Southland Building Society

Disclosure Statement

For the six months ended 30 September 2011

Number 14 Issued November 2011

Contents

General Information

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

This Disclosure Statement has been issued by Southland Building Society in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 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 Registered 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 Registered 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 30 September 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.

Auditors

KPMG
10 Customhouse Quay
Wellington

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 30 September 2011.

The changes made were:

- Condition 3 has been updated to incorporate a new definition of insurance business based on sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010. This change is not intended to alter the purpose of the condition.

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 3) 2011; and
   (b) the Disclosure Statement is not false or misleading.

2. Each director of the Bank believes, after due enquiry, that during the six months ended 30 September 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 23rd November 2011 and has been signed by or on behalf of all the directors.

JWA Smith
(Chairman)

JF Ward
(Deputy Chairman)

RL Smith
(Group Managing Director /
Chief Executive Officer)

KJ Ball

JB Walker

GJ Mulvey

JJ Grant

FE Spencer

Southland Building Society
Income Statement for the six months ended 30 September 2011
All in $000's

	BANKING GROUP		
	Unaudited 6 Months 30/09/2011	Unaudited 6 Months 30/09/2010	Audited 12 Months 31/03/2011
Interest income	93,012	85,449	182,286
Interest expense	7,378	7,682	16,037
Dividends on redeemable shares	52,391	48,322	102,565
	59,769	56,004	118,602
Net interest income	**33,243**	**29,445**	**63,684**
Other income	8,888	9,242	18,235
Total operating income	**42,131**	**38,687**	**81,919**
Operating expenses	25,602	24,026	47,554
Provision for credit impairment	7,955	5,665	17,057
Operating surplus	**8,574**	**8,996**	**17,308**
Net gain/(loss) from financial instruments designated at fair value	105	3,524	5,117
Revaluation of investment properties	-	-	(88)
Surplus before income tax	**8,679**	**12,520**	**22,337**
Income tax expense	2,607	5,536	8,087
Net surplus	**6,072**	**6,984**	**14,250**
Attributable to:			
Members' interests	4,985	6,034	11,761
Non-controlling interests	1,087	950	2,489
	6,072	**6,984**	**14,250**

Southland Building Society
Statement of Comprehensive Income for the six months ended 30 September 2011
All in $000's

	BANKING GROUP		
	Unaudited 6 Months 30/09/2011	Unaudited 6 Months 30/09/2010	Audited 12 Months 31/03/2011
Net surplus for the period	6,072	6,984	14,250
Other comprehensive income			
Net change in property, plant and equipment reserve, net of tax	-	27	(355)
Net change in available for sale asset reserve, net of tax	1,565	396	1,298
Net change in cash flow hedging reserve, net of tax	441	(3,383)	(4,796)
Other comprehensive income for the period, net of tax	2,006	(2,960)	(3,853)
Total comprehensive income for the period	**8,078**	**4,024**	**10,397**
Attributable to:			
Members' interests	6,913	3,285	8,163
Non-controlling interests	1,165	739	2,234
	8,078	**4,024**	**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 six months ended 30 September 2011

All in $000's

	BANKING GROUP		
	Unaudited 6 Months 30/09/2011	Unaudited 6 Months 30/09/2010	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	-	27	(355)
Balance at end of the period	798	1,180	798
Revaluation reserve - available for sale assets			
Balance at beginning of the period	1,236	(58)	(58)
Other comprehensive income for the period	1,565	397	1,294
Balance at end of the period	2,801	339	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	363	(3,174)	(4,537)
Balance at end of the period	(7,496)	(6,496)	(7,859)
Retained earnings			
Balance at beginning of the period	201,374	174,155	174,155
Net surplus for the period	4,985	6,034	11,761
Acquired on merger	-	-	15,458
Balance at end of the period	206,359	180,189	201,374
Total equity attributable to member's interests	**202,535**	**175,285**	**195,622**
Non-controlling interests			
Balance at beginning of the period	6,418	5,663	5,663
Net surplus for the period	1,087	950	2,489
Other comprehensive income for the period	78	(210)	(255)
Dividends	(975)	(332)	(1,479)
Balance at end of the period	6,608	6,071	6,418
Total equity at end of the period	**209,143**	**181,356**	**202,040**
Represented by:			
Equity at beginning of the period	202,040	177,664	177,664
Net surplus for the period	6,072	6,984	14,250
Other comprehensive income for the period	2,006	(2,960)	(3,853)
Total comprehensive income for the period	8,078	4,024	10,397
Dividends	(975)	(332)	(1,479)
Acquired on merger	-	-	15,458
Total equity at end of the period	**209,143**	**181,356**	**202,040**

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

Southland Building Society

Statement of Financial Position as at 30 September 2011

All in $000's

	Note	BANKING GROUP Unaudited 30/09/2011	Unaudited 30/09/2010	Audited 31/03/2011
Assets				
Cash on hand and at bank		20,088	23,941	22,211
Funds with financial institutions		105,005	5,362	48,805
Investment securities		165,690	49,197	120,228
Derivative financial instruments		2,653	1,448	2,662
Current tax assets		-	1,613	287
Advances to customers	(3)	2,520,736	2,459,163	2,584,656
Other assets		2,274	2,116	2,508
Investment properties		3,391	3,479	3,391
Property, plant and equipment		19,517	17,549	18,930
Intangible assets		2,339	3,189	2,674
Deferred tax		7,950	5,246	7,481
		2,849,643	**2,572,303**	**2,813,833**
Liabilities				
Bank overdraft		-	1,884	-
Redeemable shares		2,212,190	1,931,732	2,169,465
Deposits from customers		248,824	251,364	240,546
Due to other financial institutions		-	-	-
Derivative financial instruments		12,903	12,111	13,429
Current tax liabilities		408	-	-
Other borrowings		87,670	114,951	107,096
Other liabilities		17,254	17,654	20,025
Subordinated redeemable shares		61,251	61,251	61,232
		2,640,500	**2,390,947**	**2,611,793**
Net assets		**209,143**	**181,356**	**202,040**
Equity				
Reserves		(3,824)	(4,904)	(5,752)
Retained earnings		206,359	180,189	201,374
Attributable to members of the society		202,535	175,285	195,622
Attributable to non-controlling interests		6,608	6,071	6,418
		209,143	**181,356**	**202,040**
Total interest earning and discount bearing assets		2,811,519	2,537,663	2,775,900
Total interest and discount bearing liabilities		2,609,935	2,361,182	2,578,339

For and on behalf of the Board of Directors:

Chairman
JWA Smith

Deputy Chairman
JF Ward

23 November 2011

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

Southland Building Society

Statement of Cash Flows for the six months ended 30 September 2011

All in $000's

	BANKING GROUP		
	Unaudited 6 Months 30/09/2011	**Unaudited 6 Months 30/09/2010**	**Audited 12 Months 31/03/2011**
Cash flows from operating activities			
Interest and dividends received	92,114	81,683	174,437
Interest and dividends paid	(58,517)	(57,224)	(119,287)
Other cash inflows provided by operating activities	10,194	12,130	23,864
Other cash outflows used in operating activities	(29,811)	(27,315)	(53,314)
Net cash flows from operating activities before changes in operating assets and liabilities	13,980	9,274	25,700
Net changes in operating assets and liabilities	85,741	(63,778)	(365)
Net cash flows provided by/(used in) operating activities	**99,721**	**(54,504)**	**25,335**
Cash flows from investing activities			
Cash inflows provided by investing activities	52	46	46
Cash outflows used in investing activities	(45,257)	(7,790)	(77,625)
Net cash flows provided by/(used in) investing activities	**(45,205)**	**(7,744)**	**(77,579)**
Cash flows from financing activities			
Cash inflows provided by financing activities	-	-	-
Cash outflows used in financing activities	(1,123)	(803)	(946)
Net cash flows provided by/(used in) financing activities	**(1,123)**	**(803)**	**(946)**
Net increase/(decrease) in cash held	53,393	(63,051)	(53,190)
Add opening cash and cash equivalents	70,853	90,460	90,460
Add opening cash and cash equivalents on merger	-	-	33,583
Closing cash and cash equivalents	**124,246**	**27,409**	**70,853**
Reconciliation of cash and cash equivalents			
Cash on hand and at bank	20,088	22,057	22,211
Funds with financial institutions	105,005	5,362	48,805
Interest accrued on available for sale assets	(847)	(10)	(163)
	124,246	**27,409**	**70,853**
Reconciliation of net surplus to net operating cash flows			
Net surplus for period	6,072	6,984	14,250
Non-cash items	8,367	7,145	15,577
Deferral or accruals of past or future operating cash receipts or payments	85,966	(68,747)	(4,726)
Items classified as cash	(684)	114	234
Net cash flows from operating activities	**99,721**	**(54,504)**	**25,335**

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

All in $000's

1. Significant 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 3) 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 23 November 2011.

(b) Comparatives

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

(c) Changes in Accounting Policies

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

2. Risk Management Policies

There has been no material change in the Banking Group's policies for managing risk, or material exposures to any new types of risk since the authorisation date of the previous Disclosure Statement on 24 August 2011.

3. Advances to Customers

	BANKING GROUP		
	Unaudited 30/09/2011	**Unaudited 30/09/2010**	**Audited 31/03/2011**
Residential	1,786,401	1,719,350	1,819,747
Agricultural	412,107	414,433	417,468
Commercial	241,400	231,830	258,753
Consumer	107,705	109,713	113,389
Gross advances	**2,547,613**	**2,475,326**	**2,609,357**
Provisions for credit impairment	(24,341)	(12,802)	(21,708)
Deferred fee revenue and expenses	(2,536)	(3,361)	(2,993)
Total net advances	**2,520,736**	**2,459,163**	**2,584,656**

As at 30 September 2011, $36 million of advances to customers are designated at fair value through profit or loss (30 September 2010 $148 million; 31 March 2011 $51 million). There have been no changes in the fair value recognised on these advances on account of credit risk.

All in $000's

4. Asset Quality and Provisions for Credit Impairment

Balances as at 30 September 2011 (Unaudited)

(a) Asset quality - advances to customers	BANKING GROUP Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Neither past due or impaired	1,759,977	100,344	602,819	**2,463,140**
Individually impaired	2,568	-	36,710	**39,278**
Past due	23,397	6,276	12,986	**42,659**
Provision for credit impairment	(4,980)	(3,595)	(15,766)	**(24,341)**
Carrying amount	**1,780,962**	**103,025**	**636,749**	**2,520,736**

- Residential mortgages comprise advances to individuals and corporates which are secured against residential properties. It includes investments in residential property as well as owner-occupied housing

- Retail exposures comprise consumer personal and consumer finance lending

- Corporate exposures comprise primarily advances to individuals, corporates or small to medium enterprises which are secured against commercial or agricultural properties

(b) Ageing of past due but not impaired assets	BANKING GROUP Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Past due 0-29 days	15,648	4,467	3,497	**23,612**
Past due 30-59 days	2,748	1,053	2,435	**6,236**
Past due 60-89 days	1,933	509	1,449	**3,891**
Past due 90+	3,068	247	5,605	**8,920**
Carrying amount	**23,397**	**6,276**	**12,986**	**42,659**
(c) Impaired assets				
Balance at beginning of the period	5,915	-	32,427	**38,342**
Additions to individually impaired assets	772	-	7,238	**8,010**
Reductions to individually impaired assets	(4,119)	-	(2,955)	**(7,074)**
Transfers back to productive ledger	-	-	-	**-**
Balance at end of the period	**2,568**	**-**	**36,710**	39,278
Provision at end of the period	(1,180)	-	(14,156)	**(15,336)**
Net carrying amount at end of the period	**1,388**	**-**	**22,554**	**23,942**
Undrawn balances on individually impaired lending commitments	-	-	-	-
(d) Provision for credit impairment				
Individual provisions against advances and loans				
Balance at beginning of the period	2,469	-	10,211	**12,680**
New provisions during the period	450	-	5,157	**5,607**
Balances written off during the period	(1,739)	-	(1,212)	**(2,951)**
Recoveries/reversals of previously recognised provision	-	-	-	**-**
Balance at end of the period	**1,180**	**-**	**14,156**	**15,336**
Collective provisions against advances and loans				
Balance at beginning of the period	3,800	3,591	1,637	**9,028**
Charged to income statement	-	4	(27)	**(23)**
Balance at end of the period	**3,800**	**3,595**	**1,610**	**9,005**
Total provisions for credit impairment	**4,980**	**3,595**	**15,766**	**24,341**

All in $000's

4. Asset Quality and Provisions for Credit Impairment (continued)

The following provides a reconciliation of the movements in provisions for credit impairment reported in the income statement:	BANKING GROUP Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Bad debts written off during the period	102	1,863	406	**2,371**
Movement in individual provisions	450	-	5,157	**5,607**
Movement in collective provision	-	4	(27)	**(23)**
Provision for credit impairment to income statement	**552**	**1,867**	**5,536**	**7,955**

(e) Other assets under administration

There are no other assets under administration as at 30 September 2011.

5. Contingent Liabilities and Credit Related Commitments

	BANKING GROUP					
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**	**Audited**	**Audited**
	Contract or Notional Amt 30/09/2011	**Credit Equivalent 30/09/2011**	**Contract or Notional Amt 30/09/2010**	**Credit Equivalent 30/09/2010**	**Contract or Notional Amt 31/03/2011**	**Credit Equivalent 31/03/2011**
Credit related commitments						
Commitments with uncertain drawdown	14,388	7,194	21,712	10,856	21,994	10,997
Commitments to extend credit which can be unconditionally cancelled	173,511	-	174,274	-	177,852	-
Total credit related commitments	**187,899**	**7,194**	**195,986**	**10,856**	**199,846**	**10,997**

The Banking Group has no material contingent liabilities.

6. Related Parties

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

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

7. Liquidity Risk

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** **30/09/2011**
Cash on hand and at bank	20,088
Funds with financial institutions	105,005
Investment securities	165,690
Committed and undrawn funding lines	125,000
Eligible RMBS collateral (less haircut[1])	145,539
Total liquidity	**561,322**

[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

7. Liquidity Risk (continued)

The maturity profile below of financial assets and liabilities, derivatives and loan commitments show the cash flows receivable and payable and has been prepared on both a contractual and undiscounted maturity basis as at the reporting date.

The maturity profile has been created using a run-off scenario which assumes no further origination of assets or liabilities and reflects the remaining period to contractual maturity of financial assets and liabilities as at reporting date. This is not considered by the Banking Group to be in any way indicative of actual future cash flows. This is primarily because a significant proportion of the Banking Group's redeemable shares and deposits are renewed at maturity and therefore do not have a cash flow impact. Historical experience has shown that such balances are a stable source of funding for the Banking Group. The maturity profile has also been prepared on the basis of the agreed terms of the advance with the customer. However, SBS mortgages include a term giving SBS the ability to call mortgage advances which are repayable on demand, or repayable on three months notice of demand, at the Banking Group's discretion. While the Banking Group is not likely to call advances on demand the contractual maturity date is not indicative of future cash flows due to early repayments, further drawdowns and principal reductions.

Monetary assets receivable matched against liabilities payable as at 30 September 2011 (contractual cash flows including expected interest to maturity)

	BANKING GROUP						
	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	20,088	-	-	-	-	-	**20,088**
Funds with financial institutions	25,910	27,731	51,364	-	-	-	**105,005**
Investment securities	1,584	4,637	-	12,272	144,801	2,396	**165,690**
Advances to customers	19,872	149,345	111,776	147,400	194,310	1,898,033	**2,520,736**
Other assets	-	2,274	-	-	-	-	**2,274**
Total assets	**67,454**	**183,987**	**163,140**	**159,672**	**339,111**	**1,900,429**	**2,813,793**
Interest	1,033	22,782	72,619	277,197	601,359	718,549	**1,693,539**
Total assets (inclusive of interest)	**68,487**	**206,769**	**235,759**	**436,869**	**940,470**	**2,618,978**	**4,507,332**
Liabilities							
Redeemable shares	323,037	1,400,853	294,293	164,924	29,083	-	**2,212,190**
Deposits from customers	45,239	153,225	43,987	5,096	1,277	-	**248,824**
Current tax liabilities	-	408	-	-	-	-	**408**
Other borrowings	-	28,524	-	3,200	-	55,946	**87,670**
Other liabilities	-	9,480	-	-	-	-	**9,480**
Subordinated redeemable shares	-	-	-	-	61,251	-	**61,251**
Total liabilities	**368,276**	**1,592,490**	**338,280**	**173,220**	**91,611**	**55,946**	**2,619,823**
Interest	2,286	19,655	8,943	6,509	17,889	68,472	**123,754**
Total liabilities (inclusive of interest)	**370,562**	**1,612,145**	**347,223**	**179,729**	**109,500**	**124,418**	**2,743,577**
Derivatives							
Net derivative cash flows	-	(563)	(2,218)	(3,863)	(4,023)	-	**(10,667)**
Unrecognised loan commitments	14,388	-	-	-	-	-	**14,388**

All in $000's

8. Credit Risk

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 71% (30 September 2010 70%; 31 March 2011 70%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Agricultural loans which comprise 16% (30 September 2010 17%; 31 March 2011 16%) of the Banking Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

(a) The maximum exposures to credit risk at the relevant reporting dates are:

	BANKING GROUP Unaudited 30/09/2011
Cash on hand and at bank	20,088
Funds with financial institutions	105,005
Investment securities	165,690
Derivative financial instruments	2,653
Current tax assets	-
Advances to customers	2,520,736
Other assets	2,274
Total on-balance sheet credit exposures	**2,816,446**
(b) Concentrations of credit risk by sector	
Residential	1,563,324
Residential investing	217,638
Agricultural	405,168
Commercial finance	4,247
Commercial other	227,067
Consumer lending	103,025
Local authority	67,580
Corporate investments	226,123
Other	2,274
Total concentrations of credit risk by sector	**2,816,446**
(c) Concentrations of credit risk by geographical location	
North Island	853,424
Canterbury	650,476
Otago	575,919
Southland	524,149
South Island other	212,478
Total concentrations of credit risk by geographical location	**2,816,446**

(d) 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 30 September 2011.

All in $000's

9. Market Risk

Market risk is the risk that changes in market prices, such as interest rate, and credit spreads will affect the Banking Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Interest rate risk is the risk of loss to the Banking Group arising from adverse changes in interest rates. The Banking Group is exposed to interest rate risk in respect of its following activities: borrowing from and lending to customers, investing in physical money market instruments as well as derivatives such as interest rate contracts used for risk management purposes. Changes in interest rates can impact the Banking Group's financial results by affecting the spread earned on interest earning assets and interest paying liabilities and impacting on the market value of other financial instruments held.

The interest rate repricing schedule below reflects balance sheet financial assets and liabilities and has been prepared on the basis of the next repricing date.

As at 30 September 2011 (Unaudited)	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-Interest Bearing	Total
Assets							
Cash on hand and at bank	20,088	-	-	-	-	-	**20,088**
Funds with financial institutions	25,910	27,731	51,364	-	-	-	**105,005**
Investment securities	1,684	4,637	-	17,569	141,800	-	**165,690**
Derivative financial instruments	-	-	-	-	-	2,653	**2,653**
Advances to customers	1,819,673	25,701	275,211	264,369	135,782	-	**2,520,736**
Other assets	-	-	-	-	-	35,471	**35,471**
	1,867,355	58,069	326,575	281,938	277,582	38,124	**2,849,643**
Liabilities and equity							
Redeemable shares	323,037	1,400,853	294,293	164,924	29,083	-	**2,212,190**
Deposits from customers	45,239	153,225	43,987	5,096	1,277	-	**248,824**
Derivative financial instruments	-	-	-	-	-	12,903	**12,903**
Current tax liabilities	-	-	-	-	-	408	**408**
Other borrowings	-	87,670	-	-	-	-	**87,670**
Other liabilities	-	-	-	-	-	17,254	**17,254**
Subordinated redeemable shares	-	-	-	-	61,251	-	**61,251**
Equity	-	-	-	-	-	209,143	**209,143**
	368,276	1,641,748	338,280	170,020	91,611	239,708	**2,849,643**
On-balance sheet interest sensitivity gap	1,499,079	(1,583,679)	(11,705)	111,918	185,971	(201,584)	**-**
Net balance of derivative financial instruments	-	374,500	(184,000)	(88,000)	(102,500)	-	**-**
Total interest rate sensitivity gap	**1,499,079**	**(1,209,179)**	**(195,705)**	**23,918**	**83,471**	**(201,584)**	**-**

10. 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 the RBNZ's "Capital Adequacy Framework" document (BS2A). Tier one capital includes revenue and similar reserves, retained profits, non-controlling 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.

All in $000's

10. Capital Adequacy (continued)

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.

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

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

	BANKING GROUP			REGISTERED BANK		
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Audited
	30/09/2011	30/09/2010	31/03/2011	30/09/2011	30/09/2010	31/03/2011
Regulatory capital ratios						
Tier one capital expressed as a percentage of total risk weighted exposures	11.93%	10.68%	11.26%	11.33%	10.24%	10.57%
Capital expressed as a percentage of total risk weighted exposures	14.25%	13.66%	13.60%	13.13%	12.71%	12.38%

(i) Qualifying capital	**BANKING GROUP** Unaudited 30/09/2011
Tier one capital	
Retained earnings	201,374
Current period's retained earnings	4,985
Revenue and similar reserves	73
Cash flow hedging reserve	(7,496)
Non-controlling interests	6,608
Less deductions from tier one capital	
Intangible assets	(2,339)
Cash flow hedging reserve	7,496
Total tier one capital	**210,701**
Tier two capital	
Upper tier two capital	
Revaluation reserves	3,599
Total upper tier two capital	3,599
Lower tier two capital	
Subordinated redeemable shares	37,356
Total lower tier two capital	37,356
Total tier two capital	**40,955**
Total tier one and tier two capital	**251,656**
Less deductions from capital	-
Total capital	**251,656**

All in $000's

10. Capital Adequacy (continued)

(ii) Total risk weighted exposures

BANKING GROUP

	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	Unaudited	Unaudited	Unaudited	Unaudited
	30/09/2011	30/09/2011	30/09/2011	30/09/2011
On balance sheet exposures				
Cash	499	0%	-	-
Sovereigns and central banks	1,026	0%	-	-
Public sector entities	67,314	20%	13,463	1,077
Banks	191,069	20%	38,214	3,057
Corporates	29,615	20%	5,923	474
Residential mortgages < 80% loan to value ratio (LVR)	1,400,040	35%	490,014	39,201
Residential mortgages 80 < 90% LVR	55,317	50%	27,659	2,213
Residential mortgages 90 < 100% LVR	58,362	75%	43,772	3,502
Residential mortgages welcome home loans	262,074	50%	131,037	10,483
Past due residential mortgages	3,852	100%	3,852	308
Impaired residential mortgages	1,317	100%	1,317	105
Equity holdings	596	300%	1,788	143
Other assets	783,075	100%	783,075	62,646
Non-risk weighted assets	(4,513)	0%	-	-
Total on balance sheet exposures	2,849,643		1,540,114	123,209

	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
	30/09/2011	30/09/2011	30/09/2011	30/09/2011	30/09/2011	30/09/2011
Off balance sheet exposures						
Commitments with uncertain drawdown	14,388	50%	7,194	63%	4,541	363
Commitments to extend credit which can be unconditionally cancelled	173,511	0%	-	0%	-	-
Market related contracts[1]						
Interest rate contracts	1,068,710	n/a	5,523	20%	1,105	88
Total off balance sheet exposures	1,256,609		12,717		5,646	451
Total credit risk	4,106,252		12,717		1,545,760	123,660
Operational risk	n/a				176,651	14,132
Market risk	n/a				44,117	3,529
Total risk weighted exposure	4,106,252				1,766,528	141,321

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

All in $000's

10. Capital Adequacy (continued)

(iii) Residential mortgages by loan-to-valuation ratio

	BANKING GROUP Unaudited 30/09/2011
LVR range	
0 - 80%	1,404,821
80 - 90%	55,506
90% +	320,635

Welcome Home Loans make up 82% 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.

(iv) Market risk exposures

Market risk exposures have been calculated in accordance with the methodology detailed in Part 10 of the RBNZ's BS2A Capital Adequacy Framework, and Schedule 5A of the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order (No 3) 2011.

	BANKING GROUP	
	Unaudited	Unaudited
	30/09/2011	30/09/2011
	End of Period	Peak End of Day
Interest rate exposures		
Implied risk weighted exposure	44,117	65,059
Aggregate capital charge	3,529	5,205

(v) Pillar two capital for other material risks

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

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

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

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

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

As at 30 September 2011 the Bank has made an internal capital allocation of $22.50 million to cover these identified risks (30 September 2010 $22.50 million; 31 March 2011 $22.50 million).

All in $000's

11. Concentrations of Funding

	BANKING GROUP Unaudited 30/09/2011
(a) Concentrations of funding by geographical location	
North Island	491,820
Canterbury	580,738
Otago	467,624
Southland	840,888
South Island other	167,730
Overseas	61,135
Total concentrations of funding by geographical location	**2,609,935**
(b) Concentrations of funding by product	
Redeemable shares	2,212,190
Deposits from customers	248,824
Due to other financial institutions	-
Other borrowings	87,670
Subordinated redeemable shares	61,251
Due to subsidiary companies	-
Total concentrations of funding by product	**2,609,935**

12. 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 30 September 2011 are $9.1 million which is 0.3% of the total assets of the Banking Group.

13. 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.

14. Subsequent Events

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

Independent Auditors' Review Report

To the Members of Southland Building Society

We have reviewed pages 5 to 18 of the half year financial statements of Southland Building Society and it's subsidiaries (the 'Banking Group') prepared and disclosed in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2011 (the 'Order') and the supplementary information prescribed in Schedules 5, 7, 9, 13, 16 and 18 of the Order. The half year financial statements, and supplementary information, provide information about the past financial performance and cash flows of the Banking Group for the six months ended 30 September 2011, and its financial position as at 30 September 2011.

Directors' responsibilities

The Directors of Southland Building Society are responsible for the preparation and presentation of the half year Disclosure Statement, which includes interim financial statements prepared in accordance with Clause 25 of the Order which give a true and fair view of the financial position of the Banking Group as at 30 September 2011 and its financial performance and cash flows for the six months ended on that date. The Directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the Disclosure Statement that is free from material misstatement whether due to fraud or error.

They are also responsible for the preparation of supplementary information in the half year Disclosure Statement which fairly states the matters to which it relates in accordance with Schedules 3, 5, 7, 9, 13, 16 and 18 of the Order.

Reviewers' responsibilities

We are responsible for reviewing the interim financial statements and the supplementary information, disclosed in accordance with Clause 25, Schedules 5, 7, 13, 16 and 18 of the Order and presented to us by the Directors.

We are responsible for reviewing the interim financial statements (excluding the supplementary information) in order to report to you whether, in our opinion on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the interim financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34 ("NZ IAS 34"): Interim Financial Reporting and do not present a true and fair view of the financial position of the Banking Group as at 30 September 2011 and its financial performance and cash flows for the six months ended on that date.

We are responsible for reviewing the supplementary information (excluding the supplementary information relating to capital adequacy) in order to report to you whether, in our opinion on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

We are responsible for reviewing the supplementary information relating to capital adequacy in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the information disclosed in accordance with Schedule 9 is not in all material respects prepared in accordance with the Banking Group's Conditions of Registration and disclosed in accordance with Schedule 9.

We have performed our review in accordance with the review engagement standard RS-1 Statement of Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. A review is limited primarily to enquiries of the Banking Group's personnel and analytical review procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Our firm has also provided other services to the Banking Group in relation to other audit related services. Partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. There are, however, certain restrictions on borrowings which the partners and employees of our firm can have with the Banking Group. These matters have not impaired our independence as auditors of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

Review Opinion

We have examined the interim financial statements including the supplementary information and based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(a) the interim financial statements (excluding the supplementary information) have not been prepared, in all material respects, in accordance with NZ IAS 34: Interim Financial Reporting and do not present a true and fair view of the financial position of the Banking Group as at 30 September 2011 and its financial performance and cash flows for the six months ended on that date;

(b) the supplementary information prescribed by Schedules 5, 7, 13, 16, and 18 of the Order does not fairly state the matters to which it relates in accordance with those Schedules; and

(c) the supplementary information relating to Capital Adequacy as required by Schedule 9 of the Order, is not in all material respects prepared in accordance with the Banking Group's Conditions of Registration and disclosed in accordance with Schedule 9 of the Order.

Our review was completed on 23 November 2011 and our review opinion is expressed as at that date.

KPMG

Wellington