



SBS BANK
ANNUAL REPORT
AND FINANCIAL
STATEMENTS 2023

Helping Kiwis find a
place to call home.

Highlights.



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Group Chief Executive Officer
Mark McLean
Chartered Accountant
BCom (Acctg), DipGrad (Marketing)
Invercargill.

Secretary
Sonia Lawrence
Chartered Accountant
BCom (Acctg)
Regulatory Affairs, Invercargill.

Registered Office
51 Don Street,
Invercargill.

Solicitors
Buddle Findlay
83 Victoria Street,
Christchurch.

Auditors
KPMG
10 Customhouse Quay,
Wellington.

Chairman's report.



Joe O'Connell Chairman.

Lending Growth
\$624
MILLION

Welcome to our annual report for 2023, a year where we have celebrated 154 years as a successful and growing business delivering exceptional value to our Members.

Our founder James Walker Bain was determined to give the people of Southland an opportunity to get a mortgage and own a home. His passion was to build a financial institution owned by its Members, who used its services – a mutual. And that's exactly what we still are today. With branches, people and 24/7 banking right across New Zealand, we are a mutual bank owned by our Members, and are here for New Zealanders.

It has now been my first full financial year as Chairman and I have thoroughly enjoyed getting around the country to meet Members and team members alike. I am exceptionally proud to be at the helm of such a well-regarded and purpose-led organisation.

We are delighted to welcome 8,530 new Members to SBS Bank, bringing our total number of Members to just under 83,000.

This year certainly hasn't been without its challenges with unpredictable weather events and a tougher economic climate. We are proud of the way our teams have rallied together to find positive solutions for our Members and let them know that SBS is here to support them and their families.

I'm pleased to present this year's annual report entitled *Helping Kiwis find a place to call home*, which demonstrates a year of profitable and sustainable growth for the SBS Group.

Financial results

Total home lending increased from \$3.6b to \$4.0b. This was an exceptional result and well above the broader industry growth rate. In last year's report, I spoke of our focus on first home buyers. It is particularly pleasing that as part of our growth over the last year, we have increased the number of first home loans we are writing, with 1,449 welcomed in FY23, compared with 850 in FY22. This is a real credit to our team and the FirstHome Combo offering we have in the market.

Of course in order to lend, we need Members willing to invest, and we have had very strong growth in deposits, up from \$3.6b to \$4.2b. SBS was the first bank to offer a 4% term investment in June 2022 and we continued to lead the market on the 5% and 6% term investment interest rates, demonstrating the importance of a Member-owned organisation that's committed to giving back to its Members. It was particularly pleasing to be able to offer these market-leading investment rates to our loyal deposit holders who have come through a period of very low returns, but still stayed loyal and supported SBS.

We are pleased to report an operating surplus of \$51.8m for the year ending 31 March 2023, a reduction of \$9.5m from the previous year. The reduction has predominantly arisen due to last year's result being inflated due to the release of additional credit provisions that had been taken in response to the Covid-19 pandemic and a slight compression of our net interest margin.

The strong financial result is pleasing and ensures that we are in a strong position to continue our support to Members while still being able to invest back into the business through systems, people, skills and capability, to improve the services we provide.

With the prevailing economic headwinds such as rising costs, we are acutely aware of the importance to drive efficiencies and strength into our business, and we are very confident the SBS Group has the resilience to withstand the external pressures resulting from the tightening economic climate.

More choice for investment

For Members who want to grow their money with us, this year we launched a longer-term investment option in the form of the Capital Bonds No. 2 product. This is a debt security that's issued by the Bank as an unsecured, subordinated, redeemable share investment for a 10-year term, with a current interest fixed at 7.5% for the first five years and then reverting to a quarterly floating rate for the remaining five years – a healthy return in the current climate.

Having the right amount of the right type of capital is critical to all banks. Specifically, SBS uses its capital as part of the overall strategy of helping Kiwis find a place to call home. Whether it's a first or a future home, we strongly believe that the more people we can help get into a home, the better it is for our communities.

Strength in leadership

I would like to thank the SBS Group Executive teams for their dedication to leading and supporting their own teams and our Members. Remaining focused on our purpose and strategy has enabled us to concentrate on the areas that matter the most to us as a business.

It's my pleasure to formally welcome Linda Robertson to the SBS Board. Linda joined on 1 April as a professional non-executive director with more than 20 years' governance experience. In the corporate environment, she has worked predominately in the finance

and energy sectors where she held various senior management roles. She has been a full-time company director since 2015 and is an experienced director, chair, committee chair and brings with her extensive treasury experience.

We also welcomed Phil Ellison to the Board this year as a non-executive director. Phil was appointed to the Board in July 2022 after finishing his 22-year tenure as CEO of Finance Now Ltd (our subsidiary finance company) which Phil co-founded. Phil brings with him an extensive knowledge of the wider financial services sector and digital technologies that will be extremely valuable to us as we increase our investment in our digital channels.

We look forward to significant contributions from both Linda and Phil.

This year we farewelled long-standing Board director Kathryn Ball who joined the SBS Board in 2006 and took on the role of deputy chair in 2016 as well as chairing the Audit and Risk Committee. Kathryn brought a wealth of knowledge to the organisation and I would like to thank her for her long-standing commitment to SBS.

We will also farewell Board director Greg Mulvey, who will retire after this year's AGM in July. Greg's contribution to the Board spans close to 20 years as chair of both the Remuneration and IT Committees, member of the Audit and Risk Committee as well as being a trustee of the SBS Charitable Trust. Greg is also a director of SBS Wealth. Thank-you Greg for the contribution you have made.

The pace of change and obligations on directors is making the role of directors in all sectors more demanding. It is important that I acknowledge my fellow directors and their contribution during the year. We are lucky to have a very diverse and experienced Board of Directors who have a passion for SBS and its purpose of 'Helping Kiwis find a place to call home'.

SBS Wealth CEO Graham Duston also retires in July after leading this business for the last 21 years. Graham has been an integral part of the SBS Wealth story, helping to grow the wealth management part of the SBS Group to serve a total of 21,000 clients nationally with more than \$1.4b of funds currently under management.

I would also like to welcome Morne Redgard into the role of SBS Wealth CEO. Morne has more than 20 years of experience in the financial services industry, having held several senior leadership positions at financial services firms in South Africa and New Zealand, including his most recent role as Chief Customer Officer at Kiwi Wealth.

Our subsidiaries continue to be important contributors to the group. It is encouraging that despite the softening economic climate, all subsidiary entities have a very positive long-term view of the future and see good growth opportunities ahead. We are appreciative of the subsidiary teams and their efforts and look forward to their continued success.

Here for New Zealanders

As we look ahead, our strategic focus is firmly on innovation and finding better ways to support our Members as your needs evolve. Thank you to all our valued Members for your continued support. This is your bank and we strive to provide you the very best value as we continue to grow and prosper as a New Zealand-owned mutual organisation where 100% of the profits are invested back into New Zealand.

Group CEO's report.




Mark McLean Group CEO.

Member Deposit Growth

\$655
MILLION

Since our doors opened in 1869, SBS Bank has been focused on supporting our Members into home ownership and beyond.

To look back over this last year and know we have helped so many first home buyers into their very own homes is an outstanding achievement in a period that has presented many challenges for New Zealanders.

First home buyers were among the surge in new Members SBS welcomed this year, and we are proud to be on the journey to home ownership with them.

This growth demonstrates our strategic focus on providing the best value and support when it comes to home lending, and follows our investment in products such as our SKIP mobile experience to educate Members as they take this exciting step.

In less than two years, our market-leading SBS FirstHome Combo has benefited more than 2,300 first home buyers, and it's one of the ways we're proud to pass tangible benefits back to our Members, particularly the younger generation getting on the property ladder.

I'm immensely proud of the SBS teams that walk through the home-buying process with so many of our first home buyers who range from 21-year-olds to second-chance buyers, meaning one size definitely doesn't fit all and it's never too late to pursue the Kiwi dream of home ownership.

Being named as the 2022 Canstar Bank of the Year for Home Loans and the 2022 and 2023 Canstar Bank of the Year for First Home Buyers pays testament to the efforts of the entire SBS Bank team. Ensuring our competitive pricing and superior product features continue to provide our growing membership with yet another reason to bank with a mutual organisation demonstrates that we put Members at the heart of everything we do.

More than 85 per cent of the first home buyers we worked with over the last year were located outside of Southland – illustrating our continuing expansion and the growing love for the SBS brand nationally.

Although many of our Members are no longer first home buyers, they tell us they like being part of a bank that supports the next generation.

Commitment to innovation

As investment in our digital capability continues, it's pleasing to see our Members enjoying more choice about when and where they bank with us.

Online term deposit applications more than doubled this year, and we've made it much easier to instantly open an account with us online.

As a result, many of the new Members joined us through one of our digital channels. Optimising our online home loan application process is a next priority in our commitment to digital innovation and support for Members in their channel of choice.

For those who still enjoy meeting our friendly teams face-to-face, investment in our branch network continues. Relocation of our Papanui Branch to the new, modern branch in Northlink and the relocation of our Tauranga branch are

the latest examples of improved branch experiences where the same, helpful branch teams now service the area from modern, purpose-built facilities.

Most of our frontline service consultants have upskilled their banking knowledge, which means we can have more in-depth quality conversations about a wider range of banking needs in-branch.

I was proud to see SBS teams pull together to help Members affected by weather events, such as the floods and Cyclone Gabrielle which saw our branch managers work alongside local communities to understand the ways we could best lend support.

As instances of fraud have increased, at an industry level, our risk and fraud teams continue to focus their efforts on our strong cyber security control measures to keep your money secure.

Stronger together

This year, our fund management business Funds Administration New Zealand (FANZ) rebranded to SBS Wealth. Together with SBS Insurance and Finance Now, we are seeing our SBS Group of companies align as a strong group of specialists to support our Members with finance, investing and insurance. All our trading subsidiaries are an essential part of our success and have contributed significantly to this year's financial results.

'Performance with a Heart' is our new team member wellbeing programme that demonstrates we understand what's important to our people, offering choices around flexibility and work-life-balance - essential to attracting and retaining talent across all generations.

150 members of the SBS team hit the books and now hold the NZ Certificate in Financial Services Level 5 (v2). This is an amazing achievement, which all of these team members should be immensely proud of.

It was a pleasure to welcome our new Chief Financial Officer Jeff Mitchell to the executive leadership team in September 2022. A chartered accountant with 20 years' experience

in financial management, Jeff joined us from roles in financial services across New Zealand, Ireland and England. Jeff has already made a significant contribution around the table through his strategic thinking and passion for the organisation.

At the heart of our communities

I always enjoy opportunities to meet with Members in all the different ways SBS teams are active in our communities and we take pride in the broad portfolio of groups, charities, arts, sports and events we sponsor in our backyard.

We've also been getting out and volunteering in the environment through working bees such as the Cranford Basin tree planting day in Christchurch, and through our ongoing sponsorships including the Southern Coastal Charitable Trust, which gives time and dedication to keeping our coastline clean.

Conscious of our own environmental footprint, we are exploring each area of our operations to find opportunities for change, and this year that's resulted in a further 29 per cent reduction in vehicle emissions and a printing reduction of nearly one million pages of paper.

Supporting you

We recognise the uncertainty many Kiwi families are facing with higher living costs and a weakening economic cycle.

As a mutual-owned bank, it's our priority to support Members and the Group is in a good position to help you through the challenges, and opportunities, ahead.

Just as our founders did 154 years ago, we continue to build SBS for the future and remain 100 per cent committed to providing great outcomes for our Members, who own us, in whatever stage of life you are in.

“To look back over this last year and know we have helped so many first home buyers into their very own homes is an outstanding achievement in a period that has presented many challenges for New Zealanders.”

Mark McLean Group CEO.



Building strong communities.



SBS Bank CEO Mark McLean with the Central Otago Budget Services team, Pam Hughes (left) and Jo Ellison earlier this year.

As the bank with heart, SBS Bank is here to make an authentic, sustainable impact for our Members and the communities we operate in. We firmly believe home ownership is the pathway to building strong communities, and that's why we are so committed to working hard to help New Zealanders into their own homes.

This year there was much to celebrate as we helped even more first home buyers achieve the dream of home ownership – a great success in a period that has presented many challenges for New Zealanders as living costs have increased.

It's an amazing feeling when Members get their loan approved and receive the keys to their first home, and we are proud to work together to make that happen for them.

Our help starts early on the home ownership journey, with our First Home Buyers Hub and SKIP mobile experience providing aspiring home buyers the guidance and tools they need to get ready for a loan.

The SBS FirstHome Combo then combines product offerings from SBS Bank as well as all of our subsidiary businesses in the form of a highly

competitive first home buyers' home loan (1% lower than standard market carded rates), along with KiwiSaver and insurance cash contributions.

We also introduced the 'Great Rate Roar Down' initiative as a fun way to demonstrate our commitment to first home buyers this year. It invites the crowd to show support for first home buyers by making as much noise as possible over the half-time break. The louder the cheer, the further the home loan rate dropped for the chosen SBS Bank first home buyer. The Great Rate Roar Down made its debut at the Highlanders v Western Force Super Rugby Pacific match in March 2023, followed by the Southland Sharks basketball match in April and another Highlanders game in May. These helped young first home buyers secure 12-month, fixed-term home loan rates of 3.99% and 4.12%, significantly below our market-leading rate of 5.79% for the FirstHome Combo package.

Our commitment to home ownership extends to our established partnership with sustainable housing providers such as the Queenstown Lakes Community Housing Trust, the Housing Foundation and Kāinga Ora – Homes and Communities.

Supporting Members in their channel of choice

As a mutual organisation, you, our Members, are at the very heart of who we are and our reason for being. We remain 100% committed to delivering exceptional value back to our Members at all stages of their lives through our people, products and services, our branches, contact centre and digital channels.

As we continue to innovate and improve our digital banking offerings, we know it's important we partner with our Members to ensure we grow together. Our digital inclusion programmes focus on assisting Members through in-branch sessions and online training to foster confidence with using our online banking platforms, alongside our 14 branches across the country.



Bei Campbell and George Ahern from Auckland in their first home with the help of the SBS FirstHome Combo.



Our Papanui and Riccarton teams were excited to get stuck in to help Conservation Volunteers NZ with planting native trees in Cranford Basin.



Sponsorship of the Southland Football women and girls.



First home buyer Georgia got her one-year home loan rate down to 3.99% p.a. thanks to a roaring crowd at the Highlanders game in Invercargill.



Our Nelson team volunteering to help prepare the hanging baskets to be displayed down the main street.



SBS Bank volunteers helping out at the New Zealand Open Championship at Millbrook Resort, Arrowtown. (Photo: Photosport.nz).

“As a mutual organisation, you, our Members, are at the very heart of who we are and our reason for being. We remain 100% committed to delivering exceptional value back to our Members at all stages of their lives, through our people, our products and our services.”

Mark McLean Group CEO.

Loving banking – sustainability at heart

SBS was founded on the principles of sustainability and it's engrained within our business practices as we remain committed to protecting our environment and reducing our carbon footprint.

This year, we adopted a new environmental strategy to set a foundation of environmental management for the next financial year.

We continue to see a reduction in our environmental footprint, with fewer paper statements posted out this year as we improved our digital offering and Members approach online banking with confidence. Our fleet of hybrid vehicles has contributed to an ongoing reduction in fleet emissions.

Our diversity and inclusion strategy has been in place for three years and this year is being revised and updated to ensure our focus reflects the needs of our Members, the community and our people.

At the end of FY23, the SBS Board of Directors comprised eight directors who are responsible for the overall governance of the bank. We believe it's important to have a diverse range of backgrounds and viewpoints to fully represent all our stakeholder groups and we remain committed to improving this.

Caring for our communities

All of our profits stay right here in New Zealand. As we don't have shareholders, our Members are our owners and our very reason for being, so we can ensure we give to our communities and remain focused on safeguarding SBS Bank for generations to come.

Our community partnerships are an integral part of who we are, and we take pride in the broad portfolio of groups, charities, arts, sports and events we sponsor in our backyard.

These include Southland Loss and Grief Centre, Invercargill Musical Theatre, the SBS Bank Otago Sparks cricket team, Christchurch Community House, the SBS Bank Tour of Southland, the Southland Football women's and girls' teams, the Southland Stags and the Highlanders.

SBS Bank CEO Mark McLean had the opportunity to spend the morning with Pam Hughes and Jo Ellison, from Central Otago Budget Services, experiencing a 'day in the life' of a financial mentor. This was organised through FinCap's partnership with the New Zealand Banker's Association (NZBA) to see the financial challenges whānau are facing in our communities, and to help us all consider how banks can help.

We've recently partnered with Raizor in the Shop2Give online marketplace. This was developed for the benefit of people wanting to support charitable initiatives and local community causes with their purchasing decisions. Every transaction generates a rebate that is donated to the user's nominated charitable cause.

Meet your Executive team.



SBS Bank has a strong executive leadership team with a broad and balanced mix of skills and experience. We're all part of a genuine Kiwi story with a proud heritage and an exciting future, helping our fellow Kiwis get ahead.

As a management team, our focus is on new strategic initiatives and core business performance, while creating a workplace where our teams can deliver on our purpose – helping Kiwis find a place to call home.

Together with the Board, we are committed to the highest levels of excellence in delivering exceptional value for our Members.

We welcomed Jeff Mitchell as our new Chief Financial Officer in September 2022. Jeff is a proud Kiwi who strongly believes in the concept of mutuality and is passionate about the role that

a strong and sound financial system can play in the long-term prosperity and wellbeing of the communities in which we live.

The Executive team is supported by highly skilled experts across the business and offers guidance and expertise to ensure that every team member at SBS has the support they need to feel they are making a positive difference in their roles.

As a mutual organisation, our commitment to putting Members at the heart of every decision has always been a vital guiding principle. Our Executive team encourages you to reach out to any of them directly to share your thoughts and suggestions to ensure we are meeting your expectations and banking needs as a Member.

Top row left to right:

*Mark McLean
SBS Group CEO*

*Hamish McKenzie
General Manager People & Support*

*Jeff Mitchell
Chief Financial Officer*

Bottom row left to right:

*Rowena Thompson
Group Chief Risk Officer*

*Shane Evans
Chief Transformation Officer*

To view our Executive profiles on our website please visit:

sbsbank.co.nz/About-Us/Our-People

Your Board of Directors.

Joe O’Connell B.Com, FCA, CFInstD
Chairman

A Fellow of the Institute of Chartered Accountants and a Chartered Fellow of the Institute of Directors, Joe joined the SBS Bank Board in 2017 and has been chairman since July 2021. He is an experienced director with a financial background that spans many industries such as transportation, concrete, timber processing, exploration piling and drilling, commercial property, fuel distribution and electrical distribution networks.

Joe was Invercargill Airport Chairman (2011-2016), overseeing the redevelopment of all land-side and terminal facilities as well as negotiating commercial terms for the company to secure its long-term viability.

He spent six years as general manager of finance for H W Richardson Group and more recently has focused on directorships and management consulting work with a large amount of time being spent with the K G Richardson group of companies.

Chairmanships: SBS Bank.

Directorships: Finance Now Limited, Southsure Assurance Limited, Abbott Group, Fraser Properties Limited.

SBS committee memberships: Board Appointments Committee (chair), Due Diligence Committee (chair), Group IT Committee, Talent and Remuneration Committee.

Trusteeships: SBS Charitable Trust.

Mike Skilling BAgrSci, PGDipBank, SFFINSIA, CMInstD
Deputy Chair

Mike joined the SBS Board in August 2014. He is an independent director of various companies spanning funds management, insurance, mortgage broking, dairy/sheep/beef/crop/ horticultural farming, consumer finance and early childhood education.

Mike has in-depth experience in retail, private, rural and business banking together with insurance, managed funds and finance companies. In previous roles, he has led both the agribusiness and business banking arms of BNZ including small business, medium/large business, international trade, property, plant and machinery finance and private banking teams.

He is a Senior Fellow of the Financial Services Institute of Australasia (FINSIA) and a Chartered Member of the New Zealand Institute of Directors.

Chairmanships: Funds Administration New Zealand Limited.

Directorships: SBS Bank, Fraser Properties Limited.

SBS committee memberships: Group Audit and Risk Committee, Board Appointments Committee.

Trusteeships: SBS Charitable Trust.

Sarah Brown BA LLB, CFInstD

Sarah is a former commercial lawyer who is now a professional director and has had extensive governance experience. She was previously on the Southern Institute of Technology Council for 11 years, six of them as Chair. She has also served on the Boards of Electricity Invercargill and PowerNet.

Sarah is currently a director of NZX-listed PGG Wrightson Ltd, where she has been Audit Chair since May 2021.

Sarah was appointed to the SBS Board in January 2022. She is a passionate Southlander and brings a wealth of experience and knowledge to the SBS Board.

Directorships: SBS Bank, Fraser Properties Limited, Southsure Assurance Limited.

SBS committee memberships: Group Audit and Risk Committee.

Trustee: SBS Charitable Trust.

Phil Ellison BMS, MInstD

Phil is a professional director with over 30 years’ experience in the consumer finance sector, including 22 years at Finance Now Ltd, spending over 16 years of those in the role of CEO. He is a Member of the Institute of Directors and until recently was Deputy Chair of the Financial Services Federation. Phil currently chairs the Professional Golfers’ Association (PGA) of New Zealand, supporting the professional golf members of New Zealand and is an active member of the NZ ICE Angels, advising a number of start- up businesses. Phil has a Bachelor of Management Studies – Marketing and Finance from the University of Waikato.

Phil was appointed to the SBS Board in 2022.

Directorships: SBS Bank, Funds Administration New Zealand Limited, Fraser Properties Limited.

SBS committee memberships: Group IT Committee.

Kevin Murphy FCA, CFInstD

As the former managing director/ CEO of TSB (previously TSB Bank), Kevin oversaw the bank’s ambitious New Zealand-wide growth programme that had a focus on both branch presence and digital offerings.

He has continued to serve his community and has been a long-serving member of New Plymouth Operatic (also a life member), is a business advisor and life member of Musical Theatre New Zealand, and a committee member of the Dame Malvina Major Foundation.

Kevin was appointed to the SBS Board in November 2018.

Chairmanships: Finance Now Limited.

Directorships: SBS Bank, Fraser Properties Limited.

SBS committee memberships: Due Diligence Committee, Board Appointment Committee, Group Audit and Risk Committee.

Linda Robertson BCom, PGDipBank, CFInstD, CTP, FINFINZ, MAICD

Linda is a professional non-executive director with over 30 years’ governance experience. In the corporate environment she has worked predominately in the finance and energy sector where she held various senior management roles.

Linda has been a full-time company director since 2015 and is an experienced director, chair and committee chair. She has a Bachelor of Commerce Degree and a Diploma in Banking and is a Certified Treasury Professional. Linda is a Distinguished Fellow of the Institute of Finance Professionals New Zealand and a Chartered Fellow of the Institute of Directors.

Linda is currently chair of the Central Lakes Trust and Crown Irrigation Investments Limited and is a director of Invercargill City Holdings Limited, Kordia Group Limited, Horizon Energy Group, NETcon Limited and Alpine Energy Limited.

Linda was appointed to the SBS Board in April 2023.

Directorships: SBS Bank, Fraser Properties Limited.

SBS committee memberships: Group Audit and Risk Committee, Due Diligence Committee.

Mark O’Connor BCom, FCA, FNZIM

Mark is a qualified accountant who has primarily been involved in senior management roles in the New Zealand port sector for more than 25 years. He is the former CEO of NZX-listed company South Port NZ, a position he held for 18 years.

Appointed to the SBS Board in August 2018, Mark is also a director of Nevele R Stud.

Chairmanships: Southsure Assurance Limited.

Directorships: SBS Bank, Fraser Properties Limited.

SBS committee memberships: Group Audit and Risk Committee (chair), Talent and Remuneration Committee.

Greg Mulvey BCom, FCA, FNZIM

Greg is a qualified accountant with 40 years’ experience in the corporate sector including 30 years as general manager of the Invercargill Licensing Trust.

Greg was appointed to the SBS Bank Board in 2004.

Directorships: SBS Bank, Funds Administration New Zealand Limited, Fraser Properties Limited.

SBS committee memberships: Talent and Remuneration Committee (chair), Group IT Committee (chair), Group Audit and Risk Committee.

Trusteeships: SBS Charitable Trust.



Joe.

Mike.

Sarah.

Phil.

Kevin.

Linda.

Mark.

Greg.

Subsidiaries.



Graham Duston
NCFS, B.Com, PG Dip.
SBS Wealth CEO.

The retention of funds and helping investors to stay the course in a turbulent environment, combined with tight cost control, and a rebound in investment markets led SBS Wealth to produce a solid operating surplus contribution to the Group.

The financial year marks a tumultuous period in SBS Wealth's history. The start of 2022 saw little indication that the year would rank alongside the worst investment periods since 1994. December 2022 saw the NZ Government Stock Index produce a -10% return. Needless to say, 2022 was a year of preserving capital for investors and ensuring that when markets rebounded we could be well positioned. We were able to do this for investors and when markets rebounded in the first quarter of 2023, investors saw most of the losses of 2022 recovered in 90 days.

It was also pleasing to see that the Lifestages KiwiSaver Scheme finished the 2022-2023 year as one of the top performing KiwiSaver schemes, both in terms of absolute and relative performance numbers. Highlights of the year included rebranding the Advice business to SBS Wealth and further developing our investment offering.

I will be retiring at this year's AGM. The last 21 years has been a period of ever-changing investment markets and often challenging times for Members and staff. I am proud of our staff who are fierce advocates for our investors and who really make a difference in so many people's lives. That's very humbling. The business has a great base on which to build, and I know it will continue to grow and thrive.



Tony Gaskin
CA, BBS (Accountancy)
SBS Insurance Director and CEO (Acting).

Strong operating surplus contribution to the Group, with continued investment in people, systems and processes to support Members and Group customers with their insurances.

I took over the Acting CEO role due to my extensive insurance industry experience and my role on the SBS Insurance Board. My main areas of focus have been additional recruitment and a review of the overall company strategy, which has set us on a strong trajectory with a clear vision and purpose for SBS Insurance.

A key milestone for the next 12 months will occur at the end of September 2023 when we will complete the transition of our Vero Fire and General customers to a "Net Broker" relationship.

We are also working through the transition to a new CEO while leveraging our opportunities across distribution and other business functions to work more closely with other SBS Group companies. I am pleased with the progress we have made over the past 12 months as we continue to enhance and improve our business.



Hadyn Halls
Finance Now CEO.

Finance Now finished FY23 with a very strong result, achieving double-digit growth in both volume and receivables across our core products of personal loans, credit cards and, in particular, the motor vehicle channel, which was a standout performer

I am pleased with Finance Now's contribution to the Group operating surplus in a year that has been more challenging. Funding costs have increased throughout the year with multiple Official Cash Rate increases and consumers impacted by the cost-of-living increases. Finance Now's receivables portfolio continues to outperform competitors from an asset quality perspective with lower than industry levels for consumer credit impairment write-offs.

As we look ahead, we have held conservative levels of collection provisioning while also having robust processes in place to support our customers.

Costs of doing business also rose and the business challenged itself to manage these increases with efficiency gains and achieving benefits through scale. Key investments were made in: launching a new online banking site emoney.co.nz in October 2022; streamlining application flow to enhance the customer experience, and the utilisation of data smart tools to drive efficiencies.

With our team members being the key to our past and future successes, good progress has been made on the people strategy. Testament to this has been the attraction, retention, development, and well-being of team members during the year.

The business has achieved a lot in the last 12 months with strong growth and has set itself up for another busy year – one in which a lot of focus remains on managing margin as well as portfolio management as we face the economic challenges that New Zealand is sailing into.

Disclosure Statement.

For the year ended 31 March 2023.

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Abbreviations

The following abbreviations are used throughout the report:

AT1	Additional tier 1
BPR	Banking prudential requirement
CET1	Common equity tier 1
CVA	Credit valuation adjustment
ECL	Expected credit losses
FLP	Funding-for-lending program
FVTPL	Fair value through profit or loss
FVOCI	Fair value through other comprehensive income
ICAAP	Internal capital adequacy assessment process
LVR	Loan-to-valuation ratio
NZ GAAP	New Zealand Generally Accepted Accounting Practice
NZ IAS	New Zealand equivalents to International Accounting Standards
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
OCR	Official cash rate
RBNZ	Reserve Bank of New Zealand
REM	Reverse equity mortgage
RMBS	Residential mortgage backed security
ROU	Right-of-use

Disclosure Statement.

For the year ended 31 March 2023.

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Registered Bank Disclosures

This section contains the additional disclosures required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

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Directors' Statement

Independent Auditor's Report

Independent Limited Assurance Report

Southland Building Society

Income Statement for the year ended 31 March 2023.

All in \$000's

	Note	31/03/2023	31/03/2022
Interest income		287,452	192,337
Interest expense		48,466	21,764
Dividends on redeemable shares		98,326	37,401
	(2)	146,792	59,165
Net interest income		140,660	133,172
Fee and commission income		24,903	25,370
Fee and commission expenses		346	585
Net fee and commission income	(3)	24,557	24,785
Other income	(4)	5,766	5,868
Total operating income		170,983	163,825
Operating expenses	(5)	106,557	96,567
Credit impairment losses	(12)(c)	12,671	5,977
Operating surplus		51,755	61,281
Net gain/(loss) from financial instruments at fair value through profit or loss	(6)	(32)	(207)
Share of associates profit net of tax		1,230	819
Surplus before income tax		52,953	61,893
Less income taxation expense	(7)	14,711	17,030
Net surplus		38,242	44,863
Attributable to:			
Members' interests		38,242	44,863
Non-controlling interests		-	-
		38,242	44,863

Southland Building Society

Statement of Comprehensive Income for the year ended 31 March 2023.

All in \$000's

	31/03/2023	31/03/2022
Net surplus for the year	38,242	44,863
Items that may not be reclassified subsequently to profit or loss		
Net change in property, plant and equipment reserve, net of tax	295	536
Items that may be reclassified subsequently to profit or loss		
Net change in fair value through other comprehensive income ("FVOCI") reserve, net of tax	(1,718)	(19,643)
Net change in cash flow hedging reserve, net of tax	6,415	48,480
Other comprehensive income for the year, net of tax	4,992	29,373
Total comprehensive income for the year	43,234	74,236
Attributable to:		
Members' interests	43,234	74,236
Non-controlling interests	-	-
	43,234	74,236

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

Southland Building Society
Statement of Changes in Equity for the year ended 31 March 2023.

All in \$000's

Banking Group as at 31 March 2023	Retained earnings	Reserves			Total equity attributable to members' interests	Non-controlling interests	Total equity
		Property, plant and equipment	FVOCI	Cash flow hedging			
Balance as at 31 March 2022	431,129	2,042	(14,162)	43,943	462,952	-	462,952
Net surplus for the year	38,242	-	-	-	38,242	-	38,242
Other comprehensive income for the year							
Revaluation/change in fair value	-	402	(2,386)	8,883	6,899	-	6,899
Current/deferred tax impact	-	(107)	668	(2,468)	(1,907)	-	(1,907)
Total comprehensive income for the year	38,242	295	(1,718)	6,415	43,234	-	43,234
Transfer from revaluation reserve	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
As at 31 March 2023	469,371	2,337	(15,880)	50,358	506,186	-	506,186

Banking Group as at 31 March 2022	Retained earnings	Reserves			Total equity attributable to members' interests	Non-controlling interests	Total equity
		Property, plant and equipment	FVOCI	Cash flow hedging			
Balance as at 31 March 2021	385,874	1,898	5,481	(4,537)	388,716	-	388,716
Net surplus for the year	44,863	-	-	-	44,863	-	44,863
Other comprehensive income for the year							
Revaluation/change in fair value	-	602	(27,282)	67,564	40,884	-	40,884
Current/deferred tax impact	-	(66)	7,639	(19,084)	(11,511)	-	(11,511)
Total comprehensive income for the year	44,863	536	(19,643)	48,480	74,236	-	74,236
Transfer from revaluation reserve	392	(392)	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
As at 31 March 2022	431,129	2,042	(14,162)	43,943	462,952	-	462,952

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

Southland Building Society
Statement of Financial Position as at 31 March 2023.

All in \$000's

	Note	31/03/2023	31/03/2022
Assets			
Cash on hand and at bank		55,005	56,570
Funds with financial institutions and central bank	(8)	128,411	93,981
Investment securities	(9)	574,722	495,393
Derivative financial instruments	(10)	95,966	64,111
Advances to customers	(11)	5,024,728	4,400,578
Investments in associates	(14)	10,515	9,347
Other assets		67,469	45,646
Property, plant and equipment		18,956	19,242
Right-of-use assets		19,370	24,527
Goodwill and intangible assets		9,614	10,400
		6,004,756	5,219,795
Liabilities			
Redeemable shares	(16)	4,096,601	3,337,489
Deposits from customers	(16)	69,007	131,980
Medium term notes	(16)	148,924	148,597
Commercial paper	(16)	346,284	345,891
Due to other financial institutions	(16)	668,065	600,797
Derivative financial instruments	(10)	18,850	4,835
Current tax liabilities		5,044	372
Deferred tax liabilities	(7)	11,026	6,701
Other liabilities	(17)	70,548	74,851
Subordinated redeemable shares	(16)	64,221	105,330
		5,498,570	4,756,843
Net assets			
		506,186	462,952
Equity			
Reserves		36,815	31,823
Retained earnings		469,371	431,129
Attributable to members of the society		506,186	462,952
Attributable to non-controlling interests		-	-
		506,186	462,952

For and on behalf of the Board of Directors:


Chairman
AJ O'Connell
24 May 2023


Deputy Chair
MJ Skilling

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

	Note	31/03/2023	31/03/2022
Cash flows from operating activities			
Interest received		277,931	189,556
Fees and other income		46,048	43,455
Dividends received		105	114
Interest paid		(39,900)	(22,429)
Dividends paid on redeemable shares		(76,197)	(41,079)
Operating expenses		(141,717)	(119,569)
Income taxes received/(paid)		(7,621)	(14,581)
Net cash flows from operating activities before changes in operating assets and liabilities		58,649	35,467
Net changes in operating assets and liabilities			
Change in advances		(631,879)	(365,395)
Change in shares and deposits from customers		673,827	(77,818)
Change in medium term notes		-	148,366
Change in commercial paper		393	1,469
Change in amounts due to other financial institutions		59,815	259,191
Change in subordinated redeemable shares		(40,729)	-
Net cash flows provided by/(used in) operating activities	(19)	120,076	1,280
Cash flows from investing activities			
Change in investment securities		(79,779)	38,834
Change in funds with financial institutions		1,787	717
Acquisition of associated investments	(14)	(475)	(831)
Proceeds of property, plant and equipment		434	1,342
Purchase of property, plant and equipment		(2,121)	(2,323)
Purchase of intangible assets		(2,282)	(2,396)
Dividends from associates		537	439
Net cash flows provided by/(used in) investing activities		(81,899)	35,782
Cash flows from financing activities			
Lease payments		(3,560)	(3,695)
Net cash flows provided by/(used in) financing activities		(3,560)	(3,695)
Net increase/(decrease) in cash held		34,617	33,367
Add opening cash and cash equivalents		146,856	113,489
Closing cash and cash equivalents		181,473	146,856
Reconciliation of cash and cash equivalents			
Cash on hand and at bank		55,005	56,570
Funds with financial institutions	(8)	126,535	90,318
Interest accrued on assets at amortised cost		(67)	(32)
		181,473	146,856

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 Banking (Prudential Supervision) 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 24 May 2023.

Information in the financial statements is included only to the extent we consider it material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- the amount is significant in size (quantitative factor);
- the information is significant by nature (qualitative factor);
- the user cannot understand the Banking Group's results without the specific disclosure (qualitative factor);
- the information is critical to a user's understanding of the impact of significant changes in the Banking Group's business during the period (qualitative factor);
- the information relates to an aspect of the Banking Group's operations that is important to its future performance (qualitative factor); or
- the information is required under legislative requirements of the Financial Markets Conduct Act 2013 or by the RBNZ.

Basis of measurement

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, 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 7 - Deferred tax assets

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.

1. Statement of General Accounting Policies continued

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.

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.

Changes in accounting policies

There have been no changes in accounting policies and all accounting policies adopted are consistent with those used in the financial year ended 31 March 2022.

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.

General hedge accounting - NZ IFRS 9 introduced new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging financial and non-financial risks. NZ IFRS 9 provides the Banking Group with an accounting policy choice to continue to apply the NZ IAS 39 hedge accounting requirements until the IASB's ongoing project on macro hedge accounting is completed. The Banking Group continues to apply the hedge accounting requirements in NZ IAS 39.

NZ IFRS 17 - Insurance contracts establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts that fall within the scope of the standard. This standard, which becomes effective for annual reporting periods commencing on or after 1 January 2023 is expected to be initially applied in the financial year ending 31 March 2024. It will replace the current standard, NZ IFRS 4 - Insurance Contracts. The Banking Group is working through the implementation but is not yet able to reasonably estimate the impact of NZ IFRS 17 on its financial statements.

2. Net Interest Income

		31/03/2023	31/03/2022
Interest income	Financial assets measured at		
Cash at bank	Amortised cost	1,167	121
Funds with financial institutions	Amortised cost	1,347	166
Investment securities	FVOCI	21,182	6,236
Derivative financial instruments	At fair value	24,793	-
Advances to customers	Amortised cost	232,996	181,712
Advances to customers	Fair value through profit or loss	5,893	4,037
Advances to customers - impaired	Amortised cost	74	65
Total interest income		287,452	192,337
Interest expense	Financial liabilities measured at		
Redeemable shares	Amortised cost	91,605	31,111
Derivative financial instruments	At fair value	-	6,502
Deposits from customers	Amortised cost	15,891	6,150
Medium term notes	Amortised cost	6,631	145
Other financial institutions	Amortised cost	8,029	654
Other borrowings	Amortised cost	17,240	7,573
Subordinated redeemable shares	Amortised cost	6,721	6,290
Lease liabilities	Amortised cost	675	740
Total interest expense		146,792	59,165
Net interest income		140,660	133,172



Interest income and interest expense (including dividends on redeemable shares and subordinated redeemable shares) for all instruments measured at amortised cost are measured using the effective interest method. The effective interest method calculates the amortised cost of a financial asset or liability and allocates the interest income or expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate over the expected life of the financial asset or liability.

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.

Directly related transaction costs include fees and commissions paid to brokers and other expenses of originating lending business, such as external legal costs and valuation fees.

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.

3. Net Fee and Commission Income

		31/03/2023	31/03/2022
Fee and commission income			
Asset management fees		10,485	11,645
Lending fees		6,622	6,568
Credit card fees		2,169	2,366
Current and funding account fees		2,612	2,091
Other fee and commission income		3,015	2,700
Total fee and commission income		24,903	25,370
Fee and commission expense		346	585
Net fee and commission income		24,557	24,785

3. Net Fee and Commission Income continued

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
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.

4. Other Income

	31/03/2023	31/03/2022
Net insurance income	4,062	4,230
Dividends	105	114
Sundry income	1,599	1,524
	5,766	5,868

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

	31/03/2023	31/03/2022
Auditors remuneration - audit and statutory	581	516
Auditors remuneration - other services	95	13
Information technology	14,115	10,963
Fees to directors	879	844
Marketing	7,701	7,217
Personnel	55,132	49,925
Actuarial life adjustment	(1,657)	(1,126)
Amortisation, depreciation and impairment	7,958	8,071
Rent and leases	293	269
Write off of property, plant and equipment	424	1
Loss on sale of shares	111	-
Bank charges and funding line fees	6,484	6,350
Other expenses	14,441	13,524
	106,557	96,567
Amounts received, or due and receivable by the auditors, KPMG:		
Year end audit of financial statements	507	455
Half year review of financial statements	57	52
Other assurance services - Insurance solvency return	17	9
IFRS17	80	-
Tax compliance services	15	13
	676	529

Amounts received, or due and receivable by directors: For the year ended 31 March 2023	SBS Fees	Committee/ Other Fees	Subsidiary Fees	Total
AJ O'Connell (Chairman)	144	-	75	219
MJ Skilling (Deputy Chair)	66	-	50	116
KJ Ball (Resigned 27 July 2022)*	172	12	-	184
GJ Mulvey	66	14	25	105
MP O'Connor	66	11	50	127
KJ Murphy	66	-	50	116
SJ Brown	66	-	-	66
PRN Ellison (Appointed 1 July 2022)	49	-	19	68
	695	37	269	1,001
Provision for directors retiring allowance	(132)	-	-	(132)
GST on directors fees	10	-	-	10
	573	37	269	879


For the year ended 31 March 2022	SBS Fees	Committee/ Other Fees	Subsidiary Fees	Total
AJ O'Connell (Appointed Chairman 27 July 2021)	109	-	67	176
JF Ward (Chairman) (Resigned 27 July 2021)*	185	-	29	214
KJ Ball (Deputy Chair)	58	37	-	95
GJ Mulvey	58	14	25	97
MJ Skilling	58	-	50	108
AL Mcleod (Resigned 1 December 2021)	36	-	50	86
MP O'Connor	58	-	13	71
KJ Murphy	58	-	35	93
SJ Brown (Appointed 1 January 2022)	16	-	-	16
	636	51	269	956
Provision for directors retiring allowance	(132)	-	-	(132)
GST on directors fees	8	-	12	20
	512	51	281	844

* Includes a retirement allowance.

5. Operating Expenses continued

	31/03/2023	31/03/2022
Personnel expenses includes key management personnel ¹ compensation which comprised:		
Salaries and short-term employee benefits	7,534	6,741
Post-employment benefits	133	147
Other long term benefits	-	7
	7,667	6,895

¹Key management personnel are defined as being directors and senior management of the Banking Group. Refer to Note 26 - Related Parties for more information.



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

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, including right-of-use assets, 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 - 15 years
Other Assets	1 - 17 years
Software	1 - 7 years
Management Rights - Staples Rodway KiwiSaver Scheme	15 years

For right-of-use assets, the lease term equal the amortisation term.

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


	Note	31/03/2023	31/03/2022
Net gain/(loss) arising on:			
Investment securities		(46)	95
Derivative financial instruments		(37)	(145)
Hedge ineffectiveness on cash flow hedging	(10)	(11)	63
Advances to customers		62	(220)
		(32)	(207)



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.

7. Taxation

	31/03/2023	31/03/2022
The major components of the income tax expense comprise:		
Current tax expense		
Current income tax charge	12,865	17,017
Adjustments recognised in the current period in relation to current tax of prior periods	41	(32)
Deferred taxation expense		
Deferred tax expenses relating to the origination and reversal of temporary differences	1,805	45
Total income tax expense recognised in the income statement	14,711	17,030
The following amounts were charged/(credited) direct to equity:		
Current income tax	(668)	(7,639)
Deferred income tax	2,575	19,150
Total income tax expense recognised directly in equity	1,907	11,511
Reconciliation of the prima facie income tax payable on profit with income tax expense in the income statement:		
Surplus before income tax	52,953	61,893
Prima facie income tax at 28%	14,827	17,330
Adjust for the tax effect of:		
Imputed dividends	(24)	(21)
Other permanent items	(133)	(416)
Prior period adjustments ((over)/under provision)	41	137
	(116)	(300)
Taxation expense/(benefit)	14,711	17,030




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.

Movement in net deferred taxation assets/liabilities are as follows:

	Provision for credit impairment	Derivative financial instruments	Property, plant and equipment	Provisions	Other	Total
As at 31 March 2023						
Balance at beginning of the year	10,500	(17,313)	(403)	947	(432)	(6,701)
Prior period adjustment ((over)/under provision)	-	15	(7)	28	19	55
Amounts recognised in equity	-	(2,468)	(107)	-	-	(2,575)
Amounts recognised in income statement	207	(14)	95	(19)	(2,074)	(1,805)
Balance at end of the year	10,707	(19,780)	(422)	956	(2,487)	(11,026)
As at 31 March 2022						
Balance at beginning of the year	12,047	1,772	(257)	901	(1,892)	12,571
Prior period adjustment ((over)/under provision)	-	22	(3)	(80)	(16)	(77)
Amounts recognised in equity	-	(19,084)	(66)	-	-	(19,150)
Amounts recognised in income statement	(1,547)	(23)	(77)	126	1,476	(45)
Balance at end of the year	10,500	(17,313)	(403)	947	(432)	(6,701)

There are no unrecognised deferred tax assets as at 31 March 2023 (31 March 2022 \$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.

7. Taxation continued

	<p>Deferred income tax</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
	<p>Critical accounting assumptions and estimates</p> <p>Significant judgement is required in determining deferred tax. There may be transactions with uncertain tax outcomes and provisions are determined based on the expected outcomes.</p>

8. Funds with Financial Institutions and Central Bank

	Note	31/03/2023	31/03/2022
Cash with central bank		120,000	-
Call and overnight advances with financial institutions		4,441	87,493
Term deposits with financial institutions		3,970	6,535
		128,411	94,028
Provisions for credit impairment	(12(a))	-	(47)
		128,411	93,981
Maturity for cash flow purposes			
Up to 3 months		126,535	90,318
Over 3 months		1,876	3,663
		128,411	93,981




Funds with financial institutions and central bank 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.

9. Investment Securities

	Note	31/03/2023	31/03/2022
Equity securities		2,280	2,592
Local authority bonds		83,370	77,118
Bank securities		355,544	282,618
Other bonds		133,783	133,266
		574,977	495,594
Provisions for credit impairment	(12(a))	(255)	(201)
		574,722	495,393



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.

10. Derivative Financial Instruments and Hedging Activities

	As at 31 March 2023			As at 31 March 2022		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Held as economic hedges	709,993	6,119	6,386	471,908	1,453	1,742
Held as cash flow hedges	4,206,151	89,847	12,433	3,019,851	62,361	3,093
Interest rate swaps	4,916,144	95,966	18,819	3,491,759	63,814	4,835
Held as cash flow hedges	32,017	-	31	32,017	297	-
Cross currency interest rate swaps	32,017	-	31	32,017	297	-
Total derivative financial instruments	4,948,161	95,966	18,850	3,523,776	64,111	4,835

The Banking Group uses derivatives for risk management purposes focusing on stabilising the Banking Group's cash flow and protecting net interest margin. The Banking Group hedges the forecasted interest cash flows from floating rate loans and deposits using interest rate swaps. The Banking Group also hedges the foreign exchange component of firm commitments caused by foreign currency movements. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. The treatment of changes in the derivatives' fair value depends on their classification. Provided certain criteria are met for hedge accounting, either fair value or cash flow hedge accounting can be applied. Hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item.

Type of instruments

Interest rate swaps
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 Bank manages its cash flow interest rate risk by using:

- Receive fixed / Pay floating interest rate swaps to fix the interest income on floating rate loans;
- Receive floating / Pay fixed interest rate swaps to fix the cost of floating interest rate deposits.

Cross currency swaps
Commitments to exchange interest payments and principal denominated in two different currencies.

Risks managed

Interest rate risk
The Banking Group's exposure to the volatility of interest cash flows from advances to customers is hedged with interest rate derivatives. Advances to customers are allocated to time buckets based on their expected repricing dates. The interest rate derivatives are designated according to the net asset/liability positions for the relevant time buckets. The Banking Group hedges the benchmark interest rate which generally represents the most significant component of the changes in the fair value. Ineffectiveness may arise from timing differences on repricing between the hedged item and the interest rate derivative, or due to changes in the counterparties' credit risk affecting the fair value of hedging instruments.

Foreign currency risk
The Banking Group's exposure to foreign currency principal and interest rate cash flows is hedged through the use of cross currency derivatives in a on-to-one hedging relationship. For the floating rate SBS AUD Wholesale Bonds, the Banking Group hedges from foreign floating to NZD floating interest rates. Ineffectiveness may arise from timing or discounting differences on repricing between the hedged item and the cross currency derivative.

Credit risk
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.

Hedge accounting - Cash flow hedge

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

Recognition of effective hedge portion
The effective portion of changes in the fair value of derivatives designated as a cash flow hedge is recognised in the cash flow hedge reserve.

Recognition of ineffective hedge portion
Is recognised immediately in other operating income.

If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies for hedge accounting
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.

Hedged item sold or repaid
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.

10. Derivative Financial Instruments and Hedging Activities continued

The effects of the interest rate and cross currency interest rate swaps related hedging instruments of the Banking Group's financial position and performance are as follows:

	Note	31/03/2023	31/03/2022
Derivative financial instruments - interest rate swaps			
Change in fair value of outstanding hedging instruments		(8,552)	(67,411)
Change in fair value of exposures		8,563	67,348
Hedge ineffectiveness	(6)	(11)	63
Hedge ratio		1:1	1:1
Derivative financial instruments - cross currency interest rate swaps			
Change in fair value of outstanding hedging instruments		309	279
Change in fair value of SBS AUD Capital Bond		(309)	(279)
Hedge ineffectiveness	(6)	-	-
Hedge ratio		1:1	1:1

The profile of the timing of the notional amount and average price of derivatives designated in cash flow hedge relationships is outlined as follows:


As at 31 March 2023	Under 1 month	1-3 months	3-6 months	6-12 months	12-24 months	Over 24 months	Total
Interest rate swaps							
Pay fixed	100,000	158,600	168,000	486,701	1,337,000	975,850	3,226,151
Average fixed interest rate paid	1.32%	1.16%	1.29%	2.23%	3.33%	3.57%	2.96%
Receive fixed	60,000	110,000	300,000	350,000	10,000	150,000	980,000
Average fixed interest rate received	3.02%	3.66%	3.89%	5.20%	1.29%	3.16%	4.14%
Total notional amount	160,000	268,600	468,000	836,701	1,347,000	1,125,850	4,206,151
Cross currency interest rate swaps							
Pay floating	-	-	-	-	-	32,017	32,017
Average floating interest rate paid	-	-	-	-	-	float	
Total notional amount	-	-	-	-	-	32,017	32,017

As at 31 March 2022	Under 1 month	1-3 months	3-6 months	6-12 months	12-24 months	Over 24 months	Total
Interest rate swaps							
Pay fixed	20,000	198,000	298,000	436,500	863,301	865,050	2,680,851
Average fixed interest rate paid	0.29%	1.33%	0.84%	1.24%	1.64%	1.58%	1.41%
Receive fixed	55,000	20,000	-	104,000	-	160,000	339,000
Average fixed interest rate received	0.35%	0.39%	0.00%	2.40%	0.00%	1.91%	0.53%
Total notional amount	75,000	218,000	298,000	540,500	863,301	1,025,050	3,019,851
Cross currency interest rate swaps							
Pay floating	-	-	-	-	-	32,017	32,017
Average floating interest rate paid	-	-	-	-	-	float	
Total notional amount	-	-	-	-	-	32,017	32,017

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.

There were no transactions where cash flow hedge accounting ceased in the year ended 31 March 2023 as a result of highly probable cash flows no longer expected to occur (31 March 2022 \$nil).

10. Derivative Financial Instruments and Hedging Activities continued



Recognition

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 valuation techniques, including discounted cash flow models, as appropriate. Fair values include adjustment for counterparty credit risk.

Derecognition of assets and liabilities

Derivative assets are removed from the statement of financial position when the contracts expire or have transferred all the risks and rewards of ownership. Derivative liabilities are removed from the statement of financial position when the Banking Group's contractual obligations are discharged, cancelled or expired.

Impact on the income statement

The recognition of gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss.

For an instrument designated into a hedging relationship the recognition of gains and losses depends on the nature of the item being hedged.

Hedge effectiveness

To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met:

- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated; and
- the actual results of the hedge are within the range of 80%-125%.




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.

11. Advances to Customers

	Note	31/03/2023	31/03/2022
Residential		4,001,176	3,574,015
Agricultural		51,834	90,126
Commercial		110,897	99,194
Consumer		885,677	662,487
Gross advances		5,049,584	4,425,822
Provisions for credit impairment on advances to customers	(12(b))	(34,499)	(32,321)
Deferred fee revenue and expenses		9,643	7,077
Total net advances		5,024,728	4,400,578

Included in advances to customers are \$87.9 million (31 March 2022 \$80.0 million) of reverse equity mortgages which 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.

12. Provision for Credit Impairment

Residential mortgages	Include advances to individuals and corporates that are secured against residential properties. Also include investments in residential property as well as owner-occupied housing.
Retail exposures	Include consumer personal, consumer finance, consumer credit card and motor vehicle lending.
Corporate exposures	Primarily include advances to individuals, corporates or small to medium enterprises that are secured against commercial or agricultural properties.
Other exposures	Include funds with financial institutions and central bank, and investment securities.

(a) Provision for credit impairment - Statement of financial position

As at 31 March 2023	Note	Expected Credit Losses			Specific Provision Stage 3	Total
		Stage 1	Stage 2	Stage 3		
Advances to customers						
Residential mortgages		5,270	3,354	1,637	503	10,764
Retail exposures		12,970	5,544	2,942	-	21,456
Corporate exposures		1,075	573	631	-	2,279
Total advances to customers	(11)	19,315	9,471	5,210	503	34,499
Off-balance sheet credit related commitments						
Residential mortgages		237	3	4	-	244
Retail exposures		1,480	-	-	-	1,480
Corporate exposures		406	21	-	-	427
Total off-balance sheet credit related commitments	(17)	2,123	24	4	-	2,151
Other exposures						
Funds with financial institutions and central bank	(8)	-	-	-	-	-
Investment securities	(9)	255	-	-	-	255
		21,693	9,495	5,214	503	36,905

As at 31 March 2022						
Advances to customers						
Residential mortgages		5,975	3,374	665	353	10,367
Retail exposures		12,660	4,486	1,679	-	18,825
Corporate exposures		1,396	1,276	237	220	3,129
Total advances to customers	(11)	20,031	9,136	2,581	573	32,321
Off-balance sheet credit related commitments						
Residential mortgages		355	3	5	-	363
Retail exposures		2,315	-	-	-	2,315
Corporate exposures		565	70	-	-	635
Total off-balance sheet credit related commitments	(17)	3,235	73	5	-	3,313
Other exposures						
Funds with financial institutions	(8)	47	-	-	-	47
Investment securities	(9)	201	-	-	-	201
		23,514	9,209	2,586	573	35,882

12. Provision for Credit Impairment continued

(b) Provision for credit impairment - Movement

Movement in provision - advances to customers	Expected Credit Losses			Specific Provision Stage 3	Total
	Stage 1	Stage 2	Stage 3		
Balance at beginning of year	21,895	10,739	3,791	573	36,998
Transfer between stages	3,480	(2,838)	(642)	-	-
New provisions	7,054	5,158	1,839	-	14,051
Charge/(credit) to income statement excluding transfers	(3,571)	(1,003)	(235)	-	(4,809)
Reversal of previously recognised provision	(8,827)	(2,920)	(2,172)	-	(13,919)
As at 31 March 2022	20,031	9,136	2,581	573	32,321
Transfer between stages	2,295	(2,925)	630	-	-
Transfer to specific provision	-	-	(150)	150	-
New provisions	8,651	5,714	2,999	-	17,364
Charge/(credit) to income statement excluding transfers	(3,185)	402	671	(220)	(2,332)
Reversal of previously recognised provision	(8,477)	(2,856)	(1,521)	-	(12,854)
As at 31 March 2023	19,315	9,471	5,210	503	34,499

Movement in provision - off-balance sheet credit related commitments					
Balance at beginning of year	3,882	77	20	-	3,979
Transfer between stages	(18)	17	1	-	-
New provisions	685	(19)	(1)	-	665
Charge/(credit) to income statement excluding transfers	(143)	(2)	(15)	-	(160)
Reversal of previously recognised provision	(1,171)	-	-	-	(1,171)
As at 31 March 2022	3,235	73	5	-	3,313
Transfer between stages	(26)	16	10	-	-
New provisions	422	(13)	(9)	-	400
Charge/(credit) to income statement excluding transfers	(289)	(52)	(2)	-	(343)
Reversal of previously recognised provision	(1,219)	-	-	-	(1,219)
As at 31 March 2023	2,123	24	4	-	2,151


(c) Reconciliation of credit impairment losses - income statement


As at 31 March 2023	Residential Mortgages	Retail Exposures	Corporate Exposures	Other	Total
Bad debts written off/(recovered) during the year	-	11,266	382	-	11,648
Individual provisions	150	-	(220)	-	(70)
Collective provision	129	1,795	(838)	-	1,086
Other credit provisions	-	-	-	7	7
Credit impairment losses to income statement	279	13,061	(676)	7	12,671

As at 31 March 2022					
Bad debts written off/(recovered) during the year	4	10,990	312	-	11,306
Individual provisions	-	-	-	-	-
Collective provision	(1,631)	(2,590)	(1,123)	-	(5,344)
Other credit provisions	-	-	-	15	15
Credit impairment losses to income statement	(1,627)	8,400	(811)	15	5,977

At 31 March 2023 the Banking Group's total provision for credit impairment relating to advances to customers was \$34.5 million (31 March 2022 \$32.3 million) representing 0.69% of total net loans and advances (31 March 2022 0.73%). The provisions represent provisions against individual loans and collective provisions.

12. Provision for Credit Impairment continued

	<p>Provisions for credit impairment are recognised in the income statement, with a corresponding amount recognised as follows:</p> <ul style="list-style-type: none">- Advances to customers: as a reduction of the carrying value of the financial asset through an offsetting provision account (Note 11).- Undrawn loan commitments: as a provision (Note 17).- Funds with financial institutions and central bank: as a reduction of the carrying value of the financial asset through an offsetting provision account (Note 8).- Investment securities: as a reduction of the carrying value of the financial asset through an offsetting provision account (Note 9). <p>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.</p> <p>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").</p> <p>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.</p> <p>The following summarises the three stage model:</p> <p>Stage 1 - 12 month ECL - 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;</p> <p>Stage 2 - Lifetime ECL - Deteriorated (accounts more than 30 days past due, as well as payment deferred hardship loans, i.e. for exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired) - Determined on reasonable and supportable forward looking data or if data not available use 30 days past due;</p> <p>Stage 3 - Lifetime ECL - Impaired - based on lifetime expected credit losses.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
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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.

12. Provision for Credit Impairment continued

(d) Basis of inputs, key judgements and assumptions used in the calculation of ECL

The following table summarises the key judgements and assumptions in relation to the model inputs, the interdependencies between those inputs and highlights significant changes during the current period. The methodology used to estimate expected credit losses is consistent with that applied in prior periods.

Judgement	Description	Changes and considerations during the period ended
Determining when a significant increase in credit risk has occurred.	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a significant increase in risk since initial recognition of a loan, such as hardship applications or missing payments, which would result in the financial asset moving from Stage 1 to Stage 2. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from Stage 2 to Stage 1 may similarly result in significant changes in the ECL allowance.	As there remains a considerable amount of uncertainty during the economic recovery, the Banking Group continues to treat watchlist and hardship loans as higher risk. The Banking Group will continue to regularly evaluate customer impacts and will make appropriate adjustment to credit evaluations as and when deemed appropriate.
Measuring both 12 month and lifetime credit losses.	ECL is a function of the probability of default ("PD"), the loss given default ("LGD") and the exposure at default ("EAD"). These are point in time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining the sensitivity of the parameters to movements in these forward looking variables.	The Bank uses probability weighted scenarios to determine the expected distribution of credit loss outcomes. The scenarios were developed based on external macroeconomic forecasts from across the finance sector, the Bank's internal modelling and management judgement. The macro-economic variables used by the Bank are unemployment and GDP growth. The Banking group sits at the more pessimistic end of the forecasts reflecting the Banking Group's view that there may be downside risk to forecasts due to excessive inflation, rapidly increasing interest rates and geopolitical disruption.
Probability weighting of each economic scenario (base, pessimistic, optimistic).	Probability weighting of each economic scenario is determined by management considering the risk and uncertainties surrounding the base case economic scenario at each measurement date.	The Banking Group continues to use average weightings for the Bank as follows: - 50% for base scenario; - 25% pessimistic; and - 25% optimistic.
Management temporary adjustments.	Management temporary adjustments to the ECL allowances are adjustments used when it is deemed that existing inputs, assumptions and model techniques do not capture all the risk factors relevant to the lending portfolios. The use of management temporary adjustments may impact the amount of ECL recognised.	The Banking Group continues to use a temporary adjustment to capture all the risk factors relevant to the lending portfolio, which include GDP volatility, increasing interest rates in order to slow the economy impacting demand and increasing unemployment which will directly affect SBS borrowers. This is an uncharted territory with significant risks facing the economy due to supply chain constraints, labour constraints, very high inflation, rapidly increasing interest rates and easing/falling house prices. In relation to the Banking Group's loan book, there is the risk that members who have purchased homes in the last few years when house prices have been at record highs and interest rates have been at record lows may find their ability to service debt will come under pressure. Much of this will surface over the next 12 to 24 months as current fixed mortgages reprice. These risks are not captured by the normal macro-economic variables unemployment and GDP. The temporary overlay will be released as management become more satisfied with the diminishing effects of the current economic and geopolitical environment on the Banking Group's loan book. Conversely, the provisions may increase if management become concerned with the potential worsening in economic conditions.

12. Provision for Credit Impairment continued

(e) Sensitivity of the collective provision ECL


As noted in the accounting policy, the critical accounting assumptions in determining the provision relating to ECL, are the determination whether there has been a significant increase in credit risk and the use of probability weighted forward looking macroeconomic scenarios. Due to the current economic uncertainties, there is a lot of uncertainty around macroeconomic forecasting. To provide a better understanding on the sensitivity of the credit impairment calculation based on the assumptions made, the Banking Group performed sensitivity analysis on the ECL. The sensitivity primarily reflects the impact on parent ECL (mainly relating to residential and corporate exposures), while historical loss experience for retail exposures has not shown a correlation to specific individual macro-economic indicators. The impact of uncertainty for retail exposures has been incorporated by increasing the historical loss experience rates by a total of approximately 45%.

	Base	% change	High	Low
- Unemployment	As high as 5.2%	+/- 1%	2,971	(3,015)
- GDP	As low as -1.6%	+/- 1%	(1,696)	1,685
- Temporary adjustment		+/- 100%	4,199	(4,326)

13. Asset Quality

(a) Asset quality - advances to customers	Note	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
As at 31 March 2023					
Neither past due or impaired		3,978,156	818,320	156,889	4,953,365
Individually impaired	(13(b))	1,431	-	-	1,431
Past due	(A3.1)	36,451	64,263	3,717	104,431
Provision for credit impairment	(12(a))	(10,764)	(21,456)	(2,279)	(34,499)
Carrying amount		4,005,274	861,127	158,327	5,024,728
As at 31 March 2022					
Neither past due or impaired		3,563,738	623,385	185,688	4,372,811
Individually impaired	(13(b))	947	-	262	1,209
Past due	(A3.1)	20,372	36,824	1,683	58,879
Provision for credit impairment	(12(a))	(10,367)	(18,825)	(3,129)	(32,321)
Carrying amount		3,574,690	641,384	184,504	4,400,578
(b) Impaired assets					
As at 31 March 2023					
Balance at beginning of the year		947	-	262	1,209
Additions to individually impaired assets		490	-	-	490
Reductions to individually impaired assets		(6)	-	(262)	(268)
Balance at end of the year		1,431	-	-	1,431
Provision at end of the year		(503)	-	-	(503)
Net carrying amount at end of the year		928	-	-	928
Undrawn balances on individually impaired lending commitments		-	-	-	-
Included in residential impaired assets, is \$0.8 million of reverse equity mortgage which are valued at fair value through profit and loss, rather than at amortised cost.					
As at 31 March 2022					
Balance at beginning of the year		918	-	489	1,407
Additions to individually impaired assets		35	-	38	73
Reductions to individually impaired assets		(6)	-	(265)	(271)
Balance at end of the year		947	-	262	1,209
Provision at end of the year		(353)	-	(220)	(573)
Net carrying amount at end of the year		594	-	42	636
Undrawn balances on individually impaired lending commitments		-	-	-	-

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		Date	Nature of Business
	31/03/2023	31/03/2022		
Subsidiaries:				
Fraser Properties Limited	100.0%	100.0%	31 March	Property Holding
Southsure Assurance Limited ("SBS Insurance")	100.0%	100.0%	31 March	Insurance Company
Finance Now Limited ("FNL")	100.0%	100.0%	31 March	Finance Company
Funds Administration New Zealand Limited ("FANZ", trading as "SBS Wealth")	100.0%	100.0%	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	100.0%	100.0%	31 March	Credit Card Finance Company
Staples Rodway Asset Management Limited ("SRAM")	100.0%	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	26.3%	25.2%	30 June	Insurance Broking Holding Company
Your Car NZ Limited	9.9%	9.9%	31 March	Online Vehicle Purchasing Platform
Raizor New Zealand Limited		25.0%	31 March	Social Enterprise
Raizor Global Limited	16.0%		31 March	Supporting Charitable and Environmental Causes

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

During August 2021, the Bank obtained a 14.3% shareholding in Raizor New Zealand Limited for \$0.3 million. During January 2022, a further 10.7% shareholding was obtained for \$0.3 million, to bring the total shareholding to 25% at 31 March 2022. During May 2022 a further shareholding was obtained for \$0.3 million, to bring the total investment to 33%. During March 2023, this investment was converted to Raizor Global Limited shares, with effective shareholding of 16%. This investment is 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, but has significant influence via representation on the Board.

At 31 March 2023 there are no amounts due from, or due to any related entities that are outside of the Banking Group.


14. Investments in Subsidiaries, Associates and Joint Ventures continued

	<p>Basis of consolidation</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Subsidiaries</p> <p>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.</p> <p>In-substance subsidiaries</p> <p>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.</p> <p>Associates</p> <p>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.</p>
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15. Loan Securitisation

	31/03/2023	31/03/2022
Securitised loan balances		
SBS Invercargill W Trust	118,830	149,717
SBS Warehouse Trust No.2	56,092	47,274
SBS Oreti Trust No. 2	351,593	237,244
Finance Now Warehouse Trust	379,909	378,343
TWGFS Warehouse A Trust	96,830	93,603
	1,003,254	906,181
Mortgages assigned during the year		
By SBS to SBS Invercargill W Trust	184,534	99,385
By SBS to SBS Warehouse Trust No.2	20,559	-
By SBS Invercargill W Trust to SBS Oreti Trust No. 2	184,534	99,385
By FNL to Finance Now Warehouse Trust	254,991	329,058
By The Warehouse Financial Services Limited and SBS Money Limited to TWGFS Warehouse A Trust	203,356	189,983

15. Loan Securitisation continued

	<p>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.</p> <p>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.</p> <p>FNL and its subsidiaries, The Warehouse Financial Services Limited and SBS 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.</p> <p>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.</p> <p>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.</p>
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16. Funding

	Note	31/03/2023	31/03/2022
(a) Concentrations of funding			
Concentrations of funding by geographical location			
North Island other		828,346	726,835
Auckland		1,093,690	991,994
Canterbury		955,685	772,959
Otago		904,371	772,597
Southland		1,100,252	958,974
South Island other		415,515	351,402
Overseas		95,243	95,323
Total concentrations of funding by geographical location		5,393,102	4,670,084
Concentrations of funding by product			
Redeemable shares		4,096,601	3,337,489
Deposits from customers		69,007	131,980
Medium term notes	(16(c))	148,924	148,597
Commercial paper		346,284	345,891
Due to other financial institutions	(16(d))	668,065	600,797
Subordinated redeemable shares	(16(b))	64,221	105,330
Total concentrations of funding by product		5,393,102	4,670,084
(b) Subordinated redeemable shares			
SBS Capital Bond		23,644	72,866
SBS AUD Capital Bond		32,244	32,464
SBS Capital Bonds No. 2		8,333	-
		64,221	105,330

16. Funding continued

(b) Subordinated redeemable shares continued

The SBS Capital Bond was issued 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, subject to regulatory approval, but there is no right for a holder to redeem before maturity. These were 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 order was issued continuously.

The SBS AUD Capital Bond was issued to wholesale investors in the Australian Market. These ten year bonds are 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 2023, the Bank issued the ten year SBS Capital Bonds No. 2 to retail 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, subject to regulatory approval, 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. The retail offer is issued continuously.

During the year ending 31 March 2023 \$49.2 million of SBS Capital Bonds were redeemed at their five-year call date. At 31 March 2023 the balance of all subordinated redeemable shares issued was \$64.2 million. After adjustment for potential tax and transitional recognition amortisation, \$38.3 million has been recognised as tier 2 capital for RBNZ capital adequacy purposes (31 March 2022 \$66.0 million).

(c) Medium term notes

During March 2022, the Bank issued the SBS Senior Bond, unsecured, senior, fixed rate, medium term debt securities. As at 31 March 2023 the notes carried a BBB+ credit rating from Fitch Ratings.

Issue date	18 March 2022
Issue amount	Issue amount: \$150 million
Face value	\$1
Interest frequency	Quarterly in arrears
Interest rate	Fixed at 4.32%
Maturity	18 March 2027

(d) Funding for lending program

During November 2020, the RBNZ announced a funding-for-lending program ("FLP") as one of the tools to maintain low and stable inflation and support full employment. The FLP allowed the Bank to borrow directly from the RBNZ at the floating Official Cash Rate ("OCR") for a term of three years, secured by high quality collateral.

The Bank's initial allocation, being 4% of eligible loans as at 31 October 2020, able to be drawn down between 7 December 2020 to 6 June 2022, was \$164 million. An additional allocation was made available equal to 50c for every dollar of net growth in eligible loans from 1 November 2020 up to a maximum of 2% of eligible loans as at 31 October 2020. The additional allocation was available for draw down until 6 December 2022.

As at 31 March 2023, the Bank had drawn down \$246 million (31 March 2022 \$100 million), which is included in 'Due to other financial institutions' in the statement of financial position. A total of \$316 million of residential mortgage-backed securities ("RMBS") have been pledged as approved collateral in relation to the amount currently drawn down.

	<p>Funding sources consist of redeemable shares, deposits from customers, medium term notes, commercial paper, amounts due to other financial institutions and subordinated redeemable shares.</p> <p>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.</p> <p>Medium term notes, 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 medium term notes, 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.</p> <p>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.</p> <p>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.</p> <p>Refer to Note 21 - Fair Value of Financial Instruments for more information on fair value of financial instruments.</p>
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16. Funding continued

	<p>Repurchase agreements</p> <p>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.</p> <p>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.</p>
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17. Other Liabilities

	Note	31/03/2023	31/03/2022
Lease liabilities		20,398	25,501
Trade and other payables		34,949	31,347
Insurance policy liabilities		7,019	8,677
Employee entitlements		6,031	6,013
Provisions for credit impairment on undrawn commitments	(12(a))	2,151	3,313
		70,548	74,851

	<p>Other liabilities are initially measured at fair value and subsequently at amortised cost using the effective interest method. Amortisation is recognised in the income statement. The Banking Group recognises provisions where there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably.</p> <p>Lease liabilities are measured in accordance with NZ IFRS 16 - Leases and the finance cost on these liabilities is disclosed in Note 2 - Net Interest Income.</p> <p>Insurance policy liabilities have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No 20 - Determination of Life Insurance Policy Liabilities (PS20) which prescribes the Margin on Services ("MoS") basis. Policy liabilities are generally determined as the present value of all future expected payments, expenses, taxes and profit margins reduced by the present value of all future expected premiums.</p> <p>Refer to Note 12 - Provision for Credit Impairment for more information on the calculation of provisions for credit impairment on undrawn commitments.</p>
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18. Contingent Liabilities and Credit Related Commitments

	Contract or notional amt 31/03/2023	Credit equivalent 31/03/2023	Contract or notional amt 31/03/2022	Credit equivalent 31/03/2022
Commitments				
Commitments with uncertain drawdown	137,008	68,504	105,490	52,745
Commitments to extend credit which can be unconditionally cancelled	351,726	-	381,727	-
Total credit related commitments	488,734	68,504	487,217	52,745

As at 31 March 2023, collective provisions relating to credit related commitments of \$2.2 million is included in other liabilities (31 March 2022 \$3.3 million). Refer to Notes 17 - Other Liabilities and Note 12 - Provision for Credit Impairment for more information.

Contingent liabilities

In preparation for the legislative changes associated with the Credit Contracts Legislation Amendment Act 2019 (CCCFA), SBS has self reported some matters relating to CCCFA variation disclosure compliance pre 1 December 2021. This investigation is ongoing and the outcome is currently uncertain but could result in customer remediation or regulatory action.

There are no other material contingent liabilities as at 31 March 2023.

	<p>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.</p> <p>Liabilities are no longer contingent, and are recognised on the statement of financial position, when the following requirements are met:</p> <ul style="list-style-type: none">- The transaction is probable in that a contingency is likely to occur; and- The contingency can be reasonably estimated.
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19. Reconciliation of Net Surplus to Net Operating Cash Flows

	31/03/2023	31/03/2022
Net surplus for year	38,242	44,863
Add/(deduct) non cash items		
Depreciation, amortisation and impairment	7,958	8,071
Provision for credit impairment	12,671	5,977
Share of associates profit net of tax	(1,230)	(819)
Write off of property, plant and equipment	424	1
Loss on sale of shares	111	-
Gain on sale of property, plant and equipment	-	(498)
Actuarial life adjustment	(1,657)	(1,126)
Deferred fee revenue and expenses	(2,237)	(5,020)
Derivatives fair value adjustment	48	82
Advances to customers fair value adjustment	(62)	220
Investment securities fair value adjustment	46	(95)
Net deferred tax assets	2,418	7,761
Interest on lease liabilities	675	740
	19,165	15,294
Deferral or accruals of past or future operating cash receipts or payments		
Change in income tax payable/receivable	4,672	(5,312)
Change in sundry debtors	(21,823)	(14,154)
Change in sundry creditors	2,458	(376)
Change in accruals relating to interest receivable	(13,722)	(503)
Change in accruals relating to accrued interest and dividends payable to customers	22,241	(5,165)
Change in accruals relating to accrued interest payable to financial institutions	7,451	818
Change in net advances	(631,879)	(365,395)
Change in shares and deposits	673,827	(77,818)
Change in medium term notes	-	148,366
Change in commercial paper	393	1,469
Change in amounts due to other financial institutions and central bank	59,815	259,191
Change in subordinated redeemable shares	(40,729)	-
	62,704	(58,879)
Items classified as cash		
Change in accruals relating to funds with financial institutions and central bank	(35)	2
Net cash flows from operating activities	120,076	1,280



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.

20. Accounting Classifications


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

As at 31 March 2023	At Fair Value (*)	At Amortised Cost	FVOCI	FVTPL	Total Carrying Amount
Assets					
Cash on hand and at bank	-	55,005	-	-	55,005
Funds with financial institutions and central bank	-	128,411	-	-	128,411
Investment securities	-	-	571,851	2,871	574,722
Derivative financial instruments	95,966	-	-	-	95,966
Advances to customers	-	4,936,854	-	87,874	5,024,728
	95,966	5,120,270	571,851	90,745	5,878,832
Liabilities					
Redeemable shares	-	4,096,601	-	-	4,096,601
Deposits from customers	-	69,007	-	-	69,007
Medium term notes	-	148,924	-	-	148,924
Commercial paper	-	346,284	-	-	346,284
Due to other financial institutions	-	668,065	-	-	668,065
Derivative financial instruments	18,850	-	-	-	18,850
Subordinated redeemable shares	-	64,221	-	-	64,221
	18,850	5,393,102	-	-	5,411,952

As at 31 March 2022	At Fair Value (*)	At Amortised Cost	FVOCI	FVTPL	Total Carrying Amount
Assets					
Cash on hand and at bank	-	56,570	-	-	56,570
Funds with financial institutions and central bank	-	93,981	-	-	93,981
Investment securities	-	-	491,922	3,471	495,393
Derivative financial instruments	64,111	-	-	-	64,111
Advances to customers	-	4,320,558	-	80,020	4,400,578
	64,111	4,471,109	491,922	83,491	5,110,633
Liabilities					
Redeemable shares	-	3,337,489	-	-	3,337,489
Deposits from customers	-	131,980	-	-	131,980
Medium term notes	-	148,597	-	-	148,597
Commercial paper	-	345,891	-	-	345,891
Due to other financial institutions	-	600,797	-	-	600,797
Derivative financial instruments	4,835	-	-	-	4,835
Subordinated redeemable shares	-	105,330	-	-	105,330
	4,835	4,670,084	-	-	4,674,919


*With some aspects of NZ IFRS 9 relating to hedge accounting for portfolios not finalised, the IASB 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 for the year ending 31 March 2023.

20. Accounting Classifications continued

	<p>Financial instruments</p> <p>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"). 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.</p> <p><i>Financial assets</i></p> <p>On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI - debt investment, FVOCI - equity investment, or FVTPL.</p> <p>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.</p> <p>A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:</p> <ul style="list-style-type: none">- 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. <p>A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:</p> <ul style="list-style-type: none">- 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. <p>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.</p> <p>All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.</p> <p><i>Business model assessment</i></p> <p>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.</p> <p><i>Assessment on whether contractual cash flows are solely payments of principal and interest</i></p> <p>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.</p> <p><i>Financial assets - classification and subsequent measurement</i></p> <table><tr><td>Financial assets at amortised cost</td><td>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.</td></tr><tr><td>Debt investments at FVOCI</td><td>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.</td></tr><tr><td>Equity investments at FVOCI</td><td>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.</td></tr><tr><td>Financial assets at FVTPL</td><td>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 and Hedging Activities for derivatives designated as hedging instruments.</td></tr></table> <p><i>Financial assets - reclassification</i></p> <p>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.</p> <p><i>Financial liabilities</i></p> <p>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 and Hedging Activities 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, medium term notes, deposits from customers, commercial paper, due to other financial institutions and subordinated redeemable shares.</p>	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 and Hedging Activities for derivatives designated as hedging instruments.
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 and Hedging Activities for derivatives designated as hedging instruments.								

21. Fair Value of Financial Instruments

<p>Comparison of fair values and carrying amounts:</p> <p>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:</p>					
	Valuation Hierarchy	31/03/2023		31/03/2022	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets					
Advances to customers (excluding REM)	Level 2	4,936,854	4,871,410	4,320,558	4,268,380
Total financial assets		4,936,854	4,871,410	4,320,558	4,268,380
Financial liabilities					
Redeemable shares	Level 2	4,096,601	4,090,097	3,337,489	3,337,074
Deposits from customers	Level 2	69,007	68,782	131,980	131,767
Medium term notes	Level 2	148,924	143,929	148,597	148,696
Subordinated redeemable shares	Level 2	64,221	59,185	105,330	104,888
Total financial liabilities		4,378,753	4,361,993	3,723,396	3,722,425



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 2023	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	95,966	-	95,966
Investment securities	2,280	572,697	-	574,977
Advances to customers - REM	-	-	87,874	87,874
Total financial assets	2,280	668,663	87,874	758,817
Financial liabilities				
Derivative financial instruments	-	18,850	-	18,850
Total financial liabilities	-	18,850	-	18,850

As at 31 March 2022	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	64,111	-	64,111
Investment securities	2,592	493,002	-	495,594
Advances to customers - REM	-	-	80,020	80,020
Total financial assets	2,592	557,113	80,020	639,725
Financial liabilities				
Derivative financial instruments	-	4,835	-	4,835
Total financial liabilities	-	4,835	-	4,835

21. Fair Value of Financial Instruments continued

The following table presents the changes in level 3 instruments:			
	Note	31/03/2023	31/03/2022
Loans and advances at fair value through profit or loss			
Balance at beginning of the year		80,020	73,088
New loans		12,191	16,616
Interest charged	(2)	5,893	4,037
Loan repayments		(13,414)	(15,729)
Net change in fair value	(6)	62	(220)
Drawdowns (net of part repayments) on current loans		3,122	2,228
Balance at end of the year		87,874	80,020



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. Financial Risk Management

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.

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.

Overview

The SBS Board has overall responsibility for reviewing all aspects of risk management and compliance. The SBS Board received comprehensive reporting covering each area of risk management. In addition, SBS has specific policies in relation to liquidity and capital management which contain trigger points at which SBS Board involvement is required.

Refer to Section A8 - Risk Management Policies for more information on risk management structure, policies, risks and procedures.

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 2023, the Banking Group had total committed funding lines with other registered banks of \$627.2 million (31 March 2022 \$626.7 million). Of these facilities, \$377.1 million were drawn down at 31 March 2023 (31 March 2022 \$471.7 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' that applies to those securities under the RBNZ's Domestic Operations for the purposes of those operations.

	31/03/2023	31/03/2022
Core liquid assets		
Cash on hand and at bank	55,005	56,570
Funds with central bank	120,000	-
Funds with financial institutions	8,411	93,981
Investment securities	574,722	495,393
Committed and undrawn funding lines ²	250,097	155,011
Eligible RMBS collateral (less haircut ¹) ³	25,926	95,433
Total liquidity	1,034,161	896,388

¹A "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.

²The Group also has another \$22.8 million available funding, not included as core liquid assets, in securitisation vehicles (31 March 2022 \$23.3 million). This is subject to having sufficient assets available to be securitised and has therefore not been included.

³Eligible RMBS collateral (less haircut) excludes any RMBS already encumbered under the RBNZ Funding for Lending Program. Refer to Note 16(d) - Funding for Lending Program for further details on this program.

The Reserve Bank of New Zealand has completed a thematic review of liquidity calculations and banks' compliance with the Reserve Bank's Liquidity Policy (BS13 and BS13A). The Bank was included within this review and received specific findings. The Bank has provided the RBNZ with a remediation plan to address the individual feedback the Bank received. The Bank continues to work with the RBNZ on the findings of the thematic review and subsequent internal review.

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

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.

The amounts disclosed in the tables are the contractual undiscounted cash flows and include principal and future interest cash flows, and therefore will not agree to the carrying values on the statement of financial position.

23. Liquidity Risk continued

As at 31 March 2023	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Liabilities							
Redeemable shares	803,180	1,883,215	1,390,897	86,726	18,635	-	4,182,653
Deposits from customers	3,565	42,078	29,071	1,373	497	-	76,584
Medium term notes	-	-	-	-	179,152	-	179,152
Commercial paper	-	349,500	-	-	-	-	349,500
Due to other financial institutions	-	116,318	310,563	110,375	165,964	-	703,220
Derivative financial instruments							
- cash outflows	-	42,273	65,415	33,513	19,861	52	161,114
- cash inflows	-	(13,353)	(40,180)	(9,313)	(16,894)	(419)	(80,159)
Current tax liabilities	5,044	-	-	-	-	-	5,044
Other liabilities	70,548	-	-	-	-	-	70,548
Subordinated redeemable shares	-	3,214	-	-	-	92,444	95,658
Total liabilities (inclusive of interest)	882,337	2,423,245	1,755,766	222,674	367,215	92,077	5,743,314
Unrecognised loan commitments	137,008	-	-	-	-	-	137,008

As at 31 March 2022	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Liabilities							
Redeemable shares	946,325	1,556,347	726,811	90,000	44,615	-	3,364,098
Deposits from customers	8,891	51,686	70,712	5,468	486	-	137,243
Medium term notes	-	-	-	-	182,408	-	182,408
Commercial paper	-	347,000	-	-	-	-	347,000
Due to other financial institutions	28,281	475,473	-	-	102,820	-	606,574
Derivative financial instruments							
- cash outflows	78	11,180	7,637	38,520	10,984	418	68,817
- cash inflows	(1)	(14,900)	(16,136)	(52,788)	(8,192)	(4)	(92,021)
Current tax liabilities	372	-	-	-	-	-	372
Other liabilities	74,851	-	-	-	-	-	74,851
Subordinated redeemable shares	-	-	-	-	-	147,728	147,728
Total liabilities (inclusive of interest)	1,058,797	2,426,786	789,024	81,200	333,121	148,142	4,837,070
Unrecognised loan commitments	105,490	-	-	-	-	-	105,490

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 80% (31 March 2022 81%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 1% (31 March 2022 2%) of the Banking Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

24. Credit Risk continued

	31/03/2023	31/03/2022
(a) Maximum credit exposures		
Cash on hand and at bank	55,005	56,570
Funds with financial institutions and central bank	128,411	93,981
Investment securities	574,722	495,393
Derivative financial instruments	95,966	64,111
Advances to customers	5,024,728	4,400,578
Other assets	67,469	45,646
Total on-balance sheet credit exposures	5,946,301	5,156,279
Off balance sheet exposures - undrawn commitments	488,734	487,217
Total credit exposures	6,435,035	5,643,496
(b) Concentrations of credit risk by sector		
Residential	3,429,325	3,022,800
Residential investing	846,939	814,807
Agricultural	71,068	112,187
Commercial finance	20,993	15,211
Commercial other	99,360	91,758
Consumer lending	834,854	611,822
Consumer credit card	210,923	219,210
Local authority	83,370	77,118
NZ registered banks	418,164	432,440
Central bank	120,000	-
Multilateral development banks and other international institutions	101,931	103,212
Corporate investments	130,639	97,285
Other	67,469	45,646
Total concentrations of credit risk by sector	6,435,035	5,643,496
(c) Concentrations of credit risk by geographical location		
Auckland	1,536,740	1,365,808
North Island other	1,747,027	1,301,911
Canterbury	1,291,452	1,155,817
Otago	776,928	749,471
Southland	719,610	714,283
South Island other	261,194	252,825
Overseas	102,084	103,381
Total concentrations of credit risk by geographical location	6,435,035	5,643,496

(d) 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.

24. Credit Risk continued

(d) Collateral held continued

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:

	31/03/2023	31/03/2022
Against individually impaired property	1,158	1,260
Against past due but not impaired property	116,964	76,164
	118,122	77,424

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 Bank's exposure to market risk is governed by a policy approved by the Group 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 Bank 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 Bank's exposure to market risk is managed operationally by the Bank's internal treasury function ("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").

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 2023	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	55,005	-	-	-	-	-	55,005
Funds with financial institutions and central bank	126,535	660	810	406	-	-	128,411
Investment securities	110,717	14,881	52,911	127,396	268,817	-	574,722
Derivative financial instruments	-	-	-	-	-	95,966	95,966
Advances to customers	848,624	451,690	1,001,625	1,292,946	1,464,342	(34,499)	5,024,728
Other assets	-	-	-	-	-	125,924	125,924
	1,140,881	467,231	1,055,346	1,420,748	1,733,159	187,391	6,004,756

25. Market Risk continued

As at 31 March 2023	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-Interest Sensitive	Total
Liabilities and equity							
Redeemable shares	1,566,568	756,636	1,333,954	82,275	16,650	340,518	4,096,601
Deposits from customers	26,492	15,726	25,018	1,311	460	-	69,007
Medium term notes	-	-	-	-	148,924	-	148,924
Commercial paper	297,168	49,116	-	-	-	-	346,284
Due to other financial institutions	668,065	-	-	-	-	-	668,065
Derivative financial instruments	-	-	-	-	-	18,850	18,850
Current tax liabilities	-	-	-	-	-	5,044	5,044
Deferred tax liabilities	-	-	-	-	-	11,026	11,026
Other liabilities	-	-	-	-	-	70,548	70,548
Subordinated redeemable shares	39,137	2,058	3,296	11,397	8,333	-	64,221
Equity	-	-	-	-	-	506,186	506,186
	2,597,430	823,536	1,362,268	94,983	174,367	952,172	6,004,756
On-balance sheet interest sensitivity gap	(1,456,549)	(356,305)	(306,922)	1,325,765	1,558,792	(764,781)	-
Net balance of derivative financial instruments	1,533,301	756,250	(136,701)	(1,327,000)	(825,850)	-	-
Total interest rate sensitivity gap	76,752	399,945	(443,623)	(1,235)	732,942	(764,781)	-

As at 31 March 2022	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	56,570	-	-	-	-	-	56,570
Funds with financial institutions and central bank	90,318	405	2,056	1,002	200	-	93,981
Investment securities	80,805	9,121	54,804	128,819	221,844	-	495,393
Derivative financial instruments	-	-	-	-	-	64,111	64,111
Advances to customers	1,017,760	437,970	639,867	958,399	1,378,903	(32,321)	4,400,578
Other assets	-	-	-	-	-	109,162	109,162
	1,245,453	447,496	696,727	1,088,220	1,600,947	140,952	5,219,795
Liabilities and equity							
Redeemable shares	1,542,268	511,960	713,613	87,553	40,945	441,150	3,337,489
Deposits from customers	35,085	21,078	69,997	5,327	467	26	131,980
Medium term notes	-	-	-	-	148,597	-	148,597
Commercial paper	296,196	49,695	-	-	-	-	345,891
Due to other financial institutions	600,797	-	-	-	-	-	600,797
Derivative financial instruments	-	-	-	-	-	4,835	4,835
Current tax liabilities	-	-	-	-	-	372	372
Deferred tax liabilities	-	-	-	-	-	6,701	6,701
Other liabilities	-	-	-	-	-	74,851	74,851
Subordinated redeemable shares	32,464	-	49,222	12,247	11,397	-	105,330
Equity	-	-	-	-	-	462,952	462,952
	2,506,810	582,733	832,832	105,127	201,406	990,887	5,219,795
On-balance sheet interest sensitivity gap	(1,261,357)	(135,237)	(136,105)	983,093	1,399,541	(849,935)	-
Net balance of derivative financial instruments	1,709,851	191,000	(332,500)	(863,301)	(705,050)	-	-
Total interest rate sensitivity gap	448,494	55,763	(468,605)	119,792	694,491	(849,935)	-

25. Market Risk continued

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. 100bp covers the most optimistic and pessimistic interest rate forecasts currently in the market. 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:

	31/03/2023	31/03/2022
Impact on equity of increase or decrease to market interest rates		
100 bp parallel increase	17,342	16,258
100 bp parallel decrease	(17,342)	(17,143)
Impact on profit and loss of increase or decrease to market interest rates		
100 bp parallel increase	4	14
100 bp parallel decrease	(4)	(4)

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.

		31/03/2023	31/03/2022
	Note	AUD	AUD
AUD Capital Bond	(16b)	30,000	30,000
AUD Cross Currency Interest Rate Swap	(10)	(30,000)	(30,000)
Net exposure		-	-

26. 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.

¹Key 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

Directors and other key management personnel	31/03/2023	31/03/2022
Loans and advances outstanding at beginning of year	2,509	3,645
Net loans issued/(repaid) during the year	(1,336)	(1,136)
Loans and advances outstanding at end of year	1,173	2,509
Interest income earned on amounts due from related parties	53	92

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 2023 (31 March 2022 \$nil).

26. Related Parties continued

(b) Deposits from related parties

Directors and other key management personnel	31/03/2023	31/03/2022
Deposits at beginning of year	7,870	11,498
Net deposits received/(repaid) during the year	(1,504)	(3,628)
Deposits at end of year	6,366	7,870
Interest expense on amounts due to related parties	169	94

(c) Other transactions with related parties

All 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

The Lifestages Investment Funds comprising the Lifestages Corporate Bond Portfolio, Lifestages World Bond Portfolio, Lifestages Australasian Portfolio and Lifestages World Equity Portfolio are Unit Trusts established under the Unit Trust Act 1960.

Each of the Portfolios is a managed investment scheme that is governed by a consolidated Master Trust Deed and Establishment Deed between FANZ, the manager of the Investment Funds, and Trustees Executors Limited the Supervisor of the Investment Funds.

Lifestages KiwiSaver Scheme

The Lifestages KiwiSaver Scheme is a registered KiwiSaver scheme under the KiwiSaver Act 2006. The Scheme is governed by the consolidated Trust Deed between FANZ, the manager of the scheme, and Trustees Executors Limited the Supervisor 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.

27. Subsequent Events

There have been no material subsequent events after 31 March 2023.

Southland Building Society
Registered Bank Disclosures for the year ended 31 March 2023.

A1. General Disclosures

A1.1 General Information

Southland Building Society ("SBS") is registered as a bank under the Banking (Prudential Supervision) 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"). In this Disclosure Statement "Banking Group" means SBS and all of its controlled entities as consolidated for financial reporting purposes.

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.

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.

A1.2 Priority of Creditor Claims

Redeemable shares, deposits (including medium term notes, commercial paper and amounts due to other financial institutions) and subordinated redeemable shares are unsecured. Deposits (including medium term notes, 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 medium term notes, 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 medium term notes, commercial paper and amounts due to other financial institutions), unsecured creditors and those creditors given priority by law.

A1.3 Guarantee Arrangements

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

A1.4 Directorate

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

Transactions with Directors

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.

Group Audit & Risk Committee

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

- MP O'Connor (Chairperson) – Independent Non-Executive Director
- GJ Mulvey – Independent Non-Executive Director
- MJ Skilling – Independent Non-Executive Director
- KJ Murphy - Independent Non-Executive Director
- SJ Brown - Independent Non-Executive Director
- LM Robertson - Independent Non-Executive Director (Effective from 1 April 2023)

Conflicts of Interest Policy

The policy and current practice of the Board of Directors (as set out in clause 16.7 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.

Southland Building Society
Registered Bank Disclosures for the year ended 31 March 2023.

A1. General Disclosures continued

A1.4 Directorate continued

AJ (Joe) O'Connell BCom FCA CFInstD (Chairman - Board of Directors) Company Director Independent Non-Executive Director	External Directorships: TNZ Growing Products Ltd, R Richardson Ltd, Log Marketing New Zealand Ltd, Log Logistics Ltd, OKC Holdings Ltd, Fern Energy Ltd (Previously Southfuels Ltd), AJO Management Ltd, O'Connell Holdings Ltd, Abbott Management Ltd, Niagara Forestry Ltd, McNeill Drilling Company Ltd, Tulloch Transport Ltd, Abbott NZ Holdings Ltd, Craigpine Timber Ltd, Wood Energy New Zealand GP Ltd.
GJ (Greg) Mulvey BCom FCA FNZIM Company Director Independent Non-Executive Director	External Directorships: None.
MJ (Mike) Skilling BAgSci PGDipBank SFFINSIA CMInstD Company Director Independent Non-Executive Director	External Directorships: Financial Synergy Ltd, Ruby Bay Estate Ltd, Hastings Street South Investments Ltd, Hastings Street South Ltd, MB Investments Ltd.
MP (Mark) O'Connor BCom FCA FNZIM Company Director Independent Non-Executive Director	External Directorships: France Street Trustee Ltd.
KJ (Kevin) Murphy FCA CFInstD Company Director Independent Non-Executive Director	External Directorships: Adele Senior Living Ltd, KCM Consultant Services Ltd, Public Trust, Red Snapper Ltd.
SJ (Sarah) Brown BA LLB CFInstD Company Director Independent Non-Executive Director	External Directorships: PGG Wrightson Ltd, Blue Sky Meats Number 1 Ltd, Horizon Meats New Zealand Ltd, Blue Sky Meats (N.Z.) Ltd.
PRN (Phil) Ellison BMS MInstD Company Director Non-Executive Director	External Directorships: Utrade Connect Ltd, Sabre Corporate Trustee Company Ltd.

Effective 1 April 2023, the Bank appointed Linda May Robertson as an Independent Non-Executive Director (BCom, PGDipBank, CFInstD - Company Director).

A1.5 Auditors

KPMG, 10 Customhouse Quay, Wellington

A1.6 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.

A1.7 Credit Rating

As at the date of signing of this Disclosure Statement, the credit rating assigned to Southland Building Society is BBB with a positive 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 29 July 2021 and was reaffirmed on 30 August 2022. The previous credit rating of BBB with a negative outlook was issued by Fitch Ratings on 18 May 2020. 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	Capacity to meet financial commitments is extremely strong. This is the highest issuer credit rating.
AA	AA	Aa	Very strong capacity to meet financial commitments.
A	A	A	Strong capacity to meet financial commitments although somewhat susceptible to adverse changes in economic, business or financial conditions.
BBB	BBB	Baa	Adequate capacity to meet financial commitments, but adverse business or economic conditions are more likely to impair this capacity.
BB	BB	Ba	Significant ongoing uncertainties exist which could affect the capacity to meet financial commitments on a timely basis.
B	B	B	Greater vulnerability and therefore greater likelihood of default.
CCC	CCC	Caa	Likelihood of default now considered a real possibility. Capacity to meet financial commitments is dependent on favourable business, economic and 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.

A1. General Disclosures continued

A1.8 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 this Disclosure Statement are as follows. These conditions of registration have applied from 1 July 2022.

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;

For the purposes of this condition of registration, -

"Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;

"Total capital" has the same meaning as in BPR110: Capital Definitions.
- 1A. That -

(a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in Part D of BPR100: Capital Adequacy;

(b) under its ICAAP the bank identifies and measures its "other material risks" defined in Part D of BPR100: Capital Adequacy; and

(c) the bank determines an internal capital allocation for each identified and measured "other material risk".
- 1B. That, if the Prudential Capital Buffer (PCB) 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, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to the percentage limit on distributions that corresponds to the banking group's PCB ratio; and

Banking group's PCB ratio	Percentage limit on distributions of the bank's earnings	Capital Buffer Response Framework stage
0% - 0.5%	0%	Stage 3
>0.5% - 1%	30%	Stage 2
>1% - 2%	60%	Stage 1
>2% - 2.5%	100%	None

- (b) comply with the Capital Buffer Response Framework requirements as set out in Part D of BPR120: Capital Adequacy Process Requirements.

For the purposes of this condition of registration, -

"prudential capital buffer ratio", "distributions", and "earnings" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of B2.2(2)(a), (c) or (d) of BPR110: Capital Definitions.
- 1BA. That the bank must not make any distribution on a transitional AT1 capital instrument on or after the date on which on any conversion or write-off provision in the terms and conditions of the instrument is triggered due to either a loss absorption trigger event or a non-viability trigger event.

For the purposes of this condition of registration, "transitional AT1 capital instrument" has the meaning given in section A2.3 of BPR110: Capital Definitions and "loss absorption trigger event" and "non-viability trigger event" have the meanings given in sub-section C2.2(3) of BPR120: Capital Adequacy Requirements.
- 1C. That;

(a) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued on or after 1 July 2021 in the calculation of its capital ratios unless it has completed the notification requirements in Part B of BPR120: Capital Adequacy Process Requirements in respect of the instrument; and

(b) the bank meets the requirements of Part C of BPR120: Capital Adequacy Process Requirements in respect of regulatory capital instruments.

For the purposes of this conditions of registration, -

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection B2.2(2)(a) or (c) of BPR110: Capital Definitions;

a Tier 2 capital instrument is an instrument that meets the requirements of subsection B3.2(2)(a) or (c) of BPR110: Capital Definitions.
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.

A1. General Disclosures continued

A1.8 Conditions of Registration continued

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 |
- ¹This 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% 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 October 2021.

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.

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.

55.

A1. General Disclosures continued

A1.8 Conditions of Registration continued

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 July 2022 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated July 2022.
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.
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.

A1. General Disclosures continued

A1.8 Conditions of Registration continued

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 June 2022.
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 June 2022.
- 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" (BS17) dated June 2022.
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 June 2022.
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 June 2022.
19. That, for a loan-to-valuation measurement period ending on or after 31 October 2021, 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 60%, 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.
20. That, for a loan-to-valuation measurement period ending on or before 31 March 2022, 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, for a loan-to-valuation measurement period ending on or after 30 April 2022, 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 10% 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.
22. 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.

A1. General Disclosures continued

A1.8 Conditions of Registration continued

In these conditions of registration, the version dates of the Reserve Bank of New Zealand Banking Prudential Requirements (BPR) documents that are referred to in the capital adequacy conditions 1 to 1C, or are referred to in turn by those documents or by Banking Supervision Handbook (BS) documents, are -

BPR document	Version date
BPR100: Capital adequacy	1 October 2021
BPR110: Capital definitions	1 October 2021
BPR120: Capital adequacy process requirements	1 July 2021
BPR130: Credit risk RWAs overview	1 July 2021
BPR131: Standardised credit risk RWAs	1 October 2021
BPR132: Credit risk mitigation	1 October 2021
BPR133: IRB credit risk RWAs	1 October 2021
BPR134: IRB minimum system requirements	1 July 2021
BPR140: Market risk exposure	1 October 2021
BPR150: Standardised operational risk	1 July 2021
BPR151: AMA operational risk	1 July 2021
BPR160: Insurance, securitisation, and loan transfers	1 July 2021
BPR001: Glossary	1 July 2021

In conditions of registration 19 to 22, -
"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of 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 October 2021:
"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month.

Changes in Conditions of Registration

There have been no changes in the Bank's Conditions of Registration during the period since the reporting date of the previous disclosure statement.

RBNZ Liquidity Thematic Review

The RBNZ published a report in September 2021 outlining the findings from the thematic review of compliance with the RBNZ's liquidity policy (BS13 and BS13A). The ten largest New Zealand-incorporated banks, including the Bank, were required to develop a remediation plan to address the findings set out in individual feedback letters and conduct a materiality assessment of the impact of certain quantitative findings on the liquidity ratios. The Bank has provided the RBNZ with a remediation plan to address the individual feedback the Bank received. The Bank continues to work with the RBNZ on the findings of the thematic review and subsequent internal review.

A1.9 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.

A1. General Disclosures continued

A1.10 Historical Summary of Financial Statements

Income Statements	31/03/2023	31/03/2022	31/03/2021	31/03/2020	31/03/2019
Interest income	287,452	192,337	216,375	254,542	246,803
Interest expense	48,466	21,764	31,073	37,156	26,191
Dividends on redeemable shares	98,326	37,401	66,101	98,249	104,851
	146,792	59,165	97,174	135,405	131,042
Net interest income	140,660	133,172	119,201	119,137	115,761
Net fee and commission income	24,557	24,785	24,511	24,844	24,450
Other income	5,766	5,868	7,546	10,406	12,369
Total operating income	170,983	163,825	151,258	154,387	152,580
Operating expenses	106,557	96,567	91,423	96,092	96,299
Credit impairment losses	12,671	5,977	4,641	36,973	15,443
Operating surplus	51,755	61,281	55,194	21,322	40,838
Net gain/(loss) from financial instruments at fair value through profit or loss	(32)	(207)	729	(269)	193
Share of associates profit net of tax	1,230	819	1,203	1,274	1,202
Surplus before income tax	52,953	61,893	57,126	22,327	42,233
Less income taxation expense	14,711	17,030	15,987	3,576	11,415
Net surplus	38,242	44,863	41,139	18,751	30,818
Attributable to:					
Members' interests	38,242	44,863	41,139	18,626	30,503
Non-controlling interests	-	-	-	125	315
	38,242	44,863	41,139	18,751	30,818

Significant Statement of Financial Position Items	31/03/2023	31/03/2022	31/03/2021	31/03/2020	31/03/2019
Total assets	6,004,756	5,219,795	4,836,346	4,941,528	4,754,518
Individually impaired assets	1,431	1,209	1,407	1,556	3,600
Total liabilities	5,498,570	4,756,843	4,447,630	4,610,240	4,429,185
Equity	506,186	462,952	388,716	331,288	325,333
Regulatory capital					
Tier one capital	433,362	397,220	359,650	309,803	307,477
Total capital	473,963	465,308	437,230	386,296	381,871
Tier one capital expressed as a percentage of total risk weighted assets	12.4%	13.1%	12.9%	11.1%	11.4%
Total capital expressed as a percentage of total risk weighted assets	13.6%	15.4%	15.7%	13.8%	14.2%

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

A2. Additional Financial Disclosures

A2.1 Additional information on the statement of financial position

	31/03/2023	31/03/2022
Total interest earning and discount bearing assets	5,782,866	5,046,522
Total interest and discount bearing liabilities	5,052,584	4,228,908

A2.2 Additional information on concentrations of credit risk

Refer to Note 24 - Credit Risk for disclosure on credit risk concentrations relating to agricultural exposures.

A2.3 Additional information on interest rate sensitivity

Refer to Note 25 - Market Risk for details on the Banking Group's interest rate repricing profile.

A2.4 Additional information on liquidity risk

Refer to Note 23 - Liquidity Risk for disclosure of financial liabilities maturity analysis, including liabilities on demand.

A2.5 Additional information on mortgage-related amounts

	Note	31/03/2023
Gross residential mortgage loans	(11)	4,001,176
Other lending residentially secured		42,703
Provision for credit impairment relating to residential mortgages	(12(a))	(10,764)
Deferred fee revenue and expenses relating to residential mortgages		14,862
Residential mortgage loans net of provision for impairment		4,047,977
Off balance sheet exposures - undrawn commitments	(A4.4)	270,991
Total on and off balance sheet residential mortgage loans		4,318,968

A3. Asset Quality

This section should be read in conjunction with the estimates, assumptions and judgements included in Note 1 - Statement of General Accounting Policies, Note 12 - Provision for Credit Impairment, Note 13 - Asset Quality and Note 24 - Credit Risk.

A3.1 Past due assets

As at 31 March 2023	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Past due 0-9 days	12,569	37,077	1,058	50,704
Past due 10-29 days	6,632	14,200	721	21,553
Past due 0-29 days	19,201	51,277	1,779	72,257
Past due 30-59 days	4,797	6,569	565	11,931
Past due 60-89 days	2,374	3,231	195	5,800
Past due 90 days +	10,079	3,186	1,178	14,443
Carrying amount	36,451	64,263	3,717	104,431

As at 31 March 2022	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Past due 0-9 days	8,916	18,915	631	28,462
Past due 10-29 days	4,526	8,568	233	13,327
Past due 0-29 days	13,442	27,483	864	41,789
Past due 30-59 days	2,961	4,889	367	8,217
Past due 60-89 days	1,113	2,583	216	3,912
Past due 90 days +	2,856	1,869	236	4,961
Carrying amount	20,372	36,824	1,683	58,879

A3. Asset Quality continued

A3.2 Movement in provision for credit impairment and gross exposures

As at 31 March 2023	Expected Credit Losses			Specific Provision	Total
	Stage 1	Stage 2	Stage 3	Stage 3	
Movement in provisions relating to advances to customers - Total					
Balance at beginning of year	20,031	9,136	2,581	573	32,321
Transfer between stages	2,295	(2,925)	630	-	-
Transferred to specific provision	-	-	(150)	150	-
New provisions	8,651	5,714	2,999	-	17,364
Charge/(credit) to income statement excluding transfers	(3,185)	402	671	(220)	(2,332)
Reversal of previously recognised provision	(8,477)	(2,856)	(1,521)	-	(12,854)
Balance at end of year - Total	19,315	9,471	5,210	503	34,499

Movement in provisions relating to credit related commitments - Total					
Balance at beginning of year	3,235	73	5	-	3,313
Transfer between stages	(26)	16	10	-	-
New provisions	422	(13)	(9)	-	400
Charge/(credit) to income statement excluding transfers	(289)	(52)	(2)	-	(343)
Reversal of previously recognised provision	(1,219)	-	-	-	(1,219)
Balance at end of year - Total	2,123	24	4	-	2,151

	Stage 1	Stage 2	Stage 3	Total
Movement in gross exposures on loss allowances - Total				
Balance at beginning of year	4,707,887	79,905	6,215	4,794,007
Transfer between stages				
Transferred to Stage 1	12,745	(12,397)	(348)	-
Transferred to Stage 2	(34,911)	35,117	(206)	-
Transferred to Stage 3	(8,579)	(4,015)	12,594	-
New loans	1,652,154	10,144	1,031	1,663,329
Assets derecognised and payments made	(854,471)	(43,617)	(3,020)	(901,108)
Other movements	(152,650)	(2,616)	(84)	(155,350)
Gross exposure - Total	5,322,175	62,521	16,182	5,400,878
Provision for credit impairment	(21,438)	(9,495)	(5,717)	(36,650)
Net exposure - Total	5,300,737	53,026	10,465	5,364,228

A3. Asset Quality continued

A3.2 Movement in provision for credit impairment and gross exposures continued

Residential mortgages	Expected Credit Losses			Specific Provision	
As at 31 March 2023	Stage 1	Stage 2	Stage 3	Stage 3	Total
Movement in provisions relating to advances to customers - Residential mortgages					
Balance at beginning of year	5,975	3,374	665	353	10,367
Transfer between stages	996	(1,536)	540	-	-
Transferred to specific provision	-		(150)	150	-
New provisions	1,149	507	217	-	1,873
Charge/(credit) to income statement excluding transfers	(2,850)	1,009	365	-	(1,476)
Balance at end of year - Residential mortgages	5,270	3,354	1,637	503	10,764
Movement in provisions relating to credit related commitments - Residential mortgages					
Balance at beginning of year	355	3	5	-	363
Transfer between stages	-	-	-	-	-
New provisions	12	-	-	-	12
Charge/(credit) to income statement excluding transfers	(130)	-	(1)	-	(131)
Balance at end of year - Residential mortgages	237	3	4	-	244
	Stage 1	Stage 2	Stage 3		Total
Movement in gross exposures on loss allowances - Residential mortgages					
Balance at beginning of year	3,740,449	27,766	3,833		3,772,048
Changes to the opening balance due to transfer between stages:					
Transferred to Stage 1	9,617	(9,446)	(171)		-
Transferred to Stage 2	(26,489)	26,628	(139)		-
Transferred to Stage 3	(5,694)	(3,366)	9,060		-
New loans	1,084,564	3,831	123		1,088,518
Assets derecognised and payments made	(501,253)	(7,122)	(1,007)		(509,382)
Other movements	(146,022)	(1,018)	(165)		(147,205)
Gross exposure - Residential mortgages	4,155,172	37,273	11,534		4,203,979
Provision for credit impairment	(5,507)	(3,357)	(2,144)		(11,008)
Net exposure - Residential mortgages	4,149,665	33,916	9,390		4,192,971

Impact of changes in gross exposures - Residential mortgages

Overall, credit impairment provisions for residential mortgages increased \$0.3 million (3%) for the year ending 31 March 2023, mainly due to portfolio growth of \$431.9m (11%) which was partially offset by release of overlays which had been held relating to economic uncertainty created by Covid-19.

A3. Asset Quality continued

A3.2 Movement in provision for credit impairment and gross exposures continued

Retail exposures	Expected Credit Losses			Specific Provision	
As at 31 March 2023	Stage 1	Stage 2	Stage 3	Stage 3	Total
Movement in provisions relating to advances to customers - Retail exposures					
Balance at beginning of year	12,660	4,486	1,679	-	18,825
Transfer between stages	1,225	(1,145)	(80)	-	-
New provisions	7,066	5,006	2,714	-	14,786
Reversal of previously recognised provision	(7,981)	(2,803)	(1,371)	-	(12,155)
Balance at end of year - Retail exposures	12,970	5,544	2,942	-	21,456
Movement in provisions relating to credit related commitments - Retail exposures					
Balance at beginning of year	2,315	-	-	-	2,315
Transfer between stages	(22)	13	9	-	-
New provisions	406	(13)	(9)	-	384
Reversal of previously recognised provision	(1,219)	-	-	-	(1,219)
Balance at end of year - Retail exposures	1,480	-	-	-	1,480
	Stage 1	Stage 2	Stage 3		Total
Movement in gross exposures on loss allowances - Retail exposures					
Balance at beginning of year	782,871	7,975	1,885		792,731
Transfer between stages					
Transferred to Stage 1	2,127	(1,950)	(177)		-
Transferred to Stage 2	(6,363)	6,401	(38)		-
Transferred to Stage 3	(2,348)	(187)	2,535		-
New loans	524,577	3,517	894		528,988
Assets derecognised and payments made	(313,303)	(5,415)	(1,621)		(320,339)
Balance at end of year - Retail exposures	987,561	10,341	3,478		1,001,380
Provision for credit impairment	(14,450)	(5,544)	(2,942)		(22,936)
Net exposure - Retail exposures	973,111	4,797	536		978,444

Impact of changes in gross exposures - Retail exposures

Overall, credit impairment provisions for retail exposures increased by \$1.8 million (8%) for the year ending 31 March 2023, mainly due to:

- Portfolio growth of \$208.6 million (26%)
- Improvement of historical loss rates within the core consumer lending portfolios.

A3. Asset Quality continued

A3.2 Movement in provision for credit impairment and gross exposures continued

Corporate exposures	Expected Credit Losses			Specific Provision Stage 3	Total
As at 31 March 2023	Stage 1	Stage 2	Stage 3		
Movement in provisions relating to advances to customers - Corporate exposures					
Balance at beginning of year	1,396	1,276	237	220	3,129
Transfer between stages	74	(244)	170	-	
New provisions	436	201	68	-	705
Charge/(credit) to income statement excluding transfers	(335)	(607)	306	(220)	(856)
Reversal of previously recognised provision	(496)	(53)	(150)	-	(699)
Balance at end of year - Corporate exposures	1,075	573	631	-	2,279
Movement in provisions relating to credit related commitments - Corporate exposures					
Balance at beginning of year	565	70	-	-	635
Transfer between stages	(4)	3	1	-	-
New provisions	4	-	-	-	4
Charge/(credit) to income statement excluding transfers	(159)	(52)	(1)	-	(212)
Balance at end of year - Corporate exposures	406	21	-	-	427
	Stage 1	Stage 2	Stage 3	Total	
Movement in gross exposures on loss allowances - Corporate exposures					
Balance at beginning of year	184,567	44,164	497	229,228	
Transfer between stages					
Transferred to Stage 1	1,001	(1,001)	-	-	
Transferred to Stage 2	(2,059)	2,088	(29)	-	
Transferred to Stage 3	(537)	(462)	999	-	
New loans	43,013	2,796	14	45,823	
Assets derecognised and payments made	(39,915)	(31,080)	(392)	(71,387)	
Other movements	(6,628)	(1,598)	81	(8,145)	
Balance at end of year - Corporate exposures	179,442	14,907	1,170	195,519	
Provision for credit impairment	(1,481)	(594)	(631)	(2,706)	
Net exposure - Corporate exposures	177,961	14,313	539	192,813	

Impact of changes in gross exposures on loss allowances - Corporate exposures

Overall, credit impairment provisions for corporate exposures decreased by \$1.1 million (28%) for the year ending 31 March 2023, mainly due to:

- Overall decrease in the corporate exposure portfolio of \$33.7 million (15%);
- Improvement of the asset quality within the corporate exposure book, with the reduction in Stage 2 exposures from \$44.2 million to \$14.9 million.

A3. Asset Quality continued

A3.2 Movement in provision for credit impairment and gross exposures continued

Residential mortgages	Expected Credit Losses			Specific Provision	
As at 31 March 2022	Stage 1	Stage 2	Stage 3	Stage 3	Total
Movement in provisions relating to advances to customers - Residential mortgages					
Balance at beginning of year	6,107	4,681	846	353	11,987
Transfer between stages	1,904	(1,766)	(138)	-	-
New provisions	852	834	85	-	1,771
Charge/(credit) to income statement excluding transfers	(2,888)	(375)	(128)	-	(3,391)
Balance at end of year - Residential mortgages	5,975	3,374	665	353	10,367
Movement in provisions relating to credit related commitments - Residential mortgages					
Balance at beginning of year	351	3	20	-	374
Transfer between stages	(1)	1	-	-	-
New provisions	29	-	-	-	29
Charge/(credit) to income statement excluding transfers	(24)	(1)	(15)	-	(40)
Balance at end of year - Residential mortgages	355	3	5	-	363
Movement in gross exposures on loss allowances - Residential mortgages					
Balance at beginning of year	3,365,797	41,763		4,609	3,412,169
Transfer between stages	5,199	(5,841)		642	-
New loans	1,208,758	4,808		27	1,213,593
Assets derecognised and payments made	(749,779)	(11,873)		(1,377)	(763,029)
Other movements	(89,526)	(1,091)		(69)	(90,686)
Balance at end of year - Residential mortgages	3,740,449	27,766		3,832	3,772,047
Provision for credit impairment	(6,330)	(3,377)		(1,023)	(10,730)
Net exposure - Residential mortgages	3,734,119	24,389		2,809	3,761,317
Retail exposures					
As at 31 March 2022	Stage 1	Stage 2	Stage 3	Specific Provision Stage 3	Total
Movement in provisions relating to advances to customers - Retail exposures					
Balance at beginning of year	13,804	4,544	2,519	-	20,867
Transfer between stages	1,428	(1,092)	(336)	-	-
New provisions	5,871	3,905	1,543	-	11,319
Reversal of previously recognised provision	(8,443)	(2,871)	(2,047)	-	(13,361)
Balance at end of year - Retail exposures	12,660	4,486	1,679	-	18,825
Movement in provisions relating to credit related commitments - Retail exposures					
Balance at beginning of year	2,863	-	-	-	2,863
Transfer between stages	(20)	19	1	-	-
New provisions	643	(19)	(1)	-	623
Reversal of previously recognised provision	(1,171)	-	-	-	(1,171)
Balance at end of year - credit related commitments	2,315	-	-	-	2,315

A3. Asset Quality continued

A3.2 Movement in provision for credit impairment and gross exposures continued

Retail exposures					
As at 31 March 2022	Stage 1	Stage 2	Stage 3	Total	
Movement in gross exposures on loss allowances - Retail exposures					
Balance at beginning of year	698,612	7,368	2,645	708,625	
Transfer between stages	(3,593)	2,827	766	-	
New loans	392,813	2,865	590	396,268	
Assets derecognised and payments made	(304,962)	(5,085)	(2,115)	(312,162)	
Gross exposure - Retail exposures	782,870	7,975	1,886	792,731	
Provision for credit impairment	(14,975)	(4,486)	(1,679)	(21,140)	
Net exposure - Retail exposures	767,895	3,489	207	771,591	

Corporate exposures					
As at 31 March 2022	Expected Credit Losses			Specific Provision Stage 3	Total
	Stage 1	Stage 2	Stage 3		
Movement in provisions relating to advances to customers - Corporate exposures					
Balance at beginning of year	1,982	1,514	428	220	4,144
Transfer between stages	148	20	(168)	-	-
New provisions	331	419	211	-	961
Charge/(credit) to income statement excluding transfers	(683)	(628)	(107)	-	(1,418)
Reversal of previously recognised provision	(382)	(49)	(127)	-	(558)
Balance at end of year - Corporate exposures	1,396	1,276	237	220	3,129

Movement in provisions relating to credit related commitments - Corporate exposures					
Balance at beginning of year	668	74	-	-	742
Transfer between stages	3	(3)	-	-	-
New provisions	13	-	-	-	13
Charge/(credit) to income statement excluding transfers	(119)	(1)	-	-	(120)
Balance at end of year - credit related commitments	565	70	-	-	635

	Stage 1	Stage 2	Stage 3	Total
Movement in gross exposures on loss allowances - Corporate exposures				
Balance at beginning of year	243,515	52,488	1,237	297,240
Transfer between stages	(866)	988	(122)	-
New loans	42,885	18,546	11	61,442
Assets derecognised and payments made	(95,343)	(27,525)	(402)	(123,270)
Other movements	(5,624)	(333)	(227)	(6,184)
Balance at end of year - Corporate exposures	184,567	44,164	497	229,228
Provision for credit impairment	(1,961)	(1,346)	(457)	(3,764)
Net exposure - Corporate exposures	182,606	42,818	40	225,464

A3. Asset Quality continued

A3.3 Asset quality for financial assets designated at fair value

Refer to Note 21 - Fair Value of Financial Instruments for movement of REM loans, which are carried at fair value through profit or loss.

A3.4 Other asset quality information

	31/03/2023	31/03/2022
Undrawn balances on individually impaired lending commitments	-	-
Other assets under administration	-	-

A4. Capital Adequacy under the Standardised Approach, and Regulatory Liquidity Ratios

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 Banking Prudential Requirements (BPR) documents. 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 BPR 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 capital adequacy calculations set out below 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.

A4. Capital Adequacy under the Standardised Approach, and Regulatory Liquidity Ratios continued

A4.1 Capital ratios

Regulatory capital ratios	Minimum ratio requirement	BANKING GROUP		REGISTERED BANK	
		31/03/2023	31/03/2022	31/03/2023	31/03/2022
Common equity tier 1 capital ratio	4.5%	12.4%	13.1%	10.2%	10.8%
Tier 1 capital ratio	6.0%	12.4%	13.1%	10.2%	10.8%
Total capital ratio	8.0%	13.6%	15.4%	11.7%	13.7%
Prudential capital buffer ratio	2.5%	5.6%	7.1%		

A4.2 Capital

	BANKING GROUP 31/03/2023
Tier 1 capital	
Common equity tier 1 (CET1) capital	
Retained earnings	431,129
Current year's retained earnings	38,242
FVOCI reserve	(15,880)
Cash flow hedging reserve	50,358
Less deductions from CET1 capital	
Goodwill & intangible assets	(9,614)
Cash flow hedging reserve	(50,358)
Investments in associates	(10,515)
Total CET1 capital	433,362
Additional tier 1 (AT1) capital	
Non-controlling interests (net of deductions and surplus AT1 capital)	-
Total AT1 capital	-
Total tier 1 capital	433,362
Tier 2 capital	
Revaluation reserves - Property, plant and equipment	2,337
Subordinated redeemable shares ¹	38,264
Total tier 2 capital	40,601
Total capital	473,963
Less deductions from capital	-
Total capital	473,963

¹ Classified as a liability on the balance sheet under NZ GAAP. At 31 March 2023 the balance of all subordinated redeemable shares issued was \$63.8 million (31 March 2022 \$104.8 million). After adjustments for potential tax and transitional recognition amortisation, \$38.3 million (31 March 2022 \$66.0 million) has been recognised as tier 2 capital for RBNZ capital adequacy purposes.

A4. Capital Adequacy under the Standardised Approach, and Regulatory Liquidity Ratios continued

A4.3 Credit risk
On balance sheet exposures

BANKING GROUP As at 31 March 2023	Total exposure after credit risk mitigation ²	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
Cash	589	0%	-	-
Sovereigns and central banks	120,000	0%	-	-
Multilateral development banks	101,930	0%	-	-
Public sector entities	83,356	20%	16,671	1,334
<i>Banks</i>				
Rating grade 1	105,914	20%	21,183	1,695
Rating grade 2	312,250	50%	156,125	12,490
<i>Corporates</i>				
Rating grade 1	7,289	20%	1,458	117
Rating grade 2	11,864	50%	5,932	475
Rating grade 3-4	12,182	100%	12,182	975
Rating grade 5	483	150%	725	58
<i>Residential mortgages owner occupied</i>				
< 80% loan to value ratio (LVR)	2,195,891	35%	768,562	61,485
80 < 90% LVR	78,645	50%	39,323	3,146
90 < 100% LVR	3,631	75%	2,723	218
< 100% LVR	183	100%	183	15
<i>Residential mortgages property investment</i>				
<= 80% LVR	1,034,869	40%	413,948	33,116
80 <= 90% LVR	2,645	70%	1,852	148
< 90 <= 100% LVR	1	90%	1	-
<i>Residential mortgages first home loans</i>				
<= 90% LVR	491,068	35%	171,874	13,750
90 <= 100% LVR	144,303	50%	72,152	5,772
<i>Reverse residential mortgage loans</i>				
<= 60%	84,611	50%	42,306	3,384
60 <= 80%	2,310	80%	1,848	148
Past due residential mortgages	8,892	100%	8,892	711
Impaired residential mortgages	928	100%	928	74
Equity holdings	2,280	300%	6,840	547
Other assets	1,082,547	100%	1,082,547	86,604
Non-risk weighted assets	116,095	0%	-	-
Total on balance sheet credit exposures	6,004,756		2,828,255	226,262

Off balance sheet exposures

As at 31 March 2023	Total exposure after credit risk mitigation ²	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure / implied risk weighted exposure	Minimum pillar one capital requirement
Commitments with uncertain drawdown	137,008	50%	68,504	74%	50,497	4,040
Commitments to extend credit which can be unconditionally cancelled	351,726	0%	-	0%	-	-
<u>Market related contracts</u> ¹						
Interest rate contracts	4,948,161	n/a	103,221	34%	35,358	2,829
Credit valuation adjustment (CVA)					2,778	222
Total off balance sheet credit exposures	5,436,895		171,725		88,633	7,091
Total credit risk	11,441,651		171,725		2,916,888	233,353

¹ The credit equivalent amount for market related contracts was calculated using the current exposure method.
² No credit risk mitigation has been included.

A4. Capital Adequacy under the Standardised Approach, and Regulatory Liquidity Ratios continued

A4.4 Additional mortgage information

Residential mortgages by loan-to-valuation ratio	BANKING GROUP	
	On balance sheet	Off balance sheet
As at 31 March 2023		
LVR range		
0 - 80%	3,454,524	253,566
80 - 90%	444,830	9,546
90% +	148,623	7,879
Total residential mortgages	4,047,977	270,991

First Home Loans make up 97% of the residential mortgages in the 90% + loan to valuation grouping as at 31 March 2023 (31 March 2022 96%) and 82% of the 80-90% loan to valuation grouping (31 March 2022 84%). The First Home Loan product is fully insured by Kāinga Ora – Homes and Communities.

A4.5 Credit risk mitigation	Total value of exposures covered by eligible financial collateral (after haircut)	Total value of on and off balance sheet exposures covered by guarantees or credit derivatives
Exposure class		
Sovereign or central bank	-	-
Multilateral development bank	-	-
Public sector entities	-	-
Bank	-	-
Corporate	-	-
Residential mortgage	-	-
Other	-	-

A4.6 Operational Risk	Implied risk-weighted exposure	Total operational risk capital required
Operational risk	320,583	25,647

A4.7 Market Risk	Implied risk-weighted exposure		Aggregate capital charge	
	End of period	Peak	End of period	Peak
Interest rate risk	243,542	301,688	19,483	24,135
Foreign currency risk	-	-	-	-
Equity risk	-	-	-	-

Market risk exposures have been calculated in accordance with the methodology detailed in RBNZ BPR140, 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.

A4.8 Total capital requirements	Total exposure after credit risk mitigation	Risk-weighted exposure or implied risk-weighted exposure	Total capital requirement
Total credit risk	11,441,651	2,916,888	233,353
Operational risk	n/a	320,583	25,647
Market risk	n/a	243,542	19,483
Total Pillar I risk	n/a	3,481,013	278,483

A4. Capital Adequacy under the Standardised Approach, and Regulatory Liquidity Ratios continued

A4.9 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 \$45 million to cover these identified risks (31 March 2022 \$30 million).

A4.10 Regulatory liquidity ratios

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.

	31/03/2023	31/12/2022
Average liquidity ratios		
One-week mismatch ratio	7.2%	7.8%
One-month mismatch ratio	12.2%	11.6%
Core funding ratio	96.8%	96.3%

A5. Concentration of Credit Exposures to Individual Counterparties

- The Banking Group's disclosure of concentrations of credit exposure to individual counterparties and groups of closely related counterparties, which equalled or exceeded 10% of the Banking Group's Common Equity Tier 1 capital, is based on actual credit exposures and calculated on a gross basis (net of specific provisions). 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.
- The individual counterparty exposures included in the following table exclude exposures to:
- connected persons;
 - the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent; and
 - any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

	As at 31 March 2023			For the six months ending 31 March 2023		
Exposures to banks	End of Period Exposure			Peak Exposure		
Percentage of Common Equity Tier 1 capital	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
10%-14%	1	-	1	1	-	1
15%-19%	1	-	1	1	-	1
20%-24%	1	-	1	1	-	1
25%-29%	1	-	1	1	-	1
30%-34%	1	-	1	-	-	-
35%-39%	-	-	-	-	-	-
40%-44%	-	-	-	-	-	-
45%-49%	-	-	-	-	-	-
50%-54%	-	-	-	-	-	-
55%-59%	-	-	-	1	-	1
Total	5	-	5	5	-	5
Exposures to non-banks						
Percentage of Common Equity Tier 1 capital	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
10%-14%	-	-	-	1	-	1
15%-19%	-	-	-	-	-	-
Total	-	-	-	1	-	1

A6. Credit Exposures to Connected Persons

	Connected persons		Non-bank connected persons	
	Amount \$	% of Tier 1 Capital	Amount \$	% of Tier 1 Capital
At year end	-	-	-	-
Peak during the year	-	-	-	-

A6.1 Credit exposures to connected persons

The information on credit exposure to connected persons has been derived in accordance with the RBNZ Banking Supervision Handbook document Connected Exposure Policy (BS8), is net of individual credit impairment allowances and excludes advances to connected persons of a capital nature.

A6.2 Peak end of day aggregate exposure

Peak end of day credit exposures to non-bank connected persons as a ratio to tier 1 capital for the full financial year is derived by determining the maximum end of day aggregate amount of credit exposure over the accounting period and then dividing that amount by the Banking Group's tier 1 capital at the reporting date.

A6.3 Rating-contingent limit

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.

A6.4 Additional requirements for aggregate credit exposure to connected persons

Aggregate credit exposure to connected persons has been calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature).

A6.5 Aggregate amount of contingent exposures from risk lay-off arrangements

The Registered Bank does not have any contingent exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties as at 31 March 2023 (31 March 2022 \$nil).

A6.6 Loss allowance for credit-impaired credit exposures to connected persons

There are no individual credit impairment allowances against credit exposures to non-bank connected persons as at 31 March 2023 (31 March 2022 \$nil).

A7. Insurance Business, Securitisation, Funds Management, Other Fiduciary Activities, and Marketing and Distribution of Insurance Products

A7.1 Insurance business

The Banking Group markets and distributes insurance products through its subsidiary company Southsure Assurance Limited (trading as SBS Insurance). The Banking Group derives premium income from the sale of insurance products.

The total assets of SBS Insurance as at 31 March 2023 are \$28.7 million (31 March 2022 \$27.2 million) which is 0.5% of the total assets of the Banking Group (31 March 2022 0.5%). 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.

A7.2 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 SBS Wealth. The Banking Group derives fee 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.

	31/03/2023	31/03/2022
Funds under management on behalf of customers	1,362,600	1,407,500

A7.3 Securitised assets

As at 31 March 2023, the Banking Group had securitised assets amounting to \$1,003 million (31 March 2022 \$906 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.

A7. Insurance Business, Securitisation, Funds Management, Other Fiduciary Activities, and Marketing and Distribution of Insurance Products continued

A7.3 Securitised assets continued

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 22 - Liquidity Risk.

A7.4 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, as well as A8.

A7.5 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.

A8. Risk Management Policies

A8.1 Information about risk

Risk is inherent in all the Banking Group business activities, products, processes, and systems. The Banking Group has an embedded Framework that enables the appropriate development and implementation of strategies, policies, and procedures to manage those risks.

The SBS Board is ultimately responsible for ensuring effective risk management practices are in place across the Group.

The Group Audit and Risk Committee ("GARC") has delegated responsibility for ensuring the integrity of the SBS Banking Group financial controls, reporting systems and internal risk and audit standards and processes, providing the SBS Board of Directors with additional assurance on the quality and reliability of financial information and risk management systems.

The GARC assists the SBS Board to oversee the identification, assessment, and management of risk, including eliminating or mitigating risk and taking selective strategic risks, within risk appetite. This does not relieve the SBS Board of Directors of its overall responsibility for the management of risk, in particular it:

- Provides objective assurance as to the adequacy and effectiveness of the SBS Bank and its subsidiaries' risk management policies and framework.
- Reviews, and makes recommendations to the SBS Board regarding current and future risk appetite, the Risk Management Strategy and Framework and risk management policies.
- Monitors the effectiveness of the Risk Management Framework and associated policies and procedures in identifying, prioritising, treating, monitoring and reporting on key business risks.
- Ensures that adequate internal controls are in place.
- Reports to the SBS Board on the highest priority business risks and the adequacy of the control environment.

Governance is maintained through delegation of authority from Group and Subsidiary Boards, down through the management hierarchy to individuals, and is supported by the following committees:

SBS Board

The SBS Board has overall responsibility for reviewing all aspects of risk management and compliance. The SBS Board receives comprehensive reporting covering each area of risk management. In addition, SBS has specific policies in relation to liquidity and capital management which contain trigger points at which SBS Board involvement is required.

Subsidiary Boards

The Subsidiary Boards have overall responsibility for reviewing all aspects of risk management and compliance in regard to their respective entity. The Subsidiary Boards receive comprehensive reporting, covering each area of risk management, from management.

Group Audit and Risk Committee

The Group Audit and Risk Committee ("GARC") is a sub committee of the SBS Board.

The GARC Membership comprises of Bank directors. In addition, the Group Chief Executive, Chief Financial Officer and the Group Chief Risk Officer are in attendance at meetings. The GARC meets at least four times a year, and reports directly to the Board.

Group IT Committee

The IT Committee is a sub committee of the SBS Board and has responsibility for monitoring and reviewing exposure to the risks associated with IT including cyber risk, data security, disaster recovery and business continuity. The Committee also has responsibility for oversight of the formulation and development of 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 project requiring significant investment. The IT Committee meets quarterly.

A8. Risk Management Policies continued

A8.1 Information about risk continued

Bank Lending Committee

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

Bank 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 Bank 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 Bank senior management team and treasury function. The ALCO meets monthly.

Bank Credit Risk Committee ("CRC")

The CRC has responsibility for monitoring and reviewing exposure to credit risks in SBS Bank'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 comprises members of the senior management team and credit risk management function. The CRC usually meets quarterly and reports to the Board.

Bank Operational Risk and Compliance Committee ("ORCC")

The ORCC has responsibility for monitoring and reviewing exposure to operational risks arising from SBS Bank'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 ORCC comprises members of the Bank senior management team and the risk and compliance functions. The ORCC usually meets quarterly and reports to the Group Audit and Risk Committee and the Board.

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, People and Support, Cyber and Information Security, 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.

A8. Risk Management Policies continued

A8.1 Information about risk continued

Material risks

The Banking Group distinguishes between different types of risk and take an integrated approach toward identifying, assessing and managing all material risks including through the annual review of the Risk Management Strategy and the establishment of additional controls through supporting frameworks and policies. The Banking Group considers risk through the lens of the following risk categories.

Type	Description	Managing the Risk
Strategic risk	The risk that adverse decisions, ineffective or inappropriate business plans or failure to respond to changes in the environment will impact our ability to meet objectives.	The Banking Group considers and manages strategic risk through the annual strategic planning process which is approved by the Board of Directors. SBS Group's Risk Management Strategy documents the Banking Group's key risk management practices across all major risk classes, and demonstrates collectively, how the Banking Group ensures the comprehensive management of risks across the Banking Group in support of achieving its strategic goals.
Capital risk	The risk that SBS Group has insufficient capital resources to meet minimum regulatory requirements, support its credit rating or support its growth and strategic objectives.	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, 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 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 Bank monitors its capital adequacy and reports this on a regular basis to the Board and on a monthly basis to the RBNZ. Refer to Note A4 - Capital Adequacy under the Standardised Approach, and Regulatory Liquidity Ratios for more information.
Credit risk	The risk of financial loss where a customer or counterparty fails to meet their financial obligations to the Banking Group or defaults on its commitments.	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. Refer to Note 24 - Credit Risk for more information.
Liquidity risk	Liquidity risk is the risk that the Banking Group is unable to meet its financial commitments as they fall due or that it suffers a material loss in doing so.	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. 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 the 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. Refer to Note 23 - Liquidity Risk for more information.
Market risk - interest rate risk	Interest rate risk is the risk of loss arising from adverse changes in interest rates. This includes interest rate risk in the banking book - the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business.	Interest rate risk is managed using financial instruments to manage the risks with set limits as defined by the SBS treasury policy. The Banking Group undertakes 100% of its transactions 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.
Market risk - equity risk	Equity risk is the risk of financial loss arising from the unexpected reduction in value of the Banking Group equity investments not held in the trading book, including the Banking Group's associates.	Equity risk is managed based on the SBS Treasury Policy, which outlines allowable investment and credit limits. Maximum credit limits are approved on the basis of long-term credit ratings from S&P, Fitch or Moody's. The credit limit system ensures both credit quality and liquidity of investments held to meet liquidity requirements. A monthly report is produced to report credit usage against limits.

A8. Risk Management Policies continued

A8.1 Information about risk continued

Material risks continued

Type	Description	Managing the Risk
Market risk - currency risk	Currency risk results from the mismatch of foreign currency assets and liabilities.	SBS has no appetite to carry any foreign exchange risk and as such all material foreign exchange risk is hedged. Refer to Note 10 - Derivative Financial instruments and Hedging Activities and Note 25 - Market risk for more information.
Insurance risk	The risk of mis-estimation of the expected cost of insured events, volatility in the number or severity of insured events, and mis-estimation of the cost of incurred claims.	Insurance risks are managed using the following strategies: <ul style="list-style-type: none">- the use of approved and documented underwriting policies and procedures to determine the acceptance and appropriate pricing of risk;- the use of actuarial models to calculate premiums and to monitor claim patterns;- reinsurance arrangements that limit the Banking Group's exposure to individual and catastrophic risks; and- the diversification of insurance business over different risk types and distribution channels.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	The Banking Group aims to minimise the impact of operational risks by: <ul style="list-style-type: none">- ensuring the appropriate risk management policies, controls, systems, staff and processes are in place;- maintaining an appropriate organisational and management structure with clearly defined responsibilities and accountabilities including the division of duties where appropriate.

A8.2 Capital adequacy

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 Bank monitors its Capital Adequacy and reports this on a regular basis to the Board and on a monthly basis to the RBNZ. No formal reviews of the Banking Group's approach to assessing the adequacy of its capital were undertaken by external parties during the year ended 31 March 2023.

A8.3 Reviews of banking group's risk management systems

Following the RBNZ liquidity thematic in 2021, the Banking Group engaged an external party to review systems and processes around liquidity during the year ended 31 March 2023. Other reviews of risk management policies, systems and reporting, some of which are external, are conducted on a regular basis.

A8.4 Internal audit function of banking group

SBS's internal audit function conducts independent reviews that assist the Board of Directors and Management to meet their statutory and other obligations. The function reports directly to the Chair of the Group Audit and Risk Committee. The internal audit function is performed by 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 Group Audit and Risk Committee.

An audit plan is prepared annually covering each entity, with greater emphasis placed on those areas with perceived higher risk. The plan is approved by the Group Audit and Risk Committee.

A8.5 Measurement of impaired assets

Refer to Note 12 - Provision for Credit Impairment and Note 13 - Asset Quality for details of the Banking Group's approach to measurement of impaired assets. Impairment is assessed monthly, with individual allowances for credit impairment also updated monthly and collective allowances for credit impairments updated quarterly.

A8.6 Credit risk mitigation

The Banking Group offset financial assets and financial liabilities in the statement of financial position in accordance with NZ IAS 32 Financial Instruments: Presentation, when there is:

- a current legally enforceable right to set off the recognised amount in all circumstances; and
- an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

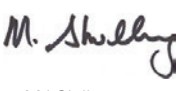
If the above conditions are not met, the financial assets and financial liabilities are presented on a gross basis.

As at 31 March 2023, the Banking Group does not have any master netting arrangements.

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 2023:
 - (a) the Bank has complied in all material respects with all conditions of registration applicable during the period;
 - (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 24 May 2023 and has been signed by or on behalf of all the directors.

			
AJ O'Connell (Chairman)	GJ Mulvey	KJ Murphy	PRN Ellison
			
MJ Skilling (Deputy Chair)	MP O'Connor	SJ Brown	LM Robertson



Independent Auditor's Report

To the members of Southland Building Society

Report on the audit of 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 15 to 76:

- i. give a true and fair view of the banking group's financial position as at 31 March 2023 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') and is included within notes A1 to A8 of the disclosure statement:

- i. presents fairly the matters to which it relates;
- ii. is disclosed in accordance with those schedules; and
- iii. has been prepared, in all material respects, in accordance with any conditions of registration relating to the disclosure requirements, imposed under section 74(4)(c) of the Banking (Prudential Supervision) Act 1989 and any conditions of registration.

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 2023;
- the consolidated income statement, statements of 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 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('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 review of the Banking Group's half-year Disclosure Statement, limited assurance engagement of the Capital Adequacy and Regulatory Liquidity disclosures, reasonable assurance engagement over a subsidiary's solvency return and a subsidiary's tax 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 Bank. 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 \$2,000,000 determined with reference to a benchmark of the Banking Group's performance. 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
Provision for credit impairment – (\$36.9 million – refer note 12)	
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 judgement required and applied by management in estimating the appropriate provision.	Our audit procedures included <ul style="list-style-type: none">• Evaluating the design and implementation effectiveness of key controls relating to the Banking Group's lending, credit review and monitoring processes.• Testing key inputs used in the collective provision for credit impairment including macroeconomic factors, arrears profile information, historic loss rates and losses incurred (for probability and loss given default inputs) as well as comparing the consistency of the
The Banking Group's provision for credit impairment comprises a collective provision and to a lesser extent a specific provision.	
The collective provision is based on an Expected Credit Loss (ECL) model using credit risk	



The key audit matter

How the matter was addressed in our audit

characteristics of the gross advances portfolio to group the loans with like characteristics. For loans that haven't or have had a significant deterioration in credit risk since origination, the provision is based on either the 12 month or lifetime expected credit losses respectively.

The collective provision requires the assessment of the probability of default (PD), and loss given default (LGD), which includes forming an estimate of future economic performance and how this will impact on the loan recoverability. An overlay adjustment to the ECL model result is made to address future market conditions not reflected in the model assumptions.

A significant level of economic uncertainty remains in the current macro-economic environment with rising interest rates, inflationary pressures on cost of living and falling security values. The result is the judgement and complexity involved in estimating the provision remain heightened and there is continuing uncertainty in the Banking Group's assessment of ECL.

Application of hedge accounting – (refer to note 10)

The Banking Group enters into derivatives (interest rate swaps) to manage its interest rate risk. Cash flow hedge accounting is applied to swaps taken out to hedge floating rate loans and funding.

The rapidly changing interest rate environment has meant that the New Zealand retail interest rates have not moved in step with benchmark interest rates and term deposit rates have been below the benchmark interest rates. This divergence creates heightened risk of hedges not demonstrating an effective hedge relationship in order to qualify for hedge accounting and a greater level of ineffectiveness being recognised on those hedges that do continue to meet the requirements for hedge accounting. As a result, the Banking Group could experience significant volatility in the Income Statement from changes in the fair value of the derivatives.

Due to the complexity of hedge accounting (including capacity testing) which increased in the current interest rate environment, we consider this to be a key audit matter.

calculations with prior year models and overall coverage compared to market participants.

- Assessment of the appropriateness of basis for and data used to determine overlays.
- Assessing the appropriateness of the disclosure of key assumptions and sensitivities of these changes on the year end credit provision.

Our audit procedures included:

- reviewing The Banking Group's accounting policies related to financial instruments.
- agreeing the terms of the derivatives to the confirmation provided by the derivative counterparty.
- using our hedge accounting and valuations specialists we:
- independently recalculated the fair value of all derivatives recorded by the Banking Group.
- tested management's assumptions in relation to hedge capacity to determine if there is a sufficient level of floating rate loans and funding in order for the derivatives to be designated in hedge relationships.
- performed hedge effectiveness calculations for a sample of derivatives and used these results to independently calculate an estimate of hedge ineffectiveness to compare to management's assessment.



The key audit matter

How the matter was addressed in our audit

Operation of IT system 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 areas of our audit where we seek to place reliance on certain 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 change authorisation, testing and implementation.

Our audit procedures, for the Banking Group, 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;
- Evaluating General IT controls relevant to system change authorisation, testing and implementation.



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 disclosures required by Schedule 2 of the Order and other information in respect of the Bank including directories. Our opinion on the 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 disclosure statement our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.



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 disclosure statement, including the consolidated 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 ISA's (NZ) 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 the 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/>

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

The engagement partner on the audit resulting in this independent auditor's report is Sonia Isaac

For and on behalf of

KPMG
Wellington

24 May 2023



Independent Limited Assurance Report to the members of Southland Building Society

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

Based on our limited assurance conclusion, which is not a reasonable assurance engagement or audit, nothing has come to our attention that would lead us to believe that the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, disclosed in note A4 to the Disclosure Statement, is not, in all material respects disclosed in accordance with Schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the 'Order').

We have reviewed the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, as disclosed in note A4 of the Disclosure Statement for the year ended 31 March 2023. 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.

Standards we followed

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised) *Assurance Engagements other than audits or reviews of historical financial information* and Standard on Assurance Engagements SAE 3100 (Revised) *Assurance Engagements on Compliance*. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion. In accordance with those standards:

- used our professional judgement to plan and perform the engagement to obtain limited assurance that the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements is free from material misstatement and non-compliance, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on the effectiveness of these controls; and
- ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.



How to interpret limited assurance and material misstatement and non-compliance

In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material misstatement and non-compliance with Schedule 9 of the Order is likely to arise.

The procedures performed in a limited assurance engagement vary in nature and timing from and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Misstatements, including omissions, within the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements and non-compliance are considered material if, individually or in the aggregate, they could reasonably be expected to influence the relevant decisions of the intended users taken on the basis of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements.

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error or non-compliance with compliance requirements may occur and not be detected.

Restriction of distribution and use

Our report is made solely for Southland Building Society's members. Our assurance work has been undertaken so that we might state to the members those matters we are required to state to them in the assurance report and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the members for our work, for this independent limited assurance report, and/or for the conclusions we have reached.

Director's responsibility 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 in accordance with Schedule 9 of the Order, which the Directors have determined to meet the needs of the recipients. This responsibility includes such internal control as the Directors determine is necessary to enable the preparation of the supplementary information relating to Capital



Adequacy and Regulatory Liquidity Requirements that is free from material misstatement and non-compliance whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion to Southland Building Society on whether anything has come to our attention that the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements has not, in all material respects, been prepared in accordance with Schedule 9 of the Order for the year ended 31 March 2023.

Our independence and quality control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our firm has also provided other services to the banking group in relation to audit of the banking group's full-year Disclosure Statement, review of the banking group's half-year Disclosure Statement, reasonable assurance engagement over a subsidiary's solvency return and a subsidiary's tax 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 assurance providers of the banking group for this engagement. The firm has no other relationship with, or interest in, the banking group.

KPMG
Wellington

24 May 2023

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invercargill@sbsbank.co.nz

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To view this Annual Report online
go to [sbsbank.co.nz](https://www.sbsbank.co.nz)

