Southland Building Society

Disclosure Statement

For the six months ended 30 September 2018

Number 41 Issued November 2018

sbsbank.co.nz

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General Information

Southland Building Society (SBS) is registered as a bank under the Reserve Bank of New Zealand Act 1989, and is required to comply with the conditions of registration as laid down by the Reserve Bank of New Zealand. Southland Building Society operates under the brand "SBS Bank".

This Disclosure Statement has been issued by Southland Building Society in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the 'Order'). This disclosure statement is the consolidated accounts of the Banking Group comprising SBS and its subsidiaries.

Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

Name and Address for Service of Registered Bank

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

Details of Incorporation

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

Ownership

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

Guarantee Arrangements

As at the signing date of this Disclosure Statement, the material obligations of the Registered Bank are not guaranteed.

Pending Proceedings or Arbitration

There are no pending proceedings at the date of this Disclosure Statement that may have a material adverse effect on the Registered Bank or the Banking Group.

Other Material Matters

The Bank's Directors are of the opinion that there are no other matters relating to the business or affairs of the Registered Bank or the Banking Group which would, if disclosed in this Disclosure Statement, materially adversely affect the decision of a person to subscribe for debt securities of which the Registered Bank or any members of the Banking Group is the issuer.

Directorate

Since the publication date of the previous full year Disclosure Statement, JJ Grant resigned on 30 June 2018 as independent director, M P O'Connor was appointed as an independent director on 21 August 2018, and FE Spencer resigned 30 September 2018 as independent director. KJ Murphy was appointed as independent director effective 1 November 2018. There have been no other changes in the composition of the Board.

Credit Rating

As at 30 September 2018, the credit rating assigned to Southland Building Society is BBB with a stable outlook. This credit rating is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. The credit rating was issued by Fitch Ratings on 5 September 2016 and was reaffirmed on 7 September 2018. The rating is not subject to any qualifications.

Auditors

KPMG Chartered Accountants
79 Cashel Street
Christchurch

Conditions of Registration

There have been no changes in the Bank's conditions of registration during the period since the signing of the previous Disclosure Statement.

Directors' Statement

The directors of Southland Building Society (the "Bank") state that each director of the Bank believes, after due enquiry, that:

1. As at the date on which the Disclosure Statement is signed:
   - (a) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and
   - (b) the Disclosure Statement is not false or misleading.

2. Each director of the Bank believes, after due enquiry, that during the six months ended 30 September 2018:
   - (a) the Bank has complied with all conditions of registration applicable during the period; and
   - (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
   - (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 22 November 2018 and has been signed by or on behalf of all the directors.

JF Ward
(Chairman)

KJ Ball
(Deputy Chair)

GJ Mulvey

MJ Skilling

AL McLeod

AJ O'Connell

MP O'Connor

KJ Murphy

Southland Building Society

Income Statement for the six months ended 30 September 2018

All in $000's

	Note	Unaudited 6 Months 30/09/2018	Unaudited 6 Months 30/09/2017	Audited 12 Months 31/03/2018
Interest income		122,674	107,906	225,417
Interest expense		13,225	12,145	25,761
Dividends on redeemable shares		51,518	46,050	93,631
		64,743	58,195	119,392
Net interest income		**57,931**	**49,711**	**106,025**
Other income		18,530	15,302	33,428
Total operating income		**76,461**	**65,013**	**139,453**
Operating expenses		47,238	41,981	89,235
Provision for credit impairment	(5)	7,697	5,542	14,920
Operating surplus		**21,526**	**17,490**	**35,298**
Net gain/(loss) from financial instruments designated at fair value		(43)	51	76
Share of associates and joint ventures profit net of tax		765	502	1,066
Surplus before income tax		**22,248**	**18,043**	**36,440**
Less income tax expense		6,100	5,217	9,777
Net surplus		**16,148**	**12,826**	**26,663**
Attributable to:				
Members' interests		15,970	12,401	25,801
Non-controlling interests		178	425	862
		16,148	**12,826**	**26,663**

Southland Building Society

Statement of Comprehensive Income for the six months ended 30 September 2018

All in $000's

	Unaudited 6 Months 30/09/2018	Unaudited 6 Months 30/09/2017	Audited 12 Months 31/03/2018
Net surplus for the period	16,148	12,826	26,663
Items that may not be reclassified subsequently to profit or loss			
Net change in property, plant and equipment reserve, net of tax	-	-	560
Items that may be reclassified subsequently to profit or loss			
Net change in fair value reserve, net of tax	749	737	500
Net change in cash flow hedging reserve, net of tax	378	(665)	1,404
Other comprehensive income for the period, net of tax	1,127	72	2,464
Total comprehensive income for the period	**17,275**	**12,898**	**29,127**
Attributable to:			
Members' interests	17,090	12,473	28,281
Non-controlling interests	185	425	846
	17,275	**12,898**	**29,127**

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

Southland Building Society
Statement of Changes in Equity for the six months ended 30 September 2018
All in $000's

As at 30 September 2018 (Unaudited)	Retained earnings	Revaluation reserves: Property, plant and equipment	Revaluation reserves: Fair value	Revaluation reserves: Cash flow hedging	Total equity attributable to members' interests	Non-controlling interests	Total equity
Balance as at 31 March 2018	299,707	2,292	4,373	(11,373)	294,999	1,998	**296,997**
Balance adjusted for adoption of accounting standard (1)	618	-	-	-	618	-	**618**
Net surplus for the period	15,970	-	-	-	15,970	178	**16,148**
Other comprehensive income for the period							
Revaluation/change in fair value	-	-	1,040	580	1,620	-	**1,620**
Current/deferred tax impact	-	-	(291)	(202)	(493)	-	**(493)**
Total comprehensive income for the period	15,970	-	749	378	17,097	178	**17,275**
Non-controlling share of change in reserve	-	-	(7)	-	(7)	7	**-**
Acquisition of non-controlling interests	(5,229)	-	-	-	(5,229)	(1,130)	**(6,359)**
Non-controlling interests present value adjustment	5,196	-	-	-	5,196	-	**5,196**
Dividends paid	-	-	-	-	-	(100)	**(100)**
Balance as at 30 September 2018	**316,262**	**2,292**	**5,115**	**(10,995)**	**312,674**	**953**	**313,627**

As at 30 September 2017 (Unaudited)	Retained earnings	Property, plant and equipment	Fair value	Cash flow hedging	Total equity attributable to members' interests	Non-controlling interests	Total equity
Balance as at 31 March 2017	277,136	1,732	3,856	(12,752)	269,972	4,946	**274,918**
Net surplus for the period	12,401	-	-	-	12,401	425	**12,826**
Other comprehensive income for the period							
Revaluation/change in fair value	-	-	1,024	(927)	97	-	**97**
Current/deferred tax impact	-	-	(287)	262	(25)	-	**(25)**
Total comprehensive income for the period	12,401	-	737	(665)	12,473	425	**12,898**
Non-controlling share of change in reserve	-	-	(1)	-	(1)	1	**-**
Acquisition of non-controlling interests	(7,363)	-	1	(25)	(7,387)	(3,437)	**(10,824)**
Non-controlling interests present value adjustment	5,479	-	-	-	5,479	-	**5,479**
Dividends paid	-	-	-	-	-	(307)	**(307)**
Balance as at 30 September 2017	287,653	1,732	4,593	(13,442)	280,536	1,628	**282,164**

As at 31 March 2018 (Audited)	Retained earnings	Property, plant and equipment	Fair value	Cash flow hedging	Total equity attributable to members' interests	Non-controlling interests	Total equity
Balance as at 31 March 2017	277,136	1,732	3,856	(12,752)	269,972	4,946	**274,918**
Net surplus for the year	25,801	-	-	-	25,801	862	**26,663**
Other comprehensive income for the year							
Revaluation/change in fair value	-	777	693	1,952	3,422	-	**3,422**
Current/deferred tax impact	-	(217)	(193)	(548)	(958)	-	**(958)**
Total comprehensive income for the year	25,801	560	500	1,404	28,265	862	**29,127**
Non-controlling share of change in reserve	-	-	16	-	16	(16)	**-**
Acquisition of non-controlling interests	(7,363)	-	1	(25)	(7,387)	(3,437)	**(10,824)**
Non-controlling interests present value adjustment	4,133	-	-	-	4,133	-	**4,133**
Dividends paid	-	-	-	-	-	(357)	**(357)**
Balance as at 31 March 2018	299,707	2,292	4,373	(11,373)	294,999	1,998	**296,997**

(1) NZ IFRS 9 has been adopted from 1 April 2018 and has been applied in the preparation of the statement of changes in equity. Comparative balances have not been restated. Refer to Note 1 for further information.

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

Southland Building Society
Statement of Financial Position as at 30 September 2018
All in $000's

sbsbank

	Note	Unaudited 30/09/2018	Unaudited 30/09/2017	Audited 31/03/2018
Assets				
Cash on hand and at bank		49,701	56,116	60,368
Funds with financial institutions		47,692	10,429	37,414
Investment securities	(3)	539,948	404,901	475,775
Derivative financial instruments		3,855	3,756	3,050
Advances to customers	(4)	3,848,767	3,681,362	3,796,045
Investments in associates and joint ventures		7,041	7,246	8,454
Other assets		31,285	29,406	32,090
Property, plant and equipment		21,436	23,033	22,148
Assets held for sale		661	-	665
Goodwill and intangible assets		13,412	7,630	7,782
Net deferred tax assets		9,979	12,803	11,419
		4,573,777	**4,236,682**	**4,455,210**
Liabilities				
Redeemable shares		3,235,844	2,909,594	3,087,614
Deposits from customers		139,890	196,285	145,716
Commercial paper		288,453	268,546	278,521
Due to other financial institutions		438,920	469,738	486,538
Derivative financial instruments		22,360	26,376	22,640
Current tax liabilities		288	1,942	2,934
Other liabilities		37,087	42,902	45,905
Subordinated redeemable shares		97,308	39,135	88,345
		4,260,150	**3,954,518**	**4,158,213**
Net assets		**313,627**	**282,164**	**296,997**
Equity				
Reserves		(3,588)	(7,117)	(4,708)
Retained earnings		316,262	287,653	299,707
Attributable to members of the society		312,674	280,536	294,999
Attributable to non-controlling interests		953	1,628	1,998
		313,627	**282,164**	**296,997**
Total interest earning and discount bearing assets		4,486,108	4,152,808	4,369,602
Total interest and discount bearing liabilities		4,168,192	3,883,298	4,086,734
Return on assets*		0.73%	0.55%	0.67%
Return on equity*		10.77%	8.14%	9.93%
Net interest margin*		2.62%	2.51%	2.65%

* As calculated in RBNZ Dashboard, and represents the quarter ended on that date only.

For and on behalf of the Board of Directors:

Chairman
JF Ward

Deputy Chair
KJ Ball

22 November 2018

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

Southland Building Society

Statement of Cash Flows for the six months ended 30 September 2018

All in $000's

	Unaudited 6 Months 30/09/2018	Unaudited 6 Months 30/09/2017	Audited 12 Months 31/03/2018
Cash flows from operating activities			
Interest and dividends received	121,491	106,757	223,139
Interest and dividends paid	(64,141)	(52,301)	(110,840)
Other cash inflows provided by operating activities	26,017	22,758	48,134
Other cash outflows used in operating activities	(61,537)	(58,112)	(110,724)
Net cash flows from operating activities before changes in operating assets and liabilities	21,830	19,102	49,709
Net changes in operating assets and liabilities	52,359	(37,629)	38,923
Net cash flows provided by/(used in) operating activities	**74,189**	**(18,527)**	**88,632**
Cash flows from investing activities			
Cash inflows provided by investing activities	367	13,865	927
Cash outflows used in investing activities	(68,498)	(18,395)	(81,329)
Net cash flows provided by/(used in) investing activities	**(68,131)**	**(4,530)**	**(80,402)**
Cash flows from financing activities			
Cash inflows provided by financing activities	-	-	-
Cash outflows used in financing activities	(6,459)	(11,132)	(11,181)
Net cash flows provided by/(used in) financing activities	**(6,459)**	**(11,132)**	**(11,181)**
Net increase/(decrease) in cash held	(401)	(34,189)	(2,951)
Add opening cash and cash equivalents	97,749	100,700	100,700
Closing cash and cash equivalents	**97,348**	**66,511**	**97,749**
Reconciliation of cash and cash equivalents			
Cash on hand and at bank	49,701	56,116	60,368
Funds with financial institutions	47,692	10,429	37,414
Interest accrued	(45)	(34)	(33)
	97,348	**66,511**	**97,749**
Reconciliation of net surplus to net operating cash flows			
Net surplus for period	16,148	12,826	26,663
Non-cash items	12,031	6,974	20,378
Deferral or accruals of past or future operating cash receipts or payments	46,022	(38,355)	41,566
Items classified as cash	(12)	28	25
Net cash flows from operating activities	**74,189**	**(18,527)**	**88,632**

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

All in $000's

1. Significant Accounting Policies

(a) Basis of Preparation

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

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), NZ IAS 34 Interim Financial Reporting, Financial Markets Conduct Act 2013 and the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014 (as amended) and should be read in conjunction with the Banking Group's financial statements for the year ended 31 March 2018.

These financial statements were authorised for issue by the Board of Directors on 22 November 2018.

(b) Changes in Accounting Policies

There have been no changes in accounting policies and all accounting policies adopted are consistent with those used in the financial year ended 31 March 2018, except as disclosed below.

The following standards have been adopted from 1 April 2018 and has been applied in the preparation of these financial statements:

- NZ IFRS 9 Financial instruments
- NZ IFRS 15 Revenue from contracts with customers

NZ IFRS 9 - Financial Instruments

The Banking Group adopted NZ IFRS 9 Financial Instruments from 1 April 2018 without restatement, in accordance with the transition requirements. NZ IFRS 9 was issued in September 2014 and is applicable for periods beginning on or after 1 January 2018. The standard sets out new requirements for classification and measurement, impairment and hedge accounting for financial assets and liabilities. It replaces NZ IAS 39 Financial Instruments: Recognition and Measurement. The Banking Group has elected to exercise an accounting policy choice under NZ IFRS 9 to continue to apply the hedge accounting requirements under NZ IAS 39.

i. Classification of financial assets and financial liabilities:

NZ IFRS 9 contains three principal classification categories for financial assets: measurement at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under NZ IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous NZ IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost only if both of the following conditions are met:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

If the above conditions are not met, financial assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in FVOCI are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. Financial assets that do not meet the criteria for amortised cost or FVOCI are mandatorily measured at FVTPL.

The following table summarises the classification and measurement changes by balance sheet asset class to the Banking Group's financial assets on 1 April 2018, the Banking Group's date of initial application of NZ IFRS 9. There are no changes in the classification and measurement of financial liabilities of the Banking Group.

Financial Asset	Original Measurement under NZ IAS 39	New Measurement under NZ IFRS 9	Original Carrying Amount NZ IAS 39	New Carrying Amount NZ IFRS 9
Cash on hand and at bank	Loans and receivables	Amortised cost	60,368	60,368
Funds with financial institutions	Available for sale	Amortised cost	37,414	37,414
Investment securities - listed securities	Designated at fair value	FVOCI	1,300	1,300
Investment securities - local authority bonds, bank securities and other bonds	Available for sale	FVOCI	474,475	474,475
Derivative financial instruments	Designated at fair value	Designated at fair value	3,050	3,050
Advances to customers	Loans and receivables	Amortised cost	3,724,648	3,725,589
Advances to customers - Reverse equity mortgages	Loans and receivables	FVTPL	71,397	71,315

All in $000's

1. Significant Accounting Policies (continued)

i. Classification of financial assets and financial liabilities (continued):

The following table shows a reconciliation between the statement of financial position as reported at 31 March 2018 under NZ IAS 39 and the restated amounts on 1 April 2018 under NZ IFRS 9 for impacted balances only.

Statement of Financial Position (impacted balances only)	31/03/2018 NZ IAS 39	Reclassification	Remeasurement	01/04/2018 NZ IFRS 9
Advances to customers	3,796,045	(82)	941	3,796,904
Net deferred tax assets	11,419	-	(241)	11,178
Total assets	**4,455,210**	**(82)**	**700**	**4,455,828**
Retained earnings	299,707	(82)	700	300,325

ii. Impairment of financial assets:

NZ IFRS 9 impairment requirements are based on an expected credit loss model, replacing the incurred loss methodology model under NZ IAS 39. The Banking Group applies a three stage approach to measuring expected credit losses (ECL) on financial assets accounted for at amortised cost and FVOCI. The key inputs into the measurement of ECL include variables such as probability of default, loss given default and exposure at default. The following summarises the three stage model:

Stage 1 - Not deteriorated - the ECL is based on 12 month expected credit losses using a combination of historical losses and vintage analysis over the entire loan book;

Stage 2 - Deteriorated (accounts more than 30 days in arrears) - Determined on reasonable and supportable forward looking data or if data not available use 30 days past due;

Stage 3 - Impaired - based on 12 month expected credit losses plus lifetime expected credit losses.

At each reporting date, the Banking Group assesses whether there has been a significant increase in credit risk since initial recognition by comparing the risk of default occurring over the expected life between that of the reporting date to that of the date of initial recognition.

The Banking Group assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Banking Group and all the cash flows that the Banking Group expects to receive. The amount of the loss is recognised using a provision for doubtful debts account.

The Banking Group considers its historical loss experience and adjust this for current observable data. In addition, the Banking Group uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. NZ IFRS introduces the use of macroeconomic factors which include, but are not limited to, unemployment, interest rates, gross domestic product, inflation and commercial property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward-looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

If in a subsequent reporting period, the credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from full lifetime ECL to 12-months ECL.

The following table is a reconciliation of the closing balance for allowance of impairment losses in accordance with NZ IAS 39 to the opening balance determined in accordance with NZ IFRS 9 as at 1 April 2018.

	31/03/2018 NZ IAS 39	Reclassification	Remeasurement	01/04/2018 NZ IFRS 9
Provision for credit impairment	28,261	82	(941)	27,402
Provision for doubtful debts on financial assets previously held at fair value	-	-	-	-
Credit risk adjustment on financial assets held at fair value through profit or loss	-	-	-	-
Total allowance for impairment losses	**28,261**	**82**	**(941)**	**27,402**

All in $000's

1. Significant Accounting Policies (continued)

The following table shows regulatory capital as reported per 31 March 2018 under NZ IAS 39 and the restated amounts per 1 April 2018 under NZ IFRS 9.

	31/03/2018 NZ IAS 39	01/04/2018 NZ IFRS 9
Common equity tier 1 (CET1) capital		
Retained earnings	302,937	303,555
Acquisition of non-controlling interests	(7,363)	(7,363)
Non-controlling interests present value adjustment	4,133	4,133
Investments in associates and joint ventures	(8,454)	(8,454)
Fair value reserve	4,373	4,373
Cash flow hedging reserve	(11,373)	(11,373)
Less deductions from CET1 capital		
Goodwill & intangible assets	(7,782)	(7,782)
Deferred tax assets	(11,419)	(11,178)
Cash flow hedging reserve	11,373	11,373
Total CET1 capital	276,425	277,284
Additional tier 1 (AT1) capital		
Non-controlling interests (net of deductions and surplus AT1 capital)	1,202	1,202
Total AT1 capital	1,202	1,202
Total tier 1 capital	**277,627**	**278,486**
Tier 2 capital		
Revaluation reserves	2,292	2,292
Subordinated redeemable shares	46,488	46,488
Total tier 2 capital	**48,780**	**48,780**
Total capital	**326,407**	**327,266**
Risk-weighted assets	2,541,928	2,542,546
Common equity tier 1 capital ratio	10.87%	10.91%
Tier 1 capital ratio	10.92%	10.95%
Total capital ratio	12.84%	12.87%

NZ IFRS 15 Revenue from contracts with customers

NZ IFRS 15 applies but has no material impact on revenue recognition for the Banking Group, as the majority of the Banking Group's revenues are recognised in accordance with NZ IFRS 9.

2. Risk Management Policies

There has been no material change in the Banking Group's policies for managing risk, or material exposures to any new types of risk since the authorisation date of the previous Disclosure Statement on 23 May 2018.

3. Financial Assets Pledged as Collateral

Included in investment securities as at 30 September 2018 were $22.9 million (31 March 2018 $43.3 million) encumbered through repurchase agreements. These investment securities have not been derecognised from the Banking Group's Statement of Financial Position as the Banking Group retains substantially all the risks and rewards of ownership. Counterparties have the right to sell or repledge these encumbered securities. The Bank's obligation to repurchase investment securities is classified under due to other financial institutions.

All in $000's

4. Advances to Customers

	Note	Unaudited 30/09/2018	Unaudited 30/09/2017	Audited 31/03/2018
Residential		3,002,716	2,867,733	2,950,497
Agricultural		230,008	239,585	235,365
Commercial		138,410	145,492	157,817
Consumer		504,962	452,611	478,468
Gross advances		**3,876,096**	**3,705,421**	**3,822,147**
Provisions for credit impairment	(5)	(28,684)	(27,066)	(28,261)
Deferred fee revenue and expenses		1,355	3,007	2,159
Total net advances		**3,848,767**	**3,681,362**	**3,796,045**

5. Asset Quality and Provisions for Credit Impairment

Balances as at 30 September 2018 (Unaudited)

(a) Asset quality - advances to customers	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Neither past due or impaired	2,960,727	463,364	342,429	**3,766,520**
Individually impaired	1,946	-	4,448	**6,394**
Past due	45,479	39,834	19,224	**104,537**
Provision for credit impairment	(6,753)	(16,634)	(5,297)	**(28,684)**
Carrying amount	**3,001,399**	**486,564**	**360,804**	**3,848,767**

- Residential mortgages comprise advances to individuals and corporates that are secured against residential properties. They include investments in residential property as well as owner-occupied housing.

- Retail exposures comprise consumer personal, consumer finance, consumer credit card and motor vehicle lending.

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

(b) Ageing of past due but not impaired assets	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Past due 0-9 days	20,583	21,538	1,403	**43,524**
Past due 10-29 days	9,221	9,772	12,927	**31,920**
Past due 0-29 days	29,804	31,310	14,330	**75,444**
Past due 30-59 days	7,155	4,427	4,317	**15,899**
Past due 60-89 days	4,081	2,044	29	**6,154**
Past due 90+ days	4,439	2,053	548	**7,040**
Carrying amount	**45,479**	**39,834**	**19,224**	**104,537**

(c) Impaired assets

Balance at beginning of the period	1,881	-	4,757	**6,638**
Additions to individually impaired assets	78	-	42	**120**
Reductions to individually impaired assets	(13)	-	(351)	**(364)**
Balance at end of the period	**1,946**	**-**	**4,448**	**6,394**
Provision at end of the period	(865)	-	(805)	**(1,670)**
Net carrying amount at end of the period	**1,081**	**-**	**3,643**	**4,724**
Undrawn balances on individually impaired lending commitments	-	-	-	-

All in $000's

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

(d) Provision for credit impairment

	Collective provision 12-months ECL	Collective Provision Lifetime ECL Not Credit Impaired	Collective Provision Lifetime ECL Credit Impaired	Collective Provision	Specific Provision Lifetime ECL Credit Impaired	Total
Residential Mortgages						
Balance at beginning of period	-	-	-	7,380	865	8,245
Restated for adoption of new accounting standards	2,251	1,535	1,347	(7,380)	-	(2,247)
Changes to the opening balance due to transfer between stages:						
Transferred to collective provision 12-months ECL	753	(589)	(164)	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(37)	212	(175)	-	-	-
Transferred to collective provision lifetime ECL credit impaired	(2)	(87)	89	-	-	-
New provisions	215	430	62	-	-	707
Charge/(credit) to income statement excluding transfers	(1,102)	857	293	-	-	48
Reversal of previously recognised provision	-	-	-	-	-	-
Balance at end of period - Residential Mortgages	**2,078**	**2,358**	**1,452**	**-**	**865**	**6,753**
Retail Exposures						
Balance at beginning of period	-	-	-	15,005	-	15,005
Restated for adoption of new accounting standards	10,632	4,861	-	(15,005)	-	488
Changes to the opening balance due to transfer between stages:						
Transferred to collective provision 12-months ECL	955	(955)	-	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(228)	228	-	-	-	-
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	-	-
New provisions	2,413	2,063	-	-	-	4,476
Charge/(credit) to income statement excluding transfers	(1,639)	(1,696)	-	-	-	(3,335)
Reversal of previously recognised provision	-	-	-	-	-	-
Balance at end of period - Retail Exposures	**12,133**	**4,501**	**-**	**-**	**-**	**16,634**
Corporate Exposures						
Balance at beginning of period	-	-	-	3,456	1,555	5,011
Restated for adoption of new accounting standards	3,290	1,023	43	(3,456)	-	900
Changes to the opening balance due to transfer between stages:						
Transferred to collective provision 12-months ECL	164	(164)	-	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(36)	36	-	-	-	-
Transferred to collective provision lifetime ECL credit impaired	(3)	-	3	-	-	-
New provisions	126	92	-	-	-	218
Charge/(credit) to income statement excluding transfers	(468)	55	331	-	-	(82)
Reversal of previously recognised provision	-	-	-	-	(750)	(750)
Balance at end of period - Corporate Exposures	**3,073**	**1,042**	**377**	**-**	**805**	**5,297**
Total						
Balance at beginning of period	-	-	-	25,841	2,420	28,261
Restated for adoption of new accounting standards	16,173	7,419	1,390	(25,841)	-	(859)
Changes to the opening balance due to transfer between stages:						
Transferred to collective provision 12-months ECL	1,872	(1,708)	(164)	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(301)	476	(175)	-	-	-
Transferred to collective provision lifetime ECL credit impaired	(5)	(87)	92	-	-	-
New provisions	2,754	2,585	62	-	-	5,401
Charge/(credit) to income statement excluding transfers	(3,209)	(784)	624	-	-	(3,369)
Reversal of previously recognised provision	-	-	-	-	(750)	(750)
Balance at end of period - Total	**17,284**	**7,901**	**1,829**	**-**	**1,670**	**28,684**

All in $000's

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

The following provides a reconciliation of the movements in provisions for credit impairment reported in the income statement:	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Bad debts written off/recovered during the period	(3)	5,939	479	**6,415**
Individual provisions	-	-	(750)	**(750)**
Collective provision	755	1,141	136	**2,032**
Provision for credit impairment to income statement	**752**	**7,080**	**(135)**	**7,697**

(e) Other assets under administration

There are no other assets under administration as at 30 September 2018.

6. Contingent Liabilities and Credit Related Commitments

	Unaudited Contract or Notional Amt 30/09/2018	Unaudited Credit Equivalent 30/09/2018	Unaudited Contract or Notional Amt 30/09/2017	Unaudited Credit Equivalent 30/09/2017	Audited Contract or Notional Amt 31/03/2018	Audited Credit Equivalent 31/03/2018
Credit related commitments						
Commitments with uncertain drawdown	25,253	12,627	44,632	22,316	30,727	15,364
Commitments to extend credit which can be unconditionally cancelled	333,208	-	349,803	-	348,467	-
Total credit related commitments	**358,461**	**12,627**	**394,435**	**22,316**	**379,194**	**15,364**

The Banking Group has no material contingent liabilities.

7. Related Parties

The Banking Group is controlled by SBS who is also the ultimate parent. Effective 11 September 2017, the Banking Group via its subsidiary Finance Now Limited, purchased 100% of the shares in The Warehouse Group Financial Services (TWGFS). As part of the purchase, FNL agreed to receive a "claw-back amount" and pay a "debt recovery payment". A final "claw-back amount" of $1,480k was received on 24 August 2018. One year after completion date, the debt recovery payment was calculated based on 50% of all monies recovered on or prior to the anniversary of the completion date in respect of bad debt, net of usual fees and expenses. The final amount received for the debt recovery payment was $59k. Due to the differences between the estimated and final payment, the final fair value of identifiable net assets has been calculated as $18.642m, with software fair value increasing by $2.125m and deferred tax decreasing by $0.595m.

On 13 June 2018, the Banking Group acquired via one of its subsidiaries ("FANZ"), the remaining shares of Staples Rodway Asset Management Limited ("SRAM"), previously held as a joint venture, for $2.325m. FANZ obtained $172k of identifiable net assets and $4.013m goodwill and other intangible assets. Net cash flow relating to the transaction was $2.229m. The fair value of the joint venture before acquisition was $1.860m, with $25k gain on equity interest included in other income in the income statement.

During July 2018, the Banking Group increased its shareholding in Funds Administration New Zealand Limited ("FANZ") from 85% to 100%. In accordance with International Financial Reporting Standards, as the Bank has had no change in effective control, the acquisition price was recorded through equity to reflect transactions amongst shareholders. No adjustments have been made to the fair value of the assets and liabilities of FANZ in the consolidated accounts of the Bank in accordance with IFRS, and the associated premiums (reflecting the future earnings potential of the entities) are recorded as an adjustment to equity.

During August 2018 TW Money Limited changed its name to SBS Money Limited.

There have been no other changes in the composition of the Banking Group. Details of subsidiaries consolidated into the Banking Group are set out in note 13 of the Banking Group's Disclosure Statement for the year ended 31 March 2018.

At 30 September 2018 there are no amounts due from, or due to any related entities that are outside of the Banking Group.

All in $000's

8. Liquidity Risk

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

Total liquidity includes committed but undrawn funding lines with other registered banks.

The Banking Group also has an in-house residential mortgage backed security (RMBS) facility (the SBS Oreti Trust No. 2) that issues securities which can be used as collateral for borrowing from the RBNZ under its liquidity management arrangements. Whilst not intended to be used for standard daily liquidity requirements, this facility is available as contingent funding and accordingly core liquid assets includes this RMBS. The eligible RMBS collateral is discounted for the 'haircut'[1] that applies to those securities under the RBNZ's Domestic Operations for the purposes of those operations.

Core liquid assets	Unaudited 30/09/2018
Cash on hand and at bank	49,701
Funds with financial institutions	47,692
Investment securities[2]	516,999
Committed and undrawn funding lines[3]	205,211
Eligible RMBS collateral (less haircut[1])	136,231
Total liquidity	**955,834**

[1] A "haircut" is a percentage that is subtracted from the par value of the assets that are being used as collateral. The size of the haircut reflects the perceived risk associated with holding the assets.

[2] Investment securities of $22.9m that are encumbered through repurchase agreements have been excluded in the above table as they are not held for liquidity management purposes.

[3] The Group also has another $19.5m available funding, not included as core liquid assets, in one of the securitisation vehicles. This is subject to having sufficient assets available to be securitised and has therefore not been included.

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

The maturity profiles reflect the remaining period to contractual maturity of liabilities as at balance date. This is not considered by the Banking Group to be in any way indicative of future cash flows. This is primarily because a significant proportion of the Banking Group's redeemable shares and deposits are renewed at maturity and therefore do not have a cash flow impact. Historical experience has shown that such balances are a stable source of funding for the Banking Group.

The maturity profiles include interest cash flows expected to maturity. Note that the resulting undiscounted financial liabilities do not reflect how the Banking Group manages its liquidity risk. As set out above, the Banking Group manages liquidity through the maintenance of a portfolio of liquid assets and committed funding lines and as such no expected maturity profile is presented.

Monetary liabilities payable as at 30 September 2018 (contractual cash flows including expected interest to maturity)

	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Liabilities							
Redeemable shares	478,303	1,586,513	947,238	186,506	37,284	-	**3,235,844**
Deposits from customers	6,548	61,917	53,016	16,099	2,310	-	**139,890**
Commercial paper	-	288,453	-	-	-	-	**288,453**
Due to other financial institutions	-	273,438	40,378	125,104	-	-	**438,920**
Current tax liabilities	288	-	-	-	-	-	**288**
Other liabilities	22,859	-	-	-	-	-	**22,859**
Subordinated redeemable shares	-	-	39,134	-	-	58,174	**97,308**
Total liabilities	**507,998**	**2,210,321**	**1,079,766**	**327,259**	**39,594**	**58,624**	**4,223,562**
Interest	10,441	18,963	12,386	32,768	5,694	48,853	**129,105**
Total liabilities (inclusive of interest)	**518,439**	**2,229,284**	**1,092,152**	**360,027**	**45,288**	**107,477**	**4,352,667**
Derivatives							
Net derivative cash flows	-	(6,386)	(433)	3,282	3,055	104	**(378)**
Unrecognised loan commitments	25,253	-	-	-	-	-	**25,253**

All in $000's

8. Liquidity Risk (continued)

The following ratios have been calculated in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Bank) Order 2014 (as amended) Schedule 9, and reflects the average daily ratio for each of the latest two quarters.

Average liquidity ratios (unaudited)	Unaudited 30/09/2018	Unaudited 30/06/2018
One-week mismatch ratio	14.14%	13.54%
One-month mismatch ratio	9.89%	9.95%
Core funding ratio	96.76%	96.62%

9. Credit Risk

The nature of SBS's activities as a financial intermediary necessitates SBS dealing in financial instruments that contain an inherent element of credit risk. Credit exposure means the amount of the maximum loss that SBS could incur as a result of the counterparty to a contract failing to discharge its obligations, without taking into account the value of collateral, guarantees, indemnities, other support arrangements and any potential recoveries. SBS's activities are conducted within the bounds of prudent and conservative banking practice.

The Banking Group's dominant activity is the provision of residential mortgage finance which comprises 78% (30 September 2017 78%; 31 March 2018 78%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Agricultural loans which comprise 6% (30 September 2017 6%; 31 March 2018 6%) of the Banking Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

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

	Unaudited 30/09/2018
Cash on hand and at bank	49,701
Funds with financial institutions	47,692
Investment securities	539,948
Derivative financial instruments	3,855
Advances to customers	3,848,767
Other assets	31,285
Total on-balance sheet credit exposures	**4,521,248**
(b) Concentrations of credit risk by sector	
Residential	2,262,351
Residential investing	739,048
Agricultural	227,777
Commercial finance	15,467
Commercial other	117,559
Consumer lending	437,848
Consumer credit card	48,716
Local authority	87,964
Corporate investments	553,233
Other	31,285
Total concentrations of credit risk by sector	**4,521,248**
(c) Concentrations of credit risk by geographical location	
North Island other	915,399
Auckland	1,272,588
Canterbury	829,376
Otago	585,026
Southland	601,371
South Island other	240,381
Overseas	77,107
Total concentrations of credit risk by geographical location	**4,521,248**

All in $000's

9. Credit Risk (continued)

(d) Concentration of credit exposures to individual counterparties

The Banking Group's disclosure of concentrations of credit exposure to individual counterparties and groups of closely related counterparties, which equalled or exceeded 10% of the Banking Group's Common Equity Tier 1 capital, is based on actual credit exposures and calculated on a gross basis (net of specific provisions). Credit exposures to the central government of any country with a long term credit rating of A- or A3 or above, or its equivalent, supranational or quasisovereign agency with a long term credit rating of A- or A3 or above, or its equivalent, and connected persons are excluded. Peak end of day credit exposures to individual counterparties are calculated over the last quarter using the Banking Group's end of period Common Equity Tier 1 capital.

	BANKING GROUP End of period exposure					
	Number of non-bank counterparties			Number of bank counterparties		
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Audited
Percentage of common equity tier 1	30/09/2018	30/09/2017	31/03/2018	30/09/2018	30/09/2017	31/03/2018
10-14	1	2	2	1	1	2
15-19	-	1	-	-	2	-
20-24	-	-	-	1	1	-
25-29	-	-	-	-	-	2
30-39	-	-	-	1	-	-
40-49	-	-	-	1	-	-

	BANKING GROUP Peak exposure					
	Number of non-bank counterparties			Number of bank counterparties		
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Audited
Percentage of common equity tier 1	30/09/2018	30/09/2017	31/03/2018	30/09/2018	30/09/2017	31/03/2018
10-14	1	2	2	1	-	1
15-19	-	1	-	-	2	-
20-24	-	-	-	1	1	1
25-29	-	-	-	-	1	1
30-39	-	-	-	1	-	1
40-49	-	-	-	1	-	-

Note:
"A" Rated - those counterparties that have a long term credit rating of A- or A3 or above
"B" Rated - those counterparties that have a long term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent

There were no peak or balance date credit exposures to bank or non-bank counterparties with a credit rating below A- or A3, or its equivalent, which exceeded 10% of the Banking Group's equity for the three months ended 30 September 2018.

All in $000's

10. Market Risk

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

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

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

As at 30 September 2018 (Unaudited)	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-Interest Bearing	Total
Assets							
Cash on hand and at bank	49,701	-	-	-	-	-	**49,701**
Funds with financial institutions	44,621	962	1,655	454	-	-	**47,692**
Investment securities	177,847	24,257	32,934	111,951	192,959	-	**539,948**
Derivative financial instruments	-	-	-	-	-	3,855	**3,855**
Advances to customers	1,075,187	368,853	863,661	1,000,473	540,593	-	**3,848,767**
Other assets	-	-	-	-	-	83,814	**83,814**
	1,347,356	394,072	898,250	1,112,878	733,552	87,669	**4,573,777**
Liabilities and equity							
Redeemable shares	1,316,588	716,164	947,238	186,506	37,283	32,065	**3,235,844**
Deposits from customers	34,313	33,993	53,017	16,099	2,310	158	**139,890**
Commercial paper	199,234	89,219	-	-	-	-	**288,453**
Due to other financial institutions	438,920	-	-	-	-	-	**438,920**
Derivative financial instruments	-	-	-	-	-	22,360	**22,360**
Current tax liabilities	-	-	-	-	-	288	**288**
Other liabilities	-	-	-	-	-	37,087	**37,087**
Subordinated redeemable shares	-	-	39,134	-	58,174	-	**97,308**
Equity	-	-	-	-	-	313,627	**313,627**
	1,989,055	839,376	1,039,389	202,605	97,767	405,585	**4,573,777**
On-balance sheet interest sensitivity gap	(641,699)	(445,304)	(141,139)	910,273	635,785	(317,916)	**-**
Net balance of derivative financial instruments	692,100	391,000	27,100	(850,100)	(260,100)	-	**-**
Total interest rate sensitivity gap	**50,401**	**(54,304)**	**(114,039)**	**60,173**	**375,685**	**(317,916)**	**-**

11. Capital Adequacy

The Banking Group's objectives in relation to the management of capital adequacy are to comply at all times with the regulatory capital requirements set out by the Reserve Bank of New Zealand (RBNZ); to maintain a strong capital base to cover the inherent risks of the business and maintain a targeted credit rating; and to support future business development and growth.

The Banking Group is subject to regulation by the RBNZ. The RBNZ has set minimum regulatory capital requirements for banks that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision. These requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by the Banking Group. The Banking Group must comply with RBNZ minimum capital adequacy ratios as determined in its Conditions of Registration which are as follows:

- Total qualifying capital is not less than 8%;
- Tier 1 capital is not less than 6%;
- Common equity tier 1 capital ratio of the banking group is not less than 4.5%;
- Total capital of the banking group is not less than NZ $30 million.

For regulatory purposes, capital comprises two elements, eligible tier 1 and tier 2 capital, from which certain deductions are made to arrive at regulatory tier 1 and tier 2 capital as documented in the RBNZ's "Capital Adequacy Framework (Standardised Approach)" document (BS2A). Tier 1 capital is divided into two levels. Common equity tier 1 capital consists of retained profits, revenue and similar reserves, less intangible assets, deferred tax assets, cash flow hedge reserve and certain other deductions. Additional tier 1 capital consists of eligible non-controlling interests net of certain deductions. Tier 2 capital includes term subordinated debt and the property, plant and equipment revaluation reserve. The tangible element of investments in subsidiaries that are not wholly owned or funded is deducted from tier one and tier two capital to arrive at total regulatory capital.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk weighted assets. Risk weighted assets are derived by assigning risk weight percentages to certain material risk categories of exposures. These exposures are measured or estimated from selected balance sheet assets and off balance sheet exposures and market contracts. It should be noted that the regulatory risk weightings may not necessarily be consistent with the loss experience of the Banking Group.

The Banking Group has adopted the Basel III "standardised approach" as per BS2A to calculate regulatory capital requirements. Basel III consists of 3 pillars - Pillar One covers the capital requirements for banks for credit, operational, and market risks. Pillar Two covers all other material risks not already included in Pillar One, and Pillar Three relates to market disclosure.

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

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

During the periods shown the Banking Group fully complied with all RBNZ capital requirements as set out in the Banking Group's Conditions of Registration.

All in $000's

11. Capital Adequacy (continued)

		BANKING GROUP			REGISTERED BANK		
	Minimum ratio requirement	Unaudited 30/09/2018	Unaudited 30/09/2017	Unaudited 31/03/2018	Unaudited 30/09/2018	Unaudited 30/09/2017	Unaudited 31/03/2018
Regulatory capital ratios							
Common equity tier 1 capital ratio	4.50%	11.19%	10.78%	10.87%	10.38%	10.26%	10.32%
Tier 1 capital ratio	6.00%	11.22%	10.82%	10.92%	10.38%	10.26%	10.32%
Total capital ratio	8.00%	13.12%	11.35%	12.84%	12.68%	10.88%	12.61%
Buffer ratio	2.50%	5.12%	3.35%	4.84%			

(i) Qualifying capital	BANKING GROUP Unaudited 30/09/2018
Tier one capital	
Common equity tier 1 (CET1) capital	
Retained earnings	300,325
Acquisition of non-controlling interests	(5,229)
Non-controlling interests present value adjustment	5,196
Current period's retained earnings	15,970
Fair value reserve	5,115
Cash flow hedging reserve	(10,995)
Less deductions from CET1 capital	
Goodwill and intangible assets	(13,412)
Deferred tax assets	(9,979)
Cash flow hedging reserve	10,995
Investments in associates and joint ventures	(7,041)
Total CET1 capital	290,945
Additional tier 1 (AT1) capital	
Non-controlling interests (net of deductions and surplus AT1 capital)	800
Total AT1 capital	800
Total tier 1 capital	**291,745**
Tier 2 capital	
Revaluation reserves	2,292
Subordinated redeemable shares	47,272
Total tier 2 capital	**49,564**
Total capital	**341,309**

During the year ended 31 March 2018 the Bank launched a 10 year Capital Bond to retail and wholesale investors. These ten year bonds are fixed for the first five years, and are then subject to a quarterly floating rate. The Bank has the right to repay the principal amount on or after the five-year anniversary but there is no right for a holder to redeem before maturity. These are issued as subordinated redeemable shares and rank behind redeemable shareholders, depositors and unsecured creditors of SBS and are subject to loss absorption provisions. At 30 September 2018 the balance of the Capital Bonds issued was $58.174m.

At 30 September 2018, the balance of all subordinated redeemable shares issued was $97.308m. After adjustments for potential tax or other offsets, $47.272m has been recognised as tier 2 capital for RBNZ capital adequacy purposes.

All in $000's

11. Capital Adequacy (continued)

(ii) Total risk weighted assets

	BANKING GROUP			
	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
	Unaudited	Unaudited	Unaudited	Unaudited
On balance sheet credit exposures	30/09/2018	30/09/2018	30/09/2018	30/09/2018
Cash	477	0%	-	-
Multilateral development banks	76,908	0%	-	-
Public sector entities	87,964	20%	17,593	1,407
Banks	235,224	20%	47,045	3,764
Banks	112,454	50%	56,227	4,498
Corporates				
Rating grade 1	31,897	20%	6,379	510
Rating grade 2	59,514	50%	29,757	2,381
Rating grade 3 - 4	29,813	100%	29,813	2,385
Rating grade 5	366	150%	549	44
Residential mortgages				
<= 80% loan to value ratio (LVR)	1,524,668	35%	533,634	42,691
80 <= 90% LVR	47,124	50%	23,562	1,885
90 <= 100% LVR	997	75%	748	60
Past due	3,450	100%	3,450	276
Impaired	1,081	100%	1,081	86
Property investment residential mortgage				
<= 80% LVR	924,552	40%	369,821	29,586
80 <= 90% LVR	7,419	70%	5,193	415
Residential mortgages welcome home loans				
<= 90% LVR	401,335	35%	140,467	11,237
90 <= 100% LVR	43,422	50%	21,711	1,737
Reverse residential mortgage loans				
<= 60% LVR	61,383	50%	30,692	2,455
60 <= 80% LVR	8,670	80%	6,936	555
80 <= 100% LVR	1,772	100%	1,772	142
Equity holdings	2,725	300%	8,175	654
Other assets	876,275	100%	876,275	70,102
Non-risk weighted assets	34,287	0%	-	-
Total on balance sheet credit exposures	4,573,777		2,210,880	176,870

All in $000's

11. Capital Adequacy (continued)

(ii) Total risk weighted assets (continued)

Off balance sheet credit exposures	Total exposure after credit risk mitigation Unaudited 30/09/2018	Credit conversion factor Unaudited 30/09/2018	Credit equivalent amount Unaudited 30/09/2018	Average risk weighting Unaudited 30/09/2018	Risk weighted exposure / implied risk weighted exposure Unaudited 30/09/2018	Minimum pillar one capital requirement Unaudited 30/09/2018
Commitments with uncertain drawdown	25,253	50%	12,627	61%	7,704	616
Commitments to extend credit which can be unconditionally cancelled	333,208	0%	-	0%	-	-
Market related contracts[1]						
Interest rate contracts	2,751,926	n/a	11,139	20%	2,421	194
Credit valuation adjustment (CVA)					265	21
Total off balance sheet credit exposures	3,110,387		23,766		10,390	831
Total credit risk	7,684,164		23,766		2,221,270	177,701
Operational risk	n/a				250,023	20,002
Market risk	n/a				129,411	10,353
Total risk weighted assets	7,684,164				2,600,704	208,056

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

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

	BANKING GROUP	
	On balance sheet Unaudited 30/09/2018	Off balance sheet Unaudited 30/09/2018
LVR range		
0 - 80%	2,561,644	219,420
80 - 90%	420,246	4,287
90% +	43,983	2,545
Total residential mortgages	**3,025,873**	**226,252**

Welcome Home Loans make up 99% of the residential mortgages in the 90% + loan to valuation grouping and 86% of the 80 - 90% loan to valuation grouping. The Welcome Home Loan product is fully insured by Housing New Zealand Corporation.

(iv) Reconciliation of mortgage related amounts

BANKING GROUP	30/09/2018
Gross residential mortgage loans (Note 4)	3,002,716
Other lending residentially secured	24,474
Provision for credit impairment relating to residential mortgages (Note 5)	(6,753)
Deferred fee revenue and expenses relating to residential mortgages	5,436
Residential mortgage loans net of provision for impairment	3,025,873
Off balance sheet exposures - undrawn commitments (Note 11(iii))	226,252
Total on and off balance sheet residential mortgage loans	**3,252,125**

All in $000's

11. Capital Adequacy (continued)

(v) Market risk exposures

Market risk exposures have been calculated in accordance with the methodology detailed in Part 10 of the RBNZ's BS2A Capital Adequacy Framework, and Schedule 9 of the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014 (as amended). Peak exposures are calculated using the Banking Group's equity at the end of the period.

	BANKING GROUP	
	Unaudited	Unaudited
	30/09/2018	30/09/2018
	End of Period	Peak End of Day
Interest rate exposures		
Implied risk weighted exposure	129,411	129,411
Aggregate capital charge	10,353	10,353

(vi) Capital for other material risks

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

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

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

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

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

The Bank has made an internal capital allocation of $30 million to cover these identified risks (30 September 2017 $25 million; 31 March 2018 $25 million).

All in $000's

12. Fair Value of Financial Instruments

Carrying values and the fair values of those assets and liabilities that are not presented at fair value in the Statement of Financial Position or where carrying value is not a reasonable approximation of fair value are outlined below:

	Unaudited Carrying value 30/09/2018	Unaudited Fair value 30/09/2018	Unaudited Carrying value 30/09/2017	Unaudited Fair value 30/09/2017	Audited Carrying value 31/03/2018	Audited Fair value 31/03/2018
Financial assets						
Advances to customers	3,848,767	3,844,127	3,681,362	3,668,066	3,796,045	3,786,201
Total financial assets	**3,848,767**	**3,844,127**	**3,681,362**	**3,668,066**	**3,796,045**	**3,786,201**
Financial liabilities						
Redeemable shares	3,235,844	3,239,204	2,909,594	2,912,898	3,087,614	3,118,729
Deposits from customers	139,890	141,883	196,285	198,414	145,716	147,634
Subordinated redeemable shares	97,308	98,372	39,135	42,885	88,345	91,789
Total financial liabilities	**3,473,042**	**3,479,459**	**3,145,014**	**3,154,197**	**3,321,675**	**3,358,152**

The Banking Group uses valuation techniques within the following hierarchy for determining the fair value of financial instruments:

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

Financial assets and liabilities that are recognised and measured at fair value on a recurring basis are categorised below:

As at 30/09/2018 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	3,855	-	**3,855**
Funds with financial institutions	43,093	4,599	-	**47,692**
Investment securities	2,428	537,520	-	**539,948**
Advances to customers	-	-	72,090	**72,090**
Total financial assets	**45,521**	**545,974**	**72,090**	**663,585**
Financial liabilities				
Derivative financial instruments	-	22,360	-	**22,360**
Total financial liabilities	**-**	**22,360**	**-**	**22,360**

As at 30/09/2017 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	3,756	-	**3,756**
Funds with financial institutions	6,687	3,742	-	**10,429**
Investment securities	1,903	402,998	-	**404,901**
Total financial assets	**8,590**	**410,496**	**-**	**419,086**
Financial liabilities				
Derivative financial instruments	-	26,376	-	**26,376**
Total financial liabilities	**-**	**26,376**	**-**	**26,376**

As at 31/03/2018 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	3,050	-	**3,050**
Funds with financial institutions	34,173	3,241	-	**37,414**
Investment securities	1,657	474,118	-	**475,775**
Total financial assets	**35,830**	**480,409**	**-**	**516,239**
Financial liabilities				
Derivative financial instruments	-	22,640	-	**22,640**
Total financial liabilities	**-**	**22,640**	**-**	**22,640**

Further information on valuation techniques and assumptions for specific asset classes is included in Notes 19 and 20 of the Bank's annual Disclosure Statement.

All in $000's

13. Concentrations of Funding

	Unaudited 30/09/2018
(a) Concentrations of funding by geographical location	
North Island other	614,845
Auckland	801,780
Canterbury	718,887
Otago	675,762
Southland	984,275
South Island other	343,828
Overseas	61,038
Total concentrations of funding by geographical location	**4,200,415**
(b) Concentrations of funding by product	
Redeemable shares	3,235,844
Deposits from customers	139,890
Commercial paper	288,453
Due to other financial institutions	438,920
Subordinated redeemable shares	97,308
Total concentrations of funding by product	**4,200,415**

14. Insurance Business

The Banking Group markets and distributes insurance products through its subsidiary Southsure Assurance Limited. The Banking Group derives premium income from the sale of insurance products.

The total assets of Southsure Assurance Limited as at 30 September 2018 are $19.1 million which is 0.4% of the total assets of the Banking Group.

15. Subsequent Events

During October 2018, the Banking Group via its subsidiary Funds Administration New Zealand Ltd, disposed of its share of the Synergy Investement Programme to Consilium NZ Ltd for total proceeds and a gain on sale of $0.7m. The Programme is a discretionary investment management service (DIMS) which manages funds on behalf of customers.

There have been no other material subsequent events after 30 September 2018.

KPMG

Independent Review Report

To the Members of Southland Building Society

Report on the consolidated half year disclosure statement

Conclusion

Based on our review of the consolidated interim financial statements and supplementary information of the Southland Building Society (the "Registered Bank") and its subsidiaries (the 'Banking Group') on pages 5 to 25, nothing has come to our attention that causes us to believe that:

i. the consolidated interim financial statements do not present fairly in all material respects the Banking Group's financial position as at 30 September 2018 and its financial performance and cash flows for the 6 month period ended on that date;

ii. the interim financial statements (excluding the supplementary information disclosed in accordance with Schedules 5, 7, 9, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"), have not been prepared, in all material respects, with NZ IAS 34 Interim Financial Reporting ("NZ IAS 34");

iii. the supplementary information, does not fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 9, 13, 16 and 18 of the Order; and

iv. the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, have not been disclosed, in all material respects, in accordance with Schedule 9 of the Order.

We have completed a review of the accompanying consolidated half year disclosure statement which comprises:

- the interim financial statements formed of:
  - the consolidated statement of financial position as at 30 September 2018;
  - the consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
  - notes, including a summary of significant accounting policies and other explanatory information.
- the supplementary information prescribed in Schedules 5, 7, 9, 13, 16 and 18 of the Order.

Basis for conclusion

A review of the half year disclosure statement in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Southland Building Society, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Our firm has also provided other services to the Banking Group in relation to accounting advisory. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as reviewer of the group. The firm has no other relationship with, or interest in, the group.

Use of this independent review report

This independent review report is made solely to the Members as a body. Our review work has been undertaken so that we might state to the Members those matters we are required to state to them in the independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members as a body for our review work, this independent review report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated half year disclosure statement

The Directors, on behalf of the Banking Group, are responsible for:

- the preparation and fair presentation of the consolidated half year disclosure statement in accordance with NZ IAS 34 and Schedules 3, 5, 7, 9, 13, 16 and 18 of the Order;
- the preparation and fair presentation of the supplementary information in regards to Capital Adequacy and Regulatory Liquidity Requirements in accordance with Schedule 9 of the Order;
- implementing necessary internal control to enable the preparation of a consolidated half year disclosure statement that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the consolidated half year disclosure statement

Our responsibility is to express a conclusion on the consolidated half year disclosure statement based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the:

- the consolidated interim financial statements do not present fairly in all material respects the Banking Group's financial position as at 30 September 2018 and its financial performance and cash flows for the 6 month period ended on that date;
- the consolidated interim financial statements do not, in all material respects, comply with NZ IAS 34;
- the supplementary information does not, fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 9, 13, 16 and 18 of the Order; and
- the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the consolidated half year disclosure statement.

This description forms part of our independent review report.

KPMG

KPMG
Christchurch

22 November 2018