



Southland Building Society

Disclosure Statement

For the nine months ended 31 December 2011

Number 15 Issued February 2012

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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 4) 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 change in the composition of the Bank's Board of Directors has 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 31 December 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 4 September 2011. 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 Disclosure Statement with effect from 31 December 2011.

The changes made were:

- Condition 11 regarding liquidity risk has been updated to reflect the most recent Liquidity Policy Annex: Liquid Assets (BS13A).
- Condition 14 pertaining to significant acquisitions has been added in line with the new RBNZ policy document: Significant Acquisitions Policy (BS15).

Directors' Statement

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

1. As at the date on which the Disclosure Statement is signed:
 - (a) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 4) 2011; and
 - (b) the 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 2011:
 - (a) the Bank has complied with the conditions of registration applicable during the period; and
 - (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
 - (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 22nd February 2012 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



JJ Grant



FE Spencer



Southland Building Society

Income Statement for the nine months ended 31 December 2011

All in \$000's



	BANKING GROUP		
	Unaudited 9 Months 31/12/2011	Unaudited 9 Months 31/12/2010	Audited 12 Months 31/03/2011
	Interest income	139,446	133,855
Interest expense	10,539	11,888	16,037
Dividends on redeemable shares	77,419	75,457	102,565
	87,958	87,345	118,602
Net interest income	51,488	46,510	63,684
Other income	13,771	14,221	18,235
Total operating income	65,259	60,731	81,919
Operating expenses	38,045	36,538	47,554
Provision for credit impairment	13,250	8,956	17,057
Operating surplus	13,964	15,237	17,308
Net gain/(loss) from financial instruments designated at fair value	(172)	3,747	5,117
Revaluation of property	-	-	-
Revaluation of investment properties	-	-	(88)
Surplus before income tax	13,792	18,984	22,337
Less income tax expense	3,902	7,436	8,087
Net surplus	9,890	11,548	14,250
Attributable to:			
Members' interests	8,124	9,910	11,761
Non-controlling interests	1,766	1,638	2,489
	9,890	11,548	14,250

Southland Building Society

Statement of Comprehensive Income for the nine months ended 31 December 2011

All in \$000's



	BANKING GROUP		
	Unaudited 9 Months 31/12/2011	Unaudited 9 Months 31/12/2010	Audited 12 Months 31/03/2011
	Net surplus for the period	9,890	11,548
Other comprehensive income			
Net change in property, plant and equipment reserve, net of tax	-	26	(355)
Net change in available for sale asset reserve, net of tax	2,512	458	1,298
Net change in cash flow hedging reserve, net of tax	(323)	(2,016)	(4,796)
Other comprehensive income for the period, net of tax	2,189	(1,532)	(3,853)
Total comprehensive income for the period	12,079	10,016	10,397
Attributable to:			
Members' interests	10,257	8,531	8,163
Non-controlling interests	1,822	1,485	2,234
	12,079	10,016	10,397

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 2011

All in \$000's



	BANKING GROUP		
	Unaudited 9 Months 31/12/2011	Unaudited 9 Months 31/12/2010	Audited 12 Months 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	-	26	(355)
Balance at end of the period	798	1,179	798
Revaluation reserve - available for sale assets			
Balance at beginning of the period	1,236	(58)	(58)
Other comprehensive income for the period	2,529	456	1,294
Balance at end of the period	3,765	398	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	(396)	(1,861)	(4,537)
Balance at end of the period	(8,255)	(5,183)	(7,859)
Retained earnings			
Balance at beginning of the period	201,374	174,155	174,155
Net surplus for the period	8,124	9,910	11,761
Acquired on merger	-	15,739	15,458
Balance at end of the period	209,498	199,804	201,374
Total equity attributable to member's interests	205,879	196,271	195,622
Non-controlling interests			
Balance at beginning of the period	6,418	5,663	5,663
Net surplus for the period	1,766	1,638	2,489
Other comprehensive income for the period	56	(153)	(255)
Dividends	(1,245)	(476)	(1,479)
Balance at end of the period	6,995	6,672	6,418
Total equity at end of the period	212,874	202,943	202,040
Represented by:			
Equity at beginning of the period	202,040	177,664	177,664
Net surplus for the period	9,890	11,548	14,250
Other comprehensive income for the period	2,189	(1,532)	(3,853)
Total comprehensive income for the period	12,079	10,016	10,397
Dividends	(1,245)	(476)	(1,479)
Acquired on merger	-	15,739	15,458
Total equity at end of the period	212,874	202,943	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 31 December 2011



All in \$000's

	Note	BANKING GROUP		
		Unaudited 31/12/2011	Unaudited 31/12/2010	Audited 31/03/2011
Assets				
Cash on hand and at bank		24,075	33,472	22,211
Funds with financial institutions		88,574	51,861	48,805
Investment securities		215,626	102,199	120,228
Derivative financial instruments		3,387	949	2,662
Current tax assets		-	-	287
Advances to customers	(3)	2,478,163	2,604,410	2,584,656
Other assets		2,324	2,128	2,508
Investment properties		3,391	3,479	3,391
Property, plant and equipment		19,228	19,305	18,930
Intangible assets		2,172	3,014	2,674
Deferred tax		8,178	5,103	7,481
		2,845,118	2,825,920	2,813,833
Liabilities				
Redeemable shares		2,231,500	2,172,204	2,169,465
Deposits from customers		253,870	252,274	240,546
Derivative financial instruments		14,689	8,951	13,429
Current tax liabilities		1,952	421	-
Other borrowings		55,027	110,435	107,096
Other liabilities		13,954	17,440	20,025
Subordinated redeemable shares		61,252	61,252	61,232
		2,632,244	2,622,977	2,611,793
Net assets		212,874	202,943	202,040
Equity				
Reserves		(3,619)	(3,533)	(5,752)
Retained earnings		209,498	199,804	201,374
Attributable to members of the society		205,879	196,271	195,622
Attributable to non-controlling interests		6,995	6,672	6,418
		212,874	202,943	202,040
Total interest earning and discount bearing assets		2,806,438	2,791,942	2,775,900
Total interest and discount bearing liabilities		2,601,649	2,596,165	2,578,339

For and on behalf of the Board of Directors:

Chairman
JWA Smith

Deputy Chairman
JF Ward

22 February 2012

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 2011

All in \$000's



	BANKING GROUP		
	Unaudited 9 Months 31/12/2011	Unaudited 9 Months 31/12/2010	Audited 12 Months 31/03/2011
Cash flows from operating activities			
Interest and dividends received	136,143	127,922	174,437
Interest and dividends paid	(87,083)	(86,127)	(119,287)
Other cash inflows provided by operating activities	18,829	18,472	23,864
Other cash outflows used in operating activities	(43,216)	(41,113)	(53,314)
Net cash flows from operating activities before changes in operating assets and liabilities	24,673	19,154	25,700
Net changes in operating assets and liabilities	112,618	3,406	(365)
Net cash flows provided by/(used in) operating activities	137,291	22,560	25,335
Cash flows from investing activities			
Cash inflows provided by investing activities	53	46	46
Cash outflows used in investing activities	(94,489)	(61,006)	(77,625)
Net cash flows provided by/(used in) investing activities	(94,436)	(60,960)	(77,579)
Cash flows from financing activities			
Cash inflows provided by financing activities	-	-	-
Cash outflows used in financing activities	(2,248)	(476)	(946)
Net cash flows provided by/(used in) financing activities	(2,248)	(476)	(946)
Net increase/(decrease) in cash held	40,607	(38,876)	(53,190)
Add opening cash and cash equivalents	70,853	90,460	90,460
Add opening cash and cash equivalents on merger	-	33,583	33,583
Closing cash and cash equivalents	111,460	85,167	70,853
Reconciliation of cash and cash equivalents			
Cash on hand and at bank	24,075	33,472	22,211
Funds with financial institutions	88,574	51,861	48,805
Interest accrued on available for sale assets	(1,189)	(166)	(163)
	111,460	85,167	70,853
Reconciliation of net surplus to net operating cash flows			
Net surplus for period	9,890	11,548	14,250
Non-cash items	15,813	9,919	15,577
Deferral or accruals of past or future operating cash receipts or payments	112,614	787	(4,726)
Items classified as cash	(1,026)	306	234
Net cash flows from operating activities	137,291	22,560	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 4) 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 22 February 2012.

(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 Disclosure Statement on 23 November 2011.

3. Advances to Customers

	BANKING GROUP		
	Unaudited 31/12/2011	Unaudited 31/12/2010	Audited 31/03/2011
Residential	1,766,647	1,830,754	1,819,747
Agricultural	403,547	421,868	417,468
Commercial	218,959	257,146	258,753
Consumer	116,217	114,563	113,389
Gross advances	2,505,370	2,624,331	2,609,357
Provisions for credit impairment	(24,208)	(16,598)	(21,708)
Deferred fee revenue and expenses	(2,999)	(3,323)	(2,993)
Total net advances	2,478,163	2,604,410	2,584,656

As at 31 December 2011, \$30 million of advances to customers are designated at fair value through profit or loss (31 December 2010 \$114 million; 31 March 2011 \$51 million). 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			
	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Balances as at 31 December 2011 (Unaudited)				
Gross advances individually determined to be impaired	2,711	-	37,131	39,842
Individually assessed provisions	1,173	-	13,784	14,957
Collective provision	3,995	3,619	1,637	9,251
90 day past due assets not impaired	2,729	338	5,346	8,413
Charges to the income statement				
Bad debts written off during the period	424	3,096	146	3,666
Movement in individual provisions	716	-	8,645	9,361
Movement in collective provision	195	28	-	223
Total provision for credit impairment charged to the income statement	1,335	3,124	8,791	13,250

5. Contingent Liabilities and Credit Related Commitments

	BANKING GROUP					
	Unaudited Contract or Notional Amt 31/12/2011	Unaudited Credit Equivalent 31/12/2011	Unaudited Contract or Notional Amt 31/12/2010	Unaudited Credit Equivalent 31/12/2010	Audited Contract or Notional Amt 31/03/2011	Audited Credit Equivalent 31/03/2011
Credit related commitments						
Commitments with uncertain drawdown	14,290	7,145	22,066	11,033	21,994	10,997
Commitments to extend credit which can be unconditionally cancelled	175,167	-	177,111	-	177,852	-
Total credit related commitments	189,457	7,145	199,177	11,033	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 31 December 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'¹ that applies to those securities under the RBNZ's Domestic Operations for the purposes of those operations.

Core liquid assets	BANKING GROUP
	Unaudited 31/12/2011
Cash on hand and at bank	24,075
Funds with financial institutions	88,574
Investment securities	215,626
Committed and undrawn funding lines	85,000
Eligible RMBS collateral (less haircut ¹)	138,170
Total liquidity	551,445

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.

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, and connected persons are excluded.

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 31 December 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.

	BANKING GROUP		
	Unaudited 31/12/2011	Unaudited 31/12/2010	Audited 31/03/2011
(i) Regulatory capital ratios			
Tier one capital ratio (minimum 4%)	12.02%	10.09%	11.26%
Total capital ratio (minimum 8%)	14.58%	13.97%	13.60%
(ii) Qualifying capital			
Tier one capital			
Tier one capital (before deductions)	205,172		
Net deductions from tier one capital	6,083		
Total tier one capital	211,255		
Tier two capital			
Upper tier two capital	7,702		
Lower tier two capital	37,356		
Total tier two capital	45,058		
Total tier one and tier two capital	256,313		
Less deductions from capital	-		
Total capital	256,313		
(iii) Pillar one capital requirements			
On balance sheet credit risk			
Residential mortgages (including past due)	55,157		
Corporates	830		
Claims on banks	3,140		
Other	62,195		
Total on balance sheet credit risk	121,322		
Other capital requirements			
Off balance sheet credit exposures	465		
Operational risk	14,249		
Market risk	4,585		
Total other capital requirements	19,299		
Pillar one capital requirements	140,621		
(iv) Residential mortgages by loan to valuation ratio			
LVR range			
0 - 80%	1,382,133		
80 - 90%	52,972		
90% +	325,889		

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 31 December 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 premium income from the sale of insurance products.

The total assets of Southsure Assurance Limited as at 31 December 2011 are \$9.7 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 occurred 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. There has been no change to the valuations since the previous Disclosure Statement.

Full details of the fair values of assets acquired and liabilities assumed as at 1 October 2010 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 31 December 2011.