Southland Building Society

General Short Form Disclosure Statement

For the three months ended 30 June 2010

Number 9 Issued August 2010

Contents

General Information

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

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

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

Name and Address for Service of Registered Bank

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

Details of Incorporation

Southland Building Society was established in 1869 and is incorporated under the Building Societies Act 1965. SBS's registration number is 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 has a guarantee under the New Zealand Deposit Guarantee Scheme ("Crown Guarantee"). The Crown Guarantee is provided under an initial Crown Deed of Guarantee (Registered Bank) entered into by Southland Building Society and the Crown on 30 October 2008 and a replacement Crown Deed of Guarantee (Registered Bank) entered into by Southland Building Society and the Crown on 16 December 2009.

The following are features of the guarantee:

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

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

  Under the Crown Guarantee, the Crown, subject to the terms and conditions of the Crown Guarantee, absolutely and irrevocably guarantees all obligations of Southland Building Society to pay all indebtedness from debt securities (including any interest owing) that is owing to a creditor that becomes due and payable during the Guarantee Period; and all indebtedness from debt securities (including any interest owing) that exists on the date of a Default Event as defined in the Crown Deed of Guarantee.
- The Crown Guarantee establishes a maximum liability of the Crown to each creditor under the Crown Guarantee of one million New Zealand dollars ($1,000,000).
- The Crown will not be required to make any payment under the Crown Guarantee until the Crown has received notice in writing from a creditor in respect of the amount of the relevant indebtedness and has satisfied itself as to the amount of the indebtedness and as to such other matters as the Crown reasonably considers appropriate in order to ascertain the extent of its liability under the Crown Guarantee in respect of that indebtedness.
- The Crown may (in its sole and unfettered discretion) decline to accept liability for any amount of interest on, or in respect of, any indebtedness to the extent that, the interest accrues after the date by which the Crown considers adequate time has elapsed following the date on which that indebtedness became due and payable in order for the relevant creditor to submit a notice of claim in respect of, and for the Crown to thereafter satisfy itself as to the extent (if any) of its liability under the Crown Guarantee.
- The Crown Guarantee commenced at 12.01am on 12 October 2008 and expires at 12.01am on 12 October 2010. On 25 August 2009 the Government announced that it will extend the Crown Retail Guarantee to 31 December 2011 and change some of its terms and conditions. The Reserve Bank has stated that there is no need for banks to partake in the scheme, and therefore at this stage Southland Building Society does not intend to be covered by it.

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

Pending Proceedings or Arbitration

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

Insurance Business

The Banking Group markets and distributes insurance products through subsidiary company Southsure Assurance Limited. The total assets of Southsure Assurance Limited as at 30 June 2010 are $7.9 million (30 June 2009 $6.9 million; 31 March 2010 $8.2 million), which is 0.3% of the total assets of the Banking Group (30 June 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 30 June 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 28 July 2009. There have been no changes made to the rating in the two years preceding 30 June 2010. The rating is not subject to any qualifications.

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

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

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

Conditions of Registration

The conditions of registration imposed on Southland Building Society by the Reserve Bank of New Zealand (RBNZ) pursuant to section 74 of the Reserve Bank of New Zealand Act 1989, and which apply as at the date of signing of this General Disclosure Statement are as follows. These conditions of registration have applied from 30 March 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 November 2007.

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

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

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

   For the purposes of this condition:

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

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

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

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

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

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

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

Conditions of Registration (continued)

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

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

8. That the bank's rules 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 three months ended 30 June 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 24th August 2010 and has been signed by or on behalf of all the Directors.

JWA Smith
(Chairman)

JF Ward
(Deputy Chairman)

RL Smith
(Group Managing Director /
Chief Executive Officer)

KJ Ball

JB Walker

GJ Mulvey

GJ Diack

JJ Grant

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Southland Building Society
Income Statement for the three months ended 30 June 2010
All in $000's

	Note	BANKING GROUP Unaudited 3 Months 30/06/2010	Unaudited 3 Months 30/06/2009	Audited 12 Months 31/03/2010
Interest income	(3)	41,994	44,052	172,040
Interest expense		3,716	4,339	16,897
Dividends on redeemable shares		23,907	24,687	95,598
	(4)	27,623	29,026	112,495
Net interest income		**14,371**	**15,026**	**59,545**
Other income	(3)	4,545	4,660	18,629
Total operating income		**18,916**	**19,686**	**78,174**
Operating expenses	(4)	11,358	11,284	43,068
Provision for credit impairment	(10)	3,475	3,002	15,727
Operating surplus		**4,083**	**5,400**	**19,379**
Add net gain/(loss) from financial instruments designated at fair value	(5)	1,248	181	980
Add revaluation of property		-	-	200
Surplus before income tax		**5,331**	**5,581**	**20,559**
Less income tax expense[1]		3,708	1,967	5,522
Net surplus		**1,623**	**3,614**	**15,037**
Attributable to:				
Members' interests		1,180	3,178	12,723
Minorities' interests		443	436	2,314
		1,623	**3,614**	**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. This accounting treatment is subject to review by regulators which may result in a reversal in all or part of this adjustment in a future period.

Southland Building Society
Statement of Comprehensive Income for the three months ended 30 June 2010
All in $000's

	Note	BANKING GROUP Unaudited 3 Months 30/06/2010	Unaudited 3 Months 30/06/2009	Audited 12 Months 31/03/2010
Net surplus for the period		1,623	3,614	15,037
Other comprehensive income				
Net change in property, plant and equipment reserve, net of tax	(15)	27	-	(42)
Net change in available for sale asset reserve, net of tax	(15)	422	(5)	22
Net change in cash flow hedging reserve, net of tax	(15)	(844)	2,222	7,932
Other comprehensive income for the period, net of tax		(395)	2,217	7,912
Total comprehensive income for the period		**1,228**	**5,831**	**22,949**
Attributable to:				
Members' interests		879	5,395	20,686
Minorities' interests		349	436	2,263
		1,228	**5,831**	**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 three months ended 30 June 2010
All in $000's

	Note	BANKING GROUP Unaudited 3 Months 30/06/2010	Unaudited 3 Months 30/06/2009	Audited 12 Months 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		27	-	(42)
Balance at end of the period		1,180	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		427	(5)	17
Balance at end of the period		369	(80)	(58)
Revaluation reserve - cash flow hedging				
Balance at beginning of the period		(3,322)	(11,309)	(11,309)
Other comprehensive income for the period		(756)	2,222	7,987
Balance at end of the period		(4,078)	(9,087)	(3,322)
Retained earnings				
Balance at beginning of the period		174,155	161,432	161,432
Net surplus for the period		1,180	3,178	12,723
Balance at end of the period		175,335	164,610	174,155
Total equity attributable to member's interests		**172,879**	**156,711**	**172,001**
Minorities' interests				
Balance at beginning of the period		5,663	4,264	4,264
Net surplus for the period		443	436	2,314
Other comprehensive income for the period		(93)	-	(50)
Dividends		(104)	(192)	(1,554)
Change in capital of minority interests		-	-	689
Balance at end of the period		5,909	4,508	5,663
Total equity at end of the period		**178,788**	**161,219**	**177,664**
Represented by:				
Equity at beginning of the period		177,664	155,580	155,580
Net surplus for the period		1,623	3,614	15,037
Other comprehensive income for the period		(395)	2,217	7,912
Total comprehensive income for the period		1,228	5,831	22,949
Dividends		(104)	(192)	(1,554)
Change in capital of minority interests		-	-	689
Total equity at end of the period	(15)	**178,788**	**161,219**	**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 30 June 2010

All in $000's

	Note	BANKING GROUP Unaudited 30/06/2010	Unaudited 30/06/2009	Audited 31/03/2010
Assets				
Cash on hand and at bank		28,963	22,344	26,504
Funds with financial institutions	(6)	3,432	77,411	64,080
Investment securities	(7)	66,176	2,711	47,482
Derivative financial instruments	(8)	1,091	2,369	506
Current tax assets		24	928	1,176
Advances to customers	(9)	2,451,795	2,428,576	2,460,089
Investment properties		3,479	-	-
Other assets		2,480	2,471	1,575
Property, plant and equipment		16,600	15,998	16,005
Intangible assets		3,176	2,927	3,094
Deferred tax		4,000	9,097	7,394
		2,581,216	**2,564,832**	**2,627,905**
Liabilities				
Redeemable shares	(17)	1,969,996	1,889,042	1,972,008
Deposits from customers	(17)	216,832	238,569	230,051
Due to other financial institutions	(17)	4,504	-	30,017
Derivative financial instruments	(8)	11,303	30,829	13,009
Current tax liabilities		-	66	-
Other borrowings		120,186	157,363	128,574
Other liabilities		18,743	31,138	17,275
Subordinated redeemable shares	(14)	60,864	56,606	59,307
		2,402,428	**2,403,613**	**2,450,241**
Net assets		**178,788**	**161,219**	**177,664**
Equity	(15)			
Reserves		(2,456)	(7,898)	(2,154)
Retained earnings		175,335	164,609	174,155
Attributable to members of the society		172,879	156,711	172,001
Attributable to minority shareholders		5,909	4,508	5,663
		178,788	**161,219**	**177,664**

For and on behalf of the Board of Directors:

Chairman
JWA Smith

Deputy Chairman
JF Ward

24 August 2010

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

Southland Building Society

Statement of Cash Flows for the three months ended 30 June 2010

All in $000's

	Note	BANKING GROUP Unaudited 3 Months 30/06/2010	Unaudited 3 Months 30/06/2009	Audited 12 Months 31/03/2010
Cash flows from operating activities				
Interest received		41,106	44,824	167,996
Fees and other income		6,005	6,213	25,048
Dividends received		8	-	28
Interest paid		(3,919)	(4,306)	(16,689)
Dividends paid on redeemable shares		(24,051)	(26,412)	(101,384)
Operating expenses		(12,275)	(13,713)	(44,534)
Income taxes received/(paid)		907	(3,431)	(8,024)
Net cash flows from operating activities before changes in operating assets and liabilities		7,781	3,175	22,441
Net changes in operating assets and liabilities				
Net (increase)/decrease in advances		3,377	(30,736)	(80,391)
Net increase/(decrease) in shares and deposits from customers		(14,861)	43,172	121,510
Net increase/(decrease) in deposits due to other financial institutions		(25,500)	(17,000)	13,000
Net decrease in other borrowings		(8,388)	(16,448)	(45,237)
Net increase in subordinated redeemable shares		1,521	14,206	16,920
Net increase/(decrease) in cash held on behalf of Lifestages Mortgage Portfolio		1,874	5,107	(9,845)
Net cash flows provided by/(used in) operating activities	(16)	**(34,196)**	**1,476**	**38,398**
Cash flows from investing activities				
Net increase in investment securities		(18,492)	(309)	(44,227)
Sale of property, plant and equipment		40	38	88
Purchase of property, plant and equipment		(960)	(411)	(1,323)
Purchase of intangible assets		(447)	(316)	(1,395)
Purchase of investment properties		(3,479)	-	-
Net cash flows provided by/(used in) investing activities		**(23,338)**	**(998)**	**(46,857)**
Cash flows from financing activities				
Dividends paid to minority interests		(575)	(306)	(507)
Net cash flows provided by/(used in) financing activities		**(575)**	**(306)**	**(507)**
Net increase/(decrease) in cash held		(58,109)	172	(8,966)
Add opening cash and cash equivalents		90,460	99,426	99,426
Closing cash and cash equivalents		**32,351**	**99,598**	**90,460**
Reconciliation of cash and cash equivalents				
Cash on hand and at bank		28,963	22,344	26,504
Funds with financial institutions		3,432	77,411	64,080
Interest accrued on available for sale assets		(44)	(157)	(124)
		32,351	**99,598**	**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 Bank) was established in 1869, is incorporated under the Building Societies Act 1965, and was registered as a bank under the Reserve Bank of New Zealand Act 1989 on 7 October 2008. The consolidated financial statements presented here are for the reporting entity of the Banking Group comprising SBS and its subsidiaries.

The financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting and the Registered Bank Disclosure Statement (Off-Quarter - New Zealand Incorporated Registered Banks) Order 2008. These financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 March 2010.

These financial statements were authorised for issue by the Board of Directors on 24 August 2010.

(b) Presentation Currency and Rounding

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

(c) Standards Issued But Not Yet Effective

The following new standards and amendments to standards relevant to the Banking Group are not yet effective and have not yet been applied in preparing the financial statements. 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 2012.
- 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 the Southland Building Society's head office building;
- Southsure Assurance Limited (80% owned subsidiary) - life insurance and related products;
- Finance Now Limited (71.5% owned subsidiary) - consumer credit and 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 8 June 2010.

All in $000's

3. Income

	BANKING GROUP		
	Unaudited 3 Months 30/06/2010	Unaudited 3 Months 30/06/2009	Audited 12 Months 31/03/2010
Interest income			
Cash at bank	170	214	618
Funds with financial institutions - available for sale	380	555	3,081
Investment securities - available for sale	669	5	530
Investment securities - designated at fair value through profit or loss	23	19	87
Derivative financial instruments	(5,387)	(7,177)	(28,184)
Advances to customers - at amortised cost	42,217	42,213	175,282
Advances to customers - designated at fair value through profit or loss	3,922	8,221	20,626
Other	-	2	-
Total interest income	**41,994**	**44,052**	**172,040**
Other operating income			
Loan fees	315	932	2,254
Management fees	717	692	3,794
Other fee and commission income	1,677	1,381	6,026
Net insurance income	1,338	1,214	5,032
Dividends	8	-	28
Sundry income	490	441	1,495
Total other operating income	**4,545**	**4,660**	**18,629**

4. Expenses

Interest expense			
Redeemable shares	22,865	23,802	91,773
Deposits from customers	2,407	2,547	10,453
Other financial institutions	62	19	338
Other borrowings	1,248	1,772	6,108
Subordinated redeemable shares	1,041	886	3,823
Total interest expense	**27,623**	**29,026**	**112,495**
Other operating expenses			
Auditors remuneration	42	161	375
Computer expenses	474	437	1,733
Fees and commissions	73	108	379
Fees to directors *	126	132	530
Marketing	1,185	1,162	4,008
Personnel	5,735	5,755	22,230
Actuarial life adjustment	140	148	564
Amortisation and depreciation	689	508	2,349
Rent and leases	539	571	2,197
Write off of property, plant and equipment	-	5	42
Other expenses	2,355	2,297	8,661
Total other operating expenses	**11,358**	**11,284**	**43,068**

*The provision for directors retiring allowance increased by $13,000 this year (30 June 2009 increase of $19,000; 31 March 2010 increase of $72,000).

All in $000's

4. Expenses (continued)

	Unaudited 3 Months 30/06/2010	BANKING GROUP Unaudited 3 Months 30/06/2009	Audited 12 Months 31/03/2010
Amounts received, or due and receivable by the auditors:			
KPMG auditing the financial statements	37	161	312
KPMG other assurance services *	5	-	63
	42	**161**	**375**

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

	Unaudited 3 Months 30/06/2010	Unaudited 3 Months 30/06/2009	Audited 12 Months 31/03/2010
Amounts received, or due and receivable by directors:			
JWA Smith (Chairman)	26	26	106
JF Ward (Deputy Chairman)	18	16	68
KJ Ball	14	14	58
JB Walker	13	16	58
GJ Mulvey	13	13	53
GJ Diack	15	15	59
JJ Grant	14	13	56
RL Smith [1]	-	-	-
	113	**113**	**458**
Provision for directors retiring allowance	13	19	72
	126	**132**	**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

	Unaudited 3 Months 30/06/2010	Unaudited 3 Months 30/06/2009	Audited 12 Months 31/03/2010
Net gain/(loss) arising on:			
- Investment securities	(4)	(4)	(18)
- Derivative financial instruments	2,322	3,232	10,207
- Hedge ineffectiveness on cash flow hedging	-	23	379
- Advances to customers	(1,070)	(3,070)	(9,588)
Total net gain/(loss) from financial instruments designated at fair value	**1,248**	**181**	**980**

6. Funds with Financial Institutions

	Unaudited 3 Months 30/06/2010	Unaudited 3 Months 30/06/2009	Audited 12 Months 31/03/2010
Call funds	1,150	1,703	19,317
Registered certificates of deposit	-	-	31,943
Term deposits	2,282	75,708	12,820
Total funds with financial institutions	**3,432**	**77,411**	**64,080**
Funds with financial institutions were recorded as:			
At amortised cost	-	-	-
Designated as available for sale	3,432	77,411	64,080
Total funds with financial institutions	**3,432**	**77,411**	**64,080**

All in $000's

7. Investment Securities

	BANKING GROUP		
	Unaudited 30/06/2010	**Unaudited 30/06/2009**	**Audited 31/03/2010**
Managed funds	627	616	627
NZ government securities	1,038	1,058	1,058
Equity securities	747	1,037	718
Commercial paper	14,390	-	-
Local authority bonds	21,033	-	20,883
Bank bonds	20,647	-	20,467
Other bonds	7,694	-	3,729
Total investment securities	**66,176**	**2,711**	**47,482**
Investment securities were recorded as:			
At amortised cost	-	-	-
Designated as fair value through profit or loss	1,449	1,371	1,467
Designated as available for sale	64,727	1,340	46,015
Total investment securities	**66,176**	**2,711**	**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 out below.

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

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

Hedge accounting

Cash flow hedges

The Banking Group hedges the 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 30 June 2010 as a result of highly probable cash flows no longer expected to occur (30 June 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 hedging practices and accounting treatment are disclosed in the Statement of Accounting Policies.

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		
As at 30 June 2010 (Unaudited)	**Notional Principal**	**Fair Value Assets**	**Fair Value Liabilities**
Held for risk management - at fair value			
Interest rate related contracts			
Swaps	452,320	1,268	1,193
Options	118,000	-	2,635
Total held for risk management at fair value	**570,320**	**1,268**	**3,828**
Held for hedging - cash flow hedges			
Interest rate related contracts			
Swaps	504,500	8	6,565
Options	65,000	(185)	910
Total held for hedging	**569,500**	**(177)**	**7,475**
Total derivative financial instruments	**1,139,820**	**1,091**	**11,303**
As at 30 June 2009 (Unaudited)			
Held for risk management - at fair value			
Interest rate related contracts			
Swaps	788,185	1,495	3,189
Options	379,375	-	10,949
Total held for risk management at fair value	**1,167,560**	**1,495**	**14,138**
Held for hedging - cash flow hedges			
Interest rate related contracts			
Swaps	367,000	874	12,231
Options	90,000	-	4,460
Total held for hedging	**457,000**	**874**	**16,691**
Total derivative financial instruments	**1,624,560**	**2,369**	**30,829**
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**
		30/06/2010	**30/06/2009**	**31/03/2010**
Advances at fair value through profit or loss		203,450	440,725	250,129
Advances at amortised cost		2,266,141	2,005,049	2,231,236
Gross advances [1]		**2,469,591**	**2,445,774**	**2,481,365**
Less provisions for credit impairment	(10)	13,893	12,044	17,216
Less deferred fee revenue and expenses		3,903	5,154	4,060
Total net advances		**2,451,795**	**2,428,576**	**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 30 June 2010 the maximum credit exposure on these loans at fair value through the profit or loss was $203 million (30 June 2009 $441 million; 31 March 2010 $250 million). The Banking Group has $nil credit risk derivatives at 30 June 2010 (30 June 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 (30 June 2009 $nil; 31 March 2010 $30 million). The underlying collateral accepted by the RBNZ are residential advances to the value of $nil (30 June 2009 $nil; 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**
	30/06/2010	**30/06/2009**	**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	1,552	686	10,328
Balances written off during the period	(4,911)	(2,123)	(5,401)
Recoveries/reversals of previously recognised provision	(49)	(2)	(472)
Balance at end of the period	**9,102**	**6,616**	**12,510**
Collective provisions against advances and loans			
Balance at beginning of the period	4,706	4,743	4,743
Charged to income statement	85	685	(37)
Balance at end of the period	**4,791**	**5,428**	**4,706**
Total provisions for credit impairment	**13,893**	**12,044**	**17,216**

As at 30 June 2010, the Banking Group did not have any material restructured assets (30 June 2009 $nil, 31 March 2010, $nil). The Banking Group acquired assets under enforcement of security during the period of $3.5 million (30 June 2009 $nil; 31 March 2010 $nil). These assets are held as investment properties.

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

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

	BANKING GROUP		
	Unaudited	**Unaudited**	**Audited**
	30/06/2010	**30/06/2009**	**31/03/2010**
Bad debts written off during the period	6,798	3,756	11,309
Movement in individual provisions	(3,408)	(1,439)	4,455
Movement in collective provision	85	685	(37)
Provision for credit impairment to income statement	**3,475**	**3,002**	**15,727**

All in $000's

11. Asset Quality

	BANKING GROUP		
	Unaudited 30/06/2010	Unaudited 30/06/2009	Audited 31/03/2010
(a) Asset quality - advances to customers			
Neither past due or impaired	2,402,411	2,375,422	2,406,938
Individually impaired amount	20,167	19,946	29,907
Past due amount	43,110	45,252	40,460
Total provision for credit impairment	(13,893)	(12,044)	(17,216)
Total carrying amount	**2,451,795**	**2,428,576**	**2,460,089**
(b) Ageing of past due but not impaired assets			
Past due 0-29 days	15,560	29,773	15,097
Past due 30-59 days	5,910	6,628	4,724
Past due 60-89 days	4,883	2,173	4,172
Past due 90-119 days	2,079	1,031	2,596
Past due 120-365 days	14,678	5,647	13,871
Past due more than 1 year	-	-	-
Carrying amount	**43,110**	**45,252**	**40,460**
(c) 90 day past due assets			
Balance at beginning of the period	16,467	13,383	11,917
Additions to 90 day past due assets	3,216	2,942	16,310
Reductions to 90 day past due assets	(2,926)	(9,647)	(11,760)
Balance at end of the period	**16,757**	**6,678**	**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	2,807	2,341	17,898
Reductions to individually impaired assets	(12,547)	(4,243)	(8,319)
Transfers back to productive ledger	-	-	(1,520)
Balance at end of the period	**20,167**	**19,946**	**29,907**
Less: provision at end of the period	9,102	6,616	12,510
Net carrying amount at end of the period	**11,065**	**13,330**	**17,397**

Interest revenue foregone on impaired assets is the amount of interest income that would have been recorded had interest been accrued. This amounts to $27,755 for the period ending 30 June 2010 (30 June 2009 $78,000; 31 March 2010 $102,447).

All in $000's

12. Loan Securitisation

Mortgages assigned by SBS to the Lifestages Mortgage Portfolio unit trust during the period ended 30 June 2010 amounted to $nil (30 June 2009 $nil; 31 March 2010 $nil). SBS retains the majority of the risks and rewards of ownership and accordingly it is appropriate to record these securitised assets within the statement of financial position.

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

Mortgages assigned by SBS to the SBS Invercargill W Trust during the period ended 30 June 2010 amounted to $nil (30 June 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 30 June 2010 amounted to $nil (30 June 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.

Mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No.1 during the period ended 30 June 2010 amounted to $nil (30 June 2009 $nil; 31 March 2010 $nil). SBS does not guarantee the payment of interest or the repayment of principal due on the securities. SBS is not obliged to support any losses that may be suffered by investors.

Securitised loan balances		**BANKING GROUP**	
	Unaudited	**Unaudited**	**Audited**
	30/06/2010	**30/06/2009**	**31/03/2010**
Lifestages Mortgage Portfolio	48,880	64,765	53,802
SBS Invercargill W Trust	-	-	-
SBS Oreti Trust No. 1	68,382	87,439	71,720
SBS Oreti Trust No. 2	232,258	112,649	241,955
	349,520	**264,853**	**367,477**

13. Investments in Subsidiaries

Significant subsidiaries:		**Percentage Held**		**Balance Date**	**Nature of Business**
	30/06/2010	**30/06/2009**	**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 30/06/2010	**Unaudited 30/06/2009**	**Audited 31/03/2010**
SBS Premier Bond	60,864	56,606	59,307
	60,864	**56,606**	**59,307**

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

At 30 June 2010 $49.12 million of subordinated redeemable shares qualify as lower tier 2 capital for Reserve Bank of New Zealand capital adequacy purposes (30 June 2009 $56.11 million ; 31 March 2010 $50.44 million).

15. Equity

	BANKING GROUP		
	Unaudited 30/06/2010	**Unaudited 30/06/2009**	**Audited 31/03/2010**
Capital reserve	73	73	73
Revaluation reserve - property, plant and equipment	1,180	1,195	1,153
Revaluation reserve - available for sale assets	369	(80)	(58)
Revaluation reserve - cash flow hedging	(4,078)	(9,087)	(3,322)
Retained earnings	175,335	164,609	174,155
	172,879	156,710	172,001
Minority interests	5,909	4,509	5,663
Total equity	**178,788**	**161,219**	**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	27	-	44
Transfer to income statement	-	-	(200)
Net movement for the period	27	-	(42)
Balance at end of the period	**1,180**	**1,195**	**1,153**

All in $000's

15. Equity (continued)

	BANKING GROUP		
	Unaudited 30/06/2010	Unaudited 30/06/2009	Audited 31/03/2010
Revaluation reserve - available for sale assets			
Balance at beginning of the period	(58)	(75)	(75)
Net gains/(losses) from changes in fair value	589	(7)	46
Current/deferred tax on changes in fair value	(167)	2	(24)
Minority interests share of net gains/(losses) from changes in fair value	10	-	(10)
Minority interests share of current/deferred tax in fair value	(5)	-	5
Net movement for the period	427	(5)	17
Balance at end of the period	**369**	**(80)**	**(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	(1,052)	3,174	11,331
Deferred tax on changes in fair value	208	(952)	(3,399)
Minority interests share of net gains/(losses) from changes in fair value	120	-	79
Minority interests share of current/deferred tax in fair value	(32)	-	(24)
Net movement for the period	(756)	2,222	7,987
Balance at end of the period	**(4,078)**	**(9,087)**	**(3,322)**
Retained earnings			
Balance at beginning of the period	174,155	161,432	161,432
Add net surplus for the period	1,623	3,614	15,037
Less minorities' interests	(443)	(437)	(2,314)
Balance at end of the period	**175,335**	**164,609**	**174,155**

16. Reconciliation of Net Surplus to Net Operating Cash Flows

Net surplus for period	1,623	3,614	15,037
Add/(less) non cash items			
Depreciation and amortisation	689	508	2,349
Provision for credit impairment	3,475	3,002	15,727
Write off property, plant and equipment	-	5	42
Building revaluations	-	-	(200)
Actuarial life adjustment	140	148	564
Dividend provision - minority interest	471	113	(359)
Deferred fee revenue and expenses	(157)	(660)	(1,753)
Derivatives fair value adjustment	(2,322)	(3,255)	(10,586)
Advances fair value adjustment	1,070	3,070	9,588
Investment securities fair value adjustment	4	4	18
Interest free loans fair value adjustment	(3)	(119)	(130)
Net deferred tax assets	3,463	1,407	(269)
	6,830	**4,223**	**14,991**

All in $000's

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

	BANKING GROUP		
	Unaudited 3 Months 30/06/2010	**Unaudited 3 Months 30/06/2009**	**Audited 12 Months 31/03/2010**
Deferral or accruals of past or future operating cash receipts or payments			
Increase/(decrease) in income tax payable/receivable	1,152	(2,871)	(2,233)
Decrease/(increase) in sundry debtors	(905)	2,453	3,349
Decrease in sundry creditors	(545)	(4,814)	(4,142)
Decrease/(increase) in accruals relating to interest receivable	(107)	1,910	633
Decrease in accruals relating to accrued interest and dividends payable to customers	(334)	(1,690)	(5,593)
Increase/(decrease) in accruals relating to accrued interest payable to financial institutions	(13)	(2)	15
Decrease/(increase) in net advances	3,377	(30,735)	(80,391)
Increase/(decrease) in shares and deposits	(40,361)	26,172	134,510
Decrease in other borrowings	(8,388)	(16,448)	(45,237)
Increase in subordinated redeemable shares	1,521	14,206	16,920
Net increase/(decrease) in cash held on behalf of Lifestages Mortgage Portfolio	1,874	5,107	(9,845)
	(42,729)	**(6,712)**	**7,986**
Items classified as cash			
Decrease in accruals relating to funds with financial institutions	80	351	384
Net cash flows from operating activities	**(34,196)**	**1,476**	**38,398**

17. Analysis of Borrowings

Redeemable shares			
Call	262,230	266,028	272,505
Term	1,707,766	1,623,014	1,699,503
Total redeemable shares	**1,969,996**	**1,889,042**	**1,972,008**
Deposits from customers			
Call	56,086	73,681	55,380
Term	160,746	164,888	174,671
Total deposits from customers	**216,832**	**238,569**	**230,051**
Due to other financial institutions			
Call	4,504	-	-
Term[1]	-	-	30,017
Total due to other financial institutions	**4,504**	**-**	**30,017**
Subordinated redeemable shares			
Call	-	-	-
Term	60,864	56,606	59,307
Total subordinated redeemable shares	**60,864**	**56,606**	**59,307**
	2,252,196	**2,184,217**	**2,291,383**

[1] Due to other financial institutions includes $nil (30 June 2009 $nil; 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 (30 June 2009 $nil; 31 March 2010 $36 million).

All in $000's

18. Contingent Liabilities and Credit Related Commitments

	BANKING GROUP					
	Unaudited Contract or Notional Amt 30/06/2010	**Unaudited Credit Equivalent 30/06/2010**	**Unaudited Contract or Notional Amt 30/06/2009**	**Unaudited Credit Equivalent 30/06/2009**	**Audited Contract or Notional Amt 31/03/2010**	**Audited Credit Equivalent 31/03/2010**
Contingent liabilities						
Lifestages Superannuation Scheme	-	-	142	142	-	-
Commitments						
Commitments with uncertain drawdown	15,603	7,802	28,580	14,290	23,934	11,967
Commitments to extend credit which can be unconditionally cancelled	178,701	-	223,044	-	181,270	-
Total contingent liabilities and credit related commitments	**194,304**	**7,802**	**251,766**	**14,432**	**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 30 June 2010 the amount guaranteed by SBS was $nil (30 June 2009 $142,000; 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.

19. Commitments

	BANKING GROUP		
Lease commitments	**Unaudited 30/06/2010**	**Unaudited 30/06/2009**	**Audited 31/03/2010**
Lease commitments payable after balance date:			
0-12 Months	1,748	1,821	1,807
12-24 Months	1,264	1,386	1,295
24-60 Months	2,142	1,609	1,844
>60 Months	675	388	669
	5,829	**5,204**	**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.

All in $000's

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 commited but undrawn funding lines. As at 30 June 2010, the Banking Group had total committed funding lines with other registered banks of $125 million (30 June 2009 $250 million; 31 March 2010 $160 million). Of these facilities $4.5 million were drawn down at 30 June 2010 (30 June 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.

Core liquid assets	Unaudited 30/06/2010	Unaudited 30/06/2009	Audited 31/03/2010
Cash on hand and at bank	28,963	22,344	26,504
Funds with financial institutions	3,432	77,411	64,080
Investment securities	66,176	2,711	47,482
Committed and undrawn funding lines	120,500	250,000	160,000
Eligible RMBS collateral (less haircut[1])	184,236	90,508	162,434
Total liquidity	**403,307**	**442,974**	**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.

All in $000's

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% (30 June 2009 69%; 31 March 2010 70%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 16% (30 June 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.

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 %	**30/06/2010**	**30/06/2009**	**31/03/2010**	**30/06/2010**	**30/06/2009**	**31/03/2010**
10-19	-	-	-	-	1	-
20-29	-	-	-	-	-	2
30-39	-	-	-	-	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 %	**30/06/2010**	**30/06/2009**	**31/03/2010**	**30/06/2010**	**30/06/2009**	**31/03/2010**
10-19	-	-	-	-	-	-
20-29	-	-	-	1	-	1
30-39	-	-	-	1	2	-
40-49	-	-	-	-	-	-
50-59	-	-	-	-	-	1

All in $000's

21. Credit Risk Exposure (continued)

(b) Credit exposures by credit rating

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

	BANKING GROUP					
	Amount	% of total credit exposure	Amount	% of total credit exposure	Amount	% of total credit exposure
	Unaudited 30/06/2010	Unaudited 30/06/2010	Unaudited 30/06/2009	Unaudited 30/06/2009	Audited 31/03/2010	Audited 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	-	0%	79,672	100%	84,283	100%
Below investment grade credit rating	-	0%	-	0%	-	0%
Not rated	-	0%	-	0%	-	0%
Total bank exposures	-	0%	79,672	100%	84,283	100%

(c) Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature). The Banking Group does not have credit exposures to connected persons other than non-bank connected persons. Peak end of day credit exposures to non-bank connected persons have been calculated using the Banking Group's tier one capital at the end of the period. The rating-contingent limit, which is applicable to the Banking Group, based on the Conditions of Registration imposed by the RBNZ is 15%. There have been no rating-contingent limit changes during the last quarter. Within the rating-contingent limit there is a sub-limit of 15%, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Banking Group's Conditions of Registration have been complied with at all times over the last quarter. There are no individual credit impairment allowances against credit exposures to non-bank connected persons as at 30 June 2010 (30 June 2009: nil, 31 March 2010: nil).

	BANKING GROUP		
	Unaudited 30/06/2010	Unaudited 30/06/2009	Audited 31/03/2010
Credit exposures to non-bank connected persons at period end	984	630	997
Credit exposures to non-bank connected persons at period end expressed as a percentage of total tier one capital	0.56%	0.38%	0.56%
Peak credit exposures to non-bank connected persons during the quarter	1,002	703	1,008
Peak credit exposures to non-bank connected persons during the quarter expressed as a percentage of total tier one capital	0.57%	0.42%	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

SBS Bank

22. Capital Adequacy (continued)

	BANKING GROUP			REGISTERED BANK		
	Unaudited 30/06/2010	Unaudited 30/06/2009	Audited 31/03/2010	Unaudited 30/06/2010	Unaudited 30/06/2009	Audited 31/03/2010
Regulatory capital ratios						
Tier one capital expressed as a percentage of total risk weighted exposures	10.40%	9.99%	10.34%	10.02%	10.01%	10.08%
Capital expressed as a percentage of total risk weighted exposures	13.45%	13.43%	13.35%	12.51%	13.11%	12.61%
(i) Qualifying capital						
Tier one capital						
Retained earnings	174,155	161,432	161,432	168,286	156,985	156,986
Current period's audited retained earnings	-	-	12,723	-	-	11,298
Revenue and similar reserves	73	73	73	73	73	73
Cash flow hedging reserve	(4,078)	(9,087)	(3,322)	(3,719)	(9,087)	(3,182)
Minority interests	5,909	4,508	5,663	-	-	-
Less deductions from tier one capital						
Intangible assets	(3,176)	(2,927)	(3,094)	(1,625)	(1,580)	(1,686)
Cash flow hedging reserve	4,078	9,087	3,322	3,719	9,087	3,182
Total tier one capital	**176,961**	**163,086**	**176,797**	**166,734**	**155,478**	**166,671**
Tier two capital						
Upper tier two capital						
Current period's unaudited retained earnings	1,180	3,177	-	402	3,177	-
Revaluation reserves	1,549	1,115	1,095	1,626	1,196	1,152
Total upper tier two capital	2,729	4,292	1,095	2,028	4,373	1,152
Lower tier two capital						
Subordinated redeemable shares	49,121	56,109	50,442	49,121	56,109	50,442
Total lower tier two capital	49,121	56,109	50,442	49,121	56,109	50,442
Total tier two capital	**51,850**	**60,401**	**51,537**	**51,149**	**60,482**	**51,594**
Total tier one and tier two capital	**228,811**	**223,487**	**228,334**	**217,883**	**215,960**	**218,265**
Less deductions from capital	-	-	-	(9,756)	(8,027)	(9,756)
Total capital	**228,811**	**223,487**	**228,334**	**208,127**	**207,933**	**208,509**

All in $000's

22. Capital Adequacy (continued)

(ii) Total risk weighted exposures

BANKING GROUP

	Total Exposure after Credit Risk Mitigation Unaudited 30/06/2010	Risk Weighting 30/06/2010	Risk Weighted Exposure Unaudited 30/06/2010	Minimum Pillar One Capital Requirement Unaudited 30/06/2010
On balance sheet exposures				
Cash	475	0%	-	-
Sovereigns and central banks	1,038	0%	-	-
Public sector entities	21,033	20%	4,207	337
Banks	52,569	20%	10,514	841
Corporates	22,083	20%	4,417	353
Residential mortgages < 80% loan to value ratio (LVR)	1,317,541	35%	461,139	36,891
Residential mortgages 80 < 90% LVR	77,495	50%	38,748	3,100
Residential mortgages 90 < 100% LVR	71,703	75%	53,777	4,302
Residential mortgages welcome home loans	240,153	50%	120,077	9,606
Past due residential mortgages	2,741	100%	2,741	219
Impaired residential mortgages	1,775	100%	1,775	142
Equity holdings	746	300%	2,238	179
Other assets	772,388	100%	772,388	61,791
Non-risk weighted assets	(524)	0%	-	-
Total on balance sheet exposures	2,581,216		1,472,021	117,761

	Total Exposure after Credit Risk Mitigation Unaudited 30/06/2010	Credit Conversion Factor Unaudited 30/06/2010	Credit Equivalent Amount Unaudited 30/06/2010	Average Risk Weighting Unaudited 30/06/2010	Risk Weighted Exposure / Implied Risk Weighted Exposure Unaudited 30/06/2010	Minimum Pillar One Capital Requirement Unaudited 30/06/2010
Off balance sheet exposures						
Commitments with uncertain drawdown	15,603	50%	7,802	65%	5,078	406
Commitments to extend credit which can be unconditionally cancelled	178,701	0%	-	0%	-	-
Market related contracts [1]						
Interest rate contracts	1,139,820	n/a	5,356	20%	1,071	86
Total off balance sheet exposures	1,334,124		13,158		6,149	492
Total credit risk	3,915,340		13,158		1,478,170	118,253
Operational risk	n/a	-	-		170,633	13,651
Market risk	n/a	-	-		52,183	4,175
Total risk weighted exposure	3,915,340	-	-		1,700,986	136,079

[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
	30/06/2009	30/06/2009	30/06/2009	30/06/2009
On balance sheet exposures				
Cash	387	0%	-	-
Sovereigns and central banks	1,058	0%	-	-
Banks	99,166	20%	19,833	1,587
Corporate	202	100%	202	16
Residential mortgages < 80% loan to value ratio (LVR)	1,357,448	35%	475,107	38,009
Residential mortgages 80 < 90% LVR	68,294	50%	34,147	2,732
Residential mortgages 90 < 100% LVR	45,444	75%	34,083	2,727
Residential mortgages welcome home loans	199,844	50%	99,922	7,994
Past due residential mortgages	1,072	100%	1,072	86
Impaired residential mortgages	5,617	100%	5,617	449
Equity holdings	633	300%	1,899	152
Equity holdings	404	400%	1,616	129
Other assets	785,395	100%	785,395	62,832
Non-risk weighted assets	(132)	0%	-	-
Total on balance sheet exposures	2,564,832		1,458,893	116,713

	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
	30/06/2009	30/06/2009	30/06/2009	30/06/2009	30/06/2009	30/06/2009
Off balance sheet exposures						
Commitments with uncertain drawdown	28,580	50%	14,290	65%	9,356	748
Commitments to extend credit which can be unconditionally cancelled	223,044	0%	-	0%	-	-
Market related contracts [1]						
Interest rate contracts	1,624,560	n/a	3,722	20%	744	60
Total off balance sheet exposures	1,876,184		18,012		10,100	808
Total credit risk	4,441,016		18,012		1,468,993	117,521
Operational risk	n/a	-	-		166,311	13,305
Market risk	n/a	-	-		28,955	2,316
Total risk weighted exposure	4,441,016	-	-		1,664,259	133,142

[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 30/06/2010	Unaudited 30/06/2009	Audited 31/03/2010
LVR range			
0 - 80%	1,321,597	1,363,619	1,317,910
80 - 90%	77,734	68,605	74,833
90% +	312,077	245,495	322,419

Welcome Home Loans make up 77% 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 30/06/2010	Unaudited 30/06/2009	Audited 31/03/2010	Unaudited 30/06/2010	Unaudited 30/06/2009	Audited 31/03/2010
Interest rate exposures						
Implied risk weighted exposure	52,183	28,955	41,008	60,514	39,813	41,513
Aggregate capital charge	4,175	2,316	3,281	4,841	3,185	3,321
Aggregate capital charge expressed as a percentage of the Banking Group's equity	2.34%	1.44%	1.85%	2.71%	1.98%	1.87%

23. Interest Earning Assets and Interest Bearing Liabilities

	BANKING GROUP		
	Unaudited 30/06/2010	Unaudited 30/06/2009	Audited 31/03/2010
Total interest earning and discount bearing assets	2,550,366	2,531,042	2,598,155
Total interest and discount bearing liabilities	2,372,382	2,341,580	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.

	30/06/2010 Unaudited	30/06/2009 Unaudited	31/03/2010 Audited
Funds under management on behalf of customers	295,700	278,800	298,300

Securitised assets

As at 30 June 2010, the Banking Group had securitised assets amounting to $350 million (30 June 2009 $265 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 it's subsidiary Southsure Assurance Limited. The Banking Group derives commission income from the sale of insurance products.

The total assets of Southsure Assurance Limited as at 30 June 2010 are $7.9 million (30 June 2009 $6.9 million; 31 March 2010 $8.2 million) which is 0.3% of the total assets of the Banking Group (30 June 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.

25. Hastings Building Society Merger

On 10 June 2010, Southland Building Society reached a heads of agreement with Hastings Building Society (HBS) to persue a merger. Both Boards of Directors are in unanimous support.

Qualifying HBS members will vote on proceeding with the merger at an extraordinary meeting scheduled for 31 August 2010. The target date for the merger, assuming the HBS meeting affirms this decision, will be on or about 1 October 2010.

26. Subsequent Events

There have been no material subsequent events after 30 June 2010.

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

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)

Registered Office
51 Don Street, Invercargill

Solicitors
Buddle Findlay, 78 Worcester Street, Christchurch
Cruickshank Pryde, 42 Don Street, Invercargill

Auditors
KPMG, 10 Customhouse Quay, Wellington

Invercargill - *Head Office*
51 Don Street
PO Box 835
Invercargill
Telephone: 03 211 0700
Fax: 03 211 0793

North Invercargill
54 Windsor Street
Telephone: 03 211 0745
Fax: 03 217 7933

Gore
80 Main Street
PO Box 212
Telephone: 03 209 0080
Fax: 03 209 0077

Dunedin
Cnr George & Hanover Streets
PO Box 5492
Telephone: 03 477 5100
Fax: 03 471 4439

Queenstown
7 Shotover Street
PO Box 710
Telephone: 03 441 0033
Fax: 03 441 0279

Cromwell
21 The Mall
PO Box 226
Telephone: 03 445 0672
Fax: 03 445 0697

Timaru
235 Stafford Street
PO Box 844
Telephone: 03 684 9536
Fax: 03 688 4598

Christchurch - *Manchester Street*
180 Manchester Street
PO Box 13801
Telephone: 03 962 5900
Fax: 03 962 5905

Christchurch - *Ferrymead*
23 Humphreys Drive
PO Box 19835
Telephone: 03 376 6198
Fax: 03 376 6298

Christchurch - *Riccarton*
109 Riccarton Road
PO Box 80058
Telephone: 03 982 5700
Fax: 03 982 5706

Christchurch - *Papanui*
2-6 Main North Road
PO Box 5038
Telephone: 03 375 0840
Fax: 03 375 0841

Nelson
126 Trafalgar Street
PO Box 211
Telephone: 03 548 9200
Fax: 03 545 9839

Blenheim
76 Market Street
PO Box 1188
Telephone 03 579 5293
Fax: 03 579 5249

Hamilton
Cnr Victoria & Bryce Streets
PO Box 19222
Telephone: 07 957 6350
Fax: 07 957 6351

Tauranga
Cnr Elizabeth Street & Devonport Road
PO Box 13020
Telephone: 07 578 9217
Fax: 07 578 9219

Agribusiness - *Invercargill*
66 Don Street
PO Box 835
Telephone: 0800 502 442
Fax: 0508 526 363