SBS | Bank

New Zealand's own community bank since 1869

Southland Building Society

141st Annual Report 2010

GENERAL DISCLOSURE STATEMENT No.8
& ANNUAL FINANCIAL STATEMENTS

CONTENTS

Chairman
Mr J W A Smith
B Com FNZIM FInstD
Company Director
Invercargill

Deputy Chairman
Mr J F Ward
B Com FCA FInstD
Chartered Accountant
Invercargill

Directors
Mrs K J Ball
B Com CA
Chartered Accountant
Invercargill

Mr J B Walker
LLB
Barrister & Solicitor
Invercargill

Mr G J Mulvey
B Com FCA FNZIM
General Manager
Invercargill

Mr G J Diack
MA (Hons)
Corporate Executive
Christchurch

Mr J J Grant
Farmer/Company Director
Balfour

Mr R L Smith
B Com FNZIM
Group Managing Director / Chief Executive Officer of Southland Building Society
Invercargill

All Directors can be contacted through:
Southland Building Society
51 Don Street
Invercargill

Group Managing Director / Chief Executive Officer
Mr R L Smith
B Com FNZIM
Invercargill

Secretary
Mr T D R Loan
B Com CA DipBusStuds(IS)
(General Manager Finance)

Registered Office
51 Don Street
Invercargill

Solicitors
Buddle Findlay
78 Worcester Street
Christchurch

Cruickshank Pryde
42 Don Street
Invercargill

Auditors
KPMG
10 Customhouse Quay
Wellington

General Information

Southland Building Society (SBS Bank) was registered as a bank under the Reserve Bank of New Zealand Act 1989 on 7 October 2008, and was required to comply with the conditions of registration as laid down by the Reserve Bank of New Zealand from that date onwards.

This General Disclosure Statement has been issued by Southland Building Society in accordance with the Registered Bank Disclosure Statement (Full and Half-Year - New Zealand Incorporated Registered Banks) Order 2008 (the 'Order').

Words and phrases defined by the Order have the same meanings when used in this General Disclosure Statement.

Name and Address for Service of Registered Bank

The name of the registered bank is Southland Building Society (referred to either by its full name, as "SBS", or as the "Bank", or as the "Registered Bank") and the address for service is 51 Don Street, Invercargill. The "Banking Group" consists of the Bank and all of its controlled entities. All controlled entities are incorporated in New Zealand.

Details of Incorporation

Southland Building Society was established in 1869 and is incorporated under the Building Societies Act 1965. SBS's registration number is 1781001.

Ownership

Southland Building Society is a mutual building society and is owned by its members by virtue of their membership interests in Southland Building Society. Membership entitlements and voting rights are set out in the Rules of Southland Building Society.

Guarantee Arrangements

Southland Building Society has a guarantee under the New Zealand Deposit Guarantee Scheme ("Crown Guarantee"). The Crown Guarantee is provided under an initial Crown Deed of Guarantee (Registered Bank) entered into by Southland Building Society and the Crown on 30 October 2008, and a replacement Crown Deed of Guarantee (Registered Bank) entered into by Southland Building Society and the Crown on 16 December 2009.

The following are features of the guarantee:

- The Crown Guarantee is provided by the New Zealand Government (Crown) and administered by the Treasury. The address for service in respect of the Crown Guarantee is: Secretary of the Treasury, The Treasury, 1 The Terrace, PO Box 3724, Wellington, New Zealand.
- Further information about the Crown Guarantee and a copy of the Crown Deed of Guarantee is available free of charge on the internet site maintained by, or on behalf of the Treasury (www.treasury.govt.nz).
- The Crown publishes information on its audited financial statements and credit ratings on the internet site maintained by, or on behalf of the Treasury (www.treasury.govt.nz).
- The Crown's long term domestic currency issuer credit ratings are AAA (Fitch Ratings), AAA (Standard & Poor's), Aaa (Moody's Investor's Service), and these have not changed in the two years immediately before the date of this General Disclosure Statement. Credit rating scale definitions are listed on page 4 of this General Disclosure Statement.
- The only material obligations of Southland Building Society that are guaranteed under the Crown Guarantee are the debt securities (including redeemable shares but excluding subordinated redeemable shares), as defined in the Crown Deed of Guarantee issued by Southland Building Society.

  For the purposes of the Crown Guarantee, debt securities issued by Southland Building Society to related parties or financial institutions, as defined in the Crown Deed of Guarantee are excluded from the guarantee. In addition any debt securities issued as an 'excluded debt security', as defined in the Crown Deed Guarantee, are excluded from the guarantee.

  Under the Crown Guarantee, the Crown, subject to the terms and conditions of the Crown Guarantee, absolutely and irrevocably guarantees all obligations of Southland Building Society to pay all indebtedness from debt securities (including any interest owing) that is owing to a creditor that becomes due and payable during the Guarantee Period; and all indebtedness from debt securities (including any interest owing) that exists on the date of a Default Event as defined in the Crown Deed of Guarantee.
- The Crown Guarantee establishes a maximum liability of the Crown to each creditor under the Crown Guarantee of one million New Zealand dollars ($1,000,000).
- The Crown will not be required to make any payment under the Crown Guarantee until the Crown has received notice in writing from a creditor in respect of the amount of the relevant indebtedness and has satisfied itself as to the amount of the indebtedness and as to such other matters as the Crown reasonably considers appropriate in order to ascertain the extent of its liability under the Crown Guarantee in respect of that indebtedness.
- The Crown may (in its sole and unfettered descretion) decline to accept liability for any amount of interest on, or in respect of, any indebtedness to the extent that, the interest accrues after the date by which the Crown considers adequate time has elapsed following the date on which that indebtedness became due and payable in order for the relevant creditor to submit a notice of claim in respect of, and for the Crown to thereafter satisfy itself as to the extent (if any) of its liability under the Crown Guarantee.
- The Crown Guarantee commenced on 12.01am on 12 October 2008 and expires at 12.01am on 12 October 2010.

A copy of Southland Building Society's most recent Supplemental Disclosure Statement, containing a copy of the full Crown Deed of Guarantee will be provided immediately at no charge to any person requesting a copy where the request is made at Southland Building Society's head office at 51 Don Street, Invercargill, and within five working days where the request is made at any branch or agency of Southland Building Society. The Supplemental Disclosure Statement can also be accessed at the following website address: www.sbs.net.nz

Pending Proceedings or Arbitration

There are no pending proceedings at the date of this General Disclosure Statement that may have a material adverse effect on the Bank or the Banking Group.

Insurance Business

The Banking Group markets and distributes insurance products through subsidiary company Southsure Assurance Limited. The total assets of Southsure Assurance Limited as at 31 March 2010 are $8.2 million (31 March 2009 $7.1 million), which is 0.3% of the total assets of the Banking Group (31 March 2009 0.3%). This complies with the conditions of registration of Southland Building Society, which allows a maximum of 1% of the total consolidated assets of the Banking Group to be represented by insurance business assets.

Policies and procedures exist to ensure that the insurance activities of the Banking Group are conducted in an appropriate manner. These include regular reviews of the operations of the insurance business by management. Should adverse conditions arise, these policies and procedures are expected to mitigate the impact of the conditions on the Banking Group.

Other Material Matters

The Bank's directors are of the opinion that there are no other matters relating to the business or affairs of the Registered Bank or the Banking Group which would, if disclosed in this General Disclosure Statement, materially adversely affect the decision of a person to subscribe for debt securities of which the Registered Bank or any members of the Banking Group is the issuer.

Directorate

All directors of the Bank reside in New Zealand. All directors can be contacted at Southland Building Society, 51 Don Street, Invercargill.

Independent Non-Executive Directors

JWA (Acton) Smith, BCom FNZIM FInstD (Chairman - Board of Directors) Company Director	External Directorships: H&J Smith Holdings Ltd, H&J Smith Ltd, H&J Smith Corporate Ltd, H&J's Hardware Ltd, H&J's Electrical Ltd, H&J's Queenstown Properties Ltd, H&J Smith Parking Building Ltd, H&J Smith Finance Ltd, H&J's Carpet World Ltd, H&J's Properties Ltd, H&J's Cycles and Mowers Ltd, Outdoor World Ltd, Bainfield Investments Ltd, Bogcorp Ltd, Mangamahu Investments Ltd, Symphony Retailing Ltd, Lorneville Discount Centre Ltd, South Island Retail Ltd, Outdoor Adventures Ltd, South Island Sports Ltd, Smith Family Investments Ltd, Cross Roads Properties Ltd, South Island Department Stores Ltd, Sfi Properties Ltd, Sfi Buildings Ltd, Corner Trading Ltd, Steel Core Buildings Ltd, Southcom Ltd
JF (John) Ward, BCom FCA FInstD (Deputy Chairman - Board of Directors) Chartered Accountant	External Directorships: H&J Smith Holdings Ltd, H&J Smith Ltd, H&J Smith Corporate Ltd, H&J's Hardware Ltd, H&J's Electrical Ltd, H&J's Queenstown Properties Ltd, H&J Smith Parking Building Ltd, H&J Smith Finance Ltd, H&J's Carpet World Ltd, H&J's Properties Ltd, H&J's Cycles and Mowers Ltd, Outdoor World Ltd, Symphony Retailing Ltd, Lorneville Discount Centre Ltd, South Island Retail Ltd, Outdoor Adventures Ltd, South Island Sports Ltd, Simner Investments Ltd, Cross Roads Properties Ltd, South Island Department Stores Ltd, Sfi Properties Ltd, Corner Trading Ltd, Amtex Corporation Ltd, Witrick No 4 Ltd, Southfields Investments Ltd, Southwold Corporation Ltd, Suffolk Securities Ltd, Hokonui Investments Ltd, Hambledon Properties Ltd, Canyon Investments Ltd, Parthenon Investments Ltd, Queensmere Investments Ltd, Trio Corporation Ltd, Tanknology (Nz) Ltd, Skippers Canyon Holdings Ltd, Queenstown Bungy Ltd, Auckland Bungy Ltd, Aj Gear Ltd, Bungy New Zealand Ltd, Paddington Investments No 8 Ltd, Fun Innovators Nz Ltd, Southcom Ltd, 595 Frankton Rd Ltd, Auckland Bridge Adventures Ltd, Passage Holdings Ltd, Auckland Bridge Climb Ltd, Kba Limited, Bnzl Properties Ltd, Zephyr Nz Ltd, Salt Kettle Ltd, Aviemore Corporation Ltd, H.A.T. Ltd, H.A.T. 2 Ltd, University of Otago Holdings Ltd, Bsp Corporation Ltd, Wilson Holdings Ltd, Rd Petroleum Ltd, Skeggs Group Ltd, Otago Innovation Ltd
KJ (Kathryn) Ball, BCom CA Chartered Accountant	External Directorships: McIntyre Dick & Partners Ltd, 143 Spey Ltd, 142 Spey Ltd
JB (Jeff) Walker, LLB Barrister & Solicitor	External Directorships: Rough Gully Company Ltd, Rakiura Shipping Ltd, Craig Printing Co Ltd (In Rec), Cargill Trustees Ltd, Manchester Enterprises Ltd
GJ (Greg) Mulvey, BCom FCA FNZIM General Manager	External Directorships: DB South Island Brewery Ltd
GJ (Garry) Diack, MA (Hons) Corporate Executive	External Directorships: Cpi Ltd, Vera Facienda Ltd, General Cable Superconductors Ltd, Ashburton Trading Society
JJ (Jeff) Grant Farmer / Company Director	External Directorships: Milford Sound Development Authority Ltd

MH (Mike) Piper and WH (Warren) Conway both retired as independent non-executive directors on 23 July 2008.

Directorate continued

Executive Directors

RL (Ross) Smith, BCom FNZIM
Group Managing Director / Chief Executive Officer
Southland Building Society

External Directorships: Electricity Invercargill Ltd, Electricity Southland Ltd, Powernet Ltd, PowerServices Ltd, Pylon Ltd

Audit & Risk Committee

Members of the Southland Building Society Audit & Risk Committee as at the date of this General Disclosure Statement are as follows:

KJ Ball (Chairperson) - Independent Non-Executive Director

JWA Smith - Independent Non-Executive Director

JF Ward - Independent Non-Executive Director

GJ Mulvey - Independent Non-Executive Director

Conflicts of Interest Policy

The policy and current practice of the board of directors (as set out in clause 16.6 of the Rules of Southland Building Society) for avoiding or dealing with conflicts of interest which may arise from personal, professional or business interests of the directors, are that, a director, after becoming aware of the fact that he or she is interested in a transaction or proposed transaction with the Society, shall disclose to the board and cause to be entered in the interests register:

(i) the nature and monetary value of the director's interest in a transaction if its monetary value is able to be quantified; or

(ii) the nature and extent of the director's interest in a transaction if its monetary value is not able to be quantified.

A director may not vote on a board resolution in respect of any matter in which that director is interested, nor shall the director be counted in the quorum for the purposes of consideration of that matter.

Interested Transactions

There have been no transactions between the Bank and any director or immediate relative or close business associate of any director which either, has been entered into on terms other than those which would in the ordinary course of business of the Bank be given to any other person of like circumstances or means or, which could be reasonably likely to influence materially the exercise of the director's duties.

Solicitors

Buddle Findlay
78 Worcester Street
Christchurch

Cruickshank Pryde
42 Don Street
Invercargill

Auditors

KPMG
10 Customhouse Quay
Wellington

Credit Rating

As at 31 March 2010, and for the period to the date of this General Disclosure Statement, the credit rating assigned to Southland Building Society is BBB stable. This credit rating is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. The credit rating was issued by Fitch Ratings on 17 July 2007 and was reaffirmed on 28 July 2009. There have been no changes made to the rating in the two years preceding 31 March 2010. The rating is not subject to any qualifications.

The following is a summary of the descriptions of the major ratings categories of each rating agency for the rating of long-term senior unsecured obligations:

Fitch Ratings	Standard & Poor's	Moody's Investors Service	Description of Grade
AAA	AAA	Aaa	Ability to repay principal and interest is extremely strong. This is the highest investment category.
AA	AA	Aa	Very strong ability to repay principal and interest in a timely manner.
A	A	A	Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.
BBB	BBB	Baa	Adequate ability to repay principal and interest. More vulnerable to adverse changes.
BB	BB	Ba	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.
B	B	B	Greater vulnerability and therefore greater likelihood of default.
CCC	CCC	Caa	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.
CC - C	CC - C	Ca - C	Highest risk of default.
RD to D	D	-	Obligations currently in default.

Credit ratings from Fitch Ratings and Standard & Poor's may be modified by the addition of a plus or minus sign to show relative status within the major rating categories. Moody's Investors Service apply numerical modifiers 1, 2, and 3 to show relative standing within the major rating categories, with 1 indicating the higher end and 3 the lower end of the rating category.

Conditions of Registration

The conditions of registration imposed on Southland Building Society by the Reserve Bank of New Zealand pursuant to section 74 of the Reserve Bank of New Zealand Act 1989, and which apply as at the date of signing of this General Disclosure Statement are as follows. These conditions of registration have applied from 30 March 2010.

1. That the banking group complies with the following requirements:
   (a) the total capital ratio of the banking group is not less than 8 percent;
   (b) the tier one capital ratio of the banking group is not less than 4 percent; and
   (c) the capital of the banking group is not less than $30 million.

For the purposes of this condition of registration, capital, the total capital ratio and the tier one capital ratio must be calculated in accordance with the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2007.

1A. That—

   (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")" (BS12) dated December 2007;
   (b) under its ICAAP, the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2007; and
   (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.
   For the purposes of this condition:
   (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disapplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
   (ii) In measuring the size of a banking group's insurance business:

      (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
         - the total consolidated assets of the group headed by that entity;
         - or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
      (b) otherwise, the size of each insurance business conducted by any entity within the banking group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
      (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the banking group. All amounts in parts (a) and (b) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;
      (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit rating	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15 percent of the banking group's tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated March 2008.

Conditions of Registration continued

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the board of the registered bank contains at least two independent directors. In this context an independent director is a director who is not an employee of the registered bank, and who is not a director, trustee or employee of any holding company of the registered bank, or any other entity capable of controlling or significantly influencing the registered bank.

7. That the chairperson of the bank's board is not an employee of the registered bank.

8. That the bank's rules do not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the society (i.e. the bank).

9. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, shall be made unless:
   (i) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (ii) the Reserve Bank has advised that it has no objection to that appointment.

10. That a substantial proportion of the bank's business is conducted in and from New Zealand.

11. That the banking group complies with the following quantitative requirements for liquidity-risk management with effect from 1 April 2010:
   (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
   (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
   (c) the one-year core funding ratio of the banking group is not less than 65 per cent at the end of each business day;

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated March 2010 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated March 2010.

12. That, with effect from 1 April 2010, the registered bank has an internal framework for liquidity risk management that is adequate in the registered bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
   (a) is clearly documented and communicated to all those in the organisation with responsiblity for managing liquidity and liquidity risk;
   (b) identifies responsiblity for approval, oversight and implementation of the framework and policies for liquidity risk management;
   (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
   (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

For the purposes of these conditions of registration, the term "banking group" means Southland Building Society's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993).

Changes in Conditions of Registration

The following change was made to the Bank's conditions of registration during the period since the signing of the previous General Disclosure Statement:

Condition 11 has been updated to reference to the latest versions of "Liquidity Policy" (BS13) and "Liquidity Policy Annex: Liquid Assets" (BS13A) which are dated March 2010.

Directors' Statement

The directors of Southland Building Society (the "Bank") state that each director of the Bank believes, after due enquiry, that:

1. As at the date on which the General Disclosure Statement is signed:
   (a) the General Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Full and Half Year - New Zealand Incorporated Registered Banks) Order 2008; and
   (b) the General Disclosure Statement is not false or misleading;
2. Each director of the Bank believes, after due enquiry, that during the year ended 31 March 2010:
   (a) Southland Building Society has complied with the conditions of registration; and
   (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
   (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk, and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated this 8th day of June 2010 and has been signed by or on behalf of all the directors.

JWA Smith
(Chairman)

JF Ward
(Deputy Chairman)

RL Smith
(Group Managing Director /
Chief Executive Officer)

KJ Ball

JB Walker

GJ Mulvey

GJ Diack

JJ Grant

Historical Summary of Financial Statements

All in $000's

Income Statements

	BANKING GROUP					
	NZ IFRS 12 Months Ended 31 Mar 2010	NZ IFRS 12 Months Ended 31 Mar 2009	NZ IFRS 12 Months Ended 31 Mar 2008	NZ IFRS 12 Months Ended 31 Mar 2007	NZ GAAP 12 Months Ended 31 Mar 2007	NZ GAAP 12 Months Ended 31 Mar 2006
Interest income	172,040	237,227	231,260	196,591	194,456	170,695
Interest expense	16,897	39,421	41,433	35,652	35,652	33,962
Dividends on redeemable shares	95,598	136,808	130,862	108,632	108,632	90,427
	112,495	176,229	172,295	144,284	144,284	124,389
Net interest income	**59,545**	**60,998**	**58,965**	**52,307**	**50,172**	**46,306**
Other income	18,629	12,871	12,499	11,100	15,174	12,879
Total operating income	**78,174**	**73,869**	**71,464**	**63,407**	**65,346**	**59,185**
Operating expenses	43,068	42,922	41,074	37,509	38,864	38,686
Provision for credit impairment	15,727	12,446	9,074	3,694	4,528	-
Operating surplus	**19,379**	**18,501**	**21,316**	**22,204**	**21,954**	**20,499**
Add net gain/(loss) from financial instruments designated at fair value	980	(2,404)	(1,340)	924	(19)	-
Add revaluation of property	200	60	60	749	952	770
Surplus before income tax	**20,559**	**16,157**	**20,036**	**23,877**	**22,887**	**21,269**
Less income taxation expense	5,522	4,100	5,709	7,274	6,659	6,223
Net surplus	**15,037**	**12,057**	**14,327**	**16,603**	**16,228**	**15,046**
Attributable to:						
Members' interests	12,723	10,986	13,567	15,514	15,258	14,296
Minorities' interests	2,314	1,071	760	1,089	970	750
	15,037	**12,057**	**14,327**	**16,603**	**16,228**	**15,046**

Significant Statement of Financial Position Items

	BANKING GROUP					
	NZ IFRS As At 31 Mar 2010	NZ IFRS As At 31 Mar 2009	NZ IFRS As At 31 Mar 2008	NZ IFRS As At 31 Mar 2007	NZ GAAP As At 31 Mar 2007	NZ GAAP As At 31 Mar 2006
Total assets	2,627,905	2,541,177	2,426,271	2,214,785	2,217,153	2,058,351
Individually impaired assets	29,907	21,848	8,355	583	1,535	816
Total liabilities	2,450,241	2,385,597	2,270,905	2,074,264	2,074,243	1,931,776
Equity	177,664	155,580	155,366	140,521	142,910	126,575
Regulatory capital						
Tier one capital	176,797	162,927	151,644	136,702	141,237	125,545
Total capital	228,334	205,949	152,750	137,698	141,953	125,560
Tier one capital expressed as a percentage of total risk weighted exposures	10.34%	9.85%	9.52%	9.24%	9.48%	9.10%
Total capital expressed as a percentage of total risk weighted exposures	13.35%	12.46%	9.59%	9.31%	9.53%	9.10%

The amounts included in this summary have been extracted from the audited consolidated financial statements of the Banking Group.

The Banking Group adopted the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) for the reporting period commencing 1 April 2006. Comparative data for the year ended 31 March 2007 has been restated and presented in accordance with NZ IFRS.

The Banking Group adopted the Basel II "standardised approach" to calculate regulatory capital requirements for the year ended 31 March 2008. Prior comparative periods were calculated under the Basel I methodology.

CONTENTS

Income Statements for the year ended 31 March 2010

All in $000's

	Note	BANKING GROUP		PARENT	
		31/3/10	31/3/09	31/3/10	31/3/09
Interest income	(4)	172,040	237,227	152,123	213,738
Interest expense		16,897	39,421	14,129	29,945
Dividends on redeemable shares		95,598	136,808	95,749	136,961
	(5)	112,495	176,229	109,878	166,906
Net interest income		**59,545**	**60,998**	**42,245**	**46,832**
Other income	(4)	18,629	12,871	6,753	2,236
Total operating income		**78,174**	**73,869**	**48,998**	**49,068**
Operating expenses	(5)	43,068	42,922	29,254	30,198
Provision for credit impairment	(12)	15,727	12,446	10,306	7,054
Operating surplus		**19,379**	**18,501**	**9,438**	**11,816**
Add dividends from subsidiaries and associates		-	-	3,721	5,624
Add net gain/(loss) from financial instruments designated at fair value	(6)	980	(2,404)	(1,342)	617
Add revaluation of property	(22)	200	60	-	-
Less subvention payment		-	-	480	380
Surplus before income tax		**20,559**	**16,157**	**11,337**	**17,677**
Less income tax expense	(7)	5,522	4,100	801	4,474
Net surplus		**15,037**	**12,057**	**10,536**	**13,203**
Attributable to:					
Members' interests		12,723	10,986	10,536	13,203
Minorities' interests		2,314	1,071	-	-
		15,037	**12,057**	**10,536**	**13,203**

Statements of Comprehensive Income for the year ended 31 March 2010

	Note	BANKING GROUP		PARENT	
		31/3/10	31/3/09	31/3/10	31/3/09
Net surplus for the year		15,037	12,057	10,536	13,203
Other comprehensive income					
Net change in property, plant and equipment reserve, net of tax	(22)	(42)	55	21	20
Net change in available for sale asset reserve, net of tax	(22)	22	(53)	(5)	8
Net change in cash flow hedging reserve, net of tax	(22)	7,932	(11,309)	8,127	(11,309)
Other comprehensive income for the year, net of tax		7,912	(11,307)	8,143	(11,281)
Total comprehensive income for the year		**22,949**	**750**	**18,679**	**1,922**
Attributable to:					
Members' interests		20,686	(309)	18,679	1,922
Minorities' interests		2,263	1,059	-	-
		22,949	**750**	**18,679**	**1,922**

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

Statements of Changes in Equity for the year ended 31 March 2010

All in $000's

	Note	BANKING GROUP 31/3/10	BANKING GROUP 31/3/09	PARENT 31/3/10	PARENT 31/3/09
Capital reserve					
Balance at beginning of the year		73	73	73	73
Balance at end of the year		73	73	73	73
Revaluation reserve - property, plant and equipment					
Balance at beginning of the year		1,195	1,140	325	305
Other comprehensive income for the year		(42)	55	21	20
Balance at end of the year		1,153	1,195	346	325
Revaluation reserve - available for sale assets					
Balance at beginning of the year		(75)	(34)	5	(3)
Other comprehensive income for the year		17	(41)	(5)	8
Balance at end of the year		(58)	(75)	-	5
Revaluation reserve - cash flow hedging					
Balance at beginning of the year		(11,309)	-	(11,309)	-
Other comprehensive income for the year		7,987	(11,309)	8,127	(11,309)
Balance at end of the year		(3,322)	(11,309)	(3,182)	(11,309)
Retained earnings					
Balance at beginning of the year		161,432	150,446	151,869	138,666
Net surplus for the year		12,723	10,986	10,536	13,203
Balance at end of the year		174,155	161,432	162,405	151,869
Total equity attributable to members' interests		**172,001**	**151,316**	**159,642**	**140,963**
Minorities' interests					
Balance at beginning of the year		4,264	3,741	-	-
Net surplus for the year		2,314	1,071	-	-
Other comprehensive income for the year		(50)	(12)	-	-
Dividends		(1,554)	(2,228)	-	-
Change in capital of minority interests		689	1,692	-	-
Balance at end of the year		5,663	4,264	-	-
Total equity at end of the year		**177,664**	**155,580**	**159,642**	**140,963**
Represented by:					
Equity at beginning of the year		155,580	155,366	140,963	139,041
Net surplus for the year		15,037	12,057	10,536	13,203
Other comprehensive income for the year		7,912	(11,307)	8,143	(11,281)
Total comprehensive income for the year		22,949	750	18,679	1,922
Dividends		(1,554)	(2,228)	-	-
Change in capital of minority interests		689	1,692	-	-
Total equity at end of the year	(22)	**177,664**	**155,580**	**159,642**	**140,963**

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

Statements of Financial Position as at 31 March 2010

All in $000's

	Note	BANKING GROUP		PARENT	
		31/3/10	31/3/09	31/3/10	31/3/09
Assets					
Cash on hand and at bank		26,504	23,164	17,676	16,075
Funds with financial institutions	(8)	64,080	76,777	60,028	73,773
Investment securities	(9)	47,482	2,421	44,978	404
Derivative financial instruments	(10)	506	732	1,572	3,848
Current tax assets		1,176	-	2,014	-
Advances to customers	(11)	2,460,089	2,403,909	2,272,584	2,202,481
Loans to subsidiaries and associates	(15)	-	-	95,555	89,385
Investments in subsidiaries	(15)	-	-	15,180	13,451
Investments in associates	(15)	-	-	-	-
Other assets	(16)	1,575	4,924	6,531	4,007
Property, plant and equipment	(17)	16,005	15,904	5,378	5,222
Intangible assets	(18)	3,094	2,842	1,686	1,411
Deferred tax	(19)	7,394	10,504	6,318	8,425
		2,627,905	**2,541,177**	**2,529,500**	**2,418,482**
Liabilities					
Redeemable shares	(24)	1,972,008	1,851,828	1,975,177	1,854,755
Deposits from customers	(24)	230,051	234,475	230,051	234,475
Due to other financial institutions	(24)	30,017	17,002	30,017	17,002
Derivative financial instruments	(10)	13,009	34,500	13,017	34,510
Current tax liabilities		-	1,057	-	1,755
Other borrowings		128,574	173,811	53,802	68,958
Other liabilities	(20)	17,275	30,698	8,487	23,838
Subordinated redeemable shares	(21)	59,307	42,226	59,307	42,226
		2,450,241	**2,385,597**	**2,369,858**	**2,277,519**
Net assets		**177,664**	**155,580**	**159,642**	**140,963**
Equity	(22)				
Reserves		(2,154)	(10,116)	(2,763)	(10,906)
Retained earnings		174,155	161,432	162,405	151,869
Attributable to members of the society		172,001	151,316	159,642	140,963
Attributable to minority shareholders		5,663	4,264	-	-
		177,664	**155,580**	**159,642**	**140,963**

For and on behalf of the Board of Directors:

Chairman
JWA Smith

Group Managing Director / Chief Executive Officer
RL Smith

8 June 2010

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

All in $000's

	Note	BANKING GROUP		PARENT	
		31/3/10	31/3/09	31/3/10	31/3/09
Cash flows from operating activities					
Interest received		167,996	237,524	151,412	217,127
Fees and other income		25,048	18,604	5,699	4,019
Dividends received		28	-	1,139	1,196
Interest paid		(16,689)	(39,918)	(13,921)	(29,742)
Dividends paid on redeemable shares		(101,384)	(130,448)	(101,543)	(130,584)
Operating expenses		(44,534)	(42,302)	(33,205)	(28,113)
Income taxes paid		(8,024)	(3,851)	(5,927)	(2,833)
Net cash flows from operating activities before changes in operating assets and liabilities		22,441	39,609	3,654	31,070
Net changes in operating assets and liabilities					
Net increase in advances		(80,391)	(64,525)	(89,987)	(83,372)
Net increase in shares and deposits from customers		121,510	253,744	121,760	255,398
Net increase/(decrease) in amounts due to other financial institutions		13,000	(53,427)	13,000	(53,427)
Net decrease in other borrowings		(45,237)	(173,435)	(15,156)	(141,506)
Net increase in subordinated redeemable shares		16,920	41,902	16,920	41,902
Net increase/(decrease) in cash held on behalf of Lifestages Mortgage Portfolio		(9,845)	4,908	(9,845)	4,908
Net cash flows provided by/(used in) operating activities	(23)	**38,398**	**48,776**	**40,346**	**54,973**
Cash flows from investing activities					
Net increase in investment securities		(44,227)	(516)	(43,774)	(404)
Sale of property, plant and equipment		88	62	69	43
Purchase of property, plant and equipment		(1,323)	(882)	(1,107)	(809)
Purchase of intangible assets		(1,395)	(1,311)	(1,137)	(1,068)
Net (increase)/decrease in loans to subsidiaries and associates		-	1,413	(6,170)	(6,774)
Investment in associates		-	1,000	-	1,000
Net cash flows provided by/(used in) investing activities		**(46,857)**	**(234)**	**(52,119)**	**(8,012)**
Cash flows from financing activities					
Dividends paid to minority interests		(507)	(406)	-	-
Loan from minority interests		-	(18)	-	-
Net cash flows provided by/(used in) financing activities		**(507)**	**(424)**	**-**	**-**
Net increase/(decrease) in cash held		(8,966)	48,118	(11,773)	46,961
Add opening cash and cash equivalents		99,426	51,308	89,375	42,414
Closing cash and cash equivalents		**90,460**	**99,426**	**77,602**	**89,375**
Reconciliation of cash and cash equivalents					
Cash on hand and at bank		26,504	23,164	17,676	16,075
Funds with financial institutions	(8)	64,080	76,777	60,028	73,773
Interest accrued on available for sale assets		(124)	(508)	(102)	(466)
Net (increase)/decrease in fair value of available for sale assets		-	(7)	-	(7)
		90,460	**99,426**	**77,602**	**89,375**

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

1 Statement of Accounting Policies

(a) Basis of Preparation

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

The 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.

These financial statements were authorised for issue by the Board of Directors on 8 June 2010.

(b) Presentation Currency and Rounding

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

(c) Standards Issued But Not Yet Effective

The following new standards and amendments to standards relevant to the Banking Group are not yet effective and have not yet been applied in preparing the financial statements. The Banking Group is evaluating the potential effect of NZ IFRS 9. The adoption of the other standards will not have any impact on the Banking Group's reported profit or financial position.

- NZ IAS 34 *Interim Financial Reporting - Scope* will apply to the Banking Group from 1 April 2010.
- NZ IAS 39 *Amendment - Eligible Hedged Items* will apply to the Banking Group from 1 April 2010.
- NZ IAS 24 *Related Party Disclosures (revised 2009)* will apply to the Banking Group from 1 April 2012.
- NZ IFRS 9 *Financial Instruments*. It is the intention of the IASB to replace IAS 39 with IFRS 9. This standard will apply to the Banking Group from 1 April 2013.

(d) Measurement Base

The financial statements have been prepared on a going concern basis in accordance with historical cost concepts except that the following assets and liabilities are stated at their fair value: derivative financial instruments, certain financial assets and liabilities designated at fair value through profit and loss or as available for sale, and the revaluation of certain non-current assets.

(e) Accounting Estimates

The preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates. For further discussion on judgements and estimates made by the Banking Group, in the process of applying its accounting policies, that have the most effect on the amounts recognised in the financial statements refer to Note 2 - Critical Estimates and Judgements Used in Applying Accounting Policies.

(f) Consolidation

The Banking Group financial statements consolidate SBS and the following entities:

- Fraser Properties Limited (wholly owned subsidiary) - owns SBS's head office building;
- Southsure Assurance Limited (80% owned subsidiary) - life insurance and related products;
- Finance Now Limited (71.5% owned subsidiary) - consumer credit and commercial finance;
- Funds Administration New Zealand Limited (57% owned subsidiary) - funds management products and financial advisory services;
- SBS Invercargill W Trust (in substance subsidiary) - special purpose vehicle holding securitised loans purchased from SBS;
- SBS Oreti Trust No 1 (in substance subsidiary) - special purpose vehicle holding securitised loans purchased from SBS; and
- SBS Oreti Trust No 2 (in substance subsidiary) - special purpose vehicle holding securitised loans purchased from SBS.

Subsidiaries

Control means the power to govern, directly or indirectly, decision making in relation to the financial and operating policies of an entity so as to obtain benefits from its activities.

Where subsidiaries have been sold or acquired during the year, their operating results have been included to the date control ceases or from the date control is transferred to the Banking Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date. The excess of the cost of acquisiton over the fair value of the Banking Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Banking Group's share of net assets of the subsidiairy acquired, the difference is recognised directly in the income statement.

On consolidation, all significant inter-company transactions, balances and unrealised gains on transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the parent, SBS.

Associates

Associates are entities over which SBS exerts significant influence but does not exercise control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Associates are accounted for under the equity method of accounting.

Special Purpose Entities

SBS may invest in or establish special purpose entities to enable it to undertake specific types of transactions such as securitisation. Where SBS controls such vehicles, they are consolidated into the Banking Group's financial results.

1 Statement of Accounting Policies continued

(g) Revenue and Expense Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Banking Group and that revenue can be reliably measured. Expenses are recognised in the income statement on an accruals basis.

(h) Interest Income and Interest Expense

Interest income and interest expense (including dividends on redeemable and subordinated redeemable shares), for all instruments measured at amortised cost are recognised in the income statement as they accrue, using the effective interest method. Interest income and interest expense for all instruments measured at fair value are recognised in the income statement on a daily accrual basis.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate over the expected life of the financial asset or liability. The application of the method has the effect of recognising income and expense evenly in proportion to the amount outstanding over the expected life of the financial asset or liability.

Loan commitment fees are deferred and recognised as an adjustment to the effective interest on the loan once drawn or immediately to the income statement for expired commitments.

Fees and commissions payable to brokers in respect of originating lending business, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

(i) Fee and Commission Income

Fee and commission income integral to the effective yield of a financial asset or liability for all instruments measured at amortised cost are recognised as an adjustment to the effective interest calculation and included in net interest income.

Fee and commission income which relates to the execution of a significant act, for example maintaining and administering existing facilities is recognised at the time the services are provided and is recognised as income no later than when the loan is disbursed or the commitment to lend expires.

(j) Net Gain/(Loss) from Financial Instruments Designated at Fair Value

Net gains/(losses) on financial instruments designated at fair value comprises fair value gains and losses from financial instruments designated at fair value through profit or loss.

Interest income and interest expense on all financial instruments designated at fair value through profit or loss are reported within interest income or interest expense and not included in the fair value of these instruments.

Provision for credit impairment on all financial instruments designated at fair value through profit or loss are reported within provision for credit impairment and not included in the fair value of these instruments.

(k) Offsetting of Income and Expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where amounts are collected on behalf of third parties where the Banking Group is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Banking Group is reimbursed.

(l) Recognition and Derecognition of Financial Assets and Financial Liabilities

The Banking Group recognises a financial asset or liability on its statement of financial position when, and only when, the Banking Group becomes a party to the contractual provisions of the financial asset or liability.

The Banking Group derecognises a financial asset from its statement of financial position when, and only when, (i) the contractual rights to the cash flows from the financial asset expire, or (ii) the Banking Group has transferred all or substantially all of the risks and rewards of ownership of the financial asset and no longer controls the asset. The Banking Group derecognises a financial liability from its statement of financial position, when and only when, it is extinguished.

(m) Fair Value Measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets, or by using valuation techniques. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value and subsequently at valuation.

Valuation techniques include the discounted cash flow method and comparison to similar instruments for which market observable prices exist. The Banking Group uses widely recognised valuation models however some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques may not appropriately reflect all factors market participants take into account when entering a transaction. Valuation adjustments are recorded to allow for liquidity risks as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments at fair value on the statement of financial position.

(n) Financial Instruments

The Banking Group classifies its financial instruments into the following categories at initial recognition: Financial assets at fair value through profit or loss, available for sale financial assets, loans and receivables, held to maturity financial assets, financial liabilities at fair value through profit or loss and other financial liabilities. Designation of financial assets and liabilities into instrument categories is determined by the business purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss are financial assets acquired principally for the purpose of selling in the short term (held for trading), financial assets designated as fair value through profit or loss (FVTPL), and derivative financial instruments which are not designated as a cash flow hedge.

1 Statement of Accounting Policies continued

The Banking Group may designate financial assets at fair value through profit or loss when doing so significantly reduces measurement or recognition inconsistencies (accounting mismatch) that would arise from measuring assets and liabilities or recognising the gains and losses on them on different bases. Under this criterion the Banking Group has designated certain advances to customers as fair value through profit or loss. Where derivative financial instruments have been transacted to risk manage these, an accounting inconsistency would arise if such advances were accounted on an amortised cost basis, as the derivatives are measured at fair value with movements in fair value recognised in the income statement. By designating these advances at fair value through profit or loss, fair value movements on the instrument will substantially offset the fair value movements on risk management derivatives in the income statement.

Other financial assets may be classified at fair value through profit or loss where they are part of a group of financial assets that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Once a financial asset has been designated at fair value through profit or loss upon initial recognition, the Banking Group cannot subsequently change the designation. Financial assets at fair value through profit or loss are measured at fair value with realised and unrealised gains and losses included in the income statement. Assets classified in this category include certain advances to customers, certain investment securities, and derivative financial assets.

Available for Sale Financial Assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale. The Banking Group may designate financial assets as available for sale when they may be sold prior to maturity in response to needs for liquidity or due to changes in interest rates.

Available for sale financial assets are initially recognised at fair value plus transaction costs that are directly attributable to acquisition and are subsequently carried at fair value. Gains and losses (not attributable to accrued interest) arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the income statement. Assets classified in this category include certain funds with financial institutions and investment securities.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, not available for sale, and not designated as fair value through profit or loss. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs and are subsequently measured at amortised cost using the effective interest method, less any impairment loss.

Assets classified in this category include cash on hand and at bank, investment securities which are not managed on a fair value basis, advances to customers other than those classified at fair value through profit or loss, and loans to subsidiaries and associates.

Held to Maturity Financial Assets

Held to maturity financial assets are non-derivative financial assets where management has the intention and ability to hold to maturity. Held to maturity financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at amortised cost. The Banking Group has not classified any financial assets as held to maturity.

Other Financial Liabilities

Other financial liabilities includes all financial liabilities other than those classified at fair value through profit or loss. Other financial liabilities are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at amortised cost. Liabilities classified in this category include redeemable shares, deposits from customers, due to other financial institutions, current tax liabilities and subordinated redeemable shares.

(o) Derivative Financial Instruments held for Risk Management Purposes

Derivative financial instruments are contracts whose value is derived from changes in one or more underlying financial instruments or indices. They include swaps, options and combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Banking Group designates certain derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

The Banking Group documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Banking Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective on offsetting changes in cash flows of hedged items.

Cash Flow Hedge

A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in the cash flow hedging reserve. The ineffective portion of a fair value gain or loss is recognised immediately in the income statement. When the transaction or item that the derivative is hedging (including cash flows from the transaction that were forecast when the derivative was effected) affects the income or expense then the associated gain or loss on the hedging derivative is simultaneously transferred from the cash flow hedging reserve to the corresponding income or expenses item in the income statement.

When a hedging derivative expires or is sold, the hedge no longer meets the criteria for hedge accounting, or the Banking Group elects to revoke the hedge designation, the cumulative gain or loss on the hedging derivative remains in the cash flow hedging reserve until the forecast transaction occurs and affects income, at which point it is transferred to the corresponding income or expense line. If a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging derivative previously reported in the cash flow hedging reserve is immediately transferred to the income statement.

Derivative Financial Instruments at Fair Value through Profit or Loss

Certain derivative financial instruments that do not meet the criteria for hedge accounting under NZ IAS 39 are classified as at fair value through profit or loss. Changes in the fair value are reflected in the income statement immediately.

1 Statement of Accounting Policies continued

The movement in the fair value of derivative financial instruments is included in the income statement as 'net gain/(loss) from financial instruments designated at fair value'.

(p) Asset Quality

Credit Assessment

All advances and loans are subject to regular scrutiny of credit risk.

The Banking Group has classified its impaired assets into the following categories:

Impaired assets

Impaired assets are credit exposures where a credit event has occurred and for which it is probable the Banking Group will not be able to collect all amounts owing in terms of the contract and includes:

- advances and loans that are not contractually past due but where there is insufficient security to cover principal outstanding;
- advances and loans which are past due with insufficient security to cover principal and arrears of interest; and
- restructured advances and loans where the interest rate charged is below that of the Banking Group's average cost of funds.

An individual provision is raised to cover the expected loss, where full recovery is doubtful.

Restructured assets

Restructured assets are defined as advances and loans on which the original contractual terms have been concessionally modified due to the financial difficulties of borrowers, and on which interest continues to be accrued at a rate which is equal to or greater than the Banking Group's average cost of funds at the date of restructuring.

Real estate or other assets acquired through security enforcement

Real estate or other assets acquired through security enforcement are those assets which are legally owned by the Banking Group as a result of enforcing security.

Past due assets

Advances and loans are designated as past due assets where a counterparty has failed to make a payment when contractually due and which are not impaired assets.

(q) Impairment of Financial Assets

Advances and loans are regularly reviewed for impairment loss. Credit impairment provisions are raised for exposures that are known to be impaired. Advances and loans are impaired and impairment losses incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the advance or loan and that loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the individual advance or loan or the collective portfolio of advances and loans.

Impairment is assessed initially for assets that are individually significant (or on a portfolio basis for small value loans), and then on a collective basis for those exposures not individually known to be impaired.

For those exposures that are assessed collectively, these are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characterisitics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

The estimated individual impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value at the original effective interest rate. As this discount unwinds during the period between recognition of impairment and recovery of the written down amount, it is recognised in the income statement. The process of estimating the amount and timing of cash flows involves considerable management judgement. These judgements are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The provision for credit impairment (individual and collective) is deducted from advances and loans in the statement of financial position and the movement in the provision for the reporting period is reflected in the income statement as 'provision for credit impairment'.

When an advance or loan is uncollectible, it is written-off against the related provision for impairment. Subsequent recoveries of amounts previously written-off are taken to the income statement.

Where impairment losses recognised in previous periods are subsequently decreased or no longer exist, such impairments are reversed in the income statement.

(r) Property Plant and Equipment

Asset Recognition

Land and buildings are initially recognised at cost and are subsequently valued by independent registered valuers. Land and buildings are carried at the revalued amount less accumulated depreciation and impairment losses. Items of property, plant and equipment are carried at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of internally developed assets includes the cost of materials and direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

Revaluation

Land and buildings are carried at the revalued amount which is the market value at the date of the revaluation less any subsequent accumulated depreciation of buildings and accumulated impairment losses.

Where the land and building is revalued, any revaluation surplus net of tax is credited to the asset revaluation reserve included in equity unless it reverses a revaluation decrease of the same asset previously recognised in the income statement. Any revaluation deficit is recognised in the income statement unless it directly offsets a previous surplus of the same asset recognised in the asset revaluation reserve. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to a particular asset being disposed is transferred to retained earnings.

Valuations of land and buildings are carried out annually, at market value.

1 Statement of Accounting Policies continued

Depreciation

Depreciation is provided in the financial statements on all property, plant and equipment other than land, on a basis which will write down the net cost or revalued amount of each item of property, plant and equipment over its expected useful life on a straight line basis.

The estimated useful lives are:

	Useful Life
Buildings	50 years
Building Alterations	3 - 11 years
Computer Equipment	2 - 5 years
Other Assets	2 - 5 years

At each reporting date, the carrying amounts of property, plant and equipment are reviewed for indications of impairment in light of commercial and technological developments. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the assets' existing carrying value exceeds its recoverable amount the difference is charged to the income statement. An impairment loss recognised in prior periods may be reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

(s) Intangible Assets

Goodwill

Goodwill arising on the acquisition of subsidiary shares represents the excess of the cost of acquisition over the fair value of the Banking Group's share of the net identifiable assets acquired, at the date of acquistion. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Software

Software comprises acquired and internally developed computer software and is amortised over its expected useful life to the Banking Group. The period of amortisation is between 1 and 3 years. At each reporting date, the software assets are reviewed for impairment against impairment indicators. If any indication of impairment exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the income statement. Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

(t) Redeemable Shares, Deposits and Subordinated Redeemable Shares

Redeemable shares, deposits and subordinated redeemable shares are recorded in the statement of financial position inclusive of accrued interest. Redeemable shares and subordinated redeemable shares are considered to be compound instruments. Interest income on deposits and dividends on redeemable and subordinated redeemable shares are recorded in the income statement on an accruals basis using the effective interest method.

(u) Repurchase Agreements

Securities sold under repurchase agreements are retained in the financial statements when substantially all the risks and rewards of ownership remain with the Banking Group, and counterparty liability is disclosed under the classification of due to other financial institutions or other liabilities, depending on the term of the agreement and the counterparty.

The difference between the sale price and the repurchase price is amortised over the life of the repurchase agreement and charged to interest expense in the income statement.

(v) Operating Leases

Leases as lessee

The leases entered in to by the Banking Group are primarily operating leases. Operating leases are recognised as an expense on a systematic basis over the lease term.

Leases as lessor

Operating lease rentals are included in the income statement on a systematic basis over the lease term. Gross operating lease income comprises amounts received under the lease contracts. Operating lease assets are stated at market value and are included as property, plant and equipment.

(w) Income Tax

Income Tax Expense

Income tax on profits for the year comprises current and deferred tax. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

Current Tax

Current tax is the expected tax payable on taxable income for the year, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date and including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the balance sheet method. Deferred tax arises by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Banking Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised. Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1 Statement of Accounting Policies continued

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority and there is a legal right and intention to settle on a net basis and it is allowed under tax law.

(x) Employee Benefits

The amounts expected to be paid in respect of employee's entitlements to annual leave are accrued at expected salary rates. Liability for long service leave is calculated and accrued for in respect of all applicable employees using an actuarial valuation.

(y) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST') except where the amount of GST incurred is not recoverable from the Inland Revenue Department ('IRD'). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the IRD is included as 'other assets' or 'other liabilities' in the statement of financial position.

Cash flows are included in the cash flow statement on a net basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the IRD are classified as operating cash flows.

(z) Offsetting of Assets and Liabilities

Assets and liabilites are offset and the net amount reported in the statement of financial position only where:

- There is a current enforceable legal right to offset the asset and liability; and

- There is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(aa) Contingent Liabilities

Liabilities are no longer contingent, and are recognised on the statement of financial position, when the following requirements are met:

- The transaction is probable in that a contingency is likely to occur; and

- The contingency can be reasonably estimated.

Further disclosure is made within Note 25 - Contingent Liabilities and Credit Related Commitments, where the above requirements are not met but there is a possible obligation that is higher than remote. Specific details are provided together with an estimate of the range or a statement that such an estimate is not possible.

(ab) Statement of Cash Flows

Basis of Preparation

The statement of cash flows has been prepared using the direct approach modified by the netting of certain items as disclosed below.

Cash and Cash Equivalents

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day to day cash management of the Banking Group, which are unconditionally convertible at the Banking Group's option within three months.

Netting of Cash Flows

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Banking Group. These include customer loans and advances, customer shares and deposits and parent company funding.

(ac) Ranking of Securities

Deposits rank equally amongst themselves and equally with other unsecured creditors and behind creditors given priority by law. Redeemable shares rank equally amongst themselves and behind deposits, unsecured creditors and those creditors given priority by law. Subordinated redeemable shares rank equally amongst themselves and behind redeemable shares, deposits, unsecured creditors and those creditors given priority by law.

(ad) Lifestages Superannuation Scheme

SBS has entered into a trust deed made between SBS and Trustees Executors Limited as Trustee of a registered superannuation scheme known as the Lifestages Superannuation Scheme (previously known as Lifestages Capital Stable Portfolio). Under a Deed of Novation dated 31 March 2007, SBS novated its rights and obligations under this Trust Deed to Funds Administration New Zealand Limited (FANZ). From this date, FANZ is the founder and promoter of the Lifestages Superannuation Scheme. SBS accepts investments made through SBS's branch network. The fixed interest portion of the Lifestages Superannuation Scheme is invested with or managed by SBS who unconditionally guarantees the capital invested in it providing the investment is maintained for at least three years. Under a Deed of Amendment and Restatement of Guarantee dated 31 March 2007, this guarantee is now only applicable to members who joined the registered superannuation scheme before 31 May 2007.

The liability of SBS under the guarantee has not been taken over by FANZ under the Deed of Novation and SBS remains liable under this guarantee. A minimum of 80% of the funds invested in the Lifestages Superannuation Scheme are invested with or managed by SBS. The Lifestages Superannuation Scheme funds that are invested with SBS are included in the statement of financial position as deposits. FANZ is the Investment and Administration Manager of the Lifestages Superanuation Scheme.

(ae) Lifestages Portfolio Funds

FANZ has entered into a trust deed made between FANZ and Trustee Executors Limited as Trustee of five unit trusts registered under the Unit Trusts Act 1960, known as Lifestages Mortgage Portfolio (Distributing), Lifestages Income Portfolio (previously known as the Lifestages Mortgage Non-Distributing Portfolio), Lifestages Australasian Equity Portfolio, Lifestages World Equity Portfolio and the Lifestages Deposit Portfolio. FANZ is the issuer and manager of the above Portfolios. In addition, FANZ acts as Investment and Administration Manager with respect to the Lifestages Superannuation Scheme under an agreement entered into between Trustee Executors (as trustee and issuer), FANZ and SBS.

The fixed interest portion (2.5% to 10% of the portfolio) and the mortgage portfolio of the Lifestages Mortgage Portfolios are invested with or managed by SBS. The fixed interest portion (2.5% to 10% of the portfolio) of the Lifestages Australasian Equity Portfolio and Lifestages World Equity Portfolio are invested with or managed by SBS. The majority of the cash in the Lifestages Deposit Portfolio is invested with SBS.

The Lifestages Portfolio Funds that are invested with SBS are included in the statement of financial position as deposits.

1 Statement of Accounting Policies continued

(af) Lifestages KiwiSaver Scheme

The Lifestages KiwiSaver Scheme was establised by the Trust Deed on 1 June 2007 and is a registered KiwiSaver scheme under the KiwiSaver Act 2006. FANZ is the "sponsor" of the scheme and has also been appointed as its administration and investment manager.

The fixed interest portion of the investments of this scheme are invested with or managed by SBS. The Lifestages KiwiSaver Scheme funds that are invested with SBS are included in the statement of financial position as deposits.

(ag) Loan Securitisation

SBS sells its interest in certain loans to a unit trust known as the Lifestages Mortgage Portfolio by way of an equitable assignment. At the time of the sale all legal, equitable and certain beneficial interests in the mortgages are transferred to the purchaser. SBS has agreed from time to time to repurchase loans in order to facilitate liquidity in the Lifestages Mortgage Portfolio at the request of the Trustee. Securitised assets are recognised in the Parent and Banking Group statement of financial position.

SBS receives from the investment manager (Funds Administration New Zealand Limited – a 57% owned subsidiary) an ongoing fee for the management and administration of loans assigned to the Lifestages Mortgage Portfolio. This fee is recognised when earned.

SBS also sells its interest in certain loans (principally housing mortgage loans) to a trust known as the SBS Invercargill W Trust by way of an equitable assignment. At the time of the sale all legal, equitable and beneficial interests in the mortgages are transferred to the purchaser. SBS consolidates the financial statements of SBS Invercargill W Trust within the Parent on the basis that SBS retains some of the risks and rewards of ownership through the provision of a subordinated loan. The subordinated loan has been in place since September 2007 and removes the need to purchase lenders mortgage insurance on loans assigned to the Trust.

The SBS Invercargill W Trust sells its interest in certain loans (principally housing mortgage loans) to a trust known as the SBS Oreti Trust No. 1 by way of an equitable assignment. At the time of the sale all legal, equitable and beneficial interests in the mortgages are transferred to the purchaser. These securitised assets are not included in advances in the Parent statement of financial position.

The SBS Invercargill W Trust also sells its interest in certain loans (principally housing mortgage loans) to a trust known as the SBS Oreti Trust No. 2 by way of an equitable assignment. At the time of the sale all legal, equitable and beneficial interests in the mortgages are transferred to the purchaser. The SBS Oreti Trust No. 2 issues residential mortgage backed securities that qualify as acceptable collateral under the RBNZ liquidity management arrangements. SBS consolidates the financial statements of the SBS Oreti Trust No. 2 within the Parent on the basis that SBS retains a continuing involvement in the transferred assets by holding the securities issued by the trust.

SBS is the manager and servicer of mortgages assigned to the SBS Invercargill W Trust, the SBS Oreti Trust No. 1, and the SBS Oreti Trust No. 2. SBS receives a fee for providing these management services. This fee is recognised when earned.

(ah) Comparative Data

To ensure consistency with the current period, comparative figures have been restated where appropriate.

(ai) Changes in Accounting Policies and Estimates

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 straight line method results in a constant charge over the useful life of the asset. This change, in accordance with NZ IAS 16, was implemented to align the method of calculating depreciation on property, plant and equipment other than land with internal processes and more accurately reflect the future economic benefits of these assets. 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. In accordance with NZ IAS 8, the full adjustment in relation to this change has been recognised through depreciation expense and accumulated depreciation in the current financial period with no prior year adjustments made.

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

These financial statements are 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 in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Credit Loss Provisioning

Provisions are raised for losses on exposures that are known to be impaired. The estimates of the cash flows on impaired exposures are then discounted to their present value. As this discount unwinds, there is a resulting recognition of a reduced specific provision and interest in the income statement during the period between recognition of impairment and recovery of the written down amount.

Exposures found not to be impaired are placed into pools of similar assets with similar risk characteristics to be collectively assessed for losses that have been incurred, but not yet identified. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data. This may include data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Banking Group.

At 31 March 2010 the Banking Group's total provision for credit impairment was $17.22 million (31 March 2009 $12.80 million) representing 0.7% of total net loans and advances (31 March 2009 0.5%). The provisions represent provisions against individual loans and collective provisions.

Management regularly reviews and adjusts the estimates and methodologies as improved analysis becomes available. Changes in these assumptions and methodologies could have a direct impact on the level of credit provision and credit impairment charge recorded in the financial statements.

2 Critical Estimates and Judgements Used in Applying Accounting Policies continued

Fair Value of Derivatives

The Banking Group enters derivative agreements to hedge its interest rate risk, credit risk and other exposures relating to non-trading positions. The derivative instruments used to hedge the Banking Group's exposures include:

- swaps;
- options; and
- combinations of the above instruments.

The Banking Group enters into derivatives for risk management purposes.

Derivatives which are entered into as part of the Banking Group's interest rate risk management strategies are measured at fair value, with any changes in fair value recognised in the income statement. The fair value of all derivatives are based on quoted market prices.

Hedge Accounting

A hedging instrument is a designated derivative, the changes in fair value or cash flows of which are expected to offset changes in the fair value or cash flows of a designated hedged item. A hedged item is an asset, liability, firm commitment or highly probable forecast transaction that exposes the Banking Group to risk of changes in fair value or cash flows, and that is designated as being hedged. The Banking Group hedges a portion of its floating rate risk in the funding book.

For a relationship to qualify for hedge accounting, a number of criteria must be met including:

- the hedging relationship must be formally designated and documented at inception of the hedge;
- effectiveness testing must be carried out to ensure the hedge is effective consistent with the originally documented risk management strategy; and
- the instruments must involve a party external to the Banking Group.

Judgement is required by management in selecting and designating hedging relationships and assessing hedge effectiveness. NZ IAS 39 does not specify a single method for assessing hedge effectiveness. The Banking Group adopts the hypothetical derivative approach to determine hedge effectiveness. Hedge ineffectiveness can arise for a number of reasons, and whilst a hedge may pass the effectiveness tests it may not be perfectly effective, thus creating volatility within the income statement through recognition of this ineffectiveness.

Loans and Advances

Certain loans and advances, for which there is an accounting mismatch at origination between the loans and advances and associated derivatives used for risk management, are measured at fair value, with any changes in fair value recognised in the income statement. Fair value is based on valuation techniques including the use of a discounted cash flow model based on wholesale rates adjusted with a retail lending margin. To the extent possible the model uses only observable data. Changes in assumptions used in these models and projections of future cash flows could affect the reported fair value of loans and advances.

Securitisation and Special Purpose Entities

The Banking Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments and for asset securitisation transactions. The Banking Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Banking Group controls an SPE, it makes judgments about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that considered in isolation indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated.

3 Risk Management Policies

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

Role of the Board and the Audit and Risk Committee

The Board has responsibility for reviewing all aspects of risk management. The Board receives comprehensive monthly reporting covering each area of risk management as outlined below. 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's compliance with regulatory requirements that impact on the business; and
- the external and internal audit functions.

The committee consists of four directors. In addition the Chief Executive Officer, General Manager Finance and the Risk and Compliance Manager are in attendance at meetings. The Audit and Risk Committee meets at least four times a year, and reports directly to the Board.

Internal Audit

SBS' internal audit function conducts independent reviews that assist the board of directors and management to meet their statutory and other obligations. The internal audit function has no reporting line to SBS management. The function reports directly to the chairman of the Audit and Risk Committee. The internal audit function has been carried out by the Dunedin based firm of Chartered Accountants, Deloitte. In performing this role, the internal audit function adopts a risk-based approach, encompassing reviews of the major risks that could impact upon SBS. Significant findings are reported quarterly to the Audit and Risk Committee.

An audit plan is prepared annually covering each business area of SBS, with greater emphasis placed on those areas with perceived higher risk. The plan is endorsed by the Audit and Risk Committee.

3 Risk Management Policies continued

Asset and Liability Committee (ALCO)

The 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:

- reviewing SBS past performance with respect to asset and liability growth, yields, cost of funds, interest rate risk management and net interest margin;
- monitoring the interest rate risk position, liquidity, maturity, funding and credit position, financial investments portfolio, and financial performance;
- reviewing the current and recommended future hedging positions and risk profiles within risk control limits;
- monitoring interest rate pricing levels and interest margin levels for all assets and funding products;
- considering and evaluating the sensitivity of particular asset and liability classes to changes in market interest rates and yield curve shape;
- reviewing the liquidity position, investment and funding activity and making recommendations on future action;
- reviewing the funding strategy and funding risk mitigation;
- considering the level of capital employed, capital adequacy levels and the risk weighting of statement of financial position items; and
- reviewing SBS' credit risk position, credit policy and monitoring credit risk trends.

The ALCO usually meets at least twice a month, and reports directly to the Board.

Specific Areas of Risk Management

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.

Interest Rate Risk Management

Interest rate risk is the risk of loss arising from adverse changes in interest rates. Management's objective is to produce strong and stable net interest income over time. Interest rate risk management focuses on mismatches between the repricing dates of interest bearing assets and liabilities. Interest rate risk is managed using financial instruments to manage the risks within set limits as defined by SBS treasury policy. Regular reporting of interest rate risk against limits is provided to the Board.

Liquidity Risk Management

Liquidity risk is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. SBS maintains sufficient liquid funds to meet its commitments based on historical and budgeted cash flow forecasts. Management of liquidity risk is achieved by maintaining a prudent level of liquid assets, use of committed and uncommitted wholesale funding facilities, utilisation of securitisation vehicles and management control of the growth of the business.

The Banking Group's liquidity risks are governed by a Board approved liquidity strategy that defines policy, systems and procedures for measuring, assessing, reporting and managing liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis. This also meets the Reserve Bank of New Zealand liquidity policy requirements.

From 22 October 2009, the Reserve Bank modified the Banking Group's conditions of registration with respect to liquidity. These revised conditions became effective 1 April 2010 and are stated in clauses 11-12 of the conditions of registration. These include the requirement to comply with various liquidity ratios which must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) and "Liquidity Policy Annex: Liquid Assets" (BS 13A) dated March 2010.

Operational Risk Management

Operational risk is the risk arising from day to day operational activities which may result in direct or indirect loss. These losses may result from failure to comply with policies, procedures, laws and regulations, from fraud or forgery, from a breakdown in the availability or integrity of services, systems and information, or damage to SBS's reputation. Examples include failure to comply with policy and legislation, human error, natural disasters, fraud and other malicious acts. Where appropriate, risks are mitigated by insurance.

Business units have primary responsibility for the identification and management of operational risk. Regular measurement, monitoring and reporting of operational risk is managed by the Audit and Risk Committee with summarised reporting provided to the Board.

All in $000's

4 Income

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Interest income				
Cash at bank	618	992	321	412
Funds with financial institutions - available for sale	3,081	4,067	2,943	3,854
Investment securities - available for sale	530	43	510	-
Investment securities - designated at fair value through profit or loss	87	70	-	-
Derivative financial instruments	(28,184)	402	(24,711)	1,117
Advances to customers - at amortised cost	175,282	182,448	144,275	153,367
Advances to customers - designated at fair value through profit or loss	20,626	49,129	19,929	46,808
Loans to subsidiaries and associates	-	76	8,856	8,180
	172,040	**237,227**	**152,123**	**213,738**
Other operating income				
Loan fees	2,254	2,990	3,071	3,216
Derivative termination costs[1]	-	(3,618)	-	(3,618)
Management fees	3,794	2,816	1,463	712
Other fee and commission income	6,026	5,122	1,896	1,732
Net insurance income	5,032	3,895	-	-
Dividends	28	-	28	-
Sundry income	1,495	1,666	295	194
	18,629	**12,871**	**6,753**	**2,236**

[1] Derivative termination costs have been reclassified from net gain/(loss) from financial instruments designated at fair value.

5 Expenses

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Interest expense				
Redeemable shares	91,773	136,482	91,773	136,482
Deposits from customers	10,453	13,688	10,453	13,688
Other financial institutions	338	855	338	855
Subsidiary companies	-	-	151	156
Other borrowings	6,108	24,879	3,340	15,400
Subordinated redeemable shares	3,823	325	3,823	325
	112,495	**176,229**	**109,878**	**166,906**
Other operating expenses				
Auditor's remuneration	375	345	303	271
Computer expenses	1,733	1,633	1,277	1,157
Fees and commissions	379	313	-	3
Fees to directors*	530	634	484	571
Marketing	4,008	4,632	2,768	3,604
Personnel	22,230	21,050	15,360	14,806
Actuarial life adjustment	564	157	-	-
Amortisation and depreciation	2,349	2,755	1,706	1,871
Rent and leases	2,197	2,045	2,140	2,035
Write off of property, plant and equipment	42	15	41	10
Loss on sale of shares	-	90	-	90
Other expenses	8,661	9,253	5,175	5,780
	43,068	**42,922**	**29,254**	**30,198**

*The provision for directors retiring allowance increased by $72,000 this year (31 March 2009 decrease of $108,000).

All in $000's

5 Expenses continued

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Amounts received, or due and receivable by the auditors:				
KPMG auditing the financial statements	312	315	242	244
KPMG other assurance services *	63	30	61	27
	375	**345**	**303**	**271**

* Other assurance services includes regulatory reporting and other accounting related assistance.

Amounts received, or due and receivable by directors:				
JWA Smith (Chairman)	106	106	106	106
MH Piper (retired July 2008)[1]	-	139	-	137
WH Conway (retired July 2008)[1]	-	148	-	135
JF Ward (Deputy Chairman)	68	61	60	55
KJ Ball	58	55	58	55
JB Walker	58	66	41	41
GJ Mulvey	53	54	47	47
GJ Diack	59	60	47	50
JJ Grant	56	53	53	53
RL Smith[2]	-	-	-	-
	458	**742**	**412**	**679**
Provision for directors retiring allowance	72	(108)	72	(108)
	530	**634**	**484**	**571**

Fees to directors' include chairman fees, travel and other allowances.

[1] Includes directors retiring allowance

[2] RL Smith is an executive director and received no directors fees in addition to his salary

Personnel expenses includes key management personnel compensation which comprised:				
Salaries and short-term employee benefits	3,586	3,556	1,574	1,516
Post-employment benefits	97	127	97	127
Other long term benefits	30	26	30	26
Termination benefits	-	-	-	-
	3,713	**3,709**	**1,701**	**1,669**

6 Net Gain/(Loss) from Financial Instruments Designated at Fair Value

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Net gain/(loss) arising on:				
- Investment securities	(18)	67	-	-
- Derivative financial instruments[1]	10,207	(18,597)	7,867	(15,509)
- Hedge ineffectiveness on cash flow hedging	379	(379)	379	(379)
- Advances to customers	(9,588)	16,505	(9,588)	16,505
	980	**(2,404)**	**(1,342)**	**617**

[1] Derivative termination costs have been reclassified to other operating income.

All in $000's

7 Taxation

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Reconciliation of the prima facie income tax payable on profit with income tax expense in the income statement				
Surplus before income tax	20,559	16,157	11,337	17,677
Prima facie income tax	6,303	4,681	3,498	5,194
Adjust for the tax effect of:				
Imputation credits received	5	10	531	166
Other permanent items	(908)	(552)	177	176
Loss offset/subvention	-	-	(509)	(381)
Prior period adjustments[1]	134	(8)	(1,239)	(128)
	(769)	(550)	(1,040)	(167)
Tax on surplus	5,534	4,131	2,458	5,027
Intra - group dividend imputation credits	(12)	(31)	(1,657)	(553)
Taxation expense/(benefit)	**5,522**	**4,100**	**801**	**4,474**
The major components of the income tax expense comprise:				
Amounts recognised in the income statement				
Current income tax				
Current income tax charge	7,724	8,981	4,097	8,025
Adjustments recognised in the current period in relation to current tax of prior periods	80	89	62	(30)
Deferred income tax				
Deferred tax expenses relating to the origination and reversal of temporary differences	(2,282)	(4,970)	(3,358)	(3,521)
Total income tax expense recognised in the income statement	**5,522**	**4,100**	**801**	**4,474**
The following amounts were charged/(credited) direct to equity:				
Current income tax	-	-	-	-
Deferred income tax	3,381	(4,860)	3,466	(4,850)
Total income tax expense recognised directly in equity	**3,381**	**(4,860)**	**3,466**	**(4,850)**

[1] Prior period adjustments for the Parent include ($1,328,000) which relates to the benefit of imputation credits received on dividend income accrued in the prior year.

8 Funds with Financial Institutions

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Call funds	19,317	1,363	18,001	-
Registered certificates of deposit	31,943	63,758	31,943	63,758
Term deposits	12,820	11,656	10,084	10,015
	64,080	**76,777**	**60,028**	**73,773**
Funds with financial institutions were recorded as:				
At amortised cost	-	-	-	-
Designated as available for sale	64,080	76,777	60,028	73,773
	64,080	**76,777**	**60,028**	**73,773**

All in $000's

9 Investment Securities

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Managed funds	627	624	-	-
NZ government securities	1,058	1,077	-	-
Equity securities	718	720	-	404
Local authority bonds	20,883	-	20,782	-
Bank bonds	20,467	-	20,467	-
Other bonds	3,729	-	3,729	-
	47,482	**2,421**	**44,978**	**404**
Investment securities were recorded as:				
At amortised cost	-	-	-	-
Designated as fair value through profit or loss	1,467	1,090	-	-
Designated as available for sale	46,015	1,331	44,978	404
	47,482	**2,421**	**44,978**	**404**

10 Derivative Financial Instruments

The Banking Group uses the following derivative instruments for economic or risk management purposes:

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates (for example, fixed rate for floating rate). No exchange of principal takes place. The Banking Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis within treasury policy guidelines, and with reference to a proportion of the notional amount of the contracts and the term to expiry of the contracts. To control the level of credit risk taken, the Banking Group assesses counterparties based on their published credit rating compared with treasury policy limits.

Interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of interest rate risk. The Banking Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Banking Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

The Banking Group undertakes 100% of its transactions in interest rate contracts with other financial institutions. Management has established limits such that, at any time, less than 30% of equity is at risk with any individual counterparty subject to their individual credit rating.

The risk management practices and accounting treatment are disclosed in the Statement of Accounting Policies. The movement in fair value of derivative financial instruments are included in the income statement as 'net gain/(loss) from financial instruments designated at fair value'.

Hedge Accounting

Cash Flow Hedges

The Banking Group hedges the forecasted interest cash flows from floating rate deposits using interest rate swaps and interest rate options. There were no transactions where cash flow hedge accounting ceased in the year ended 31 March 2010 as a result of highly probable cash flows no longer expected to occur (31 March 2009 $nil).

Fair value gains and losses deferred in cash flow hedge reserves will be transferred to the income statement over the next one to five years, as the cash flows under the hedged transactions occur. The hedging practices and accounting treatment are disclosed in the Statement of Accounting Policies.

The gain and loss from re-measuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective. This amount is re-classified into the income statement on the maturity of the interest rate swap. The ineffective portion is recognised in the income statement immediately.

All in $000's

10 Derivative Financial Instruments continued

	BANKING GROUP			PARENT		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
As at 31 March 2010						
Held for risk management - at fair value						
Interest rate related contracts						
Swaps	359,260	503	1,341	419,278	1,210	1,349
Options	162,000	-	4,750	162,000	-	4,750
Total held for risk management at fair value	**521,260**	**503**	**6,091**	**581,278**	**1,210**	**6,099**
Held for hedging - cash flow hedges						
Interest rate related contracts						
Swaps	484,500	90	5,022	534,500	449	5,022
Options	90,000	(87)	1,896	90,000	(87)	1,896
Total held for hedging	**574,500**	**3**	**6,918**	**624,500**	**362**	**6,918**
Total derivative financial instruments	**1,095,760**	**506**	**13,009**	**1,205,778**	**1,572**	**13,017**
As at 31 March 2009						
Held for risk management - at fair value						
Interest rate related contracts						
Swaps	522,125	616	4,150	623,942	3,732	4,160
Options	505,375	-	12,387	505,375	-	12,387
Total held for risk management at fair value	**1,027,500**	**616**	**16,537**	**1,129,317**	**3,732**	**16,547**
Held for hedging - cash flow hedges						
Interest rate related contracts						
Swaps	269,000	116	13,409	269,000	116	13,409
Options	90,000	-	4,554	90,000	-	4,554
Total held for hedging	**359,000**	**116**	**17,963**	**359,000**	**116**	**17,963**
Total derivative financial instruments	**1,386,500**	**732**	**34,500**	**1,488,317**	**3,848**	**34,510**

11 Advances to Customers

	Note	BANKING GROUP		PARENT	
		31/3/10	31/3/09	31/3/10	31/3/09
Advances at fair value through profit or loss		250,129	521,381	250,129	521,381
Advances at amortised cost		2,231,236	1,901,139	2,036,193	1,690,904
Gross advances[1]		**2,481,365**	**2,422,520**	**2,286,322**	**2,212,285**
Less provisions for credit impairment	(12)	17,216	12,798	12,510	8,055
Less deferred fee revenue and expenses		4,060	5,813	1,228	1,749
Total net advances	(28)	**2,460,089**	**2,403,909**	**2,272,584**	**2,202,481**

Advances to customers that met SBS fair value through profit or loss criteria have been designated at fair value through profit or loss. These advances have been matched with interest rate swaps as part of a documented risk management strategy. An accounting mismatch would arise if the advances were accounted for at amortised cost, because the related derivatives are measured at fair value, with movements in the fair value taken through the income statement. It should be noted that no such loans have been designated during the current year.

At 31 March 2010 the maximum credit exposure on these loans at fair value through the profit or loss was $250 million (31 March 2009 $521 million). The Banking Group has $nil credit risk derivatives at 31 March 2010 (31 March 2009 $nil).

There have been no changes in the fair value recognised on these advances on account of credit risk.

[1] The Banking Group has entered into a repurchase agreement for residential mortgage backed securities with the RBNZ with a book value of $30 million (31 March 2009 $nil). The underlying collateral accepted by the RBNZ are residential advances to the value of $36 million (31 March 2009 $nil). These advances have not been derecognised from the statement of financial position.

All in $000's

12 Provision for Credit Impairment

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Individual provisions against advances and loans				
(All relate to impaired assets)				
Balance at beginning of the year	8,055	3,405	8,055	3,405
New provisions during the year	10,328	7,727	10,328	7,727
Balances written off during the year	(5,401)	(2,061)	(5,401)	(2,061)
Recoveries/reversals of previously recognised provision	(472)	(1,016)	(472)	(1,016)
Balance at end of the year	12,510	8,055	12,510	8,055
Collective provisions against advances and loans				
Balance at beginning of the year	4,743	3,692	-	-
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**	**12,510**	**8,055**

As at 31 March 2010, the Banking Group did not have any material restructured assets or assets acquired through enforcement of security (31 March 2009 $nil).

There is no collective provision calculated for the Parent due to the level of security held. The collective provision for the Banking Group is in relation to consumer finance lending by Finance Now Limited. Management regularly reviews economic conditions and credit conditions to determine collective provisioning.

The following provides a reconciliation of the above movements in provisions for credit impairment reported in the income statement:

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Bad debts written off during the year	11,309	7,742	5,851	2,404
Movement in individual provisions	4,455	4,650	4,455	4,650
Movement in collective provision	(37)	54	-	-
Provision for credit impairment to income statement	**15,727**	**12,446**	**10,306**	**7,054**

All in $000's

13 Asset Quality

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
(a) Asset quality - advances to customers				
Neither past due or impaired	2,406,938	2,354,491	2,226,361	2,161,064
Individually impaired amount	29,907	21,848	29,907	21,848
Past due amount	40,460	40,368	28,826	27,624
Total provision for credit impairment	(17,216)	(12,798)	(12,510)	(8,055)
Total carrying amount	**2,460,089**	**2,403,909**	**2,272,584**	**2,202,481**
(b) Ageing of past due but not impaired assets				
Past due 0-29 days	15,097	20,984	8,580	13,157
Past due 30-59 days	4,724	3,522	2,956	1,789
Past due 60-89 days	4,172	3,945	2,812	2,872
Past due 90-119 days	2,596	11,917	1,691	9,806
Past due 120-365 days	13,871	-	12,787	-
Past due more than 1 year	-	-	-	-
Carrying amount	**40,460**	**40,368**	**28,826**	**27,624**
(c) 90 day past due assets				
Balance at beginning of the year	11,917	14,133	9,806	10,649
Additions to 90 day past due assets	16,310	11,427	14,478	8,663
Reduction in 90 day past due assets	(11,760)	(13,643)	(9,806)	(9,506)
Balance at end of the year	**16,467**	**11,917**	**14,478**	**9,806**
(d) Impaired assets				
Individually impaired assets				
Balance at beginning of the year	21,848	8,355	21,848	8,355
Additions to individually impaired assets	17,898	15,166	17,898	15,166
Reductions to individually imparied assets	(8,319)	(1,395)	(8,319)	(1,395)
Transfers back to productive ledger	(1,520)	(278)	(1,520)	(278)
Balance at end of the year	**29,907**	**21,848**	**29,907**	**21,848**
Less: provision at end of the year	12,510	8,055	12,510	8,055
Net carrying amount at end of the year	**17,397**	**13,793**	**17,397**	**13,793**

Interest revenue foregone on impaired assets is the amount of interest income that would have been recorded had interest been accrued. This amounts to $102,447 for the year ending 31 March 2010 (31 March 2009 $84,000).

Of monetary assets receivable 0.149% (31 March 2009 0.175%) relate to repayments in arrears in excess of three months.

14 Loan Securitisation

Mortgages assigned by SBS to the Lifestages Mortgage Portfolio unit trust during the year ended 31 March 2010 amounted to $nil (31 March 2009 $nil). SBS retains the majority of the risks and rewards of ownership and accordingly it is appropriate to record these securitised assets within the statement of financial position.

SBS has an obligation to repurchase loans in certain circumstances, when the securitised loans cease to conform with the terms and conditions of the assignment agreement or in order to facilitate liquidity in the trust as requested by the Trustee. The securities issued by the Lifestages Mortgage Portfolio do not represent deposits or other liabilities of SBS and are disclosed as other borrowings. SBS does not in any way stand behind the capital value and/or the performance of the securities or the assets of the trust except to the limited extent provided in the assignment agreement documents, through the provision of arms length services and facilities.

Mortgages assigned by SBS to the SBS Invercargill W Trust during the year ended 31 March 2010 amounted to $148.11 million (31 March 2009 $47.41 million). SBS retains some of the risks and rewards of ownership through the provision of a subordinated loan and accordingly it is appropriate to consolidate the financial statements of SBS Invercargill W Trust within the Parent.

Mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No. 2 during the year ended 31 March 2010 amounted to $148.11 million (31 March 2009 $123.10 million). SBS retains some of the risks and rewards of this trust by holding the securities issued by the trust and accordingly it is appropriate to consolidate the financial statements of SBS Oreti Trust No. 2 within the Parent.

Mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No. 1 during the year ended 31 March 2010 amounted to $nil (31 March 2009 $nil). These loans are not included in the statement of financial position of the Parent. SBS does not guarantee the payment of interest or the repayment of principal due on the securities. SBS is not obliged to support any losses that may be suffered by investors.

All in $000's

14 Loan Securitisation continued

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Securitised loan balances				
Lifestages Mortgage Portfolio	53,802	68,958	53,802	68,958
SBS Oreti Trust No. 1	71,720	97,073	-	-
SBS Oreti Trust No. 2	241,955	122,651	241,955	122,651
	367,477	**288,682**	**295,757**	**191,609**

15 Investments in Subsidiaries and Associates

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Investments in subsidiaries[1]	-	-	15,180	13,451
Investments in associates	-	-	-	-
	-	**-**	**15,180**	**13,451**
Loans to subsidiaries (at amortised cost)	-	-	95,555	89,385
Loans to associates (at amortised cost)	-	-	-	-
	-	**-**	**95,555**	**89,385**

[1] The increase in investments in subsidiaries relates to a bonus share issue from Finance Now Limited of $1,729,000.

Significant subsidiaries and associates:	Percentage Held		Balance Date	Nature of Business
	31/3/10	31/3/09		
Subsidiaries:				
Fraser Properties Limited	100.0%	100.0%	31 March	Property Holding
Southsure Assurance Limited	80.0%	80.0%	31 March	Insurance
Finance Now Limited	71.5%	71.5%	31 March	Finance Company
Funds Administration New Zealand Limited	57.0%	57.0%	31 March	Funds Administration
In-substance subsidiaries:				
SBS Invercargill W Trust	-	-	31 March	Mortgage Securitisation
SBS Oreti Trust No. 1	-	-	31 March	Mortgage Securitisation
SBS Oreti Trust No. 2	-	-	31 March	Mortgage Securitisation

All subsidiaries, in-substance subsidiaries and associates are incorporated in New Zealand. For all subsidiaries, the ownership percentage equates to the voting power held. Refer to Note 33 - Related Party Transactions for further details of loans to subsidiaries and associates.

16 Other Assets

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Prepayments	400	402	323	260
Receivables from related parties	-	-	5,693	607
Other receivables	1,175	4,522	515	3,140
	1,575	**4,924**	**6,531**	**4,007**

All in $000's

17 Property, Plant and Equipment

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Freehold land (at valuation)	1,360	1,100	360	300
Buildings (at valuation)	9,380	9,640	410	480
Total carrying amount	**10,740**	**10,740**	**770**	**780**
Leasehold assets (at cost)	4,423	4,387	4,203	4,176
Less accumulated depreciation	2,129	1,986	2,052	1,930
Total carrying amount	**2,294**	**2,401**	**2,151**	**2,246**
Computer equipment (at cost)	4,838	4,832	3,772	3,797
Less accumulated depreciation	3,978	4,042	2,985	3,154
Total carrying amount	**860**	**790**	**787**	**643**
Other assets (at cost)	6,417	6,172	4,088	3,937
Less accumulated depreciation	4,306	4,199	2,418	2,384
Total carrying amount	**2,111**	**1,973**	**1,670**	**1,553**
Total property, plant and equipment	**16,005**	**15,904**	**5,378**	**5,222**

Other assets include plant, furniture and fittings and motor vehicles.

Land and Buildings

Independent valuations of freehold land and buildings were carried out as at 31 March 2010 by Tony Chadderton, a registered valuer with Chadderton & Associates. Mr Chadderton is a member of the Property Institute of NZ. The valuations were based on capitalisation of net market rental. Such valuations are performed on an open market basis, being the amounts for which the assets could be exchanged between a knowledgeable, willing seller in an arm's length transaction at the valuation date.

The current rateable valuations of land and buildings were notified 1 July 2008, the aggregate of these valuations for all land and buildings owned by the Banking Group as at 31 March 2010 is $10.92 million (31 March 2009 $10.92 million).

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
The carrying amount of land and buildings had they been recognised under the cost model are as follows:				
Freehold land	1,561	1,561	220	220
Buildings	8,019	8,057	304	314
	9,580	**9,618**	**524**	**534**
Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below:				
Freehold land and buildings				
Balance at beginning of the year	10,740	10,735	780	785
Additions	-	-	-	-
Net revaluation increments	114	126	4	16
Disposals	-	-	-	-
Depreciation	(114)	(121)	(14)	(21)
Balance at end of the year	**10,740**	**10,740**	**770**	**780**
Leasehold assets				
Balance at beginning of the year	2,401	2,626	2,246	2,464
Additions	137	123	128	110
Disposals	(29)	(7)	(29)	(7)
Depreciation	(215)	(341)	(194)	(321)
Balance at end of the year	**2,294**	**2,401**	**2,151**	**2,246**

All in $000's

17 Property, Plant and Equipment continued

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Computer equipment				
Balance at beginning of the year	790	1,293	643	956
Additions	569	183	513	193
Disposals	(10)	(3)	(9)	(3)
Depreciation	(489)	(683)	(360)	(503)
Balance at end of the year	**860**	**790**	**787**	**643**
Other assets				
Balance at beginning of the year	1,973	1,975	1,553	1,490
Additions	617	576	466	506
Disposals	(91)	(54)	(73)	(42)
Depreciation	(388)	(524)	(276)	(401)
Balance at end of the year	**2,111**	**1,973**	**1,670**	**1,553**
Total property, plant and equipment	**16,005**	**15,904**	**5,378**	**5,222**

18 Intangible Assets

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Goodwill				
Cost				
Balance at beginning of the year	1,160	1,160	-	-
Additions	-	-	-	-
Balance at end of the year	**1,160**	**1,160**	**-**	**-**
Impairment				
Balance at beginning of the year	145	145	-	-
Impairment losses	-	-	-	-
Balance at end of the year	**145**	**145**	**-**	**-**
Total carrying amount	**1,015**	**1,015**	**-**	**-**
Software				
Cost				
Balance at beginning of the year	7,895	6,584	5,338	4,270
Additions	1,395	1,311	1,137	1,068
Balance at end of the year	**9,290**	**7,895**	**6,475**	**5,338**
Amortisation and impairment				
Balance at beginning of the year	6,068	4,983	3,927	3,302
Amortisation for the year	1,143	1,085	862	625
Impairment losses	-	-	-	-
Balance at end of the year	**7,211**	**6,068**	**4,789**	**3,927**
Total carrying amount	**2,079**	**1,827**	**1,686**	**1,411**
Total intangible assets	**3,094**	**2,842**	**1,686**	**1,411**

No impairment losses have been recognised against the gross carrying amount of software and other intangible assets for the year ended 31 March 2010 (31 March 2009 $nil).

Testing for impairment on goodwill is undertaken using models to calculate valuations with reference to applicable price to earnings ratios.

All in $000's

19 Deferred Tax Assets and Liabilities

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Provision for deferred tax				
Balance at beginning of the year	10,504	2,076	8,425	1,333
Prior period adjustment	(2,011)	(1,402)	(1,999)	(1,279)
(Charged)/credited to income statement	2,282	4,970	3,358	3,521
(Charged)/credited to equity	(3,381)	4,860	(3,466)	4,850
Balance at end of the year	**7,394**	**10,504**	**6,318**	**8,425**
Recognised deferred tax assets and liabilities:				
Deferred tax assets comprise the following temporary differences:				
Provision for credit impairment	5,040	3,573	3,753	2,416
Financial instruments	1,803	7,106	1,618	7,058
Funds with financial institutions - available for sale	16	42	-	-
Intangible assets	4	12	4	12
Provisions	416	369	337	304
Other	707	261	707	283
Total deferred tax assets	**7,986**	**11,363**	**6,419**	**10,073**
Deferred tax liabilities comprise the following temporary differences:				
Subsidiary dividends	-	-	-	1,328
Other	1	2	1	2
Property, plant and equipment	182	209	37	43
Advances at fair value through profit or loss	8	203	8	203
Revaluation of property	401	445	55	72
Total deferred tax liabilities	**592**	**859**	**101**	**1,648**
Net deferred tax assets	**7,394**	**10,504**	**6,318**	**8,425**
Movements in temporary differences during the year (charged)/credited to the income statement:				
Provision for credit impairment	1,467	1,444	1,337	1,395
Advances at fair value through profit or loss	195	(203)	195	(203)
Intangible assets	(8)	(9)	(8)	(9)
Provisions	47	2	33	(4)
Other	447	224	425	176
Subsidiary dividends	-	-	1,328	(1,328)
Property, plant and equipment	27	(149)	6	4
Financial instruments	(1,904)	2,259	(1,957)	2,211
Total deferred tax (charged)/credited to the income statement	**271**	**3,568**	**1,359**	**2,242**
Movements in temporary differences during the year (charged)/credited to equity:				
Funds with financial institutions - available for sale	(26)	24	-	(1)
Cash flow hedges	(3,399)	4,847	(3,483)	4,847
Revaluation property	44	(11)	17	4
Total deferred tax (charged)/credited to equity	**(3,381)**	**4,860**	**(3,466)**	**4,850**

There are no unrecognised deferred tax assets as at 31 March 2010 (31 March 2009 $nil).

All in $000's

20 Other Liabilities

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Sundry creditors	7,477	12,319	4,174	9,857
Employee entitlements	3,196	2,854	2,467	2,290
Insurance policy liability	4,285	3,721	-	-
Provision for dividend	471	113	-	-
Other	1,846	11,691	1,846	11,691
	17,275	**30,698**	**8,487**	**23,838**

21 Subordinated Redeemable Shares

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
SBS Premier Bond	59,307	42,226	59,307	42,226
	59,307	**42,226**	**59,307**	**42,226**

The SBS Premier Bond was launched during February 2009 to retail investors. These five-year fixed rate bonds are issued continuously as subordinated redeemable shares and rank behind redeemable shareholders, depositors and other unsecured creditors of SBS.

At 31 March 2010 $50.44 million of subordinated redeemable shares qualify as lower tier 2 capital for Reserve Bank of New Zealand capital adequacy purposes (31 March 2009 $41.90 million).

All in $000's

22 Equity

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Capital reserve	73	73	73	73
Revaluation reserve - property, plant and equipment	1,153	1,195	346	325
Revaluation reserve - available for sale assets	(58)	(75)	-	5
Revaluation reserve - cash flow hedging	(3,322)	(11,309)	(3,182)	(11,309)
Retained earnings	174,155	161,432	162,405	151,869
	172,001	151,316	159,642	140,963
Minority interests	5,663	4,264	-	-
Total equity	**177,664**	**155,580**	**159,642**	**140,963**
Movement in reserves:				
Revaluation reserve - property, plant and equipment				
Balance at beginning of the year	1,195	1,140	325	305
Surplus on revaluation of land and buildings	114	126	4	16
Deferred tax on revaluation	44	(11)	17	4
Transfer to income statement	(200)	(60)	-	-
Net movement for the year	(42)	55	21	20
Balance at end of the year	**1,153**	**1,195**	**346**	**325**
Revaluation reserve - available for sale assets				
Balance at beginning of the year	(75)	(34)	5	(3)
Net gains/(losses) from changes in fair value	46	(75)	(7)	11
Current/deferred tax on changes in fair value	(24)	22	2	(3)
Minority interests share of net gains/(losses) from changes in fair value	(10)	17	-	-
Minority interests share of current/deferred tax in fair value	5	(5)	-	-
Net movement for the year	17	(41)	(5)	8
Balance at end of the year	**(58)**	**(75)**	**-**	**5**
Revaluation reserve - cash flow hedging reserve				
Balance at beginning of the year	(11,309)	-	(11,309)	-
Net gains/(losses) from changes in fair value	11,331	(16,156)	11,610	(16,156)
Deferred tax on changes in fair value	(3,399)	4,847	(3,483)	4,847
Minority interests share of net gains/(losses) from changes in fair value	79	-	-	-
Minority interests share of deferred tax on changes in fair value	(24)	-	-	-
Net movement for the year	7,987	(11,309)	8,127	(11,309)
Balance at end of the year	**(3,322)**	**(11,309)**	**(3,182)**	**(11,309)**
Retained earnings				
Balance at beginning of the year	161,432	150,446	151,869	138,666
Add net surplus for the year	15,037	12,057	10,536	13,203
Less minorities' interests	(2,314)	(1,071)	-	-
Balance at end of the year	**174,155**	**161,432**	**162,405**	**151,869**

All in $000's

23 Reconciliation Of Net Surplus To Net Operating Cash Flows

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Net surplus for year	15,037	12,057	10,536	13,203
Add/(less) non cash items				
Depreciation and amortisation	2,349	2,755	1,706	1,871
Provision for credit impairment	15,727	12,446	10,306	6,930
Write off property, plant and equipment	42	15	41	10
Loss on sale of shares	-	90	-	90
Building revaluations	(200)	(60)	-	-
Actuarial life adjustment	564	157	-	-
Dividend provision	-	-	(2,610)	(4,428)
Dividend provision - minority interest	(359)	(113)	-	-
Deferred fee revenue and expenses	(1,753)	(1,716)	(521)	(9)
Derivatives fair value adjustment	(10,586)	18,977	(8,244)	15,885
Advances fair value adjustment	9,588	(16,505)	9,588	(16,505)
Investment securities fair value adjustment	18	(67)	-	-
Interest free loans fair value adjustment	(130)	(386)	(130)	(386)
Net deferred tax assets	(269)	(3,581)	(1,359)	(2,241)
	14,991	**12,012**	**8,777**	**1,217**
Deferral or accruals of past or future operating cash receipts or payments				
Increase/(decrease) in income tax payable/receivable	(2,233)	3,830	(3,769)	3,885
Decrease/(increase) in sundry debtors	3,349	63	(1,643)	(242)
Increase/(decrease) in sundry creditors	(4,142)	722	(5,506)	1,524
Decrease in accruals relating to interest receivable	633	5,332	481	5,134
Increase/(decrease) in accruals relating to accrued interest and dividends payable to customers	(5,593)	6,572	(5,601)	6,589
Increase/(decrease) in accruals relating to accrued interest payable to financial institutions	15	(9)	15	(9)
Increase in net advances	(80,391)	(64,525)	(89,987)	(83,372)
Increase in shares and deposits	134,510	200,317	134,760	201,971
Decrease in other borrowings	(45,237)	(174,135)	(15,156)	(141,506)
Increase in subordinated redeemable shares	16,920	41,902	16,920	41,902
Net increase/(decrease) in cash held on behalf of Lifestages Mortgage Portfolio	(9,845)	4,908	(9,845)	4,908
	7,986	**24,977**	**20,669**	**40,784**
Items classified as cash				
Increase in accruals relating to funds with financial institutions	384	(270)	364	(231)
Net cash flows from operating activities	**38,398**	**48,776**	**40,346**	**54,973**

All in $000's

24 Analysis of Borrowings

		BANKING GROUP			
		Total	Weighted average interest rate	Total	Weighted average interest rate
	Note	31/3/10	%	31/3/09	%
Redeemable shares					
Between 0 and 1 year		1,878,098	4.66	1,715,949	5.67
Between 1 and 2 years		79,817	5.65	118,534	6.34
Between 2 and 3 years		12,495	5.44	16,015	7.44
Between 3 and 4 years		1,299	6.80	220	8.75
Between 4 and 5 years		299	7.65	1,110	7.84
Over 5 years		-	-	-	-
Total redeemable shares	(28)	**1,972,008**	**4.71**	**1,851,828**	**5.73**
Deposits from customers					
Between 0 and 1 year		219,630	4.24	228,215	4.76
Between 1 and 2 years		9,286	5.46	4,288	5.98
Between 2 and 3 years		132	5.17	969	7.15
Between 3 and 4 years		1,003	8.00	-	-
Between 4 and 5 years		-	-	1,003	8.00
Over 5 years		-	-	-	-
Total deposits from customers	(28)	**230,051**	**4.30**	**234,475**	**4.81**
Due to other financial institutions					
Between 0 and 1 year		30,017	2.58	17,002	4.00
Between 1 and 2 years		-	-	-	-
Between 2 and 3 years		-	-	-	-
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
Total due to other financial institutions [1]	(28)	**30,017**	**2.58**	**17,002**	**4.00**
Subordinated redeemable shares					
Between 0 and 1 year		-	-	-	-
Between 1 and 2 years		-	-	-	-
Between 2 and 3 years		-	-	-	-
Between 3 and 4 years		42,226	6.95	-	-
Between 4 and 5 years		17,081	7.00	42,226	6.95
Over 5 years		-	-	-	-
Total subordinated redeemable shares	(28)	**59,307**	**6.96**	**42,226**	**6.95**
		2,291,383	**4.70**	**2,145,531**	**5.64**

All in $000's

24 Analysis of Borrowings continued

		PARENT			
		Total	Weighted average interest rate	Total	Weighted average interest rate
	Note	31/3/10	%	31/3/09	%
Redeemable shares					
Between 0 and 1 year		1,881,267	4.66	1,718,876	5.67
Between 1 and 2 years		79,817	5.65	118,534	6.34
Between 2 and 3 years		12,495	5.44	16,015	7.44
Between 3 and 4 years		1,299	6.80	220	8.75
Between 4 and 5 years		299	7.65	1,110	7.84
Over 5 years		-	-	-	-
Total redeemable shares	(28)	**1,975,177**	**4.71**	**1,854,755**	**5.73**
Deposits from customers					
Between 0 and 1 year		219,630	4.24	228,215	4.76
Between 1 and 2 years		9,286	5.46	4,288	5.98
Between 2 and 3 years		132	5.17	969	7.15
Between 3 and 4 years		1,003	8.00	-	-
Between 4 and 5 years		-	-	1,003	8.00
Over 5 years		-	-	-	-
Total deposits from customers	(28)	**230,051**	**4.30**	**234,475**	**4.81**
Due to other financial institutions					
Between 0 and 1 year		30,017	2.58	17,002	4.00
Between 1 and 2 years		-	-	-	-
Between 2 and 3 years		-	-	-	-
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
Total due to other financial institutions[1]	(28)	**30,017**	**2.58**	**17,002**	**4.00**
Subordinated redeemable shares					
Between 0 and 1 year		-	-	-	-
Between 1 and 2 years		-	-	-	-
Between 2 and 3 years		-	-	-	-
Between 3 and 4 years		42,226	6.95	-	-
Between 4 and 5 years		17,081	7.00	42,226	6.95
Over 5 years		-	-	-	-
Total subordinated redeemable shares	(28)	**59,307**	**6.96**	**42,226**	**6.95**
		2,294,552	**4.70**	**2,148,458**	**5.64**

Redeemable shares, deposits and subordinated redeemable shares are unsecured.

Floating rate redeemable shares and deposits have been included above, therefore the weighted average interest rates provided are only meaningful at the balance date noted. No analysis of other borrowings has been included above on the basis that these amounts relate to the loan securitisation vehicles discussed in Notes 14 and 15.

[1] Due to other financial institutions includes $30 million (31 March 2009 $nil) of securities sold under agreements to repurchase from the RBNZ. The underlying collateral accepted by the RBNZ are residential advances to the value of $36 million (31 March 2009 $nil).

All in $000's

25 Contingent Liabilities and Credit Related Commitments

	BANKING GROUP			
	Contract or notional amt 31/3/10	Credit equivalent 31/3/10	Contract or notional amt 31/3/09	Credit equivalent 31/3/09
Contingent liabilities				
Lifestages Superannuation Scheme	-	-	185	185
Commitments				
Commitments with uncertain drawdown	23,934	11,967	22,212	11,106
Commitments to extend credit which can be unconditionally cancelled	181,270	-	227,507	-
Total contingent liabilities and credit related commitments	**205,204**	**11,967**	**249,904**	**11,291**

	PARENT			
	Contract or notional amt 31/3/10	Credit equivalent 31/3/10	Contract or notional amt 31/3/09	Credit equivalent 31/3/09
Contingent liabilities				
Lifestages Superannuation Scheme	-	-	185	185
Commitments				
Commitments with uncertain drawdown	22,146	11,073	15,884	7,942
Commitments to extend credit which can be unconditionally cancelled	181,270	-	227,507	-
Total contingent liabilities and credit related commitments	**203,416**	**11,073**	**243,576**	**8,127**

SBS has entered into a trust deed made between SBS and Trustees Executors Limited, as Trustee of a registered superannuation scheme known as Lifestages Superannuation Scheme (formally known as Lifestages Capital Stable Portfolio). The trust deed was effective from the 1st day of April 1992. Under the Deed of Guarantee executed on the 26th day of March 1992, SBS unconditionally guarantees the capital invested in the Lifestages Superannuation Scheme providing the investment is maintained for at least three years. A Deed Of Amendment and Restatement of Guarantee dated 31 March 2007 amended the terms of the guarantee provided by SBS, such that the guarantee will now only be applicable to members who joined the registered superannuation scheme prior to 31 May 2007. The liability of SBS under the guarantee has not been taken over by FANZ under the Deed of Novation and SBS remains liable under this guarantee. At 31 March 2010 the amount guaranteed by SBS was $nil (31 March 2009 $185,000). A minimum of 80% of the funds invested in the Lifestages Superannuation Scheme are reinvested with SBS.

There are no other material contingent liabilities.

26 Commitments

Lease Commitments

As at 31 March 2010 the value of the residual portion of lease commitments for SBS was $5.21 million (31 March 2009 $5.26 million). Of this amount $0.78 million (31 March 2009 $1.15 million) relates to lease commitments between SBS and its wholly owned subsidiary company, Fraser Properties Ltd.

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Lease commitments payable after balance date:				
0-12 Months	1,807	1,814	1,808	1,733
12-24 Months	1,295	1,483	1,366	1,525
24-60 Months	1,844	1,901	1,492	1,755
>60 Months	669	485	541	243
	5,615	**5,683**	**5,207**	**5,256**

The Banking Group leases land and buildings under operating leases expiring from one to nine years. Leases generally provide the Banking Group with a right of renewal at which time all terms are renegotiated. There are no restrictions placed upon the leasee by entering into these leases.

27 Fair Value

The estimated fair value of the Banking Group's financial instruments is disclosed below. 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.

Methodologies

The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments. The following methods have been used:

Cash on hand and at bank

These assets are short term in nature and the related carrying amount is equivalent to their fair value.

Funds with financial institutions

Funds with financial institutions are recognised in the financial statements as available for sale therefore carrying amount equals fair value. The fair values are based on market prices.

Investment securities

Investment securities are recognised in the financial statements as either fair value through profit or loss or available for sale, therefore carrying amount equals fair value. The fair values are based on quoted market prices.

Advances to customers

Advances at amortised cost

For variable rate advances the carrying amount is a reasonable estimate of fair value as they can be settled the following day at balance outstanding. For fixed rate advances fair values have been estimated using the discounted cash flow approach by reference to relative wholesale rates for the term at original fixing and the wholesale rate for the remaining term at balance date.

Advances include some interest free advances made in support of community projects. As at 31 March 2010 total interest free advances were $0.25 million (31 March 2009 $4.26 million). These advances have been estimated using the discounted cash flow approach by reference to current rates at which similar advances would be made to other borrowers with a similar credit rating and the same remaining maturities. As at 31 March 2010 the fair value of these interest free advances as reported in the statement of financial position were $0.23 million (31 March 2009 $4.11 million).

Advances at fair value through profit or loss

Designated advances are recognised in the financial statements at fair value through the profit or loss, therefore carrying amount equals fair value. Fair value is based on valuation techniques including the use of a discounted cash flow model based on wholesale rates adjusted with a retail lending margin.

Redeemable shares, deposits and subordinated redeemable shares

The fair value of demand deposits is the amount payable on demand at the reporting date. For other liabilities with maturities of less than three months, the carrying amount is a reasonable estimate of fair value.

For liabilities with maturities of three months or longer, fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values have been estimated using the discounted cash flow approach by reference to rates currently offered for similar liabilities of similar remaining maturities.

Derivative financial instruments

Interest rate contracts

Interest rate contracts are recognised in the financial statements at fair value, therefore carrying amount equals fair value.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

For unrecognised financial instruments which include financial guarantees and lending commitments, no secondary market exists, so no fair value can be calculated. The face value of these items are given in Notes 25 and 31.

All in $000's

27 Fair Value continued

	BANKING GROUP			
	31/3/10		31/3/09	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash on hand and at bank	26,504	26,504	23,164	23,164
Funds with financial institutions	64,080	64,080	76,777	76,777
Investment securities	47,482	47,482	2,421	2,421
Derivative financial instruments	506	506	732	732
Current tax assets	1,176	1,176	-	-
Advances to customers	2,460,089	2,461,291	2,403,909	2,419,632
Other assets	1,575	1,575	4,924	4,924
Total financial assets	**2,601,412**	**2,602,614**	**2,511,927**	**2,527,650**
Financial liabilities				
Redeemable shares	1,972,008	1,977,538	1,851,828	1,874,733
Deposits from customers	230,051	230,202	234,475	235,319
Due to other financial institutions	30,017	30,017	17,002	17,002
Derivative financial instruments	13,009	13,009	34,500	34,500
Current tax liabilities	-	-	1,057	1,057
Other borrowings	128,574	128,574	173,811	173,811
Other liabilities	9,794	9,794	24,123	24,123
Subordinated redeemable shares	59,307	57,772	42,226	37,658
Total financial liabilities	**2,442,760**	**2,446,906**	**2,379,022**	**2,398,203**

	PARENT			
	31/3/10		31/3/09	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash on hand and at bank	17,676	17,676	16,075	16,075
Funds with financial institutions	60,028	60,028	73,773	73,773
Investment securities	44,978	44,978	404	404
Derivative financial instruments	1,572	1,572	3,848	3,848
Current tax assets	2,014	2,014	-	-
Advances to customers	2,272,584	2,273,503	2,202,481	2,215,231
Loans to subsidiaries and associates	95,555	95,555	89,385	89,385
Other assets	6,531	6,531	4,007	4,007
Total financial assets	**2,500,938**	**2,501,857**	**2,389,973**	**2,402,723**
Financial liabilities				
Redeemable shares	1,975,177	1,980,706	1,854,755	1,877,660
Deposits from customers	230,051	230,202	234,475	235,319
Due to other financial institutions	30,017	30,017	17,002	17,002
Derivative financial instruments	13,017	13,017	34,510	34,510
Current tax liabilities	-	-	1,755	1,755
Other borrowings	53,802	53,802	68,958	68,958
Other liabilities	6,020	6,020	21,548	21,548
Subordinated redeemable shares	59,307	57,772	42,226	37,658
Total financial liabilities	**2,367,391**	**2,371,536**	**2,275,229**	**2,294,410**

All in $000's

27 Fair Value continued

The Banking Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Fair values are determined using quoted (unadjusted) prices in active markets for identical assets and liabilities;

Level 2: Fair values are determined using other techniques where all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Fair values are determined using techniques that use inputs which have a significant effect on the recorded fair value and are not based on observable market data.

	31/3/10			
BANKING GROUP	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	593	-	**593**
Interest rate options	-	(87)	-	**(87)**
Financial assets designated at fair value through profit or loss				
Loans and advances to customers	-	-	250,129	**250,129**
NZ government securities	1,058	-	-	**1,058**
Equity securities	300	-	-	**300**
Managed funds	-	9	-	**9**
Financial assets designated as available for sale				
Call funds	19,317	-	-	**19,317**
Term deposits	-	12,820	-	**12,820**
Registered certificates of deposit	-	31,943	-	**31,943**
Local authority bonds	-	20,883	-	**20,883**
Bank bonds	-	20,467	-	**20,467**
Other bonds	-	3,729	-	**3,729**
Equity securities	418	-	-	**418**
Managed funds	-	618	-	**618**
Total financial assets	**21,093**	**90,975**	**250,129**	**362,197**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	6,363	-	**6,363**
Interest rate options	-	6,646	-	**6,646**
Total financial liabilities	**-**	**13,009**	**-**	**13,009**
PARENT				
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	1,572	-	**1,572**
Interest rate options	-	-	-	**-**
Financial assets designated at fair value through profit or loss				
Loans and advances to customers	-	-	250,129	**250,129**
Financial assets designated as available for sale				
Call funds	18,001	-	-	**18,001**
Term deposits	-	10,084	-	**10,084**
Registered certificates of deposit	-	31,943	-	**31,943**
Local authority bonds	-	20,782	-	**20,782**
Bank bonds	-	20,467	-	**20,467**
Other bonds	-	3,729	-	**3,729**
Total financial assets	**18,001**	**88,577**	**250,129**	**356,707**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	6,371	-	**6,371**
Interest rate options	-	6,646	-	**6,646**
Total financial liabilities	**-**	**13,017**	**-**	**13,017**

All in $000's

27 Fair Value continued

Loans and advances designated at fair value through profit or loss

For loans and advances designated at fair value through profit or loss, a discounted cash flow model is used based on various assumptions, including prepayments and wholesale interest rates adjusted for retail lending margin. At balance date, a one basis point movement in retail margin or the underlying interest rate would impact the income statement by $17,000.

The following table presents the changes in level 3 instruments for the year ended 31 March 2010.

	BANKING GROUP	PARENT
	31/3/10	31/3/10
Loans and advances at fair value through profit or loss		
Balance at beginning of the year	521,831	521,831
Total losses recorded in income statement	(9,588)	(9,588)
Loan repayments	(262,114)	(262,114)
Balance at end of the year	**250,129**	**250,129**

There were no transfers in or out of level 3, or between levels 1 and 2 during the year.

28 Liquidity Risk

Liquidity risk is the risk that the Banking Group will encounter difficulty in meeting commitments associated with its financial liabilities, e.g. overnight deposits, current accounts, maturing deposits, and future commitments such as loan draw-downs and guarantees.

The Banking Group has a Board approved liquidity strategy that defines policy, systems and procedures for measuring, assessing, reporting and managing liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis.

From 22 October 2009, the Reserve Bank modified the Banking Group's conditions of registration with respect to liquidity policy and this included the requirement to comply with various liquidity ratios. These revised conditions became effective 1 April 2010 and are outlined in part 11 of the conditions of registration. The liquidity ratios must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) and "Liquidity Policy Annex: Liquid Assets" (BS 13A) dated March 2010.

The Banking Group manages its exposure to liquidity risk primarily by forecasting future daily cash flow requirements. The Banking Group forecasts cash flows from operating activities taking into account the cash flow characteristics of, and expected volatility in, the balances of the various classes of recognised assets and liabilities and unrecognised items that have, or can have, a significant cash flow effect.

To meet both expected and unexpected patterns in operating cash flows the Banking Group maintains a stock of core liquid assets to adequately meet day-to-day operational requirements, a potential crisis, or 'funding stress' scenario.

Total liquidity includes commited but undrawn funding lines. As at 31 March 2010, the Banking Group had total committed funding lines with other registered banks of $160 million (31 March 2009 $250 million). Of these facilities $nil were drawn down at 31 March 2010 (31 March 2009 $17 milllion).

The Banking Group also has an in-house residential mortgage backed security (RMBS) facility (the SBS Oreti Trust No. 2) that issues securities which can be used as collateral for borrowing from the RBNZ under its liquidity management arrangements. Whilst not intended to be used for standard daily liquidity requirements, this facility is available as contingent funding and accordingly core liquid assets includes this RMBS. The eligible RMBS collateral is discounted for the 'haircut'[1] that applies to those securities under the RBNZ's Domestic Operations for the purposes of those operations.

	BANKING GROUP		PARENT	
Core liquid assets	**31/3/10**	**31/3/09**	**31/3/10**	**31/3/09**
Cash on hand and at bank	26,504	23,164	17,676	16,075
Funds with financial institutions	64,080	76,777	60,028	73,773
Investment securities	47,482	2,421	44,978	404
Committed and undrawn funding lines	160,000	233,000	160,000	233,000
Eligible RMBS collateral (less haircut[1])	162,434	98,537	162,434	98,537
Total liquidity	**460,500**	**433,899**	**445,116**	**421,789**

[1] 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.

All in $000's

28 Liquidity Risk continued

The maturity profiles of assets and liabilities and loan commitments show the cash flows and have been prepared on both a contractual and undiscounted maturity basis as at balance date. These have been created using a run-off scenario which assumes no further origination of assets or liabilities.

The maturity profiles reflect the remaining period to contractual maturity of assets and liabilities as at balance date. This is not considered by the Banking Group to be in any way indicative of future cash flows. This is primarily because a significant proportion of the Banking Group's redeemable shares and deposits are renewed at maturity and therefore do not have a cash flow impact. Historical experience has shown that such balances are a stable source of funding for the Banking Group. The maturity profile has also been prepared on the basis of the agreed terms of the advance with the customer. However, SBS mortgages include a term giving SBS the ability to call mortgage advances which are repayable on demand, or repayable on three months notice of demand, at the Banking Group's discretion. While the Banking Group is not likely to call advances on demand the contractual maturity date is not indicative of future cash flows due to early repayments, further drawdowns and principal reductions.

The maturity profiles include interest cash flows expected to maturity. Note that the resulting undiscounted financial assets and liablilities will not agree to the carrying values in the balance sheets and nor do they reflect how the Bank or Banking Group manages its liquidity risk. As set out on the previous page, the Bank and Banking Group manages liquidity through the maintenance of a portfolio of liquid assets and committed funding lines and as such no expected maturity profile is presented.

Monetary assets receivable matched against liabilities payable as at 31 March 2010 (contractual cash flows including expected interest to maturity)

	BANKING GROUP						
	0-6 * Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	26,504	-	26,504	-	-	-	**26,504**
Funds with financial institutions	64,080	-	64,080	-	-	-	**64,080**
Investment securities	1,445	-	1,445	4,787	36,228	5,022	**47,482**
Derivative financial instruments	506	-	506	-	-	-	**506**
Current tax assets	1,176	-	1,176	-	-	-	**1,176**
Advances to customers	116,138	157,857	273,995	106,070	187,104	1,892,920	**2,460,089**
Other assets	1,575	-	1,575	-	-	-	**1,575**
Total assets	**211,424**	**157,857**	**369,281**	**110,857**	**223,332**	**1,897,942**	**2,601,412**
Interest	226,231	6,923	233,154	177,673	475,682	1,003,008	**1,889,517**
Total assets (inclusive of interest)	**437,655**	**164,780**	**602,435**	**288,530**	**699,014**	**2,900,950**	**4,490,929**
			Current Liabilities				
Liabilities							
Redeemable shares	1,492,265	385,833	1,878,098	79,817	14,093	-	**1,972,008**
Deposits from customers	173,414	46,216	219,630	9,286	1,135	-	**230,051**
Due to other financial institutions	30,017	-	30,017	-	-	-	**30,017**
Derivative financial instruments	13,009	-	13,009	-	-	-	**13,009**
Other borrowings	53,802	-	53,802	-	-	74,772	**128,574**
Other liabilities	9,794	-	9,794	-	-	-	**9,794**
Subordinated redeemable shares	-	-	-	-	59,307	-	**59,307**
Total liabilities	**1,772,301**	**432,049**	**2,204,350**	**89,103**	**74,535**	**74,772**	**2,442,760**
Interest	14,698	4,710	19,408	19,014	23,354	73,144	**134,920**
Total liabilities (inclusive of interest)	**1,786,999**	**436,759**	**2,223,758**	**108,117**	**97,889**	**147,916**	**2,577,680**
Unrecognised loan commitments	23,934	-	23,934	-	-	-	**23,934**

* 0-6 months includes on-call amounts of redeemable shares $272.51 million; deposits from customers $55.00 million; and amounts due to other financial institutions $30.00 million.

All in $000's

28 Liquidity Risk continued

Monetary assets receivable matched against liabilities payable as at 31 March 2010
(contractual cash flows including expected interest to maturity)

	PARENT						
	0-6 * Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	17,676	-	17,676	-	-	-	**17,676**
Funds with financial institutions	60,028	-	60,028	-	-	-	**60,028**
Investment securities	-	-	-	3,728	36,228	5,022	**44,978**
Derivative financial instruments	1,572	-	1,572	-	-	-	**1,572**
Current tax assets	2,014	-	2,014	-	-	-	**2,014**
Advances to customers	106,922	136,878	243,800	62,005	140,853	1,825,926	**2,272,584**
Loans to subsidiaries and associates	-	-	-	-	-	95,555	**95,555**
Other assets	6,531	-	6,531	-	-	-	**6,531**
Total assets	**194,743**	**136,878**	**331,621**	**65,733**	**177,081**	**1,926,503**	**2,500,938**
Interest	174,625	96,680	271,305	194,110	495,225	889,182	**1,849,822**
Total assets (inclusive of interest)	**369,368**	**233,558**	**602,926**	**259,843**	**672,306**	**2,815,685**	**4,350,760**
			Current Liabilities				
Liabilities							
Redeemable shares	1,495,434	385,833	1,881,267	79,817	14,093	-	**1,975,177**
Deposits from customers	173,414	46,216	219,630	9,286	1,135	-	**230,051**
Due to other financial institutions	30,017	-	30,017	-	-	-	**30,017**
Derivative financial instruments	13,017	-	13,017	-	-	-	**13,017**
Other borrowings	53,802	-	53,802	-	-	-	**53,802**
Other liabilities	6,020	-	6,020	-	-	-	**6,020**
Subordinated redeemable shares	-	-	-	-	59,307	-	**59,307**
Total liabilities	**1,771,704**	**432,049**	**2,203,753**	**89,103**	**74,535**	**-**	**2,367,391**
Interest	14,383	4,712	19,095	19,017	23,355	-	**61,467**
Total liabilities (inclusive of interest)	**1,786,087**	**436,761**	**2,222,848**	**108,120**	**97,890**	**-**	**2,428,858**
Unrecognised loan commitments	22,146	-	22,146	-	-	-	**22,146**

* 0-6 months includes on-call amounts of redeemable shares $275.67 million; deposits from customers $55.00 million; and amounts due to other financial institutions $30.00 million.

All in $000's

28 Liquidity Risk continued

Monetary assets receivable matched against liabilities payable as at 31 March 2009
(contractual cash flows including expected interest to maturity)

	BANKING GROUP						
	0-6 * Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	23,164	-	23,164	-	-	-	**23,164**
Funds with financial institutions	76,524	-	76,524	253	-	-	**76,777**
Investment securities	1,345	-	1,345	-	1,076	-	**2,421**
Derivative financial instruments	732	-	732	-	-	-	**732**
Advances to customers	115,413	57,965	173,378	185,352	159,775	1,885,404	**2,403,909**
Other assets	4,924	-	4,924	-	-	-	**4,924**
Total assets	**222,102**	**57,965**	**280,067**	**185,605**	**160,851**	**1,885,404**	**2,511,927**
Interest	155,390	118,278	273,668	99,942	517,655	1,289,346	**2,180,611**
Total assets (inclusive of interest)	**377,492**	**176,243**	**553,735**	**285,547**	**678,506**	**3,174,750**	**4,692,538**
			Current Liabilities				
Liabilities							
Redeemable shares	1,267,991	447,958	1,715,949	118,534	17,345	-	**1,851,828**
Deposits from customers	192,230	35,985	228,215	4,288	1,972	-	**234,475**
Due to other financial institutions	17,002	-	17,002	-	-	-	**17,002**
Derivative financial instruments	34,500	-	34,500	-	-	-	**34,500**
Current tax liabilities	1,057	-	1,057	-	-	-	**1,057**
Other borrowings	68,958	-	68,958	-	-	104,853	**173,811**
Other liabilities	24,123	-	24,123	-	-	-	**24,123**
Subordinated redeemable shares	-	-	-	-	42,226	-	**42,226**
Total liabilities	**1,605,861**	**483,943**	**2,089,804**	**122,822**	**61,543**	**104,853**	**2,379,022**
Interest	839	22,049	22,888	22,213	23,823	102,567	**171,491**
Total liabilities (inclusive of interest)	**1,606,700**	**505,992**	**2,112,692**	**145,035**	**85,366**	**207,420**	**2,550,513**
Unrecognised loan commitments	22,212	-	22,212	-	-	-	**22,212**

* 0-6 months includes on-call amounts of redeemable shares $278.46 million; deposits from customers $88.34 million; and amounts due to other financial institutions $17.00 million.

All in $000's

28 Liquidity Risk continued

Monetary assets receivable matched against liabilities payable as at 31 March 2009
(contractual cash flows including expected interest to maturity)

	PARENT						
	0-6 * Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	16,075	-	16,075	-	-	-	**16,075**
Funds with financial institutions	73,773	-	73,773	-	-	-	**73,773**
Investment securities	404	-	404	-	-	-	**404**
Derivative financial instruments	3,848	-	3,848	-	-	-	**3,848**
Advances to customers	106,230	43,571	149,801	145,703	114,106	1,792,871	**2,202,481**
Loans to subsidiaries and associates	-	-	-	-	-	89,385	**89,385**
Other assets	4,007	-	4,007	-	-	-	**4,007**
Total assets	**204,337**	**43,571**	**247,908**	**145,703**	**114,106**	**1,882,256**	**2,389,973**
Interest	113,903	99,568	213,471	105,084	540,553	1,244,490	**2,103,598**
Total assets (inclusive of interest)	**318,240**	**143,139**	**461,379**	**250,787**	**654,659**	**3,126,746**	**4,493,571**
			Current Liabilities				
Liabilities							
Redeemable shares	1,270,918	447,958	1,718,876	118,534	17,345	-	**1,854,755**
Deposits from customers	192,230	35,985	228,215	4,288	1,972	-	**234,475**
Due to other financial institutions	17,002	-	17,002	-	-	-	**17,002**
Derivative financial instruments	34,510	-	34,510	-	-	-	**34,510**
Current tax liabilities	1,755	-	1,755	-	-	-	**1,755**
Other borrowings	68,958	-	68,958	-	-	-	**68,958**
Other liabilities	21,548	-	21,548	-	-	-	**21,548**
Subordinated redeemable shares	-	-	-	-	42,226	-	**42,226**
Total liabilities	**1,606,921**	**483,943**	**2,090,864**	**122,822**	**61,543**	**-**	**2,275,229**
Interest	766	22,052	22,818	22,215	23,824	-	**68,857**
Total liabilities (inclusive of interest)	**1,607,687**	**505,995**	**2,113,682**	**145,037**	**85,367**	**-**	**2,344,086**
Unrecognised loan commitments	15,884	-	15,884	-	-	-	**15,884**

* 0-6 months includes on-call amounts of redeemable shares $281.39 million; deposits from customers $88.34 million; and amounts due to other financial institutions $17.00 million.

All in $000's

29 Credit Risk Exposure

The nature of SBS's activities as a financial intermediary necessitates SBS dealing in financial instruments that contain an inherent element of credit risk. Credit exposure means the amount of the maximum loss that SBS could incur as a result of the counterparty to a contract failing to discharge its obligations, without taking into account the value of collateral, guarantees, indemnities, other support arrangements and any potential recoveries. SBS's activities are conducted within the bounds of prudent and conservative banking practice.

The Banking Group's dominant activity is the provision of residential mortgage finance which comprises 70% (31 March 2009 68%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 16% (31 March 2009 16%) of the Banking Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
(a) The maximum exposures to credit risk at the relevant reporting dates are:				
Cash on hand and at bank	26,504	23,164	17,676	16,075
Funds with financial institutions	64,080	76,777	60,028	73,773
Investment securities	47,482	2,421	44,978	404
Derivative financial instruments	506	732	1,572	3,848
Current tax assets	1,176	-	2,014	-
Advances to customers	2,460,089	2,403,909	2,272,584	2,202,481
Loans to subsidiaries and associates	-	-	95,555	89,385
Other assets	1,575	4,924	6,531	4,007
Total on-balance sheet credit exposures	**2,601,412**	**2,511,927**	**2,500,938**	**2,389,973**
(b) Concentrations of credit risk by sector				
Residential	1,462,496	1,404,327	1,402,121	1,318,629
Residential investing	252,667	233,977	241,321	222,602
Agricultural	403,581	394,742	403,581	394,742
Commercial finance	10,925	16,081	95,555	92,397
Commercial other	226,681	261,279	225,271	259,305
Consumer finance	67,044	54,059	-	-
Consumer loans	36,406	35,253	-	-
Local authority	21,172	4,191	21,071	4,191
Corporate investments	117,689	103,094	103,472	94,100
Other	2,751	4,924	8,546	4,007
Total concentrations of credit risk by sector	**2,601,412**	**2,511,927**	**2,500,938**	**2,389,973**
(c) Concentrations of credit risk by geographical location				
North Island	630,960	544,149	519,228	422,537
Canterbury	679,543	623,386	643,334	599,531
Otago	590,178	556,076	570,237	534,233
Southland	509,946	615,719	586,420	686,874
South Island other	190,785	172,597	181,719	146,798
Overseas	-	-	-	-
Total concentrations of credit risk by geographical location	**2,601,412**	**2,511,927**	**2,500,938**	**2,389,973**

(d) Currency risk

The Banking Group is not exposed to currency risk.

All in $000's

29 Credit Risk Exposure continued

(e) Credit exposures to individual counterparties and groups of closely related counterparties

The Banking Group's disclosure of concentrations of credit exposure to individual counterparties and groups of closely related counterparties, which equalled or exceeded 10% of the Banking Group's equity, is based on actual credit exposures and calculated on a gross basis (net of specific provisions) and excludes credit exposures to connected persons and the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent. Peak end of day credit exposures to individual counterparties are calculated using the Banking Group's end of period equity.

	BANKING GROUP			
	Balance sheet date credit exposures to individual counterparties and groups of closely related counterparties			
	Number of non-bank counterparties		Number of bank counterparties	
Percentage of equity %	31/3/10	31/3/09	31/3/10	31/3/09
10-19	-	-	-	1
20-29	-	-	2	1
30-39	-	-	-	-

	BANKING GROUP			
	Peak end of day credit exposures to individual counterparties and groups of closely related counterparties			
	Number of non-bank counterparties		Number of bank counterparties	
Percentage of equity %	31/3/10	31/3/09	31/3/10	31/3/09
10-19	-	-	-	4
20-29	-	-	1	1
30-39	-	-	-	1
40-49	-	-	-	-
50-59	-	-	1	-

(f) Credit exposures by credit rating

The following table presents the Banking Group's credit exposures based on the credit rating of the issuer. Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis (net of specific provisions and excluding advances of a capital nature). An investment grade credit rating means a credit rating of BBB- or Baa3 or above, or its equivalent. The amount and percentage of the Bankings Group's credit exposure, excluding connected persons and the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, where the period end aggregate exposure equalled or exceeded 10% of the Banking Group's equity, as at period end are:

	BANKING GROUP			
	Amount	% of total credit exposure	Amount	% of total credit exposure
	31/3/10	31/3/10	31/3/09	31/3/09
Non-bank counterparties				
Investment grade credit rating	-	0%	-	0%
Below investment grade credit rating	-	0%	-	0%
Not rated	-	0%	-	0%
Total non-bank exposures	-	0%	-	0%
Bank counterparties				
Investment grade credit rating	84,283	100%	66,620	100%
Below investment grade credit rating	-	0%	-	0%
Not rated	-	0%	-	0%
Total bank exposures	84,283	100%	66,620	100%

(g) Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature). The Banking Group does not have credit exposures to connected persons other than non-bank connected persons. Peak end of day credit exposures to non-bank connected persons have been calculated using the Banking Group's tier one capital at the end of the period. The rating-contingent limit, which is applicable to the Banking Group, based on the conditions of registration imposed by the RBNZ is 15%. There have been no rating-contingent limit changes during the last quarter. Within the rating-contingent limit there is a sub-limit of 15%, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Banking Group's conditions of registration have been complied with at all times over the last quarter. There are no individual credit impairment allowances against credit exposures to non-bank connected persons as at 31 March 2010 (31 March 2009 $nil).

All in $000's

29 Credit Risk Exposure continued

	BANKING GROUP	
	31/3/10	31/3/09
Credit exposures to non-bank connected persons at year end	997	696
Credit exposures to non-bank connected persons at year end expressed as a % of total tier one capital	0.56%	0.43%
Peak credit exposures to non-bank connected persons during the quarter	1,008	731
Peak credit exposures to non-bank connected persons during the quarter expressed as a % of total tier one capital	0.57%	0.45%

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
(h) Percentage of borrowers owing the six largest amounts				
The six largest borrowers as a percentage of monetary assets receivable	2.32%	2.29%	5.91%	5.82%

(i) Collateral held

SBS takes collateral where it is considered necessary to support credit risk on financial instruments including both recognised and unrecognised financial instruments. An evaluation is undertaken of the customer's credit risk on a case by case basis and the amount of collateral taken if deemed necessary, is based on management's credit evaluation of the counterparty. The collateral taken varies but could include cash deposits, mortgages, debentures, investments and financial covenants.

In terms of SBS retail lending activity, credit is extended within predetermined loan to security valuation ratios, which vary depending on the class of an advance, and within established and proven repayment to income ratios. Independent credit evaluations are undertaken where this is deemed necessary. Additionally some advances are insured with an independent third party mortgage insurer. In excess of 95% of SBS advances are secured by first mortgage over real property as a minimum. Once established, loan performance is monitored constantly. The debt management team monitor exposures to non-performing loans on a daily basis and provide monthly reports to senior management and the board.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against financial assets that are individually impaired or past due are shown below:

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Against individually impaired property	19,269	14,374	19,269	14,374
Against past due but not impaired property	134,914	89,425	129,160	82,696
	154,183	**103,799**	**148,429**	**97,070**

30 Market Risk

Market risk is the risk that changes in market prices, such as interest rate, and credit spreads will affect the Banking Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Banking Group's exposure to market risk is governed by a policy approved by the Audit and Risk Committee and managed by the Asset and Liability Committee (ALCO). This policy sets out the nature of risk which may be taken and aggregate risk limits and the ALCO must conform with this. The objective of the ALCO is to derive the most appropriate strategy for the Banking Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints and capital adequacy.

The Banking Group's exposure to market risk is managed operationally by Treasury. Treasury manages market risk by using appropriate risk management instruments. Market risk is managed within a clearly defined framework of policy limits. Treasury reports to and is represented on the ALCO Committee.

Market risk is measured and reported using a variety of techniques, according to the appropriateness of the technique to the exposure concerned. The techniques used include interest rate gap analysis and scenario analysis.

Policies for Managing Interest Rate Risk

Interest rate risk is the risk of loss to the Banking Group arising from adverse changes in interest rates. The Banking Group is exposed to interest rate risk in respect of the following activities: borrowing from and lending to customers, investing in physical money market instruments as well as derivatives such as interest rate contracts used for risk management purposes. Changes in interest rates can impact the Banking Group's financial results by affecting the spread earned on interest earning assets and interest paying liabilities and impacting on the market value of other financial instruments held.

Exposure to interest rate risk is measured primarily through the analysis of repricing maturities of the Banking Group's assets, liabilities and unrecognised financial instruments. Exposures are monitored continuously and reported to the board on a monthly basis.

Effective interest rates on risk management transactions within classes of financial assets or liabilities are disclosed exclusive of the impact of the derivative transaction. The financial assets or liabilities carrying values do not incorporate the values of the derivative transactions.

The interest rate repricing schedule reflects balance sheet financial assets and liabilities and has been prepared on the basis of the next repricing date.

All in $000's

30 Market Risk continued

The following schedule details the Banking Group's interest rate repricing profile:

BANKING GROUP						
As at 31 March 2010	0-6 Months	6-12 Months	12-24 Months	>24 Months	Non-interest sensitive	Total
Assets						
Cash on hand and at bank	26,504	-	-	-	-	**26,504**
Funds with financial institutions	64,080	-	-	-	-	**64,080**
Investment securities	11,460	-	4,787	31,235	-	**47,482**
Derivative financial instruments	-	-	-	-	506	**506**
Current tax assets	-	-	-	-	1,176	**1,176**
Advances to customers	1,571,722	336,017	345,392	206,958	-	**2,460,089**
Other assets	-	-	-	-	28,068	**28,068**
	1,673,766	**336,017**	**350,179**	**238,193**	**29,750**	**2,627,905**
Liabilities and equity						
Redeemable shares	1,492,265	385,833	79,817	14,093	-	**1,972,008**
Deposits from customers	173,414	46,216	9,286	1,135	-	**230,051**
Due to other financial institutions	30,017	-	-	-	-	**30,017**
Derivative financial instruments	-	-	-	-	13,009	**13,009**
Other borrowings	128,574	-	-	-	-	**128,574**
Other liabilities	-	-	-	-	17,275	**17,275**
Subordinated redeemable shares	-	-	-	59,307	-	**59,307**
Equity	-	-	-	-	177,664	**177,664**
	1,824,270	**432,049**	**89,103**	**74,535**	**207,948**	**2,627,905**
On-balance sheet interest sensitivity gap	(150,504)	(96,032)	261,076	163,658	(178,198)	**-**
Net balance of derivative financial instruments	508,500	(113,000)	(229,500)	(166,000)	-	**-**
Total interest rate sensitivity gap	**357,996**	**(209,032)**	**31,576**	**(2,342)**	**(178,198)**	**-**

PARENT						
As at 31 March 2010	0-6 Months	6-12 Months	12-24 Months	>24 Months	Non-interest sensitive	Total
Assets						
Cash on hand and at bank	17,676	-	-	-	-	**17,676**
Funds with financial institutions	60,028	-	-	-	-	**60,028**
Investment securities	10,014	-	3,729	31,235	-	**44,978**
Derivative financial instruments	-	-	-	-	1,572	**1,572**
Current tax assets	-	-	-	-	2,014	**2,014**
Advances to customers	1,409,057	325,617	335,907	202,003	-	**2,272,584**
Loans to subsidiaries and associates	95,555	-	-	-	-	**95,555**
Other assets	-	-	-	-	35,093	**35,093**
	1,592,330	**325,617**	**339,636**	**233,238**	**38,679**	**2,529,500**
Liabilities and equity						
Redeemable shares	1,495,434	385,833	79,817	14,093	-	**1,975,177**
Deposits from customers	173,414	46,216	9,286	1,135	-	**230,051**
Due to other financial institutions	30,017	-	-	-	-	**30,017**
Derivative financial instruments	-	-	-	-	13,017	**13,017**
Other borrowings	53,802	-	-	-	-	**53,802**
Other liabilities	-	-	-	-	8,487	**8,487**
Subordinated redeemable shares	-	-	-	59,307	-	**59,307**
Equity	-	-	-	-	159,642	**159,642**
	1,752,667	**432,049**	**89,103**	**74,535**	**181,146**	**2,529,500**
On-balance sheet interest sensitivity gap	(160,337)	(106,432)	250,533	158,703	(142,467)	**-**
Net balance of derivative financial instruments	543,549	(112,621)	(260,025)	(170,903)	-	**-**
Total interest rate sensitivity gap	**383,212**	**(219,053)**	**(9,492)**	**(12,200)**	**(142,467)**	**-**

All in $000's

30 Market Risk continued

As at 31 March 2009	0-6 Months	6-12 Months	12-24 Months	>24 Months	Non-interest sensitive	Total
			BANKING GROUP			
Assets						
Cash on hand and at bank	23,164	-	-	-	-	**23,164**
Funds with financial institutions	76,524	-	253	-	-	**76,777**
Investment securities	1,345	-	-	1,076	-	**2,421**
Derivative financial instruments	-	-	-	-	732	**732**
Advances to customers	1,485,790	342,719	409,119	166,281	-	**2,403,909**
Other assets	-	-	-	-	34,174	**34,174**
	1,586,823	**342,719**	**409,372**	**167,357**	**34,906**	**2,541,177**
Liabilities and equity						
Redeemable shares	1,267,991	447,958	118,534	17,345	-	**1,851,828**
Deposits from customers	192,230	35,985	4,288	1,972	-	**234,475**
Due to other financial institutions	17,002	-	-	-	-	**17,002**
Derivative financial instruments	-	-	-	-	34,500	**34,500**
Current tax liabilities	-	-	-	-	1,057	**1,057**
Other borrowings	173,811	-	-	-	-	**173,811**
Other liabilities	-	-	-	-	30,698	**30,698**
Subordinated redeemable shares	-	-	-	42,226	-	**42,226**
Equity	-	-	-	-	155,580	**155,580**
	1,651,034	**483,943**	**122,822**	**61,543**	**221,835**	**2,541,177**
On-balance sheet interest sensitivity gap	(64,211)	(141,224)	286,550	105,814	(186,929)	-
Net balance of derivative financial instruments	262,500	25,500	(291,000)	3,000	-	-
Total interest rate sensitivity gap	**198,289**	**(115,724)**	**(4,450)**	**108,814**	**(186,929)**	**-**

As at 31 March 2009	0-6 Months	6-12 Months	12-24 Months	>24 Months	Non-interest sensitive	Total
			PARENT			
Assets						
Cash on hand and at bank	16,075	-	-	-	-	**16,075**
Funds with financial institutions	73,773	-	-	-	-	**73,773**
Investment securities	404	-	-	-	-	**404**
Derivative financial instruments	-	-	-	-	3,848	**3,848**
Advances to customers	1,320,953	324,647	393,100	163,781	-	**2,202,481**
Loans to subsidiaries and associates	89,385	-	-	-	-	**89,385**
Other assets	-	-	-	-	32,516	**32,516**
	1,500,590	**324,647**	**393,100**	**163,781**	**36,364**	**2,418,482**
Liabilities and equity						
Redeemable shares	1,270,918	447,958	118,534	17,345	-	**1,854,755**
Deposits from customers	192,230	35,985	4,288	1,972	-	**234,475**
Due to other financial institutions	17,002	-	-	-	-	**17,002**
Derivative financial instruments	-	-	-	-	34,510	**34,510**
Current tax liabilities	-	-	-	-	1,755	**1,755**
Other borrowings	68,958	-	-	-	-	**68,958**
Other liabilities	-	-	-	-	23,838	**23,838**
Subordinated redeemable shares	-	-	-	42,226	-	**42,226**
Equity	-	-	-	-	140,963	**140,963**
	1,549,108	**483,943**	**122,822**	**61,543**	**201,066**	**2,418,482**
On-balance sheet interest sensitivity gap	(48,518)	(159,296)	270,278	102,238	(164,702)	-
Net balance of derivative financial instruments	225,444	43,973	(275,030)	5,613	-	-
Total interest rate sensitivity gap	**176,926**	**(115,323)**	**(4,752)**	**107,851**	**(164,702)**	**-**

All in $000's

30 Market Risk continued

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Banking Group's financial assets and liabilities to various standard interest rate scenarios. The Banking Group's market risk model determines the mismatch between assets and liabilities after taking derivatives into account. The present value of the mismatched cash flows are discounted using the current yield curve at period end and the assessed most probable scenarios (100 basis point (bp) parallel rise or fall in the New Zealand yield curve). The difference in the present value of the scenario and the present value of the current yield curve are identified for each of the scenarios. Differences between equity and profit and loss are a result of interest rate derivatives designated in cash flow relationships which have most of the fair value movements in the derivatives taken directly to the cash flow hedge reserve in equity. An analysis of the Banking Group's sensitivity to an increase or decrease in market interest rates is as follows:

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Impact on equity of increase or decrease to market interest rates				
100 bp parallel increase	684	6,059	309	6,548
100 bp parallel decrease	(702)	(5,385)	(315)	(6,456)
Impact on profit and loss of increase or decrease to market interest				
100 bp parallel increase	152	(1,174)	31	(685)
100 bp parallel decrease	(341)	1,849	(37)	777

31 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.

For regulatory purposes, capital comprises two elements, eligible tier one and tier two capital, from which certain deductions are made to arrive at tier one and tier two capital as documented in RBNZ's "Capital Adequacy Framework" document (BS2A). Tier one capital includes revenue and similar reserves, retained profits, minority interests, less intangible assets and certain other deductions. Tier two capital is divided into two levels. Upper tier two capital consists of revaluation reserves and perpetual subordinated debt while lower tier two capital consists of term subordinated debt and other qualifying capital instruments. Tier two capital is limited to 100% of net tier one capital. Lower tier two capital is limited to 50% of tier one capital. The tangible element of investments in subsidiaries that are not wholly owned or funded is deducted from the sum of tier one and tier two capital to arrive at total regulatory capital.

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.

The Banking Group has adopted the Basel II "standardised approach" as per BS2A to calculate regulatory capital requirements. Basel II consists of 3 pillars - Pillar One covers the capital requirements for banks for credit, operational, and market risks. Pillar Two covers all other material risks not already included in Pillar One, and Pillar Three relates to market disclosure.

Pillar Two of Basel II is intended to ensure that banks have adequate capital to support all material risks inherent in their business activities and includes the requirement on banks to have an "Internal Capital Adequacy Assessment Process (ICAAP)" for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining adequate capital to support risk. Southland Building Society's ICAAP has identified other areas of risk and requires it to hold capital against them. These risks include but are not limited to:

i Earnings risk - The risk due to uncertainty in future reported earnings arising from adverse changes in the business environment and from adverse business decisions.

ii Liquidity risk - The risk that the Bank cannot meet or generate sufficient cash resources to meet its cash out goings as they fall due. Capital is not held for day to day liquidity. Instead a portfolio of cash, highly liquid instruments and committed funding lines is held. This largely mitigates the requirement to hold additional capital for liquidity risk, however capital is held to allow for excessive costs of raising suitable funds in adverse market conditions.

iii Access to capital - The risk that the Bank may not be able to raise additional capital as required in a timely manner, particularly arising from the mutual status of SBS.

iv Reputational risk - The potential that negative publicity regarding the banks business practices or financial position, whether true or not, will cause a decline in the customer base, costly litigation or impact future earnings and funding.

The Bank has made an internal capital allocation of $22.50 million to cover these identified risks.

The Board of Directors has ultimate responsibility for capital adequacy, approves capital policy and establishes minimum internal capital levels and limits. These are typically higher than the regulatory minimum.

The capital adequacy calculations set out on the following page summarise the composition of regulatory capital and capital adequacy ratios. For the purposes of calculating the capital adequacy ratios for the Registered Bank, wholly-owned and wholly-funded subsidiaries of the Banking Group are consolidated with the Registered Bank. In this context, wholly funded by the Registered Bank means that there are no liabilities (including off-balance sheet oligations) to anyone other than the Registered Bank, the Inland Revenue Department, and trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's equity. Wholly owned means that all the equity issued by the subsidiary is held by the Registered Bank. During the periods shown the Banking Group fully complied with all RBNZ capital requirements as set out in the Banking Group's conditions of registration.

All in $000's

31 Capital Adequacy continued

	BANKING GROUP		PARENT	
	31/3/10	31/3/09	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%	10.08%	9.88%
Capital expressed as a percentage of total risk weighted exposures	13.35%	12.46%	12.61%	12.11%
(i) Qualifying capital				
Tier one capital				
Retained earnings	161,432	150,446	156,986	143,333
Current years retained earnings	12,723	10,986	11,298	13,651
Revenue and similar reserves	73	73	73	73
Cash flow hedging reserve	(3,322)	(11,309)	(3,182)	(11,309)
Minority interests	5,663	4,264	-	-
Less deductions from tier one capital				
Intangible assets	(3,094)	(2,842)	(1,686)	(1,411)
Cash flow hedging reserve	3,322	11,309	3,182	11,309
Total tier one capital	**176,797**	**162,927**	**166,671**	**155,646**
Tier two capital				
Upper tier two capital				
Revaluation reserves	1,095	1,120	1,152	1,201
Total upper tier two capital	1,095	1,120	1,152	1,201
Lower tier two capital				
Subordinated redeemable shares	50,442	41,902	50,442	41,902
Total lower tier two capital	50,442	41,902	50,442	41,902
Total tier two capital	**51,537**	**43,022**	**51,594**	**43,103**
Total tier one and tier two capital	**228,334**	**205,949**	**218,265**	**198,749**
Less deductions from capital	-	-	(9,756)	(8,027)
Total capital	**228,334**	**205,949**	**208,509**	**190,722**

(ii) Total risk weighted exposures

	BANKING GROUP			
	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	31/3/10	31/3/10	31/3/10	31/3/10
On balance sheet exposures				
Cash	407	0%	-	-
Sovereigns and central banks	1,058	0%	-	-
Public sector entities	20,884	20%	4,177	334
Banks	110,433	20%	22,087	1,767
Corporates	3,729	20%	746	60
Corporates	210	100%	210	17
Residential mortgages < 80% loan to value ratio (LVR)	1,311,135	35%	458,897	36,712
Residential mortgages 80 < 90% LVR	74,449	50%	37,225	2,978
Residential mortgages 90 < 100% LVR	83,118	75%	62,339	4,987
Residential mortgages welcome home loans	238,871	50%	119,436	9,555
Past due residential mortgages	2,401	100%	2,401	192
Impaired residential mortgages	5,188	100%	5,188	415
Equity holdings	718	300%	2,154	172
Other assets	776,410	100%	776,410	62,113
Non-risk weighted assets	(1,106)	0%	-	-
Total on balance sheet exposures	2,627,905		1,491,270	119,302

All in $000's

31 Capital Adequacy continued

	Total exposure after credit risk mitigation	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure / implied risk weighted exposure	Minimum pillar one capital requirement
	31/3/10	**31/3/10**	**31/3/10**	**31/3/10**	**31/3/10**	**31/3/10**
Off balance sheet exposures						
Commitments with uncertain drawdown	23,934	50%	11,967	65%	7,797	624
Commitments to extend credit which can be unconditionally cancelled	181,270	0%	-	0%	-	-
Market related contracts: [1]						
- Interest rate contracts	1,095,760	n/a	3,205	20%	641	51
Total off balance sheet exposures	1,300,964		15,172		8,438	675
Total credit risk	3,928,869		15,172		1,499,708	119,977
Operational risk	n/a	-	-		169,357	13,549
Market risk	n/a	-	-		41,008	3,281
Total risk weighted exposure	**3,928,869**	**-**	**-**		**1,710,073**	**136,807**

[1] The credit equivalent amount for market related contracts was calculated using the current exposure method.

REGISTERED BANK

	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	31/3/10	**31/3/10**	**31/3/10**	**31/3/10**
On balance sheet exposures				
Cash	407	0%	-	-
Public sector entities	20,783	20%	4,157	333
Banks	97,763	20%	19,553	1,564
Corporates	3,729	20%	746	60
Residential mortgages < 80% loan to value ratio (LVR)	1,240,194	35%	434,068	34,725
Residential mortgages 80 < 90% LVR	73,741	50%	36,871	2,950
Residential mortgages 90 < 100% LVR	83,046	75%	62,285	4,983
Residential mortgages welcome home loans	238,871	50%	119,436	9,555
Past due residential mortgages	2,401	100%	2,401	192
Impaired residential mortgages	5,188	100%	5,188	415
Other assets	754,473	100%	754,473	60,358
Non-risk weighted assets	13,013	0%	-	-
Total on balance sheet exposures	2,533,609		1,439,178	115,135

	Total exposure after credit risk mitigation	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure / implied risk weighted exposure	Minimum pillar one capital requirement
	31/3/10	**31/3/10**	**31/3/10**	**31/3/10**	**31/3/10**	**31/3/10**
Off balance sheet exposures						
Commitments with uncertain drawdown	22,146	50%	11,073	87%	9,684	775
Commitments to extend credit which can be unconditionally cancelled	181,270	0%	-	0%	-	-
Market related contracts: [1]						
- Interest rate contracts	1,205,778	n/a	4,447	20%	889	71
Total off balance sheet exposures	1,409,194		15,520		10,573	846
Total credit risk	3,942,803		15,520		1,449,751	115,981
Operational risk	n/a	-	-		160,093	12,807
Market risk	n/a	-	-		43,352	3,468
Total risk weighted exposure	**3,942,803**	**-**	**-**		**1,653,196**	**132,256**

[1] The credit equivalent amount for market related contracts was calculated using the current exposure method.

All in $000's

31 Capital Adequacy continued

BANKING GROUP

	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	31/3/09	31/3/09	31/3/09	31/3/09
On balance sheet exposures				
Cash	299	0%	-	-
Sovereigns and central banks	1,077	0%	-	-
Public sector entities	-	20%	-	-
Banks	99,642	20%	19,928	1,594
Residential mortgages < 80% loan to value ratio (LVR)	1,358,575	35%	475,501	38,040
Residential mortgages 80 < 90% LVR	59,225	50%	29,613	2,369
Residential mortgages 90 < 100% LVR	31,206	75%	23,405	1,872
Residential mortgages welcome home loans	180,632	50%	90,316	7,225
Past due residential mortgages	2,300	100%	2,300	184
Impaired residential mortgages	6,365	100%	6,365	509
Equity holdings	316	300%	948	76
Equity holdings	404	400%	1,616	129
Other assets	802,305	100%	802,305	64,184
Non-risk weighted assets	(1,169)	0%	-	-
Total on balance sheet exposures	2,541,177		1,452,297	116,182

	Total exposure after credit risk mitigation	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure / implied risk weighted exposure	Minimum pillar one capital requirement
	31/3/09	31/3/09	31/3/09	31/3/09	31/3/09	31/3/09
Off balance sheet exposures						
Commitments with uncertain drawdown	22,212	50%	11,106	66%	7,322	586
Commitments to extend credit which can be unconditionally cancelled	227,507	0%	-	0%	-	-
Market related contracts: [1]						
- Interest rate contracts	1,386,500	n/a	3,287	20%	657	53
Total off balance sheet exposures	1,636,219		14,393		7,979	639
Total credit risk	4,177,396		14,393		1,460,276	116,821
Operational risk	n/a	-	-		163,952	13,116
Market risk	n/a	-	-		29,283	2,343
Total risk weighted exposure	**4,177,396**	**-**	**-**		**1,653,511**	**132,280**

[1] The credit equivalent amount for market related contracts was calculated using the current exposure method.

All in $000's

31 Capital Adequacy continued

REGISTERED BANK

	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	31/3/09	31/3/09	31/3/09	31/3/09
On balance sheet exposures				
Cash	299	0%	-	-
Sovereigns and central banks	-	0%	-	-
Public sector entities	-	20%	-	-
Banks	89,549	20%	17,910	1,433
Residential mortgages < 80% loan to value ratio (LVR)	1,262,832	35%	441,991	35,359
Residential mortgages 80 < 90% LVR	58,090	50%	29,045	2,324
Residential mortgages 90 < 100% LVR	31,206	75%	23,405	1,872
Residential mortgages welcome home loans	180,632	50%	90,316	7,225
Past due residential mortgages	2,107	100%	2,107	169
Impaired residential mortgages	6,365	100%	6,365	509
Equity holdings	404	400%	1,616	129
Other assets	777,918	100%	777,918	62,234
Non-risk weighted assets	13,286	0%	-	-
Total on balance sheet exposures	2,422,688		1,390,673	111,254

	Total exposure after credit risk mitigation	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure / implied risk weighted exposure	Minimum pillar one capital requirement
	31/3/09	31/3/09	31/3/09	31/3/09	31/3/09	31/3/09
Off balance sheet exposures						
Commitments with uncertain drawdown	15,884	50%	7,942	65%	5,163	413
Commitments to extend credit which can be unconditionally cancelled	227,507	0%	-	0%	-	-
Market related contracts: [1]						
- Interest rate contracts	1,488,317	n/a	6,471	20%	1,294	104
Total off balance sheet exposures	1,731,708		14,413		6,457	517
Total credit risk	4,154,396		14,413		1,397,130	111,771
Operational risk	n/a	-	-		147,955	11,836
Market risk	n/a	-	-		30,143	2,411
Total risk weighted exposure	**4,154,396**	**-**	**-**		**1,575,228**	**126,018**

[1] The credit equivalent amount for market related contracts was calculated using the current exposure method.

All in $000's

31 Capital Adequacy continued

(iii) Residential mortgages by loan-to-valuation ratio

	BANKING GROUP		REGISTERED BANK	
	31/3/10	31/3/09	31/3/10	31/3/09
LVR range				
0 - 80%	1,317,910	1,366,699	1,246,931	1,270,744
80 - 90%	74,833	59,579	74,142	58,454
90% +	322,419	212,025	322,368	212,034

Welcome Home Loans make up 74% of the residential mortgages in the 90% + loan to valuation grouping. The Welcome Home Loan product is fully insured by Housing New Zealand Corporation.

(iv) Market risk exposures

Market risk exposures have been calculated in accordance with the methodology detailed in Part 10 of the RBNZ's BS2A Captial Adequacy Framework, and Schedule 5A of the Registered Bank Disclosure Statement (Full and Half-Year - New Zealand Incorporated Registered Banks) Order 2008. Peak exposures are calculated using the Banking Group's equity at the end of the period.

	BANKING GROUP		REGISTERED BANK	
	End of period		Peak end of day	
	31/3/10	31/3/09	31/3/10	31/3/09
Interest rate exposures				
Implied risk weighted exposure	41,008	29,283	41,513	59,288
Aggregate capital charge	3,281	2,343	3,321	4,743
Aggregate capital charge expressed as a percentage of the Banking Group's equity	1.85%	1.51%	1.87%	3.05%

32 Concentrations of Funding

	BANKING GROUP		REGISTERED BANK	
	31/3/10	31/3/09	31/3/10	31/3/09
(a) Concentrations of funding by geographical location				
North Island	343,785	340,679	343,786	340,679
Canterbury	561,550	568,138	561,550	568,138
Otago	447,373	350,512	447,373	350,512
Southland	838,911	830,153	767,301	728,225
South Island other	161,955	155,203	161,961	155,205
Overseas	66,383	74,657	66,383	74,657
Total concentrations of funding by geographical location	**2,419,957**	**2,319,342**	**2,348,354**	**2,217,416**
(b) Concentrations of funding by product				
Redeemable shares	1,972,008	1,851,828	1,972,008	1,851,828
Deposits from customers	230,051	234,475	230,051	234,475
Due to other financial institutions	30,017	17,002	30,017	17,002
Other borrowings	128,574	173,811	53,802	68,958
Subordinated redeemable shares	59,307	42,226	59,307	42,226
Due to subsidiary companies	-	-	3,169	2,927
Total concentrations of funding by product	**2,419,957**	**2,319,342**	**2,348,354**	**2,217,416**

All in $000's

33 Related Parties

The Banking Group is controlled by SBS who is also the ultimate parent. A number of transactions are entered into with related parties (including key management personnel)[1] in the normal course of business. Details of these transactions are outlined below.

[1] Key management personnel are defined as being directors and senior management of the Banking Group. The information relating to key management personnel disclosed below includes transactions with those individuals, their close family members and their controlled entities.

(a) Loans and advances to related parties

	BANKING GROUP			
	Directors and other key management personnel		Associated companies	
	31/3/10	31/3/09	31/3/10	31/3/09
Loans and advances outstanding at beginning of year	3,458	3,234	-	1,413
Net loans issued/(repaid) during the year	290	224	-	(1,413)
Loans and advances outstanding at end of year	**3,748**	**3,458**	**-**	**-**
Interest income earned on amounts due from related parties	**264**	**317**	**-**	**74**

	PARENT			
	Directors and other key management personnel		Associated companies	
	31/3/10	31/3/09	31/3/10	31/3/09
Loans and advances outstanding at beginning of year	2,671	2,734	89,385	82,611
Net loans issued/(repaid) during the year	246	(63)	6,170	6,774
Loans and advances outstanding at end of year	**2,917**	**2,671**	**95,555**	**89,385**
Interest income earned on amounts due from related parties	**210**	**257**	**5,383**	**7,466**

Loans and advances with directors of the Banking Group are made in the ordinary course of business on commercial terms and conditions. Loans and advances with key management personnel of the Banking Group are made either:

- on normal terms and conditions; or
- on terms and conditions which apply to other employees in the Banking Group.

All loans made to key management personnel have been made in accordance with the Banking Group's lending policies.

The loans and advances to associated companies are secured over the assets of the companies, carry variable interest rates and are repayable on demand.

No provisions have been recognised in respect of loans given to related parties. There were no debts with any of the above parties written off or forgiven during the year ended 31 March 2010 (31 March 2009 $nil).

(b) Deposits from related parties

	BANKING GROUP			
	Directors and other key management personnel		Associated companies	
	31/3/10	31/3/09	31/3/10	31/3/09
Deposits at beginning of year	2,633	2,068	-	-
Net deposits received during the year	(1,192)	565	-	-
Deposits at end of year	**1,441**	**2,633**	**-**	**-**
Interest expense on amounts due to related parties	**85**	**170**	**-**	**-**

	PARENT			
	Directors and other key management personnel		Associated companies	
	31/3/10	31/3/09	31/3/10	31/3/09
Deposits at beginning of year	2,323	1,780	2,927	1,256
Net deposits received during the year	(1,070)	543	241	1,671
Deposits at end of year	**1,253**	**2,323**	**3,168**	**2,927**
Interest expense on amounts due to related parties	**69**	**146**	**156**	**169**

The above deposits are unsecured, carry variable interest rates and are repayable on demand.

All in $000's

33 Related Parties continued

(c) Other transactions with related parties

	Associated Companies			
	BANKING GROUP		PARENT	
	31/3/10	31/3/09	31/3/10	31/3/09
Payments received from/(made to) subsidiaries under interest rate swap agreements	-	-	3,473	715
Net current account interest (paid to)/received from subsidiaries and associates	-	-	-	(2)
Net rent paid to subsidiaries	-	-	(451)	(452)
Technology services fees received from subsidiaries	-	-	121	107
Net commission received from subsidiaries	-	-	198	171
Management fees received from subsidiaries	-	-	1,545	835
Dividends received/receivable from subsidiaries	-	-	3,721	5,624
Fees received from subsidiaries	-	-	913	351
	-	**-**	**9,520**	**7,349**

All other transactions with key management personnel are conducted on an arm's length basis in the ordinary course of business and on normal terms and conditions.

During the year ending 31 March 2010, the Parent made subvention payments of $351,707 (31 March 2009 $540,427).

(d) Key management compensation

Details of remuneration paid or payable to the directors and other key management personnel are outlined in Note 5 - Expenses.

34 Accounting Classifications

The table below sets out the Banking Group's classification of each class of financial assets and liabilities.

	BANKING GROUP					
As at 31 March 2010	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Other amortised cost	Total carrying amount
Assets						
Cash on hand and at bank	-	-	26,504	-	-	**26,504**
Funds with financial institutions	-	64,080	-	-	-	**64,080**
Investment securities	1,467	46,015	-	-	-	**47,482**
Derivative financial instruments	506	-	-	-	-	**506**
Advances to customers	250,129	-	2,209,960	-	-	**2,460,089**
	252,102	110,095	2,236,464	-	-	**2,598,661**
Liabilities						
Redeemable shares	-	-	-	-	1,972,008	**1,972,008**
Deposits from customers	-	-	-	-	230,051	**230,051**
Due to other financial institutions	-	-	-	-	30,017	**30,017**
Derivative financial instruments	13,009	-	-	-	-	**13,009**
Other borrowings	-	-	-	-	128,574	**128,574**
Subordinated redeemable shares	-	-	-	-	59,307	**59,307**
	13,009	-	-	-	2,419,957	**2,432,966**

All in $000's

34 Accounting Classifications continued

PARENT

As at 31 March 2010	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Other amortised cost	Total carrying amount
Assets						
Cash on hand and at bank	-	-	17,676	-	-	**17,676**
Funds with financial institutions	-	60,028	-	-	-	**60,028**
Investment securities	-	44,978	-	-	-	**44,978**
Derivative financial instruments	1,572	-	-	-	-	**1,572**
Advances to customers	250,129	-	2,022,455	-	-	**2,272,584**
Loans to subsidiaries and associates	-	-	95,555	-	-	**95,555**
	251,701	105,006	2,135,686	-	-	**2,492,393**
Liabilities						
Redeemable shares	-	-	-	-	1,975,177	**1,975,177**
Deposits from customers	-	-	-	-	230,051	**230,051**
Due to other financial institutions	-	-	-	-	30,017	**30,017**
Derivative financial instruments	13,017	-	-	-	-	**13,017**
Other borrowings	-	-	-	-	53,802	**53,802**
Subordinated redeemable shares	-	-	-	-	59,307	**59,307**
	13,017	-	-	-	2,348,354	**2,361,371**

BANKING GROUP

As at 31 March 2009	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Other amortised cost	Total carrying amount
Assets						
Cash on hand and at bank	-	-	23,164	-	-	**23,164**
Funds with financial institutions	-	76,777	-	-	-	**76,777**
Investment securities	1,090	1,331	-	-	-	**2,421**
Derivative financial instruments	732	-	-	-	-	**732**
Advances to customers	521,381	-	1,882,528	-	-	**2,403,909**
	523,203	78,108	1,905,692	-	-	**2,507,003**
Liabilities						
Redeemable shares	-	-	-	-	1,851,828	**1,851,828**
Deposits from customers	-	-	-	-	234,475	**234,475**
Due to other financial institutions	-	-	-	-	17,002	**17,002**
Derivative financial instruments	34,500	-	-	-	-	**34,500**
Other borrowings	-	-	-	-	173,811	**173,811**
Subordinated redeemable shares	-	-	-	-	42,226	**42,226**
	34,500	-	-	-	2,319,342	**2,353,842**

All in $000's

34 Accounting Classifications continued

	PARENT					
As at 31 March 2009	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Other amortised cost	Total carrying amount
Assets						
Cash on hand and at bank	-	-	16,075	-	-	**16,075**
Funds with financial institutions	-	73,773	-	-	-	**73,773**
Investment securities	-	404	-	-	-	**404**
Derivative financial instruments	3,848	-	-	-	-	**3,848**
Advances to customers	521,381	-	1,681,100	-	-	**2,202,481**
Loans to subsidiaries and associates	-	-	89,385	-	-	**89,385**
	525,229	74,177	1,786,560	-	-	**2,385,966**
Liabilities						
Redeemable shares	-	-	-	-	1,854,755	**1,854,755**
Deposits from customers	-	-	-	-	234,475	**234,475**
Due to other financial institutions	-	-	-	-	17,002	**17,002**
Derivative financial instruments	34,510	-	-	-	-	**34,510**
Other borrowings	-	-	-	-	68,958	**68,958**
Subordinated redeemable shares	-	-	-	-	42,226	**42,226**
	34,510	-	-	-	2,217,416	**2,251,926**

35 Interest Earning Assets and Interest Bearing Liabilities

	BANKING GROUP		PARENT	
	31/3/10	**31/3/09**	**31/3/10**	**31/3/09**
Total interest earning and discount bearing assets	2,598,155	2,506,271	2,490,821	2,282,118
Total interest and discount bearing liabilities	2,419,957	2,319,342	2,348,354	2,217,416

36 Fiduciary Activities

Funds management

The Banking Group markets and manages unit trusts, investment and superannuation funds through its subsidiary Funds Administration New Zealand Limited ('FANZ'). FANZ is a registered unit trust manager, an approved KiwiSaver provider and also operates a financial advisory business providing custodial services, investment advice and portfolio management called SBS Financial Advisers. The Banking Group derives fee and commission income from these activities but is not responsible for any decline in performance of the underlying assets of the investors due to market forces.

SBS has entered into a trust deed made between SBS and Trustees Executors Limited, as Trustee of a registered superannuation scheme known as the Lifestages Superannuation Scheme (previously known as Lifestages Capital Stable Portfolio). Under a Deed of Novation dated 31 March 2007 SBS novated its rights and obligations under this Trust Deed to FANZ. From this date FANZ is the founder and promoter of the Lifestages Superannuation Scheme. The trust deed was effective from the 1st day of April 1992. Under the Deed of Guarantee executed on the 26th day of March 1992, SBS unconditionally guarantees the capital invested in the Lifestages Superannuation Scheme providing investment is maintained for at least three years. A Deed of Amendment dated 31 March 2007 amended the terms of this guarantee provided by SBS, such that the guarantee will now only be applicable to members who joined the registered superannuation scheme prior to 31 May 2007. The liability of SBS under the guarantee has not been taken over by FANZ under the Deed of Novation and SBS remains liable under this guarantee. A minimum of 80% of the funds invested in the Lifestages Superannuation Scheme are reinvested with SBS.

The outstanding value of assets related to funds management activities is set out in the table below. These assets are not owned by the Banking Group and are therefore not included on the Banking Group's statement of financial position.

	31/3/10	**31/3/09**
Funds under management on behalf of customers	298,300	284,100

36 Fiduciary Activities continued

Securitised assets

As at 31 March 2010, the Banking Group had securitised assets amounting to $367 million (31 March 2009 $289 million). These assets have been sold to the Lifestages Mortgage Portfolio (a unit trust managed by Funds Administration New Zealand Limited, a subsidiary of the Bank), the SBS Invercargill W Trust (a special purpose vehicle established for the purpose of purchasing residential mortgages from the Bank and funded through wholesale funding lines), the SBS Oreti Trust No. 1 (a special purpose vehicle investing in residential mortgages originated by the Bank and funded by institutional investors in New Zealand & Australia), and the SBS Oreti Trust No. 2 (a special purpose vehicle investing in residential mortgages originated and funded by the Bank through issue of residential mortgage backed securities). Note 14 provides further information on securitised assets. The Banking Group receives fees for various services provided to the securitisation vehicles on an arm's length basis, including servicing fees. These fees are recognised as earned. All securitisation vehicles form part of the Banking Group.

In May 2008, the RBNZ expanded the range of acceptable collateral that financial institutions can pledge and borrow against as part of changes to its liquidity management arrangement designed to ensure adequate liquidity for New Zealand financial institutions in the event that global market disruptions were to intensify. From 31 July 2008, acceptable collateral includes residential mortgage backed securities 'RMBS' that satisfy RBNZ criteria. During the year ended 31 March 2009, the Banking Group established the SBS Oreti Trust No. 2, an in-house facility that could issue securities meeting the RBNZ criteria. This facility has increased the Bank's contingent funding ability from the RBNZ. Further information on liquidity is provided in Note 28.

Insurance business

The Banking Group markets and distributes insurance products through subsidiary company Southsure Assurance Limited. The Banking Group derives commission income from the sale of insurance products.

The total assets of Southsure Assurance Limited as at 31 March 2010 are $8.2 million (31 March 2009 $7.1 million) which is 0.3% of the total assets of the Banking Group (31 March 2009 0.3%). This complies with the Conditions of Registration of Southland Building Society, which allows a maximum of 1% of the total consolidated assets of the Banking Group to be represented by insurance business assets.

Policies and procedures exist to ensure that the insurance activities of the Banking Group are conducted in an appropriate manner. These include regular reviews of the operations of the insurance business by management. Should adverse conditions arise, these policies and procedures are expected to mitigate the impact of the conditions on the Banking Group.

Risk management

The Banking Group has in place policies and procedures to ensure that the fiduciary activities identified above are conducted in an appropriate manner. It is considered that these policies and procedures will ensure that any difficulties arising from these activities will not impact adversely on the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and internal auditors. Further information on SBS risk management policies and practices is included in notes 3 and 28 to 30.

Provision of financial services

Financial services provided by the Banking Group to entities which are involved in trust, custodial, funds management and other fiduciary activities, are provided on arm's length terms and conditions and at fair value. Any assets purchased from such entities have been purchased on an arm's length basis and at fair value.

The Banking Group has not provided any funding to individual unit trusts which the Banking Group distributes on behalf of third parties. All entities involved in securitisation and insurance activities are members of the Banking Group.

37 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.

Audit Report to the Members of Southland Building Society

We have audited the financial statements on pages 10 to 63 prepared and disclosed in accordance with Clause 22 of the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (the 'Order') and the supplementary information prescribed in Schedules 3 to 9 of the Order and reviewed the supplemental information in respect of Schedule 5A. The financial statements, and supplementary information, provide information about the past financial performance and cash flows of Southland Building Society (the 'Bank') and its subsidiary companies (the 'Banking Group') and their financial position as at 31 March 2010. This information is stated in accordance with the accounting policies set out on pages 14 to 20.

Directors' responsibilities

The Directors of Southland Building Society are responsible for the preparation and presentation of financial statements in accordance with Clause 22 of the Order which give a true and fair view of the financial position of the Bank and Banking Group as at 31 March 2010 and the financial performance and cash flows for the year ended on that date.

They are also responsible for the preparation of supplementary information which gives a fair view, in accordance with the Order, of the matters to which it relates; and complies with Schedules 3 to 9 of the Order.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements, including the supplementary information disclosed in accordance with Schedules 4, 6 to 9, and Clause 17 of Schedule 3 and presented to us by the Directors and report our opinion to you in accordance with Clause 19 of the Order.

It is also our responsibility to express an independent opinion on the supplementary information in respect to capital adequacy as required by Schedule 5A of the Order in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the information disclosed in accordance with Schedule 5A is not in all material respects prepared in accordance with the Bank's Conditions of Registration and disclosed in accordance with Schedule 5A and for reporting our findings to you.

Basis of opinion

Audit of the financial statements and supplementary information

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements and supplementary information. It also includes assessing:

- the significant estimates and judgments made by the Directors in the preparation of the financial statements and supplementary information; and
- whether the accounting policies are appropriate to the Bank's and Banking Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We conducted our audit of the supplementary information (excluding capital adequacy disclosures required under Schedule 5A) in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the supplementary information that is required to be disclosed under Schedules 4, 6 to 9, and Clause 17 of Schedule 3 (as applicable) fairly states the matters to which it relates in accordance with those schedules. In forming our opinion we also evaluated the overall adequacy of the presentation of the supplementary information.

Review of capital adequacy

We conducted our review of the supplementary information relating to capital adequacy disclosures in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. A review is limited primarily to enquiries of the Bank and the Banking Group personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed audit procedures in respect of the capital adequacy disclosures and accordingly, we do not express an audit opinion in relation to the capital adequacy disclosures. The Review Engagement Standards require that we plan and perform our review to obtain moderate assurance as to whether the capital adequacy disclosures are free of material misstatement, whether caused by fraud or error. We also evaluated the overall adequacy of the presentation of supplementary information relating to capital adequacy disclosures.

Our firm has also provided audit related services to the Bank and Banking Group. Partners and employees of our firm may also deal with the Bank and Banking Group on normal terms within the ordinary course of trading activities of the business of the Bank and Banking Group. There are, however, certain restrictions on borrowings which the partners and employees of our firm can have with the Bank and Banking Group. These matters have not impaired our independence as auditors of the Bank and Banking Group. The firm has no other relationship with, or interest in, the Bank and Banking Group.

Unqualified opinion

Audit opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Bank as far as appears from our examination of those records;
- the financial statements on pages 10 to 63 (excluding the supplementary information included in Notes 29, 31, 35, and 36):
  - comply with New Zealand generally accepted accounting practice; and
  - give a true and fair view of the balance sheets of the Bank and Banking Group as at 31 March 2010 and the results of their operations and cash flows for the year ended on that date;
- the supplementary information included within the financial statements has been prepared in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any Conditions of Registration, and is in accordance with the books and records of the Bank and Banking Group;
- the supplementary information disclosed Notes 29, 35 and 36 prescribed by Schedules 4, 6 to 9 and Clause 17 of Schedule 3 fairly states the matters to which it relates in accordance with those Schedules;

Review Opinion

- nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy, disclosed in Note 31 of the financial statements, as required by Schedule 5A of the Order, derived from the Registered Bank's financial statements and sources other than the Banks' accounting records, is not in all material respects derived in accordance with the Bank's Conditions of Registration, with the Reserve Bank of New Zealand document Capital Adequacy Framework (standardised approach) (BS2A), and disclosed in accordance with Schedule 5A of the Order.

Our audit and review was completed on 8 June 2010 and our unqualified opinion is expressed as at that date.

KPMG

Wellington

OUR PEOPLE MAKE THE DIFFERENCE

SBS | Bank