Southland Building Society

General Disclosure Statement

For the six months ended 30 September 2010

Number 10 Issued December 2010

Contents

General Information

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

This General Disclosure Statement has been issued by Southland Building Society in accordance with the Registered Bank Disclosure Statement (Full and Half-Year - 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 Disclosure Statement.

Name and Address for Service of Registered Bank

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

Details of Incorporation

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

Ownership

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

Guarantee Arrangements

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

Pending Proceedings or Arbitration

There are no pending proceedings at the date of this General 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 September 2010 are $8.4 million (30 September 2009 $7.3million; 31 March 2010 $8.2 million) which is 0.3% of the total assets of the Banking Group (30 September 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 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

All directors of the Bank reside in New Zealand. All directors can be contacted at Southland Building Society, 51 Don Street, Invercargill.

Independent Non-Executive Directors

JWA (Acton) Smith, BCom FNZIM, FInstD (Chairman - Board of Directors) Company Director	External Directorships: H&J Smith Holdings Ltd, H&J Smith Ltd, H&J Smith Corporate Ltd, H&J's Hardware Ltd, H&J's Electrical Ltd, H&J's Queenstown Properties Ltd, H&J Smith Parking Building Ltd, H&J Smith Finance Ltd, H&J's Carpet World Ltd, H&J's Properties Ltd, H&J's Cycles and Mowers Ltd, Outdoor World Ltd, Bainfield Investments Ltd, Bogcorp Ltd, Mangamahu Investments Ltd, Symphony Retailing Ltd, Lorneville Discount Centre Ltd, South Island Retail Ltd, Outdoor Adventures Ltd, South Island Sports Ltd, Smith Family Investments Ltd, Cross Roads Properties Ltd, South Island Department Stores Ltd, Sfi Properties Ltd, Sfi Buildings Ltd, Corner Trading Ltd, Steel Core Buildings Ltd, Southcom Ltd
JF (John) Ward, BCom FCA, FInstD (Deputy Chairman - Board of Directors) Chartered Accountant	External Directorships: H&J Smith Holdings Ltd, H&J Smith Ltd, H&J Smith Corporate Ltd, H&J's Hardware Ltd, H&J's Electrical Ltd, H&J's Queenstown Properties Ltd, H&J Smith Parking Building Ltd, H&J Smith Finance Ltd, H&J's Carpet World Ltd, H&J's Properties Ltd, H&J's Cycles and Mowers Ltd, Outdoor World Ltd, Symphony Retailing Ltd, Lorneville Discount Centre Ltd, South Island Retail Ltd, Outdoor Adventures Ltd, South Island Sports Ltd, Simner Investments Ltd, Cross Roads Properties Ltd, South Island Department Stores Ltd, Sfi Properties Ltd, Corner Trading Ltd, Amtex Corporation Ltd, Witrick No 4 Ltd, Southfields Investments Ltd, Southwold Corporation Ltd, Suffolk Securities Ltd, Hokonui Investments Ltd, Hambledon Properties Ltd, Canyon Investments Ltd, Parthenon Investments Ltd, Queensmere Investments Ltd, Trio Corporation Ltd, Tanknology (Nz) Ltd, Skippers Canyon Holdings Ltd, Queenstown Bungy Ltd, Auckland Bungy Ltd, Aj Gear Ltd, Bungy New Zealand Ltd, Paddington Investments No 8 Ltd, Fun Innovators Nz Ltd, Southcom Ltd, 595 Frankton Rd Ltd, Auckland Bridge Adventures Ltd, Passage Holdings Ltd, Auckland Bridge Climb Ltd, Kba Limited, Bnzl Properties Ltd, Zephyr Nz Ltd, Salt Kettle Ltd, Aviemore Corporation Ltd, H.A.T. Ltd, H.A.T. 2 Ltd, University of Otago Holdings Ltd, Wilson Holdings Ltd, Rd Petroleum Ltd, Skeggs Group Ltd, Otago Innovation Ltd

Directorate (continued)

KJ (Kathryn) Ball, BCom CA Chartered Accountant	External Directorships: McIntyre Dick & Partners Ltd, 143 Spey Ltd, 142 Spey Ltd
JB (Jeff) Walker, LLB Barrister & Solicitor	External Directorships: Rough Gully Company Ltd, Rakiura Shipping Ltd, Craig Printing Co Ltd (In Rec), Cargill Trustees Ltd, Manchester Enterprises Ltd
GJ (Greg) Mulvey, BCom FCA FNZIM General Manager	External Directorships: DB South Island Brewery Ltd
GJ (Garry) Diack, MA (Hons) Corporate Executive	External Directorships: Cpi Ltd, Vera Facienda Ltd, General Cable Superconductors Ltd
JJ (Jeff) Grant Farmer/Company Director	External Directorships: Milford Sound Development Authority Ltd, National Animal Identification and Tracing (NAIT) Ltd, Wool Partners Co-operative Ltd
FE (Frank) Spencer, BBS (Val & Pty Mgt) FNZIV FPINZ AREINZ Registered valuer	External Directorships: Verdure Ltd, Valuation Exchange NZ Ltd, Apex Data Solutions Ltd, Exmoor Properties Ltd, Exmordinary Ltd, Crighton Stone Ltd, Logan Stone Ltd, Valuersnet NZ Ltd
RL (Ross) Smith, BCom FNZIM Group Managing Director / CEO Southland Building Society	External Directorships: Electricity Invercargill Ltd, Electricity Southland Ltd, Powernet Ltd, PowerServices Ltd, Pylon Ltd, Southern Teamco 2008 Ltd

Audit & Risk Committee

Members of the Southland Building Society Audit & Risk Committee as at the date of this General Disclosure Statement are as follows:

KJ Ball (Chairperson) - Independent Non-Executive Director
JWA Smith - Independent Non-Executive Director
JF Ward - Independent Non-Executive Director
GJ Mulvey - Independent Non-Executive Director

Conflicts of Interest Policy

The policy and current practice of the board of directors (as set out in clause 16.6 of the Rules of Southland Building Society) for avoiding or dealing with conflicts of interest which may arise from personal, professional or business interests of the directors, are that, a director, after becoming aware of the fact that he or she is interested in a transaction or proposed transaction with the Society, shall disclose to the board and cause to be entered in the interests register:

(i) the nature and monetary value of the director's interest in a transaction if its monetary value is able to be quantified; or
(ii) the nature and extent of the director's interest in a transaction if its monetary value is not able to be quantified.

A director may not vote on a board resolution in respect of any matter in which that director is interested, nor shall the director be counted in the quorum for the purposes of consideration of that matter.

Interested Transactions

There have been no transactions between the Bank and any director or immediate relative or close business associate of any director which either, has been entered into on terms other than those which would in the ordinary course of business of the Bank be given to any other person of like circumstances or means or, which could be reasonably likely to influence materially the exercise of the director's duties.

Solicitors		**Auditors**
Buddle Findlay 78 Worcester Street Christchurch	Cruickshank Pryde 42 Don Street Invercargill	KPMG 10 Customhouse Quay Wellington

Credit Rating

As at 30 September 2010, and for the period to the date of this Disclosure Statement, the credit rating assigned to Southland Building Society is BBB stable. This credit rating is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. The credit rating was issued by Fitch Ratings on 17 July 2007 and was reaffirmed on 6 September 2010. There have been no changes made to the rating in the two years preceding 30 September 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 within the major rating categories, with 1 indicating the higher end and 3 the lower end of the rating category.

Conditions of Registration

The conditions of registration imposed on Southland Building Society by the Reserve Bank of New Zealand pursuant to section 74 of the Reserve Bank of New Zealand Act 1989, and which apply as at the date of signing of this General Disclosure Statement are as follows. These conditions of registration have applied from 15 October 2010.

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

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

1A. That—
   (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")" (BS12) dated December 2007;
   (b) under its ICAAP, the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated October 2010; and
   (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

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

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

   For the purposes of this condition:

   (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disapplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
   (ii) In measuring the size of a banking group's insurance business:
      (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
         · the total consolidated assets of the group headed by that entity;
         · or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
      (b) otherwise, the size of each insurance business conducted by any entity within the banking group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;

Conditions of Registration (continued)

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

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

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated October 2010.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in Conditions of Registration

The following changes have been made to the Bank's conditions of registration during the period since the signing of the previous General Disclosure Statement:

Conditions 1 and 4 have been updated to reference the latest versions of RBNZ documents.

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 Disclosure Statement is signed:
   (a) the General Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Full and Half-Year - New Zealand Incorporated Registered Banks) Order 2008; and
   (b) the General 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 2010:
   (a) Southland Building Society has complied with the conditions of registration; 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 this 13th day of December 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

FE Spencer

Income Statements

All in $000's

	BANKING GROUP						
	Unaudited NZ IFRS 6 Months Ended 30 Sep 2010	Audited NZ IFRS 12 Months Ended 31 Mar 2010	Audited NZ IFRS 12 Months Ended 31 Mar 2009	Audited NZ IFRS 12 Months Ended 31 Mar 2008	Audited NZ IFRS 12 Months Ended 31 Mar 2007	Audited NZ GAAP 12 Months Ended 31 Mar 2007	Audited NZ GAAP 12 Months Ended 31 Mar 2006
Interest income	85,449	172,040	237,227	231,260	196,591	194,456	170,695
Interest expense	7,682	16,897	39,421	41,433	35,652	35,652	33,962
Dividends on redeemable shares	48,322	95,598	136,808	130,862	108,632	108,632	90,427
	56,004	112,495	176,229	172,295	144,284	144,284	124,389
Net interest income	**29,445**	**59,545**	**60,998**	**58,965**	**52,307**	**50,172**	**46,306**
Other operating income	9,242	18,629	12,871	12,499	11,100	15,174	12,879
Total operating income	**38,687**	**78,174**	**73,869**	**71,464**	**63,407**	**65,346**	**59,185**
Operating expenses	24,026	43,068	42,922	41,074	37,509	38,864	38,686
Provision for credit impairment	5,665	15,727	12,446	9,074	3,694	4,528	-
Operating surplus	**8,996**	**19,379**	**18,501**	**21,316**	**22,204**	**21,954**	**20,499**
Add net gain/(loss) from financial instruments designated at fair value	3,524	980	(2,404)	(1,340)	924	(19)	-
Add revaluation of property	-	200	60	60	749	952	770
Surplus before taxation	**12,520**	**20,559**	**16,157**	**20,036**	**23,877**	**22,887**	**21,269**
Less income tax expense	5,536	5,522	4,100	5,709	7,274	6,659	6,223
Net surplus	**6,984**	**15,037**	**12,057**	**14,327**	**16,603**	**16,228**	**15,046**
Attributable to:							
Members' interests	6,034	12,723	10,986	13,567	15,514	15,258	14,296
Minorities' interests	950	2,314	1,071	760	1,089	970	750
	6,984	**15,037**	**12,057**	**14,327**	**16,603**	**16,228**	**15,046**

Significant Statement of Financial Position Items

All in $000's

	BANKING GROUP						
	Unaudited NZ IFRS As At 30 Sep 2010	Audited NZ IFRS As At 31 Mar 2010	Audited NZ IFRS As At 31 Mar 2009	Audited NZ IFRS As At 31 Mar 2008	Audited NZ IFRS As At 31 Mar 2007	Audited NZ GAAP As At 31 Mar 2007	Audited NZ GAAP As At 31 Mar 2006
Total assets	2,572,303	2,627,905	2,541,177	2,426,271	2,214,785	2,217,153	2,058,351
Individually impaired assets	16,923	29,907	21,848	8,355	583	1,535	816
Total liabilities	2,390,947	2,450,241	2,385,597	2,270,905	2,074,264	2,074,243	1,931,776
Equity	181,356	177,664	155,580	155,366	140,521	142,910	126,575
Regulatory capital							
Tier one capital	183,144	176,797	162,927	151,644	136,702	141,237	125,545
Tier one capital expressed as a percentage of total risk weighted exposures	10.68%	10.34%	9.85%	9.52%	9.24%	9.48%	9.10%
Total capital expressed as a percentage of total risk weighted exposures	13.66%	13.35%	12.46%	9.59%	9.31%	9.53%	9.10%

The amounts included in this summary have been extracted from the consolidated financial statements of the Banking Group.

The Banking Group adopted the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) for the reporting period commencing 1 April 2006. Comparative data for the year ended 31 March 2007 has been restated and presented in accordance with NZ IFRS.

The Banking Group adopted the Basel II "standardised approach" to calculate regulatory capital requirements for the year ended 31 March 2008. Prior comparative periods were calculated under the Basel I methodology.

Contents

Southland Building Society

Income Statements for the six months ended 30 September 2010

All in $000's

	Note	BANKING GROUP Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	PARENT Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Interest income	(4)	85,449	86,971	172,040	75,775	76,921	152,123
Interest expense		7,682	8,629	16,897	6,495	7,079	14,129
Dividends on redeemable shares		48,322	49,098	95,598	48,394	49,183	95,749
	(5)	56,004	57,727	112,495	54,889	56,262	109,878
Net interest income		**29,445**	**29,244**	**59,545**	**20,886**	**20,659**	**42,245**
Other income	(4)	9,242	9,089	18,629	3,114	3,449	6,753
Total operating income		**38,687**	**38,333**	**78,174**	**24,000**	**24,108**	**48,998**
Operating expenses	(5)	24,026	22,073	43,068	16,711	14,953	29,254
Provision for credit impairment	(12)	5,665	7,007	15,727	2,851	4,099	10,306
Operating surplus		**8,996**	**9,253**	**19,379**	**4,438**	**5,056**	**9,438**
Add dividends from subsidiaries		-	-	-	986	558	3,721
Add net gain/(loss) from financial instruments designated at fair value	(6)	3,524	(333)	980	3,297	(1,952)	(1,342)
Add revaluation of property	(22)	-	-	200	-	-	-
Less subvention payment		-	-	-	145	186	480
Surplus before income tax		**12,520**	**8,920**	**20,559**	**8,576**	**3,476**	**11,337**
Less income tax expense[1]	(7)	5,536	2,663	5,522	2,195	(469)	801
Net surplus		**6,984**	**6,257**	**15,037**	**6,381**	**3,945**	**10,536**
Attributable to:							
Members' interests		6,034	5,287	12,723	6,381	3,945	10,536
Minorities' interests		950	970	2,314	-	-	-
		6,984	**6,257**	**15,037**	**6,381**	**3,945**	**10,536**

[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.

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

Southland Building Society

Statements of Comprehensive Income for the six months ended 30 September 2010

All in $000's

	Note	BANKING GROUP			PARENT		
		Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Net surplus for the period		6,984	6,257	15,037	6,381	3,945	10,536
Other comprehensive income							
Net change in property, plant and equipment reserve, net of tax	(22)	27	-	(42)	4	-	21
Net change in available for sale asset reserve, net of tax	(22)	396	16	22	400	(5)	(5)
Net change in cash flow hedging reserve, net of tax	(22)	(3,383)	5,690	7,932	(2,651)	5,691	8,127
Other comprehensive income for the period, net of tax		(2,960)	5,706	7,912	(2,247)	5,686	8,143
Total comprehensive income for the period		**4,024**	**11,963**	**22,949**	**4,134**	**9,631**	**18,679**
Attributable to:							
Members' interests		3,285	10,990	20,686	4,134	9,631	18,679
Minorities' interests		739	973	2,263	-	-	-
		4,024	**11,963**	**22,949**	**4,134**	**9,631**	**18,679**

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

Southland Building Society
Statements of Changes in Equity for the six months ended 30 September 2010

All in $000's

	Note	BANKING GROUP Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	PARENT Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Capital reserve							
Balance at beginning of the period		73	73	73	73	73	73
Balance at end of the period		73	73	73	73	73	73
Revaluation reserve - property, plant and equipment							
Balance at beginning of the period		1,153	1,195	1,195	346	325	325
Other comprehensive income for the period		27	-	(42)	4	-	21
Balance at end of the period		1,180	1,195	1,153	350	325	346
Revaluation reserve - available for sale assets							
Balance at beginning of the period		(58)	(75)	(75)	-	5	5
Other comprehensive income for the period		397	12	17	400	(5)	(5)
Balance at end of the period		339	(63)	(58)	400	-	-
Revaluation reserve - cash flow hedging							
Balance at beginning of the period		(3,322)	(11,309)	(11,309)	(3,182)	(11,309)	(11,309)
Other comprehensive income for the period		(3,174)	5,691	7,987	(2,651)	5,691	8,127
Balance at end of the period		(6,496)	(5,618)	(3,322)	(5,833)	(5,618)	(3,182)
Retained earnings							
Balance at beginning of the period		174,155	161,432	161,432	162,405	151,869	151,869
Net surplus for the period		6,034	5,287	12,723	6,381	3,945	10,536
Balance at end of the period		180,189	166,719	174,155	168,786	155,814	162,405
Total equity attributable to member's interests		**175,285**	**162,306**	**172,001**	**163,776**	**150,594**	**159,642**
Minorities' interests							
Balance at beginning of the period		5,663	4,264	4,264	-	-	-
Net surplus for the period		950	970	2,314	-	-	-
Other comprehensive income for the period		(210)	3	(50)	-	-	-
Dividends		(332)	(192)	(1,554)	-	-	-
Change in capital of minority interests		-	-	689	-	-	-
Balance at end of the period		6,071	5,045	5,663	-	-	-
Total equity at end of the period		**181,356**	**167,351**	**177,664**	**163,776**	**150,594**	**159,642**
Represented by:							
Equity at beginning of the period		177,664	155,580	155,580	159,642	140,963	140,963
Net surplus for the period		6,984	6,257	15,037	6,381	3,945	10,536
Other comprehensive income for the period		(2,960)	5,706	7,912	(2,247)	5,686	8,143
Total comprehensive income for the period		4,024	11,963	22,949	4,134	9,631	18,679
Dividends		(332)	(192)	(1,554)	-	-	-
Change in capital of minority interests		-	-	689	-	-	-
Total equity at end of the period	(22)	**181,356**	**167,351**	**177,664**	**163,776**	**150,594**	**159,642**

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

Southland Building Society
Statements of Financial Position as at 30 September 2010

All in $000's

	Note	BANKING GROUP Unaudited 30/09/2010	BANKING GROUP Unaudited 30/09/2009	BANKING GROUP Audited 31/03/2010	PARENT Unaudited 30/09/2010	PARENT Unaudited 30/09/2009	PARENT Audited 31/03/2010
Assets							
Cash on hand and at bank		23,941	12,896	26,504	14,709	6,278	17,676
Funds with financial institutions	(8)	5,362	101,113	64,080	2,500	98,419	60,028
Investment securities	(9)	49,197	2,876	47,482	46,617	404	44,978
Derivative financial instruments	(10)	1,448	2,554	506	3,240	4,036	1,572
Current tax assets		1,613	2,475	1,176	2,023	2,611	2,014
Advances to customers	(11)	2,459,163	2,461,394	2,460,089	2,277,496	2,270,028	2,272,584
Loans to subsidiaries	(15)	-	-	-	94,254	90,528	95,555
Investments in subsidiaries	(15)	-	-	-	15,180	13,451	15,180
Other assets	(16)	2,116	1,972	1,575	7,780	4,243	6,531
Investment property		3,479	-	-	3,479	-	-
Property, plant and equipment	(17)	17,549	16,078	16,005	6,557	5,472	5,378
Intangible assets	(18)	3,189	2,976	3,094	1,642	1,699	1,686
Deferred tax	(19)	5,246	7,647	7,394	5,887	6,854	6,318
		2,572,303	**2,611,981**	**2,627,905**	**2,481,364**	**2,504,023**	**2,529,500**
Liabilities							
Bank overdraft		1,884	-	-	1,884	-	-
Redeemable shares	(24)	1,931,732	1,924,641	1,972,008	1,935,925	1,927,942	1,975,177
Deposits from customers	(24)	251,364	249,275	230,051	251,364	249,275	230,051
Due to other financial institutions	(24)	-	18,002	30,017	-	18,002	30,017
Derivative financial instruments	(10)	12,111	23,625	13,009	12,113	23,678	13,017
Other borrowings		114,951	146,993	128,574	45,536	61,164	53,802
Other liabilities	(20)	17,654	25,486	17,275	9,515	16,760	8,487
Subordinated redeemable shares	(21)	61,251	56,608	59,307	61,251	56,608	59,307
		2,390,947	**2,444,630**	**2,450,241**	**2,317,588**	**2,353,429**	**2,369,858**
Net assets		**181,356**	**167,351**	**177,664**	**163,776**	**150,594**	**159,642**
Equity							
Reserves		(4,904)	(4,413)	(2,154)	(5,010)	(5,220)	(2,763)
Retained earnings		180,189	166,719	174,155	168,786	155,814	162,405
Attributable to members of the society		175,285	162,306	172,001	163,776	150,594	159,642
Attributable to minority shareholders		6,071	5,045	5,663	-	-	-
	(22)	**181,356**	**167,351**	**177,664**	**163,776**	**150,594**	**159,642**

For and on behalf of the Board of Directors:

Chairman
JWA Smith

Deputy Chairman
JF Ward

13 December 2010

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

Southland Building Society

Cash Flow Statements for the six months ended 30 September 2010

All in $000's

	Note	BANKING GROUP Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	PARENT Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Cash flows from operating activities							
Interest received		81,663	87,501	167,996	73,530	78,312	151,412
Fees and other income		12,130	10,630	25,048	2,157	4,439	5,699
Dividends received		20	-	28	414	558	1,139
Interest paid		(7,541)	(8,577)	(16,689)	(6,354)	(7,027)	(13,921)
Dividends paid on redeemable shares		(49,683)	(52,817)	(101,384)	(49,745)	(52,906)	(101,543)
Operating expenses		(24,552)	(22,875)	(44,534)	(14,885)	(20,986)	(33,205)
Income taxes paid		(2,763)	(5,788)	(8,024)	(1,026)	(4,769)	(5,927)
Net cash flows from operating activities before changes in operating assets and liabilities		9,274	8,074	22,441	4,091	(2,379)	3,654
Net changes in operating assets and liabilities							
Net increase in advances		(5,101)	(70,524)	(80,391)	(8,549)	(78,459)	(89,987)
Net increase/(decrease) in shares and deposits from customers		(17,670)	91,455	121,510	(16,656)	91,833	121,760
Net increase/(decrease) in amounts due to other financial institutions		(30,047)	1,000	13,000	(30,047)	1,000	13,000
Net decrease in other borrowings		(13,623)	(26,818)	(45,237)	(8,266)	(7,794)	(15,156)
Net increase in subordinated redeemable shares		1,901	14,207	16,920	1,901	14,207	16,920
Net increase/(decrease) in cash held on behalf of Lifestages Mortgage Portfolio		762	(1,091)	(9,845)	762	(1,091)	(9,845)
Net cash flows provided by/(used in) operating activities	(23)	**(54,504)**	**16,303**	**38,398**	**(56,764)**	**17,317**	**40,346**
Cash flows from investing activities							
Net increase in investment securities		(1,082)	(443)	(44,227)	(977)	-	(43,774)
Sale of property, plant and equipment		48	84	88	25	65	69
Purchase of property, plant and equipment		(2,358)	(839)	(1,323)	(1,807)	(701)	(1,107)
Purchase of intangible assets		(873)	(645)	(1,395)	(576)	(636)	(1,137)
Purchase of investment properties		(3,479)	-	-	(3,479)	-	-
Net (increase)/decrease in loans to subsidiaries		-	-	-	1,301	(1,143)	(6,170)
Net cash flows provided by/(used in) investing activities		**(7,744)**	**(1,843)**	**(46,857)**	**(5,513)**	**(2,415)**	**(52,119)**
Cash flows from financing activities							
Dividends paid to minority interests		(803)	(306)	(507)	-	-	-
Net cash flows provided by/(used in) financing activities		**(803)**	**(306)**	**(507)**	**-**	**-**	**-**
Net (decrease)/increase in cash held		(63,051)	14,154	(8,966)	(62,277)	14,902	(11,773)
Add opening cash and cash equivalents		90,460	99,426	99,426	77,602	89,375	89,375
Closing cash and cash equivalents		**27,409**	**113,580**	**90,460**	**15,325**	**104,277**	**77,602**
Reconciliation of cash and cash equivalents							
Cash on hand and at bank		22,057	12,896	26,504	12,825	6,278	17,676
Funds with financial institutions	(8)	5,362	101,113	64,080	2,500	98,419	60,028
Interest accrued on available for sale assets		(10)	(429)	(124)	-	(420)	(102)
		27,409	**113,580**	**90,460**	**15,325**	**104,277**	**77,602**

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

1. Statement of Accounting Policies

(a) Basis of Preparation

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

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and under New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities and the Registered Bank Disclosure Statement (Full and Half-Year - New Zealand Incorporated Registered Banks) Order 2008. The financial statements also comply with International Financial Reporting Standards.

These financial statements were authorised for issue by the Board of Directors on 13th December 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 2011.
- NZ IFRS 9 Financial Instruments - It is the intention of the IASB to replace IAS 39 with IFRS 9. This standard will apply to the Banking Group from 1 April 2013.

(d) Measurement Base

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

(e) Accounting Estimates

The preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates. For further discussion on judgements and estimates made by the Banking Group, in the process of applying its accounting policies, that have the most effect on the amounts recognised in the financial statements refer to Note 2 - Critical Estimates and Judgements Used in Applying Accounting Policies.

(f) Consolidation

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

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

1. Statement of Accounting Policies (continued)

(f) Consolidation (continued)

Subsidiaries

Control means the power to govern, directly or indirectly, decision making in relation to the financial and operating policies of an entity so as to obtain benefits from its activities.

Where subsidiaries have been sold or acquired during the year, their operating results have been included to the date control ceases or from the date control is transferred to the Banking Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date. The excess of the cost of acquisiton over the fair value of the Banking Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Banking Group's share of net assets of the subsidiairy acquired, the difference is recognised directly in the income statement.

On consolidation, all significant inter-company transactions, balances and unrealised gains on transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the parent, SBS.

Special Purpose Entities

SBS may invest in or establish special purpose entities to enable it to undertake specific types of transactions such as securitisation. Where SBS controls such vehicles, they are consolidated into the Banking Group's financial results.

(g) Revenue and Expense Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Banking Group and that revenue can be reliably measured. Expenses are recognised in the income statement on an accruals basis.

(h) Interest Income and Interest Expense

Interest income and interest expense (including dividends on redeemable and subordinated redeemable shares), for all instruments measured at amortised cost are recognised in the income statement as they accrue, using the effective interest method. Interest income and interest expense for all instruments measured at fair value are recognised in the income statement on a daily accrual basis.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate over the expected life of the financial asset or liability. The application of the method has the effect of recognising income and expense evenly in proportion to the amount outstanding over the expected life of the financial asset or liability.

Loan commitment fees are deferred and recognised as an adjustment to the effective interest on the loan once drawn or immediately to the income statement for expired commitments.

Fees and commissions payable to brokers in respect of originating lending business, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

(i) Fee and Commission Income

Fee and commission income integral to the effective yield of a financial asset or liability for all instruments measured at amortised cost is recognised as an adjustment to the effective interest calculation and included in net interest income.

Fee and commission income which relates to the execution of a significant act, for example maintaining and administering existing facilities is recognised at the time the services are provided and is recognised as income no later than when the loan is disbursed or the commitment to lend expires.

(j) Net Gain/(Loss) from Financial Instruments Designated at Fair Value

Net gains/(losses) on financial instruments designated at fair value comprises fair value gains and losses from financial instruments designated at fair value through profit or loss.

Interest income and interest expense on all financial instruments designated at fair value through profit or loss is reported within interest income or interest expense and not included in the fair value of these instruments.

Provision for credit impairment on all financial instruments designated at fair value through profit or loss is reported within provision for credit impairment and not included in the fair value of these instruments.

1. Statement of Accounting Policies (continued)

(k) Offsetting of Income and Expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where amounts are collected on behalf of third parties where the Banking Group is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Banking Group is reimbursed.

(l) Recognition and Derecognition of Financial Assets and Financial Liabilities

The Banking Group recognises a financial asset or liability on its statement of financial position when, and only when, the Banking Group becomes a party to the contractual provisions of the financial asset or liability.

The Banking Group derecognises a financial asset from its statement of financial position when, and only when, (i) the contractual rights to the cash flows from the financial asset expire, or (ii) the Banking Group has transferred all or substantially all of the risks and rewards of ownership of the financial asset and no longer controls the asset. The Banking Group derecognises a financial liability from its statement of financial position, when and only when, it is extinguished.

(m) Fair Value Measurement

The determination of fair values of financial assets and financial liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets, or by using valuation techniques. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value and subsequently at valuation.

Valuation techniques include the discounted cash flow method and comparison to similar instruments for which market observable prices exist. The Banking Group uses widely recognised valuation models however some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques may not appropriately reflect all factors market participants take into account when entering a transaction. Valuation adjustments are recorded to allow for liquidity risks as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments at fair value on the statement of financial position.

(n) Financial Instruments

The Banking Group classifies its financial instruments into the following categories at initial recognition: Financial assets at fair value through profit or loss, available for sale financial assets, loans and receivables, held to maturity financial assets, financial liabilities at fair value through profit or loss and other financial liabilities. Designation of financial assets and liabilities into instrument categories is determined by the business purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

<u>Financial Assets at Fair Value through Profit or Loss</u>

Financial assets at fair value through profit or loss are financial assets acquired principally for the purpose of selling in the short term (held for trading), financial assets designated as fair value through profit or loss (FVTPL), and derivative financial instruments which are not designated as a cash flow hedge.

The Banking Group may designate financial assets at fair value through profit or loss when doing so significantly reduces measurement or recognition inconsistencies (accounting mismatch) that would arise from measuring assets and liabilities or recognising the gains and losses on them on different bases. Under this criterion the Banking Group has designated certain advances to customers as fair value through profit or loss. Where derivative financial instruments have been transacted to risk manage these, an accounting inconsistency would arise if such advances were accounted on an amortised cost basis, as the derivatives are measured at fair value with movements in fair value recognised in the income statement. By designating these advances at fair value through profit or loss, fair value movements on the instrument will substantially offset the fair value movements on risk management derivatives in the income statement.

Other financial assets may be classified at fair value through profit or loss where they are part of a group of financial assets that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Once a financial asset has been designated at fair value through profit or loss upon initial recognition, the Banking Group cannot subsequently change the designation. Financial assets at fair value through profit or loss are measured at fair value with realised and unrealised gains and losses included in the income statement. Assets classified in this category include certain advances to customers, certain investment securities, and derivative financial assets.

1. Statement of Accounting Policies (continued)

(n) Financial Instruments (continued)

Available for Sale Financial Assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale. The Banking Group may designate financial assets as available for sale when they may be sold prior to maturity in response to needs for liquidity or due to changes in interest rates.

Available for sale financial assets are initially recognised at fair value plus transaction costs that are directly attributable to acquisition and are subsequently carried at fair value. Gains and losses (not attributable to accrued interest) arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the income statement. Assets classified in this category include certain funds with financial institutions and investment securities.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, not available for sale, and not designated as fair value through profit or loss. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs and are subsequently measured at amortised cost using the effective interest method, less any impairment loss.

Assets classified in this category include cash on hand and at bank, investment securities which are not managed on a fair value basis, advances to customers other than those classified at fair value through profit or loss, and loans to subsidiaries.

Held to Maturity Financial Assets

Held to maturity financial assets are non-derivative financial assets where management has the intention and ability to hold to maturity. Held to maturity financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at amortised cost. The Banking Group has not classified any financial assets as held to maturity.

Other Financial Liabilities

Other financial liabilities includes all financial liabilities other than those classified at fair value through profit or loss. Other financial liabilities are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at amortised cost. Liabilities classified in this category include redeemable shares, deposits from customers, due to other financial institutions, current tax liabilities and subordinated redeemable shares.

(o) Derivative Financial Instruments held for Risk Management Purposes

Derivative financial instruments are contracts whose value is derived from changes in one or more underlying financial instruments or indices. They include swaps, options and combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Banking Group designates certain derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

The Banking Group documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Banking Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective on offsetting changes in cash flows of hedged items.

Cash Flow Hedge

A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in the cash flow hedging reserve. The ineffective portion of a fair value gain or loss is recognised immediately in the income statement. When the transaction or item that the derivative is hedging (including cash flows from the transaction that were forecast when the derivative was effected) affects the income or expense then the associated gain or loss on the hedging derivative is simultaneously transferred from the cash flow hedging reserve to the corresponding income or expenses item in the income statement.

When a hedging derivative expires or is sold, the hedge no longer meets the criteria for hedge accounting, or the Banking Group elects to revoke the hedge designation, the cumulative gain or loss on the hedging derivative remains in the cash flow hedging reserve until the forecast transaction occurs and affects income, at which point it is transferred to the corresponding income or expense line. If a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging derivative previously reported in the cash flow hedging reserve is immediately transferred to the income statement.

Derivative Financial Instruments at Fair Value through Profit or Loss

Certain derivative financial instruments that do not meet the criteria for hedge accounting under NZ IAS 39 are classified as at fair value through profit or loss. Changes in the fair value are reflected in the income statement immediately.

The movement in the fair value of derivative financial instruments is included in the income statement as ‘net gain/(loss) from financial instruments designated at fair value’.

1. Statement of Accounting Policies (continued)

(p) Asset Quality

Credit Assessment

All advances and loans are subject to regular scrutiny of credit risk.

The Banking Group has classified its impaired assets into the following categories:

Impaired assets

Impaired assets are credit exposures where a credit event has occurred and for which it is probable the Banking Group will not be able to collect all amounts owing in terms of the contract and includes:

- advances and loans that are not contractually past due but where there is insufficient security to cover principal outstanding;
- advances and loans which are past due with insufficient security to cover principal and arrears of interest;
- restructured advances and loans where the interest rate charged is below that of the Banking Group's average cost of funds.

An individual provision is raised to cover the expected loss, where full recovery is doubtful.

Restructured assets

Restructured assets are defined as advances and loans on which the original contractual terms have been concessionally modified due to the financial difficulties of borrowers, and on which interest continues to be accrued at a rate which is equal to or greater than the Banking Group's average cost of funds at the date of restructuring.

Real estate or other assets acquired through security enforcement

Real estate or other assets acquired through security enforcement are those assets which are legally owned by the Banking Group as a result of enforcing security.

Past due assets

Advances and loans are designated as past due assets where a counterparty has failed to make a payment when contractually due and which are not impaired assets.

(q) Impairment of Financial Assets

Advances and loans are regularly reviewed for impairment loss. Credit impairment provisions are raised for exposures that are known to be impaired. Advances and loans are impaired and impairment losses incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the advance or loan and that loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the individual advance or loan or the collective portfolio of advances and loans.

Impairment is assessed initially for assets that are individually significant (or on a portfolio basis for small value loans), and then on a collective basis for those exposures not individually known to be impaired.

For those exposures that are assessed collectively, these are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characterisitics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

The estimated individual impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value at the original effective interest rate. As this discount unwinds during the period between recognition of impairment and recovery of the written down amount, it is recognised in the income statement. The process of estimating the amount and timing of cash flows involves considerable management judgement. These judgements are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The provision for credit impairment (individual and collective) is deducted from advances and loans in the statement of financial position and the movement in the provision for the reporting period is reflected in the income statement as 'provision for credit impairment'.

When an advance or loan is uncollectible, it is written-off against the related provision for impairment. Subsequent recoveries of amounts previously written-off are taken to the income statement.

Where impairment losses recognised in previous periods are subsequently decreased or no longer exist, such impairments are reversed in the income statement.

(r) Investment Properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or both. Investment property has been acquired through the enforcement of security over advances and loans.

Investment property is measured initially at cost, including transaction costs.

After initial recognition, investment properties are measured annually at fair value by an independent valuer. The fair values are based on market values, being the estimated amount for which a property could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.

Any gain or loss arising from a change in fair value is recognised in the income statement. There is no depreciation on investment properties.

Rental income from investment property is accounted for as described in the accounting policy for operating leases.

1. Statement of Accounting Policies (continued)

(s) Property Plant and Equipment

Asset Recognition

Land and buildings are initially recognised at cost and are subsequently valued by independent registered valuers. Land and buildings are carried at the revalued amount less accumulated depreciation and impairment losses. Items of property, plant and equipment are carried at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of internally developed assets includes the cost of materials and direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

Revaluation

Land and buildings are carried at the revalued amount which is the market value at the date of the revaluation less any subsequent accumulated depreciation of buildings and accumulated impairment losses.

Where the land and building is revalued, any revaluation surplus net of tax is credited to the asset revaluation reserve included in equity unless it reverses a revaluation decrease of the same asset previously recognised in the income statement. Any revaluation deficit is recognised in the income statement unless it directly offsets a previous surplus of the same asset recognised in the asset revaluation reserve. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to a particular asset being disposed is transferred to retained earnings.

Valuations of land and buildings are carried out annually, at market value.

Depreciation

Depreciation is provided in the financial statements on all property, plant and equipment other than land, on a basis which will write down the net cost or revalued amount of each item of property, plant and equipment over its expected useful life on a straight line basis.

The estimated useful lives are:

	Useful Life
Buildings	50 years
Building Alterations	3 - 11 years
Computer Equipment	2 - 5 years
Other Assets	2 - 5 years

At each reporting date, the carrying amounts of property, plant and equipment are reviewed for indications of impairment in light of commercial and technological developments. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the assets' existing carrying value exceeds its recoverable amount the difference is charged to the income statement. An impairment loss recognised in prior periods may be reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

(t) Intangible Assets

Goodwill

Goodwill arising on the acquisition of subsidiary shares represents the excess of the cost of acquisition over the fair value of the Banking Group's share of the net identifiable assets acquired, at the date of acquistion. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Software

Software comprises acquired and internally developed computer software and is amortised over its expected useful life to the Banking Group. The period of amortisation is between 1 and 3 years. At each reporting date, the software assets are reviewed for impairment against impairment indicators. If any indication of impairment exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the income statement. Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

(u) Redeemable Shares, Deposits and Subordinated Redeemable Shares

Redeemable shares, deposits and subordinated redeemable shares are recorded in the statement of financial position inclusive of accrued interest. Redeemable shares and subordinated redeemable shares are considered to be compound instruments. Interest income on deposits and dividends on redeemable and subordinated redeemable shares are recorded in the income statement on an accruals basis using the effective interest method.

(v) Repurchase Agreements

Securities sold under repurchase agreements are retained in the financial statements when substantially all the risks and rewards of ownership remain with the Banking Group, and counterparty liability is disclosed under the classification of due to other financial institutions or other liabilities, depending on the term of the agreement and the counterparty.

The difference between the sale price and the repurchase price is amortised over the life of the repurchase agreement and charged to interest expense in the income statement.

1. Statement of Accounting Policies (continued)

(w) Operating Leases

Leases as lessee

The leases entered in to by the Banking Group are primarily operating leases. Operating leases are recognised as an expense on a systematic basis over the lease term.

Leases as lessor

Operating lease rentals are included in the income statement on a systematic basis over the lease term. Gross operating lease income comprises amounts received under the lease contracts. Operating lease assets are stated at market value and are included as property, plant and equipment or investment properties.

(x) Income Tax

Income Tax Expense

Income tax on profits for the year comprises current and deferred tax. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

Current Tax

Current tax is the expected tax payable on taxable income for the year, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date and including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the balance sheet method. Deferred tax arises by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Banking Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised. Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority and there is a legal right and intention to settle on a net basis and it is allowed under tax law.

(y) Employee Benefits

The amounts expected to be paid in respect of employee's entitlements to annual leave are accrued at expected salary rates. Liability for long service leave is calculated and accrued for in respect of all applicable employees using an actuarial valuation.

(z) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except where the amount of GST incurred is not recoverable from the Inland Revenue Department (IRD). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the IRD is included as 'other assets' or 'other liabilities' in the statement of financial position.

Cash flows are included in the cash flow statement on a net basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the IRD are classified as operating cash flows.

(aa) Offsetting of Assets and Liabilities

Assets and liabilites are offset and the net amount reported in the statement of financial position only where:

- There is a current enforceable legal right to offset the asset and liability; and
- There is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(ab) Contingent Liabilities

Liabilities are no longer contingent, and are recognised on the statement of financial position, when the following requirements are met:

- The transaction is probable in that a contingency is likely to occur; and
- The contingency can be reasonably estimated.

Further disclosure is made within Note 25 - Contingent Liabilities and Credit Related Commitments, where the above requirements are not met but there is a possible obligation that is higher than remote. Specific details are provided together with an estimate of the range or a statement that such an estimate is not possible.

1. Statement of Accounting Policies (continued)

(ac) Statement of Cash Flows

Basis of Preparation

The statement of cash flows has been prepared using the direct approach modified by the netting of certain items as disclosed below.

Cash and Cash Equivalents

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day to day cash management of the Banking Group, which are unconditionally convertible at the Banking Group's option within three months.

Netting of Cash Flows

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Banking Group. These include customer loans and advances, customer shares and deposits and parent company funding.

(ad) Ranking of Securities

Deposits rank equally amongst themselves and equally with other unsecured creditors and behind creditors given priority by law. Redeemable shares rank equally amongst themselves and behind deposits, unsecured creditors and those creditors given priority by law. Subordinated redeemable shares rank equally amongst themselves and behind redeemable shares, deposits, unsecured creditors and those creditors given priority by law.

(ae) Lifestages Superannuation Scheme

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 Funds Administration New Zealand Limited (FANZ). From this date, FANZ is the founder and promoter of the Lifestages Superannuation Scheme. SBS accepts investments made through SBS's branch network. The fixed interest portion of the Lifestages Superannuation Scheme is invested with or managed by SBS who unconditionally guarantees the capital invested in it providing the investment is maintained for at least three years. Under a Deed of Amendment and Restatement of Guarantee dated 31 March 2007, this guarantee is now only applicable to members who joined the registered superannuation scheme before 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 invested with or managed by SBS. The Lifestages Superannuation Scheme funds that are invested with SBS are included in the statement of financial position as deposits. FANZ is the Investment and Administration Manager of the Lifestages Superanuation Scheme.

(af) Lifestages Portfolio Funds

FANZ has entered into a trust deed made between FANZ and Trustee Executors Limited as Trustee of five unit trusts registered under the Unit Trusts Act 1960, known as Lifestages Mortgage Portfolio (Distributing), Lifestages Income Portfolio (previously known as the Lifestages Mortgage Non-Distributing Portfolio), Lifestages Australasian Equity Portfolio, Lifestages World Equity Portfolio and the Lifestages Deposit Portfolio. FANZ is the issuer and manager of the above Portfolios. In addition, FANZ acts as Investment and Administration Manager with respect to the Lifestages Superannuation Scheme under an agreement entered into between Trustee Executors (as trustee and issuer), FANZ and SBS.

The fixed interest portion (2.5% to 10% of the portfolio) and the mortgage portfolio of the Lifestages Mortgage Portfolios are invested with or managed by SBS. The fixed interest portion (2.5% to 10% of the portfolio) of the Lifestages Australasian Equity Portfolio and Lifestages World Equity Portfolio are invested with or managed by SBS. The majority of the cash in the Lifestages Deposit Portfolio is invested with SBS.

The Lifestages Portfolio Funds that are invested with SBS are included in the statement of financial position as deposits.

(ag) Lifestages KiwiSaver Scheme

The Lifestages KiwiSaver Scheme was establised by the Trust Deed on 1 June 2007 and is a registered KiwiSaver scheme under the KiwiSaver Act 2006. FANZ is the "sponsor" of the scheme and has also been appointed as its administration and investment manager.

The fixed interest portion of the investments of this scheme are invested with or managed by SBS. The Lifestages KiwiSaver Scheme funds that are invested with SBS are included in the statement of financial position as deposits.

1. Statement of Accounting Policies (continued)

(ah) Loan Securitisation

SBS sells its interest in certain loans to a unit trust known as the Lifestages Mortgage Portfolio by way of an equitable assignment. At the time of the sale all legal, equitable and certain beneficial interests in the mortgages are transferred to the purchaser. SBS has agreed from time to time to repurchase loans in order to facilitate liquidity in the Lifestages Mortgage Portfolio at the request of the Trustee. Securitised assets are recognised in the Parent and Banking Group statement of financial position.

SBS receives from the investment manager (Funds Administration New Zealand Limited – a 57% owned subsidiary) an ongoing fee for the management and administration of loans assigned to the Lifestages Mortgage Portfolio. This fee is recognised when earned.

SBS also sells its interest in certain loans (principally housing mortgage loans) to a trust known as the SBS Invercargill W Trust by way of an equitable assignment. At the time of the sale all legal, equitable and beneficial interests in the mortgages are transferred to the purchaser. SBS consolidates the financial statements of SBS Invercargill W Trust within the Parent on the basis that SBS retains some of the risks and rewards of ownership through the provision of a subordinated loan. The subordinated loan has been in place since September 2007 and removes the need to purchase lenders mortgage insurance on loans assigned to the Trust.

The SBS Invercargill W Trust sells its interest in certain loans (principally housing mortgage loans) to a trust known as the SBS Oreti Trust No.1 by way of an equitable assignment. At the time of the sale all legal, equitable and beneficial interests in the mortgages are transferred to the purchaser. These securitised assets are not included in advances in the Parent statement of financial position.

The SBS Invercargill W Trust also sells its interest in certain loans (principally housing mortgage loans) to a trust known as the SBS Oreti Trust No. 2 by way of an equitable assignment. At the time of the sale all legal, equitable and beneficial interests in the mortgages are transferred to the purchaser. The SBS Oreti Trust No. 2 issues residential mortgage backed securities that qualify as acceptable collateral under the RBNZ liquidity management arrangements. SBS consolidates the financial statements of the SBS Oreti Trust No. 2 within the Parent on the basis that SBS retains a continuing involvement in the transferred assets by holding the securities issued by the trust.

SBS is the manager and servicer of mortgages assigned to the SBS Invercargill W Trust, the SBS Oreti Trust No.1, and the SBS Oreti Trust No. 2. SBS receives a fee for providing these management services. This fee is recognised when earned.

(ai) Comparative Data

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

(aj) Changes in Accounting Policies and Estimates

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

2. Critical Estimates and Judgements Used in Applying Accounting Policies

These financial statements are prepared in accordance with stated accounting policies which are based on New Zealand equivalents of International Financial Reporting Standards ('NZ IFRS') and other authoritative accounting pronouncements. Notwithstanding the existence of relevant accounting standards, there are a number of critical accounting treatments which include complex or subjective judgements and estimates that may affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

An explanation of the judgements and estimates made by the Banking Group in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements are set out below.

Credit Loss Provisioning

Provisions are raised for losses on exposures that are known to be impaired. The estimates of the cash flows on impaired exposures are then discounted to their present value. As this discount unwinds, there is a resulting recognition of a reduced specific provision and interest in the income statement during the period between recognition of impairment and recovery of the written down amount.

Exposures found not to be impaired are placed into pools of similar assets with similar risk characteristics to be collectively assessed for losses that have been incurred, but not yet identified. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data. This may include data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Banking Group.

At 30 September 2010 the Banking Group's total provision for credit impairment was $12.8 million (30 September 2009 $11.5 million; 31 March 2010 $17.2 million) representing 0.5% of total net loans and advances (30 September 2009 0.5%; 31 March 2010 0.7%). The provisions represent provisions against individual loans and collective provisions.

Management regularly reviews and adjusts the estimates and methodologies as improved analysis becomes available. Changes in these assumptions and methodologies could have a direct impact on the level of credit provision and credit impairment charge recorded in the financial statements.

2. Critical Estimates and Judgements Used in Applying Accounting Policies (continued)

Fair Value of Derivatives

The Banking Group enters derivative agreements to hedge its interest rate risk, credit risk and other exposures relating to non-trading positions. The derivative instruments used to hedge the Banking Group's exposures include:
- swaps
- options, and
- combinations of the above instruments.

The Banking Group enters into derivatives for risk management purposes.

Derivatives which are entered into as part of the Banking Group's interest rate risk management strategies are measured at fair value, with any changes in fair value recognised in the income statement. The fair value of all derivatives are based on quoted market prices.

Hedge Accounting

A hedging instrument is a designated derivative, the changes in fair value or cash flows of which are expected to offset changes in the fair value or cash flows of a designated hedged item. A hedged item is an asset, liability, firm commitment or highly probable forecast transaction that exposes the Banking Group to risk of changes in fair value or cash flows, and that is designated as being hedged. The Banking Group hedges a portion of its floating rate risk in the funding book.

For a relationship to qualify for hedge accounting, a number of criteria must be met including:
- the hedging relationship must be formally designated and documented at inception of the hedge;
- effectiveness testing must be carried out to ensure the hedge is effective consistent with the originally documented risk management strategy; and
- the instruments must involve a party external to the Banking Group.

Judgement is required by management in selecting and designating hedging relationships and assessing hedge effectiveness. NZ IAS 39 does not specify a single method for assessing hedge effectiveness. The Banking Group adopts the hypothetical derivative approach to determine hedge effectiveness. Hedge ineffectiveness can arise for a number of reasons, and whilst a hedge may pass the effectiveness tests it may not be perfectly effective, thus creating volatility within the income statement through recognition of this ineffectiveness.

Loans and Advances

Certain loans and advances, for which there is an accounting mismatch at origination between the loans and advances and associated derivatives used for risk management, are measured at fair value, with any changes in fair value recognised in the income statement. Fair value is based on valuation techniques including the use of a discounted cash flow model based on wholesale rates adjusted with a retail lending margin. To the extent possible the model uses only observable data. Changes in assumptions used in these models and projections of future cash flows could affect the reported fair value of loans and advances.

Securitisation and Special Purpose Entities

The Banking Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments and for asset securitisation transactions. The Banking Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Banking Group controls an SPE, it makes judgments about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that considered in isolation indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated.

3. Risk Management Policies

SBS's objective is to appropriately manage all the risks that arise from its activities. SBS does not naturally seek treasury and financial risk from its involvement in the financial markets and consequently minimises risks wherever possible. Reviews of risk management policies, systems and reporting are conducted on a regular basis.

Role of the Board and the Audit and Risk Committee

The Board has responsibility for reviewing all aspects of risk management. The Board receives comprehensive monthly reporting covering each area of risk management as outlined below. In addition SBS has specific policies in relation to liquidity and capital management which contain trigger points at which Board involvement is required. The Lending Committee is made up of the full Board and is responsible for reviewing and approving all lending proposals in excess of $1 million.

The Audit and Risk Committee which is a sub committee of the Board is charged with the responsibility of:

- overseeing the quality of financial information presented to the Board;
- the effectiveness and integrity of the internal control environment;
- SBS's compliance with regulatory requirements that impact on the business; and
- the external and internal audit functions.

The committee consists of four directors. In addition the Chief Executive Officer, General Manager Finance and the Risk and Compliance Manager are in attendance at meetings. The Audit and Risk Committee meets at least four times a year, and reports directly to the Board.

3. Risk Management Policies (continued)

Internal Audit

SBS' internal audit function conducts independent reviews that assist the board of directors and management to meet their statutory and other obligations. The internal audit function has no reporting line to SBS management. The function reports directly to the chairman of the Audit and Risk Committee. The internal audit function has been carried out by the Dunedin based firm of Chartered Accountants, Deloitte. In performing this role, the internal audit function adopts a risk-based approach, encompassing reviews of the major risks that could impact upon SBS. Significant findings are reported quarterly to the Audit and Risk Committee.

An audit plan is prepared annually covering each business area of SBS, with greater emphasis placed on those areas with perceived higher risk. The plan is endorsed by the Audit and Risk Committee.

Asset and Liability Committee (ALCO)

The ALCO is made up of members of the senior management team and treasury function. Up to two non-executive directors may also form part of this committee. The ALCO has responsibility for:

- reviewing SBS past performance with respect to asset and liability growth, yields, cost of funds, interest rate risk management and net interest margin;
- monitoring the interest rate risk position, liquidity, maturity, funding and credit position, financial investments portfolio, and financial performance;
- reviewing the current and recommended future hedging positions and risk profiles within risk control limits;
- monitoring interest rate pricing levels and interest margin levels for all assets and funding products;
- considering and evaluating the sensitivity of particular asset and liability classes to changes in market interest rates and yield curve shape;
- reviewing the liquidity position, investment and funding activity and making recommendations on future action;
- reviewing the funding strategy and funding risk mitigation;
- considering the level of capital employed, capital adequacy levels and the risk weighting of statement of financial position items; and
- reviewing SBS' credit risk position, credit policy and monitoring credit risk trends.

The ALCO usually meets at least twice a month, and reports directly to the Board.

Specific Areas of Risk Management

Credit Risk Management

Credit risk is the risk of loss arising from the non-performance of a counterparty to an instrument or facility. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual arrangements, and encompasses both on and off-balance sheet instruments. Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent on the level of risk. Credit risk at a retail level is managed by the branch retail network and lending committee and involves a thorough evaluation of the credit risk associated with potential borrowers, the taking of security against the loan and close ongoing monitoring of account performance. Loans which show signs of adverse performance are managed by the debt management team which is responsible for the collections and recovery process. At a wholesale level credit risk is managed with reference to specific limits as outlined in detailed treasury management policies and reported to the Board on a monthly basis.

Interest Rate Risk Management

Interest rate risk is the risk of loss arising from adverse changes in interest rates. Management's objective is to produce strong and stable net interest income over time. Interest rate risk management focuses on mismatches between the repricing dates of interest bearing assets and liabilities. Interest rate risk is managed using financial instruments to manage the risks within set limits as defined by SBS treasury policy. Regular reporting of interest rate risk against limits is provided to the Board.

Liquidity Risk Management

Liquidity risk is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. SBS maintains sufficient liquid funds to meet its commitments based on historical and budgeted cash flow forecasts. Management of liquidity risk is achieved by maintaining a prudent level of liquid assets, use of committed and uncommitted wholesale funding facilities, utilisation of securitisation vehicles and management control of the growth of the business.

The Banking Group's liquidity risks are governed by a Board approved liquidity strategy that defines policy, systems and procedures for measuring, assessing, reporting and managing liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis. This also meets the Reserve Bank of New Zealand liquidity policy requirements.

From 22 October 2009, the Reserve Bank modified the Banking Group's conditions of registration with respect to liquidity. These revised conditions became effective 1 April 2010 and are stated in clauses 11-12 of the conditions of registration. These include the requirement to comply with various liquidity ratios which must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) and "Liquidity Policy Annex: Liquid Assets" (BS 13A) dated March 2010.

Operational Risk Management

Operational risk is the risk arising from day to day operational activities which may result in direct or indirect loss. These losses may result from failure to comply with policies, procedures, laws and regulations, from fraud or forgery, from a breakdown in the availability or integrity of services, systems and information, or damage to SBS's reputation. Examples include failure to comply with policy and legislation, human error, natural disasters, fraud and other malicious acts. Where appropriate, risks are mitigated by insurance.

Business units have primary responsibility for the identification and management of operational risk. Regular measurement, monitoring and reporting of operational risk is managed by the Audit and Risk Committee with summarised reporting provided to the Board.

All in $000's

4. Income

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Interest income						
Cash at bank	379	359	618	246	187	321
Funds with financial institutions - available for sale	543	1,562	3,081	465	1,506	2,943
Investment securities - available for sale	1,345	10	530	1,333	-	510
Investment securities - designated at fair value through profit or loss	30	30	87	-	-	-
Derivative financial instruments	(9,045)	(14,640)	(28,184)	(7,800)	(12,593)	(24,711)
Advances to customers - at amortised cost	86,434	85,183	175,282	71,528	69,435	144,275
Advances to customers - designated at fair value through profit or loss	5,535	14,467	20,626	5,385	13,934	19,929
Advances to customers - impaired	228	-	-	228	-	-
Loans to subsidiaries	-	-	-	4,390	4,452	8,856
	85,449	**86,971**	**172,040**	**75,775**	**76,921**	**152,123**
Other operating income						
Loan fees	592	1,363	2,254	1,193	1,623	3,071
Management fees	1,682	1,615	3,794	750	661	1,463
Other fee and commission income	3,418	2,850	6,026	982	932	1,896
Net insurance income	2,648	2,336	5,032	-	-	-
Dividends	20	12	28	-	-	28
Sundry income	882	913	1,495	189	233	295
	9,242	**9,089**	**18,629**	**3,114**	**3,449**	**6,753**

5. Expenses

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Interest expense						
Redeemable shares	46,218	47,228	91,773	46,218	47,228	91,773
Deposits from customers	5,005	5,202	10,453	5,005	5,202	10,453
Other financial institutions	93	61	338	93	61	338
Subsidiary companies	-	-	-	72	85	151
Other borrowings	2,583	3,365	6,108	1,396	1,815	3,340
Subordinated redeemable shares	2,105	1,871	3,823	2,105	1,871	3,823
	56,004	**57,727**	**112,495**	**54,889**	**56,262**	**109,878**
Other operating expenses						
Auditors remuneration	108	215	375	63	177	303
Computer expenses	991	846	1,733	740	628	1,277
Fees and commissions	149	211	379	-	1	-
Fees to Directors	254	265	530	231	242	484
Marketing	2,799	2,324	4,008	2,139	1,551	2,768
Personnel	11,745	11,372	22,230	8,060	7,770	15,360
Actuarial life adjustment	313	357	564	-	-	-
Amortisation and depreciation	1,474	1,090	2,349	1,151	730	1,706
Rent and leases	1,110	1,098	2,197	1,094	1,078	2,140
Write off of property, plant and equipment	71	6	42	71	5	41
Other expenses	5,012	4,289	8,661	3,162	2,771	5,175
	24,026	**22,073**	**43,068**	**16,711**	**14,953**	**29,254**

All in $000's

5. Expenses (continued)

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	**Unaudited 30/09/2009**	**Audited 31/03/2010**	**Unaudited 30/09/2010**	**Unaudited 30/09/2009**	**Audited 31/03/2010**
Amounts received, or due and receivable by the auditors:						
KPMG auditing the financial statements	95	154	312	63	116	242
KPMG other assurance services [1]	13	61	63	-	61	61
	108	**215**	**375**	**63**	**177**	**303**

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

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	**Unaudited 30/09/2009**	**Audited 31/03/2010**	**Unaudited 30/09/2010**	**Unaudited 30/09/2009**	**Audited 31/03/2010**
Amounts received, or due and receivable by directors:						
JWA Smith (Chairman)	52	52	106	52	52	106
JF Ward (Deputy Chairman)	35	33	68	30	30	60
KJ Ball	29	29	58	29	29	58
JB Walker	27	32	58	21	21	41
GJ Mulvey	26	26	53	23	23	47
GJ Diack	29	29	59	23	23	47
JJ Grant	29	26	56	26	26	53
FE Spencer (appointed November 2010)	-	-	-	-	-	-
RL Smith[1]	-	-	-	-	-	-
	227	**227**	**458**	**204**	**204**	**412**
Provision for directors retiring allowance	27	38	72	27	38	72
	254	**265**	**530**	**231**	**242**	**484**

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.

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	**Unaudited 30/09/2009**	**Audited 31/03/2010**	**Unaudited 30/09/2010**	**Unaudited 30/09/2009**	**Audited 31/03/2010**
Personnel expenses includes key management personnel compensation which comprised:						
Salaries and short-term employee benefits	1,961	1,882	3,586	905	887	1,574
Post-employment benefits	60	60	97	60	60	97
Other long-term benefits	34	28	30	34	28	30
Termination benefits	-	-	-	-	-	-
	2,055	**1,970**	**3,713**	**999**	**975**	**1,701**

6. Net Gain/(Loss) from Financial Instruments Designated at Fair Value

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	**Unaudited 30/09/2009**	**Audited 31/03/2010**	**Unaudited 30/09/2010**	**Unaudited 30/09/2009**	**Audited 31/03/2010**
Net gain/(loss) arising on:						
Investment securities	(7)	(17)	(18)	-	-	-
Derivative financial instruments	4,144	5,919	10,207	3,910	4,283	7,867
Hedge ineffectiveness on cash flow hedging	-	(105)	379	-	(105)	379
Advances to customers	(613)	(6,130)	(9,588)	(613)	(6,130)	(9,588)
	3,524	**(333)**	**980**	**3,297**	**(1,952)**	**(1,342)**

All in $000's

7. Taxation

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Reconciliation of the prima facie income tax payable on profit with income tax expense in the income statement						
Surplus before income tax	12,520	8,920	20,559	8,576	3,476	11,337
Prima facie income tax	3,717	2,778	6,303	2,537	1,117	3,498
Adjust for the tax effect of :						
Imputation credits received	6	-	5	127	83	531
Other permanent items	(314)	(181)	(908)	55	68	177
Loss offset / subvention	-	-	-	(144)	(185)	(509)
Prior period adjustments [1]	2,197	66	134	30	(1,302)	(1,239)
	1,889	(115)	(769)	68	(1,336)	(1,040)
Tax on surplus	5,606	2,663	5,534	2,605	(219)	2,458
Intra-group dividend (imputation credits)	(20)	-	(12)	(423)	(250)	(1,657)
Impact of reduction in corporate tax rate	(50)	-	-	13	-	-
Taxation expense/(benefit)	**5,536**	**2,663**	**5,522**	**2,195**	**(469)**	**801**
The major components of the income tax expense comprise:						
Amounts recognised in the income statement						
Current income tax						
Current income tax charge	2,131	2,253	7,724	822	407	4,097
Adjustments recognised in the current period in relation to current tax of prior periods	(37)	-	80	(37)	-	62
Deferred income tax						
Deferred tax expenses relating to the origination and reversal of temporary differences [1]	3,442	410	(2,282)	1,410	(876)	(3,358)
Total income tax expense recognised in income statement	**5,536**	**2,663**	**5,522**	**2,195**	**(469)**	**801**
The following amounts were charged/(credited) direct to equity:						
Current income tax	171	-	-	171	-	-
Deferred income tax	(1,232)	2,439	3,381	(917)	2,439	3,466
Total income tax expense recognised directly in equity	**(1,061)**	**2,439**	**3,381**	**(746)**	**2,439**	**3,466**

[1] This 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.

8. Funds with Financial Institutions

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Call funds	3,602	979	19,317	2,500	-	18,001
Registered certificates of deposit	-	-	31,943	-	-	31,943
Term deposits	1,760	100,134	12,820	-	98,419	10,084
	5,362	**101,113**	**64,080**	**2,500**	**98,419**	**60,028**

All in $000's

9. Investment Securities

	BANKING GROUP			PARENT		
	Unaudited	**Unaudited**	**Audited**	**Unaudited**	**Unaudited**	**Audited**
	30/09/2010	**30/09/2009**	**31/03/2010**	**30/09/2010**	**30/09/2009**	**31/03/2010**
Managed funds	633	621	627	-	-	-
NZ government securities	1,050	1,058	1,058	-	-	-
Equity securities	796	1,197	718	-	404	-
Commercial paper	6,970	-	-	6,970	-	-
Local authority bonds	21,159	-	20,883	21,058	-	20,782
Bank bonds	10,787	-	20,467	10,787	-	20,467
Other bonds	7,802	-	3,729	7,802	-	3,729
	49,197	**2,876**	**47,482**	**46,617**	**404**	**44,978**

10. 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 September 2010 as a result of highly probable cash flows no longer expected to occur (30 September 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

10. Derivative Financial Instruments (continued)

	BANKING GROUP			PARENT		
As at 30 September 2010	**Notional principal**	**Fair value assets**	**Fair value liabilities**	**Notional principal**	**Fair value assets**	**Fair value liabilities**
Held for risk management - at fair value						
Interest rate related contracts						
Swaps	349,370	1,448	687	389,278	1,847	689
Options	78,000	-	1,011	78,000	-	1,011
Total held for risk management at fair value	**427,370**	**1,448**	**1,698**	**467,278**	**1,847**	**1,700**
Held for hedging - cash flow hedges						
Interest rate related contracts						
Swaps	547,500	-	9,835	627,500	1,393	9,835
Options	26,000	-	578	26,000	-	578
Total held for hedging	**573,500**	**-**	**10,413**	**653,500**	**1,393**	**10,413**
Total derivative financial instruments	**1,000,870**	**1,448**	**12,111**	**1,120,778**	**3,240**	**12,113**
As at 30 September 2009						
Held for risk management - at fair value						
Interest rate related contracts						
Swaps	759,865	1,139	2,345	838,427	2,621	2,398
Options	256,375	-	8,494	256,375	-	8,494
Total held for risk management at fair value	**1,016,240**	**1,139**	**10,839**	**1,094,802**	**2,621**	**10,892**
Held for hedging - cash flow hedges						
Interest rate related contracts						
Swaps	442,500	1,415	9,215	442,500	1,415	9,215
Options	90,000	-	3,571	90,000	-	3,571
Total held for hedging	**532,500**	**1,415**	**12,786**	**532,500**	**1,415**	**12,786**
Total derivative financial instruments	**1,548,740**	**2,554**	**23,625**	**1,627,302**	**4,036**	**23,678**
As at 31 March 2010						
Held for risk management - at fair value						
Interest rate related contracts						
Swaps	359,260	503	1,341	419,278	1,210	1,349
Options	162,000	-	4,750	162,000	-	4,750
Total held for risk management at fair value	**521,260**	**503**	**6,091**	**581,278**	**1,210**	**6,099**
Held for hedging - cash flow hedges						
Interest rate related contracts						
Swaps	484,500	90	5,022	534,500	449	5,022
Options	90,000	(87)	1,896	90,000	(87)	1,896
Total held for hedging	**574,500**	**3**	**6,918**	**624,500**	**362**	**6,918**
Total derivative financial instruments	**1,095,760**	**506**	**13,009**	**1,205,778**	**1,572**	**13,017**

All in $000's

11. Advances to Customers

		BANKING GROUP			PARENT		
		Unaudited 30/09/2010	**Unaudited 30/09/2009**	**Audited 31/03/2010**	**Unaudited 30/09/2010**	**Unaudited 30/09/2009**	**Audited 31/03/2010**
Advances at fair value through profit or loss		148,296	374,324	250,129	148,296	374,324	250,129
Advances at amortised cost		2,327,030	2,103,447	2,231,236	2,138,205	1,904,400	2,036,193
Gross advances [1]		**2,475,326**	**2,477,771**	**2,481,365**	**2,286,501**	**2,278,724**	**2,286,322**
Provisions for credit impairment	(12)	(12,802)	(11,531)	(17,216)	(7,993)	(6,925)	(12,510)
Deferred fee revenue and expenses		(3,361)	(4,846)	(4,060)	(1,012)	(1,771)	(1,228)
Total net advances	(27)	**2,459,163**	**2,461,394**	**2,460,089**	**2,277,496**	**2,270,028**	**2,272,584**

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 September 2010 the maximum credit exposure on these loans at fair value through the profit or loss was $148 million (30 September 2009 $374 million; 31 March 2010 $250 million). The Banking Group has $nil credit risk derivatives at 30 September 2010 (30 September 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 September 2009 $nil; 31 March 2010 $30 million). The underlying collateral accepted by the RBNZ are residential advances to the value of $nil (30 September 2009 $nil; 31 March 2010 $36 million). These advances have not been derecognised from the statement of financial position.

All in $000's

12. Provision for Credit Impairment

	BANKING GROUP			PARENT		
	Unaudited	**Unaudited**	**Audited**	**Unaudited**	**Unaudited**	**Audited**
	30/09/2010	**30/09/2009**	**31/03/2010**	**30/09/2010**	**30/09/2009**	**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	12,510	8,055	8,055
New provisions during the period	2,154	3,450	10,328	2,154	3,450	10,328
Balances written off during the period	(7,008)	(4,557)	(5,401)	(7,008)	(4,557)	(5,401)
Recoveries/reversals of previously recognised provision	(293)	(23)	(472)	(293)	(23)	(472)
Balance at end of the period	**7,363**	**6,925**	**12,510**	**7,363**	**6,925**	**12,510**
Collective provisions against advances and loans						
Balance at beginning of the period	4,706	4,743	4,743	-	-	-
Charged to income statement	733	(137)	(37)	630	-	-
Balance at end of the period	**5,439**	**4,606**	**4,706**	**630**	**-**	**-**
Total provisions for credit impairment	**12,802**	**11,531**	**17,216**	**7,993**	**6,925**	**12,510**

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

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

	BANKING GROUP			PARENT		
	Unaudited	**Unaudited**	**Audited**	**Unaudited**	**Unaudited**	**Audited**
	30/09/2010	**30/09/2009**	**31/03/2010**	**30/09/2010**	**30/09/2009**	**31/03/2010**
Bad debts written off during the period	10,079	8,274	11,309	7,368	5,229	5,851
Movement in individual provisions	(5,147)	(1,130)	4,455	(5,147)	(1,130)	4,455
Movement in collective provision	733	(137)	(37)	630	-	-
Provision for credit impairment to income statement	**5,665**	**7,007**	**15,727**	**2,851**	**4,099**	**10,306**

All in $000's

13. Asset Quality

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
(a) Asset quality - advances to customers						
Neither past due or impaired	2,416,981	2,415,410	2,406,938	2,239,023	2,229,506	2,226,361
Individually impaired amount	16,923	21,318	29,907	16,923	21,318	29,907
Past due amount	38,061	36,197	40,460	29,543	26,129	28,826
Total provision for credit impairment	(12,802)	(11,531)	(17,216)	(7,993)	(6,925)	(12,510)
Total carrying amount	**2,459,163**	**2,461,394**	**2,460,089**	**2,277,496**	**2,270,028**	**2,272,584**
(b) Ageing of past due but not impaired assets						
Past due 0-29 days	13,884	17,874	15,097	8,595	12,578	8,580
Past due 30-59 days	7,355	4,002	4,724	5,928	2,321	2,956
Past due 60-89 days	3,177	2,837	4,172	2,362	1,869	2,812
Past due 90-119 days	961	4,131	2,596	310	3,318	1,691
Past due 120-365 days	12,684	7,353	13,871	12,348	6,043	12,787
Past due more than 1 year	-	-	-	-	-	-
Carrying amount	**38,061**	**36,197**	**40,460**	**29,543**	**26,129**	**28,826**
(c) 90 day past due assets						
Balance at beginning of the period	16,467	10,240	11,917	14,478	9,806	9,806
Additions to 90 day past due assets	10,924	12,015	16,310	10,082	9,361	14,478
Reductions in 90 day past due assets	(13,746)	(10,771)	(11,760)	(11,902)	(9,806)	(9,806)
	13,645	**11,484**	**16,467**	**12,658**	**9,361**	**14,478**
(d) Impaired assets						
Individually impaired assets						
Balance at beginning of the period	29,907	21,848	21,848	29,907	21,848	21,848
Additions to individually impaired assets	3,935	7,593	17,898	3,935	7,593	17,898
Reductions to individually impaired assets	(16,919)	(8,123)	(8,319)	(16,919)	(8,123)	(8,319)
Transfers back to productive ledger	-	-	(1,520)	-	-	(1,520)
Balance at end of the period	**16,923**	**21,318**	**29,907**	**16,923**	**21,318**	**29,907**
Less provision at end of the period	(7,363)	(6,925)	(12,510)	(7,363)	(6,925)	(12,510)
Net carrying amount at end of the period	**9,560**	**14,393**	**17,397**	**9,560**	**14,393**	**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 $nil for the period ending 30 September 2010 (30 September 2009 $88,000; 31 March 2010 $102,447).

All in $000's

14. Loan Securitisation

Mortgages assigned by SBS to the Lifestages Mortgage Portfolio unit trust during the period ended 30 September 2010 amounted to $nil (30 September 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 September 2010 amounted to $nil (30 September 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 and accordingly it is appropriate to consolidate the financial statements of SBS Invercargill W Trust within the Parent.

Mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No. 2 during the period ended 30 September 2010 amounted to $nil (30 September 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 and accordingly it is appropriate to consolidate the financial statements of SBS Oreti Trust No. 2 within the Parent.

Mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No.1 during the period ended 30 September 2010 amounted to $nil (30 September 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			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Lifestages Mortgage Portfolio	45,536	61,164	53,802	45,536	61,164	53,802
SBS Oreti Trust No. 1	66,286	83,371	71,720	-	-	-
SBS Oreti Trust No. 2	223,360	105,791	241,955	223,360	105,791	241,955
	335,182	**250,326**	**367,477**	**268,896**	**166,955**	**295,757**

15. Investments in Subsidiaries

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Investments in subsidiaries	-	-	-	15,180	13,451	15,180
Investments in associates	-	-	-	-	-	-
	-	**-**	**-**	**15,180**	**13,451**	**15,180**
Loans to subsidiaries (at amortised cost)	-	-	-	94,254	90,528	95,555
Loans to associates (at amortised cost)	-	-	-	-	-	-
	-	**-**	**-**	**94,254**	**90,528**	**95,555**

All in $000's

15. Investments in Subsidiaries (continued)

Significant subsidiaries:	Percentage held 30/09/2010	30/09/2009	31/03/2010	Balance Date	Nature of business
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. Refer to Note 33, Related Party Transactions for further details of loans to subsidiaries.

16. Other Assets

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Prepayments	791	582	400	624	432	323
Receivables from related parties	-	-	-	6,618	3,330	5,693
Other receivables	1,325	1,390	1,175	538	481	515
	2,116	**1,972**	**1,575**	**7,780**	**4,243**	**6,531**

17. Property, Plant and Equipment

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Freehold land (at valuation)	1,360	1,100	1,360	360	300	360
Buildings (at valuation)	9,380	9,640	9,380	410	480	410
Depreciation to date	(55)	(57)	-	(6)	(7)	-
Total carrying amount	**10,685**	**10,683**	**10,740**	**764**	**773**	**770**
Leasehold assets (at cost)	4,468	4,397	4,423	4,249	4,178	4,203
Accumulated depreciation	(2,079)	(2,094)	(2,129)	(1,993)	(2,027)	(2,052)
Total carrying amount	**2,389**	**2,303**	**2,294**	**2,256**	**2,151**	**2,151**
Computer equipment (at cost)	6,178	4,983	4,838	5,017	3,926	3,772
Accumulated depreciation	(4,231)	(4,150)	(3,978)	(3,232)	(3,186)	(2,985)
Total carrying amount	**1,947**	**833**	**860**	**1,785**	**740**	**787**
Other assets (at cost)	6,962	6,392	6,417	4,237	4,103	4,088
Accumulated depreciation	(4,434)	(4,133)	(4,306)	(2,485)	(2,295)	(2,418)
Total carrying amount	**2,528**	**2,259**	**2,111**	**1,752**	**1,808**	**1,670**
Total property, plant and equipment	**17,549**	**16,078**	**16,005**	**6,557**	**5,472**	**5,378**

Other assets include plant, furniture and fittings and motor vehicles.

All in $000's

17. Property, Plant and Equipment (continued)

Land and Buildings

Independent valuations of freehold land and buildings were carried out as at 31 March 2010 by Tony Chadderton, a registered valuer with Chadderton & Associates. Mr Chadderton is a member of the Property Institute of NZ. The valuations were based on capitalisation of net market rental. Such valuations are performed on an open market basis, being the amounts for which the assets could be exchanged between a knowledgeable, willing seller in an arm's length transaction at the valuation date.

The current rateable valuations of land and buildings were notified 1 July 2008, the aggregate of these valuations for all land and buildings owned by the Banking Group as at 30 September 2010 is $10.92 million (30 September 2009 $10.92 million; 31 March 2010 $10.92 million).

The carrying amount of land and buildings had they been recognised under the cost model are as follows:

	BANKING GROUP			PARENT		
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Audited
	30/09/2010	30/09/2009	31/03/2010	30/09/2010	30/09/2009	31/03/2010
Freehold land	1,561	1,561	1,561	220	220	220
Buildings	7,981	8,010	8,019	300	309	304
	9,542	**9,571**	**9,580**	**520**	**529**	**524**

Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below:

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Freehold land and buildings						
Balance at beginning of the period	10,740	10,740	10,740	770	780	780
Additions	-	-	-	-	-	-
Net revaluation increments	-	-	114	-	-	4
Disposals	-	-	-	-	-	-
Depreciation	(55)	(57)	(114)	(6)	(7)	(14)
Balance at end of the period	**10,685**	**10,683**	**10,740**	**764**	**773**	**770**
Leasehold assets						
Balance at beginning of the period	2,294	2,401	2,401	2,151	2,246	2,246
Additions	283	10	137	284	2	128
Disposals	(71)	-	(29)	(71)	-	(29)
Depreciation	(117)	(108)	(215)	(108)	(97)	(194)
Balance at end of the period	**2,389**	**2,303**	**2,294**	**2,256**	**2,151**	**2,151**
Computer equipment						
Balance at beginning of the period	860	790	790	787	643	643
Additions	1,378	279	569	1,256	250	513
Disposals	-	(7)	(10)	-	(4)	(9)
Depreciation	(291)	(229)	(489)	(258)	(149)	(360)
Balance at end of the period	**1,947**	**833**	**860**	**1,785**	**740**	**787**
Other assets						
Balance at beginning of the period	2,111	1,973	1,973	1,670	1,553	1,553
Additions	697	550	617	267	450	466
Disposals	(46)	(79)	(91)	(26)	(66)	(73)
Depreciation	(234)	(185)	(388)	(159)	(129)	(276)
Balance at end of the period	**2,528**	**2,259**	**2,111**	**1,752**	**1,808**	**1,670**
Total property, plant and equipment	**17,549**	**16,078**	**16,005**	**6,557**	**5,472**	**5,378**

All in $000's

18. Intangible Assets

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Goodwill						
Cost						
Balance at beginning of the period	1,160	1,160	1,160	-	-	-
Additions	-	-	-	-	-	-
Balance at end of the period	**1,160**	**1,160**	**1,160**	**-**	**-**	**-**
Impairment						
Balance at beginning of the period	(145)	(145)	(145)	-	-	-
Impairment losses	-	-	-	-	-	-
Balance at end of the period	**(145)**	**(145)**	**(145)**	**-**	**-**	**-**
Total carrying amount	**1,015**	**1,015**	**1,015**	**-**	**-**	**-**
Software						
Cost						
Balance at beginning of the period	9,290	7,895	7,895	6,475	5,338	5,338
Additions	873	645	1,395	576	636	1,137
Balance at end of the period	**10,163**	**8,540**	**9,290**	**7,051**	**5,974**	**6,475**
Amortisation and impairment						
Balance at beginning of the period	(7,211)	(6,068)	(6,068)	(4,789)	(3,927)	(3,927)
Amortisation for the period	(778)	(511)	(1,143)	(620)	(348)	(862)
Impairment losses	-	-	-	-	-	-
Balance at end of the period	**(7,989)**	**(6,579)**	**(7,211)**	**(5,409)**	**(4,275)**	**(4,789)**
Total carrying amount	**2,174**	**1,961**	**2,079**	**1,642**	**1,699**	**1,686**
Total intangible assets	**3,189**	**2,976**	**3,094**	**1,642**	**1,699**	**1,686**

No impairment losses have been recognised against the gross carrying amount of software and other intangible assets for the period ended 30 September 2010 (30 September 2009 $nil; 31 March 2010 $nil).

Testing for impairment on goodwill is undertaken using models which calculate the valuation with reference to applicable price to earnings ratios.

All in $000's

19. Deferred Tax Assets and Liabilities

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Provision for deferred tax						
Balance at beginning of the period	7,394	10,504	10,504	6,318	8,425	8,425
Prior period adjustment	62	(8)	(2,011)	62	(8)	(1,999)
(Charged)/credited to income statement	(3,442)	(410)	2,282	(1,410)	876	3,358
(Charged)/credited to equity	1,232	(2,439)	(3,381)	917	(2,439)	(3,466)
Balance at end of the period	**5,246**	**7,647**	**7,394**	**5,887**	**6,854**	**6,318**
Recognised deferred tax assets and liabilities:						
Deferred tax assets comprise the following temporary differences:						
Provision for credit impairment	3,649	3,229	5,040	2,396	2,078	3,753
Financial instruments	3,442	4,165	1,803	2,962	4,146	1,618
Funds with other financial institutions - available for sale	32	42	16	-	-	-
Intangible assets	-	8	4	-	8	4
Provisions	408	407	416	330	342	337
Other	354	521	707	354	454	707
Total deferred tax assets	**7,885**	**8,372**	**7,986**	**6,042**	**7,028**	**6,419**
Deferred tax liabilities comprise the following temporary differences:						
Other	1	1	1	1	1	1
Property, plant and equipment [1]	2,228	92	182	67	55	37
Advances at fair value through profit or loss	36	46	8	36	46	8
Revaluation of property	374	568	401	51	72	55
Total deferred tax liabilities	**2,639**	**707**	**592**	**155**	**174**	**101**
Net deferred tax assets	**5,246**	**7,647**	**7,394**	**5,887**	**6,854**	**6,318**
Movements in temporary differences during the period (charged)/credited to the income statement:						
Provision for credit impairment	(1,391)	(321)	1,467	(1,357)	(339)	1,337
Advances at fair value through profit or loss	(28)	157	195	(28)	157	195
Intangible assets	(4)	(4)	(8)	(4)	(4)	(8)
Provisions	(8)	38	47	(7)	38	33
Other	(353)	220	447	(353)	173	425
Subsidiary dividends	-	-	-	-	1,328	1,328
Property, plant and equipment	(2,046)	(6)	27	(30)	(12)	6
Financial instruments	450	(502)	(1,904)	431	(473)	(1,957)
Total deferred tax (charged)/credited to the income statement	**(3,380)**	**(418)**	**271**	**(1,348)**	**868**	**1,359**
Movements in temporary differences during the period (charged)/credited to equity:						
Funds with other financial institutions - available for sale	16	-	(26)	-	-	-
Cash flow hedges	1,189	(2,439)	(3,399)	913	(2,439)	(3,483)
Revaluation property	27	-	44	4	-	17
Total deferred tax (charged)/credited to equity	**1,232**	**(2,439)**	**(3,381)**	**917**	**(2,439)**	**(3,466)**

[1] This 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.

There are no unrecognised deferred tax assets as at 30 September 2010 (30 September 2009 $nil; 31 March 2010 $nil).

All in $000's

20. Other Liabilities

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Sundry creditors	7,804	7,979	7,477	5,191	4,013	4,174
Employee entitlements	2,416	2,829	3,196	1,716	2,147	2,467
Insurance policy liability	4,598	4,078	4,285	-	-	-
Provision for dividend	228	-	471	-	-	-
Other	2,608	10,600	1,846	2,608	10,600	1,846
	17,654	**25,486**	**17,275**	**9,515**	**16,760**	**8,487**

21. Subordinated Redeemable Shares

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
SBS Premier Bond	61,251	56,608	59,307	61,251	56,608	59,307
	61,251	**56,608**	**59,307**	**61,251**	**56,608**	**59,307**

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

At 30 September 2010 $49.50 million of subordinated redeemable shares qualify as lower tier 2 capital for Reserve Bank of New Zealand capital adequacy purposes (30 September 2009 $56.11; 31 March 2010 $50.44 million).

All in $000's

22. Equity

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Capital reserve	73	73	73	73	73	73
Revaluation reserve - property, plant and equipment	1,180	1,195	1,153	350	325	346
Revaluation reserve - available for sale assets	339	(63)	(58)	400	-	-
Revaluation reserve - cash flow hedging	(6,496)	(5,618)	(3,322)	(5,833)	(5,618)	(3,182)
Retained earnings	180,189	166,719	174,155	168,786	155,814	162,405
	175,285	162,306	172,001	163,776	150,594	159,642
Minority interests	6,071	5,045	5,663	-	-	-
Total equity	**181,356**	**167,351**	**177,664**	**163,776**	**150,594**	**159,642**

Movement in reserves:

Revaluation reserve - property, plant and equipment						
Balance at beginning of the period	1,153	1,195	1,195	346	325	325
Surplus on revaluation of land and buildings	-	-	114	-	-	4
Deferred tax on revaluation	27	-	44	4	-	17
Transfer to income statement	-	-	(200)	-	-	-
Net movement for the period	27	-	(42)	4	-	21
Balance at end of the period	**1,180**	**1,195**	**1,153**	**350**	**325**	**346**
Revaluation reserve - available for sale assets						
Balance at beginning of the period	(58)	(75)	(75)	-	5	5
Net gains/(losses) from changes in fair value	551	22	46	571	(7)	(7)
Current/deferred tax on changes in fair value	(155)	(6)	(24)	(171)	2	2
Minority interests share of net gains/(losses) from changes in fair value	4	(6)	(10)	-	-	-
Minority interests share of deferred tax in fair value	(3)	2	5	-	-	-
Net movement for the period	397	12	17	400	(5)	(5)
Balance at end of the period	**339**	**(63)**	**(58)**	**400**	**-**	**-**
Revaluation reserve - cash flow hedging						
Balance at beginning of the period	(3,322)	(11,309)	(11,309)	(3,182)	(11,309)	(11,309)
Net gains/(losses) from changes in fair value	(4,572)	8,130	11,331	(3,564)	8,130	11,610
Current tax on changes in fair value	1,189	(2,439)	(3,399)	913	(2,439)	(3,483)
Minority interests share of net gains/(losses) from changes in fair value	288	-	79	-	-	-
Minority interests share of deferred tax in fair value	(79)	-	(24)	-	-	-
Net movement for the period	(3,174)	5,691	7,987	(2,651)	5,691	8,127
Balance at end of the period	**(6,496)**	**(5,618)**	**(3,322)**	**(5,833)**	**(5,618)**	**(3,182)**
Retained earnings						
Balance at beginning of the period	174,155	161,432	161,432	162,405	151,869	151,869
Add net surplus for the period	6,984	6,257	15,037	6,381	3,945	10,536
Less minorities' interests	(950)	(970)	(2,314)	-	-	-
Balance at end of the period	**180,189**	**166,719**	**174,155**	**168,786**	**155,814**	**162,405**

All in $000's

23. Reconciliation Of Net Surplus To Net Operating Cash Flows

	BANKING GROUP			PARENT		
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Audited
	30/09/2010	30/09/2009	31/03/2010	30/09/2010	30/09/2009	31/03/2010
Net surplus for period	6,984	6,257	15,037	6,381	3,945	10,536
Add/(less) non cash items						
Depreciation and amortisation	1,474	1,090	2,349	1,151	730	1,706
Provision for credit impairment	5,665	7,007	15,727	2,851	4,099	10,306
Write off property, plant and equipment	71	6	42	71	5	41
Building revaluations	-	-	(200)	-	-	-
Actuarial life adjustment	313	357	564	-	-	-
Dividend provision	-	-	-	(572)	-	(2,610)
Dividend provision - minority interest	471	113	(359)	-	-	-
Deferred fee revenue and expenses	(699)	(969)	(1,753)	(216)	22	(521)
Derivatives fair value adjustment	(4,144)	(5,814)	(10,586)	(3,910)	(4,183)	(8,244)
Advances fair value adjustment	613	6,130	9,588	613	6,131	9,588
Investment securities fair value adjustment	7	17	18	-	-	-
Interest free loans fair value adjustment	(7)	(122)	(130)	(7)	(122)	(130)
Net deferred tax assets	3,381	418	(269)	1,348	(868)	(1,359)
	7,145	**8,233**	**14,991**	**1,329**	**5,814**	**8,777**
Deferral or accruals of past or future operating cash receipts or payments						
Increase in income tax receivable	(608)	(3,542)	(2,233)	(179)	(4,366)	(3,769)
Decrease/(increase) in sundry debtors	(541)	2,952	3,349	(677)	(236)	(1,643)
Increase/(decrease) in sundry creditors	(696)	(4,478)	(4,142)	266	(5,987)	(5,506)
Decrease/(increase) in accruals relating to interest receivable	(1,904)	2,239	633	(1,921)	2,075	481
Decrease in accruals relating to accrued interest and dividends payable to customers	(1,250)	(3,667)	(5,593)	(1,240)	(3,671)	(5,601)
Increase in accruals relating to accrued interest payable to financial institutions	30	-	15	30	-	15
Increase in net advances	(5,101)	(70,523)	(80,391)	(8,549)	(78,459)	(89,987)
Increase/(decrease) in shares and deposits	(47,717)	92,455	134,510	(46,703)	92,833	134,760
Decrease in other borrowings	(13,623)	(26,818)	(45,237)	(8,266)	(7,794)	(15,156)
Increase in subordinated redeemable shares	1,901	14,207	16,920	1,901	14,207	16,920
Net increase/(decrease) in cash held on behalf of Lifestages Mortgage Portfolio	762	(1,091)	(9,845)	762	(1,091)	(9,845)
	(68,747)	**1,734**	**7,986**	**(64,576)**	**7,511**	**20,669**
Items classified as cash						
Decrease in accruals relating to funds with financial institutions	114	79	384	102	47	364
Net cash flows from operating activities	**(54,504)**	**16,303**	**38,398**	**(56,764)**	**17,317**	**40,346**

All in $000's

24. Analysis of Borrowings

	BANKING GROUP					
	Total	Weighted average interest rate	Total	Weighted average interest rate	Total	Weighted average interest rate
	Unaudited		Unaudited		Audited	
	30/09/2010	%	30/09/2009	%	31/03/2010	%
Redeemable shares						
Between 0 and 1 year	1,882,143	4.89	1,807,277	4.68	1,878,098	4.66
Between 1 and 2 years	39,924	5.45	100,814	5.76	79,817	5.65
Between 2 and 3 years	7,251	5.98	15,220	5.69	12,495	5.44
Between 3 and 4 years	900	7.15	569	8.63	1,299	6.80
Between 4 and 5 years	1,514	6.81	761	7.88	299	7.65
Over 5 years	-	-	-	-	-	-
Total redeemable shares	**1,931,732**	**4.91**	**1,924,641**	**4.75**	**1,972,008**	**4.71**
Deposits from customers						
Between 0 and 1 year	247,469	4.67	237,532	4.17	219,630	4.24
Between 1 and 2 years	2,652	5.10	10,586	5.46	9,286	5.46
Between 2 and 3 years	1,243	7.42	154	5.27	132	5.17
Between 3 and 4 years	-	-	1,003	8.00	1,003	8.00
Between 4 and 5 years	-	-	-	-	-	-
Over 5 years	-	-	-	-	-	-
Total deposits from customers	**251,364**	**4.69**	**249,275**	**4.24**	**230,051**	**4.30**
Due to other financial institutions						
Between 0 and 1 year	-	-	18,002	3.90	30,017	2.58
Between 1 and 2 years	-	-	-	-	-	-
Between 2 and 3 years	-	-	-	-	-	-
Between 3 and 4 years	-	-	-	-	-	-
Between 4 and 5 years	-	-	-	-	-	-
Over 5 years	-	-	-	-	-	-
Total due to other financial institutions[1]	**-**	**-**	**18,002**	**3.90**	**30,017**	**2.58**
Subordinated redeemable shares						
Between 0 and 1 year	-	-	-	-	-	-
Between 1 and 2 years	-	-	-	-	-	-
Between 2 and 3 years	-	-	-	-	-	-
Between 3 and 4 years	56,608	6.96	-	-	42,226	6.95
Between 4 and 5 years	4,643	7.00	56,608	6.96	17,081	7.00
Over 5 years	-	-	-	-	-	-
Total subordinated redeemable shares	**61,251**	**6.96**	**56,608**	**6.96**	**59,307**	**6.96**
	2,244,347	**4.94**	**2,248,526**	**4.74**	**2,291,383**	**4.70**

All in $000's

24. Analysis of Borrowings (continued)

	PARENT					
	Total	Weighted average interest rate	Total	Weighted average interest rate	Total	Weighted average interest rate
	Unaudited		Unaudited		Audited	
	30/09/2010	%	30/09/2009	%	31/03/2010	%
Redeemable shares						
Between 0 and 1 year	1,886,336	4.89	1,810,578	4.68	1,881,267	4.66
Between 1 and 2 years	39,924	5.45	100,814	5.76	79,817	5.65
Between 2 and 3 years	7,251	5.98	15,220	5.69	12,495	5.44
Between 3 and 4 years	900	7.15	569	8.63	1,299	6.80
Between 4 and 5 years	1,514	6.81	761	7.88	299	7.65
Over 5 years	-	-	-	-	-	-
Total redeemable shares	**1,935,925**	**4.91**	**1,927,942**	**4.75**	**1,975,177**	**4.71**
Deposits from customers						
Between 0 and 1 year	247,469	4.67	237,532	4.17	219,630	4.24
Between 1 and 2 years	2,652	5.10	10,586	5.46	9,286	5.46
Between 2 and 3 years	1,243	7.42	154	5.27	132	5.17
Between 3 and 4 years	-	-	1,003	8.00	1,003	8.00
Between 4 and 5 years	-	-	-	-	-	-
Over 5 years	-	-	-	-	-	-
Total deposits from customers	**251,364**	**4.69**	**249,275**	**4.24**	**230,051**	**4.30**
Due to other financial institutions						
Between 0 and 1 year	-	-	18,002	3.90	30,017	2.58
Between 1 and 2 years	-	-	-	-	-	-
Between 2 and 3 years	-	-	-	-	-	-
Between 3 and 4 years	-	-	-	-	-	-
Between 4 and 5 years	-	-	-	-	-	-
Over 5 years	-	-	-	-	-	-
Total due to other financial institutions[1]	**-**	**-**	**18,002**	**3.90**	**30,017**	**2.58**
Subordinated redeemable shares						
Between 0 and 1 year	-	-	-	-	-	-
Between 1 and 2 years	-	-	-	-	-	-
Between 2 and 3 years	-	-	-	-	-	-
Between 3 and 4 years	56,608	6.96	-	-	42,226	6.95
Between 4 and 5 years	4,643	7.00	56,608	6.96	17,081	7.00
Over 5 years	-	-	-	-	-	-
Total subordinated redeemable shares	**61,251**	**6.96**	**56,608**	**6.96**	**59,307**	**6.96**
	2,248,540	**4.94**	**2,251,827**	**4.74**	**2,294,552**	**4.70**

Redeemable shares, deposits and subordinated redeemable shares are unsecured.

Floating rate redeemable shares and deposits have been included above, therefore the weighted average interest rates provided are only meaningful at the balance date noted. No analysis of other borrowings has been included above on the basis that these amounts relate to the loan securitisation vehicles discussed in notes 14 and 15.

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

All in $000's

25. Contingent Liabilities and Credit Related Commitments

	Unaudited contract or notional amt 30/09/2010	Unaudited credit equivalent 30/09/2010	Unaudited contract or notional amt 30/09/2009	Unaudited credit equivalent 30/09/2009	Audited contract or notional amt 31/03/2010	Audited credit equivalent 31/03/2010
BANKING GROUP						
Contingent liabilities						
Lifestages Superannuation Scheme	-	-	26	26	-	-
Commitments						
Commitments with uncertain drawdown	21,712	10,856	18,413	9,207	23,934	11,967
Commitments to extend credit which can be unconditionally cancelled	174,274	-	198,570	-	181,270	-
Total contingent liabilities and credit related commitments	**195,986**	**10,856**	**217,009**	**9,233**	**205,204**	**11,967**
PARENT						
Contingent liabilities						
Lifestages Superannuation Scheme	-	-	26	26	-	-
Commitments						
Commitments with uncertain drawdown	32,941	16,471	19,319	9,660	22,146	11,073
Commitments to extend credit which can be unconditionally cancelled	174,274	-	198,570	-	181,270	-
Total contingent liabilities and credit related commitments	**207,215**	**16,471**	**217,915**	**9,686**	**203,416**	**11,073**

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 September 2010 the amount guaranteed by SBS was $nil (30 September 2009 $26,000; 31 March 2010 $nil) A minimum of 80% of the funds invested in the Lifestages Superannuation Scheme are reinvested with SBS.

There are no other material contingent liabilities.

All in $000's

26. Commitments

Lease commitments

As at 30 September 2010 the value of the residual portion of lease commitments between Southland Building Society and its wholly owned subsidiary company, Fraser Properties Ltd was $0.56 million (30 September 2009 $1.01 million; 31 March 2010 $0.78 million).

Lease commitments payable after balance date:

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
0-12 Months	1,817	1,770	1,807	1,793	1,682	1,808
12-24 Months	1,298	1,277	1,295	1,096	1,407	1,366
24-60 Months	2,320	1,417	1,844	1,694	1,125	1,492
>60 Months	710	301	669	552	116	541
	6,145	**4,765**	**5,615**	**5,135**	**4,330**	**5,207**

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.

27. Fair value

The estimated fair value of the Banking Group's financial instruments is disclosed below. It is intended to provide an indication of the fair value of financial instruments and not the fair value of the Banking Group's business as a whole. It specifically excludes certain non-financial instruments and a range of intangible and relationship benefits which are integral to a full assessment of the Banking Group's financial position and the value of its business.

Methodologies

The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments. The following methods have been used:

Cash on hand and at bank

These assets are short term in nature and the related carrying amount is equivalent to their fair value.

Funds with financial institutions

Funds with financial institutions are recognised in the financial statements as available for sale therefore carrying amount equals fair value. The fair values are based on market prices.

Investment securities

Investment securities are recognised in the financial statements as either fair value through profit or loss or available for sale, therefore carrying amount equals fair value. The fair values are based on quoted market prices.

Advances to customers

Advances at amortised cost

For variable rate advances the carrying amount is a reasonable estimate of fair value as they can be settled the following day at balance outstanding. For fixed rate advances fair values have been estimated using the discounted cash flow approach by reference to relative wholesale rates for the term at original fixing and the wholesale rate for the remaining term at balance date.

Advances include some interest free advances made in support of community projects. As at 30 September 2010 total interest free advances were $0.10 million (30 September 2009 $0.26 million; 31 March 2010 $0.25 million). These advances have been estimated using the discounted cash flow approach by reference to current rates at which similar advances would be made to other borrowers with a similar credit rating and the same remaining maturities. As at 30 September 2010 the fair value of these interest free advances as reported in the statement of financial position were $0.08 million (30 September 2009 $0.23 million; 31 March 2010 $0.23 million).

Advances at fair value through profit or loss

Designated advances are recognised in the financial statements at fair value through the profit or loss, therefore carrying amount equals fair value. Fair value is based on valuation techniques including the use of a discounted cash flow model based on wholesale rates adjusted with a retail lending margin.

Redeemable shares, deposits and subordinated redeemable shares

The fair value of demand deposits is the amount payable on demand at the reporting date. For other liabilities with maturities of less than three months, the carrying amount is a reasonable estimate of fair value.

For liabilities with maturities of three months or longer, fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values have been estimated using the discounted cash flow approach by reference to rates currently offered for similar liabilities of similar remaining maturities.

All in $000's

27. Fair value (continued)

Derivative financial instruments

Interest rate contracts

Interest rate contracts are recognised in the financial statements at fair value, therefore carrying amount equals fair value.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

For unrecognised financial instruments which include financial guarantees and lending commitments, no secondary market exists, so no fair value can be calculated. The face value of these items are given in Notes 25 and 31.

	Unaudited 30/09/2010		Unaudited 30/09/2009		Audited 31/03/2010	
BANKING GROUP	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets						
Cash on hand and at bank	23,941	23,941	12,896	12,896	26,504	26,504
Funds with financial institutions	5,362	5,362	101,113	101,113	64,080	64,080
Investment securities	49,197	49,197	2,876	2,876	47,482	47,482
Derivative financial instruments	1,448	1,448	2,554	2,554	506	506
Current tax assets	1,613	1,613	2,475	2,475	1,176	1,176
Advances to customers	2,459,163	2,464,164	2,461,394	2,464,373	2,460,089	2,461,291
Other assets	2,116	2,116	1,972	1,972	1,575	1,575
Total financial assets	**2,542,840**	**2,547,841**	**2,585,280**	**2,588,259**	**2,601,412**	**2,602,614**
Financial liabilities						
Bank overdraft	1,884	1,884	-	-	-	-
Redeemable shares	1,931,732	1,935,379	1,924,641	1,928,547	1,972,008	1,977,538
Deposits from customers	251,364	251,518	249,275	249,112	230,051	230,202
Due to other financial institutions	-	-	18,002	18,002	30,017	30,017
Derivative financial instruments	12,111	12,111	23,625	23,625	13,009	13,009
Other borrowings	114,951	114,951	146,993	146,993	128,574	128,574
Other liabilities	10,640	10,640	18,579	18,579	9,794	9,794
Subordinated redeemable shares	61,251	61,496	56,608	49,022	59,307	57,772
Total financial liabilities	**2,383,933**	**2,387,979**	**2,437,723**	**2,433,880**	**2,442,760**	**2,446,906**
PARENT						
Financial assets						
Cash on hand and at bank	14,709	14,709	6,278	6,278	17,676	17,676
Funds with financial institutions	2,500	2,500	98,419	98,419	60,028	60,028
Investment securities	46,617	46,617	404	404	44,978	44,978
Derivative financial instruments	3,240	3,240	4,036	4,036	1,572	1,572
Current tax assets	2,023	2,023	2,611	2,611	2,014	2,014
Advances to customers	2,277,496	2,282,302	2,270,028	2,272,257	2,272,584	2,273,503
Loans to subsidiaries	94,254	94,254	90,528	90,528	95,555	95,555
Other assets	7,780	7,780	4,243	4,243	6,531	6,531
Total financial assets	**2,448,619**	**2,453,425**	**2,476,547**	**2,478,776**	**2,500,938**	**2,501,857**
Financial liabilities						
Bank overdraft	1,884	1,884	-	-	-	-
Redeemable shares	1,935,925	1,939,573	1,927,942	1,931,848	1,975,177	1,980,706
Deposits from customers	251,364	251,518	249,275	249,112	230,051	230,202
Due to other financial institutions	-	-	18,002	18,002	30,017	30,017
Derivative financial instruments	12,113	12,113	23,678	23,678	13,017	13,017
Other borrowings	45,536	45,536	61,164	61,164	53,802	53,802
Other liabilities	7,799	7,799	14,613	14,613	6,020	6,020
Subordinated redeemable shares	61,251	61,496	56,608	49,022	59,307	57,772
Total financial liabilities	**2,315,872**	**2,319,919**	**2,351,282**	**2,347,439**	**2,367,391**	**2,371,536**

All in $000's

27. Fair Value (continued)

The Banking Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Fair values are determined using quoted (unadjusted) prices in active markets for identical assets and liabilities.
Level 2: Fair values are determined using other techniques where all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: Fair values are determined using techniques that use inputs which have a significant effect on the recorded fair value and are not based on observable market data.

BANKING GROUP as at 30 September 2010

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments				
Interest rate swaps	-	1,448	-	**1,448**
Interest rate options	-	-	-	**-**
Financial assets designated at fair value through profit or loss				
Loans and advances to customers	-	-	148,296	**148,296**
NZ government securities	1,050	-	-	**1,050**
Equity securities	300	-	-	**300**
Managed funds	-	9	-	**9**
Financial assets designated as available for sale				
Call funds	3,602	-	-	**3,602**
Term deposits	-	1,760	-	**1,760**
Commercial paper	-	6,970	-	**6,970**
Local authority bonds	-	21,159	-	**21,159**
Bank bonds	-	10,787	-	**10,787**
Other bonds	-	7,802	-	**7,802**
Equity securites	496	-	-	**496**
Managed funds	-	624	-	**624**
Total financial assets	**5,448**	**50,559**	**148,296**	**204,303**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	10,522	-	**10,522**
Interest rate options	-	1,589	-	**1,589**
Total financial liabilities	**-**	**12,111**	**-**	**12,111**

All in $000's

27. Fair Value (continued)

PARENT as at 30 September 2010

Financial assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments				
Interest rate swaps	-	3,240	-	**3,240**
Interest rate options	-	-	-	**-**
Financial assets designated at fair value through profit or loss				
Loans and advances to customers	-	-	148,296	**148,296**
Financial assets designated as available for sale				
Call funds	2,500	-	-	**2,500**
Term deposits	-	-	-	**-**
Commercial paper	-	6,970	-	**6,970**
Local authority bonds	-	21,058	-	**21,058**
Bank bonds	-	10,787	-	**10,787**
Other bonds	-	7,802	-	**7,802**
Total financial assets	**2,500**	**49,857**	**148,296**	**200,653**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	10,524	-	**10,524**
Interest rate options	-	1,589	-	**1,589**
Total financial liabilities	**-**	**12,113**	**-**	**12,113**

All in $000's

27. Fair Value (continued)

BANKING GROUP as at 30 September 2009

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments				
Interest rate swaps	-	2,554	-	**2,554**
Interest rate options	-	-	-	**-**
Financial assets designated at fair value through profit or loss				
Loans and advances to customers	-	-	374,324	**374,324**
NZ government securities	1,058	-	-	**1,058**
Equity securities	300	-	-	**300**
Managed funds	-	13	-	**13**
Financial assets designated as available for sale				
Call funds	979	-	-	**979**
Term deposits	-	100,134	-	**100,134**
Equity securites	897	-	-	**897**
Managed funds	-	608	-	**608**
Total financial assets	**3,234**	**103,309**	**374,324**	**480,867**

Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	11,560	-	**11,560**
Interest rate options	-	12,065	-	**12,065**
Total financial liabilities	**-**	**23,625**	**-**	**23,625**

PARENT as at 30 September 2009

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments				
Interest rate swaps	-	4,036	-	**4,036**
Interest rate options	-	-	-	**-**
Financial assets designated at fair value through profit or loss				
Loans and advances to customers	-	-	374,324	**374,324**
Financial assets designated as available for sale				
Call funds	-	-	-	**-**
Term deposits	-	98,419	-	**98,419**
Equity securites	404	-	-	**404**
Total financial assets	**404**	**102,455**	**374,324**	**477,183**

Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	11,613	-	**11,613**
Interest rate options	-	12,065	-	**12,065**
Total financial liabilities	**-**	**23,678**	**-**	**23,678**

All in $000's

27. Fair Value (continued)

BANKING GROUP as at 31 March 2010

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments				
Interest rate swaps	-	593	-	**593**
Interest rate options	-	(87)	-	**(87)**
Financial assets designated at fair value through profit or loss				
Loans and advances to customers	-	-	250,129	**250,129**
NZ government securities	1,058	-	-	**1,058**
Equity securities	300	-	-	**300**
Managed funds	-	9	-	**9**
Financial assets designated as available for sale				
Call funds	19,317	-	-	**19,317**
Term deposits	-	12,820	-	**12,820**
Registered certificates of deposit	-	31,943	-	**31,943**
Local authority bonds	-	20,883	-	**20,883**
Bank bonds	-	20,467	-	**20,467**
Other bonds	-	3,729	-	**3,729**
Equity securites	418	-	-	**418**
Managed funds	-	618	-	**618**
Total financial assets	**21,093**	**90,975**	**250,129**	**362,197**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	6,363	-	**6,363**
Interest rate options	-	6,646	-	**6,646**
Total financial liabilities	**-**	**13,009**	**-**	**13,009**

PARENT as at 31 March 2010

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments				
Interest rate swaps	-	1,659	-	**1,659**
Interest rate options	-	(87)	-	**(87)**
Financial assets designated at fair value through profit or loss				
Loans and advances to customers	-	-	250,129	**250,129**
Financial assets designated as available for sale				
Call funds	18,001	-	-	**18,001**
Term deposits	-	10,084	-	**10,084**
Registered certificates of deposit	-	31,943	-	**31,943**
Local authority bonds	-	20,782	-	**20,782**
Bank bonds	-	20,467	-	**20,467**
Other bonds	-	3,729	-	**3,729**
Total financial assets	**18,001**	**88,577**	**250,129**	**356,707**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	6,371	-	**6,371**
Interest rate options	-	6,646	-	**6,646**
Total financial liabilities	**-**	**13,017**	**-**	**13,017**

All in $000's

27. Fair Value (continued)

Loans and advances designated at fair value through profit or loss

For loans and advances designated at fair value through profit or loss, a discounted cash flow model is used based on various assumptions, including prepayments and wholesale interest rates adjusted for retail lending margin. At balance date, a one basis point movement in retail margin or the underlying interest rate would impact the income statement by $14,600.

The following table presents the changes in level 3 instruments for the period ended 30 September 2010.

	BANKING GROUP			PARENT		
	30/09/2010	30/09/2009	31/03/2010	30/09/2010	30/09/2009	31/03/2010
Loans and advances at fair value through profit or loss						
Balance at beginning of the period	250,129	521,381	521,831	250,129	521,381	521,831
Total losses recorded in income statement	(613)	(6,130)	(9,588)	(613)	(6,130)	(9,588)
Loan repayments	(101,220)	(140,927)	(262,114)	(101,220)	(140,927)	(262,114)
Balance at end of the period	**148,296**	**374,324**	**250,129**	**148,296**	**374,324**	**250,129**

There were no transfers in or out of level 3, or between levels 1 and 2 during the period.

28. Liquidity Risk

Liquidity risk is the risk that the Banking Group will encounter difficulty in meeting commitments associated with its financial liabilities, e.g. overnight deposits, current accounts, maturing deposits, and future commitments such as loan draw-downs and guarantees.

The Banking Group has a Board approved liquidity strategy that defines policy, systems and procedures for measuring, assessing, reporting and managing liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis.

From 22 October 2009, the Reserve Bank modified the Banking Group's conditions of registration with respect to liquidity policy and this included the requirement to comply with various liquidity ratios. These revised conditions became effective 1 April 2010 and are outlined in part 11 of the conditions of registration. The liquidity ratios must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) and "Liquidity Policy Annex: Liquid Assets" (BS 13A) dated March 2010. The Banking Group has systems and processes in place to comply with these regulations.

The Banking Group manages its exposure to liquidity risk primarily by forecasting future daily cash flow requirements. The Banking Group forecasts cash flows from operating activities taking into account the cash flow characteristics of, and expected volatility in, the balances of the various classes of recognised assets and liabilities and unrecognised items that have, or can have, a significant cash flow effect.

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

Total liquidity includes committed but undrawn funding lines. As at 30 September 2010, the Banking Group had total committed funding lines with other registered banks of $125 million (30 September 2009 $210 million; 31 March 2010 $160 million). Of these facilities $nil were drawn down at 30 September 2010 (30 September 2009 $18 million; 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	BANKING GROUP			PARENT		
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Audited
	30/09/2010	30/09/2009	31/03/2010	30/09/2010	30/09/2009	31/03/2010
Cash on hand and at bank	23,941	12,896	26,504	14,709	6,278	17,676
Funds with financial institutions	5,362	101,113	64,080	2,500	98,419	60,028
Investment securities	49,197	2,876	47,482	46,617	404	44,978
Committed and undrawn funding lines	125,000	192,000	160,000	125,000	192,000	160,000
Eligible RMBS collateral (less haircut[1])	175,446	90,508	162,434	175,446	90,508	162,434
Total liquidity	**378,946**	**399,393**	**460,500**	**364,272**	**387,609**	**445,116**

[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

28. Liquidity Risk (continued)

The maturity profiles of assets and liabilities and loan commitments show the cash flows and have been prepared on both a contractual and undiscounted maturity basis as at balance date. These have been created using a run-off scenario which assumes no further origination of assets or liabilities.

The maturity profiles reflect the remaining period to contractual maturity of assets and liabilities as at balance date. This is not considered by the Banking Group to be in any way indicative of 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.

The maturity profiles include interest cash flows expected to maturity. Note that the resulting undiscounted financial assets and liablilities will not agree to the carrying values in the statement of financial positions and nor do they reflect how the Bank or Banking Group manages its liquidity risk. As set out on the previous page, the Bank and Banking Group manages liquidity through the maintenance of a portfolio of liquid assets and committed funding lines and as such no expected maturity profile is presented.

Monetary assets receivable matched against liabilities payable as at 30 September 2010 (contractual cash flows including expected interest to maturity)

	BANKING GROUP						
	0-6 * Months	**6-12 Months**	**Current assets**	**12-24 Months**	**24-60 Months**	**> 60 Months**	**Total**
Assets							
Cash on hand and at bank	23,941	-	23,941	-	-	-	**23,941**
Funds with financial institutions	4,861	501	5,362	-	-	-	**5,362**
Investment securities	12,604	-	12,604	4,748	31,845	-	**49,197**
Derivative financial instruments	1,448	-	1,448	-	-	-	**1,448**
Current tax assets	1,613	-	1,613	-	-	-	**1,613**
Advances to customers	190,701	83,892	274,593	132,981	194,995	1,856,594	**2,459,163**
Other assets	2,116	-	2,116	-	-	-	**2,116**
Total assets	**237,284**	**84,393**	**321,677**	**137,729**	**226,840**	**1,856,594**	**2,542,840**
Interest	134,567	101,728	236,295	204,271	491,126	897,946	1,829,638
Total assets (inclusive of interest)	**371,851**	**186,121**	**557,972**	**342,000**	**717,966**	**2,754,540**	**4,372,478**
Liabilities			**Current liabilities**				
Bank overdraft	1,884	-	1,884	-	-	-	**1,884**
Redeemable shares	1,436,116	446,027	1,882,143	39,924	9,665	-	**1,931,732**
Deposits from customers	201,916	45,553	247,469	2,652	1,243	-	**251,364**
Derivative financial instruments	12,111	-	12,111	-	-	-	**12,111**
Other borrowings	45,536	-	45,536	-	-	69,415	**114,951**
Other liabilities	10,640	-	10,640	-	-	-	**10,640**
Subordinated redeemable shares	-	-	-	-	61,251	-	**61,251**
Total	**1,708,203**	**491,580**	**2,199,783**	**42,576**	**72,159**	**69,415**	**2,383,933**
Interest	20,296	26,794	47,090	8,282	22,005	67,903	145,280
Total liabilities (inclusive of interest)	**1,728,499**	**518,374**	**2,246,873**	**50,858**	**94,164**	**137,318**	**2,529,213**
Unrecognised loan commitments	21,712	-	21,712	-	-	-	**21,712**

* 0-6 months includes on-call amounts of redeemable shares $251.40 million and deposits from customers $58.00 million.

All in $000's

28. Liquidity Risk (continued)

Monetary assets receivable matched against liabilities payable as at 30 September 2010 (contractual cash flows including expected interest to maturity)

	PARENT						
	0-6 * Months	6-12 Months	Current assets	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	14,709	-	14,709	-	-	-	**14,709**
Funds with financial institutions	2,500	-	2,500	-	-	-	**2,500**
Investment securities	11,074	-	11,074	3,698	31,845	-	**46,617**
Derivative financial instruments	3,240	-	3,240	-	-	-	**3,240**
Current tax assets	2,023	-	2,023	-	-	-	**2,023**
Advances to customers	182,095	64,419	246,514	88,809	145,789	1,796,384	**2,277,496**
Loans to subsidiaries	-	-	-	-	-	94,254	**94,254**
Other assets	7,780	-	7,780	-	-	-	**7,780**
Total	**223,421**	**64,419**	**287,840**	**92,507**	**177,634**	**1,890,638**	**2,448,619**
Interest	86,909	98,909	185,818	199,722	475,194	882,063	1,742,797
Total assets (inclusive of interest)	**310,330**	**163,328**	**473,658**	**292,229**	**652,828**	**2,772,701**	**4,191,416**
Liabilities			**Current liabilities**				
Bank overdraft	1,884	-	1,884	-	-	-	**1,884**
Redeemable shares	1,440,309	446,027	1,886,336	39,924	9,665	-	**1,935,925**
Deposits from customers	201,916	45,553	247,469	2,652	1,243	-	**251,364**
Derivative financial instruments	12,113	-	12,113	-	-	-	**12,113**
Other borrowings	45,536	-	45,536	-	-	-	**45,536**
Other liabilities	7,799	-	7,799	-	-	-	**7,799**
Subordinated redeemable shares	-	-	-	-	61,251	-	**61,251**
Total	**1,709,557**	**491,580**	**2,201,137**	**42,576**	**72,159**	-	**2,315,872**
Interest	20,295	26,794	47,089	8,283	22,007	-	77,379
Total liabilities (inclusive of interest)	**1,729,852**	**518,374**	**2,248,226**	**50,859**	**94,166 -**	**-**	**2,393,251**
Unrecognised loan commitments	32,941	-	32,941	-	-	-	**32,941**

* 0-6 months includes on-call amounts of redeemable shares $255.59 million and deposits from customers $58.00 million.

All in $000's

28. Liquidity Risk (continued)

Monetary assets receivable matched against liabilities payable as at 30 September 2009 (contractual cash flows including expected interest to maturity)

	BANKING GROUP						
	0-6 * Months	6-12 Months	Current assets	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	12,896	-	12,896	-	-	-	**12,896**
Funds with financial institutions	90,388	711	91,099	-	10,014	-	**101,113**
Investment securities	1,816	-	1,816	-	1,060	-	**2,876**
Derivative financial instruments	2,554	-	2,554	-	-	-	**2,554**
Current tax assets	2,475	-	2,475	-	-	-	**2,475**
Advances to customers	87,788	85,880	173,668	186,494	186,632	1,914,600	**2,461,394**
Other assets	1,972	-	1,972	-	-	-	**1,972**
Total assets	**199,889**	**86,591**	**286,480**	**186,494**	**197,706**	**1,914,600**	**2,585,280**
Interest	161,857	106,938	268,795	98,542	508,869	292,390	1,168,596
Total assets (inclusive of interest)	**361,746**	**193,529**	**555,275**	**285,036**	**706,575**	**2,206,990**	**3,753,876**
Liabilities			**Current liabilities**				
Redeemable shares	1,389,787	417,490	1,807,277	100,814	16,550	-	**1,924,641**
Deposits from customers	207,206	30,326	237,532	10,586	1,157	-	**249,275**
Due to other financial institutions	18,002	-	18,002	-	-	-	**18,002**
Derivative financial instruments	23,625	-	23,625	-	-	-	**23,625**
Other borrowings	61,164	-	61,164	-	-	85,829	**146,993**
Other liabilities	18,579	-	18,579	-	-	-	**18,579**
Subordinated redeemable shares	-	-	-	-	56,608	-	**56,608**
Total	**1,718,363**	**447,816**	**2,166,179**	**111,400**	**74,315**	**85,829**	**2,437,723**
Interest	(370)	21,847	21,477	17,982	37,242	63,084	139,785
Total liabilities (inclusive of interest)	**1,717,993**	**469,663**	**2,187,656**	**129,382**	**111,557**	**148,913**	**2,577,508**
Unrecognised loan commitments	18,413	-	18,413	-	-	-	**18,413**
Net liquidity gap	**(1,500,431)**	**(339,378)**	**(1,839,809)**	**93,076**	**160,633**	**1,891,855**	**305,756**
Net liquidity gap - cumulative	**(1,500,431)**	**(1,839,809)**	**(1,839,809)**	**(1,746,733)**	**(1,586,100)**	**305,756**	**305,756**

* 0-6 months includes on-call amounts of redeemable shares $280.89 million; deposits from customers $68.40 million; and deposits due to other financial institutions $18.00 million.

All in $000's

28. Liquidity Risk (continued)

Monetary assets receivable matched against liabilities payable as at 30 September 2009 (contractual cash flows including expected interest to maturity)

			PARENT				
	0-6 * Months	6-12 Months	Current assets	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	6,278	-	6,278	-	-	-	**6,278**
Funds with financial institutions	88,405	-	88,405	-	10,014	-	**98,419**
Investment securities	404	-	404	-	-	-	**404**
Derivative financial instruments	4,036	-	4,036	-	-	-	**4,036**
Current tax assets	2,611	-	2,611	-	-	-	**2,611**
Advances to customers	80,060	65,157	145,217	145,930	143,375	1,835,506	**2,270,028**
Loans to subsidiaries	-	-	-	-	-	90,528	**90,528**
Other assets	4,243	-	4,243	-	-	-	**4,243**
Total	**186,037**	**65,157**	**251,194**	**145,930**	**153,389**	**1,926,034**	**2,476,547**
Interest	119,449	92,525	211,974	106,857	538,167	419,476	1,276,474
Total assets (inclusive of interest)	**305,486**	**157,682**	**463,168**	**252,787**	**691,556**	**2,345,510**	**3,753,021**
Liabilities			**Current liabilities**				
Redeemable shares	1,393,088	417,490	1,810,578	100,814	16,550	-	**1,927,942**
Deposits from customers	207,206	30,326	237,532	10,586	1,157	-	**249,275**
Due to other financial institutions	18,002	-	18,002	-	-	-	**18,002**
Derivative financial instruments	23,678	-	23,678	-	-	-	**23,678**
Other borrowings	61,164	-	61,164	-	-	-	**61,164**
Other liabilities	14,613	-	14,613	-	-	-	**14,613**
Subordinated redeemable shares	-	-	-	-	56,608	-	**56,608**
Total	**1,717,751**	**447,816**	**2,165,567**	**111,400**	**74,315**	**-**	**2,351,282**
Interest	(1,688)	20,601	18,913	15,734	29,675	-	64,322
Total liabilities (inclusive of interest)	**1,716,063**	**468,417**	**2,184,480**	**127,134**	**103,990**	**-**	**2,415,604**
Unrecognised loan commitments	19,319	-	19,319	-	-	-	**19,319**

* 0-6 months includes on-call amounts of redeemable shares $284.19 million; deposits from customers $68.40 million; and deposits due to other financial institutions $18.00 million.

All in $000's

28. Liquidity Risk (continued)

Monetary assets receivable matched against liabilities payable as at 31 March 2010 (contractual cash flows including expected interest to maturity)

	BANKING GROUP						
	0-6 * Months	6-12 Months	Current assets	12-24 Months	24-60 Months	> 60 Months	Total
Assets							
Cash on hand and at bank	26,504	-	26,504	-	-	-	**26,504**
Funds with financial institutions	64,080	-	64,080	-	-	-	**64,080**
Investment securities	1,445	-	1,445	4,787	36,228	5,022	**47,482**
Derivative financial instruments	506	-	506	-	-	-	**506**
Current tax assets	1,176	-	1,176	-	-	-	**1,176**
Advances to customers	116,138	157,857	273,995	106,070	187,104	1,892,920	**2,460,089**
Other assets	1,575	-	1,575	-	-	-	**1,575**
Total assets	**211,424**	**157,857**	**369,281**	**110,857**	**223,332**	**1,897,942**	**2,601,412**
Interest	226,231	6,923	233,154	177,673	475,682	1,003,008	1,889,517
Total assets (inclusive of interest)	**437,655**	**164,780**	**602,435**	**288,530**	**699,014**	**2,900,950**	**4,490,929**
Liabilities			**Current Liabilities**				
Redeemable shares	1,492,265	385,833	1,878,098	79,817	14,093	-	**1,972,008**
Deposits from customers	173,414	46,216	219,630	9,286	1,135	-	**230,051**
Due to other financial institutions	30,017	-	30,017	-	-	-	**30,017**
Derivative financial instruments	13,009	-	13,009	-	-	-	**13,009**
Other borrowings	53,802	-	53,802	-	-	74,772	**128,574**
Other liabilities	9,794	-	9,794	-	-	-	**9,794**
Subordinated redeemable shares	-	-	-	-	59,307	-	**59,307**
Total	**1,772,301**	**432,049**	**2,204,350**	**89,103**	**74,535**	**74,772**	**2,442,760**
Interest	14,698	4,710	19,408	19,014	23,354	73,144	134,920
Total liabilities (inclusive of interest)	**1,786,999**	**436,759**	**2,223,758**	**108,117**	**97,889**	**147,916**	**2,577,680**
Unrecognised loan commitments	23,934	-	23,934	-	-	-	**23,934**

* 0-6 months includes on-call amounts of redeemable shares $272.51 million; deposits from customers $55.00 million; and deposits due to other financial institutions $30.00 million.

All in $000's

28. Liquidity Risk (continued)

Monetary assets receivable matched against liabilities payable as at 31 March 2010 (contractual cash flows including expected interest to maturity)

	PARENT						
	0-6 * Months	**6-12 Months**	**Current assets**	**12-24 Months**	**24-60 Months**	**> 60 Months**	**Total**
Assets							
Cash on hand and at bank	17,676	-	17,676	-	-	-	**17,676**
Funds with financial institutions	60,028	-	60,028	-	-	-	**60,028**
Investment securities	-	-	-	3,728	36,228	5,022	**44,978**
Derivative financial instruments	1,572	-	1,572	-	-	-	**1,572**
Current tax assets	2,014	-	2,014	-	-	-	**2,014**
Advances to customers	106,922	136,878	243,800	62,005	140,853	1,825,926	**2,272,584**
Loans to subsidiaries	-	-	-	-	-	95,555	**95,555**
Other assets	6,531	-	6,531	-	-	-	**6,531**
Total	**194,743**	**136,878**	**331,621**	**65,733**	**177,081**	**1,926,503**	**2,500,938**
Interest	174,625	96,680	271,305	194,110	495,225	889,182	1,849,822
Total assets (inclusive of interest)	**369,368**	**233,558**	**602,926**	**259,843**	**672,306**	**2,815,685**	**4,350,760**
Liabilities			**Current Liabilities**				
Redeemable shares	1,495,434	385,833	1,881,267	79,817	14,093	-	**1,975,177**
Deposits from customers	173,414	46,216	219,630	9,286	1,135	-	**230,051**
Due to other financial institutions	30,017	-	30,017	-	-	-	**30,017**
Derivative financial instruments	13,017	-	13,017	-	-	-	**13,017**
Other borrowings	53,802	-	53,802	-	-	-	**53,802**
Other liabilities	6,020	-	6,020	-	-	-	**6,020**
Subordinated redeemable shares	-	-	-	-	59,307	-	**59,307**
Total	**1,771,704**	**432,049**	**2,203,753**	**89,103**	**74,535**	**-**	**2,367,391**
Interest	14,383	4,712	19,095	19,017	23,355	-	61,467
Total liabilities (inclusive of interest)	**1,786,087**	**436,761**	**2,222,848**	**108,120**	**97,890**	**-**	**2,428,858**
Unrecognised loan commitments	22,146	-	22,146	-	-	-	**22,146**

* 0-6 months includes on-call amounts of redeemable shares $275.67 million; deposits from customers $55.00 million; and deposits due to other financial institutions $30.00 million.

All in $000's

29. 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 September 2009 69%; 31 March 2010 70%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 17% (30 September 2009 16%; 31 March 2010 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			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Cash on hand and at bank	23,941	12,896	26,504	14,709	6,278	17,676
Funds with financial institutions	5,362	101,113	64,080	2,500	98,419	60,028
Investment securities	49,197	2,876	47,482	46,617	404	44,978
Derivative financial instruments	1,448	2,554	506	3,240	4,036	1,572
Current tax assets	1,613	2,475	1,176	2,023	2,611	2,014
Advances to customers	2,459,163	2,461,394	2,460,089	2,277,496	2,270,028	2,272,584
Loans to subsidiaries	-	-	-	94,254	90,528	95,555
Other assets	2,116	1,972	1,575	7,780	4,243	6,531
Total on-balance sheet credit exposures	**2,542,840**	**2,585,280**	**2,601,412**	**2,448,619**	**2,476,547**	**2,500,938**

(b) Concentrations of credit risk by sector

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Residential	1,467,530	1,463,699	1,462,496	1,412,317	1,391,798	1,402,121
Residential investing	249,644	244,853	252,667	238,572	233,385	241,321
Agricultural	412,269	398,178	403,581	412,269	398,178	403,581
Commercial finance	7,583	17,869	10,925	94,254	90,528	95,555
Commercial other	217,190	242,757	226,681	214,058	246,370	225,271
Consumer lending	104,667	93,741	103,450	-	-	-
Local authority	21,439	297	21,172	21,338	297	21,071
Corporate investments	58,789	119,439	117,689	46,008	109,137	103,472
Other	3,729	4,447	2,751	9,803	6,854	8,546
Total concentrations of credit risk by sector	**2,542,840**	**2,585,280**	**2,601,412**	**2,448,619**	**2,476,547**	**2,500,938**

(c) Concentrations of credit risk by geographical location

North Island	540,555	535,454	630,960	447,147	430,264	519,228
Canterbury	689,177	684,394	679,543	642,327	644,054	643,334
Otago	588,399	552,651	590,178	572,391	531,809	570,237
Southland	522,523	626,530	509,946	603,807	693,844	586,420
South Island other	202,186	186,251	190,785	182,947	176,576	181,719
Total concentrations of credit risk by geographical location	**2,542,840**	**2,585,280**	**2,601,412**	**2,448,619**	**2,476,547**	**2,500,938**

(d) Currency risk

The Banking Group is not exposed to currency risk.

All in $000's

29. Credit Risk Exposure (continued)

(e) 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 %	**30/09/2010**	**30/09/2009**	**31/03/2010**	**30/09/2010**	**30/09/2009**	**31/03/2010**
10-19	-	-	-	-	-	-
20-29	-	-	-	-	-	2
30-39	-	-	-	-	2	-

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 %	**30/09/2010**	**30/09/2009**	**31/03/2010**	**30/09/2010**	**30/09/2009**	**31/03/2010**
10-19	-	-	-	1	-	-
20-29	-	-	-	-	-	1
30-39	-	-	-	-	-	-
40-49	-	-	-	-	2	-
50-59	-	-	-	-	-	1

(f) Credit exposures by credit rating

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

BANKING GROUP

	Amount	% of total credit exposure	Amount	% of total credit exposure	Amount	% of total credit exposure
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**	**Audited**	**Audited**
	30/09/2010	**30/09/2010**	**30/09/2009**	**30/09/2009**	**31/03/2010**	**31/03/2010**
Non-bank counterparties						
Investment grade credit rating	-	0%	-	0%	-	0%
Below investment grade credit rating	-	0%	-	0%	-	0%
Not rated	-	0%	-	0%	-	0%
Total non-bank exposures	-	0%	-	0%	-	0%
Bank counterparties						
Investment grade credit rating	-	0%	103,177	100%	84,283	100%
Below investment grade credit rating	-	0%	-	0%	-	0%
Not rated	-	0%	-	0%	-	0%
Total bank exposures	-	0%	103,177	100%	84,283	100%

All in $000's

29. Credit Risk Exposure (continued)

(g) 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 September 2010 (30 September 2009 $nil; 31 March 2010 $nil).

	BANKING GROUP		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Credit exposures to non-bank connected persons at period end	980	1,024	997
Credit exposures to non-bank connected persons at period end expressed as a % of total tier one capital	0.54%	0.61%	0.56%
Peak credit exposures to non-bank connected persons during the quarter	996	1,062	1,008
Peak credit exposures to non-bank connected persons during the quarter expressed as a % of total tier one capital	0.54%	0.63%	0.57%

(h) Percentage of borrowers owing the six largest amounts

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
The six largest borrowers as a percentage of monetary assets receivable	2.33%	2.25%	2.32%	5.96%	5.72%	5.91%

(i) Collateral held

SBS takes collateral where it is considered necessary to support credit risk on financial instruments including both recognised and unrecognised financial instruments. An evaluation is undertaken of the customer's credit risk on a case by case basis and the amount of collateral taken if deemed necessary, is based on management's credit evaluation of the counterparty. The collateral taken varies but could include cash deposits, mortgages, debentures, investments and financial covenants.

In terms of SBS retail lending activity, credit is extended within predetermined loan to security valuation ratios, which vary depending on the class of an advance, and within established and proven repayment to income ratios. Independent credit evaluations are undertaken where this is deemed necessary. Additionally some advances are insured with an independent third party mortgage insurer. In excess of 96% of SBS advances are secured by first mortgage over real property as a minimum. Once established, loan performance is monitored constantly. The debt management team monitor exposures to non-performing loans on a daily basis and provide monthly reports to senior management and the board.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against financial assets that are individually impaired or past due are shown below:

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Against individually impaired	9,228	15,482	19,269	9,228	15,482	19,269
Against past due but not impaired	74,230	37,093	134,914	68,956	35,779	129,160
	83,458	**52,575**	**154,183**	**78,184**	**51,261**	**148,429**

30. 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.

The Banking Group's exposure to market risk is governed by a policy approved by the Audit and Risk Committee and managed by the Asset and Liability Committee (ALCO). This policy sets out the nature of risk which may be taken and aggregate risk limits and the ALCO must conform with this. The objective of the ALCO is to derive the most appropriate strategy for the Banking Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints and capital adequacy.

The Banking Group's exposure to market risk is managed operationally by Treasury. Treasury manages market risk by using appropriate risk management instruments. Market risk is managed within a clearly defined framework of policy limits. Treasury reports to and is represented on the ALCO Committee.

Market risk is measured and reported using a variety of techniques, according to the appropriateness of the technique to the exposure concerned. The techniques used include interest rate gap analysis and scenario analysis.

Policies for managing interest rate 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.

Exposure to interest rate risk is measured primarily through the analysis of repricing maturities of the Banking Group's assets, liabilities and unrecognised financial instruments. Exposures are monitored continuously and reported to the board on a monthly basis.

Effective interest rates on risk management transactions within classes of financial assets or liabilities are disclosed exclusive of the impact of the derivative transaction. The financial assets or liabilities carrying values do not incorporate the values of the derivative transactions.

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

All in $000's

30. Market Risk (continued)

The following schedule details the Banking Group's interest rate repricing profile:

BANKING GROUP as at 30 September 2010	0-6 Months	6-12 Months	12-24 Months	>24 Months	Non-Interest Sensitive	Total
Assets						
Cash on hand and at bank	23,941	-	-	-	-	**23,941**
Funds with financial institutions	4,861	501	-	-	-	**5,362**
Investment securities	12,604	-	4,748	31,845	-	**49,197**
Derivative financial instruments	-	-	-	-	1,448	**1,448**
Current tax assets	-	-	-	-	1,613	**1,613**
Advances to customers	1,666,698	310,016	338,221	144,228	-	**2,459,163**
Other assets	-	-	-	-	31,579	**31,579**
	1,708,104	310,517	342,969	176,073	34,640	**2,572,303**
Liabilities and equity						
Bank overdraft	1,884	-	-	-	-	**1,884**
Redeemable shares	1,436,116	446,027	39,924	9,665	-	**1,931,732**
Deposits from customers	201,916	45,553	2,652	1,243	-	**251,364**
Derivative financial instruments	-	-	-	-	12,111	**12,111**
Other borrowings	114,951	-	-	-	-	**114,951**
Other liabilities	-	-	-	-	17,654	**17,654**
Subordinated redeemable shares	-	-	-	61,251	-	**61,251**
Equity	-	-	-	-	181,356	**181,356**
	1,754,867	491,580	42,576	72,159	211,121	**2,572,303**
On-balance sheet interest sensitivity gap	(46,763)	(181,063)	300,393	103,914	(176,481)	**-**
Net balance of derivative financial instruments	518,500	(85,500)	(326,000)	(107,000)	-	**-**
Total interest rate sensitivity gap	**471,737**	**(266,563)**	**(25,607)**	**(3,086)**	**(176,481)**	**-**

PARENT as at 30 September 2010	0-6 Months	6-12 Months	12-24 Months	>24 Months	Non-Interest Sensitive	Total
Assets						
Cash on hand and at bank	14,709	-	-	-	-	**14,709**
Funds with financial institutions	2,500	-	-	-	-	**2,500**
Investment securities	11,074	-	3,698	31,845	-	**46,617**
Derivative financial instruments	-	-	-	-	3,240	**3,240**
Current tax assets	-	-	-	-	2,023	**2,023**
Advances to customers	1,503,428	302,850	330,030	141,188	-	**2,277,496**
Loans to subsidiaries	94,254	-	-	-	-	**94,254**
Other assets	-	-	-	-	40,525	**40,525**
	1,625,965	302,850	333,728	173,033	45,788	**2,481,364**
Liabilities and equity						
Bank overdraft	1,884	-	-	-	-	**1,884**
Redeemable shares	1,440,309	446,027	39,924	9,665	-	**1,935,925**
Deposits from customers	201,916	45,553	2,652	1,243	-	**251,364**
Derivative financial instruments	-	-	-	-	12,113	**12,113**
Other borrowings	45,536	-	-	-	-	**45,536**
Other liabilities	-	-	-	-	9,515	**9,515**
Subordinated redeemable shares	-	-	-	61,251	-	**61,251**
Equity	-	-	-	-	163,776	**163,776**
	1,689,645	491,580	42,576	72,159	185,404	**2,481,364**
On-balance sheet interest sensitivity gap	(63,680)	(188,730)	291,152	100,874	(139,616)	**-**
Net balance of derivative financial instruments	579,464	(78,338)	(357,319)	(143,807)	-	**-**
Total interest rate sensitivity gap	**515,784**	**(267,068)**	**(66,167)**	**(42,933)**	**(139,616)**	**-**

All in $000's

30. Market Risk (continued)

BANKING GROUP as at 30 September 2009	0-6 Months	6-12 Months	12-24 Months	>24 Months	Non-interest sensitive	Total
Assets						
Cash on hand and at bank	12,896	-	-	-	-	**12,896**
Funds with financial institutions	100,402	711	-	-	-	**101,113**
Investment securities	1,816	-	-	1,060	-	**2,876**
Derivative financial instruments	-	-	-	-	2,554	**2,554**
Current tax assets	-	-	-	-	2,475	**2,475**
Advances to customers	1,392,167	493,991	318,228	257,008	-	**2,461,394**
Other assets	-	-	-	-	28,673	**28,673**
	1,507,281	494,702	318,228	258,068	33,702	**2,611,981**
Liabilities and equity						
Redeemable shares	1,389,787	417,490	100,814	16,550	-	**1,924,641**
Deposits from customers	207,206	30,326	10,586	1,157	-	**249,275**
Due to other financial institutions	18,002	-	-	-	-	**18,002**
Derivative financial instruments	-	-	-	-	23,625	**23,625**
Other borrowings	146,993	-	-	-	-	**146,993**
Other liabilities	-	-	-	-	25,486	**25,486**
Subordinated redeemable shares	-	-	-	56,608	-	**56,608**
Equity	-	-	-	-	167,351	**167,351**
	1,761,988	447,816	111,400	74,315	216,462	**2,611,981**
On-balance sheet interest sensitivity gap	(254,707)	46,886	206,828	183,753	(182,760)	**-**
Net balance of derivative financial instruments	491,620	(136,380)	(225,820)	(129,420)	-	**-**
Total interest rate sensitivity gap	**236,913**	**(89,494)**	**(18,992)**	**54,333**	**(182,760)**	**-**

PARENT as at 30 September 2009	0-6 Months	6-12 Months	12-24 Months	>24 Months	Non-interest sensitive	Total
Assets						
Cash on hand and at bank	6,278	-	-	-	-	**6,278**
Funds with financial institutions	98,419	-	-	-	-	**98,419**
Investment securities	404	-	-	-	-	**404**
Derivative financial instruments	-	-	-	-	4,036	**4,036**
Current tax assets	-	-	-	-	2,611	**2,611**
Advances to customers	1,232,923	477,560	307,069	252,476	-	**2,270,028**
Loans to subsidiaries and associates	90,528	-	-	-	-	**90,528**
Other assets	-	-	-	-	31,719	**31,719**
	1,428,552	477,560	307,069	252,476	38,366	**2,504,023**
Liabilities and Equity						
Redeemable shares	1,393,088	417,490	100,814	16,550	-	**1,927,942**
Deposits from customers	207,206	30,326	10,586	1,157	-	**249,275**
Due to other financial institutions	18,002	-	-	-	-	**18,002**
Derivative financial instruments	-	-	-	-	23,678	**23,678**
Other borrowings	61,164	-	-	-	-	**61,164**
Other liabilities	-	-	-	-	16,760	**16,760**
Subordinated redeemable shares	-	-	-	56,608	-	**56,608**
Equity	-	-	-	-	150,594	**150,594**
	1,679,460	447,816	111,400	74,315	191,032	**2,504,023**
On-balance sheet interest sensitivity gap	(250,908)	29,744	195,669	178,161	(152,666)	**-**
Net balance of derivative financial instruments	479,532	(129,961)	(224,680)	(124,891)	-	**-**
Total interest rate sensitivity gap	**228,624**	**(100,217)**	**(29,011)**	**53,270**	**(152,666)**	**-**

All in $000's

30. Market Risk (continued)

BANKING GROUP as at 31 March 2010	0-6 Months	6-12 Months	12-24 Months	>24 Months	Non-interest sensitive	Total
Assets						
Cash on hand and at bank	26,504	-	-	-	-	**26,504**
Funds with financial institutions	64,080	-	-	-	-	**64,080**
Investment securities	11,460	-	4,787	31,235	-	**47,482**
Derivative financial instruments	-	-	-	-	506	**506**
Current tax assets	-	-	-	-	1,176	**1,176**
Advances to customers	1,571,722	336,017	345,392	206,958	-	**2,460,089**
Other assets	-	-	-	-	28,068	**28,068**
	1,673,766	336,017	350,179	238,193	29,750	**2,627,905**
Liabilities						
Redeemable shares	1,492,265	385,833	79,817	14,093	-	**1,972,008**
Deposits from customers	173,414	46,216	9,286	1,135	-	**230,051**
Due to other financial institutions	30,017	-	-	-	-	**30,017**
Derivative financial instruments	-	-	-	-	13,009	**13,009**
Other borrowings	128,574	-	-	-	-	**128,574**
Other liabilities	-	-	-	-	17,275	**17,275**
Subordinated redeemable shares	-	-	-	59,307	-	**59,307**
Equity	-	-	-	-	177,664	**177,664**
	1,824,270	432,049	89,103	74,535	207,948	**2,627,905**
On-balance sheet interest sensitivity gap	(150,504)	(96,032)	261,076	163,658	(178,198)	**-**
Net balance of derivative financial instruments	508,500	(113,000)	(229,500)	(166,000)	-	**-**
Total interest rate sensitivity gap	**357,996**	**(209,032)**	**31,576**	**(2,342)**	**(178,198)**	**-**

PARENT as at 31 March 2010	0-6 Months	6-12 Months	12-24 Months	>24 Months	Non-interest sensitive	Total
Assets						
Cash on hand and at bank	17,676	-	-	-	-	**17,676**
Funds with financial institutions	60,028	-	-	-	-	**60,028**
Investment securities	10,014	-	3,729	31,235	-	**44,978**
Derivative financial instruments	-	-	-	-	1,572	**1,572**
Current tax assets	-	-	-	-	2,014	**2,014**
Advances to customers	1,409,057	325,617	335,907	202,003	-	**2,272,584**
Loans to subsidiaries	95,555	-	-	-	-	**95,555**
Other assets	-	-	-	-	35,093	**35,093**
	1,592,330	325,617	339,636	233,238	38,679	**2,529,500**
Liabilities						
Redeemable shares	1,495,434	385,833	79,817	14,093	-	**1,975,177**
Deposits from customers	173,414	46,216	9,286	1,135	-	**230,051**
Due to other financial institutions	30,017	-	-	-	-	**30,017**
Derivative financial instruments	-	-	-	-	13,017	**13,017**
Other borrowings	53,802	-	-	-	-	**53,802**
Other liabilities	-	-	-	-	8,487	**8,487**
Subordinated redeemable shares	-	-	-	59,307	-	**59,307**
Equity	-	-	-	-	159,642	**159,642**
	1,752,667	432,049	89,103	74,535	181,146	**2,529,500**
On-balance sheet interest sensitivity gap	(160,337)	(106,432)	250,533	158,703	(142,467)	**-**
Net balance of derivative financial instruments	543,549	(112,621)	(260,025)	(170,903)	-	**-**
Total interest rate sensitivity gap	**383,212**	**(219,053)**	**(9,492)**	**(12,200)**	**(142,467)**	**-**

All in $000's

30. Market Risk (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Banking Group's financial assets and liabilities to various standard interest rate scenarios. The Banking Group's market risk model determines the mismatch between assets and liabilities after taking derivatives into account. The present value of the mismatched cash flows are discounted using the current yield curve at period end and the assessed most probable scenarios (100 basis point (bp) parallel rise or fall in the New Zealand yield curve). The difference in the present value of the scenario and the present value of the current yield curve are identified for each of the scenarios. Differences between equity and profit and loss are a result of interest rate derivatives designated in cash flow relationships which have most of the fair value movements in the derivatives taken directly to the cash flow hedge reserve in equity. An analysis of the Banking Group's sensitivity to an increase or decrease in market interest rates is as follows:

	BANKING GROUP			PARENT		
Impact on equity of increase or decrease to market interest rates	**30/09/2010**	**30/09/2009**	**31/03/2010**	**30/09/2010**	**30/09/2009**	**31/03/2010**
100 bp parallel increase	8,444	2,821	684	7,873	3,609	309
100 bp parallel decrease	(8,482)	975	(702)	(7,893)	(130)	(315)
Impact on profit and loss of increase or decrease to market interest rates						
100 bp parallel increase	2,581	(3,083)	152	2,010	(2,295)	31
100 bp parallel decrease	(2,619)	3,177	(341)	(2,030)	2,072	(37)

31. 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.

All in $000's

31. Capital Adequacy (continued)

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 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.

	BANKING GROUP			REGISTERED BANK		
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Audited
	30/09/2010	30/09/2009	31/03/2010	30/09/2010	30/09/2009	31/03/2010
Regulatory capital ratios						
Tier one capital expressed as a percentage of total risk weighted exposures	10.68%	10.01%	10.34%	10.24%	9.86%	10.08%
Capital expressed as a percentage of total risk weighted exposures	13.66%	13.40%	13.35%	12.71%	12.90%	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 retained earnings	6,034	5,287	12,723	4,653	4,230	11,298
Revenue and similar reserves	73	73	73	73	73	73
Cash flow hedging reserve	(6,496)	(5,618)	(3,322)	(5,834)	(5,618)	(3,182)
Minority interests	6,071	5,045	5,663	-	-	-
Less deductions from tier one capital						
Intangible assets	(3,189)	(2,976)	(3,094)	(1,642)	(1,699)	(1,686)
Cash flow hedging reserve	6,496	5,618	3,322	5,834	5,618	3,182
Total tier one capital	**183,144**	**168,861**	**176,797**	**171,370**	**159,589**	**166,671**
Tier two capital						
Upper tier two capital						
Revaluation reserves	1,519	1,132	1,095	1,579	1,196	1,152
Total upper tier two capital	1,519	1,132	1,095	1,579	1,196	1,152
Lower tier two capital						
Subordinated redeemable shares	49,501	56,109	50,442	49,501	56,109	50,442
Total lower tier two capital	49,501	56,109	50,442	49,501	56,109	50,442
Total tier two capital	**51,020**	**57,241**	**51,537**	**51,080**	**57,305**	**51,594**
Total tier one and tier two capital	**234,164**	**226,102**	**228,334**	**222,450**	**216,894**	**218,265**
Less deductions from capital	-	-	-	(9,756)	(8,027)	(9,756)
Total capital	**234,164**	**226,102**	**228,334**	**212,694**	**208,867**	**208,509**

All in $000's

31. 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
	30/09/2010	30/09/2010	30/09/2010	30/09/2010
On balance sheet exposures				
Cash	366	0%	-	-
Sovereigns and central banks	1,050	0%	-	-
Public sector entities	21,159	20%	4,232	339
Banks	39,726	20%	7,945	636
Corporates	14,771	20%	2,954	236
Residential mortgages < 80% loan to value ratio (LVR)	1,326,966	35%	464,438	37,155
Residential mortgages 80 < 90% LVR	72,145	50%	36,073	2,886
Residential mortgages 90 < 100% LVR	66,663	75%	49,997	4,000
Residential mortgages welcome home loans	245,324	50%	122,662	9,813
Past due residential mortgages	3,637	100%	3,637	291
Impaired residential mortgages	2,440	100%	2,440	195
Equity holdings	795	300%	2,385	191
Other assets	778,064	100%	778,064	62,245
Non-risk weighted assets	(803)	0%	-	-
Total on balance sheet exposures	2,572,303		1,474,827	117,987

	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
	30/09/2010	30/09/2010	30/09/2010	30/09/2010	30/09/2010	30/09/2010
Off balance sheet exposures						
Commitments with uncertain drawdown	21,712	50%	10,856	65%	7,065	565
Commitments to extend credit which can be unconditionally cancelled	174,274	0%	-	0%	-	-
Market related contracts [1]						
Interest rate contracts	1,000,870	n/a	5,303	20%	1,061	85
Total off balance sheet exposures	1,196,856		16,159		8,126	650
Total credit risk	3,769,159		16,159		1,482,953	118,637
Operational risk	n/a	-	-		171,638	13,731
Market risk	n/a	-	-		59,530	4,762
Total risk weighted exposure	3,769,159	-	-		1,714,121	137,130

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

All in $000's

31. Capital Adequacy (continued)

REGISTERED BANK

	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	Unaudited	Unaudited	Unaudited	Unaudited
	30/09/2010	30/09/2010	30/09/2010	30/09/2010
On balance sheet exposures				
Cash	366	0%	-	-
Public sector entities	21,058	20%	4,212	337
Banks	27,630	20%	5,526	442
Corporate	14,771	20%	2,954	236
Residential mortgages < 80% loan to value ratio (LVR)	1,261,540	35%	441,539	35,323
Residential mortgages 80 < 90% LVR	71,599	50%	35,800	2,864
Residential mortgages 90 < 100% LVR	66,663	75%	49,997	4,000
Residential mortgages welcome home loans	245,324	50%	122,662	9,813
Past due residential mortgages	3,323	100%	3,323	266
Impaired residential mortgages	2,440	100%	2,440	195
Other assets	754,114	100%	754,114	60,329
Non-risk weighted assets	14,637	0%	-	-
Total on balance sheet exposures	2,483,465		1,422,567	113,805

	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
	30/09/2010	30/09/2010	30/09/2010	30/09/2010	30/09/2010	30/09/2010
Off balance sheet exposures						
Commitments with uncertain drawdown	32,941	50%	16,471	88%	14,445	1,156
Commitments to extend credit which can be unconditionally cancelled	174,274	0%	-	0%	-	-
Market related contracts [1]						
Interest rate contracts	1,120,778	n/a	8,304	20%	1,661	133
Total off balance sheet exposures	1,327,993		24,775		16,106	1,289
Total credit risk	3,811,458		24,775		1,438,673	115,094
Operational risk	n/a	-	-		164,726	13,178
Market risk	n/a	-	-		69,796	5,584
Total risk weighted exposure	3,811,458	-	-		1,673,195	133,856

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

All in $000's

31. Capital Adequacy (continued)

BANKING GROUP

	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	Unaudited	Unaudited	Unaudited	Unaudited
	30/09/2009	30/09/2009	30/09/2009	30/09/2009
On balance sheet exposures				
Cash	386	0%	-	-
Sovereigns and central banks	1,058	0%	-	-
Banks	113,418	20%	22,684	1,815
Corporate	205	100%	205	16
Residential mortgages < 80% loan to value ratio (LVR)	1,355,435	35%	474,402	37,952
Residential mortgages 80 < 90% LVR	68,122	50%	34,061	2,725
Residential mortgages 90 < 100% LVR	59,081	75%	44,311	3,545
Residential mortgages welcome home loans	220,582	50%	110,291	8,823
Past due residential mortgages	306	100%	306	24
Impaired residential mortgages	5,030	100%	5,030	402
Equity holdings	793	300%	2,379	190
Equity holdings	404	400%	1,616	129
Other assets	786,237	100%	786,237	62,899
Non-risk weighted assets	924	0%	-	-
Total on balance sheet exposures	2,611,981		1,481,522	118,520

	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
	30/09/2009	30/09/2009	30/09/2009	30/09/2009	30/09/2009	30/09/2009
Off balance sheet exposures						
Commitments with uncertain drawdown	18,413	50%	9,207	65%	6,012	481
Commitments to extend credit which can be unconditionally cancelled	198,570	0%	-	0%	-	-
Market related contracts [1]						
Interest rate contracts	1,548,740	n/a	4,957	20%	991	79
Total off balance sheet exposures	1,765,723		14,164		7,003	560
Total credit risk	4,377,704		14,164		1,488,525	119,080
Operational risk	n/a	-	-		169,309	13,545
Market risk	n/a	-	-		29,011	2,321
Total risk weighted exposure	4,377,704	-	-		1,686,845	134,946

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

All in $000's

31. Capital Adequacy (continued)

REGISTERED BANK

	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	Unaudited	Unaudited	Unaudited	Unaudited
	30/09/2009	30/09/2009	30/09/2009	30/09/2009
On balance sheet exposures				
Cash	386	0%	-	-
Banks	104,311	20%	20,862	1,669
Residential mortgages < 80% loan to value ratio (LVR)	1,274,112	35%	445,939	35,675
Residential mortgages 80 < 90% LVR	66,453	50%	33,227	2,658
Residential mortgages 90 < 100% LVR	58,703	75%	44,027	3,522
Residential mortgages welcome home loans	220,582	50%	110,291	8,823
Past due residential mortgages	306	100%	306	24
Impaired residential mortgages	5,030	100%	5,030	402
Equity holdings	404	400%	1,616	129
Other assets	764,046	100%	764,046	61,124
Non-risk weighted assets	13,762	0%	-	-
Total on balance sheet exposures	2,508,095		1,425,344	114,026

	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
	30/09/2009	30/09/2009	30/09/2009	30/09/2009	30/09/2009	30/09/2009
Off balance sheet exposures						
Commitments with uncertain drawdown	19,319	50%	9,660	82%	7,900	632
Commitments to extend credit which can be unconditionally cancelled	198,570	0%	-	0%	-	-
Market related contracts [1]						
Interest rate contracts	1,627,302	n/a	6,479	20%	1,296	104
Total off balance sheet exposures	1,845,191		16,139		9,196	736
Total credit risk	4,353,286		16,139		1,434,540	114,762
Operational risk	n/a	-	-		154,836	12,387
Market risk	n/a	-	-		29,302	2,344
Total Risk Weighted Exposure	4,353,286	-	-		1,618,678	129,493

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

All in $000's

31. Capital Adequacy (continued)

BANKING GROUP

	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	Audited	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
Corporate	3,729	20%	746	60
Corporate	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

31. Capital Adequacy (continued)

REGISTERED BANK

	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	Audited	Audited	Audited	Audited
	31/03/2010	31/03/2010	31/03/2010	31/03/2010
On balance sheet exposures				
Cash	407	0%	-	-
Public sector entities	20,783	20%	4,157	333
Banks	97,763	20%	19,553	1,564
Corporate	3,729	20%	746	60
Residential mortgages < 80% loan to value ratio (LVR)	1,240,194	35%	434,068	34,725
Residential mortgages 80 < 90% LVR	73,741	50%	36,871	2,950
Residential mortgages 90 < 100% LVR	83,046	75%	62,285	4,983
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
Other assets	754,473	100%	754,473	60,358
Non-risk weighted assets	13,013	0%	-	-
Total on balance sheet exposures	2,533,609		1,439,178	115,135

	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	22,146	50%	11,073	87%	9,684	775
Commitments to extend credit which can be unconditionally cancelled	181,270	0%	-	0%	-	-
Market related contracts [1]						
Interest rate contracts	1,205,778	n/a	4,447	20%	889	71
Total off balance sheet exposures	1,409,194		15,520		10,573	846
Total credit risk	3,942,803		15,520		1,449,751	115,981
Operational risk	n/a	-	-		160,093	12,807
Market risk	n/a	-	-		43,352	3,468
Total risk weighted exposure	3,942,803	-	-		1,653,196	132,256

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

All in $000's

31. Capital Adequacy (continued)

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

	BANKING GROUP			REGISTERED BANK		
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Audited
	30/09/2010	30/09/2009	31/03/2010	30/09/2010	30/09/2009	31/03/2010
LVR range						
0 - 80%	1,332,468	1,360,313	1,317,910	1,266,734	1,278,972	1,246,931
80 - 90%	72,444	68,368	74,833	71,894	66,706	74,142
90% +	312,263	279,875	322,419	312,261	279,508	322,368

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

(iv) Market risk exposures

Market risk exposures have been calculated in accordance with the methodology detailed in Part 10 of the RBNZ's BS2A Captial Adequacy Framework, and Schedule 5A of the Registered Bank Disclosure Statement (Full and Half-Year - New Zealand Incorporated Registered Banks) Order 2008. Peak exposures are calculated using the Banking Group's equity at the end of the period.

	BANKING GROUP					
	End of period			Peak end of day		
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Audited
	30/09/2010	30/09/2009	31/03/2010	30/09/2010	30/09/2009	31/03/2010
Interest rate exposures						
Implied risk weighted exposure	59,530	29,011	41,008	59,050	34,313	41,513
Aggregate capital charge	4,762	2,321	3,281	4,724	2,745	3,321
Aggregate capital charge expressed as a percentage of the Banking Group's equity	2.63%	1.39%	1.85%	2.60%	1.64%	1.87%

32. Concentrations of Funding

	BANKING GROUP			PARENT		
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Audited
	30/09/2010	30/09/2009	31/03/2010	30/09/2010	30/09/2009	31/03/2010
(a) Concentrations of funding by geographical location						
North Island	327,323	331,136	343,785	327,323	331,136	343,786
Canterbury	546,010	546,621	561,550	546,010	546,621	561,550
Otago	440,667	355,980	447,373	440,667	355,980	447,373
Southland	824,973	884,011	838,911	759,747	801,487	767,301
South Island other	157,153	194,740	161,955	157,158	194,736	161,961
Overseas	63,172	83,031	66,383	63,171	83,031	66,383
Total concentrations of funding by geographical location	**2,359,298**	**2,395,519**	**2,419,957**	**2,294,076**	**2,312,991**	**2,348,354**
(b) Concentrations of funding by product						
Redeemable shares	1,931,732	1,924,641	1,972,008	1,931,732	1,924,641	1,972,008
Deposits from customers	251,364	249,275	230,051	251,364	249,275	230,051
Due to other financial institutions	-	18,002	30,017	-	18,002	30,017
Other borrowings	114,951	146,993	128,574	45,536	61,164	53,802
Subordinated redeemable shares	61,251	56,608	59,307	61,251	56,608	59,307
Due to subsidiary companies	-	-	-	4,193	3,301	3,169
Total concentrations of funding by product	**2,359,298**	**2,395,519**	**2,419,957**	**2,294,076**	**2,312,991**	**2,348,354**

All in $000's

33. Related Parties

The Banking Group is controlled by SBS who is also the ultimate parent. A number of transactions are entered into with related parties (including key management personnel)[1] in the normal course of business. Details of these transactions are outlined below.

[1] Key management personnel are defined as being directors and senior management of the Banking Group. The information relating to key management personnel disclosed below includes transactions with those individuals, their close family members and their controlled entities.

(a) Loans and advances to related parties

BANKING GROUP

	Directors and other key management personnel			Associated Companies		
	Unaudited 30/09/2010	**Unaudited 30/09/2009**	**Audited 31/03/2010**	**Unaudited 30/09/2010**	**Unaudited 30/09/2009**	**Audited 31/03/2010**
Loans and advances outstanding at beginning of period	3,748	3,458	3,458	-	-	-
Net loans issued/(repaid) during the period	73	258	290	-	-	-
Loans and advances outstanding at end of period	**3,821**	**3,716**	**3,748**	**-**	**-**	**-**
Interest income earned on amounts due from related parties	**126**	**136**	**264**	**-**	**-**	**-**

PARENT

	Directors and Other Key Management Personnel			Associated Companies		
	Unaudited 30/09/2010	**Unaudited 30/09/2009**	**Audited 31/03/2010**	**Unaudited 30/09/2010**	**Unaudited 30/09/2009**	**Audited 31/03/2010**
Loans and advances outstanding at beginning of period	2,917	2,671	2,671	95,555	89,385	89,385
Net loans issued/(repaid) during the period	(32)	287	246	(1,301)	1,143	6,170
Loans and advances outstanding at end of period	**2,885**	**2,958**	**2,917**	**94,254**	**90,528**	**95,555**
Interest income earned on amounts due from related parties	**100**	**109**	**210**	**1,100**	**2,405**	**5,383**

Loans and advances with directors of the Banking Group are made in the ordinary course of business on commercial terms and conditions. Loans and advances with key management personnel of the Banking Group are made either:
- on normal terms and conditions; or
- on terms and conditions which apply to other employees in the Banking Group.

All loans made to key management personnel have been made in accordance with the Banking Group's lending policies.

The loans and advances to associated companies are secured over the assets of the companies, carry variable interest rates and are repayable on demand.

No provisions have been recognised in respect of loans given to related parties. There were no debts with any of the above parties written off or forgiven during the period ended 30 September 2010 (30 September 2009 $nil; 31 March 2010 $nil).

All in $000's

33. Related Parties (continued)

(b) Deposits from related parties

BANKING GROUP

	Directors and Other Key Management Personnel			Associated Companies		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Deposits at beginning of period	1,441	2,633	2,633	-	-	-
Net deposits received/(withdrawn) during the period	210	(1,266)	(1,192)	-	-	-
Deposits at end of period	**1,651**	**1,367**	**1,441**	**-**	**-**	**-**
Interest expense on amounts due to related parties	**35**	**52**	**85**	**-**	**-**	**-**

PARENT

	Directors and Other Key Management Personnel			Associated Companies		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Deposits at beginning of period	1,253	2,323	2,323	3,168	2,927	2,927
Net deposits received/(withdrawn) during the period	205	(1,248)	(1,070)	1,026	374	241
Deposits at end of period	**1,458**	**1,075**	**1,253**	**4,194**	**3,301**	**3,168**
Interest expense on amounts due to related parties	**30**	**44**	**69**	**72**	**97**	**156**

The above deposits are unsecured, carry variable interest rates and are repayable on demand.

(c) Other transactions with related parties

Associated Companies

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Payments received from/(made to) subsidiaries under interest rate swap agreements	-	-	-	1,245	2,047	3,473
Net rent paid to subsidiaries	-	-	-	(225)	(225)	(451)
Technology services fees received from subsidiaries	-	-	-	67	61	121
Net commission received from subsidiaries	-	-	-	121	97	198
Management fees received from subsidiaries	-	-	-	784	705	1,545
Dividends received/receivable from subsidiaries	-	-	-	986	558	3,721
Fees received from subsidiaries	-	-	-	603	313	913
	-	**-**	**-**	**3,581**	**3,556**	**9,520**

All other transactions with key management personnel are conducted on an arm's length basis in the ordinary course of business and on normal terms and conditions.

During the period ending 30 September 2010, the Parent made subvention payments of $nil (30 September 2009 $nil; 31 March 2010 $351,707).

(d) Key management compensation

Details of remuneration paid or payable to the directors and other key management personnel are outlined in Note 5 - Expenses.

All in $000's

34. Accounting Classifications

The table below sets out the Banking Group's classification of each class of financial assets and liabilities.

BANKING GROUP

As at 30 September 2010	Designated at Fair Value	Available for Sale	Loans and Receivables	Held to Maturity	Other Amortised Cost	Total Carrying Amount
Assets						
Cash on hand and at bank	-	-	23,941	-	-	**23,941**
Funds with financial institutions	-	5,362	-	-	-	**5,362**
Investment securities	1,460	47,737	-	-	-	**49,197**
Derivative financial instruments	1,448	-	-	-	-	**1,448**
Advances to customers	148,296	-	2,310,867	-	-	**2,459,163**
	151,204	53,099	2,334,808	-	-	**2,539,111**
Liabilities						
Bank overdraft	-	-	-	-	1,884	**1,884**
Redeemable shares	-	-	-	-	1,931,732	**1,931,732**
Due to other financial institutions	-	-	-	-	-	**-**
Derivative financial instruments	12,111	-	-	-	-	**12,111**
Other borrowings	-	-	-	-	114,951	**114,951**
Subordinated redeemable shares	-	-	-	-	61,251	**61,251**
	12,111	-	-	-	2,361,182	**2,373,293**

PARENT

As at 30 September 2010	Designated at Fair Value	Available for Sale	Loans and Receivables	Held to Maturity	Other Amortised Cost	Total Carrying Amount
Assets						
Cash on hand and at bank	-	-	14,709	-	-	**14,709**
Funds with financial institutions	-	2,500	-	-	-	**2,500**
Investment securities	-	46,617	-	-	-	**46,617**
Derivative financial instruments	3,240	-	-	-	-	**3,240**
Advances to customers	148,296	-	2,129,200	-	-	**2,277,496**
Loans to subsidiaries	-	-	94,254	-	-	**94,254**
	151,536	49,117	2,238,163	-	-	**2,438,816**
Liabilities						
Bank overdraft	-	-	-	-	1,884	**1,884**
Redeemable shares	-	-	-	-	1,935,925	**1,935,925**
Deposits from customers	-	-	-	-	251,364	**251,364**
Derivative financial instruments	12,113	-	-	-	-	**12,113**
Other borrowings	-	-	-	-	45,536	**45,536**
Subordinated redeemable shares	-	-	-	-	61,251	**61,251**
	12,113	-	-	-	2,295,960	**2,308,073**

All in $000's

34. Accounting Classifications (continued)

BANKING GROUP

As at 30 September 2009	Designated at Fair Value	Available for Sale	Loans & Receivables	Held to Maturity	Other Amortised Cost	Total Carrying Amount
Assets						
Cash on hand and at bank	-	-	12,896	-	-	**12,896**
Funds with financial institutions	-	101,113	-	-	-	**101,113**
Investment securities	1,472	1,404	-	-	-	**2,876**
Derivative financial instruments	2,554	-	-	-	-	**2,554**
Advances to customers	374,324	-	2,087,070	-	-	**2,461,394**
	378,350	102,517	2,099,966	-	-	**2,580,833**
Liabilities						
Redeemable shares	-	-	-	-	1,924,641	**1,924,641**
Deposits from customers	-	-	-	-	249,275	**249,275**
Due to other financial institutions	-	-	-	-	18,002	**18,002**
Derivative financial instruments	23,625	-	-	-	-	**23,625**
Other borrowings	-	-	-	-	146,993	**146,993**
Subordinated redeemable shares	-	-	-	-	56,608	**56,608**
	23,625	-	-	-	2,395,519	**2,419,144**

PARENT

As at 30 September 2009	Designated at Fair Value	Available for Sale	Loans & Receivables	Held to Maturity	Other Amortised Cost	Total Carrying Amount
Assets						
Cash on hand and at bank	-	-	6,278	-	-	**6,278**
Funds with financial institutions	-	98,419	-	-	-	**98,419**
Investment securities	-	404	-	-	-	**404**
Derivative financial instruments	4,036	-	-	-	-	**4,036**
Advances to customers	374,324	-	1,895,704	-	-	**2,270,028**
Loans to subsidiaries and associates	-	-	90,528	-	-	**90,528**
	378,360	98,823	1,992,510	-	-	**2,469,693**
Liabilities						
Redeemable shares	-	-	-	-	1,927,942	**1,927,942**
Deposits from customers	-	-	-	-	249,275	**249,275**
Due to other financial institutions	-	-	-	-	18,002	**18,002**
Derivative financial instruments	23,678	-	-	-	-	**23,678**
Other borrowings	-	-	-	-	61,164	**61,164**
Subordinated redeemable shares	-	-	-	-	56,608	**56,608**
	23,678	-	-	-	2,312,991	**2,336,669**

All in $000's

34. Accounting Classifications (continued)

BANKING GROUP

As at 31 March 2010	Designated at Fair Value	Available for Sale	Loans & Receivables	Held to Maturity	Other Amortised Cost	Total Carrying Amount
Assets						
Cash on hand and at bank	-	-	26,504	-	-	**26,504**
Funds with financial institutions	-	64,080	-	-	-	**64,080**
Investment securities	1,467	46,015	-	-	-	**47,482**
Derivative financial instruments	506	-	-	-	-	**506**
Advances to customers	250,129	-	2,209,960	-	-	**2,460,089**
	252,102	110,095	2,236,464	-	-	**2,598,661**
Liabilities						
Redeemable shares	-	-	-	-	1,972,008	**1,972,008**
Deposits from customers	-	-	-	-	230,051	**230,051**
Due to other financial institutions	-	-	-	-	30,017	**30,017**
Derivative financial instruments	13,009	-	-	-	-	**13,009**
Other borrowings	-	-	-	-	128,574	**128,574**
Subordinated redeemable shares	-	-	-	-	59,307	**59,307**
	13,009	-	-	-	2,419,957	**2,432,966**

PARENT

As at 31 March 2010	Designated at Fair Value	Available for Sale	Loans & Receivables	Held to Maturity	Other Amortised Cost	Total Carrying Amount
Assets						
Cash on hand and at bank	-	-	17,676	-	-	**17,676**
Funds with financial institutions	-	60,028	-	-	-	**60,028**
Investment securities	-	44,978	-	-	-	**44,978**
Derivative financial instruments	1,572	-	-	-	-	**1,572**
Advances to customers	250,129	-	2,022,455	-	-	**2,272,584**
Loans to subsidiaries	-	-	95,555	-	-	**95,555**
	251,701	105,006	2,135,686	-	-	**2,492,393**
Liabilities						
Redeemable shares	-	-	-	-	1,975,177	**1,975,177**
Deposits from customers	-	-	-	-	230,051	**230,051**
Due to other financial institutions	-	-	-	-	30,017	**30,017**
Derivative financial instruments	13,017	-	-	-	-	**13,017**
Other borrowings	-	-	-	-	53,802	**53,802**
Subordinated redeemable shares	-	-	-	-	59,307	**59,307**
	13,017	-	-	-	2,348,354	**2,361,371**

All in $000's

35. Interest Earning Assets and Interest Bearing Liabilities

	BANKING GROUP			PARENT		
	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010	Unaudited 30/09/2010	Unaudited 30/09/2009	Audited 31/03/2010
Total interest earning and discount bearing assets	2,537,663	2,578,279	2,598,155	2,435,576	2,465,657	2,490,821
Total interest and discount bearing liabilities	2,361,182	2,395,519	2,419,957	2,295,960	2,312,991	2,348,354

36. 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.

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.

	30/09/2010 Unaudited	30/09/2009 Unaudited	31/03/2010 Audited
Funds under management on behalf of customers	310,400	288,000	298,300

Securitised assets

As at 30 September 2010, the Banking Group had securitised assets amounting to $335 million (30 September 2009 $250 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). Note 14 provides further information. 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.

In May 2008, the RBNZ expanded the range of acceptable collateral that financial institutions can pledge and borrow against as part of changes to its liquidity management arrangement designed to ensure adequate liquidity for New Zealand financial institutions in the event that global market disruptions were to intensify. From 31 July 2008, acceptable collateral includes residential mortgage backed securities 'RMBS' that satisfy RBNZ criteria. During the year ended 31 March 2009, the Banking Group established the SBS Oreti Trust No. 2, an in-house facility that could issue securities meeting the RBNZ criteria. This facility has increased the Bank's contingent funding ability from the RBNZ. Further information is provided in Note 28.

All in $000's

36. Fiduciary Activities (continued)

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 September 2010 are $8.4 million (30 September 2009 $7.3 million; 31 March 2010 $8.2 million) which is 0.3% of the total assets of the Banking Group (30 September 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. Further information on SBS risk management policies and practices is included in notes 3 and 28 to 30.

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.

37. Hastings Building Society Transfer of Engagements

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

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

At the date of signing the Banking Group's 30 September 2010 General Disclosure Statement, information required to value the acquisition was incomplete and as such the valuations are provisional and may be adjusted in the following period.

The assets and liabilities acquired and the associated accounting adjustments as at 1 October 2010 are set out below.

	Notes	Cessation Accounts	Fair Value Adjustments	Take - on Balances
Cash on hand and at bank		3,583	-	3,583
Funds with financial institutions		30,273	-	30,273
Advances to customers	a	144,345	(366)	143,979
Property, plant and equipment	b	1,970	-	1,970
Other assets		217	-	217
Redeemable shares	c	(162,052)	(1,144)	(163,196)
Derivative financial instruments		(598)	-	(598)
Other liabilities	d	(484)	(442)	(926)
Net identifiable assets and liabilities	e	**17,254**	**(1,952)**	**15,302**
Goodwill on acquisition				-
Acquisition value (deemed consideration)				**15,302**

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

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

The assets and liabilities of HBS will be included within the accounts of SBS at fair value at the date of acquisition.

37. Hastings Building Society Transfer of Engagements (continued)

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 their fair value and subsequently carried at amortised cost using the effective interest rate method.

Notes and adjustments:

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

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

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

d) An adjustment has been made for other commitments.

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

38. Subsequent Events

There have been no material subsequent events after 30 September 2010 other than the merger referred to above.

Independent Auditor's Report

To the Directors of Southland Building Society

We have reviewed the interim financial statements on pages 10 to 81 prepared and disclosed in accordance with Clause 23 of the Registered Bank Disclosure Statement (Full and Half-Year - New Zealand Incorporated Registered Banks) Order 2008 (the 'Order') and the supplementary information prescribed in Schedules 3 to 9. The interim financial statements, and supplementary information, provide information about the past financial performance and cash flows of Southland Building Society (the "Registered Bank") and its subsidiary companies (the 'Banking Group') and the financial position as at 30 September 2010. This information is stated in accordance with the accounting policies set out on pages 15 to 23.

Directors' responsibilities

The Directors of Southland Building Society are responsible for the preparation and presentation of interim financial statements in accordance with Clause 23 of the Order which give a true and fair view of the financial position of the Registered Bank and Banking Group as at 30 September 2010 and its financial performance and cash flows for the six months ended on that date.

They are also responsible for the preparation of supplementary information which gives a true and fair view, in accordance with the Order, of the matters to which it relates; and complies with Schedules 3 to 9 of the Order.

Auditor's responsibilities

We are responsible for reviewing the interim financial statements, including the supplementary information disclosed in accordance with Schedules 4, 6 to 9, and Clause 17 of Schedule 3 of the Order, presented to us by the Directors and reporting our findings to you.

It is also our responsibility to express a review opinion on the supplementary information as required by Schedule 5A of the Order 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 5A is not in all material respects prepared in accordance with the Bank's Conditions of Registration and disclosed in accordance with Schedule 5A and for reporting our findings to you.

Basis of review opinion

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 Bank 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 audit related services to the Registered Bank and Banking Group. Partners and employees of our firm may also deal with the Registered Bank and Banking Group on normal terms within the ordinary course of trading activities of the business of the Registered Bank and Banking Group subject to certain restrictions on borrowings. These matters have not impaired our independence as auditors of the Registered Bank and Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

Review Opinion

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 disclosed in Notes 29, 31, 35 and 36) do not present a true and fair view of the financial position of the Bank as at 30 September 2010 and its financial performance and cash flows for the six months ended on that date;

(b) the supplementary information disclosed in Notes 29, 35 and 36 prescribed by Schedules 4, 6 to 9 and Clauses 17 of Schedule 3 of the Order is not fairly stated in accordance with those Schedules; and

(c) the supplementary information relating to Capital Adequacy disclosed in Note 31 of the interim financial statements, as required by Schedule 5A of the Order, derived from the Bank's interim financial statements and sources other than the Banks' accounting records, is not in all material respects prepared in accordance with the Bank's Conditions of Registration, with the Reserve Bank of New Zealand document *Capital Adequacy Framework (standardised approach) (BS2A)* , and disclosed in accordance with Schedule 5A of the Order.

Our review was completed on 13 December 2010 and our review opinion is expressed as at that date.

KPMG

Wellington

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

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

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

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

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

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

Mr J J Grant, Farmer/Company Director, Balfour

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

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

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

Napier
93 Dalton Street
PO Box 1041
Telephone: 06 8727299
Fax: 06 8354471

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

Hastings
Cnr Queen & Market Streets
PO Box 10
Telephone: 06 8727299
Fax: 06 8789631