Southland Building Society

145th Annual Report 2014

Disclosure Statement No. 24 & Annual Financial Statements

Southland
Otago
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Marlborough
Nelson
Wellington
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Waikato
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At your service

SBS Bank

CONTENTS

Chairman

Mr J F Ward
B Com FCA FInstD
Chartered Accountant
Invercargill

Deputy Chairman

Mr J B Walker
LLB
Barrister & Solicitor
Invercargill

Directors

Mrs K J Ball
B Com FCA
Chartered Accountant
Invercargill

Mr G J Mulvey
B Com FCA FNZIM
General Manager
Invercargill

Mr J J Grant
Farmer/Company Director
Balfour

Mr F E Spencer
BBS (Val & Pty Mgt)
FNZIV FPINZ AREINZ
Registered Valuer
Hastings

Mr A G Neill
LLB
Solicitor
Christchurch

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 FCA DipBusStuds (IS)
(General Manager Finance)
Invercargill

Registered Office

51 Don Street
Invercargill

Solicitors

Buddle Findlay
83 Victoria Street
Christchurch

Auditors

KPMG
10 Customhouse Quay
Wellington

Disclosure Statement for the year ended 31 March 2014

General Information

Southland Building Society (SBS) is registered as a bank under the Reserve Bank of New Zealand Act 1989, and is required to comply with the conditions of registration as laid down by the Reserve Bank of New Zealand. Southland Building Society operates under two brands "SBS Bank" and "HBS Bank".

This Disclosure Statement has been issued by Southland Building Society in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (the 'Order').

Words and phrases defined by the Order have the same meanings when used in this 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

As at the signing date of this Disclosure Statement, the material obligations of the Bank are not guaranteed.

Pending Proceedings or Arbitration

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

JF (John) Ward, BCom FCA FInstD
(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, Outdoor World Ltd, Shotover Hardware 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, Hokonui Investments Ltd, Parthenon 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, Auckland Bridge Adventures Ltd, Passage Holdings Ltd, Auckland Bridge Climb Ltd, KBA Limited, Zephyr NZ Ltd, Aviemore Corporation Ltd, H.A.T. Ltd, H.A.T. 2 Ltd, University of Otago Holdings Ltd, Otago Innovation Ltd, Custos Securities Ltd

JB (Jeff) Walker, LLB
(Deputy Chairman - Board of Directors)
Barrister & Solicitor

External Directorships: Rough Gully Company Ltd, Rakiura Shipping Ltd, Craig Printing Co Ltd (In Rec), Cargill Trustees Ltd, Manchester Enterprises Ltd

Directorate continued

KJ (Kathryn) Ball, BCom FCA Chartered Accountant	External Directorships: McIntyre Dick & Partners Ltd, 143 Spey Ltd, 142 Spey Ltd
GJ (Greg) Mulvey, BCom FCA FNZIM General Manager	External Directorships: DB South Island Brewery Ltd
JJ (Jeff) Grant Farmer / Company Director	External Directorships: Milford Sound Development Authority Ltd, National Animal Identification and Tracing (NAIT) Ltd, Copper Valley Holdings Ltd, Mount Linton Station Ltd, Tbfree New Zealand Ltd, Ospri New Zealand Ltd
FE (Frank) Spencer, BBS (Val & Pty Mgt) FNZIV FPINZ AREINZ Registered valuer	External Directorships: Verdure Ltd, Apex Data Solutions Ltd, Crighton Stone Ltd, Logan Stone Ltd
AG (Alec) Neill, LLB Solicitor	External Directorships: Hyde Park Exports & Investments Ltd, Hyde Park Industrial Developments Ltd, Cubic Solutions Ltd, Hyde Park Australasia Property Developments Pty Ltd

Executive Directors

RL (Ross) Smith, BCom FNZIM Group Managing Director / CEO Southland Building Society	External Directorships: Electricity Invercargill Ltd, Electricity Southland Ltd, Peak Power Services Ltd, Powernet Ltd, Pylon Ltd

Audit & Risk Committee

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

KJ Ball (Chairperson) - Independent Non-Executive Director
JF Ward - Independent Non-Executive Director
GJ Mulvey - Independent Non-Executive Director
JJ Grant - 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	Auditors
Buddle Findlay 83 Victoria Street Christchurch	KPMG 10 Customhouse Quay Wellington

Disclosure Statement for the year ended 31 March 2014

Credit Rating

As at 31 March 2014, and for the period to the date of this 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 21 August 2013. There have been no changes made to the rating in the two years preceding 31 March 2014. 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 following conditions of registration have been 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. These conditions of registration have applied from 30 March 2014.

The registration of Society Building Society ("the bank") as a registered bank is subject to the following conditions:

1. That -
   (a) the Total capital ratio of the banking group is not less than 8 percent;
   (b) the Tier 1 capital ratio of the banking group is not less than 6 percent;
   (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5 percent;
   (d) the Total capital of the banking group is not less than $30 million; and
   (e) the process in Subpart 2H of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated September 2013 is followed for the recognition and repayment of capital.

   For the purposes of this condition of registration, capital, the Total capital ratio, the Tier 1 capital ratio, and the Common Equity Tier 1 capital ratio must be calculated in accordance with the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated September 2013.

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 the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated September 2013; and
   (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:
   (a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the bank's earnings
0% - 0.625%	0%
>0.625% - 1.25%	20%
>1.25% - 1.875%	40%
>1.875% - 2.5%	60%

Conditions of Registration continued

(b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
(c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration, -

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated September 2013.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities. In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.
For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:
(a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity and;
(b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the banking group's insurance business -
(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration, -

"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance;
"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

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 of the Bank[1]	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

[1] This table uses the rating scales of Standard and Poors, Fitch Ratings and Moody's Investor Service. (Fitch Ratings' scale is identical to Standard and Poors).

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 September 2013.

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 bank complies with the following corporate governance requirements:
(a) the board of the bank must have at least five directors;
(b) the majority of the board members must be non-executive directors;
(c) at least half of the board members must be independent directors;
(d) an alternate director,-
  (i) for a non-executive director must be non-executive; and
  (ii) for an independent director must be independent;
(e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
(f) the chairperson of the board of the bank must be independent; and
(g) the bank's rules must 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).

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011.

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

Conditions of Registration continued

8. That a person must not be appointed as chairperson of the board of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank document entitled "Corporate Governance" (BS14) dated March 2011.

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:
    (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; and
    (c) the one-year core funding ratio of the banking group is not less than 75 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 2011 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

12. That the bank has an internal framework for liquidity risk management that is adequate in the 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 responsibility for managing liquidity and liquidity risk;
    (b) identifies responsibility 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.

13. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition -
    "total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets

    "SPV" means a person -
    (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
    (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
    (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

    "covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

14. That -
    (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
    (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
        (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

    For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

15. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can-
    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager-
        (i) all liabilities are frozen in full; and
        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
    (b) apply a *de minimis* to relevant customer liability accounts;
    (c) apply a partial freeze to the customer liability account balances;
    (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
    (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
    (f) reinstate customers' access to some or all of their residual frozen funds.

Conditions of Registration continued

For the purposes of this condition of registration, "*de minimis*", "partial freeze", "customer liability account", "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS 17) dated September 2013.

16. That the bank has an Implementation Plan that-
    (a) is up-to-date; and
    (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS 17).

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS 17) dated September 2013.

17. That the bank has a compendium of liabilities that-
    (a) at the product-class level lists all liabilities, indicating which are-
        (i) pre-positioned for Open Bank Resolution; and
        (ii) not pre-positioned for Open Bank Resolution;
    (b) is agreed to by the Reserve Bank; and
    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

18. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS 17) dated September 2013.

19. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amounts must not for residential properties with a loan-to-valuation ratio of more than 80%, exceed 10% of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period.

20. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

21. That the bank must not permit a borrower to grant a charge in favour of another person over a residential property used as security for a residential mortgage loan unless the sum of the lending secured by the charge and the loan value for the residential mortgage loan would not exceed 80% of the property value of the residential property when the lending secured by the charge is drawn down.

22. That the bank must not provide a residential mortgage loan if the residential property to be mortgaged to the bank as security for the residential mortgage loan is subject to a charge in favour of another person unless the total amount of credit secured by the residential property would not exceed 80% of the property value when the residential mortgage loan is drawn down.

23. That the bank must not act as broker or arrange for a member of its banking group to provide a residential mortgage loan.

    In these conditions of registration,-
    "banking group" -
    (a) means Southland Building Society (as reporting entity) and all other entities included in the group as defined in section 5(1) of the Financial Reporting Act 2013 (unless paragraph (b) applies); or
    (b) means Southland Building Society's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993) if the Financial Reporting Act 1993 applies to the bank:

    "generally accepted accounting practice" -
    (a) has the same meaning as in section 8 of the Financial Reporting Act 2013 (unless paragraph (b) applies); or
    (b) means generally accepted accounting practice within the meaning of section 3 of the Financial Reporting Act 1993 if the bank is required to prepare financial statements in accordance with that practice.

    In conditions of registration 19 to 23, -
    "loan-to-valuation ratio", "loan value", "property value", "qualifying new mortgage lending amount" and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated March 2014:

    "loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of March 2014.

Changes in Conditions of Registration

There have been no significant changes in the Bank's conditions of registration during the period since the signing of the previous Disclosure Statement. However, there were minor changes to the conditions of registration to reference the Financial Reporting Act 2013 and to update conditions 19 to 23 to reference the latest version of the Reserve Bank of New Zealand document "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated March 2014.

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 Disclosure Statement is signed:
   (a) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014; and
   (b) the Disclosure Statement is not false or misleading;
2. Each director of the Bank believes, after due enquiry, that during the year ending 31 March 2014:
   (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 3 June 2014 and has been signed by or on behalf of all the directors.

JF Ward
(Chairman)

JB Walker
(Deputy Chairman)

RL Smith
(Group Managing Director / Chief Executive Officer)

KJ Ball

GJ Mulvey

JJ Grant

FE Spencer

AG Neill

Historical Summary of Financial Statements

All in $000's

Income Statements

	BANKING GROUP				
	Year ended 31 Mar 2014	Year ended 31 Mar 2013	Year ended 31 Mar 2012	Year ended 31 Mar 2011	Year ended 31 Mar 2010
Interest income	169,936	176,928	185,200	182,286	172,040
Interest expense	11,524	11,497	13,518	16,037	16,897
Dividends on redeemable shares	88,970	93,991	101,726	102,565	95,598
	100,494	105,488	115,244	118,602	112,495
Net interest income	**69,442**	**71,440**	**69,956**	**63,684**	**59,545**
Other income	21,368	20,114	18,611	18,235	18,629
Total operating income	**90,810**	**91,554**	**88,567**	**81,919**	**78,174**
Operating expenses	58,237	53,343	48,928	47,554	43,068
Provision for credit impairment	10,529	17,304	21,983	17,057	15,727
Operating surplus	**22,044**	**20,907**	**17,656**	**17,308**	**19,379**
Net gain/(loss) from financial instruments designated at fair value	(706)	(1,078)	(588)	5,117	980
Revaluation of property	46	(46)	-	-	200
Revaluation of investment properties	(200)	(61)	-	(88)	-
Surplus before income tax	**21,184**	**19,722**	**17,068**	**22,337**	**20,559**
Less income taxation expense	5,545	5,383	5,303	8,087	5,522
Net surplus	**15,639**	**14,339**	**11,765**	**14,250**	**15,037**
Attributable to:					
Members' interests	13,915	11,733	9,220	11,761	12,723
Non-controlling interests	1,724	2,606	2,545	2,489	2,314
	15,639	**14,339**	**11,765**	**14,250**	**15,037**

Significant Statement of Financial Position Items

	BANKING GROUP				
	As at 31 Mar 2014	As at 31 Mar 2013	As at 31 Mar 2012	As at 31 Mar 2011	As at 31 Mar 2010
Total assets	2,787,776	2,829,669	2,841,896	2,813,833	2,627,905
Individually impaired assets	20,247	23,758	41,210	38,342	29,907
Total liabilities	2,553,563	2,598,079	2,626,535	2,611,793	2,450,241
Equity	234,213	231,590	215,361	202,040	177,664
Regulatory capital					
Tier one capital	218,418	221,981	215,088	205,191	176,797
Total capital	223,367	238,724	246,562	247,803	228,334
Tier one capital expressed as a percentage of total risk weighted assets	13.39%	13.34%	12.52%	11.26%	10.34%
Total capital expressed as a percentage of total risk weighted assets	13.69%	14.34%	14.35%	13.60%	13.35%

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

The Banking Group adopted the Basel III "standardised approach" to calculate regulatory capital requirements from 1 January 2013. Prior comparative periods were calculated under the Basel II methodology.

CONTENTS

Income Statements for the year ended 31 March 2014

All in $000's

	Note	BANKING GROUP		PARENT	
		31/3/14	31/3/13	31/3/14	31/3/13
Interest income	(4)	169,936	176,928	150,498	157,952
Interest expense		11,524	11,497	11,308	10,978
Dividends on redeemable shares		88,970	93,991	89,155	94,159
	(5)	100,494	105,488	100,463	105,137
Net interest income		**69,442**	**71,440**	**50,035**	**52,815**
Other income	(4)	21,368	20,114	4,805	5,385
Total operating income		**90,810**	**91,554**	**54,840**	**58,200**
Operating expenses	(5)	58,237	53,343	40,747	37,340
Provision for credit impairment	(12)	10,529	17,304	5,487	12,977
Operating surplus		**22,044**	**20,907**	**8,606**	**7,883**
Dividends from subsidiaries		-	-	5,726	6,795
Net gain/(loss) from financial instruments designated at fair value	(6)	(706)	(1,078)	(687)	(1,197)
Revaluation of property		46	(46)	-	-
Revaluation of investment properties		(200)	(61)	(200)	(61)
Surplus before income tax		**21,184**	**19,722**	**13,445**	**13,420**
Less income tax expense	(7)	5,545	5,383	2,254	1,855
Net surplus		**15,639**	**14,339**	**11,191**	**11,565**
Attributable to:					
Members' interests		13,915	11,733	11,191	11,565
Non-controlling interests		1,724	2,606	-	-
		15,639	**14,339**	**11,191**	**11,565**

Statements of Comprehensive Income for the year ended 31 March 2014

All in $000's

	Note	BANKING GROUP		PARENT	
		31/3/14	31/3/13	31/3/14	31/3/13
Net surplus for the year		15,639	14,339	11,191	11,565
Items that may not be reclassified subsequently to profit or loss					
Net change in property, plant and equipment reserve, net of tax		351	(371)	147	111
Items that may be reclassified subsequently to profit or loss					
Net change in available for sale asset reserve, net of tax		(4,724)	2,584	(4,785)	2,480
Net change in cash flow hedging reserve, net of tax		10,579	2,641	10,164	2,258
Other comprehensive income for the year, net of tax		6,206	4,854	5,526	4,849
Total comprehensive income for the year		**21,845**	**19,193**	**16,717**	**16,414**
Attributable to:					
Members' interests		20,046	16,457	16,717	16,414
Non-controlling interests		1,799	2,736	-	-
		21,845	**19,193**	**16,717**	**16,414**

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 2014

All in $000's

	Note	BANKING GROUP		PARENT	
		31/3/14	31/3/13	31/3/14	31/3/13
Revaluation reserve - property, plant and equipment					
Balance at beginning of the year		454	825	454	343
Other comprehensive income for the year		351	(371)	147	111
Balance at end of the year		805	454	601	454
Revaluation reserve - available for sale assets					
Balance at beginning of the year		4,803	2,240	4,780	2,300
Other comprehensive income for the year		(4,736)	2,563	(4,785)	2,480
Balance at end of the year		67	4,803	(5)	4,780
Revaluation reserve - cash flow hedging					
Balance at beginning of the year		(2,726)	(5,258)	(2,641)	(4,899)
Other comprehensive income for the year		10,517	2,532	10,164	2,258
Acquisition of non-controlling interests		(16)	-	-	-
Balance at end of the year		7,775	(2,726)	7,523	(2,641)
Retained earnings					
Balance at beginning of the year		222,400	210,667	207,710	196,145
Net surplus for the year		13,915	11,733	11,191	11,565
Acquisition of non-controlling interests		(14,875)	-	-	-
Non-controlling interests present value adjustment		(304)	-	-	-
Balance at end of the year		221,136	222,400	218,901	207,710
Total equity attributable to members' interests		**229,783**	**224,931**	**227,020**	**210,303**
Non-controlling interests					
Balance at beginning of the year		6,659	6,887	-	-
Net surplus for the year		1,724	2,606	-	-
Other comprehensive income for the year		74	130	-	-
Dividends		(1,334)	(2,964)	-	-
Change in capital of non-controlling interests		(2,693)	-	-	-
Balance at end of the year		4,430	6,659	-	-
Total equity at end of the year		**234,213**	**231,590**	**227,020**	**210,303**
Represented by:					
Equity at beginning of the year		231,590	215,361	210,303	193,889
Net surplus for the year		15,639	14,339	11,191	11,565
Other comprehensive income for the year		6,206	4,854	5,526	4,849
Total comprehensive income for the year		21,845	19,193	16,717	16,414
Dividends		(1,334)	(2,964)	-	-
Change in capital of non-controlling interests		(17,888)	-	-	-
Total equity at end of the year	(22)	**234,213**	**231,590**	**227,020**	**210,303**

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 2014

All in $000's

	Note	BANKING GROUP		PARENT	
		31/3/14	31/3/13	31/3/14	31/3/13
Assets					
Cash on hand and at bank		17,714	21,801	14,912	18,790
Funds with financial institutions	(8)	92,710	144,490	83,764	137,241
Investment securities	(9)	358,685	400,233	356,890	397,595
Derivative financial instruments	(10)	9,589	2,396	9,589	2,614
Current tax assets		1,659	1,604	2,748	2,641
Advances to customers	(11)	2,278,436	2,225,753	2,162,695	2,116,771
Loans to subsidiaries	(15)	-	-	95,300	87,808
Investments in subsidiaries	(15)	-	-	25,917	15,180
Other assets	(16)	1,991	2,454	1,182	2,025
Investment properties		3,130	3,330	3,130	3,330
Property, plant and equipment	(17)	19,082	19,004	8,937	9,208
Goodwill and intangible assets	(18)	3,993	3,320	2,419	1,738
Deferred tax	(19)	787	5,284	2,563	6,975
		2,787,776	**2,829,669**	**2,770,046**	**2,801,916**
Liabilities					
Redeemable shares	(24)	2,248,755	2,180,292	2,255,552	2,185,716
Deposits from customers	(24)	209,552	251,099	209,552	251,099
Due to other financial institutions	(24)	50,178	80,295	50,178	80,295
Derivative financial instruments	(10)	1,194	6,617	1,587	6,617
Other liabilities	(20)	24,877	18,544	7,150	6,654
Subordinated redeemable shares	(21)	19,007	61,232	19,007	61,232
		2,553,563	**2,598,079**	**2,543,026**	**2,591,613**
Net assets		**234,213**	**231,590**	**227,020**	**210,303**
Equity	(22)				
Reserves		8,647	2,531	8,119	2,593
Retained earnings		221,136	222,400	218,901	207,710
Attributable to members of the society		229,783	224,931	227,020	210,303
Attributable to non-controlling interests		4,430	6,659	-	-
		234,213	**231,590**	**227,020**	**210,303**
Total interest earning and discount bearing assets		2,747,545	2,792,277	2,713,561	2,758,205
Total interest and discount bearing liabilities		2,527,492	2,572,918	2,534,289	2,578,342

For and on behalf of the Board of Directors:

Chairman
JF Ward

Director
KJ Ball

3 June 2014

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

Statements of Cash Flows for the year ended 31 March 2014

All in $000's

	Note	BANKING GROUP		PARENT	
		31/3/14	31/3/13	31/3/14	31/3/13
Cash flows from operating activities					
Interest received		169,619	173,108	153,670	157,027
Fees and other income		27,689	25,770	5,541	6,258
Dividends received		81	74	6,076	8,947
Interest paid		(11,862)	(11,302)	(11,646)	(10,783)
Dividends paid on redeemable shares		(91,155)	(91,583)	(91,339)	(91,744)
Operating expenses		(59,011)	(48,765)	(39,507)	(35,020)
Income taxes received/(paid)		(3,512)	(6,592)	-	(2,996)
Net cash flows from operating activities before changes in operating assets and liabilities		31,849	40,710	22,795	31,689
Net changes in operating assets and liabilities					
Change in advances		(62,161)	182,018	(50,086)	131,984
Change in shares and deposits from customers		28,999	(59,241)	30,371	(58,557)
Change in amounts due to other financial institutions		(30,000)	80,000	(30,000)	80,000
Change in other borrowings		-	(52,092)	-	-
Change in subordinated redeemable shares		(41,902)	-	(41,902)	-
Net cash flows provided by/(used in) operating activities	(23)	**(73,215)**	**191,395**	**(68,822)**	**185,116**
Cash flows from investing activities					
Change in investment securities		34,255	(129,310)	33,355	(129,675)
Change in loans to subsidiaries		-	-	(7,492)	2,063
Proceeds of property, plant and equipment		173	46	94	40
Purchase of property, plant and equipment		(2,140)	(3,200)	(1,561)	(2,779)
Purchase of intangible assets		(1,964)	(1,817)	(1,550)	(1,386)
Investment in subsidiaries		-	-	(10,737)	-
Net cash flows provided by/(used in) investing activities		**30,324**	**(134,281)**	**12,109**	**(131,737)**
Cash flows from financing activities					
Dividends paid to non-controlling interests		(1,599)	(3,697)	-	-
Acquisition of non-controlling interests		(10,737)	-	-	-
Net cash flows provided by/(used in) financing activities		**(12,336)**	**(3,697)**	**-**	**-**
Net increase/(decrease) in cash held		(55,227)	53,417	(56,713)	53,379
Add opening cash and cash equivalents		164,986	111,569	154,792	101,413
Closing cash and cash equivalents		**109,759**	**164,986**	**98,079**	**154,792**
Reconciliation of cash and cash equivalents					
Cash on hand and at bank		17,714	21,801	14,912	18,790
Funds with financial institutions	(8)	92,710	144,490	83,764	137,241
Interest accrued on available for sale assets		(665)	(1,305)	(597)	(1,239)
		109,759	**164,986**	**98,079**	**154,792**

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 is registered as a bank under the Reserve Bank of New Zealand Act 1989. 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 (New Zealand Incorporated Registered Banks) Order 2014. The financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

These financial statements were authorised for issue by the Board of Directors on 3 June 2014.

(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 does not currently intend to apply any of these pronouncements until their effective date and is assessing their impact on its financial statements.

- Amendments to NZ IAS 32 Financial Instruments: Presentation - will apply to the Banking Group from 1 April 2014.
- Amendments to NZ IAS 39 Financial Instruments Recognition and Measurement - will apply to the Banking Group from 1 April 2015.
- 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 2018.

(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 or 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 (85% owned subsidiary) - consumer credit and commercial finance;
- Funds Administration New Zealand Limited (85% 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; and
- SBS Oreti Trust No 2 (in substance subsidiary) - special purpose vehicle holding securitised loans purchased from SBS.

Subsidiaries

Subsidiaries are those entities over which the Banking Group has the power, exposure or rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power.

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.

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are recorded through equity to reflect a transaction amongst shareholders.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

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.

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 is 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 is 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 is 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, on its statement of financial position, loans and receivables, deposits and redeemable shares at origination date and all other financial assets and liabilities at trade date.

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 are 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 and credit 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

1 Statement of Accounting Policies continued

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, and derivative financial instruments which are not designated as a cash flow hedge.

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.

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 using the effective interest rate method. 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

1 Statement of Accounting Policies continued

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.

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 and where recovery is doubtful;
- advances and loans which are past due with insufficient security to cover principal and arrears of interest;
- 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 characteristics 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.

1 Statement of Accounting Policies continued

(r) Investment Properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or both. Investment properties are acquired through the enforcement of security over advances and loans.

Investment properties are measured initially at cost, including transaction costs.

After initial recognition, investment properties are measured annually at fair value by an independent valuer. The fair values are based on market values, being the estimated amount for which a property could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.

Any gain or loss arising from a change in fair value is recognised in the income statement. There is no depreciation on investment properties.

Rental income from investment properties is accounted for as described in the accounting policy for operating leases.

(s) 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.

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 asset's 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.

(t) 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 acquisition. 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.

1 Statement of Accounting Policies continued

(u) 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.

(v) 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.

(w) 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 or investment properties.

(x) Income Tax

Income Tax Expense

Income tax expense 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 or 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.

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.

(y) 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.

(z) 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.

(aa) Offsetting of Assets and Liabilities

Assets and liabilities 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.

1 Statement of Accounting Policies continued

(ab) 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.

(ac) 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.

(ad) 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.

(ae) 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 majority 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 statements of financial position as deposits. FANZ is the investment and administration manager of the Lifestages Superannuation Scheme. The Lifestages Superannuation Scheme was wound up on 28 February 2014.

(af) Lifestages Portfolio Funds

FANZ has entered into a trust deed made between FANZ and Trustee Executors Limited as Trustee of six unit trusts registered under the Unit Trusts Act 1960, known as Lifestages Corporate Bond Portfolio (previously known as the Lifestages Mortgage Distributing Portfolio), Lifestages Income Portfolio (previously known as the Lifestages Mortgage Non-Distributing Portfolio), Lifestages Australasian Equity Portfolio, Lifestages World Equity Portfolio, Lifestages World Bond Portfolio and the Lifestages Deposit Portfolio. FANZ is the issuer and manager of the above Portfolios.

The fixed interest asset allocations of the Lifestages Portfolio funds have investments invested with SBS.

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

(ag) Lifestages KiwiSaver Scheme

The Lifestages KiwiSaver Scheme was established by trust deed on 30 April 2007 and is a registered KiwiSaver scheme under the KiwiSaver Act 2006. SBS is the "Promoter" of the scheme. FANZ is the manager and issuer of the scheme. Trustees Executors is appointed as the administration manager.

The majority of 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 statements of financial position as deposits.

(ah) Loan Securitisation

SBS 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 assets and liabilities 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 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 assets and liabilities 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 and the SBS Oreti Trust No. 2. SBS receives a fee for providing these management services. This fee is recognised when earned.

1 Statement of Accounting Policies continued

(ai) Comparative Data

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

(aj) Changes in Accounting Policies and Application of New Accounting Standards

There have been no changes in accounting policies and all accounting policies adopted are consistent with those used in previous periods. The Banking Group has applied, where relevant, all new or revised NZ IFRS's and NZ IFRS Interpretations applicable to annual reporting periods commencing before 1 April 2013. The initial application of these standards and interpretations has primarily resulted in changes to disclosures with the only impact on the Banking Group financial statements being in relation to the adoption of NZ IFRS 13 - Fair Value Measurement. This standard required the fair value of derivatives to include an adjustment to reflect counterparty credit ratings and resulted in a one-off reduction of $174,000 to the fair value of derivatives as at 31 March 2014. In accordance with NZ IFRS 10 - Consolidated Financial Statements, the Banking Group also reassessed the basis for consolidating its subsidiaries and special purpose entities as of 1 April 2013 taking into account the three elements of control. No changes in the composition of the Banking Group have resulted from this review and the Banking Group continues to consolidate its subsidiaries and special purpose entities in accordance with 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 2014 the Banking Group's total provision for credit impairment was $20.8 million (31 March 2013 $24.3 million) representing 0.9% of total net loans and advances (31 March 2013 1.1%). 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.

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 and lending books.

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.

Securitisation and Special Purpose Entities

The Banking Group has formed 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

2 Critical Estimates and Judgements Used in Applying Accounting Policies continued

whether the Banking Group controls an SPE, it makes judgements 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.

Risk Governance Structure

The Board has responsibility for reviewing all aspects of risk management. The Board receives comprehensive monthly reporting covering each area of risk management 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.

Audit and Risk Committee

The Audit and Risk Committee is a sub committee of the Board and has 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 General Manager Risk & IT are in attendance at meetings. The Audit and Risk Committee meets at least five times a year, and reports directly to the Board.

Lending Committee

The Lending Committee is a sub committee of the Board and has the responsibility of reviewing and approving all lending proposals in excess of $3 million. The committee is made up of the full Board with senior management in attendance as requested. The Lending Committee usually meets at least twice a month.

Asset and Liability Committee (ALCO)

The ALCO has responsibility for the assessment of exposure to treasury counterparty, credit, market, liquidity and interest rate risk. This includes:

- 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;
- reviewing wholesale counterparty credit exposures; and
- monitoring SBS's credit risk position and trends.

The ALCO is made up of members of the senior management team and treasury function. The ALCO usually meets at least twice a month and reports directly to the Board.

Credit Risk Committee (CRC)

The CRC has responsibility for monitoring and reviewing exposure to credit risks in SBS's lending portfolios. This includes:

- monitoring maximum exposure to individual counterparties;
- reviewing the analysis and reporting of individual watch list and impaired loans; and
- review and approval of specific provisioning against impaired loans; and
- monitoring the performance of lending portfolios in relation to excesses and past dues, industry and geographic concentrations.

The CRC is made up of members of the senior management team and credit risk management function. The CRC usually meets monthly and reports to the Board.

Operational Risk Committee (ORC)

The ORC has responsibility for monitoring and reviewing exposure to operational risks arising from SBS's day to day activities. This includes:

- regular measurement, monitoring and reporting of operational risk;
- ensuring appropriate strategies are in place to manage and mitigate operational risks; and
- monitoring compliance with legislative and regulatory obligations.

The ORC is made up of members of the senior management team and the risk function. The ORC usually meets bi-monthly and reports to the Board.

Internal Audit

SBS's internal audit function conducts independent reviews that assist the board of directors and management to meet their statutory and other obligations. The internal audit function has 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.

3 Risk Management Policies continued

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.

IT Committee

The IT Committee has responsibility for monitoring and reviewing exposure to the risks associated with IT, including data security, disaster recovery and business continuity. It also has responsibility for formulating and developing the Banking Group's IT strategy including monitoring and reviewing the impacts resulting from change in the regulatory, business and economic environment and evaluating business cases for technology projects requiring significant investment.

The IT Committee consists of two directors. In addition the Chief Executive Officer and the General Manager Risk & IT are in attendance at meetings. The IT Committee meets quarterly and reports directly to the Board.

Specialist Support Functions

Primary responsibility for the identification, control and mitigation of risk rests with each business unit. Oversight and governance are provided through specialist support functions including Risk, Support, Finance and Treasury. The role of these functional specialists is to maintain and review policies, establish limits which are consistent with the Board's risk appetite, monitor and report on compliance with those limits and generally to provide an oversight role in relation to the management of risk.

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 management involves a thorough evaluation of the credit risk associated with potential borrowers, the taking of security against the loan and close ongoing monitoring of account performance. Loans which show signs of adverse performance are managed by the credit risk management function which is responsible for the collections and recovery process. For wholesale arrangements, credit risk is managed with reference to specific limits as outlined in detailed treasury management policies and reported to the Board on a monthly basis.

Interest Rate Risk Management

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

Liquidity Risk Management

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

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

The Banking Group is subject to RBNZ's liquidity requirements as set out in the RBNZ's "Liquidity Policy" (BS13/BS13A), which took effect from 1 April 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. SBS aims to minimise the impact of operational risks by ensuring the appropriate risk management policies, controls, systems, staff and processes are in place. Where appropriate, risks are mitigated by insurance.

All in $000's

4 Income

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Interest income				
Cash at bank	727	596	657	495
Funds with financial institutions - available for sale	3,915	3,692	3,655	3,466
Investment securities - available for sale	15,298	12,156	15,298	12,118
Investment securities - designated at fair value through profit or loss	133	158	-	-
Derivative financial instruments	(2,467)	(2,872)	(2,136)	(2,085)
Advances to customers - at amortised cost	150,854	159,935	126,330	134,616
Advances to customers - designated at fair value through profit or loss	-	388	-	387
Advances to customers - impaired	1,476	2,875	1,476	2,875
Loans to subsidiaries	-	-	5,218	6,080
	169,936	**176,928**	**150,498**	**157,952**
Other operating income				
Loan fees	713	936	2,243	2,294
Management fees	4,588	4,261	-	257
Other fee and commission income	8,499	8,102	1,936	1,964
Net insurance income	6,138	5,018	-	-
Dividends	81	74	-	-
Sundry income	1,349	1,723	626	870
	21,368	**20,114**	**4,805**	**5,385**

5 Expenses

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Interest expense				
Redeemable shares	85,063	89,762	85,063	89,762
Deposits from customers	9,085	9,805	9,085	9,805
Other financial institutions	4	50	4	50
Subsidiary companies	-	-	183	167
Other borrowings	2,434	1,642	2,220	1,124
Subordinated redeemable shares	3,908	4,229	3,908	4,229
	100,494	**105,488**	**100,463**	**105,137**
Other operating expenses				
Auditors remuneration	316	341	229	232
Computer expenses	3,162	2,552	2,459	1,951
Fees and commissions	5	40	-	18
Fees to directors	578	684	501	638
Marketing	5,945	5,137	3,670	3,465
Personnel	31,905	27,849	22,372	19,193
Actuarial life adjustment	(48)	233	-	-
Amortisation and depreciation	3,720	3,083	2,805	2,167
Rent and leases	2,543	2,535	2,210	2,235
Write off of property, plant and equipment	(14)	259	3	190
Bank charges and funding line fees	2,948	3,229	2,665	2,954
Other expenses	7,177	7,401	3,833	4,297
	58,237	**53,343**	**40,747**	**37,340**

All in $000's

5 Expenses continued

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Amounts received, or due and receivable by the auditors:				
KPMG auditing the financial statements	237	255	173	185
KPMG auditing the interim financial statements	46	45	40	40
KPMG other services[1]	33	41	16	7
	316	**341**	**229**	**232**

[1]Other services includes due diligence assistance on an acquisition and valuation advice.

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Amounts received, or due and receivable by directors:				
JWA Smith (Retired July 2012)	-	250	-	250
JF Ward (Chairman)	127	104	109	93
JB Walker (Deputy Chairman)	81	72	64	60
KJ Ball	68	66	68	66
GJ Mulvey	62	61	50	55
JJ Grant	62	61	50	55
FE Spencer	68	66	50	55
AG Neill (Appointed August 2012)	62	41	62	41
RL Smith[2]	-	-	-	-
	530	**721**	**453**	**675**
Provision for directors retiring allowance	48	(37)	48	(37)
	578	**684**	**501**	**638**

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

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Personnel expenses includes key management personnel compensation which comprised:				
Salaries and short-term employee benefits	4,220	4,094	1,832	1,668
Post-employment benefits	144	139	125	114
Other long term benefits	31	27	31	27
	4,395	**4,260**	**1,988**	**1,809**

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

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Net gain/(loss) arising on:				
Investment securities	(1)	(31)	-	-
Derivative financial instruments	(592)	(750)	(574)	(900)
Hedge ineffectiveness on cash flow hedging	(10)	(19)	(10)	(19)
Advances to customers	(103)	(278)	(103)	(278)
	(706)	**(1,078)**	**(687)**	**(1,197)**

All in $000's

7 Taxation

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Reconciliation of the prima facie income tax payable on profit with income tax expense in the income statement				
Surplus before income tax	21,184	19,722	13,445	13,420
Prima facie income tax 28%	5,932	5,528	3,765	3,758
Adjust for the tax effect of:				
Imputed dividends	(18)	(18)	(1,429)	(1,903)
Revaluation property	(13)	30	-	17
Other permanent items	(273)	(136)	9	(19)
Prior period adjustments	(83)	(21)	(91)	2
	(387)	(145)	(1,511)	(1,903)
Taxation expense/(benefit)	**5,545**	**5,383**	**2,254**	**1,855**
The major components of the income tax expense comprise:				
Amounts recognised in the income statement				
Current income tax				
Current income tax charge	3,375	4,127	-	535
Adjustments recognised in the current period in relation to current tax of prior periods	83	(57)	(13)	(2)
Deferred income tax				
Deferred tax expenses relating to the origination and reversal of temporary differences	2,087	1,313	2,267	1,322
Total income tax expense recognised in the income statement	**5,545**	**5,383**	**2,254**	**1,855**
The following amounts were charged/(credited) direct to equity:				
Current income tax	-	964	-	964
Deferred income tax	2,410	888	2,145	885
Total income tax expense recognised directly in equity	**2,410**	**1,852**	**2,145**	**1,849**

8 Funds with Financial Institutions

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Call funds	27,920	39,234	23,002	36,510
Term deposits	64,790	105,256	60,762	100,731
	92,710	**144,490**	**83,764**	**137,241**

All in $000's

9 Investment Securities

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
NZ government securities	-	1,031	-	-
Equity securities	1,589	1,299	-	-
Local authority bonds	86,511	101,731	86,511	101,630
Bank bonds	134,586	164,938	134,586	164,938
Other bonds	135,999	131,234	135,793	131,027
	358,685	**400,233**	**356,890**	**397,595**

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 fulfil 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 60% of equity is at risk with any individual counterparty.

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' except when the derivative is in a cash flow hedge.

Hedge Accounting

Cash Flow Hedges

The Banking Group hedges the forecasted interest cash flows from floating rate loans and 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 2014 as a result of highly probable cash flows no longer expected to occur (31 March 2013 $nil).

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. Effectiveness of the hedges is tested on a monthly basis.

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 2014						
Held for risk management - at fair value						
Interest rate related contracts						
Swaps	105,766	136	190	105,766	136	190
Options	-	-	-	-	-	-
Total held for risk management at fair value	105,766	136	190	105,766	136	190
Held for hedging - cash flow hedges						
Interest rate related contracts						
Swaps	1,004,950	9,453	1,004	1,054,950	9,453	1,397
Options	-	-	-	-	-	-
Total held for hedging	1,004,950	9,453	1,004	1,054,950	9,453	1,397
Total derivative financial instruments	1,110,716	9,589	1,194	1,160,716	9,589	1,587
As at 31 March 2013						
Held for risk management - at fair value						
Interest rate related contracts						
Swaps	100,868	503	547	100,868	503	547
Options	-	-	-	-	-	-
Total held for risk management at fair value	100,868	503	547	100,868	503	547
Held for hedging - cash flow hedges						
Interest rate related contracts						
Swaps	745,750	1,893	6,070	795,750	2,111	6,070
Options	-	-	-	-	-	-
Total held for hedging	745,750	1,893	6,070	795,750	2,111	6,070
Total derivative financial instruments	846,618	2,396	6,617	896,618	2,614	6,617

11 Advances to Customers

	Note	BANKING GROUP		PARENT	
		31/3/14	31/3/13	31/3/14	31/3/13
Residential		1,724,904	1,635,579	1,724,904	1,635,579
Agricultural		303,774	334,934	303,774	334,934
Commercial		154,607	172,337	149,395	166,989
Consumer		116,751	109,194	-	-
Gross advances		2,300,036	2,252,044	2,178,073	2,137,502
Provisions for credit impairment	(12)	(20,807)	(24,283)	(16,746)	(20,460)
Deferred fee revenue and expenses		(793)	(2,008)	1,368	(271)
Total net advances	(28)	2,278,436	2,225,753	2,162,695	2,116,771

All in $000's

12 Provision for Credit Impairment

	BANKING GROUP as at 31 March 2014			
	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Individual provisions against advances and loans				
Balance at beginning of the year	885	-	14,027	14,912
New provisions during the year	1,060	-	5,328	6,388
Balances written off during the year	(981)	-	(10,311)	(11,292)
Recoveries/reversals of previously recognised provision	-	-	-	-
Balance at end of the year	**964**	**-**	**9,044**	**10,008**
Collective provisions against advances and loans				
Balance at beginning of the year	4,190	3,644	1,537	9,371
Charged to income statement	-	263	(25)	238
Acquired on purchase of loan portfolio	1,190	-	-	1,190
Balance at end of the year	**5,380**	**3,907**	**1,512**	**10,799**
Total provisions for credit impairment	**6,344**	**3,907**	**10,556**	**20,807**
Reconciliation of provision movements				
Bad debts written off during the year	60	4,670	(827)	3,903
Individual provisions	1,060	-	5,328	6,388
Collective provision	-	263	(25)	238
Provision for credit impairment to income statement	**1,120**	**4,933**	**4,476**	**10,529**

- Residential mortgages comprise advances to individuals and corporates that are secured against residential properties. They include investments in residential property as well as owner-occupied housing
- Retail exposures comprise consumer personal and consumer finance lending
- Corporate exposures comprise primarily advances to individuals, corporates or small to medium enterprises that are secured against commercial or agricultural properties

	PARENT as at 31 March 2014			
	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Individual provisions against advances and loans				
Balance at beginning of the year	885	-	14,027	14,912
New provisions during the year	1,060	-	5,328	6,388
Balances written off during the year	(981)	-	(10,311)	(11,292)
Recoveries/reversals of previously recognised provision	-	-	-	-
Balance at end of the year	**964**	**-**	**9,044**	**10,008**
Collective provisions against advances and loans				
Balance at beginning of the year	4,190	-	1,358	5,548
Charged to income statement	-	-	-	-
Acquired on purchase of loan portfolio	1,190	-	-	1,190
Balance at end of the year	**5,380**	**-**	**1,358**	**6,738**
Total provisions for credit impairment	**6,344**	**-**	**10,402**	**16,746**
Reconciliation of provision movements				
Bad debts written off during the year	60	-	(961)	(901)
Individual provisions	1,060	-	5,328	6,388
Collective provision	-	-	-	-
Provision for credit impairment to income statement	**1,120**	**-**	**4,367**	**5,487**

All in $000's

12 Provision for Credit Impairment continued

	BANKING GROUP as at 31 March 2013			
	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Individual provisions against advances and loans				
Balance at beginning of the year	1,075	-	19,172	20,247
New provisions during the year	2,352	-	10,022	12,374
Balances written off during the year	(2,542)	-	(15,167)	(17,709)
Recoveries/reversals of previously recognised provision	-	-	-	-
Balance at end of the year	**885**	**-**	**14,027**	**14,912**
Collective provisions against advances and loans				
Balance at beginning of the year	4,190	3,446	1,680	9,316
Charged to income statement	-	198	(143)	55
Balance at end of the year	**4,190**	**3,644**	**1,537**	**9,371**
Total provisions for credit impairment	**5,075**	**3,644**	**15,564**	**24,283**
Reconciliation of provision movements				
Bad debts written off during the year	417	4,222	236	4,875
Individual provisions	2,352	-	10,022	12,374
Collective provision	-	198	(143)	55
Provision for credit impairment to income statement	**2,769**	**4,420**	**10,115**	**17,304**

	PARENT as at 31 March 2013			
	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Individual provisions against advances and loans				
Balance at beginning of the year	1,075	-	19,172	20,247
New provisions during the year	2,352	-	10,022	12,374
Balances written off during the year	(2,542)	-	(15,167)	(17,709)
Recoveries/reversals of previously recognised provision	-	-	-	-
Balance at end of the year	**885**	**-**	**14,027**	**14,912**
Collective provisions against advances and loans				
Balance at beginning of the year	4,190	-	1,358	5,548
Charged to income statement	-	-	-	-
Balance at end of the year	**4,190**	**-**	**1,358**	**5,548**
Total provisions for credit impairment	**5,075**	**-**	**15,385**	**20,460**
Reconciliation of provision movements				
Bad debts written off during the year	417	-	186	603
Individual provisions	2,352	-	10,022	12,374
Collective provision	-	-	-	-
Provision for credit impairment to income statement	**2,769**	**-**	**10,208**	**12,977**

All in $000's

13 Asset Quality

	BANKING GROUP as at 31 March 2014			
	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
(a) Asset quality - advances to customers				
Neither past due or impaired	1,698,559	105,471	430,814	2,234,844
Individually impaired	2,410	-	17,837	20,247
Past due	24,973	9,571	9,608	44,152
Provision for credit impairment	(6,344)	(3,907)	(10,556)	(20,807)
Carrying amount	**1,719,598**	**111,135**	**447,703**	**2,278,436**
(b) Ageing of past due but not impaired assets *				
Past due 0-29 days	14,704	6,771	6,189	27,664
Past due 30-59 days	4,555	1,569	441	6,565
Past due 60-89 days	511	962	558	2,031
Past due 90 days +	5,203	269	2,420	7,892
Carrying amount	**24,973**	**9,571**	**9,608**	**44,152**
(c) Impaired assets				
Balance at beginning of the year	1,912	-	21,846	23,758
Additions to individually impaired assets	1,439	-	8,787	10,226
Reductions to individually impaired assets	(941)	-	(12,796)	(13,737)
Balance at end of the year	2,410	-	17,837	20,247
Provision at end of the year	(964)	-	(9,044)	(10,008)
Net carrying amount at end of the year	**1,446**	**-**	**8,793**	**10,239**
Undrawn balances on individually impaired lending commitments	-	-	-	-

(d) Other assets under administration
There are no other assets under administration as at 31 March 2014.

	PARENT as at 31 March 2014			
	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
(a) Asset quality - advances to customers				
Neither past due or impaired	1,698,559	-	426,164	2,124,723
Individually impaired	2,410	-	17,837	20,247
Past due	24,973	-	9,498	34,471
Provision for credit impairment	(6,344)	-	(10,402)	(16,746)
Carrying amount	**1,719,598**	**-**	**443,097**	**2,162,695**
(b) Ageing of past due but not impaired assets *				
Past due 0-29 days	14,704	-	6,122	20,826
Past due 30-59 days	4,555	-	409	4,964
Past due 60-89 days	511	-	548	1,059
Past due 90 days +	5,203	-	2,419	7,622
Carrying amount	**24,973**	**-**	**9,498**	**34,471**
(c) Impaired assets				
Balance at beginning of the year	1,912	-	21,846	23,758
Additions to individually impaired assets	1,439	-	8,787	10,226
Reductions to individually impaired assets	(941)	-	(12,796)	(13,737)
Balance at end of the year	2,410	-	17,837	20,247
Provision at end of the year	(964)	-	(9,044)	(10,008)
Net carrying amount at end of the year	**1,446**	**-**	**8,793**	**10,239**
Undrawn balances on individually impaired lending commitments	-	-	-	-

(d) Other assets under administration
There are no other assets under administration as at 31 March 2014.

* The bank has changed its methodology for calculating past due assets as at 31 March 2014. The comparative numbers have not been restated. Arrears balances that are a result of delays in inter-bank settlement are not captured.

All in $000's

13 Asset Quality continued

	BANKING GROUP as at 31 March 2013			
	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
(a) Asset quality - advances to customers				
Neither past due or impaired	1,622,225	98,177	475,550	2,195,952
Individually impaired	1,912	-	21,846	23,758
Past due	11,243	9,785	9,298	30,326
Provision for credit impairment	(5,075)	(3,644)	(15,564)	(24,283)
Carrying amount	**1,630,305**	**104,318**	**491,130**	**2,225,753**
(b) Ageing of past due but not impaired assets				
Past due 0-29 days	6,632	7,087	5,375	19,094
Past due 30-59 days	2,179	1,575	33	3,787
Past due 60-89 days	970	882	457	2,309
Past due 90 days +	1,462	241	3,433	5,136
Carrying amount	**11,243**	**9,785**	**9,298**	**30,326**
(c) Impaired assets				
Balance at beginning of the year	2,334	-	38,876	41,210
Additions to individually impaired assets	1,100	-	5,855	6,955
Reductions to individually impaired assets	(1,522)	-	(22,885)	(24,407)
Balance at end of the year	1,912	-	21,846	23,758
Provision at end of the year	(885)	-	(14,027)	(14,912)
Net carrying amount at end of the year	**1,027**	**-**	**7,819**	**8,846**
Undrawn balances on individually impaired lending commitments	-	-	-	-

(d) Other assets under administration
There are no other assets under administration as at 31 March 2013.

	PARENT as at 31 March 2013			
	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
(a) Asset quality - advances to customers				
Neither past due or impaired	1,622,225	-	470,835	2,093,060
Individually impaired	1,912	-	21,846	23,758
Past due	11,243	-	9,170	20,413
Provision for credit impairment	(5,075)	-	(15,385)	(20,460)
Carrying amount	**1,630,305**	**-**	**486,466**	**2,116,771**
(b) Ageing of past due but not impaired assets				
Past due 0-29 days	6,632	-	5,280	11,912
Past due 30-59 days	2,179	-	-	2,179
Past due 60-89 days	970	-	457	1,427
Past due 90 days +	1,462	-	3,433	4,895
Carrying amount	**11,243**	**-**	**9,170**	**20,413**
(c) Impaired assets				
Balance at beginning of the year	2,334	-	38,876	41,210
Additions to individually impaired assets	1,100	-	5,855	6,955
Reductions to individually impaired assets	(1,522)	-	(22,885)	(24,407)
Balance at end of the year	1,912	-	21,846	23,758
Provision at end of the year	(885)	-	(14,027)	(14,912)
Net carrying amount at end of the year	**1,027**	**-**	**7,819**	**8,846**
Undrawn balances on individually impaired lending commitments	-	-	-	-

(d) Other assets under administration
There are no other assets under administration as at 31 March 2013.

All in $000's

14 Loan Securitisation

Mortgages assigned by SBS to the SBS Invercargill W Trust during the year ended 31 March 2014 amounted to $nil (31 March 2013 $150.45 million). SBS retains some of the risks and rewards of ownership through the provision of a subordinated loan and accordingly the assets and liabilities of SBS Invercargill W Trust have been consolidated within the Parent for financial reporting purposes.

Mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No. 2 during the year ended 31 March 2014 amounted to $nil (31 March 2013 $nil). SBS retains some of the risks and rewards of this trust by holding the securities issued by the trust and accordingly the assets and liabilities of SBS Oreti Trust No. 2 have been consolidated within the Parent for financial reporting purposes.

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Securitised loan balances				
SBS Invercargill W Trust	91,434	130,114	91,434	130,114
SBS Oreti Trust No. 2	95,375	125,542	95,375	125,542
	186,809	**255,656**	**186,809**	**255,656**

15 Investments in Subsidiaries

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Investments in subsidiaries	-	-	25,917	15,180
	-	**-**	**25,917**	**15,180**
Loans to subsidiaries (at amortised cost)	-	-	95,300	87,808
	-	**-**	**95,300**	**87,808**

	Percentage Held		Balance Date	Nature of Business
	31/3/14	31/3/13		
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	85.0%	71.5%	31 March	Finance Company
Funds Administration New Zealand Limited	85.0%	57.0%	31 March	Funds Administration
In-substance subsidiaries:				
SBS Invercargill W Trust	-	-	31 March	Mortgage Securitisation
SBS Oreti Trust No. 2	-	-	31 March	Mortgage Securitisation

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

During July 2013, the Bank increased its shareholding in two of its subsidiaries, Funds Administration New Zealand Ltd (FANZ) from 57% to 85% and Finance Now Ltd (FNL) from 71.5% to 85%. Additionally, the Bank and the non-controlling interests have agreed put and call options to enable the bank to lift its shareholdings to 100% over the next five years.

In accordance with International Financial Reporting Standards, as the Bank has had no change in effective control, the acquisition price was recorded through equity to reflect a transaction amongst shareholders. No adjustment has been made to the fair value of the assets and liabilities of FANZ and FNL in the consolidated accounts of the Bank in accordance with IFRS, and the associated premium (reflecting the future earnings potential of the entities) is recorded as an adjustment to equity. The put and call options have been valued and recorded in the financial statements as at 31 March 2014 at the present value of the estimated exercise price of the options. The unwind of the discounted present value is reflected in the Statement of Changes in Equity as 'Non-controlling interests present value adjustment'.

16 Other Assets

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Prepayments	565	637	290	410
Receivables from related parties	-	-	309	596
Other receivables	1,426	1,817	583	1,019
	1,991	**2,454**	**1,182**	**2,025**

All in $000's

17 Property, Plant and Equipment

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Freehold land (at valuation)	2,150	2,140	1,150	1,140
Buildings (at valuation)	9,397	8,989	1,647	1,489
Total carrying amount	**11,547**	**11,129**	**2,797**	**2,629**
Leasehold assets (at cost)	6,179	5,998	5,648	5,473
Accumulated depreciation	(2,837)	(2,773)	(2,731)	(2,710)
Total carrying amount	**3,342**	**3,225**	**2,917**	**2,763**
Computer equipment (at cost)	7,815	7,629	7,140	6,990
Accumulated depreciation	(6,249)	(5,411)	(5,726)	(4,912)
Total carrying amount	**1,566**	**2,218**	**1,414**	**2,078**
Other assets (at cost)	8,176	7,874	4,984	4,916
Accumulated depreciation	(5,549)	(5,442)	(3,175)	(3,178)
Total carrying amount	**2,627**	**2,432**	**1,809**	**1,738**
Total property, plant and equipment	**19,082**	**19,004**	**8,937**	**9,208**

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 2014 by registered valuers. 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 aggregate of the latest government valuations for all land and buildings owned by the Banking Group as at 31 March 2014 is $10.42 million (31 March 2013 $10.58 million).

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
The carrying amount of land and buildings had they been recognised under the cost model are as follows:				
Freehold land	1,910	1,910	569	569
Buildings	8,012	8,072	903	958
	9,922	**9,982**	**1,472**	**1,527**
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	11,129	11,847	2,629	2,547
Additions	-	-	-	-
Revaluation	530	(597)	201	115
Disposals	-	-	-	-
Depreciation	(112)	(121)	(33)	(33)
Balance at end of the year	**11,547**	**11,129**	**2,797**	**2,629**
Leasehold assets				
Balance at beginning of the year	3,225	2,878	2,763	2,470
Additions	506	877	499	713
Disposals	(2)	(212)	(2)	(141)
Depreciation	(387)	(318)	(343)	(279)
Balance at end of the year	**3,342**	**3,225**	**2,917**	**2,763**

All in $000's

17 Property, Plant and Equipment continued

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Computer equipment				
Balance at beginning of the year	2,218	1,665	2,078	1,471
Additions	610	1,626	482	1,552
Disposals	(1)	(15)	-	(15)
Depreciation	(1,261)	(1,058)	(1,146)	(930)
Balance at end of the year	**1,566**	**2,218**	**1,414**	**2,078**
Other assets				
Balance at beginning of the year	2,432	2,434	1,738	1,712
Additions	1,021	700	580	514
Disposals	(156)	(77)	(95)	(74)
Depreciation	(670)	(625)	(414)	(414)
Balance at end of the year	**2,627**	**2,432**	**1,809**	**1,738**
Total property, plant and equipment	**19,082**	**19,004**	**8,937**	**9,208**

18 Goodwill and Intangible Assets

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Goodwill (at cost)	1,160	1,160	-	-
Accumulated impairment	(145)	(145)	-	-
Total carrying amount	**1,015**	**1,015**	**-**	**-**
Software (at cost)	15,010	13,298	10,620	9,169
Accumulated depreciation	(12,032)	(10,993)	(8,201)	(7,431)
Total carrying amount	**2,978**	**2,305**	**2,419**	**1,738**
Total goodwill and intangible assets	**3,993**	**3,320**	**2,419**	**1,738**

No impairment losses have been recognised against the gross carrying amount of software and other intangible assets for the year ended 31 March 2014 (31 March 2013 $nil). Testing for impairment of goodwill is undertaken using models which calculate the valuation with reference to applicable price to earnings ratios.

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Reconciliation of the carrying amounts for intangible assets are set out below:				
Goodwill				
Balance at beginning of the year	1,015	1,015	-	-
Additions	-	-	-	-
Impairment	-	-	-	-
Balance at end of the year	**1,015**	**1,015**	**-**	**-**
Software				
Balance at beginning of the year	2,305	1,451	1,738	863
Additions	1,964	1,817	1,550	1,386
Disposals	-	(2)	-	-
Amortisation for the year	(1,291)	(961)	(869)	(511)
Impairment	-	-	-	-
Balance at end of the year	**2,978**	**2,305**	**2,419**	**1,738**
Total intangible assets	**3,993**	**3,320**	**2,419**	**1,738**

All in $000's

19 Deferred Tax Assets and Liabilities

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Provision for deferred tax				
Balance at beginning of the year	5,284	7,485	6,975	9,182
(Charged)/credited to income statement	(2,087)	(1,313)	(2,267)	(1,322)
(Charged)/credited to equity	(2,410)	(888)	(2,145)	(885)
Balance at end of the year	**787**	**5,284**	**2,563**	**6,975**
Recognised deferred tax assets and liabilities:				
Deferred tax assets/(liabilities) comprise the following temporary differences:				
Provision for credit impairment	5,394	6,601	4,216	5,488
Derivative financial instruments	(3,041)	1,073	(2,925)	1,027
Funds with financial institutions - available for sale	(35)	(12)	-	-
Property, plant and equipment	(2,396)	(2,295)	(306)	(175)
Revaluation of property	(233)	(100)	(154)	(100)
Provisions	599	486	544	407
Tax losses	911	-	911	-
Other	(412)	(469)	277	328
Net deferred tax assets	**787**	**5,284**	**2,563**	**6,975**
Movements in temporary differences during the year (charged)/credited to the income statement:				
Provision for credit impairment	(1,206)	(1,478)	(1,272)	(1,494)
Derivative financial instruments	-	(49)	-	-
Property, plant and equipment	(101)	141	(131)	110
Provisions	113	(31)	137	(21)
Tax losses	(950)	-	(950)	-
Other	57	104	(51)	83
Total deferred tax (charged)/credited to the income statement	**(2,087)**	**(1,313)**	**(2,267)**	**(1,322)**
Movements in temporary differences during the year (charged)/credited to equity:				
Funds with financial institutions - available for sale	1,837	(41)	1,861	-
Derivative financial instruments	(4,114)	(1,027)	(3,952)	(878)
Revaluation of property	(133)	180	(54)	(7)
Total deferred tax (charged)/credited to equity	**(2,410)**	**(888)**	**(2,145)**	**(885)**

There are no unrecognised deferred tax assets as at 31 March 2014 (31 March 2013 $nil).

All in $000's

20 Other Liabilities

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Sundry creditors	15,774	10,103	3,703	4,172
Employee entitlements	4,335	3,361	3,447	2,482
Insurance policy liability	4,768	4,816	-	-
Provision for dividend	-	264	-	-
	24,877	**18,544**	**7,150**	**6,654**

21 Subordinated Redeemable Shares

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
SBS Premier Bond	19,007	61,232	19,007	61,232
	19,007	**61,232**	**19,007**	**61,232**

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 2014 $4.14 million of subordinated redeemable shares qualify as lower tier 2 capital for Reserve Bank of New Zealand capital adequacy purposes (31 March 2013 $16.29 million).

All in $000's

22 Equity

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Revaluation reserve - property, plant and equipment	805	454	601	454
Revaluation reserve - available for sale assets	67	4,803	(5)	4,780
Revaluation reserve - cash flow hedging	7,775	(2,726)	7,523	(2,641)
Reserves	8,647	2,531	8,119	2,593
Retained earnings	221,136	222,400	218,901	207,710
	229,783	224,931	227,020	210,303
Non-controlling interests	4,430	6,659	-	-
Total equity	**234,213**	**231,590**	**227,020**	**210,303**
Movement in reserves:				
Revaluation reserve - property, plant and equipment				
Balance at beginning of the year	454	825	454	343
Surplus on revaluation of land and buildings	484	(551)	201	118
Deferred tax on revaluation	(133)	180	(54)	(7)
Net movement for the year	351	(371)	147	111
Balance at end of the year	**805**	**454**	**601**	**454**
Revaluation reserve - available for sale assets				
Balance at beginning of the year	4,803	2,240	4,780	2,300
Net gains/(losses) from changes in fair value	(6,561)	3,589	(6,646)	3,445
Current/deferred tax on changes in fair value	1,837	(1,005)	1,861	(965)
Non-controlling interests share of net gains/(losses) from changes in fair value	(17)	(29)	-	-
Non-controlling interests share of current/deferred tax in fair value	5	8	-	-
Net movement for the year	(4,736)	2,563	(4,785)	2,480
Balance at end of the year	**67**	**4,803**	**(5)**	**4,780**
Revaluation reserve - cash flow hedging reserve				
Balance at beginning of the year	(2,726)	(5,258)	(2,641)	(4,899)
Net gains/(losses) from changes in fair value	14,693	3,668	14,116	3,136
Deferred tax on changes in fair value	(4,114)	(1,027)	(3,952)	(878)
Non-controlling interests share of net gains/(losses) from changes in fair value	(86)	(152)	-	-
Non-controlling interests share of deferred tax on changes in fair value	24	43	-	-
Acquisition of non-controlling interests	(16)	-	-	-
Net movement for the year	10,501	2,532	10,164	2,258
Balance at end of the year	**7,775**	**(2,726)**	**7,523**	**(2,641)**
Retained earnings				
Balance at beginning of the year	222,400	210,667	207,710	196,145
Net surplus for the year	15,639	14,339	11,191	11,565
Acquisition of non-controlling interests	(14,875)	-	-	-
Non-controlling interests present value adjustment	(304)	-	-	-
Non-controlling interests	(1,724)	(2,606)	-	-
Balance at end of the year	**221,136**	**222,400**	**218,901**	**207,710**

All in $000's

23 Reconciliation of Net Surplus to Net Operating Cash Flows

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Net surplus for year	15,639	14,339	11,191	11,565
Add/(less) non cash items				
Depreciation and amortisation	3,720	3,083	2,805	2,167
Provision for credit impairment	10,529	17,304	5,487	12,977
Write off of property, plant and equipment	(14)	259	3	190
Property revaluations	154	107	200	61
Actuarial life adjustment	(48)	233	-	-
Dividend provision	-	-	350	2,152
Dividend provision - non-controlling interest	265	733	-	-
Deferred fee revenue and expenses	(1,215)	(582)	(1,639)	(295)
Derivatives fair value adjustment	602	769	585	919
Advances fair value adjustment	103	278	103	278
Investment securities fair value adjustment	1	31	-	-
Interest free loans fair value adjustment	-	(1)	-	(1)
Net deferred tax assets	2,074	348	2,267	360
	16,171	**22,562**	**10,161**	**18,808**
Deferral or accruals of past or future operating cash receipts or payments				
Change in income tax payable/receivable	(55)	(1,697)	(107)	(1,498)
Change in sundry debtors	463	(423)	493	395
Change in sundry creditors	(770)	3,722	496	337
Change in accruals relating to interest receivable	2,284	(976)	2,441	(1,114)
Change in accruals relating to accrued interest and dividends payable to customers	(2,406)	2,308	(2,405)	2,315
Change in accruals relating to accrued interest payable to financial institutions	(117)	295	(117)	295
Change in net advances	(62,161)	182,018	(50,086)	131,984
Change in shares and deposits	28,999	(59,241)	30,371	(58,557)
Change in amounts due to other financial institutions	(30,000)	80,000	(30,000)	80,000
Change in other borrowings	-	(52,092)	-	-
Change in subordinated redeemable shares	(41,902)	-	(41,902)	-
Change in cash held on behalf of Lifestages Mortgage Portfolio	-	-	-	-
	(105,665)	**153,914**	**(90,816)**	**154,157**
Items classified as cash				
Change in accruals relating to funds with financial institutions	640	580	642	586
Net cash flows from operating activities	**(73,215)**	**191,395**	**(68,822)**	**185,116**

All in $000's

24 Analysis of Funding

		BANKING GROUP			
		Total	Weighted average interest rate	Total	Weighted average interest rate
	Note	31/3/14	%	31/3/13	%
Redeemable shares					
Between 0 and 1 year		2,103,027	3.72	2,020,518	3.95
Between 1 and 2 years		118,856	4.55	122,296	4.55
Between 2 and 3 years		21,505	4.82	30,709	5.24
Between 3 and 4 years		4,008	5.18	3,396	5.86
Between 4 and 5 years		1,359	5.14	3,373	5.18
Over 5 years		-	-	-	-
Total redeemable shares	(28)	**2,248,755**	**3.78**	**2,180,292**	**4.01**
Deposits from customers					
Between 0 and 1 year		200,526	3.71	245,983	3.89
Between 1 and 2 years		7,354	4.37	2,981	4.62
Between 2 and 3 years		1,464	5.12	1,305	4.74
Between 3 and 4 years		208	5.04	630	5.70
Between 4 and 5 years		-	-	200	5.05
Over 5 years		-	-	-	-
Total deposits from customers	(28)	**209,552**	**3.75**	**251,099**	**3.91**
Due to other financial institutions					
Between 0 and 1 year		-	-	-	-
Between 1 and 2 years		-	-	-	-
Between 2 and 3 years		-	-	-	-
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		50,178	3.80	80,295	3.45
Total due to other financial institutions	(28)	**50,178**	**3.80**	**80,295**	**3.45**
Subordinated redeemable shares					
Between 0 and 1 year		17,082	7.00	42,225	6.95
Between 1 and 2 years		1,925	7.00	17,082	7.00
Between 2 and 3 years		-	-	1,925	7.00
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
Total subordinated redeemable shares	(28)	**19,007**	**7.00**	**61,232**	**6.97**
		2,527,492	**3.80**	**2,572,918**	**4.05**

All in $000's

24 Analysis of Funding continued

		PARENT			
		Total	Weighted average interest rate	Total	Weighted average interest rate
	Note	31/3/14	%	31/3/13	%
Redeemable shares					
Between 0 and 1 year		2,109,824	3.72	2,025,942	3.95
Between 1 and 2 years		118,856	4.55	122,296	4.55
Between 2 and 3 years		21,505	4.82	30,709	5.24
Between 3 and 4 years		4,008	5.18	3,396	5.86
Between 4 and 5 years		1,359	5.14	3,373	5.18
Over 5 years		-	-	-	-
Total redeemable shares	(28)	**2,255,552**	**3.77**	**2,185,716**	**4.01**
Deposits from customers					
Between 0 and 1 year		200,526	3.71	245,983	3.89
Between 1 and 2 years		7,354	4.37	2,981	4.62
Between 2 and 3 years		1,464	5.12	1,305	4.74
Between 3 and 4 years		208	5.04	630	5.70
Between 4 and 5 years		-	-	200	5.05
Over 5 years		-	-	-	-
Total deposits from customers	(28)	**209,552**	**3.75**	**251,099**	**3.91**
Due to other financial institutions					
Between 0 and 1 year		-	-	-	-
Between 1 and 2 years		-	-	-	-
Between 2 and 3 years		-	-	-	-
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		50,178	3.80	80,295	3.45
Total due to other financial institutions	(28)	**50,178**	**3.80**	**80,295**	**3.45**
Subordinated redeemable shares					
Between 0 and 1 year		17,082	7.00	42,225	6.95
Between 1 and 2 years		1,925	7.00	17,082	7.00
Between 2 and 3 years		-	-	1,925	7.00
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
Total subordinated redeemable shares	(28)	**19,007**	**7.00**	**61,232**	**6.97**
		2,534,289	**3.80**	**2,578,342**	**4.05**

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.

At 31 March 2014 $44.74 million of deposits from customers relate to commercial paper issued by the Bank (31 March 2013 $44.77 million). All commercial paper has a maturity of less than one year.

All in $000's

25 Contingent Liabilities and Credit Related Commitments

	BANKING GROUP			
	Contract or notional amt 31/3/14	Credit equivalent 31/3/14	Contract or notional amt 31/3/13	Credit equivalent 31/3/13
Commitments				
Commitments with uncertain drawdown	32,373	16,187	28,862	14,431
Commitments to extend credit which can be unconditionally cancelled	206,911	-	190,930	-
Total credit related commitments	**239,284**	**16,187**	**219,792**	**14,431**

	PARENT			
	Contract or notional amt 31/3/14	Credit equivalent 31/3/14	Contract or notional amt 31/3/13	Credit equivalent 31/3/13
Commitments				
Commitments with uncertain drawdown	39,904	19,952	33,565	16,783
Commitments to extend credit which can be unconditionally cancelled	206,911	-	190,930	-
Total credit related commitments	**246,815**	**19,952**	**224,495**	**16,783**

There are no material contingent liabilities.

26 Commitments

Lease Commitments

As at 31 March 2014 the value of the residual portion of lease commitments between Southland Building Society and its wholly owned subsidiary company, Fraser Properties Ltd was $1.84 million (31 March 2013 $2.34 million).

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Lease commitments payable after balance date:				
0-12 Months	2,190	2,254	1,972	2,005
12-24 Months	1,739	1,922	1,579	1,766
24-60 Months	3,159	3,421	2,724	3,302
>60 Months	1,566	2,246	1,153	1,430
	8,654	**9,843**	**7,428**	**8,503**

The Banking Group leases land and buildings under operating leases expiring from one to ten 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 of Financial Instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost.

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 adjusted with a retail lending margin for the term at original fixing and the wholesale rate for the remaining term at balance date.

Advances at fair value through profit or loss

Designated advances are recognised in the financial statements at fair value through 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.

Due to other financial institutions

Amounts due to other financial institutions are either short term in nature or reprice frequently and therefore the carrying amount is equivalent to fair value.

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. Fair values include adjustment for counterparty credit spreads.

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 of Financial Instruments continued

Comparison of fair values and carrying amounts:

Carrying values and the fair values of those assets and liabilities that are not presented at fair value in the Statement of Financial Position or where carrying value is not a reasonable approximation of fair value are outlined below:

	BANKING GROUP			
	31/3/14		31/3/13	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Advances to customers	2,278,436	2,271,081	2,225,753	2,228,653
Total financial assets	**2,278,436**	**2,271,081**	**2,225,753**	**2,228,653**
Financial liabilities				
Redeemable shares	2,248,755	2,239,553	2,180,292	2,181,054
Deposits from customers	209,552	208,956	251,099	250,934
Subordinated redeemable shares	19,007	19,206	61,232	63,363
Total financial liabilities	**2,477,314**	**2,467,715**	**2,492,623**	**2,495,351**

	PARENT			
	31/3/14		31/3/13	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Advances to customers	2,162,695	2,155,339	2,116,771	2,119,671
Total financial assets	**2,162,695**	**2,155,339**	**2,116,771**	**2,119,671**
Financial liabilities				
Redeemable shares	2,255,552	2,246,351	2,185,716	2,186,478
Deposits from customers	209,552	208,956	251,099	250,934
Subordinated redeemable shares	19,007	19,206	61,232	63,363
Total financial liabilities	**2,484,111**	**2,474,513**	**2,498,047**	**2,500,775**

All in $000's

27 Fair Value of Financial Instruments continued

Valuation hierarchy for financial instruments held at fair value:

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.

Financial assets and liabilities that are recognised and measured at fair value on a recurring basis are categorised below:

	31/3/14			
BANKING GROUP	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	9,589	-	**9,589**
Funds with financial institutions	27,920	64,790	-	**92,710**
Investment securities	1,589	357,096	-	**358,685**
Total financial assets	**29,509**	**431,475**	**-**	**460,984**
Financial liabilities				
Derivative financial instruments	-	1,194	-	**1,194**
Total financial liabilities	**-**	**1,194**	**-**	**1,194**
PARENT				
Financial assets				
Derivative financial instruments	-	9,589	-	**9,589**
Funds with financial institutions	23,002	60,762	-	**83,764**
Investment securities	-	356,890	-	**356,890**
Total financial assets	**23,002**	**427,241**	**-**	**450,243**
Financial liabilities				
Derivative financial instruments	-	1,587	-	**1,587**
Total financial liabilities	**-**	**1,587**	**-**	**1,587**

	31/3/13			
BANKING GROUP	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	2,396	-	**2,396**
Loans and advances to customers	-	-	6,121	**6,121**
Funds with financial institutions	39,234	105,256	-	**144,490**
Investment securities	2,331	397,902	-	**400,233**
Total financial assets	**41,565**	**505,554**	**6,121**	**553,240**
Financial liabilities				
Derivative financial instruments	-	6,617	-	**6,617**
Total financial liabilities	**-**	**6,617**	**-**	**6,617**
PARENT				
Financial assets				
Derivative financial instruments	-	2,614	-	**2,614**
Loans and advances to customers	-	-	6,121	**6,121**
Funds with financial institutions	36,510	100,731	-	**137,241**
Investment securities	-	397,595	-	**397,595**
Total financial assets	**36,510**	**500,940**	**6,121**	**543,571**
Financial liabilities				
Derivative financial instruments	-	6,617	-	**6,617**
Total financial liabilities	**-**	**6,617**	**-**	**6,617**

All in $000's

27 Fair Value of Financial Instruments continued

The following table presents the changes in level 3 instruments:

		BANKING GROUP		PARENT	
	Note	31/3/14	31/3/13	31/3/14	31/3/13
Loans and advances at fair value through profit or loss					
Balance at beginning of the year		6,121	20,277	6,121	20,277
Total losses recorded in income statement	(6)	(103)	(278)	(103)	(278)
Loan repayments		(6,018)	(13,878)	(6,018)	(13,878)
Balance at end of the year		-	**6,121**	-	**6,121**

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.

The Banking Group is subject to the RBNZ's liquidity requirements as set out in the RBNZ's "Liquidity Policy" (BS13/BS13A), which took effect from 1 April 2010.

Consistent with the requirements of the RBNZ's Liquidity Policy, liquidity risk is managed in the Banking Group on a cash flow mismatch and also core funding basis to ensure that the Banking Group exceeds RBNZ specified minimum standards for those metrics. This information is measured daily and reported to the Board monthly.

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 committed but undrawn funding lines. As at 31 March 2014, the Banking Group had total committed funding lines with other registered banks of $50.5 million (31 March 2013 $110.0 million). Of these facilities, $50.0 million were drawn down at 31 March 2014 (31 March 2013 $80.0 million).

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	31/3/14	31/3/13	31/3/14	31/3/13
Cash on hand and at bank	17,714	21,801	14,912	18,790
Funds with financial institutions	92,710	144,490	83,764	137,241
Investment securities	358,685	400,233	356,890	397,595
Committed and undrawn funding lines	500	30,000	500	30,000
Eligible RMBS collateral (less haircut[1])	74,705	98,495	74,705	98,495
Total liquidity	**544,314**	**695,019**	**530,771**	**682,121**

[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 liabilities do not 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 2014
(contractual cash flows including expected interest to maturity)

	BANKING GROUP						
	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	17,714	-	-	-	-	-	**17,714**
Funds with financial institutions	27,920	49,045	15,531	-	214	-	**92,710**
Investment securities	1,589	25,450	57,575	52,629	166,025	55,417	**358,685**
Current tax assets	1,659	-	-	-	-	-	**1,659**
Advances to customers	67,838	77,684	49,446	83,092	232,965	1,767,411	**2,278,436**
Other assets	1,991	-	-	-	-	-	**1,991**
Total assets	**118,711**	**152,179**	**122,552**	**135,721**	**399,204**	**1,822,828**	**2,751,195**
Interest	664	81,040	77,379	139,079	412,255	1,071,975	**1,782,392**
Total assets (inclusive of interest)	**119,375**	**233,219**	**199,931**	**274,800**	**811,459**	**2,894,803**	**4,533,587**
Liabilities							
Redeemable shares	447,902	1,173,083	482,042	118,856	26,872	-	**2,248,755**
Deposits from customers	25,098	144,214	31,214	7,354	1,672	-	**209,552**
Due to other financial institutions	-	-	-	-	-	50,178	**50,178**
Current tax liabilities	-	-	-	-	-	-	**-**
Other borrowings	-	-	-	-	-	-	**-**
Other liabilities	15,774	-	-	-	-	-	**15,774**
Subordinated redeemable shares	41	14,323	2,718	1,925	-	-	**19,007**
Total liabilities	**488,815**	**1,331,620**	**515,974**	**128,135**	**28,544**	**50,178**	**2,543,266**
Interest	73	13,290	9,512	15,758	11,706	1,806	**52,145**
Total liabilities (inclusive of interest)	**488,888**	**1,344,910**	**525,486**	**143,893**	**40,250**	**51,984**	**2,595,411**
Derivatives							
Net derivative cash flows	71	(2,414)	(2,718)	(4,009)	(718)	208	**(9,580)**
Unrecognised loan commitments	32,373	-	-	-	-	-	**32,373**

All in $000's

28 Liquidity Risk continued

Monetary assets receivable matched against liabilities payable as at 31 March 2014
(contractual cash flows including expected interest to maturity)

	PARENT						
	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	14,912	-	-	-	-	-	**14,912**
Funds with financial institutions	23,002	45,739	15,023	-	-	-	**83,764**
Investment securities	-	25,450	57,575	52,629	165,819	55,417	**356,890**
Current tax assets	2,748	-	-	-	-	-	**2,748**
Advances to customers	67,838	71,564	33,896	46,040	175,992	1,767,365	**2,162,695**
Loans to subsidiaries	-	-	-	95,300	-	-	**95,300**
Other assets	1,182	-	-	-	-	-	**1,182**
Total assets	**109,682**	**142,753**	**106,494**	**193,969**	**341,811**	**1,822,782**	**2,717,491**
Interest	678	87,262	93,088	177,182	464,246	982,949	**1,805,405**
Total assets (inclusive of interest)	**110,360**	**230,015**	**199,582**	**371,151**	**806,057**	**2,805,731**	**4,522,896**
Liabilities							
Redeemable shares	454,699	1,173,083	482,042	118,856	26,872	-	**2,255,552**
Deposits from customers	25,098	144,214	31,214	7,354	1,672	-	**209,552**
Due to other financial institutions	-	-	-	-	-	50,178	**50,178**
Current tax liabilities	-	-	-	-	-	-	**-**
Other borrowings	-	-	-	-	-	-	**-**
Other liabilities	3,703	-	-	-	-	-	**3,703**
Subordinated redeemable shares	41	14,323	2,718	1,925	-	-	**19,007**
Total liabilities	**483,541**	**1,331,620**	**515,974**	**128,135**	**28,544**	**50,178**	**2,537,992**
Interest	73	13,290	9,512	15,758	11,706	1,806	**52,145**
Total liabilities (inclusive of interest)	**483,614**	**1,344,910**	**525,486**	**143,893**	**40,250**	**51,984**	**2,590,137**
Derivatives							
Net derivative cash flows	217	(2,333)	(2,652)	(3,972)	(729)	208	**(9,261)**
Unrecognised loan commitments	39,904	-	-	-	-	-	**39,904**

All in $000's

28 Liquidity Risk continued

Monetary assets receivable matched against liabilities payable as at 31 March 2013
(contractual cash flows including expected interest to maturity)

	BANKING GROUP						
	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	21,801	-	-	-	-	-	**21,801**
Funds with financial institutions	39,238	83,746	21,292	-	-	214	**144,490**
Investment securities	1,299	16,773	29,720	84,745	182,481	85,215	**400,233**
Current tax assets	1,604	-	-	-	-	-	**1,604**
Advances to customers	17,554	103,085	74,295	100,396	205,909	1,724,514	**2,225,753**
Other assets	2,454	-	-	-	-	-	**2,454**
Total assets	**83,950**	**203,604**	**125,307**	**185,141**	**388,390**	**1,809,943**	**2,796,335**
Interest	684	80,605	74,832	124,793	427,408	791,945	**1,500,267**
Total assets (inclusive of interest)	**84,634**	**284,209**	**200,139**	**309,934**	**815,798**	**2,601,888**	**4,296,602**
Liabilities							
Redeemable shares	372,990	1,092,589	554,939	122,296	37,478	-	**2,180,292**
Deposits from customers	32,871	140,137	72,975	2,981	2,135	-	**251,099**
Due to other financial institutions	-	-	-	-	-	80,295	**80,295**
Current tax liabilities	-	-	-	-	-	-	**-**
Other borrowings	-	-	-	-	-	-	**-**
Other liabilities	10,367	-	-	-	-	-	**10,367**
Subordinated redeemable shares	-	-	42,225	17,082	1,925	-	**61,232**
Total liabilities	**416,228**	**1,232,726**	**670,139**	**142,359**	**41,538**	**80,295**	**2,583,285**
Interest	71	13,728	22,731	14,236	15,435	2,891	**69,092**
Total liabilities (inclusive of interest)	**416,299**	**1,246,454**	**692,870**	**156,595**	**56,973**	**83,186**	**2,652,377**
Derivatives							
Net derivative cash flows	-	(1,778)	(1,723)	(1,763)	442	786	**(4,036)**
Unrecognised loan commitments	28,862	-	-	-	-	-	**28,862**

All in $000's

28 Liquidity Risk continued

Monetary assets receivable matched against liabilities payable as at 31 March 2013
(contractual cash flows including expected interest to maturity)

	PARENT						
	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	18,790	-	-	-	-	-	**18,790**
Funds with financial institutions	36,510	80,696	20,035	-	-	-	**137,241**
Investment securities	-	16,672	29,720	84,745	181,449	85,009	**397,595**
Current tax assets	2,641	-	-	-	-	-	**2,641**
Advances to customers	17,554	96,747	54,591	62,733	160,733	1,724,413	**2,116,771**
Loans to subsidiaries	-	-	-	87,808	-	-	**87,808**
Other assets	2,025	-	-	-	-	-	**2,025**
Total assets	**77,520**	**194,115**	**104,346**	**235,286**	**342,182**	**1,809,422**	**2,762,871**
Interest	666	83,150	77,403	130,074	427,193	791,859	**1,510,345**
Total assets (inclusive of interest)	**78,186**	**277,265**	**181,749**	**365,360**	**769,375**	**2,601,281**	**4,273,216**
Liabilities							
Redeemable shares	378,414	1,092,589	554,939	122,296	37,478	-	**2,185,716**
Deposits from customers	32,871	140,137	72,975	2,981	2,135	-	**251,099**
Due to other financial institutions	-	-	-	-	-	80,295	**80,295**
Current tax liabilities	-	-	-	-	-	-	**-**
Other borrowings	-	-	-	-	-	-	**-**
Other liabilities	4,172	-	-	-	-	-	**4,172**
Subordinated redeemable shares	-	-	42,225	17,082	1,925	-	**61,232**
Total liabilities	**415,457**	**1,232,726**	**670,139**	**142,359**	**41,538**	**80,295**	**2,582,514**
Interest	71	13,728	22,731	14,236	15,435	2,891	**69,092**
Total liabilities (inclusive of interest)	**415,528**	**1,246,454**	**692,870**	**156,595**	**56,973**	**83,186**	**2,651,606**
Derivatives							
Net derivative cash flows	118	(1,560)	(1,696)	(1,754)	444	786	**(3,662)**
Unrecognised loan commitments	33,565	-	-	-	-	-	**33,565**

All in $000's

29 Credit Risk

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 75% (31 March 2013 73%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 13% (31 March 2013 15%) of the Banking Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
(a) The maximum exposures to credit risk at the relevant reporting dates are:				
Cash on hand and at bank	17,714	21,801	14,912	18,790
Funds with financial institutions	92,710	144,490	83,764	137,241
Investment securities	358,685	400,233	356,890	397,595
Derivative financial instruments	9,589	2,396	9,589	2,614
Current tax assets	1,659	1,604	2,748	2,641
Advances to customers	2,278,436	2,225,753	2,162,695	2,116,771
Loans to subsidiaries	-	-	95,300	87,808
Other assets	1,991	2,454	1,182	2,025
Total on-balance sheet credit exposures	**2,760,784**	**2,798,731**	**2,727,080**	**2,765,485**
(b) Concentrations of credit risk by sector				
Residential	1,426,922	1,372,920	1,426,922	1,372,920
Residential investing	292,676	257,385	292,676	257,385
Agricultural	299,830	326,763	299,830	326,763
Commercial finance	2,488	2,525	95,300	87,808
Commercial other	145,157	161,597	143,039	159,458
Consumer lending	111,135	104,318	-	-
Local authority	86,739	101,976	86,739	101,875
Corporate investments	392,187	467,189	378,644	454,610
Other	3,650	4,058	3,930	4,666
Total concentrations of credit risk by sector	**2,760,784**	**2,798,731**	**2,727,080**	**2,765,485**
(c) Concentrations of credit risk by geographical location				
North Island	1,002,415	1,022,127	898,553	925,132
Canterbury	570,914	565,853	559,734	555,292
Otago	503,733	521,801	499,820	517,697
Southland	490,338	505,153	578,614	586,440
South Island other	193,384	183,797	190,359	180,924
Overseas	-	-	-	-
Total concentrations of credit risk by geographical location	**2,760,784**	**2,798,731**	**2,727,080**	**2,765,485**

All in $000's

29 Credit Risk continued

(d) 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). Credit exposures to the central government of any country with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, and connected persons are excluded. Peak end of day credit exposures to individual counterparties are calculated over the last quarter using the Banking Group's end of period equity.

	BANKING GROUP as at 31 March 2014			BANKING GROUP as at 31 March 2013		
End of Period Exposure	Number of Non Bank Counterparties			Number of Non Bank Counterparties		
Percentage of equity	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
10%-14%	2	-	**2**	1	-	**1**
15%-19%	2	-	**2**	2	-	**2**
20%-24%	-	-	**-**	-	-	**-**
Total	**4**	**-**	**4**	**3**	**-**	**3**

Peak Exposure						
Percentage of equity	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
10%-14%	2	-	**2**	1	-	**1**
15%-19%	2	-	**2**	2	-	**2**
20%-24%	-	-	**-**	-	-	**-**
Total	**4**	**-**	**4**	**3**	**-**	**3**

Note:

"A" Rated - those counterparties that have a long term credit rating of A- or A3 or above
"B" Rated - those counterparties that have a long term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent

There were no peak or balance date credit exposures to bank counterparties with a credit rating below A- or A3, or its equivalent, which exceeded 10% of the Banking Group's equity for the three months ended 31 March 2014.

(e) 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) in accordance with the banks conditions of registration and the RBNZ's "Connected Exposure Policy" (BS8). 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 1 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 year. 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 year. There are no individual credit impairment allowances against credit exposures to non-bank connected persons as at 31 March 2014 (31 March 2013 $nil).

	BANKING GROUP	
	31/3/14	**31/3/13**
Credit exposures to non-bank connected persons at year end	1,451	477
Credit exposures to non-bank connected persons at period end expressed as a % of total tier 1 capital	0.66%	0.21%
Peak credit exposures to non-bank connected persons during the quarter	1,451	492
Peak credit exposures to non-bank connected persons during the quarter expressed as a % of total tier 1 capital	0.66%	0.22%

	BANKING GROUP		PARENT	
(f) Percentage of borrowers owing the six largest amounts	**31/3/14**	**31/3/13**	**31/3/14**	**31/3/13**
The six largest borrowers as a percentage of monetary assets receivable	1.87%	1.76%	5.14%	4.72%

	BANKING GROUP		PARENT	
(g) Monetary assets with arrears	**31/3/14**	**31/3/13**	**31/3/14**	**31/3/13**
Monetary assets receivable with repayments in arrears in excess of three months	0.66%	0.50%	0.66%	0.50%

All in $000's

29 Credit Risk continued

(h) 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 regularly. 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	
	31/3/14	31/3/13	31/3/14	31/3/13
Against individually impaired property	11,348	10,627	11,348	10,627
Against past due but not impaired property	113,938	54,812	112,880	54,515
	125,286	**65,439**	**124,228**	**65,142**

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.

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, scenario analysis and Value at Risk (VaR).

The Banking Group is not exposed to currency risk as it does not hold any financial instruments whose value is directly linked to changes in foreign exchange rates.

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. Exposure to interest rate risk is also measured, managed and monitored using VaR, scenario analysis (to a 1% shock) and interest rate sensitivity gap. 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 statement of financial position 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 2014	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-interest sensitive	Total
Assets							
Cash on hand and at bank	17,714	-	-	-	-	-	**17,714**
Funds with financial institutions	71,197	5,768	15,531	-	214	-	**92,710**
Investment securities	92,272	-	47,445	32,348	186,620	-	**358,685**
Derivative financial instruments	-	-	-	-	-	9,589	**9,589**
Current tax assets	-	-	-	-	-	1,659	**1,659**
Advances to customers	1,143,015	109,757	189,787	485,417	350,460	-	**2,278,436**
Other assets	-	-	-	-	-	28,983	**28,983**
	1,324,198	**115,525**	**252,763**	**517,765**	**537,294**	**40,231**	**2,787,776**
Liabilities and equity							
Redeemable shares	1,114,061	506,923	482,042	118,857	26,872	-	**2,248,755**
Deposits from customers	102,658	66,654	31,214	7,353	1,673	-	**209,552**
Due to other financial institutions	50,178	-	-	-	-	-	**50,178**
Derivative financial instruments	-	-	-	-	-	1,194	**1,194**
Other liabilities	-	-	-	-	-	24,877	**24,877**
Subordinated redeemable shares	14,364	-	2,718	1,925	-	-	**19,007**
Equity	-	-	-	-	-	234,213	**234,213**
	1,281,261	**573,577**	**515,974**	**128,135**	**28,545**	**260,284**	**2,787,776**
On-balance sheet interest sensitivity gap	42,937	(458,052)	(263,211)	389,630	508,749	(220,053)	-
Net balance of derivative financial instruments	842,700	71,250	(100,000)	(384,500)	(429,450)	-	-
Total interest rate sensitivity gap	**885,637**	**(386,802)**	**(363,211)**	**5,130**	**79,299**	**(220,053)**	**-**

	PARENT						
Assets							
Cash on hand and at bank	14,912	-	-	-	-	-	**14,912**
Funds with financial institutions	63,733	5,007	15,024	-	-	-	**83,764**
Investment securities	90,477	-	47,445	32,348	186,620	-	**356,890**
Derivative financial instruments	-	-	-	-	-	9,589	**9,589**
Current tax assets	-	-	-	-	-	2,748	**2,748**
Advances to customers	1,141,224	105,429	174,237	448,364	293,441	-	**2,162,695**
Loans to subsidiaries	95,300	-	-	-	-	-	**95,300**
Other assets	-	-	-	-	-	44,148	**44,148**
	1,405,646	**110,436**	**236,706**	**480,712**	**480,061**	**56,485**	**2,770,046**
Liabilities and equity							
Redeemable shares	1,120,858	506,923	482,042	118,857	26,872	-	**2,255,552**
Deposits from customers	102,658	66,654	31,214	7,353	1,673	-	**209,552**
Due to other financial institutions	50,178	-	-	-	-	-	**50,178**
Derivative financial instruments	-	-	-	-	-	1,587	**1,587**
Other liabilities	-	-	-	-	-	7,150	**7,150**
Subordinated redeemable shares	14,364	-	2,718	1,925	-	-	**19,007**
Equity	-	-	-	-	-	227,020	**227,020**
	1,288,058	**573,577**	**515,974**	**128,135**	**28,545**	**235,757**	**2,770,046**
On-balance sheet interest sensitivity gap	117,588	(463,141)	(279,268)	352,577	451,516	(179,272)	-
Net balance of derivative financial instruments	892,700	71,250	(110,000)	(404,500)	(449,450)	-	-
Total interest rate sensitivity gap	**1,010,288**	**(391,891)**	**(389,268)**	**(51,923)**	**2,066**	**(179,272)**	**-**

All in $000's

	BANKING GROUP						
As at 31 March 2013	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-interest sensitive	Total
Assets							
Cash on hand and at bank	21,801	-	-	-	-	-	**21,801**
Funds with financial institutions	111,196	11,788	21,292	-	214	-	**144,490**
Investment securities	117,160	-	29,719	64,541	188,813	-	**400,233**
Derivative financial instruments	-	-	-	-	-	2,396	**2,396**
Current tax assets	-	-	-	-	-	1,604	**1,604**
Advances to customers	1,485,062	155,964	207,012	232,372	145,343	-	**2,225,753**
Other assets	-	-	-	-	-	33,392	**33,392**
	1,735,219	**167,752**	**258,023**	**296,913**	**334,370**	**37,392**	**2,829,669**
Liabilities and equity							
Redeemable shares	957,955	507,624	554,939	122,296	37,478	-	**2,180,292**
Deposits from customers	126,700	46,308	72,975	2,981	2,135	-	**251,099**
Due to other financial institutions	80,295	-	-	-	-	-	**80,295**
Derivative financial instruments	-	-	-	-	-	6,617	**6,617**
Other liabilities	-	-	-	-	-	18,544	**18,544**
Subordinated redeemable shares	-	-	42,225	17,082	1,925	-	**61,232**
Equity	-	-	-	-	-	231,590	**231,590**
	1,164,950	**553,932**	**670,139**	**142,359**	**41,538**	**256,751**	**2,829,669**
On-balance sheet interest sensitivity gap	570,269	(386,180)	(412,116)	154,554	292,832	(219,359)	**-**
Net balance of derivative financial instruments	288,500	196,250	(91,000)	(184,000)	(209,750)	-	**-**
Total interest rate sensitivity gap	**858,769**	**(189,930)**	**(503,116)**	**(29,446)**	**83,082**	**(219,359)**	**-**

	PARENT						
As at 31 March 2013	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-interest sensitive	Total
Assets							
Cash on hand and at bank	18,790	-	-	-	-	-	**18,790**
Funds with financial institutions	107,196	10,010	20,035	-	-	-	**137,241**
Investment securities	115,553	-	29,719	64,541	187,782	-	**397,595**
Derivative financial instruments	-	-	-	-	-	2,614	**2,614**
Current tax assets	-	-	-	-	-	2,641	**2,641**
Advances to customers	1,483,131	151,558	187,308	194,708	100,066	-	**2,116,771**
Loans to subsidiaries	87,808	-	-	-	-	-	**87,808**
Other assets	-	-	-	-	-	38,456	**38,456**
	1,812,478	**161,568**	**237,062**	**259,249**	**287,848**	**43,711**	**2,801,916**
Liabilities and equity							
Redeemable shares	963,379	507,624	554,939	122,296	37,478	-	**2,185,716**
Deposits from customers	126,700	46,308	72,975	2,981	2,135	-	**251,099**
Due to other financial institutions	80,295	-	-	-	-	-	**80,295**
Derivative financial instruments	-	-	-	-	-	6,617	**6,617**
Other liabilities	-	-	-	-	-	6,654	**6,654**
Subordinated redeemable shares	-	-	42,225	17,082	1,925	-	**61,232**
Equity	-	-	-	-	-	210,303	**210,303**
	1,170,374	**553,932**	**670,139**	**142,359**	**41,538**	**223,574**	**2,801,916**
On-balance sheet interest sensitivity gap	642,104	(392,364)	(433,077)	116,890	246,310	(179,863)	**-**
Net balance of derivative financial instruments	307,803	189,172	(98,365)	(189,533)	(209,077)	-	**-**
Total interest rate sensitivity gap	**949,907**	**(203,192)**	**(531,442)**	**(72,643)**	**37,233**	**(179,863)**	**-**

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 as well as a 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	
	31/3/14	31/3/13	31/3/14	31/3/13
Impact on equity of increase or decrease to market interest rates				
100 bp parallel increase	10,783	1,281	10,108	1,043
100 bp parallel decrease	(11,478)	(1,771)	(10,787)	(1,528)
Impact on profit and loss of increase or decrease to market interest rates				
100 bp parallel increase	1	(61)	1	(61)
100 bp parallel decrease	(1)	62	(1)	62

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 capital ratio of the banking group is not less than 8%;
- Tier 1 capital ratio of the banking group is not less than 6%;
- Common equity tier 1 capital ratio of the banking group is not less than 4.5%;
- Total capital of the banking group is not less than NZ $30 million.

For regulatory purposes, capital comprises two elements, eligible tier 1 and tier 2 capital, from which certain deductions are made to arrive at regulatory tier 1 and tier 2 capital as documented in the RBNZ's "Capital Adequacy Framework (Standardised Approach)" document (BS2A). Tier 1 capital is divided into two levels. Common equity tier 1 capital consists of retained profits, revenue and similar reserves, less intangible assets, deferred tax assets, cash flow hedge reserve and certain other deductions. Additional tier 1 capital consists of eligible non-controlling interests net of certain deductions. Tier 2 capital includes term subordinated debt and the property, plant and equipment revaluation reserve. 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 assets. Risk weighted assets are derived by assigning risk weight percentages to certain material risk categories of exposures. These exposures are measured or estimated from selected balance sheet assets and off balance sheet exposures and market contracts. It should be noted that the regulatory risk weightings may not necessarily be consistent with the loss experience of the Banking Group.

The Banking Group has adopted the Basel III "standardised approach" as per BS2A to calculate regulatory capital requirements from 1 January 2013. Prior periods were calculated under the Basel II methodology. Basel III consists of 3 pillars - Pillar One covers the capital requirements for banks for credit, operational, and market risks. Pillar Two covers all other material risks not already included in Pillar One, and Pillar Three relates to market disclosure.

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

The capital adequacy calculations set out below 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 obligations) 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 relevant Banking Group's conditions of registration.

All in $000's

31 Capital Adequacy continued

		BANKING GROUP		REGISTERED BANK	
		Unaudited	Unaudited	Unaudited	Unaudited
		31/3/14	31/3/13	31/3/14	31/3/13
	Minimum ratio requirement				
Regulatory capital ratios					
Common equity tier 1 capital ratio	4.50%	13.26%	13.13%	13.66%	12.70%
Tier 1 capital ratio	6.00%	13.39%	13.34%	13.66%	12.70%
Total capital ratio	8.00%	13.69%	14.34%	12.71%	13.24%
Buffer ratio	2.50%	5.69%	6.34%		

	BANKING GROUP	
	Unaudited	Unaudited
	31/3/14	31/3/13
(i) Qualifying capital		
Tier 1 capital		
Common equity tier 1 (CET1) capital		
Retained earnings	222,400	210,667
Current year's retained earnings	13,915	11,733
Acquisition of non-controlling interests	(14,875)	-
Non-controlling interests present value adjustment	(304)	-
Available for sale assets reserve	67	4,803
Cash flow hedging reserve	7,775	(2,726)
Less deductions from CET1 capital		
Intangible assets	(3,993)	(3,320)
Deferred tax assets	(787)	(5,284)
Cash flow hedging reserve	(7,775)	2,726
Total CET1 capital	**216,423**	**218,599**
Additional tier 1 (AT1) capital		
Non-controlling interests (net of deductions and surplus AT1 capital)	1,995	3,382
Total AT1 capital	1,995	3,382
Total tier 1 capital	**218,418**	**221,981**
Tier 2 capital		
Revaluation reserves	805	454
Subordinated redeemable shares	4,144	16,289
Total tier 2 capital	**4,949**	**16,743**
Total capital	**223,367**	**238,724**

The subordinated redeemable shares recognised within Tier 2 capital are subject to phase-out from Tier 2 capital under the RBNZ's Basel III transitional arrangements. As such, recognition of these instruments were capped at 80% of $25.2m, being the nominal amount outstanding at 1 January 2013, with this reducing to 60% from 1 January 2015 and 40% from 1 January 2016. Further information on this capital instrument is included in Note 21.

All in $000's

31 Capital Adequacy continued

(ii) Total risk weighted assets

	BANKING GROUP			
	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	Unaudited	Unaudited	Unaudited	Unaudited
	31/3/14	31/3/14	31/3/14	31/3/14
On balance sheet credit exposures				
Cash	531	0%	-	-
Public sector entities	86,511	20%	17,302	1,384
Banks	244,796	20%	48,959	3,917
Corporates (rating grade 1)	48,744	20%	9,749	780
Corporates (rating grade 2)	68,072	50%	34,036	2,723
Corporates (rating grade 3)	19,183	100%	19,183	1,535
Residential mortgages < 80% loan to value ratio (LVR)	1,315,032	35%	460,261	36,821
Residential mortgages 80 < 90% LVR	127,163	50%	63,582	5,087
Residential mortgages 90 < 100% LVR	12,602	75%	9,452	756
Residential mortgages welcome home loans	260,077	50%	130,039	10,403
Past due residential mortgages	3,270	100%	3,270	262
Impaired residential mortgages	1,454	100%	1,454	116
Equity holdings	1,271	300%	3,813	305
Other assets	595,500	100%	595,500	47,640
Non-risk weighted assets	3,570	0%	-	-
Total on balance sheet credit exposures	2,787,776		1,396,600	111,729

	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
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	31/3/14	31/3/14	31/3/14	31/3/14	31/3/14	31/3/14
Off balance sheet credit exposures						
Commitments with uncertain drawdown	32,373	50%	16,187	62%	10,079	806
Commitments to extend credit which can be unconditionally cancelled	206,911	0%	-	0%	-	-
Market related contracts[1]						
Interest rate contracts	1,110,716	n/a	16,818	20%	3,364	269
Credit valuation adjustment (CVA)	-	-	-	-	391	31
Total off balance sheet credit exposures	1,350,000		33,005		13,834	1,106
Total credit risk	4,137,776		33,005		1,410,434	112,835
Operational risk	n/a				170,590	13,647
Market risk	n/a				50,661	4,053
Total risk weighted assets	**4,137,776**				**1,631,685**	**130,535**

[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
	Unaudited	Unaudited	Unaudited	Unaudited
	31/3/13	31/3/13	31/3/13	31/3/13
On balance sheet credit exposures				
Cash	589	0%	-	-
Sovereigns and central banks	1,031	0%	-	-
Public sector entities	101,731	20%	20,346	1,628
Banks	330,957	20%	66,191	5,295
Corporates (rating grade 1)	59,956	20%	11,991	959
Corporates (rating grade 2)	51,290	50%	25,645	2,052
Corporates (rating grade 3)	19,988	100%	19,988	1,599
Residential mortgages < 80% loan to value ratio (LVR)	1,235,850	35%	432,548	34,604
Residential mortgages 80 < 90% LVR	109,693	50%	54,847	4,388
Residential mortgages 90 < 100% LVR	27,257	75%	20,443	1,635
Residential mortgages welcome home loans	255,265	50%	127,633	10,211
Past due residential mortgages	1,207	100%	1,207	97
Impaired residential mortgages	1,032	100%	1,032	83
Equity holdings	983	300%	2,949	236
Other assets	631,211	100%	631,211	50,497
Non-risk weighted assets	1,629	0%	-	-
Total on balance sheet credit exposures	2,829,669		1,416,031	113,284

	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
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	31/3/13	31/3/13	31/3/13	31/3/13	31/3/13	31/3/13
Off balance sheet credit exposures						
Commitments with uncertain drawdown	28,862	50%	14,431	63%	9,146	732
Commitments to extend credit which can be unconditionally cancelled	190,930	0%	-	0%	-	-
Market related contracts[1]						
Interest rate contracts	846,618	n/a	6,731	20%	1,346	108
Credit valuation adjustment (CVA)					167	13
Total off balance sheet credit exposures	1,066,410		21,162		10,659	853
Total credit risk	3,896,079		21,162		1,426,690	114,137
Operational risk	n/a				174,923	13,994
Market risk	n/a				62,907	5,033
Total risk weighted assets	**3,896,079**				**1,664,520**	**133,164**

[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			
	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
	Unaudited	Unaudited	Unaudited	Unaudited
	31/3/14	31/3/14	31/3/13	31/3/13
LVR range				
0 - 80%	1,338,219	175,016	1,237,865	134,640
80 - 90%	219,641	4,981	109,872	6,515
90% +	161,738	3,711	282,567	3,603
Total Residential Mortgages	**1,719,598**	**183,708**	**1,630,304**	**144,758**

Welcome Home Loans make up 92% of the residential mortgages in the 90% + loan to valuation grouping as at 31 March 2014 (31 March 2013 60%) and 42% of the 80-90% loan to valuation grouping (31 March 2013 67%). 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 Capital Adequacy Framework, and Schedule 9 of the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014. Peak exposures are calculated using the Banking Group's equity at the end of the period.

	BANKING GROUP			
	End of period		Peak end of day	
	Unaudited	Unaudited	Unaudited	Unaudited
	31/3/14	31/3/13	31/3/14	31/3/13
Interest rate exposures				
Implied risk weighted exposure	50,661	62,907	64,350	64,350
Aggregate capital charge	4,053	5,033	5,148	5,148

(v) Capital for other material risks

Basel III 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 (31 March 2013 $22.50 million).

All in $000's

32 Concentrations of Funding

	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
(a) Concentrations of funding by geographical location				
North Island	517,397	568,347	517,397	568,347
Canterbury	561,298	557,059	561,298	557,059
Otago	441,645	452,237	441,645	452,237
Southland	789,694	783,318	796,491	788,742
South Island other	161,297	153,331	161,297	153,331
Overseas	56,161	58,626	56,161	58,626
Total concentrations of funding by geographical location	**2,527,492**	**2,572,918**	**2,534,289**	**2,578,342**
(b) Concentrations of funding by product				
Redeemable shares	2,248,755	2,180,292	2,248,755	2,180,292
Deposits from customers	209,552	251,099	209,552	251,099
Due to other financial institutions	50,178	80,295	50,178	80,295
Subordinated redeemable shares	19,007	61,232	19,007	61,232
Due to subsidiary companies	-	-	6,797	5,424
Total concentrations of funding by product	**2,527,492**	**2,572,918**	**2,534,289**	**2,578,342**

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	
	31/3/14	31/3/13	31/3/14	31/3/13
Loans and advances outstanding at beginning of year	2,179	3,410	-	-
Net loans issued/(repaid) during the year	467	(1,231)	-	-
Loans and advances outstanding at end of year	**2,646**	**2,179**	**-**	**-**
Interest income earned on amounts due from related parties	**132**	**148**	**-**	**-**

	PARENT			
	Directors and other key management personnel		Associated companies	
	31/3/14	31/3/13	31/3/14	31/3/13
Loans and advances outstanding at beginning of year	1,449	2,583	87,808	89,871
Net loans issued/(repaid) during the year	597	(1,134)	7,492	(2,063)
Loans and advances outstanding at end of year	**2,046**	**1,449**	**95,300**	**87,808**
Interest income earned on amounts due from related parties	**97**	**107**	**4,887**	**5,292**

All in $000's

33 Related Parties continued

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.

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 2014 (31 March 2013 $nil).

(b) Deposits from related parties

	BANKING GROUP			
	Directors and other key management personnel		Associated companies	
	31/3/14	31/3/13	31/3/14	31/3/13
Deposits at beginning of year	30,529	11,491	-	-
Net deposits received during the year	(18,685)	19,038	-	-
Deposits at end of year	**11,844**	**30,529**	**-**	**-**
Interest expense on amounts due to related parties	**1,063**	**1,025**	**-**	**-**

	PARENT			
	Directors and other key management personnel		Associated companies	
	31/3/14	31/3/13	31/3/14	31/3/13
Deposits at beginning of year	28,510	11,255	5,424	4,733
Net deposits received during the year	(16,675)	17,255	1,374	691
Deposits at end of year	**11,835**	**28,510**	**6,798**	**5,424**
Interest expense on amounts due to related parties	**906**	**980**	**183**	**167**

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

(c) Other transactions with related parties

	Associated Companies			
	BANKING GROUP		PARENT	
	31/3/14	31/3/13	31/3/14	31/3/13
Payments received from/(made to) subsidiaries under interest rate swap agreements	-	-	331	788
Net rent paid to subsidiaries	-	-	(466)	(476)
Technology services fees received from subsidiaries	-	-	100	104
Net commission received from subsidiaries	-	-	205	180
Management fees received from subsidiaries	-	-	-	266
Dividends received/receivable from subsidiaries	-	-	5,726	6,795
Fees received from subsidiaries	-	-	1,530	1,360
	-	**-**	**7,426**	**9,017**

During the year ended 31 March 2014, the Banking Group paid $1.33 million of dividends to non-controlling interests whom were key management personnel (31 March 2013 $1.99 million).

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.

(d) Key management compensation

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

All in $000's

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 2014	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	-	-	17,714	-	-	**17,714**
Funds with financial institutions	-	92,710	-	-	-	**92,710**
Investment securities	524	358,161	-	-	-	**358,685**
Derivative financial instruments	9,589	-	-	-	-	**9,589**
Advances to customers	-	-	2,278,436	-	-	**2,278,436**
	10,113	450,871	2,296,150	-	-	**2,757,134**
Liabilities						
Redeemable shares	-	-	-	-	2,248,755	**2,248,755**
Deposits from customers	-	-	-	-	209,552	**209,552**
Due to other financial institutions	-	-	-	-	50,178	**50,178**
Derivative financial instruments	1,194	-	-	-	-	**1,194**
Subordinated redeemable shares	-	-	-	-	19,007	**19,007**
	1,194	-	-	-	2,527,492	**2,528,686**

PARENT

As at 31 March 2014	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	-	-	14,912	-	-	**14,912**
Funds with financial institutions	-	83,764	-	-	-	**83,764**
Investment securities	-	356,890	-	-	-	**356,890**
Derivative financial instruments	9,589	-	-	-	-	**9,589**
Advances to customers	-	-	2,162,695	-	-	**2,162,695**
Loans to subsidiaries	-	-	95,300	-	-	**95,300**
	9,589	440,654	2,272,907	-	-	**2,723,150**
Liabilities						
Redeemable shares	-	-	-	-	2,255,552	**2,255,552**
Deposits from customers	-	-	-	-	209,552	**209,552**
Due to other financial institutions	-	-	-	-	50,178	**50,178**
Derivative financial instruments	1,587	-	-	-	-	**1,587**
Subordinated redeemable shares	-	-	-	-	19,007	**19,007**
	1,587	-	-	-	2,534,289	**2,535,876**

All in $000's

34 Accounting Classifications continued

BANKING GROUP

As at 31 March 2013	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	-	-	21,801	-	-	**21,801**
Funds with financial institutions	-	144,490	-	-	-	**144,490**
Investment securities	1,656	398,577	-	-	-	**400,233**
Derivative financial instruments	2,396	-	-	-	-	**2,396**
Advances to customers	6,121	-	2,219,632	-	-	**2,225,753**
	10,173	543,067	2,241,433	-	-	**2,794,673**
Liabilities						
Redeemable shares	-	-	-	-	2,180,292	**2,180,292**
Deposits from customers	-	-	-	-	251,099	**251,099**
Due to other financial institutions	-	-	-	-	80,295	**80,295**
Derivative financial instruments	6,617	-	-	-	-	**6,617**
Subordinated redeemable shares	-	-	-	-	61,232	**61,232**
	6,617	-	-	-	2,572,918	**2,579,535**

PARENT

As at 31 March 2013	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	-	-	18,790	-	-	**18,790**
Funds with financial institutions	-	137,241	-	-	-	**137,241**
Investment securities	-	397,595	-	-	-	**397,595**
Derivative financial instruments	2,614	-	-	-	-	**2,614**
Advances to customers	6,121	-	2,110,650	-	-	**2,116,771**
Loans to subsidiaries	-	-	87,808	-	-	**87,808**
	8,735	534,836	2,217,248	-	-	**2,760,819**
Liabilities						
Redeemable shares	-	-	-	-	2,185,716	**2,185,716**
Deposits from customers	-	-	-	-	251,099	**251,099**
Due to other financial institutions	-	-	-	-	80,295	**80,295**
Derivative financial instruments	6,617	-	-	-	-	**6,617**
Subordinated redeemable shares	-	-	-	-	61,232	**61,232**
	6,617	-	-	-	2,578,342	**2,584,959**

All in $000's

35 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. The majority 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.

	31/3/14	31/3/13
Funds under management on behalf of customers	442,150	401,900

Securitised assets

As at 31 March 2014, the Banking Group had securitised assets amounting to $187 million (31 March 2013 $256 million). These assets have been sold to 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), 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.

The SBS Oreti Trust No. 2 is an in-house residential mortgage backed securities (RMBS) facility that can issue securities that meet the RBNZ criteria to use as collateral in repurchase transactions with the RBNZ. The facility provides the Bank with additional contingent funding from the RBNZ. Further information on liquidity is provided in Note 28.

Insurance business

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

The total assets of Southsure Assurance Limited as at 31 March 2014 are $12.7 million (31 March 2013 $11.4 million) which is 0.5% of the total assets of the Banking Group (31 March 2013 0.4%). 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.

36 Subsequent Events

There have been no material subsequent events after 31 March 2014.

Independent Auditor's Report

To the Members of Southland Building Society

Report on the Bank and Banking Group Disclosure Statement

We have audited the accompanying financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy) of Southland Building Society (the "Bank") and its subsidiaries (the "Banking Group") on pages 9 to 66 of the Disclosure Statement. The financial statements comprise the statements of financial position as at 31 March 2014, the income statements, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information of the Bank and Banking Group. The supplementary information comprises the information that is required to be disclosed in accordance with Schedules 4, 7, 9, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (the "Order").

Directors' Responsibility for the Disclosure Statement

The directors are responsible for the preparation of the Disclosure Statement, including financial statements prepared in accordance with Clause 24 of the Order and generally accepted accounting practice in New Zealand, and that give a true and fair view of the matters to which they relate. The directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the Bank and Banking Group's financial statements that are free from material misstatement whether due to fraud or error.

The directors are responsible for the preparation and fair presentation of supplementary information, in accordance with Schedules 2, 4, 7, 9, 13, 14, 15 and 17 of the Order.

Auditor's Responsibility

Our responsibility is to express an opinion on the Disclosure Statement, including the financial statements prepared in accordance with Clause 24 of the Order and the supplementary information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Bank and Banking Group's financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Bank and Banking Group's financial statements (excluding supplementary information relating to Capital Adequacy). The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Bank's preparation of the financial statements that gives a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has provided other services to the Bank and Banking Group. Other Services mainly relate to review of technical accounting papers. Subject to certain restrictions 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. These matters have not impaired our independence as auditor of the Bank and Banking Group. The firm has no other relationship with, or interest in, the Bank or Banking Group.

Opinion on Disclosure Statement

In our opinion the financial statements of Southland Building Society and its subsidiaries ("the Bank and Banking Group") on pages 9 to 66 (excluding supplementary information):

- complies with generally accepted accounting practice in New Zealand;
- complies with International Financial Reporting Standards; and
- gives a true and fair view of the financial position of the Bank as at 31 March 2014 and of its financial performance and cash flows for the year ended on that date.

Opinion on Supplementary Information (excluding supplementary information relating to Capital Adequacy)

In our opinion, the supplementary information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order, and is included within notes 12, 13, 28, 29, 30 and 35 of the Disclosure Statement:

- has been prepared, in all material respects, 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;
- is in accordance with the books and records of the Bank and Banking Group in all material respects; and
- fairly states the matters to which it relates in accordance with those Schedules.

Review Report on the Supplementary Information relating to Capital Adequacy

We have reviewed the Capital Adequacy information, as disclosed in note 31 of the Disclosure Statement for the year ended 31 March 2014.

Directors' Responsibility for the Supplementary Information relating to Capital Adequacy

The directors are responsible for the preparation of supplementary information relating to Capital Adequacy that is required to be disclosed under Schedule 9 of the Order and prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) and described in note 31 of the Disclosure Statement.

Auditor's Responsibility

Our responsibility is to express an opinion on the Capital Adequacy information based on our review. We conducted our review in accordance with the review engagement standard RS-1: Review Engagement Standards issued by the New Zealand External Reporting Board. Those standards require that we comply with ethical requirements and plan and perform the review to obtain limited assurance about whether the Capital Adequacy information is, in all material respects:

- prepared in accordance with the Bank's Conditions of Registration;
- prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A); and
- disclosed in accordance with Schedule 9 of the Order.

A review is limited primarily to enquiries of Bank and Banking Group personnel and analytical review procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit in respect of the Capital Adequacy disclosures, and accordingly, we do not express an audit opinion on these disclosures.

Review Opinion on the Supplementary Information relating to Capital Adequacy

Based on our review, 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 Disclosure Statement, is not, in all material respects:

- prepared in accordance with the Bank's Conditions of Registration;
- prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A); and
- disclosed in accordance with Schedule 9 of the Order.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, and clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by the Bank and Banking Group, as far as appears from our examination of those records.

KPMG

3 June 2014

KPMG Wellington

Branch Directory

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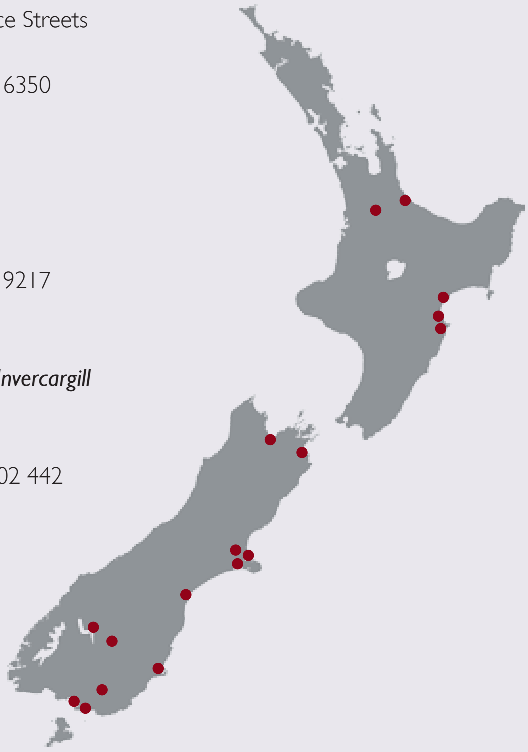

SBS Bank

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New Zealand Limited

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