Southland Building Society

150th Annual Report 2019

Disclosure Statement No.42 & Annual Financial Statements

sbsbank

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DIRECTORY

Chairman
Mr J F Ward
B Com Hon LLD (Otago)
FCA CFInstD
Chartered Accountant
Invercargill

Deputy Chair
Mrs K J Ball
B Com FCA CMInstD
Chartered Accountant
Invercargill

Directors
Mr G J Mulvey
B Com FCA FNZIM
Company Director
Invercargill

Mr M J Skilling
B AgrSci PGDipBank
SFFINSIA CMInstD
Company Director
Auckland

Ms A L McLeod
B Com LLB MInstD
Barrister & Solicitor
Dunedin

Mr A J O'Connell
B Com FCA
Chartered Accountant
Invercargill

Mr M P O'Connor
BCom FCAANZ
FNZIM
Company Director
Invercargill

Mr K J Murphy
CA FCAANZ
CMInstD
Company Director
New Plymouth

All directors can be contacted through:
Southland Building Society
51 Don Street
Invercargill

Group Chief Executive Officer
Mr S R Drylie
MMgmt PGDipBank SF Fin
Invercargill

Secretary
Mr T D R Loan
B Com FCA DipBusStuds (IS)
(Chief Financial Officer)
Invercargill

Registered Office
51 Don Street
Invercargill

Solicitors
Buddle Findlay
83 Victoria Street
Christchurch

Auditors
KPMG
79 Cashel Street
Christchurch

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 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

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

Independent Non-Executive Directors

JF (John) Ward, BCom Hon LLD (Otago) FCA CFInstD (Chairman - Board of Directors) Chartered Accountant	External Directorships: H&J Smith Holdings Ltd, H&J Smith Ltd, H&J Smith Corporate Ltd, H&J's Hardware Ltd, H&J's Electrical Ltd, H&J Smith Parking Building Ltd, H&J Smith Finance Ltd, H&J's Properties Ltd, Outdoor World Ltd, Shotover Hardware Ltd, Symphony Retailing Ltd, Outdoor Adventures Ltd, Simner Investments Ltd, Cross Roads Properties Ltd, Southern Department Stores Ltd, SFI Properties Ltd, Corner Trading Ltd, Amtex Corporation Ltd, Trio Corporation Ltd, Tanknology (NZ) Ltd, Paddington Investments No 8 Ltd, Fun Innovators NZ Ltd, Aviemore Corporation Ltd, Otago Innovation Ltd, Custos Securities Ltd
KJ (Kathryn) Ball, BCom FCA CMInstD (Deputy Chair - Board of Directors) Chartered Accountant	External Directorships: KJB Consulting Ltd, Stadium Southland Ltd
GJ (Greg) Mulvey, BCom FCA FNZIM Company Director	External Directorships: None
MJ (Mike) Skilling, BAgrSci PGDipBank SFFINSIA CMInstD Company Director	External Directorships: Financial Synergy Ltd, Ruby Bay Estate Ltd, Hastings Street South Investments Ltd, Hastings Street South Ltd

Directorate continued

AL (Anne) McLeod, BCom LLB MInstD Barrister & Solicitor	External Directorships: Lust for Life Ltd, Raw Power Ltd, ALC Trustees No 1 Ltd, Anderson Lloyd Trustee Company (No.2) Ltd, Anderson Lloyd Trustee (No.3) Ltd, Anderson Lloyd Trustee Company (2013) Ltd, Anderson Lloyd Trustee Company (2011) Ltd, Anderson Lloyd Trustee Company Ltd
AJ (Joe) O'Connell, BCom FCA Company Director	External Directorships: TNZ Growing Products Ltd, Pylon Ltd, Property South Ltd, R Richardson Ltd, Log Marketing New Zealand Ltd, Log Logistics Ltd, OKC Holdings Ltd, Southfuels Ltd, Powernet Ltd, AJO Management Ltd, R W Transport Ltd, Electricity Invercargill Ltd, O'Connell Holdings Ltd, Abbott Management Ltd, Shotover Hardware Ltd, Southern Department Stores Ltd, H. & J. Smith Finance Ltd, Corner Trading Ltd, H & J Smith Corporate Ltd, Symphony Retailing Ltd, Outdoor Adventure Ltd, Outdoor World Ltd, H & J's Hardware Ltd, SFI Properties Ltd, H & J Smith Parking Building Ltd, H & J.'s Electrical Ltd, H & J Smith Holdings Ltd, H & J Smith Ltd, Cross Roads Properties Ltd, H & J's Properties Ltd
MP (Mark) O'Connor, BCom FCAANZ FNZIM Company Director	External Directorships: Invest South GP Ltd, Back Country Foods Ltd
KJ (Kevin) Murphy, CA FCAANZ CMInstD Company Director	External Directorships: Adele Senior Living Ltd, KCM Consultant Services Ltd, Red Snapper Ltd, Augusta Property Holdco Ltd, Augusta Funds Management Ltd, Augusta Capital Ltd

Audit & Risk Committee

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

KJ Ball (Chairperson) - Independent Non-Executive Director

JF Ward - Independent Non-Executive Director

GJ Mulvey - Independent Non-Executive Director

MJ Skilling - Independent Non-Executive Director

MP O'Connor - Independent Non-Executive Director

Conflicts of Interest Policy

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

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

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

Interested Transactions

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

Solicitors	**Auditors**
Buddle Findlay 83 Victoria Street Christchurch	KPMG Chartered Accountants 79 Cashel Street Christchurch

Credit Rating

As at 31 March 2019, 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.

The following is a summary of the descriptions of the major ratings categories of each rating agency for the rating of long-term senior unsecured obligations:

Fitch Ratings	Standard & Poor's	Moody's Investors Service	Description of Grade
AAA	AAA	Aaa	Ability to repay principal and interest is extremely strong. This is the highest investment category.
AA	AA	Aa	Very strong ability to repay principal and interest in a timely manner.
A	A	A	Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.
BBB	BBB	Baa	Adequate ability to repay principal and interest. More vulnerable to adverse changes.
BB	BB	Ba	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.
B	B	B	Greater vulnerability and therefore greater likelihood of default.
CCC	CCC	Caa	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.
CC - C	CC - C	Ca - C	Highest risk of default.
RD to D	D	-	Obligations currently in default.

Credit ratings from Fitch Ratings and Standard & Poor's may be modified by the addition of a plus or minus sign to show relative status within the major rating categories. Moody's Investors Service apply numerical modifiers 1, 2, and 3 to show relative standing within the major rating categories, with 1 indicating the higher end and 3 the lower end of the rating category.

Conditions of Registration

The conditions of registration imposed on Southland Building Society by the Reserve Bank of New Zealand pursuant to section 74 of the Reserve Bank of New Zealand Act 1989, and which apply as at the date of signing of this Disclosure Statement are as follows. These conditions of registration have applied from 1 January 2019.

The registration of Southland Building Society ("the bank") as a registered bank is subject to the following conditions:

1. That -
   (a) the Total capital ratio of the banking group is not less than 8 percent;
   (b) the Tier 1 capital ratio of the banking group is not less than 6 percent;
   (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5 percent;
   (d) the Total capital of the banking group is not less than $30 million;
   (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and
   (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

   For the purposes of this condition of registration, "Total capital ratio", "Tier 1 capital ratio", "Common Equity Tier 1 capital ratio" and "Total capital" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

   an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 8(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

   a Tier 2 capital instrument is an instrument that meets the requirements of subsection 9(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

1A. That -
   (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")" (BS12) dated December 2007;
   (b) under its ICAAP, the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015; and
   (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

Conditions of Registration continued

1B. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

(a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the bank's earnings
0% - 0.625%	0%
>0.625% - 1.25%	20%
>1.25% - 1.875%	40%
>1.875% - 2.5%	60%

(b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

(c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration, -

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities. In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.
For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

(a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

(b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the banking group's insurance business -

(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration, -

"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance;

"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

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

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

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

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated November 2015.

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

Conditions of Registration continued

6. That the bank complies with the following corporate governance requirements:
   (a) the board of the bank must have at least five directors;
   (b) the majority of the board members must be non-executive directors;
   (c) at least half of the board members must be independent directors;
   (d) an alternate director,-
      (i) for a non-executive director must be non-executive; and
      (ii) for an independent director must be independent;
   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
   (f) the chairperson of the board of the bank must be independent; and
   (g) the bank's rules must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the society (i.e. the bank).

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

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

11. That the banking group complies with the following quantitative requirements for liquidity-risk management:
   (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
   (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
   (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

   For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated January 2018 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2018.

12. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
   (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
   (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
   (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
   (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

13. That no more than 10% of total assets may be beneficially owned by a SPV.

   For the purposes of this condition -

   "total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets

   "SPV" means a person -
   (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
   (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
   (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

   "covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

Conditions of Registration continued

14. That -
    (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
    (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
        (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

    For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

15. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can-
    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager-
        (i) all liabilities are frozen in full; and
        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
    (b) apply a *de minimis* to relevant customer liability accounts;
    (c) apply a partial freeze to the customer liability account balances;
    (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
    (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
    (f) reinstate customers' access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, "*de minimis*", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

16. That the bank has an Implementation Plan that-
    (a) is up-to-date; and
    (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS17) dated September 2013.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS 17) dated September 2013.

17. That the bank has a compendium of liabilities that-
    (a) at the product-class level lists all liabilities, indicating which are-
        (i) pre-positioned for Open Bank Resolution; and
        (ii) not pre-positioned for Open Bank Resolution;
    (b) is agreed to by the Reserve Bank; and
    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

18. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS 17) dated September 2013.

19. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

Conditions of Registration continued

20. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
21. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,-

"banking group" means Southland Building Society (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 19 to 21, -

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2019:

"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of June 2019.

Changes in Conditions of Registration

The following changes have been made to the Bank's conditions of registration during the period since the reporting date of the previous Disclosure Statement, effective 1 January 2019:

- Residential mortgage lending thresholds to property investors and non-property investors changed. The threshold for investor loans counting as high LVR increased from 65% to 70%, while the limit on the flow of such loans remained at 5%. The flow limit of non-property investor lending with LVRs above 80% increased from 15% to 20%;
- Refer to a revised version of "Framework for Restrictions on High-LVR Residential Lending" (BS19), to make a minor amendment to the construction loan exemption related to Kiwibuild;
- Amend the capital adequacy condition 1, to reduce the scope for a bank being in breach of either condition when it makes an error in applying the capital ratio calculation methodology.

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 year ending 31 March 2019:
   (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 28 May 2019 and has been signed by or on behalf of all the directors.

JF Ward (Chairman)

MJ Skilling

MP O'Connor

KJ Ball (Deputy Chair)

AL McLeod

KJ Murphy

GJ Mulvey

AJ O'Connell

All in $000's

Income Statements

	Year ended 31 Mar 2019	Year ended 31 Mar 2018	Year ended 31 Mar 2017	Year ended 31 Mar 2016	Year ended 31 Mar 2015
Interest income	246,803	225,417	194,822	195,112	183,307
Interest expense	26,191	25,761	19,375	16,721	11,142
Dividends on redeemable shares	104,851	93,631	84,967	94,458	91,100
	131,042	119,392	104,342	111,179	102,242
Net interest income	**115,761**	**106,025**	**90,480**	**83,933**	**81,065**
Net fee and commission income	24,450	21,188	21,777	19,212	14,140
Other income	12,369	10,601	10,336	10,370	10,603
Total operating income	**152,580**	**137,814**	**122,593**	**113,515**	**105,808**
Operating expenses	96,299	87,596	75,074	72,640	67,549
Provision for credit impairment	15,443	14,920	10,764	13,212	12,173
Operating surplus	**40,838**	**35,298**	**36,755**	**27,663**	**26,086**
Net gain/(loss) from financial instruments at fair value through profit or loss	193	76	(113)	7	(46)
Share of associates and joint ventures profit net of tax	1,202	1,066	802	657	515
Surplus before income tax	**42,233**	**36,440**	**37,444**	**28,327**	**26,555**
Less income taxation expense	11,415	9,777	9,996	8,354	7,118
Net surplus	**30,818**	**26,663**	**27,448**	**19,973**	**19,437**
Attributable to:					
Members' interests	30,503	25,801	25,654	18,603	18,009
Non-controlling interests	315	862	1,794	1,370	1,428
	30,818	**26,663**	**27,448**	**19,973**	**19,437**

Significant Statement of Financial Position Items

	As at 31 Mar 2019	As at 31 Mar 2018	As at 31 Mar 2017	As at 31 Mar 2016	As at 31 Mar 2015
Total assets	4,754,518	4,455,210	3,994,412	3,412,175	2,862,657
Individually impaired assets	3,600	6,638	7,523	9,159	12,921
Total liabilities	4,429,185	4,158,213	3,719,494	3,172,215	2,618,981
Equity	325,333	296,997	274,918	239,960	243,676
Regulatory capital (unaudited)					
Tier one capital	307,477	277,627	264,186	245,303	235,721
Total capital	381,871	326,407	282,709	270,075	265,645
Tier one capital expressed as a percentage of total risk weighted assets	11.41%	10.92%	11.74%	12.50%	13.85%
Total capital expressed as a percentage of total risk weighted assets	14.18%	12.84%	12.56%	13.76%	15.61%

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

Contents

Symbols used within the financial statements represent:

Specific accounting policy

Accounting estimates and areas of judgement

Southland Building Society

Income Statement for the year ended 31 March 2019

All in $000's

	Note	31/03/2019	31/03/2018
Interest income		246,803	225,417
Interest expense		26,191	25,761
Dividends on redeemable shares		104,851	93,631
		131,042	119,392
Net interest income	(2)	**115,761**	**106,025**
Fee and commission income		25,686	22,827
Fee and commission expense		1,236	1,639
Net fee and commission income	(3)	24,450	21,188
Other income	(4)	12,369	10,601
Total operating income		**152,580**	**137,814**
Operating expenses	(5)	96,299	87,596
Provision for credit impairment	(12)	15,443	14,920
Operating surplus		**40,838**	**35,298**
Net gain/(loss) from financial instruments at fair value through profit or loss ("FVTPL")	(6)	193	76
Share of associates and joint ventures profit net of tax		1,202	1,066
Surplus before income tax		**42,233**	**36,440**
Less income tax expense	(7)	11,415	9,777
Net surplus		**30,818**	**26,663**
Attributable to:			
Members' interests		30,503	25,801
Non-controlling interests		315	862
		30,818	**26,663**

Southland Building Society

Statement of Comprehensive Income for the year ended 31 March 2019

	Note	31/03/2019	31/03/2018
Net surplus for the year		30,818	26,663
Items that may not be reclassified subsequently to profit or loss			
Net change in property, plant and equipment reserve, net of tax		(54)	560
Items that may be reclassified subsequently to profit or loss			
Net change in fair value through other comprehensive income ("FVOCI") reserve, net of tax		2,416	-
Net change in available for sale asset reserve, net of tax		-	500
Net change in cash flow hedging reserve, net of tax		(3,961)	1,404
Other comprehensive income for the year, net of tax		(1,599)	2,464
Total comprehensive income for the year		**29,219**	**29,127**
Attributable to:			
Members' interests		28,904	28,281
Non-controlling interests		315	846
		29,219	**29,127**

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

Statement of Changes in Equity for the year ended 31 March 2019

All in $000's

As at 31 March 2019	Retained earnings	Reserves: Property, plant and equipment	Reserves: Available for sale assets	Reserves: FVOCI	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 standards[(1)]	359	-	(4,373)	4,504	-	490	-	**490**
Net surplus for the year	30,503	-	-	-	-	30,503	315	**30,818**
Other comprehensive income for the year								
Revaluation/change in fair value	-	(75)	-	3,356	(5,436)	(2,155)	-	**(2,155)**
Current/deferred tax impact	-	21	-	(940)	1,475	556	-	**556**
Total comprehensive income for the year	30,503	(54)	-	2,416	(3,961)	28,904	315	**29,219**
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	-	-	-	-	-	-	(210)	**(210)**
As at 31 March 2019	**330,536**	**2,238**	**-**	**6,920**	**(15,334)**	**324,360**	**973**	**325,333**

As at 31 March 2018	Retained earnings	Revaluation reserves: Property, plant and equipment	Revaluation reserves: Available for sale assets	Revaluation reserves: 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)**
As at 31 March 2018	**299,707**	**2,292**	**4,373**	**(11,373)**	**294,999**	**1,998**	**296,997**

[(1)] NZ IFRS 9 and NZ IFRS 15 have been adopted from 1 April 2018 and have 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.

Statement of Financial Position as at 31 March 2019

All in $000's

	Note	31/03/2019	31/03/2018
Assets			
Cash on hand and at bank		63,751	60,368
Funds with financial institutions	(8)	75,615	37,414
Investment securities	(9)	547,085	475,775
Derivative financial instruments	(10)	5,049	3,050
Advances to customers	(11)	3,977,488	3,796,045
Investments in associates and joint ventures	(14)	6,903	8,454
Other assets		33,247	32,090
Property, plant and equipment		20,846	22,148
Assets held for sale		665	665
Goodwill and intangible assets		12,173	7,782
Net deferred tax assets	(7)	11,696	11,419
		4,754,518	**4,455,210**
Liabilities			
Redeemable shares	(16)	3,236,987	3,087,614
Deposits from customers	(16)	144,106	145,716
Commercial paper	(16)	298,417	278,521
Due to other financial institutions	(16)	538,694	486,538
Derivative financial instruments	(10)	30,184	22,640
Current tax liabilities		3,237	2,934
Other liabilities		45,557	45,905
Subordinated redeemable shares	(16)	132,003	88,345
		4,429,185	**4,158,213**
Net assets		**325,333**	**296,997**
Equity			
Reserves		(6,176)	(4,708)
Retained earnings		330,536	299,707
Attributable to members of the society		324,360	294,999
Attributable to non-controlling interests		973	1,998
		325,333	**296,997**
Total interest earning and discount bearing assets		4,663,939	4,369,602
Total interest and discount bearing liabilities		4,318,237	4,086,734

For and on behalf of the Board of Directors:

Chairman
JF Ward

Deputy Chair
KJ Ball

28 May 2019

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

Statement of Cash Flows for the year ended 31 March 2019

All in $000's

	Note	31/03/2019	31/03/2018
Cash flows from operating activities			
Interest received		244,293	223,061
Fees and other income		53,471	48,134
Dividends received		106	78
Interest paid		(25,196)	(24,960)
Dividends paid on redeemable shares		(100,849)	(85,880)
Operating expenses		(100,380)	(102,451)
Income taxes received/(paid)		(10,895)	(8,273)
Net cash flows from operating activities before changes in operating assets and liabilities		60,550	49,709
Net changes in operating assets and liabilities			
Change in advances		(197,217)	(350,121)
Change in shares and deposits from customers		143,068	279,499
Change in commercial paper		19,896	19,504
Change in amounts due to other financial institutions		52,090	41,021
Change in subordinated redeemable shares		44,150	49,020
Net cash flows provided by/(used in) operating activities	(19)	**122,537**	**88,632**
Cash flows from investing activities			
Change in investment securities		(67,392)	(57,530)
Acquisition of business combination	(14)	(2,229)	(17,291)
Proceeds of property, plant and equipment		(3)	927
Purchase of property, plant and equipment		(1,251)	(4,157)
Purchase of intangible assets		(4,431)	(1,734)
Investment in associates and joint ventures		893	(617)
Net cash flows provided by/(used in) investing activities		**(74,413)**	**(80,402)**
Cash flows from financing activities			
Dividends paid to non-controlling interests		(210)	(357)
Acquisition of non-controlling interests	(14)	(6,359)	(10,824)
Net cash flows provided by/(used in) financing activities		**(6,569)**	**(11,181)**
Net increase/(decrease) in cash held		41,555	(2,951)
Add opening cash and cash equivalents		97,749	100,700
Closing cash and cash equivalents		**139,304**	**97,749**
Reconciliation of cash and cash equivalents			
Cash on hand and at bank		63,751	60,368
Funds with financial institutions	(8)	75,615	37,414
Interest accrued on assets at amortised cost		(62)	(33)
		139,304	**97,749**

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

1. Statement of General Accounting Policies

Reporting entity

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.

Basis of preparation

The financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and under New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities and the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014 (as amended). The financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

These financial statements were authorised for issue by the Board of Directors on 28 May 2019.

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 at fair value through profit or loss or at fair value through other comprehensive income, assets held for sale, and the revaluation of certain non-current assets.

Accounting estimates

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

Judgement areas include:

Note 10 - Derivative financial instruments - Hedge accounting of derivatives

Note 12 - Provision for credit impairment - Estimation of credit provisions

Recognition and derecognition of financial assets and financial liabilities

The Banking Group recognises, on its statement of financial position, advances to customers, deposits and redeemable shares at origination date and all other financial assets and liabilities at trade date.

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

Offsetting

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

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

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

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

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 Inland Revenue. 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, Inland Revenue is included as 'other assets' or 'other liabilities' in the statement of financial position.

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

Presentation currency and rounding

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

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

1. Statement of General Accounting Policies continued

Foreign currency translation

Transactions in foreign currencies are translated into the functional currency at the exchange rate at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the relevant spot rate. Any foreign currency translation gains or losses that arise are included in profit or loss in the period they arise, unless the item has been hedged with a qualifying cash flow hedge. To the extent that the hedge is effective, the gain or loss will be recognised in Other Comprehensive Income.

Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Comparative data

Certain comparative amounts in the income statement have been re-presented as a result of a change in accounting policy. Refer below for further information.

Changes in accounting policies

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, until this part of the new accounting standard has been finalised.

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	FVTPL	1,300	1,300
	Available for sale	FVTPL	1,341	1,341
Investment securities - local authority bonds, bank securities and other bonds	Available for sale	FVOCI	473,134	473,134
Derivative financial instruments	Designated at fair value	Designated at fair value	3,050	3,050
Advances to customers	Loans and receivables	Amortised cost	3,723,929	3,724,870
Advances to customers - Reverse equity mortgages	Loans and receivables	FVTPL	72,116	72,034

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

1. Statement of General Accounting Policies continued

Changes in accounting policies (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	57	(241)	11,235
Retained earnings	299,707	(212)	700	300,195
FVOCI reserve	-	4,503	-	4,503
Available for sale asset reserve	4,373	(4,373)	-	-

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 past due) - Determined on reasonable and supportable forward looking data or if data not available use 30 days past due;

Stage 3 - Impaired - based on 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, 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. This method is used for both drawn loans and undrawn loan commitments.

The Banking Group considers its historical loss experience and adjusts 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 9 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-month 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**

Refer to Note 12 - Provision for Credit Impairment for more information.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

1. Statement of General Accounting Policies continued

Changes in 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	303,425
Acquisition of non-controlling interests	(7,363)	(7,363)
Non-controlling interests present value adjustment	4,133	4,133
Fair value reserve	4,373	4,503
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)	(11,235)
Cash flow hedging reserve	11,373	11,373
Investments in associates and joint ventures	(8,454)	(8,454)
Total CET1 capital	**276,425**	**277,227**
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**	**278,429**
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**	**327,209**
Risk-weighted assets	2,541,928	2,542,730
Common equity tier 1 capital ratio	10.87%	10.90%
Tier 1 capital ratio	10.92%	10.95%
Total capital ratio	12.84%	12.87%

NZ IFRS 15 Revenue from contracts with customers

The Banking Group adopted NZ IFRS 15 Revenue from contracts with customers from 1 April 2018 without restatement, in accordance with the transition requirements. NZ IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The adoption of NZ IFRS 15 did not have a material impact on the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Banking Group. Accordingly, the most significant impact on the comparative information is relating to new disclosure requirements.

Refer to Note 3 - Net Fee and Commission Income for additional disclosure.

Standards issued but not yet effective

The following new standards and amendments to standards relevant to the Banking Group are not yet effective and have not yet been applied in preparing the financial statements. The Banking Group does not currently intend to apply any of these pronouncements until their effective date.

- NZ IFRS 16 Leases - was issued in February 2016 and became effective from 1 January 2019. The standard brings leases on-balance sheet for lessees, with a resulting increase in reported assets and liabilities. This standard also eliminates the current operating/finance lease dual accounting model for lessees. NZ IFRS 16 applies to the Banking Group from 1 April 2019. The most significant impact identified is that the Banking Group will recognise new assets and liabilities for its operating leases of branches and office premises. In addition, the nature of expenses related to those leases will now change as NZ IFRS 16 replaces the straight-line operating lease expense (rent) with a depreciation charge for "right of use" (ROU) assets and interest expense on lease liabilities. The Group is also assessing the impact on its CET1 ratio, particularly in respect of ROU assets in leases where the Banking Group is a lessee. The Banking Group is continuing to refine its capitalisation model for ROU assets and lease liabilities, it is expected that there will be an increase in assets and liabilities of approximately $23m.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

2. Net Interest Income

	31/03/2019	31/03/2018
Interest income		
Cash at bank	1,034	1,023
Funds with financial institutions	491	401
Investment securities	14,394	11,444
Derivative financial instruments	(9,794)	(14,151)
Advances to customers - at amortised cost	235,538	226,289
Advances to customers - at fair value through profit or loss	4,799	-
Advances to customers - impaired	339	411
Other	2	-
Total interest income	**246,803**	**225,417**
Interest expense		
Redeemable shares	97,735	90,602
Deposits from customers	12,344	13,583
Other financial institutions	995	805
Other borrowings	12,853	11,373
Subordinated redeemable shares	7,115	3,029
Total interest expense	**131,042**	**119,392**
Net interest income	**115,761**	**106,025**

Interest income

Interest income for all instruments measured at amortised cost is recognised in the income statement as it accrues, using the effective interest method. Interest income for all instruments measured at fair value is recognised in the income statement on a daily accrual basis.

The effective interest method calculates the amortised cost of a financial asset and allocates the interest income, 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. The application of the method has the effect of recognising income evenly in proportion to the amount outstanding over the expected life of the financial asset.

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.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, the calculation of interest income reverts to the gross basis.

Interest expense

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

The effective interest method calculates the amortised cost of a financial liability and allocates the interest 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 liability. The application of the method has the effect of recognising the expense evenly in proportion to the amount outstanding over the expected life of the financial liability.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

3. Net Fee and Commission Income

	31/03/2019	31/03/2018
Fee and commission income		
Asset management fees	11,523	9,426
Lending fees	7,882	7,689
Credit card fees	2,138	2,271
Current and funding account fees	2,581	2,119
Other fee and commission income	1,562	1,322
Total fee and commission income	25,686	22,827
Fee and commission expense	1,236	1,639
Net fee and commission income	**24,450**	**21,188**

Net fee and commission income

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

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.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations	Revenue recognition under NZ IFRS 15
Asset management fees	The Banking Group provides asset management services through unit trusts and a KiwiSaver fund. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the trust or fund on a monthly basis in arrears.	Revenue from management fees is recognised over time as the services are provided.
	The Banking Group also provides advisory services for portfolio management. Fees for advisory services are earned monthly in arrears from private wealth and corporate clients.	Revenue from advisory services is recognised over time as the services are provided.
Lending fees	The Banking Group provides mortgage loans, as well as business and consumer finance. Fees for ongoing account services are charged to the customer's account on a monthly basis, and is a fixed fee per month.	Revenue from ongoing service fees is recognised over time as the services are provided.
	Transaction-based fees for restructures, discharges, etc. are charged to the customer's account when the specific event happens.	Revenue from transaction-based fees is recognised at the point in time when the transaction takes place.
Credit card fees	The Banking Group provides credit cards to its customers. Annual card fees for ongoing services are charged six-monthly in advance.	Revenue from ongoing service fees is recognised over time as the services are provided.
	Transaction-based fees for EFTPOS transactions, ATM withdrawals, cash advances, late payment, etc. is charged to the customer's account when the transaction takes place.	Revenue from transaction-based fees is recognised at the point in time when the transaction takes place.
Current and funding account fees	The Banking Group provides a range of every day account services, as well as various savings products. Transactional fee income is charged on a monthly basis at either a fixed monthly fee or a fee per transaction, charged monthly.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	The Banking Group charges break fees for early withdrawal of investment balances, and is calculated at a fixed percentage of the amount withdrawn.	Revenue relating to break fees is recognised at the point in time when the transaction takes place.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

4. Other Income

	31/03/2019	31/03/2018
Net insurance income	10,332	9,572
Dividends	106	78
Gain/(loss) on sale of shares	394	127
Sundry income	1,537	824
	12,369	**10,601**

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Banking Group and that revenue can be reliably measured.

Net insurance income

Insurance premium revenue is recognised from the inception date as soon as there is a basis on which it can reliably be estimated. Insurance premium revenue is recognised as income when it is earned in accordance with the pattern of incidence of risk expected under the insurance contract. Reinsurance premiums are set off against insurance premium revenue within the income statement.

5. Operating Expenses

	31/03/2019	31/03/2018
Auditors remuneration - audit and statutory	361	346
Auditors remuneration - other services	103	14
Computer expenses	9,181	7,950
Fees to directors	734	645
Marketing	7,074	7,629
Personnel	49,037	45,115
Actuarial life adjustment	1,429	827
Amortisation, depreciation and impairment	6,460	5,109
Rent and leases	3,246	3,133
Write off of property, plant and equipment	82	8
Bank charges and funding line fees	5,531	4,604
Other expenses	13,061	12,216
	96,299	**87,596**
Amounts received, or due and receivable by the auditors, KPMG:		
Year end audit of financial statements	303	296
Half year review of financial statements	58	50
Other consultancy services - IFRS 9 implementation review and tax advisory services	103	14
	464	**360**
Amounts received, or due and receivable by directors:		
JF Ward (Chairman)	146	144
KJ Ball (Deputy Chair)	77	73
GJ Mulvey	81	77
JJ Grant (Resigned 30 June 2018)	16	67
FE Spencer (Resigned 30 September 2018)	45	67
MJ Skilling	89	72
AL Mcleod	77	69
AJ O'Connell (Appointed 1 June 2017)	88	56
MP O'Connor (Appointed 21 August 2018)	47	-
KJ Murphy (Appointed 1 November 2018)	29	-
	695	**625**
Provision for directors retiring allowance	24	10
GST on directors fees	15	10
	734	**645**

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

5. Operating Expenses continued

	31/03/2019	31/03/2018
Personnel expenses includes key management personnel compensation which comprised:		
Salaries and short-term employee benefits	6,950	5,758
Post-employment benefits	143	144
Other long term benefits	12	11
	7,105	**5,913**

Expenses are recognised in the income statement on an accruals basis.

Personnel expenses

Personnel expenses are recognised over the period the employee renders the service to receive the benefit.

Amortisation and depreciation

Depreciation is provided on all property, plant and equipment other than land, and amortisation is provided on intangible assets, on a basis which will write down the net cost or revalued amount of each item over its expected useful life on a straight line basis, as follows:

Buildings	30 - 50 years
Building Alterations	1 - 33 years
Computer Equipment	1 - 16 years
Other Assets	1 - 16 years
Software	1 - 3 years
Management Rights - Staples Rodway KiwiSaver Scheme	15 years

At each reporting date, the carrying amounts of property, plant and equipment, goodwill and intangible assets 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 asset's 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.

6. Net Gain/(Loss) from Financial Instruments at Fair Value Through Profit or Loss

	31/03/2019	31/03/2018
Net gain/(loss) arising on:		
Investment securities	192	11
Derivative financial instruments	5	61
Hedge ineffectiveness on cash flow hedging	(4)	4
	193	**76**

Net gain(loss) arising on investment securities now include gains or losses that have previously been included in available for sale reserves. Refer to Note 1 for more details on the change in accounting policy.

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

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's 23

7. Taxation

	31/03/2019	31/03/2018
The major components of the income tax expense comprise:		
Current tax expense		
Current income tax charge	10,910	9,086
Adjustments recognised in the current period in relation to current tax of prior periods	154	2
Deferred taxation expense		
Deferred tax expenses relating to the origination and reversal of temporary differences	351	689
Total income tax expense recognised in the income statement	**11,415**	**9,777**
The following amounts were charged/(credited) direct to equity:		
Current income tax	1,053	254
Deferred income tax	(1,609)	704
Total income tax expense recognised directly in equity	**(556)**	**958**
Reconciliation of the prima facie income tax payable on profit with income tax expense in the income statement:		
Surplus before income tax	42,233	36,440
Prima facie income tax at 28%	11,826	10,203
Adjust for the tax effect of:		
Imputed dividends	(25)	(21)
Other permanent items	(540)	(407)
Prior period adjustments	154	2
	(411)	(426)
Taxation expense/(benefit)	**11,415**	**9,777**

Income tax expense

Income tax expense 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.

	Note	31/03/2019	31/03/2018
Provision for deferred tax:			
Balance at beginning of the year		11,419	6,666
Adoption of accounting standards	(1)	(184)	-
Prior period adjustment		(797)	145
Acquired in business acquisition		-	6,001
(Charged)/credited to equity		1,609	(704)
(Charged)/credited to income statement		(351)	(689)
Balance at end of the year		**11,696**	**11,419**

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

7. Taxation continued

Movement in deferred taxation assets/liabilities are as follows:

	Note	Provision for credit impairment	Derivative financial instruments	Property, plant and equipment	Provisions	Other	Total
As at 31 March 2019							
Balance at beginning of the year		7,985	4,427	456	784	(2,233)	11,419
Adoption of accounting standards	(1)	(241)	-	-	-	57	(184)
Prior period adjustment		1	-	(749)	11	(60)	(797)
Amounts recognised in equity		-	1,588	21	-	-	1,609
Amounts recognised in income statement		1,062	-	(1,530)	10	107	(351)
Balance at end of the year		**8,807**	**6,015**	**(1,802)**	**805**	**(2,129)**	**11,696**
As at 31 March 2018							
Balance at beginning of the year		5,586	4,975	(2,578)	682	(1,999)	6,666
Prior period adjustment		2	-	(120)	242	21	145
Amounts acquired in business acquisition		1,691	-	4,310	-	-	6,001
Amounts recognised in equity		-	(548)	(217)	-	61	(704)
Amounts recognised in income statement		706	-	(939)	(140)	(316)	(689)
Balance at end of the year		**7,985**	**4,427**	**456**	**784**	**(2,233)**	**11,419**

There are no unrecognised deferred tax assets as at 31 March 2019 (31 March 2018 $nil).

Current income tax

Current income tax is the expected tax payable or receivable 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).

Current tax assets and liabilities are only offset 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.

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

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

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.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

8. Funds with Financial Institutions

	Note	31/03/2019	31/03/2018
Call funds		69,850	34,173
Term deposits		5,803	3,241
		75,653	**37,414**
Provisions for credit impairment	(12)	(38)	-
		75,615	**37,414**

Funds with financial institutions are recognised in the financial statements at amortised cost. Due to the short term nature of the funds, the carrying amount equals fair value.

Refer to Note 20 - Accounting Classifications for more information on accounting policies for financial instruments.

Refer to Note 1 - Statement of General Accounting Policies for details on change in classification and measurement of financial instruments due to the adoption of NZ IFRS 9.

9. Investment Securities

	Note	31/03/2019	31/03/2018
Equity securities		2,735	1,907
Local authority bonds		73,179	78,467
Bank securities		262,328	216,588
Other bonds		209,108	178,813
		547,350	**475,775**
Provisions for credit impairment	(12)	(265)	-
		547,085	**475,775**

Included in investment securities as at 31 March 2019 were $23.2 million encumbered through repurchase agreements (31 March 2018: $43.3 million). These investment securities have not been derecognised from the Bank as the Bank retains substantially all the risks and rewards of ownership. The Bank's obligation to repurchase investment securities is classified under due to other financial institutions.

Investment securities are recognised in the financial statements at fair value through other comprehensive income, except for listed equity securities, which are carried at fair value through profit or loss, therefore carrying amount equals fair value. The fair values are based on quoted market prices.

Refer to Note 21 - Fair Value of Financial Instruments for more information on fair value of financial instruments.

Refer to Note 1 - Statement of General Accounting Policies for details on change in classification and measurement of financial instruments due to the adoption of NZ IFRS 9.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

10. Derivative Financial Instruments

	As at 31 March 2019			As at 31 March 2018		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Held for risk management - at fair value						
Interest rate related contracts						
Swaps	275,060	2,511	2,646	218,452	1,859	1,991
Options	-	-	-	-	-	-
Total held for risk management at fair value	**275,060**	**2,511**	**2,646**	**218,452**	**1,859**	**1,991**
Held for hedging - cash flow hedges						
Interest rate related contracts						
Swaps	3,038,600	2,538	26,608	2,205,000	1,191	20,649
Options	-	-	-	-	-	-
	3,038,600	2,538	26,608	2,205,000	1,191	20,649
Foreign currency related contracts						
Swaps	32,017	-	930	-	-	-
	32,017	-	930	-	-	-
Total held for hedging	**3,070,617**	**2,538**	**27,538**	**2,205,000**	**1,191**	**20,649**
Total derivative financial instruments	**3,345,677**	**5,049**	**30,184**	**2,423,452**	**3,050**	**22,640**

The Banking Group uses the following derivative instruments for economic or risk management purposes:

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates (for example, fixed rate for floating rate). No exchange of principal takes place. The Banking Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis within treasury policy guidelines, and with reference to a proportion of the notional amount of the contracts and the term to expiry of the contracts. To control the level of credit risk taken, the Banking Group assesses counterparties based on their published credit rating compared with treasury policy limits.

Interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of interest rate risk. The Banking Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

Cross currency swaps are commitments to exchange interest payments and principal denominated in two different currencies. The Banking Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis within treasury policy guidelines, and with reference to a proportion of the notional amount of the contracts and the term to expiry of the contracts. To control the level of credit risk taken, the Banking Group assesses counterparties based on their published credit rating compared with treasury policy limits.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Banking Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

Cash Flow Hedges

The Banking Group hedges the forecasted interest cash flows from floating rate loans and deposits using interest rate swaps and interest rate options. The Banking Group also hedges the foreign exchange component of firm commitments caused by foreign currency movements.

There were no transactions where cash flow hedge accounting ceased in the year ended 31 March 2019 as a result of highly probable cash flows no longer expected to occur (31 March 2018 $nil).

10. Derivative Financial Instruments continued

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. 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. Fair values include adjustment for counterparty credit risk.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. A hedge instrument is a designated derivative, the changes in fair values or cash flows of which are expected to offset changes in the fair value of cash flows of a designated hedged item. A hedged item is an asset, liability, firm commitment or highly probable forecast transaction that exposes the Banking Group to risk of changes in fair value or cash flows, and that is designated as being hedged. The Banking Group hedges a portion of the floating rate risk in the funding and lending books. Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

Cash flow hedge accounting

The criteria that must be met for a relationship to qualify for hedge accounting include:

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

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

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

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

Derivative financial instruments at fair value through profit or loss

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

The movement in the fair value of derivative financial instruments is included in the income statement as 'Net gain/(loss) from financial instruments at fair value through profit or loss'.

The Banking Group has elected to continue to apply the hedge accounting requirements of NZ IAS 39 on adoption of NZ IFRS 9, until this part of the new accounting standard has been finalised. Refer to Note 1 - Statement of General Accounting Policies for more details.

Hedge accounting

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

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

11. Advances to Customers

	Note	31/03/2019	31/03/2018
Residential		3,109,238	2,950,497
Agricultural		226,105	235,365
Commercial		134,901	157,817
Consumer		535,744	478,468
Gross advances		**4,005,988**	**3,822,147**
Provisions for credit impairment	(12)	(29,304)	(28,261)
Deferred fee revenue and expenses		804	2,159
Total net advances		**3,977,488**	**3,796,045**

Included in advances to customers are $72.4 million of reverse equity mortgages are valued at fair value through profit or loss rather than at amortised cost.

Advances, excluding reverse equity mortgages, are recognised in the financial statements 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 are estimated using the discounted cash flow approach by reference to relative wholesale rates adjusted with a retail lending margin for the term at original fixing and the wholesale rate for the remaining term at balance date.

Advances at fair value through profit or loss

Advances relating to reverse equity mortgages are recognised in the financial statements at fair value through profit or loss, therefore carrying amount equals fair value. Fair value is based on valuation techniques including the use of a discounted cash flow model based on wholesale rates adjusted with a retail lending margin, and adjustments for assumptions relating to cost of funds, house prices, voluntary repayments, mortality, take-up of top-ups and move-to-care.

Refer to Note 21 - Fair Value of Financial Instruments for more information on fair value of financial instruments.

Refer to Note 1 - Statement of General Accounting Policies for details on change in classification and measurement of financial instruments due to the adoption of NZ IFRS 9.

12. Provision for Credit Impairment

	Expected Credit Losses			Specific	
As at 31 March 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Provision**	**Total**
Funds with financial institutions	38	-	-	-	38
Investment securities	265	-	-	-	265
Advances to customers	16,016	7,910	3,436	1,942	29,304
	16,319	**7,910**	**3,436**	**1,942**	**29,607**

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

12. Provision for Credit Impairment continued

	Expected Credit Losses			Collective	Specific	
Residential Mortgages	**Stage 1**	**Stage 2**	**Stage 3**	**Provision**	**Provision**	**Total**
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 Stage 1	693	(459)	(234)	-	-	-
Transferred to Stage 2	(32)	154	(122)	-	-	-
Transferred to Stage 3	(2)	(147)	149	-	-	-
Transferred to specific provision	-	-	(213)	-	213	-
New provisions	598	626	447	-	-	1,671
Charge/(credit) to income statement excluding transfers	(639)	1,258	160	-	-	779
Amounts written off	-	-	43	-	(157)	(114)
Balance at end of period - Residential Mortgages	**2,869**	**2,967**	**1,577**	**-**	**921**	**8,334**
Retail Exposures						
Balance at beginning of period	-	-	-	15,005	-	15,005
Restated for adoption of new accounting standards	10,632	3,076	1,785	(15,005)	-	488
Changes to the opening balance due to transfer between stages:						
Transferred to Stage 1	1,031	(882)	(149)	-	-	-
Transferred to Stage 2	(275)	298	(23)	-	-	-
Transferred to Stage 3	(59)	(83)	142	-	-	-
New provisions	5,976	3,331	1,522	-	-	10,829
Reversal of previously recognised provision	(6,107)	(1,827)	(1,534)	-	-	(9,468)
Balance at end of period - Retail Exposures	**11,198**	**3,913**	**1,743**	**-**	**-**	**16,854**
Corporate Exposures						
Balance at beginning of period	-	-	-	3,456	1,555	5,011
Restated for adoption of new accounting standards	3,290	818	248	(3,456)	-	900
Changes to the opening balance due to transfer between stages:						
Transferred to Stage 1	110	(105)	(5)	-	-	-
Transferred to Stage 2	(31)	261	(230)	-	-	-
Transferred to Stage 3	(5)	(22)	27	-	-	-
Transferred to specific provision	-	-	(216)	-	216	-
New provisions	449	99	123	-	-	671
Charge/(credit) to income statement excluding transfers	(1,672)	40	369	-	-	(1,263)
Reversal of previously recognised provision	(192)	(61)	(200)	-	(750)	(1,203)
Balance at end of period - Corporate Exposures	**1,949**	**1,030**	**116**	**-**	**1,021**	**4,116**
Total						
Balance at beginning of period	-	-	-	25,841	2,420	28,261
Restated for adoption of new accounting standards	16,173	5,429	3,380	(25,841)	-	(859)
Changes to the opening balance due to transfer between stages:						
Transferred to Stage 1	1,834	(1,446)	(388)	-	-	-
Transferred to Stage 2	(338)	713	(375)	-	-	-
Transferred to Stage 3	(66)	(252)	318	-	-	-
Transferred to specific provision	-	-	(429)	-	429	-
New provisions	7,023	4,056	2,092	-	-	13,171
Charge/(credit) to income statement excluding transfers	(2,311)	1,298	529	-	-	(484)
Amounts written off	-	-	43	-	(157)	(114)
Reversal of previously recognised provision	(6,299)	(1,888)	(1,734)	-	(750)	(10,671)
Balance at end of period - Total	**16,016**	**7,910**	**3,436**	**-**	**1,942**	**29,304**

The movement in provision for credit impairment for funds with financial institutions and investment securities are excluded from the tables above as they are not material.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

12. Provision for Credit Impairment continued

	As at 31 March 2019				
	Residential Mortgages	Retail Exposures	Corporate Exposures	Other	Total
Reconciliation of provision movements					
Bad debts written off during the year	(87)	12,275	893	-	13,081
Individual provisions	213	-	(534)	-	(321)
Collective provision	2,280	1,361	(1,261)	303	2,683
Provision for credit impairment to income statement	**2,406**	**13,636**	**(902)**	**303**	**15,443**

- 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.
- Other exposures comprise funds with financial institutions and investment securities.

	As at 31 March 2018			
	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Individual provisions against advances and loans				
Balance at beginning of the year	751	-	2,090	2,841
New provisions during the year	655	-	435	1,090
Balances written off during the year	(541)	-	(830)	(1,371)
Recoveries/reversals of previously recognised provision	-	-	(140)	(140)
Balance at end of the year	**865**	**-**	**1,555**	**2,420**
Collective provisions against advances and loans				
Balance at beginning of the year	7,130	8,167	3,000	18,297
Charged to income statement	250	798	456	1,504
Acquired in business acquisition	-	6,040	-	6,040
Balance at end of the year	**7,380**	**15,005**	**3,456**	**25,841**
Total provisions for credit impairment	**8,245**	**15,005**	**5,011**	**28,261**
Reconciliation of provision movements				
Bad debts written off during the year	(502)	12,632	336	12,466
Individual provisions	655	-	295	950
Collective provision	250	798	456	1,504
Provision for credit impairment to income statement	**403**	**13,430**	**1,087**	**14,920**

At 31 March 2019 the Banking Group's total provision for credit impairment relating to advances to customers was $29.3 million (31 March 2018 $28.3 million) representing 0.7% of total net loans and advances (31 March 2018 0.7%). The provisions represent provisions against individual loans and collective provisions.

12. Provision for Credit Impairment continued

Impairment is assessed initially for assets that are individually significant, and then on a collective basis for those exposures not individually known to be impaired.

From 1 April 2018, the Banking Group applies a three stage collective 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 ("PD"), exposure at default ("EAD") and loss given default ("LGD").

The PD is the estimate of the probability that a client will default. It reflects a client's ability to generate sufficient cash flow into the future to meet the terms of all its credit contracts with the Banking Group. EAD is the proportion of a facility that may be outstanding in the event of default. It is calculated as a percentage of the loan balance. LGD is the proportion of a facility estimated to be lost in the event of default. It is expressed as a percentage. LGD is impacted by the type, level, liquidity and volatility of any collateral held, carrying costs and management expense. Long run LGDs are used for internal estimates of risk.

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 past due) - Determined on reasonable and supportable forward looking data or if data not available use 30 days past due;

Stage 3 - Impaired - based on 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, 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. This method is followed for both drawn loans and undrawn loan commitments.

The Banking Group considers its historical loss experience and adjusts 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 9 introduces the use of macroeconomic factors, but does not define which factors are to be used. The Banking Group considers these factors to include 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-month ECL.

For debt investment securities determined to have low credit risk, loss allowances are measured at an amount equal to the 12-month ECL rather than the expected life ECL for other financial assets.

The provision for credit impairment prior to 1 April 2018 is calculated under the old provisions of NZ IAS 39.

Estimation of credit impairment

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for financial assets accounted for at amortised cost and FVOCI. In estimating these cash flows, the Banking Group makes judgements about estimated cash flows, assessment of the economic cycle and historical loss experience of assets with similar risk characteristics.

Management regularly reviews and adjusts the estimates and methodologies for collective provisions 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.

Effective 1 April 2018, the estimation for credit provisions have changed due to the implementation of NZ IFRS 9 - Financial instruments. Refer to Note 1 - Statement of General Accounting Policies for more information.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

13. Asset Quality

(a) Asset quality - gross exposures

Gross exposures/nominal amount of advances to customers, including loan commitments and financial guarantees by expected credit loss allowance stage are as follows:

As at 31 March 2019	Stage 1	Stage 2	Stage 3	Total
Residential Mortgages				
Balance at beginning of period	3,132,839	35,057	5,843	3,173,739
Changes to the opening balance due to transfer between stages:				
Transferred to stage 1	14,707	(13,580)	(1,127)	-
Transferred to stage 2	(36,450)	36,986	(536)	-
Transferred to stage 3	(4,944)	(1,609)	6,553	-
New loans	885,693	6,646	168	892,507
Assets derecognised and payments made	(630,443)	(10,801)	(1,205)	(642,449)
Other movements	(97,559)	(1,718)	(357)	(99,634)
Amounts (written off)/recovered	-	-	86	86
Balance at end of period - Residential Mortgages	**3,263,843**	**50,981**	**9,425**	**3,324,249**
Retail Exposures				
Balance at beginning of period	542,059	8,021	2,427	552,507
Changes to the opening balance due to transfer between stages:				
Transferred to stage 1	1,926	(1,748)	(178)	-
Transferred to stage 2	(5,495)	5,524	(29)	-
Transferred to stage 3	(1,639)	(195)	1,834	-
New loans	295,037	2,593	409	298,039
Assets derecognised and payments made	(236,737)	(5,345)	(2,077)	(244,159)
Other movements	-	-	-	-
Amounts (written off)/recovered	-	-	-	-
Balance at end of period - Retail Exposures	**595,151**	**8,850**	**2,386**	**606,387**
Corporate Exposures				
Balance at beginning of period	371,493	47,039	5,220	423,752
Changes to the opening balance due to transfer between stages:				
Transferred to stage 1	1,768	(1,765)	(3)	-
Transferred to stage 2	(6,765)	7,760	(995)	-
Transferred to stage 3	(686)	(431)	1,117	-
New loans	63,164	481	75	63,720
Assets derecognised and payments made	(81,241)	(9,906)	(2,607)	(93,754)
Other movements	(12,156)	(2,457)	(346)	(14,959)
Amounts (written off)/recovered	-	-	1	1
Balance at end of period - Corporate Exposures	**335,577**	**40,721**	**2,462**	**378,760**
Total				
Balance at beginning of period	4,046,391	90,117	13,490	4,149,998
Changes to the opening balance due to transfer between stages:				
Transferred to stage 1	18,401	(17,093)	(1,308)	-
Transferred to stage 2	(48,710)	50,270	(1,560)	-
Transferred to stage 3	(7,269)	(2,235)	9,504	-
New loans	1,243,894	9,720	652	1,254,266
Assets derecognised and payments made	(948,421)	(26,052)	(5,889)	(980,362)
Other movements	(109,715)	(4,175)	(703)	(114,593)
Amounts (written off)/recovered	-	-	87	87
Balance at end of period - Total	**4,194,571**	**100,552**	**14,273**	**4,309,396**

All in $000's

13. Asset Quality continued

As at 31 March 2019	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
(b) Asset quality - advances to customers				
Neither past due or impaired	3,081,313	481,504	353,675	3,916,492
Individually impaired	1,932	-	1,668	3,600
Past due	31,376	52,022	3,302	86,700
Provision for credit impairment	(8,334)	(16,854)	(4,116)	(29,304)
Carrying amount	**3,106,287**	**516,672**	**354,529**	**3,977,488**
(c) Ageing of past due but not impaired assets				
Past due 0-9 days	12,115	27,985	1,110	41,210
Past due 10-29 days	7,175	12,877	324	20,376
Past due 0-29 days	19,290	40,862	1,434	61,586
Past due 30-59 days	3,405	5,642	273	9,320
Past due 60-89 days	1,645	3,102	365	5,112
Past due 90 days +	7,036	2,416	1,230	10,682
Carrying amount	**31,376**	**52,022**	**3,302**	**86,700**
(d) Impaired assets				
Balance at beginning of the year	1,881	-	4,757	6,638
Additions to individually impaired assets	1,184	-	237	1,421
Reductions to individually impaired assets	(1,133)	-	(3,326)	(4,459)
Balance at end of the year	1,932	-	1,668	3,600
Provision at end of the year	(921)	-	(1,021)	(1,942)
Net carrying amount at end of the year	**1,011**	**-**	**647**	**1,658**
Undrawn balances on individually impaired lending commitments	-	-	-	-

(e) Other assets under administration

There are no other assets under administration as at 31 March 2019.

As at 31 March 2018	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
(a) Asset quality - advances to customers				
Neither past due or impaired	2,924,808	432,212	384,249	3,741,269
Individually impaired	1,881	-	4,757	6,638
Past due	29,999	44,446	1,954	76,399
Provision for credit impairment	(8,245)	(15,005)	(5,011)	(28,261)
Carrying amount	**2,948,443**	**461,653**	**385,949**	**3,796,045**
(b) Ageing of past due but not impaired assets				
Past due 0-9 days	13,547	22,019	790	36,356
Past due 10-29 days	7,854	12,005	266	20,125
Past due 0-29 days	21,401	34,024	1,056	56,481
Past due 30-59 days	2,352	5,695	371	8,418
Past due 60-89 days	2,440	2,261	156	4,857
Past due 90 days +	3,807	2,466	370	6,643
Carrying amount	**30,000**	**44,446**	**1,953**	**76,399**
(c) Impaired assets				
Balance at beginning of the year	1,284	-	6,239	7,523
Additions to individually impaired assets	1,191	-	783	1,974
Reductions to individually impaired assets	(594)	-	(2,265)	(2,859)
Balance at end of the year	1,881	-	4,757	6,638
Provision at end of the year	(865)	-	(1,555)	(2,420)
Net carrying amount at end of the year	**1,016**	-	**3,202**	**4,218**
Undrawn balances on individually impaired lending commitments	-	-	-	-

(d) Other assets under administration

There are no other assets under administration as at 31 March 2018.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

13. Asset Quality continued

Credit assessment

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

The Banking Group has classified its non-performing assets into the following categories:

Impaired assets

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

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

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

Restructured assets

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

Real estate or other assets acquired through security enforcement

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

Past due assets

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

14. Investments in Subsidiaries, Associates and Joint Ventures

	Percentage Held		Balance Date	Nature of Business
	31/03/2019	31/03/2018		
Subsidiaries:				
Fraser Properties Limited	100.0%	100.0%	31 March	Property Holding
Southsure Assurance Limited ("Southsure")	90.0%	90.0%	31 March	Insurance Company
Finance Now Limited ("FNL")	100.0%	100.0%	31 March	Finance Company
Funds Administration New Zealand Limited ("FANZ")	100.0%	85.0%	31 March	Funds Administration
The Warehouse Financial Services Limited	100.0%	100.0%	31 March	Credit Card Finance Company
TW Financial Services Operations Limited	100.0%	100.0%	31 March	Finance Operating Company
SBS Money Limited (Previously TW Money Limited)	100.0%	100.0%	31 March	Credit Card Finance Company
Staples Rodway Asset Management Limited ("SRAM")	100.0%		31 March	Investment Advisory
In-substance Subsidiaries:				
SBS Invercargill W Trust	-	-	31 March	Mortgage Securitisation
SBS Warehouse Trust No.2	-		31 March	Mortgage Securitisation
SBS Oreti Trust No. 2	-	-	31 March	Mortgage Securitisation
Finance Now Warehouse Trust	-	-	31 March	Loan Securitisation
TWGFS Warehouse A Trust	-	-	31 March	Loan Securitisation
Associates:				
Abbott NZ Holdings Limited	23.0%	23.0%	30 June	Holding Company
Joint Ventures:				
Staples Rodway Asset Management Limited		50.0%	31 March	Investment Advisory

All subsidiaries and in-substance subsidiaries are incorporated in New Zealand. For all subsidiaries, the ownership percentage equates to the voting power held.

On 30 June 2017, the Bank increased its shareholding in its subsidiary Southsure Assurance Limited from 80% to 90%. On 11 September 2017, the Bank increased its shareholding in its subsidiary Finance Now Limited from 95% 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 Southsure Assurance Limited or Finance Now Limited 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.

14. Investments in Subsidiaries, Associates and Joint Ventures continued

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 31 October 2017, the Bank increased its indirect interest in Abbott Insurance Brokers Limited by 5% to 37.5%. During January 2018, the Abbott group restructured, with a new entity established as holding entity, named Abbott NZ Holdings Limited. Abbott NZ Holdings Limited is the 100% shareholder of Abbott Insurance Brokers Limited. Southsure's shareholding diluted from 37.5% to 22.99% due to this restructure. This investment is still being accounted for as an associate company under the equity method of accounting as the Banking Group does not have control over the financial and operating policies.

During March 2018, the Banking Group established the SBS Warehouse Trust No.2, a special purpose vehicle holding securitised loans assigned from SBS and funded through wholesale funding lines. Refer to Note 15 - Loan Securitisation for more information on securitisation.

On 13 June 2018, the Banking Group acquired via FANZ, the remaining shares of 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 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.

At 31 March 2019 there are no amounts due from, or due to any related entities that are outside of the Banking Group.

Basis of consolidation

The consolidated financial statements include those of SBS and its subsidiaries and special purpose entities which it controls, accounted for using the acquisition method, and the results of its associates and joint ventures, accounted for using the equity method.

The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The equity method of accounting involves initial recognition at cost, which includes transaction costs. Subsequent to initial recognition the consolidated financial statements include the Banking Group's share of profit or loss and other comprehensive income of the associates or joint ventures until the date significant influence or joint control ceases.

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

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

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are recorded through equity to reflect a transaction amongst shareholders.

Subsidiaries

Subsidiaries are those entities over which the Banking Group has the power, exposure or rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power.

In-substance subsidiaries

In-substance subsidiaries are special purpose entities that the Banking Group may invest in or establish to enable it to undertake specific types of transactions such as securitisation. Where SBS or a subsidiary control such vehicles, they are consolidated into the Banking Group's financial results.

Associates

Associates are entities over which the Banking Group exerts significant influence but does not exercise control, or joint control over the financial and operating policies.

Joint ventures

Joint ventures are entities over which the Banking Group exerts joint control over the financial and operating policies, but does not have outright control.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

15. Loan Securitisation

	31/03/2019	31/03/2018
Securitised loan balances		
SBS Invercargill W Trust	250,888	186,754
SBS Warehouse Trust No.2	84,376	38,353
SBS Oreti Trust No. 2	148,638	140,368
Finance Now Warehouse Trust	377,762	312,955
TWGFS Warehouse A Trust	49,715	54,118
	911,379	**732,548**

Mortgages assigned by SBS to the SBS Invercargill W Trust during the year ended 31 March 2019 amounted to $187.98 million (31 March 2018 $nil).

Mortgages assigned by SBS to the SBS Warehouse Trust No.2 during the year ended 31 March 2019 amounted to $60.54 million (31 March 2018 $38.38 million).

Mortgages assigned by the SBS Invercargill W Trust to the SBS Oreti Trust No. 2 during the year ended 31 March 2019 amounted to $50.61 million (31 March 2018 $nil).

Loans assigned by FNL to the Finance Now Warehouse Trust during the year ended 31 March 2019 amounted to $325.87 million (31 March 2018 $291.95 million).

Loans assigned by The Warehouse Financial Services Limited and SBS Money Limited (Previously TW Money Limited) to the TWGFS Warehouse A Trust during the year ended 31 March 2019 amounted to $103.42 million (31 March 2018 $61.38 million).

SBS sells its interest in certain loans (principally housing mortgage loans) to two trusts known as the SBS Invercargill W Trust and SBS Warehouse Trust No.2 by way of an assignment. At the time of the sale all legal and beneficial interests in the mortgage loans are transferred to the relevant purchaser. SBS consolidates the financial statements of each trust within the Parent on the basis that SBS retains some of the risks and rewards of ownership through the provision of subordinated loans to each trust.

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

FNL and its subsidiaries, The Warehouse Financial Services Limited and SBS Money Limited (Previously TW Money Limited), sell their interest in certain loans (mixture of consumer and business loans, and consumer credit card balances) to two trusts known as the Finance Now Warehouse Trust and TWGFS Warehouse A Trust by way of an assignment. At the time of the sale all legal and beneficial interest in the loans are transferred to the purchaser. The financial statements of the trusts are consolidated within the Group on the basis that FNL retains an interest in the transferred assets.

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

FNL is the manager and servicer of loans assigned to the Finance Now Warehouse Trust and TWGFS Warehouse A Trust. FNL receives a fee for providing these management services. This fee is recognised when earned.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

16. Funding

	31/03/2019	31/03/2018
(a) Concentrations of funding:		
Concentrations of funding by geographical location		
North Island other	611,179	586,410
Auckland	914,887	835,639
Canterbury	708,797	700,542
Otago	679,193	634,738
Southland	981,942	944,694
South Island other	366,383	324,326
Overseas	87,826	60,385
Total concentrations of funding by geographical location	**4,350,207**	**4,086,734**
Concentrations of funding by product		
Redeemable shares	3,236,987	3,087,614
Deposits from customers	144,106	145,716
Commercial paper	298,417	278,521
Due to other financial institutions	538,694	486,538
Subordinated redeemable shares	132,003	88,345
Total concentrations of funding by product	**4,350,207**	**4,086,734**

(b) Subordinated redeemable shares	**31/03/2019**	**31/03/2018**
SBS Premier Bond	39,124	39,124
SBS Capital Bond	61,468	49,221
SBS AUD Capital Bond	31,411	-
	132,003	**88,345**

During the year ended 31 March 2019 the Bank issued a 10 year AUD Capital Bond to wholesale investors in the Australian Market. 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.

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. The retail offer is issued continuously.

The SBS Premier Bonds are five-year fixed rate bonds that were issued continuously as subordinated redeemable shares. These rank behind redeemable shareholders, depositors (including commercial paper) and other unsecured creditors of SBS and are subject to loss absorption provisions.

At 31 March 2019 the balance of all subordinated redeemable shares issued was $132.0 million. After adjustment for potential tax or other offset, $72.2 million has been recognised as tier 2 capital for RBNZ capital adequacy purposes (31 March 2018 $46.5 million).

16. Funding continued

Funding sources consist of redeemable shares, deposits from customers, commercial paper, amounts due to other financial institutions and subordinated redeemable shares.

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

Deposits from customers, commercial paper and amounts due to other financial institutions are recorded in the statement of financial position inclusive of accrued interest. Interest expense on deposits from customers, commercial paper and amounts due to other financial institutions are recorded in the income statement on an accruals basis using the effective interest method.

The fair value of demand deposits and shares is the amount payable on demand at the reporting date. For other liabilities with maturities of less than three months, the carrying amount is a reasonable estimate of fair value. For liabilities with maturities of three months or longer, fair values are based on quoted market prices, where such process exist. Otherwise, fair values are estimated using the discounted cash flow approach by reference to rates currently offered for similar liabilities of similar remaining maturities.

Amounts due to other financial institutions are either short term in nature or reprice frequently and therefore the carrying amount is equivalent to fair value.

Refer to Note 21 - Fair Value of Financial Instruments for more information on fair value of financial instruments.

Repurchase agreements

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

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

Ranking of securities

Redeemable shares, deposits (including commercial paper and amounts due to other financial institutions) and subordinated redeemable shares are unsecured. Deposits (including commercial paper and amounts due to other financial institutions) rank equally amongst themselves and equally with other unsecured creditors and behind creditors given priority by law. Redeemable shares rank equally amongst themselves and behind deposits (including commercial paper and amounts due to other financial institutions), unsecured creditors and those creditors given priority by law. Subordinated redeemable shares rank equally amongst themselves and behind redeemable shares, deposits (including commercial paper and amounts due to other financial institutions), unsecured creditors and those creditors given priority by law.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

17. Contingent Liabilities and Credit Related Commitments

Commitments	Contract or notional amt 31/03/2019	Credit equivalent 31/03/2019	Contract or notional amt 31/03/2018	Credit equivalent 31/03/2018
Commitments with uncertain drawdown	28,255	14,128	30,727	15,364
Commitments to extend credit which can be unconditionally cancelled	326,120	-	348,467	-
Total credit related commitments	**354,375**	**14,128**	**379,194**	**15,364**

There are no material contingent liabilities as at 31 March 2019.

Contingent liabilities are disclosed where there is a possible obligation that is higher than remote but where requirements for recognition as a liability are not met.

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

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

18. Lease Commitments

Lease commitments payable after balance date:	31/03/2019	31/03/2018
0-12 Months	2,650	3,057
12-24 Months	2,194	2,432
24-60 Months	4,153	4,966
>60 Months	2,580	3,422
	11,577	**13,877**

The Banking Group leases land and buildings under operating leases expiring from one to ten years, as well as vehicles under operating leases expiring over four years. Leases generally provide the Banking Group with a right of renewal at which time all terms are renegotiated. There are no restrictions placed upon the lessee by entering into these leases.

Effective 1 April 2019, accounting for leases changes due to the implementation of NZ IFRS 16 - Leases. Refer to Note 1 - Statement of General Accounting Policies for more information.

Leases as lessee

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

Leases as lessor

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

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

19. Reconciliation of Net Surplus to Net Operating Cash Flows

	31/03/2019	31/03/2018
Net surplus for year	30,818	26,663
Add/(deduct) non cash items		
Depreciation, amortisation and impairment	6,460	5,109
Provision for credit impairment	15,443	14,920
Share of associates and joint ventures profit net of tax	(1,202)	(1,066)
Write off of property, plant and equipment	82	8
Actuarial life adjustment	1,429	827
Deferred fee revenue and expenses	1,175	367
Derivatives fair value adjustment	-	(65)
Investment securities fair value adjustment	(192)	(11)
Net deferred tax assets	350	289
	23,545	**20,378**
Deferral or accruals of past or future operating cash receipts or payments		
Change in income tax payable/receivable	170	1,215
Change in sundry debtors	(966)	(9,208)
Change in sundry creditors	3,282	3,198
Change in accruals relating to interest receivable	(1,267)	(1,114)
Change in accruals relating to accrued interest and dividends payable to customers	4,930	8,718
Change in accruals relating to accrued interest payable to financial institutions	67	(166)
Change in net advances	(197,217)	(350,121)
Change in shares and deposits	143,068	279,499
Change in commercial paper	19,896	19,504
Change in amounts due to other financial institutions	52,090	41,021
Change in subordinated redeemable shares	44,150	49,020
	68,203	**41,566**
Items classified as cash		
Change in accruals relating to funds with financial institutions	(29)	25
Net cash flows from operating activities	**122,537**	**88,632**

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

Cash and cash equivalents

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day to day cash management of the Banking Group, which are unconditionally convertible at the Banking Group's option within three months. These assets are short term in nature and the related carrying amount is equivalent to their fair value.

Netting of cash flows

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

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

20. Accounting Classifications

Effective 1 April 2018, the accounting classifications for financial assets and liabilities changed with the implementation of NZ IFRS 9 - Financial Instruments. Refer to Note 1 - Statement of General Accounting Policies for more information.

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

As at 31 March 2019	At Fair Value (*)	Measured at Amortised Cost	FVOCI	FVTPL	Total Carrying Amount
Assets					
Cash on hand and at bank	-	63,751	-	-	**63,751**
Funds with financial institutions	-	75,615	-	-	**75,615**
Investment securities	-	-	543,265	3,820	**547,085**
Derivative financial instruments	5,049	-	-	-	**5,049**
Advances to customers	-	3,905,103	-	72,385	**3,977,488**
	5,049	4,044,469	543,265	76,205	**4,668,988**
Liabilities					
Redeemable shares	-	3,236,987	-	-	**3,236,987**
Deposits from customers	-	144,106	-	-	**144,106**
Commercial paper	-	298,417	-	-	**298,417**
Due to other financial institutions	-	538,694	-	-	**538,694**
Derivative financial instruments	30,184	-	-	-	**30,184**
Subordinated redeemable shares	-	132,003	-	-	**132,003**
	30,184	4,350,207	-	-	**4,380,391**

As at 31 March 2018	Designated at Fair Value	Available for Sale	Loans and Receivables	Held to Maturity	Other Amortised Cost	Total Carrying Amount
Assets						
Cash on hand and at bank	-	-	60,368	-	-	**60,368**
Funds with financial institutions	-	37,414	-	-	-	**37,414**
Investment securities	1,300	474,475	-	-	-	**475,775**
Derivative financial instruments	3,050	-	-	-	-	**3,050**
Advances to customers	-	-	3,796,045	-	-	**3,796,045**
	4,350	511,889	3,856,413	-	-	**4,372,652**
Liabilities						
Redeemable shares	-	-	-	-	3,087,614	**3,087,614**
Deposits from customers	-	-	-	-	145,716	**145,716**
Commercial paper	-	-	-	-	278,521	**278,521**
Due to other financial institutions	-	-	-	-	486,538	**486,538**
Derivative financial instruments	22,640	-	-	-	-	**22,640**
Subordinated redeemable shares	-	-	-	-	88,345	**88,345**
	22,640	-	-	-	4,086,734	**4,109,374**

* NZ IFRS 9 has not finalised some aspects of hedge accounting for portfolios and as such has allowed entities to delay implementation of the hedge accounting requirements until these aspects are confirmed. The Banking Group are deferring implementation of the IFRS 9 policy on hedge accounting and will continue to apply existing NZ IAS 39 policy on hedge accounting. Refer to Note 10 - Derivative Financial Instruments for further information.

20. Accounting Classifications continued

Financial instruments

Effective 1 April 2018, the Banking Group adopted NZ IFRS 9 Financial Instruments. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cashflow characteristics of the asset. The Banking Group classifies its financial instruments into the following categories at initial recognition: Measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). Previously it was classified as follows: 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.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI - debt investment, FVOCI - equity investment, or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Banking Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective it is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Banking Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Business model assessment

The Banking Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that is considered include policies and objectives for the portfolio, how the performance of the portfolio is evaluated and reported to management, the risks that affect the performance and how the risks are managed.

Assessment on whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are solely for payments of principal and interest, the Banking Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet the definition. The Banking Group also considers contingent events that could change the amount and timing of cash flows, prepayment and extension terms, and terms that limit the Banking Group's claim to cash flow from specified assets and features that modify consideration of the time value of money.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

20. Accounting Classifications continued

Financial assets - classification and subsequent measurement

Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearing represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.
Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. However, see Note 10 - Derivative Financial Instruments for derivatives designated as hedging instruments.

Financial assets - reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Banking Group changes its business model for managing financial assets.

Financial liabilities

Financial liabilities are all measured at amortised cost, except for derivative financial instruments which are designated at fair value. Refer to Note 10 - Derivative Financial Instruments for further information. Financial liabilities, excluding derivatives, 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, commercial paper, due to other financial institutions and subordinated redeemable shares.

21. Fair Value of Financial Instruments

Comparison of fair values and carrying amounts:

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:

	31/03/2019		31/03/2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Advances to customers	3,977,488	3,972,970	3,796,045	3,786,201
Total financial assets	**3,977,488**	**3,972,970**	**3,796,045**	**3,786,201**
Financial liabilities				
Redeemable shares	3,236,987	3,242,487	3,087,614	3,118,729
Deposits from customers	144,106	144,310	145,716	147,634
Subordinated redeemable shares	132,003	132,969	88,345	91,789
Total financial liabilities	**3,513,096**	**3,519,766**	**3,321,675**	**3,358,152**

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

21. Fair Value of Financial Instruments continued

Fair value measurement

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

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

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

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

As at 31 March 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	5,049	-	5,049
Investment securities	2,735	544,615	-	547,350
Advances to customers	-	-	72,385	72,385
Total financial assets	**2,735**	**549,664**	**72,385**	**624,784**
Financial liabilities				
Derivative financial instruments	-	30,184	-	30,184
Total financial liabilities	**-**	**30,184**	**-**	**30,184**

As at 31 March 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	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**

The following table presents the changes in level 3 instruments:	Note	31/03/2019	31/03/2018
Loans and advances at fair value through profit or loss			
Balance at beginning of the year		-	-
Adoption of NZ IFRS 9	(1)	72,034	-
New loans		4,948	-
Interest charged	(2)	4,799	-
Loan repayments		(10,422)	-
Net change in fair value		(12)	-
Other movements		1,038	-
Balance at end of the year		**72,385**	**-**

21. Fair Value of Financial Instruments continued

Valuation hierarchy for financial instruments held at fair value:

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.

22. 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.

Risk governance structure

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.

Audit and Risk Committee

The Audit and Risk Committee is a sub committee of the Board and has 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 five directors. In addition the Chief Executive Officer, Chief Financial Officer and Chief Risk Officer are in attendance at meetings. The Audit and Risk Committee meets at least four times a year, and reports directly to the Board.

Lending Committee

The Lending Committee is a sub committee of the Board and has the responsibility of reviewing and approving all lending proposals in excess of $5 million. The committee is made up of the full Board with senior management in attendance as requested.

IT Committee

The IT Committee has responsibility for monitoring and reviewing exposure to the risks associated with IT, including data security, disaster recovery and business continuity. It also has responsibility for formulating and developing the Banking Group's IT strategy including monitoring and reviewing the impacts resulting from change in the regulatory, business and economic environment and evaluating business cases for technology projects requiring significant investment.

The IT Committee consists of three directors. In addition the Chief Executive Officer, Chief Risk Officer and the Chief Digital & IT Officer are in attendance at meetings. The IT Committee meets quarterly and reports directly to the Board.

Asset and Liability Committee (ALCO)

The ALCO has responsibility for the assessment of exposure to treasury counterparty, credit, market, liquidity, interest rate and foreign currency risk. This includes:

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

The ALCO is made up of members of the senior management team and treasury function. The ALCO usually meets at least twice a month and reports directly to the Board.

22. Risk Management Policies continued

Credit Risk Committee (CRC)

The CRC has responsibility for monitoring and reviewing exposure to credit risks in SBS's lending portfolios. This includes:

- monitoring maximum exposure to individual counterparties;
- reviewing the analysis and reporting of individual watch list and impaired loans;
- review and approval of specific provisioning against impaired loans; and
- monitoring the performance of lending portfolios in relation to excesses and past dues, industry and geographic concentrations.

The CRC is made up of members of the senior management team and credit risk management function. The CRC usually meets quarterly and reports to the Board.

Operational Risk Committee (ORC)

The ORC has responsibility for monitoring and reviewing exposure to operational risks arising from SBS's day to day activities. This includes:

- regular measurement, monitoring and reporting of operational risk;
- ensuring appropriate strategies are in place to manage and mitigate operational risks; and
- monitoring compliance with legislative and regulatory obligations.

The ORC is made up of members of the senior management team and the risk and compliance functions. The ORC usually meets quarterly and reports 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 chairperson of the Audit and Risk Committee. The internal audit function has been carried out by the Dunedin based firm of Chartered Accountants, Deloitte. In performing this role, the internal audit function adopts a risk-based approach, encompassing reviews of the major risks that could impact upon SBS. Significant findings are reported quarterly to the Audit and Risk Committee.

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

Specialist Support Functions

Primary responsibility for the identification, control and mitigation of risk rests with each business unit. Oversight and governance are provided through specialist support functions including Risk, Support, Finance and Treasury. The role of these functional specialists is to maintain and review policies, establish limits which are consistent with the Board's risk appetite, monitor and report on compliance with those limits and generally to provide an oversight role in relation to the management of risk.

Specific areas of risk management

Liquidity Risk Management

Liquidity risk is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. Further information on the Banking Group's liquidity risk management is set out in Note 23 - Liquidity Risk.

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. Further information on the Banking Group's credit risk management is set out in Note 24 - Credit Risk.

Interest Rate Risk Management

Interest rate risk is the risk of loss arising from adverse changes in interest rates. Further information on the Banking Group's interest rate risk management is set out in Note 25 - Market Risk.

Currency Risk Management

Currency risk results from the mismatch of foreign currency assets and liabilities. The Banking Group has a policy of hedging all foreign currency borrowing into New Zealand dollars. Further information on the Banking Group's currency risk management is set out in Note 25 - Market Risk.

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. SBS aims to minimise the impact of operational risks by ensuring the appropriate risk management policies, controls, systems, staff and processes are in place. Where appropriate, risks are mitigated by insurance.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

23. Liquidity Risk

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

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

The Banking Group is subject to the RBNZ's liquidity requirements as set out in the RBNZ's "Liquidity Policy" (BS13/BS13A).

Consistent with the requirements of the RBNZ's Liquidity Policy, liquidity risk is managed in the Banking Group on a cash flow mismatch and also core funding basis to ensure that the Banking Group exceeds RBNZ specified minimum standards for those metrics. This information is measured daily and reported to the Board monthly.

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

Total liquidity includes committed but undrawn funding lines. As at 31 March 2019, the Banking Group had total committed funding lines with other registered banks of $645.0 million (31 March 2018 $623.0 million). Of these facilities, $514.9 million were drawn down at 31 March 2019 (31 March 2018 $442.8 million).

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.

	31/03/2019	31/03/2018
Core liquid assets		
Cash on hand and at bank	63,751	60,368
Funds with financial institutions	75,615	37,414
Investment securities[2]	523,894	432,434
Committed and undrawn funding lines[3]	130,107	180,198
Eligible RMBS collateral (less haircut[1])	117,252	114,516
Total liquidity	**910,619**	**824,930**

[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] As at 31 March 2019 investment securities of $23.2 million (31 March 2018: $43.3 million) 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 $20 million available funding, not included as core liquid assets, in one of the securitisation vehicles (31 March 2018: $107 million). This is subject to having sufficient assets available to be securitised and has therefore not been included.

The maturity profiles of 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 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.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

23. Liquidity Risk continued

Monetary liabilities payable (contractual cash flows including expected interest to maturity)

As at 31 March 2019	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Liabilities							
Redeemable shares	486,565	1,786,629	758,095	172,383	33,315	-	**3,236,987**
Deposits from customers	9,066	76,944	41,293	14,444	2,359	-	**144,106**
Commercial paper	-	298,417	-	-	-	-	**298,417**
Due to other financial institutions[1]	39,983	23,075	-	475,636	-	-	**538,694**
Current tax liabilities	3,237	-	-	-	-	-	**3,237**
Other liabilities	29,654	-	-	-	-	-	**29,654**
Subordinated redeemable shares	-	39,124	-	-	-	92,879	**132,003**
Total liabilities	**568,505**	**2,224,189**	**799,388**	**662,463**	**35,674**	**92,879**	**4,383,098**
Interest	-	23,418	27,563	21,419	3,849	18,908	**95,157**
Total liabilities (inclusive of interest)	**568,505**	**2,247,607**	**826,951**	**683,882**	**39,523**	**111,787**	**4,478,255**
Derivatives							
Net derivative cash flows	-	(5,331)	(6,905)	(8,781)	(3,693)	(30)	(24,740)
Unrecognised loan commitments	28,255	-	-	-	-	-	28,255

[1] As at 31 March 2019, FNL's securitisation trust, TWGFS Warehouse A Trust ("the Trust") exceeded its write-off rate ("WOR"). In this event, Westpac can elect to invoke the amortisation event, under which no more lending against qualifying securities can occur, and principal and interest receipts from customers are applied to reduce the floating rate notes. This is an orderly event, not an immediate repayment event. Subsequent to balance date, the Trust applied for and was granted a waiver from Westpac. This exposure has been shown as "on demand" due to the breach.

As at 31 March 2018	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Liabilities							
Redeemable shares	456,881	1,742,588	658,613	193,840	35,692	-	3,087,614
Deposits from customers	6,553	77,917	29,125	29,521	2,600	-	145,716
Commercial paper	-	278,521	-	-	-	-	278,521
Due to other financial institutions	-	43,311	-	443,227	-	-	486,538
Current tax liabilities	2,934	-	-	-	-	-	2,934
Other liabilities	31,491	-	-	-	-	-	31,491
Subordinated redeemable shares	-	-	-	39,124	-	49,221	88,345
Total liabilities	**497,859**	**2,142,337**	**687,738**	**705,712**	**38,292**	**49,221**	**4,121,159**
Interest	-	22,296	24,851	24,037	8,087	43,759	123,030
Total liabilities (inclusive of interest)	**497,859**	**2,164,633**	**712,589**	**729,749**	**46,379**	**92,980**	**4,244,189**
Derivatives							
Net derivative cash flows	-	(7,191)	(1,107)	1,494	1,247	(142)	(5,699)
Unrecognised loan commitments	30,727	-	-	-	-	-	30,727

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)	31/03/2019	31/12/2018
One-week mismatch ratio	10.59%	11.87%
One-month mismatch ratio	15.34%	16.73%
Core funding ratio	96.53%	96.22%

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

24. 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.

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 management 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 credit risk management function which is responsible for the collections and recovery process. For wholesale arrangements, 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.

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

	31/03/2019	31/03/2018
(a) The maximum exposures to credit risk at the relevant reporting dates are:		
Cash on hand and at bank	63,751	60,368
Funds with financial institutions	75,615	37,414
Investment securities	547,085	475,775
Derivative financial instruments	5,049	3,050
Advances to customers	3,977,488	3,796,045
Other assets	33,247	32,090
Total on-balance sheet credit exposures	**4,702,235**	**4,404,742**
(b) Concentrations of credit risk by sector		
Residential	2,371,563	2,205,041
Residential investing	734,723	743,402
Agricultural	223,924	234,615
Commercial finance	16,014	13,869
Commercial other	114,592	137,465
Consumer lending	471,130	411,679
Consumer credit card	45,542	49,974
Local authority	73,161	78,467
Corporate investments	618,339	498,140
Other	33,247	32,090
Total concentrations of credit risk by sector	**4,702,235**	**4,404,742**
(c) Concentrations of credit risk by geographical location		
North Island other	974,445	897,843
Auckland	1,355,695	1,210,831
Canterbury	862,292	807,023
Otago	551,246	569,682
Southland	645,568	596,726
South Island other	235,163	246,168
Overseas	77,826	76,469
Total concentrations of credit risk by geographical location	**4,702,235**	**4,404,742**

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

24. Credit Risk continued

(d) Credit exposures to individual counterparties and groups of closely related counterparties

The Banking Group's disclosure of concentrations of credit exposure to individual counterparties and groups of closely related counterparties, which equalled or exceeded 10% of the Banking Group's 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 since the last disclosure statement using the Banking Group's end of period Common Equity Tier 1 capital.

	As at 31 March 2019			As at 31 March 2018		
End of Period Exposure	**Number of Non Bank Counterparties**			**Number of Non Bank Counterparties**		
Percentage of Common Equity Tier 1 capital	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
10%-14%	1	-	**1**	2	-	**2**
15%-19%	-	-	**-**	-	-	**-**
Total	**1**	**-**	**1**	**2**	**-**	**2**

Peak Exposure						
Percentage of Common Equity Tier 1 capital	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
10%-14%	2	-	**2**	2	-	**2**
15%-19%	-	-	**-**	-	-	**-**
Total	**2**	**-**	**2**	**2**	**-**	**2**

End of Period Exposure	**Number of Bank Counterparties**			**Number of Bank Counterparties**		
Percentage of Common Equity Tier 1 capital	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
10%-14%	-	-	**-**	2	-	**2**
15%-19%	1	-	**1**	-	-	**-**
20%-24%	1	-	**1**	-	-	**-**
25%-29%	1	-	**1**	2	-	**2**
55%-59%	1	-	**1**	-	-	**-**
Total	**4**	**-**	**4**	**4**	**-**	**4**

Peak Exposure						
Percentage of Common Equity Tier 1 capital	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
10%-14%	-	-	**-**	1	-	**1**
15%-19%	1	-	**1**	-	-	**-**
20%-24%	-	-	**-**	1	-	**1**
25%-29%	1	-	**1**	1	-	**1**
30%-34%	1	-	**1**	-	-	**-**
35%-39%	-	-	**-**	1	-	**1**
55%-59%	1	-	**1**	-	-	**-**
Total	**4**	**-**	**4**	**4**	**-**	**4**

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

(e) Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature) in accordance with the bank's conditions of registration and the RBNZ's "Connected Exposure Policy" (BS8). The Banking Group does not have credit exposures to connected persons other than non-bank connected persons. Peak end of day credit exposures to non-bank connected persons have been calculated using the Banking Group's tier 1 capital at the end of the period. The rating-contingent limit, which is applicable to the Banking Group, based on the conditions of registration imposed by the RBNZ is 15%. There have been no rating-contingent limit changes during the last year. Within the rating-contingent limit there is a sub-limit of 15%, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Banking Group's conditions of registration have been complied with at all times over the last year. The limit is 125% of the Banking Group's Tier 1 capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposures. There are no individual credit impairment allowances against credit exposures to non-bank connected persons as at 31 March 2019 (31 March 2018 $nil).

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24. Credit Risk continued

(e) Credit exposures to connected persons (continued)	31/03/2019	31/03/2018
Credit exposures to non-bank connected persons at year end	267	1,419
Credit exposures to non-bank connected persons at period end expressed as a % of total tier 1 capital	0.09%	0.51%
Peak credit exposures to non-bank connected persons during the period	1,845	1,471
Peak credit exposures to non-bank connected persons during the period expressed as a % of total tier 1 capital	0.60%	0.53%

(f) 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 90% of SBS advances are secured by first mortgage over real property as a minimum. Once established, loan performance is monitored regularly. 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:

	31/03/2019	31/03/2018
Against individually impaired property	3,572	6,604
Against past due but not impaired property	132,306	109,070
	135,878	**115,674**

25. Market Risk

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

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

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

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, scenario analysis and Value at Risk (VaR).

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

25. Market Risk continued

Policies for managing interest rate risk

Interest rate risk is the risk of loss to the Banking Group arising from adverse changes in interest rates. The Banking Group is exposed to interest rate risk in respect of the 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.

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. The Banking Group undertakes 100% of its transactions in interest rate contracts with other financial institutions. Management has established limits such that, at any time, less than 60% of equity is at risk with any individual counterparty.

Exposure to interest rate risk is measured primarily through the analysis of repricing maturities of the Banking Group's assets, liabilities and unrecognised financial instruments. Exposure to interest rate risk is also measured, managed and monitored using VaR, scenario analysis (to a 1% shock) and interest rate sensitivity gap. 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 statement of financial position financial assets and liabilities and has been prepared on the basis of the next repricing date.

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

As at 31 March 2019	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-Interest Sensitive	Total
Assets							
Cash on hand and at bank	63,751	-	-	-	-	-	**63,751**
Funds with financial institutions	70,877	1,713	2,119	656	250	-	**75,615**
Investment securities	200,528	23,397	65,713	53,525	203,922	-	**547,085**
Derivative financial instruments	-	-	-	-	-	5,049	**5,049**
Advances to customers	1,094,581	391,472	698,322	1,272,700	520,413	-	**3,977,488**
Other assets	-	-	-	-	-	85,530	**85,530**
	1,429,737	**416,582**	**766,154**	**1,326,881**	**724,585**	**90,579**	**4,754,518**
Liabilities and equity							
Redeemable shares	1,538,258	703,083	758,095	172,383	33,315	31,853	**3,236,987**
Deposits from customers	43,254	42,638	41,293	14,445	2,359	117	**144,106**
Commercial paper	204,228	94,189	-	-	-	-	**298,417**
Due to other financial institutions	538,694	-	-	-	-	-	**538,694**
Derivative financial instruments	-	-	-	-	-	30,184	**30,184**
Current tax liabilities	-	-	-	-	-	3,237	**3,237**
Other liabilities	-	-	-	-	-	45,557	**45,557**
Subordinated redeemable shares	38,504	620	-	-	92,879	-	**132,003**
Equity	-	-	-	-	-	325,333	**325,333**
	2,362,938	**840,530**	**799,388**	**186,828**	**128,553**	**436,281**	**4,754,518**
On-balance sheet interest sensitivity gap	(933,201)	(423,948)	(33,234)	1,140,053	596,032	(345,702)	-
Net balance of derivative financial instruments	1,022,700	457,000	(125,100)	(1,098,000)	(256,600)	-	-
Total interest rate sensitivity gap	**89,499**	**33,052**	**(158,334)**	**42,053**	**339,432**	**(345,702)**	**-**

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25. Market Risk continued

As at 31 March 2018	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-Interest Sensitive	Total
Assets							
Cash on hand and at bank	60,368	-	-	-	-	-	60,368
Funds with financial institutions	35,940	1,009	213	252	-	-	37,414
Investment securities	147,542	10,164	43,840	93,779	180,450	-	475,775
Derivative financial instruments	-	-	-	-	-	3,050	3,050
Advances to customers	1,023,739	312,906	749,040	959,702	750,658	-	3,796,045
Other assets	-	-	-	-	-	82,558	82,558
	1,267,589	**324,079**	**793,093**	**1,053,733**	**931,108**	**85,608**	**4,455,210**
Liabilities and equity							
Redeemable shares	1,516,120	650,970	658,613	193,840	35,692	32,379	3,087,614
Deposits from customers	55,586	28,727	29,125	29,521	2,600	157	145,716
Commercial paper	189,288	89,233	-	-	-	-	278,521
Due to other financial institutions	486,538	-	-	-	-	-	486,538
Derivative financial instruments	-	-	-	-	-	22,640	22,640
Current tax liabilities	-	-	-	-	-	2,934	2,934
Other liabilities	-	-	-	-	-	45,905	45,905
Subordinated redeemable shares	-	-	-	39,124	49,221	-	88,345
Equity	-	-	-	-	-	296,997	296,997
	2,247,532	**768,930**	**687,738**	**262,485**	**87,513**	**401,012**	**4,455,210**
On-balance sheet interest sensitivity gap	(979,943)	(444,851)	105,355	791,248	843,595	(315,404)	-
Net balance of derivative financial instruments	1,296,500	451,000	(521,400)	(762,000)	(464,100)	-	-
Total interest rate sensitivity gap	**316,557**	**6,149**	**(416,045)**	**29,248**	**379,495**	**(315,404)**	**-**

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

	31/03/2019	31/03/2018
Impact on equity of increase or decrease to market interest rates		
100 bp parallel increase	12,638	15,654
100 bp parallel decrease	(15,031)	(16,168)
Impact on profit and loss of increase or decrease to market interest rates		
100 bp parallel increase	(73)	(6)
100 bp parallel decrease	74	7

Policies for managing foreign exchange risk

Currency risk results from the mismatch of foreign currency assets and liabilities. The Banking Group has a policy of hedging all foreign currency borrowing into New Zealand dollars. As such there were no material foreign currency exposures at year end as set out in the table below.

	Note	31/03/2019 AUD	31/03/2018 AUD
AUD Capital Bond	(16)	30,000	-
AUD Cross Currency Interest Rate Swap	(10)	(30,000)	-
Net exposure		-	-

26. 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 capital ratio of the banking group is not less than 8%;
- Tier 1 capital ratio of the banking group 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 the sum of tier one and tier two capital to arrive at total regulatory capital.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk weighted 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 relevant Banking Group's Conditions of Registration.

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26. Capital Adequacy continued

Regulatory capital ratios (unaudited)	Minimum ratio requirement	BANKING GROUP 31/03/2019	BANKING GROUP 31/03/2018	REGISTERED BANK 31/03/2019	REGISTERED BANK 31/03/2018
Common equity tier 1 capital ratio	4.50%	11.38%	10.87%	10.28%	10.32%
Tier 1 capital ratio	6.00%	11.41%	10.92%	10.28%	10.32%
Total capital ratio	8.00%	14.18%	12.84%	13.62%	12.61%
Buffer ratio	2.50%	5.41%	4.84%		

(i) Qualifying capital (unaudited)	BANKING GROUP 31/03/2019	BANKING GROUP 31/03/2018
Tier 1 capital		
Common equity tier 1 (CET1) capital		
Retained earnings	300,066	277,136
Current year's retained earnings	30,503	25,801
Acquisition of non-controlling interests	(5,229)	(7,363)
Non-controlling interests present value adjustment	5,196	4,133
FVOCI reserve	6,920	4,373
Cash flow hedging reserve	(15,334)	(11,373)
Less deductions from CET1 capital		
Goodwill & intangible assets	(12,173)	(7,782)
Deferred tax assets	(11,696)	(11,419)
Cash flow hedging reserve	15,334	11,373
Investments in associates and joint ventures	(6,903)	(8,454)
Total CET1 capital	**306,684**	**276,425**
Additional tier 1 (AT1) capital		
Non-controlling interests (net of deductions and surplus AT1 capital)	793	1,202
Total AT1 capital	**793**	**1,202**
Total tier 1 capital	**307,477**	**277,627**
Tier 2 capital		
Revaluation reserves	2,238	2,292
Subordinated redeemable shares	72,156	46,488
Total tier 2 capital	**74,394**	**48,780**
Total capital	**381,871**	**326,407**

During the year the Bank launched a 10 year Capital Bond to Australian 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. Refer to Note 16(b) Funding for more details on bonds issued.

At 31 March 2019 the balance of all subordinated redeemable shares issued was $132.0 million (31 March 2018 $87.9 million). After adjustments for potential tax or other offsets, $72.2 million (31 March 2018 $46.5 million) has been recognised as tier 2 capital for RBNZ capital adequacy purposes.

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

26. Capital Adequacy continued

(ii) Total risk weighted assets

As at 31 March 2019 (unaudited)	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
On balance sheet credit exposures				
Cash	574	0%	-	-
Multilateral development banks	77,638	0%	-	-
Public sector entities	73,161	20%	14,632	1,171
Banks	264,384	20%	52,877	4,230
Banks	136,594	50%	68,297	5,464
Corporates				
Rating grade 1	26,992	20%	5,398	432
Rating grade 2	74,433	50%	37,217	2,977
Rating grade 3 - 4	29,468	100%	29,468	2,357
Rating grade 5	472	150%	708	57
Residential mortgages				
<= 80% loan to value ratio (LVR)	1,579,100	35%	552,685	44,215
80 <= 90% LVR	43,324	50%	21,662	1,733
90 <= 100% LVR	1,259	75%	944	76
Past due	6,568	100%	6,568	525
Impaired	1,011	100%	1,011	81
Property investment residential mortgage				
< = 80% LVR	922,445	40%	368,978	29,518
80 <= 90% LVR	5,276	70%	3,693	295
Residential mortgages welcome home loans				
<= 90% LVR	453,224	35%	158,628	12,690
90 <= 100% LVR	45,955	50%	22,978	1,838
Reverse residential mortgage loans				
<= 60%	58,050	50%	29,025	2,322
60 <= 80%	11,617	80%	9,294	744
80 <= 100%	2,451	100%	2,451	196
Equity holdings	2,735	300%	8,205	656
Other assets	901,966	100%	901,966	72,157
Non-risk weighted assets	35,821	0%	-	-
Total on balance sheet credit exposures	4,754,518		2,296,685	183,734

As at 31 March 2019 (unaudited)	Total exposure after credit risk mitigation	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure / implied risk weighted exposure	Minimum pillar one capital requirement
Off balance sheet credit exposures						
Commitments with uncertain drawdown	28,255	50%	14,128	63%	8,943	715
Commitments to extend credit which can be unconditionally cancelled	326,120	0%	-	0%	-	-
Market related contracts[1]						
Interest rate contracts	3,345,677	n/a	13,810	21%	2,934	235
Credit valuation adjustment (CVA)					279	22
Total off balance sheet credit exposures	3,700,052		27,938		12,156	972
Total credit risk	8,454,570		27,938		2,308,841	184,706
Operational risk	n/a				265,433	21,235
Market risk	n/a				119,600	9,568
Total risk weighted assets	**8,454,570**				**2,693,874**	**215,509**

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

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

26. Capital Adequacy continued

As at 31 March 2018 (unaudited)	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
On balance sheet credit exposures				
Cash	552	0%	-	-
Multilateral development banks	76,469	0%	-	-
Public sector entities	78,467	20%	15,693	1,255
Banks	203,870	20%	40,774	3,262
Banks	110,220	50%	55,110	4,409
Banks	42	150%	63	5
Corporates				
Rating grade 1	32,225	20%	6,445	516
Rating grade 2	45,357	50%	22,679	1,814
Rating grade 3 - 4	24,395	100%	24,395	1,952
Rating grade 5	367	150%	551	44
Residential mortgages				
<= 80% loan to value ratio (LVR)	1,519,961	35%	531,986	42,559
80 <= 90% LVR	55,618	50%	27,809	2,225
90 <= 100% LVR	1,767	75%	1,325	106
Past due	2,840	100%	2,840	227
Impaired	1,017	100%	1,017	81
Property investment residential mortgage				
< = 80% LVR	918,182	40%	367,273	29,382
80 <= 90% LVR	7,839	70%	5,487	439
90 <= 100% LVR	531	90%	478	38
Residential mortgages welcome home loans				
<= 90% LVR	339,010	35%	118,654	9,492
90 <= 100% LVR	50,783	50%	25,392	2,031
Reverse residential mortgage loans				
<= 60%	63,064	50%	31,532	2,523
60 <= 80%	7,129	80%	5,703	456
80 <= 100%	1,624	100%	1,624	130
Equity holdings	1,592	300%	4,776	382
Other assets	881,583	100%	881,583	70,527
Non-risk weighted assets	30,706	0%	-	-
Total on balance sheet credit exposures	4,455,210		2,173,189	173,855

As at 31 March 2018 (unaudited)	Total exposure after credit risk mitigation	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure / implied risk weighted exposure	Minimum pillar one capital requirement
Off balance sheet credit exposures						
Commitments with uncertain drawdown	30,727	50%	15,364	61%	9,442	755
Commitments to extend credit which can be unconditionally cancelled	348,467	0%	-	0%	-	-
Market related contracts[1]						
Interest rate contracts	2,423,452	n/a	10,955	22%	2,413	193
Credit valuation adjustment (CVA)					258	21
Total off balance sheet credit exposures	2,802,646		26,319		12,113	969
Total credit risk	7,257,856		26,319		2,185,302	174,824
Operational risk	n/a				236,474	18,918
Market risk	n/a				120,152	9,612
Total risk weighted assets	**7,257,856**				**2,541,928**	**203,354**

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

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

26. Capital Adequacy continued

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

	BANKING GROUP			
	On balance sheet 31/03/2019	Off balance sheet 31/03/2019	On balance sheet 31/03/2018	Off balance sheet 31/03/2018
LVR range				
0 - 80%	2,619,466	220,768	2,549,991	231,267
80 - 90%	463,216	3,379	366,706	5,584
90% +	47,598	2,511	52,668	1,873
Total residential mortgages	**3,130,280**	**226,658**	**2,969,365**	**238,724**

Welcome Home Loans make up 97% of the residential mortgages in the 90% + loan to valuation grouping as at 31 March 2019 (31 March 2018 96%) and 89% of the 80-90% loan to valuation grouping (31 March 2018 82%). The Welcome Home Loan product is fully insured by Housing New Zealand Corporation.

(iv) Reconciliation of mortgage related amounts

	BANKING GROUP	
	31/03/2019	31/03/2018
Gross residential mortgage loans (Note 11)	3,109,238	2,950,497
Other lending residentially secured	23,994	20,922
Provision for credit impairment relating to residential mortgages (Note 12)	(8,334)	(8,245)
Deferred fee revenue and expenses relating to residential mortgages	5,383	6,191
Residential mortgage loans net of provision for impairment	3,130,281	2,969,365
Off balance sheet exposures - undrawn commitments (Note 26(iii))	226,658	238,724
Total on and off balance sheet residential mortgage loans	**3,356,939**	**3,208,089**

(v) Market risk exposures (unaudited)

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			
	End of Period		Peak End of Day	
	31/03/2019	31/03/2018	31/03/2019	31/03/2018
Interest rate exposures				
Implied risk weighted exposure	119,600	120,152	119,828	122,625
Aggregate capital charge	9,568	9,612	9,586	9,810

(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 bank's 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 (31 March 2018 $25 million).

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

27. Related Parties

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

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

(a) Loans and advances to related parties

	31/03/2019	31/03/2018
Directors and other key management personnel		
Loans and advances outstanding at beginning of year	2,564	2,492
Net loans issued/(repaid) during the year	(938)	72
Loans and advances outstanding at end of year	**1,626**	**2,564**
Interest income earned on amounts due from related parties	**111**	**114**

Loans and advances with directors and key management personnel of the Banking Group are made either:

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

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

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 2019 (31 March 2018 $nil).

(b) Deposits from related parties

	31/03/2019	31/03/2018
Directors and other key management personnel		
Deposits at beginning of year	7,346	30,018
Net deposits received during the year	1,375	(22,672)
Deposits at end of year	**8,721**	**7,346**
Interest expense on amounts due to related parties	**269**	**711**

(c) Other transactions with related parties

During the year ended 31 March 2019, the Banking Group paid $0.21 million of dividends to non-controlling interests whom were key management personnel (31 March 2018 $0.36 million).

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.

Lifestages Investment 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 Corporate Bond Portfolio, Lifestages Australasian Portfolio, Lifestages World Equity Portfolio, Lifestages World Bond Portfolio and the Lifestages Deposit Portfolio (wound up 20 March 2018). FANZ is the manager of the above Investment Funds.

The cash of the Lifestages Deposit Portfolio fund was invested with SBS.

The Lifestages Investment funds that were invested with SBS were included in the statements of financial position as deposits from customers.

Lifestages KiwiSaver Scheme

The Lifestages KiwiSaver Scheme was established by trust deed on 30 April 2007 and is a registered KiwiSaver scheme under the KiwiSaver Act 2006. FANZ is the manager of the Scheme.

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

(d) Key management compensation

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

Notes to the Financial Statements for the year ended 31 March 2019 All in $000's

28. Fiduciary Activities

Funds management

The Banking Group markets and manages investment funds and a KiwiSaver scheme through its subsidiary FANZ. FANZ holds a Managed Investment Schemes ("MIS") license and a Discretionary Investment Management Scheme ("DIMS") license. It operates a financial advisory business providing custodial services, investment advice and portfolio management called FANZ Private Wealth. The Banking Group derives fee and commission income from these activities but is not responsible for any decline in performance of the underlying assets of the investors due to market forces.

The outstanding value of assets related to funds management activities is set out in the table below. These assets are not owned by the Banking Group and are therefore not included on the Banking Group's statement of financial position.

	31/03/2019	31/03/2018
Funds under management on behalf of customers	1,246,600	966,200

Securitised assets

As at 31 March 2019, the Banking Group had securitised assets amounting to $911 million (31 March 2018 $733 million). These assets have been sold to the SBS Invercargill W Trust and SBS Warehouse Trust No.2 (special purpose vehicles established for the purpose of purchasing residential mortgages from the Bank and funded through wholesale funding lines), the SBS Oreti Trust No. 2 (a special purpose vehicle investing in residential mortgages originated and funded by the Bank through issue of residential mortgage backed securities), Finance Now Warehouse Trust (a special purpose vehicle investing in a mixture of consumer and business loans and funded through wholesale funding lines) and TWGFS Warehouse A Trust (a special purpose vehicle investing in consumer credit card balances and funded through wholesale funding lines). Note 15 - Loan Securitisation provides further information on securitised assets. The Banking Group receives fees for various services provided to the securitisation vehicles on an arm's length basis, including servicing fees. These fees are recognised as earned. All securitisation vehicles form part of the Banking Group.

The SBS Oreti Trust No. 2 is an in-house residential mortgage backed securities (RMBS) facility that can issue securities that meet the RBNZ criteria to use as collateral in repurchase transactions with the RBNZ. The facility provides the Bank with additional contingent funding from the RBNZ. Further information on liquidity is provided in Note 23 - Liquidity Risk.

Insurance business

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

The total assets of Southsure Assurance Limited as at 31 March 2019 are $20.4 million (31 March 2018 $18.1 million) which is 0.4% of the total assets of the Banking Group (31 March 2018 0.4%). This complies with the Conditions of Registration of Southland Building Society, which allows a maximum of 1% of the total consolidated assets of the Banking Group to be represented by insurance business assets.

Policies and procedures exist to ensure that the insurance activities of the Banking Group are conducted in an appropriate manner. These include regular reviews of the operations of the insurance business by management. Should adverse conditions arise, these policies and procedures are expected to mitigate the impact of the conditions on the Banking Group.

Risk management

The Banking Group has in place policies and procedures to ensure that the fiduciary activities identified above are conducted in an appropriate manner. It is considered that these policies and procedures will ensure that any difficulties arising from these activities will not impact adversely on the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and internal auditors. Further information on SBS risk management policies and practices are included in Notes 22 to 25.

Provision of financial services

Financial services provided by the Banking Group to entities which are involved in trust, custodial, funds management and other fiduciary activities, are provided on arm's length terms and conditions and at fair value. Any assets purchased from such entities have been purchased on an arm's length basis and at fair value.

The Banking Group has not provided any funding to individual unit trusts which the Banking Group distributes on behalf of third parties. All entities involved in securitisation and insurance activities are members of the Banking Group.

29. Subsequent Events

There have been no material subsequent events after 31 March 2019.

KPMG

Independent Auditor's Report

To the members of Southland Building Society

Report on the consolidated Disclosure Statement

Opinion

In our opinion, the accompanying consolidated financial statements (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) of Southland Building Society (the Bank) and its subsidiaries (the Banking Group) on pages 11 to 60:

i. give a true and fair view of the Banking Group's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards ("NZIFRS") and International Financial Reporting Standards.

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"):

i. has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration;

ii. is in accordance with the books and records of the Banking Group in all material respects; and

iii. fairly states the matters to which it relates in accordance with those Schedules.

We have audited the accompanying consolidated financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) which comprise:

- the consolidated statement of financial position as at 31 March 2019;
- the consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the year then ended;
- notes, including a summary of significant accounting policies and other explanatory information; and
- the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.

Basis for Opinion

We conducted our Audit in accordance with International Standards on Auditing (New Zealand) (ISA's (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISA (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) section of our report.

Our firm has also provided other services to the Banking Group in relation to the review of the Banking Group's half-year Disclosure Statement, regulatory compliance, and taxation compliance. 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 auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $1,500,000 determined with reference to a benchmark of the Banking Group's surplus before tax. We chose the benchmark because, in our view, this is a key measure of the Banking Group's performance.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the members as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
Provisions for credit impairment – ($24.3 million – refer note 12)	
The primary business objective of the Banking Group is lending and the management of associated credit risk. The provision for credit impairment is a key audit matter because of the financial significance of the gross advances to which it relates, and the high degree of complexity and judgment required, and applied by management in estimating the appropriate provision. These factors resulted in significant audit effort being undertaken to address the risks around the recoverability of gross advances and the	Our audit procedures, amongst others, included: • Evaluating the design and implementation effectiveness of key controls relating to the Banking Group's lending, credit review and monitoring processes. • Testing the General IT control environment and relevant IT application controls of the Bank. • Testing key controls over arrears calculations, credit risk reviews, and model validations • Evaluating the basis, and adequacy, of individual provisions for credit impairment for those loans identified as being individually impaired within the Bank. This included inspecting evidence of the specific collateral held, externally

The key audit matter	How the matter was addressed in our audit
determination of the related provision for credit impairment. The Banking Group's provision for credit impairment comprises a collective provision and an individual provision. These provisions relate to the Bank's lending as well as those advances made by its consumer finance subsidiary, Finance Now Limited. The individual provision is based on the application of management's judgment and reflects provision for specific recoverability concerns relating to individual advances as identified by the Bank's internal credit monitoring processes. By their nature, individual provisions are inherently judgmental as they require management's assessment of future cash flows and evaluation of the significance and likelihood of factors giving rise to the concern resulting in a credit loss. The provision for collective credit impairment is based on the credit risk characteristics of the gross advances portfolio as a whole grouped into non-deteriorated, deteriorated or credit impaired. Those that are non-deteriorated or deteriorated are provided for on the basis of their 12 month or lifetime expected credit losses using a statistical analysis based on the Banking Group's historical loss experience (as adjusted by sector), advance repayment type, and previous default experience, as well as adjustments for macroeconomic considerations. In addition to the judgments applied by management in calculating the expected credit losses for gross loans and advances, judgment is also applied in determining the level of additional risk provisioning (overlay) required to account for model risk the inherent risk of model forecasting error, and where historic data is not considered to be sufficiently accurate or granular to apply as the sole basis for expected credit losses. This inherent subjectivity in determining the provision for credit impairment requires us to assess and challenge the appropriateness of management's assumptions relating to probability of default (PD), loss given default (LGD), and expected macroeconomic factors inherent in any overlay.	obtained valuation reports that support the Bank's security, and other market indicators of security values based on recent and comparable sales for the purpose of assessing the cash flows relating to those loans. • We also assessed whether there were any additional loans that ought to be included in management's individual provision through portfolio analytics (including monthly arrears analysis), inspection of Credit Risk Committee minutes and the related credit Watchlist for additions or removals from the individual provision testing. We also challenged loans previously identified as being individually impaired which at reporting date no longer had a provision and specifically considered development loans where undeveloped property was provided as collateral. • Testing key inputs used in the collective provision for credit impairment including arrears profile information, historic loss rates and losses incurred (for probability and loss given default inputs) as well as using a KPMG-constructed Model Review Tool to determine the accuracy of model output. • Assessing the accuracy of PD and LGD assumptions. We benchmarked the applied macroeconomic inputs to externally available data and challenged the basis for management's determination where different. • Assessing the rationale and methodology of management's additional collective impairment risk provisions, including the challenging whether key Governance oversight controls were in place to ensure the overall adequacy of the provisions held by the Banking Group for credit impairment. This included challenging the specific basis for the overlay, and assessing whether defined criteria under which the overlay will be reassessed, and where necessary, adjusted in future periods.

The key audit matter	How the matter was addressed in our audit
Operation of IT systems and controls	
The Banking Group is heavily dependent on complex IT systems for the processing and recording of a large volume of transactions each day, as well as other core banking activity. Given this, there are some areas of our audit where we seek to place reliance on IT systems, automated controls, and system generated reports. The ability to rely on IT is dependent on the Banking Group's General IT environment being designed, implemented, and operating effectively. This includes controls relevant to system changes and development, IT operations, developer and user access controls.	Our audit procedures, for the Bank, amongst others, included: • Gaining an understanding of business processes, key controls, and IT systems relevant to our planned audit approach; • Assessing the design and operating effectiveness of the General IT control environment, including core banking IT systems, in-scope automated controls, and in-scope reports; and • Evaluating General IT controls relevant to IT system changes, IT operations, developer and used access controls. Our procedures, for a subsidiary of the Bank, amongst others, included: • Performing additional substantive tests over the calculation of interest income, and the aging of advances which is a key input for the subsidiary's collective provision for credit impairment; • Evaluation, and where appropriate testing, compensating controls including management review controls and governance level controls; and • Performing additional substantive testing over related significant financial statement balances of advances where required to support our audit, specifically the existence of originated advances at the reporting date.

Other information

The Directors, on behalf of the Banking Group, are responsible for the other information included in the Bank's Disclosure Statement. Other information includes the information required to be disclosed in the Disclosure Statement in accordance with schedule 2 of the Order, and other information in respect of the Bank including directories. Our opinion on the consolidated Disclosure Statement does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated Disclosure Statement, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated Disclosure Statement or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

KPMG

Report on other legal and regulatory requirements

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Banking Group, as far as appears from our examination of those records.

Responsibilities of Directors for the consolidated financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements)

The Directors, on behalf of the Bank, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order, NZIFRS and International Financial Reporting Standards;
- the preparation and fair presentation of supplementary information (excluding the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements), in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal control to enable the preparation of consolidated financial statements that are 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 audit of the consolidated financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements)

Our objective is:

- to obtain reasonable assurance about whether the consolidated Disclosure Statement, including the financial statements prepared in accordance with Clause 24 of the Order, and supplementary information (excluding the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements), in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

KPMG

This description forms part of our independent auditor's report.

Review conclusion on the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Regulatory Liquidity Requirements and Capital Adequacy, disclosed in notes 23 and 26 to the Disclosure Statement, is not, in all material respects:

i. prepared in accordance with the Banking Group's conditions of registration; and

ii. disclosed in accordance with Schedule 9 of the Order.

We have reviewed the supplementary information relating to Regulatory Liquidity Requirements and Capital Adequacy, as disclosed in note 23 and 26 of the Disclosure Statement for the year ended 31 March 2019. The supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements comprises the information that is required to be disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion on the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

A review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements 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, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our responsibilities under that standard are further described in the Auditor's Responsibilities for the Review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements section of our report.

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.

Responsibilities of Directors for the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

The directors are responsible for the preparation of supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements that is required to be disclosed under Schedule 9 of the Order and prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) and described in note 26 to the Disclosure Statement.

KPMG

Auditor’s responsibilities for the review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

Our responsibility is to express a conclusion on the Capital Adequacy and Regulatory Liquidity Requirements information based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (“NZ SRE 2410”) issued by the New Zealand External Reporting Board. 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, and plan and perform the review to obtain limited assurance about whether the Capital Adequacy and Regulatory Liquidity Requirements information is, in all material respects:

- prepared in accordance with the Banking Group’s conditions of registration; and
- disclosed in accordance with Schedule 9 of the Order.

A review of the Capital Adequacy and Regulatory Liquidity Requirements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

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 supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements disclosures.

Use of this independent auditor’s report

This independent auditor’s report is made solely to the members as a body. Our work has been undertaken so that we might state to the members those matters we are required to state to them in the independent auditor’s 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 work, this independent auditor’s report, or any of the opinions or conclusions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is **Peter Taylor**.

For and on behalf of

KPMG

KPMG
Christchurch

29 May 2019

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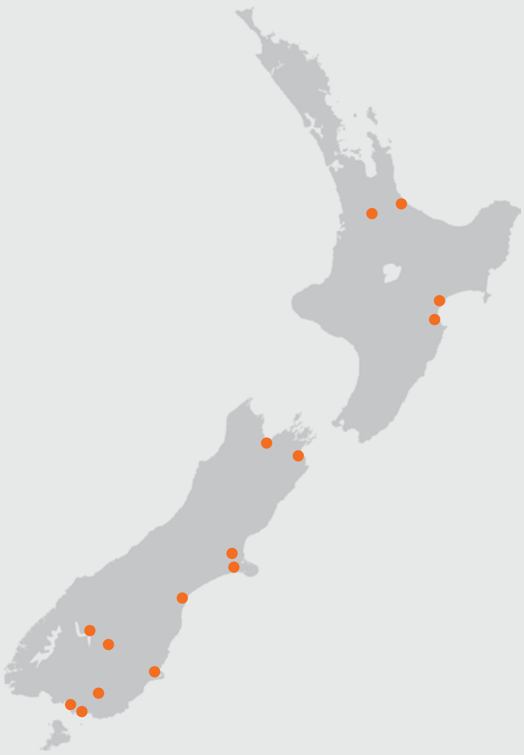

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