



139 Years Strong

Southland Building Society

139th Annual Report 2008

WITH SUMMARY FINANCIAL STATEMENTS



OUR VISION

First choice in banking.

OUR MISSION

SBS 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.

Our people make the difference

The people of SBS 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.



Terri Gregory TAURANGA BRANCH MANAGER

"After less than a year at SBS, I feel right at home. Coming to SBS has been fantastic for both myself and my family - although my husband thinks SBS golf balls tend to find bunkers and trees a lot!

"The values that have made SBS strong over the last 139 years protect us all in these volatile times.

"Although SBS is relatively new to Tauranga, the people here just love the fact that we are a New Zealand owned organisation that benefits New Zealanders. I love that too."



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OUR HIGHLIGHTS AT A GLANCE

- Total assets up \$211 million (9.5%) to \$2.43 billion
- Advances under management up \$209 million (9.8%) to \$2.34 billion
- Members' equity up \$14.3 million (10.4%) to \$152 million
- Depositors' funds up \$128 million (7.4%) to \$1.85 billion
- Operating surplus \$21.3 million
- Contribution to operating surplus from subsidiaries \$3.3 million
- Awarded BBB investment grade credit rating by Reserve Bank of New Zealand-approved international rating agency Fitch Ratings

“SBS made our dream of living
in a lovely house come true.”

Hana Sullivan Deavoll



BELIEVING IN YOU

For a building society that prides itself on putting homes within reach of New Zealanders, it hasn't been easy to watch affordable housing slip out of the grasp of young couples and families in recent times. Which is why we are thrilled to be a part of New Zealand's first pilot of a Shared Ownership programme in Queenstown.



Hana and Sam Deavoll SBS MEMBERS

Realistically, newlyweds Hana and Sam Deavoll were considering investing in property elsewhere in New Zealand and renting in Queenstown, or buying a smaller, older apartment in a much lower price range. Both options ran a poor second to finding the home of their dreams.

"Then we heard about the Shared Ownership programme and three months after applying we got to move into our new, three-bedroom property in Lake Hayes Estate.

"The whole process was so easy and straightforward. The trust had already implemented a streamlined procedure and working with the SBS team was a pleasure.

"Instead of putting future plans on hold, now we have a fantastic home that allows us to start a family whenever we want."



Hayley Beadle BANKING CONSULTANT

Working with the lending team at SBS puts Hayley Beadle in touch with great people from all walks of life. An aspect of the job she adores is helping to get young people into their first home. But as Queenstown property prices have skyrocketed it hasn't been so easy to do - until now.

"It's been difficult to think that lovely young couples like Hana and Sam could be missing out on buying their own home when they have their hearts set on one day raising a family in beautiful Queenstown."

Which is why Hayley thinks the Shared Ownership programme set up by the local Community Housing Trust is a god-send.

"When I visited Sam and Hana in their new home I was immediately taken by their happiness and excitement - it was good for the soul, reminding me once again why I love this job so much."



Katherine Newman BANKING CONSULTANT

When Katherine Newman and her husband-to-be bought their first home in Queenstown last year, they knew it was a big financial commitment and they wanted to get it right.

"We'd been looking for a long time and had to get a lot of advice and help - at SBS we know it's not only about the processes, it's also about the people."

"Living in one of the most beautiful places in New Zealand is amazing and SBS is right there helping people like Hana and Sam so that they can enjoy Queenstown and achieve their dreams.

"Having worked in mainstream banking before joining SBS four years ago, I know first-hand that we have a truly unique culture where everything is for the better."

YOUR DIRECTORS' REVIEW

A 139-year heritage of astute conservatism paid dividends aplenty for SBS, posting another strong performance during a period of turmoil that tested the mettle of financial institutions across the globe.



R L (Ross) Smith
Chief Executive

J W A (Acton) Smith
Chairman

In a global financial market that has put both bank and non-bank institutions of all sizes to the test, SBS has passed with flying colours posting a healthy surplus of \$21.3 million and growth in members' reserves to a record high of \$151.6 million.

YEAR IN REVIEW

This very pleasing result is testimony to the value of an attitude of commercial conservatism expected by our members and ingrained in your board and management team, who draw on an accumulation of 139 years of banking know-how and experience.

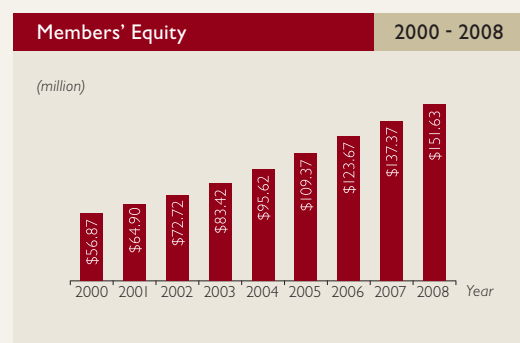
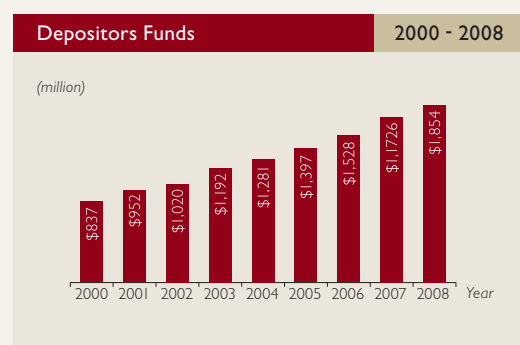
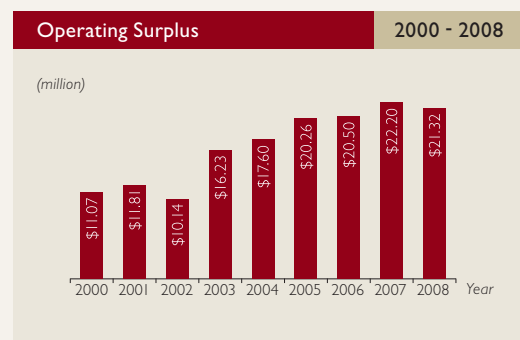
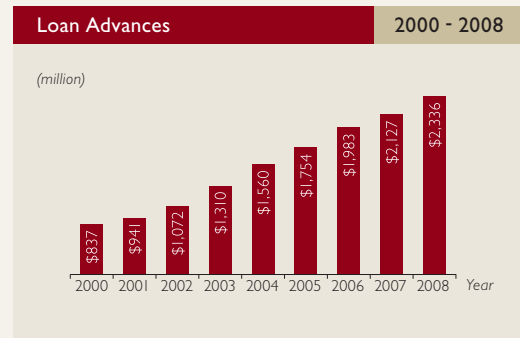
It is that conservative attitude that led SBS to resist opportunities to invest in bonds backed by US sub-prime mortgages and it was that same approach that ensured when the competition loosened eligibility criteria to conduct sub-prime lending in a 'mad grab' for mortgage market share, SBS chose not to follow suit.

INVESTOR 'HAVEN'

The commercial robustness and operational prudence of SBS was not lost on Fitch Ratings, a New Zealand Reserve Bank-approved international credit rating agency, which during the year awarded SBS an Investment Grade credit rating. Nor was it lost on members who invest regularly with SBS. On top of pleasing new growth in depositor funds of \$128 million, reinvestment rates continued to perform strongly at levels that would be the envy of most within the financial sector.

New investors finding their way to SBS brought with them stories of their investment failures with finance companies and their financial advisers that chilled the hearts of your directors. We were pleased to have the chance to shelter disappointed investors from unwelcome loss, with low-risk investment and savings solutions that combine competitive pricing with the warm and welcoming personal service they deserve.

On the new product front, the Group aggressively expanded its product range for investors and savers, introducing to members new KiwiSaver and Cash PIE products and a popular new enhancement to our term deposit product called Best Rate Rollover. Since November, it has been great to see 59% of investors contacted by our people as part of the reinvestment process taking advantage of this new service. ►



98%

members surveyed
would recommend SBS
to family and friends.

* survey completed by SBS Outbound
Contact Centre 2008

LENDING GROWTH

It came to fruition this year as we predicted it would. An economic slowdown coupled with falling house sales that dampened lending activity across the banking industry. Despite market conditions, SBS enjoyed growth in advances of 9.8%, or \$209 million, bringing total advances under management to \$2.34 billion.

Given the environment it's a performance that defied expectations, and yet it's the nature of much of that growth which your directors find most satisfying.

Since SBS first partnered with Housing New Zealand Corporation (HNZC), SBS has successfully placed more than 900 young couples and families into their homes from one end of the country to the other. Recent activity statistics furnished to SBS by HNZC reveal SBS has the lion's share of the Welcome Home Loan market at 62% in the South Island, and a particularly pleasing 54% market share in the North Island. All loans are credit insured by HNZC.

In the past financial year the appetite of your directors to see SBS involved in programmes designed to make housing more affordable for young New Zealanders has expanded beyond the Welcome Home Loan. When the Queenstown Lakes Community Housing Trust invited SBS to act as the

lender for the first couple eligible for the trust's Shared Home Ownership programme, SBS willingly stepped forward to participate.

Staying on the theme of firsts, early in the financial year we were pleased to be the first mainstream home loan provider to bring a new reverse equity mortgage product to the market. Since SBS Advance was released in September it has been heralded by independent industry commentators as a market-leading product, due largely to the quality of safeguards it has in place protecting the interests of retired seniors.

To appreciate the quality of our lending book, members need look no further than the performance of the Oreti Bond – our first residential mortgage-backed bond issued by SBS early in the financial year. Such bonds are issued to wholesale investors and have been a common form of funding for financial institutions over recent years. Members can be very proud of the AAA-rated Oreti Bond, which was twice over-subscribed and finally issued for a total of \$190 million, attracting one of the lowest prices ever achieved in Australasia.

On the international front, it is unfortunate that one of the outcomes of the sub-prime issue in the USA is the substantial increase to the cost of credit. Along with tightening liquidity and, in New Zealand's case, increasing interest rates, borrowers' costs have increased quickly in the past 12 months. Acutely aware of the impact on members, SBS actively resisted increases to mortgage floating rates during the year, allowing the discount differential between SBS rates and those of the main trading banks to grow to 0.45%.

EVERYDAY BANKING

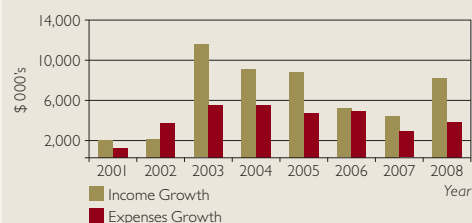
Our investor members were not the only beneficiaries of new products offering fresh ways to invest and save. We were delighted to complete a major upgrade to our internet banking infrastructure and offer new internet banking features giving members with everyday banking accounts greater transactional autonomy. Knowing how strong the demand was for these enhancements we were grateful for the patience of members while security measures like two-factor authentication were bedded down. Since launch, the takeup of IB Gold, complete with the i-guard security token, has been very pleasing.

SBS RURAL

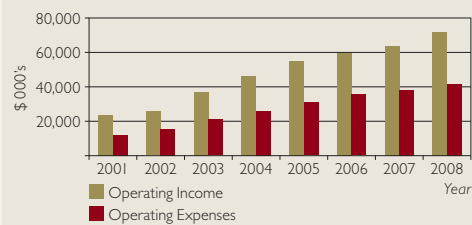
Known for their keen adoption of new and expanded banking services, many rural members relished the opportunity for more convenience in their everyday banking, as they moved quickly to take up the enhanced internet banking services.

The Agribusiness portfolio experienced healthy growth with record levels of new funds coming from new and existing rural members. In a market which saw land values rising dramatically throughout the year, investors can take some confidence from the flow-on increase in the quality of assets backing our rural mortgage portfolio.

Growth in Income vs Expenses 2001 - 2008



Income vs Expenses 2001 - 2008



57%

of market share in
New Zealand for
Welcome Home Loan.



Fundraising?

expand
develop
grow

With an SBS Star banking package



COMMUNITY SUPPORT WHERE IT COUNTS

Senior Agribusiness consultant and treasurer of her local primary school Lea-Ann Ortolani could not believe her eyes when she read it the first time. Could it be right? Has her school won \$1000 in the first ever Star prize draw? It had only been a few weeks earlier that Lea-Ann had opened the bank account for her school and suddenly they were \$1000 better off.

The exciting news ripped through the school at 100 miles an hour and featured in the school's newsletter later that week. The \$1000 was immediately earmarked for vital computer equipment for kids and the principal was delighted.

And so it continues. Every month our SBS people get to call 10 voluntary community groups involved in all manner of things, ranging from the arts, sport and education, to let them know the good news - their coffers are about to receive a \$1000 injection. These groups all have one thing in common. They have opened up a Star banking package with SBS giving them fee-free transactions and high interest rates on savings and investments, alongside the opportunity to earn monthly prizes.

It is a package put together by the team at SBS that pays attention to the needs of small non-profit organisations.

Lea-Ann says "it's great to see a banking institution looking after the stars in our community."

COMMUNITY SPONSORSHIP

When it comes to sponsorship, we are very proud of our record of support for the communities to which our members belong. Our sponsorship decisions are sometimes challenging as we strive to factor both the commercial benefits of a sponsorship and the degree to which our members might benefit.

This year a ten-year relationship of support by SBS of the Dunedin Chinese Gardens Trust blossoms into a major corporate sponsorship that sees your Society play a significant role in the creation of a late Ming - early Ching Dynasty classical Scholar's Garden in downtown Dunedin. ►

59.7%

of SBS investors contacted have chosen our new Best Rate Rollover feature for maturing investments.

OUR PASSION, YOUR SUCCESS

There is a synergy between SBS and its sponsorship of many community events such as the SBS New Balance Pier 2 Pier 5km run, Olympic Club 15km, SBS Marathon event and Kids Mara'fun.

They are things that our Christchurch branch manager Mark Reid is totally passionate about. "Our series has the bonus of internationally acclaimed Kiwi athletes supporting us. They all donate their time to share their stories, while inspiring the children of our future.

"There's a parallel with sport and banking – you have to decide what you want to achieve, plan how you are going to attain your goals, then get out and do it! We play a key part in delivering that message and have helped many children on the path to saving for their first home!

"From an SBS perspective, it's about giving back to the community. The Pier 2 Pier has resulted in \$20,000 being raised for local athletics clubs during the past two years – that's not a job, that's a pleasure."



SBS Christchurch branch manager Mark Reid (left) with his three sons and five-time world mountain running champion Jonathan Wyatt

YOUR COMMUNITY SPONSORSHIP

Major sponsorship for 2007/2008

SBS Sports House/ILT Velodrome – Invercargill | SBS Tasman Makos – Nelson/Marlborough
Hamilton Gardens Summer Festival Mardi Gras – Hamilton | SBS Events Centre – Timaru
SBS Marathon – Christchurch | Civic Theatre – Invercargill | Southern Opera – Christchurch

Ngawhatu Bowling Club
Angel Women's Loan Fund
Opus Chamber Orchestra
Claudelands Croquet Club

BLLENHEIM

Awatere Golf Club
Marlborough Property Investors
Association
Marlborough Golf Club
Marlborough Tennis Association

CHRISTCHURCH

SBS Marathon
SBS New Balance Pier 2 Pier 5km series
and Kids Beach Mile
Harewood Golf Club
Olympic Harriers 15km Run / Walk
Craigieburn Valley Ski Club
Canterbury Veteran Golfers Association
Tai Tapu Golf Open
Hammer 54 Hole Golf Open
Canterbury District Law Society
Parafed
Cashmere Bowling Club
Fendalton Bowling Club
Pegasus Lions
Sport Canterbury Sports Awards
United Bowling Club
Burwood Community Fair
Bassett Street Kindergarten

RICCARTON

Cholmondeley Children's Home
Templeton Golf Club
Elmwood Bowls Club
Crockfords Bridge Club
Top Dog Theatre

PAPANUI

Kaipoi Golf Club
Papanui Bowls

TAURANGA

Omokoroa Golf Club
Omokoroa Bowling Club
Carmel Country Estate
Tennis Seniors – Western Bay of Plenty
Inc
OPUS
Tauranga Historical Society Inc (Brain
Watkins House)
Parkinsonism Society Tauranga Inc

HAMILTON

Sport Waikato
Lochiel Golf Club
SBS Hamilton Half Marathon
Hamilton Mafia Triathlon Club
Waikato Diocesan School for Girls
Hamilton Gardens Summer Festival
Mardi Gras
The Cantando Choir Anzac Day Concert
Annual Rotary Book Fair

NELSON

SBS Tasman Makos
Stoke Bowling Club
Nelson Endurance Club
Antique and Retro Extravaganza
United Bowling Club
Nelson School of Music





STAFF

We continue to be blessed with staff whose professionalism and commitment to service are of the highest quality. We know, both from your feedback and our independent reviews, that the quality of service delivered by our people out-performs all others in the sector. SBS could not achieve the success and reputation it does without motivated and dedicated staff in every part of SBS.

The board certainly appreciates that they do make a BIG difference.... Thank you!



INTERNATIONAL FINANCIAL REPORTING STANDARDS

Without a doubt the 16 pages added to the full financial statement caused by the introduction of the new IFRS accounting standards may well have set back the reduction of our carbon footprint by five years. Sadly it is not apparent that the members' understanding of performance will be enhanced by the complexities and accounting gymnastics required to assess 'fair value' by the new standards. For the sake of consistency, your directors recommend the operating surplus result as a key comparative measure of SBS success. ►

Avondale Golf Club
Parklands Bowls
Morrison Avenue Bowling Club
Elmwood Players Theatre
Southern Opera

FERRYMEAD

Probus - Rendezvous 2008
Ferrymead Bays Football Club
Sumner Rugby Club
Sumner Bowls
Mt Pleasant Bowls Club
SBS Kids MiniBays Cycling
Redcliffs Bowls

TIMARU

SBS Events Centre
Timaru Bridge Club
South Canterbury Bowls
South Canterbury Sports Awards
Gleniti Golf Club

CROMWELL

Central Otago Sports Awards
Cromwell Ladies Winter Golf
Tournament
Alexandra Golf Club
Cromwell Race Day
Central Otago Arts Society – Blossom
Festival Art Exhibition
Cromwell Bridge Club
Goldfields Primary School Pantomime
Alexandra Bowling Club
Clyde Bowling Club
Wanaka Golf Club
Wanaka Bowling Club

QUEENSTOWN

Arrowtown Autumn Festival
Arrowtown Bowling Club
Queenstown Bowling Club
Queenstown Ladies Golf Classic

Queenstown Golf Club – Driving Range
Wakatipu High School – Annual
Production
Wakatipu Yacht Club – Queenstown
Dinghy Regatta

DUNEDIN

University Oval Media Centre
Dunedin Chinese Gardens Trust
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 Tri & 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 ½ Marathon and Fun Walk
Gold Guitar Music Festival
Gore Bowling Club
Gore Golf Club
Gore Harness Racing
Riversdale Golf Club
Gore RSA Bowling Club
Clinton Bowling Club
Gore Dance Group
Gore Boxing Club

INVERCARGILL

Ascot Community School
Association of Blind Citizens of NZ
Bowls Southland
Cancer Society

Central Indoor Bowls
Chartered Clubs' Charity Bowls
Civic Theatre
Computer Capers
Cycling Southland
Deep South Debonaire Leisure
Marching
Dressage Southland
Drummond Bowling Club
Drummond Women's Golf
Edendale Volunteer Fire Brigade
Edendale Bowling Club
Georgetown Bowling Club
Greenacres Golf Club
Hargest College Soccer
Invercargill Athletics Club
Invercargill Bowling Club
Invercargill Golf Club
Invercargill Harness Racing Club
Invercargill Parents Centre
Invercargill WMC Angling
Limehills Bowling Club
Lorneville Makarewa Pony Club
Masters Southern Soccer Stars
Myross Bush Primary School
Nightcaps Golf Club
Orca Swimming Club
Oreti Sands Golf Club
Otautau Ladies Golf Club
Otautau Golf Club
Otatara Bowling Club
Queens Park Men's Golf Club
Queens Park Ladies Golf Club
Parish of Gladstone
Relay for Life
Ringa Ringa Golf Club
Riverton Golf Club
Riverton Rocks Bowling Club
Riverton Sailing Club
Riverton Swimming Club
Rugby Southland Referees
Salford School

Shakespeare in the Park
Southland Children's Athletics
Southland Cricket Association
Southland Ladies Golf Team
Southland Soccer
Southland Girls' High School Swimming
Southland Indoor Bowls Club
Southland Kennel Association
Southland Veterans' Golf Society
Tokanui Bowling Club
Tokanui Golf Club
Tokanui Home & School
Tuatapere Golf Club
Waiau Valley Lions Club
Waihopai Women's Bowling Club
Waihopai Tennis Club
Waverley Scout Group
Western Districts Indoor Bowls
Winton Bridge Club
Winton Central Bowling Club
Winton Ladies Golf Club
Woodlands Bowls Club
Wyndham Ladies Golf Club

SBS RURAL

Central Otago Pinot Noir
Drummond Golf Club
Cromwell Golf Club
Cromwell Junior Rugby
Tokanui Rugby
Waikaia Rugby
Southland Dog Trials
Southland A & P Association
Cromwell Hockey Club
Clinton Golf Club
Clyde Fruitgrowers
Gore A & P Association
Tarras Grapegrowers
Cromwell Harness Racing
Northland Monitor Farm

An overview of sponsorship and goodwill financial assistance that has been made available to organisations, events and facilities that benefit the local areas in which SBS operates.

SUBSIDIARY COMPANIES

The decision to establish subsidiaries has proven to be a very effective way of growing the SBS footprint in new financial markets, while ensuring that we continue to meet the needs of SBS members first and foremost.

Funds Administration NZ Ltd (FANZ)

Doubling staff numbers and delivering a range of new products and services during 2007 means FANZ is poised for even more growth in the future. The company's accent on transparency has seen hundreds of investors signing up for our KiwiSaver plan, while a new Cash PIE product has ensured SBS investors have ready access to new tax advantages. The portfolios constructed by SBS Financial Advisers traversed the "credit crunch" in good shape. Unlike many advisory firms in New Zealand, the SBS Financial Advisers portfolios have had no investments go into receivership, default or go under investor moratorium. Portfolios are also well positioned to produce solid returns as investment markets settle.

Southsure Assurance Ltd

Now in its sixth year of operation, Southsure continues to perform well, growing the ways in which it can protect members with a full suite of fire and general insurance products, including house, contents, car and boat policies, as well as an extremely competitive funeral cover policy. The past financial year is notable for the implementation of a new insurance administration system that will streamline important back office processes. The efficiencies coupled with the expanded product suite position Southsure well for future growth and alignment with taxation and insurance law reform that will unfold over the next two years.

Finance Now Ltd (FNL)

FNL, our consumer finance arm, provides retail finance to a range of household-named retailers throughout New Zealand and thousands of personal loans to Kiwis each year. The company also delivers a variety of business finance and rental options to small to medium enterprises. FNL continues to provide positive contributions to its parent, both in profit and asset growth. By maintaining prudent lending practices, using robust collection procedures and by recording a strong balance sheet, FNL has weathered the finance industry turmoil well.

Fraser Properties Ltd

Fraser Properties owns SBS' head office building in Invercargill, which is also home to the Alliance Group and NZ Post. The company continues to contribute to group profitability.

**\$3.3
million**

contribution to
operating surplus by
subsidiaries.



David Newman

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Graham Duston

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Level 1, SBS House,
180 Manchester Street
Christchurch
(PO Box 13801)
Telephone: 0800 502 442
Fax: 03 963 4915

DIRECTORS

As part of director succession planning the board welcomed the appointment of Jeff Grant in July 2007. Jeff was formally a Member of Parliament for two terms and since 1994 he has been involved as a director or trustee for around 20 organisations and companies. Jeff has also served as chairman for 10 organisations. His vast boardroom experience contributes significantly to the knowledge and skills around the SBS boardroom table.

Succession planning does, however, have a downside with this year marking the end of an era as Messrs Mike Piper and Warren Conway retire at the AGM. Both Mike and Warren were part of the member 'splinter group' that opposed and eventually defeated the sale of SBS to Westpac back in 1991. They were both subsequently appointed to the board that year and have served uninterrupted for the past 17 years.

Mike has served as deputy chairman since 1994, chairman of the Audit and Risk Committee as well as a director of our subsidiary company, Southsure Assurance Ltd. During his tenure on the board, Mike has served on a number of sporting bodies and charitable organisations while also having time to complete his 100th marathon in Boston in early 2008.

Warren has served as chairman of Southsure Assurance Ltd for the past six years as well as serving on a number of boards in the Southland community, particularly in the electricity, forestry and fishing sectors.



Both Warren and Mike have made a significant contribution to the direction and success of SBS over the past 17 years and their judgement, counsel and experience will be sorely missed.

THE YEAR AHEAD

With the failure of over 20 finance companies over the past two years, planned changes in regulations applying to the non-bank sector are long overdue. The question is, will such regulations prevent failure of more financial institutions within the non-bank sector in the future? Your directors would argue that tighter regulations alone cannot achieve this. The regulations need to be combined with a prudent business model and integrity of governance and management that will protect a business through normal business cycles.


Our BBB investment-grade credit rating by Fitch Ratings reflects the position of SBS at the lower risk end of the non-bank sector. However, there is a significant variance in the type of business conducted by entities within the non-bank sector and importantly a variance in risk tolerance possessed by those entities. In the opinion of your directors, that variance in risk tolerance within the non-bank sector is uncomfortably wide.

Your directors have looked at the proposed changes to the regulation of non-banks and where SBS is positioned at the low-risk end of the market and they believe we would be better served under the regulations supervising registered banks. SBS is currently in discussions with the Reserve Bank of New Zealand to determine whether we should pursue an application for a bank licence as a mutually owned building society. We believe SBS could operate as a building society with a bank licence without any significant change to our successful mutual model and, by doing so, clearly separate ourselves from the higher risk financial institutions in the non-bank sector.

If SBS is successful in gaining a bank licence, there should be opportunities to join with other like-minded financial institutions and develop a greater national presence.

The future holds many exciting challenges and continuing strong prospects for your Society. We look to the year ahead with much anticipation. ■





“ I’ve always been grateful
for the strong business
grounding with which the
Society set me up in life. ”

Peter Stead



Peter and Ngaio Stead



Nicki Bennett



Alison Whiteford



EXCEEDING YOUR EXPECTATIONS

Reading an issue of the member bulletin SBS Today led Waiheke Island resident Peter Stead to reflect on how far the organisation has come since he worked for SBS nearly 70 years ago.

Remaining true to his former employer, Peter and wife Ngaio are still members of the Invercargill branch and he remains proud of the lengths SBS staff continue to go to after two “lovely ladies” turned up on his doorstep at Waiheke Island.

“My how SBS has grown, it’s hard to recognise this extensive and ubiquitous Society as the place I knew and where I enjoyed working.

“It was December 1938 when I began a rewarding and suitably demanding few years of first-rate commercial experience. Within a year, WW2 began and older men in the office began disappearing off to service – so we juniors received rapid and sometimes challenging promotion.”

Starting as office boy, Peter became a teller, a clerk and then a financial officer. During this time he was delighted to hear clients thank his boss, “with tears in their eyes and choked voices,” for the Society standing by them during the Depression. At 18, Peter was in charge of investments when the Society first exceeded £1 million.

Peter served in the army for more than four years before returning to the Society for two more years. He then accepted a call to the Methodist ministry, recording that though sad to leave SBS, he has always been grateful for the experience.

“Technology changes but the genuineness and sincerity of people does not and that’s still clear when you speak with members like Peter Stead,” says Hamilton Branch Manager Nicki Bennett. “Hearing some of the SBS’ heritage, first-hand from someone involved 70 years ago, is quite mind-blowing.”

North Island Agribusiness Manager Alison Whiteford agrees: “It gives you warm fuzzies to hear the wonderful stories that Peter has to share about his time with SBS and it’s lovely to see a Southland soul so moved that SBS has expanded into the North Island. There could be no one more proud of the Society’s achievements.”

Peter Stead’s ties with the south remain strong. His forbearers even have a city street named after them. It so happens that the Stead association with the Society began prior to Peter’s employment, as his great uncle John Stead – a former Invercargill mayor– served as a director of SBS from 1899 to 1922. John Stead’s son, J W (Billy) Stead is also an early Invercargill icon having been vice-captain of the immortal 1905 All Blacks!

YOUR BRANCH MANAGERS

We aim to deliver the best possible service to our members, which is why it's paramount that all of our branch staff give the very best to you.



FROM LEFT TO RIGHT:

BACK ROW

Brian Dawson
Blenheim

Terri Gregory
Tauranga

Matthew Mark
Christchurch - Riccarton

Ian Pollock
Christchurch - Ferrymead

Scott Bowden
Gore

Glen Clarkson
Timaru

Neil Bramley
Invercargill

FRONT ROW

Andrew Kilsby
Dunedin

Nicki Bennett
Hamilton

Allan Motion
Queenstown

Mike Brownie
Christchurch - Papanui

Mark Reid
Christchurch - Central

Lynn Manson
Cromwell

Rod Fox
Nelson

YOUR EXECUTIVE

There is no greater satisfaction than to see our SBS teams deliver quality service with integrity, loyalty and commitment – because we know our people make the difference.



FROM LEFT TO RIGHT:

STANDING

Lana Winders
General Manager
Corporate Performance

Paul Atkinson
General Manager
Retail

SEATED

Martin Gale
General Manager
Information & Technology Services

Tim Loan
General Manager
Finance

Ross Smith
Chief Executive

Malcolm Little
General Manager
Agribusiness

YOUR DIRECTORS

Steered by the principles of the SBS charter, our board remains dedicated to protecting our powerful heritage whilst continuing to build a progressive and sustainable organisation for the future.

As part of director succession planning the board this year marks the end of an era as directors Mike Piper and Warren Conway retire at the AGM. Both Mike and Warren were key in defeating the sale of SBS to Westpac prior to being elected to the board in 1991. They have served uninterrupted for the past 17 years.



M H (Mike) Piper
BCom FCA
Deputy Chairman

With more than 100 marathons to his credit, retiring SBS director and board deputy chairman Mike Piper could consider his 17 and a-half year stint on the board as a mini-marathon in itself.

One of three "parochial Southlanders that parachuted on to the board" in very public

and notable style in 1991, Mike joined colleagues Acton Smith and Warren Conway as new directors who had a wish: "Not to see the SBS disappear."

Speaking with his accountant's hat on, Mike says key achievements during his period have been seeing the reserves climb from \$19 million in 1991 to almost \$152 million and ensuring that job security has been maintained, while increasing four-fold the fulltime equivalent staff numbers with the inclusion of subsidiary companies.

While the 1990-1991 Southland Building and Investment Society era made a mark, there was some good that evolved from the "aborted sale process" and that was seeing the "antiquated manual accounting systems being replaced with more up-to-date and greatly improved systems," Mike said.

"As a board, the skill mix of the directors is great. We have had unanimous outcomes on all occasions, we have had vibrant debate with full contribution from everyone and we've been able to set directions that management can follow with ease.

"On a governance perspective, it is important that a board has a good working relationship with its CEO and our relationship with Ross Smith has been superb. We were very fortunate in my time to have a CEO who came on board and understood what needed to be done."

Mike says he is a firm believer in adhering to the succession policy on the SBS Board and 17 and a-half years is long enough. New ideas are needed.

"However, I will miss it. I still get a buzz every time I walk into the building and I walk in with a passion. Morale is high, the work ethic is great and everyone likes to help each other.

"I think my greatest legacy and most worth while contribution would be to retire from the board and see the SBS securing a bank licence as a mutual, actually coming to fruition."

Chairman - Audit & Risk Committee
Director - Southsure Assurance



W H (Warren) Conway

Among the trio of new cohorts to secure director roles on the SBS Board in 1991, Warren Conway was also a firm believer that the long-standing Southland institution was ready for change and "then the ride began."

The potential sale of the Building Society to Westpac resulted in a lot of money flowing in from all around the country to help "fight the fight" and avert the takeover

– a considerable amount of which was from the North Island.

"It was quite remarkable to see the support first-hand, but we sent every cent back."

Soon after the takeover fell through, there was a lot of uncertainty in the wider community about the future direction of the Society and a lot of members started taking their money out.

"I requested cash inflows and outflows to be graphed so we could ensure the Society was sustainable and those 'Warren Graphs' remain in the directors' monthly report today."

That financial reporting process could be considered Warren's legacy to SBS' public accountability to its members.

The outflow of member money soon levelled and then began to grow again and so did the SBS as an organisation – Warren's thrilled to see they are both still continuing to grow today.

Like Mike, a key highlight for Warren is the tremendous growth of the reserves during their time on the board.

"Other highlights during my time have been seeing the introduction of products like cheque books and debit cards, which individually are little steps but put all these products together and it's quite significant.

"Another is seeing the remarkable growth of all the SBS branches and the subsidiaries as well. The expansion has been tremendous but the Society is still one big happy family.

"SBS is now ready for another big step forward so it is time for new blood on the board to help it progress.

"While the topic of SBS getting a bank licence has been around for a long time, it's now time for someone else to get on board and begin the ride."

Chairman - Southsure Assurance



J W A (Acton) Smith

BCom

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 deputy chairman of Mitre 10 (NZ) Limited and 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-president until his appointment as president in 1994.

Member - Audit & Risk Committee



J B (Jeff) Walker

LLB

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

A member of the Southland District Law Society Council since 1991, he is currently past president. He is a director of several private companies.

Mr Walker is both a past president and a life member of Relationship Services. He is Southland Soccer's president, vice-president of the Southland WEA and treasurer of the Federation of WEAs.

Chairman - Funds Administration New Zealand
Chairman - Finance Now Ltd



G J (Greg) Mulvey

BCom CA, FNZIM

The Invercargill Licensing Trust's general manager for nearly two decades, Mr Mulvey joined SBS' board 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
Member - Remuneration Committee



J J (Jeff) Grant

Mr Grant is farming, in partnership with his wife Julia, sheep and deer farms at Balfour.

Formally a Member of Parliament from 1987 to 1993, Jeff has since then been involved in agribusiness directorships with a range of companies and organisations including Landcorp, Wrightson, Beef and Lamb NZ and has recently retired as chairman of the NZ Meat Board and Meat and Wool NZ.

Jeff currently is a director of Ovita, AGMARDT, and Milford Development Authority.



R L (Ross) Smith

BCom, FNZIM

Mr Smith was appointed SBS' 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.

Ross 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 15 years. Mr Smith is also a director of Electricity Invercargill Limited, PowerNet Limited and PowerServices Limited.

Director - Southsure Assurance
Director - Funds Administration New Zealand
Director - Finance Now Ltd



J F (John) Ward

BCom (Otago) CA

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. He chairs the Transport for Disabled Trust (Southland) entity and is a member of the NZ Institute of Directors.

Mr Ward is a ministerial appointee to the council of the University of Otago and currently serves as Pro-Chancellor.

Chairman - Remuneration Committee
Director - Finance Now Ltd
Member - Audit & Risk Committee



K J (Kathryn) Ball

BCom CA

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

She is a partner in Invercargill accounting firm McIntyre Dick & Partners 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' audit committee for five years, and was a member of the SIT council until December 2005, serving periods as deputy chairman and the audit and finance committee's chairman.

Member - Audit & Risk Committee



G J (Garry) Diack

MA (Hons)

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

He also 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, Mr Diack provided governance, strategy and corporate performance advice to the building society for nine years before joining the board.

Director - Southsure Assurance
Member - Remuneration Committee

Summary Income Statement - Group for the year ended 31 March 2008

	31/3/08 \$'000	31/3/07 \$'000
Total Operating Income	71,464	63,407
Operating Expenses	41,074	37,509
Provision for Credit Impairment	9,074	3,694
Operating Surplus	21,316	22,204
Add Net Gain/(Loss) from Financial Instruments	(1,340)	924
Add Revaluation of Property	60	749
Surplus Before Income Tax	20,036	23,877
Net Surplus	14,327	16,603

Summary Statement of Changes in Equity - Group for the year ended 31 March 2008

Net Surplus for the year	14,327	16,603
Other Recognised Revenues and Expenses	110	636
Total Recognised Revenues and Expenses	14,437	17,239
Realised Reserves	597	-
Dividends Paid to Minority Interests	(200)	(474)
Other Movements	11	(136)
Movements in Equity for the year	14,845	16,629
Opening Equity	140,521	123,892
Closing Equity	155,366	140,521

Summary Balance Sheet - Group for the year ended 31 March 2008

Assets		
Liquid Assets and Securities	53,467	54,799
Advances	2,334,242	2,126,729
Other Assets	38,562	33,257
	2,426,271	2,214,785
Liabilities		
Redeemable Shares	1,693,284	1,567,447
Deposits	203,465	188,882
Other Liabilities	374,156	317,935
	2,270,905	2,074,264
Equity		
Attributable to Members of the Society	151,625	137,370
Attributable to Minority Shareholders	3,741	3,151
	2,426,271	2,214,785

Summary Cash Flow Statement - Group for the year ended 31 March 2008

Net Cash Inflow from Operating Activities	2,820	4,597
Net Cash Outflow from Investing Activities	(2,901)	(4,156)
Net Cash Outflow from Financing Activities	(662)	(214)
Net Increase / (Decrease) in Cash Held	(743)	227
Add Opening Cash and Cash Equivalents	52,051	51,824
Closing Cash and Cash Equivalents	51,308	52,051


Chairman
JWA Smith

10 June 2008


Deputy Chairman
MH Piper

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 10 June 2008.

I Accounting Policies

Southland Building Society (SBS) was established in 1869 and was incorporated under the Building Societies Act 1880 on 13 August 1883. The summary Financial Statements presented here are consolidated statements for the reporting entity of the 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 10 June 2008. 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 10 June 2008. 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 Group.

Users who require additional information are encouraged to access the full SBS Financial Statements on the SBS website at www.sbs.net.nz. Alternatively users may request a hard copy of the full SBS Financial Statements by contacting SBS at the following address:

The Secretary
Southland Building Society
PO Box 835, Invercargill,
Telephone: 0800 502 442

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. Compliance with NZ IFRS ensures 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 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.

Notes to the Summary Financial Statements for the year ended 31 March 2008

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 and the requirements of SBS' Trust Deed. 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 2008 SBS had \$30,314,000 (2007 \$55,555,000) of advances approved but undrawn and \$236,256,000 (2007 \$210,680,000) of undrawn balances under revolving credit mortgage facilities.

5 Advances - Group

	31/3/08 \$000	31/3/07 \$000
Gross Advances	2,344,516	2,133,634
Less Provisions for Credit Impairment	7,097	4,003
Less Deferred Fee Revenue and Expenses ¹	3,177	2,902
Total Net Advances	2,334,242	2,126,729

¹ Deferred fee revenue and expenses is a new balance sheet category arising from adoption of NZ IFRS from 1 April 2006

6 Provision for Credit Impairment - Group

	31/3/08 \$000	31/3/07 \$000
Individual Provisions Against Advances and Loans		
Balance at Beginning of the Year	298	290
Net Increase / Decrease Charged to Income Statement	3,107	8
Balance at End of the Year	3,405	298
Collective Provisions Against Advances and Loans		
Balance at Beginning of the Year	3,705	2,275
Net Increase / Decrease Charged to Income Statement	(13)	(686)
Provision on Acquisition	-	2,116
Balance at End of the Year	3,692	3,705
Total Provisions for Credit Impairment	7,097	4,003
Movements taken to Income Statement		
Bad Debts Written Off During the Year	5,980	4,372
Movement in Individual Provisions	3,107	8
Movement in Collective Provisions	(13)	(686)
Provision for Credit Impairment to Income Statement	9,074	3,694

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 10 June 2008.

Notes to the Summary Financial Statements for the year ended 31 March 2008

7 Asset Quality - Group

	31/3/08 \$000	31/3/07 \$000
Neither Past Due or Impaired	2,309,849	2,109,603
Individually Impaired Amount	8,355	583
Past Due Amount	23,135	20,546
Total Credit Impairment	(7,097)	(4,003)
Total Carrying Amount	2,334,242	2,126,729

8 Fair Value - Group

Disclosed below is the estimated aggregate fair value of the 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 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 Group's financial position and the value of its business. Detailed disclosures on fair value are included in the full Financial Statements.

	31/3/08		31/3/07	
	Carrying Amount \$000	Fair Value \$000	Carrying Amount \$000	Fair Value \$000
Balance Sheet Items				
Assets	2,403,860	2,398,647	2,192,838	2,187,868
Liabilities	2,264,365	2,263,370	2,068,567	2,064,906

9 Liquidity Risk - Group

Liquidity risk is the risk that the Group will encounter difficulty in meeting commitments associated with its financial liabilities. The Group manages its exposure to liquidity risk by maintaining sufficient liquid funds to meet its commitment based on historical and forecasted cash flow requirements. The following maturity profile of assets, liabilities and commitments show cash flows prepared on an expected 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 maturity profile, including the assumptions underlying them, can be obtained from the full Financial Statements.

Expected Maturity Profile	31/3/08			31/3/07		
	Current Assets \$000	Non-current Assets \$000	Total \$000	Current Assets \$000	Non-current Assets \$000	Total \$000
Assets						
Advances	522,465	1,811,777	2,334,242	452,355	1,674,374	2,126,729
Liquid Assets and Securities	52,458	1,009	53,467	53,800	999	54,799
Other Monetary Assets	16,151	-	16,151	11,310	-	11,310
	591,074	1,812,786	2,403,860	517,465	1,675,373	2,192,838
	Current Liabilities \$000	Non-current Liabilities \$000	Total \$000	Current Liabilities \$000	Non-current Liabilities \$000	Total \$000
Liabilities						
Redeemable Shares	284,691	1,408,593	1,693,284	265,765	1,301,682	1,567,447
Other Deposits	27,701	175,764	203,465	27,621	161,261	188,882
Other Monetary Liabilities	19,670	347,946	367,616	11,602	300,636	312,238
	332,062	1,932,303	2,264,365	304,988	1,763,579	2,068,567
Net Monetary Assets	259,012	(119,517)	139,495	212,477	(88,206)	124,271
Unrecognised Loan Commitments	30,314	-	30,314	55,555	-	55,555

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 10 June 2008.

Notes to the Summary Financial Statements for the year ended 31 March 2008

9 Liquidity Risk - Group continued

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:

	31/3/08 \$000	31/3/07 \$000
Asset Liquidity	51,465	54,800
Committed and Undrawn Funding Lines	304,040	237,370
Total Liquidity	355,505	292,170

10 Capital Adequacy

The Southland Building Society is subject to minimum capital requirements (Primary Capital) as specified in its Trust Deed, dated 20 December 1990. The Primary Capital Trust Deed minimum is 4%. In accordance with the requirements of the Trust Deed this ratio is calculated for the Parent and excludes securitised assets. In addition, Fraser Properties Limited, which is both wholly owned and wholly funded by SBS, is consolidated into the Parent (in terms of the Trust Deed this is referred to as the Guaranteeing Group).

Set out below is a summary of the Primary Capital Ratio for SBS.

	31/3/08	31/3/07
Primary Capital Ratio (Parent) - Trust Deed Minimum 4%	6.93%	6.91%

In prior years SBS has also reported a risk adjusted ratio calculated in accordance with the Basel I capital adequacy framework approved by the Reserve Bank of New Zealand. This framework is no longer applicable for registered banks in New Zealand and has been replaced with the Basel II standardised approach. It is SBS intention to report under this new framework for the financial year commencing 1 April 2008. However, for the benefit of comparison with prior years, the risk adjusted ratio calculated in accordance with Basel I (and adjusted for NZ IFRS) has improved from 9.31% at 31 March 2007 to 9.48% at 31 March 2008. This ratio and supporting calculations have not been included in the full Financial Statements.

11 Subsequent Events

There have been no subsequent events after 31 March 2008.

12 Explanation of Transition to NZ IFRS

SBS has prepared the full Financial Statements using accounting policies based on the New Zealand Standards that are equivalent to International Financial Reporting Standards and their pronouncements ('NZ IFRS'). As this is the first year that SBS is reporting in accordance with NZ IFRS, the full Financial Statements provide an explanation, in Note 36, of how the transition from previous New Zealand generally accepted accounting principles ('previous GAAP') to NZ IFRS has affected the previously reported financial position, financial performance and cash flows of SBS.

SBS changed its accounting policies on 1 April 2007 to comply with NZ IFRS. In the full Financial Statements the transition to NZ IFRS is accounted for in accordance with NZ IFRS-1 'First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards', with 1 April 2006 as the transition date.

The following tables contain summarised reconciliations for the Group from previous GAAP to NZ IFRS. More detailed disclosures of these reconciliations and the background to them is provided in the full Financial Statements. The most significant adjustments relate to Fair Value through Profit or Loss (FVTPL) adjustments to financial instruments.

	Previous GAAP \$000	Derivatives at FVTPL \$000	Assets at FVTPL \$000	Deferred Fee Revenue \$000	Other \$000	Total IFRS Adjustments \$000	NZ IFRS \$000
Reconciliation of Summary Income Statement - Group for the year ended 31 March 2007							
Total Operating Income	65,346	-	(4)	(2,150)	215	(1,939)	63,407
Operating Surplus	21,954	-	(4)	(831)	1,085	250	22,204
Net Surplus	16,228	3,840	(3,212)	(557)	304	375	16,603

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 10 June 2008.

Notes to the Summary Financial Statements for the year ended 31 March 2008

I2 Explanation of Transition to NZ IFRS continued

	Previous GAAP \$000	Derivatives at FVTPL \$000	Assets at FVTPL \$000	Deferred Fee Revenue \$000	Other \$000	Total IFRS Adjustments \$000	NZ IFRS \$000
Reconciliation of Summary Balance Sheet - Group as at 1 April 2006							
Assets							
Liquid Assets and Securities	53,483	-	3	-	-	3	53,486
Advances	1,983,115	-	(1,366)	(1,463)	(1,944)	(4,773)	1,978,342
Other Assets	21,753	1,421	446	483	806	3,156	24,909
	2,058,351	1,421	(917)	(980)	(1,138)	(1,614)	2,056,737
Liabilities							
Redeemable Shares	1,426,730	-	-	-	-	-	1,426,730
Deposits	255,210	-	-	-	-	-	255,210
Other Liabilities	249,836	1,029	-	-	38	1,067	250,903
	1,931,776	1,029	-	-	38	1,067	1,932,843
Equity							
Attributable to Members of the Society	123,668	361	(916)	(871)	(1,020)	(2,446)	121,222
Attributable to Minority Shareholders	2,907	31	(1)	(109)	(156)	(235)	2,672
	2,058,351	1,421	(917)	(980)	(1,138)	(1,614)	2,056,737
Reconciliation of Summary Balance Sheet - Group as at 31 March 2007							
Assets							
Liquid Assets and Securities	54,815	-	(16)	-	-	(16)	54,799
Advances	2,136,072	-	(6,154)	(2,294)	(895)	(9,343)	2,126,729
Other Assets	26,266	4,251	2,031	757	(48)	6,991	33,257
	2,217,153	4,251	(4,139)	(1,537)	(943)	(2,368)	2,214,785
Liabilities							
Redeemable Shares	1,567,447	-	-	-	-	-	1,567,447
Deposits	188,882	-	-	-	-	-	188,882
Other Liabilities	317,914	19	-	-	2	21	317,935
	2,074,243	19	-	-	2	21	2,074,264
Equity							
Attributable to Members of the Society	139,627	4,209	(4,137)	(1,411)	(918)	(2,257)	137,370
Attributable to Minority Shareholders	3,283	23	(2)	(126)	(27)	(132)	3,151
	2,217,153	4,251	(4,139)	(1,537)	(943)	(2,368)	2,214,785

Note that the 31 March 07 balance sheet reconciliation in the full Financial Statements separates 1 April 2006 transition adjustments from 31 March 2007 adjustments. The above summary aggregates these adjustments.

	Previous GAAP \$000	Total IFRS Adjustments \$000	NZ IFRS \$000
Reconciliation of Summary Cash Flows - Group for the year ended 31 March 2007			
Net Cash Inflow from Operating Activities	22,006	(17,409)	4,597
Net Cash Outflow from Investing Activities	(159,283)	155,127	(4,156)
Net Cash Inflow from Financing Activities	137,599	(137,813)	(214)
Net Increase / (Decrease) in Cash Held	322	(95)	227
Add Opening Cash and Cash Equivalents	49,310	2,514	51,824
Closing Cash and Cash Equivalents	49,632	2,419	52,051

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 10 June 2008.



NOTICE OF ANNUAL GENERAL MEETING 2008

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' office building, 51 Don Street, Invercargill on Wednesday 23 July 2008 at 5.30pm.

1. Special Business

1.1 Alteration to Rules – Special Resolution

To consider and if thought fit to pass the following special resolution:

"That the new Rules of the Society which have been tabled at the meeting be hereby adopted as the Rules of the Society in replacement of the existing Rules."

2. Ordinary Business

2.1 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 2008.

2.2 Election of Directors

Messrs WH Conway and MH Piper have elected to retire permanently from the SBS Board effective from the date of the Annual General Meeting. Messrs GJ Mulvey and JJ Grant retire by rotation and, being eligible, are offering themselves for re-election. There being no other candidates, the re-appointment of Messrs Mulvey and Grant is to be confirmed.

2.3 Approval of Directors Fees

To authorise the Directors to fix their remuneration.

2.4 Appointment of Auditors

To record the appointment of the auditors for the 2008/2009 year.

2.5 General Business

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

By order of the Board

TDR Loan
Secretary
10 June 2008

NOTE:

1. 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.

2. Special Resolution

Resolution 1.1 is a special resolution under Section 81 of the Building Societies Act 1965, which requires the resolution to be passed in the following manner:

- only members 18 years and over are entitled to vote;
- only those members of the Society who were members at the last balance date of the Society (being 31 March 2008) are entitled to vote;
- the vote must be carried out by a poll and each member is entitled to one vote on a poll;
- the resolution must be passed by more than three-quarters of the number of members voting in person or by proxy on the resolution. Please note there is one vote for each member voting.

A full set of the current Rules and proposed new Rules are available on request from the Society's registered office at 51 Don Street, Invercargill and can also be viewed on the Society's website at www.sbs.net.nz.

DIRECTORY

Chairman

Mr J W A Smith
BCom, FNZIM
Company Director
Invercargill

Deputy Chairman

Mr M H Piper
BCom FCA
Chartered Accountant
Invercargill

Directors

Mr W H Conway
Company Director
Invercargill

Mr J B Walker
LLB
Barrister & Solicitor
Invercargill

Mr J F Ward
BCom CA
Chartered Accountant
Invercargill

Mr G J Mulvey
BCom CA, FNZIM
General Manager
Invercargill Licensing Trust
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
Southland Building Society
Invercargill

Mr J J Grant
Farmer/Company Director
Balfour

All Directors can
be contacted:
c/- SBS
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

Registered Office

51 Don Street
Invercargill

Solicitors

Buddle Findlay
78 Worcester Street
Christchurch
Cruikshank 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 - Central

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



OUR PEOPLE MAKE THE DIFFERENCE

