



**Southern Cross Building Society in strong position
Interim Result to 31 December 2008**

On behalf of the Board of the Society I am pleased to comment on the Society's interim result for the 6 months to 31 December 2008.

Since the Society's last balance date (30 June 2008) global financial markets have deteriorated markedly – culminating in a dramatic fall in investor confidence and a further softening of the property market in New Zealand.

In these circumstances the Society has, in the opinion of the Directors, performed satisfactorily - with unaudited operating profit before impairment and restructuring costs in the first 6 months of \$2.4 million (2007: \$2.9 million). Impairment expense and provisioning increased significantly during the period to \$3.6 million - compared to the comparable period in the prior year when the Society reported a net recovery of \$0.2 million. This resulted in a net operating loss after tax for the 6 months to 31 December 2008 of \$0.8 million (2007: \$4.4 million profit). The increased level of impairments reflects the significant and rapid change in market conditions in the midst of the credit crunch. In these circumstances the Society's Management has acted swiftly to ensure any loans in arrears are appropriately managed and the Society's position protected. The Society's total impairment provisioning as at 31 December 2008 was \$3.5 million (30 June 2008: \$3.1 million).

Given the increased focus on managing the existing loan portfolio and the need to preserve the Society's liquidity during the period, the level of total deposits has stabilised and were \$374 million at 31 December 2008 (30 June 2008: \$385 million) leaving the Society in a very strong liquidity position. This was assisted by the introduction of the New Zealand Deposit Guarantee Scheme (NZDGS) introduced by the Government in October 2008. The Society opted to participate in the NZDGS and accordingly its deposits are guaranteed under the NZDGS until 10 October 2010.

As at 31 December 2008 the Society's liquid assets increased to \$136 million (30 June 2008: \$100 million) before taking into account undrawn bank facilities of \$80 million. Accordingly, the Society is very well positioned to take advantage of good lending opportunities.

In this regard, good quality lending opportunities are difficult to find, particularly given a marked softening in demand for new property lending. The Society reviewed a number of first mortgages offered for sale by other non bank deposit taking institutions (NBDTs) and during the period purchased some good quality mortgages that met the Society's strict lending criteria. The Society's total mortgage book (net of provisions) as at 31 December 2008 was \$284 million (30 June 2008: \$338 million) - largely due to a significant

level of loan repayments by customers during the period coupled with loan recoveries arising from proactive asset management actions undertaken by the Society's management. The Society re-launched its residential mortgage product in December 2008 and will actively promote this in the second 6 months through its branch network. Additionally the Society will continue to pursue opportunities to purchase good quality mortgages during the second half of the current financial year.

Following the turmoil in financial markets resulting in a number of finance company failures in New Zealand, the Reserve Bank is seeking to introduce a regulatory framework similar to that pertaining to the trading banks. In general the Directors of the Society are supportive of such initiatives. The proposed regulations by the Reserve Bank cover related party lending (of which the Society has none), the introduction of a minimum level of capital adequacy (which exceeds the level required for the trading banks based on a capital to risk-weighted asset basis), and the requirement to obtain a credit rating. The Society has embarked on a credit rating process that should ensure the Society complies with all the regulatory changes as and when required (expected to be mid-2010).

These regulatory changes are expected to drive industry consolidation more rapidly as NBDTs position themselves to continue to compete effectively. As indicated in prior reports to the Society's shareholders, the Society is well positioned and willing to actively participate in such consolidation – provided any participation is in the best interests of, and value-adding to, the Society's shareholders.

For the remainder of the current financial year the Society will continue to focus on managing its balance sheet and employing its strong liquidity position in growing its mortgage book. Short term profitability will be affected by a significant and rapid decline in market interest rates, particularly given the Society's strong liquidity position and impact the low yields the Society is currently earning on its treasury assets relative to its weighted average cost of deposit funds.

The unprecedented market conditions experienced in the 2008 calendar year are expected to continue in 2009 and perhaps even in 2010 according to some market commentators. The Society has shown strong resilience amidst these conditions and remains in a strong position from a balance sheet and liquidity perspective. Accordingly your Directors believe the Society is well positioned to take advantage of any opportunities that might arise.

Given the current market conditions and in line with other similar financial institutions, the Directors are not recommending an interim dividend be paid to shareholders.

G.T. Ricketts
Chairman

20 February 2009

Southern Cross Building Society

Summarised Income Statement & Balance Sheet

The figures summarised in the tables below have been prepared in accordance with NZ IFRS.

Summarised Income Statement

For the period ended

	Unaudited 31/12/2008 6 months Consolidated \$000	Audited 30/06/2008 12 months Consolidated \$000	Unaudited 31/12/2007 6 months Consolidated \$000
Interest Income	21,362	44,286	22,737
Interest Expense	15,433	33,304	16,715
Net Interest Income	5,929	10,982	6,022
Other Income	269	1,989	673
Total Operating Income	6,198	12,971	6,695
Operating Expenses	3,806	7,337	3,796
Net Operating Profit before Impairment, Net Gains & Restructuring Costs	2,392	5,634	2,899
Impairment	3,638	593	(172)
Net Profit / (Loss) Before Net Gains & Restructuring Costs	(1,246)	5,041	3,071
Net Gains & Restructuring Costs	(65)	763	1,900
Net Profit / (Loss) Before Tax	(1,311)	5,804	4,971
Tax Expense / (Benefit)	(468)	636	543
Net Profit / (Loss) After Tax	(843)	5,168	4,428

Summarised Balance Sheet

As at

	Unaudited 31/12/2008 Consolidated \$000	Audited 30/06/2008 Consolidated \$000	Unaudited 31/12/2007 Consolidated \$000
Cash & Investments	140,117	106,186	91,299
Loans and Advances	284,206	338,498	351,986
Fixed Assets	6,184	6,239	6,218
Intangible Assets	339	323	265
Deferred Tax	2,308	2,824	3,480
Other Assets	6,830	1,846	1,957
Total Assets	439,984	455,916	455,205
Deposits	374,355	384,791	382,723
Redeemable Shares	5,648	7,845	9,373
Other Liabilities	1,715	2,875	1,851
Total Liabilities	381,718	395,511	393,947
Net Assets	58,266	60,405	61,258
Number of shares ('000)*	50,250	50,250	50,250
Number of options ('000)	17,567	17,567	16,667
NTA undiluted (\$)	1.15	1.20	1.21
NTA diluted (\$)	1.11	1.14	1.16

* Excludes 1.25 million shares issued in accordance with the Executive Share Scheme which are subject to pre-determined vesting rights.