Southland Building Society

General Short Form Disclosure Statement

For the nine months ended 31 December 2009

Number 7 Issued February 2010

Contents

General Information

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

This General Short Form Disclosure Statement has been issued by Southland Building Society in accordance with the Registered Bank Disclosure Statement (Off-Quarter - New Zealand Incorporated Registered Banks) Order 2008 (the 'Order').

Words and phrases defined by the Order have the same meanings when used in this General Short Form 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 1883/1.

Ownership

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

Guarantee Arrangements

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

The following are features of the guarantee:

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

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

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

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

Pending Proceedings or Arbitration

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

Insurance Business

The Banking Group markets and distributes insurance products through subsidiary company Southsure Assurance Limited. The total assets of Southsure Assurance Limited as at 31 December 2009 are $7.7 million (December 2008 $6.9 million; March 2009 $7.1 million), which is 0.3% of the total assets of the Banking Group (December 2008 0.3%; March 2009 0.3%). This complies with the Conditions of Registration of Southland Building Society, which allows a maximum of 1% of the total consolidated assets of the Banking Group to be represented by insurance business assets.

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

Other Material Matters

The Bank's Directors are of the opinion that there are no other matters relating to the business or affairs of the Registered Bank or the Banking Group which would, if disclosed in this General Short Form 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

There have been no changes in the composition of the Bank's Board of Directors since the publication date of the previous General Disclosure Statement.

Credit Rating

As at 31 December 2009, 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 28 July 2009. There have been no changes made to the rating in the two years preceding 31 December 2009. 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 withing the major rating categories, with 1 indicating the higher end and 3 the lower end of the rating category.

Conditions of Registration

The conditions of registration imposed on Southland Building Society by the Reserve Bank of New Zealand (RBNZ) pursuant to section 74 of the Reserve Bank of New Zealand Act 1989, and which apply as at the date of signing of this General Disclosure Statement are as follows. These conditions of registration have applied from 22 October 2009.

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

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

1A. That—
   (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")" (BS12) dated December 2007;
   (b) under its ICAAP, the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2007; and
   (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

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

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

   For the purposes of this condition:

   (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disapplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;

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

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

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

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

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

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.

Conditions of Registration (continued)

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

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

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

9. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, shall be made unless:

   (i) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (ii) the Reserve Bank has advised that it has no objection to that appointment.

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

11. That the banking group complies with the following quantitative requirements for liquidity-risk management with effect from 1 April 2010:

   (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
   (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
   (c) the one-year core funding ratio of the banking group is not less than 65 per cent at the end of each business day;

   For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated October 2009 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2009.

12. That, with effect from 1 April 2010, the registered bank has an internal framework for liquidity risk management that is adequate in the registered bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:

   (a) is clearly documented and communicated to all those in the organisation with responsiblity for managing liquidity and liquidity risk;
   (b) identifies responsiblity for approval, oversight and implementation of the framework and policies for liquidity risk management;
   (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
   (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

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

Directors' Statement

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

1. As at the date on which the General Short Form Disclosure Statement is signed:
   - (a) the General Short Form Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Off-Quarter - New Zealand Incorporated Registered Banks) Order 2008; and
   - (b) the General Short Form Disclosure Statement is not false or misleading;
2. Each Director of the Bank believes, after due enquiry, that during the nine months ended 31 December 2009:
   - (a) Southland Building Society has complied with the conditions of registration applicable during the period; 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 22nd February 2010 and has been signed by or on behalf of all the Directors.

JWA Smith
(Chairman)

JF Ward
(Deputy Chairman)

RL Smith
(Group Managing Director /
Chief Executive Officer)

KJ Ball

JB Walker

GJ Mulvey

GJ Diack

JJ Grant

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Southland Building Society
Income Statement for the nine months ended 31 December 2009
All in $000's

	Note	BANKING GROUP Unaudited 9 Months 31/12/2009	Unaudited 9 Months 31/12/2008	Audited 12 Months 31/03/2009
Interest income	(3)	129,259	187,306	237,227
Interest expense		12,904	33,425	39,421
Dividends on redeemable shares		72,476	107,199	136,808
	(4)	85,380	140,624	176,229
Net interest income		**43,879**	**46,682**	**60,998**
Other income	(3)	13,943	9,912	16,489
Total operating income		**57,822**	**56,594**	**77,487**
Operating expenses	(4)	33,193	32,896	42,922
Provision for credit impairment	(10)	10,724	8,302	12,446
Operating surplus		**13,905**	**15,396**	**22,119**
Add net gain/(loss) from financial instruments designated at fair value	(5)	147	(5,706)	(6,022)
Add revaluation of property		-	-	60
Surplus before income tax		**14,052**	**9,690**	**16,157**
Less income tax expense		3,950	2,470	4,100
Net surplus		**10,102**	**7,220**	**12,057**
Attributable to:				
Members' interests		8,474	6,708	10,986
Minorities' interests		1,628	512	1,071
		10,102	**7,220**	**12,057**

Southland Building Society
Statement of Comprehensive Income for the nine months ended 31 December 2009
All in $000's

	Note	BANKING GROUP Unaudited 9 Months 31/12/2009	Unaudited 9 Months 31/12/2008	Audited 12 Months 31/03/2009
Net surplus for the period		10,102	7,220	12,057
Other comprehensive income				
Net change in property, plant & equipment reserve, net of tax	(15)	-	-	55
Net change in cash flow hedging reserve, net of tax	(15)	8,368	(10,987)	(11,309)
Net change in available for sale asset reserve, net of tax	(15)	26	28	(53)
Other comprehensive income for the period, net of tax		8,394	(10,959)	(11,307)
Total comprehensive income for the period		**18,496**	**(3,739)**	**750**
Attributable to:				
Members' interests		16,863	(4,242)	(309)
Minorities' interests		1,633	503	1,059
		18,496	**(3,739)**	**750**

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

Southland Building Society

Statement of Changes in Equity for the nine months ended 31 December 2009

All in $000's

	Note	BANKING GROUP		
		Unaudited 9 Months 31/12/2009	Unaudited 9 Months 31/12/2008	Audited 12 Months 31/03/2009
Capital reserve				
Balance at beginning of the period		73	73	73
Balance at end of the period		73	73	73
Revaluation reserve - property, plant and equipment				
Balance at beginning of the period		1,195	1,140	1,140
Other comprehensive income for the period		-	-	55
Balance at end of the period		1,195	1,140	1,195
Revaluation reserve - available for sale assets				
Balance at beginning of the period		(75)	(34)	(34)
Other comprehensive income for the period		21	37	(41)
Balance at end of the period		(54)	3	(75)
Revaluation reserve - cash flow hedging				
Balance at beginning of the period		(11,309)	-	-
Other comprehensive income for the period		8,368	(10,987)	(11,309)
Balance at end of the period		(2,941)	(10,987)	(11,309)
Retained earnings				
Balance at beginning of the period		161,432	150,446	150,446
Net surplus for the period		8,474	6,708	10,986
Balance at end of the period		169,906	157,154	161,432
Total equity attributable to member's interests		**168,179**	**147,383**	**151,316**
Minorities' interests				
Balance at beginning of the period		4,264	3,741	3,741
Net surplus for the period		1,628	512	1,071
Other comprehensive income for the period		5	(9)	(12)
Dividends		(1,083)	(386)	(2,228)
Change in capital of minority interests		689	(19)	1,692
Balance at end of the period		5,503	3,839	4,264
Total equity at end of the period		**173,682**	**151,222**	**155,580**
Represented by:				
Equity at beginning of the period		155,580	155,366	155,366
Net surplus for the period		10,102	7,220	12,057
Other comprehensive income for the period		8,394	(10,959)	(11,307)
Total comprehensive income for the period		18,496	(3,739)	750
Dividends		(1,083)	(386)	(2,228)
Change in capital of minority interests		689	(19)	1,692
Total equity at end of the period		**173,682**	**151,222**	**155,580**

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

Southland Building Society

Statement of Financial Position as at 31 December 2009

All in $000's

	Note	BANKING GROUP Unaudited 31/12/2009	Unaudited 31/12/2008	Audited 31/03/2009
Assets				
Cash on hand and at bank		20,636	11,831	23,164
Funds with financial institutions	(6)	134,893	120,093	76,777
Investment securities	(7)	2,469	2,415	2,421
Derivative financial instruments	(8)	2,324	20	732
Current tax assets		948	5,056	-
Advances to customers	(9)	2,472,242	2,400,537	2,403,909
Other assets		1,869	2,831	4,924
Property, plant and equipment		16,005	16,040	15,904
Intangible assets		2,953	2,701	2,842
Deferred tax		6,902	3,322	10,504
		2,661,241	**2,564,846**	**2,541,177**
Liabilities				
Redeemable shares	(17)	1,974,356	1,898,866	1,851,828
Deposits from customers	(17)	255,397	222,295	234,475
Due to other financial institutions	(17)	30,107	-	17,002
Derivative financial instruments	(8)	16,510	33,584	34,500
Current tax liabilities		-	-	1,057
Other borrowings		137,004	236,010	173,811
Other liabilities		17,576	22,869	30,698
Subordinated redeemable shares	(14)	56,609	-	42,226
		2,487,559	**2,413,624**	**2,385,597**
Net assets		**173,682**	**151,222**	**155,580**
Equity	(15)			
Reserves		(1,727)	(9,771)	(10,116)
Retained earnings		169,906	157,154	161,432
Attributable to members of the society		168,179	147,383	151,316
Attributable to minority shareholders		5,503	3,839	4,264
		173,682	**151,222**	**155,580**

For and on behalf of the Board of Directors:

Chairman
JWA Smith

Group Managing Director
RL Smith

22 February 2010

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

Southland Building Society

Statement of Cash Flows for the nine months ended 31 December 2009

All in $000's

SBS | Bank

	Note	BANKING GROUP		
		Unaudited 9 Months 31/12/2009	Unaudited 9 Months 31/12/2008	Audited 12 Months 31/03/2009
Cash flows from operating activities				
Interest received		127,067	185,552	237,524
Fees and other income		19,341	14,288	18,604
Dividends received		28	67	-
Interest paid		(12,718)	(33,343)	(39,918)
Dividends paid on redeemable shares		(76,475)	(95,615)	(130,448)
Operating expenses		(34,877)	(33,309)	(42,302)
Income taxes paid		(5,954)	(1,303)	(3,851)
Net cash flows from operating activities before changes in operating assets and liabilities		16,412	36,337	39,609
Net changes in operating assets and liabilities				
Net increase in advances		(87,121)	(57,999)	(64,525)
Net increase in investment securities		(42)	(508)	(516)
Net increase in shares and deposits from customers		147,439	282,780	253,744
Net increase/(decrease) in deposits from financial institutions		13,105	(70,427)	(53,427)
Net increase/(decrease) in other borrowings		(36,807)	(111,543)	(173,435)
Net increase/(decrease) in subordinated redeemable shares		14,207	-	41,902
Net increase/(decrease) in cash held on behalf of Lifestages Mortgage Portfolio		(9,061)	270	4,908
Net cash flows provided by/(used in) operating activities	(16)	**58,132**	**78,910**	**48,260**
Cash flows from investing activities				
Sale of property, plant and equipment		92	59	62
Purchase of property, plant and equipment		(1,089)	(695)	(882)
Purchase of intangible assets		(930)	(881)	(1,311)
Net decrease in loans to associates		-	1,413	1,413
Net decrease in investment in associates		-	1,000	1,000
Net cash flows provided by/(used in) investing activities		**(1,927)**	**896**	**282**
Cash flows from financing activities				
Dividends paid to minority interests		(507)	(386)	(406)
Repayment of minority interests share capital		-	(19)	(18)
Net cash flows provided by/(used in) financing activities		**(507)**	**(405)**	**(424)**
Net increase in cash held		55,698	79,401	48,118
Add opening cash and cash equivalents		99,426	51,308	51,308
Closing cash and cash equivalents		**155,124**	**130,709**	**99,426**
Reconciliation of cash and cash equivalents				
Cash on hand and at bank		20,636	11,831	23,164
Funds with financial institutions		134,893	120,093	76,777
Interest accrued on available for sale assets		(405)	(1,113)	(508)
Net decrease in fair value of available for sale assets		-	(102)	(7)
		155,124	**130,709**	**99,426**

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

The financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting and the Registered Bank Disclosure Statement (Off-Quarter - New Zealand Incorporated Registered Banks) Order 2008. These financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 March 2009.

These financial statements were authorised for issue by the Board of Directors on 22 February 2010.

(b) Presentation Currency and Rounding

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

(c) Standards Issued But Not Yet Effective

The following new standards and amendments to standards relevant to the Banking Group are not yet effective and have not yet been applied in preparing the financial statements. Adoption of these standards will not have any impact on the Banking Group's reported profit or financial position.

- NZ IAS 34 *Interim Financial Reporting - Scope* will apply to the Banking Group from 1 April 2010.
- NZ IAS 39 *Amendment - Eligible Hedged Items* will apply to the Banking Group from 1 April 2010.

(d) Measurement Base

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

(e) Consolidation

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

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

(f) Comparatives

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

(g) Changes in Accounting Policies

During the period ended 31 December 2009, the Banking Group has changed the method of calculating depreciation on property, plant and equipment other than land from the diminishing value method to the straight line method. The straight line method results in a constant charge over the useful life of the asset. This change, in accordance with NZ IAS 16, was implemented to align the method of calculating depreciation on property, plant and equipment other than land with internal processes and more accurately reflect the future economic benefits of these assets. The adoption of the straight line method is a change in an accounting estimate and does not have a material effect on the financial statements of the Banking Group. In accordance with NZ IAS 8, the full adjustment in relation to this change has been recognised through depreciation expense and accumulated depreciation in the current financial period with no prior year adjustments made.

There have been no other changes in accounting policies and all other accounting policies adopted are consistent with those used in previous periods.

2. Risk Management Policies

There has been no material change in the Banking Group's policies for managing risk, or material exposures to any new types of risk since the authorisation date of the previous Disclosure Statement on 15 December 2009.

All in $000's

3. Income

	BANKING GROUP		
	Unaudited	**Unaudited**	**Audited**
	9 Months	**9 Months**	**12 Months**
	31/12/2009	**31/12/2008**	**31/03/2009**
Interest income			
Cash at bank	482	816	992
Funds with financial institutions - available for sale	2,496	2,935	4,067
Investment securities - available for sale	15	28	43
Investment securities - designated at fair value through profit or loss	64	53	70
Derivative financial instruments	(21,888)	4,695	402
Advances to customers - at amortised cost	129,273	135,574	182,448
Advances to customers - designated at fair value through profit or loss	18,817	43,131	49,129
Loans to associates	-	74	76
Total interest income	**129,259**	**187,306**	**237,227**
Other operating income			
Loan fees	1,585	274	2,990
Management fees	2,683	1,976	2,816
Other fee and commission income	4,407	3,435	5,122
Net insurance income	3,882	3,083	3,895
Dividends	28	67	-
Gain on sale of shares	8	-	-
Sundry income	1,350	1,077	1,666
Total other operating income	**13,943**	**9,912**	**16,489**

4. Expenses

Interest expense			
Redeemable shares	69,620	107,199	136,482
Deposits from customers	7,862	10,587	13,688
Other financial institutions	215	844	855
Other borrowings	4,828	21,994	24,879
Subordinated redeemable shares	2,855	-	325
Total interest expense	**85,380**	**140,624**	**176,229**
Other operating expenses			
Auditor's remuneration	304	293	345
Computer expenses	1,323	1,214	1,633
Fees and commissions	313	251	313
Fees to directors *	398	481	634
Marketing	3,183	3,965	4,632
Personnel	17,277	16,294	21,050
Actuarial life adjustment	718	46	157
Amortisation and depreciation	1,711	2,032	2,755
Rent and leases	1,579	1,555	2,045
Write off of property, plant and equipment	8	5	15
Loss on sale of shares	-	90	90
Other expenses	6,379	6,670	9,253
Total other operating expenses	**33,193**	**32,896**	**42,922**

*The provision for directors retiring allowance increased by $57,000 this period (December 2008 decrease of $129,000, March 2009 decrease of $108,000).

All in $000's

4. Expenses (continued)

	Unaudited 9 Months 31/12/2009	Unaudited 9 Months 31/12/2008	Audited 12 Months 31/03/2009
	BANKING GROUP		
Amounts received, or due and receivable by the auditors:			
KPMG auditing the financial statements	243	277	315
KPMG other assurance services *	61	16	30
	304	**293**	**345**

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

	Unaudited 9 Months 31/12/2009	Unaudited 9 Months 31/12/2008	Audited 12 Months 31/03/2009
Amounts received, or due and receivable by directors:			
JWA Smith (Chairman)	79	80	106
MH Piper (retired July 2008)[1]	-	139	139
WH Conway (retired July 2008)[1]	-	145	148
JF Ward (Deputy Chairman)	51	48	61
KJ Ball	43	39	55
JB Walker	45	39	66
GJ Mulvey	39	42	54
GJ Diack	44	39	60
JJ Grant	40	39	53
RL Smith [2]	-	-	-
	341	**610**	**742**
Provision for directors retiring allowance	57	(129)	(108)
	398	**481**	**634**

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

[1] Includes directors retiring allowance

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

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

	Unaudited 9 Months 31/12/2009	Unaudited 9 Months 31/12/2008	Audited 12 Months 31/03/2009
Net gain/(loss) arising on:			
- Investment securities	(23)	64	67
- Derivative financial instruments	8,622	(21,119)	(22,215)
- Hedge ineffectiveness on cash flow hedging	(93)	(404)	(379)
- Advances to customers	(8,359)	15,753	16,505
Total net gain/(loss) from financial instruments designated at fair value	**147**	**(5,706)**	**(6,022)**

6. Funds with Financial Institutions

	Unaudited 9 Months 31/12/2009	Unaudited 9 Months 31/12/2008	Audited 12 Months 31/03/2009
Call funds	3,035	660	1,363
Registered certificates of deposit	-	119,433	63,758
Term deposits	131,858	-	11,656
Total funds with financial institutions	**134,893**	**120,093**	**76,777**
Funds with financial institutions were recorded as:			
At amortised cost	-	-	-
Designated as available for sale	134,893	120,093	76,777
Total funds with financial institutions	**134,893**	**120,093**	**76,777**

All in $000's

7. Investment Securities

	BANKING GROUP		
	Unaudited 31/12/2009	**Unaudited 31/12/2008**	**Audited 31/03/2009**
Managed funds	623	617	624
NZ government securities	1,037	1,058	1,077
Equity securities	809	740	720
Total investment securities	**2,469**	**2,415**	**2,421**
Investment securities were recorded as:			
At amortised cost	-	-	-
Designated as fair value through profit or loss	1,449	1,071	1,090
Designated as available for sale	1,020	1,344	1,331
Total investment securities	**2,469**	**2,415**	**2,421**

8. Derivative Financial Instruments

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

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

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

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

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

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

Hedge accounting

Cash flow hedges

The Banking Group hedges the forecasted interest cash flows from floating rate deposits using interest rate swaps and interest rate options. There were no transactions where cash flow hedge accounting ceased in the period ended 31 December 2009 as a result of highly probable cash flows no longer expected to occur (December 2008 $nil, March 2009 $nil).

Fair value gains and losses deferred in cash flow hedge reserves will be transferred to income statement over the next one to five years, as the cash flows under the hedged transactions occur.

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

All in $000's

SBS Bank

8. Derivative Financial Instruments (continued)

	BANKING GROUP		
As at 31 December 2009 (Unaudited)	**Notional Principal**	**Fair Value Assets**	**Fair Value Liabilities**
Held for risk management - at fair value			
Interest rate related contracts			
Swaps	664,350	621	1,298
Options	162,000	-	6,375
Total held for risk management at fair value	**826,350**	**621**	**7,673**
Held for hedging - cash flow hedges			
Interest rate related contracts			
Swaps	504,500	1,703	6,169
Options	90,000	-	2,668
Total held for hedging	**594,500**	**1,703**	**8,837**
Total derivative financial instruments	**1,420,850**	**2,324**	**16,510**
As at 31 December 2008 (Unaudited)			
Held for risk management - at fair value			
Interest rate related contracts			
Swaps	97,175	-	3,040
Options	541,375	4	13,494
Total held for risk management at fair value	**638,550**	**4**	**16,534**
Held for hedging - cash flow hedges			
Interest rate related contracts			
Swaps	337,750	16	13,158
Options	90,000	-	3,892
Total held for hedging	**427,750**	**16**	**17,050**
Total derivative financial instruments	**1,066,300**	**20**	**33,584**
As at 31 March 2009 (Audited)			
Held for risk management - at fair value			
Interest rate related contracts			
Swaps	522,125	616	4,150
Options	505,375	-	12,387
Total held for risk management at fair value	**1,027,500**	**616**	**16,537**
Held for hedging - cash flow hedges			
Interest rate related contracts			
Swaps	269,000	116	13,409
Options	90,000	-	4,554
Total held for hedging	**359,000**	**116**	**17,963**
Total derivative financial instruments	**1,386,500**	**732**	**34,500**

All in $000's

9. Advances to Customers

		BANKING GROUP		
		Unaudited 31/12/2009	Unaudited 31/12/2008	Audited 31/03/2009
Advances at fair value through profit or loss		326,553	649,958	521,381
Advances at amortised cost		2,164,169	1,768,431	1,901,139
Gross advances [1]		**2,490,722**	**2,418,389**	**2,422,520**
Less provisions for credit impairment	(10)	13,390	10,829	12,798
Less deferred fee revenue and expenses		5,090	7,023	5,813
Total net advances		**2,472,242**	**2,400,537**	**2,403,909**

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

At 31 December 2009 the maximum credit exposure on these loans at fair value through the profit or loss was $327 million (December 2008 $650 million; March 2009 $521 million). The Banking Group has $nil credit risk derivatives at 31 December 2009 (December 2008 $nil; March 2009 $nil).

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

[1] The Banking Group has entered into a repurchase agreement for residential mortgage backed securities with the RBNZ with a book value of $30 million (December 2008 $nil; March 2009 $nil). The underlying collateral accepted by the RBNZ are residential advances to the value of $36 million (December 2008 $nil; March 2009 $nil). These advances have not been derecognised from the statement of financial position.

10. Provision for Credit Impairment

	BANKING GROUP		
	Unaudited 31/12/2009	Unaudited 31/12/2008	Audited 31/03/2009
Individual provisions against advances and loans			
(All relate to impaired assets)			
Balance at beginning of the period	8,055	3,405	3,405
New provisions during the period	5,987	4,581	7,727
Balances written off during the period	(5,283)	(1,391)	(2,061)
Recoveries/reversals of previously recognised provision	(23)	(394)	(1,016)
Balance at end of the period	**8,736**	**6,201**	**8,055**
Collective provisions against advances and loans			
Balance at beginning of the period	4,743	3,692	3,692
Charged to income statement	(89)	(54)	54
Provision on acquisition	-	990	997
Balance at end of the period	**4,654**	**4,628**	**4,743**
Total provisions for credit impairment	**13,390**	**10,829**	**12,798**

At 31 December 2009, the Banking Group did not have any material restructured assets or assets acquired through enforcement of security (Dec 2008 $nil, March 2009 $nil).

The collective provision for the Banking Group is in relation to consumer finance lending by Finance Now Limited. Management regularly reviews economic conditions and credit conditions to determine collective provisioning.

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

	BANKING GROUP		
	Unaudited 31/12/2009	Unaudited 31/12/2008	Audited 31/03/2009
Bad debts written off during the period	10,132	5,560	7,742
Movement in individual provisions	681	2,796	4,650
Movement in collective provision	(89)	(54)	54
Provision for credit impairment to income statement	**10,724**	**8,302**	**12,446**

All in $000's

11. Asset Quality

	BANKING GROUP		
	Unaudited 31/12/2009	**Unaudited 31/12/2008**	**Audited 31/03/2009**
(a) Asset quality - advances to customers			
Neither past due or impaired	2,421,679	2,362,820	2,359,234
Individually impaired amount	33,948	12,049	21,848
Past due amount	30,005	36,497	35,625
Total provision for credit impairment	(13,390)	(10,829)	(12,798)
Total carrying amount	**2,472,242**	**2,400,537**	**2,403,909**
(b) Ageing of past due but not impaired assets			
Past due 0-29 days	16,750	20,318	19,499
Past due 30-59 days	3,796	6,293	2,550
Past due 60-89 days	4,359	4,594	3,064
Past due 90-119 days	803	4,767	10,512
Past due 120-365 days	4,297	525	-
Past due more than 1 year	-	-	-
Total carrying amount	**30,005**	**36,497**	**35,625**
(c) 90 day past due assets			
Balance at beginning of the period	10,512	6,910	14,133
Additions to 90 day past due assets	7,319	10,454	10,022
Reductions to 90 day past due assets	(12,731)	(12,072)	(13,643)
Balance at end of the period	**5,100**	**5,292**	**10,512**
(d) Impaired assets			
Individually impaired assets			
Balance at beginning of the period	21,848	8,355	8,355
Additions to individually impaired assets	20,223	4,944	15,166
Reductions in individually impaired assets	(8,123)	(972)	(1,395)
Transfers back to productive ledger	-	(278)	(278)
Balance at end of the period	**33,948**	**12,049**	**21,848**
Less: individual provision at end of the period	8,736	6,201	8,055
Net carrying amount at end of the period	**25,212**	**5,848**	**13,793**

Interest revenue foregone on impaired assets is the amount of interest income that would have been recorded had interest been accrued. This amounts to $103,000 for the period ended 31 December 2009 (December 2008 $75,000, March 2009 $84,000).

Of monetary assets receivable 0.125% (December 2008 0.097%, March 2009 0.175%) relate to repayments in arrears in excess of three months.

All in $000's

12. Loan Securitisation

Mortgages assigned by SBS to the Lifestages Mortgage Portfolio unit trust during the period ended 31 December 2009 amounted to $nil (December 2008 $nil, March 2009 $nil). SBS retains the majority of the risks and rewards of ownership and accordingly it is appropriate to record these securitised assets within the statement of financial position. SBS has an obligation to repurchase loans in certain circumstances, when the securitised loans cease to conform with the terms and conditions of the assignment agreement or in order to facilitate liquidity in the trust as requested by the Trustee. The securities issued by the Lifestages Mortgage Portfolio do not represent deposits or other liabilities of SBS and are disclosed as other borrowings. SBS does not in any way stand behind the capital value and/or the performance of the securities or the assets of the trust except to the limited extent provided in the assignment agreement documents, through the provision of arms length services and facilities.

Mortgages assigned by SBS to the SBS Invercargill W Trust during the period ended 31 December 2009 amounted to $nil (December 2008 $47.41 million; March 2009 $47.41 million). SBS retains some of the risks and rewards of ownership through the provision of a subordinated loan.

Mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No. 2 during the period ended 31 December 2009 amounted to $nil (December 2008 $nil; March 2009 $123.10 million). SBS retains some of the risks and rewards of this Trust by holding the securities issued by the Trust.

Mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No.1 during the period ended 31 December 2009 amounted to $nil (December 2008 $nil; March 2009 $nil). SBS does not guarantee the payment of interest or the repayment of principal due on the securities. SBS is not obliged to support any losses that may be suffered by investors.

Securitised loan balances		**BANKING GROUP**	
	Unaudited	**Unaudited**	**Audited**
	31/12/2009	**31/12/2008**	**31/03/2009**
Lifestages Mortgage Portfolio	56,551	72,365	68,958
SBS Invercargill W Trust	-	154,671	-
SBS Oreti Trust No 1	77,168	108,100	97,073
SBS Oreti Trust No 2	99,411	-	122,651
	233,130	**335,136**	**288,682**

13. Investments in Subsidiaries and Associates

Significant subsidiaries and associates:		**Percentage Held**		**Balance Date**	**Nature of Business**
	31/12/2009	**31/12/2008**	**31/03/2009**		
Subsidiaries:					
Fraser Properties Limited	100.0%	100.0%	100.0%	31 March	Property Holding
Southsure Assurance Limited	80.0%	80.0%	80.0%	31 March	Insurance
Finance Now Limited	71.5%	71.5%	71.5%	31 March	Finance Company
Funds Administration New Zealand Limited	57.0%	57.0%	57.0%	31 March	Funds Administration
In-substance subsidiaries:					
SBS Invercargill W Trust	-	-	-	31 March	Mortgage Securitisation
SBS Oreti Trust No 1	-	-	-	31 March	Mortgage Securitisation
SBS Oreti Trust No 2	-	n/a	-	31 March	Mortgage Securitisation
Associates:					
Rural Livestock Finance Limited	-	-	-	30 June	Livestock Finance
RLF Management Limited	-	-	-	30 June	Management Company

All subsidiaries, in-substance subsidiaries and associates are incorporated in New Zealand. For all subsidiaries, the ownership percentage equates to the voting power held.

During the year ended 31 March 2009, the Banking Group established the SBS Oreti Trust No 2, a special purpose vehicle holding securitised loans assigned from the SBS Invercargill W Trust.

Rural Livestock Finance Limited shares and RFL Management Limited shares were redeemed and repurchased during the year ended 31 March 2009. Rural Livestock Finance Limited issued new redeemable preference shares which SBS invested in and this shareholding no longer qualifies as an associate.

All in $000's

14. Subordinated Redeemable Shares

	BANKING GROUP		
	Unaudited 31/12/2009	**Unaudited 31/12/2008**	**Audited 31/03/2009**
SBS Premier Bond	56,609	-	42,226
	56,609	**-**	**42,226**

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

At 31 December 2009 $56.11 million of subordinated redeemable shares qualify as lower tier 2 capital for Reserve Bank of New Zealand capital adequacy purposes (December 2008 $nil; March 2009 $41.90 million).

15. Equity

	BANKING GROUP		
	Unaudited 31/12/2009	**Unaudited 31/12/2008**	**Audited 31/03/2009**
Capital reserve	73	73	73
Revaluation reserve - property, plant and equipment	1,195	1,140	1,195
Revaluation reserve - available for sale assets	(54)	3	(75)
Revaluation reserve - cash flow hedging	(2,941)	(10,987)	(11,309)
Retained earnings	169,906	157,154	161,432
Equity attributable to members of the society	168,179	147,383	151,316
Equity attributable to minority interests	5,503	3,839	4,264
Total equity	**173,682**	**151,222**	**155,580**

Movement in reserves:

Revaluation reserve - property, plant and equipment			
Balance at beginning of the period	1,195	1,140	1,140
Surplus on revaluation of land and buildings	-	-	126
Deferred tax on revaluation	-	-	(11)
Transfer to income statement	-	-	(60)
Net movement for the period	-	-	55
Balance at end of the period	**1,195**	**1,140**	**1,195**

All in $000's

15. Equity (continued)

	BANKING GROUP		
	Unaudited 31/12/2009	Unaudited 31/12/2008	Audited 31/03/2009
Revaluation reserve - available for sale assets			
Balance at beginning of the period	(75)	(34)	(34)
Net gains/(losses) from changes in fair value	37	40	(75)
Current/deferred tax on changes in fair value	(11)	(12)	22
Minority interests share of net gains/(losses) from changes in fair value	(8)	13	17
Minority interests share of current/deferred tax in fair value	3	(4)	(5)
Net movement for the period	21	37	(41)
Balance at end of the period	**(54)**	**3**	**(75)**
Revaluation reserve - cash flow hedging reserve			
Balance at beginning of the period	(11,309)	-	-
Net gains/(losses) from changes in fair value	11,954	(15,696)	(16,156)
Current tax on changes in fair value	(3,586)	4,709	4,847
Net movement for the period	8,368	(10,987)	(11,309)
Balance at end of the period	**(2,941)**	**(10,987)**	**(11,309)**
Retained earnings			
Balance at beginning of the period	161,432	150,446	150,446
Add net surplus for the period	10,102	7,220	12,057
Less minorities' interests	(1,628)	(512)	(1,071)
Balance at end of the period	**169,906**	**157,154**	**161,432**

16. Reconciliation of Net Surplus to Net Operating Cash Flows

Net surplus for period	10,102	7,220	12,057
Add/(less) non cash items			
Depreciation and amortisation	1,711	2,032	2,755
Provision for credit impairment	10,724	8,302	12,446
Write off property, plant and equipment	8	5	15
Loss on sale of shares	-	90	90
Building revaluations	-	-	(60)
Actuarial life adjustment	718	46	157
Dividend provision - minority interest	113	-	(113)
Deferred fee revenue and expenses	(723)	(508)	(1,716)
Derivatives fair value adjustment	(8,529)	21,523	18,977
Advances fair value adjustment	8,360	(15,753)	(16,505)
Investment securities fair value adjustment	23	(64)	(67)
Interest free loans fair value adjustment	(126)	(360)	(386)
Net deferred tax assets	3,587	(1,258)	(3,581)
	15,866	**14,055**	**12,012**

All in $000's

16. Reconciliation of Net Surplus to Net Operating Cash Flows (continued)

	BANKING GROUP		
	Unaudited 9 Months 31/12/2009	Unaudited 9 Months 31/12/2008	Audited 12 Months 31/03/2009
Deferral or accruals of past or future operating cash receipts or payments			
Increase/(decrease) in income tax payable	(5,591)	2,425	3,830
Decrease/(increase) in sundry debtors	3,055	2,156	63
Increase/(decrease) in sundry creditors	(4,779)	(2,358)	722
Decrease/(increase) in accruals relating to interest receivable	1,469	2,063	5,332
Increase/(decrease) in accruals relating to accrued interest and dividends payable to customers	(3,813)	12,070	6,572
Decrease in accruals relating to accrued interest payable to financial institutions	-	(11)	(9)
Increase in investment securities	(42)	(508)	(516)
Increase in net advances	(87,121)	(57,999)	(64,525)
Increase in shares and deposits	160,544	212,353	200,317
Increase/(decrease) in other borrowings	(36,807)	(111,936)	(174,135)
Increase in subordinated redeemable shares	14,207	-	41,902
Net increase/(decrease) in cash held on behalf of Lifestages Mortgage Portfolio	(9,061)	270	4,908
	32,061	**58,525**	**24,461**
Items classified as cash			
Decrease/(increase) in accruals relating to funds with financial institutions	103	(890)	(270)
Net cash flows from operating activities	**58,132**	**78,910**	**48,260**

17. Analysis of Borrowings

Redeemable shares			
Call	273,996	276,797	278,459
Term	1,700,360	1,622,069	1,573,369
Total redeemable shares	**1,974,356**	**1,898,866**	**1,851,828**
Deposits from customers			
Call	57,217	89,267	88,339
Term	198,180	133,028	146,136
Total deposits from customers	**255,397**	**222,295**	**234,475**
Due to other financial institutions			
Call	-	-	17,002
Term[1]	30,107	-	-
Total due to other financial institutions	**30,107**	**-**	**17,002**
Subordinated redeemable shares			
Call	-	-	-
Term	56,609	-	42,226
Total subordinated redeemable shares	**56,609**	**-**	**42,226**
Total shares and deposits	**2,316,469**	**2,121,161**	**2,145,531**

[1] Due to other financial institutions includes $30 million (December 2008 $nil; March 2009 $nil) of securities sold under agreements to repurchase from the RBNZ. The underlying collateral accepted by the RBNZ are residential advances to the value of $36 million (December 2008 $nil; March 2009 $nil).

All in $000's

18. Contingent Liabilities and Credit Related Commitments

	BANKING GROUP					
	Unaudited Contract or Notional Amt 31/12/2009	Unaudited Credit Equivalent 31/12/2009	Unaudited Contract or Notional Amt 31/12/2008	Unaudited Credit Equivalent 31/12/2008	Audited Contract or Notional Amt 31/03/2009	Audited Credit Equivalent 31/03/2009
Contingent liabilities						
Lifestages Superannuation Scheme	6	6	474	474	185	185
Commitments						
Commitments with uncertain drawdown	23,515	11,758	23,972	11,986	22,212	11,106
Commitments to extend credit which can be unconditionally cancelled	191,689	-	222,577	-	227,507	-
Total contingent liabilities and credit related commitments	**215,210**	**11,764**	**247,023**	**12,460**	**249,904**	**11,291**

SBS has entered into a trust deed made between SBS and Trustees Executors Limited, as Trustee of a registered superannuation scheme known as Lifestages Superannuation Scheme (formally known as Lifestages Capital Stable Portfolio). The trust deed was effective from the 1st day of April 1992. Under the Deed of Guarantee executed on the 26th day of March 1992, SBS unconditionally guarantees the capital invested in the Lifestages Superannuation Scheme of $6,000 (December 2008 $474,000; March 2009 $185,000) providing the investment is maintained for at least three years. A Deed Of Amendment and Restatement of Guarantee dated 31 March 2007 amended the terms of the guarantee provided by SBS, such that the guarantee will now only be applicable to members who joined the registered superannuation scheme prior to 31 May 2007. The liability of SBS under the guarantee has not been taken over by FANZ under the Deed of Novation and SBS remains liable under this guarantee. A minimum of 80% of the funds invested in the Lifestages Superannuation Scheme are reinvested with the Society.

There are no other material contingent liabilities.

19. Commitments

	BANKING GROUP		
Lease commitments	Unaudited 31/12/2009	Unaudited 31/12/2008	Audited 31/03/2009
Lease commitments payable after balance date:			
0-12 Months	1,756	1,757	1,814
12-24 Months	1,199	1,502	1,483
24-60 Months	1,404	1,867	1,901
>60 Months	214	559	485
	4,573	**5,685**	**5,683**

The Banking Group leases land and buildings under operating leases expiring from one to six 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.

All in $000's

20. Segmental Analysis

Business segment analysis

For management purposes, the Banking Group is organised into two major business units:

Banking operations

Banking operations incorporates SBS and its in-substance subsidiaries SBS Invercargill W Trust, SBS Oreti Trust No 1 and SBS Oreti Trust No 2 which operate solely in the New Zealand retail financial markets providing banking services, customer current accounts, savings, deposits, investment savings products, consumer loans and mortgages.

Other Financial Services

Other financial services incorporates subsidiaries Fraser Properties Limited, Southsure Assurance Limited, Finance Now Limited and Funds Administration New Zealand Limited.

Fraser Properties Limited owns Southland Building Society's Head Office building which is located in the central business district of Invercargill. Major tenants are New Zealand Post, the Alliance Group Ltd and SBS.

Southsure Assurance Limited is a life insurance company operating in the New Zealand domestic market.

Finance Now Limited is a finance company operating in the New Zealand financial market.

Funds Administration New Zealand Limited is a funds management and financial advisory company operating in the New Zealand wholesale and retail financial market.

	Consolidated			
As at 31 December 2009 (Unaudited)	**Banking Operations**	**Other Financial Services**	**Eliminations**	**Total**
Total operating income	40,966	25,042	(8,186)	**57,822**
Net profit before taxation	8,624	8,132	(2,704)	**14,052**
Total assets	2,750,966	137,596	(227,321)	**2,661,241**
Total liabilities	2,594,514	106,179	(213,134)	**2,487,559**
As at 31 December 2008 (Unaudited)				
Total operating income	41,574	19,237	(4,217)	**56,594**
Net profit before taxation	7,581	3,135	(1,026)	**9,690**
Total assets	2,659,860	127,878	(222,892)	**2,564,846**
Total liabilities	2,525,694	102,719	(214,789)	**2,413,624**
As at 31 March 2009 (Audited)				
Total operating income	60,454	27,541	(10,508)	**77,487**
Net profit before taxation	15,856	5,835	(5,534)	**16,157**
Total assets	2,663,412	127,751	(249,986)	**2,541,177**
Total liabilities	2,523,549	100,968	(238,920)	**2,385,597**

Geographical segment analysis

The Banking Group operates solely in New Zealand and on this basis no geographical segment information is provided.

All in $000's

21. Liquidity

To meet both expected and unexpected fluctuations in operating cash flows the Banking Group maintains a stock of liquid investments which it considers from analysis of historical cash flows, forecast cash flows and the current composition of the statement of financial position, to be adequate to meet day-to-day operational requirements or a potential crisis or 'funding stress' scenario.

Total liquidity includes committed but undrawn funding lines. As at 31 December 2009, the Banking Group had total committed funding lines with other registered banks of $175.00 million (December 2008 $450.00 million; March 2009 $250.00 million). Of these facilities $nil (December 2008 $50.75 million; March 2009 $17.00 million) were drawn down on 31 December 2009.

During the year ended 31 March 2009, the Banking Group established an in-house RMBS facility that could issue securities meeting the RBNZ acceptable collateral criteria. The establishment of the facility resulted in the Parent incorporating the newly established entity, the SBS Oreti Trust No 2. The assets of this trust do not qualify for derecognition as the Bank retains a continuing involvement in the transferred assets, therefore neither the Parent or the Banking Group financial statements change as a result of establishing this facility.

Included within total liquidity is unencumbered RMBS that is eligible under the RBNZ liquidity management arrangements ('Eligible RMBS Collateral'). The Eligible RMBS Collateral is discounted for the 'haircut'[1] that applies to those securities under the Reserve Bank's domestic operations for the purposes of those operations.

	BANKING GROUP		
	Unaudited	**Unaudited**	**Audited**
	31/12/2009	**31/12/2008**	**31/03/2009**
Asset liquidity	157,998	134,339	102,362
Committed and undrawn funding lines	175,000	399,250	233,000
Eligible RMBS collateral (less haircut[1])	49,849	-	98,537
Total liquidity	**382,847**	**533,589**	**433,899**

Asset liquidity includes cash on hand and at bank, funds with financial institutions and investment securities.

In addition to commited lines, Southland Building Society has $nil of utilised (December 2008 $nil; March 2009 $nil) and $nil of unutilised (December 2008 $20.00 million; March 2009 $20.00 million) funding arrangements in place with other registered banks at 31 December 2009.

Cash demands are usually met by realising liquid investments, drawing committed lines and raising new deposits.

[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.

22. Credit Risk Exposure

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

The Banking Group's dominant activity is the provision of residential mortgage finance which comprises 69% (December 2008 68%; March 2009 68%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 16% (December 2008 17%; March 2009 16%) of the Banking Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

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

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

	BANKING GROUP Balance sheet date credit exposures to individual counterparties and groups of closely related counterparties					
	Number of non-bank counterparties			Number of bank counterparties		
	Unaudited	**Unaudited**	**Audited**	**Unaudited**	**Unaudited**	**Audited**
Percentage of equity %	**31/12/2009**	**31/12/2008**	**31/03/2009**	**31/12/2009**	**31/12/2008**	**31/03/2009**
10-19	-	-	-	1	5	1
20-29	-	-	-	-	-	1
30-39	-	-	-	-	-	-
40-49	-	-	-	-	-	-
50-59	-	-	-	1	-	-

All in $000's

22. Credit Risk Exposure (continued)

	BANKING GROUP					
	Peak end of day credit exposures to individual counterparties and groups of closely related counterparties					
	Number of non-bank counterparties			Number of bank counterparties		
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Audited
Percentage of equity %	31/12/2009	31/12/2008	31/03/2009	31/12/2009	31/12/2008	31/03/2009
10-19	-	-	-	-	1	4
20-29	-	-	-	-	3	1
30-39	-	-	-	1	-	1
40-49	-	-	-	-	1	-
50-59	-	-	-	1	-	-

(b) Credit exposures by credit rating

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

	BANKING GROUP					
	Amount	% of total credit exposure	Amount	% of total credit exposure	Amount	% of total credit exposure
	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
	31/12/2009	31/12/2009	31/12/2008	31/12/2008	31/03/2009	31/03/2009
Non-bank counterparties						
Investment grade credit rating	-	0%	-	0%	-	0%
Below investment grade credit rating	-	0%	-	0%	-	0%
Not rated	-	0%	-	0%	-	0%
Total non-bank exposures	-	0%	-	0%	-	0%
Bank counterparties						
Investment grade credit rating	121,524	100%	109,964	100%	66,620	100%
Below investment grade credit rating	-	0%	-	0%	-	0%
Not rated	-	0%	-	0%	-	0%
Total bank exposures	121,524	100%	109,964	100%	66,620	100%

(c) Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature). The Banking Group does not have credit exposures to connected persons other than non-bank connected persons. Peak end of day credit exposures to non-bank connected persons have been calculated using the Banking Group's tier one capital at the end of the period. The rating-contingent limit, which is applicable to the Banking Group, based on the Conditions of Registration imposed by the RBNZ is 15%. There have been no rating-contingent limit changes during the last quarter. Within the rating-contingent limit there is a sub-limit of 15%, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Banking Group's Conditions of Registration have been complied with at all times over the last quarter. There are no individual credit impairment allowances against credit exposures to non-bank connected persons as at 31 December 2009 (31 December 2008: nil, 31 March 2009: nil).

	BANKING GROUP		
	Unaudited	Unaudited	Audited
	31/12/2009	31/12/2008	31/03/2009
Credit exposures to non-bank connected persons at period end	1,003	724	696
Credit exposures to non-bank connected persons at period end expressed as a percentage of total tier one capital	0.59%	0.46%	0.43%
Peak credit exposures to non-bank connected persons during the quarter	1,027	739	731
Peak credit exposures to non-bank connected persons during the quarter expressed as a percentage of total tier one capital	0.61%	0.47%	0.45%

23. Capital Adequacy

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

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

- Total qualifying capital must not be less than 8% of risk weighted exposures
- Tier one capital must not be less than 4% of risk weighted exposures
- Capital must not be less than NZ $30 million.

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

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

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

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

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

ii Liquidity Risk - The risk that the Bank cannot meet or generate sufficient cash resources to meet it's cash out goings as they fall due. Capital is not held for liquidity risk. 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. 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 $15 million to cover these identified risks.

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

The capital adequacy calculations set out 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 oligations) to anyone other than the Registered Bank, the Inland Revenue Department, and trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's equity. Wholly owned means that all the equity issued by the subsidiary is held by the Registered Bank. During the periods shown the Banking Group fully complied with all RBNZ capital requirements as set out in the Banking Group's conditions of registration.

All in $000's

23. Capital Adequacy (continued)

	BANKING GROUP			REGISTERED BANK		
	Unaudited 31/12/2009	Unaudited 31/12/2008	Audited 31/03/2009	Unaudited 31/12/2009	Unaudited 31/12/2008	Audited 31/03/2009
Regulatory capital ratios						
Tier one capital expressed as a percentage of total risk weighted exposures	9.97%	9.40%	9.85%	9.72%	9.37%	9.88%
Capital expressed as a percentage of total risk weighted exposures	13.52%	9.57%	12.46%	12.83%	9.32%	12.11%
(i) Qualifying capital						
Tier one capital						
Retained earnings	161,432	150,446	150,446	156,985	143,334	143,333
Current period's audited retained earnings	5,287	5,078	10,986	4,230	6,159	13,651
Revenue and similar reserves	73	73	73	73	73	73
Cash flow hedging reserve	(2,941)	(10,987)	(11,309)	(2,942)	(10,987)	(11,309)
Minority interests	5,503	3,839	4,264	-	-	-
Less deductions from tier one capital						
Intangible assets	(2,953)	(2,701)	(2,842)	(1,688)	(1,238)	(1,411)
Cash flow hedging reserve	2,941	10,987	11,309	2,942	10,987	11,309
Total tier one capital	**169,342**	**156,735**	**162,927**	**159,600**	**148,328**	**155,646**
Tier two capital						
Upper tier two capital						
Current period's unaudited retained earnings	3,187	1,630	-	3,548	1,819	-
Revaluation reserves	1,141	1,143	1,120	1,196	1,211	1,201
Total upper tier two capital	4,328	2,773	1,120	4,744	3,030	1,201
Lower tier two capital						
Subordinated redeemable shares	56,109	-	41,902	56,109	-	41,902
Total lower tier two capital	56,109	-	41,902	56,109	-	41,902
Total tier two capital	**60,437**	**2,773**	**43,022**	**60,853**	**3,030**	**43,103**
Total tier one and tier two capital	**229,779**	**159,508**	**205,949**	**220,453**	**151,358**	**198,749**
Less deductions from capital	-	-	-	(9,756)	(3,736)	(8,027)
Total capital	**229,779**	**159,508**	**205,949**	**210,697**	**147,622**	**190,722**

All in $000's

23. Capital Adequacy (continued)

(ii) Total risk weighted exposures

BANKING GROUP

	Total Exposure after Credit Risk Mitigation Unaudited 31/12/2009	Risk Weighting 31/12/2009	Risk Weighted Exposure Unaudited 31/12/2009	Minimum Pillar One Capital Requirement Unaudited 31/12/2009
On balance sheet exposures				
Cash and gold bullion	405	0%	-	-
Sovereigns and central banks	1,038	0%	-	-
Banks	154,915	20%	30,983	2,479
Corporates	208	100%	208	17
Residential mortgages < 80% loan to value ratio (LVR)	1,342,075	35%	469,726	37,578
Residential mortgages 80 < 90% LVR	76,669	50%	38,335	3,067
Residential mortgages 90 < 100% LVR	60,180	75%	45,135	3,611
Residential mortgages welcome home loans	233,179	50%	116,590	9,327
Past due residential mortgages	550	100%	550	44
Impaired residential mortgages	5,130	100%	5,130	410
Equity holdings	809	300%	2,427	194
Other assets	785,370	100%	785,370	62,830
Non-risk weighted assets	713	0%	-	-
Total on balance sheet exposures	2,661,241		1,494,453	119,557

	Total Exposure after Credit Risk Mitigation Unaudited 31/12/2009	Credit Conversion Factor Unaudited 31/12/2009	Credit Equivalent Amount Unaudited 31/12/2009	Average Risk Weighting Unaudited 31/12/2009	Risk Weighted Exposure / Implied Risk Weighted Exposure Unaudited 31/12/2009	Minimum Pillar One Capital Requirement Unaudited 31/12/2009
Off balance sheet exposures						
Commitments with uncertain drawdown	23,515	50%	11,758	65%	7,673	614
Commitments to extend credit which can be unconditionally cancelled	191,689	0%	-	0%	-	-
Market related contracts [1]						
Interest rate contracts	1,420,850	n/a	5,132	20%	1,026	82
Total off balance sheet exposures	1,636,054		16,890		8,699	696
Total credit risk	4,297,295		16,890		1,503,152	120,253
Operational risk	n/a	-	-		166,341	13,307
Market risk	n/a	-	-		29,811	2,385
Total risk weighted exposure	4,297,295	-	-		1,699,304	135,945

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

All in $000's

23. Capital Adequacy (continued)

BANKING GROUP

	Total Exposure after Credit Risk Mitigation	Risk Weighting	Risk Weighted Exposure	Minimum Pillar One Capital Requirement
	Unaudited		Unaudited	Unaudited
	31/12/2008	31/12/2008	31/12/2008	31/12/2008
On balance sheet exposures				
Cash and gold bullion	347	0%	-	-
Sovereigns and central banks	1,058	0%	-	-
Banks	131,578	20%	26,316	2,105
Residential mortgages < 80% loan to value ratio (LVR)	1,362,659	35%	476,931	38,154
Residential mortgages 80 < 90% LVR	57,611	50%	28,806	2,304
Residential mortgages 90 < 100% LVR	23,921	75%	17,941	1,435
Residential mortgages welcome home loans	174,027	50%	87,014	6,961
Past due residential mortgages	2,412	100%	2,412	193
Impaired residential mortgages	4,802	100%	4,802	384
Equity holdings	335	300%	1,005	80
Equity holdings	404	400%	1,616	129
Other assets	807,599	100%	807,599	64,608
Non-risk weighted assets	(1,907)	0%	-	-
Total on balance sheet exposures	2,564,846		1,454,442	116,353

	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
	31/12/2008	31/12/2008	31/12/2008	31/12/2008	31/12/2008	31/12/2008
Off balance sheet exposures						
Commitments with uncertain drawdown	23,972	50%	11,986	66%	7,928	634
Commitments to extend credit which can be unconditionally cancelled	222,577	0%	-	0%	-	-
Market related contracts [1]						
Interest rate contracts	1,066,300	n/a	2,876	20%	575	46
Total off balance sheet exposures	1,312,849		14,862		8,503	680
Total credit risk	3,877,695		14,862		1,462,945	117,033
Operational risk	n/a	-	-		162,959	13,037
Market risk	n/a	-	-		41,281	3,302
Total risk weighted exposure	3,877,695	-	-		1,667,185	133,372

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

All in $000's

23. Capital Adequacy (continued)

BANKING GROUP

	Total Exposure after Credit Risk Mitigation	Risk Weighting	Risk Weighted Exposure	Minimum Pillar One Capital Requirement
	Audited		Audited	Audited
	31/03/2009	31/03/2009	31/03/2009	31/03/2009
On balance sheet exposures				
Cash and gold bullion	299	0%	-	-
Sovereigns and central banks	1,077	0%	-	-
Banks	99,642	20%	19,928	1,594
Residential mortgages < 80% loan to value ratio (LVR)	1,358,575	35%	475,501	38,040
Residential mortgages 80 < 90% LVR	59,225	50%	29,613	2,369
Residential mortgages 90 < 100% LVR	31,206	75%	23,405	1,872
Residential mortgages welcome home loans	180,632	50%	90,316	7,225
Past due residential mortgages	2,300	100%	2,300	184
Impaired residential mortgages	6,365	100%	6,365	509
Equity holdings	316	300%	948	76
Equity holdings	404	400%	1,616	129
Other assets	802,305	100%	802,305	64,184
Non-risk weighted assets	(1,169)	0%	-	-
Total on balance sheet exposures	2,541,177		1,452,297	116,182

	Total Exposure after Credit Risk Mitigation	Credit Conversion Factor	Credit Equivalent Amount	Average Risk Weighting	Risk Weighted Exposure / Implied Risk Weighted Exposure	Minimum Pillar One Capital Requirement
	Audited	Audited	Audited	Audited	Audited	Audited
	31/03/2009	31/03/2009	31/03/2009	31/03/2009	31/03/2009	31/03/2009
Off balance sheet exposures						
Commitments with uncertain drawdown	22,212	50%	11,106	66%	7,322	586
Commitments to extend credit which can be unconditionally cancelled	227,507	0%	-	0%	-	-
Market related contracts [1]						
Interest rate contracts	1,386,500	n/a	3,287	20%	657	53
Total off balance sheet exposures	1,636,219		14,393		7,979	639
Total credit risk	4,177,396		14,393		1,460,276	116,821
Operational risk	n/a	-	-		163,952	13,116
Market risk	n/a	-	-		29,283	2,343
Total risk weighted exposure	4,177,396	-	-		1,653,511	132,280

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

All in $000's

23. Capital Adequacy (continued)

(iii) Residential mortgages by loan to valuation ratio

	BANKING GROUP		
	Unaudited 31/12/2009	Unaudited 31/12/2008	Audited 31/03/2009
LVR range			
0 - 80%	1,347,230	1,369,466	1,366,699
80 - 90%	76,963	57,899	59,579
90% +	293,590	198,067	212,025

Welcome Home Loans make up 79% of the residential mortgages in the 90% + loan to valuation grouping. The Welcome Home Loan product is fully insured by Housing New Zealand Corporation.

(iv) Market risk exposures

Market risk exposures have been calculated in accordance with the methodology detailed in Part 10 of the RBNZ's BS2A Captial Adequacy Framework, and Schedule 4A of the Registered Bank Disclosure Statement (Off-Quarter - New Zealand Incorporated Registered Banks) Order 2008. Peak exposures are calculated using the Banking Group's equity at the end of the period.

	BANKING GROUP					
	End of Period			Peak End of Day		
	Unaudited 31/12/2009	Unaudited 31/12/2008	Audited 31/03/2009	Unaudited 31/12/2009	Unaudited 31/12/2008	Audited 31/03/2009
Interest rate exposures						
Implied risk weighted exposure	29,811	41,281	29,283	34,413	46,288	59,288
Aggregate capital charge	2,385	3,302	2,343	2,753	3,703	4,743
Aggregate capital charge expressed as a percentage of the Banking Group's equity	1.37%	2.18%	1.51%	1.59%	2.45%	3.05%

24. Interest Earning Assets & Interest Bearing Liabilities

	BANKING GROUP		
	Unaudited 31/12/2009	Unaudited 31/12/2008	Audited 31/03/2009
Total interest earning and discount bearing assets	2,630,240	2,534,876	2,506,271
Total interest and discount bearing liabilities	2,453,473	2,357,171	2,319,342

25. Fiduciary Activities

Funds management

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

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

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

	31/12/2009 Unaudited	31/12/2008 Unaudited	31/03/2009 Audited
Funds under management on behalf of customers	289,600	274,500	284,100

25. Fiduciary Activities (continued)

Securitised assets

As at 31 December 2009, the Banking Group had securitised assets amounting to $233 million (December 2008 $335 million, March 2009 $289 million). These assets have been sold to the Lifestages Mortgage Portfolio (a unit trust managed by Funds Administration New Zealand Limited, a subsidiary of the Bank), the SBS Invercargill W Trust (a special purpose vehicle established for the purpose of purchasing residential mortgages from the Bank and funded through wholesale funding lines), the SBS Oreti Trust No. 1 (a special purpose vehicle investing in residential mortgages originated by the Bank and funded by institutional investors in New Zealand & Australia), and the SBS Oreti Trust No. 2 (a special purpose vehicle investing in residential mortgages originated and funded by the Bank through issue of residential mortgage backed securities). 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.

Insurance business

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

The total assets of Southsure Assurance Limited as at 31 December 2009 are $7.7 million (December 2008 $6.9 million, March 2009 $7.1 million), which is 0.3% of the total assets of the Banking Group (December 2008 0.3%, March 2009 0.3%). This complies with the Conditions of Registration of Southland Building Society, which allows a maximum of 1% of the total consolidated assets of the Banking Group to be represented by insurance business assets.

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

Risk Management

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

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.

26. Subsequent Events

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

Directors
Mr J W A Smith, B Com FNZIM - Company Director, Invercargill
Chairman

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

Mrs K J Ball, B Com CA - Chartered Accountant, Invercargill

Mr J B Walker, LLB - Barrister & Solicitor, Invercargill

Mr G J Mulvey, B Com FCA FNZIM - General Manager, Invercargill

Mr G J Diack, MA (Hons) - Management Consultant, Christchurch

Mr J J Grant, Farmer/Company Director, Balfour

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

All directors can be contacted through
Southland Building Society, 51 Don Street, Invercargill

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

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

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