Southland Building Society

Disclosure Statement

For the six months ended 30 September 2023

Number 51 Issued November 2023

Southland Building Society
Contents

Disclosure Statement for the six months ended 30 September 2023

Registered Bank Disclosures for the six months ended 30 September 2023

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

Symbols

Specific accounting policy

Accounting estimates and areas of judgement

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 2023:
   (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 29 November 2023 and has been signed by or on behalf of all the directors.

AJ O'Connell (Chairman)

SJ Brown

MJ Skilling (Deputy Chair)

PRN Ellison

MP O'Connor

LM Robertson

KJ Murphy

Southland Building Society

Income Statement for the six months ended 30 September 2023

All in $000's

	Note	Unaudited 6 Months 30/09/2023	Unaudited 6 Months 30/09/2022	Audited 12 Months 31/03/2023
Interest income		206,242	121,864	287,452
Interest expense		40,609	18,015	48,466
Dividends on redeemable shares		91,926	35,619	98,326
		132,535	53,634	146,792
Net interest income		**73,707**	**68,230**	**140,660**
Net fee and commission income	(A2.2)	**13,117**	**12,356**	**24,557**
Other income	(A2.2)	2,196	2,686	5,766
Total operating income		**89,020**	**83,272**	**170,983**
Operating expenses		59,985	52,583	106,557
Credit impairment losses	(6(d))	8,121	6,309	12,671
Operating surplus		**20,914**	**24,380**	**51,755**
Net gain/(loss) from financial instruments at FVTPL	(A2.2)	899	(242)	(32)
Share of associates profit net of tax		789	807	1,230
Surplus before income tax		**22,602**	**24,945**	**52,953**
Less income tax expense		6,435	6,988	14,711
Net surplus		**16,167**	**17,957**	**38,242**
Attributable to:				
Members' interests		16,167	17,957	38,242
Non-controlling interests		-	-	-
		16,167	**17,957**	**38,242**

Southland Building Society

Statement of Comprehensive Income for the six months ended 30 September 2023

All in $000's

	Unaudited 6 Months 30/09/2023	Unaudited 6 Months 30/09/2022	Audited 12 Months 31/03/2023
Net surplus for the period	16,167	17,957	38,242
Items that may not be reclassified subsequently to profit or loss			
Net change in property, plant and equipment reserve, net of tax	-	-	295
Items that may be reclassified subsequently to profit or loss			
Net change in FVOCI reserve, net of tax	(1,484)	(5,257)	(1,718)
Net change in cash flow hedging reserve, net of tax	2,731	18,964	6,415
Other comprehensive income for the period, net of tax	1,247	13,707	4,992
Total comprehensive income for the period	**17,414**	**31,664**	**43,234**
Attributable to:			
Members' interests	17,414	31,664	43,234
Non-controlling interests	-	-	-
	17,414	**31,664**	**43,234**

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 2023

All in $000's

		Reserves					
As at 30 September 2023 (Unaudited)	Retained earnings	Property, plant and equipment	FVOCI	Cash flow hedging	Total equity attributable to members' interests	Non-controlling interests	Total equity
Balance as at 31 March 2023	469,371	2,337	(15,880)	50,358	506,186	-	**506,186**
Net surplus for the period	16,167	-	-	-	16,167	-	**16,167**
Other comprehensive income for the period							
Revaluation/change in fair value	-	-	(2,061)	3,753	1,692	-	**1,692**
Current/deferred tax impact	-	-	577	(1,022)	(445)	-	**(445)**
Total comprehensive income for the period	16,167	-	(1,484)	2,731	17,414	-	**17,414**
Dividends paid	-	-	-	-	-	-	**-**
Balance as at 30 September 2023	**485,538**	**2,337**	**(17,364)**	**53,089**	**523,600**	**-**	**523,600**
As at 30 September 2022 (Unaudited)							
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 31 March 2023 (Audited)							
Balance as at 31 March 2022	431,129	2,042	(14,162)	43,943	462,952	-	**462,952**
Net surplus for the year	38,242	-	-	-	38,242	-	**38,242**
Other comprehensive income for the year							
Revaluation/change in fair value	-	402	(2,386)	8,883	6,899	-	**6,899**
Current/deferred tax impact	-	(107)	668	(2,468)	(1,907)	-	**(1,907)**
Total comprehensive income for the year	38,242	295	(1,718)	6,415	43,234	-	**43,234**
Transfer from revaluation reserve	-	-	-	-	-	-	**-**
Dividends paid	-	-	-	-	-	-	**-**
Balance as at 31 March 2023	469,371	2,337	(15,880)	50,358	506,186	-	**506,186**

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 2023

All in $000's

	Note	Unaudited 30/09/2023	Unaudited 30/09/2022	Audited 31/03/2023
Assets				
Cash on hand and at bank		47,506	54,674	55,005
Funds with financial institutions and central bank		11,554	28,004	128,411
Investment securities		613,589	505,899	574,722
Derivative financial instruments		106,151	109,983	95,966
Current tax assets		-	1,396	-
Advances to customers	(5)	5,341,035	4,700,702	5,024,728
Investments in associates		10,756	9,950	10,515
Other assets		77,025	57,712	67,469
Property, plant and equipment		18,759	18,828	18,956
Right-of-use assets		20,312	21,296	19,370
Goodwill and intangible assets		9,697	10,111	9,614
		6,256,384	**5,518,555**	**6,004,756**
Liabilities				
Redeemable shares		4,136,043	3,620,744	4,096,601
Deposits from customers		72,584	119,102	69,007
Medium term notes	(11)	319,456	148,745	148,924
Commercial paper		345,963	344,720	346,284
Due to other financial institutions		685,542	585,233	668,065
Derivative financial instruments		24,649	16,844	18,850
Current tax liabilities		2,027	-	5,044
Deferred tax liabilities		8,615	14,929	11,026
Other liabilities		66,262	66,265	70,548
Subordinated redeemable shares		71,643	107,357	64,221
		5,732,784	**5,023,939**	**5,498,570**
Net assets		**523,600**	**494,616**	**506,186**
Equity				
Reserves		38,062	45,530	36,815
Retained earnings		485,538	449,086	469,371
Attributable to members of the society		523,600	494,616	506,186
Attributable to non-controlling interests		-	-	-
		523,600	**494,616**	**506,186**

For and on behalf of the Board of Directors:

Chairman
AJ O'Connell

Deputy Chair
MJ Skilling

29 November 2023

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 2023

All in $000's

	Unaudited 6 Months 30/09/2023	Unaudited 6 Months 30/09/2022	Audited 12 Months 31/03/2023
Cash flows from operating activities			
Interest and dividends received	203,179	114,016	278,036
Interest and dividends paid	(116,491)	(42,391)	(116,097)
Other cash inflows provided by operating activities	24,050	19,203	46,048
Other cash outflows used in operating activities	(92,172)	(75,986)	(149,338)
Net cash flows from operating activities before changes in operating assets and liabilities	18,566	14,842	58,649
Net changes in operating assets and liabilities	(98,717)	(61,694)	61,427
Net cash flows provided by/(used in) operating activities	**(80,151)**	**(46,852)**	**120,076**
Cash flows from investing activities			
Cash inflows provided by investing activities	1,429	644	2,758
Cash outflows used in investing activities	(43,034)	(20,248)	(84,657)
Net cash flows provided by/(used in) investing activities	**(41,605)**	**(19,604)**	**(81,899)**
Cash flows from financing activities			
Cash inflows provided by financing activities	-	-	-
Cash outflows used in financing activities	(1,715)	(1,879)	(3,560)
Net cash flows provided by/(used in) financing activities	**(1,715)**	**(1,879)**	**(3,560)**
Net increase/(decrease) in cash held	(123,471)	(68,335)	34,617
Add opening cash and cash equivalents	181,473	146,856	146,856
Closing cash and cash equivalents	**58,002**	**78,521**	**181,473**
Reconciliation of cash and cash equivalents			
Cash on hand and at bank	47,506	54,674	55,005
Funds with financial institutions and central bank	10,538	23,904	126,535
Interest accrued	(42)	(57)	(67)
	58,002	**78,521**	**181,473**
Reconciliation of net surplus to net operating cash flows			
Net surplus for period	16,167	17,957	38,242
Non-cash items	6,612	11,005	19,165
Deferral or accruals of past or future operating cash receipts or payments	(102,955)	(75,789)	62,704
Items classified as cash	25	(25)	(35)
Net cash flows from operating activities	**(80,151)**	**(46,852)**	**120,076**

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

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 29 November 2023.

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 2023.

(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 2023, except for the following.

Hedge accounting

Since 31 March 2023, the Banking Group has adopted fair value hedge accounting. The Banking Group uses interest rate swaps to hedge the fair value of fixed rate bonds held and issued, in addition to the forecast interest rate flows from floating loans and deposits.

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 2023.

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 2023, no investments were encumbered through repurchase agreements (30 September 2022 $nil).

Funding for lending program

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

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

As at 30 September 2023, the Bank had drawn down $246 million, which is included in 'Due to other financial institutions' in the statement of financial position. A total of $316 million of residential mortgage-backed securities ("RMBS") have been pledged as approved collateral in relation to the amount currently drawn down.

All in $000's

5. Advances to Customers

	Note	Unaudited 30/09/2023	Unaudited 30/09/2022	Audited 31/03/2023
Residential		4,201,715	3,777,171	4,001,176
Agricultural		47,387	73,537	51,834
Commercial		114,342	99,479	110,897
Consumer		1,002,694	775,779	885,677
Gross advances		**5,366,138**	**4,725,966**	**5,049,584**
Provisions for credit impairment	(6(b))	(35,624)	(33,635)	(34,499)
Deferred fee revenue and expenses		10,521	8,371	9,643
Total net advances		**5,341,035**	**4,700,702**	**5,024,728**

Included in advances to customers are $88.9 million (30 September 2022 $83.0 million, 31 March 2023 $87.9 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 2023	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Neither past due or impaired	4,172,774	917,992	153,786	**5,244,552**
Individually impaired	498	-	-	**498**
Past due	44,599	81,406	5,604	**131,609**
Provision for credit impairment	(9,980)	(23,051)	(2,593)	**(35,624)**
Carrying amount	**4,207,891**	**976,347**	**156,797**	**5,341,035**

- **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 2023	**Note**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Residential mortgages		4,649	4,202	929	200	9,980
Retail exposures		13,372	6,403	3,276	-	23,051
Corporate exposures		891	531	1,171	-	2,593
Total advances to customers	(5)	18,912	11,136	5,376	200	35,624
Residential mortgages		194	4	2	-	200
Retail exposures		1,387	-	-	-	1,387
Corporate exposures		279	12	-	-	291
Total off-balance sheet credit related commitments		1,860	16	2	-	1,878
Funds with financial institutions		3	-	-	-	3
Investment securities		253	-	-	-	253
		21,028	**11,152**	**5,378**	**200**	**37,758**
As at 30 September 2022						
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 31 March 2023						
Residential mortgages		5,270	3,354	1,637	503	10,764
Retail exposures		12,970	5,544	2,942	-	21,456
Corporate exposures		1,075	573	631	-	2,279
Total advances to customers	(5)	19,315	9,471	5,210	503	34,499
Residential mortgages		237	3	4	-	244
Retail exposures		1,480	-	-	-	1,480
Corporate exposures		406	21	-	-	427
Total off-balance sheet credit related commitments		2,123	24	4	-	2,151
Funds with financial institutions		-	-	-	-	-
Investment securities		255	-	-	-	255
		21,693	**9,495**	**5,214**	**503**	**36,905**

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	19,315	9,471	5,210	503	34,499
Changes to the opening balance due to transfer between stages:					
Transferred to collective provision 12-months ECL	4,620	(3,966)	(654)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(628)	1,024	(396)	-	-
Transferred to collective provision lifetime ECL credit impaired	(178)	(607)	785	-	-
New provisions	4,905	5,825	3,010	-	13,740
Charge/(credit) to income statement excluding transfers	(3,376)	2,241	(185)	(303)	(1,623)
Assets derecognised and payments made	(5,746)	(2,852)	(2,394)	-	(10,992)
	18,912	**11,136**	**5,376**	**200**	**35,624**
Credit related commitments					
Balance at the beginning of the period	2,123	24	4	-	2,151
Changes to the opening balance due to transfer between stages:					
Transferred to collective provision 12-months ECL	(20)	20	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(9)	-	9	-	-
Transferred to collective provision lifetime ECL credit impaired	(2)	-	2	-	-
New provisions	285	(21)	(9)	-	255
Charge/(credit) to income statement excluding transfers	(194)	(7)	(4)	-	(205)
Assets derecognised and payments made	(323)	-	-	-	(323)
	1,860	**16**	**2**	**-**	**1,878**

(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 30/09/2023	Unaudited 30/09/2022	Audited 31/03/2023
Bad debts written off/recovered during the period	7,269	5,512	11,648
Individual provisions charge/(release)	(303)	-	(70)
Collective provision charge/(release)	1,155	821	1,086
Other credit provisions charge/(release)	-	(24)	7
Provision for credit impairment to income statement	**8,121**	**6,309**	**12,671**

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 5.2%	+/- 1%	3,073	(3,113)
- GDP	as low as 0%	+/- 1%	(2,018)	2,029
- House price	-20%	+/- 10%	(479)	442

7. Contingent Liabilities and Credit Related Commitments

	Unaudited Contract or Notional Amt 30/09/2023	Unaudited Credit Equivalent 30/09/2023	Unaudited Contract or Notional Amt 30/09/2022	Unaudited Credit Equivalent 30/09/2022	Audited Contract or Notional Amt 31/03/2023	Audited Credit Equivalent 31/03/2023
Credit related commitments						
Commitments with uncertain drawdown	126,142	63,071	108,577	54,289	137,008	68,504
Commitments to extend credit which can be unconditionally cancelled	327,894	-	364,350	-	351,726	-
Total credit related commitments	**454,036**	**63,071**	**472,927**	**54,289**	**488,734**	**68,504**

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 March 2023, the investment in Raizor New Zealand Limited was converted to Raizor Global Limited shares, with effective shareholding of 16%. This investment is being accounted for as an associate company under the equity method of accounting as the Banking Group does not have control over the financial and operating policies, but has significant influence via representation on the Board.

At 30 September 2023 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 79% (30 September 2022 80%; 31 March 2023 80%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Agricultural loans which comprise 1% (30 September 2022 2%; 31 March 2023 1%) of the Banking Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

(a) The maximum exposures to credit risk

	Unaudited 30/09/2023	Unaudited 30/09/2022	Audited 31/03/2023
Cash on hand and at bank	47,506	54,674	55,005
Funds with financial institutions and central bank	11,554	28,004	128,411
Investment securities	613,589	505,899	574,722
Derivative financial instruments	106,151	109,983	95,966
Current tax assets	-	1,396	-
Advances to customers	5,341,035	4,700,702	5,024,728
Other assets	77,025	57,712	67,469
Total on-balance sheet credit exposures	**6,196,860**	**5,458,370**	**5,946,301**
Off balance sheet exposures - undrawn commitments	454,036	472,927	488,734
Total credit exposures	**6,650,896**	**5,931,297**	**6,435,035**

(b) Concentrations of credit risk by geographical location

	Unaudited 30/09/2023	Unaudited 30/09/2022	Audited 31/03/2023
Auckland	1,651,505	1,431,867	1,536,740
North Island other	1,788,856	1,449,998	1,747,027
Canterbury	1,319,493	1,226,298	1,291,452
Otago	777,148	739,236	776,928
Southland	731,754	723,522	719,610
South Island other	261,036	259,332	261,194
Overseas	121,104	101,044	102,084
Total concentrations of credit risk by geographical location	**6,650,896**	**5,931,297**	**6,435,035**

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 30/09/2023	Unaudited Fair value 30/09/2023	Unaudited Carrying value 30/09/2022	Unaudited Fair value 30/09/2022	Audited Carrying value 31/03/2023	Audited Fair value 31/03/2023
Financial assets						
Advances to customers	5,252,128	5,184,528	4,617,750	4,550,088	4,936,854	4,871,410
Total financial assets	**5,252,128**	**5,184,528**	**4,617,750**	**4,550,088**	**4,936,854**	**4,871,410**
Financial liabilities						
Redeemable shares	4,136,043	4,132,844	3,620,744	3,612,875	4,096,601	4,090,097
Deposits from customers	72,584	72,463	119,102	118,287	69,007	68,782
Medium term notes	319,456	311,878	148,745	148,670	148,924	143,929
Subordinated redeemable shares	71,643	68,095	107,357	107,553	64,221	59,185
Total financial liabilities	**4,599,726**	**4,585,280**	**3,995,948**	**3,987,385**	**4,378,753**	**4,361,993**

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 30/09/2023 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	106,151	-	**106,151**
Investment securities	2,291	611,551	-	**613,842**
Advances to customers - REM	-	-	88,907	**88,907**
Total financial assets	**2,291**	**717,702**	**88,907**	**808,900**
Financial liabilities				
Derivative financial instruments	-	24,649	-	**24,649**
Total financial liabilities	**-**	**24,649**	**-**	**24,649**

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 - REM	-	-	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 31/03/2023 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	95,966	-	**95,966**
Investment securities	2,280	572,697	-	**574,977**
Advances to customers - REM	-	-	87,874	**87,874**
Total financial assets	**2,280**	**668,663**	**87,874**	**758,817**
Financial liabilities				
Derivative financial instruments	-	18,850	-	**18,850**
Total financial liabilities	**-**	**18,850**	**-**	**18,850**

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.

All in $000's

11. Funding

During September 2023, the Bank issued the SBS Senior Bonds (2023), unsecured, senior, fixed rate, medium term debt securities. As at 30 September, 2023 the notes carried a BBB+ credit rating from Fitch Ratings.

Issue date	7 September 2023
Issue amount	Issue amount: $175 million
Face value	$1
Interest frequency	Quarterly in arrears
Interest rate	Fixed at 6.14%
Maturity	7 March 2029

12. Subsequent Events

There have been no material subsequent events after 30 September 2023.

All in $000's

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:
- Linda Robertson was appointed effective 1 April 2023;
- Greg Mulvey resigned during July 2023.

A1.3 Auditors

KPMG
Level 6, 44 Bowen Street
Wellington

A1.4 Conditions of Registration

Changes to the Bank's Conditions of Registration during the period

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 1 June 2023, the following changes to Loan-Value restrictions (LVRs) came into effect:

From:	10% limit for loans with LVR above 80% for owner occupiers, and 5% limit for loans with LVR above 60% for investors
To:	15% limit for loans with LVR above 80% for owner occupiers, and 5% limited for loans with LVR above 65% for investors.

Changes to the Bank's Conditions of Registration after period end

Effective 1 October 2023, the following changes came into effect in the Bank's Conditions of Registration:

Mutual Capital Instruments

The Conditions of Registration is updated to refer to the updated BPR110 and BPR120, which has been updated to provide additional capital raising options for mutual banks.

Risk Weights Omnibus

The Conditions of Registration is updated to refer to the updated BPR001, BPR130, BPR131, BRP132 and BPR133, which have been updated to reflect various changes to risk weight buckets.

Effective 1 April 2024, the following change comes into effect in the Bank's Conditions of Registration:

Connected Exposures

Paragraph 4 of the Bank's Conditions of Registration has been updated to reflect the revised wording on limits on connected exposures and to refer to an updated version of BS8, which will come into effect on 1 April 2024.

Material non-compliance with Conditions of Registration

The Reserve Bank's Liquidity Thematic Review, published in 2021, and an independent PWC review of SBS's liquidity models and associated governance and controls framework in 2022 identified a number of quantitative areas of technical non-compliance where SBS was not calculating the ratios in accordance with BS13, breaching its Conditions of Registration.

The Reserve Bank has assessed the findings of non-compliance with BS13 against the materiality factors outlined in the Guidance on reporting by banks of breaches of regulatory requirements, published in January 2021 and decided that they do not individually constitute a material breach of SBS's Conditions of Registration 11.

While a few of the individual areas of non-compliance resulted in adverse movements in the ratios, the individual and collective impact on the ratios were not significant considering that at no time has SBS been close to breaching its internal and/or minimum regulatory limits.

However, when assessing breaches for materiality the Reserve Bank undertook a consolidated assessment of the findings and has concluded that the findings of non-compliance with BS13 do collectively constitute a material breach of Conditions of Registration 11. Although the liquidity ratios remained well above regulatory minimum requirements, the Reserve Bank considered that collectively the number of individual breaches of Conditions of Registration 11 raise prudential concerns as they are all in relation to a matter that is of the same nature.

SBS has remediated the majority of the findings and continues to work with the Reserve Bank on resolving those remaining.

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.

All in $000's

A1. General disclosures

A1.6 Credit Rating

As at 30 September 2023, the credit rating assigned to Southland Building Society is BBB with a stable outlook, updated from a previous positive outlook. This credit rating is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. This rating was issued by Fitch Ratings on 1 August 2023. The previous credit rating of a positive outlook was issued by Fitch Ratings on 29 July 2021, and reaffirmed on 30 August 2022. The rating is not subject to any qualifications.

A1.7 Other Material Matters

As noted in A1.4 the Registered Bank continues to discuss some issues with the Reserve Bank arising from findings relevant to the Registered 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.

A2. Additional financial disclosures

A2.1 Additional information on the statement of financial position

	30/09/2023
Total interest earning and discount bearing assets	6,013,684
Total interest and discount bearing liabilities	5,315,437
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	315,605

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	**30/09/2023**
Asset management fees	5,608
Lending fees	3,585
Credit card fees	1,027
Current and funding account fees	1,308
Other fee and commission income	1,809
Total fee and commission income	13,337
Fee and commission expense	220
Net fee and commission income	**13,117**
Other operating income	
Net insurance income	1,744
Dividends	35
Sundry income	417
	2,196
Net gain/(loss) from financial instruments	
Investment securities	(14)
Derivative financial instruments	(853)
Hedge ineffectiveness on cash flow hedges	799
Advances to customers	(2,409)
Medium term note	3,376
	899

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:

	30/09/2023
Residential	3,619,700
Residential investing	852,536
Agricultural	62,288
Commercial finance	21,659
Commercial other	100,034
Consumer lending	927,884
Consumer credit card	210,970
Local authority	112,121
NZ registered banks	391,189
Multilateral development banks	101,453
Corporate investments	174,037
Other	77,025
Total concentrations of credit risk by sector	**6,650,896**

A2.4 Additional information on concentrations of funding

(a) Concentrations of funding by product	30/09/2023
Redeemable shares	4,136,043
Deposits from customers	72,584
Medium term note	319,456
Commercial paper	345,963
Due to other financial institutions	685,542
Subordinated redeemable shares	71,643
Total concentrations of funding by product	**5,631,231**

(b) Concentrations of funding by geographical location	30/09/2023
North Island other	1,078,762
Auckland	970,760
Canterbury	971,485
Otago	935,406
Southland	1,124,061
South Island other	417,994
Overseas	132,763
Total concentrations of funding by geographical location	**5,631,231**

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 2023 (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	47,506	-	-	-	-	-	**47,506**
Funds with financial institutions and central bank	10,538	405	611	-	-	-	**11,554**
Investment securities	77,524	38,888	85,695	77,466	334,016	-	**613,589**
Derivative financial instruments	-	-	-	-	-	106,151	**106,151**
Advances to customers	981,468	558,401	1,060,271	1,381,731	1,394,788	(35,624)	**5,341,035**
Other assets	-	-	-	-	-	136,549	**136,549**
	1,117,036	597,694	1,146,577	1,459,197	1,728,804	207,076	**6,256,384**
Liabilities and equity							
Redeemable shares	1,358,358	934,097	1,440,128	64,768	22,898	315,794	**4,136,043**
Deposits from customers	24,391	16,650	27,130	3,341	1,072	-	**72,584**
Medium term notes	-	-	-	-	319,456	-	**319,456**
Commercial paper	296,916	49,047	-	-	-	-	**345,963**
Due to other financial institutions	685,542	-	-	-	-	-	**685,542**
Derivative financial instruments	-	-	-	-	-	24,649	**24,649**
Deferred tax liabilities	-	-	-	-	-	8,615	**8,615**
Other liabilities	-	-	-	-	-	66,262	**66,262**
Subordinated redeemable shares	34,292	1,395	11,200	199	24,557	-	**71,643**
Equity	-	-	-	-	-	523,600	**523,600**
	2,399,499	1,001,189	1,478,458	68,308	367,983	940,947	**6,256,384**
On-balance sheet interest sensitivity gap	(1,282,463)	(403,495)	(331,881)	1,390,889	1,360,821	(733,871)	**-**
Net balance of derivative financial instruments	1,979,250	147,800	(120,500)	(1,403,300)	(603,250)	-	**-**
Total interest rate sensitivity gap	**696,787**	**(255,695)**	**(452,381)**	**(12,411)**	**757,571**	**(733,871)**	**-**

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 2023 (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	759,322	1,877,121	1,506,606	69,471	26,685	-	**4,239,205**
Deposits from customers	4,431	41,205	30,477	3,559	1,234	-	**80,906**
Medium term notes	-	-	-	-	172,672	234,144	**406,816**
Commercial paper	-	349,500	-	-	-	-	**349,500**
Due to other financial institutions	-	125,289	111,416	411,605	95,087	-	**743,397**
Derivative financial instruments							
- cash outflows	-	75,777	38,362	37,296	23,195	1,350	**175,980**
- cash inflows	-	(44,951)	(11,576)	(14,298)	(18,575)	(1,489)	**(90,889)**
Current tax liabilities	2,027	-	-	-	-	-	**2,027**
Other liabilities	66,262	-	-	-	-	-	**66,262**
Subordinated redeemable shares	-	3,346	-	-	-	113,426	**116,772**
Total liabilities (inclusive of interest)	**832,042**	**2,427,287**	**1,675,285**	**507,633**	**300,298**	**347,431**	**6,089,976**
Unrecognised loan commitments	126,142	-	-	-	-	-	**126,142**

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	30/09/2023
Cash on hand and at bank	47,506
Funds with financial institutions	11,554
Investment securities	613,589
Committed and undrawn funding lines[2]	250,000
Eligible RMBS collateral (less haircut[1])[3]	47,331
Total liquidity	**969,980**

[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 $23.0 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

	30/09/2023
Gross residential mortgage loans (Note 5)	4,201,715
Other lending residentially secured	41,556
Provision for credit impairment relating to residential mortgages (Note 6(b))	(9,980)
Deferred fee revenue and expenses relating to residential mortgages	16,154
Residential mortgage loans net of provision for impairment	4,249,445
Off balance sheet exposures - undrawn commitments	322,041
Total on and off balance sheet residential mortgage loans (Note A4)	**4,571,486**

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 2023	Stage 1	Stage 2	Stage 3	Stage 3	Total
Residential Mortgages					
Movement in provision relating to advances to customers					
Balance at beginning of period	5,270	3,354	1,637	503	10,764
Changes to the opening balance due to transfer between stages	2,039	(1,730)	(309)	-	-
New provisions	582	364	133	-	1,079
Assets derecognised and payments made	(3,242)	2,214	(532)	(303)	(1,863)
Balance at end of period - Residential Mortgages	**4,649**	**4,202**	**929**	**200**	**9,980**
Movement in provision relating to undrawn commitments					
Balance at beginning of period	237	3	4	-	244
Changes to the opening balance due to transfer between stages	1	(1)	-	-	-
New provisions	9	-	-	-	9
Assets derecognised and payments made	(53)	2	(2)	-	(53)
Balance at end of period - Residential Mortgages	**194**	**4**	**2**	**-**	**200**

Movement in gross exposures on loss allowances	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	4,155,172	37,274	11,534	4,203,980
Changes to the opening balance due to transfer between stages:				
Transferred to Stage 1	23,865	(21,116)	(2,749)	-
Transferred to Stage 2	(48,873)	51,044	(2,171)	-
Transferred to Stage 3	(59)	(1,103)	1,162	-
New loans	531,320	3,904	1,199	536,423
Assets derecognised and payments made	(262,627)	(4,583)	(3,278)	(270,488)
Other movements	(71,754)	(753)	28	(72,479)
Gross exposure - Residential Mortgages	**4,327,044**	**64,667**	**5,725**	**4,397,436**
Provision for credit impairment	(4,843)	(4,206)	(1,131)	(10,180)
Net exposure - Residential Mortgages	**4,322,201**	**60,461**	**4,594**	**4,387,256**

Impact of changes in gross exposures

Overall, credit impairment provisions for residential mortgages decreased $0.8 million (7.3%) for the six months ending 30 September 2023, mainly due to reduction of 50% in Stage 3 exposures, a release in specific provision of $0.3 million and an improvement to forecast economic conditions.

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	12,970	5,544	2,942	-	21,456
Changes to the opening balance due to transfer between stages	1,685	(1,655)	(30)	-	-
New provisions	4,192	5,276	2,701	-	12,169
Assets derecognised and payments made	(5,475)	(2,762)	(2,337)	-	(10,574)
Balance at end of period - Retail Exposures	**13,372**	**6,403**	**3,276**	**-**	**23,051**
Movement in provision relating to undrawn commitments					
Balance at beginning of period	1,480	-	-	-	1,480
Changes to the opening balance due to transfer between stages	(30)	21	9	-	-
New provisions	260	(21)	(9)	-	230
Assets derecognised and payments made	(323)	-	-	-	(323)
Balance at end of period - Retail Exposures	**1,387**	**-**	**-**	**-**	**1,387**

Movement in gross exposures on loss allowances	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	987,562	10,340	3,477	1,001,379
Changes to the opening balance due to transfer between stages:				
Transferred to Stage 1	3,620	(3,219)	(401)	-
Transferred to Stage 2	(10,504)	10,665	(161)	-
Transferred to Stage 3	(3,344)	(604)	3,948	-
New loans	328,054	1,658	204	329,916
Assets derecognised and payments made	(206,203)	(5,408)	(2,754)	(214,365)
Gross exposure - Retail Exposures	**1,099,185**	**13,432**	**4,313**	**1,116,930**
Provision for credit impairment	(14,759)	(6,403)	(3,276)	(24,438)
Net exposure - Retail Exposures	**1,084,426**	**7,029**	**1,037**	**1,092,492**

Impact of changes in gross exposure
Overall, credit impairment provisions for retail exposures increased $1.6 million (7.4%) for the six months ending 30 September 2023, mainly due to increase in the loan book gross exposure of $116 million (11.3%), and slight deterioration of asset quality.

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	1,075	573	631	-	2,279
Changes to the opening balance due to transfer between stages	90	(164)	74	-	-
New provisions	131	185	176	-	492
Charge/(credit) to income statement excluding transfers	(134)	27	347	-	240
Assets derecognised and payments made	(271)	(90)	(57)	-	(418)
Balance at end of period - Corporate Exposures	**891**	**531**	**1,171**	**-**	**2,593**
Movement in provision relating to undrawn commitments					
Balance at beginning of period	406	21	-	-	427
Changes to the opening balance due to transfer between stages	(2)	-	2	-	-
New provisions	16	-	-	-	16
Assets derecognised and payments made	(141)	(9)	(2)	-	(152)
Balance at end of period - Corporate Exposures	**279**	**12**	**-**	**-**	**291**

Movement in gross exposures on loss allowances	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	179,442	14,907	1,171	195,520
Changes to the opening balance due to transfer between stages:				
Transferred to Stage 1	560	(552)	(8)	-
Transferred to Stage 2	(1,183)	1,183	-	-
Transferred to Stage 3	(1,281)	(160)	1,441	-
New loans	24,871	259	-	25,130
Assets derecognised and payments made	(22,640)	(3,928)	(65)	(26,633)
Other movements	(4,682)	584	(99)	(4,197)
Gross exposure - Corporate Exposures	**175,087**	**12,293**	**2,440**	**189,820**
Provision for credit impairment	(1,170)	(543)	(1,171)	(2,884)
Net exposure - Corporate Exposures	**173,917**	**11,750**	**1,269**	**186,936**

Impact of changes in gross exposures

Overall, credit impairment provisions for corporate exposures increased by $0.3 million (13.8%) for the six months ending 30 September 2023, mainly due to an increase of 108.4% of Stage 3 exposures, set off by a decrease in overall gross exposure of $5.7 million (2.4%).

A3.2 Past due assets

As at 30 September 2023	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Past due 0-9 days	18,830	46,138	1,512	**66,480**
Past due 10-29 days	11,838	18,441	577	**30,856**
Past due 0-29 days	30,668	64,579	2,089	**97,336**
Past due 30-59 days	5,738	8,925	600	**15,263**
Past due 60-89 days	2,995	3,828	464	**7,287**
Past due 90+ days	5,198	4,074	2,451	**11,723**
Carrying amount	**44,599**	**81,406**	**5,604**	**131,609**

All in $000's

A3. Asset quality (continued)

A3.3 Movement in individually impaired assets

As at 30 September 2023	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Balance at beginning of the period	1,431	-	-	**1,431**
Additions to individually impaired assets	24	-	-	**24**
Reductions to individually impaired assets	(957)	-	-	**(957)**
Balance at end of the period	**498**	**-**	**-**	**498**
Specific provision at end of the period	(200)	-	-	**(200)**
Net carrying amount at end of the period	**298**	**-**	**-**	**298**

A3.4 Other asset quality information

	30/09/2023
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 30/09/2023	BANKING GROUP 30/09/2022	BANKING GROUP 31/03/2023	REGISTERED BANK 30/09/2023	REGISTERED BANK 30/09/2022	REGISTERED BANK 31/03/2023
Common equity tier 1 capital ratio	4.5%	12.1%	12.5%	12.4%	9.9%	10.1%	10.2%
Tier 1 capital ratio	6.0%	12.1%	12.5%	12.4%	9.9%	10.1%	10.2%
Total capital ratio	8.0%	13.5%	14.6%	13.6%	11.7%	12.8%	11.7%
Prudential capital buffer ratio	2.5%	5.5%	6.5%	5.6%			

A4.2 Qualifying capital

	BANKING GROUP 30/09/2023
Tier one capital	
Common equity tier 1 (CET1) capital	
Retained earnings	469,371
Current period's retained earnings	16,167
FVOCI reserve	(17,364)
Cash flow hedging reserve	53,089
Less deductions from CET1 capital	
Goodwill and intangible assets	(9,697)
Cash flow hedging reserve	(53,089)
Investments in associates	(10,756)
Total CET1 capital	447,721
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	**447,721**
Tier 2 capital	
Revaluation reserves	2,337
Subordinated redeemable shares	49,643
Total tier 2 capital	**51,980**
Total capital	**499,701**

At 30 September 2023, the balance of all subordinated redeemable shares issued was $71.2 million. After adjustments for potential tax and transitional recognition amortisation, $49.6 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 2023 **On balance sheet credit exposures**	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
Cash	531	0%	-	-
Multilateral development banks	120,949	0%	-	-
Public sector entities	74,467	20%	14,893	1,191
Banks	101,741	20%	20,348	1,628
Banks	289,447	50%	144,724	11,578
Corporates				
Rating grade 1	47,411	20%	9,482	759
Rating grade 2	20,842	50%	10,421	834
Rating grade 3 - 4	12,063	100%	12,063	965
Rating grade 5	433	150%	650	52
Residential mortgages				
<= 80% loan to value ratio (LVR)	2,246,457	35%	786,260	62,901
80 <= 90% LVR	99,900	50%	49,950	3,996
90 <= 100% LVR	2,639	75%	1,979	158
> 100% LVR	2,894	100%	2,894	232
Past due	9,505	100%	9,505	760
Impaired	298	100%	298	24
Property investment residential mortgage				
<= 80% LVR	1,032,059	40%	412,824	33,026
Residential mortgages first home loans				
<= 90% LVR	577,585	35%	202,155	16,172
90 <= 100% LVR	185,127	50%	92,564	7,405
Reverse residential mortgage loans				
30 <= 60% LVR	86,353	50%	43,177	3,454
60 <= 80% LVR	2,554	80%	2,043	163
Equity holdings	2,291	300%	6,873	550
Equity holdings	2,473	400%	9,892	791
Other assets	1,207,685	100%	1,207,685	96,615
Non-risk weighted assets	126,606	0%	-	-
Total on balance sheet credit exposures	6,256,384		3,043,532	243,482

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	126,142	50%	63,071	66%	41,584	3,327
Commitments to extend credit which can be unconditionally cancelled	327,894	0%	-	0%	-	-
Market related contracts[1]						
Interest rate contracts	5,554,699	n/a	117,292	35%	41,236	3,299
Credit valuation adjustment (CVA)					3,049	244
Total off balance sheet credit exposures	6,008,735		180,363		85,869	6,870
Total credit risk	12,265,119		180,363		3,129,401	250,352
Operational risk	n/a				333,456	26,676
Market risk	n/a				241,571	19,326
Total risk weighted assets	12,265,119				3,704,428	296,354

[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	
	30/09/2023	30/09/2023
LVR range	On balance sheet	Off balance sheet
0 - 80%	3,509,399	267,173
80 - 90%	549,538	8,756
90% +	190,508	46,112
Total residential mortgages	**4,249,445**	**322,041**

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 79% (31 March 2023 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.

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	
	30/09/2023	30/09/2023
Interest rate exposures	End of Period	Peak End of Day
Implied risk weighted exposure	241,571	263,213
Aggregate capital charge	19,326	21,057

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 2022 $45 million; 31 March 2023 $45 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.

	30/09/2023	30/06/2023
One-week mismatch ratio	6.1%	5.7%
One-month mismatch ratio	10.4%	10.1%
Core funding ratio	95.5%	96.6%

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	30/09/2023	30/09/2023	30/09/2023	30/09/2023
10-14%	-	-	1	1
15-19%	2	2	-	-
20-24%	-	-	-	-
25-29%	-	1	-	-
30-34%	2	-	-	-
35-39%	-	-	-	-
40-44%	-	1	-	-
45-49%	-	-	-	-
50-54%	-	-	-	-

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 2023.

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 2023 are $29.3 million which is 0.5% of the total assets of the Banking Group.

Independent Review Report

To the shareholders of Southland Building Society

Report on the consolidated half year disclosure statement

Conclusion

Based on our review of the consolidated interim financial statements 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 interim financial statements (excluding the supplementary information disclosed in accordance with Schedules 5, 7, 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");

Based on our review of the supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) that is required to be disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the 'Order') and is included within notes A1 to A3 and A5 to A6 of the interim financial statements, nothing has come to our attention that:

ii. the supplementary information, does not present fairly, in all material respects, the matters to which it relates;

iii. is not disclosed, in all material respects, in accordance with those schedules;

iv. the supplementary information has not been prepared, in all material respects, in accordance with any condition of registration relating to disclosure requirements, imposed under section 74(4)(c) of the Banking (Prudential Supervision) Act 1989.

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

- the interim financial statements formed of:
  - the consolidated statement of financial position as at 30 September 2023;
  - 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 material accounting policy information and other explanatory information.
- the supplementary information prescribed in Schedules 5, 7, 13, 16 and 18 of the Order.

Basis for conclusion

A review of the half year 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 limited assurance engagement of the Capital Adequacy and Regulatory Liquidity disclosures, reasonable assurance engagement over a subsidiary's solvency return and a subsidiary's tax compliance. Subject to certain restrictions, partners and employees of our firm may also deal with the 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

We draw attention to Note A1.4 Conditions of Registration. The Reserve Bank's Liquidity Thematic Review published in 2021 and an independent PwC review of SBS's liquidity models and associated governance and controls framework in 2022 identified a number of quantitative areas of technical non-compliance with BS13. As described in Note A1.4 Conditions of Registration, the Reserve Bank decided these findings do not individually constitute a material breach of SBS's Conditions of Registration 11 and at no time has SBS been close to breaching minimum regulatory limits. The Reserve Bank also undertook a consolidated assessment and has concluded the findings of non-compliance with BS13 do collectively constitute a material breach of Conditions of Registration 11. SBS has remediated the majority of the findings and continues to work with the Reserve Bank on resolving those remaining.

Our opinion 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 consolidated half year disclosure statement

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

— the preparation and fair presentation of the consolidated half year disclosure statement in accordance with NZ IAS 34 and Schedules 3, 5, 7, 13, 16 and 18 of the Order;

- implementing necessary internal control to enable the preparation of a consolidated half year 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 consolidated half year disclosure statement

Our responsibility is to express a conclusion on the consolidated half year 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:

- the consolidated interim financial statements do not present fairly in all material respects the Banking Group's financial position as at 30 September 2023 and its financial performance and cash flows for the 6 month period 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 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 consolidated half year disclosure statement.

KPMG

KPMG
Wellington

29 November 2023

Independent Limited Assurance Report to the shareholders of Southland Building Society

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

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

We have reviewed the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, as disclosed in note A4 of the disclosure statement for the 6 month period ended 30 September 2023. The supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements comprises the information that is required to be disclosed in accordance with Schedule 9 of the Order.

Standards we followed

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

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

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

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

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

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

Inherent Limitations

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

A limited assurance engagement for the 6 month period ended 30 September 2023 does not provide assurance on whether compliance with the with Schedule 9 of the Order will continue in the future.

Restriction of distribution and use

Our report is made solely for Southland Building Society. Our assurance work has been undertaken so that we might state to Southland Building Society those matters we are required to state to them in the assurance report and for no other purpose. We have also consented to the Reserve Bank of New Zealand ("RBNZ") receiving a copy of our report on a reliance basis. No other third party is intended to receive our report.

Our report should not be regarded as suitable to be used or relied on by any third parties other than Southland Building Society, the RBNZ and the Intended Users ("Recipients") for any purpose or in any context. Any other party who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk.

Our report is released to the Recipients on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent.

To the fullest extent permitted by law, none of KPMG, any entities directly or indirectly controlled by KPMG, or any of their respective members or employees accept or assume any responsibility and deny all liability to any party other than Southland Building Society for our work, for this independent limited assurance report, and/or for the conclusions we have reached.

Director's responsibility for the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

The Directors are responsible for the preparation of supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements that is required to be disclosed in accordance with Schedule 9 of the Order, which the Directors have determined to meet the needs of the recipients. This responsibility includes such internal control as the Directors determine is necessary to enable the preparation of the supplementary information relating to Capital

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

Our responsibility

Our responsibility is to express a conclusion to Southland Building Society on whether anything has come to our attention that the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements has not, in all material respects, been prepared in accordance with Schedule 9 of the Order for the 6 month period ended 30 September 2023.

Our independence and quality control

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

The firm applies Professional and Ethical Standard 3, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our firm has also provided other services to the banking group in relation to review of the banking group's half-year Disclosure Statement, reasonable assurance engagement over a subsidiary's solvency return and a subsidiary's tax compliance. Subject to certain restrictions, partners and employees of our firm may also deal with the banking group on normal terms within the ordinary course of trading activities of the business of the banking group. These matters have not impaired our independence as assurance providers of the banking group for this engagement. The firm has no other relationship with, or interest in, the banking group.

KPMG

KPMG
Wellington

29 November 2023