



Southland Building Society

Disclosure Statement

For the six months ended 30 September 2019

Number 43 Issued November 2019

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Abbreviations

The following abbreviations are used throughout the report:

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

General Information

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

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

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

Name and Address for Service of Registered Bank

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

Details of Incorporation

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

Ownership

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

Guarantee Arrangements

As at the signing date of this Disclosure Statement, the material obligations of the 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

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

There have been no changes in the composition of the Bank's Board of Directors since the publication date of the previous full year Disclosure Statement.

Credit Rating

As at 30 September 2019, the credit rating assigned to Southland Building Society is BBB with a stable outlook. This credit rating is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. The credit rating was issued by Fitch Ratings on 5 September 2016 and was reaffirmed on 16 September 2019. The rating is not subject to any qualifications.

Auditors

KPMG Chartered Accountants
79 Cashel Street
Christchurch

Conditions of Registration

There have been no changes in the Bank's conditions of registration during the period since the signing of the previous Disclosure Statement.

Directors' Statement

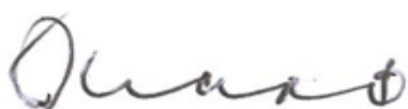
The directors of Southland Building Society (the "Bank") state that each director of the Bank believes, after due enquiry, that:

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 2019:

- (a) the Bank has complied with all conditions of registration applicable during the period, except as noted in note 11; 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.

JF Ward
(Chairman)

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AL McLeod

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KJ Ball
(Deputy Chair)

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AJ O'Connell

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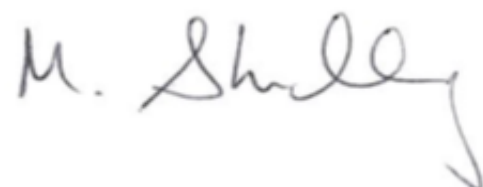
GJ Mulvey

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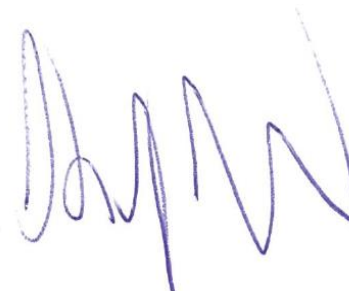
MP O'Connor

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MJ Skilling

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KJ Murphy

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Southland Building Society

Income Statement for the six months ended 30 September 2019

All in \$000's



	Note	Unaudited 6 Months 30/09/2019	Unaudited 6 Months 30/09/2018	Audited 12 Months 31/03/2019
Interest income		123,878	122,674	246,803
Interest expense		13,344	13,225	26,191
Dividends on redeemable shares		51,279	51,518	104,851
		64,623	64,743	131,042
Net interest income		59,255	57,931	115,761
Net fee and commission income		12,362	12,086	24,450
Other income		4,928	5,679	12,369
Total operating income		76,545	75,696	152,580
Operating expenses		48,689	46,473	96,299
Provision for credit impairment	(5)	6,496	7,697	15,443
Operating surplus		21,360	21,526	40,838
Net gain/(loss) from financial instruments at FVTPL		133	(43)	193
Share of associates profit net of tax		554	765	1,202
Surplus before income tax		22,047	22,248	42,233
Less income tax expense		6,028	6,100	11,415
Net surplus		16,019	16,148	30,818
Attributable to:				
Members' interests		15,894	15,970	30,503
Non-controlling interests		125	178	315
		16,019	16,148	30,818

Southland Building Society

Statement of Comprehensive Income for the six months ended 30 September 2019

All in \$000's

	Unaudited 6 Months 30/09/2019	Unaudited 6 Months 30/09/2018	Audited 12 Months 31/03/2019
Net surplus for the period	16,019	16,148	30,818
Items that may not be reclassified subsequently to profit or loss			
Net change in property, plant and equipment reserve, net of tax	-	-	(54)
Items that may be reclassified subsequently to profit or loss			
Net change in FVOCI reserve, net of tax	2,670	-	2,416
Net change in available for sale assets reserve, net of tax	-	749	-
Net change in cash flow hedging reserve, net of tax	(5,737)	378	(3,961)
Other comprehensive income for the period, net of tax	(3,067)	1,127	(1,599)
Total comprehensive income for the period	12,952	17,275	29,219
Attributable to:			
Members' interests	12,827	17,090	28,904
Non-controlling interests	125	185	315
	12,952	17,275	29,219

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

As at 30 September 2019 (Unaudited)	Retained earnings	Reserves			Total equity attributable to members' interests	Non-controlling interests	Total equity
		Property, plant and equipment	FVOCI	Cash flow hedging			
Balance as at 31 March 2019	330,536	2,238	6,920	(15,334)	324,360	973	325,333
Net surplus for the period	15,894	-	-	-	15,894	125	16,019
Other comprehensive income for the period							
Revaluation/change in fair value	-	-	3,709	(7,715)	(4,006)	-	(4,006)
Current/deferred tax impact	-	-	(1,039)	1,978	939	-	939
Total comprehensive income for the period	15,894	-	2,670	(5,737)	12,827	125	12,952
Acquisition of non-controlling interests	(4,427)	-	-	-	(4,427)	(973)	(5,400)
Dividends paid	-	-	-	-	-	(125)	(125)
As at 30 September 2019	342,003	2,238	9,590	(21,071)	332,760	-	332,760

As at 30 September 2018 (Unaudited)	Retained earnings	Reserves			Total equity attributable to members' interests	Non-controlling interests	Total equity
		Property, plant and equipment	Available for sale assets	Cash flow hedging			
Balance as at 31 March 2018	299,707	2,292	4,373	(11,373)	294,999	1,998	296,997
Balance adjusted for adoption of accounting standards ⁽¹⁾	618	-	-	-	618	-	618
Net surplus for the period	15,970	-	-	-	15,970	178	16,148
Other comprehensive income for the period							
Revaluation/change in fair value	-	-	1,040	580	1,620	-	1,620
Current/deferred tax impact	-	-	(291)	(202)	(493)	-	(493)
Total comprehensive income for the period	15,970	-	749	378	17,097	178	17,275
Non-controlling share of change in reserve	-	-	(7)	-	(7)	7	-
Acquisition of non-controlling interests	(5,229)	-	-	-	(5,229)	(1,130)	(6,359)
Non-controlling interests present value adjustment	5,196	-	-	-	5,196	-	5,196
Dividends paid	-	-	-	-	-	(100)	(100)
As at 30 September 2018	316,262	2,292	5,115	(10,995)	312,674	953	313,627

As at 31 March 2019 (Audited)	Retained earnings	Reserves				Total equity attributable to members' interests	Non-controlling interests	Total equity
		Property, plant and equipment	Available for sale assets	FVOCI	Cash flow hedging			
Balance as at 31 March 2018	299,707	2,292	4,373	-	(11,373)	294,999	1,998	296,997
Balance adjusted for adoption of accounting standards ⁽¹⁾	359	-	(4,373)	4,504	-	490	-	490
Net surplus for the year	30,503	-	-	-	-	30,503	315	30,818
Other comprehensive income for the year								
Revaluation/change in fair value	-	(75)	-	3,356	(5,436)	(2,155)	-	(2,155)
Current/deferred tax impact	-	21	-	(940)	1,475	556	-	556
Total comprehensive income for the year	30,503	(54)	-	2,416	(3,961)	28,904	315	29,219
Acquisition of non-controlling interests	(5,229)	-	-	-	-	(5,229)	(1,130)	(6,359)
Non-controlling interests present value adjustment	5,196	-	-	-	-	5,196	-	5,196
Dividends paid	-	-	-	-	-	-	(210)	(210)
As at 31 March 2019	330,536	2,238	-	6,920	(15,334)	324,360	973	325,333

⁽¹⁾ NZ IFRS 9 and NZ IFRS 15 were adopted from 1 April 2018 and were applied in the preparation of the statement of changes in equity.

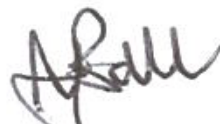
The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

	Note	Unaudited 30/09/2019	Unaudited 30/09/2018	Audited 31/03/2019
Assets				
Cash on hand and at bank		50,778	49,701	63,751
Funds with financial institutions		53,882	47,692	75,615
Investment securities	(3)	569,039	539,948	547,085
Derivative financial instruments		8,168	3,855	5,049
Advances to customers	(4)	4,070,073	3,848,767	3,977,488
Investments in associates		6,925	7,041	6,903
Other assets		33,448	31,285	33,247
Property, plant and equipment		20,281	21,436	20,846
Right-of-use assets	(1)	23,888	-	-
Assets held for sale		661	661	665
Goodwill and intangible assets		12,523	13,412	12,173
Net deferred tax assets		13,306	9,979	11,696
		4,862,972	4,573,777	4,754,518
Liabilities				
Redeemable shares		3,295,627	3,235,844	3,236,987
Deposits from customers		148,527	139,890	144,106
Commercial paper		334,623	288,453	298,417
Due to other financial institutions		536,180	438,920	538,694
Derivative financial instruments		41,238	22,360	30,184
Current tax liabilities		3,033	288	3,237
Other liabilities	(1)	65,856	37,087	45,557
Subordinated redeemable shares		105,128	97,308	132,003
		4,530,212	4,260,150	4,429,185
Net assets		332,760	313,627	325,333
Equity				
Reserves		(9,243)	(3,588)	(6,176)
Retained earnings		342,003	316,262	330,536
Attributable to members of the society		332,760	312,674	324,360
Attributable to non-controlling interests		-	953	973
		332,760	313,627	325,333
Total interest earning and discount bearing assets		4,743,772	4,486,108	4,663,939
Total interest and discount bearing liabilities		4,199,821	4,168,192	4,318,237

For and on behalf of the Board of Directors:



Chairman
JF Ward



Deputy Chair
KJ Ball

20 November 2019

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

	Unaudited 6 Months 30/09/2019	Unaudited 6 Months 30/09/2018	Audited 12 Months 31/03/2019
Cash flows from operating activities			
Interest and dividends received	124,998	121,491	244,399
Interest and dividends paid	(66,347)	(64,141)	(126,045)
Other cash inflows provided by operating activities	25,835	26,017	53,471
Other cash outflows used in operating activities	(62,332)	(61,537)	(111,275)
Net cash flows from operating activities before changes in operating assets and liabilities	22,154	21,830	60,550
Net changes in operating assets and liabilities	(29,264)	52,359	61,987
Net cash flows provided by/(used in) operating activities	(7,110)	74,189	122,537
Cash flows from investing activities			
Cash inflows provided by investing activities	579	367	893
Cash outflows used in investing activities	(26,096)	(68,498)	(75,306)
Net cash flows provided by/(used in) investing activities	(25,517)	(68,131)	(74,413)
Cash flows from financing activities			
Cash inflows provided by financing activities	-	-	-
Cash outflows used in financing activities	(7,101)	(6,459)	(6,569)
Net cash flows provided by/(used in) financing activities	(7,101)	(6,459)	(6,569)
Net increase/(decrease) in cash held	(39,728)	(401)	41,555
Add opening cash and cash equivalents	139,304	97,749	97,749
Closing cash and cash equivalents	99,576	97,348	139,304
Reconciliation of cash and cash equivalents			
Cash on hand and at bank	50,778	49,701	63,751
Funds with financial institutions	48,847	47,692	75,615
Interest accrued	(49)	(45)	(62)
	99,576	97,348	139,304
Reconciliation of net surplus to net operating cash flows			
Net surplus for period	16,019	16,148	30,818
Non-cash items	11,172	12,031	23,545
Deferral or accruals of past or future operating cash receipts or payments	(34,314)	46,022	68,203
Items classified as cash	13	(12)	(29)
Net cash flows from operating activities	(7,110)	74,189	122,537

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 20 November 2019.

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 2019.

(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 2019, except for the adoption of NZ IFRS 16 - Leases.

NZ IFRS 16 - Leases

The Banking Group adopted NZ IFRS 16 - Leases from 1 April 2019. NZ IFRS 16 was issued in February 2016 and is applicable for periods beginning on or after 1 January 2019. The standard brings leases on balance sheet for lessees, with a resulting increase in reported assets and liabilities. The Banking Group has applied NZ IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under NZ IAS17 and IFRIC 4.

Definition of a lease

Previously, the Banking Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 - Determining Whether an Arrangement contains a Lease. The Banking Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to NZ IFRS 16, the Banking Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied NZ IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under NZ IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under NZ IFRS 16 has been applied only to contracts entered into or changed on or after 1 April 2019.

As a lessee, the Banking Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under NZ IFRS 16, the Banking Group recognises right-of-use assets and lease liabilities for most leases.

However, the Banking Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets. The Banking Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Banking Group presents lease liabilities in "Other liabilities" in the statement of financial position.

The carrying amount of lease liability and right of use assets are as below:

	Lease liability	Right of use asset			
		Property	Vehicles	Other	Total
Balance at 1 April 2019	25,200	24,242	946	12	25,200
Balance at 30 September 2019	24,179	23,192	686	10	23,888

Significant accounting policies

The Banking Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Banking Group's incremental borrowing rate. Generally, the Banking Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Banking Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal option. The assessment of whether the Banking Group is reasonably certain to exercise such options impact the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments - the Banking Group applied this approach to all its leases.

1. Significant Accounting Policies (continued)

The Banking Group uses the following practical expedients when applying NZ IFRS 16 to leases previously classified as operating leases under NZ IAS 17:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use assets at the date of initial application, and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The impact on transition is summarised below: **01/04/2019**

Right-of-use assets (reported separately in the statement of financial position)	25,200
Lease liabilities (reported in other liabilities in the statement of financial position)	(25,200)

Due to the additional assets on balance sheet, \$2 million of additional minimum capital is required, decreasing the total capital ratio on 1 April 2019 by 14 basis points.

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 28 May 2019.

Transition

At transition, for leases classified as operating leases under NZ IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Banking Group's incremental borrowing rate as at 1 April 2019. The weighted-average rate applied is 3%.

3. Financial Assets Pledged as Collateral

Included in investment securities as at 30 September 2019 were \$29.3 million (31 March 2019 \$23.2 million) encumbered through repurchase agreements. These investment securities have not been derecognised from the Banking Group's Statement of Financial Position as the Banking Group retains substantially all the risks and rewards of ownership. Counterparties have the right to sell or repledge these encumbered securities. The Bank's obligation to repurchase investment securities is classified under due to other financial institutions.

4. Advances to Customers

	Note	Unaudited 30/09/2019	Unaudited 30/09/2018	Audited 31/03/2019
Residential		3,156,754	3,002,716	3,109,238
Agricultural		228,840	230,008	226,105
Commercial		133,172	138,410	134,901
Consumer		579,736	504,962	535,744
Gross advances		4,098,502	3,876,096	4,005,988
Provisions for credit impairment	(5)	(28,779)	(28,684)	(29,304)
Deferred fee revenue and expenses		350	1,355	804
Total net advances		4,070,073	3,848,767	3,977,488

Included in advances to customers are \$72.6 million (30 September 2018 \$0 million 31 March 2019 \$72.4 million) of reverse equity mortgages are valued at fair value through profit or loss rather than at amortised cost.

5. Asset Quality and Provisions for Credit Impairment

(a) Asset quality - advances to customers

As at 30 September 2019	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Neither past due or impaired	3,112,582	527,975	354,564	3,995,121
Individually impaired	964	-	693	1,657
Past due	48,268	49,534	4,272	102,074
Provision for credit impairment	(7,777)	(17,465)	(3,537)	(28,779)
Carrying amount	3,154,037	560,044	355,992	4,070,073

- **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.

(b) Ageing of past due but not impaired assets

	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Past due 0-9 days	28,836	26,813	1,612	57,261
Past due 10-29 days	10,682	12,364	1,893	24,939
Past due 30-59 days	39,518	39,177	3,505	82,200
Past due 60-89 days	1,123	5,138	113	6,374
Past due 90+ days	1,751	2,416	146	4,313
Carrying amount	48,268	49,534	4,272	102,074

(c) Individually impaired assets

	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Balance at beginning of the period	1,932	-	1,668	3,600
Additions to individually impaired assets	113	-	111	224
Reductions to individually impaired assets	(1,081)	-	(1,086)	(2,167)
Balance at end of the period	964	-	693	1,657
Specific provision at end of the period	(608)	-	(435)	(1,043)
Net carrying amount at end of the period	356	-	258	614
Undrawn balances on individually impaired lending commitments	-	-	-	-

5. Asset Quality and Provisions for Credit Impairment (continued)
(d) Provision for credit impairment

As at 30 September 2019	Expected Credit Losses			Specific Provision	Total
	Stage 1	Stage 2	Stage 3	Stage 3	
Residential Mortgages					
Balance at beginning of period	2,869	2,967	1,577	921	8,334
Changes to the opening balance due to transfer between stages:					
Transferred to collective provision 12-months ECL	1,194	(1,100)	(94)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(31)	295	(264)	-	-
Transferred to collective provision lifetime ECL credit impaired	(2)	(485)	487	-	-
New provisions	281	387	160	-	828
Charge/(credit) to income statement excluding transfers	(1,491)	853	(749)	-	(1,387)
Amounts written off	-	-	315	(313)	2
Balance at end of period - Residential Mortgages	2,820	2,917	1,432	608	7,777
Retail Exposures					
Balance at beginning of period	11,198	3,913	1,743	-	16,854
Changes to the opening balance due to transfer between stages:					
Transferred to collective provision 12-months ECL	1,701	(1,470)	(231)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(338)	385	(47)	-	-
Transferred to collective provision lifetime ECL credit impaired	(104)	(272)	376	-	-
New provisions	3,931	2,600	1,500	-	8,031
Reversal of previously recognised provision	(4,360)	(1,785)	(1,275)	-	(7,420)
Balance at end of period - Retail Exposures	12,028	3,371	2,066	-	17,465
Corporate Exposures					
Balance at beginning of period	1,949	1,030	116	1,021	4,116
Changes to the opening balance due to transfer between stages:					
Transferred to collective provision 12-months ECL	343	(264)	(79)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(32)	183	(151)	-	-
Transferred to collective provision lifetime ECL credit impaired	(4)	(96)	100	-	-
New provisions	286	141	159	-	586
Charge/(credit) to income statement excluding transfers	(396)	87	(125)	-	(434)
Amounts written off	-	-	145	(216)	(71)
Reversal of previously recognised provision	(185)	(40)	(65)	(370)	(660)
Balance at end of period - Corporate Exposures	1,961	1,041	100	435	3,537
Total					
Balance at beginning of period	16,016	7,910	3,436	1,942	29,304
Changes to the opening balance due to transfer between stages:					
Transferred to collective provision 12-months ECL	3,238	(2,834)	(404)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(401)	863	(462)	-	-
Transferred to collective provision lifetime ECL credit impaired	(110)	(853)	963	-	-
New provisions	4,498	3,128	1,819	-	9,445
Charge/(credit) to income statement excluding transfers	(1,887)	940	(874)	-	(1,821)
Amounts written off	-	-	460	(529)	(69)
Reversal of previously recognised provision	(4,545)	(1,825)	(1,340)	(370)	(8,080)
Balance at end of period - Total	16,809	7,329	3,598	1,043	28,779

5. Asset Quality and Provisions for Credit Impairment (continued)
(e) Asset quality - movement in gross exposures

Movement in gross exposures/nominal amount of advances to customers, including loan commitments and financial guarantees by ECL allowance stage are as follows:

As at 30 September 2019
Residential Mortgages

	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	3,263,843	50,981	9,425	3,324,249
Changes to the opening balance due to transfer between stages:				
Transferred to stage 1	27,482	(26,510)	(972)	-
Transferred to stage 2	(32,446)	35,074	(2,628)	-
Transferred to stage 3	(729)	(2,902)	3,631	-
New loans	444,519	5,705	108	450,332
Assets derecognised and payments made	(340,188)	(6,938)	(2,420)	(349,546)
Other movements	(51,425)	(677)	53	(52,049)
Amounts (written off)/recovered	-	-	14	14
Balance at end of period - Residential Mortgages	3,311,056	54,733	7,211	3,373,000

Retail Exposures

Balance at beginning of period	595,151	8,850	2,386	606,387
Changes to the opening balance due to transfer between stages:				
Transferred to stage 1	3,070	(2,791)	(279)	-
Transferred to stage 2	(5,559)	5,615	(56)	-
Transferred to stage 3	(1,652)	(597)	2,249	-
New loans	228,231	1,140	244	229,615
Assets derecognised and payments made	(154,243)	(4,485)	(1,793)	(160,521)
Other movements	-	-	-	-
Amounts (written off)/recovered	-	-	-	-
Balance at end of period - Retail Exposures	664,998	7,732	2,751	675,481

Corporate Exposures

Balance at beginning of period	335,577	40,721	2,462	378,760
Changes to the opening balance due to transfer between stages:				
Transferred to stage 1	12,264	(11,967)	(297)	-
Transferred to stage 2	(7,112)	7,593	(481)	-
Transferred to stage 3	(187)	(264)	451	-
New loans	36,083	15,812	-	51,895
Assets derecognised and payments made	(30,591)	(18,574)	(1,068)	(50,233)
Other movements	(8,431)	(138)	(215)	(8,784)
Amounts (written off)/recovered	-	-	79	79
Balance at end of period - Corporate Exposures	337,603	33,183	931	371,717

Total

Balance at beginning of period	4,194,571	100,552	14,273	4,309,396
Changes to the opening balance due to transfer between stages:				
Transferred to stage 1	42,816	(41,268)	(1,548)	-
Transferred to stage 2	(45,117)	48,282	(3,165)	-
Transferred to stage 3	(2,568)	(3,763)	6,331	-
New loans	708,833	22,657	352	731,842
Assets derecognised and payments made	(525,022)	(29,997)	(5,281)	(560,300)
Other movements	(59,856)	(815)	(162)	(60,833)
Amounts (written off)/recovered	-	-	93	93
Balance at end of period - Total	4,313,657	95,648	10,893	4,420,198

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

(f) 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	(14)	6,289	219	-	6,494
Individual provisions	-	-	(370)	-	(370)
Collective provision	(244)	611	7	(2)	372
Provision for credit impairment to income statement	(258)	6,900	(144)	(2)	6,496

(g) Other assets under administration

There are no other assets under administration as at 30 September 2019.

6. Contingent Liabilities and Credit Related Commitments

	Unaudited Contract or Notional Amt 30/09/2019	Unaudited Credit Equivalent 30/09/2019	Unaudited Contract or Notional Amt 30/09/2018	Unaudited Credit Equivalent 30/09/2018	Audited Contract or Notional Amt 31/03/2019	Audited Credit Equivalent 31/03/2019
Credit related commitments						
Commitments with uncertain drawdown	39,677	19,839	25,253	12,627	28,255	14,128
Commitments to extend credit which can be unconditionally cancelled	333,414	-	333,208	-	326,120	-
Total credit related commitments	373,091	19,839	358,461	12,627	354,375	14,128

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.

7. Related Parties

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

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

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

At 30 September 2019 there are no amounts due from, or due to any related entities that are outside of the Banking Group.

8. 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.

	Unaudited 30/09/2019
Core liquid assets	
Cash on hand and at bank	50,778
Funds with financial institutions	53,882
Investment securities ²	539,715
Committed and undrawn funding lines ³	150,240
Eligible RMBS collateral (less haircut ¹)	100,330
Total liquidity	894,945

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 Investment securities of \$29.3 million that are encumbered through repurchase agreements have been excluded in the above table as they are not held for liquidity management purposes.

³ The Group also has another \$48.5 million available funding, not included as core liquid assets, in one of the securitisation vehicles. This is subject to having sufficient assets available to be securitised and has therefore not been included.

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 30/09/2019	Unaudited 30/06/2019
One-week mismatch ratio	9.3%	9.8%
One-month mismatch ratio	14.4%	14.9%
Core funding ratio	97.1%	97.8%

Maturity profiles

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 2019 (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	505,877	1,796,039	817,524	137,430	38,757	-	3,295,627
Deposits from customers	8,922	77,142	24,130	34,984	3,349	-	148,527
Commercial paper	-	334,623	-	-	-	-	334,623
Due to other financial institutions	-	29,347	51,298	455,535	-	-	536,180
Current tax liabilities	3,033	-	-	-	-	-	3,033
Other liabilities	25,764	-	-	-	-	-	25,764
Subordinated redeemable shares	-	-	-	-	-	105,128	105,128
Total liabilities	543,596	2,237,151	892,952	627,949	42,106	105,128	4,448,882
Interest	-	15,057	20,565	19,440	4,134	64,452	123,648
Total liabilities (inclusive of interest)	543,596	2,252,208	913,517	647,389	46,240	169,580	4,572,530
Derivatives							
Net derivative cash flows	(265)	(7,081)	(5,797)	(4,063)	(7,732)	(20)	(24,958)
Unrecognised loan commitments	39,677	-	-	-	-	-	39,677

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 77% (30 September 2018 78%; 31 March 2019 78%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Agricultural loans which comprise 6% (30 September 2018 6%; 31 March 2019 6%) of the Banking Group's loan portfolio are predominantly concentrated in the Southland/Otago region.

(b) Concentrations of credit risk by sector

	Unaudited 30/09/2019
Residential	2,412,641
Residential investing	741,396
Agricultural	226,800
Commercial finance	16,961
Commercial other	112,231
Consumer lending	496,815
Consumer credit card	63,229
Local authority	73,649
Corporate investments	608,218
Other	33,448
Total concentrations of credit risk by sector	4,785,388

(a) The maximum exposures to credit risk

	Unaudited 30/09/2019
Cash on hand and at bank	50,778
Funds with financial institutions	53,882
Investment securities	569,039
Derivative financial instruments	8,168
Current tax assets	-
Advances to customers	4,070,073
Loans to subsidiaries	-
Other assets	33,448
Total on-balance sheet credit exposures	4,785,388

(c) Concentrations of credit risk by geographical location

	Unaudited 30/09/2019
Auckland	1,343,534
North Island other	1,013,475
Canterbury	872,868
Otago	580,361
Southland	662,333
South Island other	234,383
Overseas	78,434
Total concentrations of credit risk by geographical location	4,785,388

(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		
	Unaudited 30/09/2019	Unaudited 30/09/2018	Audited 31/03/2019	Unaudited 30/09/2019	Unaudited 30/09/2018	Audited 31/03/2019
Percentage of common equity tier 1						
10-14%	1	1	1	-	1	-
15-19%	-	-	-	-	-	1
20-24%	-	-	-	2	1	1
25-29%	-	-	-	1	-	1
30-34%	-	-	-	-	1	-
45-49%	-	-	-	1	1	-
55-59%	-	-	-	-	-	1

9. Credit Risk (continued)

(d) Concentration of credit exposures to individual counterparties (continued)

Peak exposure	Number of non-bank counterparties			Number of bank counterparties		
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Audited
Percentage of common equity tier 1	30/09/2019	30/09/2018	31/03/2019	30/09/2019	30/09/2018	31/03/2019
10-14%	1	1	2	-	1	-
15-19%	-	-	-	-	-	1
20-24%	-	-	-	2	1	-
25-29%	-	-	-	1	-	1
30-34%	-	-	-	-	1	1
45-49%	-	-	-	1	1	-
55-59%	-	-	-	-	-	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 2019.

10. 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 2019 (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	50,778	-	-	-	-	-	50,778
Funds with financial institutions	48,848	1,413	2,316	1,055	250	-	53,882
Investment securities	249,393	33,070	44,874	35,181	206,521	-	569,039
Derivative financial instruments	-	-	-	-	-	8,168	8,168
Advances to customers	977,726	347,165	815,596	1,315,555	614,031	-	4,070,073
Other assets	-	-	-	-	-	111,032	111,032
	1,326,745	381,648	862,786	1,351,791	820,802	119,200	4,862,972
Liabilities and equity							
Redeemable shares	1,173,109	908,652	817,524	137,431	38,756	220,155	3,295,627
Deposits from customers	41,325	44,629	24,130	34,984	3,350	109	148,527
Commercial paper	131,123	203,500	-	-	-	-	334,623
Due to other financial institutions	536,180	-	-	-	-	-	536,180
Derivative financial instruments	-	-	-	-	-	41,238	41,238
Current tax liabilities	-	-	-	-	-	3,033	3,033
Other liabilities	-	-	-	-	-	65,856	65,856
Subordinated redeemable shares	-	-	-	-	105,128	-	105,128
Equity	-	-	-	-	-	332,760	332,760
	1,881,737	1,156,781	841,654	172,415	147,234	663,151	4,862,972
On-balance sheet interest sensitivity gap	(554,992)	(775,133)	21,132	1,179,376	673,568	(543,951)	-
Net balance of derivative financial instruments	1,129,700	386,400	(90,000)	(1,118,400)	(307,700)	-	-
Total interest rate sensitivity gap	574,708	(388,733)	(68,868)	60,976	365,868	(543,951)	-

11. 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.

Non-compliance with conditions of registration

The Bank has recently identified that it incorrectly calculated some off-balance sheet credit exposures relating to undrawn commitments on reverse equity mortgages. These exposures form part of the capital ratio calculations required under condition of registration 1. As a result of the error the Bank was non-compliant with condition of registration 1 in prior periods and during the current financial year up until 30 September 2019. The net overall effect of the errors was a decrease of 1 basis point on the CET1 capital ratio and 2 basis points on the total capital ratio at the most recently published quarterly results at 30 June 2019. This matter did not cause the Bank to breach any of its required minimum capital adequacy ratios at any time and had no impact on any customer with a reverse equity mortgage. The calculation errors have now been corrected and are reflected in the capital numbers for the six months ending 30 September 2019. The RBNZ has not required restatement of any previously reported ratios.

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.

11. Capital Adequacy - Unaudited (continued)

	Minimum ratio requirement	BANKING GROUP			REGISTERED BANK		
		30/09/2019	30/09/2018	31/03/2019	30/09/2019	30/09/2018	31/03/2019
Regulatory capital ratios							
Common equity tier 1 capital ratio	4.5%	11.4%	11.2%	11.4%	10.1%	10.4%	10.3%
Tier 1 capital ratio	6.0%	11.4%	11.2%	11.4%	10.1%	10.4%	10.3%
Total capital ratio	8.0%	14.2%	13.1%	14.2%	13.5%	12.7%	13.6%
Buffer ratio	2.5%	5.4%	5.1%	5.4%			

(a) Qualifying capital

	BANKING GROUP 30/09/2019
Tier one capital	
Common equity tier 1 (CET1) capital	
Retained earnings	330,536
Current period's retained earnings	15,894
Acquisition of non-controlling interests	(4,427)
FVOCI reserve	9,590
Cash flow hedging reserve	(21,071)
Less deductions from CET1 capital	
Goodwill and intangible assets	(12,523)
Deferred tax assets	(13,306)
Cash flow hedging reserve	21,071
Investments in associates	(6,925)
Total CET1 capital	318,839
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	318,839
Tier 2 capital	
Revaluation reserves	2,238
Subordinated redeemable shares	75,340
Total tier 2 capital	77,578
Total capital	396,417

During the year ended March 2019 the Bank launched a 10 year Capital Bond to Australian investors. These ten year bonds are fixed for the first five years, and are then subject to a quarterly floating rate. The Bank has the right to repay the principal amount on or after the five-year anniversary but there is no right for a holder to redeem before maturity. These were issued as subordinated redeemable shares and rank behind redeemable shareholders, depositors and unsecured creditors of SBS and are subject to loss absorption provisions.

At 30 September 2019, the balance of all subordinated redeemable shares issued was \$105.1 million. After adjustments for potential tax or other offsets, \$75.3 million has been recognised as tier 2 capital for RBNZ capital adequacy purposes.

11. Capital Adequacy - Unaudited (continued)
(b) Total risk weighted assets
BANKING GROUP as at 30 September 2019
On balance sheet credit exposures

	Total exposure after credit risk mitigation	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
Cash	613	0%	-	-
Multilateral development banks	78,265	0%	-	-
Public sector entities	73,649	20%	14,730	1,178
Banks	234,878	20%	46,976	3,758
Banks	159,159	50%	79,580	6,366
<i>Corporates</i>				
Rating grade 1	19,990	20%	3,998	320
Rating grade 2	74,525	50%	37,263	2,981
Rating grade 3 - 4	29,140	100%	29,140	2,331
Rating grade 5	465	150%	698	56
<i>Residential mortgages</i>				
<= 80% loan to value ratio (LVR)	1,576,073	35%	551,626	44,130
80 <= 90% LVR	54,988	50%	27,494	2,200
90 <= 100% LVR	1,796	75%	1,347	108
Past due	4,701	100%	4,701	376
Impaired	356	100%	356	28
<i>Property investment residential mortgage</i>				
<= 80% LVR	943,729	40%	377,492	30,199
80 <= 90% LVR	4,353	70%	3,047	244
<i>Residential mortgages first home loans</i>				
<= 90% LVR	489,037	35%	171,163	13,693
90 <= 100% LVR	35,271	50%	17,636	1,411
<i>Reverse residential mortgage loans</i>				
<= 60% LVR	67,750	50%	33,875	2,710
60 <= 80% LVR	4,395	80%	3,516	281
80 <= 100% LVR	117	100%	117	9
Equity holdings	3,013	300%	9,039	723
Other assets	965,787	100%	965,787	77,263
Non-risk weighted assets	40,922	0%	-	-
Total on balance sheet credit exposures	4,862,972		2,379,581	190,365

	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
Off balance sheet credit exposures						
Commitments with uncertain drawdown	39,677	50%	19,839	57%	11,324	906
Commitments to extend credit which can be unconditionally cancelled	333,414	0%	-	0%	-	-
<u>Market related contracts¹</u>						
Interest rate contracts	3,694,993	n/a	17,042	20%	3,408	273
Credit valuation adjustment (CVA)					322	26
Total off balance sheet credit exposures	4,068,084		36,881		15,054	1,205
Total credit risk	8,931,056		36,881		2,394,635	191,570
Operational risk	n/a				277,794	22,224
Market risk	n/a				118,581	9,486
Total risk weighted assets	8,931,056				2,791,010	223,280

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

11. Capital Adequacy - Unaudited (continued)

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

	BANKING GROUP	
	30/09/2019	30/09/2019
LVR range	On balance sheet	Off balance sheet
0 - 80%	2,643,131	218,641
80 - 90%	502,092	5,237
90% +	37,343	3,310
Total residential mortgages	3,182,566	227,188

First Home Loans (previously called Welcome Home Loans) make up 94% of the residential mortgages in the 90% + loan to valuation grouping and 88% 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
	30/09/2019
Gross residential mortgage loans (Note 4)	3,156,754
Other lending residually secured	28,530
Provision for credit impairment relating to residential mortgages (Note 5)	(7,777)
Deferred fee revenue and expenses relating to residential mortgages	5,059
Residential mortgage loans net of provision for impairment	3,182,566
Off balance sheet exposures - undrawn commitments (Note 11(c))	227,188
Total on and off balance sheet residential mortgage loans	3,409,754

(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	
	30/09/2019	30/09/2019
Interest rate exposures	End of Period	Peak End of Day
Implied risk weighted exposure	118,581	122,225
Aggregate capital charge	9,486	9,778

(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 \$30 million to cover these identified risks (30 September 2018 \$30 million; 31 March 2019 \$30 million).

12. 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 30/09/2019	Unaudited Fair value 30/09/2019	Unaudited Carrying value 30/09/2018	Unaudited Fair value 30/09/2018	Audited Carrying value 31/03/2019	Audited Fair value 31/03/2019
Financial assets						
Advances to customers	4,070,073	4,065,783	3,848,767	3,844,127	3,977,488	3,972,970
Total financial assets	4,070,073	4,065,783	3,848,767	3,844,127	3,977,488	3,972,970
Financial liabilities						
Redeemable shares	3,295,627	3,315,458	3,235,844	3,239,204	3,236,987	3,242,487
Deposits from customers	148,527	150,676	139,890	141,883	144,106	144,310
Subordinated redeemable shares	105,128	114,251	97,308	98,372	132,003	132,969
Total financial liabilities	3,549,282	3,580,385	3,473,042	3,479,459	3,513,096	3,519,766

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 30/09/2019 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	8,168	-	8,168
Investment securities	2,909	566,407	-	569,316
Advances to customers	-	-	72,645	72,645
Total financial assets	2,909	574,575	72,645	650,129
Financial liabilities				
Derivative financial instruments	-	41,238	-	41,238
Total financial liabilities	-	41,238	-	41,238

As at 30/09/2018 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	3,855	-	3,855
Funds with financial institutions	43,093	4,599	-	47,692
Investment securities	2,428	537,520	-	539,948
Advances to customers	-	-	72,090	72,090
Total financial assets	45,521	545,974	72,090	663,585
Financial liabilities				
Derivative financial instruments	-	22,360	-	22,360
Total financial liabilities	-	22,360	-	22,360

As at 31/03/2019 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	5,049	-	5,049
Investment securities	2,735	544,615	-	547,350
Advances to customers	-	-	72,385	72,385
Total financial assets	2,735	549,664	72,385	624,784
Financial liabilities				
Derivative financial instruments	-	30,184	-	30,184
Total financial liabilities	-	30,184	-	30,184

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.

13. Concentrations of Funding

	Unaudited 30/09/2019
(a) Concentrations of funding by geographical location	
North Island other	612,095
Auckland	954,564
Canterbury	721,445
Otago	676,866
Southland	991,880
South Island other	367,014
Overseas	96,221
Total concentrations of funding by geographical location	4,420,085
(b) Concentrations of funding by product	
Redeemable shares	3,295,627
Deposits from customers	148,527
Commercial paper	334,623
Due to other financial institutions	536,180
Subordinated redeemable shares	105,128
Total concentrations of funding by product	4,420,085

14. 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 2019 are \$20.9 million which is 0.4% of the total assets of the Banking Group.

15. Subsequent Events

There have been no material subsequent events after 30 September 2019.



Independent Review Report

To the Members 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 23, nothing has come to our attention that causes us to believe that:

- i. the consolidated interim financial statements do not present fairly in all material respects the Banking Group's financial position as at 30 September 2019 and its financial performance and cash flows for the 6 month period ended on that date;
- ii. the interim financial statements (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, 9, 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 Registered Bank'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 consolidated half year disclosure statement which comprises:

- the interim financial statements formed of:
 - the consolidated statement of financial position as at 30 September 2019;
 - the consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
 - notes, including a summary of significant accounting policies and other explanatory information.
- the supplementary information prescribed in Schedules 5, 7, 9, 13, 16 and 18 of the Order.



Basis for conclusion

A review of the 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.



Use of this independent review report

This independent review 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 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 Banking 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;
- the preparation and fair presentation of the supplementary information in regards to capital adequacy and regulatory liquidity requirements in accordance with the Registered Banks conditions of registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and Schedule 9 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 2019 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 supplementary information relating to capital adequacy and Regulatory Liquidity Requirements is not, prepared in all material respects, in accordance with the Registered Banks 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 consolidated half year disclosure statement.

A handwritten signature of the KPMG firm, written in dark ink.

KPMG
Christchurch

21 November 2019