Southland Building Society

General Short Form Disclosure Statement

For the nine months ended 31 December 2010

Number 11 Issued February 2011

Contents

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 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 1781001.

Ownership

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

Guarantee Arrangements

Southland Building Society had a guarantee under the New Zealand Deposit Guarantee Scheme ("Crown Guarantee"). This Crown Guarantee expired at 12.01am on 12 October 2010. On 25 August 2009 the Government announced that it would extend the Crown Retail Guarantee to 31 December 2011 and change some of its terms and conditions. The Reserve Bank has stated however that there is no need for banks to partake in the extended scheme, and therefore Southland Building Society did not feel it needed to enter into the extended guarantee scheme. Accordingly, as at the date this General Disclosure Statement is signed, the material obligations of the Bank are not guaranteed.

Pending Proceedings or Arbitration

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

Insurance Business

The Banking Group markets and distributes insurance products through subsidiary company Southsure Assurance Limited. The total assets of Southsure Assurance Limited as at 31 December 2010 are $8.8 million (31 December 2009 $7.7million; 31 March 2010 $8.2 million) which is 0.3% of the total assets of the Banking Group (31 December 2009 0.3%; 31 March 2010 0.3%). This complies with the conditions of registration of Southland Building Society, which allows a maximum of 1% of the total consolidated assets of the Banking Group to be represented by insurance business assets.

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

Other Material Matters

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

Directorate

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

Credit Rating

As at 31 December 2010, 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. There have been no changes made to the rating in the two years preceding 31 December 2010. The rating is not subject to any qualifications.

Credit rating (continued)

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 (RBNZ) pursuant to section 74 of the Reserve Bank of New Zealand Act 1989, and which apply as at the date of signing of this General Disclosure Statement are as follows. These conditions of registration have applied from 15 October 2010.

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

For the purposes of this condition of registration, capital, the total capital ratio and the tier one capital ratio must be calculated in accordance with the Reserve Bank of New Zealand document: “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated October 2010.

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 October 2010; and
   (c) the bank determines an internal capital allocation for each identified and measured “other material risk”.

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

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

   For the purposes of this condition:

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

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

Conditions of Registration (continued)

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

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

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 October 2010.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Directors' Statement

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

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

This Disclosure Statement is dated 23rd February 2011 and has been signed by or on behalf of all the Directors.

JWA Smith
(Chairman)

JF Ward
(Deputy Chairman)

RL Smith
(Group Managing Director /
Chief Executive Officer)

KJ Ball

JB Walker

GJ Mulvey

GJ Diack

JJ Grant

FE Spencer

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Southland Building Society
Income Statement for the nine months ended 31 December 2010

All in $000's

	Note	BANKING GROUP Unaudited 9 Months 31/12/2010	Unaudited 9 Months 31/12/2009	Audited 12 Months 31/03/2010
Interest income	(3)	133,855	129,259	172,040
Interest expense		11,888	12,904	16,897
Dividends on redeemable shares		75,457	72,476	95,598
	(4)	87,345	85,380	112,495
Net interest income		**46,510**	**43,879**	**59,545**
Other income	(3)	14,221	13,943	18,629
Total operating income		**60,731**	**57,822**	**78,174**
Operating expenses	(4)	36,538	33,193	43,068
Provision for credit impairment	(10)	8,956	10,724	15,727
Operating surplus		**15,237**	**13,905**	**19,379**
Add net gain/(loss) from financial instruments designated at fair value	(5)	3,747	147	980
Add revaluation of property		-	-	200
Surplus before income tax		**18,984**	**14,052**	**20,559**
Less income tax expense[1]		7,436	3,950	5,522
Net surplus		**11,548**	**10,102**	**15,037**
Attributable to:				
Members' interests		9,910	8,474	12,723
Minorities' interests		1,638	1,628	2,314
		11,548	**10,102**	**15,037**

[1] Income tax expense includes a one off increase of $2,234,000 which relates to the impact of a change in taxation legislation from 1 April 2011 to apply a zero percent depreciation rate to buildings with a life of 50 years or more.

Southland Building Society
Statement of Comprehensive Income for the nine months ended 31 December 2010

All in $000's

	Note	BANKING GROUP Unaudited 9 Months 31/12/2010	Unaudited 9 Months 31/12/2009	Audited 12 Months 31/03/2010
Net surplus for the period		11,548	10,102	15,037
Other comprehensive income				
Net change in property, plant and equipment reserve, net of tax	(15)	26	-	(42)
Net change in available for sale asset reserve, net of tax	(15)	458	26	22
Net change in cash flow hedging reserve, net of tax	(15)	(2,016)	8,368	7,932
Other comprehensive income for the period, net of tax		(1,532)	8,394	7,912
Total comprehensive income for the period		**10,016**	**18,496**	**22,949**
Attributable to:				
Members' interests		8,531	16,863	20,686
Minorities' interests		1,485	1,633	2,263
		10,016	**18,496**	**22,949**

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

Southland Building Society
Statement of Changes in Equity for the nine months ended 31 December 2010
All in $000's

	Note	BANKING GROUP		
		Unaudited	Unaudited	Audited
		9 Months	9 Months	12 Months
		31/12/2010	31/12/2009	31/03/2010
Capital reserve				
Balance at beginning of the period		73	73	73
Balance at end of the period		73	73	73
Revaluation reserve - property, plant and equipment				
Balance at beginning of the period		1,153	1,195	1,195
Other comprehensive income for the period		26	-	(42)
Balance at end of the period		1,179	1,195	1,153
Revaluation reserve - available for sale assets				
Balance at beginning of the period		(58)	(75)	(75)
Other comprehensive income for the period		456	21	17
Balance at end of the period		398	(54)	(58)
Revaluation reserve - cash flow hedging				
Balance at beginning of the period		(3,322)	(11,309)	(11,309)
Other comprehensive income for the period		(1,861)	8,368	7,987
Balance at end of the period		(5,183)	(2,941)	(3,322)
Retained earnings				
Balance at beginning of the period		174,155	161,432	161,432
Net surplus for the period		9,910	8,474	12,723
Acquired on merger		15,739	-	-
Balance at end of the period		199,804	169,906	174,155
Total equity attributable to member's interests		**196,271**	**168,179**	**172,001**
Minorities' interests				
Balance at beginning of the period		5,663	4,264	4,264
Net surplus for the period		1,638	1,628	2,314
Other comprehensive income for the period		(153)	5	(50)
Dividends		(476)	(1,083)	(1,554)
Change in capital of minority interests		-	689	689
Balance at end of the period		6,672	5,503	5,663
Total equity at end of the period		**202,943**	**173,682**	**177,664**
Represented by:				
Equity at beginning of the period		177,664	155,580	155,580
Net surplus for the period		11,548	10,102	15,037
Other comprehensive income for the period		(1,532)	8,394	7,912
Acquired on merger		15,739	-	-
Total comprehensive income for the period		25,755	18,496	22,949
Dividends		(476)	(1,083)	(1,554)
Change in capital of minority interests		-	689	689
Total equity at end of the period	(15)	**202,943**	**173,682**	**177,664**

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

Southland Building Society
Statement of Financial Position as at 31 December 2010
All in $000's

	Note	BANKING GROUP Unaudited 31/12/2010	Unaudited 31/12/2009	Audited 31/03/2010
Assets				
Cash on hand and at bank		33,472	20,636	26,504
Funds with financial institutions	(6)	51,861	134,893	64,080
Investment securities	(7)	102,199	2,469	47,482
Derivative financial instruments	(8)	949	2,324	506
Current tax assets		-	948	1,176
Advances to customers	(9)	2,604,410	2,472,242	2,460,089
Other assets		2,128	1,869	1,575
Investment properties		3,479	-	-
Property, plant and equipment		19,305	16,005	16,005
Intangible assets		3,014	2,953	3,094
Deferred tax		5,103	6,902	7,394
		2,825,920	**2,661,241**	**2,627,905**
Liabilities				
Redeemable shares	(17)	2,172,204	1,974,356	1,972,008
Deposits from customers	(17)	252,274	255,397	230,051
Due to other financial institutions	(17)	-	30,107	30,017
Derivative financial instruments	(8)	8,951	16,510	13,009
Current tax liabilities		421	-	-
Other borrowings		110,435	137,004	128,574
Other liabilities		17,440	17,576	17,275
Subordinated redeemable shares	(14)	61,252	56,609	59,307
		2,622,977	**2,487,559**	**2,450,241**
Net assets		**202,943**	**173,682**	**177,664**
Equity	(15)			
Reserves		(3,533)	(1,727)	(2,154)
Retained earnings		199,804	169,906	174,155
Attributable to members of the society		196,271	168,179	172,001
Attributable to minority shareholders		6,672	5,503	5,663
		202,943	**173,682**	**177,664**

For and on behalf of the Board of Directors:

Chairman
JWA Smith

Deputy Chairman
JF Ward

23 February 2011

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

Southland Building Society

Statement of Cash Flows for the nine months ended 31 December 2010

All in $000's

	Note	BANKING GROUP Unaudited 9 Months 31/12/2010	Unaudited 9 Months 31/12/2009	Audited 12 Months 31/03/2010
Cash flows from operating activities				
Interest received		127,892	127,067	167,996
Fees and other income		18,472	19,341	25,048
Dividends received		30	28	28
Interest paid		(11,635)	(12,718)	(16,689)
Dividends paid on redeemable shares		(74,492)	(76,475)	(101,384)
Operating expenses		(38,269)	(34,877)	(44,534)
Income taxes received/(paid)		(2,844)	(5,954)	(8,024)
Net cash flows from operating activities before changes in operating assets and liabilities		19,154	16,412	22,441
Net changes in operating assets and liabilities				
Change in advances		(9,330)	(87,121)	(80,391)
Change in shares and deposits from customers		58,583	147,439	121,510
Change in amounts due to other financial institutions		(30,000)	13,105	13,000
Change in other borrowings		(18,139)	(36,807)	(45,237)
Change in subordinated redeemable shares		1,901	14,207	16,920
Change in cash held on behalf of Lifestages Mortgage Portfolio		391	(9,061)	(9,845)
Net cash flows provided by/(used in) operating activities	(16)	**22,560**	**58,174**	**38,398**
Cash flows from investing activities				
Change in investment securities		(53,783)	(42)	(44,227)
Proceeds of property, plant and equipment		46	92	88
Purchase of property, plant and equipment		(2,605)	(1,089)	(1,323)
Purchase of intangible assets		(1,139)	(930)	(1,395)
Purchase of investment properties		(3,479)	-	-
Net cash flows provided by/(used in) investing activities		**(60,960)**	**(1,969)**	**(46,857)**
Cash flows from financing activities				
Dividends paid to minority interests		(476)	(507)	(507)
Net cash flows provided by/(used in) financing activities		**(476)**	**(507)**	**(507)**
Net increase/decrease in cash held		(38,876)	55,698	(8,966)
Add opening cash and cash equivalents		90,460	99,426	99,426
Add opening cash and cash equivalents on merger		33,583	-	-
Closing cash and cash equivalents		**85,167**	**155,124**	**90,460**
Reconciliation of cash and cash equivalents				
Cash on hand and at bank		33,472	20,636	26,504
Funds with financial institutions	(6)	51,861	134,893	64,080
Interest accrued on available for sale assets		(91)	(405)	(124)
Change in fair value of available for sale assets		(75)	-	-
		85,167	**155,124**	**90,460**

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

1. Statement of Accounting Policies

(a) Basis of Preparation

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

The financial statements have been prepared in accordance with 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 2010.

These financial statements were authorised for issue by the Board of Directors on 23 February 2011.

(b) Presentation Currency and Rounding

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

(c) Standards Issued but not yet Effective

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

- NZ IAS 24 Related Party Disclosures (revised 2009) - will apply to the Banking Group from 1 April 2011.
- NZ IFRS 9 Financial Instruments - It is the intention of the IASB to replace IAS 39 with IFRS 9. This standard will apply to the Banking Group from 1 April 2013.

(d) Measurement Base

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

(e) Consolidation

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

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

(f) Comparatives

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

(g) Changes in Accounting Policies

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

2. Risk Management Policies

There has been no material change in the Banking Group's policies for managing risk, or material exposures to any new types of risk since the authorisation date of the previous Disclosure Statement on 13 December 2010.

All in $000's

3. Income

	BANKING GROUP		
	Unaudited 9 Months 31/12/2010	Unaudited 9 Months 31/12/2009	Audited 12 Months 31/03/2010
Interest income			
Cash at bank	957	482	618
Funds with financial institutions - available for sale	620	2,496	3,081
Investment securities - available for sale	2,382	15	530
Investment securities - designated at fair value through profit or loss	45	64	87
Derivative financial instruments	(11,593)	(21,888)	(28,184)
Advances to customers - at amortised cost	134,758	129,273	175,282
Advances to customers - designated at fair value through profit or loss	6,074	18,817	20,626
Advances to customers - impaired	612	-	-
	133,855	**129,259**	**172,040**
Other operating income			
Loan fees	868	1,585	2,254
Management fees	2,547	2,683	3,794
Other fee and commission income	5,226	4,407	6,026
Net insurance income	4,297	3,882	5,032
Dividends	30	28	28
Sundry income	1,253	1,358	1,495
	14,221	**13,943**	**18,629**

4. Expenses

Interest expense			
Redeemable shares	72,286	69,620	91,773
Deposits from customers	7,925	7,862	10,453
Other financial institutions	140	215	338
Other borrowings	3,823	4,828	6,108
Subordinated redeemable shares	3,171	2,855	3,823
	87,345	**85,380**	**112,495**
Other operating expenses			
Auditors remuneration	192	304	375
Computer expenses	1,431	1,323	1,733
Fees and commissions	208	313	379
Fees to directors	422	398	530
Marketing	4,061	3,183	4,008
Personnel	18,124	17,277	22,230
Actuarial life adjustment	514	718	564
Amortisation and depreciation	2,381	1,711	2,349
Rent and leases	1,718	1,579	2,197
Write off of property, plant and equipment	72	8	42
Other expenses	7,415	6,379	8,661
	36,538	**33,193**	**43,068**

All in $000's

4. Expenses (continued)

	BANKING GROUP		
	Unaudited 9 Months 31/12/2010	**Unaudited 9 Months 31/12/2009**	**Audited 12 Months 31/03/2010**
Amounts received, or due and receivable by the auditors:			
KPMG auditing the financial statements	162	243	312
KPMG other assurance services [1]	30	61	63
	192	**304**	**375**

[1] Other assurance services includes regulatory reporting and other accounting related assistance.

Amounts received, or due and receivable by directors:			
JWA Smith (Chairman)	82	79	106
JF Ward (Deputy Chairman)	55	51	68
KJ Ball	45	43	58
JB Walker	43	45	58
GJ Mulvey	41	39	53
GJ Diack	46	44	59
JJ Grant	44	40	56
FE Spencer (appointed November 2010)	10	-	-
RL Smith [1]	-	-	-
	366	**341**	**458**
Provision for directors retiring allowance	56	57	72
	422	**398**	**530**

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

[1] 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	(13)	(23)	(18)
Derivative financial instruments	4,525	8,622	10,207
Hedge ineffectiveness on cash flow hedging	-	(93)	379
Advances to customers	(765)	(8,359)	(9,588)
	3,747	**147**	**980**

6. Funds with Financial Institutions

Call funds	19,948	3,035	19,317
Registered certificates of deposit	-	-	31,943
Term deposits	31,913	131,858	12,820
	51,861	**134,893**	**64,080**

All in $000's

7. Investment Securities

	BANKING GROUP		
	Unaudited 31/12/2010	Unaudited 31/12/2009	Audited 31/03/2010
Managed funds	640	623	627
NZ government securities	1,030	1,037	1,058
Equity securities	819	809	718
Commercial paper	9,948	-	-
Local authority bonds	48,487	-	20,883
Bank bonds	35,564	-	20,467
Other bonds	5,711	-	3,729
	102,199	**2,469**	**47,482**

8. Derivative Financial Instruments

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

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

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

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

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

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

Hedge accounting

Cash flow hedges

The Banking Group hedges the 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 2010 as a result of highly probable cash flows no longer expected to occur (31 December 2009 $nil; 31 March 2010 $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.

All in $000's

8. Derivative Financial Instruments (continued)

	BANKING GROUP		
	Notional Principal	Fair Value Assets	Fair Value Liabilities
As at 31 December 2010 (Unaudited)			
Held for risk management - at fair value			
Interest rate related contracts			
Swaps	303,670	945	334
Options	14,000	-	143
Total held for risk management at fair value	**317,670**	**945**	**477**
Held for hedging - cash flow hedges			
Interest rate related contracts			
Swaps	602,500	4	8,180
Options	16,000	-	294
Total held for hedging	**618,500**	**4**	**8,474**
Total derivative financial instruments	**936,170**	**949**	**8,951**
As at 31 December 2009 (Unaudited)			
Held for risk management - at fair value			
Interest rate related contracts			
Swaps	664,350	621	1,298
Options	162,000	-	6,375
Total held for risk management at fair value	**826,350**	**621**	**7,673**
Held for hedging - cash flow hedges			
Interest rate related contracts			
Swaps	504,500	1,703	6,169
Options	90,000	-	2,668
Total held for hedging	**594,500**	**1,703**	**8,837**
Total derivative financial instruments	**1,420,850**	**2,324**	**16,510**
As at 31 March 2010 (Audited)			
Held for risk management - at fair value			
Interest rate related contracts			
Swaps	359,260	503	1,341
Options	162,000	-	4,750
Total held for risk management at fair value	**521,260**	**503**	**6,091**
Held for hedging - cash flow hedges			
Interest rate related contracts			
Swaps	484,500	90	5,022
Options	90,000	(87)	1,896
Total held for hedging	**574,500**	**3**	**6,918**
Total derivative financial instruments	**1,095,760**	**506**	**13,009**

All in $000's

9. Advances to Customers

		BANKING GROUP		
		Unaudited	Unaudited	Audited
		31/12/2010	31/12/2009	31/03/2010
Advances at fair value through profit or loss		114,496	326,553	250,129
Advances at amortised cost		2,509,835	2,164,169	2,231,236
Gross advances [1]		**2,624,331**	**2,490,722**	**2,481,365**
Provisions for credit impairment	(10)	(16,598)	(13,390)	(17,216)
Deferred fee revenue and expenses		(3,323)	(5,090)	(4,060)
Total net advances		**2,604,410**	**2,472,242**	**2,460,089**

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

At 31 December 2010 the maximum credit exposure on these loans at fair value through the profit or loss was $114 million (31 December 2009 $327 million; 31 March 2010 $250 million). The Banking Group has $nil credit risk derivatives at 31 December 2010 (31 December 2009 $nil; 31 March 2010 $nil).

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

[1] The Banking Group has entered into a repurchase agreement for residential mortgage backed securities with the RBNZ with a book value of $nil (31 December 2009 $30 million; 31 March 2010 $30 million). The underlying collateral accepted by the RBNZ are residential advances to the value of $nil (31 December 2009 $36 million; 31 March 2010 $36 million). These advances have not been derecognised from the statement of financial position.

10. Provision for Credit Impairment

	BANKING GROUP		
	Unaudited	Unaudited	Audited
	31/12/2010	31/12/2009	31/03/2010
Individual provisions against advances and loans			
(All relate to impaired assets)			
Balance at beginning of the period	12,510	8,055	8,055
New provisions during the period	4,131	5,987	10,328
Balances written off during the period	(7,157)	(5,283)	(5,401)
Recoveries/reversals of previously recognised provision	(293)	(23)	(472)
Acquired on merger	1,069	-	-
Balance at end of the period	**10,260**	**8,736**	**12,510**
Collective provisions against advances and loans			
Balance at beginning of the period	4,706	4,743	4,743
Charged to income statement	1,134	(89)	(37)
Acquired on merger	498	-	-
Balance at end of the period	**6,338**	**4,654**	**4,706**
Total provisions for credit impairment	**16,598**	**13,390**	**17,216**

As at 31 December 2010, the Banking Group did not have any material restructured assets (31 December 2009 $nil; 31 March 2010 $nil). The Banking Group acquired assets under enforcement of security during the period of $3.5 million (31 December 2009 $nil; 31 March 2010 $nil). These assets are held as investment properties.

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

	BANKING GROUP		
	Unaudited	Unaudited	Audited
	31/12/2010	31/12/2009	31/03/2010
Bad debts written off during the period	11,141	10,132	11,309
Movement in individual provisions	(3,319)	681	4,455
Movement in collective provision	1,134	(89)	(37)
Provision for credit impairment to income statement	**8,956**	**10,724**	**15,727**

All in $000's

11. Asset Quality

	BANKING GROUP		
	Unaudited	**Unaudited**	**Audited**
	31/12/2010	**31/12/2009**	**31/03/2010**
(a) Asset quality - advances to customers			
Neither past due or impaired	2,552,564	2,421,679	2,406,938
Individually impaired	25,754	33,948	29,907
Past due	42,690	30,005	40,460
Provision for credit impairment	(16,598)	(13,390)	(17,216)
Carrying amount	**2,604,410**	**2,472,242**	**2,460,089**
(b) Ageing of past due but not impaired assets			
Past due 0-29 days	21,460	16,750	15,097
Past due 30-59 days	11,923	3,796	4,724
Past due 60-89 days	2,040	4,359	4,172
Past due 90-119 days	1,847	803	2,596
Past due 120-365 days	5,420	4,297	13,871
Past due more than 1 year	-	-	-
Carrying amount	**42,690**	**30,005**	**40,460**
(c) 90 day past due assets			
Balance at beginning of the period	16,467	10,512	11,917
Additions to 90 day past due assets	7,152	7,319	16,310
Reductions to 90 day past due assets	(16,352)	(12,731)	(11,760)
Balance at end of the period	**7,267**	**5,100**	**16,467**
(d) Impaired assets			
Individually impaired assets			
Balance at beginning of the period	29,907	21,848	21,848
Additions to individually impaired assets	10,526	20,223	17,898
Acquired on merger	2,287	-	-
Transfers back to productive ledger	-	-	(1,520)
Balance at end of the period	**25,754**	**33,948**	**29,907**
Provision at end of the period	(10,260)	(8,736)	(12,510)
Net carrying amount at end of the period	**15,494**	**25,212**	**17,397**

All in $000's

12. Loan Securitisation

There have been no mortgages assigned by SBS to the Lifestages Mortgage Portfolio unit trust since the year ended March 2008. SBS retains the majority of the risks and rewards of ownership and accordingly it is appropriate to record these securitised assets within the statement of financial position.

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

Mortgages assigned by SBS to the SBS Invercargill W Trust during the period ended 31 December 2010 amounted to $nil (31 December 2009 $nil; 31 March 2010 $148.11 million). SBS retains some of the risks and rewards of ownership through the provision of a subordinated loan.

Mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No. 2 during the period ended 31 December 2010 amounted to $nil (31 December 2009 $nil; 31 March 2010 $148.11 million). SBS retains some of the risks and rewards of this Trust by holding the securities issued by the Trust.

There have been no mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No.1 since the year ended March 2008. SBS does not guarantee the payment of interest or the repayment of principal due on the securities. SBS is not obliged to support any losses that may be suffered by investors.

Securitised loan balances		**BANKING GROUP**	
	Unaudited	**Unaudited**	**Audited**
	31/12/2010	**31/12/2009**	**31/03/2010**
Lifestages Mortgage Portfolio	43,297	56,551	53,802
SBS Oreti Trust No. 1	63,689	77,168	71,720
SBS Oreti Trust No. 2	212,725	99,411	241,955
	319,711	**233,130**	**367,477**

13. Investments in Subsidiaries

		Percentage Held		**Balance Date**	**Nature of Business**
	31/12/2010	**31/12/2009**	**31/03/2010**		
Subsidiaries:					
Fraser Properties Limited	100.0%	100.0%	100.0%	31 March	Property Holding
Southsure Assurance Limited	80.0%	80.0%	80.0%	31 March	Insurance
Finance Now Limited	71.5%	71.5%	71.5%	31 March	Finance Company
Funds Administration New Zealand Limited	57.0%	57.0%	57.0%	31 March	Funds Administration
In-substance subsidiaries:					
SBS Invercargill W Trust	-	-	-	31 March	Mortgage Securitisation
SBS Oreti Trust No. 1	-	-	-	31 March	Mortgage Securitisation
SBS Oreti Trust No. 2	-	-	-	31 March	Mortgage Securitisation

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

All in $000's

14. Subordinated Redeemable Shares

	BANKING GROUP		
	Unaudited 31/12/2010	**Unaudited 31/12/2009**	**Audited 31/03/2010**
SBS Premier Bond	61,252	56,609	59,307
	61,252	**56,609**	**59,307**

These five-year fixed rate bonds are issued continuously as subordinated redeemable shares and rank behind redeemable shareholders, depositors and other unsecured creditors of SBS.

At 31 December 2010 $49.50 million of subordinated redeemable shares qualify as lower tier 2 capital for Reserve Bank of New Zealand capital adequacy purposes (31 December 2009 $56.11 million; 31 March 2010 $50.44 million).

15. Equity

	BANKING GROUP		
	Unaudited 31/12/2010	**Unaudited 31/12/2009**	**Audited 31/03/2010**
Capital reserve	73	73	73
Revaluation reserve - property, plant and equipment	1,179	1,195	1,153
Revaluation reserve - available for sale assets	398	(54)	(58)
Revaluation reserve - cash flow hedging	(5,183)	(2,941)	(3,322)
Retained earnings	199,804	169,906	174,155
	196,271	168,179	172,001
Minority interests	6,672	5,503	5,663
Total equity	**202,943**	**173,682**	**177,664**
Movement in reserves:			
Revaluation reserve - property, plant and equipment			
Balance at beginning of the period	1,153	1,195	1,195
Surplus on revaluation of land and buildings	-	-	114
Deferred tax on revaluation	26	-	44
Transfer to income statement	-	-	(200)
Net movement for the period	26	-	(42)
Balance at end of the period	**1,179**	**1,195**	**1,153**
Revaluation reserve - available for sale assets			
Balance at beginning of the period	(58)	(75)	(75)
Net gains/(losses) from changes in fair value	641	37	46
Current/deferred tax on changes in fair value	(183)	(11)	(24)
Minority interests share of net gains/(losses) from changes in fair value	-	(8)	(10)
Minority interests share of current/deferred tax in fair value	(2)	3	5
Net movement for the period	456	21	17
Balance at end of the period	**398**	**(54)**	**(58)**
Revaluation reserve - cash flow hedging			
Balance at beginning of the period	(3,322)	(11,309)	(11,309)
Net gains/(losses) from changes in fair value	(2,670)	11,954	11,331
Deferred tax on changes in fair value	654	(3,586)	(3,399)
Minority interests share of net gains/(losses) from changes in fair value	213	-	79
Minority interests share of current/deferred tax in fair value	(58)	-	(24)
Net movement for the period	(1,861)	8,368	7,987
Balance at end of the period	**(5,183)**	**(2,941)**	**(3,322)**

All in $000's

15. Equity (continued)

	BANKING GROUP		
	Unaudited	Unaudited	Audited
	31/12/2010	31/12/2009	31/03/2010
Retained earnings			
Balance at beginning of the period	174,155	161,432	161,432
Add net surplus for the period	11,548	10,102	15,037
Acquired on merger	15,739	-	-
Less minorities' interests	(1,638)	(1,628)	(2,314)
Balance at end of the period	**199,804**	**169,906**	**174,155**

16. Reconciliation of Net Surplus to Net Operating Cash Flows

	Unaudited 31/12/2010	Unaudited 31/12/2009	Audited 31/03/2010
Net surplus for period	11,548	10,102	15,037
Add/(less) non cash items			
Depreciation and amortisation	2,381	1,711	2,349
Provision for credit impairment	8,956	10,724	15,727
Write off property, plant and equipment	72	8	42
Building revaluations	-	-	(200)
Actuarial life adjustment	514	718	564
Dividend provision - minority interest	-	113	(359)
Deferred fee revenue and expenses	(737)	(723)	(1,753)
Derivatives fair value adjustment	(5,022)	(8,529)	(10,586)
Advances fair value adjustment	765	8,360	9,588
Acquisition adjustments	(70)	-	-
Investment securities fair value adjustment	13	23	18
Interest free loans fair value adjustment	(8)	(126)	(130)
Net deferred tax assets	3,055	3,587	(269)
	9,919	**15,866**	**14,991**
Deferral or accruals of past or future operating cash receipts or payments			
Change in income tax payable/receivable	1,537	(5,591)	(2,233)
Change in sundry debtors	(548)	3,055	3,349
Change in sundry creditors	(1,643)	(4,779)	(4,142)
Change in accruals relating to interest receivable	(3,231)	1,469	633
Change in accruals relating to accrued interest and dividends payable to customers	1,283	(3,813)	(5,593)
Change in accruals relating to accrued interest payable to financial institutions	(17)	-	15
Change in net advances	(9,330)	(87,121)	(80,391)
Change in shares and deposits	28,583	160,544	134,510
Change in other borrowings	(18,139)	(36,807)	(45,237)
Change in subordinated redeemable shares	1,901	14,207	16,920
Change in cash held on behalf of Lifestages Mortgage Portfolio	391	(9,061)	(9,845)
	787	**32,103**	**7,986**
Items classified as cash			
Change in accruals relating to funds with financial institutions	306	103	384
Net cash flows from operating activities	**22,560**	**58,174**	**38,398**

All in $000's

17. Analysis of Borrowings

	BANKING GROUP		
	Unaudited 31/12/2010	**Unaudited 31/12/2009**	**Audited 31/03/2010**
Redeemable shares			
Call	276,784	273,996	272,505
Term	1,895,420	1,700,360	1,699,503
Total redeemable shares	**2,172,204**	**1,974,356**	**1,972,008**
Deposits from customers			
Call	50,226	57,217	55,380
Term	202,048	198,180	174,671
Total deposits from customers	**252,274**	**255,397**	**230,051**
Due to other financial institutions			
Call	-	-	-
Term*	-	30,107	30,017
Total due to other financial institutions	**-**	**30,107**	**30,017**
Subordinated redeemable shares			
Call	-	-	-
Term	61,252	56,609	59,307
Total subordinated redeemable shares	**61,252**	**56,609**	**59,307**
	2,485,730	**2,316,469**	**2,291,383**

* Due to other financial institutions includes $nil (31 December 2009 $30 million; 31 March 2010 $30 million) of securities sold under agreements to repurchase from the RBNZ. The underlying collateral accepted by the RBNZ are residential advances to the value of $nil (31 December 2009 $36 million; 31 March 2010 $36 million).

18. Contingent Liabilities and Credit Related Commitments

	BANKING GROUP					
	Unaudited Contract or Notional Amt 31/12/2010	**Unaudited Credit Equivalent 31/12/2010**	**Unaudited Contract or Notional Amt 31/12/2009**	**Unaudited Credit Equivalent 31/12/2009**	**Audited Contract or Notional Amt 31/03/2010**	**Audited Credit Equivalent 31/03/2010**
Contingent liabilities						
Lifestages Superannuation Scheme	-	-	6	6	-	-
Commitments						
Commitments with uncertain drawdown	22,066	11,033	23,515	11,758	23,934	11,967
Commitments to extend credit which can be unconditionally cancelled	177,111	-	191,689	-	181,270	-
Total contingent liabilities and credit related commitments	**199,177**	**11,033**	**215,210**	**11,764**	**205,204**	**11,967**

SBS has entered into a trust deed made between SBS and Trustees Executors Limited, as Trustee of a registered superannuation scheme known as Lifestages Superannuation Scheme (formally known as Lifestages Capital Stable Portfolio). The trust deed was effective from the 1st day of April 1992. Under the Deed of Guarantee executed on the 26th day of March 1992, SBS unconditionally guarantees the capital invested in the Lifestages Superannuation Scheme providing the investment is maintained for at least three years. A Deed Of Amendment and Restatement of Guarantee dated 31 March 2007 amended the terms of the guarantee provided by SBS, such that the guarantee will now only be applicable to members who joined the registered superannuation scheme prior to 31 May 2007. The liability of SBS under the guarantee has not been taken over by FANZ under the Deed of Novation and SBS remains liable under this guarantee. At 31 December 2010 the amount guaranteed by SBS was $nil (31 December 2009 $6,000; 31 March 2010 $nil). A minimum of 80% of the funds invested in the Lifestages Superannuation Scheme are reinvested with SBS.

There are no other material contingent liabilities.

All in $000's

19. Commitments

	BANKING GROUP		
	Unaudited	**Unaudited**	**Audited**
Lease commitments	**31/12/2010**	**31/12/2009**	**31/03/2010**
Lease commitments payable after balance date:			
0-12 Months	2,048	1,756	1,807
12-24 Months	1,967	1,199	1,295
24-60 Months	3,643	1,404	1,844
>60 Months	1,836	214	669
	9,494	**4,573**	**5,615**

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

20. Liquidity

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. As at 31 December 2010, the Banking Group had total committed funding lines with other registered banks of $125 million (31 December 2009 $175 million; 31 March 2010 $160 million). Of these facilities $nil were drawn down at 31 December 2010 (31 December 2009 $nil; 31 March 2010 $nil).

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

	BANKING GROUP		
Core liquid assets	**Unaudited**	**Unaudited**	**Audited**
	31/12/2010	**31/12/2009**	**31/03/2010**
Cash on hand and at bank	33,472	20,636	26,504
Funds with financial institutions	51,861	134,893	64,080
Investment securities	102,199	2,469	47,482
Committed and undrawn funding lines	125,000	175,000	160,000
Eligible RMBS collateral (less haircut[1])	168,885	49,849	162,434
Total liquidity	**481,417**	**382,847**	**460,500**

[1] A "haircut" is a percentage that is subtracted from the par value of the assets that are being used as collateral. The size of the haircut reflects the perceived risk associated with holding the assets.

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 70% (31 December 2009 69%; 31 March 2010 70%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 16% (31 December 2009 16%; 31 March 2010 16%) of the Banking Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

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

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

All in $000's

21. Credit Risk Exposure (continued)

BANKING GROUP

Balance sheet date credit exposures to individual counterparties and groups of closely related counterparties

	Number of non-bank counterparties			Number of bank counterparties		
	Unaudited	**Unaudited**	**Audited**	**Unaudited**	**Unaudited**	**Audited**
Percentage of equity %	**31/12/2010**	**31/12/2009**	**31/03/2010**	**31/12/2010**	**31/12/2009**	**31/03/2010**
10-19	-	-	-	1	1	-
20-29	-	-	-	1	-	2
30-39	-	-	-	-	-	-
40-49	-	-	-	-	-	-
50-59	-	-	-	-	1	-

BANKING GROUP

Peak end of day credit exposures to individual counterparties and groups of closely related counterparties

	Number of non-bank counterparties			Number of bank counterparties		
	Unaudited	**Unaudited**	**Audited**	**Unaudited**	**Unaudited**	**Audited**
Percentage of equity %	**31/12/2010**	**31/12/2009**	**31/03/2010**	**31/12/2010**	**31/12/2009**	**31/03/2010**
10-19	-	-	-	1	-	-
20-29	-	-	-	2	-	1
30-39	-	-	-	-	1	-
40-49	-	-	-	-	-	-
50-59	-	-	-	-	1	1

(b) Credit exposures by credit rating

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

BANKING GROUP

	Amount	% of total credit exposure	Amount	% of total credit exposure	Amount	% of total credit exposure
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**	**Audited**	**Audited**
	31/12/2010	**31/12/2010**	**31/12/2009**	**31/12/2009**	**31/03/2010**	**31/03/2010**
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	72,447	100%	121,524	100%	84,283	100%
Below investment grade credit rating	-	0%	-	0%	-	0%
Not rated	-	0%	-	0%	-	0%
Total bank exposures	72,447	100%	121,524	100%	84,283	100%

All in $000's

21. Credit Risk Exposure (continued)

(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 2010 (31 December 2009 $nil; 31 March 2010 $nil).

	BANKING GROUP		
	Unaudited 31/12/2010	**Unaudited 31/12/2009**	**Audited 31/03/2010**
Credit exposures to non-bank connected persons at period end	967	1,003	997
Credit exposures to non-bank connected persons at period end expressed as a percentage of total tier one capital	0.53%	0.59%	0.56%
Peak credit exposures to non-bank connected persons during the quarter	1,077	1,027	1,008
Peak credit exposures to non-bank connected persons during the quarter expressed as a percentage of total tier one capital	0.59%	0.61%	0.57%

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 and similar reserves, retained profits, minority interests, less intangible assets and certain other deductions. Tier two capital is divided into two levels. Upper tier two capital consists of revaluation reserves and perpetual subordinated debt while lower tier two capital consists of term subordinated debt and other qualifying capital instruments. Tier two capital is limited to 100% of net tier one capital. Lower tier two capital is limited to 50% of tier one capital. The tangible element of investments in subsidiaries that are not wholly owned or funded is deducted from the sum of tier one and tier two capital to arrive at total regulatory capital.

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

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

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

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

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

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

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

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

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

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

All in $000's

22. Capital Adequacy (continued)

	BANKING GROUP			REGISTERED BANK		
	Unaudited 31/12/2010	Unaudited 31/12/2009	Audited 31/03/2010	Unaudited 31/12/2010	Unaudited 31/12/2009	Audited 31/03/2010
Regulatory capital ratios						
Tier one capital expressed as a percentage of total risk weighted exposures	10.09%	9.97%	10.34%	9.65%	9.72%	10.08%
Capital expressed as a percentage of total risk weighted exposures	13.97%	13.52%	13.35%	13.00%	12.83%	12.61%
(i) Qualifying capital						
Tier one capital						
Retained earnings	174,155	161,432	161,432	168,282	156,985	156,986
Current period's audited retained earnings	6,034	5,287	12,723	4,653	4,230	11,298
Revenue and similar reserves	73	73	73	73	73	73
Cash flow hedging reserve	(5,183)	(2,941)	(3,322)	(4,656)	(2,942)	(3,182)
Minority interests	6,672	5,503	5,663	-	-	-
Less deductions from tier one capital						
Intangible assets	(3,014)	(2,953)	(3,094)	(1,453)	(1,688)	(1,686)
Cash flow hedging reserve	5,183	2,941	3,322	4,656	2,942	3,182
Total tier one capital	**183,920**	**169,342**	**176,797**	**171,555**	**159,600**	**166,671**
Tier two capital						
Upper tier two capital						
Current period's unaudited retained earnings	19,615	3,187	-	18,142	3,548	-
Revaluation reserves	1,577	1,141	1,095	1,626	1,196	1,152
Total upper tier two capital	21,192	4,328	1,095	19,768	4,744	1,152
Lower tier two capital						
Subordinated redeemable shares	49,501	56,109	50,442	49,501	56,109	50,442
Total lower tier two capital	49,501	56,109	50,442	49,501	56,109	50,442
Total tier two capital	**70,693**	**60,437**	**51,537**	**69,269**	**60,853**	**51,594**
Total tier one and tier two capital	**254,613**	**229,779**	**228,334**	**240,824**	**220,453**	**218,265**
Less deductions from capital	-	-	-	(9,756)	(9,756)	(9,756)
Total capital	**254,613**	**229,779**	**228,334**	**231,068**	**210,697**	**208,509**

All in $000's

22. Capital Adequacy (continued)

(ii) Total risk weighted exposures

BANKING GROUP

	Total exposure after credit risk mitigation Unaudited 31/12/2010	Risk weighting 31/12/2010	Risk weighted exposure Unaudited 31/12/2010	Minimum pillar one capital requirement Unaudited 31/12/2010
On balance sheet exposures				
Cash	542	0%	-	-
Sovereigns and central banks	1,030	0%	-	-
Public sector entities	48,487	20%	9,697	776
Banks	120,356	20%	24,071	1,926
Corporates	15,658	20%	3,132	251
Residential mortgages < 80% loan to value ratio (LVR)	1,440,368	35%	504,129	40,330
Residential mortgages 80 < 90% LVR	66,633	50%	33,317	2,665
Residential mortgages 90 < 100% LVR	64,338	75%	48,254	3,860
Residential mortgages welcome home loans	248,500	50%	124,250	9,940
Past due residential mortgages	3,382	100%	3,382	271
Impaired residential mortgages	3,293	100%	3,293	263
Equity holdings	819	300%	2,457	197
Other assets	814,888	100%	814,888	65,191
Non-risk weighted assets	(2,374)	0%	-	-
Total on balance sheet exposures	2,825,920		1,570,870	125,670

	Total exposure after credit risk mitigation Unaudited 31/12/2010	Credit conversion factor Unaudited 31/12/2010	Credit equivalent amount Unaudited 31/12/2010	Average risk weighting Unaudited 31/12/2010	Risk weighted exposure / implied risk weighted exposure Unaudited 31/12/2010	Minimum pillar one capital requirement Unaudited 31/12/2010
Off balance sheet exposures						
Commitments with uncertain drawdown	22,066	50%	11,033	65%	7,164	573
Commitments to extend credit which can be unconditionally cancelled	177,111	0%	-	0%	-	-
Market related contracts [1]						
Interest rate contracts	936,170	n/a	4,470	20%	894	72
Total off balance sheet exposures	1,135,347		15,503		8,058	645
Total credit risk	3,961,267		15,503		1,578,928	126,315
Operational risk	n/a	-	-		174,117	13,929
Market risk	n/a	-	-		69,022	5,522
Total risk weighted exposure	3,961,267	-	-		1,822,067	145,766

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

All in $000's

22. Capital Adequacy (continued)

BANKING GROUP

	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	Unaudited		Unaudited	Unaudited
	31/12/2009	31/12/2009	31/12/2009	31/12/2009
On balance sheet exposures				
Cash	405	0%	-	-
Sovereigns and central banks	1,038	0%	-	-
Banks	154,915	20%	30,983	2,479
Corporate	208	100%	208	17
Residential mortgages < 80% loan to value ratio (LVR)	1,342,075	35%	469,726	37,578
Residential mortgages 80 < 90% LVR	76,669	50%	38,335	3,067
Residential mortgages 90 < 100% LVR	60,180	75%	45,135	3,611
Residential mortgages welcome home loans	233,179	50%	116,590	9,327
Past due residential mortgages	550	100%	550	44
Impaired residential mortgages	5,130	100%	5,130	410
Equity holdings	809	300%	2,427	194
Other assets	785,370	100%	785,370	62,830
Non-risk weighted assets	713	0%	-	-
Total on balance sheet exposures	2,661,241		1,494,454	119,557

	Total exposure after credit risk mitigation	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure / implied risk weighted exposure	Minimum pillar one capital requirement
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	31/12/2009	31/12/2009	31/12/2009	31/12/2009	31/12/2009	31/12/2009
Off balance sheet exposures						
Commitments with uncertain drawdown	23,515	50%	11,758	65%	7,673	614
Commitments to extend credit which can be unconditionally cancelled	191,689	0%	-	0%	-	-
Market related contracts [1]	-					
Interest rate contracts	1,420,850	n/a	5,132	20%	1,026	82
Total off balance sheet exposures	1,636,054		16,890		8,699	696
Total credit risk	4,297,295		16,890		1,503,153	120,253
Operational risk	n/a	-	-		166,341	13,307
Market risk	n/a	-	-		29,811	2,385
Total risk weighted exposure	4,297,295	-	-		1,699,305	135,945

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

All in $000's

22. Capital Adequacy (continued)

BANKING GROUP

	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	Audited		Audited	Audited
	31/03/2010	31/03/2010	31/03/2010	31/03/2010
On balance sheet exposures				
Cash	407	0%	-	-
Sovereigns and central banks	1,058	0%	-	-
Public sector entities	20,884	20%	4,177	334
Banks	110,433	20%	22,087	1,767
Corporates	3,729	20%	746	60
Corporates	210	100%	210	17
Residential mortgages < 80% loan to value ratio (LVR)	1,311,135	35%	458,897	36,712
Residential mortgages 80 < 90% LVR	74,449	50%	37,225	2,978
Residential mortgages 90 < 100% LVR	83,118	75%	62,339	4,987
Residential mortgages welcome home loans	238,871	50%	119,436	9,555
Past due residential mortgages	2,401	100%	2,401	192
Impaired residential mortgages	5,188	100%	5,188	415
Equity holdings	718	300%	2,154	172
Other assets	776,410	100%	776,410	62,113
Non-risk weighted assets	(1,106)	0%	-	-
Total on balance sheet exposures	2,627,905		1,491,270	119,302

	Total exposure after credit risk mitigation	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure / implied risk weighted exposure	Minimum pillar one capital requirement
	Audited	Audited	Audited	Audited	Audited	Audited
	31/03/2010	31/03/2010	31/03/2010	31/03/2010	31/03/2010	31/03/2010
Off balance sheet exposures						
Commitments with uncertain drawdown	23,934	50%	11,967	65%	7,797	624
Commitments to extend credit which can be unconditionally cancelled	181,270	0%	-	0%	-	-
Market related contracts [1]						
Interest rate contracts	1,095,760	n/a	3,205	20%	641	51
Total off balance sheet exposures	1,300,964		15,172		8,438	675
Total credit risk	3,928,869		15,172		1,499,708	119,977
Operational risk	n/a	-	-		169,357	13,549
Market risk	n/a	-	-		41,008	3,281
Total risk weighted exposure	3,928,869	-	-		1,710,073	136,807

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

All in $000's

22. Capital Adequacy (continued)

(iii) Residential mortgages by loan to valuation ratio

	BANKING GROUP		
	Unaudited	Unaudited	Audited
	31/12/2010	31/12/2009	31/03/2010
LVR range			
0 - 80%	1,446,486	1,347,230	1,317,910
80 - 90%	66,916	76,963	74,833
90% +	313,112	293,590	322,419

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

(iv) Market risk exposures

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

	BANKING GROUP					
	End of period			Peak end of day		
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Audited
	31/12/2010	31/12/2009	31/03/2010	31/12/2010	31/12/2009	31/03/2010
Interest rate exposures						
Implied risk weighted exposure	69,022	29,811	41,008	74,700	34,413	41,513
Aggregate capital charge	5,522	2,385	3,281	5,976	2,753	3,321
Aggregate capital charge expressed as a percentage of the Banking Group's equity	2.72%	1.37%	1.85%	2.94%	1.59%	1.87%

23. Interest Earning Assets and Interest Bearing Liabilities

	BANKING GROUP		
	Unaudited	Unaudited	Audited
	31/12/2010	31/12/2009	31/03/2010
Total interest earning and discount bearing assets	2,791,942	2,630,240	2,598,155
Total interest and discount bearing liabilities	2,596,165	2,453,473	2,419,957

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.

All in $000's

24. Fiduciary Activities (continued)

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

	Unaudited 31/12/2010	Unaudited 31/12/2009	Audited 31/03/2010
Funds under management on behalf of customers	311,000	289,600	298,300

Securitised assets

As at 31 December 2010, the Banking Group had securitised assets amounting to $320 million (31 December 2009 $233 million; 31 March 2010 $367 million).

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

Insurance business

The Banking Group markets and distributes insurance products through 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 2010 are $8.8 million (31 December 2009 $7.7 million; 31 March 2010 $8.2 million) which is 0.3% of the total assets of the Banking Group (31 December 2009 0.3%; 31 March 2010 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.

All in $000's

25. 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 Hawkes 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.

Fair values of assets acquired and liabilities assumed as at 1 October 2010 (provisional):

	Notes	Cessation accounts (f)	Fair value adjustments	Take - on balances
Cash on hand and at bank		3,583	-	3,583
Funds with financial institutions		30,273	-	30,273
Advances to customers	a	144,345	(366)	143,979
Property, plant and equipment	b	1,970	-	1,970
Other assets		217	-	217
Redeemable shares	c	(162,052)	(707)	(162,759)
Derivative financial instruments		(598)	-	(598)
Other liabilities	d	(484)	(442)	(926)
Net identifiable assets and liabilities	e	**17,254**	**(1,515)**	**15,739**
Goodwill on acquisition				-
Acquisition value (deemed consideration)				**15,739**

For the period from 1 April 2010 to 30 September 2010 HBS had revenue of $6,250,000 and a net surplus of $229,000.

Notes:

a) The mortgage portfolio has been adjusted to fair value the fixed rate mortgage portfolio by comparison to market rates, and secondly to adjust for SBS provisioning policies.

b) The fair value of property has been determined by reference to independent valuations.

c) The fair value adjustments on shares and deposits reflect the interest rate risk associated with these liabilities, and includes the bonus interest rate of 0.5% per annum above the normal rates, for which HBS members are eligible, for any call or term investments which are renewed or placed with SBS within 12 months after the transfer of engagements for a term of at least six months, for either the term of the renewed investment or 12 months (whichever is shorter).

d) An adjustment has been made for other commitments.

e) The net assets and liabilities, including fair value adjustments that result from the transaction, have been recognised in Equity.

f) The cessation accounts of HBS have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards. They have also been prepared on the basis of taxation legislation in respect to amalgamations that is expected to be enacted retrospectively during 2011.

26. Subsequent Events

On 22 February 2011 a significant earthquake hit the Christchurch region causing extensive damage. The Banking Group has credit exposures in the Canterbury region particularly in relation to residential mortgages. The full extent of the impact on the Banking Group is as yet unknown.

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

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

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

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

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

Mr G J Diack, MA (Hons) - Corporate Executive, Christchurch

Mr J J Grant, Farmer/Company Director, Balfour

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

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

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

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

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

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Solicitors
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Cruickshank Pryde, 42 Don Street, Invercargill

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