



15 September 2008

Southern Cross Reports Healthy 2008 Result

Southern Cross Building Society made a net profit after tax of \$5.2 million for the year to June 30, 2008, almost double that of the previous year, Chair Geoff Ricketts said in announcing the full-year result.

The result, which included a one-time net gain of \$0.8 million, represented a substantial turnaround from the previous year, mainly because of an increase in net interest margin, lower bad-debt expense than the previous year, and tight control over operating costs, Mr Ricketts said.

The Society's Chief Executive, Bob Smith, said the result was particularly pleasing given the volatility in financial markets. Mr Smith attributed the Society's performance to its conservative lending policies and control over operating costs.

The Society, which celebrated its 85th anniversary this year, lends almost exclusively on a first mortgage basis on properties in New Zealand. The average loan to value ratio across the Society's loan portfolio is less than 60%.

Mr Smith said that the balance sheet position of the Society at June 30, 2008 was very strong, with equity of just over \$60 million – representing 13.3% of the Society's total assets, one of the strongest equity ratios in the non-bank sector.

The Society's liquidity position at June 30, 2008 was also very sound. Total liquidity, including undrawn bank facilities, was \$177 million – almost three times higher than that required under the Society's trust deed. Post June 30, 2008 the Society's liquidity ratio remains strong at more than 40%.

The Society's healthy liquidity position had been achieved by careful management of the balance sheet – resulting in total assets reducing slightly to \$456 million from \$493 million the previous year, Mr Smith said.

"We felt it was prudent to slow our lending growth slightly to maintain a strong liquid position," he said. "Following a strategic review last year, the Society also sold its non-core investment property in November 2007, for \$19 million, which further increased the Society's liquidity reserves.

"Today the Society is in a position to cautiously consider mortgage lending opportunities, at a time when others are no longer lending."

The Society underwent significant change in the past year, after being restructured, Mr Smith said.

"It is now well positioned to continue to withstand the headwinds the whole financial sector has been facing, and which will be a catalyst for further consolidation in the savings sector."

The Society is a founding member of the New Zealand Savings Institutions Association, a body that includes almost all the building societies and PSIS, which in aggregate represent an operating history of about 660 years.

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