

*Mindful of the service left to us by the leaders who founded the and Investment Society of the representatives of our acceptance of the steady pursuit of*

# 139 Years Strong

*WE RESOLVE AT ALL TIMES OF OUR MEMBERS AND THE COMMUNITIES*

**Southland Building Society**  
139th Annual Report 2008  
FINANCIAL STATEMENTS



*our guiding principles  
furthering this resolve  
COMMITMENT  
UT111 BEN*

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## DIRECTORY

### Chairman

Mr J W A Smith  
BCom, FNZIM  
Company Director  
Invercargill

### Deputy Chairman

Mr M H Piper  
BCom FCA  
Chartered Accountant  
Invercargill

### Directors

Mr W H Conway  
Company Director  
Invercargill

Mr J B Walker  
LLB

Barrister & Solicitor  
Invercargill

Mr J F Ward  
BCom CA  
Chartered Accountant  
Invercargill

Mr G J Mulvey  
BCom CA, FNZIM  
General Manager  
Invercargill Licensing Trust  
Invercargill

Mr G J Diack  
MA (Hons)  
Management Consultant  
Christchurch

Mrs K J Ball  
BCom CA  
Chartered Accountant  
Invercargill

Mr R L Smith  
BCom, FNZIM  
Chief Executive  
Southland Building Society  
Invercargill

Mr J J Grant  
Farmer/Company Director  
Balfour

All Directors can  
be contacted:  
c/- SBS  
51 Don Street  
Invercargill

### Chief Executive

Mr R L Smith  
BCom, FNZIM  
Invercargill

### Secretary

Mr T D R Loan  
BCom 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

### Group Auditors

KPMG  
10 Customhouse Quay  
Wellington

### Banker

Westpac Banking  
Corporation  
188 Quay Street  
Wellington

### Trustee

Trustees Executors Limited  
50-64 Customhouse Quay  
Wellington

## Income Statements for the year ended 31 March 2008

All in \$'000's	Note	GROUP		PARENT	
		31/3/08	31/3/07	31/3/08	31/3/07
Interest Income	(4)	231,260	196,591	203,954	170,891
Interest Expense		41,433	35,652	27,560	23,282
Dividends on Redeemable Shares		130,862	108,632	130,865	108,632
	(5)	172,295	144,284	158,425	131,914
<b>Net Interest Income</b>		<b>58,965</b>	<b>52,307</b>	<b>45,529</b>	<b>38,977</b>
Other Income	(4)	12,499	11,100	4,150	4,483
<b>Total Operating Income</b>		<b>71,464</b>	<b>63,407</b>	<b>49,679</b>	<b>43,460</b>
Operating Expenses	(5)	41,074	37,509	27,754	25,499
Provision for Credit Impairment	(12)	9,074	3,694	3,882	(9)
<b>Operating Surplus</b>		<b>21,316</b>	<b>22,204</b>	<b>18,043</b>	<b>17,970</b>
Add Net Gain/(Loss) from Financial Instruments Designated at Fair Value	(6)	(1,340)	924	(1,342)	1,599
Add Revaluation of Property	(21)	60	749	-	-
Less Subvention Payment		-	-	543	816
<b>Surplus Before Income Tax</b>		<b>20,036</b>	<b>23,877</b>	<b>16,158</b>	<b>18,753</b>
Less Income Tax Expense	(7)	5,709	7,274	4,444	5,470
<b>Net Surplus</b>		<b>14,327</b>	<b>16,603</b>	<b>11,714</b>	<b>13,283</b>
<b>Attributable to:</b>					
Members' Interests		13,567	15,514	11,714	13,283
Minorities' Interests		760	1,089	-	-
		<b>14,327</b>	<b>16,603</b>	<b>11,714</b>	<b>13,283</b>

## Statements of Changes in Equity for the year ended 31 March 2008

<b>Net Surplus for the Year</b>					
Members' Interests		13,567	15,514	11,714	13,283
Minorities' Interests		760	1,089	-	-
<b>Other Recognised Revenues and Expenses</b>					
Net Change in Property, Plant and Equipment Reserve, Net of Tax	(21)	144	646	120	66
Net Change in Available for Sale Asset Reserve, Net of Tax	(21)	(34)	(10)	8	(13)
<b>Net Income Recognised Directly in Equity</b>		<b>110</b>	<b>636</b>	<b>128</b>	<b>53</b>
<b>Total Recognised Revenues and Expenses</b>		<b>14,437</b>	<b>17,239</b>	<b>11,842</b>	<b>13,336</b>
In-Substance Subsidiary consolidated into Parent		-	-	(616)	-
Minority Interests Share of Net Change in Property, Plant and Equipment Reserve, Net of Tax		27	64	-	-
Minority Interests Share of Net Change in Available for Sale Asset Reserve, Net of Tax		(10)	-	-	-
Realised Reserves		597	-	-	-
Adjustment to Capital of Minorities' Interests		12	(200)	-	-
Adjustment to Capital of Members' Interests		(18)	-	-	-
Dividends Paid to Minority Interests		(200)	(474)	-	-
<b>Total Changes in Equity</b>		<b>14,845</b>	<b>16,629</b>	<b>11,226</b>	<b>13,336</b>
Opening Equity		140,521	123,892	127,815	114,479
<b>Closing Equity</b>	(21)	<b>155,366</b>	<b>140,521</b>	<b>139,041</b>	<b>127,815</b>

The Notes to the Financial Statements (pages 5 to 42) form part of and should be read in conjunction with these Financial Statements.

## Balance Sheets as at 31 March 2008

All in \$000's	Note	GROUP		PARENT	
		31/3/08	31/3/07	31/3/08	31/3/07
<b>Assets</b>					
Cash on Hand and at Bank		13,926	9,035	8,014	7,273
Funds with Financial Institutions	(8)	37,618	43,883	34,632	41,485
Investment Securities	(9)	1,923	1,881	-	-
Derivative Financial Instruments	(10)	6,978	6,336	7,299	6,367
Current Tax Assets		2,773	136	2,130	780
Advances to Customers	(11)	2,334,242	2,126,729	2,110,110	1,843,560
Loans to Subsidiaries and Associates	(15)	1,413	-	82,611	78,733
Investments in Subsidiaries	(15)	-	-	9,161	9,187
Investments in Associates	(15)	1,090	1,090	1,090	1,090
Other Assets	(16)	4,987	4,838	3,627	2,297
Property, Plant and Equipment	(17)	16,629	16,041	5,695	6,038
Intangible Assets	(18)	2,616	2,823	968	726
Deferred Tax	(19)	2,076	1,993	1,333	548
	(28)	<b>2,426,271</b>	<b>2,214,785</b>	<b>2,266,670</b>	<b>1,998,084</b>
<b>Liabilities</b>					
Redeemable Shares	(28)	1,693,284	1,567,447	1,694,540	1,567,548
Deposits from Customers	(28)	133,027	119,342	133,027	119,342
Deposits from Financial Institutions	(28)	70,438	69,540	70,438	69,540
Derivative Financial Instruments	(10)	1,299	19	1,754	842
Other Borrowings	(28)	347,946	300,636	210,464	102,736
Other Liabilities	(20)	24,911	17,280	17,406	10,261
	(28)	<b>2,270,905</b>	<b>2,074,264</b>	<b>2,127,629</b>	<b>1,870,269</b>
<b>Net Assets</b>					
		<b>155,366</b>	<b>140,521</b>	<b>139,041</b>	<b>127,815</b>
<b>Equity</b>					
	(21)				
Reserves		1,179	1,069	375	247
Retained Earnings		150,446	136,301	138,666	127,568
Attributable to Members of the Society		151,625	137,370	139,041	127,815
Attributable to Minority Shareholders		3,741	3,151	-	-
		<b>155,366</b>	<b>140,521</b>	<b>139,041</b>	<b>127,815</b>

For and on behalf of the Board of Directors



Chairman  
JWA Smith  
10 June 2008



Deputy Chairman  
MH Piper

The Notes to the Financial Statements (pages 5 to 42) form part of and should be read in conjunction with these Financial Statements.

# Cash Flow Statements for the year ended 31 March 2008

All in \$000's	Note	GROUP		PARENT	
		31/3/08	31/3/07	31/3/08	31/3/07
<b>Cash Flows From Operating Activities</b>					
Interest Received		227,217	193,700	201,123	169,533
Fees and Other Income		16,927	15,179	5,046	5,619
Dividends Received		-	-	800	616
Interest Paid		(40,901)	(35,202)	(27,158)	(23,229)
Dividends Paid on Redeemable Shares		(123,451)	(107,597)	(123,451)	(107,597)
Operating Expenses		(36,985)	(37,135)	(25,531)	(24,072)
Income Taxes Paid		(8,594)	(6,910)	(6,319)	(5,324)
Net Cash Flows From Operating Activities before changes in Operating Assets and Liabilities		34,213	22,035	24,510	15,546
Net Changes in Operating Assets and Liabilities					
Net Increase in Advances		(215,222)	(154,658)	(261,684)	(205,059)
Net Proceeds from Securitised Advances		-	-	188,198	135,197
Net Increase in Investment Securities		(107)	(593)	-	-
Net Increase in Shares and Deposits from Customers		131,707	157,974	132,859	158,075
Net Increase/(Decrease) in Deposits from Financial Institutions		900	(84,673)	900	(84,673)
Net Increase/(Decrease) in Other Borrowings		47,180	67,740	(89,602)	1,943
Net Increase/(Decrease) in Cash held on behalf of Lifestages Mortgage Portfolio		4,149	(3,228)	4,149	(3,228)
<b>Net Cash Flows Provided By/(Used In) Operating Activities</b>	(22)	<b>2,820</b>	<b>4,597</b>	<b>(670)</b>	<b>17,801</b>
<b>Cash Flows From Investing Activities</b>					
Sale of Property, Plant and Equipment		1,292	24	10	24
Purchase of Property, Plant and Equipment		(1,448)	(2,347)	(807)	(2,025)
Purchase of Intangible Assets		(904)	(971)	(715)	(315)
Net Increase in Loans to Subsidiaries and Associates		(1,413)	-	(3,878)	(13,834)
Investment in Subsidiary		-	-	26	300
Investment in Associates		-	(1,090)	-	(1,090)
Loan from Minority Interests		(428)	428	-	-
Repayment of Minority Interests Share Capital		-	(200)	-	-
<b>Net Cash Flows Provided By/(Used In) Investing Activities</b>		<b>(2,901)</b>	<b>(4,156)</b>	<b>(5,364)</b>	<b>(16,940)</b>
<b>Cash Flows From Financing Activities</b>					
Dividends Paid to Minority Interests		(662)	(214)	-	-
<b>Net Cash Flows Provided By/(Used In) Financing Activities</b>		<b>(662)</b>	<b>(214)</b>	<b>-</b>	<b>-</b>
Net Increase/(Decrease) in Cash Held		(743)	227	(6,034)	861
Add Opening Cash and Cash Equivalents		52,051	51,824	47,894	47,033
Add Opening Cash and Cash Equivalents of In-Substance Subsidiary Re-Recognised		-	-	554	-
<b>Closing Cash and Cash Equivalents</b>		<b>51,308</b>	<b>52,051</b>	<b>42,414</b>	<b>47,894</b>
<b>Reconciliation of Cash and Cash Equivalents</b>					
Cash on Hand and at Bank		13,926	9,035	8,014	7,273
Funds with Other Financial Institutions	(8)	37,618	43,883	34,632	41,485
Interest Accrued on Available for Sale Assets		(239)	(882)	(235)	(880)
Net Decrease in Fair Value of Available for Sale Assets		3	15	3	16
		<b>51,308</b>	<b>52,051</b>	<b>42,414</b>	<b>47,894</b>

The Notes to the Financial Statements (pages 5 to 42) form part of and should be read in conjunction with these Financial Statements.

## I Statement of Accounting Policies

### (a) Basis of Preparation

Southland Building Society (SBS) was established in 1869 and was incorporated under the Building Societies Act 1880 on 13 August 1883. The consolidated financial statements presented here are for the reporting entity of the 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-orientated entities. Compliance with NZ IFRS ensures the financial statements also comply with International Financial Reporting Standards.

These financial statements were authorised for issue by the Board of Directors on 10 June 2008.

### (b) Presentation Currency and Rounding

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

### (c) Adoption of NZ IFRS

The Group adopted the New Zealand equivalents to IFRS for the reporting period commencing 1 April 2006.

These financial statements are the first financial statements for this period prepared in accordance with NZ IFRS and NZ IFRS 1: First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards has been applied. An explanation of how the transition from previous GAAP to NZ IFRS has impacted the Group's previously reported balance sheet, income statement and cash flows is set out in Note 36 - Explanation of Transition to NZ IFRS.

The accounting policies set out below have been consistently applied to all periods presented in these financial statements and in preparing an opening NZ IFRS balance sheet as at 1 April 2006.

The following new standards and amendments to standards relevant to the Group are not yet effective and have not yet been applied in preparing the financial statements.

Adoption of these standards will not have any impact on the Group's reported profit or financial position.

*NZ IAS 1 Presentation of Financial Statements (revised)* will apply to the Group from 1 April 2009 and will result in changes to the disclosure of changes in Equity.

*NZ IFRS 8 Operating Segments* will apply to the Group from 1 April 2009. NZ IFRS 8 will affect the financial and descriptive information disclosed about the Group's reportable segments.

### (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 or 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 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 Group financial statements consolidate SBS and the following entities:

- Fraser Properties Limited (wholly owned subsidiary) - owns the Southland Building Society's Head Office Building;
- Southsure Assurance Limited (80% owned subsidiary) - life insurance and related products;

- Finance Now Limited (71.5% owned subsidiary) - consumer credit and insurance services;
- 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;
- Rural Livestock Finance Limited (25.7% associate) - livestock finance; and
- RLF Management Limited (25.7% associate) - management company.

#### 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 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 acquisition over the fair value of the 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 Group's share of net assets of the subsidiary 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 subsidiary have been changed where necessary to ensure consistency with the policies adopted by the parent, SBS.

#### Associates

Associates are entities over which SBS exerts significant influence but does not exercise control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Associates are accounted for under the equity method of accounting.

#### 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 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 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 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 are 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 at Fair Value through Profit or Loss (FVTPL) 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 are 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 are reported within provision for credit impairment and not included in the fair value of these instruments.

### (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 Group is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Group is reimbursed.

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

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

The Group derecognises a financial asset from its Balance Sheet when, and only when, (i) the contractual rights to the cash flows from the financial asset expire, or (ii) the 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 Group derecognises a financial liability from its Balance Sheet, when and only when, it is extinguished.

### (m) Fair-Value Measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets, or by using valuation techniques. Valuation techniques include the discounted cash flow method and comparison to similar instruments for which market observable prices exist. The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments where inputs are observable.

For interest rate swaps and options, the Group uses proprietary models, which are developed from recognised valuation models. 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. 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.

## I Statement of Accounting Policies Continued

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot 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 Balance Sheet.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

### (n) Financial Instruments

The 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.

#### *Financial Assets at Fair Value through Profit or Loss*

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.

The 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 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, any fair value movements on the instrument will 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 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.

#### *Available for Sale Financial Assets*

Available for Sale Financial Assets are non-derivative financial assets that are designated as available for sale or are not categorised as: loans and receivables, held to maturity, or fair value through profit or loss. The 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.

#### *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 & Associates.

#### *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 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, Deposits from Other Financial Institutions, and Current Tax Liabilities.

### (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 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'.

### (p) Asset Quality

#### *Credit Assessment*

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

The 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 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 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 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 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 characteristics 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 amount 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 Balance Sheet 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) 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 fair value at the date of the revaluation

## I Statement of Accounting Policies Continued

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 diminishing value 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.

### (s) 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 Group's share of the net identifiable assets acquired, at the date of acquisition. 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 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.

### (t) Redeemable Shares and Deposits

Redeemable Shares and Deposits are recorded in the Balance Sheet inclusive of accrued interest. Redeemable Shares are considered to be a compound instrument. Interest income on deposits and dividends on redeemable shares are recorded in the Income Statement on an accruals basis using the effective interest method.

### (u) Operating Leases

#### Leases as lessee

The leases entered in to by the 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.

### (v) 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 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.

### (w) 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.

### (x) 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 Balance Sheet.

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.

### (y) Offsetting of Assets and Liabilities

Assets and liabilities are offset and the net amount reported in the Balance Sheet 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.

### (z) Contingent Liabilities

Liabilities are no longer contingent, and are recognised on the Balance Sheet, 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 24 - 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.

### (aa) Cash Flow Statement

#### Basis of Preparation

The Cash Flow Statement 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 Group, which are unconditionally convertible at the 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 Group. These include customer loans and advances, customer shares and deposits and parent company funding.

### (ab) Ranking of Securities

Deposits rank equally with other unsecured creditors and behind creditors given priority by law. Redeemable Shares rank equally with other existing securities of their own class and behind deposits, unsecured creditors and those creditors given priority by law.

### (ac) 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 Balance Sheet as Deposits. FANZ is the Investment and Administration Manager of the Lifestages Superannuation Scheme.

### (ad) 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

## I Statement of Accounting Policies *Continued*

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 Balance Sheet as Deposits.

### (ae) Lifestages KiwiSaver Scheme

The Lifestages KiwiSaver Scheme was established by the Trust Deed on 1 June 2007 and is a registered KiwiSaver scheme under the KiwiSaver Act 2006. Funds Administration New Zealand Limited 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 is invested with or managed by SBS. The Lifestages KiwiSaver Scheme funds that are invested with SBS are included in the Balance Sheet as Deposits.

### (af) 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 Group Balance Sheet. 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 has revised its accounting treatment to consolidate the financial statements of SBS Invercargill W Trust within the Parent on the basis that SBS now 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 into 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 Balance Sheet.

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

### (ag) Changes in Accounting Policies

There have been no changes in accounting policies covered by these financial statements.

As set out in note (af) Loan Securitisation, SBS has revised its accounting treatment to consolidate the SBS Invercargill W Trust into the Parent for the year ended 31 March 2008 on the basis that SBS now retains some of the risks and rewards of ownership through the provision of a subordinated loan to the Trust. This reflects a change in the application of the Group's accounting policy, and is not a change in that accounting policy. The financial impact is to recognise \$17,000 of net assets into the Balance Sheet at 31 March 2008 and has a \$636,000 impact on net surplus after tax for the year.

## 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 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 that have already been incurred for 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 Group.

At 31 March 2008, the Group's total provision for credit impairment was \$7,097,000 representing 0.30% of total net loans and advances (March 2007 \$4,003,000 representing 0.19% of total net loans and advances). 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.

### *Fair Value of Derivatives*

The 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 Group's exposures include:

- Swaps;
- Options; and
- Combinations of the above instruments.

The Group enters into derivatives for risk management purposes.

Derivatives which are entered into as part of the 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.

### *Loans and Advances*

Certain loans and advances, for which there is an accounting mismatch 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 a combination of quoted market prices and the use of a discounted cash flow model. To the extent possible the model uses only observable data, however such areas as counterparty risk require management to make judgements and estimates. 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 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 Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group controls an SPE, it makes judgements 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, GM Finance and Operational Risk Manager are in attendance at meetings. The Audit and Risk Committee meets at least four times a year, and reports directly to the Board.

### **Internal Audit**

SBS's 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 is carried out by the Invercargill based firm of Chartered Accountants, VHK Cook Adam Ward Wilson. 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 where highest risk exists. 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;

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$'000's

## 3 Risk Management Policies *Continued*

- 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 balance sheet 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 and the requirements of SBS's Trust Deed. 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.

#### *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.

## 4 Income

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
<b>Interest Income</b>				
Cash on Hand and at Bank	1,226	223	360	113
Other Financial Institutions - Available for Sale	3,064	3,267	2,888	3,050
Investment Securities - Available for Sale	38	26	-	-
Investment Securities - Designated at Fair Value through Profit or Loss	72	35	-	-
Derivative Financial Instruments	9,917	4,036	8,629	3,237
Advances to Customers - At Amortised Cost	140,236	118,262	116,344	96,690
Advances to Customers - Designated at Fair Value through Profit or Loss	76,500	70,724	68,500	61,724
Loans to Subsidiaries & Associates	136	-	7,162	6,062
Other	71	18	71	15
	<b>231,260</b>	<b>196,591</b>	<b>203,954</b>	<b>170,891</b>
<b>Other Operating Income</b>				
Loan Fees	759	512	945	583
Management Fees	2,906	2,594	669	920
Other Fee and Commission Income	3,534	3,229	1,504	1,283
Net Insurance Income	4,065	2,753	-	-
Dividends	-	-	800	1,106
Gain on Sale of Shares	29	-	95	-
Sundry Income	1,206	2,012	137	591
	<b>12,499</b>	<b>11,100</b>	<b>4,150</b>	<b>4,483</b>

## 5 Expenses

<b>Interest Expense</b>				
Redeemable Shares	128,197	106,126	128,197	106,126
Deposits from Customers	10,215	7,424	10,215	7,424
Other Financial Institutions	5,332	8,827	5,332	8,816
Subsidiary Companies	-	-	139	21
Other Borrowings	28,551	21,907	14,542	9,527
	<b>172,295</b>	<b>144,284</b>	<b>158,425</b>	<b>131,914</b>
<b>Other Operating Expenses</b>				
Auditor's Remuneration	255	209	148	130
Computer Expenses	1,259	998	830	748
Fees and Commissions	248	32	157	32
Fees to Directors*	574	490	521	440
Marketing	4,335	4,031	3,387	3,134
Personnel	19,129	17,596	13,715	12,903
Actuarial Life Adjustment	480	874	-	-
Amortisation & Depreciation	2,812	2,505	1,668	1,578
Rent and Leases	2,014	1,842	2,073	2,023
Write Off of Property, Plant and Equipment	92	84	92	84
Other Expenses	9,876	8,848	5,163	4,427
	<b>41,074</b>	<b>37,509</b>	<b>27,754</b>	<b>25,499</b>

\*An increase in provision for Directors Retiring Allowance of \$65,000 was made this year (31 March 2007 \$65,000).

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$'000's

## 5 Expenses Continued

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
Amounts received, or due and receivable by the Auditors:				
KPMG Auditing the Financial Statements	227	203	148	129
KPMG Other Assurance Services*	28	6	-	1
	<b>255</b>	<b>209</b>	<b>148</b>	<b>130</b>

\* Other assurance services includes IFRS transition, Trust Deed reporting and other assistance.

Amounts received, or due and receivable by Directors:				
JWA Smith (Chairman)	100	80	100	80
MH Piper (Deputy Chairman)	65	60	60	55
WH Conway	55	50	44	40
JB Walker	60	56	38	36
JF Ward	49	46	44	41
GJ Mulvey	49	46	44	41
GJ Diack	49	45	44	40
KJ Ball	49	42	49	42
JJ Grant (appointed July 2007)	33	-	33	-
RL Smith*	-	-	-	-
	<b>509</b>	<b>425</b>	<b>456</b>	<b>375</b>
Provision for Directors Retiring Allowance	65	65	65	65
	<b>574</b>	<b>490</b>	<b>521</b>	<b>440</b>

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

\* RL Smith is an executive director and received no directors fees in addition to his salary.

Personnel expenses includes key management personnel compensation which comprised:				
Salaries & Short-Term Employee Benefits	3,299	3,106	1,461	1,425
Post-Employment Benefits	183	178	183	178
Other Long-Term Benefits	29	7	29	7
Termination Benefits	-	-	-	-
	<b>3,511</b>	<b>3,291</b>	<b>1,673</b>	<b>1,610</b>

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

Net Gain/(Loss) arising on:				
Investment Securities	10	(19)	-	-
Derivative Financial Instruments	(1,734)	5,731	(852)	5,013
Advances to Customers	384	(4,788)	(490)	(3,414)
	<b>(1,340)</b>	<b>924</b>	<b>(1,342)</b>	<b>1,599</b>

## 7 Taxation

<b>Reconciliation of the Prima Facie Income Tax Payable on Profit with Income Tax Expense in the Income Statements</b>				
Surplus before Income Tax	20,036	23,877	16,158	18,753
Prima Facie Income Tax at 33%	6,612	7,879	5,332	6,188
Adjust for the Tax Effect of:				
Imputation Credits Received	307	100	307	100
Other Permanent Items	(686)	(658)	157	198
Revaluation Property	-	224	-	-
Loss Offset / Subvention	4	(7)	(540)	(753)
Prior Period Adjustments	151	39	(23)	40
	(224)	(302)	(99)	(415)
Tax on Surplus	6,388	7,577	5,233	5,773
Intra - Group Dividend (Imputation Credits)	(930)	(303)	(930)	(303)
Impact of Reduction in Corporate Tax Rate	251	-	141	-
<b>Taxation Expense/(Benefit)</b>	<b>5,709</b>	<b>7,274</b>	<b>4,444</b>	<b>5,470</b>
Effective Tax Rate (%)	28.5%	30.5%	27.5%	29.2%

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 7 Taxation Continued

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
<b>The Major Components of the Income Tax Expense Comprise:</b>				
<b>Amounts Recognised in the Income Statements</b>				
<b>Current Income Tax Charge</b>				
Current Income Tax Charge	6,170	7,487	5,274	4,947
Adjustments Recognised in the Current Period in Relation to Current Tax of Prior Periods	(305)	58	(14)	53
<b>Deferred Income Tax</b>				
Deferred Tax Expenses Relating to the Origination and Reversal of Temporary Differences	(156)	(271)	(816)	470
<b>Total Income Tax Expense Recognised in Income Statements</b>	<b>5,709</b>	<b>7,274</b>	<b>4,444</b>	<b>5,470</b>
<b>The Following Amounts were Charged/(Credited)</b>				
<b>Direct to Equity:</b>				
Current Income Tax	-	-	-	-
Deferred Income Tax	73	492	31	22
<b>Total Income Tax Expense Recognised Directly in Equity</b>	<b>73</b>	<b>492</b>	<b>31</b>	<b>22</b>

## 8 Funds with Financial Institutions

Call Funds	12,485	1,913	10,002	-
Registered Certificates of Deposit (RCD)	22,628	41,970	22,628	41,485
Term Deposits	2,505	-	2,002	-
	<b>37,618</b>	<b>43,883</b>	<b>34,632</b>	<b>41,485</b>
<b>Funds with Financial Institutions were recorded as:</b>				
Designated as Available for Sale	37,618	43,883	34,632	41,485
	<b>37,618</b>	<b>43,883</b>	<b>34,632</b>	<b>41,485</b>

## 9 Investment Securities

Managed Funds in Lifestages Portfolio	576	561	-	-
NZ Government Securities	1,009	999	-	-
Equity Securities	338	321	-	-
	<b>1,923</b>	<b>1,881</b>	<b>-</b>	<b>-</b>
<b>Investment Securities were recorded as:</b>				
Designated as Fair Value through Profit or Loss	1,009	999	-	-
Designated as Available for Sale	914	882	-	-
	<b>1,923</b>	<b>1,881</b>	<b>-</b>	<b>-</b>

## 10 Derivative Financial Instruments

The 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 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 Basel I 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 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 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 Balance Sheet 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 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.

	GROUP					
	Notional Principal 31/3/08	Fair Value Assets 31/3/08	Fair Value Liabilities 31/3/08	Notional Principal 31/3/07	Fair Value Assets 31/3/07	Fair Value Liabilities 31/3/07
<b>Held for Risk Management - At Fair Value</b>						
<b>Interest Rate Related Contracts</b>						
Swaps	396,675	2,140	453	406,675	1,679	19
Options	790,875	4,838	846	779,875	4,657	-
	<b>1,187,550</b>	<b>6,978</b>	<b>1,299</b>	<b>1,186,550</b>	<b>6,336</b>	<b>19</b>

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 10 Derivative Financial Instruments *Continued*

	PARENT					
	Notional Principal 31/3/08	Fair Value Assets 31/3/08	Fair Value Liabilities 31/3/08	Notional Principal 31/3/07	Fair Value Assets 31/3/07	Fair Value Liabilities 31/3/07
	<b>Held for Risk Management - At Fair Value</b>					
<b>Interest Rate Related Contracts</b>						
Swaps	564,674	2,461	908	676,987	1,710	842
Options	790,875	4,838	846	779,875	4,657	-
	<b>1,355,549</b>	<b>7,299</b>	<b>1,754</b>	<b>1,456,862</b>	<b>6,367</b>	<b>842</b>

The 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 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'.

## 11 Advances to Customers

	Note	GROUP		PARENT	
		31/3/08	31/3/07	31/3/08	31/3/07
		Advances at Fair Value through Profit or Loss		821,864	823,836
Advances at Amortised Cost		1,522,652	1,309,798	1,359,077	1,119,047
Gross Advances		<b>2,344,516</b>	<b>2,133,634</b>	<b>2,115,273</b>	<b>1,845,490</b>
Less Provisions for Credit Impairment	(12)	7,097	4,003	3,405	298
Less Deferred Fee Revenue and Expenses <sup>(1)</sup>		3,177	2,902	1,758	1,632
Total Net Advances	(27)	<b>2,334,242</b>	<b>2,126,729</b>	<b>2,110,110</b>	<b>1,843,560</b>

<sup>(1)</sup> Deferred fee revenue and expenses is a new balance sheet category arising from adoption of NZ IAS 39 from 1 April 2006

Advances to Customers that meet 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.

At 31 March 2008 the maximum credit exposure on these loans at fair value through the profit or loss was \$822 million (March 2007 \$824 million). The Group has \$nil credit risk derivatives at 31 March 2008 (March 2007 \$nil).

Details of changes in the fair value recognised on these advances on account of credit risk changes are set out below:

	31/3/08		31/3/07	
	For the Year	Cumulative	For the Year	Cumulative
	Advances at Fair Value through Profit or Loss	-	-	-

Credit impairment on advances designated at fair value through profit or loss has been reviewed and assessed by the Group as being less than \$1 million. This impact is embedded within the overall fair value calculation.

## 12 Provision for Credit Impairment

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
	<b>Individual Provisions Against Advances and Loans (All relate to Impaired Assets)</b>			
Balance at Beginning of the Year	298	290	298	290
New Provisions during the Year	3,931	324	3,931	324
Balances Written Off during the Year	(739)	(6)	(739)	(6)
Discount Unwind	-	-	-	-
Recoveries	-	-	-	-
Reversals of Previously Recognised Provision	(85)	(310)	(85)	(310)
Balance at End of the Year	3,405	298	3,405	298
<b>Collective Provisions Against Advances and Loans</b>				
Balance at Beginning of the Year	3,705	2,275	-	-
Charged to Income Statement	(13)	(686)	-	-
Provision on Acquisition	-	2,116	-	-
Balance at End of the Year	3,692	3,705	-	-
<b>Total Provisions for Credit Impairment</b>	<b>7,097</b>	<b>4,003</b>	<b>3,405</b>	<b>298</b>

There are no restructured assets or assets acquired through enforcement of security.

There is no collective provision calculated for the Parent as historical loss experience for the portfolio is negligible. The collective provision for the Group is in relation to consumer finance lending by Finance Now Limited. Management regularly reviews economic conditions and credit conditions to determine collective provisioning.

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 12 Provision for Credit Impairment *Continued*

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

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
Bad Debts Written Off for the Year	5,980	4,372	775	(17)
Movement in Individual Provisions	3,107	8	3,107	8
Movement in Collective Provision	(13)	(686)	-	-
Provision for Credit Impairment to Income Statement	<b>9,074</b>	<b>3,694</b>	<b>3,882</b>	<b>(9)</b>

## 13 Asset Quality

<b>(a) Asset Quality - Advances to Customers</b>				
Neither Past Due or Impaired	2,309,849	2,109,603	2,095,514	1,839,608
Individually Impaired Amount	8,355	583	8,355	583
Past Due Amount	23,135	20,546	9,646	3,667
Total Credit Impairment	(7,097)	(4,003)	(3,405)	(298)
Total Carrying Amount	<b>2,334,242</b>	<b>2,126,729</b>	<b>2,110,110</b>	<b>1,843,560</b>
<b>(b) Ageing of Past Due but Not Impaired Assets</b>				
Past due 0-29 days	9,696	10,689	3,692	1,923
Past due 30-89 days	6,529	5,141	2,356	656
Past due 90-119 days	4,861	2,824	3,598	1,088
Past due 120-365 days	2,049	1,892	-	-
Carrying Amount	<b>23,135</b>	<b>20,546</b>	<b>9,646</b>	<b>3,667</b>
<b>(c) 90 Day Past Due Assets</b>				
Balance at Beginning of the Year	4,716	2,255	1,088	941
Additions to 90 day past due assets	14,001	4,154	10,796	1,544
Reduction in 90 day past due assets	(11,807)	(1,693)	(8,286)	(1,397)
Balance at End of the Year	<b>6,910</b>	<b>4,716</b>	<b>3,598</b>	<b>1,088</b>
<b>(d) Impaired Assets</b>				
<b>Individually Impaired Assets</b>				
Balance at Beginning of the Year	583	520	583	520
Additions to Individually Impaired Assets	8,087	330	8,087	330
Amounts Written Off	(315)	-	(315)	-
Transfers back to Productive Ledger	-	(267)	-	(267)
Balance at End of the Year	<b>8,355</b>	<b>583</b>	<b>8,355</b>	<b>583</b>
Less: Provision at End of the Year	3,405	298	3,405	298
Net Carrying Amount at End of the Year	<b>4,950</b>	<b>285</b>	<b>4,950</b>	<b>285</b>

Of Monetary Assets receivable 0.062% (March 2007 0.007%) relate to repayments in arrears in excess of three months.

## 14 Loan Securitisation

Mortgages assigned by SBS to the Lifestages Mortgage Portfolio unit trust during the 12 months ended 31 March 2008 amounted to \$10,919,000 (March 2007 \$42,584,000). SBS retains the majority of the risks and rewards of ownership and accordingly it is appropriate to record these securitised assets within the Balance Sheet.

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 12 months ended 31 March 2008 amounted to \$142,691,000 (March 2007 \$135,197,000).

In prior periods SBS has derecognised these securitised assets removing them from the Parent financial statements and consolidating them at a Group level as an in-substance subsidiary, however it is now considered that SBS retains some of the risks and rewards of ownership through the provision of a subordinated

loan and accordingly it is appropriate to re-consolidate the financial statements of SBS Invercargill W Trust within the Parent. This reflects a change in the application of the Group's accounting policy and is not a change in that accounting policy.

Mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No.1 during the 12 months ended 31 March 2008 amounted to \$188,198,000 (March 2007 \$nil). These loans are not included in the Balance Sheet of the Parent.

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	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
Lifestages Mortgage Portfolio	87,004	102,736	87,004	102,736
SBS Invercargill W Trust	133,031	196,821	133,031	-
SBS Oreti Trust No.1	132,355	-	-	-
	<b>352,390</b>	<b>299,557</b>	<b>220,035</b>	<b>102,736</b>

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 15 Investments in Subsidiaries and Associates

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
Investments in Subsidiaries	-	-	9,161	9,187
Investments in Associates	1,090	1,090	1,090	1,090
	<b>1,090</b>	<b>1,090</b>	<b>10,251</b>	<b>10,277</b>
Loans to Subsidiaries (at amortised cost)	-	-	81,198	78,733
Loans to Associates (at amortised cost)	1,413	-	1,413	-
	<b>1,413</b>	<b>-</b>	<b>82,611</b>	<b>78,733</b>

  

Significant Subsidiaries and Associates:	Percentage Held		Balance Date	Nature of Business
	31/3/08	31/3/07		
<i>Subsidiaries:</i>				
Fraser Properties Limited	100.0%	100.0%	31 March	Property Holding
Southsure Assurance Limited <sup>1</sup>	80.0%	80.0%	31 March	Insurance
Southsure Investment Holdings Limited <sup>1</sup>	-	80.0%	31 March	Property Holding
Finance Now Limited	71.5%	71.5%	31 March	Finance Company
Funds Administration New Zealand Limited	57.0%	60.0%	31 March	Funds Administration
<i>In-Substance Subsidiaries:</i>				
SBS Invercargill W Trust	-	-	31 March	Mortgage Securitisation
SBS Oreti Trust No 1	-	-	31 March	Mortgage Securitisation
<i>Associates:</i>				
Rural Livestock Finance Limited	25.7%	25.7%	30 June	Livestock Finance
RLF Management Limited	25.7%	25.7%	30 June	Management Company

(1) At 31 March 2007 Southsure Assurance Limited had a 100% shareholding in Southsure Investment Holdings Limited. These companies were amalgamated during the year ending 31 March 2008. Southsure Investment Holdings Limited owned Southsure Assurance Limited's Head Office until the property was sold on 15 May 2007.

All subsidiaries, in-substance subsidiaries and associates 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 and associates.

During the year SBS disposed of 25 shares in Funds Administration New Zealand Limited and recognised a gain of \$95,000.

## 16 Other Assets

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
Prepayments	459	611	251	205
Receivables from Related Parties	-	-	1,518	1,822
Land and Building Available for Sale	-	1,219	-	-
Other Receivables	4,528	3,008	1,858	270
	<b>4,987</b>	<b>4,838</b>	<b>3,627</b>	<b>2,297</b>

## 17 Property, Plant and Equipment

Freehold Land (at valuation)	1,010	910	270	230
Buildings (at valuation)	9,725	9,035	515	425
Total Carrying Amount	<b>10,735</b>	<b>9,945</b>	<b>785</b>	<b>655</b>
Leasehold Assets (at cost)	4,285	4,151	4,087	4,019
Less Accumulated Depreciation	1,659	1,284	1,623	1,263
Total Carrying Amount	<b>2,626</b>	<b>2,867</b>	<b>2,464</b>	<b>2,756</b>
Computer Equipment (at cost)	4,781	3,861	3,692	3,047
Less Accumulated Depreciation	3,488	2,783	2,736	2,210
Total Carrying Amount	<b>1,293</b>	<b>1,078</b>	<b>956</b>	<b>837</b>
Other Assets (at cost)	5,817	5,647	3,632	3,571
Less Accumulated Depreciation	3,842	3,496	2,142	1,781
Total Carrying Amount	<b>1,975</b>	<b>2,151</b>	<b>1,490</b>	<b>1,790</b>
Total Property, Plant and Equipment	<b>16,629</b>	<b>16,041</b>	<b>5,695</b>	<b>6,038</b>

Other Assets include Plant, Furniture and Fittings and Motor Vehicles.

# Notes to the Financial Statements for the year ended 31 March 2008

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 2008 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 2005, the aggregate of these valuations for all Land and Buildings owned by the Group as at March 2008 is \$10,075,000 (March 2007 \$10,775,000).

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

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
Freehold Land	1,561	1,561	220	220
Buildings	8,156	8,259	327	341
	<b>9,717</b>	<b>9,820</b>	<b>547</b>	<b>561</b>

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

<b>Freehold Land and Buildings</b>				
Balance at Beginning of the Year	9,945	8,700	655	575
Additions	-	3	-	-
Net Revaluation Increments	902	1,341	147	94
Disposals	-	-	-	-
Depreciation	(112)	(99)	(17)	(14)
Balance at End of the Year	<b>10,735</b>	<b>9,945</b>	<b>785</b>	<b>655</b>
<b>Leasehold Assets</b>				
Balance at Beginning of the Year	2,867	2,287	2,756	2,187
Additions	134	973	68	949
Disposals	-	(40)	-	(40)
Depreciation	(375)	(353)	(360)	(340)
Balance at End of the Year	<b>2,626</b>	<b>2,867</b>	<b>2,464</b>	<b>2,756</b>
<b>Computer Equipment</b>				
Balance at Beginning of the Year	1,078	990	837	782
Additions	921	748	647	552
Disposals	-	(40)	-	(40)
Depreciation	(706)	(620)	(528)	(457)
Balance at End of the Year	<b>1,293</b>	<b>1,078</b>	<b>956</b>	<b>837</b>
<b>Other Assets</b>				
Balance at Beginning of the Year	2,151	2,066	1,790	1,693
Additions	393	616	92	524
Disposals	(67)	(27)	(12)	(27)
Depreciation	(502)	(504)	(380)	(400)
Balance at End of the Year	<b>1,975</b>	<b>2,151</b>	<b>1,490</b>	<b>1,790</b>
<b>Total Property, Plant and Equipment</b>	<b>16,629</b>	<b>16,041</b>	<b>5,695</b>	<b>6,038</b>

## 18 Intangible Assets

<b>Goodwill</b>				
<b>Cost</b>				
Balance at Beginning of the Year	1,160	1,160	-	-
Additions	-	-	-	-
Balance at End of the Year	<b>1,160</b>	<b>1,160</b>	-	-
<b>Impairment</b>				
Balance at Beginning of the Year	145	145	-	-
Impairment Losses	-	-	-	-
Balance at End of the Year	<b>145</b>	<b>145</b>	-	-
Total Carrying Amount	<b>1,015</b>	<b>1,015</b>	-	-
<b>Software</b>				
<b>Cost</b>				
Balance at Beginning of the Year	5,680	4,709	3,645	3,330
Additions	904	971	625	315
Balance at End of the Year	<b>6,584</b>	<b>5,680</b>	<b>4,270</b>	<b>3,645</b>
<b>Amortisation and Impairment</b>				
Balance at Beginning of the Year	3,872	2,974	2,919	2,553
Amortisation for the Year	1,111	898	383	366
Impairment Losses	-	-	-	-
Balance at End of the Year	<b>4,983</b>	<b>3,872</b>	<b>3,302</b>	<b>2,919</b>
Total Carrying Amount	<b>1,601</b>	<b>1,808</b>	<b>968</b>	<b>726</b>
<b>Total Intangible Assets</b>	<b>2,616</b>	<b>2,823</b>	<b>968</b>	<b>726</b>

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$'000's

## 18 Intangible Assets Continued

No impairment losses have been recognised against the gross carrying amount of software and other intangible assets for the year ended March 2008 (March 2007 \$nil). Testing for impairment on other intangible assets is undertaken using models to calculate valuations with reference to applicable price to earnings ratios.

## 19 Deferred Tax Assets and Liabilities

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
<b>Provision for Deferred Tax</b>				
Balance at Beginning of the Year	1,993	2,214	548	1,040
Addition of In-Substance Subsidiary to Parent at 1 April 2007	-	-	291	-
Prior Period Adjustment	(459)	22	6	15
(Charged)/Credited to Income Statement	615	249	519	(485)
(Charged)/Credited to Equity	(73)	(492)	(31)	(22)
<b>Balance at End of the Year</b>	<b>2,076</b>	<b>1,993</b>	<b>1,333</b>	<b>548</b>
<b>Recognised Deferred Tax Assets and Liabilities:</b>				
<b>Deferred Tax Assets comprise the following temporary differences:</b>				
Provision for Credit Impairment	2,129	1,321	1,021	98
Deferred Fee Revenue and Expenses	-	757	-	537
Advances at Fair Value through Profit or Loss	-	2,031	-	1,519
Funds with Other Financial Institutions - Available for Sale	19	(1)	1	5
Intangible Assets	21	32	21	32
Provisions	367	362	308	310
Other	160	335	106	337
<b>Total Deferred Tax Assets</b>	<b>2,696</b>	<b>4,837</b>	<b>1,457</b>	<b>2,838</b>
<b>Deferred Tax Liabilities comprise the following temporary differences:</b>				
Subsidiary Dividends	-	359	-	359
Other	125	3	1	3
Property, Plant and Equipment	60	56	47	56
Financial Instruments	-	2,085	-	1,823
Revaluation of Property	435	341	76	49
<b>Total Deferred Tax Liabilities</b>	<b>620</b>	<b>2,844</b>	<b>124</b>	<b>2,290</b>
<b>Net Deferred Tax Assets and Liabilities</b>	<b>2,076</b>	<b>1,993</b>	<b>1,333</b>	<b>548</b>
<b>Movements in temporary differences during the year (charged)/credited to the Income Statement:</b>				
Provision for Credit Impairment	808	475	923	3
Deferred Fee Revenue and Expenses	(757)	274	(537)	244
Advances at Fair Value through Profit or Loss	(2,031)	1,580	(1,519)	1,055
Intangible Assets	(11)	(10)	(11)	(10)
Provisions	5	62	(2)	49
Other	(298)	(77)	(229)	(9)
Subsidiary Dividends	359	(162)	359	(162)
Property, Plant and Equipment	(4)	(2)	9	(2)
Financial Instruments	2,085	(1,891)	1,823	(1,653)
<b>Total Deferred Tax (Charged)/Credited to the Income Statement</b>	<b>156</b>	<b>249</b>	<b>816</b>	<b>(485)</b>
<b>Movements in temporary differences during the year (charged)/credited to Equity:</b>				
Funds with Other Financial Institutions - Available for Sale	20	3	(4)	6
Revaluation Property	(93)	(495)	(27)	(28)
<b>Total Deferred Tax (Charged)/Credited to Equity</b>	<b>(73)</b>	<b>(492)</b>	<b>(31)</b>	<b>(22)</b>

There are no unrecognised deferred tax assets as at March 2008 (March 2007 \$nil).

## Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

### 20 Other Liabilities

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
Sundry Creditors	11,588	8,949	8,232	5,555
Employee Entitlements	2,976	2,599	2,391	2,072
Life Fund	3,564	3,098	-	-
Other	6,783	2,634	6,783	2,634
	<b>24,911</b>	<b>17,280</b>	<b>17,406</b>	<b>10,261</b>

### 21 Equity

Capital Reserve	73	73	73	73
Revaluation Reserve - Property, Plant and Equipment	1,140	996	305	185
Revaluation Reserve - Available for Sale Assets	(34)	-	(3)	(11)
Retained Earnings	150,446	136,301	138,666	127,568
	151,625	137,370	139,041	127,815
Minority Interests	3,741	3,151	-	-
	<b>155,366</b>	<b>140,521</b>	<b>139,041</b>	<b>127,815</b>
<b>Movement in Reserves:</b>				
<b>Revaluation Reserve - Property, Plant and Equipment</b>				
Balance at Beginning of the Year	996	350	185	119
Surplus on Revaluation of Land and Buildings	902	1,733	147	94
Deferred Tax on Revaluation	(221)	(498)	(27)	(28)
Transfer to Income Statement	(60)	(749)	-	-
Deferred Tax Transfer to Income Statement	-	224	-	-
Transfer to Retained Earnings	(725)	-	-	-
Deferred Tax Transfer to Retained Earnings	128	-	-	-
Minority Interests Share of Revaluation	145	(80)	-	-
Minority Interests Share of Deferred Tax on Revaluation	(25)	16	-	-
Net Movement for the Year	144	646	120	66
Balance at End of the Year	<b>1,140</b>	<b>996</b>	<b>305</b>	<b>185</b>
<b>Revaluation Reserve - Available for Sale Assets</b>				
Balance at Beginning of the Year	-	10	(11)	2
Net Gains/(Losses) from Changes in Fair Value	(63)	(15)	12	(19)
Deferred Tax on Changes in Fair Value	20	5	(4)	6
Minority Interests Share of Net Gains/(Losses)				
from Changes in Fair Value	13	-	-	-
Minority Interests Share of Deferred Tax in Fair Value	(4)	-	-	-
Net Movement for the Year	(34)	(10)	8	(13)
Balance at End of the Year	<b>(34)</b>	<b>-</b>	<b>(3)</b>	<b>(11)</b>
<b>Retained Earnings</b>				
Balance at Beginning of the Year	136,301	120,787	127,568	114,285
Addition of In-Substance Subsidiary				
to Parent at 1 April 2007	-	-	(616)	-
Add Realised Reserves	578	-	-	-
Add Net Surplus for the Year	14,327	16,603	11,714	13,283
Less Minorities' Interests	(760)	(1,089)	-	-
Balance at End of the Year	<b>150,446</b>	<b>136,301</b>	<b>138,666</b>	<b>127,568</b>

## Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

### 22 Reconciliation of Net Surplus to Net Operating Cash Flows

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
<b>Net Surplus for Year</b>	14,327	16,603	11,714	13,283
<b>Add/(Less) Non Cash Items</b>				
Depreciation and Amortisation	2,812	2,505	1,668	1,578
Provision for Credit Impairment	9,074	(672)	3,846	12
Write Off Property, Plant and Equipment	92	84	92	84
Building Revaluations	(60)	(749)	-	-
Actuarial Life Adjustment	466	874	-	-
Dividend Provision - Minority Interest	462	(260)	-	-
Deferred Fee Revenue and Expenses	275	832	127	741
Derivatives Fair-Value Adjustment	1,734	(5,731)	1,726	(5,013)
Advances Fair-Value Adjustment	(384)	4,788	(384)	3,414
Investment Securities Fair-Value Adjustment	(10)	19	-	-
Interest Free Loans Fair-Value Adjustment	(312)	(215)	(312)	(215)
Net Deferred Tax Assets	(248)	(43)	(526)	469
	<b>13,901</b>	<b>1,432</b>	<b>6,237</b>	<b>1,070</b>
<b>Deferral or Accruals of Past or Future Operating Cash Receipts or Payments</b>				
Decrease/(Increase) in Income Tax Payable	(2,637)	414	(1,350)	(324)
Increase in Sundry Debtors	(1,368)	(742)	(226)	(256)
Increase in Sundry Creditors	3,444	1,831	1,822	1,165
Decrease/(Increase) in Accruals Relating to Interest Receivable	(2,041)	(236)	(2,148)	37
Increase in Accruals Relating to Accrued Interest & Dividends Payable to Customers	7,815	1,107	7,818	1,107
Decrease in Accruals Relating to Accrued Interest Payable to Financial Institutions	(2)	(19)	(2)	(19)
Decrease in Accruals Relating to Accrued Interest Payable on Investment Securities	(107)	(593)	-	-
Increase in Net Advances	(215,222)	(152,890)	(73,486)	(69,861)
Increase in Shares and Deposits	132,607	73,301	133,759	73,402
Increase/(Decrease) in Other Borrowings	47,310	68,137	(89,602)	1,943
Net Increase/(Decrease) in Cash held on behalf of Lifestages Mortgage Portfolio	4,149	(3,228)	4,149	(3,228)
	<b>(26,052)</b>	<b>(12,918)</b>	<b>(19,266)</b>	<b>3,966</b>
<b>Items Classified as Cash</b>				
Increase in Accruals Relating to Funds with Financial Institutions	644	(520)	645	(518)
<b>Net Cash Flows From Operating Activities</b>	<b>2,820</b>	<b>4,597</b>	<b>(670)</b>	<b>17,801</b>

## Notes to the Financial Statements for the year ended 31 March 2008

All in \$'000's

### 23 Analysis of Borrowings

GROUP	Note	31/3/08		31/3/07	
		Total	Weighted Average Interest Rate %	Total	Weighted Average Interest Rate %
REDEEMABLE SHARES					
Between 0 and 1 year		1,647,844	8.44	1,536,838	7.38
Between 1 and 2 years		38,029	8.23	24,917	7.15
Between 2 and 3 years		6,938	7.93	5,692	6.68
Between 3 and 4 years		262	8.00	-	-
Between 4 and 5 years		211	8.67	-	-
Over 5 years		-	-	-	-
	(27)	<b>1,693,284</b>	<b>8.43</b>	<b>1,567,447</b>	<b>7.38</b>
DEPOSITS FROM CUSTOMERS					
Between 0 and 1 year		125,208	8.28	117,380	7.35
Between 1 and 2 years		7,751	8.18	1,061	6.85
Between 2 and 3 years		68	6.93	901	7.41
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
	(27)	<b>133,027</b>	<b>8.27</b>	<b>119,342</b>	<b>7.34</b>
DEPOSITS FROM FINANCIAL INSTITUTIONS					
Between 0 and 1 year		70,438	9.03	69,540	7.86
Between 1 and 2 years		-	-	-	-
Between 2 and 3 years		-	-	-	-
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
		<b>70,438</b>	<b>9.03</b>	<b>69,540</b>	<b>7.86</b>
Total Redeemable Shares and Deposits		<b>1,896,749</b>	<b>8.44</b>	<b>1,756,329</b>	<b>7.39</b>
<b>PARENT</b>					
REDEEMABLE SHARES					
Between 0 and 1 year		1,649,100	8.44	1,536,939	7.38
Between 1 and 2 years		38,029	8.23	24,917	7.15
Between 2 and 3 years		6,938	7.93	5,692	6.68
Between 3 and 4 years		262	8.00	-	-
Between 4 and 5 years		211	8.67	-	-
Over 5 years		-	-	-	-
	(27)	<b>1,694,540</b>	<b>8.43</b>	<b>1,567,548</b>	<b>7.38</b>
DEPOSITS FROM CUSTOMERS					
Between 0 and 1 year		125,208	8.28	117,380	7.35
Between 1 and 2 years		7,751	8.18	1,061	6.85
Between 2 and 3 years		68	6.93	901	7.41
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
	(27)	<b>133,027</b>	<b>8.27</b>	<b>119,342</b>	<b>7.34</b>
DEPOSITS FROM FINANCIAL INSTITUTIONS					
Between 0 and 1 year		70,438	9.03	69,540	7.86
Between 1 and 2 years		-	-	-	-
Between 2 and 3 years		-	-	-	-
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
		<b>70,438</b>	<b>9.03</b>	<b>69,540</b>	<b>7.86</b>
Total Redeemable Shares and Deposits		<b>1,898,005</b>	<b>8.44</b>	<b>1,756,430</b>	<b>7.39</b>

Redeemable Shares and Deposits 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.

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 24 Contingent Liabilities and Credit Related Commitments

GROUP	Contract or Notional Amt 31/3/08	Credit Equivalent 31/3/08	Contract or Notional Amt 31/3/07	Credit Equivalent 31/3/07
<b>Contingent Liabilities</b>				
Lifestages Superannuation Scheme	2,259	2,259	3,225	3,225
<b>Commitments</b>				
Commitments with Uncertain Drawdown	30,314	15,157	55,555	27,778
Commitments to Extend Credit which can be Unconditionally Cancelled	236,256	-	210,680	-
<b>Total Contingent Liabilities and Credit Related Commitments</b>	<b>268,829</b>	<b>17,416</b>	<b>269,460</b>	<b>31,003</b>
<b>PARENT</b>				
<b>Contingent Liabilities</b>				
Lifestages Superannuation Scheme	2,259	2,259	3,225	3,225
<b>Commitments</b>				
Commitments with Uncertain Drawdown	24,718	12,359	55,372	27,686
Commitments to Extend Credit which can be Unconditionally Cancelled	236,256	-	205,619	-
<b>Total Contingent Liabilities and Credit Related Commitments</b>	<b>263,233</b>	<b>14,618</b>	<b>264,216</b>	<b>30,911</b>

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 of \$2,259,000 (March 2007 \$3,225,000) 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. A minimum of 80% of the funds invested in the Lifestages Superannuation Scheme are reinvested with the Society.

There are no other material contingent liabilities.

## 25 Commitments

### Lease Commitments

As at 31 March 2008 the value of the residual portion of lease commitments for SBS was \$5,848,000 (March 2007 \$6,925,000). Of this amount \$1,584,000 (March 2007 \$2,016,000) relates to lease commitments between Southland Building Society and its wholly owned subsidiary company, Fraser Properties Ltd.

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
Lease commitments payable after balance date:				
0-12 months	1,691	1,452	1,651	1,607
12-24 months	1,429	1,182	1,418	1,436
24-60 months	2,166	2,188	2,317	3,180
>60 months	931	702	462	702
	<b>6,217</b>	<b>5,524</b>	<b>5,848</b>	<b>6,925</b>

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

## 26 Segmental Analysis

### Business Segment Analysis

For management purposes, the Group is organised into 2 major business units:

#### Building Society Operations

Building Society Operations incorporates SBS and its in-substance subsidiaries SBS Invercargill W Trust and SBS Oreti Trust No 1 which operate solely in the New Zealand retail financial markets providing banking services, customer current accounts, savings, deposits, investment savings products, consumer loans and mortgages.

#### Other Financial Services

Other Financial Services incorporates subsidiaries Fraser Properties Limited, Southsure Assurance Limited, Finance Now Limited and Funds Administration New Zealand Limited (FANZ).

Fraser Properties Limited owns Southland Building Society's Head Office building which is located in the central business district of Invercargill. Major tenants are New Zealand Post, the Alliance Group Ltd and SBS.

Southsure Assurance Limited is a life insurance company operating in the New Zealand domestic market.

Finance Now Limited is a finance company operating in the New Zealand financial market.

Funds Administration New Zealand Limited (FANZ) is a funds management and financial advisory company operating in the New Zealand wholesale and retail financial market.

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$'000's

## 26 Segmental Analysis Continued

As at 31 March 2008	Consolidated			
	Building Society Operations	Other Financial Services	Eliminations	Total
Total Operating Income	50,861	25,557	(4,954)	71,464
Net Profit before Taxation	16,376	4,465	(805)	20,036
Total Assets	2,418,502	113,329	(105,560)	2,426,271
Total Liabilities	2,279,331	88,957	(97,383)	2,270,905
Other Segment Items:				
Acquisition of Property, Plant and Equipment	807	641	-	1,448
Acquisition of Intangible Assets	622	282	-	904
Depreciation Expense - Property, Plant and Equipment	1,280	415	-	1,695
Amortisation expense - Intangible Assets	383	728	-	1,111
Provision for Credit Impairment	3,882	5,192	-	9,074
<b>As at 31 March 2007</b>				
Total Operating Income	44,743	23,926	(5,262)	63,407
Net Profit before Taxation	18,156	6,885	(1,164)	23,877
Total Assets	2,196,001	109,432	(90,648)	2,214,785
Total Liabilities	2,068,803	87,853	(82,392)	2,074,264
Other Segment Items:				
Acquisition of Property, Plant and Equipment	2,026	314	-	2,340
Acquisition of Intangible Assets	315	656	-	971
Depreciation Expense - Property, Plant and Equipment	1,210	366	-	1,576
Amortisation expense - Intangible Assets	366	532	-	898
Provision for Credit Impairment	(9)	3,703	-	3,694

### Geographical Segment Analysis

The Group operates solely in New Zealand and on this basis no geographical segment information is provided.

## 27 Fair Value

Disclosed below is the estimated fair value of the Group's financial instruments disclosed in terms of NZ IFRS 7: Financial Instrument Disclosures issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants. It is intended to provide an indication of the fair value of financial instruments and not the fair value of the 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 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

Carrying amount is equivalent to fair value.

### Funds with Financial Institutions

For Funds with Financial Institutions recognised in the financial statements as available for sale, carrying amount equals fair value.

### 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. 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 March 2008 total interest free advances were \$4,391,000 (March 2007 \$5,430,000). 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 March 2008 the fair value of these interest free advances as reported in the Balance Sheet were \$3,857,000 (March 2007 \$4,583,000).

#### 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 values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models as appropriate.

### Redeemable Shares and Deposits

The fair value of demand deposits is the amount payable on demand at the reporting date. For other liabilities with maturities of less than 3 months, the carrying amount is a reasonable estimate of fair value.

For liabilities with maturities of 3 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.

### 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 24, 29 and 30.

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 27 Fair Value Continued

GROUP	31/3/08		31/3/07	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash on Hand and at Bank	13,926	13,926	9,035	9,035
Funds with Financial Institutions	37,618	37,618	43,883	43,883
Investment Securities	1,923	1,923	1,881	1,881
Derivative Financial Instruments	6,978	6,978	6,336	6,336
Current Tax Assets	2,773	2,773	136	136
Advances to Customers	2,334,242	2,329,029	2,126,729	2,121,761
Loans to Subsidiaries and Associates	1,413	1,413	-	-
Other Assets	4,987	4,987	4,838	4,838
<b>Total Financial Assets</b>	<b>2,403,860</b>	<b>2,398,647</b>	<b>2,192,838</b>	<b>2,187,870</b>
<b>Financial Liabilities</b>				
Redeemable Shares	1,693,284	1,692,299	1,567,447	1,563,966
Deposits from Customers	133,027	133,020	119,342	119,182
Deposits from Financial Institutions	70,438	70,435	69,540	69,520
Derivative Financial Instruments	1,299	1,299	19	19
Other Borrowings	347,946	347,946	300,636	300,636
Other Liabilities	18,371	18,371	11,583	11,583
<b>Total Financial Liabilities</b>	<b>2,264,365</b>	<b>2,263,370</b>	<b>2,068,567</b>	<b>2,064,906</b>
<b>PARENT</b>				
<b>Financial Assets</b>				
Cash on Hand and at Bank	8,014	8,014	7,273	7,273
Funds with Financial Institutions	34,632	34,632	41,485	41,485
Derivative Financial Instruments	7,299	7,299	6,367	6,367
Current Tax Assets	2,130	2,130	780	780
Advances to Customers	2,110,110	2,105,199	1,843,560	1,839,618
Loans to Subsidiaries and Associates	82,611	82,611	78,733	78,733
Other Assets	3,627	3,627	2,297	2,297
<b>Total Financial Assets</b>	<b>2,248,423</b>	<b>2,243,512</b>	<b>1,980,495</b>	<b>1,976,553</b>
<b>Financial Liabilities</b>				
Redeemable Shares	1,694,540	1,693,555	1,567,548	1,564,067
Deposits from Customers	133,027	133,020	119,342	119,182
Deposits from Financial Institutions	70,438	70,435	69,540	69,520
Derivative Financial Instruments	1,754	1,754	842	842
Other Borrowings	210,464	210,464	102,736	102,736
Other Liabilities	15,015	15,015	8,189	8,189
<b>Total Financial Liabilities</b>	<b>2,125,238</b>	<b>2,124,243</b>	<b>1,868,197</b>	<b>1,864,536</b>

## 28 Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting commitments associated with its financial liabilities, e.g. overnight deposits, current accounts, and maturing deposits; and future commitments, e.g. loan draw-downs and guarantees. The Group manages its exposure to liquidity risk by maintaining sufficient liquid funds to meet its commitment based on historical and forecasted cash flow requirements.

The Group monitors its liquidity position on a daily basis and forecasts cash flows from operating activities taking account of 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.

The maturity profiles of assets and liabilities and loan commitments show the cash flows and have been prepared

on both a contractual and expected 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 contractual maturity profile reflects the remaining period to contractual maturity of assets and liabilities as at balance date. This is not considered by the Group to be in any way indicative of future cash flows. This is primarily because a significant proportion of the 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 Group. The contractual maturity profile has also been prepared on the basis of the agreed terms of the advance with the customer. However, SBS mortgage's 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 Group's discretion. While the 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 expected maturity profile addresses the issues surrounding the contractual profile and provides a better indication of future cash flows of assets and liabilities by incorporating retention rates for redeemable shares and deposits including historical experience around extension of wholesale funding, and allowing for prepayment and amortisation of advances based on historical averages.

## Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

### 28 Liquidity Risk *Continued*

Monetary assets receivable matched against liabilities payable as at 31 March 2008 (Contractual cash flows)

GROUP	0-6* Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total Carrying Amount
<b>Assets</b>							
Cash on Hand and at Bank	13,926	-	13,926	-	-	-	13,926
Funds with Financial Institutions	37,618	-	37,618	-	-	-	37,618
Investment Securities	914	-	914	-	1,009	-	1,923
Derivative Financial Instruments	6,978	-	6,978	-	-	-	6,978
Current Tax Assets	2,773	-	2,773	-	-	-	2,773
Advances to Customers	86,500	71,039	157,539	99,292	140,251	1,937,160	2,334,242
Loans to Associates	1,413	-	1,413	-	-	-	1,413
Other Assets	4,987	-	4,987	-	-	-	4,987
<b>Total</b>	<b>155,109</b>	<b>71,039</b>	<b>226,148</b>	<b>99,292</b>	<b>141,260</b>	<b>1,937,160</b>	<b>2,403,860</b>
Non Monetary Assets							22,411
<b>Total Assets</b>							<b>2,426,271</b>
<b>Liabilities</b>							
			<b>Current Liabilities</b>				
Redeemable Shares	1,332,301	315,543	1,647,844	38,029	6,938	473	1,693,284
Deposits from Customers	110,399	14,809	125,208	7,751	68	-	133,027
Deposits from Financial Institutions	69,732	706	70,438	-	-	-	70,438
Derivative Financial Instruments	1,299	-	1,299	-	-	-	1,299
Other Borrowings	87,004	123,460	210,464	-	-	137,482	347,946
Other Liabilities	18,371	-	18,371	-	-	-	18,371
<b>Total</b>	<b>1,619,106</b>	<b>454,518</b>	<b>2,073,624</b>	<b>45,780</b>	<b>7,006</b>	<b>137,955</b>	<b>2,264,365</b>
Non Monetary Liabilities							6,540
<b>Total Liabilities</b>							<b>2,270,905</b>
<b>Net Monetary Assets</b>	<b>(1,463,997)</b>	<b>(383,479)</b>	<b>(1,847,476)</b>	<b>53,512</b>	<b>134,254</b>	<b>1,799,205</b>	<b>139,495</b>
Unrecognised Loan Commitments	30,314	-	30,314	-	-	-	30,314
<b>Net Liquidity Gap</b>	<b>(1,433,683)</b>	<b>(383,479)</b>	<b>(1,817,162)</b>	<b>53,512</b>	<b>134,254</b>	<b>1,799,205</b>	<b>169,809</b>
<b>Net Liquidity Gap - cumulative</b>	<b>(1,433,683)</b>	<b>(1,817,162)</b>	<b>(1,817,162)</b>	<b>(1,763,650)</b>	<b>(1,629,396)</b>	<b>169,809</b>	<b>169,809</b>

\* 0-6 Months includes on-call amounts of Redeemable Shares \$239,689,000; Deposits from Customers \$40,505,000; and Deposits from Financial Institutions \$42,518,000.

PARENT	0-6* Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total Carrying Amount
<b>Assets</b>							
Cash on Hand and at Bank	8,014	-	8,014	-	-	-	8,014
Funds with Financial Institutions	34,632	-	34,632	-	-	-	34,632
Investment Securities	-	-	-	-	-	-	-
Derivative Financial Instruments	7,299	-	7,299	-	-	-	7,299
Current Tax Assets	2,130	-	2,130	-	-	-	2,130
Advances to Customers	78,827	52,727	131,554	66,185	102,530	1,809,841	2,110,110
Loans to Subsidiaries and Associates	1,413	-	1,413	-	81,198	-	82,611
Other Assets	3,627	-	3,627	-	-	-	3,627
<b>Total</b>	<b>135,942</b>	<b>52,727</b>	<b>188,669</b>	<b>66,185</b>	<b>183,728</b>	<b>1,809,841</b>	<b>2,248,423</b>
Non Monetary Assets							18,247
<b>Total Assets</b>							<b>2,266,670</b>
<b>Liabilities</b>							
			<b>Current Liabilities</b>				
Redeemable Shares	1,333,557	315,543	1,649,100	38,029	6,938	473	1,694,540
Deposits from Customers	110,399	14,809	125,208	7,751	68	-	133,027
Deposits from Financial Institutions	69,732	706	70,438	-	-	-	70,438
Derivative Financial Instruments	1,754	-	1,754	-	-	-	1,754
Other Borrowings	87,004	123,460	210,464	-	-	-	210,464
Other Liabilities	15,015	-	15,015	-	-	-	15,015
<b>Total</b>	<b>1,617,461</b>	<b>454,518</b>	<b>2,071,979</b>	<b>45,780</b>	<b>7,006</b>	<b>473</b>	<b>2,125,238</b>
Non Monetary Liabilities							2,391
<b>Total Liabilities</b>							<b>2,127,629</b>
<b>Net Monetary Assets</b>	<b>(1,481,519)</b>	<b>(401,791)</b>	<b>(1,883,310)</b>	<b>20,405</b>	<b>176,722</b>	<b>1,809,368</b>	<b>123,185</b>
Unrecognised Loan Commitments	24,718	-	24,718	-	-	-	24,718
<b>Net Liquidity Gap</b>	<b>(1,456,801)</b>	<b>(401,791)</b>	<b>(1,858,592)</b>	<b>20,405</b>	<b>176,722</b>	<b>1,809,368</b>	<b>147,903</b>
<b>Net Liquidity Gap - cumulative</b>	<b>(1,456,801)</b>	<b>(1,858,592)</b>	<b>(1,858,592)</b>	<b>(1,838,187)</b>	<b>(1,661,465)</b>	<b>147,903</b>	<b>147,903</b>

\* 0-6 Months includes on-call amounts of Redeemable Shares \$240,945,000; Deposits from Customers \$40,505,000; and Deposits from Financial Institutions \$42,518,000.

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$'000's

## 28 Liquidity Risk Continued

Monetary assets receivable matched against liabilities payable as at 31 March 2008 (Expected cash flows)

GROUP	0-6 Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total Carrying Amount
<b>Assets</b>							
Cash on Hand and at Bank	13,926	-	13,926	-	-	-	13,926
Funds with Financial Institutions	37,618	-	37,618	-	-	-	37,618
Investment Securities	914	-	914	-	1,009	-	1,923
Derivative Financial Instruments	6,978	-	6,978	-	-	-	6,978
Current Tax Assets	2,773	-	2,773	-	-	-	2,773
Advances to Customers	282,135	240,330	522,465	393,902	810,054	607,821	2,334,242
Loans to Associates	1,413	-	1,413	-	-	-	1,413
Other Assets	4,987	-	4,987	-	-	-	4,987
<b>Total</b>	<b>350,744</b>	<b>240,330</b>	<b>591,074</b>	<b>393,902</b>	<b>811,063</b>	<b>607,821</b>	<b>2,403,860</b>
Non Monetary Assets							22,411
<b>Total Assets</b>							<b>2,426,271</b>
<b>Liabilities</b>							
			<b>Current Liabilities</b>				
Redeemable Shares	133,230	151,461	284,691	276,433	663,564	468,596	1,693,284
Deposits from Customers	11,040	11,417	22,457	21,325	51,071	38,174	133,027
Deposits from Financial Institutions	2,723	2,521	5,244	4,539	10,893	49,762	70,438
Derivative Financial Instruments	1,299	-	1,299	-	-	-	1,299
Other Borrowings	-	-	-	-	-	347,946	347,946
Other Liabilities	18,371	-	18,371	-	-	-	18,371
<b>Total</b>	<b>166,663</b>	<b>165,399</b>	<b>332,062</b>	<b>302,297</b>	<b>725,528</b>	<b>904,478</b>	<b>2,264,365</b>
Non Monetary Liabilities							6,540
<b>Total Liabilities</b>							<b>2,270,905</b>
<b>Net Monetary Assets</b>	<b>184,081</b>	<b>74,931</b>	<b>259,012</b>	<b>91,605</b>	<b>85,535</b>	<b>(296,657)</b>	<b>139,495</b>
Unrecognised Loan Commitments	30,314	-	30,314	-	-	-	30,314
<b>Net Liquidity Gap</b>	<b>214,395</b>	<b>74,931</b>	<b>289,326</b>	<b>91,605</b>	<b>85,535</b>	<b>(296,657)</b>	<b>169,809</b>
<b>Net Liquidity Gap - cumulative</b>	<b>214,395</b>	<b>289,326</b>	<b>289,326</b>	<b>380,931</b>	<b>466,466</b>	<b>169,809</b>	<b>169,809</b>
<b>PARENT</b>							
	<b>0-6 Months</b>	<b>6-12 Months</b>	<b>Current Assets</b>	<b>12-24 Months</b>	<b>24-60 Months</b>	<b>&gt; 60 Months</b>	<b>Total Carrying Amount</b>
<b>Assets</b>							
Cash on Hand and at Bank	8,014	-	8,014	-	-	-	8,014
Funds with Financial Institutions	34,632	-	34,632	-	-	-	34,632
Derivative Financial Instruments	7,299	-	7,299	-	-	-	7,299
Current Tax Assets	2,130	-	2,130	-	-	-	2,130
Advances to Customers	261,642	210,025	471,667	339,862	733,260	565,321	2,110,110
Loans to Subsidiaries and Associates	1,413	-	1,413	-	81,198	-	82,611
Other Assets	3,627	-	3,627	-	-	-	3,627
<b>Total</b>	<b>318,757</b>	<b>210,025</b>	<b>528,782</b>	<b>339,862</b>	<b>814,458</b>	<b>565,321</b>	<b>2,248,423</b>
Non Monetary Assets							18,247
<b>Total Assets</b>							<b>2,266,670</b>
<b>Liabilities</b>							
			<b>Current Liabilities</b>				
Redeemable Shares	133,356	151,574	284,930	276,637	664,052	468,921	1,694,540
Deposits from Customers	11,040	11,417	22,457	21,325	51,071	38,174	133,027
Deposits from Financial Institutions	2,723	2,521	5,244	4,539	10,893	49,762	70,438
Derivative Financial Instruments	1,754	-	1,754	-	-	-	1,754
Other Borrowings	-	-	-	-	-	210,464	210,464
Other Liabilities	15,015	-	15,015	-	-	-	15,015
<b>Total</b>	<b>163,888</b>	<b>165,512</b>	<b>329,400</b>	<b>302,501</b>	<b>726,016</b>	<b>767,321</b>	<b>2,125,238</b>
Non Monetary Liabilities							2,391
<b>Total Liabilities</b>							<b>2,127,629</b>
<b>Net Monetary Assets</b>	<b>154,869</b>	<b>44,513</b>	<b>199,382</b>	<b>37,361</b>	<b>88,442</b>	<b>(202,000)</b>	<b>123,185</b>
Unrecognised Loan Commitments	24,718	-	24,718	-	-	-	24,718
<b>Net Liquidity Gap</b>	<b>179,587</b>	<b>44,513</b>	<b>224,100</b>	<b>37,361</b>	<b>88,442</b>	<b>(202,000)</b>	<b>147,903</b>
<b>Net Liquidity Gap - cumulative</b>	<b>179,587</b>	<b>224,100</b>	<b>224,100</b>	<b>261,461</b>	<b>349,903</b>	<b>147,903</b>	<b>147,903</b>

## Notes to the Financial Statements for the year ended 31 March 2008

All in \$'000's

### 28 Liquidity Risk Continued

Monetary assets receivable matched against liabilities payable as at 31 March 2007 (Contractual cash flows)

GROUP	0-6* Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total Carrying Amount
<b>Assets</b>							
Cash on Hand and at Bank	9,035	-	9,035	-	-	-	9,035
Funds with Financial Institutions	43,883	-	43,883	-	-	-	43,883
Investment Securities	882	-	882	-	999	-	1,881
Derivative Financial Instruments	6,336	-	6,336	-	-	-	6,336
Current Tax Assets	136	-	136	-	-	-	136
Advances to Customers	47,787	71,418	119,205	83,351	118,096	1,806,077	2,126,729
Other Assets	4,838	-	4,838	-	-	-	4,838
<b>Total</b>	<b>112,897</b>	<b>71,418</b>	<b>184,315</b>	<b>83,351</b>	<b>119,095</b>	<b>1,806,077</b>	<b>2,192,838</b>
Non Monetary Assets							21,947
<b>Total Assets</b>							<b>2,214,785</b>
<b>Liabilities</b>							
			<b>Current Liabilities</b>				
Redeemable Shares	1,245,348	291,490	1,536,838	24,917	5,692	-	1,567,447
Deposits from Customers	94,595	22,785	117,380	1,061	901	-	119,342
Deposits from Financial Institutions	68,576	964	69,540	-	-	-	69,540
Derivative Financial Instruments	19	-	19	-	-	-	19
Other Borrowings	102,736	-	102,736	197,900	-	-	300,636
Other Liabilities	11,583	-	11,583	-	-	-	11,583
<b>Total</b>	<b>1,522,857</b>	<b>315,239</b>	<b>1,383,096</b>	<b>223,878</b>	<b>6,593</b>	<b>-</b>	<b>2,068,567</b>
Non Monetary Liabilities							5,697
<b>Total Liabilities</b>							<b>2,074,264</b>
<b>Net Monetary Assets</b>	<b>(1,409,960)</b>	<b>(243,821)</b>	<b>(1,653,781)</b>	<b>(140,527)</b>	<b>112,502</b>	<b>1,806,077</b>	<b>124,271</b>
Unrecognised Loan Commitments	55,555	-	55,555	-	-	-	55,555
<b>Net Liquidity Gap</b>	<b>(1,354,405)</b>	<b>(243,821)</b>	<b>(1,598,226)</b>	<b>(140,527)</b>	<b>112,502</b>	<b>1,806,077</b>	<b>179,826</b>
<b>Net Liquidity Gap - cumulative</b>	<b>(1,354,405)</b>	<b>(1,598,226)</b>	<b>(1,598,226)</b>	<b>(1,738,753)</b>	<b>(1,626,251)</b>	<b>179,826</b>	<b>179,826</b>

\* 0-6 Months includes on-call amounts of Redeemable Shares \$211,233,000; Deposits from Customers \$48,088,000; and Deposits from Financial Institutions \$30,370,000.

PARENT	0-6* Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total Carrying Amount
<b>Assets</b>							
Cash on Hand and at Bank	7,273	-	7,273	-	-	-	7,273
Funds with Financial Institutions	41,485	-	41,485	-	-	-	41,485
Derivative Financial Instruments	6,367	-	6,367	-	-	-	6,367
Current Tax Assets	780	-	780	-	-	-	780
Advances to Customers	38,837	55,669	94,506	46,895	83,101	1,619,058	1,843,560
Loans to Subsidiaries and Associates	-	-	-	-	78,733	-	78,733
Other Assets	2,297	-	2,297	-	-	-	2,297
<b>Total</b>	<b>97,039</b>	<b>55,669</b>	<b>152,708</b>	<b>46,895</b>	<b>161,834</b>	<b>1,619,058</b>	<b>1,980,495</b>
Non Monetary Assets							17,589
<b>Total Assets</b>							<b>1,998,084</b>
<b>Liabilities</b>							
			<b>Current Liabilities</b>				
Redeemable Shares	1,245,449	291,490	1,536,939	24,917	5,692	-	1,567,548
Deposits from Customers	94,595	22,785	117,380	1,061	901	-	119,342
Deposits from Financial Institutions	68,576	964	69,540	-	-	-	69,540
Derivative Financial Instruments	842	-	842	-	-	-	842
Other Borrowings	102,736	-	102,736	-	-	-	102,736
Other Liabilities	8,189	-	8,189	-	-	-	8,189
<b>Total</b>	<b>1,520,387</b>	<b>315,239</b>	<b>1,835,626</b>	<b>25,978</b>	<b>6,593</b>	<b>-</b>	<b>1,868,197</b>
Non Monetary Liabilities							2,072
<b>Total Liabilities</b>							<b>1,870,269</b>
<b>Net Monetary Assets</b>	<b>(1,423,348)</b>	<b>(259,570)</b>	<b>(1,682,918)</b>	<b>20,917</b>	<b>155,241</b>	<b>1,619,058</b>	<b>112,298</b>
Unrecognised Loan Commitments	55,372	-	55,372	-	-	-	55,372
<b>Net Liquidity Gap</b>	<b>(1,367,976)</b>	<b>(259,570)</b>	<b>(1,627,546)</b>	<b>20,917</b>	<b>155,241</b>	<b>1,619,058</b>	<b>167,670</b>
<b>Net Liquidity Gap - cumulative</b>	<b>(1,367,976)</b>	<b>(1,627,546)</b>	<b>(1,627,546)</b>	<b>(1,606,629)</b>	<b>(1,451,388)</b>	<b>167,670</b>	<b>167,670</b>

\* 0-6 Months includes on-call amounts of Redeemable Shares \$211,334,000; Deposits from Customers \$48,088,000; and Deposits from Financial Institutions \$30,370,000.

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 28 Liquidity Risk Continued

Monetary assets receivable matched against liabilities payable as at 31 March 2007 (Expected cash flows)

GROUP	0-6 Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total Carrying Amount
<b>Assets</b>							
Cash on Hand and at Bank	9,035	-	9,035	-	-	-	9,035
Funds with Financial Institutions	43,883	-	43,883	-	-	-	43,883
Investment Securities	882	-	882	-	999	-	1,881
Derivative Financial Instruments	6,336	-	6,336	-	-	-	6,336
Current Tax Assets	136	-	136	-	-	-	136
Advances to Customers	227,878	224,477	452,355	356,187	753,925	564,262	2,126,729
Other Assets	4,838	-	4,838	-	-	-	4,838
<b>Total</b>	<b>292,988</b>	<b>224,477</b>	<b>517,465</b>	<b>356,187</b>	<b>754,924</b>	<b>564,262</b>	<b>2,192,838</b>
Non Monetary Assets							21,947
<b>Total Assets</b>							<b>2,214,785</b>
<b>Liabilities</b>							
			<b>Current Liabilities</b>				
Redeemable Shares	124,535	141,230	265,765	256,706	616,291	428,685	1,567,447
Deposits from Customers	9,460	10,792	20,252	19,532	46,950	32,608	119,342
Deposits from Financial Institutions	3,828	3,541	7,369	6,374	15,298	40,499	69,540
Derivative Financial Instruments	19	-	19	-	-	-	19
Other Borrowings	-	-	-	-	-	300,636	300,636
Other Liabilities	11,583	-	11,583	-	-	-	11,583
<b>Total</b>	<b>149,425</b>	<b>155,563</b>	<b>304,988</b>	<b>282,612</b>	<b>678,539</b>	<b>802,428</b>	<b>2,068,567</b>
Non Monetary Liabilities							5,697
<b>Total Liabilities</b>							<b>2,074,264</b>
<b>Net Monetary Assets</b>	<b>143,565</b>	<b>68,914</b>	<b>212,477</b>	<b>73,575</b>	<b>76,385</b>	<b>(238,166)</b>	<b>124,271</b>
Unrecognised Loan Commitments	55,555	-	55,555	-	-	-	55,555
<b>Net Liquidity Gap</b>	<b>199,118</b>	<b>68,914</b>	<b>268,032</b>	<b>73,575</b>	<b>76,385</b>	<b>(238,166)</b>	<b>179,826</b>
<b>Net Liquidity Gap - cumulative</b>	<b>199,118</b>	<b>268,032</b>	<b>268,032</b>	<b>341,607</b>	<b>417,992</b>	<b>179,826</b>	<b>179,826</b>
<b>PARENT</b>							
	<b>0-6 Months</b>	<b>6-12 Months</b>	<b>Current Assets</b>	<b>12-24 Months</b>	<b>24-60 Months</b>	<b>&gt; 60 Months</b>	<b>Total Carrying Amount</b>
<b>Assets</b>							
Cash on Hand and at Bank	7,273	-	7,273	-	-	-	7,273
Funds with Financial Institutions	41,485	-	41,485	-	-	-	41,485
Derivative Financial Instruments	6,367	-	6,367	-	-	-	6,367
Current Tax Assets	780	-	780	-	-	-	780
Advances to Customers	201,262	193,906	395,168	292,554	650,110	505,728	1,843,560
Loans to Subsidiaries and Associates	-	-	-	-	78,733	-	78,733
Other Assets	2,297	-	2,297	-	-	-	2,297
<b>Total</b>	<b>259,464</b>	<b>193,906</b>	<b>453,370</b>	<b>292,554</b>	<b>728,843</b>	<b>505,728</b>	<b>1,980,495</b>
Non Monetary Assets							17,589
<b>Total Assets</b>							<b>1,998,084</b>
<b>Liabilities</b>							
			<b>Current Liabilities</b>				
Redeemable Shares	124,545	141,239	265,784	256,723	616,330	428,711	1,567,548
Deposits from Customers	9,460	10,792	20,252	19,532	46,950	32,608	119,342
Deposits from Financial Institutions	3,828	3,541	7,369	6,374	15,298	40,499	69,540
Derivative Financial Instruments	842	-	842	-	-	-	842
Other Borrowings	-	-	-	-	-	102,736	102,736
Other Liabilities	8,189	-	8,189	-	-	-	8,189
<b>Total</b>	<b>146,864</b>	<b>155,572</b>	<b>302,436</b>	<b>282,629</b>	<b>678,578</b>	<b>604,554</b>	<b>1,868,197</b>
Non Monetary Liabilities							2,072
<b>Total Liabilities</b>							<b>1,870,269</b>
<b>Net Monetary Assets</b>	<b>112,600</b>	<b>38,334</b>	<b>150,934</b>	<b>9,925</b>	<b>50,265</b>	<b>(98,826)</b>	<b>112,298</b>
Unrecognised Loan Commitments	55,372	-	55,372	-	-	-	55,372
<b>Net Liquidity Gap</b>	<b>167,972</b>	<b>38,334</b>	<b>206,306</b>	<b>9,925</b>	<b>50,265</b>	<b>(98,826)</b>	<b>167,670</b>
<b>Net Liquidity Gap - cumulative</b>	<b>167,972</b>	<b>206,306</b>	<b>206,306</b>	<b>216,231</b>	<b>266,496</b>	<b>167,670</b>	<b>167,670</b>

## Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

### 28 Liquidity Risk *Continued*

To meet both expected and unexpected fluctuations in operating cash flows the Group maintains a stock of liquid investments which it considers from analysis of historical cashflows, forecast cash flows and the current composition of the Balance Sheet to be adequate.

SBS's Trust Deed prescribes that liquid assets are to be maintained at at least 12% of Total Redeemable Shares and Deposits with less than 12 months to maturity. Total liquidity must exceed 50% of Redeemable Shares and Deposits on call.

Included in the definition of liquid assets are committed but undrawn funding lines. As at 31 March 2008, the Group had total committed funding lines with Registered Banks of \$440,000,000; Parent: \$240,000,000 (March 2007 Group: \$465,000,000; Parent: \$265,000,000). Of these facilities \$135,960,000; Parent: \$12,500,000 (March 2007 Group: \$227,630,000; Parent: \$30,300,000) were drawn down on 31 March 2008.

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
Asset Liquidity	51,465	54,800	40,644	48,758
Committed and Undrawn Funding Lines	304,040	237,370	227,500	234,700
<b>Total Liquidity</b>	<b>355,505</b>	<b>292,170</b>	<b>268,144</b>	<b>283,458</b>

Asset liquidity includes Investment Securities, Cash on Hand and at Bank and Funds with Other Financial Institutions.

In addition to committed lines the Southland Building Society has \$30,000,000 (March 2007 \$nil) of utilised and \$nil (March 2007 \$30,000,000) of unutilised funding arrangements in place with registered banks at 31 March 2008.

Cash demands are usually met by realising liquid investments, drawing uncommitted lines and raising new deposits.

### 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.

#### (a) Risk Weighted Assets and Derivative Financial Instruments

Based on the Reserve Bank's risk based capital adequacy framework for registered banks, risk weightings have

been applied to the Balance Sheet assets and Off-Balance Sheet financial instruments to determine total risk weighted assets in accordance with Basel I methodologies. Categories of risk weightings are assigned based upon factors such as the nature of the counterparty, the collateral held, and the residual maturity of the exposure. For derivative financial instruments, contingent liabilities and credit related commitments, SBS's exposure to credit loss is only a fraction of the contract or notional amount. Exposures are measured by applying credit conversion factors to calculate the credit equivalent amounts using the current exposure method. The credit equivalents are determined in accordance with the Reserve Bank's risk weighted capital adequacy guidelines. SBS's

maximum credit exposure for each class of financial asset are the carrying values which are disclosed in the Balance Sheet.

In calculating the credit exposure for the parent, securitised assets are excluded from total assets. In addition, Fraser Properties Limited, which is both wholly owned and wholly funded by SBS, is consolidated into the parent (in terms of the Trust Deed this is referred to as the Guaranteeing Group).

GROUP	Contract or Notional Amount		Risk Weighting %	Risk Weighted Exposure	
	31/3/08	31/3/07		31/3/08	31/3/07
<b>Balance Sheet Exposures</b>					
Cash and Claims on Qualifying Governments with maturities < 1 year	357	267	0.00%	-	-
Cash and Claims on Qualifying Governments with maturities > 1 year	1,009	999	10.00%	101	100
Claims on Banks and NZ Local Authorities	51,187	52,652	20.00%	10,237	10,530
Advances Secured by Residential Mortgage	1,569,435	1,413,486	50.00%	784,718	706,743
Other Assets	798,381	741,766	100.00%	798,381	741,766
Non-Risk Weighted Assets	5,902	5,615	-	-	-
<b>Total Balance Sheet Exposures</b>	<b>2,426,271</b>	<b>2,214,785</b>		<b>1,593,437</b>	<b>1,459,139</b>

	Contract or Notional Amount		Credit Equivalent Amount		Average Risk Weighting %	Risk Weighted Exposure	
	31/3/08	31/3/07	31/3/08	31/3/07		31/3/08	31/3/07
<b>Off-Balance Sheet Exposures</b>							
Commitments with uncertain drawdown	30,314	55,555	15,157	27,778	66.38%	10,061	18,548
Commitments to extend credit which can be unconditionally cancelled	236,256	210,680	-	-	-	-	-
Interest Rate Contracts	274,675	376,675	3,420	2,567	20.00%	684	513
Option Contracts	582,875	779,875	7,047	7,657	20.00%	1,409	1,531
<b>Total Off-Balance Sheet Exposures</b>	<b>1,124,120</b>	<b>1,422,785</b>	<b>25,624</b>	<b>38,002</b>		<b>12,154</b>	<b>20,592</b>
<b>Total Risk-Weighted Exposures</b>						<b>1,605,591</b>	<b>1,479,731</b>

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$'000's

## 29 Credit Risk Exposure Continued

PARENT	Contract or Notional Amount		Risk Weighting %	Risk Weighted Exposure	
	31/3/08	31/3/07		31/3/08	31/3/07
<b>Balance Sheet Exposures</b>					
Cash and Claims on Qualifying Governments with maturities < 1 year	357	267	0.00%	-	-
Cash and Claims on Qualifying Governments with maturities > 1 year	-	-	10.00%	-	-
Claims on Banks and NZ Local Authorities	40,598	49,196	20.00%	8,120	9,839
Advances Secured by Residential Mortgage	1,271,703	1,177,986	50.00%	635,852	588,993
Other Assets	739,298	665,711	100.00%	739,298	665,711
Non-Risk Weighted Assets	8,575	7,216	-	-	-
<b>Total Balance Sheet Exposures</b>	<b>2,060,531</b>	<b>1,900,376</b>		<b>1,383,270</b>	<b>1,264,543</b>

	Contract or Notional Amount		Credit Equivalent Amount		Average Risk Weighting %	Risk Weighted Exposure	
	31/3/08	31/3/07	31/3/08	31/3/07		31/3/08	31/3/07
<b>Off-Balance Sheet Exposures</b>							
Commitments with uncertain drawdown	24,718	55,372	12,359	27,686	66.37%	8,203	18,321
Commitments to extend credit which can be unconditionally cancelled	236,256	205,619	-	-	-	-	-
Interest Rate Contracts	340,512	483,709	4,219	3,008	20.00%	844	602
Option Contracts	582,875	779,875	7,047	7,657	20.00%	1,409	1,531
<b>Total Off-Balance Sheet Exposures</b>	<b>1,184,361</b>	<b>1,524,575</b>	<b>23,625</b>	<b>38,351</b>		<b>10,456</b>	<b>20,454</b>
<b>Total Risk-Weighted Exposures</b>						<b>1,393,726</b>	<b>1,284,997</b>

The Group's dominant activity is the provision of residential mortgage finance which comprises 67% (March 2007 66%) of SBS's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 17% (March 2007 18%) of the Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
<b>(b) The Maximum Exposures to Credit Risk at the relevant reporting dates are:</b>				
Cash on Hand and at Bank	13,926	9,035	8,014	7,273
Funds with Financial Institutions	37,618	43,883	34,632	41,485
Investment Securities	1,923	1,881	-	-
Derivative Financial Instruments	6,978	6,336	7,299	6,367
Current Tax Assets	2,773	136	2,130	780
Advances to Customers	2,334,242	2,126,729	2,110,110	1,843,560
Loans to Subsidiaries & Associates	1,413	-	82,611	78,733
Other Assets	4,987	4,838	3,627	2,297
<b>Total On-Balance Sheet Credit Exposures</b>	<b>2,403,860</b>	<b>2,192,838</b>	<b>2,248,423</b>	<b>1,980,495</b>
<b>(c) Concentrations of Credit Risk by Sector</b>				
Residential	1,327,668	1,204,959	1,209,369	1,032,047
Residential Investing	241,767	208,527	227,710	186,164
Agricultural	402,665	391,083	402,665	391,083
Commercial Finance	3,794	515	82,611	78,733
Commercial Other	267,676	229,736	266,079	229,773
Consumer Finance	47,326	35,346	-	-
Consumer Loans	40,475	52,069	-	-
Local Authority	4,284	4,494	4,287	4,494
Corporate Investments	60,445	61,135	49,945	55,125
Other	7,760	4,974	5,757	3,076
<b>Total Concentrations of Credit Risk by Sector</b>	<b>2,403,860</b>	<b>2,192,838</b>	<b>2,248,423</b>	<b>1,980,495</b>
<b>(d) Concentrations of Credit Risk by Geographical Location</b>				
North Island	474,829	429,372	383,613	331,667
Canterbury	687,706	588,053	627,687	508,400
Otago	560,071	540,586	527,671	494,166
Southland	524,323	493,776	566,884	526,521
South Island Other	156,931	141,051	142,568	119,741
Overseas	-	-	-	-
<b>Total Concentrations of Credit Risk by Geographical Location</b>	<b>2,403,860</b>	<b>2,192,838</b>	<b>2,248,423</b>	<b>1,980,495</b>

### (e) Currency Risk

The Group is not exposed to currency risk.

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 29 Credit Risk Exposure Continued

### (f) Concentrations of Credit Risk to Individual Counterparties and Bank Counterparties

The table below shows the numbers of bank counterparties or groups of closely related counterparties of which a bank is a parent and individual counterparties (other than banks or groups of closely related counterparties of which a bank is parent) where there are large credit exposures. These have been disclosed in bands of 10% of equity at balance date.

Percentage of Equity %	Counterparties Bank							
	GROUP				PARENT			
	31/3/08		31/3/07		31/3/08		31/3/07	
	Number	\$000	Number	\$000	Number	\$000	Number	\$000
10-19	1	23,600	1	18,400	1	23,600	2	31,900
20-29	-	-	-	-	-	-	-	-
30-39	-	-	-	-	-	-	-	-
40-49	-	-	-	-	-	-	-	-
50-59	-	-	-	-	-	-	-	-

  

Percentage of Equity %	Counterparties Other							
	GROUP				PARENT			
	31/3/08		31/3/07		31/3/08		31/3/07	
	Number	\$000	Number	\$000	Number	\$000	Number	\$000
10-19	-	-	-	-	-	-	-	-
20-29	-	-	-	-	-	-	-	-
30-39	-	-	-	-	-	-	-	-
40-49	-	-	-	-	-	-	-	-
50-59	-	-	-	-	1	81,174	1	78,733

In terms of the other counterparty exposures disclosed above the Group's policy in respect of collateral taken is set out in paragraph (h).

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
<b>(g) Percentage of Borrowers owing the Six Largest Amounts</b>				
The six largest borrowers as a percentage of Monetary Assets Receivable	2.10%	1.94%	5.55%	5.81%

### (h) 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:

	31/3/08	31/3/07	31/3/08	31/3/07
Against individually impaired Property	7,461	676	7,461	676
Against past due but not impaired Property	47,093	20,962	32,623	9,133
	<b>54,554</b>	<b>21,638</b>	<b>40,083</b>	<b>9,809</b>

## 30 Market Risk

Market Risk is the risk that changes in market prices, such as interest rate, and credit spreads will affect the 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 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 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 Group's exposure to market risk is managed operationally by Treasury. Treasury manages market risk by using other

securities, advances to banks, deposits from banks and 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 Group arising from adverse changes in interest rates. The 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 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 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.

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 30 Market Risk *Continued*

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

As at 31 March 2008	0-6 Months	6-12 Months	12-24 Months	> 24 Months	Non-Interest Sensitive	Total
<b>GROUP</b>						
<b>Assets</b>						
Cash on Hand and at Bank	13,926	-	-	-	-	13,926
Funds with Financial Institutions	37,618	-	-	-	-	37,618
Investment Securities	1,923	-	-	-	-	1,923
Derivative Financial Instruments	-	-	-	-	6,978	6,978
Current Tax Assets	-	-	-	-	2,773	2,773
Advances to Customers	1,038,603	255,511	693,517	346,611	-	2,334,242
Loans to Associates	1,413	-	-	-	-	1,413
Other Assets	-	-	-	-	27,398	27,398
	1,093,483	255,511	693,517	346,611	37,149	2,426,271
<b>Liabilities and Equity</b>						
Redeemable Shares	1,332,301	315,543	38,029	7,411	-	1,693,284
Deposits from Customers	110,399	14,809	7,751	68	-	133,027
Deposits from Financial Institutions	69,732	706	-	-	-	70,438
Derivative Financial Instruments	-	-	-	-	1,299	1,299
Other Borrowings	347,946	-	-	-	-	347,946
Other Liabilities	-	-	-	-	24,911	24,911
Equity	-	-	-	-	155,366	155,366
	1,860,378	331,058	45,780	7,479	181,576	2,426,271
On-Balance Sheet Interest Sensitivity Gap	(766,895)	(75,547)	647,737	339,132	(144,427)	-
Net Balance of Derivative Financial Instruments	1,059,050	(185,550)	(619,500)	(254,000)	-	-
<b>Total Interest Rate Sensitivity Gap</b>	<b>292,155</b>	<b>(261,097)</b>	<b>28,237</b>	<b>85,132</b>	<b>(144,427)</b>	<b>-</b>
<b>PARENT</b>						
<b>Assets</b>						
Cash on Hand and at Bank	8,014	-	-	-	-	8,014
Funds with Financial Institutions	34,632	-	-	-	-	34,632
Derivative Financial Instruments	-	-	-	-	7,299	7,299
Current Tax Assets	-	-	-	-	2,130	2,130
Advances to Customers	897,477	234,417	648,733	329,483	-	2,110,110
Loans to Subsidiaries & Associates	82,611	-	-	-	-	82,611
Other Assets	-	-	-	-	21,874	21,874
	1,022,734	234,417	648,733	329,483	31,003	2,266,670
<b>Liabilities and Equity</b>						
Redeemable Shares	1,333,557	315,543	38,029	7,411	-	1,694,540
Deposits from Customers	110,399	14,809	7,751	68	-	133,027
Deposits from Financial Institutions	69,732	706	-	-	-	70,438
Derivative Financial Instruments	-	-	-	-	1,754	1,754
Other Borrowings	210,464	-	-	-	-	210,464
Other Liabilities	-	-	-	-	17,406	17,406
Equity	-	-	-	-	139,041	139,041
	1,724,152	331,058	45,780	7,479	158,201	2,266,670
On-Balance Sheet Interest Sensitivity Gap	(701,418)	(96,641)	602,953	322,004	(126,898)	-
Net Balance of Derivative Financial Instruments	1,005,747	(164,399)	(594,523)	(246,825)	-	-
<b>Total Interest Rate Sensitivity Gap</b>	<b>304,329</b>	<b>(261,040)</b>	<b>8,430</b>	<b>75,179</b>	<b>(126,898)</b>	<b>-</b>

## Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

### 30 Market Risk Continued

As at 31 March 2007	0-6 Months	6-12 Months	12-24 Months	> 24 Months	Non-Interest Sensitive	Total
<b>GROUP</b>						
<b>Assets</b>						
Cash on Hand and at Bank	9,035	-	-	-	-	9,035
Funds with Financial Institutions	43,883	-	-	-	-	43,883
Investment Securities	1,881	-	-	-	-	1,881
Derivative Financial Instruments	-	-	-	-	6,336	6,336
Current Tax Assets	-	-	-	-	136	136
Advances to Customers	954,140	216,836	421,250	534,503	-	2,126,729
Other Assets	-	-	-	-	26,785	26,785
	1,008,939	216,836	421,250	534,503	33,257	2,214,785
<b>Liabilities</b>						
Redeemable Shares	1,245,348	291,490	24,917	5,692	-	1,567,447
Deposits from Customers	94,595	22,785	1,061	901	-	119,342
Deposits from Financial Institutions	68,576	964	-	-	-	69,540
Derivative Financial Instruments	-	-	-	-	19	19
Other Borrowings	300,636	-	-	-	-	300,636
Other Liabilities	-	-	-	-	17,280	17,280
Equity	-	-	-	-	140,521	140,521
	1,709,155	315,239	25,978	6,593	157,820	2,214,785
On-Balance Sheet Interest Sensitivity Gap	(700,216)	(98,403)	395,272	527,910	(124,563)	-
Net Balance of Derivative Financial Instruments	926,550	(149,000)	(354,050)	(423,500)	-	-
<b>Total Interest Rate Sensitivity Gap</b>	226,334	(247,403)	41,222	104,410	(124,563)	-
<b>PARENT</b>						
<b>Assets</b>						
Cash on Hand and at Bank	7,273	-	-	-	-	7,273
Funds with Financial Institutions	41,485	-	-	-	-	41,485
Derivative Financial Instruments	-	-	-	-	6,367	6,367
Current Tax Assets	-	-	-	-	780	780
Advances to Customers	857,367	175,300	348,195	462,698	-	1,843,560
Loans to Subsidiaries & Associates	78,733	-	-	-	-	78,733
Other Assets	-	-	-	-	19,886	19,886
	984,858	175,300	348,195	462,698	27,033	1,998,084
<b>Liabilities</b>						
Redeemable Shares	1,245,449	291,490	24,917	5,692	-	1,567,548
Deposits from Customers	94,595	22,785	1,061	901	-	119,342
Deposits from Financial Institutions	68,576	964	-	-	-	69,540
Derivative Financial Instruments	-	-	-	-	842	842
Other Borrowings	102,736	-	-	-	-	102,736
Other Liabilities	-	-	-	-	10,261	10,261
Equity	-	-	-	-	127,815	127,815
	1,511,356	315,239	25,978	6,593	138,918	1,998,084
On-Balance Sheet Interest Sensitivity Gap	(526,498)	(139,939)	322,217	456,105	(111,885)	-
Net Balance of Derivative Financial Instruments	806,840	(111,261)	(313,945)	(381,634)	-	-
<b>Total Interest Rate Sensitivity Gap</b>	280,342	(251,200)	8,272	74,471	(111,885)	-

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of SBS's financial assets and liabilities to various standard interest rate scenarios. The standard scenario that is considered on a monthly basis is a 100 basis point (bp) parallel fall or rise in the New Zealand yield curve. Comparative information is not available as management commenced this monitoring in this financial reporting period. An analysis of SBS's sensitivity to an increase or decrease in market interest rates is as follows:

	PARENT 31/3/08
<b>Impact on Equity of Increase or Decrease to Market Interest Rates</b>	
100 bp parallel increase	315
100 bp parallel decrease	2,725

### 31 Capital Adequacy

The Southland Building Society is subject to minimum capital requirements (Primary Capital) as specified in its Trust Deed dated 20 December 1990. The Primary Capital Trust Deed minimum is 4%.

Set out below is the Group's Capital Ratio in relation to the above specified benchmarks. In calculating this ratio, securitised assets are excluded from total assets. In addition, Fraser Properties Limited, which is both wholly owned and wholly funded by SBS, is consolidated into the parent (in terms of the Trust Deed this is referred to as the Guaranteeing Group).

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 31 Capital Adequacy Continued

	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
<b>Primary Capital Adequacy Ratio Calculation</b>				
<b>Tier One Capital</b>				
Retained Earnings	135,541	119,698	131,892	117,638
Current Years Retained Surplus	14,327	16,603	11,698	14,250
Minorities' Interests	3,741	3,151	-	-
Reserves	73	73	73	73
Intangible Assets	(2,616)	(2,823)	(968)	(726)
<b>Total Tier One Capital</b>	<b>151,066</b>	<b>136,702</b>	<b>142,695</b>	<b>131,235</b>
<b>Net Assets</b>	<b>2,426,271</b>	<b>2,214,785</b>	<b>2,061,531</b>	<b>1,900,376</b>
<b>Primary Capital Adequacy Ratio (Trust Deed Minimum 4%)</b>	<b>6.23%</b>	<b>6.17%</b>	<b>6.93%</b>	<b>6.91%</b>

## 32 Concentrations of Funding

<b>(a) Concentrations of Funding by Geographical Location</b>				
North Island	273,003	270,525	273,003	270,525
Canterbury	527,216	522,873	527,216	522,873
Otago	357,048	332,041	357,048	332,041
Southland	908,013	772,639	771,787	574,840
South Island Other	102,998	93,408	102,998	93,408
Overseas	76,417	65,479	76,417	65,479
<b>Total Concentrations of Funding by Geographical Location</b>	<b>2,244,695</b>	<b>2,056,965</b>	<b>2,108,469</b>	<b>1,859,166</b>
<b>(b) Concentrations of Funding by Product</b>				
Redeemable Shares	1,693,284	1,567,447	1,693,284	1,567,447
Deposits from Customers	133,027	119,342	133,027	119,342
Deposits from Financial Institutions	70,438	69,540	70,438	69,540
Other Borrowings	347,946	300,636	210,464	102,736
Due to Subsidiary Companies	-	-	1,256	101
<b>Total Concentrations of Funding by Product</b>	<b>2,244,695</b>	<b>2,056,965</b>	<b>2,108,469</b>	<b>1,859,166</b>

## 33 Related Parties

The 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)<sup>1</sup> in the normal course of business. Details of these transactions are outlined below.

<sup>1</sup> Key management personnel are defined as being Directors and Senior Management of the Group. The information relating to key management personnel disclosed below includes transactions with those individuals, their close family members and their controlled entities.

GROUP	Directors and Other Key Management Personnel		Associated Companies	
	31/3/08	31/3/07	31/3/08	31/3/07
<b>(a) Loans and Advances to Related Parties</b>				
Loans and advances outstanding at beginning of year	2,441	2,454	-	-
Net loans issued/(repaid) during the year	793	(13)	1,413	-
Loans and advances outstanding at end of year	<b>3,234</b>	<b>2,441</b>	<b>1,413</b>	<b>-</b>
Interest income earned on amounts due from related parties	291	215	134	-
<b>PARENT</b>				
Loans and advances outstanding at beginning of year	2,441	2,454	78,733	64,899
Net loans issued/(repaid) during the year	293	(13)	3,878	13,834
Loans and advances outstanding at end of year	<b>2,734</b>	<b>2,441</b>	<b>82,611</b>	<b>78,733</b>
Interest income earned on amounts due from related parties	242	215	8,403	6,837

Loans and advances with directors of the Group are made in the ordinary course of business on commercial terms and conditions. Loans and advances with key management personnel of the Group are made either:

- on normal terms and conditions; or
- on terms and conditions which apply to other employees in the Group.

All loans made to key management personnel have been made in accordance with the 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 year ended 31 March 2008 (31 March 2007 \$nil).

## Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

### 33 Related Parties Continued

(b) Deposits from Related Parties	Directors and Other Key Management Personnel		Associated Companies	
	31/3/08	31/3/07	31/3/08	31/3/07
<b>GROUP</b>				
Deposits at beginning of year	1,399	1,187	-	-
Net deposits received during the year	669	212	-	-
Deposits at end of year	<b>2,068</b>	<b>1,399</b>	-	-
Interest expense on amounts due to related parties	<b>144</b>	<b>89</b>	-	-
<b>PARENT</b>				
Deposits at beginning of year	1,399	1,187	101	-
Net deposits received during the year	381	212	1,155	101
Deposits at end of year	<b>1,780</b>	<b>1,399</b>	<b>1,256</b>	<b>101</b>
Interest expense on amounts due to related parties	<b>133</b>	<b>89</b>	<b>136</b>	<b>12</b>

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

(c) Other Transactions with Related Parties	GROUP		PARENT	
	31/3/08	31/3/07	31/3/08	31/3/07
Payments Made to Subsidiaries Under Interest Rate Swap Agreements	-	-	(1,289)	(799)
Net Current Account Interest Received from Subsidiaries & Associates	-	-	43	17
Net Rent Paid to Subsidiaries	-	-	(407)	(400)
Technology Services Fees Received from Subsidiaries	-	-	64	199
Net Commission Received from Subsidiaries	-	-	153	96
Management Fees Received from Subsidiaries	-	-	824	1,084
Dividends Received/Receivable from Subsidiaries	-	-	800	1,106
Fees Received from Subsidiaries	-	-	225	164
	<b>-</b>	<b>-</b>	<b>413</b>	<b>1,467</b>

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 year ending 31 March 2008, the Parent made Subvention Payments of \$754,909 (31 March 2007 \$379,485).

#### (d) Key management compensation

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

### 34 Subsequent Events

There have been no subsequent events after 31 March 2008.

### 35 Accounting Classifications

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

As at 31 March 2008	Designated at Fair Value	Available for Sale	Loans & Receivables	Held to Maturity	Other Amortised Cost	Total Carrying Amount
<b>GROUP</b>						
<b>Assets</b>						
Cash on Hand and at Bank	-	-	13,926	-	-	13,926
Funds with Financial Institutions	-	37,618	-	-	-	37,618
Investment Securities	1,009	914	-	-	-	1,923
Derivative Financial Instruments	6,978	-	-	-	-	6,978
Advances to Customers	821,864	-	1,512,378	-	-	2,334,242
Loans to Associates	-	-	1,413	-	-	1,413
	<b>829,851</b>	<b>38,532</b>	<b>1,527,717</b>	<b>-</b>	<b>-</b>	<b>2,396,100</b>
<b>Liabilities</b>						
Redeemable Shares	-	-	-	-	1,693,284	1,693,284
Deposits from Customers	-	-	-	-	133,027	133,027
Deposits from Financial Institutions	-	-	-	-	70,438	70,438
Derivative Financial Instruments	1,299	-	-	-	-	1,299
Other Borrowings	-	-	-	-	347,946	347,946
	<b>1,299</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,244,695</b>	<b>2,245,994</b>

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 35 Accounting Classifications Continued

As at 31 March 2008	Designated at Fair Value	Available for Sale	Loans & Receivables	Held to Maturity	Other Amortised Cost	Total Carrying Amount
<b>PARENT</b>						
<b>Assets</b>						
Cash on Hand and at Bank	-	-	8,014	-	-	8,014
Funds with Financial Institutions	-	34,632	-	-	-	34,632
Derivative Financial Instruments	7,299	-	-	-	-	7,299
Advances to Customers	756,196	-	1,353,914	-	-	2,110,110
Loans to Subsidiaries & Associates	-	-	82,611	-	-	82,611
	763,495	34,632	1,445,539	-	-	2,242,666
<b>Liabilities</b>						
Redeemable Shares	-	-	-	-	1,694,540	1,694,540
Deposits from Customers	-	-	-	-	133,027	133,027
Deposits from Financial Institutions	-	-	-	-	70,438	70,438
Derivative Financial Instruments	1,754	-	-	-	-	1,754
Other Borrowings	-	-	-	-	210,464	210,464
	1,754	-	-	-	2,108,469	2,110,223
<b>As at 31 March 2007</b>						
	Designated at Fair Value	Available for Sale	Loans & Receivables	Held to Maturity	Other Amortised Cost	Total Carrying Amount
<b>GROUP</b>						
<b>Assets</b>						
Cash on Hand and at Bank	-	-	9,035	-	-	9,035
Funds with Financial Institutions	-	43,883	-	-	-	43,883
Investment Securities	999	882	-	-	-	1,881
Derivative Financial Instruments	6,336	-	-	-	-	6,336
Advances to Customers	823,836	-	1,302,893	-	-	2,126,729
	831,171	44,765	1,311,928	-	-	2,187,864
<b>Liabilities</b>						
Redeemable Shares	-	-	-	-	1,567,447	1,567,447
Deposits from Customers	-	-	-	-	119,342	119,342
Deposits from Financial Institutions	-	-	-	-	69,540	69,540
Derivative Financial Instruments	19	-	-	-	-	19
Other Borrowings	-	-	-	-	300,636	300,636
	19	-	-	-	2,056,965	2,056,984
<b>PARENT</b>						
<b>Assets</b>						
Cash on Hand and at Bank	-	-	7,273	-	-	7,273
Funds with Financial Institutions	-	41,485	-	-	-	41,485
Derivative Financial Instruments	6,367	-	-	-	-	6,367
Advances to Customers	726,443	-	1,117,117	-	-	1,843,560
Loans to Subsidiaries & Associates	-	-	78,733	-	-	78,733
	732,810	41,485	1,203,123	-	-	1,977,418
<b>Liabilities</b>						
Redeemable Shares	-	-	-	-	1,567,548	1,567,548
Deposits from Customers	-	-	-	-	119,342	119,342
Deposits from Financial Institutions	-	-	-	-	69,540	69,540
Derivative Financial Instruments	842	-	-	-	-	842
Other Borrowings	-	-	-	-	102,736	102,736
	842	-	-	-	1,859,166	1,860,008

## 36 Explanation of Transition to NZ IFRS

SBS has prepared these financial statements using accounting policies based on the New Zealand Standards that are equivalent to International Financial Reporting Standards and their pronouncements ('NZ IFRS'). As these financial statements are for the first year reported in accordance with IFRS pages 34 to 42 provide explanation of how the transition from previous New Zealand generally accepted accounting principles ('previous GAAP') to NZ IFRS has affected the previously reported financial position, financial performance and cash flows of SBS.

SBS changed its accounting policies on 1 April 2007 to comply with NZ IFRS. The transition to NZ IFRS is accounted for in accordance with NZ IFRS-1 'First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards', with 1 April 2006 as the transition date.

### NZ IFRS adjustments with effect from 1 April 2006

#### (a) Fee Revenue

*Initial reduction in retained earnings; Some impact on future earnings*

Under NZ IAS-18: 'Revenue', certain service type fees (such as administration fees) which had been recognised when billed, have been deferred and amortised over the period of service. Further, under NZ IAS-39: 'Financial Instruments: Recognition and Measurement', certain fee income (such as loan approval fees) integral to the yield of an originated financial instrument (such as loans and advances measured at amortised cost), net of any direct incremental costs, will be capitalised and deferred over the expected life of the financial instrument.

On 1 April 2006, certain fees that had previously been recognised in the Income Statement, are deferred and recognised against net loans and advances in the Balance Sheet with a corresponding reduction to retained earnings. The impact was a reduction to

opening retained earnings at 1 April 2006 of \$980,000 post tax (Parent: \$597,000) with a corresponding decrease to Loans and Advances of \$1,463,000 (Parent: \$892,000) and an increase to deferred tax assets of \$483,000 (Parent: \$295,000). The impact of this change on the Income Statement for the year ended 31 March 2007 is a decrease to income of \$557,000 post tax (Parent: \$497,000) with a corresponding decrease in Loans and Advances of \$831,000 (Parent: 741,000) and an increase in deferred tax assets of \$274,000 (Parent: \$243,000). The ongoing impact of this change on the Income Statement for SBS may be material depending on the classification of advances and loans between amortised cost and fair value through profit or loss.

#### (b) Property, Plant and Equipment

*Immaterial impact*

SBS elected to measure Land and Buildings at fair value. Fair Value is determined on the basis of an annual independent valuation prepared by external valuation experts, based on

## 36 Explanation of Transition to NZ IFRS Continued

discounted cash flows or capitalisation of net income (as appropriate). The fair values are recognised in the financial statements of SBS, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values. Property revaluations are credited or debited to a Revaluation Reserve. Where revaluations result in a debit balance in the Revaluation Reserve they are expensed in the Income Statement. Subsequent upward revaluations of these assets are taken to the Income Statement only to the extent of the earlier charge and any remaining surplus is credited to the Revaluation Reserve.

Depreciation on revalued buildings is charged to the Income Statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

All other plant and equipment including internally developed assets are recorded at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

There is a minor impact on the carrying amount of property plant and equipment due to the above accounting policy.

### (c) Intangible Assets - Software

*No impact on earnings; Reclassification only*

On transition to NZ IFRS capitalised software assets have been reclassified from Property, Plant and Equipment to a separately identifiable intangible asset. For the Group this resulted in a reclassification of \$1,734,000 at 1 April 2006 (Parent: \$778,000) and \$1,866,000 as at 31 March 2007 (Parent: \$726,000). There is no impact on the Income Statement.

### (d) Advances to Customers

*Reduction in retained earnings; Some impact on future earnings*

As disclosed in Note 26, SBS provides some advances that are interest free advances made in support of community projects. Under NZ IAS - 39: 'Financial Instruments: Recognition and Measurement' these financial assets have been designated at amortised cost and fair valued accordingly based on the present value of all future cash receipts discounted using the prevailing market rate for a similar instrument with a similar credit rating. The rate applied reflects the credit rating of the counterparty. The effect of the revaluation to fair value of the interest free advances is a decrease in the carrying amount of the advance in the Group and Parent of \$1,061,000 at 1 April 2006 and an increase in deferred tax of \$350,000. The resulting loss, after tax of \$711,000 is taken to retained earnings in the opening balance sheet. At 31 March 2007, after allowing for the 1 April 2006 adjustments, the impact was an increase in advances in the Group and Parent of \$215,000, a decrease to deferred tax of \$71,000 and a corresponding increase in interest income of \$144,000 after tax.

As disclosed in Note 11, SBS has designated certain advances to customers as fair value through profit or loss. These advances have been matched with interest rate swaps as part of a documented risk 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. By designating those advances at fair value, the movement in the fair value of the long-term debt will be recorded in the Income Statement. The effect of the revaluation of the advances previously held at amortised cost is a decrease to advances of \$1,366,000 at 1 April 2006 (Parent: \$1,189,000), an increase to deferred tax of \$451,000 (Parent: \$392,000), with a resulting loss of \$915,000 (Parent: \$797,000) taken to retained earnings. At 31 March 2007 there is a further decrease to advances of \$4,788,000 (Parent: \$3,414,000). The loss to be taken to the Income Statement at 31 March 2007 is \$3,208,000 post tax (Parent: \$2,287,000).

### (e) Available for Sale Assets

*Immaterial impact*

As disclosed in Note 8, SBS has designated Funds with Other Financial Institutions as available for sale assets which are fair valued through equity. Under NZ IAS - 39: 'Financial Instruments: Recognition and Measurement' these financial assets have been designated at fair value based on the present value of all future cash receipts discounted using the prevailing market rate for a similar instrument with a similar credit rating. The rate applied reflects the credit rating of the counterparty. The effect of the revaluation to fair value of Funds with Other Financial Institutions previously held at amortised cost is not material.

### (f) Employee Benefits

*Immaterial impact*

Under previous GAAP employee entitlements to salaries and wages, annual leave, long service leave, and other benefits are recognised when they accrue to employees and are fully vested. Under NZ IFRS long service leave together with other forms of accrued leave are recognised on an actuarial basis over the period of service.

The impact of the adjustments to long service leave liabilities, as disclosed below, are not material.

### (g) Credit Loss Provisioning

*Impact on retained earnings; some impact on future earnings*

NZ IAS-39: 'Financial Instruments: Recognition and Measurement' adopts an approach known as 'incurred losses' for credit loss provisioning and provides guidance on measurement of incurred losses. Provisions are raised for losses that have already been incurred for 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 income in the Income Statement and a reduced specific provision during the period between recognition of impairment and recovery of the written down amount.

Exposures not individually known 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.

On adoption of NZ IFRS the changes in individual and collective provisions had the following impact:

- at 1 April 2006 an increase to credit loss provisions of \$883,000 (Parent: \$125,000), resulting in a decrease to retained earnings of \$592,000 post tax (Parent: \$84,000).
- at 31 March 2007 a decrease to credit loss provisions by a net \$834,000 (Parent: \$92,000), resulting in an increase to net surplus of \$558,000 (Parent: \$62,000).

### (h) Taxation

*Change in Methodology*

Under previous GAAP SBS adopted Income Statement tax effect accounting principles whereby tax expense is calculated on pre-tax accounting profits after adjustment for permanent differences. Under NZ IAS-12: 'Income Taxes', a balance sheet method of tax effect accounting has been adopted, replacing the income statement approach previously used by the Group.

Income tax expense comprises current and deferred taxes, with income tax expense recognised in the Income Statement, or recognised in equity to the extent that it relates to items recognised directly in equity. Deferred tax is calculated using the balance sheet method by determining temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the tax base of those assets and liabilities as used for taxation purposes.

The initial impact of this change in methodology as at 1 April 2006 resulted in an increase in the deferred tax asset of \$1,541,000 (Parent: \$897,000) with a corresponding increase to retained earnings. For the period ending 31 March 2007

the deferred tax asset decreased by a net \$222,000 (Parent: \$494,000) with a corresponding decrease to Net Surplus.

### (i) Business Combinations

*No impact*

At 1 April 2006, SBS elected under NZ IFRS 1: 'First-time adoption of New Zealand Equivalents to IFRS' to not restate the classification and accounting treatment of business combinations that occurred prior to 1 April 2006.

### (j) Derivative Financial Instruments

*Impact on retained earnings; Volatility in future earnings; New assets and liabilities recognised*

Under NZ IFRS all derivative contracts, whether used as hedging instruments or otherwise, will be measured at fair value and recognised on the Balance Sheet. NZ IFRS permits hedge accounting (if certain criteria are met) for fair value hedges and cash flow hedges. Fair value and cash flow hedge accounting can only be considered where prospective and retrospective effectiveness tests are met and the hedge relationship has been adequately documented.

Ineffectiveness outside the prescribed range precludes the use of hedge accounting and can result in significant volatility in the Income Statement. The hedging rules will impact the way SBS accounts for hedges of its funding and for hedges of its interest rate exposures/gaps. SBS has worked through the various methodologies and approaches and has opted not to use fair value or cash flow hedging in respect of its existing interest rate risk hedges, however these methodologies may be adopted for future hedging.

At 1 April 2006, SBS recognised adjustments to the Balance Sheet as a result of recognising at fair value all derivative financial instruments. No derivative financial instruments were designated in hedging relationships.

The resulting impacts are an increase at 1 April 2006 to retained earnings by a net \$392,000 post tax (Parent: \$343,000) with a corresponding derivative financial asset of \$1,615,000 (Parent: \$1,781,000) and derivative financial liability of \$1,029,000 (Parent: \$1,269,000) and a decrease to deferred tax asset of \$194,000 (Parent: \$169,000) recognised in the Balance Sheet. For the year ended 31 March 2007 there is an increase of \$3,840,000 (Parent: \$3,359,000) to Net Surplus, with a corresponding increase in derivative financial assets of \$4,721,000 (Parent: \$4,586,000) and reduction in derivative financial liabilities of \$1,010,000 (Parent: \$427,000) and a decrease in deferred tax assets of \$1,891,000 (Parent: \$1,654,000) in the Balance Sheet. The comparative figures are net of the reversal of the 1 April 2006 impact.

SBS has not changed its management of interest rate risk, nor the way these risks are mitigated through the use of interest rate swaps and similar instruments. The volatility to be experienced in the Income Statement represents the impact of market interest rate movements at the reporting date, rather than the long term impact from SBS's management of interest rate risk.

### Reconciliations from previous GAAP to NZ IFRS

The tables that follow contain reconciliations from previous GAAP to NZ IFRS in accordance with NZ IFRS 1. The NZ IFRS adjustment column is referenced to detailed discussion of the changes under NZ IFRS.

Income Statement Year ended	31 March 2007
Balance Sheet	As at 01 April 2006 As at 31 March 2007
Cashflow Statement	Year ended 31 March 2007

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 36 Explanation of Transition to NZ IFRS Continued

Reconciliation of Income Statements for the year ended 31 March 2007										
GROUP	Previous GAAP	Revaluation Buildings (note b)	Derivatives FVTPL (note i)	Other Assets FVTPL & Equity (note d,e)	Interest Free Loans (note d)	Deferred Fee Revenue (note a)	Credit Impairment (note g)	Employee Benefits (note f)	Total IFRS Adjustments	NZ IFRS
Interest Income	194,456	-	-	(4)	215	1,924	-	-	2,135	196,591
Interest Expense	35,652	-	-	-	-	-	-	-	-	35,652
Dividends on Redeemable Shares	108,632	-	-	-	-	-	-	-	-	108,632
	144,284	-	-	-	-	-	-	-	-	144,284
<b>Net Interest Income</b>	<b>50,172</b>	-	-	<b>(4)</b>	<b>215</b>	<b>1,924</b>	-	-	<b>2,135</b>	<b>52,307</b>
Other Income	15,174	-	-	(4,074)	-	-	-	-	(4,074)	11,100
<b>Total Operating Income</b>	<b>65,346</b>	-	-	<b>(4)</b>	<b>215</b>	<b>(2,150)</b>	-	-	<b>(1,939)</b>	<b>63,407</b>
Operating Expenses	38,864	-	-	-	-	(1,319)	-	(36)	(1,355)	37,509
Provision for Credit Impairment	4,528	-	-	-	-	-	(834)	-	(834)	3,694
<b>Operating Surplus</b>	<b>21,954</b>	-	-	<b>(4)</b>	<b>215</b>	<b>(831)</b>	<b>834</b>	<b>36</b>	<b>250</b>	<b>22,204</b>
Add Net Gain/(Loss) from Financial Instruments Designated at Fair Value	(19)	-	5,731	(4,788)	-	-	-	-	943	924
Add Revaluation of Property	952	(203)	-	-	-	-	-	-	(203)	749
Less Subvention Payment	-	-	-	-	-	-	-	-	-	-
<b>Surplus Before Income Tax</b>	<b>22,887</b>	<b>(203)</b>	<b>5,731</b>	<b>(4,792)</b>	<b>215</b>	<b>(831)</b>	<b>834</b>	<b>36</b>	<b>990</b>	<b>23,877</b>
Less Income Tax Expense	6,659	220	1,891	(1,580)	71	(274)	275	12	615	7,274
<b>Net Surplus</b>	<b>16,228</b>	<b>(423)</b>	<b>3,840</b>	<b>(3,212)</b>	<b>144</b>	<b>(557)</b>	<b>559</b>	<b>24</b>	<b>375</b>	<b>16,603</b>
<b>Attributable to:</b>										
Members' Interests	15,258	(423)	3,848	(3,211)	144	(540)	416	22	256	15,514
Minorities' Interests	970	-	(8)	(1)	-	(17)	143	2	119	1,089
	<b>16,228</b>	<b>(423)</b>	<b>3,840</b>	<b>(3,212)</b>	<b>144</b>	<b>(557)</b>	<b>559</b>	<b>24</b>	<b>375</b>	<b>16,603</b>
<b>PARENT</b>										
Interest Income	170,014	-	-	-	215	662	-	-	877	170,891
Interest Expense	23,282	-	-	-	-	-	-	-	-	23,282
Dividends on Redeemable Shares	108,632	-	-	-	-	-	-	-	-	108,632
	131,914	-	-	-	-	-	-	-	-	131,914
<b>Net Interest Income</b>	<b>38,100</b>	-	-	-	<b>215</b>	<b>662</b>	-	-	<b>877</b>	<b>38,977</b>
Other Income	6,235	-	-	-	-	(1,752)	-	-	(1,752)	4,483
<b>Total Operating Income</b>	<b>44,335</b>	-	-	-	<b>215</b>	<b>(1,090)</b>	-	-	<b>(875)</b>	<b>43,460</b>
Operating Expenses	25,875	-	-	-	-	(349)	-	(27)	(376)	25,499
Provision for Credit Impairment	83	-	-	-	-	-	(92)	-	(92)	(9)
<b>Operating Surplus</b>	<b>18,377</b>	-	-	-	<b>215</b>	<b>(741)</b>	<b>92</b>	<b>27</b>	<b>(407)</b>	<b>17,970</b>
Add Net Gain/(Loss) from Financial Instruments Designated at Fair Value	-	-	5,013	(3,414)	-	-	-	-	1,599	1,599
Add Revaluation of Property	-	-	-	-	-	-	-	-	-	-
Less Subvention Payment	816	-	-	-	-	-	-	-	-	816
<b>Surplus Before Income Tax</b>	<b>17,561</b>	-	<b>5,013</b>	<b>(3,414)</b>	<b>215</b>	<b>(741)</b>	<b>92</b>	<b>27</b>	<b>1,192</b>	<b>18,753</b>
Less Income Tax Expense	5,077	-	1,654	(1,127)	71	(244)	30	9	393	5,470
<b>Net Surplus</b>	<b>12,484</b>	-	<b>3,359</b>	<b>(2,287)</b>	<b>144</b>	<b>(497)</b>	<b>62</b>	<b>18</b>	<b>799</b>	<b>13,283</b>

All in \$'000's

36 Explanation of Transition to NZ IFRS Continued

GROUP	Previous GAAP	Revaluation Property, Plant and Equipment (note b)	Intangible Assets - Software (note c)	Derivatives (note i)	FVTPL & Equity (note d,e)	Other Assets (note d,e)	Interest Free Loans (note d)	Deferred Fee Revenue (note a)	Credit Impairment (note g)	Employee Benefits (note f)	Total IFRS Adjustments	NZ IFRS
<b>Assets</b>												
Cash on Hand and at Bank	3,025	-	-	-	-	-	-	-	-	-	-	3,025
Funds with Financial Institutions	49,158	-	-	-	3	-	-	-	-	-	3	49,161
Investment Securities	1,300	-	-	-	-	-	-	-	-	-	-	1,300
Derivative Financial Instruments	-	-	-	1,615	-	-	-	-	-	-	1,615	1,615
Current Tax Assets	550	-	-	-	-	-	-	-	-	-	-	550
Advances to Customers	1,983,115	-	-	-	(1,366)	(1,061)	(1,463)	(883)	(883)	-	(4,773)	1,978,342
Loans to Subsidiaries & Associates	-	-	-	-	-	-	-	-	-	-	-	-
Investments in Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-
Investments in Associates	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	2,877	-	-	-	-	-	-	-	-	-	-	2,877
Property, Plant and Equipment	16,637	-	(1,734)	-	-	-	-	-	-	-	(1,734)	14,903
Intangible Assets	1,015	-	1,734	-	-	-	-	-	-	-	1,734	2,749
Deferred Tax	674	153	-	(194)	446	-	350	483	291	12	1,541	2,215
	<b>2,058,351</b>	<b>153</b>	<b>-</b>	<b>1,421</b>	<b>(917)</b>	<b>(711)</b>	<b>(980)</b>	<b>(592)</b>	<b>12</b>	<b>(1,614)</b>	<b>2,056,737</b>	
<b>Liabilities</b>												
Redeemable Shares	1,426,730	-	-	-	-	-	-	-	-	-	-	1,426,730
Deposits from Customers	100,978	-	-	-	-	-	-	-	-	-	-	100,978
Deposits from Financial Institutions	154,232	-	-	-	-	-	-	-	-	-	-	154,232
Derivative Financial Instruments	-	-	-	1,029	-	-	-	-	-	-	1,029	1,029
Current Tax Liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Other Borrowings	232,499	-	-	-	-	-	-	-	-	-	-	232,499
Other Liabilities	17,337	-	-	-	-	-	-	-	-	38	38	17,375
	<b>1,931,776</b>	<b>-</b>	<b>-</b>	<b>1,029</b>	<b>(917)</b>	<b>(711)</b>	<b>(980)</b>	<b>(592)</b>	<b>38</b>	<b>1,067</b>	<b>1,932,843</b>	
<b>Net Assets</b>	<b>126,575</b>	<b>153</b>	<b>-</b>	<b>392</b>	<b>(917)</b>	<b>(711)</b>	<b>(980)</b>	<b>(2,681)</b>	<b>(26)</b>	<b>(2,681)</b>	<b>123,894</b>	
<b>Equity</b>												
Reserves	88	335	-	-	10	-	-	-	-	-	345	433
Retained Earnings	(123,580)	(173)	-	361	(926)	(711)	(871)	(447)	(447)	(24)	(2,791)	120,789
Attributable to Members of the Society	123,668	162	-	361	(916)	(711)	(871)	(447)	(447)	(24)	(2,446)	121,222
Attributable to Minority Interests	2,907	(9)	-	31	(1)	(1)	(109)	(145)	(145)	(2)	(235)	2,672
	<b>126,575</b>	<b>153</b>	<b>-</b>	<b>392</b>	<b>(917)</b>	<b>(711)</b>	<b>(980)</b>	<b>(2,681)</b>	<b>(26)</b>	<b>(2,681)</b>	<b>123,894</b>	

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 36 Explanation of Transition to NZ IFRS Continued

Reconciliation of Balance Sheet as at 1 April 2006											
PARENT	Previous GAAP	Revaluation Property, Plant and Equipment	Intangible Assets - Software	Derivatives	Other Assets FVTPL & Equity	Interest Free Loans	Deferred Fee Revenue	Credit Impairment	Employee Benefits	Total IFRS Adjustments	NZ IFRS
Assets	(note b)	(note c)	(note d)	(note e)	(note f)	(note g)	(note h)	(note i)	(note j)	(note k)	(note l)
Cash on Hand and at Bank	733	-	-	-	-	-	-	-	-	-	733
Funds with Financial Institutions	46,662	-	-	3	-	-	-	-	-	3	46,665
Investment Securities	-	-	-	-	-	-	-	-	-	-	-
Derivative Financial Instruments	-	-	1,781	-	-	-	-	-	-	1,781	1,781
Current Tax Assets	456	-	-	-	-	-	-	-	-	-	456
Advances to Customers	1,780,955	-	-	(1,189)	(1,061)	-	(892)	(125)	-	(3,267)	1,777,688
Loans to Subsidiaries & Associates	64,899	-	-	-	-	-	-	-	-	-	64,899
Investments in Subsidiaries	9,487	-	-	-	-	-	-	-	-	-	9,487
Investments in Associates	-	-	-	-	-	-	-	-	-	-	-
Other Assets	2,041	-	-	-	-	-	-	-	-	-	2,041
Property, Plant and Equipment	6,014	(778)	-	-	-	-	-	-	-	(778)	5,236
Intangible Assets	-	778	-	-	-	-	-	-	-	778	778
Deferred Tax	145	21	(169)	392	350	41	295	-	9	897	1,042
	<b>1,911,392</b>	<b>(21)</b>	<b>-</b>	<b>1,612</b>	<b>(794)</b>	<b>(711)</b>	<b>(597)</b>	<b>(84)</b>	<b>9</b>	<b>(586)</b>	<b>1,910,806</b>
<b>Liabilities</b>											
Redeemable Shares	1,426,730	-	-	-	-	-	-	-	-	-	1,426,730
Deposits from Customers	100,978	-	-	-	-	-	-	-	-	-	100,978
Deposits from Financial Institutions	154,232	-	-	-	-	-	-	-	-	-	154,232
Derivative Financial Instruments	-	-	1,269	-	-	-	-	-	-	1,269	1,269
Current Tax Liabilities	-	-	-	-	-	-	-	-	-	-	-
Other Borrowings	100,793	-	-	-	-	-	-	-	-	-	100,793
Other Liabilities	12,295	-	-	-	-	-	-	-	29	29	12,324
	<b>1,795,028</b>	<b>-</b>	<b>-</b>	<b>1,269</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(84)</b>	<b>29</b>	<b>1,298</b>	<b>1,796,326</b>
<b>Net Assets</b>	<b>116,364</b>	<b>(21)</b>	<b>-</b>	<b>343</b>	<b>(794)</b>	<b>(711)</b>	<b>(597)</b>	<b>(84)</b>	<b>(20)</b>	<b>(1,884)</b>	<b>114,480</b>
<b>Equity</b>											
Reserves	213	(21)	-	2	-	-	-	-	-	(19)	194
Retained Earnings	116,151	-	343	(796)	(711)	(84)	(597)	(84)	(20)	(1,865)	114,286
Attributable to Members of the Society	116,364	(21)	-	(794)	(711)	(84)	(597)	(84)	(20)	(1,884)	114,480
Attributable to Minority Interests	-	-	-	-	-	-	-	-	-	-	-
	<b>116,364</b>	<b>(21)</b>	<b>-</b>	<b>343</b>	<b>(794)</b>	<b>(711)</b>	<b>(597)</b>	<b>(84)</b>	<b>(20)</b>	<b>(1,884)</b>	<b>114,480</b>

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 36 Explanation of Transition to NZ IFRS Continued

Reconciliation of Balance Sheet as at 31 March 2007												
GROUP	Previous GAAP	1 April 2006 NZ IFRS Adjustments	Revaluation Property, Plant and Equipment (note b)	Intangible Assets - Software (note c)	Derivatives (note i)	Other Assets FV/PL + Equity (note d,e)	Interest Free Loans (note d)	Deferred Fee Revenue (note a)	Credit Impairment (note g)	Employee Benefits (note f)	Total IFRS Adjustments	NZ IFRS
<b>Assets</b>												
Cash on Hand and at Bank	9,035	-	-	-	-	-	-	-	-	-	-	9,035
Funds with Financial Institutions	43,899	3	-	-	-	(19)	-	-	-	-	(16)	43,883
Investment Securities	1,881	-	-	-	-	-	-	-	-	-	-	1,881
Derivative Financial Instruments	-	1,615	-	-	4,721	-	-	-	-	-	6,336	6,336
Current Tax Assets	136	-	-	-	-	-	-	-	-	-	-	136
Advances to Customers	2,136,072	(4,773)	-	-	-	(4,788)	215	(831)	834	-	(9,343)	2,126,729
Loans to Subsidiaries & Associates	-	-	-	-	-	-	-	-	-	-	-	-
Investments in Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-
Investments in Associates	1,090	-	-	-	-	-	-	-	-	-	-	1,090
Other Assets	4,838	-	-	-	-	-	-	-	-	-	-	4,838
Property, Plant and Equipment	17,907	(1,734)	-	(132)	-	-	-	-	-	-	(1,866)	16,041
Intangible Assets	957	1,734	-	132	-	-	-	-	-	-	1,866	2,823
Deferred Tax	1,338	1,541	(495)	-	(1,891)	1,585	(71)	274	(276)	(12)	655	1,993
	<b>2,217,153</b>	<b>(1,614)</b>	<b>(495)</b>	<b>-</b>	<b>2,830</b>	<b>(3,222)</b>	<b>144</b>	<b>(557)</b>	<b>558</b>	<b>(12)</b>	<b>(2,368)</b>	<b>2,214,785</b>
<b>Liabilities</b>												
Redeemable Shares	1,567,447	-	-	-	-	-	-	-	-	-	-	1,567,447
Deposits from Customers	119,342	-	-	-	-	-	-	-	-	-	-	119,342
Deposits from Financial Institutions	69,540	-	-	-	-	-	-	-	-	-	-	69,540
Derivative Financial Instruments	-	1,029	-	-	(1,010)	-	-	-	-	-	19	19
Current Tax Liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Other Borrowings	300,636	-	-	-	-	-	-	-	-	-	-	300,636
Other Liabilities	17,278	38	-	-	-	-	-	-	-	(36)	2	17,280
	<b>2,074,243</b>	<b>1,067</b>	<b>-</b>	<b>-</b>	<b>(1,010)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(36)</b>	<b>21</b>	<b>2,074,264</b>
<b>Net Assets Equity</b>	<b>142,910</b>	<b>(2,681)</b>	<b>(495)</b>	<b>-</b>	<b>3,840</b>	<b>(3,222)</b>	<b>144</b>	<b>(557)</b>	<b>558</b>	<b>24</b>	<b>(2,389)</b>	<b>140,521</b>
Reserves	789	345	(55)	-	-	(10)	-	-	-	-	280	1,069
Retained Earnings Attributable to Members of the Society	138,838	(2,791)	(424)	-	3,848	(3,211)	144	(540)	415	22	(2,537)	136,301
Attributable to Minority Interests	139,627	(2,446)	(479)	-	3,848	(3,221)	144	(540)	415	22	(2,257)	137,370
	3,283	(235)	(16)	-	(8)	(1)	-	(17)	143	2	(132)	3,151
	<b>142,910</b>	<b>(2,681)</b>	<b>(495)</b>	<b>-</b>	<b>3,840</b>	<b>(3,222)</b>	<b>144</b>	<b>(557)</b>	<b>558</b>	<b>24</b>	<b>(2,389)</b>	<b>140,521</b>

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 36 Explanation of Transition to NZ IFRS Continued

Reconciliation of Balance Sheet as at 31 March 2007												
PARENT	Previous GAAP	1 April 2006 NZ IFRS Adjustments	Revaluation Property, Plant and Equipment (note b)	Other Assets - FVTPL & Equity (note d, e)	Intangible Assets - Software (note c)	Derivatives (note i)	Credit Impairment (note g)	Interest Free Loans (note d)	Deferred Fee Revenue (note a)	Employee Benefits (note f)	Total IFRS Adjustments	NZ IFRS
<b>Assets</b>												
Cash on Hand and at Bank	7,273	-	-	-	-	-	-	-	-	-	-	7,273
Funds with Financial Institutions	41,501	3	-	(19)	-	-	-	-	-	-	(16)	41,485
Investment Securities	-	-	-	-	-	-	-	-	-	-	-	-
Derivative Financial Instruments	-	1,781	-	-	4,586	-	-	-	-	-	6,367	6,367
Current Tax Assets	780	-	-	-	-	-	-	-	-	-	-	780
Advances to Customers	1,850,675	(3,267)	-	(3,414)	-	-	92	215	(741)	-	(7,115)	1,843,560
Loans to Subsidiaries	78,733	-	-	-	-	-	-	-	-	-	-	78,733
Investments in Subsidiaries	9,187	-	-	-	-	-	-	-	-	-	-	9,187
Investments in Associates	1,090	-	-	-	-	-	-	-	-	-	-	1,090
Other Assets	2,297	(778)	-	-	-	-	-	-	-	-	(726)	2,297
Property, Plant and Equipment	6,764	778	-	-	52	-	-	-	-	-	-	6,038
Intangible Assets	-	778	-	-	(52)	-	-	-	-	-	-	726
Deferred Tax	67	897	(28)	1,133	-	(1,654)	(30)	(71)	243	(9)	481	548
	<b>1,998,367</b>	<b>(586)</b>	<b>(28)</b>	<b>(2,300)</b>	<b>-</b>	<b>2,932</b>	<b>62</b>	<b>144</b>	<b>(498)</b>	<b>(9)</b>	<b>(283)</b>	<b>1,998,084</b>
<b>Liabilities</b>												
Redeemable Shares	1,567,548	-	-	-	-	-	-	-	-	-	-	1,567,548
Deposits from Customers	119,342	-	-	-	-	-	-	-	-	-	-	119,342
Deposits from Financial Institutions	69,540	-	-	-	-	-	-	-	-	-	-	69,540
Derivative Financial Instruments	-	1,269	-	-	(427)	-	-	-	-	-	842	842
Current Tax Liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Other Borrowings	102,736	-	-	-	-	-	-	-	-	-	-	102,736
Other Liabilities	10,259	29	-	-	-	-	-	-	-	(27)	2	10,261
	<b>1,869,425</b>	<b>1,298</b>	<b>-</b>	<b>-</b>	<b>(427)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(27)</b>	<b>844</b>	<b>1,870,269</b>
<b>Net Assets</b>	<b>128,942</b>	<b>(1,884)</b>	<b>(28)</b>	<b>(2,300)</b>	<b>-</b>	<b>3,359</b>	<b>62</b>	<b>144</b>	<b>(498)</b>	<b>18</b>	<b>(1,127)</b>	<b>127,815</b>
<b>Equity</b>												
Reserves	307	(19)	(28)	(13)	-	-	-	-	-	-	(60)	247
Retained Earnings Attributable to Members of the Society	128,635	(1,865)	-	(2,287)	-	3,359	62	144	(498)	18	(1,067)	127,568
Attributable to Minority Interests	128,942	(1,884)	(28)	(2,300)	-	3,359	62	144	(498)	18	(1,127)	127,815
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>128,942</b>	<b>(1,884)</b>	<b>(28)</b>	<b>(2,300)</b>	<b>-</b>	<b>3,359</b>	<b>62</b>	<b>144</b>	<b>(498)</b>	<b>18</b>	<b>(1,127)</b>	<b>127,815</b>

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 36 Explanation of Transition to NZ IFRS Continued

Reconciliation of Cash Flows for the year ended 31 March 2007	GROUP		
	Previous GAAP	Effect of Transition to NZ IFRS	NZ IFRS
<b>Cash Flows From Operating Activities</b>			
Interest Received	193,671	29	193,700
Fees and Other Income	15,179	-	15,179
Dividends Received	-	-	-
Interest Paid	(35,202)	-	(35,202)
Dividends Paid on Redeemable Shares	(107,597)	-	(107,597)
Operating Expenses	(37,135)	-	(37,135)
Income Taxes Paid	(6,910)	-	(6,910)
Net Cash Flows From Operating Activities before changes in Operating Assets and Liabilities	22,006	29	22,035
<b>Net Changes in Operating Assets and Liabilities</b>			
Net Increase in Advances	-	(154,658)	(154,658)
Net Increase in Investment Securities	-	(593)	(593)
Net Increase in Shares and Deposits from Customers	-	157,974	157,974
Net Decrease in Deposits from Financial Institutions	-	(84,673)	(84,673)
Net Increase in Other Borrowings	-	67,740	67,740
Net Increase/(Decrease) in Cash held on behalf of Lifestages Mortgage Portfolio	-	(3,228)	(3,228)
<b>Net Cash Flows provided by/(used in) Operating Activities</b>	<b>22,006</b>	<b>(17,409)</b>	<b>4,597</b>
<b>Cash Flows From Investing Activities</b>			
Sale of Property, Plant and Equipment	24	-	24
Purchase of Property, Plant and Equipment	(2,347)	-	(2,347)
Purchase of Intangible Assets	(971)	-	(971)
Net Increase in Advances	(154,658)	154,658	-
Net Proceeds from Securitised Loans	-	-	-
Net Decrease/(Increase) in Investment Securities	(469)	469	-
Net Decrease/(Increase) in Loans to Subsidiaries and Associates	-	-	-
Investment in Subsidiary	-	-	-
Investment in Associates	(1,090)	-	(1,090)
Loan from Minority Interest	428	-	428
Repayment of Minority Interests Share Capital	(200)	-	(200)
<b>Net Cash Flows Applied to Investing Activities</b>	<b>(159,283)</b>	<b>155,127</b>	<b>(4,156)</b>
<b>Cash Flows From Financing Activities</b>			
Net Increase in Shares and Deposits from Customers	197,201	(197,201)	-
Net Decrease in Deposits from Financial Institutions	(123,900)	123,900	-
Net Increase in Other Borrowings	67,740	(67,740)	-
Net Increase/(Decrease) in Cash held on behalf of Lifestages Mortgage Portfolio	(3,228)	3,228	-
Dividends Paid to Minority Interests	(214)	-	(214)
<b>Net Cash Flows From Financing Activities</b>	<b>137,599</b>	<b>(137,813)</b>	<b>(214)</b>
Net Increase/(Decrease) in Cash Held	322	(95)	227
Add Opening Cash and Cash Equivalents	49,310	2,514	51,824
<b>Closing Cash and Cash Equivalents</b>	<b>49,632</b>	<b>2,419</b>	<b>52,051</b>
<b>Reconciliation of Cash and Cash Equivalents</b>			
Cash on Hand and at Bank	9,035	-	9,035
Funds with Other Financial Institutions	41,501	2,382	43,883
Interest Accrued on Available for Sale Assets	(904)	22	(882)
Net Decrease in Fair Value of Available for Sale Assets	-	15	15
	<b>49,632</b>	<b>2,419</b>	<b>52,051</b>

The main IFRS transition effects presented by the Group in its statement of cashflows for the year ended 31 March 2007, were:

- (i) Under NZ IFRS, the definition of cash and cash equivalents has been widened to include short-term, highly liquid investments that are readily convertible to cash. This includes short-term investments with an original maturity of less than 90 days. Previously, cash equivalents had to be convertible within two days.
- (ii) Under NZ IFRS, cash flows from operating activities include loans and advances made and the repayment of those loans and advances, and net cash proceeds from redeemable shares and deposits and other borrowings, and other similar items, as these relate to the main revenue producing activity of the Group.

# Notes to the Financial Statements for the year ended 31 March 2008

All in \$000's

## 36 Explanation of Transition to NZ IFRS Continued

Reconciliation of Cash Flows for the year ended 31 March 2007	PARENT		
	Previous GAAP	Effect of Transition to NZ IFRS	NZ IFRS
<b>Cash Flows From Operating Activities</b>			
Interest Received	169,533	-	169,533
Fees and Other Income	5,619	-	5,619
Dividends Received	616	-	616
Interest Paid	(23,229)	-	(23,229)
Dividends Paid on Redeemable Shares	(107,597)	-	(107,597)
Operating Expenses	(24,072)	-	(24,072)
Income Taxes Paid	(5,324)	-	(5,324)
Net Cash Flows From Operating Activities before changes in Operating Assets and Liabilities	15,546	-	15,546
<b>Net Changes in Operating Assets and Liabilities</b>			
Net Increase in Advances	-	(205,059)	(205,059)
Net Proceeds from Securitised Loans	-	135,197	135,197
Net Increase in Shares and Deposits from Customers	-	158,075	158,075
Net Decrease in Deposits from Financial Institutions	-	(84,673)	(84,673)
Net Increase in Other Borrowings	-	1,943	1,943
Net Increase/(Decrease) in Cash held on behalf of Lifestages Mortgage Portfolio	-	(3,228)	(3,228)
<b>Net Cash Flows provided by/(used in) Operating Activities</b>	<b>15,546</b>	<b>2,225</b>	<b>17,801</b>
<b>Cash Flows From Investing Activities</b>			
Sale of Property, Plant and Equipment	24	-	24
Purchase of Property, Plant and Equipment	(2,025)	-	(2,025)
Purchase of Intangible Assets	(315)	-	(315)
Net Increase in Advances	(205,059)	205,059	-
Net Proceeds from Securitised Loans	135,197	(135,197)	-
Net Decrease/(Increase) in Loans to Subsidiaries	(13,834)	-	(13,834)
Investment in Subsidiary	300	-	300
Investment in Associates	(1,090)	-	(1,090)
<b>Net Cash Flows Applied to Investing Activities</b>	<b>(86,802)</b>	<b>69,862</b>	<b>(16,940)</b>
<b>Cash Flows From Financing Activities</b>			
Net Increase in Shares and Deposits from Customers	197,302	(197,302)	-
Net Decrease in Deposits from Financial Institutions	(123,900)	123,900	-
Net Increase in Other Borrowings	1,943	(1,943)	-
Net Increase/(Decrease) in Cash held on behalf of Lifestages Mortgage Portfolio	(3,228)	3,228	-
<b>Net Cash Flows From Financing Activities</b>	<b>72,117</b>	<b>(72,117)</b>	<b>-</b>
Net Increase/(Decrease) in Cash Held	861	-	861
Add Opening Cash and Cash Equivalents	47,033	-	47,033
<b>Closing Cash and Cash Equivalents</b>	<b>47,894</b>	<b>-</b>	<b>47,894</b>
<b>Reconciliation of Cash and Cash Equivalents</b>			
Cash on Hand and at Bank	7,273	-	7,273
Funds with Other Financial Institutions	41,501	(16)	41,485
Interest Accrued on Available for Sale Assets	(880)	-	(880)
Net Decrease in Fair Value of Available for Sale Assets	-	16	16
	<b>47,894</b>	<b>-</b>	<b>47,894</b>

The main IFRS transition effects presented by the Parent in its statement of cashflows for the year ended 31 March 2007, were:

- (i) Under NZ IFRS, the definition of cash and cash equivalents has been widened to include short-term, highly liquid investments that are readily convertible to cash. This includes short-term investments with an original maturity of less than 90 days. Previously, cash equivalents had to be convertible within two days.
- (ii) Under NZ IFRS, cash flows from operating activities include loans and advances made and the repayment of those loans and advances, and net cash proceeds from redeemable shares and deposits and other borrowings, and other similar items, as these relate to the main revenue producing activity of the Parent.



## Audit Report

### To the Members of Southland Building Society

We have audited the financial statements on pages 2 to 42. The financial statements provide information about the past financial performance and financial position of Southland Building Society ("the Society") and its subsidiary companies ("the Group") as at 31 March 2008. This information is stated in accordance with the accounting policies set out on pages 5 to 8.

#### Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Society and Group as at 31 March 2008 and the results of their operations and cash flows for the year ended on that date.

#### Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

#### Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Society's and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

#### Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Society as far as appears from our examination of those records;
- the financial statements on pages 2 to 42:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Society and Group as at 31 March 2008 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 10 June 2008 and our unqualified opinion is expressed as at that date.

OUR PEOPLE MAKE THE DIFFERENCE

