Southland Building Society

Disclosure Statement

For the year ended 31 March 2022

Number 48 Issued May 2022

Contents

Abbreviations

The following abbreviations are used throughout the report:

AT1	Additional tier 1
BPR	Banking prudential requirement
CET1	Common equity tier 1
CVA	Credit valuation adjustment
ECL	Expected credit losses
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

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'). In this Disclosure Statement "Banking Group" means SBS and all of its controlled entities as consolidated for financial reporting purposes.

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

Name and Address for Service of Registered Bank

The name of the registered bank is Southland Building Society (referred to either by its full name, as "SBS", or as the "Bank", or as the "Registered Bank") and the address for service is 51 Don Street, Invercargill.

Details of Incorporation

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

Ownership

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

Guarantee Arrangements

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

Pending Proceedings or Arbitration

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

Other Material Matters

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

Directorate

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

Independent Non-Executive Directors

AJ (Joe) O'Connell, BCom FCA CFInstD (Chairman - Board of Directors) Company Director	External Directorships: TNZ Growing Products Ltd, R Richardson Ltd, Log Marketing New Zealand Ltd, Log Logistics Ltd, OKC Holdings Ltd, Southfuels Ltd, AJO Management Ltd, R W Transport 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 Distribution Ltd, Tulloch Transport Ltd, Abbott NZ Holdings Ltd, Craigpine Timber Ltd
KJ (Kathryn) Ball, BCom FCA CFInstD (Deputy Chair - Board of Directors) Chartered Accountant	External Directorships: KJB Consulting 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
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, Red Snapper Ltd
SJ (Sarah) Brown, BA LLB CFInstD Company Director	External Directorships: PGG Wrightson Ltd, Blue Sky Meats Number 1 Ltd, Horizon Meats New Zealand Ltd, Blue Sky Meats (N.Z.) Ltd

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
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 the date of signing of this Disclosure Statement, the credit rating assigned to Southland Building Society is BBB with a positive outlook. This credit rating is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. The credit rating was issued by Fitch Ratings on 29 July 2021 and was reaffirmed in January 2022. The previous credit rating of BBB with a negative outlook was issued by Fitch Ratings on 18 May 2020. The rating is not subject to any qualifications.

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

Fitch Ratings	Standard & Poor's	Moody's Investors Service	Description of Grade
AAA	AAA	Aaa	Capacity to meet financial commitments is extremely strong. This is the highest issuer credit rating.
AA	AA	Aa	Very strong capacity to meet financial commitments.
A	A	A	Strong capacity to meet financial commitments although somewhat susceptible to adverse changes in economic, business or financial conditions.
BBB	BBB	Baa	Adequate capacity to meet financial commitments, but adverse business or economic conditions are more likely to impair this capacity.
BB	BB	Ba	Significant ongoing uncertainties exist which could affect the capacity to meet financial commitments on a timely basis.
B	B	B	Greater vulnerability and therefore greater likelihood of default.
CCC	CCC	Caa	Likelihood of default now considered a real possibility. Capacity to meet financial commitments is dependent on favourable business, economic and financial conditions.
CC - C	CC - C	Ca - C	Highest risk of default.
RD to D	D	-	Obligations currently in default.

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

Conditions of Registration

The conditions of registration imposed on Southland Building Society by the Reserve Bank of New Zealand pursuant to section 74 of the Reserve Bank of New Zealand Act 1989, and which apply as at the date of this Disclosure Statement are as follows. These conditions of registration have applied from 1 January 2022.

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

1. That -
   - (a) the Total capital ratio of the banking group is not less than 8 percent;
   - (b) the Tier 1 capital ratio of the banking group is not less than 6 percent;
   - (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5 percent;
   - (d) the Total capital of the banking group is not less than $30 million;

   For the purposes of this condition of registration, -

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

   "Total capital" has the same meaning as in BPR110: Capital Definitions.

1A. That -
   - (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in Part D of BPR100: Capital Adequacy;
   - (b) under its ICAAP the bank identifies and measures its "other material risks" defined in Part D of BPR100: Capital Adequacy; and
   - (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

Conditions of Registration (continued)

1B. That, if the Prudential Capital Buffer (PCB) ratio of the banking group is 2.5% or less, the bank must-

(a) according to the following table, limit the aggregate distributions of the bank's earnings, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to the percentage limit on distributions that corresponds to the banking group's PCB ratio; and

Banking group's PCB ratio	Percentage limit on distributions of the bank's earnings	Capital Buffer Response Framework stage
0% - 0.5%	0%	Stage 3
>0.5% - 1%	30%	Stage 2
>1% - 2%	50%	Stage 1
>2% - 2.5%	50%	None

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

For the purposes of this condition of registration, -

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

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

1BA. That the bank must not make any distribution on a transitional AT1 capital instrument on or after the date on which on any conversion or write-off provision in the terms and conditions of the instrument is triggered due to either a loss absorption trigger event or a non-viability trigger event.

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

1C. That, if the prudential capital buffer ratio of the banking group is more than 2.5%, the bank must limit the aggregate distributions, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to no more than 50% of the bank's earnings.

For the purposes of this condition of registration, -

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

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

the bank must not make any individual dividend payment contributing to aggregate distributions for a financial year until it has completed its interim financial accounts for the first six months of its financial year or its annual financial accounts for its full financial year, and must not make any such dividend payment less than six months after any previous such dividend payment.

1D. That:

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

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

For the purposes of this condition of registration, -

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

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

Conditions of Registration (continued)

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration, -

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

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

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

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

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

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

   For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated October 2021.

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

6. That the bank complies with the following corporate governance requirements:

   (a) the board of the bank must have at least five directors;

   (b) the majority of the board members must be non-executive directors;

   (c) at least half of the board members must be independent directors;

   (d) an alternate director,-

      (i) for a non-executive director must be non-executive; and

      (ii) for an independent director must be independent;

   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;

   (f) the chairperson of the board of the bank must be independent; and

Conditions of Registration (continued)

(g) the bank's rules must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the society (i.e. the bank).

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

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.
8. That a person must not be appointed as chairperson of the board of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.
9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.
10. That a substantial proportion of the bank's business is conducted in and from New Zealand.
11. That the banking group complies with the following quantitative requirements for liquidity-risk management:
    (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
    (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
    (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated May 2021 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated May 2021.
12. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
    (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
    (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.
13. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition -

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

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

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

Conditions of Registration (continued)

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

    (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
        (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

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

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

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

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

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

Conditions of Registration (continued)

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 after 31 October 2021, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

20. That, for a loan-to-valuation measurement period ending on or before 31 March 2022, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

21. That, for a loan-to-valuation measurement period ending on or after 30 April 2022, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

22. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,-

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

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

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

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

In conditions of registration 19 to 22, -

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated October 2021:

"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month.

Conditions of Registration (continued)

Changes in Conditions of Registration

Since the date of the previous Disclosure Statement, the Bank's Conditions of Registration were amended as follows:

From 1 October 2021:

- Incorporate the new Banking Prudential Regulations ("BPRs") which implement the capital review decisions; and
- include changes to restrict high loan-to-value non-property investment residential mortgage lending to a maximum of 10% (down from 20%) of new lending (effective from 1 November 2021)

From 1 January 2022:

- Normalise the minimum liquidity requirement for the core funding ratio ("CFR") from 50% to 75%

Material non-compliance with Conditions of Registration

During the reporting period, the Bank was non-compliant with condition of registration 11 in relation to liquidity.

From January 2021 to August 2021, the Bank incorrectly classified funding drawn via a warehouse facility as core funding. This resulted in the Bank overstating its core funding ratio for five out of eight months between January 2021 and August 2021.

The root cause of the non-compliance was the Bank's failure to maintain appropriate controls to monitor changes to the terms of its warehouse facilities. This resulted in the Bank failing to identify a change to the amortisation period of one of its warehouse facilities so that it no longer qualified as core funding from 1 January 2021.

The maximum overstatement occurred in August 2021 when the Bank's core funding ratio was overstated by 3.49%. At all times the Bank's core funding ratio comfortably exceeded the regulatory minimum at the time (then 50%), by a minimum of 43.4% or by an average of 45.4%, over the eight month period. Since 1 January 2022 the core funding ratio requirement has increased from 50% to 75%.

The Bank has now restated its core funding ratio for each affected period.

RBNZ Liquidity Thematic Review

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

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 2022:
   (a) the Bank has complied in all material respects with all conditions of registration applicable during the period, except as noted on previous page; 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 24 May 2022 and has been signed by or on behalf of all the directors.

AJ O'Connell
(Chairman)

KJ Ball
(Deputy Chair)

GJ Mulvey

MJ Skilling

MP O'Connor

KJ Murphy

SJ Brown

Southland Building Society

Historical Summary of Financial Statements

Income Statements

All in $000's

	BANKING GROUP				
	Year ended 31 Mar 2022	Year ended 31 Mar 2021	Year ended 31 Mar 2020	Year ended 31 Mar 2019	Year ended 31 Mar 2018
Interest income	192,337	216,375	254,542	246,803	225,417
Interest expense	21,764	31,073	37,156	26,191	25,761
Dividends on redeemable shares	37,401	66,101	98,249	104,851	93,631
	59,165	97,174	135,405	131,042	119,392
Net interest income	**133,172**	**119,201**	**119,137**	**115,761**	**106,025**
Net fee and commission income	24,785	24,511	24,844	24,450	21,188
Other income	5,868	7,546	10,406	12,369	10,601
Total operating income	**163,825**	**151,258**	**154,387**	**152,580**	**137,814**
Operating expenses	96,567	91,423	96,092	96,299	87,596
Credit impairment losses	5,977	4,641	36,973	15,443	14,920
Operating surplus	**61,281**	**55,194**	**21,322**	**40,838**	**35,298**
Net gain/(loss) from financial instruments at fair value through profit or loss	(207)	729	(269)	193	76
Share of associates profit net of tax	819	1,203	1,274	1,202	1,066
Surplus before income tax	**61,893**	**57,126**	**22,327**	**42,233**	**36,440**
Less income taxation expense	17,030	15,987	3,576	11,415	9,777
Net surplus	**44,863**	**41,139**	**18,751**	**30,818**	**26,663**
Attributable to:					
Members' interests	44,863	41,139	18,626	30,503	25,801
Non-controlling interests	-	-	125	315	862
	44,863	**41,139**	**18,751**	**30,818**	**26,663**

Significant Statement of Financial Position Items

All in $000's

	BANKING GROUP				
	As at 31 Mar 2022	As at 31 Mar 2021	As at 31 Mar 2020	As at 31 Mar 2019	As at 31 Mar 2018
Total assets - restated	5,219,795	4,836,346	4,941,528	4,754,518	4,455,210
Individually impaired assets	1,209	1,407	1,556	3,600	6,638
Total liabilities - restated	4,756,843	4,447,630	4,610,240	4,429,185	4,158,213
Equity	462,952	388,716	331,288	325,333	296,997
Regulatory capital (unaudited)					
Tier one capital	397,220	359,650	309,803	307,477	277,627
Total capital	465,308	437,230	386,296	381,871	326,407
Tier one capital expressed as a percentage of total risk weighted assets	13.1%	12.9%	11.1%	11.4%	10.9%
Total capital expressed as a percentage of total risk weighted assets	15.4%	15.7%	13.8%	14.2%	12.8%

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
BPR	Banking prudential requirements
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 2022

All in $000's

	Note	31/03/2022	31/03/2021
Interest income		192,337	216,375
Interest expense		21,764	31,073
Dividends on redeemable shares		37,401	66,101
		59,165	97,174
Net interest income	(2)	**133,172**	**119,201**
Fee and commission income		25,370	25,357
Fee and commission expense		585	846
Net fee and commission income	(3)	24,785	24,511
Other income	(4)	5,868	7,546
Total operating income		**163,825**	**151,258**
Operating expenses	(5)	96,567	91,423
Credit impairment losses	(12(a))	5,977	4,641
Operating surplus		**61,281**	**55,194**
Net gain/(loss) from financial instruments at fair value through profit or loss	(6)	(207)	729
Share of associates profit net of tax		819	1,203
Surplus before income tax		**61,893**	**57,126**
Less income tax expense	(7)	17,030	15,987
Net surplus		**44,863**	**41,139**
Attributable to:			
Members' interests		44,863	41,139
Non-controlling interests		-	-
		44,863	**41,139**

Southland Building Society

Statement of Comprehensive Income for the year ended 31 March 2022

All in $000's

	31/03/2022	31/03/2021
Net surplus for the year	44,863	41,139
Items that may not be reclassified subsequently to profit or loss		
Net change in property, plant and equipment reserve, net of tax	536	(159)
Items that may be reclassified subsequently to profit or loss		
Net change in fair value through other comprehensive income ("FVOCI") reserve, net of tax	(19,643)	(268)
Net change in cash flow hedging reserve, net of tax	48,480	16,716
Other comprehensive income for the year, net of tax	29,373	16,289
Total comprehensive income for the year	**74,236**	**57,428**
Attributable to:		
Members' interests	74,236	57,428
Non-controlling interests	-	-
	74,236	**57,428**

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 2022

All in $000's

BANKING GROUP as at 31 March 2022	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 2021	385,874	1,898	5,481	(4,537)	388,716	-	**388,716**
Net surplus for the year	44,863	-	-	-	44,863	-	**44,863**
Other comprehensive income for the year							
Revaluation/change in fair value	-	602	(27,282)	67,564	40,884	-	**40,884**
Current/deferred tax impact	-	(66)	7,639	(19,084)	(11,511)	-	**(11,511)**
Total comprehensive income for the year	44,863	536	(19,643)	48,480	74,236	-	**74,236**
Transfer from revaluation reserve	392	(392)	-	-	-	-	**-**
Dividends paid	-	-	-	-	-	-	**-**
As at 31 March 2022	**431,129**	**2,042**	**(14,162)**	**43,943**	**462,952**	**-**	**462,952**

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**

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 2022

All in $000's

	Note	31/03/2022	31/03/2021
Assets			
Cash on hand and at bank		56,570	57,068
Funds with financial institutions	(8)	93,981	60,835
Investment securities	(9)	495,393	561,951
Derivative financial instruments	(10)	64,111	13,077
Advances to customers - restated	(1)(11)	4,400,578	4,036,055
Investments in associates	(14)	9,347	8,967
Other assets		45,646	31,492
Property, plant and equipment		19,242	18,449
Right-of-use assets		24,527	24,885
Assets held for sale		-	829
Goodwill and intangible assets		10,400	10,167
Net deferred tax assets	(7)	-	12,571
		5,219,795	**4,836,346**
Liabilities			
Redeemable shares	(16)	3,337,489	3,361,335
Deposits from customers	(16)	131,980	191,151
Medium term notes	(16)	148,597	-
Commercial paper	(16)	345,891	344,422
Due to other financial institutions	(16)	600,797	341,019
Derivative financial instruments	(10)	4,835	21,742
Current tax liabilities		372	5,684
Deferred tax liabilities	(7)	6,701	-
Other liabilities - restated	(1)(17)	74,851	76,703
Subordinated redeemable shares	(16)	105,330	105,574
		4,756,843	**4,447,630**
Net assets		**462,952**	**388,716**
Equity			
Reserves		31,823	2,842
Retained earnings		431,129	385,874
Attributable to members of the society		462,952	388,716
Attributable to non-controlling interests		-	-
		462,952	**388,716**
Total interest earning and discount bearing assets		5,046,522	4,711,930
Total interest and discount bearing liabilities		4,228,908	3,970,967

For and on behalf of the Board of Directors:

Chairman
AJ O'Connell

Deputy Chair
KJ Ball

24 May 2022

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 2022

All in $000's

	Note	31/03/2022	31/03/2021
Cash flows from operating activities			
Interest received		189,556	216,418
Fees and other income		43,455	43,360
Dividends received		114	81
Interest paid		(22,429)	(31,075)
Dividends paid on redeemable shares		(41,079)	(81,529)
Operating expenses		(119,569)	(88,737)
Income taxes received/(paid)		(14,581)	(11,434)
Net cash flows from operating activities before changes in operating assets and liabilities		35,467	47,084
Net changes in operating assets and liabilities			
Change in advances		(365,395)	101,732
Change in shares and deposits from customers		(77,818)	54,400
Change in medium term notes		148,366	-
Change in commercial paper		1,469	7,830
Change in amounts due to other financial institutions		259,191	(199,695)
Change in subordinated redeemable shares		-	-
Net cash flows provided by/(used in) operating activities	(19)	**1,280**	**11,351**
Cash flows from investing activities			
Change in investment securities		38,834	(29,009)
Change in funds with financial institutions		717	444
Acquisition of associated investments	(14)	(831)	(1,042)
Proceeds of property, plant and equipment		1,342	59
Purchase of property, plant and equipment		(2,323)	(1,636)
Purchase of intangible assets		(2,396)	(1,852)
Dividends from associates		439	552
Net cash flows provided by/(used in) investing activities		**35,782**	**(32,484)**
Cash flows from financing activities			
Lease payments		(3,695)	(3,418)
Net cash flows provided by/(used in) financing activities		**(3,695)**	**(3,418)**
Net increase/(decrease) in cash held		33,367	(24,551)
Add opening cash and cash equivalents		113,489	138,040
Closing cash and cash equivalents		**146,856**	**113,489**
Reconciliation of cash and cash equivalents			
Cash on hand and at bank		56,570	57,068
Funds with financial institutions	(8)	90,318	56,455
Interest accrued on assets at amortised cost		(32)	(34)
		146,856	**113,489**

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 24 May 2022.

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 uncertainty 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.

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 2021, except for the following:

Collective provision on off-balance sheet commitments

Per NZ IFRS 7 paragraph B8E, the loss allowance relating to loan commitments and financial guarantees should be recognised as a provision, unless the entity cannot separately identify the expected credit losses on the loan commitment component from those on the financial asset component. Historically, the banking group has not been able to separately identify the loan commitment component. Due to change in processes, this information is now available. The banking group has therefore decided to update it's financial information in line with NZ IFRS 7. The Banking Group has adjusted comparative accounting data to be in line with the amended accounting policy. There was no impact on the overall results of the Banking Group.

The following adjustments were made to the comparative data:

31 March 2021	Note 17 - Other Liabilities	Note 11 - Advances to Customers
Previously reported	72,724	40,976
Adjustment due to change in accounting policy	3,979	(3,979)
	76,703	36,997

Comparative data

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

- Note 11 - Advances to Customers - Provisions for credit impairment has been updated to reflect the change in accounting policy as outlined above.

- Note 12(b) - Provisions for Credit Impairment - Statement of financial position - Provisions for credit impairment has been split between on and off-balance sheet exposures to reflect the change in accounting policy as outlined above.

- Note 13(a) - Asset Quality - movement in provision for credit impairment - The movement in credit impairment has been split between on and off balance sheet exposures to reflect the change in accounting policy as outlined above.

- Note 17 - Other Liabilities - ECL allowance on undrawn facilities have been added to other liabilities to reflect the change in accounting policy as outlined above.

- Note 24 - Credit Risk - Concentrations of credit risk by sector and by geographical location relating to advances to customers has been amended to reflect the change in accounting policy as outlined above.

- Note 25 - Market risk - Interest rate repricing on advances to customers have been amended to reflect the change in accounting policy as outlined above.

1. Statement of General Accounting Policies (continued)

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. 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

	31/03/2022	31/03/2021
Interest income		
Cash at bank	121	62
Funds with financial institutions	166	278
Investment securities	6,236	5,272
Advances to customers - at amortised cost	181,712	206,774
Advances to customers - at fair value through profit or loss	4,037	3,912
Advances to customers - impaired	65	77
Total interest income	**192,337**	**216,375**
Interest expense		
Redeemable shares	31,111	59,880
Derivative financial instruments	6,502	16,751
Deposits from customers	6,150	7,633
Medium term notes	145	-
Other financial institutions	654	50
Other borrowings	7,573	5,869
Subordinated redeemable shares	6,290	6,222
Lease liabilities	740	769
Total interest expense	**59,165**	**97,174**
Net interest income	**133,172**	**119,201**

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

	31/03/2022	31/03/2021
Fee and commission income		
Asset management fees	11,645	11,143
Lending fees	6,568	7,793
Credit card fees	2,366	2,403
Current and funding account fees	2,091	1,932
Other fee and commission income	2,700	2,086
Total fee and commission income	25,370	25,357
Fee and commission expense	585	846
Net fee and commission income	**24,785**	**24,511**

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. 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 management fees is recognised over time as the services are provided. 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. Transaction-based fees for restructures, discharges, etc. are charged to the customer's account when the specific event happens.	Revenue from ongoing service fees is recognised over time as the services are provided. 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. 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 ongoing service fees is recognised over time as the services are provided. 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. The Banking Group charges break fees for early withdrawal of investment balances, and is calculated at a fixed percentage of the amount withdrawn.	Revenue related to transactions is recognised at the point in time when the transaction takes place. Revenue relating to break fees is recognised at the point in time when the transaction takes place.

All in $000's

4. Other Income

	31/03/2022	31/03/2021
Net insurance income	4,230	5,865
Dividends	114	81
Gain/(loss) on sale of investment securities	-	(4)
Sundry income	1,524	1,604
	5,868	**7,546**

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

	31/03/2022	31/03/2021
Auditors remuneration - audit and statutory	516	466
Auditors remuneration - other services	13	40
Computer expenses	10,963	9,927
Fees to directors	844	734
Marketing	7,217	5,292
Personnel	49,925	48,084
Actuarial life adjustment	(1,126)	(1,012)
Amortisation, depreciation and impairment	8,071	8,540
Rent and leases	269	559
Write off of property, plant and equipment	1	344
Loss on sale of shares	-	1
Bank charges and funding line fees	6,350	6,110
Other expenses	13,524	12,338
	96,567	**91,423**
Amounts received, or due and receivable by the auditors, KPMG:		
Year end audit of financial statements	455	412
Half year review of financial statements	52	54
Other assurance services - Solvency return	9	-
Other consultancy services - ICAAP review	-	33
Other consultancy services - taxation advice	13	7
	529	**506**

Amounts received, or due and receivable by directors:

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

* Includes a retirement allowance.

All in $000's

5. Operating Expenses (continued)

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**

Personnel expenses includes key management personnel[1] compensation which comprised:	31/03/2022	31/03/2021
Salaries and short-term employee benefits	6,741	5,986
Post-employment benefits	147	123
Other long term benefits	7	16
	6,895	**6,125**

1 Key management personnel are defined as being directors and senior management of the Banking Group. Refer to Note 27 - Related Parties for more information.

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

Personnel expenses

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

Amortisation and depreciation

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

Buildings	30 - 50 years
Building Alterations	1 - 33 years
Computer Equipment	1 - 15 years
Other Assets	1 - 17 years
Software	1 - 7 years
Management Rights - Staples Rodway KiwiSaver Scheme	15 years

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

At each reporting date, the carrying amounts of property, plant and equipment, goodwill and intangible assets are reviewed for indications of impairment in light of commercial and technological developments. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the asset's existing carrying value exceeds its recoverable amount the difference is charged to the income statement. An impairment loss recognised in prior periods may be reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

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

Net gain/(loss) arising on:	Note	31/03/2022	31/03/2021
Investment securities		95	751
Derivative financial instruments		(145)	37
Hedge ineffectiveness on cash flow hedging	(10)	63	(114)
Advances to customers		(220)	55
		(207)	**729**

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	31/03/2022	31/03/2021
Current tax expense			
Current income tax charge		17,017	13,180
Adjustments recognised in the current period in relation to current tax of prior periods		(32)	(7)
Deferred taxation expense			
Deferred tax expenses relating to the origination and reversal of temporary differences		45	2,814
Total income tax expense recognised in the income statement		**17,030**	**15,987**
The following amounts were charged/(credited) direct to equity:			
Current income tax		(7,639)	(104)
Deferred income tax		19,150	6,503
Total income tax expense recognised directly in equity		**11,511**	**6,399**
Reconciliation of the prima facie income tax payable on profit with income tax expense in the income statement:			
Surplus before income tax		61,893	57,126
Prima facie income tax at 28%		17,330	15,994
Adjust for the tax effect of:			
Imputed dividends		(21)	(15)
Other permanent items		(416)	15
Prior period adjustments (over/under provision)		137	(7)
		(300)	(7)
Taxation expense/(benefit)		**17,030**	**15,987**

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 2022	Provision for credit impairment	Derivative financial instruments	Property, plant and equipment	Provisions	Other	Total
Balance at beginning of the year	12,047	1,772	(257)	901	(1,892)	12,571
Prior period adjustments (over/under provision)	-	22	(3)	(80)	(16)	(77)
Amounts recognised in equity	-	(19,084)	(66)	-	-	(19,150)
Amounts recognised in income statement	(1,547)	(23)	(77)	126	1,476	(45)
Balance at end of the year	**10,500**	**(17,313)**	**(403)**	**947**	**(432)**	**(6,701)**
As at 31 March 2021						
Balance at beginning of the year	15,189	8,414	(235)	741	(2,443)	21,666
Prior period adjustments (over/under provision)	-	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**

There are no unrecognised deferred tax assets as at 31 March 2022 (31 March 2021 $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	31/03/2022	31/03/2021
Call funds		87,493	53,961
Term deposits		6,535	6,902
		94,028	**60,863**
Provisions for credit impairment	(12(b))	(47)	(28)
		93,981	**60,835**
Maturity for cash flow purposes			
Up to 3 months		90,318	56,455
Over 3 months		3,663	4,380
		93,981	**60,835**

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

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

9. Investment Securities

	Note	31/03/2022	31/03/2021
Equity securities		2,592	2,509
Local authority bonds		77,118	83,509
Bank securities		282,618	276,225
Other bonds		133,266	199,913
		495,594	**562,156**
Provisions for credit impairment	(12(b))	(201)	(205)
		495,393	**561,951**

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

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

All in $000's

10. Derivative Financial Instruments and Hedging Activities

	As at 31 March 2022			As at 31 March 2021		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Held as economic hedges	471,908	1,453	1,742	365,400	5,492	5,636
Held as cash flow hedges	3,019,851	62,361	3,093	2,651,251	6,986	16,106
Interest rate swaps	3,491,759	63,814	4,835	3,016,651	12,478	21,742
Held as cash flow hedges	32,017	297	-	32,017	599	-
Cross currency interest rate swaps	32,017	297	-	32,017	599	-
Total derivative financial instruments	**3,523,776**	**64,111**	**4,835**	**3,048,668**	**13,077**	**21,742**

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**	**31/03/2022**	**31/03/2021**
Change in fair value of outstanding hedging instruments		(67,411)	(25,089)
Change in fair value of exposures		67,348	24,975
Hedge ineffectiveness	(6)	63	(114)
Hedge ratio		1:1	1:1
Derivative financial instruments - cross currency interest rate swaps			
Change in fair value of outstanding hedging instruments		279	(1,731)
Change in fair value of SBS AUD Capital Bond		(279)	1,731
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 2022	**Under 1 Month**	**1-3 Months**	**3-6 Months**	**6-12 Months**	**12-24 Months**	**Over 24 Months**	**Total**
Interest rate swaps							
Pay fixed	20,000	198,000	298,000	436,500	863,301	865,050	2,680,851
Average fixed interest rate paid	0.29%	1.33%	0.84%	1.24%	1.64%	1.58%	1.41%
Receive fixed	55,000	20,000	-	104,000	-	160,000	339,000
Average fixed interest rate received	0.35%	0.39%	0.00%	2.40%	0.00%	1.91%	0.53%
Total notional amount	**75,000**	**218,000**	**298,000**	**540,500**	**863,301**	**1,025,050**	**3,019,851**
Cross currency interest rate swaps							
Pay floating	-	-	-	-	-	32,017	32,017
Average floating interest rate paid	-	-	-	-	-	float	
Total notional amount	**-**	**-**	**-**	**-**	**-**	**32,017**	**32,017**
As at 31 March 2021							
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**

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 2022 as a result of highly probable cash flows no longer expected to occur (31 March 2021 $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 2022.

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	31/03/2022	31/03/2021
Residential		3,574,015	3,239,775
Agricultural		90,126	158,071
Commercial		99,194	95,028
Consumer		662,487	578,121
Gross advances		**4,425,822**	**4,070,995**
Provisions for credit impairment on advances to customers - restated	(12(b))	(32,321)	(36,997)
Deferred fee revenue and expenses		7,077	2,057
Total net advances		**4,400,578**	**4,036,055**

Included in advances to customers are $80.0 million (31 March 2021 $73.1 million) of reverse equity mortgages which are valued at fair value through profit or loss rather than at amortised cost.

Advances, excluding reverse equity mortgages, are recognised in the financial statements at amortised cost. For variable rate advances the carrying amount is a reasonable estimate of fair value as they can be settled the following day at balance outstanding. For fixed rate advances fair values are estimated using the discounted cash flow approach by reference to relative wholesale rates adjusted with a retail lending margin for the term at original fixing and the wholesale rate for the remaining term at balance date.

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

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

All in $000's

12. Provision for Credit Impairment

(a) Reconciliation of credit impairment losses - income statement

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

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 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**

At 31 March 2022 the Banking Group's total provision for credit impairment relating to advances to customers was $32.3 million (31 March 2021 $37.0 million) representing 0.73% of total net loans and advances (31 March 2021 0.92%). 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: as a reduction of the carrying value of the financial asset through an offsetting provision account (Note 11)
- Undrawn loan commitments: as a provision (Note 17)
- Funds with financial institutions: 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 2022	**Note**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Advances to customers						
Residential mortgages		5,975	3,374	665	353	10,367
Retail exposures		12,660	4,486	1,679	-	18,825
Corporate exposures		1,396	1,276	237	220	3,129
Total advances to customers	(11)	20,031	9,136	2,581	573	32,321
Off-balance sheet credit related commitments						
Residential mortgages		355	3	5	-	363
Retail exposures		2,315	-	-	-	2,315
Corporate exposures		565	70	-	-	635
Total off-balance sheet credit related commitments	(17)	3,235	73	5	-	3,313
Funds with financial institutions	(8)	47	-	-	-	47
Investment securities	(9)	201	-	-	-	201
		23,514	**9,209**	**2,586**	**573**	**35,882**
As at 31 March 2021						
Advances to customers - restated						
Residential mortgages		6,106	4,681	846	353	11,986
Retail exposures		13,805	4,544	2,518	-	20,867
Corporate exposures		1,982	1,514	428	220	4,144
Total advances to customers	(11)	21,893	10,739	3,792	573	36,997
Off-balance sheet credit related commitments						
Residential mortgages		351	3	20	-	374
Retail exposures		2,863	-	-	-	2,863
Corporate exposures		668	74	-	-	742
Total off-balance sheet credit related commitments	(17)	3,882	77	20	-	3,979
Funds with financial institutions	(8)	28	-	-	-	28
Investment securities	(9)	205	-	-	-	205
		26,008	**10,816**	**3,812**	**573**	**41,209**

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 there remains elevated uncertainty in macroeconomic indicators following Covid-19. In particular, exceptionally high inflation and a rapidly increasing interest rates are pushing up living costs and increasing risks to house prices, GDP growth and unemployment. However there remains uncertainty in the timing and quantum of these risks. 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 3.3%	+/- 1%	12,532	(13,557)
- GDP	As low as -0.2%	+/- 1%	(10,160)	8,830
- Covid overlay		+/- 100%	916	(938)

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

Stage 2 - Lifetime ECL - Deteriorated (accounts more than 30 days past due, as well as payment deferred hardship loans, i.e. for exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired) - Determined on reasonable and supportable forward looking data or if data not available use 30 days past due;

Stage 3 - Lifetime ECL - 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 2022	Expected Credit Losses Stage 1	Expected Credit Losses Stage 2	Expected Credit Losses Stage 3	Specific Provision Stage 3	Total
Movement in provisions relating to advances to customers - Residential mortgages					
Balance at beginning of year	6,107	4,681	846	353	11,987
Transfer between stages	1,904	(1,766)	(138)	-	-
New provisions	852	834	85	-	1,771
Charge/(credit) to income statement excluding transfers	(2,888)	(375)	(128)	-	(3,391)
Balance at end of year - Residential mortgages	**5,975**	**3,374**	**665**	**353**	**10,367**
Movement in provisions relating to credit related commitments - Residential mortgages					
Balance at beginning of year	351	3	20	-	374
Transfer between stages	(1)	1	-	-	-
New provisions	29	-	-	-	29
Charge/(credit) to income statement excluding transfers	(24)	(1)	(15)	-	(40)
Balance at end of year - Residential mortgages	**355**	**3**	**5**	**-**	**363**

Movement in gross exposures on loss allowances - Residential mortgages

	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	3,365,797	41,763	4,609	3,412,169
Changes to the opening balance due to transfer between stages:				
Transferred to stage 1	23,008	(22,413)	(595)	-
Transferred to stage 2	(15,842)	17,283	(1,441)	-
Transferred to stage 3	(1,967)	(711)	2,678	-
New loans	1,208,758	4,808	27	1,213,593
Assets derecognised and payments made	(749,779)	(11,873)	(1,377)	(763,029)
Other movements	(89,526)	(1,091)	(69)	(90,686)
Gross exposure - Residential mortgages	**3,740,449**	**27,766**	**3,832**	**3,772,047**
Provision for credit impairment	(6,330)	(3,377)	(1,023)	(10,730)
Net exposure - Residential mortgages	**3,734,119**	**24,389**	**2,809**	**3,761,317**

Impact of changes in gross exposures - Residential mortgages

Overall, credit impairment provisions for residential mortgages decreased $1.6 million for the year ending 31 March 2022, mainly due to:

- Improvement of the asset quality within the residential mortgage book. Past due but not impaired assets decreased from $27.9 million to $20.4 million (Refer to Note 13(c) - Asset Quality: Ageing of past due but not impaired assets);

- Reduction in the number of accounts in hardship. At 31 March 2021, $14.5 million of loans were provided mortgage repayment holidays, which was assessed as higher credit risk. As at 31 March 2022, only $4.1 million remain.

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	
As at 31 March 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers - Retail exposures					
Balance at beginning of year	13,804	4,544	2,519	-	20,867
Changes to the opening balance due to transfer between stages:	1,428	(1,092)	(336)	-	-
New provisions	5,871	3,905	1,543	-	11,319
Reversal of previously recognised provision	(8,443)	(2,871)	(2,047)	-	(13,361)
Balance at end of year - Retail exposures	**12,660**	**4,486**	**1,679**	**-**	**18,825**
Movement in provisions relating to credit related commitments - Retail exposures					
Balance at beginning of year	2,863	-	-	-	2,863
Transfer between stages	(20)	19	1	-	-
New provisions	643	(19)	(1)	-	623
Reversal of previously recognised provision	(1,171)	-	-	-	(1,171)
Balance at end of year - Retail exposures	**2,315**	**-**	**-**	**-**	**2,315**

Movement in gross exposures on loss allowances - Retail exposures

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	698,612	7,368	2,645	708,625
Changes to the opening balance due to transfer between stages:				
Transferred to stage 1	2,162	(1,682)	(480)	-
Transferred to stage 2	(4,590)	4,636	(46)	-
Transferred to stage 3	(1,165)	(127)	1,292	-
New loans	392,813	2,865	590	396,268
Assets derecognised and payments made	(304,962)	(5,085)	(2,115)	(312,162)
Balance at end of year - Retail Exposures	**782,870**	**7,975**	**1,886**	**792,731**
Provision for credit impairment	(14,975)	(4,486)	(1,679)	(21,140)
Net exposure - Retail Exposures	**767,895**	**3,489**	**207**	**771,591**

Overall, credit impairment provisions for retail exposures decreased by $2.0 million for the year ending 31 March 2022, mainly due to:
- Improvement of the overall asset quality within the retail exposure book;
- Improvement of historical loss rates within the credit card portfolio.

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 2022	Expected Credit Losses Stage 1	Expected Credit Losses Stage 2	Expected Credit Losses Stage 3	Specific Provision Stage 3	Total
Movement in provisions relating to advances to customers - Corporate exposures					
Balance at beginning of year	1,982	1,514	428	220	4,144
Changes to the opening balance due to transfer between stages:					
Transferred to Stage 1	183	(126)	(57)	-	-
Transferred to Stage 2	(22)	159	(137)	-	-
Transferred to Stage 3	(13)	(13)	26	-	-
New provisions	331	419	211	-	961
Charge/(credit) to income statement excluding transfers	(683)	(628)	(107)	-	(1,418)
Reversal of previously recognised provision	(382)	(49)	(127)	-	(558)
Balance at end of year - Corporate exposures	**1,396**	**1,276**	**237**	**220**	**3,129**
Movement in provisions relating to credit related commitments - Corporate exposures					
Balance at beginning of year	668	74	-	-	742
Changes to the opening balance due to transfer between stages:	3	(3)	-	-	-
New provisions	13	-	-	-	13
Charge/(credit) to income statement excluding transfers	(119)	(1)	-	-	(120)
Balance at end of year - Corporate exposures	**565**	**70**	**-**	**-**	**635**

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

	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	243,515	52,488	1,237	297,240
Changes to the opening balance due to transfer between stages:				
Transferred to stage 1	732	(716)	(16)	-
Transferred to stage 2	(1,400)	1,731	(331)	-
Transferred to stage 3	(198)	(27)	225	-
New loans	42,885	18,546	11	61,442
Assets derecognised and payments made	(95,343)	(27,525)	(402)	(123,270)
Other movements	(5,624)	(333)	(227)	(6,184)
Balance at end of year - Corporate exposures	**184,567**	**44,164**	**497**	**229,228**
Provision for credit impairment	(1,961)	(1,346)	(457)	(3,764)
Net exposure - Corporate exposure	**182,606**	**42,818**	**40**	**225,464**

Overall, credit impairment provisions for corporate exposures decreased by $1.0 million for the year ending 31 March 2022, mainly due to:

- Overall decrease in the corporate exposure portfolio of $68.0 million;
- Improvement of the asset quality within the corporate exposure book. Past due but not impaired assets decreased from $2.2 million to $1.7 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**	
Residential Mortgages - restated	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers					
Balance at beginning of year	5,993	6,004	1,153	493	13,643
Changes to the opening balance due to transfer between stages	2,716	(2,790)	74	-	-
New provisions	1,140	688	70	-	1,898
Charge/(credit) to income statement excluding transfers	(3,743)	779	(451)	(140)	(3,555)
Balance at end of year - Residential Mortgages	**6,106**	**4,681**	**846**	**353**	**11,986**
Movement in provisions relating to credit related commitments					
Balance at beginning of year	380	3	18	-	401
Changes to the opening balance due to transfer between stages	1	(1)	-	-	-
New provisions	20	-	-	-	20
Charge/(credit) to income statement excluding transfers	(50)	1	2	-	(47)
Balance at end of year - credit related commitments	**351**	**3**	**20**	**-**	**374**

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	(69)	(1,351)	1,420	-
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)
Balance at end of year - Residential Mortgages	**3,365,797**	**41,763**	**4,608**	**3,412,168**
Provision for credit impairment	(6,457)	(4,684)	(1,219)	(12,360)
Net exposure - Residential Mortgages	**3,359,340**	**37,079**	**3,389**	**3,399,808**

	Expected Credit Losses			**Specific Provision**	
Retail Exposures - restated	**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	16,394	7,226	4,975	-	28,595
Changes to the opening balance due to transfer between stages:	2,401	(1,838)	(563)		-
New provisions	4,786	3,787	2,198	-	10,771
Reversal of previously recognised provision	(9,776)	(4,631)	(4,092)	-	(18,499)
Balance at end of year - Retail Exposures	**13,805**	**4,544**	**2,518**	**-**	**20,867**
Movement in provisions relating to credit related commitments					
Balance at beginning of year	2,362	-	-	-	2,362
Changes to the opening balance due to transfer between stages	(17)	9	8	-	-
New provisions	1,097	(9)	(8)	-	1,080
Reversal of previously recognised provision	(579)	-	-	-	(579)
Balance at end of year - credit related commitments	**2,863**	**-**	**-**	**-**	**2,863**

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	(3,423)	2,043	1,380	-
New loans	288,802	1,872	384	291,058
Assets derecognised and payments made	(308,984)	(7,405)	(3,677)	(320,066)
Gross exposure - 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**

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 - restated	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers					
Balance at beginning of year	2,666	1,985	769	350	5,770
Changes to the opening balance due to transfer between stages	492	(779)	287	-	-
New provisions	427	372	153	-	952
Charge/(credit) to income statement excluding transfers	(1,169)	136	(448)	(130)	(1,611)
Reversal of previously recognised provision	(434)	(200)	(333)	-	(967)
Balance at end of year - Corporate Exposures	**1,982**	**1,514**	**428**	**220**	**4,144**
Movement in provisions relating to credit related commitments					
Balance at beginning of year	598	43	-	-	641
Changes to the opening balance due to transfer between stages	6	(6)	-	-	-
New provisions	31	2	-	-	33
Charge/(credit) to income statement excluding transfers	33	35	-	-	68
Balance at end of year - credit related commitments	**668**	**74**	**-**	**-**	**742**

Movement in gross exposures on loss allowances - Corporate Exposures

	Stage 1	Stage 2	Stage 3	Total
Corporate Exposures				
Balance at beginning of year	312,367	40,543	2,270	355,180
Changes to the opening balance due to transfer between stages	(10,791)	10,021	770	-
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
Balance at end of year - Corporate Exposures	**243,515**	**52,488**	**1,237**	**297,240**
Provision for credit impairment	(2,650)	(1,588)	(648)	(4,886)
Net exposure - Corporate Exposures	**240,865**	**50,900**	**589**	**292,354**

All in $000's

13. Asset Quality (continued)

As at 31 March 2022 (b) Asset quality - advances to customers	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Neither past due or impaired	3,563,738	623,385	185,688	4,372,811
Individually impaired	947	-	262	1,209
Past due	20,372	36,824	1,683	58,879
Provision for credit impairment	(10,367)	(18,825)	(3,129)	(32,321)
Carrying amount	**3,574,690**	**641,384**	**184,504**	**4,400,578**
(c) Ageing of past due but not impaired assets				
Past due 0-9 days	8,916	18,915	631	28,462
Past due 10-29 days	4,526	8,568	233	13,327
Past due 0-29 days	13,442	27,483	864	41,789
Past due 30-59 days	2,961	4,889	367	8,217
Past due 60-89 days	1,113	2,583	216	3,912
Past due 90 days +	2,856	1,869	236	4,961
Carrying amount	**20,372**	**36,824**	**1,683**	**58,879**
(d) Impaired assets				
Balance at beginning of the year	918	-	489	1,407
Additions to individually impaired assets	35	-	38	73
Reductions to individually impaired assets	(6)	-	(265)	(271)
Balance at end of the year	947	-	262	1,209
Provision at end of the year	(353)	-	(220)	(573)
Net carrying amount at end of the year	**594**	**-**	**42**	**636**
Undrawn balances on individually impaired lending commitments	-	-	-	-

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 2022.

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 - restated	(11,986)	(20,867)	(4,144)	(36,997)
Carrying amount	**3,234,176**	**554,839**	**247,040**	**4,036,055**
(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	-	-	-	-

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

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
	31/03/2022	31/03/2021		
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%	25.2%	30 June	Insurance Broking Holding Company
Your Car NZ Limited	9.9%	10.9%	31 March	Online Vehicle Purchasing Platform
Raizor New Zealand Limited	25.0%		31 March	Social Enterprise Supporting Charitable and Environmental Causes

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.

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.

During August 2021, the Bank obtained a 14.3% shareholding in Raizor New Zealand Limited for $0.3 million. During January 2022, a further 10.7% shareholding was obtained for $0.3m, to bring the total shareholding to 25%. This investment is being accounted for as an associate company under the equity method of accounting as the Banking Group does not have control over the financial and operating policies, but has significant influence via representation on the Board.

At 31 March 2022 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

	31/03/2022	31/03/2021
Securitised loan balances		
SBS Invercargill W Trust	149,717	204,340
SBS Warehouse Trust No.2	47,274	63,943
SBS Oreti Trust No. 2	237,244	186,446
Finance Now Warehouse Trust	378,343	336,757
TWGFS Warehouse A Trust	93,603	93,080
	906,181	**884,566**
Mortgages assigned during the year		
By SBS to SBS Invercargill W Trust	99,385	99,646
By SBS to SBS Warehouse Trust No.2	-	25,260
By SBS Invercargill W Trust to SBS Oreti Trust No. 2	99,385	73,570
By FNL to Finance Now Warehouse Trust	329,058	244,752
By The Warehouse Financial Services Limited and SBS Money Limited to TWGFS Warehouse A Trust	189,983	167,815

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	Note	31/03/2022	31/03/2021
Concentrations of funding by geographical location			
North Island other		726,835	610,830
Auckland		991,994	847,051
Canterbury		772,959	775,218
Otago		772,597	716,163
Southland		958,974	990,379
South Island other		351,402	313,453
Overseas		95,323	90,407
Total concentrations of funding by geographical location		**4,670,084**	**4,343,501**
Concentrations of funding by product			
Redeemable shares		3,337,489	3,361,335
Deposits from customers		131,980	191,151
Medium term notes	(16(c))	148,597	-
Commercial paper		345,891	344,422
Due to other financial institutions	(16(d))	600,797	341,019
Subordinated redeemable shares	(16(b))	105,330	105,574
Total concentrations of funding by product		**4,670,084**	**4,343,501**
(b) Subordinated redeemable shares			
SBS Capital Bond		72,866	72,866
SBS AUD Capital Bond		32,464	32,708
		105,330	**105,574**

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 2022 the balance of all subordinated redeemable shares issued was $105.3 million. After adjustment for potential tax or other offset, $66.0 million has been recognised as tier 2 capital for RBNZ capital adequacy purposes (31 March 2021 $75.7 million).

(c) Medium term notes

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

Issue date	18 March 2022
Issue amount and carrying value	Issue amount: $150 million, Carrying value (net of issue cost): $148.6 million
Face value	$1
Interest frequency	Quarterly in arrears
Interest rate	Fixed at 4.32%
Maturity	18 March 2027

16. Funding (continued)

(d) Funding for lending program

During November 2020, the RBNZ announced a funding-for-lending program (FLP) as one of the tools to maintain low and stable inflation and support full employment. The FLP 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 2020 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. As at 31 March 2022 the OCR rate was 1.00%, and this rate will adjust in line with changes in the OCR over the lending term.

A total of $119 million of residential mortgage-backed securities ("RMBS") have been pledged as approved collateral in relation to the amount currently drawn down. As at 31 March 2022, $100 million has been drawn down, and is included in "Due to other financial institutions" in the statement of financial position.

Funding sources consist of redeemable shares, deposits from customers, medium term notes, 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.

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

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

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

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

Repurchase agreements

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

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

Ranking of securities

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

All in $000's

17. Other Liabilities

	Note	31/03/2022	31/03/2021
Lease liabilities		25,501	25,851
Trade and other payables		31,347	31,419
Insurance policy liabilities		8,677	9,803
Employee entitlements		6,013	5,651
Provisions for credit impairment on undrawn commitments - restated	(12(b))	3,313	3,979
		74,851	**76,703**

Other liabilities are initially measured at fair value and subsequently at amortised cost using the effective interest method. Amortisation is recognised in the Income Statement. The Banking Group recognises provisions where there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably.

Lease liabilities are measured in accordance with NZ IFRS 16 - Leases and the finance cost on these liabilities is disclosed in Note 2 - Net Interest Income.

Insurance policy liabilities have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No 20 - Determination of Life Insurance Policy Liabilities (PS20) which prescribes the Margin on Services ('MoS') basis. Policy liabilities are generally determined as the present value of all future expected payments, expenses, taxes and profit margins reduced by the present value of all future expected premiums.

Refer to Note 12 - Provision for Credit Impairment for more information on the calculation of provisions for credit impairment on undrawn commitments.

18. Contingent Liabilities and Credit Related Commitments

Commitments	Contract or notional amt 31/03/2022	Credit equivalent 31/03/2022	Contract or notional amt 31/03/2021	Credit equivalent 31/03/2021
Commitments with uncertain drawdown	105,490	52,745	100,400	50,200
Commitments to extend credit which can be unconditionally cancelled	381,727	-	350,966	-
Total credit related commitments	**487,217**	**52,745**	**451,366**	**50,200**

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 2022.

As at 31 March 2022, collective provisions relating to credit related commitments of $3.3 million is included in other liabilities (31 March 2021 $4.0 million). Refer to Notes 17 - Other Liabilities and Note 12 - Provision for Credit Impairment for more information.

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

19. Reconciliation of Net Surplus to Net Operating Cash Flows

	31/03/2022	31/03/2021
Net surplus for year	44,863	41,139
Add/(deduct) non cash items		
Depreciation, amortisation and impairment	8,071	8,540
Provision for credit impairment	5,977	4,641
Share of associates profit net of tax	(819)	(1,203)
Write off of property, plant and equipment	1	344
Loss on sale of shares	-	1
Gain on sale of property, plant and equipment	(498)	-
Actuarial life adjustment	(1,126)	(1,012)
Deferred fee revenue and expenses	(5,020)	(1,735)
Derivatives fair value adjustment	82	76
Advances to customers fair value adjustment	220	(55)
Investment securities fair value adjustment	(95)	(751)
Net deferred tax assets	7,761	2,697
Write off of ROU assets/gain on contract variations	-	183
Interest on lease liabilities	740	769
	15,294	**12,495**
Deferral or accruals of past or future operating cash receipts or payments		
Change in income tax payable/receivable	(5,312)	1,856
Change in sundry debtors	(14,154)	1,822
Change in sundry creditors	(376)	4,120
Change in accruals relating to interest receivable	(503)	405
Change in accruals relating to accrued interest and dividends payable to customers	(5,165)	(14,976)
Change in accruals relating to accrued interest payable to financial institutions	818	197
Change in net advances	(365,395)	101,732
Change in shares and deposits	(77,818)	54,400
Change in medium term notes	148,366	-
Change in commercial paper	1,469	7,830
Change in amounts due to other financial institutions	259,191	(199,695)
Change in subordinated redeemable shares	-	-
	(58,879)	**(42,309)**
Items classified as cash		
Change in accruals relating to funds with financial institutions	2	26
Net cash flows from operating activities	**1,280**	**11,351**

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

20. Accounting Classifications

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

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

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 - restated	-	3,962,967	-	73,088	**4,036,055**
	13,077	4,080,870	558,269	76,770	**4,728,986**
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**

* 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 2022.

20. 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, medium term notes, deposits from customers, commercial paper, due to other financial institutions and subordinated redeemable shares.

All in $000's

21. Fair Value of Financial Instruments

Comparison of fair values and carrying amounts:

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

		31/03/2022		31/03/2021	
Financial assets	**Valuation Hierarchy**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Advances to customers (excluding REM) - restated	Level 2	4,320,558	4,268,380	3,962,967	3,962,267
Total financial assets		**4,320,558**	**4,268,380**	**3,962,967**	**3,962,267**
Financial liabilities					
Redeemable shares	Level 2	3,337,489	3,337,074	3,361,335	3,357,594
Deposits from customers	Level 2	131,980	131,767	191,151	189,629
Medium term notes	Level 2	148,597	148,696	-	-
Subordinated redeemable shares	Level 2	105,330	104,888	105,574	110,949
Total financial liabilities		**3,723,396**	**3,722,425**	**3,658,060**	**3,658,172**

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

As at 31 March 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	-	13,077	-	**13,077**
Funds with financial institutions	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**

All in $000's

21. Fair Value of Financial Instruments (continued)

The following table presents the changes in level 3 instruments:	Note	31/03/2022	31/03/2021
Loans and advances at fair value through profit or loss			
Balance at beginning of the year		73,088	73,449
New loans		16,616	7,392
Interest charged	(2)	4,037	3,912
Loan repayments		(15,729)	(12,410)
Net change in fair value	(6)	(220)	55
Drawdowns (net of part repayments) on current loans		2,228	690
Balance at end of the year		**80,020**	73,088

Valuation hierarchy for financial instruments held at fair value:

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

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

22. Risk Management Policies

SBS's objective is to appropriately manage all the risks that arise from its activities. SBS does not naturally seek treasury and financial risk from its involvement in the financial markets and consequently minimises risks wherever possible. Reviews of risk management policies, systems and reporting are conducted on a regular basis. No formal reviews of the SBS's risk management system were undertaken by external parties during the year ended 31 March 2022.

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 four directors. In addition the Chief Executive Officer, Chief Financial Officer and Group Chief Risk Officer are in attendance at meetings. The Group 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.

22. 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 and Compliance Committee (ORCC)

The ORCC 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 ORCC is made up of members of the senior management team and the risk and compliance functions. The ORCC usually meets quarterly and reports to the Board and the Group Audit and Risk Committee.

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 Group Audit and Risk Committee. The internal audit function has been carried out by Chartered Accountants, Deloitte. In performing this role, the internal audit function adopts a risk-based approach, encompassing reviews of the major risks that could impact upon SBS. Significant findings are reported quarterly to the Group Audit and Risk Committee.

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

22. 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 23 - Liquidity Risk.

Credit Risk Management

Credit risk is the risk of loss arising from the non-performance of a counterparty to an instrument or facility. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual arrangements, and encompasses both on and off-balance sheet instruments. Further information on the Banking Group's credit risk management is set out in Note 24 - Credit Risk.

Interest Rate Risk Management

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

Currency Risk Management

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

Operational Risk Management

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

All in $000's

23. Liquidity Risk

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

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

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

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

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

Total liquidity includes committed but undrawn funding lines. As at 31 March 2022, the Banking Group had total committed funding lines with other registered banks of $626.7 million (31 March 2021 $690.8 million). Of these facilities, $471.7 million were drawn down at 31 March 2022 (31 March 2021 $340.8 million).

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

Core liquid assets	**31/03/2022**	**31/03/2021**
Cash on hand and at bank	56,570	57,068
Funds with financial institutions	93,981	60,835
Investment securities	495,393	561,951
Committed and undrawn funding lines[2]	155,011	350,042
Eligible RMBS collateral (less haircut[1])[3]	95,433	149,014
Total liquidity	**896,388**	**1,178,910**

[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] The Group also has another $23.3 million available funding, not included as core liquid assets, in securitisation vehicles (31 March 2021: $59.2 million). This is subject to having sufficient assets available to be securitised and has therefore not been included.

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

The 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	**31/03/2022**	**31/12/2021**
One-week mismatch ratio	7.0%	8.7%
One-month mismatch ratio	11.0%	12.3%
Core funding ratio	93.2%	95.0%

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

All in $000's

23. 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 2022	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Liabilities							
Redeemable shares	946,325	1,556,347	726,811	90,000	44,615	-	**3,364,098**
Deposits from customers	8,891	51,686	70,712	5,468	486	-	**137,243**
Medium term notes	-	-	-	-	182,408	-	**182,408**
Commercial paper	-	347,000	-	-	-	-	**347,000**
Due to other financial institutions	28,281	475,473	-	-	102,820	-	**606,574**
Derivative financial instruments							
- cash outflows	78	11,180	7,637	38,520	10,984	418	**68,817**
- cash inflows	(1)	(14,900)	(16,136)	(52,788)	(8,192)	(4)	**(92,021)**
Current tax liabilities	372	-	-	-	-	-	**372**
Other liabilities	74,851	-	-	-	-	-	**74,851**
Subordinated redeemable shares	-	-	-	-	-	147,728	**147,728**
Total liabilities (inclusive of interest)	**1,058,797**	**2,426,786**	**789,024**	**81,200**	**333,121**	**148,142**	**4,837,070**
Unrecognised loan commitments	105,490	-	-	-	-	-	**105,490**

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 - restated	76,703	-	-	-	-	-	**76,703**
Subordinated redeemable shares	-	-	-	-	-	155,374	**155,374**
Total liabilities (inclusive of interest)	**938,157**	**2,232,918**	**719,748**	**437,749**	**32,976**	**155,477**	**4,517,025**
Unrecognised loan commitments	100,400	-	-	-	-	-	**100,400**

All in $000's

24. Credit Risk

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

Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent on the level of risk. Credit risk management involves a thorough evaluation of the credit risk associated with potential borrowers, the taking of security against the loan and close ongoing monitoring of account performance. Loans which show signs of adverse performance are managed by the credit risk management function which is responsible for the collections and recovery process. For wholesale arrangements, credit risk is managed with reference to specific limits as outlined in detailed treasury management policies and reported to the Board on a monthly basis.

The Banking Group's dominant activity is the provision of residential mortgage finance which comprises 81% (31 March 2021 80%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 2% (31 March 2021 4%) of the Banking Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

	31/03/2022	31/03/2021
(a) The maximum exposures to credit risk at the relevant reporting dates are:		
Cash on hand and at bank	56,570	57,068
Funds with financial institutions	93,981	60,835
Investment securities	495,393	561,951
Derivative financial instruments	64,111	13,077
Advances to customers - restated	4,400,578	4,036,055
Other assets	45,646	31,492
Total on-balance sheet credit exposures	**5,156,279**	**4,760,478**
Off balance sheet exposures - undrawn commitments	487,217	451,366
Total credit exposures	**5,643,496**	**5,211,844**
(b) Concentrations of credit risk by sector - restated		
Residential	3,022,800	2,683,988
Residential investing	814,807	772,871
Agricultural	112,187	184,483
Commercial finance	15,211	17,296
Commercial other	91,758	85,495
Consumer lending	611,822	528,215
Consumer credit card	219,210	215,073
Local authority	77,118	83,509
NZ registered banks	432,440	393,383
Multilateral development banks and other international institutions	103,212	136,279
Corporate investments	97,285	79,760
Other	45,646	31,492
Total concentrations of credit risk by sector	**5,643,496**	**5,211,844**
(c) Concentrations of credit risk by geographical location - restated		
Auckland	1,365,808	1,256,855
North Island other	1,301,911	1,179,338
Canterbury	1,155,817	1,000,022
Otago	749,471	664,662
Southland	714,283	714,042
South Island other	252,825	260,480
Overseas	103,381	136,445
Total concentrations of credit risk by geographical location	**5,643,496**	**5,211,844**

All in $000's

24. Credit Risk (continued)

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

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

	As at 31 March 2022			As at 31 March 2021		
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	1	-	1
15%-19%	-	-	-	-	-	-
Total	1	-	1	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
10%-14%	2	-	2	-	-	-
15%-19%	-	-	-	2	-	2
25%-29%	1	-	1	-	-	-
55%-59%	-	-	-	1	-	1
60%-64%	1	-	1	-	-	-
Total	4	-	4	3	-	3

Peak Exposure Percentage of Common Equity Tier 1 capital	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
10%-14%	1	-	1	-	-	-
15%-19%	1	-	1	2	-	2
20%-24%	-	-	-	1	-	1
25%-29%	1	-	1	-	-	-
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. There are no individual credit impairment allowances against credit exposures to non-bank connected persons as at 31 March 2022 (31 March 2021 $nil).

All in $000's

24. Credit Risk (continued)

(e) Credit exposures to connected persons (continued)	31/03/2022	31/03/2021
Credit exposures to non-bank connected persons at year end	-	-
Credit exposures to non-bank connected persons at year end expressed as a % of total tier 1 capital	0.00%	0.00%
Peak credit exposures to non-bank connected persons during the year	-	65
Peak credit exposures to non-bank connected persons during the year expressed as a % of total tier 1 capital	0.00%	0.02%

(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:

	31/03/2022	31/03/2021
Against individually impaired property	1,260	1,260
Against past due but not impaired property	76,164	80,400
	77,424	**81,660**

(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 81% (31 March 2021 80%) 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 26 - Capital Adequacy.

25. Market Risk

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

The Banking Group's exposure to market risk is governed by a policy approved by the Group Audit and Risk Committee and managed by the Asset and Liability Committee (ALCO). This policy sets out the nature of risk which may be taken and aggregate risk limits, and the ALCO must conform with this. The objective of the ALCO is to derive the most appropriate strategy for the 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

25. Market Risk (continued)

Policies for managing interest rate risk

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

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

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

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

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

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

As at 31 March 2022	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-Interest Sensitive	Total
Assets							
Cash on hand and at bank	56,570	-	-	-	-	-	**56,570**
Funds with financial institutions	90,318	405	2,056	1,002	200	-	**93,981**
Investment securities	80,805	9,121	54,804	128,819	221,844	-	**495,393**
Derivative financial instruments	-	-	-	-	-	64,111	**64,111**
Advances to customers	1,010,744	436,417	637,188	952,912	1,363,317	-	**4,400,578**
Other assets	-	-	-	-	-	109,162	**109,162**
	1,238,437	**445,943**	**694,048**	**1,082,733**	**1,585,361**	**173,273**	**5,219,795**
Liabilities and equity							
Redeemable shares	1,542,268	511,960	713,613	87,553	40,945	441,150	**3,337,489**
Deposits from customers	35,085	21,078	69,997	5,327	467	26	**131,980**
Medium term notes	-	-	-	-	148,597	-	**148,597**
Commercial paper	296,196	49,695	-	-	-	-	**345,891**
Due to other financial institutions	600,797	-	-	-	-	-	**600,797**
Derivative financial instruments	-	-	-	-	-	4,835	**4,835**
Current tax liabilities	-	-	-	-	-	372	**372**
Other borrowings	-	-	-	-	-	6,701	**6,701**
Other liabilities	-	-	-	-	-	74,851	**74,851**
Subordinated redeemable shares	32,464	-	49,222	12,247	11,397	-	**105,330**
Equity	-	-	-	-	-	462,952	**462,952**
	2,506,810	**582,733**	**832,832**	**105,127**	**201,406**	**990,887**	**5,219,795**
On-balance sheet interest sensitivity gap	(1,268,373)	(136,790)	(138,784)	977,606	1,383,955	(817,614)	**-**
Net balance of derivative financial instruments	1,709,851	191,000	(332,500)	(863,301)	(705,050)	-	**-**
Total interest rate sensitivity gap	**441,478**	**54,210**	**(471,284)**	**114,305**	**678,905**	**(817,614)**	**-**

All in $000's

25. Market Risk (continued)

As at 31 March 2021	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-Interest Sensitive	Total
Assets							
Cash on hand and at bank	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 - restated	1,065,859	461,443	1,083,418	888,615	536,720	-	**4,036,055**
Other assets	-	-	-	-	-	107,360	**107,360**
	1,291,057	**463,254**	**1,137,113**	**975,272**	**849,213**	**120,437**	**4,836,346**
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 - restated	-	-	-	-	-	76,703	**76,703**
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**	**865,379**	**4,836,346**
On-balance sheet interest sensitivity gap	(1,024,253)	(219,266)	427,009	764,574	795,524	(740,963)	-
Net balance of derivative financial instruments	1,713,851	(221,000)	(550,000)	(548,500)	(394,351)	-	-
Total interest rate sensitivity gap	**689,598**	**(440,266)**	**(122,991)**	**216,074**	**401,173**	**(740,963)**	**-**

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:

	31/03/2022	31/03/2021
Impact on equity of increase or decrease to market interest rates		
100 bp parallel increase	16,258	8,836
100 bp parallel decrease	(17,143)	(9,529)
Impact on profit and loss of increase or decrease to market interest rates		
100 bp parallel increase	14	2
100 bp parallel decrease	(4)	(2)

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	31/03/2022 AUD	31/03/2021 AUD
AUD Capital Bond	16	30,000	30,000
AUD Cross Currency Interest Rate Swap	10	(30,000)	(30,000)
Net exposure		-	-

26. 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 Banking Prudential Requirements (BPR) documents. Tier 1 capital is divided into two levels. Common equity tier 1 capital consists of retained profits, revenue and similar reserves, less intangible assets, deferred tax assets, cash flow hedge reserve and certain other deductions. Additional tier 1 capital consists of eligible non-controlling interests net of certain deductions. Tier 2 capital includes term subordinated debt and the property, plant and equipment revaluation reserve. The tangible element of investments in subsidiaries that are not wholly owned or funded is deducted from the sum of tier one and tier two capital to arrive at total regulatory capital.

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

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

The 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 2022.

All in $000's

26. 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	31/03/2022	31/03/2021	31/03/2022	31/03/2021
Common equity tier 1 capital ratio	4.5%	13.1%	12.9%	10.8%	10.8%
Tier 1 capital ratio	6.0%	13.1%	12.9%	10.8%	10.8%
Total capital ratio	8.0%	15.4%	15.7%	13.7%	14.3%
Prudential capital buffer ratio	2.5%	7.1%	6.9%		

(i) Qualifying capital

	BANKING GROUP	
	Unaudited	Unaudited
Tier 1 capital	31/03/2022	31/03/2021
Common equity tier 1 (CET1) capital		
Retained earnings	385,874	344,735
Current year's retained earnings	45,255	41,139
FVOCI reserve	(14,162)	5,481
Cash flow hedging reserve	43,943	(4,537)
Less deductions from CET1 capital		
Goodwill & intangible assets	(10,400)	(10,167)
Deferred tax assets	-	(12,571)
Cash flow hedging reserve	(43,943)	4,537
Investments in associates	(9,347)	(8,967)
Total CET1 capital	**397,220**	**359,650**
Additional tier 1 (AT1) capital		
Non-controlling interests (net of deductions and surplus AT1 capital)	-	-
Total AT1 capital	-	-
Total tier 1 capital	**397,220**	**359,650**
Tier 2 capital		
Revaluation reserves	2,042	1,898
Subordinated redeemable shares	66,046	75,682
Total tier 2 capital	**68,088**	**77,580**
Total capital	**465,308**	**437,230**

At 31 March 2022 the balance of all subordinated redeemable shares issued was $104.8 million (31 March 2021 $105.1 million). After adjustments for potential tax or other offsets, $66.0 million (31 March 2021 $75.7 million) has been recognised as tier 2 capital for RBNZ capital adequacy purposes.

All in $000's

26. Capital Adequacy - unaudited (continued)

(ii) Total risk weighted assets

BANKING GROUP

As at 31 March 2022 **On balance sheet credit exposures**	**Total Exposure after Credit Risk Mitigation [2]**	**Risk Weighting**	**Risk Weighted Exposure**	**Minimum Pillar One Capital Requirement**
Cash	566	0%	-	-
Multilateral development banks	103,212	0%	-	-
Public sector entities	77,107	20%	15,421	1,234
Banks	168,150	20%	33,630	2,690
Banks	264,290	50%	132,145	10,572
Corporates				
Rating grade 1	10,472	20%	2,094	168
Rating grade 2	10,530	50%	5,265	421
Rating grade 3-4	8,551	100%	8,551	684
Rating grade 5	474	150%	711	57
Residential mortgages				
< 80% loan to value ratio (LVR)	1,996,085	35%	698,630	55,890
80 < 90% LVR	56,502	50%	28,251	2,260
90 < 100% LVR	2,720	75%	2,040	163
Past due	2,810	100%	2,810	225
Impaired	594	100%	594	48
Property investment residential mortgage				
<=80% LVR	990,445	40%	396,178	31,694
80<=90% LVR	-	70%	-	-
Residential mortgages first home loans				
<=90% LVR	404,574	35%	141,601	11,328
90 <=100% LVR	81,085	50%	40,543	3,243
Reverse residential mortgage loans				
<=60%	78,767	50%	39,384	3,151
60<=80%	363	80%	290	23
80<=100%	-	100%	-	-
Equity holdings	2,592	300%	7,776	622
Other assets	876,047	100%	876,047	70,084
Non-risk weighted assets	83,858	0%	-	-
Total on balance sheet credit exposures	5,219,795		2,431,962	194,557

As at 31 March 2022 **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	105,490	50%	52,745	75%	39,441	3,155
Commitments to extend credit which can be unconditionally cancelled	381,727	0%	-	0%	-	-
Market related contracts[1]						
Interest rate contracts	3,523,776	n/a	78,154	34%	26,615	2,129
Credit valuation adjustment (CVA)					1,988	159
Total off balance sheet credit exposures	4,010,993		130,899		68,044	5,443
Total credit risk	9,230,788		130,899		2,500,006	200,000
Operational risk	n/a				304,438	24,355
Market risk	n/a				226,055	18,084
Total risk weighted assets	**9,230,788**				**3,030,499**	**242,439**

[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

26. Capital Adequacy - unaudited (continued)

BANKING GROUP **As at 31 March 2021** **On balance sheet credit exposures**	**Total Exposure after Credit Risk Mitigation**	**Risk Weighting**	**Risk Weighted Exposure**	**Minimum Pillar One Capital Requirement**
Cash	593	0%	-	-
Multilateral development bank	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**	**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.

All in $000's

26. 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
	31/03/2022	31/03/2022	31/03/2021	31/03/2021
LVR range				
0 - 80%	3,165,419	236,378	2,670,691	198,194
80 - 90%	364,126	2,350	476,925	4,785
90% +	84,401	1,031	116,928	2,674
Total residential mortgages	**3,613,946**	**239,759**	**3,264,544**	**205,653**

First Home Loans make up 96% of the residential mortgages in the 90% + loan to valuation grouping as at 31 March 2022 (31 March 2021 98%) and 84% of the 80-90% loan to valuation grouping (31 March 2021 85%). The First Home Loan product is fully insured by Kāinga Ora - Homes and Communities.

(iv) Reconciliation of mortgage related amounts

	BANKING GROUP	
	31/03/2022	31/03/2021
Gross residential mortgage loans (Note 11)	3,574,015	3,239,775
Other lending residentially secured	39,159	30,741
Provision for credit impairment relating to residential mortgages (Note 12(b))	(10,367)	(12,359)
Deferred fee revenue and expenses relating to residential mortgages	11,139	6,387
Residential mortgage loans net of provision for impairment	3,613,946	3,264,544
Off balance sheet exposures - undrawn commitments (Note 26(iii))	239,759	205,653
Total on and off balance sheet residential mortgage loans	**3,853,705**	**3,470,197**

(v) Market risk exposures

Market risk exposures have been calculated in accordance with the methodology detailed in RBNZ BPR140, and Schedule 9 of the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014 (as amended). Peak exposures are calculated using the Banking Group's equity at the end of the period.

	BANKING GROUP			
	End of Period		Peak End of Day	
	31/03/2022	31/03/2021	31/03/2022	31/03/2021
Interest rate exposures				
Implied risk weighted exposure	226,055	156,628	234,738	170,363
Aggregate capital charge	18,084	12,530	18,779	13,629

(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 2021 $30 million).

All in $000's

27. Related Parties

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

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

(a) Loans and advances to related parties

	31/03/2022	31/03/2021
Directors and other key management personnel		
Loans and advances outstanding at beginning of year	3,645	1,652
Net loans issued/(repaid) during the year	(1,136)	1,993
Loans and advances outstanding at end of year	**2,509**	**3,645**
Interest income earned on amounts due from related parties	**92**	**54**

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 2022 (31 March 2021 $nil).

(b) Deposits from related parties

	31/03/2022	31/03/2021
Directors and other key management personnel		
Deposits at beginning of year	11,498	8,793
Net deposits received/(repaid) during the year	(3,628)	2,705
Deposits at end of year	**7,870**	**11,498**
Interest expense on amounts due to related parties	**94**	**263**

(c) Other transactions with related parties

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

Lifestages Investment Funds
The Lifestages Investment Funds comprising the Lifestages Corporate Bond Portfolio, Lifestages World Bond Portfolio, Lifestages Australasian Portfolio and Lifestages World Equity Portfolio are Unit Trusts established under the Unit Trust Act 1960.
Each of the Portfolios is a managed investment scheme that is governed by a consolidated Master Trust Deed and Establishment Deed between FANZ, the manager of the Investment Funds, and Trustees Executors Limited the Supervisor of the Investment Funds.

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

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

(d) Key management compensation

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

All in $000's

28. Fiduciary Activities

Funds management

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

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

	31/03/2022	31/03/2021
Funds under management on behalf of customers	1,407,500	1,387,200

Securitised assets

As at 31 March 2022, the Banking Group had securitised assets amounting to $906 million (31 March 2021 $885 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 2022 are $27.2 million (31 March 2021 $25.4 million) which is 0.5% of the total assets of the Banking Group (31 March 2021 0.5%). This complies with the Conditions of Registration of Southland Building Society, which allows a maximum of 1% of the total consolidated assets of the Banking Group to be represented by insurance business assets.

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

Risk management

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

Provision of financial services

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

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

29. Subsequent Events

There have been no material subsequent events after 31 March 2022.

Independent Auditor's Report

To the members of Southland Building Society

Report on the audit of the consolidated disclosure statement

Opinion

In our opinion, the accompanying consolidated financial statements (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) of Southland Building Society (the 'bank') and its subsidiaries (the 'Banking Group') on pages 15 to 68:

i. give a true and fair view of the Banking Group's financial position as at 31 March 2022 and its financial performance and cash flows for the year ended on that date; and

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

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the 'Order') and is included within notes 23 and 26 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 2022;

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

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

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

Basis for Opinion

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

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

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

Our firm has also provided other services to the Banking Group in relation to review of the Banking Group's half-year Disclosure Statement 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 $2,000,000 determined with reference to a benchmark of the Banking Group's surplus before income tax. We chose the benchmark because, in our view, this is a key measure of the Banking Group's performance.

Key audit matters

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

The key audit matter	How the matter was addressed in our audit
Provision for credit impairment – ($32.3 million – refer note 11)	
The provision for credit impairment is a key audit matter because of the financial significance of the gross advances to which it relates, and the high degree of complexity and judgement required and applied by	Our audit procedures included • Evaluating the design and implementation effectiveness of key controls relating to the Banking Group's lending, credit review and monitoring processes. • Testing the General IT control environment and relevant IT application controls.

The key audit matter	How the matter was addressed in our audit
management in estimating the appropriate provision. Due to the anticipated economic uncertainty, judgement and complexity remains heightened in respect of assessing the expected impact on cashflows and security values and expected credit losses including the underlying assumptions to estimate these. This further resulted in the 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 (LGD), which includes forming an estimate of future economic performance and how this will impact on the loan recoverability.	• Testing key controls over arrears calculations, credit risk reviews, and model validations. • Evaluating the basis, and adequacy, of individual provisions for credit impairment for those loans identified as being individually impaired within the Bank. This included inspecting evidence of the specific collateral held, externally obtained valuation reports that support the Bank's security. • 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. • Testing key inputs used in the collective provision for credit impairment including macroeconomic factors, arrears profile information, historic loss rates and losses incurred (for probability and loss given default inputs) as well as comparing the consistency of the 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
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, program development and user access controls.	Our audit procedures 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, program development and user 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 and International Financial Reporting Standards;
- the preparation and fair presentation of supplementary information (excluding the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements), in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal control to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

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

Our objective is:

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

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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-1/

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

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

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, disclosed in note 23 and 26 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 note 23 and 26 of the disclosure statement for the year ended 31 March 2022. 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.

Emphasis of matter - RBNZ Liquidity Thematic Review

We draw attention to Note 23 Liquidity Risk - Average liquidity ratios. The Reserve Bank of New Zealand has completed a thematic review of liquidity calculations and banks' compliance with the Reserve Bank's Liquidity Policy (BS13 and BS13A). As described in Note 23 Liquidity Risk - Average liquidity ratios, the Banking Group was included within this review, received specific findings and is currently working through a remediation plan to address these findings.

Our conclusion on the half year disclosure statement is not modified in respect of this matter.

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 requirements of that Schedule and as described in note 26 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

25 May 2022

Directory

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

Mrs K J Ball, B Com FCA CFInstD - 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

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

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

Ms S J Brown, BA LLB CFInstD - Company Director, Invercargill

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

Group Chief Executive Officer
Mr M R McLean, Chartered Accountant, Bcom (Acctg), DipGrad (Marketing)

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

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PO Box 212

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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
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PO Box 211

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Cnr Market and Main Streets
PO Box 1188

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

Hamilton
Cnr Victoria & Bryce Streets
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