



New Zealand's own **community** bank since 1869





OUR PEOPLE MAKE THE DIFFERENCE

OUR VISION

SBS Bank ... the New Zealand Community Bank.

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.

Cover - back row from left: SBS Bank staff, Dominic Rikiti (Finance), Lynn Manson (Cromwell manager), Scott Bowden (Gore manager).

Front row: Devon Winders, Hannah Bowden, Michael Manson.



Nicki Bennett MANCHESTER ST BRANCH MANAGER

"The values, culture and New Zealand ownership of SBS Bank and the commitment to deliver exceptional service to their customers and their communities inspired me to join the Hamilton team seven years ago.

"It is so refreshing to take up the helm of our Manchester Street branch, in Christchurch, and know that those principles remain consistent wherever you go with SBS Bank."

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OUR HIGHLIGHTS AT A GLANCE

- 1st Anniversary as New Zealand's only customer-owned registered bank – 7 October 2009
- Total assets up \$87 million (3%) to \$2.63 billion
- Loan advances up \$56 million (2%) to \$2.5 billion
- Regulatory capital up \$22 million (11%) to \$228 million
- Depositors' funds up \$133 million (6%) to \$2.26 billion
- Operating surplus up \$878,000 (5%) to \$19.4 million
- Liquidity levels up \$27 million (6%) to \$461 million

COMMUNITY PARTNERS – MANY PLEASURES!

We make it no secret that we are always looking for new and innovative ways of giving back to our customers and our communities. Although some might suggest plunging into ice is a little over the top.



Taking an icy plunge for the Heartstopper Challenge are, clockwise from left, Lindy Howard, Mike Brownie, Poppy Pavey and Rebekah Holdaway.

HEARTSTOPPER CHALLENGE

TAKING THE PLUNGE

Everyone has their good and bad days. For families like Christchurch's Holdaway family, they know just how important those good days are. Jackson Holdaway was only a baby when he was flown to Auckland for his first surgery. Diagnosed with a condition called Hypo Plastic Left Heart, he is a survivor of several open heart surgeries with more to go and he is only eight.

Always willing to help out a great community cause, the team from SBS Bank Papanui joined Jackson's mother and SBS Bank

Papanui member Rebekah, to take an icy plunge for the Heart Children Week Heartstopper Challenge in May.

Cathedral Square was filled with hundreds of relieved supporters and onlookers as SBS Bank Papanui manager Mike Brownie, business development officer Poppy Pavey and customer services officer Lindy Howard joined Rebekah in the pool of iced water as part of the challenge.

Member benefit

Papanui team successfully raised **\$1250** for Heart Children



Inspirational at 70 - Carol Thompson

SBS MARATHON

30 YEARS – STILL IN THE RACE

An inspiration for many, Carol Thompson came across the finish line well under her target time and said: "I feel super – the best I've felt for many a year."

Carol has a long-standing association with the SBS Marathon – she ran the first one 30 years ago and she still has the original t-shirt and newspaper article to prove it. A contented SBS Bank member, at Ferryhead in Christchurch, Carol took up long-distance running when she decided to throw her daughter's over-sized sand shoes on and go for a jog 35 years ago.

A couple of years off with injuries caused by osteoporosis and our sprightly 70-year-old was back to celebrate our 30th anniversary SBS Marathon this year by completing her 27th half marathon in the new over-70s age group – and she was the first woman home!

A FAMILY AFFAIR

The SBS Marathon is often regarded as a personal challenge for the thousands who take part and that personal challenge has gone a step further for the Cotter family.

Running the SBS Marathon for their fourth year this year Craig Cotter's three sons Eden, aged 12, Reuben, 10, and Isaac, eight, all bypassed the Kids MaraFun option and instead opted to tackle the 10km run with Dad. That's because they all wanted to beat him!

Craig says his family loves taking part in the SBS Marathon each year and they get excited and pumped up about it. "It's well run. There's a medal to get at the end and a great aspect for my boys is the timekeeping – they're clearly quite competitive." Competitive they were too, with all three boys crossing the finish line before Dad, while eight-year-old Isaac can revel in the honours of being the youngest competitor to enter and complete the 10km run.



Ready to challenge dad are the Cotter boys, Reuben, Isaac and Eden



And they're off!

SHARING THE COMMUNITY SPIRIT

What a day! The biggest SBS Marathon in its 30-year history and the team at SBS Bank couldn't have been prouder to take part and share in the huge sense of community spirit. As around 6000 participants set out to achieve their personal goals, we went the extra mile to reciprocate the loyalty and support shown to us by our members and the community in which we operate.

In our ninth year partnering the SBS Marathon, we took the opportunity to step up our involvement.

Member benefits

- 80 free entries for SBS Bank members
- SBS Bank member exclusive VIP area on race day
- Community bank stand for non-profit organisations with an SBS Star account to promote and fundraise during the event

YOUR DIRECTORS' REVIEW

A solid performance achieved during another challenging year does not happen by accident. A blend of the right people, the right attitude and the right business model ensures SBS Bank continues to stand strong.



The past two years have, without question, been amongst the most difficult economic periods we have experienced in our 141 years. Many organisations within the banking, finance and savings sectors throughout the world have either failed, moved into receivership or moratorium or been forced to merge within the sector.

So far New Zealand has escaped relatively unscathed, yet the European debt crisis continues to threaten the global economic recovery and the economic powerhouses of USA and UK struggle to manage their fragile economies. Fortunately, the New Zealand and Australian banking systems were not exposed to the high-risk lending activities that occurred either in the USA and Europe and nor were they active investors in the bonds (Collateralised Debt Obligations, CDOs) that supported these activities. The outcome of this high-risk lending activity, when coupled with some dubious investment banking practices, inevitably consigned the property boom to an inglorious collapse.

We would be foolish to suggest that New Zealand has been totally unaffected by this – we have. However, the impact on SBS Bank has been minimal due to the prudent and conservative way in which we are managed – and this is a tradition we will not be deviating from.

It is pleasing to see SBS Bank has emerged with a strong profit result, greater liquidity and stronger capital ratios. These results, when combined with a rigorous review of all lending practices and an expanded risk management framework, means SBS Bank has survived the recession profitably and is very well positioned for the future.

THE YEAR IN REVIEW

The past financial year was our first full year of trading after gaining bank registration in October 2008 – and what a year it was! Transitioning to the more highly-regulated banking environment was challenging enough for a new bank and, when coupled with a troubling economic recession and increasing regulation, our resources were at times stretched to the limit. The good news is we have met all those challenges in much the same way as we have been doing for the past 141 years.

The unfortunate downside of this increasing regulation is that it does come at a significant cost to the business and ultimately you – our members.

The collapse of many banks throughout the USA, UK and Europe and several finance companies in New Zealand has meant our regulators, for security reasons, have focused more

emphasis on capital and liquidity ratios. At 13.4% SBS Bank comfortably exceeds the minimum capital adequacy ratio of 8% set by the Reserve Bank of New Zealand (RBNZ) and we are well in excess of the new RBNZ liquidity ratios that came into force on 1 April 2010.

Approximately 10 years ago your directors made a decision to provide members with a greater range of products and services to better balance our financial performance in times of economic adversity. The decision was made to establish a consumer finance company, Finance Now Ltd, a funds management company, Funds Administration NZ Ltd, and to grow our existing life insurance company, Southsure Assurance Ltd. A few years later additional banking products were added in the form of cheque books, debit cards, telephone and internet banking and more flexible lending products. It is fair to say this diversity has stood us in good stead in these difficult economic times with all subsidiaries contributing healthy profits to our SBS Bank Group results.

As a Group we have taken a very conservative view when assessing loans for any impairment and, while the charge against profit in the past year of \$15.7 million is well in excess of levels we are comfortable with, it takes into account a view that, in terms of the economic recession, we are far from out of the woods yet.

Despite this provisioning, our operating surplus of \$19.4 million is ahead of last year (\$18.5 million) and our net surplus after tax of \$15 million is the highest since 2007. Given the performance of many of our contemporaries, members can be well satisfied with these results.

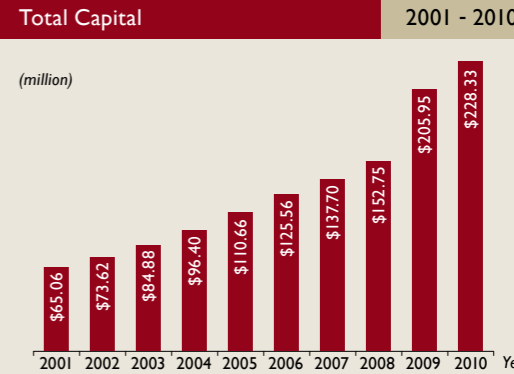
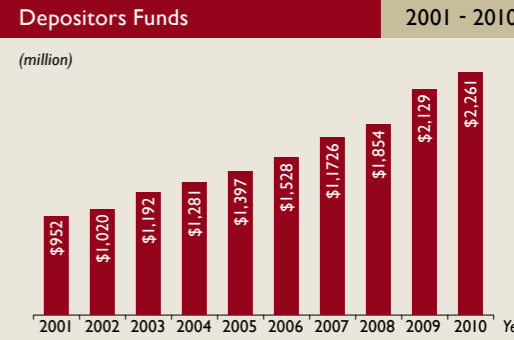
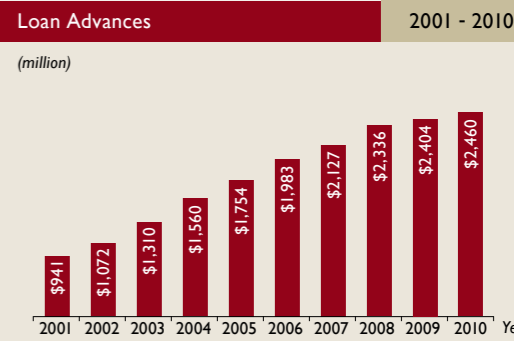
Members will also be heartened to know that your equity now stands at a very healthy \$172 million, providing significant security for your investments.

FUNDING

As indicated, cash along with capital seems to be the primary focus of our regulators. This will not be surprising to many of you who were brought up in an era when these were the very values that underpinned the whole of society and not just the finance sector. Banks have always been required to carry minimum capital ratios. However, the introduction of the new liquidity ratios from 1 April 2010 has forced the larger trading banks to significantly increase their funding from the domestic market rather than offshore. This has resulted in very competitive investment rates for investors of between 1% and 2% greater than wholesale rates. This has had the flow-on effect of pushing up lending rates, which now no longer have direct relativity to the 90-day bank bill rate or the OCR, which were the traditional benchmarks.

Only time will tell how long this disjoint will last. What we do believe, however, is that the raising of the OCR by the RBNZ in the coming months won't automatically be reflected in similar increases to investment and lending rates – we would anticipate a reduced gap between wholesale and retail rates.

The ongoing response from our customers and the wider market to our New Zealand-owned status and increased credibility as a young, customer-owned bank, coupled with our long history of providing a secure haven for investors, has seen depositors' funds grow by a further \$116 million through our quality suite of savings and investment products. We were also able to strengthen the balance sheet by raising a further \$17 million by way of our five-year Premier Bond. ►



When SBS Bank made the move to become the country's first customer-owned bank, a number of new opportunities became available, not the least being our ability to offer a more comprehensive and innovative range of products and services. Now, with bank registration, we can offer online banking services for our solicitor firms, which provides 24-hour, web-based access to solicitors accounts from anywhere in the world.

With open ears, we heard our members' call for the launch or introduction of several products and services during the year, including the Cash Passport, SBS Star Investment Special and PIE term deposit. It is pleasing to be able to provide

our members with greater services and benefits through the introduction of new products or enhancements. The response to the prepaid travel card has exceeded expectations with uptake from pending travellers continuing to swell.

In our first official year as a registered bank, it was a notable credit to feature in the national Canstar Banking Awards not once but three times. To secure a win in our debut year for the best fully featured transactional account was testament to our ongoing commitment to produce smart products and services for the benefit of our members.

SBS BANK NETWORK

To ensure our exceptional member service is delivered in the most welcoming environment, we have continued our refurbishment programme with Invercargill's Windsor branch and Papanui branch, in Christchurch, now enjoying the ambience of our trademark SBS Bank decor. This is something our customers at Christchurch's Riccarton branch will also be enjoying following the completion of a scheduled expansion and refurbishment later this year.

To enhance even further the first-rate experience delivered in the Waikato, branch relocation is imminent for our Hamilton team. The opportunity to offer the comfort of greater space and improved accessibility at a more central site is a reflection of SBS Bank's commitment and dedication to the people of Waikato, who have supported us so strongly over the past 10 years.

With a continued community focus on businesses adhering to environmentally sustainable practices, SBS Bank has worked to develop improvements for our waste minimisation processes. In recognition of our achievements as a corporate member of the Southland Sustainable Business Network, we were proud to be a finalist for the Commercial Award in the 2009 Southland Environment Awards.

SBS RURAL

Our specialised team of rural staff have continued to provide first-class, on the farm financial services and our rural members remain valued and significant contributors to the overall success of SBS Bank. Having qualified staff developing practical financial solutions for our agribusiness members has led our rural team to master expertise not only in the traditional sheep, beef and dairy farming, but also in deer farming, fishing, viticulture and horticulture, as well as eco-tourism.

Always eager to work with our rural clients out in the field, we were more than happy to showcase our SBS Bank products and services to the 25,500 visitors and many SBS Bank members on site at the Southern Field Days 2010. We were also proud to be the major sponsor for the SBS Bank Southland on Show for the second year. ▶

IT PAYS TO BELONG

It is our mission to benefit our members through the smartness of our banking products and services and the efficiency and genuine warmth of our people at SBS Bank. However, we will continue to find other original ways of giving back.

Member = customer who has ownership in SBS Bank

Being a community bank that is owned by its members gives SBS Bank a unique perspective on the importance of keeping the 'boss' happy. The staff of the Australian-owned banks are unlikely to ever meet their owners. By contrast, the staff of SBS Bank are face-to-face with SBS Bank owners everyday. That's because when a customer opens an account, they automatically become a member of SBS Bank, complete with the voting rights of an owner and a Board of Directors to represent their interests.

But the privileges of membership do not stop there. While smart products and an exceptional service will always be the foundation of the SBS Bank experience, this year we have been more successful than ever at leveraging our community sponsorships to bring fresh, innovative value to our members.

Here are just a few of the privileges, members have used over the past 12 months:

- 10% ticket discounts through our sponsorships, including the Southland Sharks and Otago cricket games and the St James Theatre.
- Product discounts through our members and sponsorships, including Exult's Top 20 Checklists for non-profit community groups and Bright in Boxes gift basket orders.
- Free event publicity, allowing SBS Bank members and SBS Star account holders to promote their community events and fundraisers through our website and on our community notice boards in our branches.
- Free business or community group promotion, through our SBS Bank online member web community.

These are just some of the ways SBS Bank can give a little bit more back to our loyal members and our communities.

225% increase in new member benefits offered 2009 - 2010

99.3% members surveyed would recommend SBS Bank to family and friends.

* survey completed by SBS Bank's SSPM outbound call programme - January 2010

Photo: Dianne Manson

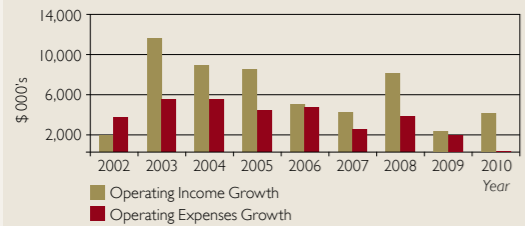


René Rougeau in action with the Southland Sharks

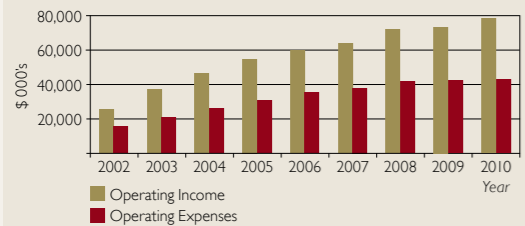


Otago Volts Brendon McCullum sends a ball sailing

Growth in Income vs Expenses 2002 - 2010



Income vs Expenses 2002 - 2010



Rolling out customer service at the Southern Field Days



COMMUNITY SUPPORT

At a time when community groups and charities find it increasingly difficult to secure sponsorship, SBS Bank continues to strengthen our commitment to invest in our communities. That is why we are extremely proud of every one of our 270 sponsorships.

A key partnership taken on with the Cromwell Golf Club this year epitomised the two-way commercial and member benefit that is available when the relationship immediately blossomed into an all-embracing community affair. The timing could not have been better with the club planning toward a significant redevelopment project, as well as heightening its role as a community facility. The partnership is a great example of community alliance, with both organisations sharing long and successful histories and directly benefiting from the relationship.

Meanwhile, SBS Bank's community commitment went on a road trip when we were able to team up with Exult, a national organisation that provides practical resources for community groups. Partnering Exult for their non-profit conferences in Tauranga and Christchurch allowed many groups in our SBS Bank community to upskill themselves with new resources to assist them with fundraising, marketing, sponsorship and volunteer-related efforts.

Like Exult, SBS Bank believes our members and their non-profit organisations thrive when they are given real support through practical actions. ►



NON-PROFIT ORGANISATIONS REAP BENEFIT OF OWNING THEIR BANK

More than two years and 163 happy community groups since launching our SBS Star banking package, and the member-owned opportunity for SBS Bank to reward our communities continues to evolve to even greater heights – and the chances to find new ways SBS Bank can give back even more through SBS Star also continues to grow.

Direct member benefits

March 2010 – SBS Bank celebrates giving quarter of a million dollars (\$250,000) back to non-profit groups signed up with SBS Star.

Monthly – \$10,000 is shared between 10 non-profit organisations with SBS Star accounts every month.

SBS Star growth – More than 1000 hard-working, non-profit groups are now on board with SBS Star – almost double the number in the same period the year prior.

SBS Star Investment Special – \$16,489 was shared by 126 non-profit organisations with SBS Star accounts, as nominated by SBS Bank members.

December 2009 – Christmas comes early for the Southland SPCA, a SBS Star account holder, when SBS Bank members vote for them to become the charity recipient for the \$10,000 donation from the SBS Bank 2010 Golf Invitational.

YOUR COMMUNITY SPONSORSHIP

Major sponsorship for 2009 - 2010

SBS Sports House/ILT Velodrome – Invercargill | Hamilton Gardens Summer Festival First Night Funk – Hamilton
SBS Events Centre – Timaru | SBS St James Theatre – Gore | SBS Marathon – Christchurch | SBS Bank Tasman
Makos – Nelson/Marlborough | SBS Bank Hamilton Half Marathon | Southern Opera – Christchurch | Dunedin
Chinese Garden | SBS Bank Southland on Show | Otago Cricket – Dunedin | SBS Bank Golf Invitational –
Invercargill | SBS Bank Cromwell Golf Club | Rugby Southland Referees | Sport Southland Awards

TAURANGA

Exult Non-profit Conference
Omakoroa Golf Club
Omakoroa Bowling Club
Tauranga Bowling Club
Western Bay of Plenty Tennis Seniors
Otumoetai Tennis
Kaimai School
Bethlehem College
Katikati Athletics
Pahoa School

HAMILTON

Sport Waikato
Lochiel Golf Club
SBS Bank Half Marathon
Newton School Art Awards
Waikato Diocese Summer Opportunity Camp
Rotary Golf Day
Newstead School Agri Day
Cantando Choir Anzac Day Concert
United Women's Bowls
Annual Rotary Book Fair
Waikato Embroiderers Guild
Waikato Netball

NELSON

Stoke Bowling Club
Nelson Endurance Club
United Bowling Club
Nelson School of Music
Property Investors Association
Angel Women's Loan Fund

BLENHEIM

Awatere Golf Club
Marlborough Golf Club
Marlborough Tennis Association
Rarangi Golf Club
Riding for the Disabled

CHRISTCHURCH

New Balance SBS Pier 2 Pier 5km & Kids
Beach Mile Series
Harewood Golf Club
Olympic Harriers 1.5km Run / Walk
Craigieburn Valley Ski Club
Canterbury Veteran Golfers Association
Tai Tapu Golf Open
Canterbury District Law Society – Hunter Cup
Cashmere Bowling Club
Clearwater Golf Club

Fendalton Bowling Club
Sport Canterbury Sports Awards
Burwood Community Fair
Halswell Bowling Club
Halswell Athletics
Cashmere Bowling Club
Athletics Canterbury International Track Meet
NZ Spinal Trust
Naval Point Yacht Club

RICCARTON

Elmwood Bowling Club
Crockfords Bridge Club
Riccarton Rotary Club
Burnside Bowling Club
Rolleston Probus
Riccarton Racecourse Bowling Club

FERRYMEAD

Ferrymead Bays Football Club
Sumner Bowls Club
Waimairi Beach Golf Club
Mt Pleasant Bowls Club
Redcliffs School
Redcliffs Bowls
Mt Pleasant Tennis Club

PAPANUI

Kaiapoi Golf Club
Papanui Bowls
Avondale Golf Club
Parklands Bowls
Morrison Avenue Bowling Club
Rotary Belfast
St Albans Merivale Bowls
Oxford Squash Club
Tiddlers Multisport
Papanui School
St Joseph School

TIMARU

Aorangi Bowling Club
Ashbury Bowling Club
Eastern Districts Swimming
Gleniti Golf Club
Ophi College
Parent 2 Parent
Parkinsons South Canterbury
Soccer South Canterbury
South Canterbury Bowls
Temuka Golf Tournament
Timaru Bowling Club
Timaru Bridge Club
Timaru Festival – Hat n Hair Awards
Westend Croquet Club Tournament
Zonta Golf Tournament

CROMWELL

Central Stories Museum and Art Gallery
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
Clyde Bowling Club
Wanaka Golf Club
Wanaka Bowling Club
Relay for Life

QUEENSTOWN

Arrowtown Autumn Festival
Arrowtown Bowling Club
Queenstown Bowling Club
Altrusa Charity Golf
Queenstown Golf Ladies Classic
Queenstown Primary School
Queenstown Golf Club
Wakatipu High School Annual Production
Wakatipu Yacht Club Regatta
Wanaka Bridge Club

DUNEDIN

St Clair Golf Club
Makam Charitable Trust Foundation
Otago Children's Athletics
Otago Community Hospice – SBS Memorial Walkway
Dunedin Triathlon and Multisports Club
Kings High School
Otago Girls' High School
Kavanagh College
Otago Tramping and Mountaineering Club
Botanic Gardens Aviary

GORE

Hokanui Moonshiners' Festival
SBS Bank 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
Air Training Corps
Blackmount Community Pool
Bowls Southland
Central Southland Indoor Bowls
Corral Country Music
Computer Capers
Dressage Southland
Drummond District Bowling Club
Drummond Women's Golf
Edendale Primary School
Georgetown Bowling Club
Golf Southland
Green Acres Country Club
ILT Interclub Golf
ILT Kidzone Festival
Invercargill Athletics Club
Invercargill Citizens Bowling Club
Invercargill Contract Bridge Club
Invercargill Dodgers Softball
Invercargill Golf Club
Invercargill Harness Racing Club
Invercargill Lacemakers
Invercargill Sunrise Rotary Club
James Hargest College
James MacPherson Bowling Club
Limehills Bowling Club – Women's Section
Verdon College – Rugby
Waiau Valley Lions Club
Waihopai Women's Bowling Club
Waikiwi Bowling Club
Waikiwi Rugby Club
Waverley Scout Group

Southland Golf Club
Otautau Ladies Golf Club
Otautau Men's Golf Club
Otautau Bowling Club
Otataru Bowling Club
Queens Park Men's Golf
Queens Park Ladies Golf
Relay for Life
Ringa Ringa Heights Golf Club
Riverton Golf Club
Riverton Rocks Bowling Club
Rotary Club of Fiordland
Rotary Club of Invercargill
Rural Heritage Trust
Salford School
Shakespeare in the Park
Southland A and P Show
Southland Billiards and Snooker Association
Southland Children's Athletics
Southland Cricket Association
Southland Footnotes Dancers
Southland Girls' High – Hockey
Southland German Shepherd Dog Club Inc
Southland Indoor Bowls Club
Southern Institute of Technology
Southland Marathon – SBS Bank Kids Marafun
Southland Multiple Sclerosis Society Ltd
Southland Veterans Golf
Table Tennis Southland
Te Anau Contract Bridge Club
Te Rangi Bowling Club
Thornbury Home and School Association
Tokanui School
Tuatapere Community College
Tuatapere Golf Club
Verdon College – Rugby
Waiau Valley Lions Club
Waihopai Women's Bowling Club
Waikiwi Bowling Club
Waikiwi Rugby Club
Waverley Scout Group

Western Districts Indoor Bowling Sub Centre
Central Southland Rural Primary School Golf Tournament
Winton A and P Show
Rimu School
Riversdale Rugby Club
Catlins Area School
Menzies College
Drummond Golf Club
Southland Show Jumping
Winton Harness Racing Club
Dressage Southland
Lower Northland Sheep and 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
Central Otago Sports Awards
Cromwell Hockey Club
Gore A and P Show
Tarras Grapegrowers
Cromwell Harness Racing
Balfour Playcentre
Perendle Sheep Society of NZ
Heriot Collie Club
Waiau A and P Show



“Nawton School learners think there are solutions even when they can’t see them yet. Thanks SBS Bank for being part of the solution.”

Rubina Wheeler

SUPPORTING OUR COMMUNITY STARS

Seeing our hard-working, non-profit community groups so uplifted by the support that we offer them is a fantastic and hugely rewarding experience. The support we receive back in kind makes it a win-win for everyone involved.



Rubina Wheeler

NAWTON SCHOOL PRINCIPAL

With more than 20 years' involvement in education, Rubina Wheeler knew school finances were always tight in contrast to their desired wish list. A timely review of finance systems and the buzz around the Hamilton community from other non-profit groups already on board with SBS Bank proved an opportune time for Nawton School to make the switch last year.

“We all knew we were going to be getting a better deal by going to SBS Bank and Jo and all the staff are extremely helpful – we hadn’t seen our former bank manager in a year or two and certainly didn’t know their name.

“The SBS Star banking package for non-profit organisations has certainly proven its worth to our school with more than one \$1000 win to our credit. The prize money has helped to provide extra projects that have added value to the school for the benefit of our students.

“At our school we place great emphasis on building foundations so our students feel empowered and carry fundamental values with them for life. We continue to develop networks in our wider community that benefit our students and SBS Bank has certainly become a valuable community partner. The support that SBS Bank gives our school really does make it much more personal for everyone involved.”



Joanne Gilbertson

BUSINESS DEVELOPMENT OFFICER

An active community advocate and former volunteer firefighter, Joanne Gilbertson's enthusiasm for science fiction movies has not tinted the reality of what non-profit organisations have to contend with on a day-to-day basis.

“The thing about volunteering is many key club members can end up spending all their time fighting financial fires rather than doing what they are supposed to be doing, which is running their organisation.

“When SBS Bank introduced the SBS Star banking package I was so excited to be able to get out in the community and share, first-hand, the benefits. We’re nearing having 100 SBS Star holders on board and have scooped \$25,000 from the monthly prize draws for their direct benefit so far.

“One of the highlights of my job is being able to ring up winners, like Rubina, and tell them they have won \$1000. Fundraising is hard work and you just know that as soon as you get off the phone the great news is spreading like wildfire.

“Just to be able to give one person or an organisation a new idea or a different way of looking at something that benefits them financially is brilliant.”



Rod Fox

HAMILTON MANAGER

When Rod Fox moved from Waikato to Nelson to join SBS Bank he never lost his mooloo bells! This year the call of “red, yellow and black forever” has drawn him back, in search of new challenges as manager of our Hamilton branch.

Nine years experience with SBS Bank and a 34-year career in the banking industry sees Rod regarded as the elder statesman of the branch managers team and it is that sort of wisdom that will be welcomed back by the Hamilton community.

“It is great to return and see how the region is prospering and rekindle past friendships while forming many new relationships with people and their organisations who all help to make the city buzz with excitement.

“Keeping actively involved in community groups – be it a service club, Chamber or my local church – and seeing the wider growth of the region carries the most value and importance to me. I just had to be a part of that.”

SUBSIDIARY COMPANIES

The decision to grow and diversify has continued to prove successful with our subsidiaries returning a solid contribution to our group profitability, providing a combined \$9.9 million to our operating surplus.

Graham Duston
Executive Director

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Fax: 03 211 1167



Southsure Assurance Ltd

Southsure continued its record of strong growth despite challenging market conditions. A key highlight was the strong uptake of house, contents and vehicle insurance with policy numbers up 88% as members recognised the quality and value on offer.

With a raft of regulatory changes impacting the industry this year, the most significant will be the introduction of a new taxation regime for life insurance business from 1 July 2010. To cover the additional tax it is estimated premiums will need to increase by up to 30%.

The good news is our level premium policies are exempt from the new tax regime for as long as members choose to retain them. Members will therefore need to carefully consider their future needs before cancelling existing life and loan protection policies as higher premiums on future insurance policies purchased, due to age factors and tax, are likely to make any replacement policy significantly more expensive.



Finance Now Ltd (FNL)

The resilience of proven policies, procedures and practices coupled with outstanding customer service may well have accounted for Finance Now becoming the envy of the consumer finance industry. As we continued to grow our loan book and market share, arrears and bad debt levels remained at very pleasing levels – a unique position to be in during another difficult year of economic uneasiness.

As a New Zealand-grown organisation and a proud member of the SBS Group, we have continued to demonstrate a command for understanding our home market through our rapid response to our members' needs. All of these achievements have allowed us to produce a healthy increase in our return to SBS Bank and its members.

The outlook for Finance Now in the year ahead remains bright with the planned expansion of our internet-based capability, providing our customers with 24-hour access to obtain personal loans from the comfort of their own home.



Funds Administration NZ Ltd (FANZ)

Commitment to transparency and quality saw FANZ herald a satisfying record profit in the past year – a result shared with FANZ clients as their investments and portfolios continued to prosper. The result is testament to the consideration and dedication of the FANZ team as we reaped rewards from improved market conditions and increased investor support, driven largely by strengthened investment returns. Robust growth was also reflected through the Lifestages KiwiSaver Scheme. As more New Zealanders recognise the dividends, the plan will continue to evolve into the cornerstone for financial success in the future.

The year ahead will see FANZ reinvest back into the business to ensure that new regulatory requirements set out for Financial Advisers, KiwiSaver Schemes and Managed Funds are met. Continuing to emphasise a philosophy of quality and focus on delivering consistent returns and no surprises for investors will mean a bright future for all and ensure FANZ continues to be one of New Zealand's fastest growing financial advisory firms.

Fraser Properties Ltd

SBS Bank's head office building in Invercargill is owned by Fraser Properties and it is also home to the Alliance Group and NZ Post. The company continues to trade well and contributes to group profitability.

SOUTHLAND FOOTBALL ASSOCIATION

FOOTBALL KICKS OFF WITH SBS BANK

There has been a string of positive achievements to celebrate at the Southland Football Association. A new turf and gentle growth in junior numbers were boosted further when SBS Bank helped hundreds of budding young All Whites kick off their junior club competition this year by getting on board as the major sponsor.

Southland Football manager Ken Cresswell says their association, like SBS Bank, worked extremely hard in their community to assist their members and players and the support of SBS Bank really gave them a vote of confidence.

"It's an exciting time for Southland Football with the World Cup exposure this year and, like any hard-working organisation, we strive to do our job really well.

"If we provide a stimulating sporting environment, good service and well-run competitions, then people will spread the word so our organisation continues to grow and move forward. We know that's something we share in common with the great team at SBS Bank."



SBS Bank Invercargill manager Neil Bramley enjoys the Southland Football action.



STAFF

While bank registration brought with it an increase in regulations and reporting, it also led to greater expectations from the wider market and increased workload for our staff. As our dedicated team continued to provide first-class service and support in true SBS Bank style, they also managed a flurry of new compliance obligations and the delivery of new products and services as we grew into our new-found status as a bank. We proudly acknowledge and thank our staff throughout the country for their efforts in helping to successfully navigate SBS Bank through the first year as a registered bank.

BANK VERSUS NON-BANK

Our decision back in 2008 to exit the non-bank sector and gain bank registration was not taken without lengthy consideration of all of the implications such a move would trigger. It is fair to say it has proved to be one of the best decisions in our 141-year history.

While bank registration brings with it considerable obligations in terms of regulatory compliance, it also carries with it significant brand credibility in terms of strength, governance and commercial expertise and, in the case of SBS Bank, 141 years of success. Reflecting on the non-bank sector, we now see a growing list of finance company failures, moratoriums and significant trading losses. Even the good performers are facing big changes in regulation and compliance.

As evidenced by recent announcements, it is apparent the smaller building societies and finance companies will find it more and more difficult to survive in an increasingly regulated and costly market and we would anticipate further mergers and acquisitions, with some endeavouring to become registered banks.

There remains an opportunity for us to merge with like-minded, mutually-owned organisations and we will continue to pursue those opportunities in an effort to give further momentum to our objective of creating a national community bank.

Meanwhile, at SBS Bank we believe in keeping it straightforward. We will continue to stand by our cornerstone values of commercial robustness, prudence and ethical practices while ensuring the financial wellbeing of your Society.

J W A (Acton) Smith
Chairman

R L (Ross) Smith
Group Managing Director/
Chief Executive

YOUR DIRECTORS

We are proud and loyal caretakers of a true New Zealand community bank and remain committed to ensuring future generations reap the benefits our SBS Bank members have enjoyed since 1869.



STANDING: From left to right

Jeff Grant

John Ward
BCom (Otago), FCA, FlntSD
Deputy Chairman

Jeff Walker
LLB

Greg Mulvey
BCom, FCA, FNZIM

SEATED: From left to right

Garry Diack
MA (Hons)

Ross Smith
BCom, FNZIM

Acton Smith
BCom, FNZIM, FlntSD
Chairman

Kathryn Ball
BCom, CA

CORPORATE GOVERNANCE

The board has overall responsibility for the governance of SBS Bank. The board are the elected representatives of the members of SBS Bank and have established the Charter, which contains the guiding principles for carrying out their duties. The board has responsibility for reviewing all aspects of risk management and receives comprehensive monthly reporting covering credit risk, interest rate risk and liquidity risk. In addition SBS Bank has specific policies in relation to liquidity and capital management, which contain trigger points at which board involvement is required.

SBS Bank directors make up a majority of the directors on all SBS subsidiary boards and are also involved in a number of board subcommittees. These appointments are outlined on page 15. In addition 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. Further detail on our risk management policies, procedures and practices are included within the notes to the financial statements and the SBS Bank website contains more information on the corporate governance practices in place.

J W A (Acton) Smith
BCom, FNZIM, FlntSD
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, was a founding director of Foveaux Radio and recently retired as deputy chairman of Mitre 10 New Zealand Limited. He is also a Fellow of the Institute of Directors.

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
Trustee: SBS Charitable Trust
Member: Board Appointment Committee

J F (John) Ward
BCom, FCA, FlntSD
Deputy Chairman

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

He is chairman of H & J Smith Holdings Ltd, the A J 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.

Chairman: Finance Now Ltd
Trustee: SBS Charitable Trust
Member: Audit & Risk Committee
Chairman: Remuneration Committee
Chairman: Board Appointment 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 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 and Southland WEA. He is vice president and treasurer of the Federation of WEAs.

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

G J (Greg) Mulvey
BCom, FCA, FNZIM

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

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

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

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

G J (Garry) Diack
MA (Hons)

Mr Diack was appointed to the board in 2005. He is a senior executive with Solid Energy and has a long career in providing corporate performance and strategy advice to companies throughout Australia and New Zealand.

He also chairs General Cable Superconductors 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 18 years.

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

Managing Director: SBS Bank Group
Director: Southsure Assurance Ltd
Director: Funds Administration New Zealand Ltd
Director: Finance Now Ltd
Trustee: SBS Charitable Trust
Member: IT Committee

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 to 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 NZ Meat Board and Meat and Wool NZ.

Mr Grant is chairman of Milford Development Authority and Wool Grower Holdings and a director of the Animal Health Board and AGMARDT.

Director: Finance Now Ltd

K J (Kathryn) Ball
BCom, CA

Mrs Ball, a practising chartered accountant and taxation specialist, was appointed to the board of SBS Bank in April 2006.

She is a principal in Invercargill accounting firm McIntyre Dick & Partners Ltd and a 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 Southern Institute of Technology council until December 2005, serving periods as deputy chairperson and the audit and finance committee's chairperson.

Chairperson: Audit & Risk Committee
Trustee: SBS Charitable Trust

YOUR BRANCH MANAGERS

It is extremely satisfying to know our mission is to ensure the needs of our personal banking customers and our SBS Bank communities remain at the forefront of everything we do – every single day.



STANDING: From left to right

- Ian Pollock**
Christchurch
Ferrymead

Neil Bramley
Invercargill
- Scott Bowden**
Gore

Matthew Mark
Christchurch
Riccarton
- Nicki Bennett**
Christchurch
Manchester Street

Glen Clarkson
Timaru
- Greg Stretch**
Blenheim

Terri Gregory
Tauranga

SEATED: From left to right

- Patricia Muir**
Queenstown

Andrew Kilsby
Dunedin
- Rod Fox**
Hamilton

Lynn Manson
Cromwell
- Mike Brownie**
Christchurch
Papanui

NB. Nelson manager to be appointed.

YOUR EXECUTIVE

We couldn't be happier knowing that our SBS Bank teams are out in our communities as hands-on partners. Seeing our members so heartened by that support really does make the whole experience all the more worthwhile.



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 2010

	31/3/10 \$000	31/3/09 \$000
Total operating income	78,174	73,869
Operating expenses	43,068	42,922
Provision for credit impairment	15,727	12,446
Operating surplus	19,379	18,501
Add net gain/(loss) from financial instruments designated at fair value	980	(2,404)
Add revaluation of property	200	60
Surplus before income tax	20,559	16,157
Net surplus	15,037	12,057
Attributable to:		
Members' interests	12,723	10,986
Minorities' interests	2,314	1,071
	15,037	12,057

Summary Statement of Comprehensive Income - Banking Group for the year ended 31 March 2010

Net surplus for the year	15,037	12,057
Other comprehensive income		
Net change in reserves, net of tax	7,912	(11,307)
Total comprehensive income for the year	22,949	750
Attributable to:		
Members' interests	20,686	(309)
Minorities' interests	2,263	1,059
	22,949	750

Summary Statement of Changes in Equity - Banking Group for the year ended 31 March 2010

Equity at beginning of the year	155,580	155,366
Net surplus for the year	15,037	12,057
Other comprehensive income for the year	7,912	(11,307)
Total comprehensive income for the year	22,949	750
Dividends paid to minority interests	(1,554)	(2,228)
Change in capital of minority interests	689	1,692
Total equity at end of the year	177,664	155,580

Summary Statement of Financial Position - Banking Group as at 31 March 2010

	31/3/10 \$000	31/3/09 \$000
Assets		
Liquid assets and securities	138,066	102,362
Advances	2,460,089	2,403,909
Other assets	29,750	34,906
	2,627,905	2,541,177
Liabilities		
Redeemable shares	1,972,008	1,851,828
Deposits	260,068	251,477
Subordinated redeemable shares	59,307	42,226
Other liabilities	158,858	240,066
	2,450,241	2,385,597
Equity		
Attributable to members of the society	172,001	151,316
Attributable to minority shareholders	5,663	4,264
	2,627,905	2,541,177

Summary Statement of Cash Flows - Banking Group for the year ended 31 March 2010

Net cash flows provided by/(used in) operating activities	38,398	48,776
Net cash flows provided by/(used in) investing activities	(46,857)	(234)
Net cash flows provided by/(used in) financing activities	(507)	(424)
Net increase/(decrease) in cash held	(8,966)	48,118
Add opening cash and cash equivalents	99,426	51,308
Closing cash and cash equivalents	90,460	99,426


Chairman
J W A Smith
8 June 2010


Group Managing Director/
Chief Executive Officer
R L Smith

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 its 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 8 June 2010. 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 8 June 2010. 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, statements of financial positions and statements of 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-oriented entities and the Registered Bank Disclosure Statement (Full and Half-Year - New Zealand Incorporated Registered Banks) Order 2008. The financial statements also comply with International Financial Reporting Standards.

During the year ended 31 March 2010, the Banking Group has changed the method of calculating depreciation on property, plant and equipment other than land from the diminishing value method to the straight line method. The adoption of the straight line method is a change in an accounting estimate and does not have a material effect on the financial statements of the Banking Group. There have been no other changes in accounting policies and all other accounting policies adopted 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 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 2010 SBS had \$23,934,000 (2009 \$22,212,000) of advances approved but undrawn and \$181,270,000 (2009 \$227,507,000) of undrawn balances under revolving credit mortgage facilities.

5 Advances - Banking Group

	31/3/10 \$000	31/3/09 \$000
Gross advances	2,481,365	2,422,520
Less provisions for credit impairment	17,216	12,798
Less deferred fee revenue and expenses	4,060	5,813
Total net advances	2,460,089	2,403,909

6 Provision for Credit Impairment - Banking Group

	31/3/10 \$000	31/3/09 \$000
Individual provisions against advances and loans		
Balance at beginning of the year	8,055	3,405
Net increase/(decrease) charged to income statement	4,455	4,650
Balance at end of the year	12,510	8,055
Collective provisions against advances and loans		
Balance at beginning of the year	4,743	3,692
Net increase/(decrease) charged to income statement	(37)	54
Provision on acquisition	-	997
Balance at end of the year	4,706	4,743
Total provisions for credit impairment	17,216	12,798
Movements taken to income statement		
Bad debts written off during the year	11,309	7,742
Movement in individual provisions	4,455	4,650
Movement in collective provisions	(37)	54
Provision for credit impairment to income statement	15,727	12,446

7 Asset Quality - Banking Group

	31/3/10 \$000	31/3/09 \$000
Neither past due or impaired	2,406,938	2,354,491
Individually impaired amount	29,907	21,848
Past due amount	40,460	40,368
Total provision for credit impairment	(17,216)	(12,798)
Total carrying amount	2,460,089	2,403,909

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.

	31/3/10		31/3/09	
	Carrying Amount \$000	Fair Value \$000	Carrying Amount \$000	Fair Value \$000
Statement of Financial Position items				
Assets	2,601,412	2,602,614	2,511,927	2,527,650
Liabilities	2,442,760	2,446,906	2,379,022	2,398,203

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	31/3/10			31/3/09		
	Current Assets \$000	Non-current Assets \$000	Total \$000	Current Assets \$000	Non-current Assets \$000	Total \$000
Assets						
Advances	273,995	2,186,094	2,460,089	173,378	2,230,531	2,403,909
Liquid assets and securities	92,029	46,037	138,066	101,033	1,329	102,362
Other monetary assets	3,257	-	3,257	5,656	-	5,656
	369,281	2,232,131	2,601,412	280,067	2,231,860	2,511,927
	Current Liabilities \$000	Non-current Liabilities \$000	Total \$000	Current Liabilities \$000	Non-current Liabilities \$000	Total \$000
Liabilities						
Redeemable shares	1,878,098	93,910	1,972,008	1,715,949	135,879	1,851,828
Other deposits	249,647	10,421	260,068	245,217	6,260	251,477
Subordinated redeemable shares	-	59,307	59,307	-	42,226	42,226
Other monetary liabilities	76,605	74,772	151,377	128,638	104,853	233,491
	2,204,350	238,410	2,442,760	2,089,804	289,218	2,379,022
Unrecognised loan commitments	23,934	-	23,934	22,212	-	22,212

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.

	31/3/10 \$000	31/3/09 \$000
Asset liquidity	138,066	102,362
Committed and undrawn funding lines	160,000	233,000
Eligible RMBS collateral (less haircut*)	162,434	98,537
Total liquidity	460,500	433,899

*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.

	31/3/10	31/3/09
Regulatory Capital Ratios		
Tier one capital expressed as a percentage of total risk weighted exposures	10.34%	9.85%
Capital expressed as a percentage of total risk weighted exposures	13.35%	12.46%

11 Subsequent Events

Since 31 March 2010, the Government has announced changes to tax laws. This is likely to have impacts on the measurement of deferred tax liabilities in subsequent years. There have been no other material subsequent events after 31 March 2010..

NOTICE OF 2010 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's office building, 51 Don Street, Invercargill on Monday 26 July 2010 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 2010.

I.2 Election of Directors

Messrs J B Walker and J F Ward retire by rotation and, being eligible, are offering themselves for re-election. There being no other candidates, the re-appointment of Messrs J B Walker and J F Ward 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 2010 - 2011 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
8 June 2010

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's registered office.

To be valid, proxies must be deposited at SBS's 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, FlntD
Company Director
Invercargill

Deputy Chairman

Mr J F Ward
BCom, FCA, FlntD
Chartered Accountant
Invercargill

Directors

Mr J B Walker
LLB
Barrister & Solicitor
Invercargill

Mr G J Mulvey
BCom, FCA, FNZIM
General Manager
Invercargill

Mr G J Diack
MA (Hons)
Corporate Executive
Christchurch

Mrs K J Ball
BCom, CA
Chartered Accountant
Invercargill

Mr R L Smith
BCom, FNZIM
Group Managing Director/
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

Group Managing Director/ 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

BRANCH DIRECTORY

Invercargill – Head Office

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North Invercargill

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Hamilton

Cnr Victoria & Bryce Streets
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Fax: 07 957 6351

Tauranga

Cnr Elizabeth Street &
Devonport Road
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Agribusiness – Invercargill

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OUR PEOPLE MAKE THE DIFFERENCE

