

SBS | Bank

Southland Building Society is ~~not~~ a registered bank
NOW



Southland Building Society
140th Annual Report 2009
WITH SUMMARY FINANCIAL STATEMENTS

OUR VISION

First choice in banking.

OUR MISSION

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

OUR VALUES

Commitment to mutual benefit

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

Sustainability through prudence

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

Our people make the difference

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

The prosperity of our community

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



Matthew Mark RICCARTON BRANCH MANAGER

"When the opportunity to become part of the team at SBS Bank presented itself, the decision was an easy one to make.

"To be immersed in an environment where the staff members are dedicated to providing exceptional customer service is extremely satisfying and uplifting."

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OUR HIGHLIGHTS AT A GLANCE

- Gained bank registration - 7 October 2008
- Total assets up \$115 million (5%) to \$2.54 billion
- Loan advances up \$68 million (3%) to \$2.4 billion
- Regulatory capital up \$53 million (35%) to \$206 million
- Depositors' funds up \$274 million (15%) to \$2.13 billion
- Four percent increase in operating surplus to \$22.1 million
- Contribution to operating surplus from subsidiaries \$6.7 million
- Liquidity levels up \$78 million (22%) to \$434 million



“I’ve never known my bank manager until now – and he makes me coffee!”

Darren Ludlow



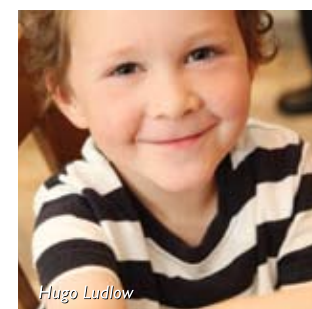
Darren and Lyndal Ludlow



Wilson Ludlow



Neil Bramley



Hugo Ludlow



EXCEEDING YOUR EXPECTATIONS

A meeting with the bank manager turned into an unprecedented experience for Darren and Lyndal Ludlow when they came to the Invercargill branch of SBS Bank – and for good reason it was an experience they will never forget.

Just weeks before, Darren had been singing the praises of SBS Bank’s positive annual results on the radio airwaves and Invercargill branch manager Neil Bramley heard the plug. He was quick to send Darren an email thanking him, politely noting that he was not currently a member of SBS Bank and inviting him to pop in sometime as there were some great products and services on offer.

Darren says the process snowballed from there.

“I was a former customer with SBS Bank and was very happy with the service I received. It was just one of those things when we got married that we consolidated our mortgage and ended up somewhere else.

“We were becoming increasingly dissatisfied with our trading bank and the huge fees we were paying on our mortgage. Neil’s email message kept resonating until it was loud enough for us to think why not? Let’s go into SBS Bank and have a look.”

Lyndal and Darren sat down with senior lending consultant Julie Dowling and Neil and were pleasantly “blown away” right from the onset.

“Neil made us coffee and Julie did the paperwork. It was so clear and straight forward as we went through all the options thoroughly and, most importantly, without judgement – one’s personal finances are not always your proudest moment,” says Darren.

“We left happy and with our dignity still intact. Having a good relationship with your bank staff is a great thing and maintaining it is just as important,” agrees Lyndal. “It’s great to have the confidence to know we can just ask a question anytime, be it by email, phone or in person.”

“It’s brilliant to work for an organisation that believes people really do matter,” says Neil. “To help families like Darren, Lyndal and their delightful young sons Wilson and Hugo, while knowing we’ve been able to give them a sense of belonging is uplifting.”

“It’s a piece of cake to sit down with lovely couples like Darren and Lyndal and work out the best option for their situation,” agrees Julie. “It’s extremely gratifying, particularly when you see them in their lovely family home – it so suits them.”

Darren laughs: “We do love good coffee and making a cup of coffee for us may seem like a small thing, but it really means an awful lot!”

YOUR DIRECTORS' REVIEW

The economic recession can't stop the progress of SBS Bank in its 140th year. Traditional values underpin another great performance as financial institutions around the world continue to struggle.



Despite the international economic turmoil and a serious economic recession, the likes of which few – if any – have experienced before, SBS Bank has emerged as a much stronger organisation ready to celebrate its 140 years. At a time when bank bailouts have been commonplace around the world and many investment products have proved to be nothing more than 'junk bonds' necessitating the write-off of trillions of dollars, SBS Bank has remained largely unaffected. We will, of course, be impacted by the economic recession we are experiencing and can expect both growth and profitability to be subdued in the next few years.

YEAR IN REVIEW

On 7 October 2008, the Southland Building Society made an historic transition becoming New Zealand's first customer-owned registered bank. It is a unique position to be in. While building societies around the world have succeeded in becoming registered banks, none have been permitted to retain their mutual customer ownership without some form of substantial structural transformation. That SBS Bank was granted registration by the Reserve Bank of New Zealand without any ownership change was, we suspect, a world first.

The response of our membership and the wider market was instant. From October through to the end of the financial year, our depositors' funds grew by \$200 million – five times more than for the same period the previous year. The corresponding impact to key measures of commercial

strength – capital ratio and liquidity – was significant. In addition, operating income increased 8.4 percent to \$77.5 million, while operating expenses increased only 4.5 percent. The current economic environment has made it tough for borrowers and as a result SBS Bank has incurred more expenditure in providing for distressed loans, which may not be fully recovered. These costs increased by \$3.4 million to a total of \$12.4 million. In spite of this, we are delighted to report an operating surplus of \$22.1 million – an increase of 4 percent on last year and only just short of our 2007 record of \$22.2 million, along with growth in capital of \$53.2 million or 35 percent.

Soon after gaining bank registration, SBS Bank was among the country's first banks to be approved under the Government's Deposit Guarantee Scheme.

It's a standout performance that reflects the trust of our members and the conservatism taken by your Society in the midst of an economic crisis that continues to challenge financial institutions and redefine banking globally.

FINANCIAL STRENGTH

Your directors have been keen to ensure that the profitability of SBS Bank is protected from volatile movements in interest rates. For many years SBS Bank has managed the risk of interest rate movements affecting our fixed rate loan portfolio by purchasing derivative financial instruments. These have

served to protect SBS Bank's interest margin as interest rates firstly moved to relatively high levels and then later dropped dramatically to unprecedented lows.

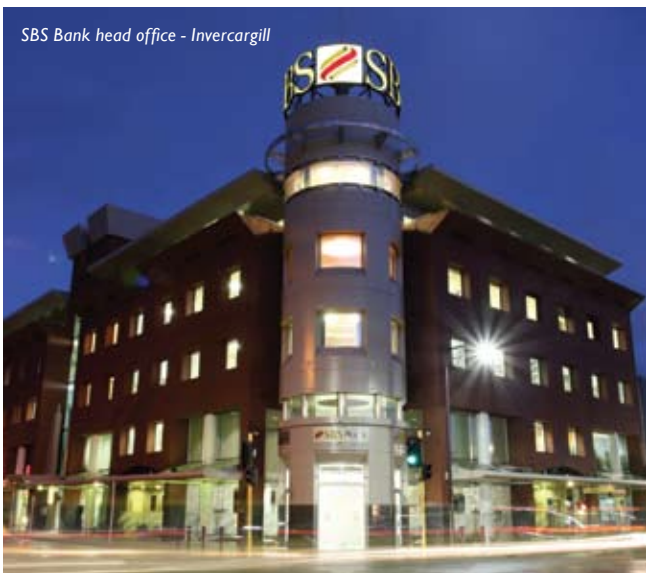
However, new accounting rules require these derivative financial instruments to be valued at their current market value as at 31 March and then shown in the financial statements despite the fact that SBS Bank has no intention of selling them. The impact of this is that SBS Bank has been required to reduce profit by \$6 million and create a hedging reserve of \$11.3 million against our reported equity. Fortunately, international banking regulations recognise that the true capital position of banks should not be impacted by these accounting reserves and consequently the regulatory capital of SBS Bank has not been affected.

Therefore, while the reported net surplus after tax of SBS Bank is down slightly on last year at \$12.1 million (\$14.3 million in 2008), our capital levels are at an all-time high.

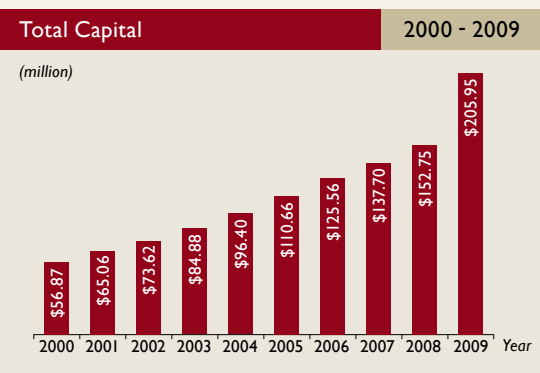
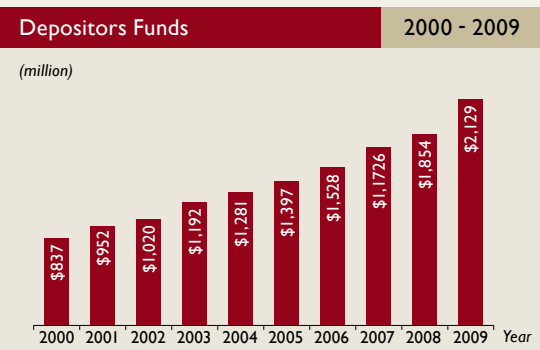
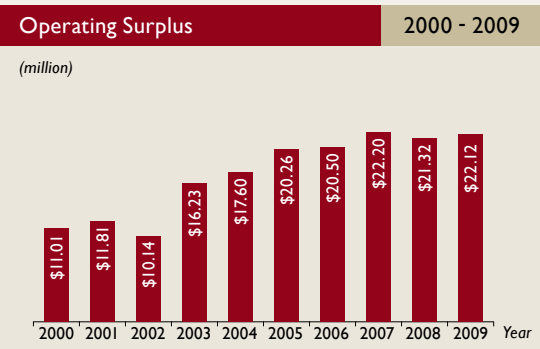
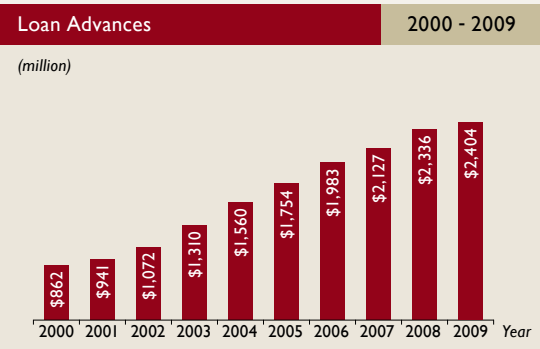
LENDING

In the face of global financial turmoil and a sustained economic recession, we were not surprised to see continued slowing in lending activity. In line with our expectations, growth of \$68 million brought total advances under management up to a record high of \$2.4 billion.

At SBS Bank we are acutely aware of the rising cost of living experienced by our borrowers and the welcome relief that comes when mortgage interest rates decline. This is why SBS Bank led the way in driving down its floating interest rate in tandem with aggressive RBNZ rate cuts and continues to have one of the lowest floating rates in the market today. This is also why our lending staff have been empowered to readily provide support and advice to borrowers looking for relief during difficult times. It is the kind of agility you can expect from a smaller New Zealand-owned bank that is closer to its customers.



No financial institution, as you would expect, is immune from the challenges brought about by global financial turmoil. The fact that SBS Bank has experienced a relatively modest rise in impairments to loans and bad debts is a credit to the values of commercial prudence that we operate by and the dedicated support to borrowers by our retail staff. We thank them for their commitment to the well-being of our borrowers. ►

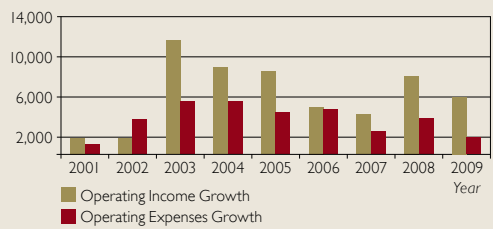


When we looked at offering five-year fixed rate loans around three years ago, the issue of what might happen if rates fell became a major concern – just as it had for a number of banks in the 80s and 90s. When we set the conditions of SBS Bank's break rate, applying the safe harbour formula under the Credit Contracts and Consumer Finance Act, no one could have envisaged the rapid fall in rates that has occurred in recent months and certainly not the accompanying level of demand to break fixed rate contracts.

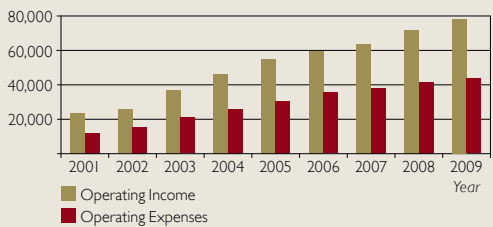
While the general public have expressed discomfort about the calculation of break fees by some New Zealand banks, our members can be assured that they are not a means of financial gain for SBS Bank. Indeed the cost incurred by SBS Bank exceeded recoveries from break fees in the 2009 financial year by \$1.5 million – a direct impact on profit and most importantly a benefit to members.

SBS Bank is one of the few New Zealand banks to have our break fee formula approved by the Commerce Commission.

Growth in Income vs Expenses 2001 - 2009



Income vs Expenses 2001 - 2009



99% members surveyed would recommend SBS Bank to family and friends.

*survey completed by SBS Bank's SSPM outbound call programme - December 2008

FUNDING

Our ability to go head-to-head with larger foreign-based trading banks in delivering competitive interest rates from our stable of term deposit products was evidenced by record growth in our funding portfolio of \$274 million, bringing total retail funding to a new high of \$2.13 billion.

Although SBS Bank was already on target for a strong funding year, there is no doubt that achieving bank registration in October caused a pleasing surge in funding activity during a time when foreign-based trading banks were responding to challenges of their own, brought on by the world 'credit crunch' and the virtual closing of international wholesale markets.

While RBNZ rate cuts brought good news for borrowers, SBS Bank was determined to shelter investors as much as possible from reductions in investment rates that typically follow such cuts. Whether it is passing on the full benefit of RBNZ rate cuts to our borrowers or paying leading rates to investors, well in excess of underlying wholesale rates, SBS Bank has a responsibility to constantly balance and deliver the benefits of membership to both borrowers and investors.

In this respect, the launch of our five-year Premier Bond product was a highlight for SBS Bank. Sensing its attractiveness in the market, and wishing to recognise the loyalty of our investor clients, we were careful to ensure existing members had first and exclusive access to the limited Bond offer for the first four weeks following launch. The response was outstanding, with the Bond reaching its limit within three weeks, fully funded by our existing members. We were pleased to be able to later reopen the Premier Bond due to persistent member and wider public demand.

Alongside the success of our term deposit products, our i-save online product grew by 34 percent to \$120 million while our new transactional product, tailored to the needs of non-profit organisations, was a major contributor to a 23 percent increase in funds held in everyday banking products.

Overall it was a timely and satisfying funding performance for New Zealand's newest bank. This performance substantially enhanced our liquidity and capital position and also strengthened our balance sheet with long-term funding delivered by the Premier Bond. Such growth enabled us to repay a \$150 million securitisation vehicle, which in these difficult financial times was growing increasingly expensive to operate.

Our ongoing operational prudence and commercial robustness was also recognised by Reserve Bank of New Zealand-approved international credit rating agency Fitch Ratings, when it reconfirmed our BBB investment grade credit rating.



Achievement of bank registration was a huge undertaking by the staff of SBS Bank's head office, consuming hundreds of hours and close to \$800,000 in external costs. While this was a major investment, your board believed this was warranted as SBS Bank would be better served under the regulations supervising registered banks rather than the non-bank sector. Regrettably, the non-bank sector included entities with a risk tolerance we considered uncomfortably different to our own.

The funding performance and its contribution to our enhanced financial strength are confirmation that the Board's decision to pursue bank registration was the right one.

SBS BANK NETWORK

Our desire to provide a banking experience with a difference has seen ongoing work to refresh the décor throughout our network. Following last year's refurbishment of our Gore branch, our members in Eastern Southland are now enjoying the full benefits of our distinctive and relaxed branch ambiance, complete with couches and a welcoming coffee.

While these branch upgrades can cause some disruption and inconvenience, we know the outcome will make the experience of banking with us even more pleasant. It is something our customers at Invercargill's Windsor branch, Papanui and Hamilton will also be enjoying following the completion of scheduled refurbishments this year.

At a time when environmental sustainability is a common term, SBS Bank is delighted to have recently become a corporate member of the Southland Sustainable Business Network. By completing the 'Quick Steps' sustainable business programme, and exploring ongoing energy efficiency and recycling opportunities, we're proud to do our part in bolstering the sustainability of our day-to-day business operations and, in turn, improving the quality of our ever-precious environment.

SBS BANK RURAL

The rural community heralded their continued trust in their Southland-bred bank during the year by letting their investments do the talking. Our new bank status moved us into what is perceived as a more credible area of the financial sector in the eyes of our many rural members.

The SBS Bank Rural team also upheld its tradition of down-to-earth, honest community support during the year through its many grassroots sponsorships. Tenacity was key when the team battled the winter elements to help plant seedling trees for an environmental cause, while the importance of town and country rallying together was emphasised with our support of the Southland A & P Show as it progressed to become 'SBS Bank – Southland on Show' and relocated to a new venue.

COMMUNITY SUPPORT

When it comes to sponsorship, our commitment to our communities couldn't be stronger. SBS Bank has around 250 community sponsorships of all sizes and values and we are just as passionate about each and every one of them. Whether it is a local school, bowls or golf club or partnering major community facilities and events such as the SBS St James Theatre, SBS Sports House / ILT Velodrome, the Dunedin Chinese Garden or the SBS Bank Pacifica Party at the Hamilton Summer Festival, you'll find SBS Bank people actively part of their community.

Over and above our sponsorships, it is always satisfying to find new and innovative ways of giving back to our communities. Now into its second year, the uptake of our Star banking package, for non-profit groups and societies, continues to perform well beyond initial forecasts.

Our staff members take great delight in the opportunity to call 10 winning clubs and societies every month and inform them that their voluntary community group's nest egg has just benefited from an extra \$1000! Fuelled by our desire to support our communities even further, it was a natural progression for SBS Star to develop the Star Investment Special and a Makos Investment Special. Investors were able to get the benefit of a great rate, plus direct a payment toward one of our Star community groups courtesy of SBS Bank, a welcome Christmas treat that delighted our Star customers. ►



SBS Bank Hamilton branch manager Nicki Bennett and David Peart, of the Hamilton Hydrotherapy Pool Trust.



Tasman Makos



SBS St James Theatre



SBS Pacifica Party

OUR PASSION, YOUR SUCCESS

At SBS Bank we strongly believe that supporting our community is not just about sponsorship – it is also about rolling up our sleeves and getting stuck in! No matter how big or small, our sponsorship decisions are a reflection of regional pride and community value, while ensuring there is a win-win scenario in terms of commercial and member benefit.

This year SBS Bank was able to bring a decade-old dream to life by partnering the 'grand old lady of Gore,' the SBS St James Theatre, in a 10-year major corporate sponsorship. This gave a green light to the theatre's long-awaited fly tower project and has enabled large travelling events and shows to include Gore in their itineraries. The beauty of such a community partnership with the arts is the common threads that run between SBS Bank and SBS St James Theatre, including our community focus, heritage and iconic Southland status. The significance of our involvement in the project has not been overlooked by ever-grateful locals. SBS Bank Gore branch manager Scott Bowden has been overwhelmed to be involved in a partnership that brings benefit to the whole of the community.

"I'm sports mad but this project has been huge. The improvements are massive, the SBS St James Theatre now looks stunning and compliments from major touring groups like the Royal New Zealand Ballet and the locals alike are fantastic. It's a real feel-good to be involved with something where the whole community benefits."

YOUR COMMUNITY SPONSORSHIP

Major sponsorship for 2008/2009

SBS Sports House/ILT Velodrome – Invercargill | Hamilton Gardens Summer Festival Pacifica Party – Hamilton SBS Events Centre – Timaru | SBS St James Theatre – Gore | SBS Marathon – Christchurch | SBS Bank Tasman Makos – Nelson/Marlborough | Southern Opera – Christchurch | Dunedin Chinese Garden | SBS Bank Southland on Show | Central Stories Museum and Art Gallery - Alexandra | Otago Cricket - Dunedin | SBS Bank Golf Invitational – Invercargill | Rugby Southland Referees

TAURANGA

Katikati Athletics
Kamai School
Bethlehem School
Pahoa School
Omokoroa Golf Club
Omokoroa Bowling Club
Carmel Country Estate
Western Bay of Plenty Tennis Seniors
OPUS Chamber Music
Otumoetai Tennis
Tauranga Bowling Club

HAMILTON

Sport Waikato
Lochiel Golf Club
New Balance Round the Bridges Fun Run
and SBS Schools Challenge
SBS Half Marathon
Opus Chamber Orchestra
Hamilton Mafia Triathlon Club
Newton School Art Awards
Morrinsville Trotting Club Family Day
Waikato Diocese Summer Opportunity
Camp
Waikato Diocesan School
Rotary Golf Day
Newstead School Agri Day

Cantando Choir Anzac Day Concert
United Women's Bowls
Annual Rotary Book Fair

NELSON

Stoke Bowling Club
Nelson Endurance Club
Antique to Retro Show
United Bowling Club
Nelson Indoor Bowls
Nelson School of Music
Tataradale Golf
Ngawhatu Bowling Club
Property Investors Association
Angel Women's Loan Fund

BLenheim

Awatere Golf Club
Marlborough Property Investors
Association
Marlborough Golf Club
Marlborough Tennis Association
Relay for Life

CHRISTCHURCH

New Balance SBS Pier 2 Pier 5km & Kids
Beach Mile Series
NZ Metropolitan Trotting Club

Harewood Golf Club
Olympic Harriers 15km Run / Walk
Craigieburn Valley Ski Club
Canterbury Veteran Golfers Association
Tai Tapu Golf Open
Canterbury District Law Society – Hunter
Cup
Cashmere Bowling Club
Fendalton Bowling Club
Antique to Retro Show
Sport Canterbury Sports Awards
United Bowling Club
Burwood Community Fair
Basnett Street Kindergarten
Burwood School
Halswell Bowling Club
Cashmere Bowling Club
Athletics Canterbury International Track
Meet
NZ Spinal Trust

RICCARTON

Top Dog Theatre
Elmwood Bowling Club
Crockfords Bridge Club
Riccarton Rotary Club
Thornton School Newspaper
Templeton Golf Club

PAPANUI

Kaiapoi Golf Club
Papanui Bowls
Avondale Golf Club
Parklands Bowls
Morrison Avenue Bowling Club
St Albans Merivale Bowls

FERRYMEAD

Armstrong Festival of Cycling –
SBS Kids Mini Boys
Probus Rendezvous 2008
Ferrymead Bays Football Club
Summer Rugby Club
Summer Bowls Club
Mt Pleasant Bowls Club
Redcliffs School
Our Lady of the Star School Banking Trial
Redcliffs Bowls

TIMARU

Aorangi Bowling Club
Ashbury Bowling Club
Pegasus Lions – Computer Capers
Sport Canterbury Sports Awards
United Bowling Club
Gleniti Golf Club
Hat and Hair Awards
Ophi College
Parent 2 Parent
Parkinsons South Canterbury
South Canterbury Bowls
South Canterbury Sports Awards
Temuka Golf Tournament
Timaru Bowling Club
Timaru Bridge Club
Timaru Girls' High School
Westend Croquet Club Tournament
Zonta Golf Tournament

CROMWELL

Central Otago Sports Awards
Cromwell Ladies Winter Golf

Alexandra Golf Club
Cromwell Race Day
Central Otago Arts Society – Blossom
Festival Art Exhibition
Cromwell Bridge Club
Cromwell Squash Club
Central Otago Umpires Association
Alexandra RSA Bowling Club
Goldfields Primary School Production
Terraces Primary School Production
Dunstan High School Scholarship
Alexandra Bowling Club
SBS Gore Half Marathon
and Fun Walk
Gore Gold Guitars
Gore Bowling Club
Gore Golf Club
Gore Gallops
Gore Harness Racing
Riversdale Golf Club
Gore RSA Bowling Club
Clinton Bowling Club
Gore Dancesport
Gore Boxing Club

QUEENSTOWN

Arrowtown Autumn Festival
Arrowtown Bowling Club
Queenstown Bowling Club
Altrusa Charity Golf
Queenstown Golf Ladies Classic
Queenstown Primary School
Queenstown Golf Club
Central Otago Indoor Bowls
Wakatipu High School Art Awards
Wakatipu High School Annual Production
Wakatipu Yatch Club Regatta
Wanaka Bridge Club

DUNEDIN

University Oval Media Centre
St Clair Golf Club
Malcam Charitable Trust Foundation
Otago Children's Athletics
Taieri Golf Club
Mosgiel RSA Bowls
Otago Community Hospice – SBS
Memorial Walkway
Dunedin Triathlon & Multisports Club

Kings High School
Otago Girls' High School
Kavanagh College
Otago Tramping and
Mountaineering Club
Botanic Gardens Aviary

GORE

Hokonui Moonshiners' Festival
SBS Gore Half Marathon
and Fun Walk
Gore Gold Guitars
Gore Bowling Club
Gore Golf Club
Gore Gallops
Gore Harness Racing
Riversdale Golf Club
Gore RSA Bowling Club
Clinton Bowling Club
Gore Dancesport
Gore Boxing Club

INVERCARGILL

Association of Blind Citizens of NZ
NZ Disabled Bowlers Association
Bowls Southland
Central Indoor Bowls
Corral Country Music
Computer Capers
Dressage Southland
Drummond Bowling Club
Drummond Women's Golf
Georgetown Bowling Club
Gorge Road School
Greenacres Golf Club
ILT Kidzone Festival
Invercargill Athletics Club
Invercargill Bowling Club
Invercargill Bridge Club
Invercargill Golf Club
Invercargill Harness Racing Club

Invercargill Plastic Modellers Society
Limehills Bowling Club
Legion of Rowers

Lorneville Makarewa Pony Club
Orca Swimming Club
Oreti Sands Golf Club
Otautau Ladies Golf Club
Otautau Men's Golf Club
Otautau Bowling Club
Otautau Bowling Club
Queens Park Men's Golf
Queens Park Ladies Golf
Rakiura Heritage Trust
Rimu School
Ringa Ringa Golf Club
Riverton Golf Club
Riverton Rocks Bowling Club
Riverton Swimming Club
Rural Heritage Trust
Sacred Heart School
Shakespeare in the Park
Southland A and P Show
Southland Children's Athletics
Southland Cricket Association
Southland Indoor Bowls Club
Southland Kennel Association
Southland Ladies Golf
Southland Veterans Golf
Table Tennis Southland
Te Rangi Bowling Club
Tokanui Golf Club
Tuatapere Golf Club
Waiau Valley Lions Club
Waihopai Women's Bowling Club
Waverley Scout Group
Waihopai School
Waikiwi Bowling Club
Western Districts Indoor Bowls
Winton and District Horticultural Society
Winton Bridge Club
Winton Central Bowling Club

Winton Golf Club
Woodlands Bowling Club
Wyndham Ladies Golf Club

RURAL

Southern Field Days
Catlins Soccer
Mataura Golf Club
Central Southland Rural Primary
School Golf Tournament
Winton A and P Show
Ohai Ladies Golf Tournament
Drummond Golf Club
Southland Show Jumping
Winton Harness Racing Club
Dressage Southland
Lower Northland Sheep & Beef
Monitor Farm
Sheffield Rugby Club
Cromwell Golf Club
Cromwell Junior Rugby
Winton Collie Club
NZ Sheep Dog Trials
Cromwell Hockey Club
Clinton Golf Club
Clyde Fruitgrowers
Gore A and P Show
Tarras Grapegrowers
Cromwell Harness Racing
Balfour Playcentre
Perendale Sheep Society of NZ
Heriot Collie Club
Waiau A and P Show



“The more I get to know about SBS Bank and its people, the more it builds my trust and loyalty.”

Barry Owen

SHARING YOUR PASSION

It is uplifting to know we can continue to enrich our member-driven and people-orientated values through loyalty, passion and the exceptional service we deliver.



Barry Owen
SBS BANK MEMBER

A long-standing banking relationship with Mark Reid led to Barry Owen becoming a member of SBS Bank several years ago, but he quickly realised the relationship brought even greater pluses with it.

“My relationship with SBS Bank largely evolved from the trust I had built with Mark. He was just a young fellow when he was handling much of my business finances.

“Now I realise that what I expect from a bank is also a lot about SBS Bank and its 140-year history, its conservatism, its long-standing reputation and being New Zealand-owned and not getting involved in those deceptive sub-prime mortgages – it all adds up in terms of trust.

“I’m happy to rate SBS Bank to others – be it friends, family, business colleagues or clubs and organisations I’m involved with.

“In 1947 I was a foundation member of Craigieburn Valley Ski Club and have been, at various times, the treasurer, a committee member and president. I completely trust SBS Bank’s involvement with the club. I know that what Craigieburn and its members can give to SBS Bank, they will give back to us and more.”



Angela Irving
BANKING CONSULTANT

Being part of the SBS Bank retail team for nearly 13 years now, Angela Irving still finds it enormously satisfying to be able to assist people on their financial journey while getting to know more about them, their personal interests and their banking needs.

“The greatest part about SBS Bank and members like Barry is that we both stand for certain qualities in life and value the importance of a good relationship.

“Whenever Barry’s in town and has a chance, he’ll just stop by and say hi to everyone.

“He believes in SBS Bank and also knows that if he has any questions about what we’re up to, our products or our services, he can just ask – and he does!

“Barry is someone who lives for the moment and lives life to its fullest – whether it’s his passion for the Craigieburn Valley Ski Club, where he’s still actively skiing, taking up windsurfing in retirement or advocating for the introduction of SBS Bank’s next new product or service. It’s fantastic to see such a valued member of our community happy and satisfied with his bank.”



Mark Reid
BRANCH MANAGER

Running marathons for 30 years, Mark Reid has always been striving for personal satisfaction, but he feels there is no greater reward than building strong, community-driven relationships with his SBS Bank members.

“Having been involved in the banking industry since leaving school, I know it’s a big call to say we’re passionate about things here at SBS Bank – but we are! Barry treats SBS Bank like it’s his business and so he should because, as a member, he is justifiably an owner.

“It’s extremely heartening to see the similarities between such a successful and highly respected member as Barry and our organisation. We’re both extremely community-focused and eager to give back of our time and skills. We’re also passionate and very much people orientated.

“I’ve always believed in treating our members as if they’re our family – it goes well beyond the old adage and Barry’s definitely like family to me. It’s about building a relationship of trust and care that you really, really value.”

SUBSIDIARY COMPANIES

The past year has seen our subsidiaries record another notable performance, with several record-breaking achievements that belie the economic environment in which we operate. All subsidiaries have again contributed to our group profitability, providing a combined \$6.7 million to our pre-tax surplus.

David Newman
Chief Executive

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Telephone: 0508 888 999
Fax: 03 218 6278



Funds Administration NZ Ltd (FANZ)

Strong investment philosophies and processes combined with a disciplined investment approach helped ensure another solid performance from FANZ. Funds under management increased by 20 percent to almost \$300 million, as investors continued to appreciate the FANZ objective to avoid 'surprises.'

The portfolios created by FANZ Financial Advisers again proved that quality pays, with no investments going into receivership or moratorium. While many KiwiSaver schemes struggled to perform, a road-tested and consistent approach proved to be a successful formula, with our Lifestages KiwiSaver Scheme standing up to the stresses of financial global turmoil and producing a positive return.



Southsure Assurance Ltd

Armed with a full suite of insurance products – all of which have been specifically designed with SBS Bank members in mind – Southsure has again performed well, making a solid contribution to the Group result.

The addition of a funeral cover policy proved particularly popular with SBS Bank members following its introduction at the start of the financial year. The continued importance of insurance protection was also highlighted, with significant growth in claim payments recorded in the last financial year. Southsure took the opportunity to further grow its operation during the year with the launch of a new sales centre in SBS House, located in central Christchurch, and is poised for continued success in the years ahead.



Finance Now Ltd (FNL)

2009 proved to be a landmark year for SBS Bank's consumer finance arm and secured Finance Now's position as a home-grown market leader. A record number of customers took advantage of our specialist hire purchase and personal loan services, resulting in Finance Now enjoying a record result, with loan assets climbing to over \$100 million. Small business lending activities have been greatly enhanced and we are able to enjoy many new relationships with large retailers throughout the country.

Despite a larger asset base and testing economic conditions, our robust risk management policies and systems helped steady bad debt levels and loan arrears. It is extremely satisfying to know our many new clients are now able to enjoy the same dedicated and professional, customer-focused service that we have been offering since 2000 and that we are well positioned for the opportunities ahead.

Fraser Properties Ltd

Fraser Properties, which owns SBS Bank's head office building in Invercargill (and is also home to the Alliance Group and NZ Post), continues to trade successfully and contribute to group profitability.

CELEBRATING 140 YEARS

Consider the rarity of this. A financial institution owned by its New Zealand customers that lives today by the same values and structure that were put in place 140 years ago.



Dressed to recall yesteryear, SBS Bank Tauranga branch banking consultant Cliff Gawler and branch manager Terri Gregory compare an old Bank of England pound note with a current \$100 note. The English pound note was the currency used in 1869 when SBS Bank was founded and today its equivalent value is \$103.13.

140 YEARS STRONG

It is certainly inspiring and sobering to be one of New Zealand's most esteemed and reputable financial institutions at 140 years old and celebrating our recent status as the country's newest bank at the same time.

In true SBS Bank style, we have been recognising the great occasion of our 140th birthday with our people and their communities. It was great fun to be able to share giant, indulgent chocolate cakes with visitors to our branches during the week of our official birthday on 23 March 2009. Several branches stepped back in time and dressed in period costume from yesteryear for the occasion, appreciating in the process how times have changed for the better when it comes to comfort!

Since opening in Invercargill 140 years ago, SBS Bank has successfully navigated through a great depression, two world

wars, many bouts of economic turmoil and the introduction of decimal currency.

We have built a loyal membership base through a team of SBS Bank people who are more than dedicated to offering professional service. They want to make a positive difference in the lives of their customers.

Albert Samuel Froggat was president from 1931 to 1947. He captured the purpose of SBS Bank with these words:

"A good building society run in the interests of its members with integrity of purpose is not only advantageous to the individual, to the city and surrounding district, but is a national asset and with no other motive than the betterment of the people it serves."

REPORTING STANDARDS

Among the many positives of bank registration come obligations, not the least of which is a number of new and revised reporting standards required under the governance of the Reserve Bank of New Zealand. SBS Bank is required to prepare and make publicly available quarterly disclosure statements.

Bank registration also brought about the introduction of a new complaints procedure and membership to the Banking Ombudsman scheme. In line with our 140-year-old values, we want to maintain our commitment to exceptional customer service and ensure any customer complaints are resolved quickly and efficiently.

DIRECTORS AND STAFF

Achieving bank registration during this financial year entailed a significant extra work load for everyone at SBS Bank.

The registration deadline, when coupled with the high standards of information required by the Reserve Bank, at times tested the resolve of all those involved but we achieved our objective with time to spare.

We should also recognise the tremendous amount of skill and determination applied by all of our SBS Bank staff in achieving such a wonderful financial result during this unprecedented and turbulent year. Their attention to providing members with highly focused customer service is the vital component in ensuring the ongoing success of SBS Bank. On behalf of our members, we salute you and thank you all.

On behalf of our members, we should applaud the many hours of dedicated effort our entire SBS Bank team applied in achieving what our consultants first said was impossible – bank registration as a building society.

THE YEAR AHEAD

It is clear that this recession will be the toughest that any of us has experienced in our working lives and SBS Bank will not be immune. We expect general economic conditions and the downturn in the housing market will manifest itself through increased arrears and bad debt levels. SBS Bank has stood the test of time and faced adversity many times in its 140 years and we are well positioned to manage through this recession.

Our investments are all in New Zealand, with more than 96 percent secured by mortgage over property, and we have no exposure to bonds of the type that have crippled many banks overseas.

While the current economic climate may slow our expansion plans, SBS Bank remains open to consider merger or acquisition opportunities that provide strategic value in line with our ambition to grow our provincial footprint. We remain committed to realising our desire to fill the void left by the demise of the 'community bank' in New Zealand and believe we can achieve this without compromising our product and service delivery.

Despite the severe economic recession and expected challenging times ahead, SBS Bank remains in good heart. Retaining our mutual, member-owned structure while strengthening our position by achieving bank status, we are able to stick to what we know best – sustainability through prudence, nurturing our communities, sharing benefits and providing an environment where our people really do make a difference!



J W A (Acton) Smith
Chairman



R L (Ross) Smith
Chief Executive



YOUR BRANCH MANAGERS

It's great to be able to work for a New Zealand-owned bank that has a rich heritage of wanting to be as active in its community as it possibly can be and know that it is something that won't change.



STANDING: From left to right

- | | | | | |
|---------------------------------|-------------------------------------|--|---|-----------------------------|
| Brian Dawson
Blenheim | Terri Gregory
Tauranga | Matthew Mark
Christchurch -
Riccarton | Ian Pollock
Christchurch -
Ferrymead | Scott Bowden
Gore |
| Glen Clarkson
Timaru | Neil Bramley
Invercargill | | | |

SEATED: From left to right

- | | | | | |
|---------------------------------|----------------------------------|---|--|---|
| Andrew Kilsby
Dunedin | Nicki Bennett
Hamilton | Allan Motion
Queenstown
(Retired May '09
Patricia Muir
started June '09) | Mike Brownie
Christchurch -
Papanui | Mark Reid
Christchurch -
Manchester Street |
| Lynn Manson
Cromwell | Rod Fox
Nelson | | | |

YOUR DIRECTORS

We are privileged to be the current guardians of this member-owned asset that is SBS Bank and inspired by the strength of purpose shown by the directors of the past 140 years.



STANDING: From left to right

Jeff Grant

John Ward
BCom (Otago) FCA
Deputy Chairman

Jeff Walker
LLB

Greg Mulvey
BCom CA, FNZIM

SEATED: From left to right

Garry Diack
MA (Hons)

Ross Smith
BCom, FNZIM

Acton Smith
BCom, FNZIM
Chairman

Kathryn Ball
BCom CA

J W A (Acton) Smith
BCom, FNZIM
Chairman

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

He is chairman of the Southland Leisure Centre Charitable Trust and was a founding director of Foveaux Radio.

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

Member: Audit & Risk Committee
Chairman: SBS Bank Charitable Trust

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

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

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

Mr Ward is the Chancellor of the University of Otago and has been a member of the University Council since 2003.

Director: Finance Now Ltd
Trustee: SBS Bank Charitable Trust
Member: Audit & Risk Committee
Chairman: Remuneration Committee

J B (Jeff) Walker
LLB

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

He was a member of the Southland District Law Society Council from 1991 – until this year and is a director of several private companies.

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

Chairman: Funds Administration
New Zealand Ltd
Chairman: Finance Now Ltd
Member: IT Committee

G J (Greg) Mulvey
BCom CA, FNZIM

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

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

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

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

G J (Garry) Diack
MA (Hons)

Mr Diack joined the board in 2005 and is an independent management consultant providing corporate performance and strategy advice to companies throughout Australia and New Zealand.

He also chairs General Cable Superconductors, sits on the board of the Ashburton Trading Society (ATS) and is a member of the New Zealand Institute of Directors and the Australian Institute of Company Directors.

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

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

R L (Ross) Smith
BCom, FNZIM

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

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

Mr Smith attended the prestigious Harvard Business School Advanced Management Programme and has been a member of the executive of the non-bank industry body, the Financial Services Federation, for the past 17 years.

Mr Smith is also a director of Electricity Invercargill Limited, PowerNet Limited and Power Services Limited.

Managing Director: SBS Group
Director: Southsure Assurance Ltd
Director: Funds Administration
New Zealand Ltd
Director: Finance Now Ltd

J J (Jeff) Grant

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

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

Mr Grant is a director of the Animal Health Board, AGMARDT and the Milford Development Authority.

K J (Kathryn) Ball
BCom CA

Mrs Ball, a practising chartered accountant and taxation specialist, joined SBS Bank in April 2006.

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

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

Chairperson: Audit & Risk Committee
Trustee: SBS Bank Charitable Trust

YOUR EXECUTIVE

We take great pleasure in seeing our dedicated SBS Bank teams delivering exemplary service – it's why our customers are able to discover a world of care and respect they didn't imagine possible from a bank.



STANDING: From left to right

Lana Winders
General Manager
Corporate Performance

Paul Atkinson
General Manager
Retail

SEATED: From left to right

Martin Gale
General Manager
Information & Technology
Services

Tim Loan
General Manager
Finance

Ross Smith
Group Managing
Director / CEO

Malcolm Little
General Manager
Agribusiness

Summary Income Statement - Banking Group for the year ended 31 March 2009

	31/3/09 \$000	31/3/08 \$000
Total Operating Income	77,487	71,464
Operating Expenses	42,922	41,074
Provision for Credit Impairment	12,446	9,074
Operating Surplus	22,119	21,316
Add Net Gain/(Loss) from Financial Instruments Designated at Fair Value	(6,022)	(1,340)
Add Revaluation of Property	60	60
Surplus Before Income Tax	16,157	20,036
Net Surplus	12,057	14,327

Summary Statement of Changes in Equity - Banking Group for the year ended 31 March 2009

Net Surplus for the year	12,057	14,327
Net Change in Cash Flow Hedging Reserve, Net of Tax	(11,309)	-
Other Recognised Revenues and Expenses	14	110
Total Recognised Revenues and Expenses	762	14,437
Realised Reserves	-	597
Dividends Paid to Minority Interests	(2,228)	(200)
Other Movements in Minority Interests	1,680	11
Movements in Equity for the year	214	14,845
Opening Equity	155,366	140,521
Closing Equity	155,580	155,366
Tier One Capital	162,927	151,644
Total Capital	205,949	152,750

Summary Balance Sheet - Banking Group as at 31 March 2009

Assets		
Liquid Assets and Securities	102,362	53,467
Advances	2,403,909	2,334,242
Other Assets	34,906	38,562
	2,541,177	2,426,271
Liabilities		
Redeemable Shares	1,851,828	1,693,284
Deposits	251,477	203,465
Subordinated Redeemable Shares	42,226	-
Other Liabilities	240,066	374,156
	2,385,597	2,270,905
Equity		
Attributable to Members of the Society	151,316	151,625
Attributable to Minority Shareholders	4,264	3,741
	2,541,177	2,426,271

Summary Cash Flow Statement - Banking Group for the year ended 31 March 2009

Net Cash Inflow from Operating Activities	48,260	2,820
Net Cash Inflow / (Outflow) from Investing Activities	282	(2,473)
Net Cash Outflow from Financing Activities	(424)	(1,090)
Net Increase / (Decrease) in Cash Held	48,118	(743)
Add Opening Cash and Cash Equivalents	51,308	52,051
Closing Cash and Cash Equivalents	99,426	51,308


Chairman
J W A Smith
9 June 2009


Deputy Chairman
J F Ward

The information included in the summary Financial Statements has been extracted from the audited full Financial Statements and authorised for issue by the Board on 9 June 2009.

I Accounting Policies

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

These summary Financial Statements have been prepared in compliance with FRS-43: Summary Financial Statements and comply with NZ GAAP as it relates to summary financial statements. SBS has prepared the summary Financial Statements for members who have made an election under section 97B of the Building Societies Act 1965 to receive summary Financial Statements. The specific disclosures included in the summary Financial Statements have been extracted from the full Financial Statements dated 9 June 2009. The full Financial Statements from which the summary Financial Statements have been produced have been audited by KPMG, who expressed an unqualified opinion in relation to those Financial Statements as at 9 June 2009. These summary Financial Statements have not been examined by KPMG for consistency with the full Financial Statements.

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

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

The full Financial Statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and under 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-orientated entities and the Registered Bank Disclosure Statement (Full and Half-Year - New Zealand Incorporated Registered Banks) Order 2008. The financial statements also comply with International Financial Reporting Standards.

There have been no changes in accounting policies covered by these financial statements.

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

Role of the Board and Committees

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

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

The Audit and Risk Committee which is a sub committee of the Board is charged with the responsibility of:

- Overseeing the quality of financial information presented to the Board;
- The effectiveness and integrity of the internal control environment;
- SBS' compliance with regulatory requirements that impact on the business; and
- The external and internal audit functions.

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

Credit risk management

Credit risk is the risk of loss arising from the non-performance of a counterparty to an instrument or facility. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual arrangements, and encompasses both on and off-balance sheet instruments. Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent on the level of risk. Credit risk at a retail level is managed by the branch retail network and lending committee and involves a thorough evaluation of the credit risk associated with potential borrowers, the taking of security against the loan and close ongoing monitoring of account performance. Loans which show signs of adverse performance are managed by the debt management team, which is responsible for the collections and recovery process. At a wholesale level, credit risk is managed with reference to specific limits as outlined in detailed treasury management policies and reported to the Board on a monthly basis.

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 appropriate hedging 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, through the use of committed and uncommitted wholesale funding facilities, through utilisation of securitisation vehicles and, through management control of the growth of the business.

4 Commitments

At 31 March 2009 SBS had \$22,212,000 (2008 \$30,314,000) of advances approved but undrawn and \$227,507,000 (2008 \$236,256,000) of undrawn balances under revolving credit mortgage facilities.

5 Advances - Banking Group

	31/3/09 \$000	31/3/08 \$000
Gross Advances	2,422,520	2,344,516
Less Provisions for Credit Impairment	12,798	7,097
Less Deferred Fee Revenue and Expenses	5,813	3,177
Total Net Advances	2,403,909	2,334,242

6 Provision for Credit Impairment - Banking Group

	31/3/09 \$000	31/3/08 \$000
Individual Provisions Against Advances and Loans		
Balance at Beginning of the Year	3,405	298
Net Increase / Decrease Charged to Income Statement	4,650	3,107
Balance at End of the Year	8,055	3,405
Collective Provisions Against Advances and Loans		
Balance at Beginning of the Year	3,692	3,705
Net Increase / Decrease Charged to Income Statement	54	(13)
Provision on Acquisition	997	-
Balance at End of the Year	4,743	3,692
Total Provisions for Credit Impairment	12,798	7,097
Movements taken to Income Statement		
Bad Debts Written Off During the Year	7,742	5,980
Movement in Individual Provisions	4,650	3,107
Movement in Collective Provisions	54	(13)
Provision for Credit Impairment to Income Statement	12,446	9,074

7 Asset Quality - Banking Group

	31/3/09 \$000	31/3/08 \$000
Neither Past Due or Impaired	2,359,234	2,302,789
Individually Impaired Amount	21,848	8,355
Past Due Amount	35,625	30,195
Total Provision for Credit Impairment	(12,798)	(7,097)
Total Carrying Amount	2,403,909	2,334,242

8 Fair Value - Banking Group

Disclosed below is the estimated aggregate fair value of the Banking Group's financial instruments. It is intended to provide an indication of the fair value of financial instruments and not the fair value of the Banking Group's business as a whole. It specifically excludes certain non-financial instruments and a range of intangible and relationship benefits which are integral to a full assessment of the Banking Group's financial position and the value of its business. Detailed disclosures on fair value are included in the full Financial Statements.

	31/3/09		31/3/08	
	Carrying Amount \$000	Fair Value \$000	Carrying Amount \$000	Fair Value \$000
Balance Sheet Items				
Assets	2,511,927	2,527,650	2,403,860	2,398,647
Liabilities	2,379,022	2,398,203	2,264,365	2,263,370

9 Liquidity Risk - Banking Group

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

Contractual Maturity Profile	31/3/09			31/3/08		
	Current Assets \$000	Non-current Assets \$000	Total \$000	Current Assets \$000	Non-current Assets \$000	Total \$000
Assets						
Advances	173,378	2,230,531	2,403,909	157,539	2,176,703	2,334,242
Liquid Assets and Securities	101,033	1,329	102,362	52,458	1,009	53,467
Other Monetary Assets	5,656	-	5,656	16,151	-	16,151
	280,067	2,231,860	2,511,927	226,148	2,177,712	2,403,860
	Current Liabilities \$000	Non-current Liabilities \$000	Total \$000	Current Liabilities \$000	Non-current Liabilities \$000	Total \$000
Liabilities						
Redeemable Shares	1,715,949	135,879	1,851,828	1,647,844	45,440	1,693,284
Other Deposits	245,217	6,260	251,477	195,646	7,819	203,465
Subordinated Redeemable Shares	-	42,226	42,226	-	-	-
Other Monetary Liabilities	128,638	104,853	233,491	230,134	137,482	367,616
	2,089,804	289,218	2,379,022	2,073,624	190,741	2,264,365
Unrecognised Loan Commitments	22,212	-	22,212	30,314	-	30,314

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.

	31/3/09 \$000	31/3/08 \$000
Asset Liquidity	102,362	51,465
Committed and Undrawn Funding Lines	233,000	304,040
Eligible RMBS Collateral (less haircut*)	98,537	-
Total Liquidity	433,899	355,505

*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.

10 Capital Adequacy

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

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

- Total qualifying capital must not be less than 8% of Risk Weighted Exposures
- Tier one capital must not be less than 4% of Risk Weighted Exposures
- Capital must not be less than NZ \$30 million.

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

	31/3/09	31/3/08
Regulatory Capital Ratios		
Tier One Capital Expressed as a Percentage of Total Risk Weighted Exposures	9.85%	9.52%
Total Capital Expressed as a Percentage of Total Risk Weighted Exposures	12.46%	9.59%

11 Subsequent Events

There have been no material subsequent events after 31 March 2009.

NOTICE OF 2009 ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of members of the Southland Building Society (SBS) will be held on the 4th floor of SBS Bank's office building, 51 Don Street, Invercargill on Wednesday 29 July 2009 at 5.30pm.

I. Ordinary Business

I.1 Adoption of Annual Report

To receive and consider the Financial Statements together with the reports of the Directors and Auditors of Southland Building Society for the year ended 31 March 2009.

I.2 Election of Directors

Mr G J Diack and Mrs K J Ball retire by rotation and, being eligible, are offering themselves for re-election. There being no other candidates, the re-appointment of Mr G J Diack and Mrs K J Ball is to be confirmed.

I.3 Approval of Directors Fees

To authorise the Directors to fix their remuneration.

I.4 Appointment of Auditors

To record the appointment of the auditors for the 2009/2010 year.

I.5 General Business

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

By order of the Board

T D R Loan
Secretary
2 June 2009

NOTE:

I. Proxies

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

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

DIRECTORY

Chairman

Mr J W A Smith
BCom, FNZIM
Company Director
Invercargill

Deputy Chairman

Mr J F Ward
BCom FCA
Chartered Accountant
Invercargill

Directors

Mr J B Walker
LLB
Barrister & Solicitor
Invercargill

Mr G J Mulvey
BCom CA, FNZIM
General Manager /
Company Director
Invercargill

Mr G J Diack
MA (Hons)
Management Consultant
Christchurch

Mrs K J Ball
BCom CA
Chartered Accountant
Invercargill

Mr R L Smith
BCom, FNZIM
Chief Executive
SBS Bank
Invercargill

Mr J J Grant
Farmer / Company Director
Balfour

All Directors can
be contacted:
c/- SBS Bank
51 Don Street
Invercargill

Chief Executive

Mr R L Smith
BCom, FNZIM
Invercargill

Secretary

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

Registered Office

51 Don Street
Invercargill

Solicitors

Buddle Findlay
78 Worcester Street
Christchurch

Cruickshank Pryde
42 Don Street
Invercargill

Group Auditors

KPMG
10 Customhouse Quay
Wellington

Banker

Westpac Banking
Corporation
188 Quay Street
Wellington

Trustee

Trustees Executors Limited
50 – 64 Customhouse Quay
Wellington

BRANCH DIRECTORY

Invercargill - Head Office

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

North Invercargill

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

Gore

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

Dunedin

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

Queenstown

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

Cromwell

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

Timaru

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

Christchurch - Manchester St

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

Christchurch - Ferrymead

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

Christchurch - Riccarton

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

Christchurch - Papanui

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

Nelson

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

Blenheim

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

Hamilton

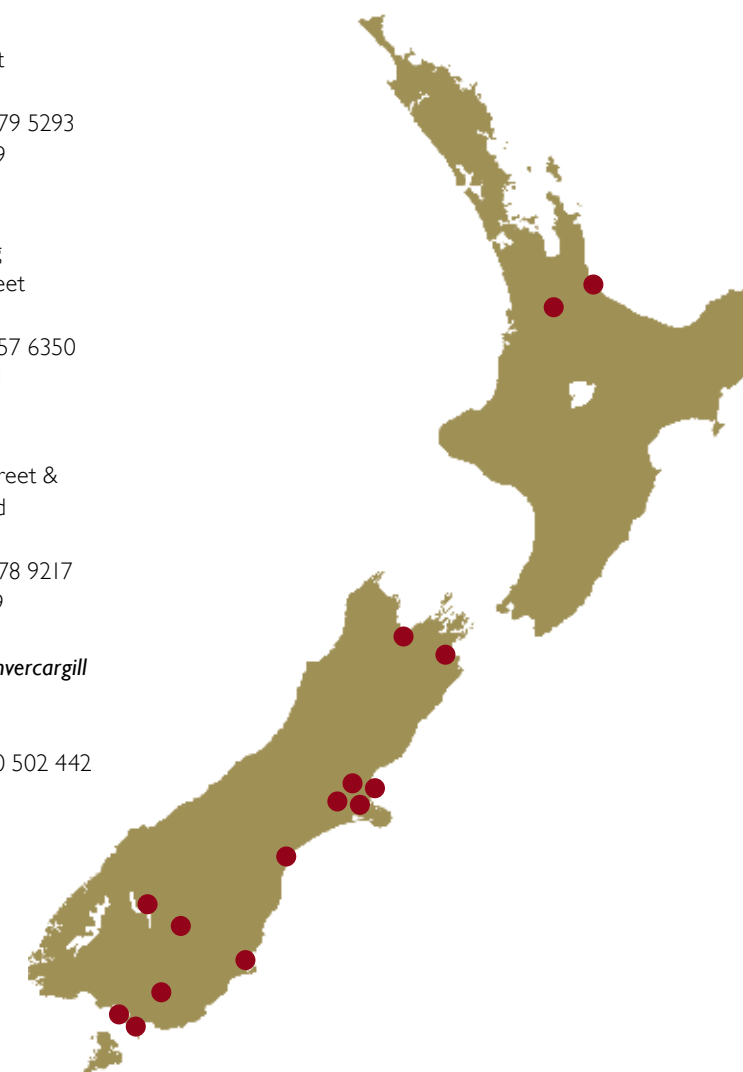
Novotel Building
354 Victoria Street
(PO Box 19222)
Telephone: 07 957 6350
Fax: 07 957 6351

Tauranga

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

Agribusiness - Invercargill

66 Don Street
PO Box 835
Telephone: 0800 502 442



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