Southland Building Society

Disclosure Statement

For the six months ended 30 September 2022

Number 49 Issued November 2022

Contents

Disclosure Statement for the six months ended 30 September 2022

Registered Bank Disclosures for the six months ended 30 September 2022

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

Abbreviations

The following abbreviations are used throughout the report:

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

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.

Directors' Statement

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

1. As at the date on which the Disclosure Statement is signed:
   (a) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and
   (b) the Disclosure Statement is not false or misleading.
2. Each director of the Bank believes, after due enquiry, that during the six months ended 30 September 2022:
   (a) the Bank has complied in all material respects with all conditions of registration applicable during the period; and
   (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
   (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk, and other business risks, and that those systems were being properly applied.

This disclosure statement is dated 22 November 2022 and has been signed by or on behalf of all the directors.

AJ O'Connell
(Chairman)

KJ Murphy

MJ Skilling
(Deputy Chair)

SJ Brown

GJ Mulvey

PRN Ellison

MP O'Connor

Southland Building Society

Income Statement for the six months ended 30 September 2022

All in $000's

	Note	Unaudited 6 Months 30/09/2022	Unaudited 6 Months 30/09/2021	Audited 12 Months 31/03/2022
Interest income		121,864	95,251	192,337
Interest expense		18,015	9,743	21,764
Dividends on redeemable shares		35,619	17,692	37,401
		53,634	27,435	59,165
Net interest income		**68,230**	**67,816**	**133,172**
Net fee and commission income	(A2.2)	**12,356**	**13,372**	**24,785**
Other income	(A2.2)	2,686	2,980	5,868
Total operating income		**83,272**	**84,168**	**163,825**
Operating expenses		52,583	48,180	96,567
Credit impairment losses	(6(d))	6,309	3,440	5,977
Operating surplus		**24,380**	**32,548**	**61,281**
Net gain/(loss) from financial instruments at FVTPL	(A2.2)	(242)	231	(207)
Share of associates profit net of tax		807	445	819
Surplus before income tax		**24,945**	**33,224**	**61,893**
Less income tax expense		6,988	9,336	17,030
Net surplus		**17,957**	**23,888**	**44,863**
Attributable to:				
Members' interests		17,957	23,888	44,863
Non-controlling interests		-	-	-
		17,957	**23,888**	**44,863**

Southland Building Society

Statement of Comprehensive Income for the six months ended 30 September 2022

All in $000's

	Unaudited 6 Months 30/09/2022	Unaudited 6 Months 30/09/2021	Audited 12 Months 31/03/2022
Net surplus for the period	17,957	23,888	44,863
Items that may not be reclassified subsequently to profit or loss			
Net change in property, plant and equipment reserve, net of tax	-	-	536
Items that may be reclassified subsequently to profit or loss			
Net change in FVOCI reserve, net of tax	(5,257)	(7,116)	(19,643)
Net change in cash flow hedging reserve, net of tax	18,964	15,545	48,480
Other comprehensive income for the period, net of tax	13,707	8,429	29,373
Total comprehensive income for the period	**31,664**	**32,317**	**74,236**
Attributable to:			
Members' interests	31,664	32,317	74,236
Non-controlling interests	-	-	-
	31,664	**32,317**	**74,236**

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

Southland Building Society

Statement of Changes in Equity for the six months ended 30 September 2022

All in $000's

As at 30 September 2022 (Unaudited)	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 2022	431,129	2,042	(14,162)	43,943	462,952	-	**462,952**
Net surplus for the period	17,957	-	-	-	17,957	-	**17,957**
Other comprehensive income for the period							
Revaluation/change in fair value	-	-	(7,302)	26,440	19,138	-	**19,138**
Current/deferred tax impact	-	-	2,045	(7,476)	(5,431)	-	**(5,431)**
Total comprehensive income for the period	17,957	-	(5,257)	18,964	31,664	-	**31,664**
Dividends paid	-	-	-	-	-	-	**-**
Balance as at 30 September 2022	**449,086**	**2,042**	**(19,419)**	**62,907**	**494,616**	**-**	**494,616**

As at 30 September 2021 (Unaudited)	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 period	23,888	-	-	-	23,888	-	**23,888**
Other comprehensive income for the period							
Revaluation/change in fair value	-	-	(9,883)	21,670	11,787	-	**11,787**
Current/deferred tax impact	-	-	2,767	(6,125)	(3,358)	-	**(3,358)**
Total comprehensive income for the period	23,888	-	(7,116)	15,545	32,317	-	**32,317**
Dividends paid	-	-	-	-	-	-	**-**
Balance as at 30 September 2021	409,762	1,898	(1,635)	11,008	421,033	-	**421,033**

As at 31 March 2022 (Audited)	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	-	-	-	-	-	-	**-**
Balance as at 31 March 2022	431,129	2,042	(14,162)	43,943	462,952	-	**462,952**

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

Southland Building Society

Statement of Financial Position as at 30 September 2022

All in $000's

	Note	Unaudited 30/09/2022	Unaudited 30/09/2021	Audited 31/03/2022
Assets				
Cash on hand and at bank		54,674	66,260	56,570
Funds with financial institutions		28,004	25,471	93,981
Investment securities		505,899	542,707	495,393
Derivative financial instruments		109,983	23,398	64,111
Current tax assets		1,396	-	-
Advances to customers - restated	(1) (5)	4,700,702	4,129,276	4,400,578
Investments in associates		9,950	8,892	9,347
Other assets		57,712	37,293	45,646
Property, plant and equipment		18,828	18,126	19,242
Right-of-use assets		21,296	24,754	24,527
Assets held for sale		-	823	-
Goodwill and intangible assets		10,111	9,988	10,400
Net deferred tax assets		-	6,005	-
		5,518,555	**4,892,993**	**5,219,795**
Liabilities				
Redeemable shares		3,620,744	3,231,339	3,337,489
Deposits from customers		119,102	124,641	131,980
Medium term notes		148,745	-	148,597
Commercial paper		344,720	344,311	345,891
Due to other financial institutions		585,233	584,059	600,797
Derivative financial instruments		16,844	10,845	4,835
Current tax liabilities		-	1,684	372
Deferred tax liabilities		14,929	-	6,701
Other liabilities - restated	(1)	66,265	70,693	74,851
Subordinated redeemable shares		107,357	104,388	105,330
		5,023,939	**4,471,960**	**4,756,843**
Net assets		**494,616**	**421,033**	**462,952**
Equity				
Reserves		45,530	11,271	31,823
Retained earnings		449,086	409,762	431,129
Attributable to members of the society		494,616	421,033	462,952
Attributable to non-controlling interests		-	-	-
		494,616	**421,033**	**462,952**
Total interest earning and discount bearing assets		5,289,279	4,763,714	5,046,522
Total interest and discount bearing liabilities		4,536,340	3,991,878	4,228,908

For and on behalf of the Board of Directors:

Chairman
AJ O'Connell

Deputy Chair
MJ Skilling

22 November 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 six months ended 30 September 2022

All in $000's

	Unaudited 6 Months 30/09/2022	Unaudited 6 Months 30/09/2021	Audited 12 Months 31/03/2022
Cash flows from operating activities			
Interest and dividends received	114,016	94,645	189,670
Interest and dividends paid	(42,391)	(34,209)	(63,508)
Other cash inflows provided by operating activities	19,203	23,189	43,455
Other cash outflows used in operating activities	(75,986)	(72,916)	(134,150)
Net cash flows from operating activities before changes in operating assets and liabilities	14,842	10,709	35,467
Net changes in operating assets and liabilities	(61,694)	(42,852)	(34,187)
Net cash flows provided by/(used in) operating activities	**(46,852)**	**(32,143)**	**1,280**
Cash flows from investing activities			
Cash inflows provided by investing activities	644	9,904	41,332
Cash outflows used in investing activities	(20,248)	(2,613)	(5,550)
Net cash flows provided by/(used in) investing activities	**(19,604)**	**7,291**	**35,782**
Cash flows from financing activities			
Cash inflows provided by financing activities	-	-	-
Cash outflows used in financing activities	(1,879)	(1,898)	(3,695)
Net cash flows provided by/(used in) financing activities	**(1,879)**	**(1,898)**	**(3,695)**
Net increase/(decrease) in cash held	(68,335)	(26,750)	33,367
Add opening cash and cash equivalents	146,856	113,489	113,489
Closing cash and cash equivalents	**78,521**	**86,739**	**146,856**
Reconciliation of cash and cash equivalents			
Cash on hand and at bank	54,674	66,260	56,570
Funds with financial institutions	23,904	20,503	90,318
Interest accrued	(57)	(24)	(32)
	78,521	**86,739**	**146,856**
Reconciliation of net surplus to net operating cash flows			
Net surplus for period	17,957	23,888	44,863
Non-cash items	11,005	8,593	15,294
Deferral or accruals of past or future operating cash receipts or payments	(75,789)	(64,634)	(58,879)
Items classified as cash	(25)	10	2
Net cash flows from operating activities	**(46,852)**	**(32,143)**	**1,280**

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

All in $000's

1. Significant Accounting Policies

(a) Basis of Preparation

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

These financial statements were authorised for issue by the Board of Directors on 22 November 2022.

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), NZ IAS 34 Interim Financial Reporting, Financial Markets Conduct Act 2013 and the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014 (as amended) and should be read in conjunction with the Banking Group's financial statements for the year ended 31 March 2022.

(b) Changes in Accounting Policies

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

The disclosure (only) of September 2021 numbers have been updated to reflect the change in accounting policy implemented in March 2022 relating to collective provision on off-balance sheet commitments. Refer to Note 1 of the Annual Financial Statements for more detail.

The following adjustments were made to the 30 September 2021 data:

30 September 2021	Other liabilities	Advances to Customers provisions
Previously reported	66,822	38,499
Adjustment due to change in accounting policy	3,871	(3,871)
	70,693	34,628

2. Risk Management Policies

There has been no material change in the Banking Group's policies for managing risk, or material exposures to any new types of risk since the authorisation date of the previous Disclosure Statement on 24 May 2022.

3. Management Judgement, Estimates and Assumptions

The Banking Group considers the collective provision on advances to customers and related commitments as an area that requires significant management judgement and estimation. Estimation uncertainty remains at a heightened level due to the impact of rising interest rates and inflationary pressures, increased geopolitical tensions around the world, supply chain issues and labour shortages. Refer to Note 6(e) - Basis of Inputs, Key Judgements and Assumptions used in the Calculation of ECL and Note 6(f) - Sensitivity of the Collective Provision ECL for further information on impact on ECL and related sensitivity analysis on assumptions made.

4. Financial Assets Pledged as Collateral

As at 30 September 2022, no investments were encumbered through repurchase agreements (31 March 2022 $nil million).

Funding for lending program
During November 2020, the RBNZ announced a funding-for-lending program ("FLP") as one of the tools to maintain low and stable inflation and support full employment. The FLP allows the Bank to borrow directly from the RBNZ at the floating Official Cash Rate ("OCR') for a term of three years and is effective from 7 December 2020 to 6 December 2022. The FLP will require approved eligible collateral to be pledged as security.

The Bank's initial allocation, being 4% of eligible loans as at 31 October 2020, able to be drawn down between 7 December 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 30 September 2022 the OCR rate was 3.0%, and this rate will adjust in line with changes in the OCR over the lending term.

A total of $204 million of residential mortgage-backed securities ("RMBS") have been pledged as approved collateral in relation to the amount currently drawn down. As at 30 September 2022, $164 million has been drawn down, and is included in "Due to other financial institutions" in the statement of financial position.

Refer to Note 11 - Subsequent Events for a final drawdown made subsequent to 30 September 2022.

All in $000's

5. Advances to Customers

	Note	Unaudited 30/09/2022	Unaudited 30/09/2021	Audited 31/03/2022
Residential		3,777,171	3,343,988	3,574,015
Agricultural		73,537	115,840	90,126
Commercial		99,479	97,857	99,194
Consumer		775,779	602,498	662,487
Gross advances		**4,725,966**	**4,160,183**	**4,425,822**
Provisions for credit impairment	(6(b))	(33,635)	(34,628)	(32,321)
Deferred fee revenue and expenses		8,371	3,721	7,077
Total net advances		**4,700,702**	**4,129,276**	**4,400,578**

Included in advances to customers are $83.0 million (30 September 2021 $77.1 million, 31 March 2022 $80.0 million) of reverse equity mortgages which are valued at fair value through profit or loss rather than at amortised cost.

6. Asset Quality and Provisions for Credit Impairment

(a) Asset quality - advances to customers

As at 30 September 2022	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Neither past due or impaired	3,753,710	729,042	167,448	**4,650,200**
Individually impaired	970	-	152	**1,122**
Past due	35,678	43,732	3,605	**83,015**
Provision for credit impairment	(10,672)	(19,710)	(3,253)	**(33,635)**
Carrying amount	**3,779,686**	**753,064**	**167,952**	**4,700,702**

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

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

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

All in $000's

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

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

		Expected Credit Losses			Specific Provision	
As at 30 September 2022	**Note**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Residential mortgages		5,706	3,778	835	353	10,672
Retail exposures		14,016	3,823	1,871	-	19,710
Corporate exposures		1,414	1,145	474	220	3,253
Total advances to customers	(5)	21,136	8,746	3,180	573	33,635
Residential mortgages		317	3	5	-	325
Retail exposures		2,044	-	-	-	2,044
Corporate exposures		417	33	-	-	450
Total off-balance sheet credit related commitments		2,778	36	5	-	2,819
Funds with financial institutions		9	-	-	-	9
Investment securities		215	-	-	-	215
		24,138	**8,782**	**3,185**	**573**	**36,678**
As at 30 September 2021						
Residential mortgages		5,859	3,398	694	353	10,304
Retail exposures		14,356	4,248	2,262	-	20,866
Corporate exposures		1,631	1,423	184	220	3,458
Total advances to customers	(5)	21,846	9,069	3,140	573	34,628
Residential mortgages		364	2	13	-	379
Retail exposures		2,864	-	-	-	2,864
Corporate exposures		566	63	-	-	629
Total off-balance sheet credit related commitments		3,794	65	13	-	3,872
Funds with financial institutions		6	-	-	-	6
Investment securities		203	-	-	-	203
		25,849	**9,134**	**3,153**	**573**	**38,709**
As at 31 March 2022						
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	(5)	20,031	9,136	2,581	573	32,321
Residential mortgages		355	3	5	-	363
Retail exposures		2,315	-	-	-	2,315
Corporate exposures		565	70	-	-	635
Total off-balance sheet credit related commitments		3,235	73	5	-	3,313
Funds with financial institutions		47	-	-	-	47
Investment securities		201	-	-	-	201
		23,514	**9,209**	**2,586**	**573**	**35,882**

All in $000's

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

(c) Provision for credit impairment - Statement of financial position movement

The following tables present the movement in the provision for credit impairment.

	Expected Credit Losses			Specific Provision	
Advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at the beginning of the period	20,029	9,136	2,582	573	32,320
Changes to the opening balance due to transfer between stages:					
Transferred to collective provision 12-months ECL	3,462	(3,040)	(422)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(455)	641	(186)	-	-
Transferred to collective provision lifetime ECL credit impaired	(86)	(699)	785	-	-
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	-
New provisions	5,096	3,483	1,876	-	10,455
Charge/(credit) to income statement excluding transfers	(2,176)	1,541	(70)	-	(705)
Assets derecognised and payments made	(4,734)	(2,316)	(1,385)	-	(8,435)
	21,136	**8,746**	**3,180**	**573**	**33,635**
Credit related commitments					
Balance at the beginning of the period	3,235	73	5	-	3,313
Changes to the opening balance due to transfer between stages:					
Transferred to collective provision 12-months ECL	(9)	9	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(13)	4	9	-	-
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	-
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	-
New provisions	265	(10)	(9)	-	246
Charge/(credit) to income statement excluding transfers	(198)	(40)	-	-	(238)
Assets derecognised and payments made	(502)	-	-	-	(502)
	2,778	**36**	**5**	**-**	**2,819**

(d) Credit impairment income statement reconciliation

The following provides a reconciliation of the movements in provisions for credit impairment reported in the income statement:

	Unaudited 30/09/2022	Unaudited 30/09/2021	Audited 31/03/2022
Bad debts written off/recovered during the period	5,512	5,941	11,306
Individual provisions	-	-	-
Collective provision charge/(release)	821	(2,477)	(5,344)
Other credit provisions charge/(release)	(24)	(24)	15
Provision for credit impairment to income statement	**6,309**	**3,440**	**5,977**

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

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

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

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

All in $000's

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

(f) Sensitivity of the collective provision ECL

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 macro-economic uncertainty for retail exposures has been incorporated by increasing the historical loss experience rates by a total of approximately 45%.

	Base	% change	Increase	Decrease
- Unemployment	as high as 4%	+/- 1%	11,108	(12,961)
- GDP	as low as 0%	+/- 1%	(6,056)	5,765
- House price	-20%	+/- 10%	619	(562)

7. Contingent Liabilities and Credit Related Commitments

	Unaudited Contract or Notional Amt 30/09/2022	Unaudited Credit Equivalent 30/09/2022	Unaudited Contract or Notional Amt 30/09/2021	Unaudited Credit Equivalent 30/09/2021	Audited Contract or Notional Amt 31/03/2022	Audited Credit Equivalent 31/03/2022
Credit related commitments						
Commitments with uncertain drawdown	108,577	54,289	97,312	48,656	105,490	52,745
Commitments to extend credit which can be unconditionally cancelled	364,350	-	380,510	-	381,727	-
Total credit related commitments	**472,927**	**54,289**	**477,822**	**48,656**	**487,217**	**52,745**

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

All in $000's

8. Related Parties

The Banking Group is controlled by SBS who is also the ultimate parent.

During August 2021, the Bank obtained a 14.3% shareholding in Raizor New Zealand Limited for $0.3 million. During January and May 2022, a further two payments of $0.3 million each was made for shares, to bring the total shareholding to 33.3%. 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 30 September 2022 there are no amounts due from, or due to any related entities that are outside of the Banking Group.

9. Credit Risk

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

The Banking Group's dominant activity is the provision of residential mortgage finance which comprises 80% (30 September 2021 81%; 31 March 2022 81%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Agricultural loans which comprise 2% (30 September 2021 3%; 31 March 2022 2%) of the Banking Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

(a) The maximum exposures to credit risk

	Unaudited 30/09/2022	Unaudited 30/09/2021	Audited 31/03/2022
Cash on hand and at bank	54,674	66,260	56,570
Funds with financial institutions	28,004	25,471	93,981
Investment securities	505,899	542,707	495,393
Derivative financial instruments	109,983	23,398	64,111
Current tax assets	1,396	-	-
Advances to customers	4,700,702	4,129,276	4,400,578
Other assets	57,712	37,293	45,646
Total on-balance sheet credit exposures	**5,458,370**	**4,824,405**	**5,156,279**
Off balance sheet exposures - undrawn commitments	472,927	477,822	487,217
Total credit exposures	**5,931,297**	**5,302,227**	**5,643,496**

(b) Concentrations of credit risk by geographical location

	Unaudited 30/09/2022	Unaudited 30/09/2021	Audited 31/03/2022
Auckland	1,431,867	1,226,262	1,365,808
North Island other	1,449,998	1,227,127	1,301,911
Canterbury	1,226,298	1,058,505	1,155,817
Otago	739,236	675,045	749,471
Southland	723,522	722,835	714,283
South Island other	259,332	258,988	252,825
Overseas	101,044	133,465	103,381
Total concentrations of credit risk by geographical location	**5,931,297**	**5,302,227**	**5,643,496**

All in $000's

10. Fair Value of Financial Instruments

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

	Unaudited Carrying value 30/09/2022	Unaudited Fair value 30/09/2022	Unaudited Carrying value 30/09/2021	Unaudited Fair value 30/09/2021	Audited Carrying value 31/03/2022	Audited Fair value 31/03/2022
Financial assets						
Advances to customers	4,617,750	4,550,088	4,048,328	4,023,291	4,320,558	4,268,380
Total financial assets	**4,617,750**	**4,550,088**	**4,048,328**	**4,023,291**	**4,320,558**	**4,268,380**
Financial liabilities						
Redeemable shares	3,620,744	3,612,875	3,231,339	3,226,341	3,337,489	3,337,074
Deposits from customers	119,102	118,287	124,641	127,541	131,980	131,767
Medium term notes	148,745	148,670	-	-	148,597	148,696
Subordinated redeemable shares	107,357	107,553	104,388	107,462	105,330	104,888
Total financial liabilities	**3,995,948**	**3,987,385**	**3,460,368**	**3,461,344**	**3,723,396**	**3,722,425**

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

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

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

As at 30/09/2022 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	109,983	-	**109,983**
Investment securities	2,274	503,840	-	**506,114**
Advances to customers	-	-	82,952	**82,952**
Total financial assets	**2,274**	**613,823**	**82,952**	**699,049**
Financial liabilities				
Derivative financial instruments	-	16,844	-	**16,844**
Total financial liabilities	**-**	**16,844**	**-**	**16,844**

As at 30/09/2021 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	23,398	-	**23,398**
Investment securities	2,694	540,216	-	**542,910**
Advances to customers	-	-	77,077	**77,077**
Total financial assets	**2,694**	**563,614**	**77,077**	**643,385**
Financial liabilities				
Derivative financial instruments	-	10,845	-	**10,845**
Total financial liabilities	**-**	**10,845**	**-**	**10,845**

As at 31/03/2022 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	64,111	-	**64,111**
Investment securities	2,592	493,002	-	**495,594**
Advances to customers	-	-	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**

Further information on valuation techniques and assumptions for specific asset classes is included in Notes 20 and 21 of the Bank's annual Disclosure Statement.

11. Subsequent Events

During October 2022, a further $82 million was drawn down on the funding-for-lending program, with additional $111.6 million of residential mortgage-backed securities pledged as approved collateral.

A1. General disclosures

A1.1 Guarantee Arrangements

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

A1.2 Directorate

Since the publication date of the previous year Disclosure Statement, the following changes took place in the composition of the Board:
- Kathryn Ball resigned during July 2022;
- Phil Ellison was appointed effective 1 July 2022.

A1.3 Auditors

KPMG
10 Customhouse Quay
Wellington

A1.4 Conditions of Registration

Changes to the Bank's Conditions of Registration

The following changes have been made to the Bank’s conditions of registration during the period since the reporting date of the previous Disclosure Statement:

From 23 June 2022:
- Reference to Open Bank Resolution Policy (BS17) has been updated to refer to the updated policy dated June 2022, which reflect the change in definition of "Business Day".

From 1 July 2022:
- The dividend restrictions implemented in response to Covid-19 has been removed.

RBNZ Liquidity Thematic Review

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

A1.5 Pending Proceedings or Arbitration

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

A1.6 Credit Rating

As at 30 September 2022, 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 reaffirmed on 30 August 2022. The previous credit rating of BBB with a negative outlook was issued by Fitch Ratings on 18 May 2020. The rating is not subject to any qualifications.

A1.7 Other Material Matters

It is noted that the Bank continues to discuss some issues with the Reserve Bank arising from findings relevant to the Bank in relation to the Reserve Bank’s industry thematic review of compliance with the Liquidity Policy (BS13). Any amendments from this review will be reported in the Disclosure Statement as required.

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

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.

All in $000's

A2. Additional financial disclosures

A2.1 Additional information on the statement of financial position

	30/09/2022
Total interest earning and discount bearing assets	5,289,279
Total interest and discount bearing liabilities	4,536,340
Total amounts due from related entities	-
Total amounts due to related entities	-
Securities sold under agreement to repurchase	-
Residential mortgage pledged as security for repurchase agreements with RBNZ	203,970

Refer to Note 4 - Financial Assets Pledged as Collateral for more information on assets pledged as collateral under the funding-for-lending program.

A2.2 Additional information on the income statement

Fee and commission income	**30/09/2022**
Asset management fees	5,743
Lending fees	3,240
Credit card fees	1,075
Current and funding account fees	1,218
Other fee and commission income	1,260
Total fee and commission income	12,536
Fee and commission expense	180
Net fee and commission income	**12,356**

Other operating income	
Net insurance income	1,871
Dividends	56
Gain on sale of shares	-
Sundry income	759
	2,686

Net gain/(loss) from financial instruments	
Investment securities	(46)
Derivative financial instruments	(188)
Hedge ineffectiveness on cash flow hedging	(8)
Advances to customers	-
	(242)

All in $000's

A2. Additional financial disclosures (continued)

A2.3 Additional information on concentrations of credit risk

Composition of financial instruments that give rise to credit risk by sector are presented below:

	30/09/2022
Residential	3,212,513
Residential investing	839,674
Agricultural	91,913
Commercial finance	14,531
Commercial other	89,208
Consumer lending	718,578
Consumer credit card	207,212
Local authority	75,679
NZ registered banks	388,886
Multilateral development banks	100,894
Corporate investments	133,101
Other	59,108
Total concentrations of credit risk by sector	**5,931,297**

A2.4 Additional information on concentrations of funding

(a) Concentrations of funding by product	30/09/2022
Redeemable shares	3,620,744
Deposits from customers	119,102
Medium term note	148,745
Commercial paper	344,720
Due to other financial institutions	585,233
Subordinated redeemable shares	107,357
Total concentrations of funding by product	**4,925,901**

(b) Concentrations of funding by geographical location	30/09/2022
North Island other	770,948
Auckland	988,420
Canterbury	841,918
Otago	823,927
Southland	1,028,226
South Island other	373,456
Overseas	99,006
Total concentrations of funding by geographical location	**4,925,901**

All in $000's

A2. Additional financial disclosures (continued)

A2.5 Additional information on interest rate sensitivity

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

As at 30 September 2022 (Unaudited)	Up to 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-Interest Bearing	Total
Assets							
Cash on hand and at bank	54,674	-	-	-	-	-	**54,674**
Funds with financial institutions	23,904	1,418	1,870	812	-	-	**28,004**
Investment securities	55,838	49,953	74,316	136,470	189,322	-	**505,899**
Derivative financial instruments	-	-	-	-	-	109,983	**109,983**
Current tax assets	-	-	-	-	-	1,396	**1,396**
Advances to customers	765,918	358,785	837,673	1,093,869	1,644,457	-	**4,700,702**
Other assets	-	-	-	-	-	117,897	**117,897**
	900,334	410,156	913,859	1,231,151	1,833,779	229,276	**5,518,555**
Liabilities and equity							
Redeemable shares	1,200,272	678,406	1,231,444	85,312	35,755	389,555	**3,620,744**
Deposits from customers	76,943	13,012	25,001	3,557	583	6	**119,102**
Medium term notes	-	-	-	-	148,745	-	**148,745**
Commercial paper	295,364	49,356	-	-	-	-	**344,720**
Due to other financial institutions	585,233	-	-	-	-	-	**585,233**
Derivative financial instruments	-	-	-	-	-	16,844	**16,844**
Deferred tax liabilities	-	-	-	-	-	14,929	**14,929**
Other liabilities	-	-	-	-	-	66,265	**66,265**
Subordinated redeemable shares	48,981	34,727	8,953	14,497	199	-	**107,357**
Equity	-	-	-	-	-	494,616	**494,616**
	2,206,793	775,501	1,265,398	103,366	185,282	982,215	**5,518,555**
On-balance sheet interest sensitivity gap	(1,306,459)	(365,345)	(351,539)	1,127,785	1,648,497	(752,939)	**-**
Net balance of derivative financial instruments	1,603,351	179,000	43,400	(1,013,201)	(812,550)	-	**-**
Total interest rate sensitivity gap	**296,892**	**(186,345)**	**(308,139)**	**114,584**	**835,947**	**(752,939)**	**-**

All in $000's

A2. Additional financial disclosures (continued)

A2.6 Additional information on liquidity risk

Maturity analysis of financial liabilities

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

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

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

Monetary liabilities payable as at 30 September 2022 (contractual cash flows including expected interest to maturity)

Liabilities	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Redeemable shares	840,284	1,438,952	1,266,005	89,081	39,557	-	**3,673,879**
Deposits from customers	6,028	88,221	25,581	3,674	627	-	**124,131**
Medium term notes	-	-	-	-	179,152	-	**179,152**
Commercial paper	-	347,000	-	-	-	-	**347,000**
Due to other financial institutions	-	118,773	314,355	107,287	69,651	-	**610,066**
Derivative financial instruments							
- cash outflows	-	24,546	15,457	41,192	12,019	36	**93,250**
- cash inflows	-	(14,795)	(24,291)	(63,788)	(16,853)	(306)	**(120,033)**
Other liabilities	66,265	-	-	-	-	-	**66,265**
Subordinated redeemable shares	-	19,435	-	-	-	124,367	**143,802**
Total liabilities (inclusive of interest)	**912,577**	**2,022,132**	**1,597,107**	**177,446**	**284,153**	**124,097**	**5,117,512**
Unrecognised loan commitments	108,577	-	-	-	-	-	**108,577**

Liquidity portfolio management

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

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

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

Core liquid assets	**30/09/2022**
Cash on hand and at bank	54,674
Funds with financial institutions	28,004
Investment securities	505,899
Committed and undrawn funding lines[2]	250,025
Eligible RMBS collateral (less haircut[1])[3]	149,788
Total liquidity	**988,390**

[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 $27.8 million available funding, not included as core liquid assets, in two of the securitisation vehicles. This is subject to having sufficient assets available to be securitised and has therefore not been included.

[3] Refer to Note 4 - Financial Assets Pledged as Collateral for funding drawn down against eligible RMBS collateral.

All in $000's

A2. Additional financial disclosures (continued)

A2.7 Reconciliation of mortgage-related amounts

	30/09/2022
Gross residential mortgage loans (Note 5)	3,777,171
Other lending residentially secured	38,193
Provision for credit impairment relating to residential mortgages (Note 6(b))	(10,672)
Deferred fee revenue and expenses relating to residential mortgages	13,187
Residential mortgage loans net of provision for impairment	3,817,879
Off balance sheet exposures - undrawn commitments	272,499
Total on and off balance sheet residential mortgage loans (Note A4)	**4,090,378**

A3. Asset quality

This section should be read in conjunction with the estimates, assumptions and judgements included in Note 1 - Significant Accounting Policies, Note 6 - Asset Quality and Provisions for Credit Impairment and Note 9 - Credit Risk.

A3.1 Movement in provisions and gross exposures

	Expected Credit Losses			Specific Provision	
As at 30 September 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Residential Mortgages					
Movement in provision relating to advances to customers					
Balance at beginning of period	5,975	3,374	665	353	10,367
Changes to the opening balance due to transfer between stages	1,227	(1,396)	169	-	-
New provisions	527	284	60	-	871
Assets derecognised and payments made	(2,023)	1,516	(59)	-	(566)
Balance at end of period - Residential Mortgages	**5,706**	**3,778**	**835**	**353**	**10,672**
Movement in provision relating to undrawn commitments					
Balance at beginning of period	355	3	5	-	363
Changes to the opening balance due to transfer between stages	-	-	-	-	-
New provisions	12	-	-	-	12
Assets derecognised and payments made	(50)	-	-	-	(50)
Balance at end of period - Residential Mortgages	**317**	**3**	**5**	**-**	**325**

Movement in gross exposures on loss allowances	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of period	3,740,449	27,766	3,833	3,772,048
Changes to the opening balance due to transfer between stages:				
Transferred to Stage 1	11,174	(11,027)	(147)	-
Transferred to Stage 2	(29,830)	30,663	(833)	-
Transferred to Stage 3	(2,323)	(1,823)	4,146	-
New loans	581,891	2,104	25	584,020
Assets derecognised and payments made	(385,513)	(5,903)	(956)	(392,372)
Other movements	20,664	358	73	21,095
Gross exposure - Residential Mortgages	**3,936,512**	**42,138**	**6,141**	**3,984,791**
Provision for credit impairment	(5,706)	(3,778)	(1,188)	(10,672)
Net exposure - Residential Mortgages	**3,930,806**	**38,360**	**4,953**	**3,974,119**

Impact of changes in gross exposures

Overall, credit impairment provisions for residential mortgages increased $0.3 million (2.9%) for the six months ending 30 September 2022, mainly due to increase in the loan book gross exposure of $213 million, particularly in the Stage 2 and Stage 3 gross exposures, which increased 51.8% and 60.2% respectively.

All in $000's

A3. Asset quality (continued)

A3.1 Movement in provisions and gross exposures (continued)

Retail Exposures	Expected Credit Losses Stage 1	Expected Credit Losses Stage 2	Expected Credit Losses Stage 3	Specific Provision Stage 3	Total
Movement in provision relating to advances to customers					
Balance at beginning of period	12,659	4,486	1,679	-	18,824
Changes to the opening balance due to transfer between stages	1,624	(1,458)	(166)	-	-
New provisions	4,278	3,071	1,611	-	8,960
Assets derecognised and payments made	(4,545)	(2,276)	(1,253)	-	(8,074)
Balance at end of period - Retail Exposures	**14,016**	**3,823**	**1,871**	**-**	**19,710**
Movement in provision relating to undrawn commitments					
Balance at beginning of period	2,315	-	-	-	2,315
Changes to the opening balance due to transfer between stages	(19)	10	9	-	-
New provisions	250	(10)	(9)	-	231
Assets derecognised and payments made	(502)	-	-	-	(502)
Balance at end of period - Retail Exposures	**2,044**	**-**	**-**	**-**	**2,044**

Movement in gross exposures on loss allowances	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	782,871	7,975	1,885	792,731
Changes to the opening balance due to transfer between stages:				
Transferred to Stage 1	2,938	(2,637)	(301)	-
Transferred to Stage 2	(5,584)	5,623	(39)	-
Transferred to Stage 3	(1,693)	(255)	1,948	-
New loans	288,283	613	118	289,014
Assets derecognised and payments made	(180,805)	(4,336)	(1,491)	(186,632)
Gross exposure - Retail Exposures	**886,010**	**6,983**	**2,120**	**895,113**
Provision for credit impairment	(14,016)	(3,823)	(1,871)	(19,710)
Net exposure - Retail Exposures	**871,994**	**3,160**	**249**	**875,403**

Impact of changes in gross exposure

Overall, credit impairment provisions for retail exposures increased $0.8 million (4.7%) for the six months ending 30 September 2022, mainly due to increase in the loan book gross exposure of $102 million (12.9%), with asset quality remaining fairly constant during the period.

All in $000's

A3. Asset quality (continued)

A3.1 Movement in provisions and gross exposures (continued)

Corporate Exposures	Expected Credit Losses Stage 1	Expected Credit Losses Stage 2	Expected Credit Losses Stage 3	Specific Provision Stage 3	Total
Movement in provision relating to advances to customers					
Balance at beginning of period	1,395	1,276	238	220	3,129
Changes to the opening balance due to transfer between stages	70	(244)	174	-	-
New provisions	291	128	205	-	624
Charge/(credit) to income statement excluding transfers	(153)	25	(11)	-	(139)
Assets derecognised and payments made	(189)	(40)	(132)	-	(361)
Balance at end of period - Corporate Exposures	**1,414**	**1,145**	**474**	**220**	**3,253**
Movement in provision relating to undrawn commitments					
Balance at beginning of period	565	70	-	-	635
Changes to the opening balance due to transfer between stages	(3)	3	-	-	-
New provisions	3	-	-	-	3
Assets derecognised and payments made	(148)	(40)	-	-	(188)
Balance at end of period - Corporate Exposures	**417**	**33**	**-**	**-**	**450**

Movement in gross exposures on loss allowances	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	184,567	44,164	497	229,228
Changes to the opening balance due to transfer between stages:				
Transferred to Stage 1	708	(670)	(38)	-
Transferred to Stage 2	(1,490)	1,490	-	-
Transferred to Stage 3	(119)	(591)	710	-
New loans	19,166	101	11	19,278
Assets derecognised and payments made	(34,529)	(11,348)	(164)	(46,041)
Other movements	3,555	24	(112)	3,467
Gross exposure - Corporate Exposures	**171,858**	**33,170**	**904**	**205,932**
Provision for credit impairment	(1,414)	(1,145)	(694)	(3,253)
Net exposure - Corporate Exposures	**170,444**	**32,025**	**210**	**202,679**

Impact of changes in gross exposures
Overall, credit impairment provisions for corporate exposures increased by $0.1 million (4.0%) for the six months ending 30 September 2022, mainly due to an increase of 81.9% of Stage 3 exposures, set off by a decrease in overall gross exposure of $23.3 million (10.2%).

A3.2 Past due assets

As at 30 September 2022	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Past due 0-9 days	15,815	25,544	957	**42,316**
Past due 10-29 days	10,328	9,718	336	**20,382**
Past due 0-29 days	26,143	35,262	1,293	**62,698**
Past due 30-59 days	2,568	4,431	1,464	**8,463**
Past due 60-89 days	1,824	2,125	94	**4,043**
Past due 90+ days	5,143	1,914	754	**7,811**
Carrying amount	**35,678**	**43,732**	**3,605**	**83,015**

All in $000's

A3. Asset quality (continued)

A3.3 Movement in individually impaired assets

As at 30 September 2022	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Balance at beginning of the period	947	-	262	**1,209**
Additions to individually impaired assets	26	-	29	**55**
Reductions to individually impaired assets	(3)	-	(139)	**(142)**
Balance at end of the period	**970**	**-**	**152**	**1,122**
Specific provision at end of the period	(353)	-	(220)	**(573)**
Net carrying amount at end of the period	**617**	**-**	**(68)**	**549**

A3.4 Other asset quality information

	30/09/2022
Undrawn balances on individually impaired lending commitments	-
Other assets under administration	-

A4. Capital adequacy under the standardised approach, and regulatory liquidity ratios

A4.1 Regulatory capital ratios	Minimum ratio requirement	BANKING GROUP 30/09/2022	BANKING GROUP 30/09/2021	BANKING GROUP 31/03/2022	REGISTERED BANK 30/09/2022	REGISTERED BANK 30/09/2021	REGISTERED BANK 31/03/2022
Common equity tier 1 capital ratio	4.5%	12.5%	13.5%	13.1%	10.1%	11.4%	10.8%
Tier 1 capital ratio	6.0%	12.5%	13.5%	13.1%	10.1%	11.4%	10.8%
Total capital ratio	8.0%	14.6%	16.3%	15.4%	12.8%	14.8%	13.7%
Prudential capital buffer ratio	2.5%	6.5%	7.5%	7.1%			

A4.2 Qualifying capital

	BANKING GROUP 30/09/2022
Tier one capital	
Common equity tier 1 (CET1) capital	
Retained earnings	431,129
Current period's retained earnings	17,957
FVOCI reserve	(19,419)
Cash flow hedging reserve	62,907
Less deductions from CET1 capital	
Goodwill and intangible assets	(10,111)
Cash flow hedging reserve	(62,907)
Investments in associates	(9,950)
Total CET1 capital	409,606
Additional tier 1 (AT1) capital	
Non-controlling interests (net of deductions and surplus AT1 capital) (Capital in nature)	-
Total AT1 capital	-
Total tier 1 capital	**409,606**
Tier 2 capital	
Revaluation reserves	2,042
Subordinated redeemable shares	67,291
Total tier 2 capital	**69,333**
Total capital	**478,939**

At 30 September 2022, the balance of all subordinated redeemable shares issued was $106.8 million. After adjustments for potential tax or other offsets, $67.3 million has been recognised as tier 2 capital for RBNZ capital adequacy purposes.

All in $000's

A4. Capital adequacy under the standardised approach, and regulatory liquidity ratios (continued)

A4.3 Total risk weighted assets

BANKING GROUP as at 30 September 2022

On balance sheet credit exposures	**Total exposure after credit risk mitigation**	**Risk weighting**	**Risk weighted exposure**	**Minimum pillar one capital requirement**
Cash	544	0%	-	-
Multilateral development banks	100,894	0%	-	-
Public sector entities	75,668	20%	15,134	1,211
Banks	110,133	20%	22,027	1,762
Banks	278,754	50%	139,377	11,150
Corporates				
Rating grade 1	7,226	20%	1,445	116
Rating grade 2	4,372	50%	2,186	175
Rating grade 3 - 4	8,229	100%	8,229	658
Rating grade 5	485	150%	728	58
Residential mortgages				
<= 80% loan to value ratio (LVR)	2,133,564	35%	746,747	59,740
80 <= 90% LVR	70,115	50%	35,058	2,805
90 <= 100% LVR	1,899	75%	1,424	114
> 100% LVR	43	100%	43	3
Past due	4,834	100%	4,834	387
Impaired	618	100%	618	49
Property investment residential mortgage				
<= 80% LVR	1,019,650	40%	407,860	32,629
Residential mortgages first home loans				
<= 90% LVR	416,761	35%	145,866	11,669
90 <= 100% LVR	88,360	50%	44,180	3,534
Past due	-	100%	-	-
Reverse residential mortgage loans				
<= 60% LVR	80,446	50%	40,223	3,218
60 <= 80% LVR	1,589	80%	1,271	102
80 <= 100% LVR	-	100%	-	-
Equity holdings	2,274	300%	6,822	546
Other assets	982,054	100%	982,054	78,564
Non-risk weighted assets	130,043	0%	-	-
Total on balance sheet credit exposures	5,518,555		2,606,126	208,490

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**	**Minimum pillar one capital requirement**
Commitments with uncertain drawdown	108,577	50%	54,289	72%	38,916	3,113
Commitments to extend credit which can be unconditionally cancelled	364,350	0%	-	0%	-	-
Market related contracts[1]						
Interest rate contracts	4,370,452	n/a	121,362	35%	42,059	3,365
Credit valuation adjustment (CVA)					3,291	263
Total off balance sheet credit exposures	4,843,379		175,651		84,266	6,741
Total credit risk	10,361,934		175,651		2,690,392	215,231
Operational risk	n/a				311,458	24,917
Market risk	n/a				275,072	22,006
Total risk weighted assets	10,361,934				3,276,922	262,154

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

All in $000's

A4. Capital adequacy under the standardised approach, and regulatory liquidity ratios (continued)

A4.4 Additional mortgage information

	BANKING GROUP	
	30/09/2022	30/09/2022
LVR range	On balance sheet	Off balance sheet
0 - 80%	3,354,617	255,343
80 - 90%	372,336	7,858
90% +	90,926	9,298
Total residential mortgages	**3,817,879**	**272,499**

First Home Loans make up 97% of the residential mortgages in the 90% + loan to valuation grouping and 81% of the 80 - 90% loan to valuation grouping. The First Home Loan product is fully insured by Kāinga Ora - Homes and Communities.

A4.5 Credit risk mitigation

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

The Banking Group's dominant activity is the provision of residential mortgage finance which comprises 80% (31 March 2022 81%) 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.

A4.6 Market risk capital charges

Market risk exposures have been calculated in accordance with the methodology detailed in the RBNZ's Banking Prudential Requirements document BPR140 - Market Risk, 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	
	30/09/2022	30/09/2022
Interest rate exposures	End of Period	Peak End of Day
Implied risk weighted exposure	275,072	277,063
Aggregate capital charge	22,006	22,165

A4.7 Capital for other material risks

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

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

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

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

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

The Bank has made an internal capital allocation of $45 million to cover these identified risks (30 September 2021 $30 million; 31 March 2022 $30 million).

All in $000's

A4. Capital adequacy under the standardised approach, and regulatory liquidity ratios (continued)

A4.8 Regulatory liquidity ratios

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

	30/09/2022	30/06/2022
One-week mismatch ratio	8.8%	8.5%
One-month mismatch ratio	13.2%	12.2%
Core funding ratio	96.0%	94.0%

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 and subsequent internal review.

A5. Concentration of credit exposures to individual counterparties

The Banking Group's disclosure of concentrations of credit exposure to individual counterparties and groups of closely related counterparties, which equalled or exceeded 10% of the Banking Group's Common Equity Tier 1 capital, is based on actual credit exposures and calculated on a gross basis (net of specific provisions). Peak end of day credit exposures to individual counterparties are calculated since the last disclosure statement using the Banking Group's end of period Common Equity Tier 1 capital.

The individual counterparty exposures included in the following table exclude exposures to:
- connected persons;
- the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent; and
- any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

	Number of bank counterparties		Number of non-bank counterparties	
	Unaudited	Unaudited	Unaudited	Unaudited
"A" Rated exposures	As at	Peak end of day over 6 months to	As at	Peak end of day over 6 months to
Percentage of common equity tier 1	30/09/2022	30/09/2022	30/09/2022	30/09/2022
10-14%	1	1	-	1
15-19%	1	1	-	-
20-24%	-	-	-	-
25-29%	-	-	-	-
30-34%	1	1	-	-
35-39%	-	-	-	-
40-44%	-	-	-	-
45-49%	1	-	-	-
50-54%	-	1	-	-

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

There were no peak or balance date credit exposures to bank or non-bank counterparties with a credit rating below A- or A3, or its equivalent, which exceeded 10% of the Banking Group's equity for the six months ended 30 September 2022.

A6. Insurance business, securitisation, fund management, other fiduciary activities, and marketing and distribution of insurance products

A6.1 Insurance Business

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

The total assets of Southsure Assurance Limited as at 30 September 2022 are $25.3 million which is 0.5% of the total assets of the Banking Group.

Independent Review Report

To the members of Southland Building Society

Report on the disclosure statement

Conclusion

Based on our review of the disclosure statement and supplementary information of the Southland Building Society (the "Registered Bank") and its subsidiaries (the 'Banking Group') on pages 5 to 29, nothing has come to our attention that causes us to believe that:

i. the disclosure statement do not present fairly in all material respects the Banking Group's financial position as at 30 September 2022 and its financial performance and cash flows for the 6 month ended on that date;

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

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

iv. the supplementary information relating to capital adequacy and regulatory liquidity requirements, has not been, in all material respects, disclosed in accordance with Schedule 9 of the Order.

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

- the disclosure statement formed of:
  - the consolidated statement of financial position as at 30 September 2022;
  - the consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
  - notes, including a summary of significant accounting policies and other explanatory information.
- the supplementary information prescribed in Schedules 5, 7, 9, 13, 16 and 18 of the Order.

Basis for conclusion

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

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

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

Emphasis of Matter – RBNZ Liquidity Thematic Review

We draw attention to Note A4.8 Regulatory 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 A4.8 Regulatory liquidity ratios, the Banking Group was included within this review, and received specific findings and is currently working through a remediation plan to address these findings.

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

Use of this independent review report

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

Responsibilities of the Directors for the disclosure statement

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

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

Auditor's responsibilities for the review of the disclosure statement

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

- the consolidated interim financial statements do not present fairly in all material respects the Banking Group's financial position as at 30 September 2022 and its financial performance and cash flows for the 6 month ended on that date;
- the consolidated interim financial statements do not, in all material respects, comply with NZ IAS 34;
- the supplementary information does not, fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order; and
- the supplementary information relating to capital adequacy and regulatory liquidity requirements is not disclosed, in all material respects, in accordance with Schedule 9 of the Order.

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

KPMG

KPMG
Wellington

22 November 2022