing exposure to credit risks in SBS's lending portfolios;

Operational Risk Committee (ORC) – responsible for monitoring and reviewing exposure to operational risks arising from SBS's day to day activities;

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 been carried out by the Dunedin based firm of Chartered Accountants, Deloitte;

IT Committee – responsible for monitoring and reviewing risks associated with IT and for formulating and developing SBS's IT strategy.

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.

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. This also meets the RBNZ liquidity policy requirements.

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.

4 Advances – Banking Group

	31/3/15 \$000	31/3/14 \$000
Gross advances	2,410,236	2,300,036
Provisions for credit impairment	(17,981)	(20,807)
Deferred fee revenue and expenses	(292)	(793)
Total net advances	2,391,963	2,278,436

5 Provision for Credit Impairment – Banking Group

	31/3/15 \$000	31/3/14 \$000
Individual provisions against advances and loans		
Balance at beginning of the year	10,008	14,912
New provisions during the year	7,226	6,388
Balances written off / recoveries during the year	(11,012)	(11,292)
Recoveries / reversals of previously recognised provision	(396)	-
Balance at end of the year	5,826	10,008
Collective provisions against advances and loans		
Balance at beginning of the year	10,799	9,371
Charged to income statement	1,356	238
Acquired on acquisition of loan portfolio	-	1,190
Balance at end of the year	12,155	10,799
Total provisions for credit impairment	17,981	20,807
Reconciliation of provision movements		
Bad debts written off during the year	3,591	3,903
Individual provisions	7,226	6,388
Collective provision	1,356	238
Provision for credit impairment to income statement	12,173	10,529

6 Asset Quality – Banking Group

	31/3/15 \$000	31/3/14 \$000
Advances to customers		
Neither past due or impaired	2,332,758	2,234,844
Individually impaired	12,921	20,247
Past due	64,265	44,152
Provision for credit impairment	(17,981)	(20,807)
Total carrying amount	2,391,963	2,278,436

7 Liquidity Risk - Banking Group

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

Contractual Maturity Profile	31/3/15			31/3/14		
	Current Assets \$000	Non-current Assets \$000	Total \$000	Current Assets \$000	Non-current Assets \$000	Total \$000
Assets						
Advances	173,079	2,218,884	2,391,963	194,968	2,083,468	2,278,436
Liquid assets and securities	201,859	232,183	434,042	194,824	274,285	469,109
Other monetary assets	2,763	-	2,763	3,650	-	3,650
	377,701	2,451,067	2,828,768	393,442	2,357,753	2,751,195
	Current Liabilities \$000	Non-current Liabilities \$000	Total \$000	Current Liabilities \$000	Non-current Liabilities \$000	Total \$000
Liabilities						
Redeemable shares	2,067,511	222,243	2,289,754	2,103,027	145,728	2,248,755
Other deposits	244,229	5,882	250,111	200,526	9,026	209,552
Subordinated redeemable shares	1,925	39,124	41,049	17,082	1,925	19,007
Other monetary liabilities	16,133	-	16,133	15,774	50,178	65,952
	2,329,798	267,249	2,597,047	2,336,409	206,857	2,543,266
Net derivative cash flows	(4,411)	(3,620)	(8,031)	(5,061)	(4,519)	(9,580)
Unrecognised loan commitments	55,610	-	55,610	32,373	-	32,373

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

	31/3/15 \$000	31/3/14 \$000
Asset liquidity	434,042	469,109
Committed and undrawn funding lines	50,500	500
Eligible RMBS collateral (less haircut*)	135,302	74,705
Total liquidity	619,844	544,314

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

8 Capital Adequacy

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

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

- Total capital ratio of the banking group is not less than 8%
- Tier I capital ratio of the banking group is not less than 6%
- Common equity tier I 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.

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 methodology as per the RBNZ’s “Capital Adequacy Framework (Standardised Approach)” (BS2A) document 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.

	Minimum ratio requirement	31/3/15 Unaudited	31/3/14 Unaudited
Regulatory Capital Ratios			
Common equity tier I capital ratio	4.50%	13.73%	13.26%
Tier I capital ratio	6.00%	13.85%	13.39%
Total capital ratio	8.00%	15.61%	13.69%
Buffer ratio	2.50%	7.61%	5.69%

9 Directors Fees	31/3/15 \$000	31/3/14 \$000
Amounts received, or due and receivable by directors:		
JF Ward (Chairman)	133	127
JB Walker (Deputy Chairman)	86	81
KJ Ball	70	68
GJ Mulvey	63	62
JJ Grant	63	62
FE Spencer	70	68
AG Neill	64	62
MJ Skilling (appointed August 2014)	43	-
RL Smith*	-	-
	592	530
Provision for directors retiring allowance	51	48
	643	578

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

10 Investments in Subsidiaries, Associates and Joint Ventures

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.

On 1 July 2014, the Bank increased its shareholding in its subsidiary Finance Now Ltd (FNL) from 85% to 90%.

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.

As at 31 March 2015, total investments in associates and joint ventures recognised by the Banking Group was \$5.0 million. Further information on investments in subsidiaries, associates and joint ventures is set out in the full financial statements.

11 Subsequent Events

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

Independent Auditor’s Report on the Summary Financial Statements



To the Members of Southland Building Society

The accompanying summary financial statements on pages 14 to 21, which comprise the summary statements of financial position as at 31 March 2015, the summary income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended and notes, are derived from the audited financial statements of Southland Building Society (“the Bank”) and its subsidiaries (“the Banking Group”) for the year ended 31 March 2015. We expressed an unmodified audit opinion on those financial statements in our audit report dated 3 June 2015.

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

Directors’ Responsibility for the Bank and Group Financial Statements

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

Auditor’s Responsibility

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

Our firm has also provided other services to the Bank and Banking Group in relation to taxation advisory and IT project 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 auditor of the Bank and Banking Group. The firm has no other relationship with, or interest in, the Bank and Banking Group.

Opinion

In our opinion, the summary financial statements, derived from the audited financial statements of the Bank and Banking Group for the year ended 31 March 2015, are a fair summary of those financial statements, in accordance with FRS-43 *Summary Financial Statements*.

KPMG

3 June 2015
Wellington

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Finance Now

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