Southland Building Society

Disclosure Statement

For the year ended 31 March 2021

Number 46 Issued May 2021

Contents

Abbreviations

The following abbreviations are used throughout the report:

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

General Information

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

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

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

Name and Address for Service of Registered Bank

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

Details of Incorporation

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

Ownership

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

Guarantee Arrangements

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

Pending Proceedings or Arbitration

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

Other Material Matters

The Bank's Directors are of the opinion that, other than oulined below 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.

At a special members' meeting held on 9 February 2021, members have voted to accept some changes in SBS Bank's Rules. Changes to the Rules were made to:
- Modernise governance practices;
- Provide flexibility around raising capital;
- Ensure there is appropriate protections in place for existing members;
- Update to reflect new or amended legislation.

These changes do not have any direct impact on the Disclosure Statements of the Bank.

Directorate

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

<u>Independent Non-Executive Directors</u>

JF (John) Ward, BCom, Hon LLD (Otago) FCA CFInstD (Chairman - Board of Directors) Chartered Accountant	External Directorships: H&J Smith Holdings Ltd, H&J Smith Ltd, H&J Smith Corporate Ltd, H&J's Hardware Ltd, H. &J.'s Electrical Ltd, H&J Smith Parking Building Ltd, H. & J. Smith Finance Ltd, H&J's Properties Ltd, Outdoor World Ltd, Shotover Hardware Ltd, Symphony Retailing Ltd, Outdoor Adventures Ltd, Simner Investments Ltd, Cross Roads Properties Ltd, Southern Department Stores Ltd, SFI Properties Ltd, Corner Trading Ltd, Amtex Corporation Ltd, Tanknology (NZ) Ltd, Paddington Investments No 8 Ltd, Fun Innovators NZ Ltd
KJ (Kathryn) Ball, BCom FCA CMInstD (Deputy Chair - Board of Directors Chartered Accountant	External Directorships: KJB Consulting Ltd, Stadium Southland Ltd, Invercargill Central Ltd

Directorate (continued)

GJ (Greg) Mulvey, BCom FCA FNZIM Company Director	External Directorships: None
MJ (Mike) Skilling, BAgrSci PGDipBank SFFINSIA CMInstD Company Director	External Directorships: Financial Synergy Ltd, Ruby Bay Estate Ltd, Hastings Street South Investments Ltd, Hastings Street South Ltd
AL (Anne) McLeod, BCom LLB MInstD Barrister & Solicitor	External Directorships: Lust for Life Ltd, Raw Power Ltd, ALC Trustees No 1 Ltd, Anderson Lloyd Trustee Company (No.2) Ltd, Anderson Lloyd Trustee Company (No.3) Ltd, Anderson Lloyd Trustee Company (2013) Ltd, Anderson Lloyd Trustee Company (2011) Ltd, Anderson Lloyd Trustee Company Ltd, Alal Ltd, Anderson Lloyd Shareholding Company Ltd
AJ (Joe) O'Connell, BCom FCA CFInstD Company Director	External Directorships: TNZ Growing Products Ltd, Pylon Ltd, Property South Ltd, R Richardson Ltd, Log Marketing New Zealand Ltd, Log Logistics Ltd, OKC Holdings Ltd, Southfuels Ltd, Powernet Ltd, AJO Management Ltd, R W Transport Ltd, Electricity Invercargill Ltd, O'Connell Holdings Ltd, Abbott Management Ltd, Shotover Hardware Ltd, Southern Department Stores Ltd, H. & J. Smith Finance Ltd, Corner Trading Ltd, H & J Smith Corporate Ltd, Symphony Retailing Ltd, Outdoor Adventures Ltd, Outdoor World Ltd, H & J's Hardware Ltd, SFI Properties Ltd, H & J Smith Parking Building Ltd, H. & J.'s Electrical Ltd, H & J Smith Holdings Ltd, H & J Smith Ltd, Cross Roads Properties Ltd, H & J's Properties Ltd, Niagara Forestry Ltd, McNeill Drilling Company Ltd, Tulloch Transport Ltd, Abbott NZ Holdings Ltd, Craigpine Timber Ltd
MP (Mark) O'Connor, BCom FCA FNZIM Company Director	External Directorships: Invest South GP Ltd, Calvary Hospital Southland Ltd
KJ (Kevin) Murphy, CA FCA CMInstD Company Director	External Directorships: Adele Senior Living Ltd, KCM Consultant Services Ltd, Public Trust

Group Audit & Risk Committee

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

KJ Ball (Chairperson) - Independent Non-Executive Director
JF Ward - Independent Non-Executive Director
GJ Mulvey - Independent Non-Executive Director
MJ Skilling - Independent Non-Executive Director
MP O'Connor - Independent Non-Executive Director

Conflicts of Interest Policy

The policy and current practice of the board of directors (as set out in clause 16.7 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.

Interested Transactions

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

Solicitors

Buddle Findlay
83 Victoria Street
Christchurch

Auditors

KPMG Chartered Accountants
79 Cashel Street
Christchurch

Credit Rating

As at 31 March 2021, the credit rating assigned to Southland Building Society is BBB with a negative outlook. This credit rating is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. The credit rating was issued by Fitch Ratings on 5 September 2016. On 18 May 2020, Fitch Ratings affirmed the rating of BBB, but changed the outlook to negative. This rating was reaffirmed on 19 October 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	Ability to repay principal and interest is extremely strong. This is the highest investment category.
AA	AA	Aa	Very strong ability to repay principal and interest in a timely manner.
A	A	A	Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.
BBB	BBB	Baa	Adequate ability to repay principal and interest. More vulnerable to adverse changes.
BB	BB	Ba	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.
B	B	B	Greater vulnerability and therefore greater likelihood of default.
CCC	CCC	Caa	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.
CC - C	CC - C	Ca - C	Highest risk of default.
RD to D	D	-	Obligations currently in default.

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

Conditions of Registration

The conditions of registration imposed on Southland Building Society by the Reserve Bank of New Zealand pursuant to section 74 of the Reserve Bank of New Zealand Act 1989, and which apply as at the date of signing of this Disclosure Statement are as follows. These conditions of registration have applied from 1 March 2021.

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

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

   For the purposes of this condition of registration, "Total capital ratio", "Tier 1 capital ratio" and "Common Equity Tier 1 capital ratio" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated November 2015;
   "Total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

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

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

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

Conditions of Registration (continued)

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

(a) according to the following table, limit any distributions of the bank's earnings payable to holders of Additional Tier 1 capital instruments to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

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

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

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

For the purposes of this condition of registration, -

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 8.2(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

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

1C. That the bank must make no distributions, whether paid out of earnings, or out of accumulated previous years' retained earnings or other reserves included within the banking group's total capital, other than discretionary payments payable to holders of Additional Tier 1 capital instruments to the extent permitted by condition 1B.

For the purposes of this conditions of registration, -

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 8.2(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

"total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

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

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

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

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

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

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

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

For the purposes of this condition of registration, -

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

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

Conditions of Registration (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Conditions of Registration (continued)

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 50 per cent at the end of each business day.

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

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

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

    For the purposes of this condition -

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

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

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

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

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

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

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

Conditions of Registration (continued)

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

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

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

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

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

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

19. That, for a loan-to-valuation measurement period ending on or before 30 September 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 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

20. 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.

21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

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.

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

    "loan-to-valuation measurement period" means -

    (a) the six calendar month period ending on the last day of August 2021; and

    (b) thereafter a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of September 2021.

Changes in Conditions of Registration during the year

Since the date of the previous Disclosure Statement, the Bank's Conditions of Registration were amended to reinstate conditions that impose restrictions to the Bank's new residential mortgage lending at high loan-to-valuation ratios (LVRs), with some restrictions coming in from 1 March 2021, and the remainder from 1 May 2021.

From 1 March 2021:

- LVR restrictions for owner-occupiers was reinstated to a maximum of 20% of new lending at LVRs above 80% (after exemptions).
- LVR restrictions for investors was reinstated to a maximum of 5% of new lending at LVRs above 70% (after exemptions).

Conditions of Registration (continued)

Changes in Conditions of Registration subsequent to year end

From 29 April 2021:

- Restrictions on dividend distributions previously imposed due to Covid-19 have been eased to allow up to 50% of earnings to now be distributed.

From 1 May 2021:

- LVR restrictions for investors have been further tightened to a maximum of 5% of new lending at LVRs above 60% (after exemptions).
- BS13A "Liquidity Policy Annex: Liquid Assets" has been amended to raise the eligibility of Residential Mortgage Backed Securities ("RMBS") as primary liquidity from 4 to 5% of total assets where asset encumbrance levels are less than 16%, but will progressively constrain eligibility of RMBS where there are higher levels of asset encumbrance.

Directors' Statement

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

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

2. Each director of the Bank believes, after due enquiry, that during the year ending 31 March 2021:
   (a) the Bank has complied with all conditions of registration applicable during the period; and
   (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
   (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk, and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 25 May 2021 and has been signed by or on behalf of all the directors.

JF Ward
(Chairman)

KJ Ball
(Deputy Chair)

GJ Mulvey

MJ Skilling

AL McLeod

AJ O'Connell

MP O'Connor

KJ Murphy

Southland Building Society

Historical Summary of Financial Statements

Income Statements

All in $000's

	BANKING GROUP				
	Year ended 31 Mar 2021	Year ended 31 Mar 2020	Year ended 31 Mar 2019	Year ended 31 Mar 2018	Year ended 31 Mar 2017
Interest income	216,375	254,542	246,803	225,417	194,822
Interest expense	31,073	37,156	26,191	25,761	19,375
Dividends on redeemable shares	66,101	98,249	104,851	93,631	84,967
	97,174	135,405	131,042	119,392	104,342
Net interest income	**119,201**	**119,137**	**115,761**	**106,025**	**90,480**
Net fee and commission income	24,511	24,844	24,450	21,188	21,777
Other income	7,546	10,406	12,369	10,601	10,336
Total operating income	**151,258**	**154,387**	**152,580**	**137,814**	**122,593**
Operating expenses	91,423	96,092	96,299	87,596	75,074
Credit impairment losses	4,641	36,973	15,443	14,920	10,764
Operating surplus	**55,194**	**21,322**	**40,838**	**35,298**	**36,755**
Net gain/(loss) from financial instruments at fair value through profit or loss	729	(269)	193	76	(113)
Share of associates profit net of tax	1,203	1,274	1,202	1,066	802
Surplus before income tax	**57,126**	**22,327**	**42,233**	**36,440**	**37,444**
Less income taxation expense	15,987	3,576	11,415	9,777	9,996
Net surplus	**41,139**	**18,751**	**30,818**	**26,663**	**27,448**
Attributable to:					
Members' interests	41,139	18,626	30,503	25,801	25,654
Non-controlling interests	-	125	315	862	1,794
	41,139	**18,751**	**30,818**	**26,663**	**27,448**

Significant Statement of Financial Position Items

All in $000's

	BANKING GROUP				
	As at 31 Mar 2021	As at 31 Mar 2020	As at 31 Mar 2019	As at 31 Mar 2018	As at 31 Mar 2017
Total assets	4,832,367	4,941,528	4,754,518	4,455,210	3,994,412
Individually impaired assets	1,407	1,556	3,600	6,638	7,523
Total liabilities	4,443,651	4,610,240	4,429,185	4,158,213	3,719,494
Equity	388,716	331,288	325,333	296,997	274,918
Regulatory capital (unaudited)					
Tier one capital	359,650	309,803	307,477	277,627	264,186
Total capital	437,230	386,296	381,871	326,407	282,709
Tier one capital expressed as a percentage of total risk weighted assets	12.9%	11.1%	11.4%	10.9%	11.7%
Total capital expressed as a percentage of total risk weighted assets	15.7%	13.8%	14.2%	12.8%	12.6%

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

Contents

Abbreviations

The following abbreviations are used throughout the report:

AT1	Additional tier 1
CET1	Common equity tier 1
CVA	Credit valuation adjustment
ECL	Expected credit losses
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
RBNZ	Reserve Bank of New Zealand
REM	Reverse equity mortgage
RMBS	Residential mortgage backed security
ROU	Right-of-use

Symbols


Specific accounting policy


Accounting estimates and areas of judgement

Southland Building Society

Income Statement for the year ended 31 March 2021

All in $000's

	Note	31/03/2021	31/03/2020
Interest income		216,375	254,542
Interest expense		31,073	37,156
Dividends on redeemable shares		66,101	98,249
		97,174	135,405
Net interest income	(2)	**119,201**	**119,137**
Fee and commission income		25,357	25,616
Fee and commission expense		846	772
Net fee and commission income	(3)	24,511	24,844
Other income	(4)	7,546	10,406
Total operating income		**151,258**	**154,387**
Operating expenses	(5)	91,423	96,092
Credit impairment losses	(12(a))	4,641	36,973
Operating surplus		**55,194**	**21,322**
Net gain/(loss) from financial instruments at fair value through profit or loss	(6)	729	(269)
Share of associates profit net of tax		1,203	1,274
Surplus before income tax		**57,126**	**22,327**
Less income tax expense	(7)	15,987	3,576
Net surplus		**41,139**	**18,751**
Attributable to:			
Members' interests		41,139	18,626
Non-controlling interests		-	125
		41,139	**18,751**

Southland Building Society

Statement of Comprehensive Income for the year ended 31 March 2021

All in $000's

	31/03/2021	31/03/2020
Net surplus for the year	41,139	18,751
Items that may not be reclassified subsequently to profit or loss		
Net change in property, plant and equipment reserve, net of tax	(159)	(181)
Items that may be reclassified subsequently to profit or loss		
Net change in fair value through other comprehensive income ("FVOCI") reserve, net of tax	(268)	(1,171)
Net change in cash flow hedging reserve, net of tax	16,716	(5,919)
Other comprehensive income for the year, net of tax	16,289	(7,271)
Total comprehensive income for the year	**57,428**	**11,480**
Attributable to:		
Members' interests	57,428	11,355
Non-controlling interests	-	125
	57,428	**11,480**

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

Statement of Changes in Equity for the year ended 31 March 2021

All in $000's

BANKING GROUP as at 31 March 2021	Retained earnings	Reserves: Property, plant and equipment	Reserves: FVOCI	Reserves: Cash flow hedging	Total equity attributable to members' interests	Non-controlling interests	Total equity
Balance as at 31 March 2020	344,735	2,057	5,749	(21,253)	331,288	-	**331,288**
Net surplus for the year	41,139	-	-	-	41,139	-	**41,139**
Other comprehensive income for the year							
Revaluation/change in fair value	-	(298)	(372)	23,358	22,688	-	**22,688**
Current/deferred tax impact	-	139	104	(6,642)	(6,399)	-	**(6,399)**
Total comprehensive income for the year	41,139	(159)	(268)	16,716	57,428	-	**57,428**
Dividends paid	-	-	-	-	-	-	**-**
As at 31 March 2021	**385,874**	**1,898**	**5,481**	**(4,537)**	**388,716**	**-**	**388,716**

BANKING GROUP as at 31 March 2020	Retained earnings	Reserves: Property, plant and equipment	Reserves: FVOCI	Reserves: Cash flow hedging	Total equity attributable to members' interests	Non-controlling interests	Total equity
Balance as at 31 March 2019	330,536	2,238	6,920	(15,334)	324,360	973	**325,333**
Net surplus for the year	18,626	-	-	-	18,626	125	**18,751**
Other comprehensive income for the year							
Revaluation/change in fair value	-	(251)	(1,626)	(8,318)	(10,195)	-	**(10,195)**
Current/deferred tax impact	-	70	455	2,399	2,924	-	**2,924**
Total comprehensive income for the year	18,626	(181)	(1,171)	(5,919)	11,355	125	**11,480**
Acquisition of non-controlling interests	(4,427)	-	-	-	(4,427)	(973)	**(5,400)**
Dividends paid	-	-	-	-	-	(125)	**(125)**
As at 31 March 2020	344,735	2,057	5,749	(21,253)	331,288	-	**331,288**

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 2021

All in $000's

	Note	31/03/2021	31/03/2020
Assets			
Cash on hand and at bank		57,068	60,120
Funds with financial institutions	(8)	60,835	82,804
Investment securities	(9)	561,951	532,654
Derivative financial instruments	(10)	13,077	8,587
Advances to customers	(11)	4,032,076	4,138,394
Investments in associates	(14)	8,967	7,274
Other assets		31,492	33,314
Property, plant and equipment		18,449	19,848
Right-of-use assets		24,885	24,469
Assets held for sale		829	657
Goodwill and intangible assets		10,167	11,741
Net deferred tax assets	(7)	12,571	21,666
		4,832,367	**4,941,528**
Liabilities			
Redeemable shares	(16)	3,361,335	3,378,387
Deposits from customers	(16)	191,151	134,655
Commercial paper	(16)	344,422	336,592
Due to other financial institutions	(16)	341,019	540,517
Derivative financial instruments	(10)	21,742	43,682
Current tax liabilities		5,684	3,828
Other liabilities		72,724	68,714
Subordinated redeemable shares	(16)	105,574	103,865
		4,443,651	**4,610,240**
Net assets		**388,716**	**331,288**
Equity			
Reserves		2,842	(13,447)
Retained earnings		385,874	344,735
Attributable to members of the society		388,716	331,288
Attributable to non-controlling interests		-	-
		388,716	**331,288**
Total interest earning and discount bearing assets		4,711,930	4,813,972
Total interest and discount bearing liabilities		3,970,967	4,229,675

For and on behalf of the Board of Directors:

Chairman
JF Ward

Deputy Chair
KJ Ball

25 May 2021

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

Southland Building Society

Statement of Cash Flows for the year ended 31 March 2021

All in $000's

	Note	31/03/2021	31/03/2020
Cash flows from operating activities			
Interest received		216,418	242,940
Fees and other income		43,360	52,102
Dividends received		81	129
Interest paid		(31,075)	(25,246)
Dividends paid on redeemable shares		(81,529)	(103,894)
Operating expenses		(88,737)	(103,521)
Income taxes received/(paid)		(11,434)	(10,031)
Net cash flows from operating activities before changes in operating assets and liabilities		47,084	52,479
Net changes in operating assets and liabilities			
Change in advances		101,732	(198,523)
Change in shares and deposits from customers		54,400	138,471
Change in commercial paper		7,830	38,175
Change in amounts due to other financial institutions		(199,695)	1,884
Change in subordinated redeemable shares		-	(27,543)
Net cash flows provided by/(used in) operating activities	(18)	**11,351**	**4,943**
Cash flows from investing activities			
Change in investment securities		(29,009)	11,167
Change in funds with financial institutions		444	(4,824)
Acquisition of associated investments	(14)	(1,042)	-
Proceeds of property, plant and equipment		59	81
Purchase of property, plant and equipment		(1,636)	(1,814)
Purchase of intangible assets		(1,852)	(2,945)
Dividends from associates		552	903
Net cash flows provided by/(used in) investing activities		**(32,484)**	**2,568**
Cash flows from financing activities			
Dividends paid to non-controlling interests		-	(125)
Lease payments		(3,418)	(3,250)
Acquisition of non-controlling interests		-	(5,400)
Net cash flows provided by/(used in) financing activities		**(3,418)**	**(8,775)**
Net increase/(decrease) in cash held		(24,551)	(1,264)
Add opening cash and cash equivalents		138,040	139,304
Closing cash and cash equivalents		**113,489**	**138,040**
Reconciliation of cash and cash equivalents			
Cash on hand and at bank		57,068	60,120
Funds with financial institutions	(8)	56,455	77,980
Interest accrued on assets at amortised cost		(34)	(60)
		113,489	**138,040**

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

1. Statement of General Accounting Policies

Reporting entity

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

Basis of preparation

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

These financial statements were authorised for issue by the Board of Directors on 25 May 2021.

Measurement base

The financial statements have been prepared on a going concern basis in accordance with historical cost concepts except that the following assets and liabilities are stated at their fair value: derivative financial instruments, certain financial assets at fair value through profit or loss or as fair value through other comprehensive income, assets held for sale, and the revaluation of certain non-current assets.

Accounting estimates

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

Judgement areas include:
Note 7 - Deferred tax assets
Note 10 - Derivative financial instruments - Hedge accounting of derivatives
Note 12 - Provision for credit impairment - Estimation of credit provisions

Impact of Covid-19

The Covid-19 pandemic and the measures put in place domestically and globally to control the spread of the virus have had a significant impact on the global economies and financial markets. As a result, this has increased the uncertainty and judgement required in relation to critical accounting assumptions and estimates, primarily relating to Expected Credit Losses. As there is a higher than usual degree of uncertainly associated with these assumptions and estimates, the actual economic conditions are likely to be different from those forecasted which may significantly impact accounting estimates included in these financial statements. Refer to Note 12 - Provision for Credit Impairment for further discussion on the impact and sensitivity analysis.

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.

1. Statement of General Accounting Policies (continued)

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except where the amount of GST incurred is not recoverable from Inland Revenue. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, Inland Revenue is included as 'other assets' or 'other liabilities' in the statement of financial position.

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

Presentation currency and rounding

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

Foreign currency translation

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

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

Comparative data

To ensure consistency with the current period, the following adjustments have been made to comparative data:

- Note 2 - Net Interest Income: Interest on derivatives have been moved from interest income to interest expense.
- Note 5 - Operating Expenses: Amounts received, or due and receivable by directors have been split in more detail to include SBS fees, Committee/Other fees and Subsidiary fees.
- Note 22 - Liquidity Risk: The contractual maturity tables have been amended to include interest in each line rather than having one line for total interest.
- Note 23 - Credit Risk: Maximum credit exposures have been updated to include off balance sheet exposures, as well as splitting concentrations of credit risk by sector out in further detail to include separate line items for NZ registered banks and Multilateral development banks and other international institutions.

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 2020.

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 currently applies the hedge accounting requirements in NZ IAS 39. The Banking Group is adopting hedge accounting requirements in NZ IFRS 9 from 1 April 2021. A detailed review indicates that this change will not have any impact on the accounting treatment for hedges.

- 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 not yet able to reasonably estimate the impact of NZ IFRS 17 on its financial statements.

All in $000's

2. Net Interest Income

	31/03/2021	31/03/2020
Interest income		
Cash at bank	62	732
Funds with financial institutions	278	651
Investment securities	5,272	11,879
Advances to customers - at amortised cost	206,774	236,476
Advances to customers - at fair value through profit or loss	3,912	4,663
Advances to customers - impaired	77	141
Total interest income	**216,375**	**254,542**
Interest expense		
Redeemable shares	59,880	91,475
Derivative financial instruments	16,751	12,275
Deposits from customers	7,633	11,095
Other financial institutions	50	436
Other borrowings	5,869	12,566
Subordinated redeemable shares	6,222	6,774
Lease liabilities	769	784
Total interest expense	**97,174**	**135,405**
Net interest income	**119,201**	**119,137**

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

The effective interest method calculates the amortised cost of a financial asset and allocates the interest income, including any fees and directly related transaction costs that are an integral part of the effective interest rate over the expected life of the financial asset. The application of the method has the effect of recognising income evenly in proportion to the amount outstanding over the expected life of the financial asset.

Loan commitment fees are deferred and recognised as an adjustment to the effective interest on the loan once drawn or immediately to the income statement for expired commitments.

Fees and commissions payable to brokers in respect of originating lending business, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

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

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

The effective interest method calculates the amortised cost of a financial liability and allocates the interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate over the expected life of the financial liability. The application of the method has the effect of recognising the expense evenly in proportion to the amount outstanding over the expected life of the financial liability.

All in $000's

3. Net Fee and Commission Income

	31/03/2021	31/03/2020
Fee and commission income		
Asset management fees	11,143	10,981
Lending fees	7,793	7,255
Credit card fees	2,403	3,546
Current and funding account fees	1,932	2,159
Other fee and commission income	2,086	1,675
Total fee and commission income	25,357	25,616
Fee and commission expense	846	772
Net fee and commission income	**24,511**	**24,844**

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.

All in $000's

4. Other Income

	31/03/2021	31/03/2020
Net insurance income	5,865	9,390
Dividends	81	129
Gain/(loss) on sale of investment securities	(4)	52
Sundry income	1,604	835
	7,546	**10,406**

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

	31/03/2021	31/03/2020
Auditors remuneration - audit and statutory	466	355
Auditors remuneration - other services	40	64
Computer expenses	9,927	9,461
Fees to directors	734	742
Marketing	5,292	7,069
Personnel	48,084	49,629
Actuarial life adjustment	(1,012)	909
Amortisation, depreciation and impairment	8,540	8,715
Rent and leases	559	324
Write off of property, plant and equipment	344	97
Loss on sale of shares	1	1
Bank charges and funding line fees	6,110	5,248
Other expenses	12,338	13,478
	91,423	**96,092**
Amounts received, or due and receivable by the auditors, KPMG:		
Year end audit of financial statements	412	293
Half year review of financial statements	54	62
Other consultancy services - ICAAP review	33	-
Other consultancy services - taxation advice	7	-
Other consultancy services - IFRS 9 implementation review	-	64
	506	**419**

Amounts received, or due and receivable by directors:

For the year ended 31 March 2021	**SBS Fees**	**Committee/ Other Fees**	**Subsidiary Fees**	**Total**
JF Ward (Chairman)	115	-	38	153
KJ Ball (Deputy Chair)	45	35	-	80
GJ Mulvey	45	13	24	82
MJ Skilling	45	-	47	92
AL Mcleod	45	-	45	90
AJ O'Connell	45	-	45	90
MP O'Connor	45	10	13	68
KJ Murphy	45	-	23	68
	430	58	235	723
GST on directors fees	7	-	4	11
	437	**58**	**239**	**734**

All in $000's

5. Operating Expenses (continued)

For the year ended 31 March 2020	SBS Fees	Committee/ Other Fees	Subsidiary Fees	Total
JF Ward (Chairman)	120	-	26	146
KJ Ball (Deputy Chair)	50	32	-	82
GJ Mulvey	50	11	24	85
MJ Skilling	50	-	41	91
AL Mcleod	50	-	37	87
AJ O'Connell	50	-	40	90
MP O'Connor	50	20	-	70
KJ Murphy	50	-	20	70
	470	63	188	721
Provision for directors retiring allowance	8	-	-	8
GST on directors fees	7	-	6	13
	485	**63**	**194**	**742**

Personnel expenses includes key management personnel compensation which comprised:	31/03/2021	31/03/2020
Salaries and short-term employee benefits	5,986	6,693
Post-employment benefits	123	141
Other long term benefits	16	14
	6,125	**6,848**

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 - 17 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

Net gain/(loss) arising on:	Note	31/03/2021	31/03/2020
Investment securities		751	(507)
Derivative financial instruments		37	(55)
Hedge ineffectiveness on cash flow hedging	(10)	(114)	59
Advances to customers		55	234
		729	**(269)**

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.

All in $000's

7. Taxation

The major components of the income tax expense comprise:	Note	31/03/2021	31/03/2020
Current tax expense			
Current income tax charge		13,180	11,604
Adjustments recognised in the current period in relation to current tax of prior periods		(7)	3
Deferred taxation expense			
Deferred tax expenses relating to the origination and reversal of temporary differences		2,814	(8,031)
Total income tax expense recognised in the income statement		**15,987**	**3,576**
The following amounts were charged/(credited) direct to equity:			
Current income tax		(104)	(455)
Deferred income tax		6,503	(2,469)
Total income tax expense recognised directly in equity		**6,399**	**(2,924)**

Reconciliation of the prima facie income tax payable on profit with income tax expense in the income statement:

	31/03/2021	31/03/2020
Surplus before income tax	57,126	22,327
Prima facie income tax at 28%	15,994	6,251
Adjust for the tax effect of:		
Imputed dividends	(15)	(24)
Building depreciation legislation change	-	(2,085)
Other permanent items	15	(569)
Prior period adjustments	(7)	3
	(7)	(2,675)
Taxation expense/(benefit)	**15,987**	**3,576**

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:

As at 31 March 2021	Provision for credit impairment	Derivative financial instruments	Property, plant and equipment	Provisions	Other	Total
Balance at beginning of the year	15,189	8,414	(235)	741	(2,443)	21,666
Prior period adjustment	-	219	14	76	(87)	222
Amounts recognised in equity	-	(6,642)	139	-	-	(6,503)
Amounts recognised in income statement	(3,142)	(219)	(175)	84	638	(2,814)
Balance at end of the year	**12,047**	**1,772**	**(257)**	**901**	**(1,892)**	**12,571**
As at 31 March 2020						
Balance at beginning of the year	8,807	6,015	(1,802)	805	(2,129)	11,696
Prior period adjustment	(73)	-	(6)	(6)	(445)	(530)
Amounts recognised in equity	-	2,399	70	-	-	2,469
Amounts recognised in income statement	6,455	-	1,503	(58)	131	8,031
Balance at end of the year	**15,189**	**8,414**	**(235)**	**741**	**(2,443)**	**21,666**

There are no unrecognised deferred tax assets as at 31 March 2021 (31 March 2020 $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.

All in $000's

7. Taxation (continued)

Deferred income tax
Deferred tax is accounted for using the balance sheet method. Deferred tax arises by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

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

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

Deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority and there is a legal right and intention to settle on a net basis and it is allowed under tax law.

Critical accounting assumptions and estimates
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.

8. Funds with Financial Institutions

	Note	31/03/2021	31/03/2020
Call funds		53,961	76,548
Term deposits		6,902	6,297
		60,863	**82,845**
Provisions for credit impairment	(12(b))	(28)	(41)
		60,835	**82,804**
Maturity for cash flow purposes			
Up to 3 months		56,455	77,980
Over 3 months		4,380	4,824
		60,835	**82,804**

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

Refer to Note 19 - Accounting Classifications for more information on accounting policies for financial instruments.

9. Investment Securities

	Note	31/03/2021	31/03/2020
Equity securities		2,509	1,730
Local authority bonds		83,509	57,203
Bank securities		276,225	305,262
Other bonds		199,913	168,665
		562,156	**532,860**
Provisions for credit impairment	(12(b))	(205)	(206)
		561,951	**532,654**

As at 31 March 2021, no investments were encumbered through repurchase agreements (31 March 2020: $26.4 million). These investment securities have not been derecognised from the Bank as the Bank retains substantially all the risks and rewards of ownership. The Bank's obligation to repurchase investment securities is classified under due to other financial institutions.

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

Refer to Note 20 - Fair Value of Financial Instruments for more information on fair value of financial instruments.

All in $000's

10. Derivative Financial Instruments and Hedging Activities

	As at 31 March 2021			As at 31 March 2020		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Held as economic hedges	365,400	5,492	5,636	309,638	4,138	4,335
Held as cash flow hedges	2,651,251	6,986	16,106	3,497,600	4,449	37,924
Interest rate swaps	3,016,651	12,478	21,742	3,807,238	8,587	42,259
Held as cash flow hedges	32,017	599	-	32,017	-	1,423
Cross currency interest rate swaps	32,017	599	-	32,017	-	1,423
Total derivative financial instruments	**3,048,668**	**13,077**	**21,742**	**3,839,255**	**8,587**	**43,682**

Hedge accounting

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.

Economic hedge

Included under this classification are any derivative entered into by the Banking Group in order to economically hedge its exposure for risk management purposes that do not meet the NZ IAS 39 hedge accounting criteria.

Cash flow hedge

The main derivative used by the Banking Group is interest rate swaps. Interest rate swaps relate to contracts taken out by the Banking Group with other counterparties. 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.

The Banking Group uses the following derivative instruments for hedging and non-hedging purposes:

- Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates (for example, fixed rate for floating rate). No exchange of principal takes place.
- Cross currency swaps are commitments to exchange interest payments and principal denominated in two different currencies.

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 credit margin 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.

All in $000's

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:

Derivative financial instruments - interest rate swaps	**Note**	**31/03/2021**	**31/03/2020**
Change in fair value of outstanding hedging instruments		(25,089)	8,818
Change in fair value of exposures		24,975	(8,759)
Hedge ineffectiveness	(6)	114	(59)
Hedge ratio		1:1	1:1
Derivative financial instruments - cross currency interest rate swaps			
Change in fair value of outstanding hedging instruments		1,731	(387)
Change in fair value of SBS AUD Capital Bond		(1,731)	387
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 2021	**Under 1 Month**	**1-3 Months**	**3-6 Months**	**6-12 Months**	**12-24 Months**	**Over 24 Months**	**Total**
Interest rate swaps							
Pay fixed	105,900	152,500	267,000	595,000	612,500	404,351	2,137,251
Average fixed interest rate paid	1.69%	1.67%	0.91%	1.13%	0.83%	0.96%	1.05%
Receive fixed	120,000	275,000	-	45,000	64,000	10,000	514,000
Average fixed interest rate received	0.26%	0.21%	0.00%	0.07%	2.15%	1.29%	0.48%
Total notional amount	**225,900**	**427,500**	**267,000**	**640,000**	**676,500**	**414,351**	**2,651,251**
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 2020	**Under 1 Month**	**1-3 Months**	**3-6 Months**	**6-12 Months**	**12-24 Months**	**Over 24 Months**	**Total**
Interest rate swaps							
Pay fixed	1,423,900	152,500	162,000	445,000	212,500	142,700	2,538,600
Average fixed interest rate paid	2.20%	1.67%	1.39%	1.42%	1.79%	1.80%	1.92%
Receive fixed	885,000	-	-	-	64,000	10,000	959,000
Average fixed interest rate received	1.24%	0.00%	0.00%	0.00%	2.15%	1.29%	1.31%
Total notional amount	**2,308,900**	**152,500**	**162,000**	**445,000**	**276,500**	**152,700**	**3,497,600**
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 2021 as a result of highly probable cash flows no longer expected to occur (31 March 2020 $nil).

10. Derivative Financial Instruments and Hedging Activities (continued)

Derivative financial instruments are contracts whose value is derived from changes in one or more underlying financial instruments or indices. They include swaps, options and combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Fair values are obtained from valuation techniques, including discounted cash flow models, as appropriate. Fair values include adjustment for counterparty credit risk.

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

Cash flow hedge accounting
The criteria that must be met for a relationship to qualify for hedge accounting include:
- the hedging relationship must be formally designated and documented at inception of the hedge;
- effectiveness testing must be carried out to ensure the hedge is effective, consistent with the originally documented risk management strategy; and
- the instruments must involve a party external to the Banking Group.

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

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

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

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

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

As outlined in Note 1, the Banking Group has applied the NZ IAS 39 hedge accounting requirements for the year ended 31 March 2021. From 1 April 2021, hedge accounting requirements under NZ IFRS 9 will be applied.

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.

All in $000's

11. Advances to Customers

	Note	31/03/2021	31/03/2020
Residential		3,239,775	3,218,777
Agricultural		158,071	217,371
Commercial		95,028	130,296
Consumer		578,121	623,040
Gross advances		**4,070,995**	**4,189,484**
Provisions for credit impairment on advances to customers and undrawn commitments	(12(b))	(40,976)	(51,412)
Deferred fee revenue and expenses		2,057	322
Total net advances		**4,032,076**	**4,138,394**

Included in advances to customers are $73.1 million (31 March 2020 $73.4 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 20 - Fair Value of Financial Instruments for more information on fair value of financial instruments.

All in $000's

12. Provision for Credit Impairment

(a) Reconciliation of credit impairment losses - income statement

As at 31 March 2021	Residential Mortgages	Retail Exposures	Corporate Exposures	Other	Total
Bad debts written off/(recovered) during the year	(28)	14,308	812	-	15,092
Individual provisions	(140)	-	(130)	-	(270)
Collective provision	(1,545)	(7,227)	(1,394)	-	(10,166)
Other credit provisions	-	-	-	(15)	(15)
Credit impairment losses to income statement	**(1,713)**	**7,081**	**(712)**	**(15)**	**4,641**

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 investment securities.

As at 31 March 2020	Residential Mortgages	Retail Exposures	Corporate Exposures	Other	Total
Bad debts written off/(recovered) during the year	(95)	13,822	555	-	14,282
Individual provisions	(6)	-	(455)	-	(461)
Collective provision	6,138	14,103	2,966	-	23,207
Other credit provisions	-	-	-	(55)	(55)
Credit impairment losses to income statement	**6,037**	**27,925**	**3,066**	**(55)**	**36,973**

At 31 March 2021 the Banking Group's total provision for credit impairment relating to advances to customers was $41.0 million (31 March 2020 $51.4 million) representing 1.02% of total net loans and advances (31 March 2020 1.2%). The provisions represent provisions against individual loans and collective provisions.

Provisions for credit impairment are recognised in the income statement, with a corresponding amount recognised as follows:

- Advances to customers and undrawn loan commitments: as a reduction of the carrying value of the financial asset through an offsetting provision account (Note 11)
- Funds with financial institutions: 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)

All in $000's

12. Provision for Credit Impairment (continued)

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

		Expected Credit Losses			Specific Provision	
As at 31 March 2021	**Note**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Advances to customers and undrawn commitments						
Residential mortgages		6,457	4,683	866	353	12,359
Retail exposures		16,668	4,544	2,518	-	23,730
Corporate exposures		2,650	1,589	428	220	4,887
Total advances to customers and undrawn commitments	(11)	25,775	10,816	3,812	573	40,976
Funds with financial institutions	(8)	28	-	-	-	28
Investment securities	(9)	205	-	-	-	205
		26,008	**10,816**	**3,812**	**573**	**41,209**
As at 31 March 2020						
Advances to customers and undrawn commitments						
Residential mortgages		6,373	6,007	1,171	493	14,044
Retail exposures		18,756	7,226	4,975	-	30,957
Corporate exposures		3,264	2,028	769	350	6,411
Total advances to customers and undrawn commitments	(11)	28,393	15,261	6,915	843	51,412
Funds with financial institutions	(8)	41	-	-	-	41
Investment securities	(9)	206	-	-	-	206
		28,640	**15,261**	**6,915**	**843**	**51,659**

COVID-19 impact on credit performance

- Our approach to incorporating the effect of Covid-19 on our ECL calculations was guided by a recognition that uncertainty has increased significantly since December 2019, with unemployment and GDP both expected to deteriorate. However, there is significant uncertainty in the timing and quantum of this deterioration. Although the approach to ECL calculations remains the same as previous quarters, SBS has built in Covid-19 related adjustments to account for this uncertainty.
- SBS have used probability weighted unemployment and GDP scenarios (base, optimistic and pessimistic) to calculate the ECL by risk-weighting these scenarios. In addition, sensitivity analysis has been performed to quantify the impact on the ECL of forecasts being incorrect.

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 Covid-19 environment, 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 Covid-19 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 6.5%	+/- 1%	7,000	(7,443)
- GDP	As low as 12.3%	+/- 1%	(4,747)	4,142
- Covid overlay		100 / 350%	(1,421)	(10,076)

12. Provision for Credit Impairment (continued)

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

The Banking Group applies a three stage collective approach to measuring expected credit losses ("ECL") on financial assets accounted for at amortised cost and FVOCI. The key inputs into the measurement of ECL include variables such as probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD").

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

The following summarises the three stage model:

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

Stage 2 - Deteriorated (accounts more than 30 days past due, as well as payment deferred hardship loans) - Determined on reasonable and supportable forward looking data or if data not available use 30 days past due;

Stage 3 - Impaired - based on lifetime expected credit losses.

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

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

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

The Banking Group considers its historical loss experience and adjusts this for current observable data. In addition, the Banking Group uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. NZ IFRS 9 introduces the use of macroeconomic factors, but does not define which factors are to be used. The Banking Group considers these factors to include unemployment, interest rates, gross domestic product, inflation and commercial property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward-looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

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

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

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.

All in $000's

13. Asset Quality

(a) Asset quality - movement in provision for credit impairment and gross exposures

As at 31 March 2021	**Expected Credit Losses**			**Specific Provision**	
Residential Mortgages	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers and undrawn commitments					
Balance at beginning of year	6,373	6,007	1,171	493	14,044
Changes to the opening balance due to transfer between stages:					
Transferred to Stage 1	2,808	(2,727)	(81)	-	-
Transferred to Stage 2	(80)	125	(45)	-	-
Transferred to Stage 3	(11)	(189)	200	-	-
Transferred to specific provision	-	-	-	-	-
New provisions	1,159	688	70	-	1,917
Charge/(credit) to income statement excluding transfers	(3,792)	779	(449)	(140)	(3,602)
Amounts written off	-	-	-	-	-
Recovery of amounts written off	-	-	-	-	-
Reversal of previously recognised provision	-	-	-	-	-
Balance at end of year - Residential Mortgages	**6,457**	**4,683**	**866**	**353**	**12,359**

Movement in gross exposures on loss allowances - Residential Mortgages

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	3,362,137	64,410	6,765	3,433,312
Changes to the opening balance due to transfer between stages:				
Transferred to stage 1	28,135	(27,344)	(791)	-
Transferred to stage 2	(27,144)	27,582	(438)	-
Transferred to stage 3	(1,060)	(1,589)	2,649	-
New loans	880,423	6,566	45	887,034
Assets derecognised and payments made	(745,480)	(26,301)	(3,638)	(775,419)
Other movements	(131,214)	(1,561)	16	(132,759)
Amounts (written off)/recovered	-	-	-	-
Gross exposure - Residential Mortgages	**3,365,797**	**41,763**	**4,608**	**3,412,168**
Provision for credit impairment	(6,457)	(4,683)	(1,219)	(12,359)
Net exposure - Residential Mortgages	**3,359,340**	**37,080**	**3,389**	**3,399,809**

Impact of changes in gross exposures - Residential Mortgages

Overall, credit impairment provisions for residential mortgages decreased $1.7 million for the year ending 31 March 2021, mainly due to:

- Overall decrease in the residential mortgage portfolio of $21 million;
- Improvement of the asset quality within the residential mortgage book. Past due but not impaired assets decreased from $58.6 million to $27.9 million (Refer to Note 13(c) - Asset Quality: Ageing of past due but not impaired assets);
- Reduction in the number of accounts in hardship due to Covid-19. At 31 March 2020, $133.2 million of loans were provided mortgage repayment holidays, which was assessed as higher credit risk. As at 31 March 2021, only $14.5 million remain.

All in $000's

13. Asset Quality (continued)

(a) Asset quality - movement in provision for credit impairment and gross exposures (continued)

As at 31 March 2021	**Expected Credit Losses**			**Specific Provision**	
Retail Exposures	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers and undrawn commitments					
Balance at beginning of year	18,756	7,226	4,975	-	30,957
Changes to the opening balance due to transfer between stages:					
Transferred to Stage 1	2,859	(2,123)	(736)	-	-
Transferred to Stage 2	(359)	466	(107)	-	-
Transferred to Stage 3	(116)	(172)	288	-	-
Transferred to specific provision	-	-	-	-	-
New provisions	5,883	3,778	2,190	-	11,851
Charge/(credit) to income statement excluding transfers	-	-	-	-	-
Amounts written off	-	-	-	-	-
Recovery of amounts written off	-	-	-	-	-
Reversal of previously recognised provision	(10,355)	(4,631)	(4,092)	-	(19,078)
Balance at end of year - Retail Exposures	**16,668**	**4,544**	**2,518**	**-**	**23,730**

Movement in gross exposures on loss allowances - Retail Exposures

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	722,216	10,858	4,558	737,632
Changes to the opening balance due to transfer between stages:				
Transferred to stage 1	3,365	(2,725)	(640)	-
Transferred to stage 2	(4,878)	4,966	(88)	-
Transferred to stage 3	(1,910)	(198)	2,108	-
New loans	288,802	1,872	384	291,058
Assets derecognised and payments made	(308,984)	(7,405)	(3,677)	(320,066)
Other movements	-	-	-	-
Amounts (written off)/recovered	-	-	-	-
Balance at end of year - Retail Exposures	**698,611**	**7,368**	**2,645**	**708,624**
Provision for credit impairment	(16,668)	(4,544)	(2,518)	(23,730)
Net exposure - Retail Exposures	**681,943**	**2,824**	**127**	**684,894**

Overall, credit impairment provisions for retail exposures decreased by $7.3 million for the year ending 31 March 2021, mainly due to:
- Overall decrease in the retail exposure portfolio of $29 million;
- Improvement of the asset quality within the retail exposure book. Past due but not impaired assets decreased from $59.5 million to $36.4 million (Refer to Note 13(c) - Asset Quality: Ageing of past due but not impaired assets);

All in $000's

13. Asset Quality (continued)

(a) Asset quality - movement in provision for credit impairment and gross exposures (continued)

As at 31 March 2021	**Expected Credit Losses**			**Specific Provision**	
Corporate Exposures	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers and undrawn commitments					
Balance at beginning of year	3,264	2,028	769	350	6,411
Changes to the opening balance due to transfer between stages:					
Transferred to Stage 1	661	(638)	(23)	-	-
Transferred to Stage 2	(135)	135	-	-	-
Transferred to Stage 3	(28)	(282)	310	-	-
Transferred to specific provision	-	-	-	-	-
New provisions	458	375	153	-	986
Charge/(credit) to income statement excluding transfers	(1,136)	171	(448)	(130)	(1,543)
Amounts written off	-	-	-	-	-
Recovery of amounts written off	-	-	-	-	-
Reversal of previously recognised provision	(434)	(200)	(333)	-	(967)
Balance at end of year - Corporate Exposures	**2,650**	**1,589**	**428**	**220**	**4,887**

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

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	312,367	40,543	2,270	355,180
Changes to the opening balance due to transfer between stages:				
Transferred to stage 1	3,043	(3,027)	(16)	-
Transferred to stage 2	(13,682)	13,682	-	-
Transferred to stage 3	(152)	(634)	786	-
New loans	39,707	19,399	21	59,127
Assets derecognised and payments made	(116,682)	(18,895)	(1,608)	(137,185)
Other movements	18,914	1,420	(216)	20,118
Amounts (written off)/recovered	-	-	-	-
Balance at end of year - Corporate Exposures	**243,515**	**52,488**	**1,237**	**297,240**
Provision for credit impairment	(2,650)	(1,589)	(648)	(4,887)
Net exposure - Corporate Exposure	**240,865**	**50,899**	**589**	**292,353**

Overall, credit impairment provisions for corporate exposures decreased by $1.5 million for the year ending 31 March 2021, mainly due to:
- Overall decrease in the corporate exposure portfolio of $57.9 million;
- Improvement of the asset quality within the corporate exposure book. Past due but not impaired assets decreased from $7.4 million to $2.2 million (Refer to Note 13(c) - Asset Quality: Ageing of past due but not impaired assets);

All in $000's

13. Asset Quality (continued)

(a) Asset quality - movement in provision for credit impairment and gross exposures (continued)

As at 31 March 2020	**Expected Credit Losses**			**Specific Provision**	
Residential Mortgages	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers and undrawn commitments					
Balance at beginning of year	2,869	2,967	1,577	921	8,334
Changes to the opening balance due to transfer between stages:					
Transferred to Stage 1	991	(915)	(76)	-	-
Transferred to Stage 2	(121)	357	(236)	-	-
Transferred to Stage 3	(5)	(310)	315	-	-
Transferred to specific provision	-	-	(109)	109	-
New provisions	1,139	1,280	405	-	2,824
Charge/(credit) to income statement excluding transfers	1,500	2,628	(1,129)	-	2,999
Amounts written off	-	-	424	(422)	2
Reversal of previously recognised provision	-	-	-	(115)	(115)
Balance at end of year - Residential Mortgages	**6,373**	**6,007**	**1,171**	**493**	**14,044**

Movement in gross exposures on loss allowances - Residential Mortgages

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	3,263,843	50,981	9,425	3,324,249
Changes to the opening balance due to transfer between stages	(21,628)	18,789	2,839	-
New loans	836,841	11,160	765	848,766
Assets derecognised and payments made	(619,365)	(13,943)	(6,067)	(639,375)
Other movements	(97,555)	(2,578)	(291)	(100,424)
Amounts (written off)/recovered	-	-	95	95
Balance at end of year - Residential Mortgages	**3,362,136**	**64,409**	**6,766**	**3,433,311**
Provision for credit impairment	(6,373)	(6,007)	(1,664)	(14,044)
Net exposure - Residential Mortgages	**3,355,763**	**58,402**	**5,102**	**3,419,267**

	Expected Credit Losses			**Specific Provision**	
	Stage 1	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers and undrawn commitments					
Retail Exposures					
Balance at beginning of year	11,198	3,913	1,743	-	16,854
Changes to the opening balance due to transfer between stages:					
Transferred to Stage 1	1,343	(1,123)	(220)	-	-
Transferred to Stage 2	(292)	334	(42)	-	-
Transferred to Stage 3	(128)	(190)	318	-	-
New provisions	12,056	6,670	4,607	-	23,333
Reversal of previously recognised provision	(5,421)	(2,378)	(1,431)	-	(9,230)
Balance at end of year - Retail Exposures	**18,756**	**7,226**	**4,975**	**-**	**30,957**

Movement in gross exposures on loss allowances - Retail Exposures

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	595,151	8,850	2,386	606,387
Changes to the opening balance due to transfer between stages	(6,130)	3,553	2,577	-
New loans	397,927	4,505	1,629	404,061
Assets derecognised and payments made	(264,732)	(6,049)	(2,033)	(272,814)
Amounts (written off)/recovered	-	-	-	-
Balance at end of year - Retail Exposures	**722,216**	**10,859**	**4,559**	**737,634**
Provision for credit impairment	(18,756)	(7,226)	(4,975)	(30,957)
Net exposure - Retail Exposures	**703,460**	**3,633**	**(416)**	**706,677**

All in $000's

13. Asset Quality (continued)

(a) Asset quality - movement in provision for credit impairment and gross exposures (continued)

	Expected Credit Losses			Specific Provision	
Corporate Exposures	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers and undrawn commitments					
Balance at beginning of year	1,949	1,030	116	1,021	4,116
Changes to the opening balance due to transfer between stages:					
Transferred to Stage 1	142	(123)	(19)	-	-
Transferred to Stage 2	(43)	208	(165)	-	-
Transferred to Stage 3	(9)	(7)	16	-	-
Transferred to specific provision	-	-	-	-	-
New provisions	787	445	657	-	1,889
Charge/(credit) to income statement excluding transfers	693	541	(121)	-	1,113
Amounts written off	-	-	361	(216)	145
Recovery of amounts written off	-	-	-	-	-
Reversal of previously recognised provision	(255)	(66)	(76)	(455)	(852)
Balance at end of year - Corporate Exposures	**3,264**	**2,028**	**769**	**350**	**6,411**

Movement in gross exposures on loss allowances - Corporate Exposures

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate Exposures				
Balance at beginning of year	335,577	40,721	2,462	378,760
Changes to the opening balance due to transfer between stages	(7,562)	6,733	829	-
New loans	53,176	16,310	708	70,194
Assets derecognised and payments made	(54,054)	(22,114)	(1,738)	(77,906)
Other movements	(14,770)	(1,107)	(92)	(15,969)
Amounts (written off)/recovered	-	-	83	83
Balance at end of year - Corporate Exposures	**312,367**	**40,543**	**2,252**	**355,162**
Provision for credit impairment	(3,264)	(2,028)	(1,119)	(6,411)
Net exposure - Corporate Exposures	**309,103**	**38,515**	**1,133**	**348,751**

All in $000's

13. Asset Quality (continued)

As at 31 March 2021 **(b) Asset quality - advances to customers**	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Neither past due or impaired	3,217,358	539,317	248,483	4,005,158
Individually impaired	918	-	489	1,407
Past due	27,886	36,389	2,212	66,487
Provision for credit impairment	(12,359)	(23,730)	(4,887)	(40,976)
Carrying amount	**3,233,803**	**551,976**	**246,297**	**4,032,076**
(c) Ageing of past due but not impaired assets				
Past due 0-9 days	10,406	17,892	407	28,705
Past due 10-29 days	8,846	9,018	751	18,615
Past due 0-29 days	19,252	26,910	1,158	47,320
Past due 30-59 days	3,468	4,490	249	8,207
Past due 60-89 days	1,578	2,620	55	4,253
Past due 90 days +	3,588	2,369	750	6,707
Carrying amount	**27,886**	**36,389**	**2,212**	**66,487**
(d) Impaired assets				
Balance at beginning of the year	889	-	667	1,556
Additions to individually impaired assets	33	-	-	33
Reductions to individually impaired assets	(4)	-	(178)	(182)
Balance at end of the year	918	-	489	1,407
Provision at end of the year	(353)	-	(220)	(573)
Net carrying amount at end of the year	**565**	**-**	**269**	**834**
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.

(e) Other assets under administration
There are no other assets under administration as at 31 March 2021.

As at 31 March 2020 **(b) Asset quality - advances to customers**	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Neither past due or impaired	3,164,557	560,891	337,262	4,062,710
Individually impaired	889	-	667	1,556
Past due	58,626	59,543	7,371	125,540
Provision for credit impairment	(14,044)	(30,957)	(6,411)	(51,412)
Carrying amount	**3,210,028**	**589,477**	**338,889**	**4,138,394**
(c) Ageing of past due but not impaired assets				
Past due 0-9 days	30,499	28,929	2,066	61,494
Past due 10-29 days	15,929	15,957	1,191	33,077
Past due 0-29 days	46,428	44,886	3,257	94,571
Past due 30-59 days	5,032	6,665	2,302	13,999
Past due 60-89 days	1,418	3,789	171	5,378
Past due 90 days +	5,748	4,203	1,641	11,592
Carrying amount	**58,626**	**59,543**	**7,371**	**125,540**
(d) Impaired assets				
Balance at beginning of the year	1,932	-	1,668	3,600
Additions to individually impaired assets	40	-	648	688
Reductions to individually impaired assets	(1,083)	-	(1,649)	(2,732)
Balance at end of the year	889	-	667	1,556
Provision at end of the year	(493)	-	(350)	(843)
Net carrying amount at end of the year	**396**	**-**	**317**	**713**
Undrawn balances on individually impaired lending commitments	-	-	-	-

(e) Other assets under administration
There are no other assets under administration as at 31 March 2020.

All in $000's

13. Asset Quality (continued)

Credit assessment

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

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

Impaired assets

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

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

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

Restructured assets

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

Real estate or other assets acquired through security enforcement

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

Past due assets

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

14. Investments in Subsidiaries, Associates and Joint Ventures

	Percentage Held		Date	Nature of Business
	31/03/2021	31/03/2020		
Subsidiaries:				
Fraser Properties Limited	100.0%	100.0%	31 March	Property Holding
Southsure Assurance Limited ("Southsure")	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")	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	25.2%	23.7%	30 June	Insurance Broking Holding Company
Your Car NZ Limited	10.9%		31 March	Online Vehicle Purchasing Platform

14. Investments in Subsidiaries, Associates and Joint Ventures (continued)

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

Effective 30 September 2019, the Banking Group increased its shareholding in Southsure Assurance Limited ("Southsure") from 90% to 100%. In accordance with International Financial Reporting Standards, as the Bank has had no change in effective control, the acquisition price was recorded through equity to reflect transactions amongst shareholders. No adjustments have been made to the fair value of the assets and liabilities of Southsure in the consolidated accounts of the Bank in accordance with IFRS, and the associated premiums (reflecting the future earnings potential of the entities) are recorded as an adjustment to equity.

During September 2019, the Bank's indirect interest in Abbott NZ Holdings Ltd increased from 23.0% to 23.7% due to a reduction in the total shares on issue. This investment is still being accounted for as an associate company under the equity method of accounting as the Banking Group does not have control over the financial and operating policies.

On 12 October 2020, the Banking Group via its subsidiary Finance Now Limited, purchased 10.9% of the shares in Your Car NZ Limited for $0.4 million. 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.

On 22 December 2020, the Banking Group purchased 1,210 additional shares in Abbott NZ Holdings Ltd for $0.7 million, increasing it's shareholding from 23.7% to 25.2%. This investment is still being accounted for as an associate company under the equity method of accounting as the Banking Group does not have control over the financial and operating policies.

At 31 March 2021 there are no amounts due from, or due to any related entities that are outside of the Banking Group.

Basis of consolidation

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

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

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

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

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

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

Subsidiaries

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

In-substance subsidiaries

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

Associates

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

All in $000's

15. Loan Securitisation

	31/03/2021	31/03/2020
Securitised loan balances		
SBS Invercargill W Trust	204,340	255,235
SBS Warehouse Trust No.2	63,943	61,747
SBS Oreti Trust No. 2	186,446	157,705
Finance Now Warehouse Trust	336,757	380,928
TWGFS Warehouse A Trust	93,080	88,424
	884,566	**944,039**
Mortgages assigned during the year		
By SBS to SBS Invercargill W Trust	99,646	132,010
By SBS to SBS Warehouse Trust No.2	25,260	-
By SBS Invercargill W Trust to SBS Oreti Trust No. 2	73,570	54,484
By FNL to Finance Now Warehouse Trust	244,752	317,351
By The Warehouse Financial Services Limited and SBS Money Limited to TWGFS Warehouse A Trust	167,815	169,705

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

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

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

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

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

All in $000's

16. Funding

(a) Concentrations of funding:	**31/03/2021**	**31/03/2020**
Concentrations of funding by geographical location		
North Island other	610,830	622,112
Auckland	847,051	990,152
Canterbury	775,218	742,357
Otago	716,163	697,181
Southland	990,379	994,789
South Island other	313,453	348,657
Overseas	90,407	98,768
Total concentrations of funding by geographical location	**4,343,501**	**4,494,016**
Concentrations of funding by product		
Redeemable shares	3,361,335	3,378,387
Deposits from customers	191,151	134,655
Commercial paper	344,422	336,592
Due to other financial institutions	341,019	540,517
Subordinated redeemable shares	105,574	103,865
Total concentrations of funding by product	**4,343,501**	**4,494,016**
(b) Subordinated redeemable shares		
SBS Capital Bond	72,866	72,871
SBS AUD Capital Bond	32,708	30,994
	105,574	**103,865**

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 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.

At 31 March 2021 the balance of all subordinated redeemable shares issued was $105.6 million. After adjustment for potential tax or other offset, $75.7 million has been recognised as tier 2 capital for RBNZ capital adequacy purposes (31 March 2020 $74.4 million).

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 allows the Bank to borrow directly from the RBNZ at the floating Official Cash Rate (OCR) for a term of three years and is effective from 7 December 2020 to 6 December 2022. The FLP will require approved eligible collateral to be pledged as security.

The Bank's initial allocation, being 4% of eligible loans as at 31 October 2020, able to be drawn down between 7 December to 6 June 2022, is $164 million. An additional allocation may be drawn down 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 can be drawn down until 6 December 2022. The current OCR rate is 0.25%, and this rate will adjust in line with changes in the OCR over the lending term. As at 31 March 2021, $nil has been drawn down.

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

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

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

All in $000's

16. Funding (continued)

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

Refer to Note 20 - Fair Value of Financial Instruments for more information on fair value of financial instruments.

Repurchase agreements

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

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

Ranking of securities

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

17. Contingent Liabilities and Credit Related Commitments

Commitments	Contract or notional amt 31/03/2021	Credit equivalent 31/03/2021	Contract or notional amt 31/03/2020	Credit equivalent 31/03/2020
Commitments with uncertain drawdown	100,400	50,200	37,089	18,545
Commitments to extend credit which can be unconditionally cancelled	350,966	-	352,983	-
Total credit related commitments	**451,366**	**50,200**	**390,072**	**18,545**

The Banking Group has contingent liabilities in relation to actual and potential claims and proceedings. Where relevant, expert legal advice has been obtained and, in light of such advice, provisions and/or disclosures as deemed appropriate have been made. The outcome and total costs attributable to such claims and proceedings and possible exposures and potential remediation remain uncertain.

There are no material contingent liabilities as at 31 March 2021.

As at 31 March 2021, collective provisions relating to credit related commitments of $4.0 million is included within the collective provision relating to advances to customers. Refer to Notes 11 - Advances to Customers and Note 12 - Provision for Credit Impairment for more information.

As at 31 March 2021, the Banking Group had $0.3 million of capital commitments relating to building repair.

Contingent liabilities are disclosed where there is a possible obligation that is higher than remote but where requirements for recognition as a liability are not met.
Liabilities are no longer contingent, and are recognised on the statement of financial position, when the following requirements are met:

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

All in $000's

18. Reconciliation of Net Surplus to Net Operating Cash Flows

	31/03/2021	31/03/2020
Net surplus for year	41,139	18,751
Add/(deduct) non cash items		
Depreciation, amortisation and impairment	8,540	8,715
Provision for credit impairment	4,641	36,973
Share of associates profit net of tax	(1,203)	(1,274)
Write off of property, plant and equipment	344	97
Loss on sale of shares	1	1
Actuarial life adjustment	(1,012)	909
Deferred fee revenue and expenses	(1,735)	482
Derivatives fair value adjustment	76	(3)
Advances to customers fair value adjustment	(55)	(234)
Investment securities fair value adjustment	(751)	507
Net deferred tax assets	2,697	(7,046)
Write off of ROU assets/gain on contract variations	183	-
Interest on lease liabilities	769	784
	12,495	**39,911**
Deferral or accruals of past or future operating cash receipts or payments		
Change in income tax payable/receivable	1,856	591
Change in sundry debtors	1,822	(67)
Change in sundry creditors	4,120	(2,701)
Change in accruals relating to interest receivable	405	2,786
Change in accruals relating to accrued interest and dividends payable to customers	(14,976)	(6,733)
Change in accruals relating to accrued interest payable to financial institutions	197	(61)
Change in net advances	101,732	(198,523)
Change in shares and deposits	54,400	138,471
Change in commercial paper	7,830	38,175
Change in amounts due to other financial institutions	(199,695)	1,884
Change in subordinated redeemable shares	-	(27,543)
	(42,309)	**(53,721)**
Items classified as cash		
Change in accruals relating to funds with financial institutions	26	2
Net cash flows from operating activities	**11,351**	**4,943**

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.

All in $000's

19. Accounting Classifications

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

As at 31 March 2021	At Fair Value (*)	At Amortised Cost	FVOCI	FVTPL	Total Carrying Amount
Assets					
Cash on hand and at bank	-	57,068	-	-	**57,068**
Funds with financial institutions	-	60,835	-	-	**60,835**
Investment securities	-	-	558,269	3,682	**561,951**
Derivative financial instruments	13,077	-	-	-	**13,077**
Advances to customers	-	3,958,988	-	73,088	**4,032,076**
	13,077	4,076,891	558,269	76,770	**4,725,007**
Liabilities					
Redeemable shares	-	3,361,335	-	-	**3,361,335**
Deposits from customers	-	191,151	-	-	**191,151**
Commercial paper	-	344,422	-	-	**344,422**
Due to other financial institutions	-	341,019	-	-	**341,019**
Derivative financial instruments	21,742	-	-	-	**21,742**
Subordinated redeemable shares	-	105,574	-	-	**105,574**
	21,742	4,343,501	-	-	**4,365,243**

As at 31 March 2020	At Fair Value (*)	At Amortised Cost	FVOCI	FVTPL	Total Carrying Amount
Assets					
Cash on hand and at bank	-	60,120	-	-	**60,120**
Funds with financial institutions	-	82,804	-	-	**82,804**
Investment securities	-	-	529,726	2,928	**532,654**
Derivative financial instruments	8,587	-	-	-	**8,587**
Advances to customers	-	4,064,946	-	73,448	**4,138,394**
	8,587	4,207,870	529,726	76,376	**4,822,559**
Liabilities					
Redeemable shares	-	3,378,387	-	-	**3,378,387**
Deposits from customers	-	134,655	-	-	**134,655**
Commercial paper	-	336,592	-	-	**336,592**
Due to other financial institutions	-	540,517	-	-	**540,517**
Derivative financial instruments	43,682	-	-	-	**43,682**
Subordinated redeemable shares	-	103,865	-	-	**103,865**
	43,682	4,494,016	-	-	**4,537,698**

* 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 2021. The Banking Group is implementing NZ IFRS 9 on hedge accounting from 1 April 2021.

19. Accounting Classifications (continued)

Financial instruments

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.

Financial assets

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

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

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

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

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

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

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

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

Business model assessment

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

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

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

Financial assets - classification and subsequent measurement

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

Financial assets - reclassification

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

Financial liabilities

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

All in $000's

20. Fair Value of Financial Instruments

Comparison of fair values and carrying amounts:

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

		31/03/2021		31/03/2020	
Financial assets	**Valuation Hierarchy**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Advances to customers (excluding REM)	Level 2	3,958,988	3,958,288	4,064,945	4,069,690
Total financial assets		**3,958,988**	**3,958,288**	**4,064,945**	**4,069,690**
Financial liabilities					
Redeemable shares	Level 2	3,361,335	3,357,594	3,378,387	3,388,247
Deposits from customers	Level 2	191,151	189,629	134,655	135,300
Subordinated redeemable shares	Level 2	105,574	110,949	103,865	109,275
Total financial liabilities		**3,658,060**	**3,658,172**	**3,616,907**	**3,632,822**

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 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	-	13,077	-	**13,077**
Investment securities	2,509	559,647	-	**562,156**
Advances to customers - REM	-	-	73,088	**73,088**
Total financial assets	**2,509**	**572,724**	**73,088**	**648,321**
Financial liabilities				
Derivative financial instruments	-	21,742	-	**21,742**
Total financial liabilities	**-**	**21,742**	**-**	**21,742**

As at 31 March 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	-	8,587	-	**8,587**
Funds with financial institutions	1,729	531,130	-	**532,859**
Advances to customers - REM	-	-	73,449	**73,449**
Total financial assets	**1,729**	**539,717**	**73,449**	**614,895**
Financial liabilities				
Derivative financial instruments	-	43,682	-	**43,682**
Total financial liabilities	**-**	**43,682**	**-**	**43,682**

All in $000's

20. Fair Value of Financial Instruments (continued)

The following table presents the changes in level 3 instruments:	Note	31/03/2021	31/03/2020
Loans and advances at fair value through profit or loss			
Balance at beginning of the year		73,449	72,385
New loans		7,392	3,612
Interest charged	(2)	3,912	4,663
Loan repayments		(12,410)	(9,894)
Net change in fair value	(6)	55	234
Drawdowns (net of part repayments) on current loans		690	2,449
Balance at end of the year		**73,088**	73,449

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.

21. Risk Management Policies

SBS's objective is to appropriately manage all the risks that arise from its activities. SBS does not naturally seek treasury and financial risk from its involvement in the financial markets and consequently minimises risks wherever possible. Reviews of risk management policies, systems and reporting are conducted on a regular basis. No formal reviews of the SBS's risk management system were undertaken by external parties during the year ended 31 March 2021.

Risk governance structure

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

Group Audit and Risk Committee

The Group Audit and Risk Committee is a sub committee of the Board and has the responsibility of:
- overseeing the quality of financial information presented to the Board;
- the effectiveness and integrity of the internal control environment;
- SBS's compliance with regulatory requirements that impact on the business; and
- the external and internal audit functions.

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

Lending Committee

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

IT Committee

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

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

21. Risk Management Policies (continued)

Asset and Liability Committee (ALCO)

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

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

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

Credit Risk Committee (CRC)

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

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

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

Operational Risk Committee (ORC)

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

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

The ORC is made up of members of the senior management team and the risk and compliance functions. The ORC usually meets quarterly and reports to the Board.

Internal Audit

SBS's internal audit function conducts independent reviews that assist the board of directors and management to meet their statutory and other obligations. The internal audit function has no reporting line to SBS management. The function reports directly to the chairperson of the Audit and Risk Committee. The internal audit function has been carried out by the Dunedin based firm of Chartered Accountants, Deloitte. In performing this role, the internal audit function adopts a risk-based approach, encompassing reviews of the major risks that could impact upon SBS. Significant findings are reported quarterly to the Audit and Risk Committee.

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

Specialist Support Functions

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

21. Risk Management Policies (continued)

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 22 - 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 23 - 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 24 - 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 24 - Market Risk.

Operational Risk Management

Operational risk is the risk arising from day to day operational activities which may result in direct or indirect loss. These losses may result from failure to comply with policies, procedures, laws and regulations, from fraud or forgery, from a breakdown in the availability or integrity of services, systems and information, or damage to SBS's reputation. Examples include failure to comply with policy and legislation, human error, natural disasters, fraud and other malicious acts. SBS aims to minimise the impact of operational risks by ensuring the appropriate risk management policies, controls, systems, staff and processes are in place. Where appropriate, risks are mitigated by insurance.

All in $000's

22. 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 2021, the Banking Group had total committed funding lines with other registered banks of $690.8 million (31 March 2020 $719.0 million). Of these facilities, $340.8 million were drawn down at 31 March 2021 (31 March 2020 $513.6 million).

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

Core liquid assets	**31/03/2021**	**31/03/2020**
Cash on hand and at bank	57,068	60,120
Funds with financial institutions	60,835	82,804
Investment securities[2]	561,951	506,269
Committed and undrawn funding lines[3]	350,042	205,423
Eligible RMBS collateral (less haircut[1])	149,014	124,437
Total liquidity	**1,178,910**	**979,053**

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

[2] As at 31 March 2021, no investments were encumbered through repurchase agreements (31 March 2020: $26.4 million). Such investments are excluded in the above table as they are not held for liquidity management purposes.

[3] The Group also has another $59.2 million available funding, not included as core liquid assets, in securitisation vehicles (31 March 2020: $31 million). This is subject to having sufficient assets available to be securitised and has therefore not been included.

Refer to Note 16 - Funding for further information on the Funding for lending program for access to additional funding lines with the RBNZ.

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.

	Unaudited	**Unaudited**
Average liquidity ratios	**31/03/2021**	**31/12/2020**
One-week mismatch ratio	12.2%	11.6%
One-month mismatch ratio	17.2%	16.0%
Core funding ratio	96.6%	96.1%

All in $000's

22. Liquidity Risk (continued)

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.

As at 31 March 2021	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Liabilities							
Redeemable shares	848,601	1,682,536	682,330	137,740	27,364	-	**3,378,571**
Deposits from customers	7,152	124,343	34,968	26,332	4,100	-	**196,895**
Commercial paper	-	345,000	-	-	-	-	**345,000**
Due to other financial institutions	-	74,759	-	272,026	-	-	**346,785**
Derivative financial instruments							
- cash outflows	17	10,083	5,914	5,838	4,027	361	**26,240**
- cash inflows	-	(3,803)	(3,464)	(4,187)	(2,515)	(258)	**(14,227)**
Current tax liabilities	5,684	-	-	-	-	-	**5,684**
Other liabilities	72,724	-	-	-	-	-	**72,724**
Subordinated redeemable shares	-	-	-	-	-	155,374	**155,374**
Total liabilities (inclusive of interest)	**934,178**	**2,232,918**	**719,748**	**437,749**	**32,976**	**155,477**	**4,513,046**
Unrecognised loan commitments	100,400	-	-	-	-	-	**100,400**

As at 31 March 2020	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Liabilities							
Redeemable shares	564,711	1,980,876	733,628	89,384	46,631	-	**3,415,230**
Deposits from customers	6,677	60,602	34,127	32,818	4,395	-	**138,619**
Commercial paper	-	338,000	-	-	-	-	**338,000**
Due to other financial institutions	1	95,485	305,262	146,998	-	-	**547,746**
Derivative financial instruments							
- cash outflows	88	15,440	12,947	12,054	6,261	52	**46,842**
- cash inflows	-	(5,600)	(3,072)	(3,174)	(2,507)	(38)	**(14,391)**
Current tax liabilities	3,828	-	-	-	-	-	**3,828**
Other liabilities	68,714	-	-	-	-	-	**68,714**
Subordinated redeemable shares	-	-	-	-	-	165,594	**165,594**
Total liabilities (inclusive of interest)	**644,019**	**2,484,803**	**1,082,892**	**278,080**	**54,780**	**165,608**	**4,710,182**
Unrecognised loan commitments	37,089	-	-	-	-	-	**37,089**

All in $000's

23. 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 2020 78%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 4% (31 March 2020 5%) of the Banking Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

	31/03/2021	31/03/2020
(a) The maximum exposures to credit risk at the relevant reporting dates are:		
Cash on hand and at bank	57,068	60,120
Funds with financial institutions	60,835	82,804
Investment securities	561,951	532,654
Derivative financial instruments	13,077	8,587
Advances to customers	4,032,076	4,138,394
Other assets	31,492	33,314
Total on-balance sheet credit exposures	**4,756,499**	**4,855,873**
Off balance sheet exposures - undrawn commitments	451,366	390,072
Total credit exposures	**5,207,865**	**5,245,945**
(b) Concentrations of credit risk by sector		
Residential	2,683,707	2,639,222
Residential investing	772,781	794,415
Agricultural	183,921	248,465
Commercial finance	17,296	16,836
Commercial other	85,314	122,315
Consumer lending	527,893	522,497
Consumer credit card	212,530	184,716
Local authority	83,509	57,203
NZ registered banks	393,383	447,223
Multilateral development banks and other international institutions	136,279	104,286
Corporate investments	79,760	75,453
Other	31,492	33,314
Total concentrations of credit risk by sector	**5,207,865**	**5,245,945**
(c) Concentrations of credit risk by geographical location		
Auckland	1,255,685	1,426,062
North Island other	1,177,928	1,107,917
Canterbury	999,388	929,086
Otago	664,385	680,756
Southland	713,704	736,965
South Island other	260,330	260,775
Overseas	136,445	104,384
Total concentrations of credit risk by geographical location	**5,207,865**	**5,245,945**

All in $000's

23. Credit Risk (continued)

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

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

	As at 31 March 2021			As at 31 March 2020		
End of Period Exposure	**Number of Non Bank Counterparties**			**Number of Non Bank Counterparties**		
Percentage of Common Equity Tier 1 capital	**"A" Rated**	**"B" Rated**	**Total**	**"A" Rated**	**"B" Rated**	**Total**
10%-14%	1	-	1	-	-	-
15%-19%	-	-	-	-	-	-
Total	1	-	1	-	-	-
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%	-	-	-	-	-	-
Total	1	-	1	1	-	1
End of Period Exposure	**Number of Bank Counterparties**			**Number of Bank Counterparties**		
Percentage of Common Equity Tier 1 capital	**"A" Rated**	**"B" Rated**	**Total**	**"A" Rated**	**"B" Rated**	**Total**
15%-19%	2	-	2	1	-	1
20%-24%	-	-	-	1	-	1
25%-29%	-	-	-	1	-	1
55%-59%	1	-	1	-	-	-
60%-64%	-	-	-	1	-	1
Total	3	-	3	4	-	4
Peak Exposure						
Percentage of Common Equity Tier 1 capital	**"A" Rated**	**"B" Rated**	**Total**	**"A" Rated**	**"B" Rated**	**Total**
15%-19%	2	-	2	-	-	-
20%-24%	1	-	1	1	-	1
25%-29%	-	-	-	2	-	2
55%-59%	1	-	1	-	-	-
60%-64%	-	-	-	1	-	1
Total	4	-	4	4	-	4

Note:

"A" Rated - those counterparties that have a long term credit rating of A- or A3 or above

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

(e) Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature) in accordance with the banks conditions of registration and the RBNZ's "Connected Exposure Policy" (BS8). The Banking Group does not have credit exposures to connected persons other than non-bank connected persons. Peak end of day credit exposures to non-bank connected persons have been calculated using the Banking Group's tier 1 capital at the end of the period. The rating-contingent limit, which is applicable to the Banking Group, based on the conditions of registration imposed by the RBNZ is 15%. There have been no rating-contingent limit changes during the last year. Within the rating-contingent limit there is a sub-limit of 15%, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Banking Group's conditions of registration have been complied with at all times over the last year. The limit is 125% of the Banking Group's Tier 1 capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposures.There are no individual credit impairment allowances against credit exposures to non-bank connected persons as at 31 March 2021 (31 March 2020 $nil).

All in $000's

23. Credit Risk (continued)

(e) Credit exposures to connected persons (continued)	31/03/2021	31/03/2020
Credit exposures to non-bank connected persons at year end	-	65
Credit exposures to non-bank connected persons at year end expressed as a % of total tier 1 capital	0.00%	0.02%
Peak credit exposures to non-bank connected persons during the year	65	267
Peak credit exposures to non-bank connected persons during the year expressed as a % of total tier 1 capital	0.02%	0.09%

(f) Collateral held

SBS takes collateral where it is considered necessary to support credit risk on financial instruments including both recognised and unrecognised financial instruments. An evaluation is undertaken of the customer's credit risk on a case by case basis and the amount of collateral taken if deemed necessary, is based on management's credit evaluation of the counterparty. The collateral taken varies but could include cash deposits, mortgages, debentures, investments and financial covenants.

In terms of SBS retail lending activity, credit is extended within predetermined loan to security valuation ratios, which vary depending on the class of an advance, and within established and proven repayment to income ratios. Independent credit evaluations are undertaken where this is deemed necessary. Additionally some advances are insured with an independent third party mortgage insurer. In excess of 90% of SBS advances are secured by first mortgage over real property as a minimum. Once established, loan performance is monitored regularly. The debt management team monitor exposures to non-performing loans on a daily basis and provide monthly reports to senior management and the Board.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against financial assets that are individually impaired or past due are shown below:

	31/03/2021	31/03/2020
Against individually impaired property	1,260	1,900
Against past due but not impaired property	80,400	267,616
	81,660	**269,516**

(g) Credit risk mitigation

The Banking Group determines whether it requires security to mitigate credit risk associated with its advances to customers and investment securities that it makes in the course of its business.

The Banking Group's dominant activity is the provision of residential mortgage finance which comprises 80% (31 March 2020 78%) of the Banking Group's loan portfolio, which are secured by first-ranking registered mortgages over residential property.

Investment security exposures are carried at fair value which reflects the credit risk. The Banking Group does not hold guarantees or credit derivatives against these investments.

The Banking Group does not currently take into consideration any credit risk mitigants within the capital adequacy calculations as reported in Note 25 - Capital Adequacy.

24. Market Risk

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

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

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

Market risk is measured and reported using a variety of techniques, according to the appropriateness of the technique to the exposure concerned. The techniques used include interest rate gap analysis, scenario analysis and Value at Risk (VaR).

All in $000's

24. Market Risk (continued)

Policies for managing interest rate risk

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

Management's objective is to produce strong and stable net interest income over time. Interest rate risk management focuses on mismatches between the repricing dates of interest bearing assets and liabilities. Interest rate risk is managed using financial instruments to manage the risks within set limits as defined by SBS treasury policy. The Banking Group undertakes 100% of its transactions in interest rate contracts with other financial institutions. Management has established limits such that, at any time, less than 60% of equity is at risk with any individual counterparty.

Exposure to interest rate risk is measured primarily through the analysis of repricing maturities of the Banking Group's assets, liabilities and unrecognised financial instruments. Exposure to interest rate risk is also measured, managed and monitored using VaR, scenario analysis (to a 1% shock) and interest rate sensitivity gap. Exposures are monitored continuously and reported to the Board on a monthly basis.

Effective interest rates on risk management transactions within classes of financial assets or liabilities are disclosed exclusive of the impact of the derivative transaction. The financial assets or liabilities carrying values do not incorporate the values of the derivative transactions.

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

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

As at 31 March 2021	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Interest Sensitive	Total
Assets							
Cash on hand and at bank	57,068	-	-	-	-	-	**57,068**
Funds with financial institutions	56,455	1,811	2,569	-	-	-	**60,835**
Investment securities	111,675	-	51,126	86,657	312,493	-	**561,951**
Derivative financial instruments	-	-	-	-	-	13,077	**13,077**
Advances to customers	1,064,914	461,266	1,082,943	887,913	535,040	-	**4,032,076**
Other assets	-	-	-	-	-	107,360	**107,360**
	1,290,112	**463,077**	**1,136,638**	**974,570**	**847,533**	**120,437**	**4,832,367**
Liabilities and equity							
Redeemable shares	1,577,210	576,738	675,173	134,907	26,148	371,159	**3,361,335**
Deposits from customers	69,785	55,770	34,456	25,868	3,897	1,375	**191,151**
Commercial paper	294,587	49,835	-	-	-	-	**344,422**
Due to other financial institutions	341,019	-	-	-	-	-	**341,019**
Derivative financial instruments	-	-	-	-	-	21,742	**21,742**
Current tax liabilities	-	-	-	-	-	5,684	**5,684**
Other liabilities	-	-	-	-	-	72,724	**72,724**
Subordinated redeemable shares	32,709	-	-	49,221	23,644	-	**105,574**
Equity	-	-	-	-	-	388,716	**388,716**
	2,315,310	**682,343**	**709,629**	**209,996**	**53,689**	**861,400**	**4,832,367**
On-balance sheet interest sensitivity gap	(1,025,198)	(219,266)	427,009	764,574	793,844	(740,963)	**-**
Net balance of derivative financial instruments	1,713,851	(221,000)	(550,000)	(548,500)	(394,351)	-	**-**
Total interest rate sensitivity gap	**688,653**	**(440,266)**	**(122,991)**	**216,074**	**399,493**	**(740,963)**	**-**

All in $000's

24. Market Risk (continued)

As at 31 March 2020	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Interest Sensitive	Total
Assets							
Cash on hand and at bank	60,120	-	-	-	-	-	**60,120**
Funds with financial institutions	77,980	1,507	2,212	1,105	-	-	**82,804**
Investment securities	208,656	7,087	8,178	78,305	230,428	-	**532,654**
Derivative financial instruments	-	-	-	-	-	8,587	**8,587**
Advances to customers	1,091,737	339,296	1,084,796	1,029,536	593,029	-	**4,138,394**
Other assets	-	-	-	-	-	118,969	**118,969**
	1,438,493	**347,890**	**1,095,186**	**1,108,946**	**823,457**	**127,556**	**4,941,528**
Liabilities and equity							
Redeemable shares	1,442,239	830,746	718,005	85,783	43,064	258,550	**3,378,387**
Deposits from customers	27,629	32,401	33,195	31,601	4,038	5,791	**134,655**
Commercial paper	182,590	154,002	-	-	-	-	**336,592**
Due to other financial institutions	540,517	-	-	-	-	-	**540,517**
Derivative financial instruments	-	-	-	-	-	43,682	**43,682**
Current tax liabilities	-	-	-	-	-	3,828	**3,828**
Other liabilities	-	-	-	-	-	68,714	**68,714**
Subordinated redeemable shares	30,994	-	-	-	72,871	-	**103,865**
Equity	-	-	-	-	-	331,288	**331,288**
	2,223,969	**1,017,149**	**751,200**	**117,384**	**119,973**	**711,853**	**4,941,528**
On-balance sheet interest sensitivity gap	(785,476)	(669,259)	343,986	991,562	703,484	(584,297)	**-**
Net balance of derivative financial instruments	1,511,600	213,000	(588,000)	(855,400)	(281,200)	-	**-**
Total interest rate sensitivity gap	**726,124**	**(456,259)**	**(244,014)**	**136,162**	**422,284**	**(584,297)**	**-**

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:

	31/03/2021	31/03/2020
Impact on equity of increase or decrease to market interest rates		
100 bp parallel increase	8,836	8,879
100 bp parallel decrease	(9,529)	(12,448)
Impact on profit and loss of increase or decrease to market interest rates		
100 bp parallel increase	2	14
100 bp parallel decrease	(2)	(15)

Policies for managing foreign exchange risk

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

	Note	31/03/2021 AUD	31/03/2020 AUD
AUD Capital Bond	16	30,000	30,000
AUD Cross Currency Interest Rate Swap	10	(30,000)	(30,000)
Net exposure		-	-

25. Capital Adequacy - unaudited

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

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

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

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

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

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

The Board of Directors has ultimate responsibility for capital adequacy, approves capital policy and establishes minimum internal capital levels and limits. These are typically higher than the regulatory minimum. The 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 2021.

All in $000's

25. Capital Adequacy - unaudited (continued)

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.

		BANKING GROUP		REGISTERED BANK	
		Unaudited	Unaudited	Unaudited	Unaudited
Regulatory capital ratios	Minimum ratio requirement	31/03/2021	31/03/2020	31/03/2021	31/03/2020
Common equity tier 1 capital ratio	4.5%	12.9%	11.1%	10.8%	9.8%
Tier 1 capital ratio	6.0%	12.9%	11.1%	10.8%	9.8%
Total capital ratio	8.0%	15.7%	13.8%	14.3%	13.2%
Buffer ratio	2.5%	6.9%	5.1%		

(i) Qualifying capital

	BANKING GROUP	
	Unaudited	Unaudited
Tier 1 capital	31/03/2021	31/03/2020
Common equity tier 1 (CET1) capital		
Retained earnings	344,735	330,536
Current year's retained earnings	41,139	18,626
Acquisition of non-controlling interests	-	(4,427)
FVOCI reserve	5,481	5,749
Cash flow hedging reserve	(4,537)	(21,253)
Less deductions from CET1 capital		
Goodwill & intangible assets	(10,167)	(11,741)
Deferred tax assets	(12,571)	(21,666)
Cash flow hedging reserve	4,537	21,253
Investments in associates	(8,967)	(7,274)
Total CET1 capital	**359,650**	**309,803**
Additional tier 1 (AT1) capital		
Non-controlling interests (net of deductions and surplus AT1 capital)	-	-
Total AT1 capital	-	-
Total tier 1 capital	**359,650**	**309,803**
Tier 2 capital		
Revaluation reserves	1,898	2,057
Subordinated redeemable shares	75,682	74,436
Total tier 2 capital	**77,580**	**76,493**
Total capital	**437,230**	**386,296**

At 31 March 2021 the balance of all subordinated redeemable shares issued was $105.1 million (31 March 2020 $103.9 million). After adjustments for potential tax or other offsets, $75.7 million (31 March 2020 $74.4 million) has been recognised as tier 2 capital for RBNZ capital adequacy purposes.

All in $000's

25. Capital Adequacy - unaudited (continued)

(ii) Total risk weighted assets

BANKING GROUP **As at 31 March 2021** **On balance sheet credit exposures**	**Total Exposure after Credit Risk Mitigation [2]**	**Risk Weighting**	**Risk Weighted Exposure**	**Minimum Pillar One Capital Requirement**
Cash	593	0%	-	-
Multilateral development banks	136,279	0%	-	-
Public sector entities	83,498	20%	16,700	1,336
Banks	132,090	20%	26,418	2,113
Banks	261,293	50%	130,647	10,452
Corporates				
Rating grade 1	11,328	20%	2,266	181
Rating grade 2	42,367	50%	21,184	1,695
Rating grade 3-4	9,323	100%	9,323	746
Rating grade 5	572	150%	858	69
Residential mortgages				
< 80% loan to value ratio (LVR)	1,604,870	35%	561,705	44,936
80 < 90% LVR	66,688	50%	33,344	2,668
90 < 100% LVR	1,990	75%	1,493	119
Past due	5,613	100%	5,613	449
Impaired	565	100%	565	45
Property investment residential mortgage				
<=80% LVR	921,219	40%	368,488	29,479
80<=90% LVR	5,229	70%	3,660	293
Residential mortgages first home loans				
<=90% LVR	471,768	35%	165,119	13,210
90 <=100% LVR	114,369	50%	57,185	4,575
Reverse residential mortgage loans				
<=60%	64,830	50%	32,415	2,593
60<=80%	7,294	80%	5,835	467
80<=100%	109	100%	109	9
Equity holdings	2,509	300%	7,527	602
Other assets	843,188	100%	843,188	67,455
Non-risk weighted assets	44,783	0%	-	-
Total on balance sheet credit exposures	4,832,367		2,293,642	183,492

As at 31 March 2021 **Off balance sheet credit exposures**	**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	100,400	50%	50,200	76%	38,080	3,046
Commitments to extend credit which can be unconditionally cancelled	350,966	0%	-	0%	-	-
Market related contracts[1]						
Interest rate contracts	3,048,668	n/a	22,323	20%	4,440	355
Credit valuation adjustment (CVA)					498	40
Total off balance sheet credit exposures	3,500,034		72,523		43,018	3,441
Total credit risk	8,332,401		72,523		2,336,660	186,933
Operational risk	n/a				297,802	23,824
Market risk	n/a				156,628	12,530
Total risk weighted assets	**8,332,401**				**2,791,090**	**223,287**

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

[2] No credit risk mitigation has been included.

All in $000's

25. Capital Adequacy - unaudited (continued)

BANKING GROUP As at 31 March 2020 On balance sheet credit exposures	Total Exposure after Credit Risk Mitigation	Risk Weighting	Risk Weighted Exposure	Minimum Pillar One Capital Requirement
Cash	798	0%	-	-
Multilateral development bank	104,286	0%	-	-
Public sector entities	57,195	20%	11,439	915
Banks	297,320	20%	59,464	4,757
Banks	149,903	50%	74,952	5,996
Corporates				
Rating grade 1	9,486	20%	1,897	152
Rating grade 2	54,177	50%	27,089	2,167
Rating grade 3-4	105	100%	105	8
Rating grade 5	579	150%	869	70
Residential mortgages				
< 80% loan to value ratio (LVR)	1,585,376	35%	554,882	44,391
80 < 90% LVR	58,599	50%	29,300	2,344
90 < 100% LVR	2,376	75%	1,782	143
Past due	4,932	100%	4,932	395
Impaired	396	100%	396	32
Property investment residential mortgage				
<=80% LVR	948,011	40%	379,204	30,336
80<=90% LVR	5,558	70%	3,891	311
90<=100% LVR	1	90%	1	-
Residential mortgages first home loans				
<=90% LVR	520,759	35%	182,266	14,581
90 <=100% LVR	44,665	50%	22,333	1,787
Reverse residential mortgage loans				
<=60%	67,879	50%	33,940	2,715
60<=80%	4,642	80%	3,714	297
80<=100%	106	100%	106	8
Equity holdings	1,729	300%	5,187	415
Other assets	973,383	100%	973,383	77,871
Non-risk weighted assets	49,267	0%	-	-
Total on balance sheet credit exposures	4,941,528		2,371,132	189,691

As at 31 March 2020 Off balance sheet credit exposures	Total Exposure after Credit Risk Mitigation	Credit Conversion Factor	Credit Equivalent Amount	Average Risk Weighting	Risk Weighted Exposure / Implied Risk Weighted Exposure	Minimum Pillar One Capital Requirement
Commitments with uncertain drawdown	37,089	50%	18,545	55%	10,196	816
Commitments to extend credit which can be unconditionally cancelled	352,983	0%	-	0%	-	-
Market related contracts[1]						
Interest rate contracts	3,839,255	n/a	16,507	20%	3,301	264
Credit valuation adjustment (CVA)					332	27
Total off balance sheet credit exposures	4,229,327		35,052		13,829	1,107
Total credit risk	9,170,855		35,052		2,384,961	190,798
Operational risk	n/a				287,720	23,018
Market risk	n/a				129,708	10,377
Total risk weighted assets	**9,170,855**				**2,802,389**	**224,193**

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

All in $000's

25. Capital Adequacy - unaudited (continued)

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

	BANKING GROUP			
	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
	31/03/2021	31/03/2021	31/03/2020	31/03/2020
LVR range				
0 - 80%	2,670,691	198,194	2,665,472	217,461
80 - 90%	476,925	4,785	530,404	3,252
90% +	116,928	2,674	47,424	2,895
Total residential mortgages	**3,264,544**	**205,653**	**3,243,300**	**223,608**

First Home Loans make up 98% of the residential mortgages in the 90% + loan to valuation grouping as at 31 March 2021 (31 March 2020 94%) and 85% of the 80-90% loan to valuation grouping (31 March 2020 88%). The First Home Loan product is fully insured by Housing New Zealand Corporation.

(iv) Reconciliation of mortgage related amounts

	BANKING GROUP	
	31/03/2021	31/03/2020
Gross residential mortgage loans (Note 11)	3,239,775	3,218,777
Other lending residentially secured	30,741	33,272
Provision for credit impairment relating to residential mortgages (Note 12(b))	(12,359)	(14,044)
Deferred fee revenue and expenses relating to residential mortgages	6,387	5,295
Residential mortgage loans net of provision for impairment	3,264,544	3,243,300
Off balance sheet exposures - undrawn commitments (Note 25(iii))	205,653	223,608
Total on and off balance sheet residential mortgage loans	**3,470,197**	**3,466,908**

(v) Market risk exposures

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

	BANKING GROUP			
	End of Period		Peak End of Day	
	31/03/2021	31/03/2020	31/03/2021	31/03/2020
Interest rate exposures				
Implied risk weighted exposure	156,628	129,708	170,363	140,263
Aggregate capital charge	12,530	10,377	13,629	11,221

(vi) Capital for other material risks

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

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

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

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

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

The Bank has made an internal capital allocation of $30 million to cover these identified risks (31 March 2020 $30 million).

All in $000's

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.

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

(a) Loans and advances to related parties

	31/03/2021	31/03/2020
Directors and other key management personnel		
Loans and advances outstanding at beginning of year	1,652	1,626
Net loans issued/(repaid) during the year	1,993	26
Loans and advances outstanding at end of year	**3,645**	**1,652**
Interest income earned on amounts due from related parties	**54**	**57**

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 2021 (31 March 2020 $nil).

(b) Deposits from related parties

	31/03/2021	31/03/2020
Directors and other key management personnel		
Deposits at beginning of year	8,793	8,721
Net deposits received during the year	2,705	72
Deposits at end of year	**11,498**	**8,793**
Interest expense on amounts due to related parties	**263**	**293**

(c) Other transactions with related parties

During the year ended 31 March 2021, the Banking Group paid $0.00 million of dividends to non-controlling interests whom were key management personnel (31 March 2020 $0.13 million).

All other transactions with key management personnel are conducted on an arm's length basis in the ordinary course of business and on normal terms and conditions.

Lifestages Investment Funds
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.

All in $000's

27. Fiduciary Activities

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

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

	31/03/2021	31/03/2020
Funds under management on behalf of customers	1,387,200	1,205,000

Securitised assets
As at 31 March 2021, the Banking Group had securitised assets amounting to $885 million (31 March 2020 $944 million). These assets have been sold to the SBS Invercargill W Trust and SBS Warehouse Trust No.2 (special purpose vehicles established for the purpose of purchasing residential mortgages from the Bank and funded through wholesale funding lines), the SBS Oreti Trust No. 2 (a special purpose vehicle investing in residential mortgages originated and funded by the Bank through issue of residential mortgage backed securities), Finance Now Warehouse Trust (a special purpose vehicle investing in a mixture of consumer and business loans and funded through wholesale funding lines) and TWGFS Warehouse A Trust (a special purpose vehicle investing in consumer credit card balances and funded through wholesale funding lines). Note 15 - Loan Securitisation provides further information on securitised assets. The Banking Group receives fees for various services provided to the securitisation vehicles on an arm's length basis, including servicing fees. These fees are recognised as earned. All securitisation vehicles form part of the Banking Group.

The SBS Oreti Trust No. 2 is an in-house residential mortgage backed securities (RMBS) facility that can issue securities that meet the RBNZ criteria to use as collateral in repurchase transactions with the RBNZ. The facility provides the Bank with additional contingent funding from the RBNZ. Further information on liquidity is provided in Note 22 - Liquidity Risk.

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

The total assets of Southsure Assurance Limited as at 31 March 2021 are $25.4 million (31 March 2020 $21.8 million) which is 0.5% of the total assets of the Banking Group (31 March 2020 0.4%). This complies with the Conditions of Registration of Southland Building Society, which allows a maximum of 1% of the total consolidated assets of the Banking Group to be represented by insurance business assets.

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

Risk management
The Banking Group has in place policies and procedures to ensure that the fiduciary activities identified above are conducted in an appropriate manner. It is considered that these policies and procedures will ensure that any difficulties arising from these activities will not impact adversely on the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and internal auditors. Further information on SBS risk management policies and practices are included in Notes 21 to 24.

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.

28. Subsequent Events

The Conditions of Registration was amended as follows:

From 29 April 2021:

- Restrictions on dividend distributions previously imposed due to Covid-19 have been eased to allow up to 50% of earnings to now be distributed.

From 1 May 2021:

- LVR restrictions for investors have been further tightened to a maximum of 5% of new lending at LVRs above 60% (after exemptions).
- BS13A "Liquidity Policy Annex: Liquid Assets" has been amended to raise the eligibility of Residential Mortgage Backed Securities ("RMBS") as primary liquidity from 4 to 5% of total assets where asset encumbrance levels are less than 16%, but will progressively constrain eligibility of RMBS where there are higher levels of asset encumbrance.

KPMG

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 14 to 65:

i. give a true and fair view of the banking group's financial position as at 31 March 2021 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').

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 22 and 25 of the disclosure statement:

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

ii. is in accordance with the books and records of the banking group in all material respects; and

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

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

— the consolidated statement of financial position as at 31 March 2021;

— the consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the year then ended;

— notes, including a summary of significant accounting policies and other explanatory information; and

— the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.

Basis for Opinion

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

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 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 the review of the Banking Group's half-year Disclosure Statement and taxation compliance. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $1,800,000 determined with reference to a benchmark of the Banking Group's profit before tax prior to any year end credit provisioning. 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

Key changes in the assessment of audit risks – Economic Outlook

The significant impact created by the COVID-19 pandemic in assessment of provision for credit impairment has continued. Whilst the New Zealand economy has performed stronger than initial forecast at the beginning of the pandemic, there remains residual uncertainty in the general macro-economic environment. The key audit matter "Provision for Credit Impairment", detailed below, is unchanged from last year with no change to the extent of audit testing, we conducted to conclude evidence that we had gathered was appropriate. We draw attention to Note 12 of the consolidated financial statements which describes the impact of the COVID-19 on the Banking Group.

The key audit matter	How the matter was addressed in our audit
Provision for credit impairment – ($41.2 million – refer note 12)	
The primary business objective of the Banking Group is advance of	Our audit procedures included

The key audit matter	How the matter was addressed in our audit
finance and the management of the associated credit risk. The provision for credit impairment is a key audit matter because of the financial significance of the gross advances to which it relates, and the high degree of complexity and judgement required in estimating the appropriate provision. Due to the anticipated residual impact of COVID 19 on the macro-economic environment, this judgement and complexity remained heightened in respect of assessing the expected credit losses. This further resulted in Banking Group applying additional judgements through overlays related to likelihood of deterioration of borrower's credit quality. The Banking Group's provision for credit impairment comprises a collective provision and to a lesser extent a specific provision. Specific provisions are recognised in respect of individually identified impaired loans. By their nature, specific provisions are inherently judgmental as they require management's assessment of future cash flows, including in some circumstance the current market value of any security against the loan. The collective provision is based on an expected credit loss model using credit risk 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	• Evaluating the design and implementation effectiveness of key controls relating to the Banking Group's lending, credit review and monitoring processes. • Testing the General IT control environment and relevant IT application controls. • Testing key controls over arrears calculations, credit risk reviews, and model validations. • Evaluating the basis, and adequacy, of individual provisions for credit impairment for those loans identified as being individually impaired within the Bank. This included inspecting evidence of the specific collateral held, in the form of external valuation reports. • Assessment for any additional loans that ought to be included in management's individual provision through portfolio analytics (including monthly arrears analysis), inspection of Credit Risk Committee minutes and the related credit Watchlist for additions or removals from the individual provision testing. We also challenged loans previously identified as being individually impaired which at reporting date no longer had a provision and specifically considered development loans where undeveloped property was provided as collateral. • Testing key inputs used in the collective provision calculation including macroeconomic factors, arrears profile, historic loss rates and losses incurred (for probability and loss given default inputs) as well as comparing the consistency of the calculations with prior year models. • Assessment of the appropriateness of basis for and data used to determine overlays. • Assessment of the accuracy of PD and LGD assumptions. • Assessing the appropriateness of the disclosure of key assumptions and sensitivities of these changes on the year end credit provision.

The key audit matter	How the matter was addressed in our audit
(LGD), which includes forming an estimate of future economic performance and how this will impact on the loan recoverability.	
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 IT systems, automated controls, and system generated reports. The ability to rely on IT is dependent on the Banking Group's General IT environment being designed, implemented, and operating effectively. This includes controls relevant to system changes and development, IT operations, developer and user access controls.	Our audit procedures, for the 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 IT system changes, IT operations, developer and used access controls; • Evaluating supplementary controls, including review of IT system change logs.

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 consolidated disclosure statement does not cover any other information and we do not express any form of assurance conclusion thereon.

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

Report on other legal and regulatory requirements

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

— we have obtained all the information and explanations we have required; and

— in our opinion, proper accounting records have been kept by the Banking Group, as far as appears from our examination of those records.

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

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

- the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order, NZIFRS;
- the preparation and fair presentation of supplementary information (excluding the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements), in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal control to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements)

Our objective is:

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 this consolidated financial statements.

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

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-3/

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

KPMG

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

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, disclosed in note 22 and 25 to the disclosure statement, is not, in all material respects disclosed in accordance with Schedule 9 of the Order.

We have reviewed the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, as disclosed in 22 and 25 of the disclosure statement for the year ended 31 March 2021. The supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements comprises the information that is required to be disclosed in accordance with Schedule 9 of the Order.

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

A review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ('NZ SRE 2410') is a limited assurance engagement. Our responsibilities under that standard are further described in the Auditor's Responsibilities for the Review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements section of our report.

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

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

The directors are responsible for the preparation of supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements that is required to be disclosed under Schedule 9 of the Order and prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2B) and Liquidity Policy (BS13) described in note 25 and note 22 to the disclosure statement.

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

Our responsibility is to express a conclusion on the supplementary information relating Capital Adequacy and Regulatory Liquidity Requirements based on our review. We conducted our review in accordance with NZ SRE 2410 issued by the New Zealand External Reporting Board. As the auditor of Southland Building Society, NZ SRE 2410 requires that we plan and perform the review to obtain limited assurance about whether the supplementary information relating Capital Adequacy and Regulatory Liquidity Requirements is, in all material respects disclosed in accordance with Schedule 9 of the Order.

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

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISA's (NZ). Accordingly we do not express an audit opinion on the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements disclosures.

Use of this independent auditor's report

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

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

For and on behalf of

KPMG

KPMG
Christchurch

27 May 2021

Directory

Directors

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

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

Mr G J Mulvey, B Com FCA FNZIM - Company Director, Invercargill

Mr M J Skilling, B Agr Sci PGDipBank SFFINSIA CMInstD - Company Director, Auckland

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

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

Mr M P O'Connor, B Com FCA FNZIM - Company Director, Invercargill

Mr K J Murphy, CA FCA CInstD **-** Company Director, New Plymouth

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

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

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

Registered Office
51 Don Street, Invercargill

Solicitors
Buddle Findlay, 83 Victoria Street, Christchurch

Auditors
KPMG, 79 Cashel Street, Christchurch

Southland Building Society

Branch Directory

Invercargill - *Head Office*
51 Don Street
PO Box 835

Invercargill - *Windsor*
54 Windsor Street

Gore
80 Main Street
PO Box 212

Dunedin
Cnr George & Hanover Streets
PO Box 5492

Queenstown
Cnr Central Street and Grant Road, Frankton
PO Box 710

Cromwell
21 The Mall
PO Box 226

Timaru
248 Stafford Street
PO Box 844

Christchurch - *Riccarton*
109 Riccarton Road
PO Box 80058

Christchurch - *Papanui*
2-6 Main North Road
PO Box 5038

Nelson
126 Trafalgar Street
PO Box 211

Blenheim
Cnr Market and Main Streets
PO Box 1188

Hawke's Bay
Cnr Queen & Market Streets, Hastings
PO Box 10

Hamilton
Cnr Victoria & Bryce Streets
PO Box 19222

Tauranga
36 Spring Street
PO Box 13020

SBS Bank Rural - *Invercargill*
51 Don Street
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