

# **Southland Building Society**

# **Disclosure Statement**

For the three months ended 30 June 2011

Number 13 Issued August 2011



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# **General Information**

Southland Building Society (SBS) 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. Southland Building Society operates under two brands "SBS Bank" and "HBS Bank".

This Disclosure Statement has been issued by Southland Building Society in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 2) 2011 (the 'Order').

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

#### Name and Address for Service of Registered Bank

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

#### **Details of Incorporation**

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

#### Ownership

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

#### **Guarantee Arrangements**

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

# **Pending Proceedings or Arbitration**

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

### **Other Material Matters**

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

#### Directorate

The following changes in the composition of the Bank's Board of Directors have been effected since the authorisation date of the previous full year General Disclosure Statement on 2 June 2011: Garry J Diack resigned from the Board with effect from 27 July 2011.

# **Credit Rating**

As at 30 June 2011, 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 6 September 2010. The rating is not subject to any qualifications.

# **Conditions of Registration**

The Bank's conditions of registration were changed during the period since the signing of the previous General Disclosure Statement with effect from 1 July 2011.

The changes made were:

- Condition 4 has been updated to reflect the most recent Connected Exposures Policy (BS8) dated June 2011.
- Condition 11(c) has been updated to increase the Banking Group's core funding ratio from 65% to 75%.
- Conditions 10A and 10B regarding liquidity risk which only applied until 31 March 2011 have been removed.



# **Directors' Statement**

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

- As at the date on which the Disclosure Statement is signed: 1.
  - the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) (a) Order (No 2) 2011; and
  - the Disclosure Statement is not false or misleading. (b)
- 2. Each director of the Bank believes, after due enquiry, that during the three months ended 30 June 2011:
  - the Bank has complied with the conditions of registration applicable during the period; and (a)
  - credit exposures to connected persons were not contrary to the interests of the Banking Group; and (b)
  - 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 (C) 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 24th August 2011 and has been signed by or on behalf of all the directors.

JWA Smith (Chairman)

Matthe

JF Ward (Deputy Chairman)

**RL Smith** (Group Managing Director / Chief Executive Officer)

KJ Ball



JB Walker

GJ Mulvey

valle

JJ Grant

FE Spencer







	BANKING GROUP		
	Unaudited Unaudited		
	3 Months	3 Months	12 Months
	30/06/2011	30/06/2010	31/03/2011
Interest income	46,451	41,994	182,286
Interest expense	3,739	3,716	16,037
Dividends on redeemable shares	26,418	23,907	102,565
	30,157	27,623	118,602
Net interest income	16,294	14,371	63,684
Other income	4,547	4,545	18,235
Total operating income	20,841	18,916	81,919
Operating expenses	12,908	11,358	47,554
Provision for credit impairment	2,958	3,475	17,057
Operating surplus	4,975	4,083	17,308
Net gain/(loss) from financial instruments designated at fair value	(188)	1,248	5,117
Revaluation of property	-	-	-
Revaluation of investment properties	-	-	(88)
Surplus before income tax	4,787	5,331	22,337
Less income tax expense	1,544	3,708	8,087
Net surplus	3,243	1,623	14,250
Attributable to:			
Members' interests	2,696	1,180	11,761
Non-controlling interests	547	443	2,489
	3,243	1,623	14,250

# **Southland Building Society**

Statement of Comprehensive Income for the three months ended 30 June 2011 All in \$000's



	BANKING GROUP		
	Unaudited 3 Months 30/06/2011	Unaudited 3 Months 30/06/2010	Audited 12 Months 31/03/2011
Net surplus for the period	3,243	1,623	14,250
Other comprehensive income			
Net change in property, plant and equipment reserve, net of tax	-	27	(355)
Net change in available for sale asset reserve, net of tax	570	422	1,298
Net change in cash flow hedging reserve, net of tax	943	(844)	(4,796)
Other comprehensive income for the period, net of tax	1,513	(395)	(3,853)
Total comprehensive income for the period	4,756	1,228	10,397
Attributable to:			
Members' interests	4,165	879	8,163
Non-controlling interests	591	349	2,234
	4,756	1,228	10,397

# Southland Building Society Statement of Changes in Equity for the three months ended 30 June 2011 All in \$000's



		BANKING GROUP		
	Unaudited	Unaudited	Audited	
	3 Months	3 Months	12 Months	
	30/06/2011	30/06/2010	31/03/2011	
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	798	1,153	1,153	
Other comprehensive income for the period		27	(355)	
Balance at end of the period	798	1,180	798	
Revaluation reserve - available for sale assets				
Balance at beginning of the period	1,236	(58)	(58)	
Other comprehensive income for the period	571	427	1,294	
Balance at end of the period	1,807	369	1,236	
Revaluation reserve - cash flow hedging				
Balance at beginning of the period	(7,859)	(3,322)	(3,322)	
Other comprehensive income for the period	898	(756)	(4,537)	
Balance at end of the period	(6,961)	(4,078)	(7,859)	
Pateinad exwines			( )	
Retained earnings Balance at beginning of the period	201,374	174,155	174,155	
Net surplus for the period	2,696	1,180	11,761	
Acquired on merger	-	-	15,458	
Balance at end of the period	204,070	175,335	201,374	
Total equity attributable to member's interests	199,787	172,879	195,622	
	135,707	112,013	133,022	
Non-controlling interests				
Balance at beginning of the period	6,418	5,663	5,663	
Net surplus for the period Other comprehensive income for the period	547 44	443	2,489	
Dividends	(120)	(93) (104)	(255) (1,479)	
Balance at end of the period	6,889	5,909	6,418	
Total equity at end of the period	206,676	178,788	202,040	
Represented by:				
Equity at beginning of the period	202,040	177,664	177,664	
Net surplus for the period	3,243	1,623	14,250	
Other comprehensive income for the period	1,513	(395)	(3,853)	
Total comprehensive income for the period	4,756	1,228	10,397	
Dividends	(120)	(104)	(1,479)	
Acquired on merger	(120)	-	15,458	
	000 070	170 700		
Total equity at end of the period	206,676	178,788	202,040	

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 30 June 2011 All in \$000's



Assets         19,537         29,663         22,211           Cash on fan din di bank         19,537         29,663         22,211           Funds with financial institutions         87,005         3,432         48,005           Investment socurities         12,052         66,176         120,228           Derivative financial institutions         23,028         1,091         2,662           Current tax assets         -         24         287           Advances to customers         (3)         2,549,046         2,451,735         2,546,666           Other assets         2,249         2,480         2,830,965         2,830,965         2,830,965         2,830,965         2,830,965         2,830,965         2,830,965         2,169,465           Deferred tax         7,183         4,000         7,741         2,840,466         2,401         2,462,32         2,40,46         2,403,42         2,401,42         2,403,42         2,401,46         2,403,46         2,403,46         2,404,45         2,404,45         2,404,46         2,403,42         2,401,46         2,404,46         2,404,45         2,404,46         10,70,66         2,2169,465         2,402,42         2,611,733         2,402,42         2,611,733         2,402,42         2,611,733         2		Note	Unaudited 30/06/2011	BANKING GROUP Unaudited 30/06/2010	Audited 31/03/2011
Funds with financial institutions         87,905         3,432         48,805           Investment securities         143,059         66,173         120,228           Derivative financial institutions         2,528         1,091         2,862           Current tax assets         -         24         2,877           Advances to customers         (3)         2,549,646         2,451,735         2,546,666           Other assets         3,391         3,479         3,391           Property, plant and equipment         19,638         16,600         18,930           Inangible assets         2,477         3,765         2,261,216         2,813,833           Peterod tax         7,183         4,000         7,481           Liabilities         7,183         1,969,996         2,169,465           Delerod tax         2,194,439         1,969,996         2,169,465           Delerod tar         2,807,565         2,261,216         2,813,833           Delerod tar         12,141         1,303         13,422           Delerod tar         1,969,996         2,169,465         2,94,433         2,406,443           Delerod tar         12,214         14,439         1,969,996         2,169,465           D					
Investment securities         143.059         66,176         120.228           Derivative financial instruments         2,58         1,091         2,628           Current tax assets         -         24         287           Advances to customers         (3)         2,549,646         2,451,795         2,564,656           Other assets         2,249         2,480         2,508         1,830           Investment properties         3,391         3,479         3,391           Property, plant and equipment         19,638         16,600         18,930           Intangible assets         2,479         3,176         2,264         2,660           Delerred tax         7,183         4,000         7,481         2,87,565         2,581,216         2,813,833           Liabilities         2,194,439         1,969,996         2,169,465         2,06,44         -         -           Derivative financial instruments         2,141         11,033         13,429         -         -           Other tax liabilities         3,000         4,504         -         -         -         -           Other tax liabilities         19,221         18,743         20,025         3,000         -         -         -					
Derivative financial instruments         2.528         1.091         2.662           Current tax assets         -         24         287           Advances to customers         (3)         2.549.646         2.451.755         2.584.656           Diversiment properties         3.391         3.479         3.391           Property, plant and equipment         19.638         16.600         18.930           Intragible assets         2.479         3.176         2.674           Delerred tax         7.183         4.000         7.481           Labilities         Redeemable shares         2.194.439         1.969.996         2.169.465           Deposits from customers         2.40.614         216.832         240.546           Due to ther financial instruments         12.141         11.303         13.429           Current tax labilities         738         -         -           Other borrowings         99.487         120.166         107.096           Other borrowings         19.221         18.743         20.025           Subordinated redeemable shares         61.249         60.864         61.232           Subordinated redeemable shares         61.249         60.864         61.232           Subordinated r					
Current tax assets         -         24         287           Advances to customers         (3)         2,549,646         2,451,755         2,589,656           Investment properties         3,391         3,479         3,391           Property, plant and equipment         19,583         16,600         18,830           Intangible assets         2,1479         3,176         2,674           Deferred tax         7,183         4,000         7,481           Redeemable shares         2,194,439         1,969,996         2,169,465           Deposits from customers         240,614         216,822         240,546           Due to other financial institutions         3,000         4,504         -           Derivative financial institutions         240,614         216,822         240,546           Devises         240,614         216,832         240,546           Devise form customers         240,614         216,832         240,546           Derivative financial institutions         73         -         -           Other labilities         73         -         -           Subordinated redeemable shares         61,229         60,6476         173,788         202,040           Equity         Reserves					
Advances to customers       (3)       2,549,646       2,451,795       2,584,656         Other assets       2,249       2,480       2,503         Investment properties       3,391       3,479       3,391         Property, plant and equipment       19,638       16,600       18,830         Intragible assets       2,479       3,176       2,674         Deterred tax       2,837,665       2,561,216       2,813,833         Liabilities       2,837,665       2,561,216       2,813,833         Redeemable shares       2,194,439       1,969,996       2,169,465         Deposits from customers       2,141       216,832       240,514         Due to other financial institutions       12,141       211,033       13,429         Current tax liabilities       738       -       -         Other borrowings       19,474       20,166       107,086         Other tax liabilities       19,221       18,743       20,025         Subordinated redeemable shares       (4,283)       (2,456)       (5,752)         Retained earnings       2,4070       175,335       201,374         Net assets       20,676       178,788       202,040         Equity       199,787			2,528		
Other assets         2,249         2,480         2,508           Investment properties         3,391         3,479         3,391           Property, plant and equipment         19,638         16,600         18,930           Intrangible assets         2,479         3,176         2,687           Deferred tax         7,183         4,000         7,481           2,687,695         2,581,216         2,813,833           Intensible stares         2,194,439         1,969,996         2,169,465           Deposits from customers         2,0614         216,832         240,544           Due to other financial institutions         3,000         4,504         -           Derivative financial institutions         3,000         4,504         -           Other borrowings         99,487         12,141         11,303         13,429           Current tax liabilities         738         -         -         -           Other borrowings         99,487         12,141         11,303         13,429           Current tax liabilities         738         -         -         -           Subordinated redeemable shares         61,249         60,864         61,232           2,630,889         2,400,268			-		
Investment properties         3,391         3,479         3,391           Property, plant and equipment         19,638         16,600         18,830           Intangible assets         2,479         3,176         2,674           Deterred tax         2,837,565         2,581,216         2,813,833           Liabilities         Redemable shares         2,194,439         1,969,996         2,169,465           Deposits from customers         2,004,614         216,832         240,644         -           Derivative financial institutions         3,000         4,504         -         -           Derivative financial institutions         3,000         4,504         -         -           Other borrowings         99,487         120,196         107,096         107,096           Other borrowings         19,221         18,743         20,026         2,402,402         2,611,783           Subordinated redeemable shares         61,249         60,864         61,222         2,630,889         2,402,404         2,13,74           Net assets         2,06,676         178,788         202,040         -         -         -           Net assets         2,06,676         178,788         201,374         3,174         3,174 <td< td=""><td></td><td>(3)</td><td></td><td></td><td></td></td<>		(3)			
Property, plant and equipment Intangible assets         19,638         16,600         18,930           Deferred tax         2,479         3,176         2,674           7,183         4,000         7,481           Redeemable shares         2,194,439         1,969,996         2,169,465           Deposits from customers         240,614         216,832         240,546           Det other financial instruments         3,000         4,564         -           Other borrowings         12,141         11,303         13,429           Other liabilities         738         -         -           Other liabilities         19,221         18,743         20,025           Subordinated redeemable shares         60,864         61,232         2,611,793           Vert assets         2,630,899         2,402,428         2,611,793           Net assets         206,676         178,788         202,040           Equity         199,787         172,879         195,622           Attributable to members of the society         199,787         172,879         195,622           Attributable to non-controlling interests         6,889         5,909         6,4181           206,676         178,788         202,040         199,787 <td></td> <td></td> <td></td> <td></td> <td></td>					
Intangible assets         2.479         3.176         2.674           Deferred tax         7,183         4,000         7,481           2.837,565         2,581,216         2,813,833           Liabilities         2,194,439         1,969,996         2,169,465           Deposits from customers         240,614         216,832         240,546           Due to other financial institutions         3,000         4,504         -           Derivative financial institutions         3,000         4,504         -           Derivative financial institutions         12,141         11,303         13,429           Current tax liabilities         738         -         -           Other borrowings         99,487         120,186         107,096           Other loancial instruments         11,2,141         11,303         13,429           Current tax liabilities         738         -         -           Subordinated redeemable shares         61,249         60,864         61,232           Subordinated redeemable shares         61,249         60,664         61,232           Zeiso,889         2,402,428         2,611,783         202,040           Heaserves         178,788         202,040         172,879         <					
Deterred tax         7.183         4.000         7.481           2,837,565         2,591,216         2,813,833           Liabilities					
Liabilities         2,837,565         2,581,216         2,813,833           Liabilities         Redeemable shares         2,194,439         1,960,996         2,169,465           Deposits from customers         240,614         216,832         240,546           Due to other financial institutions         3,000         4,504         -           Derivative financial institutions         3,000         4,504         -           Current tax liabilities         738         -         -           Other borrowings         99,487         120,186         107,096           Other borrowings         19,221         18,743         20,025           Subordinated redeemable shares         61,249         60,864         61,232           2,600,894         2,402,428         2,611,793         12,821           Net assets         206,676         178,788         202,040           Equity         199,787         172,879         195,622           Attributable to non-controlling interests         6,889 <td></td> <td></td> <td></td> <td></td> <td></td>					
Liabilities         2,194,439         1,969,996         2,169,465           Deposits from customers         240,614         216,832         240,546           Due to other financial institutions         3,000         4,504         -           Derivative financial institutions         12,141         11,303         13,429           Current tax liabilities         738         -         -           Other borrowings         99,487         120,186         107,096           Other borrowings         19,221         18,743         20,025           Subordinated redeemable shares         61,249         60,864         61,232           Query taxis         2,630,889         2,402,428         2,611,793           Net assets         61,249         60,864         61,232           Query taxis         2,630,889         2,402,428         2,611,793           Reserves         (4,283)         (2,456)         (5,752)           Retained earnings         204,070         175,335         201,374           Attributable to non-controlling interests         6,889         5,909         6,418           206,676         178,788         202,040         2,500,366         2,775,900           2,800,097 <td>Deferred tax</td> <td></td> <td></td> <td></td> <td></td>	Deferred tax				
Redeemable shares         2,194,439         1,969,996         2,169,465           Deposits from customers         240,614         216,832         240,546           Due to other financial instruments         3,000         4,504         -           Derivative financial instruments         112,141         11,303         13,429           Current tax liabilities         738         -         -           Other borrowings         99,487         120,186         107,096           Other liabilities         19,221         18,743         20,025           Subordinated redeemable shares         61,249         60,864         61,232           Questers         26,676         178,788         202,040           Equity         -         -         -           Reserves         (4,283)         (2,456)         (5,752)           Retained earnings         199,787         172,879         195,622           Attributable to non-controlling interests         6,889         5,909         6,418           Questers         199,787         172,788         202,040			2,837,565	2,581,216	2,813,833
Deposits from customers         240,614         216,832         240,546           Due to other financial institutions         3,000         4,504         -           Derivative financial institutions         12,141         11,303         13,429           Current tax liabilities         738         -         -           Other borrowings         99,487         120,186         107,096           Other liabilities         19,221         18,743         20,025           Subordinated redeemable shares         61,249         60,864         61,232           Quitorial instruments         2,600,899         2,402,428         2,611,793           Net assets         61,249         60,864         61,232           Z630,899         2,402,428         2,611,793         202,040           Equity	Liabilities				
Due to other financial institutions         3,000         4,504         -           Derivative financial institutions         12,141         11,303         13,429           Current tax liabilities         738         -         -           Other borrowings         99,487         120,186         107,096           Other liabilities         19,221         18,743         20,025           Subordinated redeemable shares         61,249         60,864         61,232 <b>2,630,889</b> 2,402,428         2,611,793           Net assets         206,676         178,788         202,040           Equity         -         -         -           Reserves         (4,283)         (2,456)         (5,752)           Retained earnings         204,070         175,335         201,374           Attributable to non-controlling interests         6,889         5,909         6,418           206,676         178,788         202,040         19,522           Attributable to non-controlling interests         6,889         5,909         6,418           206,676         178,788         202,040         206,676         178,788         202,040	Redeemable shares		2,194,439	1,969,996	2,169,465
Due to other financial institutions         3,000         4,504         -           Derivative financial institutions         12,141         11,303         13,429           Current tax liabilities         738         -         -           Other borrowings         99,487         120,186         107,096           Other liabilities         19,221         18,743         20,025           Subordinated redeemable shares         61,249         60,864         61,232 <b>2,630,889</b> 2,402,428         2,611,793           Net assets         206,676         178,788         202,040           Equity         -         -         -           Reserves         (4,283)         (2,456)         (5,752)           Retained earnings         204,070         175,335         201,374           Attributable to non-controlling interests         6,889         5,909         6,418           206,676         178,788         202,040         19,522           Attributable to non-controlling interests         6,889         5,909         6,418           206,676         178,788         202,040         206,676         178,788         202,040	Deposits from customers		240,614	216,832	240,546
Current tax liabilities         738         -         -           Other borrowings         99,487         120,186         107,096           Other liabilities         19,221         18,743         20,025           Subordinated redeemable shares         61,249         60,864         61,232           2,630,889         2,402,428         2,611,793           2         2,630,889         2,402,428         2,611,793           Net assets         206,676         178,788         202,040           Equity         Reserves         (4,283)         (2,456)         (5,752)           Retained earnings         204,070         175,335         201,374           Attributable to members of the society         199,787         172,879         195,622           Attributable to non-controlling interests         6,889         5,909         6,418           206,676         178,788         202,040			3,000	4,504	-
Other borrowings Other liabilities         99,487         120,186         107,096           Subordinated redeemable shares         19,221         18,743         20,025           Subordinated redeemable shares         61,249         60,864         61,232           2,630,889         2,402,428         2,611,793           Z,630,889         2,402,428         2,611,793           Equity	Derivative financial instruments		12,141	11,303	13,429
Other liabilities       19,221       18,743       20,025         Subordinated redeemable shares       61,249       60,864       61,232         2,630,889       2,402,428       2,611,793         Reserves       206,676       178,788       202,040         Equity       (4,283)       (2,456)       (5,752)         Retained earnings       204,070       175,335       201,374         Attributable to members of the society       199,787       172,879       195,622         Attributable to non-controlling interests       6,889       5,909       6,418         206,676       178,788       202,040	Current tax liabilities		738	-	-
Subordinated redeemable shares         61,249         60,864         61,232           2,630,889         2,402,428         2,611,793           Net assets         206,676         178,788         202,040           Equity         178,788         202,040           Reserves         (4,283)         (2,456)         (5,752)           Retained earnings         204,070         175,335         201,374           Attributable to members of the society         199,787         172,879         195,622           Attributable to non-controlling interests         6,889         5,909         6,418           206,676         178,788         202,040	Other borrowings		99,487	120,186	107,096
Image: Net assets         2,630,889         2,402,428         2,611,793           Net assets         206,676         178,788         202,040           Equity         206,676         178,788         202,040           Reserves         (4,283)         (2,456)         (5,752)           Retained earnings         204,070         175,335         201,374           Attributable to members of the society         199,787         172,879         195,622           Attributable to non-controlling interests         6,889         5,909         6,418           206,676         178,788         202,040	Other liabilities		19,221	18,743	20,025
Net assets         206,676         178,788         202,040           Equity	Subordinated redeemable shares		61,249	60,864	61,232
Equity       Reserves       (4,283)       (2,456)       (5,752)         Retained earnings       204,070       175,335       201,374         Attributable to members of the society       199,787       172,879       195,622         Attributable to non-controlling interests       6,889       5,909       6,418         206,676       178,788       202,040			2,630,889	2,402,428	2,611,793
Reserves       (4,283)       (2,456)       (5,752)         Retained earnings       204,070       175,335       201,374         Attributable to members of the society       199,787       172,879       195,622         Attributable to non-controlling interests       6,889       5,909       6,418         206,676       178,788       202,040	Net assets		206,676	178,788	202,040
Reserves       (4,283)       (2,456)       (5,752)         Retained earnings       204,070       175,335       201,374         Attributable to members of the society       199,787       172,879       195,622         Attributable to non-controlling interests       6,889       5,909       6,418         206,676       178,788       202,040	Fauity				
Retained earnings         204,070         175,335         201,374           Attributable to members of the society         199,787         172,879         195,622           Attributable to non-controlling interests         6,889         5,909         6,418           206,676         178,788         202,040           Total interest earning and discount bearing assets         2,800,097         2,550,366         2,775,900			(4 283)	(2 456)	(5 752)
Attributable to members of the society       199,787       172,879       195,622         Attributable to non-controlling interests       6,889       5,909       6,418         206,676       178,788       202,040					
Attributable to non-controlling interests       6,889       5,909       6,418         206,676       178,788       202,040         Total interest earning and discount bearing assets       2,800,097       2,550,366       2,775,900	-				
206,676         178,788         202,040           Total interest earning and discount bearing assets         2,800,097         2,550,366         2,775,900			133,707	172,073	133,022
Total interest earning and discount bearing assets 2,800,097 2,550,366 2,775,900	Attributable to non-controlling interests		6,889		
			206,676	178,788	202,040
	Total interest earning and discount bearing assets		2,800,097	2,550,366	2,775,900

For and on behalf of the Board of Directors:

Chairman

/ Chairman JWA Smith

24 August 2011

ana

Deputy Chairman JF Ward

# Southland Building Society Statement of Cash Flows for the three months ended 30 June 2011 All in \$000's



Cash flows from operating activities         46,601         41,114         174,437           Interest and dividends paid         (28,000)         (27,970)         (119,287)           Other cash inflows provided by operating activities         5,868         6,005         23,864           Other cash inflows provided by operating activities         5,868         6,005         23,864           Other cash outflows used in operating activities before changes in operating activities         52,538         (41,977)         (365)           Net cash flows provided by/(used in) operating activities         52         40         46           Cash inflows provided by/(used in) operating activities         52         40         46           Cash inflows provided by/(used in) investing activities         (23,984)         (23,338)         (77,579)           Net cash flows provided by/(used in) investing activities         (1,123)         (575)         (946)           Net cash flows provided by/(used in) financing activities         1,123         (575)         (946)           Net cash flows provided by/(used in) financing activities         1,123         (575)         (946)           Net cash flows provided by/(used in) financing activities         1,123         (575)         (946)           Net cash flows provided by/(used in) financing activities         1,123		Unaudited 3 Months 30/06/2011	BANKING GROUP Unaudited 3 Months 30/06/2010	Audited 12 Months 31/03/2011
Interest and dividends paid         (28,308)         (27,970)         (119,287)           Other cash inflows provided by operating activities         (5,588         6,005         23,864           Other cash inflows used in operating activities         (15,517)         (111,388)         (55,314)           Net cash flows from operating activities before changes in operating assets and liabilities         8,644         7,781         25,700           Net cash flows provided by/(used in) operating activities         61,182         (34,196)         25,335           Cash flows provided by/(used in) operating activities         62,394)         (23,398)         (77,625)           Net cash flows provided by/(used in) investing activities         (23,394)         (23,398)         (77,579)           Cash flows provided by/(used in) investing activities         (23,394)         (23,398)         (77,579)           Cash flows provided by/(used in) investing activities         (1,123)         (575)         (946)           Net cash flows provided by/(used in) financing activities         (1,123)         (575)         (946)           Net cash flows provided by/(used in) financing activities         70,853         90,460         90,460           Add opening cash and cash equivalents         70,853         90,460         90,460         30,575         33,583 <td< td=""><td>Cash flows from operating activities</td><td></td><td></td><td></td></td<>	Cash flows from operating activities			
Other cash inflows provided by operating activities         5,868         6,005         23,864           Other cash outflows used in operating activities before changes in operating assets and liabilities         8,644         7,781         25,700           Net cash iffows provided by/(used in) operating assets and liabilities         6,644         7,781         25,700           Net cash iffows provided by/(used in) operating activities         61,182         (34,196)         25,335           Cash flows provided by/(used in) operating activities         52         40         46           Cash inflows provided by/(used in) investing activities         (23,394)         (23,393)         (77,679)           Cash flows from financing activities         (1,123)         (575)         (946)           Cash inflows provided by/(used in) investing activities         (1,123)         (575)         (946)           Cash inflows provided by/(used in) financing activities         (1,123)         (575)         (946)           Net increase/decrease in cash held         36,125         (68,109)         (53,190)           Add opening cash and cash equivalents         70,853         90,460         90,460           Add opening cash and cash equivalents         87,805         3,432         70,853           Closing cash and cash equivalents         87,805         3,432	Interest and dividends received	46,601	41,114	174,437
Other cash outflows used in operating activities         (15,517)         (11,368)         (53,314)           Net cash flows from operating activities         8,644         7,781         25,700           Net cash flows provided by/(used in) operating activities         61,162         (34,196)         25,335           Cash flows provided by/(used in) operating activities         62,3986         (23,378)         (77,625)           Cash flows used in investing activities         (23,394)         (23,393)         (77,579)           Cash flows provided by/(used in) investing activities         (23,393)         (77,579)           Cash flows provided by/(used in) investing activities         (23,393)         (77,579)           Cash flows provided by/(used in) innexity activities         (1,123)         (57,57)         (946)           Net cash flows provided by/(used in) financing activities         (1,123)         (57,5)         (946)           Net cash flows provided by/(used in) financing activities         (1,123)         (57,5)         (946)           Net cash flows provided by/(used in) financing activities         (1,123)         (57,5)         (946)           Net cash flows provided by/(used in) financing activities         (1,123)         (57,5)         (946)           Net cash flows provided by/(used in) financing activities         (1,123)         (53,190)	Interest and dividends paid	(28,308)	(27,970)	(119,287)
Net cash flows from operating activities before changes in operating assets and liabilities         8,644         7,781         25,700           Net cash flows provided by/(used in) operating activities         61,182         (34,196)         25,335           Cash flows provided by/(used in) operating activities         52         40         46           Cash inflows provided by/(used in) investing activities         (23,398)         (77,579)           Cash flows from investing activities         (23,393)         (77,579)           Cash flows provided by/(used in) investing activities         (23,394)         (23,338)         (77,579)           Cash flows provided by/(used in) investing activities         (1,123)         (575)         (946)           Net cash flows provided by/(used in) financing activities         (1,123)         (575)         (946)           Net increase/decrease in cash held         36,125         (58,109)         (53,190)           Add opening cash and cash equivalents         0,9460         90,460         90,460           Add opening cash and cash equivalents         106,978         32,231         70,853           Cash on than d and cash equivalents         19,587         28,963         22,211           Cash on hand and at bank         19,587         32,321         70,853           Interest accrued on availab	Other cash inflows provided by operating activities	5,868	6,005	23,864
Net changes in operating assets and liabilities52.538(41,977)(366)Net cash flows provided by/(used in) operating activities61,182(34,196)25,335Cash inflows provided by investing activities524046Cash outflows used in investing activities(23,396)(23,378)(77,625)Net cash flows provided by/(used in) investing activities(23,394)(23,338)(77,579)Cash flows provided by/(used in) investing activities(1,123)(575)(946)Net cash flows provided by/(used in) financing activities1(1,123)(575)(946)Net cash and cash equivalents36,125(58,109)(53,190)Add opening cash and cash equivalents106,97832,35170,853Cash on had and at bank19,59728,96322,211Funds with financial institutions67,8053,43248,805Interest accrued on available for sale assets(414)(44)(163)106,97832,35170,85370,853Reconciliation of net surplus to net operating cash flows3,2431,62314,250Non-cash items3,2431,62314,250Non-	Other cash outflows used in operating activities	(15,517)	(11,368)	(53,314)
Net cash flows provided by/(used in) operating activities       61,182       (34,196)       25,335         Cash flows provided by investing activities       52       40       46         Cash inflows provided by/(used in) investing activities       (23,986)       (23,373)       (77,625)         Net cash flows provided by/(used in) investing activities       (23,934)       (23,338)       (77,579)         Cash flows provided by/(used in) investing activities       (1,123)       (575)       (946)         Cash flows provided by/(used in) financing activities       (1,123)       (575)       (946)         Net cash flows provided by/(used in) financing activities       (1,123)       (575)       (946)         Net increase/decrease in cash held       36,125       (58,109)       (53,190)         Add opening cash and cash equivalents       70,853       90,460       90,460         Add opening cash and cash equivalents       106,978       32,351       70,853         Cash on hand and at bank       19,587       28,963       22,211         Funds with financial institutions       87,805       3,432       48,805         Interest accrued on available for sale assets       (414)       (143)       (144)       (143)         Non-cash items       7,040       6,830       15,577       70	Net cash flows from operating activities before changes in operating assets and liabilities	8,644	7,781	25,700
Cash flows from investing activities       52       40       46         Cash inflows provided by investing activities       (23,378)       (77,625)         Net cash flows provided by (lused in) investing activities       (23,334)       (23,338)       (77,579)         Cash flows provided by (lused in) investing activities       (23,334)       (23,338)       (77,579)         Cash flows provided by (lused in) investing activities       (1,123)       (575)       (946)         Net cash flows provided by (lused in) financing activities       (1,123)       (575)       (946)         Net cash flows provided by (lused in) financing activities       (1,123)       (575)       (946)         Net increase/decrease in cash held       36,125       (58,109)       (53,190)         Add opening cash and cash equivalents       70,853       90,460       90,460         Add opening cash and cash equivalents       106,978       32,351       70,853         Clearly activities       105,978       32,351       70,853         Reconciliation of cash and cash equivalents       87,805       3,432       48,805         Interest accrued on available for sale assets       (414)       (44)       (44)       (44)         Funds with financial institutions       3,243       1,623       14,250	Net changes in operating assets and liabilities	52,538	(41,977)	(365)
Cash inflows provided by investing activities         52         40         46           Cash outflows used in investing activities         (23,986)         (23,378)         (77,625)           Net cash flows provided by/(used in) investing activities         (23,934)         (23,338)         (77,579)           Cash flows provided by financing activities         (1,123)         (575)         (946)           Net cash flows provided by/(used in) financing activities         (1,123)         (575)         (946)           Net cash flows provided by/(used in) financing activities         (1,123)         (575)         (946)           Net increase/decrease in cash held         36,125         (58,109)         (53,190)           Add opening cash and cash equivalents         70,853         90,460         90,460           Add opening cash and cash equivalents         70,853         90,460         90,460           Cash on hand and at bank         19,587         28,963         22,211           Feconciliation of cash and cash equivalents         87,805         3,432         48,805           Interest accrued on available for sale assets         (414)         (44)         (163)           Interest accrued on available for sale assets         3,243         1,623         14,250           Non-cash items         7,040	Net cash flows provided by/(used in) operating activities	61,182	(34,196)	25,335
Cash inflows provided by investing activities         52         40         46           Cash outflows used in investing activities         (23,986)         (23,378)         (77,625)           Net cash flows provided by/(used in) investing activities         (23,934)         (23,338)         (77,579)           Cash flows provided by financing activities         (1,123)         (575)         (946)           Net cash flows provided by/(used in) financing activities         (1,123)         (575)         (946)           Net cash flows provided by/(used in) financing activities         (1,123)         (575)         (946)           Net increase/decrease in cash held         36,125         (58,109)         (53,190)           Add opening cash and cash equivalents         70,853         90,460         90,460           Add opening cash and cash equivalents         70,853         90,460         90,460           Cash on hand and at bank         19,587         28,963         22,211           Feconciliation of cash and cash equivalents         87,805         3,432         48,805           Interest accrued on available for sale assets         (414)         (44)         (163)           Interest accrued on available for sale assets         3,243         1,623         14,250           Non-cash items         7,040				
Cash outflows used in investing activities         (23,986)         (23,378)         (77,625)           Net cash flows provided by/(used in) investing activities         (23,934)         (23,338)         (77,579)           Cash inflows provided by financing activities         -         -         -         -           Cash inflows provided by/(used in) financing activities         (1,123)         (575)         (946)           Net cash flows provided by/(used in) financing activities         (1,123)         (575)         (946)           Net increase/decrease in cash held         36,125         (58,109)         (53,190)           Add opening cash and cash equivalents         -         -         -           Add opening cash and cash equivalents         -         -         -         -           Cash on hand and at bank         19,587         28,963         22,211           Funds with financial institutions         19,587         28,963         22,211           Interest accrued on available for sale assets         (414)         (414)         (163)           Net surplus for period         3,243         1,623         14,250           Non-cash items         7,040         6,330         15,577           Deferral or accruals of past or future operating cash receipts or payments         51,150		50	40	40
Net cash flows provided by/(used in) investing activities       (23,934)       (23,336)       (77,579)         Cash flows from financing activities       -       -       -       -         Cash inflows provided by financing activities       (1,123)       (575)       (946)         Net cash flows provided by/(used in) financing activities       (1,123)       (575)       (946)         Net cash flows provided by/(used in) financing activities       (1,123)       (575)       (946)         Net increase/decrease in cash held       36,125       (58,109)       (53,190)         Add opening cash and cash equivalents       70,853       90,460       90,460         Add opening cash and cash equivalents       70,853       90,460       90,460         Closing cash and cash equivalents       106,978       32,351       70,853         Closing cash and cash equivalents       19,587       28,963       22,211         Funds with financial institutions       87,805       3,432       48,805         Interest accrued on available for sale assets       (414)       (44)       (163)         Net surplus for period       3,243       1,623       14,250         Non-cash flems       7,040       6,830       15,577         Deferral or accruals of past or future operating cash receip				
Cash flows from financing activities         Cash inflows provided by financing activities         Cash outflows used in financing activities         Cash outflows used in financing activities         Net cash flows provided by/(used in) financing activities         Net increase/decrease in cash held         Add opening cash and cash equivalents         Cosing cash and cash equivalents         Cosing cash and cash equivalents         Cosh on hand and at bank         Funds with financial institutions         Interest accrued on available for sale assets         Net surplus for period         Non-cash items         Seconciliation of net surplus to net operating cash flows         Net surplus for period         Non-cash items         Solution for accruals of past or future operating cash receipts or payments         Cash items classified as cash	ů –	,		
Cash inflows provided by financing activitiesCash outflows used in financing activities(1,123)(575)(946)Net cash flows provided by/(used in) financing activities(1,123)(575)(946)Net increase/decrease in cash held36,125(58,109)(53,190)Add opening cash and cash equivalents70,85390,46090,460Add opening cash and cash equivalents on mergerClosing cash and cash equivalents106,97832,35170,853Closing cash and cash equivalents106,97832,35170,853Reconciliation of cash and cash equivalents19,58728,96322,211Funds with financial institutions87,8053,43248,805Interest accrued on available for sale assets(1414)(144)(163)Net surplus to net operating cash flows3,2431,62314,250Net surplus for period3,2431,62314,250Non-cash items7,0406,83015,577Deferral or accruals of past or future operating cash receipts or payments51,150(42,729)(4,726)Items classified as cash(251)8023414,250	Net cash nows provided by/(used in) investing activities	(23,934)	(23,338)	(11,519)
Cash outflows used in financing activities         (1.123)         (575)         (946)           Net cash flows provided by/(used in) financing activities         (1.123)         (575)         (946)           Net increase/decrease in cash held         36,125         (58,109)         (53,190)           Add opening cash and cash equivalents         70,853         90,460         90,460           Add opening cash and cash equivalents on merger         -         -         33,583           Closing cash and cash equivalents         106,978         32,351         70,853           Reconciliation of cash and cash equivalents         19,587         28,963         22,211           Funds with financial institutions         19,587         28,963         22,211           Interest accrued on available for sale assets         (414)         (444)         (163)           Interest accrued on available for sale assets         (414)         (444)         (163)           Interest accrued on available for sale assets         3,243         1,623         14,250           Non-cash items         7,040         6,830         15,577           Deferral or accruals of past or future operating cash receipts or payments         51,150         (42,729)         (4,726)           Items classified as cash         (251)         80 <td>Cash flows from financing activities</td> <td></td> <td></td> <td></td>	Cash flows from financing activities			
Net cash flows provided by/(used in) financing activities         (1,123)         (575)         (946)           Net increase/decrease in cash held         36,125         (58,109)         (53,190)           Add opening cash and cash equivalents         70,853         90,460         90,460           Add opening cash and cash equivalents on merger         -         33,583           Closing cash and cash equivalents         106,978         32,351         70,853           Reconciliation of cash and cash equivalents         19,587         28,963         22,211           Funds with financial institutions         87,805         3,432         48,805           Interest accrued on available for sale assets         (414)         (444)         (163)           Non-cash items         3,243         1,623         14,250           Non-cash items         7,040         6,830         15,577           Deferral or accruals of past or future operating cash receipts or payments         51,150         (42,729)         (4,726)           Items classified as cash         251         80         234	Cash inflows provided by financing activities	-	-	-
Net increase/decrease in cash held36,125(58,109)(53,190)Add opening cash and cash equivalents70,85390,46090,460Add opening cash and cash equivalents on merger33,583Closing cash and cash equivalents106,97832,35170,853Reconciliation of cash and cash equivalents19,58728,96322,211Funds with financial institutions19,58728,96322,211Interest accrued on available for sale assets(414)(44)(163)Interest accrued on available for sale assets3,2431,62314,250Non-cash items3,2431,62314,250Deferral or accruals of past or future operating cash receipts or payments51,150(42,729)(4,726)Items classified as cash(251)80234	Cash outflows used in financing activities	(1,123)	(575)	(946)
Add opening cash and cash equivalents       70,853       90,460       90,460         Add opening cash and cash equivalents on merger       -       -       33,583         Closing cash and cash equivalents       106,978       32,351       70,853         Reconciliation of cash and cash equivalents       19,587       28,963       22,211         Funds with financial institutions       19,587       28,963       22,211         Funds with financial institutions       87,805       3,432       48,805         Interest accrued on available for sale assets       (414)       (44)       (163)         Net surplus to net operating cash flows       3,243       1,623       14,250         Non-cash items       7,040       6,830       15,577         Deferral or accruals of past or future operating cash receipts or payments       51,150       (42,729)       (4,726)         Items classified as cash       (251)       80       234	-		(575)	
Add opening cash and cash equivalents       70,853       90,460       90,460         Add opening cash and cash equivalents on merger       -       -       33,583         Closing cash and cash equivalents       106,978       32,351       70,853         Reconciliation of cash and cash equivalents       19,587       28,963       22,211         Funds with financial institutions       19,587       28,963       22,211         Funds with financial institutions       87,805       3,432       48,805         Interest accrued on available for sale assets       (414)       (44)       (163)         Net surplus to net operating cash flows       3,243       1,623       14,250         Non-cash items       7,040       6,830       15,577         Deferral or accruals of past or future operating cash receipts or payments       51,150       (42,729)       (4,726)         Items classified as cash       (251)       80       234				
Add opening cash and cash equivalents on merger       -       <	Net increase/decrease in cash held	36,125	(58,109)	(53,190)
Closing cash and cash equivalents         106,978         32,351         70,853           Reconciliation of cash and cash equivalents         19,587         28,963         22,211           Funds with financial institutions         87,805         3,432         48,805           Interest accrued on available for sale assets         (414)         (444)         (163)           106,978         32,351         70,853         70,853           Reconciliation of net surplus to net operating cash flows         (414)         (444)         (163)           Non-cash items         3,243         1,623         14,250           Non-cash items         7,040         6,830         15,577           Deferral or accruals of past or future operating cash receipts or payments         51,150         (42,729)         (4,726)           Items classified as cash         (251)         80         234	Add opening cash and cash equivalents	70,853	90,460	90,460
Reconciliation of cash and cash equivalentsCash on hand and at bank19,58728,96322,211Funds with financial institutions87,8053,43248,805Interest accrued on available for sale assets(414)(44)(163) <b>106,978</b> 32,35170,853Reconciliation of net surplus to net operating cash flowsNet surplus for period3,2431,62314,250Non-cash items7,0406,83015,577Deferral or accruals of past or future operating cash receipts or payments51,150(42,729)(4,726)Items classified as cash(251)80234	Add opening cash and cash equivalents on merger	-	-	33,583
Cash on hand and at bank       19,587       28,963       22,211         Funds with financial institutions       87,805       3,432       48,805         Interest accrued on available for sale assets       (414)       (44)       (163) <b>Reconciliation of net surplus to net operating cash flows</b> Net surplus for period       3,243       1,623       14,250         Non-cash items       7,040       6,830       15,577         Deferral or accruals of past or future operating cash receipts or payments       51,150       (42,729)       (4,726)         Items classified as cash       (251)       80       234	Closing cash and cash equivalents	106,978	32,351	70,853
Cash on hand and at bank       19,587       28,963       22,211         Funds with financial institutions       87,805       3,432       48,805         Interest accrued on available for sale assets       (414)       (44)       (163) <b>Reconciliation of net surplus to net operating cash flows</b> Net surplus for period       3,243       1,623       14,250         Non-cash items       7,040       6,830       15,577         Deferral or accruals of past or future operating cash receipts or payments       51,150       (42,729)       (4,726)         Items classified as cash       (251)       80       234	Personalitation of each and each equivalents			
Funds with financial institutions       87,805       3,432       48,805         Interest accrued on available for sale assets       (414)       (44)       (163)         106,978       32,351       70,853         Reconciliation of net surplus to net operating cash flows         Net surplus for period       3,243       1,623       14,250         Non-cash items       7,040       6,830       15,577         Deferral or accruals of past or future operating cash receipts or payments       51,150       (42,729)       (4,726)         Items classified as cash       (251)       80       234		10 597	00.000	00.011
Interest accrued on available for sale assets(414)(44)(163)Interest accrued on available for sale assetsReconciliation of net surplus to net operating cash flowsNet surplus for period3,2431,62314,250Non-cash items7,0406,83015,577Deferral or accruals of past or future operating cash receipts or payments51,150(42,729)(4,726)Items classified as cash(251)80234		· ·	,	,
Independent of net surplus to net operating cash flows         Total         Total           Net surplus for period         3,243         1,623         14,250           Non-cash items         7,040         6,830         15,577           Deferral or accruals of past or future operating cash receipts or payments         51,150         (42,729)         (4,726)           Items classified as cash         (251)         80         234			,	,
Reconciliation of net surplus to net operating cash flowsNet surplus for period3,2431,62314,250Non-cash items7,0406,83015,577Deferral or accruals of past or future operating cash receipts or payments51,150(42,729)(4,726)Items classified as cash(251)80234		. ,	( )	( )
Net surplus for period         3,243         1,623         14,250           Non-cash items         7,040         6,830         15,577           Deferral or accruals of past or future operating cash receipts or payments         51,150         (42,729)         (4,726)           Items classified as cash         (251)         80         234		100,970	32,331	70,000
Non-cash items         7,040         6,830         15,577           Deferral or accruals of past or future operating cash receipts or payments         51,150         (42,729)         (4,726)           Items classified as cash         (251)         80         234	Reconciliation of net surplus to net operating cash flows			
Non-cash items         7,040         6,830         15,577           Deferral or accruals of past or future operating cash receipts or payments         51,150         (42,729)         (4,726)           Items classified as cash         (251)         80         234	Net surplus for period	3,243	1,623	14,250
Items classified as cash (251) 80 234		7,040	6,830	15,577
	Deferral or accruals of past or future operating cash receipts or payments	51,150	(42,729)	(4,726)
Net cash flows from operating activities61,182(34,196)25,335	Items classified as cash	(251)	80	234
	Net cash flows from operating activities	61,182	(34,196)	25,335

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



#### 1. Statement of Accounting Policies

#### (a) Basis of Preparation

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

These financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting and the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order (No 2) 2011 and should be read in conjunction with the Banking Group's financial statements for the year ended 31 March 2011.

These financial statements were authorised for issue by the Board of Directors on 24 August 2011.

#### (b) Comparatives

Due to changes in disclosure requirements, certain comparative periods have been removed as they are no longer required. Certain comparatives have also been reclassified to ensure consistency with the current reporting period's presentation.

#### (c) Changes in Accounting Policies

There have been no changes in accounting policies and all accounting policies adopted are consistent with those used in the financial year ended 31 March 2011.

#### 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 General Disclosure Statement on 2 June 2011.

#### 3. Advances to Customers

	BANKING GROUP		
	Unaudited Unaudited		Audited
	30/06/2011	30/06/2010	31/03/2011
Advances at fair value through profit or loss	44,429	203,450	50,983
Advances at amortised cost	2,530,448	2,266,141	2,558,374
Gross advances	2,574,877	2,469,591	2,609,357
Provisions for credit impairment	(22,507)	(13,893)	(21,708)
Deferred fee revenue and expenses	(2,724)	(3,903)	(2,993)
Total net advances	2,549,646	2,451,795	2,584,656

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.

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

#### 4. Asset Quality and Provisions for Credit Impairment

	BANKING GROUP			
Balances as at 30 June 2011 (Unaudited)	Residential Mortgages	Other Retail	Corporate	Total
Gross advances individually determined to be impaired	4,388		32,749	37,137
Individually assessed provisions	1,857	-	10,799	12,656
Collective provision	4,050	3,596	2,205	9,851
90 day past due assets not impaired	5,612	305	1,989	7,906
Charges to the income statement				
Bad debts written off during the period	89	1,069	1,001	2,159
Movement in individual provisions	(612)	-	588	(24)
Movement in collective provision	250	5	568	823
Total provision for credit impairment charged to the income statement	(273)	1,074	2,157	2,958



#### 5. Contingent Liabilities and Credit Related Commitments

			BANKING	GROUP		
	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
	Contract or	Credit	Contract or	Credit	Contract or	Credit
	Notional Amt	Equivalent	Notional Amt	Equivalent	Notional Amt	Equivalent
	30/06/2011	30/06/2011	30/06/2010	30/06/2010	31/03/2011	31/03/2011
Credit related commitments						
Commitments with uncertain drawdown	19,235	9,618	15,603	7,802	21,994	10,997
Commitments to extend credit which						
can be unconditionally cancelled	177,158	-	178,701	-	177,852	-
Total credit related commitments	196,393	9,618	194,304	7,802	199,846	10,997

The Banking Group has no material contingent liabilities.

#### 6. Related Parties

The Banking Group is controlled by SBS who is also the ultimate parent. There have been no changes to the composition of the Banking Group since 31 March 2011. Details of subsidiaries consolidated into the Banking Group are set out in note 15 of the Banking Group's General Disclosure Statement for the year ended 31 March 2011.

At 30 June 2011 there are no amounts due from, or due to any related entities that are outside of the Banking Group.

#### 7. Liquid Assets

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

Total liquidity includes committed but undrawn funding lines with other registered banks.

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

E Core liquid assets	BANKING GROUP Unaudited 30/06/2011
Cash on hand and at bank	19,587
Funds with financial institutions	87,805
Investment securities	143,059
Committed and undrawn funding lines	122,000
Eligible RMBS collateral (less haircut <sup>1</sup> )	153,029
Total liquidity	525,480

<sup>1</sup> 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.

#### 8. Concentration of Credit Exposures to Individual Counterparties

The Banking Group calculates concentrations of credit exposure to individual counterparties and groups of closely related counterparties based on actual credit exposures. Credit exposures to the central government of any country with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit

There were no peak or balance date credit exposures to individual counterparties which exceeded 10% of the Banking Group's Equity for the three months ended 30 June 2011.



#### 9. Capital Adequacy

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. These conditions require capital adequacy ratios for the Banking Group to be calculated under the Basel II framework in accordance with the RBNZ document Capital Adequacy Framework (Standardised Approach) (BS2A) dated October 2010.

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.

	Unaudited 30/06/2011	BANKING GROUP Unaudited 30/06/2010	Audited 31/03/2011
(i) Regulatory capital ratios	30/00/2011	30/00/2010	31/03/2011
Tier one capital ratio (minimum 4%)	11.51%	10.40%	11.26%
Total capital ratio (minimum 8%)	13.89%	13.45%	13.60%
(ii) Qualifying capital			
Tier one capital			
Tier one capital (before deductions)	201,375		
Net deductions from tier one capital	4,482		
Total tier one capital	205,857		
Tier two capital			
Upper tier two capital	5,301		
Lower tier two capital	37,432		
Total tier two capital	42,733		
Total tier one and tier two capital	248,590		
Less deductions from capital	-		
Total capital	248,590		
(iii) Pillar one capital requirements			
On balance sheet credit risk			
Residential mortgages (including past due)	56,682		
Corporates	387		
Claims on banks	2,596		
Other	64,245		
Total on balance sheet credit risk	123,910		
Other capital requirements			
Off balance sheet credit exposures	582		
Operational risk	14,054		
Market risk	4,586		
Total other capital requirements	19,222		
Pillar one capital requirements	143,132		

#### (iv) Residential mortgages by loan to valuation ratio

LVR range	
0 - 80%	1,427,855
80 - 90%	60,520
90% +	315,308

Welcome Home Loans make up 81% of the residential mortgages in the 90% + loan to valuation grouping. The Welcome Home Loan product is fully insured by Housing New Zealand Corporation. In addition all loans written with a loan to valuation ratio greater than 80% are required to have lenders mortgage insurance.



#### 9. Capital Adequacy (continued)

#### (v) Pillar two capital for other material risks

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

- i Earnings Risk The risk due to uncertainty in future reported earnings arising from adverse changes in the business environment and from adverse business decisions.
- ii Liquidity Risk The risk that the Bank cannot meet or generate sufficient cash resources to meet its cash out goings as they fall due. Capital is not held for day to day liquidity. Instead a portfolio of cash, highly liquid instruments and committed funding lines is held. This largely mitigates the requirement to hold additional capital for liquidity risk, however capital is held to allow for excessive costs of raising suitable funds in adverse market conditions.
- iii Access to Capital The risk that the Bank may not be able to raise additional capital as required in a timely manner, particularly arising from the mutual status of SBS.
- iv Reputational Risk The potential that negative publicity regarding the banks business practices or financial position, whether true or not, will cause a decline in the customer base, costly litigation or impact future earnings and funding.

As at 30 June 2011 the Bank has made an internal capital allocation of \$22.50 million to cover these identified risks.

#### 10. 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 30 June 2011 are \$8.8 million which is 0.3% of the total assets of the Banking Group.

#### 11. Hastings Building Society Transfer of Engagements

On 31 August 2010 qualifying Hastings Building Society (HBS) members voted at an extraordinary meeting to merge with SBS. The merger occured on 1 October 2010 and was effected by way of a transfer of engagements under section 33 of the Building Societies Act 1965. Under NZ IFRS 3 - Business Combinations, a merger between mutual entities is accounted for using the acquisition method.

The Board of HBS independently reached a conclusion that merging with SBS was in the best interests of their members, given the changing operating, market and regulatory environments. From SBS's perspective, the merger provides an opportunity to create a stronger regional community bank in the Hawke's Bay.

The assets and liabilities of HBS have been included within the accounts of SBS at their fair value as at the date of acquisition. Financial assets and liabilities, which, following the Group's accounting policies would be carried at amortised cost, are brought on to the statement of financial position at fair value and subsequently carried at amortised cost using the effective interest rate method.

The initial accounting of the acquisition including the fair values of the assets acquired and liabilities assumed is provisional while valuations of the assets acquired and liabilities assumed are finalised. There has been no change to the valuations since the previous General Disclosure Statement.

Full details of the fair values of assets acquired and liabilities assumed as at 1 October 2010 (provisional) are set out in note 37 of the Banking Group's General Disclosure Statement for the year ended 31 March 2011.

#### 12. Subsequent Events

There have been no material subsequent events after 30 June 2011.