Southland Building Society

Disclosure Statement

For the six months ended 30 September 2021

Number 47 Issued November 2021

Contents

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 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'). This disclosure statement is the consolidated accounts of the Banking Group comprising SBS and its subsidiaries.

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

Name and Address for Service of Registered Bank

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

Details of Incorporation

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

Ownership

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

Guarantee Arrangements

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

Pending Proceedings or Arbitration

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

Other Material Matters

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.

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

Directorate

Since the publication date of the previous year Disclosure Statement, JF Ward resigned on 27 July 2021 as chairman and independent director. AJ O'Connell was appointed as chairman effective 27 July 2021. There have been no other changes in the composition of the Board.

Credit Rating

As at 30 September 2021, 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. 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.

Auditors

KPMG Chartered Accountants
79 Cashel Street
Christchurch

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 29 April 2021:

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

From 1 May 2021:

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

From 1 July 2021:

- The Conditions of Registration has been amended to refer to the new Banking Prudential Requirements ("BPR") relating to bank capital adequacy requirements coming into effect on 1 October 2021.

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 2021:
   (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.

AJ O'Connell
(Chairman)

AL McLeod

KJ Ball
(Deputy Chair)

MP O'Connor

GJ Mulvey

KJ Murphy

MJ Skilling

Southland Building Society

Income Statement for the six months ended 30 September 2021

All in $000's

	Note	Unaudited 6 Months 30/09/2021	Unaudited 6 Months 30/09/2020	Audited 12 Months 31/03/2021
Interest income		95,251	113,819	216,375
Interest expense		9,743	17,563	31,073
Dividends on redeemable shares		17,692	39,267	66,101
		27,435	56,830	97,174
Net interest income		**67,816**	**56,989**	**119,201**
Net fee and commission income		**13,372**	**11,961**	**24,511**
Other income		2,980	4,008	7,546
Total operating income		**84,168**	**72,958**	**151,258**
Operating expenses		48,180	43,898	91,423
Provision for credit impairment	(6(g))	3,440	5,021	4,641
Operating surplus		**32,548**	**24,039**	**55,194**
Net gain/(loss) from financial instruments at FVTPL		231	263	729
Share of associates profit net of tax		445	591	1,203
Surplus before income tax		**33,224**	**24,893**	**57,126**
Less income tax expense		9,336	7,004	15,987
Net surplus		**23,888**	**17,889**	**41,139**
Attributable to:				
Members' interests		23,888	17,889	41,139
Non-controlling interests		-	-	-
		23,888	**17,889**	**41,139**

Southland Building Society

Statement of Comprehensive Income for the six months ended 30 September 2021

All in $000's

	Unaudited 6 Months 30/09/2021	Unaudited 6 Months 30/09/2020	Audited 12 Months 31/03/2021
Net surplus for the period	23,888	17,889	41,139
Items that may not be reclassified subsequently to profit or loss			
Net change in property, plant and equipment reserve, net of tax	-	-	(159)
Items that may be reclassified subsequently to profit or loss			
Net change in FVOCI reserve, net of tax	(7,116)	7,114	(268)
Net change in cash flow hedging reserve, net of tax	15,545	2,059	16,716
Other comprehensive income for the period, net of tax	8,429	9,173	16,289
Total comprehensive income for the period	**32,317**	**27,062**	**57,428**
Attributable to:			
Members' interests	32,317	27,062	57,428
Non-controlling interests	-	-	-
	32,317	**27,062**	**57,428**

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 2021

All in $000's

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 30 September 2020 (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 2020	344,735	2,057	5,749	(21,253)	331,288	-	**331,288**
Net surplus for the period	17,889	-	-	-	17,889	-	**17,889**
Other comprehensive income for the period							
Revaluation/change in fair value	-	-	9,880	2,635	12,515	-	**12,515**
Current/deferred tax impact	-	-	(2,766)	(576)	(3,342)	-	**(3,342)**
Total comprehensive income for the period	17,889	-	7,114	2,059	27,062	-	**27,062**
Dividends paid	-	-	-	-	-	-	**-**
Balance as at 30 September 2020	362,624	2,057	12,863	(19,194)	358,350	-	**358,350**

As at 31 March 2021 (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 2020	344,735	2,057	5,749	(21,253)	331,288	-	**331,288**
Net surplus for the year	41,139	-	-	-	41,139	-	**41,139**
Other comprehensive income for the year							
Revaluation/change in fair value	-	(298)	(372)	23,358	22,688	-	**22,688**
Current/deferred tax impact	-	139	104	(6,642)	(6,399)	-	**(6,399)**
Total comprehensive income for the year	41,139	(159)	(268)	16,716	57,428	-	**57,428**
Dividends paid	-	-	-	-	-	-	**-**
Balance as at 31 March 2021	385,874	1,898	5,481	(4,537)	388,716	-	**388,716**

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

Southland Building Society

Statement of Financial Position as at 30 September 2021

All in $000's

	Note	Unaudited 30/09/2021	Unaudited 30/09/2020	Audited 31/03/2021
Assets				
Cash on hand and at bank		66,260	52,225	57,068
Funds with financial institutions		25,471	45,219	60,835
Investment securities		542,707	551,388	561,951
Derivative financial instruments		23,398	8,331	13,077
Advances to customers	(5)	4,125,405	4,070,566	4,032,076
Investments in associates		8,892	7,596	8,967
Other assets		37,293	31,478	31,492
Property, plant and equipment		18,126	19,424	18,449
Right-of-use assets		24,754	24,208	24,885
Assets held for sale		823	653	829
Goodwill and intangible assets		9,988	11,097	10,167
Net deferred tax assets		6,005	20,034	12,571
		4,889,122	**4,842,219**	**4,832,367**
Liabilities				
Redeemable shares		3,231,339	3,376,926	3,361,335
Deposits from customers		124,641	173,044	191,151
Commercial paper		344,311	334,522	344,422
Due to other financial institutions		584,059	384,089	341,019
Derivative financial instruments		10,845	39,785	21,742
Current tax liabilities		1,684	4,209	5,684
Other liabilities		66,822	65,856	72,724
Subordinated redeemable shares		104,388	105,438	105,574
		4,468,089	**4,483,869**	**4,443,651**
Net assets		**421,033**	**358,350**	**388,716**
Equity				
Reserves		11,271	(4,274)	2,842
Retained earnings		409,762	362,624	385,874
Attributable to members of the society		421,033	358,350	388,716
Attributable to non-controlling interests		-	-	-
		421,033	**358,350**	**388,716**
Total interest earning and discount bearing assets		4,759,843	4,719,398	4,711,930
Total interest and discount bearing liabilities		3,991,878	4,199,821	3,970,967

For and on behalf of the Board of Directors:

Chairman
AJ O'Connell

23 November 2021

Deputy Chair
KJ Ball

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 2021

All in $000's

	Unaudited 6 Months 30/09/2021	Unaudited 6 Months 30/09/2020	Audited 12 Months 31/03/2021
Cash flows from operating activities			
Interest and dividends received	94,645	105,696	216,499
Interest and dividends paid	(34,209)	(53,759)	(112,604)
Other cash inflows provided by operating activities	23,189	21,299	43,360
Other cash outflows used in operating activities	(72,916)	(54,364)	(100,171)
Net cash flows from operating activities before changes in operating assets and liabilities	10,709	18,872	47,084
Net changes in operating assets and liabilities	(42,852)	(52,446)	(35,733)
Net cash flows provided by/(used in) operating activities	**(32,143)**	**(33,574)**	**11,351**
Cash flows from investing activities			
Cash inflows provided by investing activities	9,904	279	1,055
Cash outflows used in investing activities	(2,613)	(11,577)	(33,539)
Net cash flows provided by/(used in) investing activities	**7,291**	**(11,298)**	**(32,484)**
Cash flows from financing activities			
Cash inflows provided by financing activities	-	-	-
Cash outflows used in financing activities	(1,898)	(1,733)	(3,418)
Net cash flows provided by/(used in) financing activities	**(1,898)**	**(1,733)**	**(3,418)**
Net increase/(decrease) in cash held	(26,750)	(46,605)	(24,551)
Add opening cash and cash equivalents	113,489	138,040	138,040
Closing cash and cash equivalents	**86,739**	**91,435**	**113,489**
Reconciliation of cash and cash equivalents			
Cash on hand and at bank	66,260	52,225	57,068
Funds with financial institutions	20,503	39,249	56,455
Interest accrued	(24)	(39)	(34)
	86,739	**91,435**	**113,489**
Reconciliation of net surplus to net operating cash flows			
Net surplus for period	23,888	17,889	41,139
Non-cash items	8,593	5,803	12,495
Deferral or accruals of past or future operating cash receipts or payments	(64,634)	(57,286)	(42,309)
Items classified as cash	10	20	26
Net cash flows from operating activities	**(32,143)**	**(33,574)**	**11,351**

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 23 November 2021.

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 2021.

(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 2021.

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 25 May 2021.

3. Management Judgement, Estimates and Assumptions

The impact of Covid-19 remains a significant area of judgment. Management and risk management continue to monitor measures taken by government, the macro economic scenarios and assessing the impact on the Banking Group and industry. Refer to Note 6(f) - Covid19 Impact on Credit Performance for further information on impact on ECL and related sensitivity analysis on assumptions made.

4. Financial Assets Pledged as Collateral

As at 30 September 2021, no investments were encumbered through repurchase agreements (31 March 2021 $nil million).

The Banking Group has entered into an agreement with the RBNZ to draw down funds under the Funding for lending program. RMBS-backed securities have been pledged as approved eligible collateral. Refer to Note 14 - Concentrations of Funding for details of this agreement.

All in $000's

5. Advances to Customers

	Note	Unaudited 30/09/2021	Unaudited 30/09/2020	Audited 31/03/2021
Residential		3,343,988	3,227,993	3,239,775
Agricultural		115,840	200,506	158,071
Commercial		97,857	108,366	95,028
Consumer		602,498	580,343	578,121
Gross advances		**4,160,183**	**4,117,208**	**4,070,995**
Provisions for credit impairment	(6(d))	(38,499)	(47,602)	(40,976)
Deferred fee revenue and expenses		3,721	960	2,057
Total net advances		**4,125,405**	**4,070,566**	**4,032,076**

Included in advances to customers are $77.1 million (30 September 2020 $74.0 million, 31 March 2021 $73.1 million) of reverse equity mortgages which are valued at fair value through profit or loss rather than at amortised cost.

6. Asset Quality and Provisions for Credit Impairment

(a) Asset quality - advances to customers

As at 30 September 2021	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Neither past due or impaired	3,324,796	569,860	210,145	**4,104,801**
Individually impaired	931	-	384	**1,315**
Past due	26,309	30,064	1,415	**57,788**
Provision for credit impairment	(10,682)	(23,730)	(4,087)	**(38,499)**
Carrying amount	**3,341,354**	**576,194**	**207,857**	**4,125,405**

- **Residential mortgages** comprise advances to individuals and corporates that are secured against residential properties. The securitiy 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.

(b) Ageing of past due but not impaired assets

As at 30 September 2021	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Past due 0-9 days	9,800	13,983	732	**24,515**
Past due 10-29 days	6,284	7,873	236	**14,393**
Past due 0-29 days	16,084	21,856	968	**38,908**
Past due 30-59 days	5,166	4,198	173	**9,537**
Past due 60-89 days	1,866	2,033	66	**3,965**
Past due 90+ days	3,193	1,977	208	**5,378**
Carrying amount	**26,309**	**30,064**	**1,415**	**57,788**

(c) Impaired assets

As at 30 September 2021	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Balance at beginning of the period	918	-	489	**1,407**
Additions to individually impaired assets	16	-	25	**41**
Reductions to individually impaired assets	(3)	-	(130)	**(133)**
Balance at end of the period	**931**	**-**	**384**	**1,315**
Specific provision at end of the period	(353)	-	(220)	**(573)**
Net carrying amount at end of the period	**578**	**-**	**164**	**742**
Undrawn balances on individually impaired lending commitments	-	-	-	-

All in $000's

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

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

As at 30 September 2021	**Note**	**Expected Credit Losses** Stage 1	Stage 2	Stage 3	**Specific Provision** Stage 3	**Total**
Advances to customers and undrawn commitments						
Residential mortgages		6,223	3,400	706	353	10,682
Retail exposures		17,220	4,248	2,262	-	23,730
Corporate exposures		2,197	1,486	184	220	4,087
Total advances to customers and undrawn commitments	(5)	25,640	9,134	3,152	573	38,499
Funds with financial institutions		6	-	-	-	6
Investment securities		203	-	-	-	203
		25,849	**9,134**	**3,152**	**573**	**38,708**

(e) Movement in provision for credit impairment and gross exposure

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

The following summarises the three stage model:

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

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

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

As at 30 September 2021	**Expected Credit Losses** Stage 1	Stage 2	Stage 3	**Specific Provision** Stage 3	**Total**
Residential Mortgages					
Movement in provision relating to advances to customers and undrawn commitments					
Balance at beginning of period	6,457	4,683	866	353	12,359
Changes to the opening balance due to transfer between stages:					
Transferred to Stage 1	2,177	(2,140)	(37)	-	-
Transferred to Stage 2	(49)	362	(313)	-	-
Transferred to Stage 3	(3)	(261)	264	-	-
New provisions	528	282	43	-	853
Charge/(credit) to income statement excluding transfers	(2,887)	474	(117)	-	(2,530)
Balance at end of period - Residential Mortgages	**6,223**	**3,400**	**706**	**353**	**10,682**

Movement in gross exposures on loss allowances	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of period	3,365,797	41,763	4,609	3,412,169
Changes to the opening balance due to transfer between stages:				
Transferred to Stage 1	20,749	(20,471)	(278)	-
Transferred to Stage 2	(21,362)	23,070	(1,708)	-
Transferred to Stage 3	(1,485)	(1,092)	2,577	-
New loans	596,472	2,220	12	598,704
Assets derecognised and payments made	(396,460)	(6,729)	(988)	(404,177)
Other movements	(70,042)	(542)	5	(70,579)
Gross exposure - Residential Mortgages	**3,493,669**	**38,219**	**4,229**	**3,536,117**
Provision for credit impairment	(6,223)	(3,400)	(1,059)	(10,682)
Net exposure - Residential Mortgages	**3,487,446**	**34,819**	**3,170**	**3,525,435**

Impact of changes in gross exposures

Overall, credit impairment provisions for residential mortgages decreased $1.7 million for the six months ending 30 September 2021, mainly due to:

- Improvement of the asset quality within the residential mortgage book. Past due but not impaired assets decreased from $27.9 million to $26.3 million;
- Reduction in number of accounts in hardship. As at 31 March 2021, $14.5 million loans were provided mortgage repayment holidays, which was assessed as higher credit risk. At 30 September 2021, only $5.2 million remain.

All in $000's

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

(e) Movement in provision for credit impairment and gross exposure (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 and undrawn commitments					
Balance at beginning of period	16,668	4,544	2,518	-	23,730
Changes to the opening balance due to transfer between stages:	552	(296)	(256)	-	-
Balance at end of period - Retail Exposures	**17,220**	**4,248**	**2,262**	**-**	**23,730**

Movement in gross exposures on loss allowances	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	698,612	7,368	2,645	708,625
Changes to the opening balance due to transfer between stages:				
Transferred to Stage 1	2,723	(2,262)	(461)	-
Transferred to Stage 2	(4,931)	4,998	(67)	-
Transferred to Stage 3	(1,693)	(322)	2,015	-
New loans	215,413	945	160	216,518
Assets derecognised and payments made	(177,593)	(4,041)	(1,967)	(183,601)
Gross exposure - Retail Exposures	**732,531**	**6,686**	**2,325**	**741,542**
Provision for credit impairment	(17,220)	(4,248)	(2,262)	(23,730)
Net exposure - Retail Exposures	**715,311**	**2,438**	**63**	**717,812**

Impact of changes in gross exposure

Overall, credit impairment provisions for retail exposures did not change for the six months ending 30 September 2021. This is mainly due to an overall increase in the retail exposure portfolio of $80 million, set off by an improvement in overall asset quality. Past due but not impaired assets decreased from $36.4 million to $30.1 million.

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 and undrawn commitments					
Balance at beginning of period	2,650	1,589	428	220	4,887
Changes to the opening balance due to transfer between stages:					
Transferred to Stage 1	168	(168)	-	-	-
Transferred to Stage 2	(13)	150	(137)	-	-
New provisions	56	336	-	-	392
Charge/(credit) to income statement excluding transfers	(664)	(421)	(107)	-	(1,192)
Balance at end of period - Corporate Exposures	**2,197**	**1,486**	**184**	**220**	**4,087**

Movement in gross exposures on loss allowances	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	243,515	52,488	1,237	297,240
Changes to the opening balance due to transfer between stages:				
Transferred to Stage 1	987	(979)	(8)	-
Transferred to Stage 2	(1,027)	1,359	(332)	-
Transferred to Stage 3	(139)	(31)	170	-
New loans	23,082	22,685	-	45,767
Assets derecognised and payments made	(61,432)	(23,988)	(372)	(85,792)
Other movements	(4,788)	8	(105)	(4,885)
Gross exposure - Corporate Exposures	**200,198**	**51,542**	**590**	**252,330**
Provision for credit impairment	(2,197)	(1,486)	(404)	(4,087)
Net exposure - Corporate Exposures	**198,001**	**50,056**	**186**	**248,243**

Impact of changes in gross exposures

Overall, credit impairment provisions for corporate exposures decreased by $0.8 million for the six months ending 30 September 2021, mainly due to an overall decrease in the corporate exposure portfolio of $45 million.

All in $000's

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

(f) Covid-19 impact on credit performance

Our approach to incorporating the effect of Covid-19 on our ECL calculations was guided by a recognition that uncertainty has increased significantly since December 2019, with significant uncertainty in the timing and quantum of movements in unemployment and GDP. The approach to ECL calculations remains the same as previous quarters with SBS continuing to add Covid-19 related adjustments to account for this uncertainty.

SBS have used probability weighted unemployment and GDP scenarios (base, optimistic and pessimistic) to calculate the ECL by risk-weighting these scenarios. In addition, sensitivity analysis has been performed to quantify the impact on the ECL of forecasts being incorrect.

Sensitivity of the collective provision ECL

The critical accounting assumptions in determining the provision relating to ECL, are the determination whether there has been a significant increase in credit risk and the use of probability weighted forward looking macroeconomic scenarios. Due to the current Covid-19 environment, there is a lot of continued uncertainty around macroeconomic forecasting. To provide a better understanding on the sensitivity of the credit impairment calculation based on the assumptions made, the Banking Group performed sensitivity analysis on the ECL. The sensitivity primarily reflects the impact on parent ECL (mainly relating to residential and corporate exposures), while historical loss experience for retail exposures has not shown a correlation to specific individual macro-economic indicators. The impact of Covid-19 for retail exposures has been incorporated by increasing the historical loss experience rates by a total of approximately 45%.

	Base	% change	Increase	Decrease
- Unemployment	as high as 8.8%	+/- 1%	1,868	(2,759)
- GDP	as low as 3.9%	+/- 1%	(1,344)	1,039
- House price	-20%	+/- 10%	(77)	78

(g) Credit impairment income statement reconciliation

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

	Residential Mortgages	Retail Exposures	Corporate Exposures	Investment Securities	Total
Bad debts written off/recovered during the period	1	5,702	238	-	**5,941**
Individual provisions	-	-	-	-	**-**
Collective provision	(1,677)	-	(800)	-	**(2,477)**
Other credit provisions	-	-	-	(24)	**(24)**
Provision for credit impairment to income statement	**(1,676)**	**5,702**	**(562)**	**(24)**	**3,440**

(h) Other assets under administration

There are no other assets under administration as at 30 September 2021.

All in $000's

7. Contingent Liabilities and Credit Related Commitments

	Unaudited Contract or Notional Amt 30/09/2021	Unaudited Credit Equivalent 30/09/2021	Unaudited Contract or Notional Amt 30/09/2020	Unaudited Credit Equivalent 30/09/2020	Audited Contract or Notional Amt 31/03/2021	Audited Credit Equivalent 31/03/2021
Credit related commitments						
Commitments with uncertain drawdown	97,312	48,656	63,981	31,991	100,400	50,200
Commitments to extend credit which can be unconditionally cancelled	380,510	-	354,931	-	350,966	-
Total credit related commitments	**477,822**	**48,656**	**418,912**	**31,991**	**451,366**	**50,200**

The Banking Group has no material contingent liabilities.

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

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

All in $000's

9. Liquidity Risk

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	Unaudited 30/09/2021
Cash on hand and at bank	66,260
Funds with financial institutions	25,471
Investment securities	542,707
Committed and undrawn funding lines[2]	250,071
Eligible RMBS collateral (less haircut[1])[3]	30,476
Total liquidity	**914,985**

[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 $25.7 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 14 - Concentrations of Funding for funding drawn down against eligible RMBS collateral.

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 2021 (contractual cash flows including expected interest to maturity)

	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Liabilities							
Redeemable shares	881,285	1,516,472	745,349	79,621	23,923	-	**3,246,650**
Deposits from customers	11,722	71,836	16,275	26,593	3,207	-	**129,633**
Commercial paper	-	345,000	-	-	-	-	**345,000**
Due to other financial institutions	9,450	174,691	304,190	-	100,736	-	**589,067**
Derivative financial instruments						-	
- cash outflows	-	9,416	8,334	10,165	35,507	12	**63,434**
- cash inflows	-	(3,853)	(2,724)	(3,409)	(35,545)	(773)	**(46,304)**
Current tax liabilities	1,684	-	-	-	-	-	**1,684**
Other liabilities	66,822	-	-	-	-	-	**66,822**
Subordinated redeemable shares	-	-	-	-	-	149,866	**149,866**
Total liabilities (inclusive of interest)	**970,963**	**2,113,562**	**1,071,424**	**112,970**	**127,828**	**149,105**	**4,545,852**
Unrecognised loan commitments	97,312	-	-	-	-	-	**97,312**

All in $000's

9. Liquidity Risk (continued)

Average liquidity ratios (unaudited)

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

	Unaudited 30/09/2021	Unaudited 30/06/2021
One-week mismatch ratio	10.5%	12.6%
One-month mismatch ratio	15.2%	16.6%
Core funding ratio	94.7%	95.4%

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 is currently working through a remediation plan to address these findings.

10. 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 81% (30 September 2020 79%; 31 March 2021 80%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Agricultural loans which comprise 3% (30 September 2020 5%; 31 March 2021 4%) of the Banking Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

(a) The maximum exposures to credit risk

	Unaudited 30/09/2021
Cash on hand and at bank	66,260
Funds with financial institutions	25,471
Investment securities	542,707
Derivative financial instruments	23,398
Advances to customers	4,125,405
Other assets	37,293
Total on-balance sheet credit exposures	**4,820,534**
Off balance sheet exposures - undrawn commitments	477,822
Total credit exposures	**5,298,356**

(b) Concentrations of credit risk by sector

	Unaudited 30/09/2021
Residential	2,822,421
Residential investing	788,779
Agricultural	136,509
Commercial finance	15,488
Commercial other	89,222
Consumer lending	528,799
Consumer credit card	222,008
Local authority	79,929
NZ registered banks	355,463
Multilateral development banks	133,303
Corporate investments	89,142
Other	37,293
Total concentrations of credit risk by sector	**5,298,356**

All in $000's

10. Credit Risk (continued)

(c) Concentrations of credit risk by geographical location

	Unaudited 30/09/2021
Auckland	1,225,115
North Island other	1,225,735
Canterbury	1,057,887
Otago	674,787
Southland	722,520
South Island other	258,847
Overseas	133,465
Total concentrations of credit risk by geographical location	**5,298,356**

(d) 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). Credit exposures to the central government of any country with a long term credit rating of A- or A3 or above, or its equivalent, supranational or quasisovereign agency with a long term credit rating of A- or A3 or above, or its equivalent, and connected persons are excluded. Peak end of day credit exposures to individual counterparties are calculated since the last disclosure statement using the Banking Group's end of period Common Equity Tier 1 capital.

End of period exposure	Number of non-bank counterparties			Number of bank counterparties		
Percentage of common equity tier 1	Unaudited 30/09/2021	Unaudited 30/09/2020	Audited 31/03/2021	Unaudited 30/09/2021	Unaudited 30/09/2020	Audited 31/03/2021
10-14%	1	1	1	-	2	-
15-19%	-	-	-	1	1	2
20-24%	-	-	-	1	1	-
25-29%	-	-	-	-	-	-
30-34%	-	-	-	-	-	-
35-39%	-	-	-	-	-	-
40-44%	-	-	-	1	-	-
45-49%	-	-	-	-	1	-
50-54%	-	-	-	-	-	-
55-59%	-	-	-	-	-	1
60-64%	-	-	-	-	-	-

Peak exposure	Number of non-bank counterparties			Number of bank counterparties		
Percentage of common equity tier 1	Unaudited 30/09/2021	Unaudited 30/09/2020	Audited 31/03/2021	Unaudited 30/09/2021	Unaudited 30/09/2020	Audited 31/03/2021
10-14%	1	1	1	-	1	-
15-19%	-	-	-	-	-	2
20-24%	-	-	-	2	3	1
25-29%	-	-	-	-	-	-
30-34%	-	-	-	-	-	-
35-39%	-	-	-	-	-	-
40-44%	-	-	-	-	-	-
45-49%	-	-	-	-	-	-
50-54%	-	-	-	1	1	-
55-59%	-	-	-	-	-	-
60-64%	-	-	-	-	-	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 2021.

All in $000's

11. Market Risk

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

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

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 2021 (Unaudited)	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-Interest Bearing	Total
Assets							
Cash on hand and at bank	66,260	-	-	-	-	-	**66,260**
Funds with financial institutions	20,503	3,310	1,458	200	-	-	**25,471**
Investment securities	98,441	36,474	28,850	133,934	245,008	-	**542,707**
Derivative financial instruments	-	-	-	-	-	23,398	**23,398**
Advances to customers	1,124,117	432,060	949,709	760,374	859,145	-	**4,125,405**
Other assets	-	-	-	-	-	105,881	**105,881**
	1,309,321	471,844	980,017	894,508	1,104,153	129,279	**4,889,122**
Liabilities and equity							
Redeemable shares	1,181,312	808,880	744,696	77,729	23,010	395,712	**3,231,339**
Deposits from customers	33,967	43,791	16,404	26,263	3,068	1,148	**124,641**
Commercial paper	294,506	49,805	-	-	-	-	**344,311**
Due to other financial institutions	584,059	-	-	-	-	-	**584,059**
Derivative financial instruments	-	-	-	-	-	10,845	**10,845**
Current tax liabilities	-	-	-	-	-	1,684	**1,684**
Other liabilities	-	-	-	-	-	66,822	**66,822**
Subordinated redeemable shares	31,518	-	-	58,174	14,696	-	**104,388**
Equity	-	-	-	-	-	421,033	**421,033**
	2,125,362	902,476	761,100	162,166	40,774	897,244	**4,889,122**
On-balance sheet interest sensitivity gap	(816,041)	(430,632)	218,917	732,342	1,063,379	(767,965)	**-**
Net balance of derivative financial instruments	1,350,351	286,500	(441,000)	(619,100)	(576,751)	-	**-**
Total interest rate sensitivity gap	**534,310**	**(144,132)**	**(222,083)**	**113,242**	**486,628**	**(767,965)**	**-**

12. Capital Adequacy - Unaudited

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

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

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

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

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

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

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

The capital adequacy calculations summarise the composition of regulatory capital and capital adequacy ratios. For the purposes of calculating the capital adequacy ratios for the Registered Bank, wholly-owned and wholly-funded subsidiaries of the Banking Group are consolidated with the Registered Bank. In this context, wholly funded by the Registered Bank means that there are no liabilities (including off-balance sheet obligations) to anyone other than the Registered Bank, the Inland Revenue Department, and trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's equity. Wholly owned means that all the equity issued by the subsidiary is held by the Registered Bank.

All in $000's

12. Capital Adequacy - Unaudited (continued)

		BANKING GROUP			REGISTERED BANK		
Regulatory capital ratios	Minimum ratio requirement	30/09/2021	30/09/2020	31/03/2021	30/09/2021	30/09/2020	31/03/2021
Common equity tier 1 capital ratio	4.5%	13.5%	12.1%	12.9%	11.4%	10.4%	10.8%
Tier 1 capital ratio	6.0%	13.5%	12.1%	12.9%	11.4%	10.4%	10.8%
Total capital ratio	8.0%	16.3%	14.9%	15.7%	14.8%	13.8%	14.3%
Buffer ratio	2.5%	7.5%	6.1%	6.9%			

(a) Qualifying capital

	BANKING GROUP 30/09/2021
Tier one capital	
Common equity tier 1 (CET1) capital	
Retained earnings	385,874
Current period's retained earnings	23,888
FVOCI reserve	(1,635)
Cash flow hedging reserve	11,008
Less deductions from CET1 capital	
Goodwill and intangible assets	(9,988)
Deferred tax assets	(6,005)
Cash flow hedging reserve	(11,008)
Investments in associates	(8,892)
Total CET1 capital	383,242
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	**383,242**
Tier 2 capital	
Revaluation reserves	1,898
Subordinated redeemable shares	74,813
Total tier 2 capital	**76,711**
Total capital	**459,953**

At 30 September 2021, the balance of all subordinated redeemable shares issued was $103.9 million. After adjustments for potential tax or other offsets, $74.8 million has been recognised as tier 2 capital for RBNZ capital adequacy purposes.

All in $000's

12. Capital Adequacy - Unaudited (continued)

(b) Total risk weighted assets

BANKING GROUP as at 30 September 2021 **On balance sheet credit exposures**	**Total exposure after credit risk mitigation**	**Risk weighting**	**Risk weighted exposure**	**Minimum pillar one capital requirement**
Cash	618	0%	-	-
Multilateral development banks	133,303	0%	-	-
Public sector entities	79,917	20%	15,983	1,279
Banks	107,060	20%	21,412	1,713
Banks	248,403	50%	124,202	9,936
Corporates				
Rating grade 1	10,948	20%	2,190	175
Rating grade 2	41,733	50%	20,867	1,669
Rating grade 3 - 4	9,194	100%	9,194	736
Rating grade 5	567	150%	851	68
Residential mortgages				
<= 80% loan to value ratio (LVR)	1,757,589	35%	615,156	49,212
80 <= 90% LVR	48,016	50%	24,008	1,921
90 <= 100% LVR	2,025	75%	1,519	122
Past due	6,177	100%	6,177	494
Impaired	578	100%	578	46
Property investment residential mortgage				
<= 80% LVR	951,994	40%	380,798	30,464
80 <= 90% LVR	1,228	70%	860	69
90 <= 100% LVR	612	90%	551	44
Residential mortgages first home loans				
<= 90% LVR	426,618	35%	149,316	11,945
90 <= 100% LVR	106,549	50%	53,275	4,262
Reverse residential mortgage loans				
<= 60% LVR	69,507	50%	34,754	2,780
60 <= 80% LVR	6,385	80%	5,108	409
80 <= 100% LVR	314	100%	314	25
Equity holdings	2,694	300%	8,082	647
Other assets	828,809	100%	828,809	66,305
Non-risk weighted assets	48,284	0%	-	-
Total on balance sheet credit exposures	4,889,122		2,304,004	184,321

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	97,312	50%	48,656	63%	30,461	2,437
Commitments to extend credit which can be unconditionally cancelled	380,510	0%	-	0%	-	-
Market related contracts[1]						
Interest rate contracts	2,932,246	n/a	35,717	20%	7,143	571
Credit valuation adjustment (CVA)					823	66
Total off balance sheet credit exposures	3,410,068		84,373		38,427	3,074
Total credit risk	8,299,190		84,373		2,342,431	187,395
Operational risk	n/a				301,234	24,099
Market risk	n/a				186,331	14,906
Total risk weighted assets	8,299,190				2,829,996	226,400

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

All in $000's

12. Capital Adequacy - Unaudited (continued)

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

	BANKING GROUP	
	30/09/2021	30/09/2021
LVR range	On balance sheet	Off balance sheet
0 - 80%	2,870,382	215,429
80 - 90%	397,444	4,445
90% +	109,766	1,068
Total residential mortgages	**3,377,592**	**220,942**

First Home Loans make up 97% of the residential mortgages in the 90% + loan to valuation grouping and 87% of the 80 - 90% loan to valuation grouping. The First Home Loan product is fully insured by Housing New Zealand Corporation.

(d) Reconciliation of mortgage related amounts

	BANKING GROUP
	30/09/2021
Gross residential mortgage loans (Note 5)	3,343,988
Other lending residentially secured	36,213
Provision for credit impairment relating to residential mortgages (Note 6(a))	(10,682)
Deferred fee revenue and expenses relating to residential mortgages	8,073
Residential mortgage loans net of provision for impairment	3,377,592
Off balance sheet exposures - undrawn commitments (Note 12(c))	220,942
Total on and off balance sheet residential mortgage loans	**3,598,534**

(e) Market risk exposures

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

	BANKING GROUP	
	30/09/2021	30/09/2021
Interest rate exposures	End of Period	Peak End of Day
Implied risk weighted exposure	186,331	189,150
Aggregate capital charge	14,906	15,132

(f) 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 $35 million to cover these identified risks (30 September 2020 $30 million; 31 March 2021 $30 million).

All in $000's

13. 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 30/09/2021	Unaudited Fair value 30/09/2021	Unaudited Carrying value 30/09/2020	Unaudited Fair value 30/09/2020	Audited Carrying value 31/03/2021	Audited Fair value 31/03/2021
Financial assets						
Advances to customers	4,048,328	4,023,291	3,996,535	3,992,685	3,958,988	3,958,288
Total financial assets	**4,048,328**	**4,023,291**	**3,996,535**	**3,992,685**	**3,958,988**	**3,958,288**
Financial liabilities						
Redeemable shares	3,231,339	3,226,341	3,376,926	3,380,087	3,361,335	3,357,594
Deposits from customers	124,641	127,541	173,044	174,853	191,151	189,629
Subordinated redeemable shares	104,388	107,462	105,438	111,955	105,574	110,949
Total financial liabilities	**3,460,368**	**3,461,344**	**3,655,408**	**3,666,895**	**3,658,060**	**3,658,172**

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 30/09/2021 (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 30/09/2020 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	8,331	-	**8,331**
Investment securities	2,036	549,546	-	**551,582**
Advances to customers	-	-	74,031	**74,031**
Total financial assets	**2,036**	**557,877**	**74,031**	**633,944**
Financial liabilities				
Derivative financial instruments	-	39,785	-	**39,785**
Total financial liabilities	**-**	**39,785**	**-**	**39,785**

As at 31/03/2021 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	13,077	-	**13,077**
Investment securities	2,509	559,647	-	**562,156**
Advances to customers	-	-	73,088	**73,088**
Total financial assets	**2,509**	**572,724**	**73,088**	**648,321**
Financial liabilities				
Derivative financial instruments	-	21,742	-	**21,742**
Total financial liabilities	**-**	**21,742**	**-**	**21,742**

Further information on valuation techniques and assumptions for specific asset classes is included in Notes 19 and 20 of the Bank's annual Disclosure Statement.

All in $000's

14. Concentrations of Funding

(a) Concentrations of funding by geographical location	Unaudited 30/09/2021
North Island other	680,665
Auckland	910,846
Canterbury	750,354
Otago	708,795
Southland	971,935
South Island other	293,514
Overseas	72,629
Total concentrations of funding by geographical location	**4,388,738**
(b) Concentrations of funding by product	
Redeemable shares	3,231,339
Deposits from customers	124,641
Commercial paper	344,311
Due to other financial institutions	584,059
Subordinated redeemable shares	104,388
Total concentrations of funding by product	**4,388,738**

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 2021 the OCR rate was 0.25%, and this rate will adjust in line with changes in the OCR over the lending term. As at 30 September 2021, $100 million has been drawn down, and is included in "Due to other financial institutions" in the statement of financial position.

15. Insurance Business

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

The total assets of Southsure Assurance Limited as at 30 September 2021 are $26.6 million which is 0.5% of the total assets of the Banking Group.

16. Subsequent Events

There have been no material subsequent events after 30 September 2021.

Independent Review Report

To the Members of Southland Building Society

Report on the half year disclosure statement

Conclusion

Based on our review of the half year disclosure statement and supplementary information of the Southland Building Society (the "Registered Bank") and its subsidiaries (the "Banking Group") on pages 5 to 24, nothing has come to attention that causes us to believe that:

i. the half year disclosure statement does not present fairly in all material respects the Banking Group's financial position as at 30 September 2021 and its financial performance and cash flows for the 6 month period ended on that date;

ii. the half year 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 prepared, in all material respects, in accordance with the Banking Group's conditions of registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and disclose it in accordance with Schedule 9 of the Order.

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

— the half year disclosure statement formed of:
  - the consolidated statement of financial position as at 30 September 2021;
  - the consolidated income statement, statements of 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 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 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 – Estimation Uncertainty in the Preparation of the Half Year Disclosure Statement

We draw attention to Note 6 (f) Covid-19 Impact on credit performance in the half year disclosure statement, which describes increased estimation uncertainty in the preparation of the half year disclosure statement, specifically as it relates to the potential impacts of Coronavirus (Covid-19) pandemic on the Banking Group's allowance for credit losses (ECL). As described in this note, the Banking Group has built in Covid-19 related adjustments into the ECL model to account for this uncertainty. These disclosures include key judgements and assumptions in relation to the ECL model inputs and the sensitivity of the provision amount to changes in these assumptions.

In our view, these judgements and assumptions are fundamental to the users' understanding of the financial position and performance of the Banking Group.

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

Emphasis of Matter – RBNZ Liquidity Thematic Review

We draw attention to Note 9 Liquidity Risk - Average liquidity ratios. The Reserve Bank of New Zealand has completed a thematic review of liquidity calculations and banks' compliance with the Reserve Bank's Liquidity Policy (BS13 and BS13A). As described in Note 9 Liquidity Risk - Average liquidity ratios, the Banking Group was included within this review, received specific findings and is currently working through a remediation plan to address these findings.

In our view, the current liquidity review is fundamental to the users' understanding of the liquidity ratios of the Banking Group.

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

Use of this Independent Review Report

This report is made solely to the Members as a body. Our review work has been undertaken so that we might state to the Members 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 Members as a body for our review work, this report, or any of the opinions we have formed.

Responsibilities of the Directors for the half year disclosure statement

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

- the preparation and fair presentation of the half year disclosure statement in accordance with NZ IAS 34 Interim Financial Reporting and Schedules 5, 7, 9, 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 Banking Group's conditions of registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and Schedule 9 of the Order;
- implementing necessary internal control to enable the preparation of a half year disclosure statement financial statements 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 half year disclosure statement

Our responsibility is to express a conclusion on the 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 half year disclosure statement does not present fairly in all material respects the Banking Group's financial position as at 30 September 2021 and its financial performance and cash flows for the year ended on that date;
- the half year disclosure statement does 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, prepared in all material respects, in accordance with the Banking Group's Conditions of Registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed 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 half year disclosure statement.

This description forms part of our Independent Review Report.

KPMG

KPMG
Christchurch

24 November 2021