



Southland Building Society

General Short Form Disclosure Statement

For the nine months ended 31 December 2008

Number 3 Issued February 2009

Southland Building Society
General Short Form Disclosure Statement for the nine months ended 31 December 2008

Contents

	Page
General Information	3
Guarantee Arrangements	3
Pending Proceedings or Arbitration	4
Other Material Matters	4
Directorate	4
Credit Rating	4
Conditions of Registration	4
Directors' Statement	6
Interim Financial Statements	7
Directory	33

Southland Building Society

General Short Form Disclosure Statement for the nine months ended 31 December 2008

General Information

Southland Building Society 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 a Crown Deed of Guarantee (Registered Bank) entered into by Southland Building Society and the Crown on 30 October 2008.

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 and at all reasonable times 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 currency issuer credit ratings are AA+ (Fitch Ratings), AA+ (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), 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.

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 exception to this is when the extent of that indebtedness or interest is not paid solely as a result of administrative error or technical error and is subsequently paid within 7 days of its due date.

- 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 Guarantee commenced on 12.01am on 12 October 2008 and expires at 12.01am on 12 October 2010.
- 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.

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

Southland Building Society

General Short Form Disclosure Statement for the nine months ended 31 December 2008

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.

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 2008, and for the period to the date of this Disclosure Statement, the credit rating assigned to Southland Building Society is BBB. 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. There have been no changes made to the rating in the period up to 31 December 2008. The rating is not subject to any qualifications.

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

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

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

Conditions of Registration

The conditions of registration imposed on Southland Building Society by the Reserve Bank of New Zealand pursuant to section 74 of the Reserve Bank of New Zealand Act 1989 which applied from 1 November 2008 are as follows:

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.

Southland Building Society

General Short Form Disclosure Statement for the nine months ended 31 December 2008

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 disappplied 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.
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 company (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.

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).

Southland Building Society

General Short Form Disclosure Statement for the nine months ended 31 December 2008

Directors' Statement

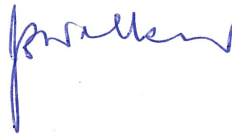
The Directors of Southland Building Society (the "Bank") state that each Director of the Bank believes, after due enquiry, that:

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 three months ended 31 December 2008:
 - (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 and other business risks and that those systems were being properly applied.

This Disclosure Statement is dated this 25 day of February 2009 and has been signed by or on behalf of all the Directors.



JWA Smith (Chairman)



JB Walker



RL Smith (Chief Executive Officer)



JF Ward (Deputy Chairman)



GJ Mulvey



GJ Diack



KJ Ball



JJ Grant

Southland Building Society
Interim Financial Statements for the nine months ended 31 December 2008

Contents

	Page
Income Statement	8
Statement of Changes in Equity	8
Balance Sheet	9
Cash Flow Statement	10
Notes to the Financial Statements	11 - 32
1 Statement of Accounting Policies	
2 Risk Management Policies	
3 Income	
4 Expenses	
5 Net Gain / (Loss) from Financial Instruments Designated at Fair Value	
6 Funds with Other Financial Institutions	
7 Investment Securities	
8 Derivative Financial Instruments	
9 Advances to Customers	
10 Provision for Credit Impairment	
11 Asset Quality	
12 Loan Securitisation	
13 Investments in Subsidiaries and Associates	
14 Equity	
15 Reconciliation of Net Surplus to Net Operating Cash Flows	
16 Analysis of Borrowings	
17 Contingent Liabilities and Credit Related Commitments	
18 Commitments	
19 Segmental Analysis	
20 Liquidity	
21 Credit Risk Exposure	
22 Capital Adequacy	
23 Interest Earning Assets & Interest Bearing Liabilities	
24 Fiduciary Activities	
25 Subsequent Events	

Southland Building Society

Income Statement for the nine months ended 31 December 2008

All in \$000's

	Note	BANKING GROUP		
		Unaudited 9 Months 31/12/2008	Unaudited 9 Months 31/12/2007	Audited 12 Months 31/03/2008
Interest Income	(3)	187,387	169,731	231,260
Interest Expense		33,425	30,233	41,433
Dividends on Redeemable Shares		107,199	95,813	130,862
	(4)	140,624	126,046	172,295
Net Interest Income		46,763	43,685	58,965
Other Income	(3)	9,831	9,403	12,499
Total Operating Income		56,594	53,088	71,464
Operating Expenses	(4)	32,896	31,730	41,074
Provision for Credit Impairment	(10)	8,302	4,343	9,074
Operating Surplus		15,396	17,015	21,316
Add Net Gain/(Loss) from Financial Instruments Designated at Fair Value	(5)	(5,706)	(2,058)	(1,340)
Add Revaluation of Property		-	-	60
Surplus Before Income Tax		9,690	14,957	20,036
Less Income Tax Expense		2,470	4,035	5,709
Net Surplus		7,220	10,922	14,327
Attributable to:				
Members' Interests		6,708	10,359	13,567
Minorities' Interests		512	563	760
		7,220	10,922	14,327

Southland Building Society

Statement of Changes in Equity for the nine months ended 31 December 2008

All in \$000's

	Note	BANKING GROUP		
		Unaudited 9 Months 31/12/2008	Unaudited 9 Months 31/12/2007	Audited 12 Months 31/03/2008
Net Surplus for the Period				
Members' Interests		6,708	10,359	13,567
Minorities' Interests		512	563	760
Other Recognised Revenues and Expenses				
Net Change in Property, Plant & Equipment Reserve, Net of Tax	(14)	-	(477)	144
Net Change in Cash Flow Hedging Reserve, Net of Tax	(14)	(10,987)	-	-
Net Change in Available for Sale Asset Reserve, Net of Tax	(14)	37	(8)	(34)
Net Income Recognised Directly in Equity		(10,950)	(485)	110
Total Recognised Revenues and Expenses		(3,730)	10,437	14,437
Minority Interests Share of Net Change in Property, Plant & Equipment Reserve, Net of Tax		-	27	27
Minority Interests Share of Net Change in Available for Sale Asset Reserve, Net of Tax		(9)	(2)	(10)
Realised Reserves		-	597	597
Adjustment to Capital of Minorities' Interests		(19)	8	12
Adjustment to Capital of Members' Interests		-	(18)	(18)
Dividends Paid to Minority Interests		(386)	(200)	(200)
Total Changes in Equity		(4,144)	10,849	14,845
Opening Equity		155,366	140,521	140,521
Closing Equity	(14)	151,222	151,370	155,366

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

Southland Building Society

Balance Sheet as at 31 December 2008

All in \$000's

	Note	BANKING GROUP		
		Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
Assets				
Cash on Hand and at Bank		11,831	9,910	13,926
Funds with Financial Institutions	(6)	120,093	45,544	37,618
Investment Securities	(7)	2,415	1,944	1,923
Derivative Financial Instruments	(8)	20	13,226	6,978
Current Tax Assets		5,056	1,957	2,773
Advances to Customers	(9)	2,400,537	2,296,459	2,334,242
Loans to Associates	(13)	-	1,098	1,413
Investments in Associates	(13)	-	1,090	1,090
Other Assets		2,831	1,825	4,987
Property, Plant and Equipment		16,040	15,780	16,629
Intangible Assets		2,701	2,475	2,616
Deferred Tax		3,322	1,506	2,076
		2,564,846	2,392,814	2,426,271
Liabilities				
Redeemable Shares	(16)	1,898,866	1,708,634	1,693,284
Deposits from Customers	(16)	222,295	133,681	133,027
Deposits from Financial Institutions	(16)	-	30,007	70,438
Derivative Financial Instruments	(8)	33,584	62	1,299
Other Borrowings		236,010	347,354	347,946
Other Liabilities		22,869	21,707	24,911
		2,413,624	2,241,445	2,270,905
Net Assets				
		151,222	151,370	155,366
Equity				
Reserves	(14)	(9,771)	584	1,179
Retained Earnings		157,154	147,240	150,446
Attributable to Members of the Society		147,383	147,824	151,625
Attributable to Minority Shareholders		3,839	3,546	3,741
		151,222	151,370	155,366

For and on behalf of the Board of Directors:


Chairman
JWA Smith


Deputy Chairman
JF Ward

25 February 2009

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

Southland Building Society

Cash Flow Statement for the nine months ended 31 December 2008

All in \$000's

	Note	BANKING GROUP		
		Unaudited	Unaudited	Audited
		9 Months	9 Months	12 Months
		31/12/2008	31/12/2007	31/03/2008
Cash Flows From Operating Activities				
Interest Received		185,552	166,591	227,217
Fees and Other Income		14,288	12,627	16,927
Dividends Received		67	-	
Interest Paid		(33,343)	(30,360)	(40,901)
Dividends Paid on Redeemable Shares		(95,615)	(87,484)	(123,451)
Operating Expenses		(33,309)	(27,380)	(36,985)
Income Taxes Paid		(1,303)	(5,234)	(8,594)
Net Cash Flows From Operating Activities before changes in Operating Assets and Liabilities		36,337	28,760	34,213
Net Changes in Operating Assets and Liabilities				
Net Increase in Advances		(57,999)	(181,394)	(215,222)
Net Increase in Investment Securities		(508)	(80)	(107)
Net Increase in Shares and Deposits from Customers		282,780	146,748	131,707
Net Increase (Decrease) in Deposits from Financial Institutions		(70,427)	(39,527)	900
Net Increase/(Decrease) in Other Borrowings		(111,543)	47,288	47,180
Net Increase/(Decrease) in Cash held on behalf of Lifestages Mortgage Portfolio		270	3,770	4,149
Net Cash Flows Provided By/(Used In) Operating Activities	(15)	78,910	5,565	2,820
Cash Flows From Investing Activities				
Sale of Property, Plant and Equipment		59	1,278	1,292
Purchase of Property, Plant and Equipment		(695)	(976)	(1,448)
Purchase of Intangible Assets		(881)	(561)	(904)
Net Decrease/(Increase) in Loans to Associates		1,413	(1,098)	(1,413)
Investment in Associates		1,000	-	-
Net Cash Flows Provided By/(Used In) Investing Activities		896	(1,357)	(2,473)
Cash Flows From Financing Activities				
Dividends Paid to Minority Interests		(386)	(662)	(662)
Loan from Minority Interests		-	(428)	(428)
Repayment of Minority Interests Share Capital		(19)	-	-
Net Cash Flows Provided By/(Used In) Financing Activities		(405)	(1,090)	(1,090)
Net (Decrease)/Increase in Cash Held		79,401	3,118	(743)
Add Opening Cash and Cash Equivalents		51,308	52,051	52,051
Closing Cash and Cash Equivalents		130,709	55,169	51,308
Reconciliation of Cash and Cash Equivalents				
Cash on Hand and at Bank		11,831	9,910	13,926
Funds with Other Financial Institutions		120,093	45,544	37,618
Interest Accrued on Available for Sale Assets		(1,113)	(300)	(239)
Net Decrease in Fair Value of Available for Sale Assets		(102)	15	3
		130,709	55,169	51,308

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

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

1. Statement of Accounting Policies

(a) Basis of Preparation

Southland Building Society (SBS) was established in 1869 and 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.

These 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 2008.

These financial statements were authorised for issue by the Board of Directors on 25 February 2009.

(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) Changes in Accounting Policies

There have been no material changes in accounting policies or methods of computation since the authorisation date of the previous Disclosure Statement on 2 December 2008.

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 1 *Presentation of Financial Statements (revised)* will apply to the Banking Group from 1 April 2009 and will result in changes to the disclosure of changes in Equity.

- NZ IFRS 8 *Operating Segments* will apply to the Banking Group from 1 April 2009. NZ IFRS 8 will affect the financial and descriptive information disclosed about the Banking Group's reportable segments.

(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;

(f) Comparatives

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

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 2 December 2008.

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

3. Income

	BANKING GROUP		
	Unaudited 9 Months 31/12/2008	Unaudited 9 Months 31/12/2007	Audited 12 Months 31/03/2008
Interest Income			
Cash at Bank	816	932	1,226
Other Financial Institutions - Available for Sale	2,935	2,392	3,064
Investment Securities - Available for Sale	28	21	38
Investment Securities - Designated at Fair Value through Profit or Loss	53	54	72
Derivative Financial Instruments	4,695	6,865	9,917
Advances to Customers - At Amortised Cost	135,574	67,054	140,236
Advances to Customers - Designated at Fair Value through Profit or Loss	43,131	92,290	76,500
Loans to Subsidiaries & Associates	74	103	136
Other	81	20	71
Total Interest Income	187,387	169,731	231,260
Other Operating Income			
Loan Fees	274	731	759
Management Fees	1,976	1,936	2,906
Other Fee and Commission Income	3,435	2,869	3,534
Net Insurance Income	3,083	3,312	4,065
Dividends	67	-	-
Gain on Sale of Shares	-	29	29
Sundry Income	996	526	1,206
Total Other Operating Income	9,831	9,403	12,499

4. Expenses

	BANKING GROUP		
	Unaudited 9 Months 31/12/2008	Unaudited 9 Months 31/12/2007	Audited 12 Months 31/03/2008
Interest Expense			
Redeemable Shares	107,199	95,815	128,197
Deposits from Customers	10,587	7,736	10,215
Other Financial Institutions	844	1,870	5,332
Other Borrowings	21,994	20,625	28,551
Total Interest Expense	140,624	126,046	172,295
Other Operating Expenses			
Auditor's Remuneration	293	203	255
Computer Expenses	1,214	976	1,259
Fees and Commissions	251	475	248
Fees to Directors *	481	397	574
Marketing	3,965	3,631	4,335
Personnel	16,294	14,902	19,129
Actuarial Life Adjustment	46	496	480
Amortisation & Depreciation	2,032	2,088	2,812
Rent and Leases	1,555	1,573	2,014
Write Off of Property, Plant and Equipment	5	6	92
Loss on Sale of Shares	90	-	-
Other Expenses	6,670	6,983	9,876
Total Other Operating Expenses	32,896	31,730	41,074

*A decrease in provision for Directors Retiring Allowance of \$129,000 was made this period (31 December 2007 increase of \$48,000, 31 March 2008 increase of \$65,000).

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

4. Expenses (continued)

Amounts received, or due and receivable by the Auditors:

KPMG Auditing the Financial Statements

KPMG Other Assurance Services *

* Other assurance services includes IFRS transition, trust deed reporting and other assistance.

Amounts received, or due and receivable by Directors:

JWA Smith (Chairman)

MH Piper (retired July 2008)¹

WH Conway (retired July 2008)¹

JB Walker

JF Ward (Deputy Chairman)

GJ Mulvey

GJ Diack

KJ Ball

JJ Grant (appointed July 2007)

RL Smith²

Provision for Directors Retiring Allowance

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

Net Gain/(Loss) arising on:

- Investment Securities

- Derivative Financial Instruments

- Hedge Ineffectiveness on Cash Flow Hedging

- Advances to Customers

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

6. Funds with Financial Institutions

Call Funds

Registered Certificates of Deposit (RCD)

Term Deposits

Total Funds with Financial Institutions

Funds with Financial Institutions were recorded as:

At Amortised Cost

Designated as Available for Sale

Total Funds with Financial Institutions

BANKING GROUP		
Unaudited 9 Months 31/12/2008	Unaudited 9 Months 31/12/2007	Audited 12 Months 31/03/2008
277	175	227
16	28	28
293	203	255

80	74	100
139	48	65
145	40	55
48	43	60
39	36	49
39	36	49
42	36	49
39	36	49
39	-	33
-	-	-
610	349	509
(129)	48	65
481	397	574

BANKING GROUP		
Unaudited 9 Months 31/12/2008	Unaudited 9 Months 31/12/2007	Audited 12 Months 31/03/2008
64	14	10
(21,119)	5,868	(1,734)
(404)	-	-
15,753	(7,940)	384
(5,706)	(2,058)	(1,340)

BANKING GROUP		
Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
660	13,955	12,485
119,433	31,589	22,628
-	-	2,505
120,093	45,544	37,618
-	-	-
120,093	45,544	37,618
120,093	45,544	37,618

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

7. Investment Securities

	BANKING GROUP		
	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
Managed Funds	617	576	576
NZ Government Securities	1,058	971	1,009
Equity Securities	740	397	338
Total Investment Securities	2,415	1,944	1,923
Investment Securities were recorded as:			
At Amortised Cost	-	-	-
Designated as Fair Value through Profit or Loss	1,071	971	1,009
Designated as Available for Sale	1,344	973	914
Total Investment Securities	2,415	1,944	1,923

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 Balance Sheet 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 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 forecast 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 2008 as a result of highly probable cash flows no longer expected to occur (31 December 2007 \$nil, 31 March 2008 \$nil).

Fair value gains and losses deferred in Cash Flow Hedge Reserves will be transferred to the Income Statement over the next one to five years, as the cash flows under the hedged transactions occur.

The 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.

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

8. Derivative Financial Instruments (Continued)

Held for Risk Management - At Fair Value

Interest Rate Related Contracts

Swaps

Options

Total Held for Risk Management at Fair Value

Held for Hedging - Cash Flow Hedges

Interest Rate Related Contracts

Swaps

Options

Total Held for Hedging

Total Derivative Financial Instruments

Held for Risk Management - At Fair Value

Interest Rate Related Contracts

Swaps

Options

Total Held for Risk Management at Fair Value

Held for Hedging - Cash Flow Hedges

Interest Rate Related Contracts

Swaps

Options

Total Held for Hedging

Total Derivative Financial Instruments

Held for Risk Management - At Fair Value

Interest Rate Related Contracts

Swaps

Options

Total Held for Risk Management at Fair Value

Held for Hedging - Cash Flow Hedges

Interest Rate Related Contracts

Swaps

Options

Total Held for Hedging

Total Derivative Financial Instruments

BANKING GROUP		
Unaudited	Unaudited	Unaudited
Notional	Fair Value	Fair Value
Principal	Assets	Liabilities
31/12/2008	31/12/2008	31/12/2008
97,175	-	3,040
541,375	4	13,494
638,550	4	16,534

337,750	16	13,158
90,000	-	3,892
427,750	16	17,050
1,066,300	20	33,584

BANKING GROUP		
Unaudited	Unaudited	Unaudited
Notional	Fair Value	Fair Value
Principal	Assets	Liabilities
31/12/2007	31/12/2007	31/12/2007
359,675	3,865	26
809,375	9,361	36
1,169,050	13,226	62

-	-	-
-	-	-
-	-	-
1,169,050	13,226	62

BANKING GROUP		
Audited	Audited	Audited
Notional	Fair Value	Fair Value
Principal	Assets	Liabilities
31/03/2008	31/03/2008	31/03/2008
396,675	2,140	453
790,875	4,838	846
1,187,550	6,978	1,299

-	-	-
-	-	-
-	-	-
1,187,550	6,978	1,299

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

9. Advances to Customers

	BANKING GROUP		
	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
Advances at Fair Value through Profit or Loss	649,958	734,472	821,864
Advances at Amortised Cost	1,768,431	1,569,749	1,522,652
Gross Advances	2,418,389	2,304,221	2,344,516
Less Provisions for Credit Impairment (10)	10,829	4,347	7,097
Less Deferred Fee Revenue and Expenses	7,023	3,415	3,177
Total Net Advances	2,400,537	2,296,459	2,334,242

Advances to Customers that meet 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.

At 31 December 2008 the maximum credit exposure on these loans at fair value through the profit or loss was \$650 million (December 2007 \$734 million; March 2008 \$822 million). The Banking Group has \$nil credit risk derivatives at 31 December 2008 (December 2007 \$nil; March 2008 \$nil).

Details of changes in the fair value recognised on these advances on account of credit risk changes are set out below:

	For the Period 31-Dec-08	Cumulative	For the Period 31-Dec-07	Cumulative	For the Period 31-Mar-08	Cumulative
Advances at Fair Value through Profit or Loss	-	-	-	-	-	-

10. Provision for Credit Impairment

	BANKING GROUP		
	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
Individual Provisions Against Advances and Loans (All relate to Impaired Assets)			
Balance at Beginning of the Period	3,405	298	298
New Provisions during the Period	4,581	727	3,931
Balances Written Off during the Period	(1,391)	(239)	(739)
Discount Unwind	-	-	-
Recoveries	-	-	-
Reversals of Previously Recognised Provision	(394)	(86)	(85)
Balance at End of the Period	6,201	700	3,405
Collective Provisions Against Advances and Loans			
Balance at Beginning of the Period	3,692	3,705	3,705
Charged to Income Statement	(54)	(58)	(13)
Provision on Acquisition	990	-	-
Balance at End of the Period	4,628	3,647	3,692
Total Provisions for Credit Impairment	10,829	4,347	7,097

There are no restructured assets or assets acquired through enforcement of security.

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 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
Bad Debts Written Off during the Period	5,560	3,999	5,980
Movement in Individual Provisions	2,796	402	3,107
Movement in Collective Provision	(54)	(58)	(13)
Provision for Credit Impairment to Income Statement	8,302	4,343	9,074

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

11. Asset Quality

	BANKING GROUP		
	Unaudited	Unaudited	Audited
	31/12/2008	31/12/2007	31/03/2008
(a) Asset Quality - Advances to Customers			
Neither Past Due or Impaired	2,377,283	2,277,994	2,309,849
Individually Impaired Amount	12,049	1,001	8,355
Past Due Amount	22,034	21,811	23,135
Total Credit Impairment	(10,829)	(4,347)	(7,097)
Total Carrying Amount	2,400,537	2,296,459	2,334,242
(b) Ageing of Past Due but Not Impaired Assets			
Past due 0-29 days	11,665	12,860	9,696
Past due 30-89 days	5,077	5,900	6,529
Past due 90-119 days	4,767	1,927	4,861
Past due 120-365 days	525	1,124	2,049
Past due more than 1 year	-	-	-
Carrying Amount	22,034	21,811	23,135
(c) 90 Day Past Due Assets			
Balance at Beginning of the Period	6,910	4,716	4,716
Additions to 90 day past due assets	10,454	4,211	14,001
Reduction in 90 day past due assets	(12,072)	(5,876)	(11,807)
Balance at End of the Period	5,292	3,051	6,910
(d) Impaired Assets			
Individually Impaired Assets			
Balance at Beginning of the Period	8,355	583	583
Additions to Individually Impaired Assets	4,944	1,544	8,087
Amounts Written Off	(972)	(315)	(315)
Transfers back to Productive Ledger	(278)	(811)	-
Balance at End of the Period	12,049	1,001	8,355
Less: Provision at End of the Period	6,201	700	3,405
Net Carrying Amount at End of the Period	5,848	301	4,950

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

12. Loan Securitisation

SBS sells its interest in certain loans to a unit trust known as the Lifestages Mortgage Portfolio by way of an equitable assignment. At the time of the sale all legal, equitable and certain beneficial interests in the mortgages are transferred to the purchaser. SBS has 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. Securitised assets are recognised in the Banking Group Balance Sheet.

Mortgages assigned by SBS to the Lifestages Mortgage Portfolio unit trust during the period ended 31 December 2008 amounted to \$nil (December 2007 \$10,919,000; March 2008 \$10,919,000). SBS retains the majority of the risks and rewards of ownership and accordingly it is appropriate to record these securitised assets within the Balance Sheet.

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

Mortgages assigned by SBS to the SBS Invercargill W Trust during the period ended 31 December 2008 amounted to \$47,412,000 (December 2007 \$121,293,000; March 2008 \$142,691,000).

The SBS Invercargill W Trust sells its interest in certain loans (principally housing mortgage loans) to a trust known as the SBS Oreti Trust No.1 by way of an equitable assignment. At the time of the sale all legal, equitable and beneficial interests in the mortgages are transferred to the purchaser.

Mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No.1 during the period ended 31 December 2008 amounted to \$nil (December 2007 \$188,198,000; March 2008 \$188,198,000).

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.

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

Securitised Loan Balances

	BANKING GROUP		
	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
Lifestages Mortgage Portfolio	72,365	90,581	87,004
SBS Invercargill W Trust	154,671	117,972	133,031
SBS Oreti Trust No. 1	108,100	141,306	132,355
	335,136	349,859	352,390

13. Investments in Subsidiaries and Associates

	BANKING GROUP		
	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
Investments in Associates	-	1,090	1,090
Loans to Associates (at amortised cost)	-	1,098	1,413

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

13. Investments in Subsidiaries and Associates (continued)

Significant Subsidiaries & Associates:	Percentage Held			Balance Date	Nature of Business
	31/12/2008	31/12/2007	31/03/2008		
<u>Subsidiaries:</u>					
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
<u>In-Substance Subsidiaries:</u>					
SBS Invercargill W Trust	-	-	-	31 March	Mortgage Securitisation
SBS Oreti Trust No 1	-	-	-	31 March	Mortgage Securitisation
<u>Associates:</u>					
Rural Livestock Finance Limited	0.0%	25.7%	25.7%	30 June	Livestock Finance
RLF Management Limited	0.0%	25.7%	25.7%	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.

Rural Livestock Finance Limited shares and RFL Management Limited shares were redeemed and repurchased during the period. SBS continues to hold some redeemable preference shares and these are now classified as Investment Securities.

During the year ended 31 March 2008, SBS disposed of 25,000 shares in Funds Administration New Zealand Limited and recognised a gain of \$95,000.

14. Equity

	BANKING GROUP		
	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
Capital Reserve	73	73	73
Revaluation Reserve - Property, Plant and Equipment	1,140	519	1,140
Revaluation Reserve - Available for Sale Assets	3	(8)	(34)
Revaluation Reserve - Cash Flow Hedging	(10,987)	-	-
Retained Earnings	157,154	147,240	150,446
	147,383	147,824	151,625
Minority Interests	3,839	3,546	3,741
	151,222	151,370	155,366

Movement in Reserves:

Revaluation Reserve - Property, Plant and Equipment

Balance at Beginning of the Period	1,140	996	996
Surplus on Revaluation of Land and Buildings	-	-	902
Deferred Tax on Revaluation	-	-	(221)
Transfer to Income Statement	-	-	(60)
Deferred Tax Transfer to Income Statement	-	-	-
Transfer to Retained Earnings	-	(725)	(725)
Deferred Tax Transfer to Retained Earnings	-	128	128
Minority Interests Share of Revaluation	-	145	145
Minority Interests Share of Deferred Tax on Revaluation	-	(25)	(25)
Net Movement for the Period	-	(477)	144
Balance at End of the Period	1,140	519	1,140

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

14. Equity (continued)

	BANKING GROUP		
	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
Revaluation Reserve - Available for Sale Assets			
Balance at Beginning of the Period	(34)	-	-
Net Gains/(Losses) from Changes in Fair Value	40	(15)	(63)
Current/Deferred Tax on Changes in Fair Value	(12)	5	20
Minority Interests Share of Net Gains/(Losses) from Changes in Fair Value	13	3	13
Minority Interests Share of Current/Deferred Tax in Fair Value	(4)	(1)	(4)
Net Movement for the Period	37	(8)	(34)
Balance at End of the Period	3	(8)	(34)
Revaluation Reserve - Cashflow Hedging Reserve			
Balance at Beginning of the Period	-	-	-
Net Gains/(Losses) from Changes in Fair Value	(15,696)	-	-
Current Tax on Changes in Fair Value	4,709	-	-
Balance at End of the Period	(10,987)	-	-
Retained Earnings			
Balance at Beginning of the Period	150,446	136,301	136,301
Add Realised Reserves	-	580	578
Add Net Surplus for the Period	7,220	10,922	14,327
Less Minorities' Interests	(512)	(563)	(760)
Balance at End of the Period	157,154	147,240	150,446

15. Reconciliation Of Net Surplus To Net Operating Cash Flows

	BANKING GROUP		
	Unaudited 9 Months 31/12/2008	Unaudited 9 Months 31/12/2007	Audited 12 Months 31/03/2008
Net Surplus for Period	7,220	10,922	14,327
Add/(Less) Non Cash Items			
Depreciation and Amortisation	2,032	2,088	2,812
Provision for Credit Impairment	8,302	4,343	9,074
Write Off Property, Plant and Equipment	5	6	92
Loss on Sale of Shares	90	-	-
Building Revaluations	-	-	(60)
Actuarial Life Adjustment	46	496	466
Dividend Provision - Minority Interest	-	462	462
Deferred Fee Revenue and Expenses	(508)	513	275
Derivatives Fair Value Adjustment	21,523	(5,868)	1,734
Advances Fair Value Adjustment	(15,753)	7,940	(384)
Investment Securities Fair Value Adjustment	(64)	(14)	(10)
Interest Free Loans Fair Value Adjustment	(360)	(178)	(312)
Net Deferred Tax Assets	(1,258)	622	(248)
	14,055	10,410	13,901

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

15. Reconciliation Of Net Surplus To Net Operating Cash Flows (continued)

	BANKING GROUP		
	Unaudited 9 Months 31/12/2008	Unaudited 9 Months 31/12/2007	Audited 12 Months 31/03/2008
Deferral or Accruals of Past or Future Operating			
Cash Receipts or Payments			
Decrease/(Increase) in Income Tax Payable	2,425	(1,821)	(2,637)
(Increase)/Decrease in Sundry Debtors	2,156	1,794	(1,368)
Increase/(Decrease) in Sundry Creditors	(2,358)	589	3,444
Decrease/(Increase) in Accruals Relating to Interest Receivable	2,063	(1,918)	(2,041)
Increase in Accruals Relating to Accrued Interest & Dividends Payable to Customers	12,070	8,778	7,815
Decrease in Accruals Relating to Accrued Interest Payable to Financial Institutions	(11)	(6)	(2)
Decrease in Accruals Relating to Accrued Interest Payable on Investment Securities	(508)	(80)	(107)
Increase in Net Advances	(57,999)	(181,394)	(215,222)
Increase in Shares and Deposits	212,353	107,221	132,607
Increase/(Decrease) in Other Borrowings	(111,936)	46,718	47,310
Net Increase in Cash held on behalf of Lifestages Mortgage Portfolio	270	3,770	4,149
	58,525	(16,349)	(26,052)
Items Classified as Cash			
Increase in Accruals Relating to Funds with Financial Institutions	(890)	582	644
Net Cash Flows From Operating Activities	78,910	5,565	2,820

16. Analysis of Borrowings

	BANKING GROUP		
	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
Redeemable Shares			
Call	276,797	222,079	239,689
Term	1,622,069	1,486,555	1,453,595
Total Redeemable Shares	1,898,866	1,708,634	1,693,284
Deposits from Customers			
Call	89,267	43,372	40,505
Term	133,028	90,309	92,522
Total Deposits	222,295	133,681	133,027
Deposits from Financial Institutions			
Call	-	30,007	42,518
Term	-	-	27,920
Total Deposits	-	30,007	70,438
Total Redeemable Shares and Deposits	2,121,161	1,872,322	1,896,749

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

17. Contingent Liabilities and Credit Related Commitments

	BANKING GROUP					
	Unaudited Contract or Notional Amt 31/12/2008	Unaudited Credit Equivalent 31/12/2008	Unaudited Contract or Notional Amt 31/12/2007	Unaudited Credit Equivalent 31/12/2007	Audited Contract or Notional Amt 31/03/2008	Audited Credit Equivalent 31/03/2008
Contingent Liabilities						
Lifestages Superannuation Scheme	474	474	3,579	3,579	2,259	2,259
Commitments						
Commitments with Uncertain Drawdown	23,972	11,986	54,086	27,043	30,314	15,157
Commitments to Extend Credit which can be Unconditionally Cancelled	222,577	-	227,735	-	236,256	-
Total Contingent Liabilities and Credit Related Commitments	247,023	12,460	285,400	30,622	268,829	17,416

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 \$474,000 (December 2007 \$3,579,000; March 2008 \$2,259,000) 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.

18. Commitments

	BANKING GROUP		
	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
Lease Commitments			
Lease commitments payable after balance date:			
0-12 Months	1,757	1,753	1,691
12-24 Months	1,502	1,448	1,429
24-60 Months	1,867	2,380	2,166
>60 Months	559	904	931
	5,685	6,485	6,217

The Banking Group leases land and buildings under operating leases expiring from one to eight 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 Lessee by entering into these leases.

19. Segmental Analysis

Business Segment Analysis

For management purposes, the Banking Group is organised into 2 major business units:

Banking Operations

Banking Operations incorporates SBS and its in-substance subsidiaries SBS Invercargill W Trust and SBS Oreti Trust No 1 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 (FANZ).

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 (FANZ) is a funds management and financial advisory company operating in the New Zealand wholesale and retail financial market.

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

19. Segmental Analysis (continued)

As at 31 December 2008 (Unaudited)	Consolidated			Total
	Banking Operations	Other Financial Services	Eliminations	
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
Other Segment Items:				
Acquisition of Property, Plant & Equipment	674	21	-	695
Acquisition of Intangible Assets	717	164	-	881
Depreciation Expense - Property, Plant & Equipment	918	313	-	1,231
Amortisation expense - Intangible Assets	447	349	-	796
Provision for Credit Impairment	4,577	3,725	-	8,302

As at 31 December 2007 (Unaudited)	Consolidated			Total
	Banking Operations	Other Financial Services	Eliminations	
Total Operating Income	38,199	19,138	(4,249)	53,088
Net Profit before Taxation	12,546	3,202	(791)	14,957
Total Assets	2,386,775	115,169	(109,130)	2,392,814
Total Liabilities	2,250,249	92,168	(100,972)	2,241,445
Other Segment Items:				
Acquisition of Property, Plant & Equipment	528	448	-	976
Acquisition of Intangible Assets	339	222	-	561
Depreciation Expense - Property, Plant & Equipment	886	293	-	1,179
Amortisation expense - Intangible Assets	339	570	-	909
Provision for Credit Impairment	620	3,723	-	4,343

As at 31 March 2008 (Audited)	Consolidated			Total
	Banking Operations	Other Financial Services	Eliminations	
Total Operating Income	50,861	25,557	(4,954)	71,464
Net Profit before Taxation	16,376	4,465	(805)	20,036
Total Assets	2,418,502	113,329	(105,560)	2,426,271
Total Liabilities	2,279,331	88,957	(97,383)	2,270,905
Other Segment Items:				
Acquisition of Property, Plant & Equipment	807	641	-	1,448
Acquisition of Intangible Assets	622	282	-	904
Depreciation Expense - Property, Plant & Equipment	1,280	415	-	1,695
Amortisation expense - Intangible Assets	383	728	-	1,111
Provision for Credit Impairment	3,882	5,192	-	9,074

Geographical Segment Analysis

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

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

20. 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 cashflows, forecast cash flows and the current composition of the Balance Sheet to be adequate.

Liquid assets include committed but undrawn funding lines. As at 31 December 2008, the Banking Group had total committed funding lines with other registered banks of \$450,000,000 (December 2007 \$410,000,000; March 2008 \$440,000,000). Of these facilities \$50,750,000 (December 2007 \$109,920,000; March 2008 \$135,960,000) were drawn down on 31 December 2008.

	BANKING GROUP		
	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
Asset Liquidity	134,339	57,398	51,465
Committed and Undrawn Funding Lines	399,250	300,080	304,040
Total Liquidity	533,589	357,478	355,505

Asset liquidity includes Investment Securities, Cash on Hand and at Bank and Funds with Other Financial Institutions.

In addition to committed lines, Southland Building Society has \$nil (December 2007 \$30,000,000; March 2008 \$30,000,000) of utilised and \$20,000,000 (December 2007 \$nil; March 2008 \$nil) of unutilised funding arrangements in place with other registered banks at 31 December 2008.

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

21. 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 68% (December 2007 67%; March 2008 67%) of SBS's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 17% (December 2007 17%; March 2008 17%) 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.

Percentage of 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 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
10-19	-	-	-	5	2	1
20-29	-	-	-	-	-	-
30-39	-	-	-	-	-	-
40-49	-	-	-	-	-	-
50-59	-	-	-	-	-	-

Percentage of Equity %	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 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
10-19	-	-	-	1	2	2
20-29	-	-	-	3	-	-
30-39	-	-	-	-	-	-
40-49	-	-	-	1	-	-
50-59	-	-	-	-	-	-

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

21. Credit Risk Exposure (continued)

(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 31/12/2008	Unaudited 31/12/2008	Unaudited 31/12/2007	Unaudited 31/12/2007	Audited 31/03/2008	Audited 31/03/2008
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	109,964	100%	40,008	100%	28,289	100%
Below Investment grade credit rating	-	0%	-	0%	-	0%
Not rated	-	0%	-	0%	-	0%
Total Bank Exposures	109,964	100%	40,008	100%	28,289	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 2008 (31 December 2007: nil, March 2008: nil).

	BANKING GROUP		
	Unaudited	Unaudited	Audited
	31/12/2008	31/12/2007	31/03/2008
Credit exposures to non-bank connected persons at period end	724	975	989
Credit exposures to non-bank connected persons at period end expressed as a % of total tier one capital	0.46%	0.66%	0.65%
Peak credit exposures to non-bank connected persons during the quarter	739	1,018	996
Peak credit exposures to non-bank connected persons during the quarter expressed as a % of total tier one capital	0.47%	0.69%	0.66%

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

22. 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 & similar reserves, retained profits and minority interests and 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. Due to systems development required to comply with Basel II, data for the comparative period 31 December 2007 has not been restated and presented under the Basel II methodology.

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

- i Earnings Risk - The risk due to uncertainty in future reported earnings arising from adverse changes in the business environment and from adverse business decisions.
- ii Liquidity Risk - The risk that the Bank cannot meet or generate sufficient cash resources to meet its cash out goings as they fall due. Capital is not held for 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 bank's 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 period ended 31 December 2008. For the purposes of calculating the capital adequacy ratios for the Registered Bank, wholly-owned and wholly-funded subsidiaries of the Banking Group are consolidated with the Registered Bank. In this context, wholly funded by the Registered Bank means that there are no liabilities (including off-balance sheet obligations) to anyone other than the Registered Bank, the Inland Revenue Department, and trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's equity. Wholly owned means that all the equity issued by the subsidiary is held by the Registered Bank. During the periods shown the Banking Group fully complied with all RBNZ capital requirements as set out in the Banking Group's Conditions of Registration.

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

22. Capital Adequacy (continued)

	BANKING GROUP			REGISTERED BANK		
	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
Regulatory Capital Ratios						
Tier One Capital Expressed as a Percentage of Total Risk Weighted Exposures	9.50%	9.32%	9.52%	9.48%	9.50%	9.49%
Capital Expressed as a Percentage of Total Risk Weighted Exposures	9.57%	9.35%	9.59%	9.32%	9.29%	9.32%

	BANKING GROUP			REGISTERED BANK		
	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008

(ii) Qualifying Capital

Tier One Capital

Retained Earnings	150,446	135,738	136,879	143,334	132,000	131,110
Current Period's Retained Earnings	6,708	10,922	13,567	7,978	10,860	12,223
Revenue and Similar Reserves	73	73	73	73	73	73
Cash Flow Hedging Reserve	(10,987)	-	-	(10,987)	-	-
Minority Interests	3,839	3,546	3,741	-	-	-
Less Deductions from Tier One Capital						
Intangible Assets	(2,701)	(2,475)	(2,616)	(1,238)	(723)	(968)
Cash Flow Hedging Reserve	10,987	-	-	10,987	-	-
Total Tier One Capital	158,365	147,804	151,644	150,147	142,210	142,438

Tier Two Capital

Upper Tier Two Capital

Revaluation Reserves	1,143	511	1,106	1,211	509	1,138
Total Upper Tier Two Capital	1,143	511	1,106	1,211	509	1,138

Lower Tier Two Capital

	-	-	-	-	-	-
Total Tier Two Capital	1,143	511	1,106	1,211	509	1,138

Total Tier One and Tier Two Capital	159,508	148,315	152,750	151,358	142,719	143,576
Less Deductions from Capital	-	-	-	(3,736)	(3,736)	(3,736)
Total Capital	159,508	148,315	152,750	147,622	138,983	139,840

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

22. Capital Adequacy (continued)

(iii) Total Risk Weighted Exposures

BANKING GROUP

	Total Exposure after Credit Risk Mitigation Unaudited 31/12/2008	Risk Weighting Unaudited 31/12/2008	Risk Weighted Exposure Unaudited 31/12/2008	Minimum Pillar One Capital Requirement Unaudited 31/12/2008
On Balance Sheet Exposures				
Cash and gold bullion	347	0%	-	-
Sovereigns and Central Banks	1,058	0%	-	-
Public Sector Entities	-	20%	-	-
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		1,454,440	116,355

	Total Exposure after Credit Risk Mitigation Unaudited 31/12/2008	Credit Conversion Factor Unaudited 31/12/2008	Credit Equivalent Amount Unaudited 31/12/2008	Average Risk Weighting Unaudited 31/12/2008	Risk Weighted Exposure / Implied Risk Weighted Exposure Unaudited 31/12/2008	Minimum Pillar One Capital Requirement Unaudited 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%	-	-
<u>Market Related Contracts</u> 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		1,462,943	117,035
Operational Risk	n/a	-	-		162,959	13,037
Market Risk	n/a	-	-		41,281	3,302
Total Risk Weighted Exposure	3,877,695	-	-		1,667,183	133,375

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

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

22. Capital Adequacy (continued)

BANKING GROUP

	Principal Amount Unaudited 31/12/2007	Risk Weighting Unaudited 31/12/2007	Risk Weighted Exposure Unaudited 31/12/2007
On Balance Sheet Exposures			
Cash and Claims on Qualifying Governments with maturities < 1 year	298	0%	-
Cash and Claims on Qualifying Governments with maturities > 1 year	970	10%	97
Claims on Banks and NZ Local Authorities	55,156	20%	11,031
Advances Secured by Residential Mortgage	1,542,418	50%	771,209
Other Assets	781,918	100%	781,918
Non-Risk Weighted Assets	12,054	-	-
Total On Balance Sheet Exposures	2,392,814		1,564,255

	Principal Amount Unaudited 31/12/2007	Credit Conversion Factor Unaudited 31/12/2007	Credit Equivalent Amount Unaudited 31/12/2007	Average Risk Weighting Unaudited 31/12/2007	Risk Weighted Exposure Unaudited 31/12/2007
Off Balance Sheet Exposures					
Commitments with uncertain drawdown	54,086	50%	27,043	66%	17,961
Commitments to extend credit which can be unconditionally cancelled	227,735	0%	-	0%	-
<u>Market Related Contracts</u> ¹					
Interest Rate Contracts	359,675	n/a	5,103	20%	1,021
Option Contracts	809,375	n/a	11,697	20%	2,339
Total Off Balance Sheet Exposures	1,450,871		43,843		21,321
Total Risk Weighted Exposures	3,843,685		43,843		1,585,576

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

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

22. Capital Adequacy (continued)

BANKING GROUP

	Total Exposure after Credit Risk Mitigation Audited 31/03/2008	Risk Weighting Audited 31/03/2008	Risk Weighted Exposure Audited 31/03/2008	Minimum Pillar One Capital Requirement Audited 31/03/2008
On Balance Sheet Exposures				
Cash and gold bullion	357	0%	-	-
Sovereigns and Central Banks	1,009	0%	-	-
Public Sector Entities	-	20%	-	-
Banks	51,187	20%	10,237	819
Residential Mortgages < 80% Loan to Value Ratio (LVR)	1,374,678	35%	481,137	38,491
Residential Mortgages 80 < 90% LVR	52,456	50%	26,228	2,098
Residential Mortgages 90 < 100% LVR	16,393	75%	12,295	984
Residential Mortgages Welcome Home Loans	117,401	50%	58,701	4,696
Past Due Residential Mortgages	3,558	100%	3,558	285
Impaired Residential Mortgages	4,949	100%	4,949	396
Equity Holdings	338	300%	1,014	81
Equity Holdings	1,090	400%	4,360	349
Other Assets	796,953	100%	796,953	63,756
Non-Risk Weighted Assets	5,902	0%	-	-
Total On Balance Sheet Exposures	2,426,271		1,399,432	111,955

	Total Exposure after Credit Risk Mitigation Audited 31/03/2008	Credit Conversion Factor Audited 31/03/2008	Credit Equivalent Amount Audited 31/03/2008	Average Risk Weighting Audited 31/03/2008	Risk Weighted Exposure / Implied Risk Weighted Exposure Audited 31/03/2008	Minimum Pillar One Capital Requirement Audited 31/03/2008
Off Balance Sheet Exposures						
Commitments with uncertain drawdown	30,314	50%	15,157	66%	10,061	805
Commitments to extend credit which can be unconditionally cancelled	236,256	0%	-	0%	-	-
<u>Market Related Contracts</u> ¹						
Interest Rate Contracts	1,187,550	n/a	10,467	20%	2,093	167
Total Off Balance Sheet Exposures	1,454,120		25,624		12,154	972
Total Credit Risk	3,880,391		25,624		1,411,586	112,927
Operational Risk	n/a	-	-		151,960	12,157
Market Risk	n/a	-	-		29,394	2,352
Total Risk Weighted Exposure	3,880,391	-	-		1,592,940	127,435

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

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

22. Capital Adequacy (continued)

(iii) Residential Mortgages by Loan-to-Valuation Ratio

	BANKING GROUP	
	Unaudited 31/12/2008	Audited 31/03/2008
LVR Range		
0 - 80%	1,369,466	1,382,170
80 - 90%	57,899	52,742
90% +	198,067	134,523

Welcome Home Loans make up 88% 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 Capital Adequacy Framework, and Schedule 5A of the Registered Bank Disclosure Statement (Full and Half-Year - New Zealand Incorporated Registered Banks) Order 2008. Peak exposures are calculated using the Banking Group's equity at the end of the period. Due to systems development required to comply with Basel II, peak end of day capital charges have not been presented at this time however these are expected to be included at 31 March 2009.

	BANKING GROUP					
	Implied Risk Weighted Exposure Unaudited 31/12/2008	Aggregate Capital Charge Unaudited 31/12/2008	Aggregate Capital Charge as % of Banking Group's Equity Unaudited 31/12/2008	Implied Risk Weighted Exposure Audited 31/03/2008	Aggregate Capital Charge Audited 31/03/2008	Aggregate Capital Charge as % of Banking Group's Equity Audited 31/03/2008
Interest Rate Exposures						
End of Period capital charges	41,281	3,302	2.18%	29,394	2,352	1.51%

23. Interest Earning Assets & Interest Bearing Liabilities

	BANKING GROUP		
	Unaudited 31/12/2008	Unaudited 31/12/2007	Audited 31/03/2008
Total Interest Earning and Discount Bearing Assets	2,534,876	2,354,955	2,389,122
Total Interest and Discount Bearing Liabilities	2,357,171	2,219,675	2,244,695

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2008

All in \$000's

24. Fiduciary Activities

Funds Management

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

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

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

	31/12/2008 Unaudited	31/12/2007 Unaudited	31/03/2008 Audited
Funds under management on behalf of customers	274,500	213,100	215,760

Securitised Assets

As at 31 December 2008, the Banking Group had securitised assets amounting to \$335 million (31 December 2007 \$350 million, 31 March 2008 \$352 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) and 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). Note 12 provides further information. The Banking Group receives fees for various services provided to the securitisation vehicles on an arm's length basis, including servicing fees. These fees are recognised as earned. All securitisation vehicles form part of the Banking Group.

In May 2008, the RBNZ expanded the range of acceptable collateral that financial institutions can pledge and borrow against as part of changes to its liquidity management arrangement designed to ensure adequate liquidity for New Zealand financial institutions in the event that global market disruptions were to intensify. From 31 July 2008, acceptable collateral will include residential mortgage backed securities 'RMBS' that satisfy RBNZ criteria. The Banking Group intends to establish a further RMBS vehicle that will issue securities which meet these criteria, and which will significantly increase the Bank's contingent funding ability from the RBNZ.

Insurance Business

The Banking Group markets and distributes insurance products through its 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 2008 are \$6.9 million (31 December 2007 \$6.5 million, 31 March 2008 \$6.5 million), which is 0.3% of the total assets of the Banking Group (31 December 2007 0.3%, 31 March 2008 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.

25. Subsequent Events

SBS reduced its level of committed liquidity lines by \$200 million on 18 February 2009. This decision was made on the basis of exceptional retail funding growth and the intended issue of residential mortgage backed securities in March 2009. There have been no other material subsequent events.

Southland Building Society Directory

Directors

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

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

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

Mr G J Mulvey, B Com CA FNZIM - General Manager, Invercargill Licensing Trust,

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

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

Mr J J Grant, Farmer/Company Director (appointed July 2007), Balfour

Mr R L Smith, B Com FNZIM - Chief Executive Officer of the Southland Building

All directors can be contacted c/- of
the Society 51 Don St Invercargill

Chief Executive Officer

Mr R L Smith, B Com FNZIM, Invercargill

Secretary

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

Registered Office

51 Don Street, Invercargill

Solicitors

Buddle Findlay, 78 Worcester Street, Christchurch

Cruickshank Pryde, 42 Don Street, Invercargill

Auditors

KPMG, 10 Customhouse Quay, Wellington

Banker

Westpac Banking Corporation, 188 Quay Street, Auckland

Southland Building Society Branch Directory

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