



2016 Annual Report and Financial Summary

Highlights

Total Assets

\$3.41
Billion

Loan Advances

\$2.87
Billion

Retail Deposits

\$2.74
Billion

Capital Adequacy



13.8%

(Regulatory minimum 8%)

Contents



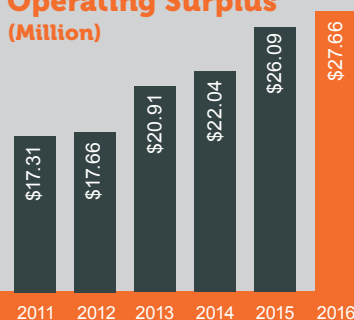
New Zealand's Member Bank

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Chairman's Report



Operating Surplus (Million)



John Ward
SBS Bank Chairman.

On behalf of my Directors, welcome to the SBS Bank Annual Report for the financial year ending 31 March 2016. In many ways it's a year we will reflect on for quite some time.

Members' Equity

\$236
Million

Member Benefit - Rebates

More than

\$1 Million

rebates have been given to our members over the past year.

We embarked upon a strategic plan focussed on our vision for the future – to be New Zealand's Member Bank.

Significant infrastructure expenditure to upgrade systems and software was incurred.

Our refreshed brand supporting our focus on making SBS easier to do business with has been very well received by our members. Also, we further invested in our subsidiaries (Finance Now, FANZ and Southsure) the results of which will become more noticeable over time.

In a difficult financial year, both nationally and globally, significant growth was generated. This has been important in order to retain relevance for our members in the sectors within which we operate.

We signalled last year our plan to become more active in the Auckland region and we're very satisfied with our progress in this sector. Equally pleasing was our growth and development in the provinces.

The operating surplus of \$27.7 million exceeded the 2015 result of \$26.1 million by 6% and as a board we are comfortable with this outcome. We achieved solid results over all business units – especially in the wealth management, consumer finance and insurance sectors.

We wish to record the substantial contributions made by Group staff and Executive. The manner in which they have dealt with the challenges and adversity of the last year has been most commendable. We continue to develop and invest in our people to build rewarding careers, which will assist our members attain their financial goals.

During the year Alec Neill stepped aside as a Director. Alec's commitment and enterprise were valued by the Board and he certainly made an impact. He continues to assist us and for that we are most grateful.

We were delighted to welcome Anne McLeod, a commercial lawyer principally based in Dunedin, to the Board. Anne's skill set and contribution has been very much appreciated.



In Memoriam

It was with deep sadness that the Board of Directors advised of the sudden death of Wayne Evans, SBS Group Chief Executive Officer, in January.

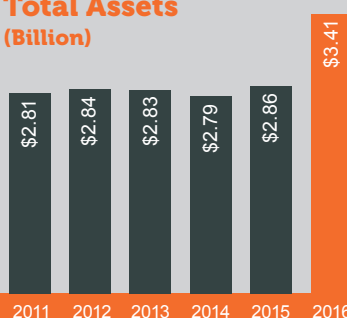
Wayne was a vibrant and respected leader of our organisation. His passion and strategic leadership will be acutely missed. He had a significant impact on our business in a very short space of time and was immensely valued by his friends, colleagues and members of the SBS Group.

I wish to publicly thank all Board members for their commitment, insight and collegiality over a most challenging period. As a board we acknowledge the support we have received from you, our members. Your input, referrals and the relationships that you have built with our staff are all integral parts of an organisation that has been around since 1869 and is rapidly closing in on its 150th year. Thank you.

CEO's Report



**Total Assets
(Billion)**



Loan Advances

**\$2.87
Billion**

“Looking forward we will continue to focus on providing members with superior service and benefits for banking with SBS which will only heighten over the next 12 months. Together with our members, we are in for an exciting year ahead.”

Mark McLean, Interim SBS Group CEO.

Our transformational journey towards our vision of becoming New Zealand's Member Bank is in full flight.

Our guiding themes of Simplicity – the simplification of our products, services and processes, Benefit – generating greater benefit to our members, and Synergy – utilising the collective strength of the wider SBS Group, have continued to drive our organisation towards its vision.

Over the past 12 months our teams have been busy bringing this vision to life. Our recent brand refresh saw SBS achieve an exciting milestone in our 147 year history. The new look has enabled SBS to become an energised, cohesive and contemporary bank. A bank resolutely focussed on its members.

While our look may have changed, what we stand for has not. The essential philosophy of supporting our members remains as fundamental to our future as it has for our past.

Through the brand refresh we have started to create a unique position in the marketplace which we have, and will continue to defend.

We have continued to deliver tangible benefits to members through competitive pricing. The launch of our 3.99% one year fixed mortgage rate saw SBS lead the market, setting the lowest rate seen in decades. And our 0.20% bonus on Term Investments provided existing investors with an additional benefit, simply by being a member of SBS.

Our commitment to simplify the way in which we operate and interact with our members has continued at pace. As a Group we have focussed on pooling our collective resources and talents to achieve greater economies of scale and savings across the board.

The recent introduction of Finance Now's revolving credit card is one example of Group collaboration to achieve a beneficial outcome for all involved. By leveraging the experience,

Retail Deposits

\$2.74 Billion

knowledge and card capabilities of SBS, Finance Now was able to successfully and easily develop and release their own card into the hotly contested personal finance marketplace.

Recent enhancements in the digital space have also enabled the Group to provide members with an improved service experience. Southsure's introduction of a new phone recording system has created less paperwork and a faster turnaround of members' applications while SBS has focussed on streamlining, integrating and simplifying our previous 97 product information brochures down to a comprehensive 30.

Looking forward we will continue to focus on providing members with superior service and benefits for banking with SBS which will only heighten over the next 12 months. Together with our members, we are in for an exciting year ahead.

Mark McLean,
Interim SBS Group CEO.



Strategy

“Our growth in member numbers and their feedback provided positive confirmation of the direction we’ve taken over the past year. It’s a path we will continue to pursue with you in the year ahead.”

John Ward, SBS Bank Chairman.

This past year has been one of intensified activity as we focussed on cementing our unique position in the marketplace.

SBS’s growth strategy focussed on playing to our strengths in residential lending and deposits, and meeting members’ day-to-day transactional banking needs. It was all part of delivering on our vision to become New Zealand’s Member Bank.

As the year progressed, Fitch Ratings upgraded our Outlook from ‘stable’ to ‘positive’. Our transformed strategic approach, strong emerging competitive position and opportunity to grow our membership base in a targeted way, were all cited as major contributors to this great improvement.

We launched an upbeat advertising campaign with the cheerful ‘Eric and Sandra’ taking SBS into New Zealand’s living rooms. This young everyday Kiwi couple also helped launch our market leading 3.99% one year fixed mortgage rate – the lowest advertised in New Zealand for decades – to demonstrate our commitment to continued lending growth in the residential sector.

Within our broader strategy was introducing the country to our modern public image while maintaining our carefully cultivated roots in trust and reliability. Unveiling an upmarket and contemporary look across our branches and online was a very proud moment.

Along with the brand refresh, we also streamlined our suite of product offerings to make it easier for our members to do business with us.

Further behind the scenes, SBS continued to invest in IT systems; fundamental to achieve a deeper understanding of our members, their life stages, financial needs, and the channels they want to use for banking convenience. This also enabled us to go further down the path of reducing the ‘paperwork battle’ for member transactions.

We continue to pursue the digital channel as part of our strategy around smarter ways to deliver our SBS products, services and transactions. With planning well underway on the development of a mobile banking app and other products, it’s an important next step in the SBS journey.

Real Member Benefits

Our invigorated brand generated much positive feedback from both longer-term and new members not just for its stylish representation, but for the industry-leading home loan and investment rates along with an increased ease of banking with us. Our strategy is providing real and tangible benefits every day for our members.

Deeper Member Relationships

Our members are individuals with evolving needs throughout their different stages of life. A deeper understanding of our members continues to drive our investment in strengthening our retail, mobile, Agri and Commercial businesses. This means increasing the range of products and services we provide, delivered through a range of physical and digital channels.



Banking for the Future

A profitable year has strengthened our foundation towards long-term sustainable growth across all channels where our members want us to be. We continue our journey of capital infrastructure investment to further cement our relevancy for our members' needs. A focus on new technology will increasingly enable members to bank on the go at the times and places that suit them.

Staff Capability

Our legacy of trust and reliability comes down to the experience our members have with our staff. Following on from last year's significant investment in staff upskilling and capability, we continue to empower and support our people in their roles to improve our members' ease of banking with us. Ongoing staff connection and pride in not only the history but the future of SBS will strengthen our connection with our members.

Members

“For a New Zealand owned bank in a large and intensely competitive industry, delivering what our members want was the driving force behind another successful year.”

Mark McLean, Interim SBS Group CEO.

As a mutual, our customers are our ‘members’. And our members are our owners. Over the past year we further explored the value of being a ‘member’ and the tangible benefits SBS could offer.

SBS consistently provided some of the best residential mortgage offers. We surprised the market and delighted our members with a 3.99% one year fixed mortgage rate offer – the lowest advertised in New Zealand for decades.

Equally, we sought opportunities to reward our investors – the 0.20% bonus on Term Investments was an added benefit.

We’ve also looked for ways to cut back on fees so the more you do with us, the more you save.

Our outstanding and modern new look was part of simplifying your interactions with SBS. As the new signs went up around the branches, our Hawke’s Bay branches, which had traded as HBS Bank, also became unified under the SBS brand.

In addition, more streamlined banking products and services added to the ease of being with SBS – whether you visited a branch, went online, phoned our New Zealand contact centre, met with one of our new mobile mortgage managers in Auckland or Christchurch, or banked on the go through your mobile device.

Our light hearted, fun and engaging advertising put SBS in the national spotlight. It prompted existing members to revisit and extend their relationship with us, while new members enjoyed discovering what we could offer them.

The SBS journey continues this year. Just as your own financial journey continues. Thank you for the opportunity to help you achieve your goals throughout this year and beyond.

On our journey to become 'New Zealand's Member Bank' we continue to be guided by three key themes:

Simplicity, Benefit, Synergy.

Simplicity

We're making banking easy; easy to use, easy to understand and easy to do business with us, through whatever channel you choose.

Benefit

It's about providing value to you. Now and every day. We want our members to enjoy tangible benefits as a result of banking with SBS.

Synergy

Through our subsidiaries, SBS Group has collective strengths across a suite of banking, home loans, personal loans, insurance and investment products. We aim to be a one-stop-shop for your financial journey.



Your Team

“Leadership continues to play a critical role as always and our high performing Executive team was most effective supporting SBS staff through all the changes as we evolve.”

John Ward, SBS Bank Chairman.

Delivering on the SBS commitment to its members takes a team of people with the right knowledge, skills and resources. In addition, these people need the determination and initiative to make the right things happen for you as we look to do better every day.

That's the journey our team members are on. Continuing to ensure banking is more than a transaction, but a trusted relationship across the many products and services SBS Group provides for the various stages in your life.

Behind our themes of Simplicity, Benefit, and Synergy has been an ongoing investment in comprehensive training and upskilling. Leadership continues to play a critical role as always and our high performing Executive team was most effective supporting SBS staff through all the changes as we evolve.

The Executive had successfully undergone some role changes in the previous year, and in late 2015 we welcomed Martine Milicich as General Manager, Member Banking. Martine is responsible for the overall strategy and direction of the retail business covering



Your Leadership

1. Mark McLean, Interim SBS Group CEO. **2.** Richard Hutton, Chief Digital and IT Officer. **3.** Hamish McKenzie, General Manager People and Support. **4.** Martine Milicich, General Manager Member Banking. **5.** Phil Jamieson, General Manager Strategy and Marketing.

the bank's branches, contact centre and centralised lending unit (which supports broker business and mobile mortgage managers).

Under the direction of our Executive we continued to develop a deeper understanding of our members to respond to their banking needs. This knowledge saw us grow our contact centre and extend the operating hours last year.

We also successfully launched a team of mobile mortgage managers. They helped introduce SBS to the competitive

and busy Auckland market – an area where SBS had little brand awareness, but vast opportunities.

Becoming a 'sit up and take notice' brand from our humble but proud 147 year old Southland roots continues to be an exciting journey. As we extend our offerings in the mobile digital sphere, this is another avenue for our team to better serve our members nationwide.

Investment in technology is helping our team members across the SBS Group connect more easily. Their resultant

collective strengths and talents will help provide you with a more seamless offering across banking, wealth management, insurance and personal loans products.

As SBS continues to evolve and respond to our growing member base, so too will our staff capabilities and member benefits. An investment in our people will ensure we continue to support your banking needs, whatever your stage of life or financial goals.



6. Phil Ellison, CEO Finance Now. 7. Tim Loan, Chief Financial Officer. 8. Graham Duston, Executive Director FANZ. 9. David Newman, CEO Southsure Insurance.

Your Board of Directors



John Ward B Com, FCA, CFInstD
(Chairman)

Chairman: SBS, Finance Now Ltd and Board Appointment Committee.

Member: Audit and Risk Committee and Remuneration Committee.

Trustee: SBS Charitable Trust.

Mr Ward is a Fellow of the Institute of Chartered Accountants and a Chartered Fellow of the Institute of Directors. He chairs H&J Smith Holdings Ltd, the Transport for Disabled Trust (Southland) and is President of the Otago Cricket Association. He is the Chancellor of the University of Otago and chairs the University of Otago Foundation Trust.



Jeff Walker LLB
(Deputy Chairman)

Chairman: Funds Administration New Zealand Ltd.

Member: IT Committee and Board Appointment Committee.

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



Jeff Grant

Director: Finance Now Ltd.

Member: Audit and Risk Committee, Board Appointment Committee, and Remuneration Committee.

Trustee: SBS Charitable Trust.

Mr Grant, in partnership with his wife Julia, is farming sheep 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 since been involved in agribusiness directorships with a range of companies and organisations, including Landcorp, Wrightson and Beef and Lamb NZ and he was previously chairman of the NZ Meat Board and Meat and Wool NZ. Mr Grant is chairman of the Milford Development Authority, the Agricultural and Marketing Research and Development Trust (AGMARDT), Southland Shared Services and is chairman of OSPRI and Mt Linton Station.



Kathryn Ball B Com, FCA, CMInstD

Chairperson: Audit and Risk Committee.

Member: Board Appointment Committee.

Trustee: SBS Charitable Trust.

Mrs Ball, a practising chartered accountant and taxation specialist, was appointed to the Board of SBS Bank in April 2006. She is a consultant in Invercargill accounting firm McIntyre Dick & Partners Ltd and a Fellow of the Institute of Chartered Accountants. Mrs Ball 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.



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

Chairman: Southsure Assurance Ltd.



Greg Mulvey B Com, FCA, FNZIM

Chairman: Remuneration Committee
and IT Committee.

Director: Funds Administration New
Zealand Ltd.

Member: Audit and Risk Committee.

Trustee: SBS Charitable Trust.



Anne McLeod B Com, LLB, MInstD

Ms McLeod, a practicing barrister and solicitor based in Dunedin, was elected to the Board of SBS Bank in 2015. She has considerable experience in banking, business and legal industries. She is a Fellow of the Te Rangi Hiroa College, a Member of the Institute of Directors, RITANZ (Restructuring Insolvency and Turnaround Association New Zealand) and the Banking and Financial Services Law Association.



Mike Skilling BAgrSci, PGDipBank,
SF FINSIA, CMInstD

Director: Funds Administration
New Zealand Ltd.

A Registered Valuer, Mr Spencer joined the Board of SBS Bank 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 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 Chartered Member of the Institute of Directors and is an Associate of the Real Estate Institute of New Zealand.

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 Institute of Chartered Accountants 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.

Mr Skilling joined the Board of SBS Bank in August 2014. He has indepth 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 pre-school business and two finance companies. 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 Financial Services Institute of Australasia (FINSIA) and a Chartered Member of the Institute of Directors.

Southland Building Society Summary Financial Statements

Summary Income Statement – Banking Group for the year ended 31 March 2016

	31/03/16 \$000	31/03/15 \$000
Interest income	195,112	183,307
Interest expense	16,721	11,142
Dividends on redeemable shares	94,458	91,100
	111,179	102,242
Net interest income	83,933	81,065
Other income	30,484	25,525
Total operating income	114,417	106,590
Operating expenses	73,542	68,331
Provision for credit impairment	13,212	12,173
Operating surplus	27,663	26,086
Net gain/(loss) from financial instruments designated at fair value	7	(46)
Share of associates and joint ventures profit net of tax	657	515
Surplus before income tax	28,327	26,555
Less income tax expense	8,354	7,118
Net surplus	19,973	19,437
Attributable to:		
Members' interests	18,603	18,009
Non-controlling interests	1,370	1,428
	19,973	19,437

Summary Statement of Comprehensive Income – Banking Group for the year ended 31 March 2016

Net surplus for the year	19,973	19,437
Other comprehensive income		
Net change in reserves, net of tax	(18,329)	(7,508)
Total comprehensive income for the year	1,644	11,929
Attributable to:		
Members' interests	320	10,544
Non-controlling interests	1,324	1,385
	1,644	11,929

Summary Statement of Changes in Equity – Banking Group for the year ended 31 March 2016

Equity at beginning of the year	243,676	234,213
Net surplus for the year	19,973	19,437
Other comprehensive income for the year	(18,329)	(7,508)
Total comprehensive income for the year	1,644	11,929
Dividends	(598)	(652)
Change in capital of non-controlling interests	(4,762)	(1,814)
Total equity at end of the year	239,960	243,676
Equity represented by:		
Revaluation reserves	(17,090)	1,197
Retained earnings	253,313	238,221
Total equity attributable to member's interests	236,223	239,418
Non-controlling interests	3,737	4,258
Total equity at end of the year	239,960	243,676

Southland Building Society Summary Financial Statements

Summary Statement of Financial Position – Banking Group as at 31 March 2016

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	31/03/16 \$000	31/03/15 \$000
Assets		
Liquid assets and securities	477,848	434,042
Advances to customers	2,868,850	2,391,963
Other assets	65,477	36,652
	3,412,175	2,862,657
Liabilities		
Redeemable shares	2,487,345	2,289,754
Deposits from customers	215,650	185,472
Commercial paper	198,692	64,639
Due to other financial institutions	150,471	-
Subordinated redeemable shares	39,129	41,049
Other liabilities	80,928	38,067
	3,172,215	2,618,981
Equity		
Attributable to members of the society	236,223	239,418
Attributable to non-controlling interests	3,737	4,258
	239,960	243,676

Summary Statement of Cash Flows – Banking Group for the year ended 31 March 2016

Net cash flows provided by/(used in) operating activities	55,124	(32,329)
Net cash flows provided by/(used in) investing activities	(99,738)	52,599
Net cash flows provided by/(used in) financing activities	(5,598)	(3,132)
Net increase/(decrease) in cash held	(50,212)	17,138
Add opening cash and cash equivalents	126,897	109,759
Closing cash and cash equivalents	76,685	126,897



Chairman
J F Ward



Director
K J Ball

31 May 2016

1. 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 31 May 2016. 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 31 May 2016. 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.

All accounting policies are consistent with those used in previous periods.

2. Critical Estimates and Judgements Used in Applying Accounting Policies

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

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

3. Risk Management Policies

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

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 which 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;

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

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.

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

	31/03/16 \$000	31/03/15 \$000
Gross advances	2,887,880	2,410,236
Provisions for credit impairment	(19,224)	(17,981)
Deferred fee revenue and expenses	194	(292)
Total net advances	2,868,850	2,391,963

5. Provision for Credit Impairment – Banking Group

	31/03/16 \$000	31/03/15 \$000
Individual provisions against advances and loans		
Balance at beginning of the year	5,826	10,008
New provisions during the year	2,416	7,226
Balances written off / recoveries during the year	(5,462)	(11,012)
Recoveries / reversals of previously recognised provision	-	(396)
Balance at end of the year	2,780	5,826
Collective provisions against advances and loans		
Balance at beginning of the year	12,155	10,799
Charged to income statement	4,289	1,356
Balance at end of the year	16,444	12,155
Total provisions for credit impairment	19,224	17,981
Reconciliation of provision movements		
Bad debts written off during the year	6,507	3,591
Individual provisions	2,416	7,226
Collective provision	4,289	1,356
Provision for credit impairment to income statement	13,212	12,173

6. Asset Quality – Banking Group

	31/03/16 \$000	31/03/15 \$000
Advances to customers		
Neither past due or impaired	2,827,112	2,332,758
Individually impaired	9,159	12,921
Past due	51,803	64,265
Provision for credit impairment	(19,224)	(17,981)
Total carrying amount	2,868,850	2,391,963

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	31/03/16			31/03/15		
	Current Assets \$000	Non-current Assets \$000	Total \$000	Current Assets \$000	Non-current Assets \$000	Total \$000
Assets						
Advances	187,935	2,680,915	2,868,850	173,079	2,218,884	2,391,963
Liquid assets and securities	150,573	327,275	477,848	201,859	232,183	434,042
Other monetary assets	16,764	-	16,764	2,763	-	2,763
	355,272	3,008,190	3,363,462	377,701	2,451,067	2,828,768
	Current Liabilities \$000	Non-current Liabilities \$000	Total \$000	Current Liabilities \$000	Non-current Liabilities \$000	Total \$000
Liabilities						
Redeemable shares	2,278,725	208,620	2,487,345	2,067,511	222,243	2,289,754
Other deposits	404,288	160,525	564,813	244,229	5,882	250,111
Subordinated redeemable shares	-	39,129	39,129	1,925	39,124	41,049
Other monetary liabilities	34,227	-	34,227	16,133	-	16,133
	2,717,240	408,274	3,125,514	2,329,798	267,249	2,597,047
Net derivative cash flows	(18,682)	(22,358)	(41,040)	(4,411)	(3,620)	(8,031)
Unrecognised loan commitments	40,592	-	40,592	55,610	-	55,610

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.

	31/03/16 \$000	31/03/15 \$000
Asset liquidity	477,848	434,042
Committed and undrawn funding lines	80,000	50,500
Eligible RMBS collateral (less haircut*)	99,312	135,302
Total liquidity	657,160	619,844

* 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 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

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	31/03/16 Unaudited	31/03/15 Unaudited
Regulatory Capital Ratios			
Common equity tier 1 capital ratio	4.50%	12.41%	13.73%
Tier 1 capital ratio	6.00%	12.50%	13.85%
Total capital ratio	8.00%	13.76%	15.61%
Buffer ratio	2.50%	5.76%	7.61%

9. Directors Fees

	31/03/16 \$000	31/03/15 \$000
Amounts received, or due and receivable by directors:		
JF Ward (Chairman)	133	133
JB Walker (Deputy Chairman)	85	85
KJ Ball	70	70
GJ Mulvey	64	64
JJ Grant	64	64
FE Spencer	70	70
AG Neill (retired July 2015)	21	64
MJ Skilling (appointed August 2014)	64	42
AL McLeod (appointed July 2015)	48	-
	619	592
Provision for directors retiring allowance	53	51
	672	643

10. Investments in Subsidiaries, Associates and Joint Ventures

During September and October 2015, the Banking Group increased its indirect interest in Abbott Insurance Brokers Limited via its subsidiary Southsure Assurance Limited by 6.01%. 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 31 March 2016, the Bank increased its shareholding in its subsidiary Finance Now Ltd (FNL) from 90% to 95%.

As at 31 March 2016, total investments in associates and joint ventures recognised by the Banking Group was \$6.0 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 2016.

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 statement of financial position as at 31 March 2016, and the summary income statement and statement 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 and its subsidiaries ("the Banking Group") for the year ended 31 March 2016. We expressed an unmodified audit opinion on those financial statements in our audit report dated 31 May 2016. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our audit report on those financial statements.

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 Banking Group.

This report is made solely to the Members as a body. Our audit work has been undertaken so that we might state to the Members those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the Banking Group Summary Financial Statements

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

Auditor's responsibility

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

Our firm has also provided other services to the Banking Group in relation to services of secondment of resource, regulatory and other assurance and staff training and facilitation. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

Opinion

In our opinion, the summary financial statements, derived from the audited financial statements of Southland Building Society and its subsidiaries ("the Banking Group") for the year ended 31 March 2016, are a fair summary of those financial statements, in accordance with FRS-43 *Summary Financial Statements*.

Christchurch
31 May 2016

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