sbs BANK

ANNUAL REPORT & FINANCIAL STATEMENTS 2024

Conserving the Kiwi dream and helping Kiwis find a place to call home.

Southland Building Society
155th Annual Report for the year ended 31 March 2024.
Disclosure Statement No.52 & Annual Financial Statements.

Highlights.

Total Assets
$6.5
BILLION

Member Deposits
$4.5
BILLION

Surplus Before Tax
$56.6
MILLION

Members' Equity
$525
MILLION

Group Chief Executive Officer
Mark McLean
Chartered Accountant
BCom (Acctg), DipGrad (Marketing)
Invercargill.

Secretary
Sonia Lawrence
Chartered Accountant
BCom (Acctg)
Regulatory Affairs
Invercargill.

Registered Office
51 Don Street,
Invercargill.

Solicitors
Buddle Findlay
83 Victoria Street,
Christchurch.

Auditors
KPMG
Level 6, 44 Bowen Street,
Wellington.

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Chairperson's report.

Joe O'Connell Chairperson.

Welcome to our 2024 annual report – Conserving the Kiwi dream and helping Kiwis find a place to call home.

SBS Bank has delivered a solid result for the 2023-2024 financial year as we welcomed strong numbers of both first home buyers and investors.

We are delighted to be the trusted financial partner in the lives of 86,000 Members across New Zealand as we grow and succeed as a mutual organisation, investing back into New Zealand.

As we look back over our financial performance for the year to 31 March 2024, it's our strong growth in deposits and home lending that really stand out.

SBS Bank's total home lending increased by 8% to $4.3 billion – outstripping the industry average growth rate two-and-a-half times over.

Helping 1,950 Kiwis step into home ownership through competitive pricing and superior products for first home buyers is an excellent achievement, made possible by the support of our loyal investors, who we were pleased to also reward with market-leading term investment rates.

We have been pleased to bring home buyers and investors together through our purpose of helping Kiwis find a place to call home. This year we have seen our term investments grow by 7%, 1.2 times the industry growth average.

Achieving a surplus before tax of $56.6 million was significant in the challenging economic climate, and our strong asset portfolio is a testament to the dedication from teams right across the bank from lending through to credit risk management. Our robust position ensures we can invest back into the business with innovation to meet the evolving needs of our Members.

We know many New Zealanders are facing pressures in times of rising costs. Strong asset health also means we are in a solid position to withstand external pressures and support Members facing uncertainty or needing help managing in a higher interest rate environment.

Building SBS for the future

Since our doors opened in 1869, SBS has been here to support our Members into home ownership and beyond. Our heritage and purpose was communicated in a new and exciting way this year, through the 'SBS Bank Kiwi Dream Conservationists'.

You will have noticed more activity in the marketing space as we shared our new brand campaign nationally, reshaping the way New Zealand thinks about first home buyers.

We are now in the second year of our five-year strategic plan to transform and grow. This sees us focused on innovation, simplifying processes and building the capability to drive the ambitions we have for SBS.

Investment priorities include technology and developing our people and capability to deliver more personalised experiences for safe and simple banking.

Sustainability and our environmental impact has also been an important focus area for the Board, which has overseen development of our Group Environmental Policy, implementation of the first Group Environmental Strategy, achieving Carbon Reduce™ accreditation and further embedding climate risk management in our operations.

Much of this work is published in detail in our first Climate-Related Disclosure under the Aotearoa New Zealand Climate Standard as part of this year's Sustainability Report.

Expect another big year ahead as we focus on giving Members the very best value and service in the ways they choose to bank.

The Board is firmly behind SBS management as we work towards our five-year goals and I congratulate Mark McLean and his leadership team for their sharp focus on strategic initiatives while creating a workplace where our teams can deliver on our purpose and feel valued.

A strong, safe bank

It's a privilege to be the guardians of a brand that has been part of our community for 155 years and the Board's priority is keeping the bank strong and safe as we pursue growth.

One of our biggest focus areas continues to be raising sufficient capital for expansion. Having the right amount of the right type of capital is critical to all banks, and for us, we use the capital as part of our overall purpose of helping Kiwis find a place to call home.

This year we issued $86m of new Tier 2 Capital Bonds, providing more choice for Members looking to grow their money with us, and an option for investors seeking a longer-term investment with a regular income stream.

We will keep investigating capital options that also provide alternative investments for investors.

Working together as one team

This year I've thoroughly enjoyed meeting more of our Members and our team members around the country. A personal highlight was meeting our young first home buyers from Gore as they drove down their rate as part of our sponsorship promotion at the NZ Open this year. To hear their appreciation of our ongoing support and personal service through what can be a difficult process for first home buyers was extremely rewarding. I would like to thank all of our SBS team members who provide this excellent customer service every single day.

Thank you to my fellow directors for their focus on our purpose and strategy and contribution to the various SBS Board committees they serve on to help ensure SBS is strong, financially sound and positioned well for the future.

We are fortunate to have a diverse and experienced Board of Directors who are committed to supporting our Members and investing in our communities.

Thank you also to the executive leadership teams of SBS Bank and our subsidiaries SBS Wealth, SBS Insurance and Finance Now for their hard work and dedication.

Together, our SBS Group of companies represents a strong group of specialists supporting our Members and customers with finance, insurance and investing. Our trading subsidiaries are an essential part of the SBS Group's success and have again contributed significantly to this year's financial results. The entire SBS Group has focused heavily on transformation as we adapt and embrace change to ensure we are able to provide the very best products and services for our Members.

Helping Kiwis get ahead

Most importantly, thank you to our Members for your ongoing support.

SBS has made remarkable progress with growth and innovation over 155 years, but our founding principles remain the same: We are a mutual bank, owned by our Members and here for New Zealanders.

We are proud to stand on this strong foundation as we look to our exciting future, helping Kiwis get ahead.

"It's a privilege to be the guardians of a brand that has been part of our community for 155 years and the Board's priority is keeping the bank strong and safe as we pursue growth."

Joe O'Connell Chairperson.

Lending Growth

$477 MILLION

Group CEO's report.

"We are proud our Members are at the forefront of our story and to provide more reasons to bank with a mutual organisation that invests back into New Zealand."

Mark McLean Group CEO.

We take great pride in our purpose of helping Kiwis find a place to call home.

It's a pleasure to once again mark a successful year where we helped 1,950 Kiwis start their home ownership journey. That's 35% more first home buyers than we supported last year.

All SBS Members can celebrate this incredible achievement, whether first home buyers or not, because we can't make it happen without the support of our investors. This year we were proud to champion them too, with market-leading term investment rates that played a part in us welcoming 6,650 new Members to the bank.

The vital connection between our investment Members and first home buyers was reinforced with the launch of our national brand campaign. SBS Bank's 'Kiwi Dream Conservationists' were introduced to the market in September 2023, demonstrating that investing with SBS means more than growing your dream savings, but supporting other Kiwis into home ownership – conserving the Kiwi dream together.

Results from the campaign have been a dream too, with an increase in new Members since the launch. At the same time, home lending grew two-and-a-half times faster than our major competitors over the year.

Our Kiwi dream campaign successfully positioned SBS as the bank with heart and a purpose that brings all New Zealanders together, whether saving for a home or investing your savings.

We are proud our Members are at the forefront of our story and to provide more reasons to bank with a mutual organisation that invests back into New Zealand.

Dedicated to our purpose

We're now commencing the second year of our five-year strategic plan for growth and transformation, with a goal to be one of the best-loved, Kiwi-owned banks.

Telling our story nationally through the Kiwi Dream Conservationists was a big step towards this and brand connection with our Members is resonating with new Members welcomed across the country. It's fantastic to hear from investors that they feel great about helping the next generation of first home buyers.

Some highlights of the year include the simplification of our business as we streamline and rationalise our products to provide simple, safe banking to best meet Members' needs and to ensure we are effective in delivering on our purpose.

It's rewarding to have our purpose supported with back-to-back Canstar wins as the best bank for first home buyers (2022 and 2023). We were also delighted to be awarded the five-star Canstar rating for our SBS Visa Credit Card and to be named 'Mutual of the Year' at the 2023 Cooperative Business New Zealand Annual Awards.

I'm immensely proud of the SBS team for their dedication to providing great outcomes for Members in whatever stage of life they are in.

Committed to our Members

As our strength in the market continues to grow, we're investing to improve our digital services for the growing number of Members choosing to bank with us online.

We expect another strong year of transformation ahead as we deliver against our strategy, with exciting initiatives to benefit Members and provide more personalised experiences.

These include a refresh of the SBS Mobile app to give us more features including Google Pay and Apple Pay, and the introduction of a new debit card offering. We'll be introducing a new digital onboarding experience so it's even easier to join SBS Bank from anywhere, and upgrading our home loan application process as we strive to provide the fastest home loan.

We're committed to giving Members the best service through whichever channel they choose to engage with us. Our friendly frontline staff at our 14 branches across the country and our Contact Centre team continue to be there to help with everyday banking needs.

We know Members place trust in us to keep their money and details safe and our risk and fraud teams continue to focus on strong cybersecurity controls and preventative measures to safeguard Member data. We regularly publish Member notices about online scams to build awareness, and this year we reduced the daily limit for a single payment through online banking to $10,000. SBS works closely with other banks, regulators and law enforcement agencies as part of a national, multi-sector approach to further fight fraud and scams.

We have continued to build our financial strength and resilience with our Tier 2 Capital Bonds product offering, giving our investors more choice to grow their money while also demonstrating our ability to adapt and meet Member needs with a more complex investment product.

Strengthening our culture

We value our Member relationships and I'm grateful to our hardworking SBS teams, from our frontline branch and Contact Centre to those in head office, for their excellent work to ensure we meet our Members' needs and provide you with the best value.

We've rolled out an expanded leadership development programme with greater focus on coaching and equipping our leaders to be better able to develop their teams.

The refresh of an online human resources portal will help staff further their training and careers, which is an area we have always been committed to and continue to invest in.

Our staff wellbeing and diversity programme supports a positive and healthy workplace culture, and as part of this we are making sure our workspaces are fit-for-purpose; trialing some new office layouts and work stations to help modernise the way we work.

My Executive Team has been integral in leading the focus on performance and wellbeing within their own teams, and played an important role in delivering on our strategy this year.

Thank you to our Board and Chairperson Joe O'Connell for robust guidance and passion for our bank and our purpose.

Thank you also to you, our Members, for your ongoing support of SBS. Our 155-year strong heritage gives us a powerful foundation as we look ahead.

Member Deposit Growth

$285 MILLION

Building Strong Communities.

At the heart of our communities

Caring for community has been strong in our DNA throughout the 155 years SBS has been in business, and we proudly back a broad range of organisations working to improve the wellbeing of our communities.

Last year, SBS Bank gave out over $900,000 to partnerships and community groups across sports, arts, diversity and culture, supporting them to keep on doing what they do best.

Initiatives such as our 'Great Rate Roar Down' at key home game sports events bring communities together, inviting crowds to cheer down the interest rate for a first home buyer.

This year, we extended this to the New Zealand Open where two first home buyers had the chance to 'Drive Down the Rate' on their home loan based on the golfing pros' average score on hole 10 for the weekend.

At Christmas, our Group Chief Executive Mark McLean met with the Salvation Army's Corps Office and Director, Community Ministries, Murray Sanson. It was our pleasure to help spread the joy of giving by supporting this worthy cause, helping fellow New Zealanders at what can be a difficult time of year.

We were proud to be able to help New Zealand Red Cross by donating recycled desktop computers to the Southland branch to help refugee families.

We also encourage our teams to get involved in their communities and use our staff volunteer leave policy to support charities and participate in local events.

Here for you

As a mutual-owned bank, it's our priority to support all our Members and with our asset quality in really good shape, the SBS Group is in a sound position to help navigate the challenges and opportunities ahead.

Top left: SBS Group CEO Mark McLean with Murray Sanson of the Salvation Army.
Top right: SBS Chairperson Joe O'Connell with first home buyers Evelyn and Brad, who were part of our 'Drive Down the Rate' activation.
Bottom: NZRC Settlement Cross Cultural Workers Jimmy Shema and Vivian Quinones.

Top: Staff volunteering at the 103rd New Zealand Open.
Bottom: First home buyer Ruby Heslop, from Nelson.

Top: SBS Bank supporting the Fern Fever sports event for female players.
Bottom: First home buyers Gabriel and Sara from Tauranga.

Top: 2023 SBS Bank Tour of Southland winner Dan Gardner.
Bottom: The Highlanders visit our Timaru branch.

Member Benefits.

This is your bank and we strive to provide you the very best value as a Kiwi-owned mutual organisation, investing back into New Zealand.

$128[1]

Average fortnightly savings for our first home buyers.

Our first home buyers were, on average, $128 better off per fortnight on our 12-month fixed FirstHome Combo rate than they would have been with a large bank.

$108[2]

Average amount by which our investors are better off.

Our investors on our 12-month term investment rate were, on average, $108 better off with us over the year than they would have been with a large bank.

$3.2M

Rebated transactional fees.

Last year we rebated $3.2 million in Member transactional fees.

6.4%*

Sustainability: Achieved Toitū Carbon Reduce™.

SBS has prepared and certified our first Group Carbon Emissions Report. Our first Emissions Reduction Plan has been developed, setting a target aligned with the Paris Agreement.

*Metric: Emissions Intensity (Emissions/Revenue).

$900,000+

Given out to partnerships and community groups.

We're proud of our commitment to our communities and the diverse range of organisations we have been able to help through our sponsorship programme.

6,650

New Members welcomed to SBS Bank.

We've been delighted to welcome so many new Members to SBS Bank this year across our various products and services, and to be given the opportunity to build an ongoing relationship with them.

2023

Mutual of the Year.

We were proud to be named 'Mutual of the Year' at the Cooperative Business New Zealand Awards.

1,950

New Zealanders bought their first home with us.

We've been helping more New Zealanders get into their very own homes for 155 years. This year, we were excited to be able to help even more first home buyers get into their first home.

100%

New Zealand-owned.

All of our profits stay right here in New Zealand! Our Members are our owners and our very reason for being, so we ensure that we give to our communities and remain focused on safeguarding SBS Bank for generations to come.

Sponsorship access

Members and community partners have enjoyed access to and preferential ticketing for some of our sponsorships including The Highlanders, Southland Stags, Southland Sharks, and Invercargill Musical Theatre.

[1] Benefits based on a daily rate comparison of SBS 12-month FirstHome Combo rate against the large bank (ANZ, ASB, BNZ and Westpac) advertised average 12-month mortgage special rate sourced via interest.co.nz.

[2] Benefits based on a daily rate comparison of the SBS 12-month term investment rate against the large bank (ANZ, ASB, BNZ and Westpac) advertised average 12-month term investment rate sourced via interest.co.nz.

Your Executive Team.

Mark McLean
Chartered Accountant, BCom (Acctg), DipGrad (Marketing)

SBS Group CEO

Mark has a financial services industry background spanning more than 30 years. He has held various banking leadership roles in the United Kingdom, Singapore, the Netherlands and New Zealand. He was a member of SBS Bank's Executive Team for over 10 years before moving into the role of SBS Group CEO in January 2022.

Mark is responsible for the performance of SBS Bank along with its three subsidiary businesses, Finance Now Ltd, SBS Wealth and SBS Insurance. Mark has a Bachelor of Commerce majoring in Accountancy from the University of Otago and a Post Graduate Diploma in Marketing. He is also a member of Chartered Accountants Australia and New Zealand, and the Institute of Directors.

Jeff Mitchell
BCom, BSc, CAANZ

Chief Financial Officer

Jeff is a chartered accountant with 20 years' experience in financial management. Jeff started as Chief Financial Officer for SBS Bank in September 2022, having previously held roles in financial services businesses across New Zealand, Ireland and the United Kingdom.

As Chief Financial Officer, Jeff is responsible for treasury and capital management, internal and external financial reporting, prudential regulatory affairs, properties and procurement.

Jeff holds a Bachelor of Commerce and Bachelor of Science from Victoria University. He is also a member of Chartered Accountants Australia and New Zealand and a chartered member of the Institute of Directors

Rowena Thompson
MBA, GAICD

Group Chief Risk Officer

Rowena has 30 years' financial services industry experience. She started as the Group Chief Risk Officer in April 2020 with responsibility for risk management and compliance activities across the Group.

Prior to this, Rowena held various leadership roles across New Zealand and Australia from leading customer-facing teams through to delivering risk frameworks at a group level.

She has a Master of Business Administration from Southern Cross University and is a graduate of the Australian Institute of Company Directors.

Shane Evans
BCom

Chief Transformation Officer

Shane has 20+ years' global experience leading digital, data and brand transformation strategies, previously holding leadership roles in the financial services industry in New Zealand, the United Kingdom and Australia.

Shane joined SBS Bank in May 2022 to lead the development of our strategy and execution of the change programme that covers digital banking, implementation of automation and simplification initiatives, driving the growth of all products, brand development and the sponsorship portfolio.

Shane has a Bachelor of Commerce, Marketing and Management from the University of Otago and is an alumni of Southland Boys' High School. He was recognised as New Zealand's Marketer of the Year in 2021.

Hamish McKenzie
BA (History), LLB

General Manager People and Support

Hamish is a qualified lawyer with more than 37 years' experience, working in both the public and private sectors. He has extensive HR experience and has held various executive leadership roles in New Zealand, Australia, South East Asia and the United Kingdom in both the financial services and retail sectors. Hamish was appointed General Manager of People and Support in March 2014. He is responsible for maximising the ability of SBS Bank's people to achieve individual and organisational performance goals and targets. In addition, he is tasked with providing support services to member banking activities. In August 2022, he also picked up the additional portfolios of IT & Cybersecurity.

Hamish has a Bachelor of Arts/ Batchelor of Law from the University of Otago.

Michael Oliver
NZ Certificate in Financial Services Level 5 v2

Acting GM Retail

Michael is a senior retail banker with more than 30 years' experience across several of New Zealand's leading financial services businesses. He has been with SBS since 2015 as a regional manager and is now responsible for leading our branches, Contact Centre and adviser channels. Michael has a depth of knowledge across all areas of retail banking including products and innovation, and plays a pivotal advisory role to our change programme. He works closely with your branch managers and key departments within the business to ensure that we are providing you, our Members, with the very best products and services and keeping you at the heart of everything we do.

Your Board of Directors.

Joe O'Connell
B.Com, FCA, CFInstD
Chairperson

A Fellow of the Institute of Chartered Accountants and a Chartered Fellow of the Institute of Directors, Joe joined the SBS Bank Board in 2017 and has been Chairperson since July 2021. He is an experienced Director with a financial background and experience base that spans many industries such as airports, banking, commercial property, electricity distribution networks, exploration drilling and piling, fuel distribution, insurance, ready-mix concrete, timber processing and transportation.

Previously, Joe has Chaired the Invercargill Airport Ltd, overseeing the redevelopment of all land-side and terminal facilities, as well as negotiating commercial terms for the company to secure its long-term viability. He has held directorships for Electricity Invercargill Ltd and Powernet Ltd and is a Director of Fern Energy Ltd, K G Richardson Ltd and a founding trustee of the Southland Foundation.

Chairpersonships: SBS Bank.

Directorships: Finance Now Limited, Southsure Assurance Limited, Fraser Properties Limited.

SBS committee memberships: Board Appointments Committee (Chairperson), Due Diligence Committee, Group IT Committee, Talent and Remuneration Committee.

Trusteeships: SBS Charitable Trust.

Mike Skilling
BAgrSci, PGDipBank, SFFINSIA, CMInstD
Deputy Chairperson

Mike joined the SBS Board in August 2014. He is an independent director of various companies spanning funds management, insurance, mortgage broking, dairy/sheep/beef/crop/horticultural farming, consumer finance and early childhood education.

Mike has in-depth experience in retail, private, rural and business banking together with insurance, managed funds and finance companies. In previous roles, he has led both the agribusiness and business banking arms of BNZ including small business, medium/large business, international trade, property, plant and machinery finance and private banking teams.

He is a Senior Fellow of the Financial Services Institute of Australasia and a chartered member of the New Zealand Institute of Directors.

Chairpersonships: Funds Administration New Zealand Limited.

Directorships: SBS Bank, Fraser Properties Limited.

SBS committee memberships: Group Audit and Risk Committee, Board Appointments Committee.

Trusteeships: SBS Charitable Trust.

Sarah Brown
BA LLB, CFInstD

Sarah is a former commercial lawyer who is now a professional director and has had extensive governance experience. She was previously on the Southern Institute of Technology Council for 11 years, six of them as Chair. She has also served on the Boards of Electricity Invercargill and PowerNet.

Sarah is a director of NZX-listed PGG Wrightson Ltd, where she has been Audit Chair since May 2021 and is a trustee of the Southland Foundation.

Sarah was appointed to the SBS Board in January 2022. She is a passionate Southlander and brings a wealth of experience and knowledge to the SBS Board.

Directorships: SBS Bank, Fraser Properties Limited, Southsure Assurance Limited.

SBS committee memberships: Group Audit and Risk Committee.

Trusteeships: SBS Charitable Trust.

Kevin Murphy
FCA, CFInstD

As the former managing director/CEO of TSB, Kevin oversaw the bank's ambitious New Zealand-wide growth programme that had a focus on both branch presence and digital offerings.

He has continued to serve his community and has been a long-serving member of New Plymouth Operatic Society (also a life member), is a business advisor and life member of Musical Theatre New Zealand, and a committee member of the Dame Malvina Major Foundation.

Kevin was appointed to the SBS Board in November 2018.

Kevin is on the Board of Public Trust New Zealand and Niue Development Bank and is a Fellow of Chartered Accountants Australia and New Zealand and a Chartered Fellow of the Institute of Directors.

Chairpersonships: Finance Now Limited.

Directorships: SBS Bank, Fraser Properties Limited.

SBS committee memberships: Due Diligence Committee, Board Appointment Committee, Group Audit and Risk Committee.

Phil Ellison
BMS, MInstD

Phil is a professional director with over 30 years' experience in the consumer finance sector, including 22 years at Finance Now Ltd, spending more than 16 years of those in the role of CEO. He is a member of the Institute of Directors and was previously Deputy Chair of the Financial Services Federation. Phil chairs the Professional Golfers' Association (PGA) of New Zealand, supporting the professional golf members of New Zealand and is an active member of the NZ ICE Angels, advising a number of start-up businesses and is Chair of one of them.

Phil has a Bachelor of Management Studies – Marketing and Finance from the University of Waikato.

Phil was appointed to the SBS Board in 2022.

Directorships: SBS Bank, Funds Administration New Zealand Limited, Fraser Properties Limited.

SBS committee memberships: Group IT Committee (Chairperson), Talent and Remuneration Committee.

Linda Robertson
BCom, DipBank, CFInstD, CGP, DFINFINZ, GCBD, GAICD

Linda is a professional company director with over 25 years' governance experience, combined with 30 years' senior financial management experience having worked in both the banking and energy sectors in New Zealand.

Linda has been a full-time company director since 2015. Linda's governance experience spans many industries such as banking, funds management, electricity generation, retail and distribution, broadcasting services, co-operatives, local authority owned and state-owned entities and charities. She has a Bachelor of Commerce and a Diploma in Banking. Linda also holds a Sustainability and ESG Designation; and a Climate and Biodiversity Certificate. Linda is a Distinguished Fellow of the Institute of Finance Professionals New Zealand, a graduate member of the Australian Institute of Company Directors, a Charted Governance Professional and a Certified Fellow of the Institute of Directors in New Zealand.

Linda was appointed to the SBS Board in April 2023.

Directorships: SBS Bank, Fraser Properties Limited.

SBS committee memberships: Group Audit and Risk Committee (Chairperson), Due Diligence Committee (Chairperson), Group IT Committee.

Mark O'Connor
BCom, FCA, FNZIM

Mark is a qualified accountant who has primarily been involved in senior management roles in the New Zealand port sector for more than 25 years. He is the former CEO of NZX-listed company South Port NZ, a position he held for 18 years.

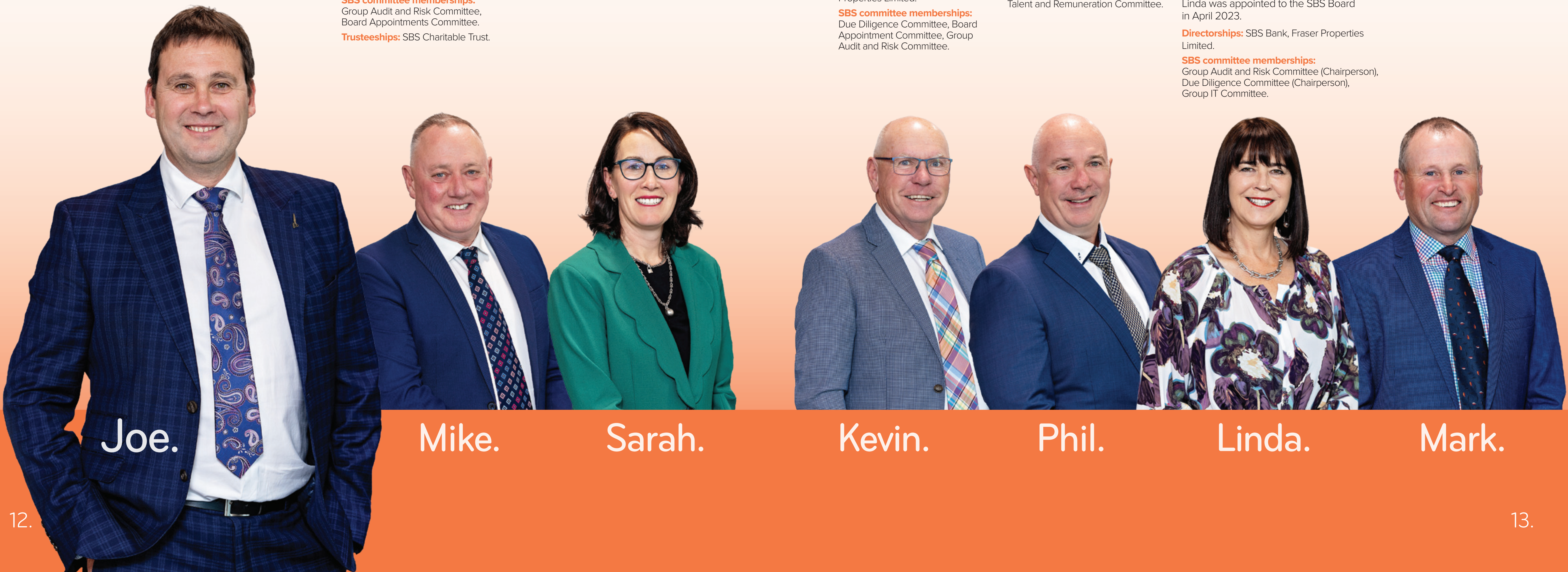
Appointed to the SBS Board in August 2018, Mark is also Chairperson of Nevele R Stud.

Chairpersonships: Southsure Assurance Limited.

Directorships: SBS Bank, Fraser Properties Limited.

SBS committee memberships: Group Audit and Risk Committee, Talent and Remuneration Committee (Chairperson).

Trusteeships: SBS Charitable Trust.



Subsidiaries.

Bruce Waddel
SBS Insurance CEO

SBS Insurance made a strong profit contribution to the Group, linked to the realisation of shareholding in Abbotts Insurance Brokers and continuation of our strategic transformation work program.

In September 2023, we completed our transition to a 'net broker' relationship for all our fire and general insurance customers. This was a significant undertaking, enabling us to provide customers with great advice and service right through the insurance solution life cycle.

Our team members continue to deliver great outcomes to customers. The adviser team is fully trained across general, life and income protection products. We also increased staff numbers in our advice and claims area to further improve our customer engagement.

In February 2024, the business sold its shareholding in Abbotts Insurance Brokers, with a significant, positive gain on sale for the SBS Group. We have enjoyed a great relationship with the Abbotts team over the years and expect this to continue after the sale.

Another transformative year beckons for the business as we look to refresh our product set and embark on a technology roadmap with a new partner. These projects will be critical to further enabling our drive to protect the lifestyle needs of our customers and the place they call home.

Hadyn Halls
Finance Now CEO

Finance Now finished the year 18% up in receivables on the back of strong volume performances in the cards, motor vehicle and personal loan channels.

This strong growth trajectory continues to outperform our strategic roadmap, which is pleasing, particularly considering greater-than-expected volume declines in key areas such as car sales and retail spend.

Good progress was made in managing margins across our portfolios, with better tools to allow more granular future pricing and returns. We have taken a prudent approach to new business with an eye towards economic challenges and appear well-placed against our industry peers in terms of arrears profiles and loss rates.

Our technology teams have advanced several strategic projects for delivery in 2025, providing scale and efficiency to enhance the customer experience.

From a team point of view, nice cadence and progress has been made with emphasis on communication, role clarity and linkage to the Finance Now strategy. This was reflected positively in our staff engagement results and saw record-low attrition rates.

In addition to tight portfolio credit management and margin control, our success in the year ahead will centre on being clear on our marketing strategy and the market segments we engage in, with a clear customer lens on channels, products, processes, servicing, and messaging. Continuing to grow our intermediary network and work with existing intermediaries will also be a key focus.

Morne Redgard
SBS Wealth CEO

After joining SBS Wealth at the end of May 2023, we have been hard at work refreshing the business strategy.

The strategic shift sees a renewed focus on retail markets and making "Financial advice more accessible to all Kiwis".

Financial advice is at the core of what we do at SBS Wealth and being able to offer advice to all our clients will help them set, plan, and execute their financial goals in a more structured way.

The year ending 31 March 2024 was a fantastic year for our KiwiSaver High Growth Fund, which ended the 12-month period as one of the leading aggressive funds, delivering 22.08% over this period. The high-growth fund is a building block fund for all our Lifestages Auto funds, so most of our KiwiSaver members would have benefited from this performance.

Operating profits were below expectations as costs for the year exceeded budget as a result of the new strategic direction, as well as foundational pieces of work that have been completed to prepare the business for our next growth phase.

A big thank you to the SBS Wealth team for a huge effort during the course of the year.

Disclosure Statement.

For the year ended 31 March 2024.

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Accounting estimates and areas of judgement.

Abbreviations

The following abbreviations are used throughout the report:

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

Disclosure Statement.

For the year ended 31 March 2024.

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Annual Financial Statements

Registered Bank Disclosures

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

Southland Building Society

Income Statement for the year ended 31 March 2024. All in $000's

	Note	31/03/2024	Restated 31/03/2023
Interest income		439,975	288,189
Interest expense		86,776	48,466
Dividends on redeemable shares		202,441	98,326
		289,217	146,792
Net interest income	(2)	**150,758**	**141,397**
Net fee and commission income	(3)	26,047	24,557
Insurance service result and other income	(4)	1,199	1,620
Total operating income		**178,004**	**167,574**
Operating expenses	(5)	115,480	104,626
Credit impairment losses	(12(c))	20,330	12,671
Operating surplus		**42,194**	**50,277**
Net gain/(loss) from financial instruments at fair value through profit or loss	(6)	334	(32)
Net gain/(loss) from sale of associate	(14)	12,976	-
Share of associates profit net of tax		1,057	1,230
Surplus before income tax		**56,561**	**51,475**
Less income taxation expense	(7)	13,739	14,013
Net surplus		**42,822**	**37,462**
Attributable to:			
Members' interests		**42,822**	**37,462**

Southland Building Society

Statement of Comprehensive Income for the year ended 31 March 2024. All in $000's

	31/03/2024	Restated 31/03/2023
Net surplus for the year	42,822	37,462
Items that may not be reclassified subsequently to profit or loss		
Net change in property, plant and equipment reserve, net of tax	1,242	295
Items that may be reclassified subsequently to profit or loss		
Net change in fair value through other comprehensive income ("FVOCI") reserve, net of tax	8,043	(1,718)
Net change in cash flow hedging reserve, net of tax	(33,075)	6,415
Other comprehensive income for the year, net of tax	(23,790)	4,992
Total comprehensive income for the year	**19,032**	**42,454**
Attributable to:		
Members' interests	**19,032**	**42,454**

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 year ended 31 March 2024.

All in $000's

		Reserves			
Banking Group as at 31 March 2024	**Retained earnings**	**Property, plant and equipment**	**FVOCI**	**Cash flow hedging**	**Total equity**
Balance as at 31 March 2023	469,059	2,337	(15,880)	50,358	**505,874**
Net surplus for the year	42,822	-	-	-	**42,822**
Other comprehensive income for the year					
Amortised to income statement	-	-	-	(8,085)	**(8,085)**
Revaluation/change in fair value	-	1,589	11,171	(38,075)	**(25,315)**
Current/deferred tax impact	-	(347)	(3,128)	13,085	**9,610**
Total comprehensive income for the year	42,822	1,242	8,043	(33,075)	**19,032**
Dividends paid	-	-	-	-	**-**
As at 31 March 2024	**511,881**	**3,579**	**(7,837)**	**17,283**	**524,906**

		Reserves			
Banking Group as at 31 March 2023	**Retained earnings**	**Property, plant and equipment**	**FVOCI**	**Cash flow hedging**	**Total equity**
Balance as at 31 March 2022	431,129	2,042	(14,162)	43,943	**462,952**
Balance adjusted for adoption of accounting standard [(1)]	468	-	-	-	**468**
Net surplus for the year	37,462	-	-	-	**37,462**
Other comprehensive income for the year					
Revaluation/change in fair value	-	402	(2,386)	8,883	**6,899**
Current/deferred tax impact	-	(107)	668	(2,468)	**(1,907)**
Total comprehensive income for the year	37,462	295	(1,718)	6,415	**42,454**
Dividends paid	-	-	-	-	-
As at 31 March 2023	**469,059**	**2,337**	**(15,880)**	**50,358**	**505,874**

[(1)] NZ IFRS17 has been adopted from 1 April 2023 and has been applied in the preparation of the statement of changes in equity. Refer to Note 1 for further information.

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

Southland Building Society

Statement of Financial Position as at 31 March 2024.

All in $000's

	Note	**31/03/2024**	**Restated 31/03/2023**
Assets			
Cash on hand and at bank		63,731	55,005
Funds with financial institutions and central bank	(8)	150,204	128,411
Investment securities	(9)	592,766	574,722
Derivative financial instruments	(10)	49,682	95,966
Advances to customers	(11)	5,501,423	5,024,728
Investments in associates	(14)	-	10,515
Other assets		79,282	69,143
Property, plant and equipment		19,575	18,956
Right-of-use assets		19,457	19,370
Goodwill and intangible assets		10,158	9,614
Net deferred tax assets	(7)	4,291	-
		6,490,569	**6,006,430**
Liabilities			
Redeemable shares	(16)	4,353,334	4,096,601
Deposits from customers	(16)	54,686	69,007
Medium term notes	(16)	326,934	148,924
Commercial paper	(16)	360,992	346,284
Due to other financial institutions	(16)	663,430	668,065
Derivative financial instruments	(10)	16,013	18,850
Current tax liabilities		10,387	5,044
Deferred tax liabilities	(7)	-	10,501
Other liabilities	(17)	72,944	73,059
Subordinated redeemable shares	(16)	106,943	64,221
		5,965,663	**5,500,556**
Net assets		**524,906**	**505,874**
Equity			
Reserves		13,025	36,815
Retained earnings		511,881	469,059
Attributable to members of the society		**524,906**	**505,874**

For and on behalf of the Board of Directors:

Chairperson
AJ O'Connell

Deputy Chairperson
MJ Skilling

22 May 2024

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

Southland Building Society

Statement of Cash Flows for the year ended 31 March 2024. All in $000's

	Note	31/03/2024	31/03/2023
Cash flows from operating activities			
Interest received		437,551	277,931
Fees and other income		49,852	46,048
Dividends received		181	105
Interest paid		(70,331)	(39,900)
Dividends paid on redeemable shares		(185,666)	(76,197)
Operating expenses		(142,349)	(141,717)
Income taxes received/(paid)		(13,260)	(7,621)
Net cash flows from operating activities before changes in operating assets and liabilities		75,978	58,649
Net changes in operating assets and liabilities			
Change in advances		(491,610)	(631,879)
Change in shares and deposits from customers		225,717	673,827
Change in medium term notes		173,028	-
Change in commercial paper		13,939	393
Change in amounts due to other financial institutions		(17,996)	59,815
Change in subordinated redeemable shares		41,464	(40,729)
Net cash flows provided by/(used in) operating activities	(19)	**20,520**	**120,076**
Cash flows from investing activities			
Change in investment securities		(6,550)	(79,779)
Change in funds with financial institutions and central bank		1,876	1,787
Acquisition of associated investments	(14)	-	(475)
Sale of associated investments	(14)	24,000	-
Proceeds of property, plant and equipment		19	434
Purchase of property, plant and equipment		(1,601)	(2,121)
Purchase of intangible assets		(2,990)	(2,282)
Dividends from associates		547	537
Net cash flows provided by/(used in) investing activities		**15,301**	**(81,899)**
Cash flows from financing activities			
Lease payments		(3,444)	(3,560)
Net cash flows provided by/(used in) financing activities		**(3,444)**	**(3,560)**
Net increase/(decrease) in cash held		32,377	34,617
Add opening cash and cash equivalents		181,473	146,856
Closing cash and cash equivalents		**213,850**	**181,473**
Reconciliation of cash and cash equivalents			
Cash on hand and at bank		63,731	55,005
Funds with financial institutions and central bank	(8)	150,204	126,535
Interest accrued on assets at amortised cost		(85)	(67)
		213,850	**181,473**

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

Southland Building Society

Notes to the Financial Statements for the year ended 31 March 2024.

1. Statement of General Accounting Policies

Reporting entity

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

Basis of preparation

The financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and under New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities and the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014 (as amended). The financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB").

These financial statements were authorised for issue by the Board of Directors on 22 May 2024.

Information in the financial statements is included only to the extent we consider it material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- the amount is significant in size (quantitative factor);
- the information is significant by nature (qualitative factor);
- the user cannot understand the Banking Group's results without the specific disclosure (qualitative factor);
- the information is critical to a user's understanding of the impact of significant changes in the Banking Group's business during the period (qualitative factor);
- the information relates to an aspect of the Banking Group's operations that is important to its future performance (qualitative factor); or
- the information is required under legislative requirements of the Financial Markets Conduct Act 2013 or by the RBNZ.

Climate reporting

Southland Building Society is a climate reporting entity for the purposes of the Financial Markets Conduct Act 2013. Accordingly, the Banking Group expects to publish Climate Statements, prepared in accordance with New Zealand Climate Statements (NZCS1 : NZCS3) by 31 July 2024 at https://www.sbsbank.co.nz/About-Us/Annual-Reports-and-Disclosures.

Basis of measurement

The financial statements have been prepared on a going concern basis in accordance with historical cost concepts except that the following assets and liabilities are stated at their fair value: derivative financial instruments, certain financial assets at fair value through profit or loss or at fair value through other comprehensive income, and the revaluation of certain non-current assets.

Accounting estimates

The preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates. For further discussion on judgements and estimates made by the Banking Group, in the process of applying its accounting policies, that have the most effect on the amounts recognised in the financial statements, refer to the relevant note within in the financial statements.

Judgement areas include:
Note 7 - Deferred tax assets
Note 10 - Derivative financial instruments - Hedge accounting of derivatives
Note 12 - Provision for credit impairment - Estimation of credit provisions

Recognition and derecognition of financial assets and financial liabilities

The Banking Group recognises, on its statement of financial position, advances to customers, deposits and redeemable shares at origination date and all other financial assets and liabilities at trade date.

The Banking Group derecognises a financial asset from its statement of financial position when, and only when, (i) the contractual rights to the cash flows from the financial asset expire, or (ii) the Banking Group has transferred all or substantially all of the risks and rewards of ownership of the financial asset and no longer controls the asset. The Banking Group derecognises a financial liability from its statement of financial position, when and only when, it is extinguished.

Offsetting

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where amounts are collected on behalf of third parties where the Banking Group is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Banking Group is reimbursed.

Assets and liabilities are offset and the net amount reported in the statement of financial position only where:

- there is a current enforceable legal right to offset the asset and liability; and
- there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST") except where the amount of GST incurred is not recoverable from Inland Revenue. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, Inland Revenue is included as 'other assets' or 'other liabilities' in the statement of financial position.

Cash flows are included in the cash flow statement on a net basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, Inland Revenue are classified as operating cash flows.

1. Statement of General Accounting Policies continued

Presentation currency and rounding

The functional and presentation currency of the Banking Group is New Zealand dollars. All amounts contained in the financial statements are presented in thousands of New Zealand dollars, unless otherwise stated.

Foreign currency translation

Transactions in foreign currencies are translated into the functional currency at the exchange rate at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the relevant spot rate. Any foreign currency translation gains or losses that arise are included in profit or loss in the period they arise, unless the item has been hedged with a qualifying cash flow hedge. To the extent that the hedge is effective, the gain or loss will be recognised in Other Comprehensive Income.

Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Changes in accounting policies

There have been no changes in accounting policies and all accounting policies adopted are consistent with those used in the financial year ended 31 March 2023, except as discussed below.

NZ IFRS 17 - Insurance contracts

On 1 April 2023, the Banking Group adopted NZ IFRS 17. As required by the standard, the Group applied the requirements retrospectively with comparative data previously published under NZ IFRS 4 restated from the 1 April 2023 transition date.

Change in measurement

NZ IFRS 17 establishes specific principles for the measurement of insurance contracts and reinsurance contracts held by the Banking Group. Where material, updated accounting policies have been included in these financial statements in the relevant notes.

Change in presentation

NZ IFRS 17 prescribes the presentation of insurance and reinsurance contracts (and their corresponding components) in the income statement and statement of financial position. The key changes mostly relate to the disaggregation of insurance contract assets and liabilities, reinsurance contracts and liabilities, and impact of finance income and expenses. These new presentation requirements are reflected in these financial statements where considered material.

Transition

The Banking Group adopted the modified retrospective approach when it was impracticable to use a full retrospective approach in determining transition amounts at the transition date.

The impact of the change in measurement and reclassification is summarised as follows for the year ended and as at 31 March 2023:

Banking Group ($000's)	Previously reported	Reclassification	Remeasurement	Adjusted
Income Statement (impacted balances only)				
Interest income	287,452	-	737	288,189
Other income	5,766	(8,431)	4,285	1,620
Operating expenses	106,557	(8,431)	6,500	104,626
Taxation expense	14,711	-	(698)	14,013
Statement of Financial Position				
Other assets	67,469	1,674	-	69,143
Deferred tax liabilities	11,026	-	(525)	10,501
Other liabilities	70,548	1,674	837	73,059
Retained earnings	469,371	-	(312)	469,059

Standards issued but not yet effective

The following new standards and amendments to standards relevant to the Banking Group are not yet effective and have not yet been applied in preparing the financial statements. The Banking Group does not currently intend to apply any of these pronouncements until their effective date.

General hedge accounting - NZ IFRS 9 introduced new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging financial and non-financial risks. NZ IFRS 9 provides the Banking Group with an accounting policy choice to continue to apply the NZ IAS 39 hedge accounting requirements until the IASB's ongoing project on macro hedge accounting is completed. The Banking Group continues to apply the hedge accounting requirements in NZ IAS 39.

All in $000's

2. Net Interest Income

		31/03/2024	Restated 31/03/2023
Interest income	**Financial assets measured at**		
Cash at bank	Amortised cost	2,963	1,167
Funds with financial institutions	Amortised cost	999	1,347
Investment securities	FVOCI	37,842	21,182
Derivative financial instruments	At fair value	49,539	24,793
Advances to customers	Amortised cost	340,113	232,996
Advances to customers	Fair value through profit or loss	8,460	5,893
Advances to customers - impaired	Amortised cost	59	74
Net finance income from insurance and reinsurance contracts		-	737
Total interest income		**439,975**	**288,189**
Interest expense	**Financial liabilities measured at**		
Redeemable shares	Amortised cost	197,266	91,605
Deposits from customers	Amortised cost	25,368	15,891
Medium term notes	Amortised cost	17,156	6,631
Other financial institutions	Amortised cost	17,878	8,029
Other borrowings	Amortised cost	25,410	17,240
Subordinated redeemable shares	Amortised cost	5,175	6,721
Lease liabilities	Amortised cost	697	675
Net finance expense from insurance and reinsurance contracts		267	-
Total interest expense		**289,217**	**146,792**

Interest income and interest expense (including dividends on redeemable shares and subordinated redeemable shares) for all instruments measured at amortised cost are measured using the effective interest method. The effective interest method calculates the amortised cost of a financial asset or liability and allocates the interest income or expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate over the expected life of the financial asset or liability.

Loan commitment fees are deferred and recognised as an adjustment to the effective interest on the loan once drawn or immediately to the income statement for expired commitments.

Directly related transaction costs include fees and commissions paid to brokers and other expenses of originating lending business, such as external legal costs and valuation fees.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, the calculation of interest income reverts to the gross basis.

3. Net Fee and Commission Income

	31/03/2024	31/03/2023
Fee and commission income		
Asset management fees	10,528	10,485
Lending fees	7,414	6,622
Credit card fees	2,038	2,169
Current and funding account fees	2,603	2,612
Other fee and commission income	3,892	3,015
Total fee and commission income	26,475	24,903
Fee and commission expense	(428)	(346)
Net fee and commission income	**26,047**	**24,557**

Notes to the Financial Statements for the year ended 31 March 2024. All in $000's

3. Net Fee and Commission Income continued

Net fee and commission income

Net fee and commission income integral to the effective yield of a financial asset or liability for all instruments measured at amortised cost is recognised as an adjustment to the effective interest calculation and included in net interest income.

Fees and commissions payable to brokers in respect of originating lending business, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations	Revenue recognition
Asset management fees	The Banking Group provides asset management services through unit trusts and a KiwiSaver fund. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the trust or fund on a monthly basis in arrears.	Revenue from management fees is recognised over time as the services are provided.
	The Banking Group also provides advisory services for portfolio management. Fees for advisory services are earned monthly in arrears from private wealth and corporate clients.	Revenue from advisory services is recognised over time as the services are provided.
Lending fees	The Banking Group provides mortgage loans, as well as business and consumer finance. Fees for ongoing account services are charged to the customer's account on a monthly basis, and is a fixed fee per month.	Revenue from ongoing service fees is recognised over time as the services are provided.
	Transaction-based fees for restructures, discharges, etc. are charged to the customer's account when the specific event happens.	Revenue from transaction-based fees is recognised at the point in time when the transaction takes place.
Credit card fees	The Banking Group provides credit cards to its customers. Annual card fees for ongoing services are charged six-monthly in advance.	Revenue from ongoing service fees is recognised over time as the services are provided.
	Transaction-based fees for EFTPOS transactions, ATM withdrawals, cash advances, late payment, etc. is charged to the customer's account when the transaction takes place.	Revenue from transaction-based fees is recognised at the point in time when the transaction takes place.
Current and funding account fees	The Banking Group provides a range of every day account services, as well as various savings products. Transactional fee income is charged on a monthly basis at either a fixed monthly fee or a fee per transaction, charged monthly.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	The Banking Group charges break fees for early withdrawal of investment balances, and is calculated at a fixed percentage of the amount withdrawn.	Revenue relating to break fees is recognised at the point in time when the transaction takes place.

4. Insurance Service Result and Other Income

	Note	31/03/2024	Restated 31/03/2023
Insurance revenue		7,285	8,059
Insurance service expenses	(5)	(6,467)	(8,431)
Net (expenses)/revenue from reinsurance contracts held		(1,196)	72
Insurance service result		(378)	(300)
Dividends		181	105
Gain on sale of shares		231	-
Sundry income		1,165	1,815
Other income		1,577	1,920
		1,199	**1,620**

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Banking Group and that revenue can be reliably measured.

Insurance revenue

The Banking Group recognises insurance revenue as it satisfies its performance obligations - i.e. as it provides services under groups of insurance contracts.

4. Insurance Service Result and Other Income continued

Insurance service expenses

Insurance service expenses arising from insurance contracts are recognised in profit or loss generally as they are incurred, and comprise the following items:

- Incurred claims;
- Amortisation of insurance acquisition cash flows;
- Losses on onerous contracts and reversals of such losses;
- Adjustments to the liabilities for incurred claims that do not arise from the effects of the time value of money, financial risk and changes therein;
- Impairment losses on assets for insurance acquisition cash flows and reversals of such impairment losses.

Net expense/revenue from reinsurance contracts held

Net expenses/revenue from reinsurance contracts comprise an allocation of reinsurance premiums paid less amounts recovered from reinsurers.

5. Operating Expenses

	Note	31/03/2024	31/03/2023
Auditors remuneration - audit and statutory		729	581
Auditors remuneration - other services		85	95
Information technology		15,258	14,115
Fees to directors		998	879
Marketing		7,697	7,701
Personnel		61,103	55,132
Claims, benefits and other insurance business related expenses		3,134	4,843
Amortisation, depreciation and impairment		7,814	7,958
Rent and leases		457	293
Write off of property, plant and equipment		49	424
Loss on sale of shares		-	111
Bank charges and funding line fees		7,922	6,484
Other expenses		16,701	14,441
		121,947	**113,057**
Represented by:			
Insurance service expense	(4)	6,467	8,431
Operating expenses		115,480	104,626
		121,947	**113,057**
Amounts received, or due and receivable by the auditors, KPMG:			
Year end audit of financial statements		630	507
Half year review of financial statements		76	57
Other assurance services - Insurance solvency return		23	17
IFRS 17		80	80
Tax compliance services		5	15
		814	**676**

Amounts received, or due and receivable by directors: **For the year ended 31 March 2024**	SBS Fees	Committee/ Other Fees	Subsidiary Fees	Total
AJ O'Connell (Chairperson)	155	-	84	239
MJ Skilling (Deputy Chairperson)	71	-	60	131
GJ Mulvey (Resigned July 2023)*	182	1	30	213
MP O'Connor	71	16	60	147
KJ Murphy	71	-	60	131
SJ Brown	71	-	30	101
PRN Ellison	71	10	30	111
LM Robertson (Appointed 1 April 2023)	71	4	-	75
	763	31	354	1,148
Provision for directors retiring allowance	(150)	-	-	(150)
	613	**31**	**354**	**998**

Notes to the Financial Statements for the year ended 31 March 2024. All in $000's

5. Operating Expenses continued

Amounts received, or due and receivable by directors: For the year ended 31 March 2023	SBS Fees	Committee/ Other Fees	Subsidiary Fees	Total
AJ O'Connell (Chairperson)	144	-	75	219
MJ Skilling (Deputy Chairperson)	66	-	50	116
KJ Ball (Resigned 27 July 2022)*	172	12	-	184
GJ Mulvey	66	14	25	105
MP O'Connor	66	11	50	127
KJ Murphy	66	-	50	116
SJ Brown	66	-	-	66
PRN Ellison (Appointed 1 July 2022)	49	-	19	68
	695	37	269	1,001
Provision for directors retiring allowance	(132)	-	-	(132)
GST on directors fees	10	-	-	10
	573	**37**	**269**	**879**

* Includes a retirement allowance.

	31/03/2024	31/03/2023
Personnel expenses includes key management personnel[1] compensation which comprised:		
Salaries and short-term employee benefits	7,325	7,534
Post-employment benefits	134	133
Other long term benefits	-	-
	7,459	**7,667**

[1] Key management personnel are defined as being directors and senior management of the Banking Group. Refer to Note 26 - Related Parties for more information.

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

Personnel expenses

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

Amortisation and depreciation

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

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

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

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

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

	Note	31/03/2024	31/03/2023
Net gain/(loss) arising on:			
Investment securities		512	(46)
Derivative financial instruments		3,754	(37)
Hedge ineffectiveness on cash flow hedging	(10)	784	(11)
Advances to customers		(144)	62
Liabilities		(4,572)	-
		334	**(32)**

Interest income and interest expense on all financial instruments at fair value through profit or loss is reported within interest income or interest expense and not included in the fair value of these instruments.

7. Taxation

	31/03/2024	Restated 31/03/2023
The major components of the income tax expense comprise:		
Current tax expense		
Current income tax charge	13,518	12,692
Adjustments recognised in the current period in relation to current tax of prior periods	16	41
Deferred taxation expense		
Deferred tax expenses relating to the origination and reversal of temporary differences	205	1,280
Total income tax expense recognised in the income statement	**13,739**	**14,013**
The following amounts were charged/(credited) direct to equity:		
Current income tax	5,769	(668)
Deferred income tax	(15,379)	2,575
Total income tax expense recognised directly in equity	**(9,610)**	**1,907**
Reconciliation of the prima facie income tax payable on profit with income tax expense in the income statement:		
Surplus before income tax	56,561	51,475
Prima facie income tax at 28%	15,837	14,413
Adjust for the tax effect of:		
Adoption of accounting standard	-	(284)
Imputed dividends	(16)	(24)
Building depreciation legislation change	1,904	-
Other permanent items	(4,002)	(133)
Prior period adjustments ((over)/under provision)	16	41
	(2,098)	(400)
Taxation expense/(benefit)	**13,739**	**14,013**

Income tax expense

Income tax expense for the year comprises current and deferred tax. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

Movement in net deferred taxation assets/liabilities are as follows:	Provision for credit impairment	Derivative financial instruments	Property, plant and equipment	Provisions	Other	Total
As at 31 March 2024						
Balance at beginning of the year	10,707	(19,780)	(422)	956	(1,962)	(10,501)
Prior period adjustment ((over)/under provision)	-	2	3	(117)	(270)	(382)
Amounts recognised in equity	-	15,726	(347)	-	-	15,379
Amounts recognised in income statement	818	(3)	(1,787)	13	754	(205)
Balance at end of the year	**11,525**	**(4,055)**	**(2,553)**	**852**	**(1,478)**	**4,291**
As at 31 March 2023						
Balance at beginning of the year	10,500	(17,313)	(403)	947	(432)	(6,701)
Adoption of accounting standards (Note 1)	-	-	-	-	525	525
Prior period adjustment ((over)/under provision)	-	15	(7)	28	19	55
Amounts recognised in equity	-	(2,468)	(107)	-	-	(2,575)
Amounts recognised in income statement	207	(14)	95	(19)	(2,074)	(1,805)
Balance at end of the year	**10,707**	**(19,780)**	**(422)**	**956**	**(1,962)**	**(10,501)**

There are no unrecognised deferred tax assets as at 31 March 2024 (31 March 2023 $nil).

Current income tax

Current income tax is the expected tax payable or receivable on taxable income for the year, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date and including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Current tax assets and liabilities are only offset to the extent that they relate to income taxes imposed by the same taxation authority and there is a legal right and intention to settle on a net basis and it is allowed under tax law.

Notes to the Financial Statements for the year ended 31 March 2024. All in $000's

7. Taxation continued

Deferred income tax

Deferred tax is accounted for using the balance sheet method. Deferred tax arises by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset or liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Banking Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised. Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority and there is a legal right and intention to settle on a net basis and it is allowed under tax law.

Critical accounting assumptions and estimates

Significant judgement is required in determining deferred tax. There may be transactions with uncertain tax outcomes and provisions are determined based on the expected outcomes.

8. Funds with Financial Institutions and Central Bank

	Note	31/03/2024	31/03/2023
Cash with central bank		120,053	120,000
Call and overnight advances with financial institutions		29,539	4,441
Term deposits with financial institutions		623	3,970
		150,215	**128,411**
Provisions for credit impairment	(12(a))	(11)	-
		150,204	**128,411**
Maturity for cash flow purposes			
Up to 3 months		150,204	126,535
Over 3 months		-	1,876
		150,204	**128,411**

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

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

9. Investment Securities

	Note	31/03/2024	31/03/2023
Equity securities		-	2,280
Managed funds		6,431	-
Local authority and Local Government Funding Agency bonds		115,977	83,370
Bank securities		342,586	355,544
Other bonds		128,017	133,783
		593,011	**574,977**
Provisions for credit impairment	(12(a))	(245)	(255)
		592,766	**574,722**

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

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

When fair value hedge accounting is applied to fixed rate investment securities the changes in fair value that relate to the hedged risk are transferred from other comprehensive income to fair value through profit and loss.

Refer to Note 6 - Net Gain/(Loss) from Financial Instruments at Fair Value Through Profit or Loss for more information on fair value hedge adjustments on investment securities.

10. Derivative Financial Instruments and Hedging Activities

	As at 31 March 2024			As at 31 March 2023		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Held as economic hedges	2,921,982	13,780	903	709,993	6,119	6,386
Held as fair value hedges	321,200	4,279	1,118	-	-	-
Held as cash flow hedges	3,005,850	31,623	13,992	4,206,151	89,847	12,433
Interest rate swaps	6,249,032	49,682	16,013	4,916,144	95,966	18,819
Held as cash flow hedges	-	-	-	32,017	-	31
Cross currency interest rate swaps	-	-	-	32,017	-	31
Total derivative financial instruments	**6,249,032**	**49,682**	**16,013**	**4,948,161**	**95,966**	**18,850**

The Banking Group uses derivatives for risk management purposes focusing on stabilising the Banking Group's cash flow and protecting net interest margin. The Banking Group uses interest rate swaps to hedge both the forecast interest rate flows from floating loans and deposits, and the fair value of fixed rate bonds held and issued. The Banking Group also hedges the foreign exchange component of firm commitments caused by foreign currency movements. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. The treatment of changes in the derivatives' fair value depends on their classification. Provided certain criteria are met for hedge accounting, either fair value or cash flow hedge accounting can be applied. Hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item.

Type of instruments	
Interest rate swaps	Commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates (for example, fixed rate for floating rate). No exchange of principal takes place. The Bank manages its cash flow interest rate risk by using: - Receive fixed / Pay floating interest rate swaps to fix the interest income on floating rate loans; - Receive floating / Pay fixed interest rate swaps to fix the cost of floating interest rate deposits; - Receive fixed/ Pay floating interest rate swaps to hedge changes in the value of fixed rate debt securities issued as a result of interest rate movements; - Pay fixed/ Receive floating interest rate swaps to hedge fair value changes as a result of interest rate movements on fixed rate investment securities.
Cross currency swaps	Commitments to exchange interest payments and principal denominated in two different currencies.
Risks managed	
Interest rate risk	The Banking Group's exposure to the volatility of interest cash flows from advances to customers is hedged with interest rate derivatives. Advances to customers are allocated to time buckets based on their expected repricing dates. The interest rate derivatives are designated according to the net asset/liability positions for the relevant time buckets. The Banking Group hedges the benchmark interest rate which generally represents the most significant component of the changes in the fair value Ineffectiveness may arise from timing differences on repricing between the hedged item and the interest rate derivative, or due to changes in the counterparties' credit risk affecting the fair value of hedging instruments.
Foreign currency risk	The Banking Group's exposure to foreign currency principal and interest rate cash flows is hedged through the use of cross currency derivatives in a on-to-one hedging relationship. For the floating rate SBS AUD Wholesale Bonds, the Banking Group hedged from foreign floating to NZD floating interest rates. Ineffectiveness may arise from timing or discounting differences on repricing between the hedged item and the cross currency derivative.
Credit risk	The Banking Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis within treasury policy guidelines, and with reference to a proportion of the notional amount of the contracts and the term to expiry of the contracts. To control the level of credit risk taken, the Banking Group assesses counterparties based on their published credit rating compared with treasury policy limits.
Hedge accounting - Cash flow hedge	
Objective of this hedging arrangement	The Banking Group hedges the forecasted interest cash flows from floating rate loans and deposits using interest rate swaps. The Banking Group also hedges the foreign exchange component of firm commitments caused by foreign currency movements.
Recognition of effective hedge portion	The effective portion of changes in the fair value of derivatives designated as a cash flow hedge is recognised in the cash flow hedge reserve.
Recognition of ineffective hedge portion	Is recognised immediately in other operating income.
If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies, or the Banking Group revokes the hedging designation	The cumulative gain or loss on the hedging derivative remains in the cash flow hedging reserve until the forecast transaction occurs and affects income, at which point it is transferred to the corresponding income or expense line.
Hedged item sold or repaid	If a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging derivative previously reported in the cash flow hedging reserve is immediately transferred to the income statement.

Notes to the Financial Statements for the year ended 31 March 2024. All in $000's

10. Derivative Financial Instruments and Hedging Activities continued

Hedge accounting - Fair value hedge	
Objective of this hedging arrangement	The Banking Group hedges the fixed interest rate exposure of fixed rate assets and liabilities. This is used for certain securities at fair value through other comprehensive income and for certain debt securities at amortised cost.
Recognition of effective hedge portion	The carrying value of the asset or liability is adjusted by the change in value related to the hedged risk, and is transferred to other operating income, where the full change in the fair value of the hedging instrument is recognised. For investment securities recognised at fair value through other comprehensive income, the change in value related to the hedged risk is transferred out of other comprehensive income and into other operating income.
Recognition of ineffective hedge portion	Is recognised immediately in other operating income.
If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies, or the Banking Group revokes the hedging designation	The effective portion of the hedge remains as an adjustment to the carrying value (or to other comprehensive income) and is amortised to operating income.
Hedged item sold or repaid	The effective portion of the hedge (or the un-amortised portion) is recognised immediately in operating income.

The effects of the interest rate and cross currency interest rate swaps related hedging instruments of the Banking Group's financial position and performance are as follows:

	Note	31/03/2024	31/03/2023
Derivative financial instruments - interest rate swaps			
Change in fair value of outstanding hedging instruments		50,327	(8,552)
Change in fair value of exposures		(51,111)	8,563
Hedge ineffectiveness	(6)	784	(11)
Hedge ratio		1.02:1	1:1
Derivative financial instruments - cross currency interest rate swaps			
Change in fair value of outstanding hedging instruments			309
Change in fair value of SBS AUD Capital Bond			(309)
Hedge ineffectiveness			-
Hedge ratio			1:1

The profile of the timing of the notional amount and average price of derivatives designated in cash flow and fair value hedge relationships is outlined as follows:

As at 31 March 2024	Under 1 month	1-3 months	3-6 months	6-12 months	12-24 months	Over 24 months	Total
Interest rate swaps							
Pay fixed	35,000	145,000	86,500	307,500	1,236,800	876,250	2,687,050
Average fixed interest rate paid	2.09%	3.53%	2.54%	4.08%	4.33%	3.87%	3.88%
Receive fixed			205,000	20,000		415,000	640,000
Average fixed interest rate received			4.78%	5.36%		4.46%	4.70%
Total notional amount	**35,000**	**145,000**	**291,500**	**327,500**	**1,236,800**	**1,291,250**	**3,327,050**

As at 31 March 2023	Under 1 month	1-3 months	3-6 months	6-12 months	12-24 months	Over 24 months	Total
Interest rate swaps							
Pay fixed	100,000	158,600	168,000	486,701	1,337,000	975,850	3,226,151
Average fixed interest rate paid	1.32%	1.16%	1.29%	2.23%	3.33%	3.57%	2.96%
Receive fixed	60,000	110,000	300,000	350,000	10,000	150,000	980,000
Average fixed interest rate received	3.02%	3.66%	3.89%	5.20%	1.29%	3.16%	4.14%
Total notional amount	**160,000**	**268,600**	**468,000**	**836,701**	**1,347,000**	**1,125,850**	**4,206,151**
Cross currency interest rate swaps							
Pay floating	-	-	-	-	-	32,017	32,017
Average floating interest rate paid	-	-	-	-	-	float	
Total notional amount	**-**	**-**	**-**	**-**	**-**	**32,017**	**32,017**

10. Derivative Financial Instruments and Hedging Activities continued

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Banking Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

There were no transactions where cash flow hedge accounting ceased in the year ended 31 March 2024 as a result of highly probable cash flows no longer expected to occur (31 March 2023 $nil).

During the period the Banking Group revoked the hedge designation on a number of offsetting interest rate swaps in cashflow hedges. The effective amount of these hedges will be held in the cashflow hedge reserve and amortised to other operating income in line with the forecast cashflows on the items they were designated against. The future gains and losses on these interest rate swaps will be recognised immediately in operating income.

Recognition

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Fair values are obtained from valuation techniques, including discounted cash flow models, as appropriate. Fair values include adjustment for counterparty credit risk.

Derecognition of assets and liabilities

Derivative assets are removed from the statement of financial position when the contracts expire or have transferred all the risks and rewards of ownership. Derivative liabilities are removed from the statement of financial position when the Banking Group's contractual obligations are discharged, cancelled or expired.

Impact on the income statement

The recognition of gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss.

For an instrument designated into a hedging relationship the recognition of gains and losses depends on the nature of the item being hedged.

Hedge effectiveness

To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met:

- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated; and
- the actual results of the hedge are within the range of 80%-125%.

Hedge accounting

Judgement is required by management in selecting and designating hedging relationships and assessing hedge effectiveness. NZ IAS 39 does not specify a single method for assessing hedge effectiveness. The Banking Group adopts the hypothetical derivative approach to determine hedge effectiveness of cash flow hedges and regression analysis of market values for fair value hedges. Hedge ineffectiveness can arise for a number of reasons, and whilst a hedge may pass the effectiveness tests it may not be perfectly effective, thus creating volatility within the income statement through recognition of this ineffectiveness.

11. Advances to Customers

	Note	31/03/2024	31/03/2023
Residential		4,321,159	4,001,176
Agricultural		41,234	51,834
Commercial		111,080	110,897
Consumer		1,054,926	885,677
Gross advances		**5,528,399**	**5,049,584**
Provisions for credit impairment on advances to customers	(12(b))	(38,304)	(34,499)
Deferred fee revenue and expenses		11,328	9,643
Total net advances		**5,501,423**	**5,024,728**

Included in advances to customers are $93.2 million (31 March 2023 $87.9 million) of reverse equity mortgages which are valued at fair value through profit or loss rather than at amortised cost.

Notes to the Financial Statements for the year ended 31 March 2024. All in $000's

11. Advances to Customers continued

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

Advances at fair value through profit or loss

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

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

12. Provision for Credit Impairment

Residential mortgages Include advances to individuals and corporates that are secured against residential properties. Also include investments in residential property as well as owner-occupied housing.

Retail exposures Include consumer personal, consumer finance, consumer credit card and motor vehicle lending.

Corporate exposures Primarily include advances to individuals, corporates or small to medium enterprises that are secured against commercial or agricultural properties.

Other exposures Include funds with financial institutions and central bank, and investment securities.

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

		Expected Credit Losses			Specific Provision	
As at 31 March 2024	**Note**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Advances to customers						
Residential mortgages		3,749	5,532	1,765	50	11,096
Retail exposures		14,044	6,987	4,328	-	25,359
Corporate exposures		879	631	339	-	1,849
Total advances to customers	(11)	18,672	13,150	6,432	50	38,304
Off-balance sheet credit related commitments						
Residential mortgages		127	3	-	-	130
Retail exposures		1,026	-	-	-	1,026
Corporate exposures		221	13	-	-	234
Total off-balance sheet credit related commitments	(17)	1,374	16	-	-	1,390
Other exposures						
Funds with financial institutions and central bank	(8)	11	-	-	-	11
Investment securities	(9)	245	-	-	-	245
		20,302	**13,166**	**6,432**	**50**	**39,950**
As at 31 March 2023						
Advances to customers						
Residential mortgages		5,270	3,354	1,637	503	10,764
Retail exposures		12,970	5,544	2,942	-	21,456
Corporate exposures		1,075	573	631	-	2,279
Total advances to customers	(11)	19,315	9,471	5,210	503	34,499
Off-balance sheet credit related commitments						
Residential mortgages		237	3	4	-	244
Retail exposures		1,480	-	-	-	1,480
Corporate exposures		406	21	-	-	427
Total off-balance sheet credit related commitments	(17)	2,123	24	4	-	2,151
Other exposures						
Funds with financial institutions and central bank	(8)	-	-	-	-	-
Investment securities	(9)	255	-	-	-	255
		21,693	**9,495**	**5,214**	**503**	**36,905**

12. Provision for Credit Impairment continued

(b) Provision for credit impairment - Movement

	Expected Credit Losses			Specific Provision	
Movement in provision - advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at 31 March 2022	20,031	9,136	2,581	573	32,321
Transfer between stages	2,295	(2,925)	630	-	-
Transferred to specific provision	-	-	(150)	150	-
New provisions	8,651	5,714	2,999	-	17,364
Charge/(credit) to income statement excluding transfers	(3,185)	402	671	(220)	(2,332)
Reversal of previously recognised provision	(8,477)	(2,856)	(1,521)	-	(12,854)
As at 31 March 2023	**19,315**	**9,471**	**5,210**	**503**	**34,499**
Transfer between stages	2,800	(2,406)	(394)	-	-
Transfer to specific provision	-	-	-	-	-
New provisions	8,224	7,493	4,445	-	20,162
Charge/(credit) to income statement excluding transfers	(4,025)	2,259	(385)	(280)	(2,431)
Reversal of previously recognised provision	(7,642)	(3,667)	(2,444)	(173)	(13,926)
As at 31 March 2024	**18,672**	**13,150**	**6,432**	**50**	**38,304**

Movement in provision - off-balance sheet credit related commitments					
Balance at 31 March 2022	3,235	73	5	-	3,313
Transfer between stages	(26)	16	10	-	-
New provisions	422	(13)	(9)	-	400
Charge/(credit) to income statement excluding transfers	(289)	(52)	(2)	-	(343)
Reversal of previously recognised provision	(1,219)	-	-	-	(1,219)
As at 31 March 2023	**2,123**	**24**	**4**	**-**	**2,151**
Transfer between stages	(21)	13	8	-	-
New provisions	303	(11)	(8)	-	284
Charge/(credit) to income statement excluding transfers	(313)	(10)	(4)	-	(327)
Reversal of previously recognised provision	(718)	-	-	-	(718)
As at 31 March 2024	**1,374**	**16**	**-**	**-**	**1,390**

(c) Reconciliation of credit impairment losses - Income statement

As at 31 March 2024	**Residential Mortgages**	**Retail Exposures**	**Corporate Exposures**	**Other**	**Total**
Bad debts written off/(recovered) during the year	(5)	16,793	366	-	17,154
Individual provisions	(323)	-	-	-	(323)
Collective provision	671	3,448	(621)	-	3,498
Other credit provisions	-	-	-	1	1
Credit impairment losses to income statement	**343**	**20,241**	**(255)**	**1**	**20,330**
As at 31 March 2023					
Bad debts written off/(recovered) during the year	-	11,266	382	-	11,648
Individual provisions	150	-	(220)	-	(70)
Collective provision	129	1,795	(838)	-	1,086
Other credit provisions	-	-	-	7	7
Credit impairment losses to income statement	**279**	**13,061**	**(676)**	**7**	**12,671**

At 31 March 2024 the Banking Group's total provision for credit impairment relating to advances to customers was $38.3 million (31 March 2023 $34.5 million) representing 0.70% of total net loans and advances (31 March 2023 0.69%). The provisions represent provisions against individual loans and collective provisions.

Notes to the Financial Statements for the year ended 31 March 2024. All in $000's

12. Provision for Credit Impairment continued

Provisions for credit impairment are recognised in the income statement, with a corresponding amount recognised as follows:

- Advances to customers: as a reduction of the carrying value of the financial asset through an offsetting provision account (Note 11);
- Undrawn loan commitments: as a provision (Note 17);
- Funds with financial institutions and central bank: as a reduction of the carrying value of the financial asset through an offsetting provision account (Note 8);
- Investment securities: as a reduction of the carrying value of the financial asset through an offsetting provision account (Note 9).

Impairment is assessed initially for assets that are individually significant, and then on a collective basis for those exposures not individually known to be impaired.

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

The PD is the estimate of the probability that a client will default. It reflects a client's ability to generate sufficient cash flow into the future to meet the terms of all its credit contracts with the Banking Group. EAD is the proportion of a facility that may be outstanding in the event of default. It is calculated as a percentage of the loan balance. LGD is the proportion of a facility estimated to be lost in the event of default. It is expressed as a percentage. LGD is impacted by the type, level, liquidity and volatility of any collateral held, carrying costs and management expense. Long run LGDs are used for internal estimates of risk.

The following summarises the three stage model:

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

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

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

At each reporting date, the Banking Group assesses whether there has been a significant increase in credit risk since initial recognition by comparing the risk of default occurring over the expected life between that of the reporting date to that of the date of initial recognition.

The Banking Group assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Banking Group and all the cash flows that the Banking Group expects to receive. The amount of the loss is recognised using a provision for doubtful debts account. This method is followed for both drawn loans and undrawn loan commitments.

The Banking Group considers its historical loss experience and adjusts this for current observable data. In addition, the Banking Group uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. NZ IFRS 9 introduces the use of macroeconomic factors, but does not define which factors are to be used. The Banking Group considers these factors to include unemployment, interest rates, gross domestic product, inflation and residential property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward-looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

If in a subsequent reporting period, the credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from full lifetime ECL to 12 month ECL.

For debt investment securities determined to have low credit risk, loss allowances are measured at an amount equal to the 12 month ECL rather than the expected life ECL for other financial assets.

Estimation of credit impairment

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for financial assets accounted for at amortised cost and FVOCI. In estimating these cash flows, the Banking Group makes judgements about estimated cash flows, assessment of the economic cycle and historical loss experience of assets with similar risk characteristics.

Management regularly reviews and adjusts the estimates and methodologies for collective provisions as improved analysis becomes available. Changes in these assumptions and methodologies could have a direct impact on the level of credit provision and credit impairment charge recorded in the financial statements.

12. Provision for Credit Impairment continued

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

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

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

Notes to the Financial Statements for the year ended 31 March 2024. All in $000's

12. Provision for Credit Impairment continued

(e) Sensitivity of the collective provision ECL

As noted in the accounting policy, the critical accounting assumptions in determining the provision relating to ECL, are the determination whether there has been a significant increase in credit risk and the use of probability weighted forward looking macroeconomic scenarios. Due to the current economic uncertainties, there is a lot of uncertainty around macroeconomic forecasting. To provide a better understanding on the sensitivity of the credit impairment calculation based on the assumptions made, the Banking Group performed sensitivity analysis on the ECL. The sensitivity primarily reflects the impact on parent ECL (mainly relating to residential and corporate exposures), while historical loss experience for retail exposures has not shown a correlation to specific individual macro-economic indicators. The impact of uncertainty for retail exposures has been incorporated by increasing the historical loss experience rates by a total of approximately 20%.

	Base	% change	High	Low
- Unemployment	As high as 5.3%	+/- 1%	2,456	(2,511)
- GDP	As low as -0.3%	+/- 1%	(1,167)	1,154
- Temporary adjustment		+/- 100%	5,760	(6,360)

13. Asset Quality

(a) Asset quality - advances to customers	Note	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
As at 31 March 2024					
Neither past due or impaired		4,275,124	950,988	145,679	5,371,791
Individually impaired	(13(b))	45	-	-	45
Past due	(A3.1)	62,572	101,102	4,217	167,891
Provision for credit impairment	(12(a))	(11,096)	(25,359)	(1,849)	(38,304)
Carrying amount		**4,326,645**	**1,026,731**	**148,047**	**5,501,423**
As at 31 March 2023					
Neither past due or impaired		3,978,156	818,320	156,889	4,953,365
Individually impaired	(13(b))	1,431	-	-	1,431
Past due	(A3.1)	36,451	64,263	3,717	104,431
Provision for credit impairment	(12(a))	(10,764)	(21,456)	(2,279)	(34,499)
Carrying amount		**4,005,274**	**861,127**	**158,327**	**5,024,728**

(b) Impaired assets

As at 31 March 2024				
Balance at beginning of the year	1,431	-	-	1,431
Additions to individually impaired assets	-	-	-	-
Reductions to individually impaired assets	(1,386)	-	-	(1,386)
Balance at end of the year	45	-	-	45
Provision at end of the year	(50)	-	-	(50)
Net carrying amount at end of the year	**(5)**	**-**	**-**	**(5)**
Undrawn balances on individually impaired lending commitments	-	-	-	-
As at 31 March 2023				
Balance at beginning of the year	947	-	262	1,209
Additions to individually impaired assets	490	-	-	490
Reductions to individually impaired assets	(6)	-	(262)	(268)
Balance at end of the year	1,431	-	-	1,431
Provision at end of the year	(503)	-	-	(503)
Net carrying amount at end of the year	**928**	**-**	**-**	**928**
Undrawn balances on individually impaired lending commitments	-	-	-	-

13. Asset Quality continued

Credit assessment

All advances and loans are subject to regular scrutiny of credit risk.

The Banking Group has classified its non-performing assets into the following categories:

Impaired assets

Impaired assets are credit exposures where a credit event has occurred and for which it is probable the Banking Group will not be able to collect all amounts owing in terms of the contract and includes:

- advances and loans that are not contractually past due but where there is insufficient security to cover principal outstanding and where recovery is doubtful;
- advances and loans which are past due with insufficient security to cover principal and arrears of interest;
- restructured advances and loans where the interest rate charged is below that of the Banking Group's average cost of funds.

An individual provision is raised to cover the expected loss, where full recovery is doubtful.

Restructured assets

Restructured assets are defined as advances and loans on which the original contractual terms have been concessionally modified due to the financial difficulties of borrowers, and on which interest continues to be accrued at a rate which is equal to or greater than the Banking Group's average cost of funds at the date of restructuring.

Real estate or other assets acquired through security enforcement

Real estate or other assets acquired through security enforcement are those assets which are legally owned by the Banking Group as a result of enforcing security.

Past due assets

Advances and loans are designated as past due assets where a counterparty has failed to make a payment when contractually due and which are not impaired assets.

14. Investments in Subsidiaries, Associates and Joint Ventures

	Percentage Held		Date	Nature of Business
	31/03/2024	31/03/2023		
Subsidiaries:				
Fraser Properties Limited	100.0%	100.0%	31 March	Property Holding
Southsure Assurance Limited ("SBS Insurance")	100.0%	100.0%	31 March	Insurance Company
Finance Now Limited ("FNL")	100.0%	100.0%	31 March	Finance Company
Funds Administration New Zealand Limited ("FANZ", trading as "SBS Wealth")	100.0%	100.0%	31 March	Funds Administration
The Warehouse Financial Services Limited	100.0%	100.0%	31 March	Credit Card Finance Company
TW Financial Services Operations Limited	100.0%	100.0%	31 March	Finance Operating Company
SBS Money Limited	100.0%	100.0%	31 March	Credit Card Finance Company
Staples Rodway Asset Management Limited ("SRAM")	100.0%	100.0%	31 March	Investment Advisory
In-substance Subsidiaries:				
SBS Invercargill W Trust	-	-	31 March	Mortgage Securitisation
SBS Warehouse Trust No.2	-	-	31 March	Mortgage Securitisation
SBS Oreti Trust No. 2	-	-	31 March	Mortgage Securitisation
Finance Now Warehouse Trust	-	-	31 March	Loan Securitisation
TWGFS Warehouse A Trust	-	-	31 March	Loan Securitisation
Associates:				
Abbott NZ Holdings Limited		26.3%	30 June	Insurance Broking Holding Company
Your Car NZ Limited	9.9%	9.9%	31 March	Online Vehicle Purchasing Platform
Raizor Global Limited	15.9%	16.0%	31 March	Social Enterprise Supporting Charitable and Environmental Causes

All subsidiaries and in-substance subsidiaries are incorporated in New Zealand. For all subsidiaries, the ownership percentage equates to the voting power held.

During May 2022 a further shareholding in Raizor New Zealand Limited was obtained for $0.3 million, to bring the total investment to 33%. During March 2023, this investment was converted to Raizor Global Limited shares, with effective shareholding of 16%. This investment is being accounted for as an associate company under the equity method of accounting as the Banking Group does not have control over the financial and operating policies, but has significant influence via representation on the Board.

During February 2024, the Banking Group sold it's share in Abbott NZ Holdings Limited for $24.0 million. A gain on sale of $14.1 million is booked as "Net gain on associate" in the income statement.

At 31 March 2024 there are no amounts due from, or due to any related entities that are outside of the Banking Group.

Notes to the Financial Statements for the year ended 31 March 2024. All in $000's

14. Investments in Subsidiaries, Associates and Joint Ventures continued

Basis of consolidation

The consolidated financial statements include those of SBS and its subsidiaries and special purpose entities which it controls, accounted for using the acquisition method, and the results of its associates and joint ventures, accounted for using the equity method.

The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The equity method of accounting involves initial recognition at cost, which includes transaction costs. Subsequent to initial recognition the consolidated financial statements include the Banking Group's share of profit or loss and other comprehensive income of the associates or joint ventures until the date significant influence or joint control ceases.

On consolidation, all significant inter-company transactions, balances and unrealised gains on transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Parent, SBS.

Where subsidiaries have been sold or acquired during the year, their operating results have been included to the date control ceases or from the date control is transferred to the Banking Group.

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are recorded through equity to reflect a transaction amongst shareholders.

Subsidiaries

Subsidiaries are those entities over which the Banking Group has the power, exposure or rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power.

In-substance subsidiaries

In-substance subsidiaries are special purpose entities that the Banking Group may invest in or establish to enable it to undertake specific types of transactions such as securitisation. Where SBS or a subsidiary control such vehicles, they are consolidated into the Banking Group's financial results.

Associates

Associates are entities over which the Banking Group exerts significant influence but does not exercise control, or joint control over the financial and operating policies.

15. Loan Securitisation

	31/03/2024	31/03/2023
Securitised loan balances		
SBS Invercargill W Trust	207,145	118,830
SBS Warehouse Trust No.2	81,814	56,092
SBS Oreti Trust No. 2	406,960	351,593
Finance Now Warehouse Trust	378,811	379,909
TWGFS Warehouse A Trust	97,438	96,830
	1,172,168	**1,003,254**
Mortgages assigned during the year		
By SBS to SBS Invercargill W Trust	272,036	184,534
By SBS to SBS Warehouse Trust No.2	41,285	20,559
By SBS Invercargill W Trust to SBS Oreti Trust No. 2	147,003	184,534
By FNL to Finance Now Warehouse Trust	228,789	254,991
By The Warehouse Financial Services Limited and SBS Money Limited to TWGFS Warehouse A Trust	217,785	203,356

15. Loan Securitisation continued

SBS sells its interest in certain loans (principally housing mortgage loans) to two trusts known as the SBS Invercargill W Trust and SBS Warehouse Trust No.2 by way of an assignment. At the time of the sale all legal and beneficial interests in the mortgage loans are transferred to the relevant purchaser. SBS consolidates the financial statements of each trust within the Parent on the basis that SBS retains some of the risks and rewards of ownership through the provision of subordinated loans to each trust.

The SBS Invercargill W Trust and SBS Warehouse Trust No.2 each also sell their interest in certain loans (principally housing mortgage loans) to a trust known as the SBS Oreti Trust No. 2 by way of an assignment. At the time of the sale all legal and beneficial interests in the mortgage loans are transferred to the purchaser. The SBS Oreti Trust No. 2 issues residential mortgage backed securities that qualify as acceptable collateral under the RBNZ liquidity management arrangements. SBS consolidates the financial statements of the SBS Oreti Trust No. 2 within the Parent on the basis that SBS retains a continuing involvement in the transferred assets by holding the securities issued by the trust.

FNL and its subsidiaries, The Warehouse Financial Services Limited and SBS Money Limited, sell their interest in certain loans (mixture of consumer and business loans, and consumer credit card balances) to two trusts known as the Finance Now Warehouse Trust and TWGFS Warehouse A Trust by way of an assignment. At the time of the sale all legal and beneficial interest in the loans are transferred to the purchaser. The financial statements of the trusts are consolidated within the Group on the basis that FNL retains an interest in the transferred assets.

SBS is the manager and servicer of mortgage loans assigned to the SBS Invercargill W Trust, the SBS Warehouse Trust No.2 and the SBS Oreti Trust No. 2. SBS receives a fee for providing these management services. This fee is recognised when earned.

FNL is the manager and servicer of loans assigned to the Finance Now Warehouse Trust and TWGFS Warehouse A Trust. FNL receives a fee for providing these management services. This fee is recognised when earned.

16. Funding

	Note	31/03/2024	31/03/2023
(a) Concentrations of funding			
Concentrations of funding by geographical location			
North Island other		1,110,035	977,703
Auckland		1,003,863	944,333
Canterbury		1,049,446	955,685
Otago		987,882	904,371
Southland		1,164,289	1,100,252
South Island other		434,131	415,515
Overseas		116,673	95,243
Total concentrations of funding by geographical location		**5,866,319**	**5,393,102**
Concentrations of funding by product			
Redeemable shares		4,353,334	4,096,601
Deposits from customers		54,686	69,007
Medium term notes	(16(c))	326,934	148,924
Commercial paper		360,992	346,284
Due to other financial institutions	(16(d))	663,430	668,065
Subordinated redeemable shares	(16(b))	106,943	64,221
Total concentrations of funding by product		**5,866,319**	**5,393,102**
(b) Subordinated redeemable shares			
SBS Capital Bond		11,592	23,644
SBS AUD Capital Bond		-	32,244
SBS Capital Bonds No. 2		34,826	8,333
SBS Listed Capital Bond		60,525	-
		106,943	**64,221**

Notes to the Financial Statements for the year ended 31 March 2024. All in $000's

16. Funding continued

(b) Subordinated redeemable shares continued

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

The SBS AUD Capital Bond was issued to wholesale investors in the Australian Market. These ten year bonds were subject to a quarterly floating rate. The Bank had the right to repay the principal amount on or after the five-year anniversary but there was no right for a holder to redeem before maturity. These were issued as subordinated redeemable shares and ranked behind redeemable shareholders, depositors and unsecured creditors of SBS and are subject to loss absorption provisions. The SBS AUD Capital Bond was redeemed during the year.

During the year ended 31 March 2023, the Bank launched the 10 year SBS Capital Bonds No. 2 to retail 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, subject to regulatory approval, 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. The retail offer is issued continuously.

During February 2024 $60 million of SBS Listed Capital Bond were issued to retail and wholesale investors. These ten and a half year bonds are fixed for the first five and a half 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 and a half year anniversary, subject to regulatory approval, 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.

During the year ending 31 March 2024 $12.1 million (31 March 2023 $49.2 million) of SBS Capital Bonds were redeemed at their five-year call date. At 31 March 2024 the balance of all subordinated redeemable shares issued was $106.9 million. After adjustment for potential tax and transitional recognition amortisation, $99.8 million has been recognised as tier 2 capital for RBNZ capital adequacy purposes (31 March 2023 $38.3 million).

(c) Medium term notes

During March 2022, the Bank issued the SBS Senior Bond, unsecured, senior, fixed rate, medium term debt securities. As at 31 March 2024 the notes carried a BBB+ credit rating from Fitch Ratings.

Issue date	18 March 2022
Issue amount	Issue amount: $150 million
Principal amount	$1
Interest frequency	Quarterly in arrears
Interest rate	Fixed at 4.32%
Maturity	18 March 2027

During September 2023, the Bank issued the SBS Senior Bond, unsecured, senior, fixed rate, medium term debt securities. As at 31 March 2024 the notes carried a BBB+ credit rating from Fitch Ratings.

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

(d) Funding for lending program

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

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

As at 31 March 2024, the Bank had drawn down $246 million (31 March 2023 $246 million), which is included in 'Due to other financial institutions' in the statement of financial position. A total of $319 million of residential mortgage-backed securities ("RMBS") have been pledged as approved collateral in relation to the amount currently drawn down.

16. Funding continued

Funding sources consist of redeemable shares, deposits from customers, medium term notes, commercial paper, amounts due to other financial institutions and subordinated redeemable shares.

Redeemable shares and subordinated redeemable shares are recorded in the statement of financial position inclusive of accrued interest. Redeemable shares and subordinated redeemable shares are considered to be compound instruments. Dividends on redeemable shares and subordinated redeemable shares are recorded in the income statement on an accruals basis using the effective interest method.

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

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

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

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

Repurchase agreements

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

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

17. Other Liabilities

	Note	31/03/2024	Restated 31/03/2023
Lease liabilities		20,603	20,398
Trade and other payables		36,414	34,949
Insurance policy liabilities		8,535	9,530
Employee entitlements		6,002	6,031
Provisions for credit impairment on undrawn commitments	(12(a))	1,390	2,151
		72,944	**73,059**

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

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

Insurance policy liabilities have been calculated in accordance with NZ IFRS 17 - Insurance Contracts and the New Zealand Society of Actuaries Professional Standard No 20 - Determination of Life Insurance Policy Liabilities (PS20).

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

18. Contingent Liabilities and Credit Related Commitments

Commitments	Contract or notional amt 31/03/2024	Credit equivalent 31/03/2024	Contract or notional amt 31/03/2023	Credit equivalent 31/03/2023
Commitments with uncertain drawdown	89,840	44,920	137,008	68,504
Commitments to extend credit which can be unconditionally cancelled	305,038	-	351,726	-
Total credit related commitments	**394,878**	**44,920**	**488,734**	**68,504**

As at 31 March 2024, collective provisions relating to credit related commitments of $1.4 million is included in other liabilities (31 March 2023 $2.2 million). Refer to Notes 17 - Other Liabilities and Note 12 - Provision for Credit Impairment for more information.

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

There are no material contingent liabilities as at 31 March 2024.

Notes to the Financial Statements for the year ended 31 March 2024. All in $000's

18. Contingent Liabilities and Credit Related Commitments continued

Contingent liabilities are disclosed where there is a possible obligation that is higher than remote but where requirements for recognition as a liability are not met.
Liabilities are no longer contingent, and are recognised on the statement of financial position, when the following requirements are met:
- The transaction is probable in that a contingency is likely to occur; and
- The contingency can be reasonably estimated.

19. Reconciliation of Net Surplus to Net Operating Cash Flows

	31/03/2024	Restated 31/03/2023
Net surplus for year	42,822	37,462
Add/(deduct) non cash items		
Depreciation, amortisation and impairment	7,814	7,958
Provision for credit impairment	20,330	12,671
Share of associates profit net of tax	(1,057)	(1,230)
Write off of property, plant and equipment	49	424
Loss on sale of shares	-	111
Gain on sale of associate	(12,975)	-
Actuarial life adjustment	1,150	1,322
Liabilities fair value adjustment	4,543	-
Deferred fee revenue and expenses	(1,155)	(2,237)
Derivatives fair value adjustment	(4,183)	48
Advances to customers fair value adjustment	144	(62)
Investment securities fair value adjustment	-	46
Net deferred tax assets	(3,067)	1,893
Interest on lease liabilities	698	675
	12,291	**21,619**
Deferral or accruals of past or future operating cash receipts or payments		
Change in income tax payable/receivable	3,546	4,672
Change in sundry debtors	(11,813)	(23,497)
Change in sundry creditors	675	2,458
Change in accruals relating to interest receivable	(2,732)	(13,722)
Change in accruals relating to accrued interest and dividends payable to customers	17,099	22,241
Change in accruals relating to accrued interest payable to financial institutions	14,108	7,451
Change in net advances	(491,610)	(631,879)
Change in shares and deposits	225,717	673,827
Change in medium term notes	173,028	-
Change in commercial paper	13,939	393
Change in amounts due to other financial institutions and central bank	(17,996)	59,815
Change in subordinated redeemable shares	41,464	(40,729)
	(34,575)	**61,030**
Items classified as cash		
Change in accruals relating to funds with financial institutions and central bank	(18)	(35)
Net cash flows from operating activities	**20,520**	**120,076**

The statement of cash flows has been prepared using the direct approach modified by the netting of certain items as disclosed below.

Cash and cash equivalents

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day to day cash management of the Banking Group, which are unconditionally convertible at the Banking Group's option within three months. These assets are short term in nature and the related carrying amount is equivalent to their fair value.

Netting of cash flows

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Banking Group. These include customer loans and advances, customer shares and deposits and parent company funding.

20. Accounting Classifications

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

As at 31 March 2024	At Fair Value (*)	At Amortised Cost	FVOCI	FVTPL	Total Carrying Amount
Assets					
Cash on hand and at bank	-	63,731	-	-	**63,731**
Funds with financial institutions and central bank	-	150,204	-	-	**150,204**
Investment securities	-	-	586,335	6,431	**592,766**
Derivative financial instruments	49,682	-	-	-	**49,682**
Advances to customers	-	5,408,194	-	93,229	**5,501,423**
	49,682	**5,622,129**	**586,335**	**99,660**	**6,357,806**
Liabilities					
Redeemable shares	-	4,353,334	-	-	**4,353,334**
Deposits from customers	-	54,686	-	-	**54,686**
Medium term notes	-	326,934	-	-	**326,934**
Commercial paper	-	360,992	-	-	**360,992**
Due to other financial institutions	-	663,430	-	-	**663,430**
Derivative financial instruments	16,013	-	-	-	**16,013**
Subordinated redeemable shares	-	106,943	-	-	**106,943**
	16,013	**5,866,319**	**-**	**-**	**5,882,332**

As at 31 March 2023	At Fair Value (*)	At Amortised Cost	FVOCI	FVTPL	Total Carrying Amount
Assets					
Cash on hand and at bank	-	55,005	-	-	**55,005**
Funds with financial institutions and central bank	-	128,411	-	-	**128,411**
Investment securities	-	-	571,851	2,871	**574,722**
Derivative financial instruments	95,966	-	-	-	**95,966**
Advances to customers	-	4,936,854	-	87,874	**5,024,728**
	95,966	**5,120,270**	**571,851**	**90,745**	**5,878,832**
Liabilities					
Redeemable shares	-	4,096,601	-	-	**4,096,601**
Deposits from customers	-	69,007	-	-	**69,007**
Medium term notes	-	148,924	-	-	**148,924**
Commercial paper	-	346,284	-	-	**346,284**
Due to other financial institutions	-	668,065	-	-	**668,065**
Derivative financial instruments	18,850	-	-	-	**18,850**
Subordinated redeemable shares	-	64,221	-	-	**64,221**
	18,850	**5,393,102**	**-**	**-**	**5,411,952**

*With some aspects of NZ IFRS 9 relating to hedge accounting for portfolios not finalised, the IASB has allowed entities to delay implementation of the hedge accounting requirements until these aspects are confirmed. The Banking Group are deferring implementation of the IFRS 9 policy on hedge accounting and will continue to apply existing NZ IAS 39 policy on hedge accounting for the year ending 31 March 2024.

Notes to the Financial Statements for the year ended 31 March 2024. All in $000's

20. Accounting Classifications continued

Financial instruments

The Banking Group classifies its financial instruments into the following categories at initial recognition: Measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL").

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI - debt investment, FVOCI - equity investment, or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Banking Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective it is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Banking Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Business model assessment

The Banking Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that is considered include policies and objectives for the portfolio, how the performance of the portfolio is evaluated and reported to management, the risks that affect the performance and how the risks are managed.

Assessment on whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are solely for payments of principal and interest, the Banking Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet the definition. The Banking Group also considers contingent events that could change the amount and timing of cash flows, prepayment and extension terms, and terms that limit the Banking Group's claim to cash flow from specified assets and features that modify consideration of the time value of money.

Financial assets - classification and subsequent measurement

Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearing represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.
Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. However, see Note 10 - Derivative Financial Instruments and Hedging Activities for derivatives designated as hedging instruments.

Financial assets - reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Banking Group changes its business model for managing financial assets.

Financial liabilities

Financial liabilities are all measured at amortised cost, except for derivative financial instruments which are designated at fair value. Refer to Note 10 - Derivative Financial Instruments and Hedging Activities for further information. Financial liabilities, excluding derivatives, are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at amortised cost. Liabilities classified in this category include redeemable shares, medium term notes, deposits from customers, commercial paper, due to other financial institutions and subordinated redeemable shares. When fair value hedge accounting is applied to fixed rate financial liabilities the carrying value at amortised cost is adjusted for changes in fair value related to the hedged risk.

21. Fair Value of Financial Instruments

Comparison of fair values and carrying amounts:

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

	Valuation Hierarchy	31/03/2024 Carrying Amount	31/03/2024 Fair Value	31/03/2023 Carrying Amount	31/03/2023 Fair Value
Financial assets					
Advances to customers (excluding REM)	Level 2	5,408,194	5,368,119	4,936,854	4,871,410
Total financial assets		**5,408,194**	**5,368,119**	**4,936,854**	**4,871,410**
Financial liabilities					
Redeemable shares	Level 2	4,353,334	4,352,474	4,096,601	4,090,097
Deposits from customers	Level 2	54,686	54,631	69,007	68,782
Medium term notes	Level 2	326,934	323,980	148,924	143,929
Subordinated redeemable shares	Level 2	106,943	106,986	64,221	59,185
Total financial liabilities		**4,841,897**	**4,838,071**	**4,378,753**	**4,361,993**

Fair value measurement

The determination of fair values of financial assets and financial liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets, or by using valuation techniques. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value and subsequently at valuation.

Valuation techniques include the discounted cash flow method and comparison to similar instruments for which market observable prices exist. The Banking Group uses widely recognised valuation models however some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques may not appropriately reflect all factors market participants take into account when entering a transaction. Valuation adjustments are recorded to allow for liquidity and credit risks as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments at fair value on the statement of financial position.

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

As at 31 March 2024	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	49,682	-	**49,682**
Investment securities	-	593,011	-	**593,011**
Advances to customers - REM	-	-	93,229	**93,229**
Total financial assets	**-**	**642,693**	**93,229**	**735,922**
Financial liabilities				
Derivative financial instruments	-	16,013	-	**16,013**
Total financial liabilities	**-**	**16,013**	**-**	**16,013**

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

Notes to the Financial Statements for the year ended 31 March 2024. All in $000's

21. Fair Value of Financial Instruments continued

The following table presents the changes in level 3 instruments:	Note	31/03/2024	31/03/2023
Loans and advances at fair value through profit or loss			
Balance at beginning of the year		87,874	80,020
New loans		6,590	12,191
Interest charged	(2)	8,460	5,893
Loan repayments		(13,597)	(13,414)
Net change in fair value	(6)	(144)	62
Drawdowns (net of part repayments) on current loans		4,047	3,122
Balance at end of the year		**93,230**	**87,874**

Valuation hierarchy for financial instruments held at fair value:

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

Level 1: Fair values are determined using quoted (unadjusted) prices in active markets for identical assets and liabilities;

Level 2: Fair values are determined using other techniques where all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Fair values are determined using techniques that use inputs which have a significant effect on the recorded fair value and are not based on observable market data.

22. Financial Risk Management

SBS's objective is to appropriately manage all the risks that arise from its activities. SBS does not naturally seek treasury and financial risk from its involvement in the financial markets and consequently minimises risks wherever possible. Reviews of risk management policies, systems and reporting are conducted on a regular basis.

Specific areas of risk management

Liquidity Risk Management

Liquidity risk is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. Further information on the Banking Group's liquidity risk management is set out in Note 23 - Liquidity Risk.

Credit Risk Management

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

Interest Rate Risk Management

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

Currency Risk Management

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

Operational Risk Management

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

Overview

The SBS Board has overall responsibility for reviewing all aspects of risk management and compliance. The SBS Board received comprehensive reporting covering each area of risk management. In addition, SBS has specific policies in relation to liquidity and capital management which contain trigger points at which SBS Board involvement is required.

Refer to Section A8 - Risk Management Policies for more information on risk management structure, policies, risks and procedures.

23. Liquidity Risk

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

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

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

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

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

Total liquidity includes committed but undrawn funding lines. As at 31 March 2024, the Banking Group had total committed funding lines with other registered banks of $727.7 million (31 March 2023 $627.2 million). Of these facilities, $377.7 million were drawn down at 31 March 2024 (31 March 2023 $377.1 million).

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

	31/03/2024	31/03/2023
Core liquid assets		
Cash on hand and at bank	63,731	55,005
Funds with central bank	120,053	120,000
Funds with financial institutions	30,151	8,411
Investment securities	592,766	574,722
Committed and undrawn funding lines[2]	350,000	250,097
Eligible RMBS collateral (less haircut[1])[3]	62,565	25,926
Total liquidity	**1,219,266**	**1,034,161**

[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 $22.3 million available funding, not included as core liquid assets, in securitisation vehicles (31 March 2023: $22.8 million). This is subject to having sufficient assets available to be securitised and has therefore not been included.

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

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

Monetary liabilities payable (contractual cash flows including expected interest to maturity)

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

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

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

The amounts disclosed in the tables are the contractual undiscounted cash flows and include principal and future interest cash flows, and therefore will not agree to the carrying values on the statement of financial position.

Notes to the Financial Statements for the year ended 31 March 2024. All in $000's

23. Liquidity Risk continued

As at 31 March 2024	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Liabilities							
Redeemable shares	483,989	2,208,616	1,438,360	84,142	24,096	-	**4,239,203**
Deposits from customers	2,845	44,014	29,539	3,420	1,087	-	**80,905**
Medium term notes	-	8,636	8,589	17,225	363,784	-	**398,234**
Commercial paper	-	364,500	-	-	-	-	**364,500**
Due to other financial institutions	-	123,675	113,638	179,813	289,837	-	**706,963**
Derivative financial instruments							
- cash outflows	-	32,298	18,009	16,209	20,077	842	**87,435**
- cash inflows	-	(9,475)	(6,830)	(15,801)	(18,417)	(1,205)	**(51,728)**
Current tax liabilities	-	10,387	-	-	-	-	**10,387**
Other liabilities	-	53,992	1,632	3,076	6,182	12,879	**77,761**
Subordinated redeemable shares	-	7,463	4,094	8,210	24,641	134,837	**179,245**
Total liabilities (inclusive of interest)	**486,834**	**2,844,106**	**1,607,031**	**296,294**	**711,287**	**147,353**	**6,092,905**
Unrecognised loan commitments	89,840	-	-	-	-	-	**89,840**

As at 31 March 2023	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Liabilities							
Redeemable shares	496,502	2,237,745	1,347,910	83,283	17,213	-	**4,182,653**
Deposits from customers	2,071	44,513	28,207	1,339	454	-	**76,584**
Medium term notes	-	3,249	3,249	6,480	166,174	-	**179,152**
Commercial paper	-	349,500	-	-	-	-	**349,500**
Due to other financial institutions	-	131,653	306,946	112,536	152,085	-	**703,220**
Derivative financial instruments							
- cash outflows	-	42,273	65,415	33,513	19,861	52	**161,114**
- cash inflows	-	(13,353)	(40,180)	(9,313)	(16,894)	(419)	**(80,159)**
Current tax liabilities	-	5,044	-	-	-	-	**5,044**
Other liabilities	-	52,661	1,460	2,700	5,981	12,899	**75,701**
Subordinated redeemable shares	-	5,629	2,408	4,816	14,456	68,349	**95,658**
Total liabilities (inclusive of interest)	**498,573**	**2,858,914**	**1,715,415**	**235,354**	**359,330**	**80,881**	**5,748,467**
Unrecognised loan commitments	137,008	-	-	-	-	-	**137,008**

24. Credit Risk

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

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

The Banking Group's dominant activity is the provision of residential mortgage finance which comprises 79% (31 March 2023 80%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Consumer loans which comprise 19% (31 March 2023 17%) of the Banking Group's loan portfolio are largely concentrated across Auckland and the rest of the North Island.

24. Credit Risk continued

	31/03/2024	Restated 31/03/2023
(a) Maximum credit exposures		
Cash on hand and at bank	63,731	55,005
Funds with financial institutions and central bank	150,204	128,411
Investment securities	592,766	574,722
Derivative financial instruments	49,682	95,966
Advances to customers	5,501,423	5,024,728
Other assets	79,282	69,143
Total on-balance sheet credit exposures	**6,437,088**	**5,947,975**
Off balance sheet exposures - undrawn commitments	394,878	488,734
Total credit exposures	**6,831,966**	**6,436,709**
(b) Concentrations of credit risk by sector		
Residential	3,717,727	3,429,325
Residential investing	831,426	846,939
Agricultural	55,618	71,068
Commercial finance	18,368	20,993
Commercial other	72,948	80,848
Commercial vehicle	22,687	18,512
Consumer vehicle	739,520	628,740
Consumer lending	232,129	206,114
Consumer credit card	205,878	210,923
Local authority	115,977	83,370
NZ registered banks	424,068	418,164
Central bank	120,053	120,000
Multilateral development banks and other international institutions	79,720	101,931
Corporate investments	116,565	130,639
Other	79,282	69,143
Total concentrations of credit risk by sector	**6,831,966**	**6,436,709**
(c) Concentrations of credit risk by geographical location		
Auckland	1,664,542	1,536,740
North Island other	2,031,973	1,747,027
Canterbury	1,288,715	1,291,452
Otago	762,255	776,928
Southland	725,637	721,284
South Island other	258,684	261,194
Overseas	100,160	102,084
Total concentrations of credit risk by geographical location	**6,831,966**	**6,436,709**

(d) Collateral held

SBS takes collateral where it is considered necessary to support credit risk on financial instruments including both recognised and unrecognised financial instruments. An evaluation is undertaken of the customer's credit risk on a case by case basis and the amount of collateral taken if deemed necessary, is based on management's credit evaluation of the counterparty. The collateral taken varies but could include cash deposits, mortgages, debentures, investments and financial covenants.

In terms of SBS retail lending activity, credit is extended within predetermined loan to security valuation ratios, which vary depending on the class of an advance, and within established and proven repayment to income ratios. Independent credit evaluations are undertaken where this is deemed necessary. Additionally some advances are insured with an independent third party mortgage insurer. In excess of 85% of SBS advances are secured by first mortgage over real property as a minimum. Once established, loan performance is monitored regularly. The debt management team monitor exposures to non-performing loans on a daily basis and provide monthly reports to senior management and the Board.

Notes to the Financial Statements for the year ended 31 March 2024. All in $000's

24. Credit Risk continued

(d) Collateral held continued

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against financial assets that are individually impaired or past due are shown below:

	31/03/2024	31/03/2023
Against individually impaired property	-	1,158
Against past due but not impaired property	175,044	116,964
	175,044	**118,122**

25. Market Risk

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

The Bank's exposure to market risk is governed by a policy approved by the Group Audit and Risk Committee and managed by the Asset and Liability Committee ("ALCO"). This policy sets out the nature of risk which may be taken and aggregate risk limits, and the ALCO must conform with this. The objective of the ALCO is to derive the most appropriate strategy for the Bank in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints and capital adequacy.

The Bank's exposure to market risk is managed operationally by the Bank's internal treasury function ("Treasury"). Treasury manages market risk by using appropriate risk management instruments. Market risk is managed within a clearly defined framework of policy limits. Treasury reports to and is represented on the ALCO.

Market risk is measured and reported using a variety of techniques, according to the appropriateness of the technique to the exposure concerned. The techniques used include interest rate gap analysis, scenario analysis and Value at Risk ("VaR").

Policies for managing interest rate risk

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

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

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

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

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

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

As at 31 March 2024	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-Interest Sensitive	Total
Assets							
Cash on hand and at bank	63,731	-	-	-	-	-	**63,731**
Funds with financial institutions and central bank	150,204	-	-	-	-	-	**150,204**
Investment securities	89,197	77,431	44,216	49,054	332,868	-	**592,766**
Derivative financial instruments	-	-	-	-	-	49,682	**49,682**
Advances to customers	1,056,651	679,862	1,157,781	1,200,312	1,445,121	(38,304)	**5,501,423**
Other assets	-	-	-	-	-	132,763	**132,763**
	1,359,783	**757,293**	**1,201,997**	**1,249,366**	**1,777,989**	**144,141**	**6,490,569**

25. Market Risk continued

As at 31 March 2024	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-Interest Sensitive	Total
Liabilities and equity							
Redeemable shares	1,472,542	1,251,930	1,232,151	56,498	32,108	308,105	**4,353,334**
Deposits from customers	18,297	17,954	13,946	2,137	2,352	-	**54,686**
Medium term notes	-	-	-	-	326,934	-	**326,934**
Commercial paper	311,907	49,085	-	-	-	-	**360,992**
Due to other financial institutions	663,430	-	-	-	-	-	**663,430**
Derivative financial instruments	-	-	-	-	-	16,013	**16,013**
Current tax liabilities	-	-	-	-	-	10,387	**10,387**
Other liabilities	-	-	-	-	-	72,944	**72,944**
Subordinated redeemable shares	8,452	2,943	198	-	95,350	-	**106,943**
Equity	-	-	-	-	-	524,906	**524,906**
	2,474,628	**1,321,912**	**1,246,295**	**58,635**	**456,744**	**932,355**	**6,490,569**
On-balance sheet interest sensitivity gap	(1,114,845)	(564,619)	(44,298)	1,190,731	1,321,245	(788,214)	**-**
Net balance of derivative financial instruments	1,482,550	555,000	(334,500)	(1,241,800)	(461,250)	-	**-**
Total interest rate sensitivity gap	**367,705**	**(9,619)**	**(378,798)**	**(51,069)**	**859,995**	**(788,214)**	**-**

As at 31 March 2023	Less than 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-Interest Sensitive	Total
Assets							
Cash on hand and at bank	55,005	-	-	-	-	-	**55,005**
Funds with financial institutions and central bank	126,535	660	810	406	-	-	**128,411**
Investment securities	110,717	14,881	52,911	127,396	268,817	-	**574,722**
Derivative financial instruments	-	-	-	-	-	95,966	**95,966**
Advances to customers	848,624	451,690	1,001,625	1,292,946	1,464,342	(34,499)	**5,024,728**
Other assets	-	-	-	-	-	127,598	**127,598**
	1,140,881	**467,231**	**1,055,346**	**1,420,748**	**1,733,159**	**189,065**	**6,006,430**
Liabilities and equity							
Redeemable shares	1,566,568	756,636	1,333,954	82,275	16,650	340,518	**4,096,601**
Deposits from customers	26,492	15,726	25,018	1,311	460	-	**69,007**
Medium term notes	-	-	-	-	148,924	-	**148,924**
Commercial paper	297,168	49,116	-	-	-	-	**346,284**
Due to other financial institutions	668,065	-	-	-	-	-	**668,065**
Derivative financial instruments	-	-	-	-	-	18,850	**18,850**
Current tax liabilities	-	-	-	-	-	5,044	**5,044**
Deferred tax liabilities	-	-	-	-	-	10,501	**10,501**
Other liabilities	-	-	-	-	-	73,059	**73,059**
Subordinated redeemable shares	39,137	2,058	3,296	11,397	8,333	-	**64,221**
Equity	-	-	-	-	-	505,874	**505,874**
	2,597,430	**823,536**	**1,362,268**	**94,983**	**174,367**	**953,846**	**6,006,430**
On-balance sheet interest sensitivity gap	(1,456,549)	(356,305)	(306,922)	1,325,765	1,558,792	(764,781)	**-**
Net balance of derivative financial instruments	1,533,301	756,250	(136,701)	(1,327,000)	(825,850)	-	**-**
Total interest rate sensitivity gap	**76,752**	**399,945**	**(443,623)**	**(1,235)**	**732,942**	**(764,781)**	**-**

Notes to the Financial Statements for the year ended 31 March 2024. All in $000's

25. Market Risk continued

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Banking Group's financial assets and liabilities to various standard interest rate scenarios. The Banking Group's market risk model determines the mismatch between assets and liabilities after taking derivatives into account. The present value of the mismatched cash flows are discounted using the current yield curve at period end and the assessed most probable scenarios as well as a 100 basis point ("BP") parallel rise or fall in the New Zealand yield curve. 100bp covers the most optimistic and pessimistic interest rate forecasts currently in the market. The difference in the present value of the scenario and the present value of the current yield curve are identified for each of the scenarios. Differences between equity and profit and loss are a result of interest rate derivatives designated in cash flow relationships which have most of the fair value movements in the derivatives taken directly to the cash flow hedge reserve in equity. An analysis of the Banking Group's sensitivity to an increase or decrease in market interest rates is as follows:

	31/03/2024	31/03/2023
Impact on equity of increase or decrease to market interest rates		
100 bp parallel increase	12,306	17,342
100 bp parallel decrease	(12,306)	(17,342)
Impact on profit and loss of increase or decrease to market interest rates		
100 bp parallel increase	(387)	4
100 bp parallel decrease	387	(4)

Policies for managing foreign exchange risk

Currency risk results from the mismatch of foreign currency assets and liabilities. The Banking Group has a policy of hedging all foreign currency borrowing into New Zealand dollars. As such there were no material foreign currency exposures at year end as set out in the table below.

	Note	31/03/2024 AUD	31/03/2023 AUD
AUD Capital Bond	(16b)	-	30,000
AUD Cross Currency Interest Rate Swap	(10)	-	(30,000)
Net exposure		-	-

26. Related Parties

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

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

(a) Loans and advances to related parties

Directors and other key management personnel	31/03/2024	31/03/2023
Loans and advances outstanding at beginning of year	1,173	2,509
Net loans issued/(repaid) during the year	495	(1,336)
Loans and advances outstanding at end of year	**1,668**	**1,173**
Interest income earned on amounts due from related parties	**71**	**53**

Loans and advances with directors and key management personnel of the Banking Group are made either:

- on normal terms and conditions; or
- on terms and conditions which apply to other employees in the Banking Group.

All loans made to directors and key management personnel have been made in accordance with the Banking Group's lending policies.

No provisions have been recognised in respect of loans given to related parties. There were no debts with any of the above parties written off or forgiven during the year ended 31 March 2024 (31 March 2023 $nil).

26. Related Parties continued

(b) Deposits from related parties

Directors and other key management personnel	31/03/2024	31/03/2023
Deposits at beginning of year	6,366	7,870
Net deposits received/(repaid) during the year	2,713	(1,504)
Deposits at end of year	**9,079**	**6,366**
Interest expense on amounts due to related parties	**368**	**169**

(c) Other transactions with related parties

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

Lifestages Investment Funds

The Lifestages Investment Funds comprising the Lifestages Corporate Bond Portfolio, Lifestages World Bond Portfolio, Lifestages Australasian Portfolio and Lifestages World Equity Portfolio are Unit Trusts established under the Unit Trust Act 1960.

Each of the Portfolios is a managed investment scheme that is governed by a consolidated Master Trust Deed and Establishment Deed between FANZ, the manager of the Investment Funds, and Trustees Executors Limited the Supervisor of the Investment Funds.

Lifestages KiwiSaver Scheme

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

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

(d) Key management compensation

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

27. Subsequent Events

There have been no material subsequent events after 31 March 2024.

A1. General Disclosures - unaudited

A1.1 General Information

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

This Disclosure Statement has been issued by Southland Building Society in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"). In this Disclosure Statement "Banking Group" means SBS and all of its controlled entities as consolidated for financial reporting purposes.

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

Name and Address for Service of Registered Bank

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

Details of Incorporation

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

Ownership

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

A1.2 Priority of Creditor Claims

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

A1.3 Guarantee Arrangements

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

A1.4 Directorate

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

Transactions with Directors

There have been no transactions between the Bank and any Director or immediate relative or close business associate of any Director which either, has been entered into on terms other than those which would in the ordinary course of business of the Bank be given to any other person of like circumstances or means or, which could be reasonably likely to influence materially the exercise of the Director's duties.

Group Audit & Risk Committee

Members of the Group Audit & Risk Committee as at the date of this Disclosure Statement are as follows:

LM Robertson (Chairperson) - Independent Non-Executive Director
MP O'Connor - Independent Non-Executive Director
MJ Skilling - Independent Non-Executive Director
KJ Murphy - Independent Non-Executive Director
SJ Brown - Independent Non-Executive Director

Policy of the Board of Directors for avoiding or dealing with conflicts of interest

The policy and current practice of the Board of Directors (as set out in clause 16.7 of the Rules of Southland Building Society) for avoiding or dealing with conflicts of interest which may arise from personal, professional or business interests of the Directors, are that, a Director, after becoming aware of the fact that he or she is interested in a transaction or proposed transaction with the Society, shall disclose to the Board and cause to be entered in the interests register:

(i) the nature and monetary value of the Director's interest in a transaction if its monetary value is able to be quantified; or
(ii) the nature and extent of the Director's interest in a transaction if its monetary value is not able to be quantified.

A Director may not vote on a Board resolution in respect of any matter in which that Director is interested, nor shall the Director be counted in the quorum for the purposes of consideration of that matter.

A1.4 Directorate continued

AJ (Joe) O'Connell BCom FCA CFInstD (Chairperson - Board of Directors) Company Director Independent Non-Executive Director	**External Directorships:** TNZ Growing Products Ltd, R Richardson Ltd, K G Richardson Ltd, Log Marketing New Zealand Ltd, OKC Holdings Ltd, Fern Energy Ltd, AJO Management Ltd, Niagara Forestry Ltd, Niagara Sawmilling Company Ltd, McNeill Drilling Company Ltd, McNeill Distribution Ltd, Tulloch Transport Ltd, Craigpine Timber Ltd, Wood Energy New Zealand GP Ltd, Northwood Properties Ltd.
MJ (Mike) Skilling BAgrSci PGDipBank SFFINSIA CMInstD (Deputy chairperson - Board of Directors) Company Director Independent Non-Executive Director	**External Directorships:** Financial Synergy Ltd, Ruby Bay Estate Ltd, Hastings Street South Investments Ltd, Hastings Street South Ltd, MB Investments Ltd.
MP (Mark) O'Connor BCom FCA FNZIM Company Director Independent Non-Executive Director	**External Directorships:** France Street Trustee Ltd, Nevele R Stud Ltd.
KJ (Kevin) Murphy FCA CFInstD Company Director Independent Non-Executive Director	**External Directorships:** Adele Senior Living Ltd, KCM Consultant Services Ltd, Public Trust, Red Snapper Ltd, Niue Development Bank.
SJ (Sarah) Brown BA LLB CFInstD Company Director Independent Non-Executive Director	**External Directorships:** PGG Wrightson Ltd, Horizon Meats New Zealand Ltd, Blue Sky Meats (N.Z.) Ltd, Howie Johns Ltd.
PRN (Phil) Ellison BMS MInstD Company Director Non-Executive Director	**External Directorships:** Utrade Connect Ltd, Sabre Corporate Trustee Company Ltd, Simfuni Ltd.
LM (Linda) Robertson BCom, PGDipBank, CFInstD Company Director Independent Non-Executive Director	**External Directorships:** RML Consulting Ltd, Crown Irrigation Investments Ltd, Power Services 2022 Ltd, Central Lakes Direct Ltd, Central Lakes Trust (as at Trustee), Aquaheat Fire New Zealand Ltd, Aquaheat New Zealand Ltd, Alpine Energy Ltd, New Zealand Local Government Funding Agency Ltd, Horizon Energy Distribution Ltd, Horizon Services Ltd, Horizon Energy Group Ltd, Horizon Energy Ltd, Coollogic Refrigeration Ltd, Aquaheat Facility Services Ltd, Caldwell and Levesque Ltd, Invercargill City Property Ltd, Invercargill City Holdings Ltd, Kordia Group Ltd.

A1.5 Auditors

KPMG, Level 6, 44 Bowen Street, Wellington

A1.6 Pending Proceedings or Arbitration

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

A1.7 Credit Rating

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

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

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

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

A1. General Disclosures - unaudited continued

A1.8 Conditions of Registration

The conditions of registration imposed on Southland Building Society by the Reserve Bank of New Zealand pursuant to section 74 of the Reserve Bank of New Zealand Act 1989, and which apply as at the date of this Disclosure Statement are as follows. These conditions of registration have applied from 1 October 2023.

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

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

   For the purposes of this condition of registration, -

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

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

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

1B. That, if the Prudential Capital Buffer (PCB) ratio of the banking group is 2.5% or less, the bank must -
   (a) according to the following table, limit the aggregate distributions of the bank's earnings, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to the percentage limit on distributions that corresponds to the banking group's PCB ratio; and

Banking group's PCB ratio	Percentage limit on distributions of the bank's earnings	Capital Buffer Response Framework stage
0% - 0.5%	0%	Stage 3
>0.5% - 1%	30%	Stage 2
>1% - 2%	60%	Stage 1
>2% - 2.5%	100%	None

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

   For the purposes of this condition of registration, -

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

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

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

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

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

   For the purposes of this conditions of registration, -

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

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

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

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

A1. General Disclosures - unaudited continued

A1.8 Conditions of Registration continued

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:
   (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and
   (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

   In determining the total amount of the banking group's insurance business -
   (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
   (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

   For the purposes of this condition of registration, -
   "insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance;
   "insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. From 1 October 2023 the bank must comply with all the requirements set out in the following document: BS8 Connected Exposures 1 October 2023, except as noted below.
   (i) The requirements in para A.3(1) to A.3(12) do not take effect until 1 April 2024.
   (ii) From 1 October 2023 to 31 March 2024 the bank must apply the definition of connected person set out in 4(e) to 4(g) of the BS8 Connected Exposures document dated 1 October 2021.

4A. That the aggregate credit exposures of the banking group to all connected persons must not exceed the rating-contingent limit outlined in the following matrix at the end of each working day at all times.

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

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

   Within the rating-contingent limit, credit exposures to non-bank connected persons must not exceed 15% of the banking group's Tier 1 capital at the end of each working day at all times.

   For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated October 2023.

4B. That full year disclosure statements are prepared on the basis that clause 6(2)(b), Schedule 14 of the Order does not apply.
   For the purposes of this condition of registration, "Order" means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014, and "disclosure statement" means a disclosure statement to be prepared under the Order.

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

6. That the bank complies with the following corporate governance requirements:
   (a) the board of the bank must have at least five directors;
   (b) the majority of the board members must be non-executive directors;
   (c) at least half of the board members must be independent directors;
   (d) an alternate director,-
      (i) for a non-executive director must be non-executive; and
      (ii) for an independent director must be independent;
   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
   (f) the chairperson of the board of the bank must be independent; and
   (g) the bank's rules must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the society (i.e. the bank).

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

A1. General Disclosures - unaudited continued

A1.8 Conditions of Registration continued

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

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

   For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2022 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated July 2022.
12. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
   (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
   (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
   (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
   (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.
13. That no more than 10% of total assets may be beneficially owned by a SPV.

   For the purposes of this condition -

   "total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets.
   "SPV" means a person -
   (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
   (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
   (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

   "covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.
14. That -
   (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
      (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
      (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
   (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
      (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
      (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
      (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

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

A1. General Disclosures - unaudited continued

A1.8 Conditions of Registration continued

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

   For the purposes of this condition of registration, *"de minimis"*, "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.
16. That the bank has an Implementation Plan that -
   (a) is up-to-date; and
   (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS17) dated June 2022.

   For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.
17. That the bank has a compendium of liabilities that-
   (a) at the product-class level lists all liabilities, indicating which are -
      (i) pre-positioned for Open Bank Resolution; and
      (ii) not pre-positioned for Open Bank Resolution;
   (b) is agreed to by the Reserve Bank; and
   (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

   For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.
18. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

   For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS 17) dated June 2022.
19. That, for a loan-to-valuation measurement period ending on or after 30 November 2023, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 65%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
20. That, for a loan-to-valuation measurement period ending on or before 30 November 2023, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
21. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

   In these conditions of registration,-

   "banking group" means Southland Building Society (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.
   "generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

All in $000's

A1. General Disclosures - unaudited continued

A1.8 Conditions of Registration continued

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

BPR document	Version date
BPR100: Capital adequacy	1 October 2021
BPR110: Capital definitions	1 October 2023
BPR120: Capital adequacy process requirements	1 October 2023
BPR130: Credit risk RWAs overview	1 October 2023
BPR131: Standardised credit risk RWAs	1 October 2023
BPR132: Credit risk mitigation	1 October 2023
BPR133: IRB credit risk RWAs	1 October 2023
BPR134: IRB minimum system requirements	1 July 2021
BPR140: Market risk exposure	1 October 2021
BPR150: Standardised operational risk	1 July 2021
BPR151: AMA operational risk	1 July 2021
BPR160: Insurance, securitisation, and loan transfers	1 July 2021
BPR001: Glossary	1 October 2023

In conditions of registration 19 to 22, -
"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated October 2021:

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

Changes in Conditions of Registration during the period

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

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

Risk Weights Omnibus
The Conditions of Registration is updated to refer to the updated BPR001, BPR130, BPR131, BRP132 and BPR133, which have been updated to reflect various changes to risk weight buckets, relating to Kainga Ora Loans, and Reverse Equity loans.

Changes in Conditions of Registration after period end

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

Connected Exposures
Paragraph 4 has been updated to reflect the revised wording on limits on connected exposures and refer to an updated version of BS8.

Material non-compliance with Conditions of Registration

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

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

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

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

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

A1. General Disclosures - unaudited continued

A1.9 Other Material Matters

As noted in A1.8 the Registered Bank continues to discuss some issues with the Reserve Bank arising from findings relevant to the Registered Bank in relation to the Reserve Bank's industry thematic review of compliance with the Liquidity Policy (BS13). Any amendments from this review will be reported in the Disclosure Statement as required.

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.

A1.10 Historical Summary of Financial Statements

Income Statements	31/03/2024	Restated 31/03/2023	31/03/2022	31/03/2021	31/03/2020
Interest income	439,975	288,189	192,337	216,375	254,542
Interest expense	86,776	48,466	21,764	31,073	37,156
Dividends on redeemable shares	202,441	98,326	37,401	66,101	98,249
	289,217	146,792	59,165	97,174	135,405
Net interest income	**150,758**	**141,397**	**133,172**	**119,201**	**119,137**
Net fee and commission income	26,047	24,557	24,785	24,511	24,844
Other income	1,199	1,620	5,868	7,546	10,406
Total operating income	**178,004**	**167,574**	**163,825**	**151,258**	**154,387**
Operating expenses	115,480	104,626	96,567	91,423	96,092
Credit impairment losses	20,330	12,671	5,977	4,641	36,973
Operating surplus	**42,194**	**50,277**	**61,281**	**55,194**	**21,322**
Net gain/(loss) from financial instruments at fair value through profit or loss	334	(32)	(207)	729	(269)
Net gain/(loss) from associates	12,976	-	-	-	-
Share of associates profit net of tax	1,057	1,230	819	1,203	1,274
Surplus before income tax	**56,561**	**51,475**	**61,893**	**57,126**	**22,327**
Less income taxation expense	13,739	14,013	17,030	15,987	3,576
Net surplus	**42,822**	**37,462**	**44,863**	**41,139**	**18,751**
Attributable to:					
Members' interests	42,822	37,462	44,863	41,139	18,626
Non-controlling interests	-	-	-	-	125
	42,822	**37,462**	**44,863**	**41,139**	**18,751**

Significant Statement of Financial Position Items	31/03/2024	Restated 31/03/2023	31/03/2022	31/03/2021	31/03/2020
Total assets	6,490,569	6,006,430	5,219,795	4,836,346	4,941,528
Individually impaired assets	45	1,431	1,209	1,407	1,556
Total liabilities	5,965,663	5,500,556	4,756,843	4,447,630	4,610,240
Equity	524,906	505,874	462,952	388,716	331,288
Regulatory capital					
Tier one capital	489,595	433,362	397,220	359,650	309,803
Total capital	592,955	473,963	465,308	437,230	386,296
Tier one capital expressed as a percentage of total risk weighted assets	13.5%	12.4%	13.1%	12.9%	11.1%
Total capital expressed as a percentage of total risk weighted assets	16.3%	13.6%	15.4%	15.7%	13.8%

The amounts included in this summary have been extracted from the audited consolidated financial statements of the Banking Group.

A2. Additional Financial Disclosures

A2.1 Additional information on the statement of financial position

	31/03/2024	31/03/2023
Total interest earning and discount bearing assets	6,346,428	5,782,866
Total interest and discount bearing liabilities	5,558,214	5,052,584

A2.2 Additional information on concentrations of credit risk

Refer to Note 24 - Credit Risk for disclosure on credit risk concentrations relating to agricultural exposures.

A2.3 Additional information on interest rate sensitivity

Refer to Note 25 - Market Risk for details on the Banking Group's interest rate repricing profile.

A2.4 Additional information on liquidity risk

Refer to Note 23 - Liquidity Risk for disclosure of financial liabilities maturity analysis, including liabilities on demand.

A2.5 Additional information on mortgage-related amounts

	Note	31/03/2024
Gross residential mortgage loans	(11)	4,321,159
Other lending residentially secured		40,268
Provision for credit impairment relating to residential mortgages	(12(a))	(11,096)
Deferred fee revenue and expenses relating to residential mortgages		16,581
Residential mortgage loans net of provision for impairment		4,366,912
Off balance sheet exposures - undrawn commitments	(A4.4)	222,509
Total on and off balance sheet residential mortgage loans		**4,589,421**

A3. Asset Quality

This section should be read in conjunction with the estimates, assumptions and judgements included in Note 1 - Statement of General Accounting Policies, Note 12 - Provision for Credit Impairment, Note 13 - Asset Quality and Note 24 - Credit Risk.

A3.1 Past due assets

As at 31 March 2024	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Past due 0-9 days	28,159	54,844	1,180	84,183
Past due 10-29 days	10,559	24,087	824	35,470
Past due 0-29 days	38,718	78,931	2,004	119,653
Past due 30-59 days	5,935	10,847	612	17,394
Past due 60-89 days	4,517	5,208	781	10,506
Past due 90 days +	13,402	6,116	820	20,338
Carrying amount	**62,572**	**101,102**	**4,217**	**167,891**

As at 31 March 2023	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Past due 0-9 days	12,569	37,077	1,058	50,704
Past due 10-29 days	6,632	14,200	721	21,553
Past due 0-29 days	19,201	51,277	1,779	72,257
Past due 30-59 days	4,797	6,569	565	11,931
Past due 60-89 days	2,374	3,231	195	5,800
Past due 90 days +	10,079	3,186	1,178	14,443
Carrying amount	**36,451**	**64,263**	**3,717**	**104,431**

Southland Building Society
Registered Bank Disclosures for the year ended 31 March 2024. All in $000's

A3. Asset Quality continued

A3.2 Movement in provision for credit impairment and gross exposures

	Expected Credit Losses			Specific Provision	
As at 31 March 2024	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers - Total					
Balance at beginning of year	19,315	9,471	5,210	503	34,499
Transfer between stages	2,800	(2,406)	(394)	-	-
New provisions	8,224	7,493	4,445	-	20,162
Charge/(credit) to income statement excluding transfers	(4,025)	2,259	(385)	(280)	(2,431)
Reversal of previously recognised provision	(7,642)	(3,667)	(2,444)	(173)	(13,926)
Balance at end of year - Total	**18,672**	**13,150**	**6,432**	**50**	**38,304**
Movement in provisions relating to credit related commitments - Total					
Balance at beginning of year	2,123	24	4	-	2,151
Transfer between stages	(21)	13	8	-	-
New provisions	303	(11)	(8)	-	284
Charge/(credit) to income statement excluding transfers	(313)	(10)	(4)	-	(327)
Reversal of previously recognised provision	(718)	-	-	-	(718)
Balance at end of year - Total	**1,374**	**16**	**-**	**-**	**1,390**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Movement in gross exposures on loss allowances - Total				
Balance at beginning of year	5,322,176	62,521	16,182	5,400,879
Transfer between stages				
Transferred to Stage 1	22,774	(20,798)	(1,976)	-
Transferred to Stage 2	(77,115)	80,255	(3,140)	-
Transferred to Stage 3	(12,799)	(2,131)	14,930	-
New loans	1,571,675	17,843	2,796	1,592,314
Assets derecognised and payments made	(968,769)	(19,126)	(7,947)	(995,842)
Other movements	(150,031)	(2,504)	(199)	(152,734)
Gross exposure - Total	**5,707,911**	**116,060**	**20,646**	**5,844,617**
Provision for credit impairment	(20,046)	(13,166)	(6,482)	(39,694)
Net exposure - Total	**5,687,865**	**102,894**	**14,164**	**5,804,923**

Registered Bank Disclosures for the year ended 31 March 2024. All in $000's

A3. Asset Quality continued

A3.2 Movement in provision for credit impairment and gross exposures continued

Residential mortgages	Expected Credit Losses			Specific Provision	
As at 31 March 2024	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers - Residential mortgages					
Balance at beginning of year	5,270	3,354	1,637	503	10,764
Transfer between stages	1,390	(1,191)	(199)	-	-
New provisions	867	1,017	360	-	2,244
Charge/(credit) to income statement excluding transfers	(3,778)	2,352	(206)	(280)	(1,912)
Reversal of previously recognised provision		-	173	(173)	-
Balance at end of year - Residential mortgages	**3,749**	**5,532**	**1,765**	**50**	**11,096**
Movement in provisions relating to credit related commitments - Residential mortgages					
Balance at beginning of year	237	3	4	-	244
Transfer between stages	-	-	-	-	-
New provisions	6	-	-	-	6
Charge/(credit) to income statement excluding transfers	(116)	-	(4)	-	(120)
Balance at end of year - Residential mortgages	**127**	**3**	**-**	**-**	**130**

	Stage 1	Stage 2	Stage 3	Total
Movement in gross exposures on loss allowances - Residential mortgages				
Balance at beginning of year	4,155,172	37,274	11,534	4,203,980
Transfer between stages				
Transferred to Stage 1	19,726	(18,045)	(1,681)	-
Transferred to Stage 2	(64,286)	66,569	(2,283)	-
Transferred to Stage 3	(8,125)	(1,665)	9,790	-
New loans	997,634	11,520	890	1,010,044
Assets derecognised and payments made	(551,039)	(6,720)	(4,637)	(562,396)
Other movements	(142,167)	(2,883)	(188)	(145,238)
Gross exposure - Residential mortgages	**4,406,915**	**86,050**	**13,425**	**4,506,390**
Provision for credit impairment	(3,876)	(5,535)	(1,815)	(11,226)
Net exposure - Residential mortgages	**4,403,039**	**80,515**	**11,610**	**4,495,164**

Impact of changes in gross exposures - Residential mortgages
Overall, credit impairment provisions for residential mortgages increased $0.2 million (2%) for the year ending 31 March 2024, mainly due to portfolio growth of $302.4 million (7%) which was partially offset by release of overlays which had been held relating to economic uncertainty created by Covid-19.

A3. Asset Quality continued

A3.2 Movement in provision for credit impairment and gross exposures continued

Retail exposures	Expected Credit Losses			Specific Provision	
As at 31 March 2024	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers - Retail exposures					
Balance at beginning of year	12,970	5,544	2,942	-	21,456
Transfer between stages	1,253	(1,258)	5	-	-
New provisions	7,143	6,243	3,933	-	17,319
Reversal of previously recognised provision	(7,322)	(3,542)	(2,552)	-	(13,416)
Balance at end of year - Retail exposures	**14,044**	**6,987**	**4,328**	**-**	**25,359**
Movement in provisions relating to credit related commitments - Retail exposures					
Balance at beginning of year	1,480	-	-	-	1,480
Transfer between stages	(19)	11	8	-	-
New provisions	283	(11)	(8)	-	264
Reversal of previously recognised provision	(718)	-	-	-	(718)
Balance at end of year - Retail exposures	**1,026**	**-**	**-**	**-**	**1,026**

	Stage 1	Stage 2	Stage 3	Total
Movement in gross exposures on loss allowances - Retail exposures				
Balance at beginning of year	987,562	10,340	3,477	1,001,379
Transfer between stages				
Transferred to Stage 1	2,520	(2,230)	(290)	-
Transferred to Stage 2	(10,501)	10,588	(87)	-
Transferred to Stage 3	(4,088)	(413)	4,501	-
New loans	537,406	5,539	1,884	544,829
Assets derecognised and payments made	(374,156)	(7,168)	(3,081)	(384,405)
Balance at end of year - Retail exposures	**1,138,743**	**16,656**	**6,404**	**1,161,803**
Provision for credit impairment	(15,070)	(6,987)	(4,328)	(26,385)
Net exposure - Retail exposures	**1,123,673**	**9,669**	**2,076**	**1,135,418**

Impact of changes in gross exposures - Retail exposures
Overall, credit impairment provisions for retail exposures increased by $3.4 million (15%) for the year ending 31 March 2024, mainly due to portfolio growth of $160.4 million (16%).

Registered Bank Disclosures for the year ended 31 March 2024. All in $000's

A3. Asset Quality continued

A3.2 Movement in provision for credit impairment and gross exposures continued

Corporate exposures	Expected Credit Losses			Specific Provision	
As at 31 March 2024	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers - Corporate exposures					
Balance at beginning of year	1,075	573	631	-	2,279
Transfer between stages	157	43	(200)	-	-
New provisions	214	233	152	-	599
Charge/(credit) to income statement excluding transfers	(247)	(93)	(179)	-	(519)
Reversal of previously recognised provision	(320)	(125)	(65)	-	(510)
Balance at end of year - Corporate exposures	**879**	**631**	**339**	**-**	**1,849**
Movement in provisions relating to credit related commitments - Corporate exposures					
Balance at beginning of year	406	21	-	-	427
Transfer between stages	(2)	2	-	-	-
New provisions	14	-	-	-	14
Charge/(credit) to income statement excluding transfers	(197)	(10)	-	-	(207)
Balance at end of year - Corporate exposures	**221**	**13**	**-**	**-**	**234**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Movement in gross exposures on loss allowances - Corporate exposures				
Balance at beginning of year	179,442	14,907	1,171	195,520
Transfer between stages				
Transferred to Stage 1	528	(523)	(5)	-
Transferred to Stage 2	(2,328)	3,098	(770)	-
Transferred to Stage 3	(586)	(53)	639	-
New loans	36,635	784	22	37,441
Assets derecognised and payments made	(43,574)	(5,238)	(229)	(49,041)
Other movements	(7,864)	379	(11)	(7,496)
Balance at end of year - Corporate exposures	**162,253**	**13,354**	**817**	**176,424**
Provision for credit impairment	(1,100)	(644)	(339)	(2,083)
Net exposure - Corporate exposures	**161,153**	**12,710**	**478**	**174,341**

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

Overall, credit impairment provisions for corporate exposures decreased by $0.6 million (23%) for the year ending 31 March 2024, mainly due to:

- Overall decrease in the corporate exposure portfolio of $19.1 million (10%);
- Release of overlays which had been held relating to economic uncertainty created by Covid-19.

A3. Asset Quality continued

A3.2 Movement in provision for credit impairment and gross exposures continued

Residential mortgages	Expected Credit Losses			Specific Provision	
As at 31 March 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers					
Balance at beginning of year	5,975	3,374	665	353	10,367
Transfer between stages	996	(1,536)	540	-	-
Transferred to specific provision	-	-	(150)	150	-
New provisions	1,149	507	217	-	1,873
Charge/(credit) to income statement excluding transfers	(2,850)	1,009	365	-	(1,476)
Balance at end of year - Residential mortgages	**5,270**	**3,354**	**1,637**	**503**	**10,764**
Movement in provisions relating to credit related commitments					
Balance at beginning of year	355	3	5	-	363
New provisions	12	-	-	-	12
Charge/(credit) to income statement excluding transfers	(130)	-	(1)	-	(131)
Balance at end of year - Residential mortgages	**237**	**3**	**4**	**-**	**244**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Movement in gross exposures on loss allowances - Residential mortgages				
Balance at beginning of year	3,740,449	27,766	3,833	3,772,048
Transfer between stages	(22,566)	13,816	8,750	-
New loans	1,084,564	3,831	123	1,088,518
Assets derecognised and payments made	(501,253)	(7,122)	(1,007)	(509,382)
Other movements	(146,022)	(1,018)	(165)	(147,205)
Balance at end of year - Residential mortgages	**4,155,172**	**37,273**	**11,534**	**4,203,979**
Provision for credit impairment	(5,507)	(3,357)	(2,144)	(11,008)
Net exposure - Residential mortgages	**4,149,665**	**33,916**	**9,390**	**4,192,971**

Retail exposures	Expected Credit Losses			Specific Provision	
As at 31 March 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers					
Balance at beginning of year	12,660	4,486	1,679	-	18,825
Transfer between stages	1,225	(1,145)	(80)	-	-
New provisions	7,066	5,006	2,714	-	14,786
Reversal of previously recognised provision	(7,981)	(2,803)	(1,371)	-	(12,155)
Balance at end of year - Retail exposures	**12,970**	**5,544**	**2,942**	**-**	**21,456**
Movement in provisions relating to credit related commitments					
Balance at beginning of year	2,315	-	-	-	2,315
Transfer between stages	(22)	13	9	-	-
New provisions	406	(13)	(9)	-	384
Reversal of previously recognised provision	(1,219)	-	-	-	(1,219)
Balance at end of year - Retail exposures	**1,480**	**-**	**-**	**-**	**1,480**

Registered Bank Disclosures for the year ended 31 March 2024. All in $000's

A3. Asset Quality continued

A3.2 Movement in provision for credit impairment and gross exposures continued

Retail exposures continued	Stage 1	Stage 2	Stage 3	Total
Movement in gross exposures on loss allowances - Retail exposures				
Balance at beginning of year	782,871	7,975	1,885	792,731
Transfer between stages	(6,584)	4,264	2,320	-
New loans	524,577	3,517	894	528,988
Assets derecognised and payments made	(313,303)	(5,415)	(1,621)	(320,339)
Gross exposure - Retail exposures	**987,561**	**10,341**	**3,478**	**1,001,380**
Provision for credit impairment	(14,450)	(5,544)	(2,942)	(22,936)
Net exposure - Retail exposures	**973,111**	**4,797**	**536**	**978,444**

Corporate exposures	Expected Credit Losses			Specific Provision	
As at 31 March 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers					
Balance at beginning of year	1,396	1,276	237	220	3,129
Transfer between stages	74	(244)	170	-	-
New provisions	436	201	68	-	705
Charge/(credit) to income statement excluding transfers	(335)	(607)	306	(220)	(856)
Reversal of previously recognised provision	(496)	(53)	(150)	-	(699)
Balance at end of year - Corporate exposures	**1,075**	**573**	**631**	**-**	**2,279**
Movement in provisions relating to credit related commitments					
Balance at beginning of year	565	70	-	-	635
Transfer between stages	(4)	3	1	-	-
New provisions	4	-	-	-	4
Charge/(credit) to income statement excluding transfers	(159)	(52)	(1)	-	(212)
Balance at end of year - Corporate exposures	**406**	**21**	**-**	**-**	**427**

	Stage 1	Stage 2	Stage 3	Total
Movement in gross exposures on loss allowances - Corporate exposures				
Balance at beginning of year	184,567	44,164	497	229,228
Transfer between stages	(1,595)	625	970	-
New loans	43,013	2,796	14	45,823
Assets derecognised and payments made	(39,915)	(31,080)	(392)	(71,387)
Other movements	(6,628)	(1,598)	81	(8,145)
Balance at end of year - Corporate exposures	**179,442**	**14,907**	**1,170**	**195,519**
Provision for credit impairment	(1,481)	(594)	(631)	(2,706)
Net exposure - Corporate exposures	**177,961**	**14,313**	**539**	**192,813**

A3.3 Asset quality for financial assets designated at fair value

Refer to Note 21 - Fair Value of Financial Instruments for movement of REM loans, which are carried at fair value through profit or loss.

A3.4 Other asset quality information

	31/03/2024	31/03/2023
Undrawn balances on individually impaired lending commitments	-	-
Other assets under administration	-	-

A4. Capital Adequacy under the Standardised Approach, and Regulatory Liquidity Ratios - unaudited

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

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

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

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

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

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

The capital adequacy calculations set out next 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.

Registered Bank Disclosures for the year ended 31 March 2024. All in $000's

A4. Capital Adequacy under the Standardised Approach, and Regulatory Liquidity Ratios - unaudited continued

A4.1 Capital ratios

Regulatory capital ratios	Minimum ratio requirement	BANKING GROUP 31/03/2024	BANKING GROUP 31/03/2023	REGISTERED BANK 31/03/2024	REGISTERED BANK 31/03/2023
Common equity tier 1 capital ratio	4.5%	13.5%	12.4%	10.7%	10.2%
Tier 1 capital ratio	6.0%	13.5%	12.4%	10.7%	10.2%
Total capital ratio	8.0%	16.3%	13.6%	14.1%	11.7%
Prudential capital buffer ratio	2.5%	7.5%	5.6%		

A4.2 Capital

	BANKING GROUP 31/03/2024
Tier 1 capital	
Common equity tier 1 (CET1) capital	
Retained earnings	469,059
Current year's retained earnings	42,822
FVOCI reserve	(7,837)
Cash flow hedging reserve	17,283
Less deductions from CET1 capital	
Goodwill & intangible assets	(10,158)
Deferred tax assets	(4,291)
Cash flow hedging reserve	(17,283)
Investments in associates	-
Total CET1 capital	**489,595**
Additional tier 1 (AT1) capital	
Non-controlling interests (net of deductions and surplus AT1 capital)	-
Total AT1 capital	-
Total tier 1 capital	**489,595**
Tier 2 capital	
Revaluation reserves - Property, plant and equipment	3,579
Subordinated redeemable shares[1]	99,781
Total tier 2 capital	**103,360**
Total capital	**592,955**
Less deductions from capital	-
Total capital	**592,955**

[1] Classified as a liability on the balance sheet under NZ GAAP. At 31 March 2024 the balance of all subordinated redeemable shares issued was $106.1 million (31 March 2023 $63.8 million). After adjustments for potential tax and transitional recognition amortisation, $99.8 million (31 March 2023 $38.3 million) has been recognised as tier 2 capital for RBNZ capital adequacy purposes.

A4. Capital Adequacy under the Standardised Approach, and Regulatory Liquidity Ratios - unaudited continued

A4.3 Credit risk
On balance sheet exposures

BANKING GROUP As at 31 March 2024	Total exposure after credit risk mitigation[2]	Risk weighting	Risk weighted exposure	Minimum pillar one capital requirement
Cash	582	0%	-	-
Sovereigns and central banks	120,053	0%	-	-
Multilateral development banks	100,160	0%	-	-
Public sector entities	77,029	20%	15,406	1,232
Banks				
Rating grade 1	156,687	20%	31,337	2,507
Rating grade 2	267,381	50%	133,691	10,695
Corporates				
Rating grade 1	48,909	20%	9,782	783
Rating grade 2	16,928	50%	8,464	677
Rating grade 3-4	12,541	100%	12,541	1,003
Residential mortgages owner occupied				
<= 80% loan to value ratio (LVR)	2,289,448	35%	801,307	64,105
80 <= 90% LVR	104,722	50%	52,361	4,189
90 <= 100% LVR	3,971	75%	2,978	238
> 100% LVR	2,508	100%	2,508	201
Residential mortgages property investment				
<= 80% LVR	997,059	40%	398,824	31,906
80 <= 90% LVR	2,458	70%	1,721	138
Residential mortgages first home loans (Kainga Ora)	852,632	20%	170,526	13,642
Reverse residential mortgage loans				
<= 30%	45,483	40%	18,193	1,455
30 <= 60%	45,581	50%	22,791	1,823
60 <= 80%	2,000	80%	1,600	128
80 <= 100%	165	100%	165	13
Past due residential mortgages	16,290	100%	16,290	1,303
Past due residential mortgages - Kainga Ora	4,595	20%	919	74
Equity holdings	6,431	400%	25,724	2,058
Other assets	1,252,826	100%	1,252,826	100,226
Non-risk weighted assets	64,130	0%	-	-
Total on balance sheet credit exposures	**6,490,569**		**2,979,954**	**238,396**

Off balance sheet exposures

As at 31 March 2024	Total exposure after credit risk mitigation[2]	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure / implied risk weighted exposure	Minimum pillar one capital requirement
Commitments with uncertain drawdown	89,840	50%	44,920	68%	30,657	2,453
Commitments to extend credit which can be unconditionally cancelled	305,038	0%	-	0%	-	-
Market related contracts[1]						
Interest rate contracts	6,249,032	n/a	60,809	34%	20,689	1,655
Credit valuation adjustment (CVA)					1,428	114
Total off balance sheet credit exposures	**6,643,910**		**105,729**		**52,774**	**4,222**
Total credit risk	**13,134,479**		**105,729**		**3,032,728**	**242,618**

[1] The credit equivalent amount for market related contracts was calculated using the current exposure method.
[2] No credit risk mitigation has been included.

Registered Bank Disclosures for the year ended 31 March 2024. All in $000's

A4.4 Additional mortgage information

Residential mortgages by loan-to-valuation ratio	BANKING GROUP	
As at 31 March 2024	On balance sheet	Off balance sheet
LVR range		
0 - 80%	3,529,772	213,288
80 - 90%	615,101	4,972
90% +	222,039	4,249
Total residential mortgages	**4,366,912**	**222,509**

First Home Loans make up 97% of the residential mortgages in the 90% + loan to valuation grouping as at 31 March 2024 (31 March 2023 97%) and 83% of the 80-90% loan to valuation grouping (31 March 2023 82%). The First Home Loan product is fully insured by Kāinga Ora – Homes and Communities.

A4.5 Credit risk mitigation

Exposure class	Total value of exposures covered by eligible financial collateral (after haircut)	Total value of on and off balance sheet exposures covered by guarantees or credit derivatives
Sovereign or central bank	-	-
Multilateral development bank	-	-
Public sector entities	-	-
Bank	-	-
Corporate	-	-
Residential mortgage	-	-
Other	-	-

A4.6 Operational Risk

	Implied risk-weighted exposure	Total operational risk capital required
Operational risk	349,722	27,978

A4.7 Market Risk

	Implied risk-weighted exposure		Aggregate capital charge	
	End of period	Peak	End of period	Peak
Interest rate risk	253,590	269,088	20,287	21,527
Foreign currency risk	-	-	-	-
Equity risk	-	-	-	-

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

A4.8 Total capital requirements

	Total exposure after credit risk mitigation	Risk-weighted exposure or implied risk-weighted exposure	Total capital requirement
Total credit risk	13,134,479	3,032,728	242,618
Operational risk	n/a	349,722	27,978
Market risk	n/a	253,590	20,287
Total Pillar I risk	**n/a**	**3,636,040**	**290,883**

A4.9 Capital for other material risks

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

i. Earnings risk - The risk due to uncertainty in future reported earnings arising from adverse changes in the business environment and from adverse business decisions.
ii. Liquidity risk - The risk that the Bank cannot meet or generate sufficient cash resources to meet its cash out goings as they fall due. Capital is not held for day to day liquidity. Instead a portfolio of cash, highly liquid instruments and committed funding lines is held. This largely mitigates the requirement to hold additional capital for liquidity risk, however capital is held to allow for excessive costs of raising suitable funds in adverse market conditions.
iii. Access to capital - The risk that the Bank may not be able to raise additional capital as required in a timely manner, particularly arising from the mutual status of SBS.
iv. Reputational risk - The potential that negative publicity regarding the bank's business practices or financial position, whether true or not, will cause a decline in the customer base, costly litigation or impact future earnings and funding.

The Bank has made an internal capital allocation of $50 million to cover these identified risks (31 March 2023 $45 million).

A4.10 Regulatory liquidity ratios

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

	31/03/2024	31/12/2023
Average liquidity ratios		
One-week mismatch ratio	6.8%	6.1%
One-month mismatch ratio	10.9%	9.8%
Core funding ratio	94.0%	95.3%

A5. Concentration of Credit Exposures to Individual Counterparties

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

The individual counterparty exposures included in the following table exclude exposures to:

- connected persons;
- the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent; and
- any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

	As at 31 March 2024			For the six months ending 31 March 2024		
Exposures to banks	End of Period Exposure			Peak Exposure		
Percentage of Common Equity Tier 1 capital	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
10%-14%	-	-	**-**	-	-	**-**
15%-19%	3	-	**3**	2	-	**2**
20%-24%	-	-	**-**	1	-	**1**
25%-29%	-	-	**-**	-	-	**-**
30%-34%	1	-	**1**	-	-	**-**
35%-39%	-	-	**-**	-	-	**-**
40%-45%	-	-	**-**	-	-	**-**
45%-49%	-	-	**-**	1	-	**1**
Total	**4**	**-**	**4**	**4**	**-**	**4**

Exposures to non-banks						
Percentage of Common Equity Tier 1 capital	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
10%-14%	1	-	**1**	1	-	**1**
15%-19%	-	-	**-**	-	-	**-**
Total	**1**	**-**	**1**	**1**	**-**	**1**

Registered Bank Disclosures for the year ended 31 March 2024. All in $000's

A6. Credit Exposures to Connected Persons

	Connected persons		Non-bank connected persons	
	Amount $	% of Tier 1 Capital	Amount $	% of Tier 1 Capital
At year end	-	-	-	-
Peak during the year	-	-	-	-

A6.1 Credit exposures to connected persons

The information on credit exposure to connected persons has been derived in accordance with the RBNZ Banking Supervision Handbook document Connected Exposure Policy (BS8), is net of individual credit impairment allowances and excludes advances to connected persons of a capital nature.

A6.2 Peak end of day aggregate exposure

Peak end of day credit exposures to non-bank connected persons as a ratio to tier 1 capital for the full financial year is derived by determining the maximum end of day aggregate amount of credit exposure over the accounting period and then dividing that amount by the Banking Group's tier 1 capital at the reporting date.

A6.3 Rating-contingent limit

The rating-contingent limit, which is applicable to the Banking Group, based on the conditions of registration imposed by the RBNZ is 15%. There have been no rating-contingent limit changes during the last year. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Banking Group's conditions of registration have been complied with at all times over the last year.

A6.4 Additional requirements for aggregate credit exposure to connected persons

Aggregate credit exposure to connected persons has been calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature).

A6.5 Aggregate amount of contingent exposures from risk lay-off arrangements

The Registered Bank does not have any contingent exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties as at 31 March 2024 (31 March 2023 $nil).

A6.6 Loss allowance for credit-impaired credit exposures to connected persons

There are no individual credit impairment allowances against credit exposures to non-bank connected persons as at 31 March 2024 (31 March 2023 $nil).

A7. Insurance Business, Securitisation, Funds Management, Other Fiduciary Activities, and Marketing and Distribution of Insurance Products

A7.1 Insurance business

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

The total assets of SBS Insurance as at 31 March 2024 are $27.0 million (31 March 2023 $28.7 million) which is 0.4% of the total assets of the Banking Group (31 March 2023 0.5%). This complies with the Conditions of Registration of Southland Building Society, which allows a maximum of 1% of the total consolidated assets of the Banking Group to be represented by insurance business assets.

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

A7.2 Funds management

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

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

	31/03/2024	31/03/2023
Funds under management on behalf of customers	1,453,400	1,362,600

A7.3 Securitised assets

As at 31 March 2024, the Banking Group had securitised assets amounting to $1,172 million (31 March 2023 $1,003 million). These assets have been sold to the SBS Invercargill W Trust and SBS Warehouse Trust No.2 (special purpose vehicles established for the purpose of purchasing residential mortgages from the Bank and funded through wholesale funding lines), the SBS Oreti Trust No. 2 (a special purpose vehicle investing in residential mortgages originated and funded by the Bank through issue of residential mortgage backed securities), Finance Now Warehouse Trust (a special purpose vehicle investing in a mixture of consumer and business loans and funded through wholesale funding lines) and TWGFS Warehouse A Trust (a special purpose vehicle investing in consumer credit card balances and funded through wholesale funding lines). Note 15 - Loan Securitisation provides further information on securitised assets. The Banking Group receives fees for various services provided to the securitisation vehicles on an arm's length basis, including servicing fees. These fees are recognised as earned. All securitisation vehicles form part of the Banking Group.

The SBS Oreti Trust No. 2 is an in-house residential mortgage backed securities ("RMBS") facility that can issue securities that meet the RBNZ criteria to use as collateral in repurchase transactions with the RBNZ. The facility provides the Bank with additional contingent funding from the RBNZ. Further information on liquidity is provided in Note 22 - Liquidity Risk.

A7. Insurance Business, Securitisation, Funds Management, Other Fiduciary Activities, and Marketing and Distribution of Insurance Products continued

A7.4 Risk management

The Banking Group has in place policies and procedures to ensure that the fiduciary activities identified above are conducted in an appropriate manner. It is considered that these policies and procedures will ensure that any difficulties arising from these activities will not impact adversely on the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and internal auditors. Further information on SBS risk management policies and practices are included in Notes 22 to 25, as well as A8.

A7.5 Provision of financial services

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

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

A8. Risk Management Policies

A8.1 Information about risk

Risk is inherent in all the Banking Group business activities, products, processes, and systems. The Banking Group has an embedded Framework that enables the appropriate development and implementation of strategies, policies, and procedures to manage those risks.

The SBS Board is ultimately responsible for ensuring effective risk management practices are in place across the Group.

The Group Audit and Risk Committee ("GARC") has delegated responsibility for ensuring the integrity of the SBS Banking Group financial controls, reporting systems and internal risk and audit standards and processes, providing the SBS Board of Directors with additional assurance on the quality and reliability of financial information and risk management systems.

The GARC assists the SBS Board to oversee the identification, assessment, and management of risk, including eliminating or mitigating risk and taking selective strategic risks, within risk appetite. This does not relieve the SBS Board of Directors of its overall responsibility for the management of risk, in particular it:

- Provides objective assurance as to the adequacy and effectiveness of the SBS Bank and its subsidiaries risk management policies and framework.
- Reviews, and makes recommendations to the SBS Board regarding current and future risk appetite, the Risk Management Strategy and Framework and risk management policies.
- Monitors the effectiveness of the Risk Management Framework and associated policies and procedures in identifying, prioritising, treating, monitoring and reporting on key business risks.
- Ensures that adequate internal controls are in place.
- Reports to the SBS Board on the highest priority business risks and the adequacy of the control environment.

Governance is maintained through delegation of authority from Group and Subsidiary Boards, down through the management hierarchy to individuals, and is supported by the following committees:

SBS Board

The SBS Board has overall responsibility for reviewing all aspects of risk management and compliance. The SBS Board receives comprehensive reporting covering each area of risk management. In addition, SBS has specific policies in relation to liquidity and capital management which contain trigger points at which SBS Board involvement is required.

Subsidiary Boards

The Subsidiary Boards have overall responsibility for reviewing all aspects of risk management and compliance in regard to their respective entity. The Subsidiary Boards receive comprehensive reporting covering each area of risk management from management.

Group Audit and Risk Committee

The Group Audit and Risk Committee ("GARC") is a committee of the SBS Board.

The GARC Membership comprises of Bank directors only. In addition the Group Chief Executive, Chief Financial Officer and the Group Chief Risk Officer are in attendance at meetings. The GARC meets at least four times a year, and reports directly to the Board.

Group IT Committee

The IT Committee is a committee of the SBS Board and has responsibility for monitoring and reviewing exposure to the risks associated with IT including cyber risk, data security, disaster recovery and business continuity. The Committee also has responsibility for oversight of the formulation and development of the Banking Group's IT strategy including monitoring and reviewing the impacts resulting from change in the regulatory, business and economic environment and evaluating business cases for technology project requiring significant investment. The IT committee meets quarterly, comprises Bank directors only, and reports directly to the Board.

Due Diligence Committee

The Due Diligence Committee is a committee of the SBS Board and has the responsibility of carrying out due diligence investigations in connection with public offerings of products on the NZX. This committee comprises Bank directors only and reports directly to the Board.

Board Appointment Committee

The Board Appointment Committee is a committee of the SBS Board and has the responsibility to undertake Board succession planning in a timely manner, having regard to all relevant matters particularly identifying any skills or experience gaps that exist on the current Board, including identifying individuals for nomination, interviewing candidates and making recommendation to the Board as to the preferred candidate. This committee comprises Bank directors only and reports directly to the Board.

Remuneration and Talent Committee

The Remuneration and Talent Committee is a committee of the SBS Board and has the responsibility to ensure SBS Bank remuneration policies attract and retain talented and motivated directors and senior executives so as to encourage enhanced performance for the Bank. This committee comprises Bank directors only and reports directly to the Board.

A8. Risk Management Policies continued

A8.1 Information about risk continued

Bank Lending Committee

The Bank Lending Committee is a committee of the SBS Board and has the responsibility of reviewing and approving all lending proposals with an aggregated exposure in excess of $5 million. The committee is made up of the full Bank Board with senior management in attendance as requested, and reports directly to the Board.

Bank Asset and Liability Committee ("ALCO")

The ALCO has responsibility for the assessment of exposure to treasury counterparty, credit, market, liquidity, interest rate and foreign currency risk. This includes:

- reviewing Bank past performance with respect to asset and liability growth, yields, cost of funds, interest rate risk management and net interest margin;
- monitoring the interest rate risk position, liquidity, maturity, funding and credit position, financial investments portfolio, and financial performance;
- reviewing the current and recommended future hedging positions and risk profiles within risk control limits;
- monitoring interest rate pricing levels and interest margin levels for all assets and funding products;
- considering and evaluating the sensitivity of particular asset and liability classes to changes in market interest rates and yield curve shape;
- reviewing the liquidity position, investment and funding activity and making recommendations on future action;
- reviewing the funding strategy and funding risk mitigation;
- considering the level of capital employed, capital adequacy levels and the risk weighting of statement of financial position items;
- reviewing wholesale counterparty credit exposures; and
- monitoring SBS's credit risk position and trends.

The ALCO is made up of members of the Bank senior management team and treasury function. The ALCO meets monthly.

Bank Credit Risk Committee ("CRC")

The CRC has responsibility for monitoring and reviewing exposure to credit risks in SBS Bank's lending portfolios. This includes monitoring maximum exposure to individual counterparties, reviewing the analysis and reporting of individual watch list and impaired loans, review and approval of specific provisioning against impaired loans, and monitoring the performance of lending portfolios in relation to excesses and past dues, industry and geographic concentrations.

The CRC comprises members of the Bank senior management team and credit risk management function. The CRC usually meets quarterly and reports to the Board.

Bank Operational Risk and Compliance Committee ("ORCC")

The ORCC has responsibility for monitoring and reviewing exposure to operational risks arising from SBS Bank's day to day activities. This includes:

- regular measurement, monitoring and reporting of operational risk;
- ensuring appropriate strategies are in place to manage and mitigate operational risks; and
- monitoring compliance with legislative and regulatory obligations.

The ORCC comprises members of the Bank senior management team and the risk and compliance functions. The ORCC meets quarterly and reports to the Group Audit and Risk Committee and the Board.

Specialist Support Functions

Primary responsibility for the identification, control and mitigation of risk rests with each business unit. Oversight and governance are provided through specialist support functions including Risk, People and Support, Cyber and Information Security, Finance and Treasury. The role of these functional specialists is to maintain and review policies, establish limits which are consistent with the Board's risk appetite, monitor and report on compliance with those limits, and generally to provide an oversight role in relation to the management of risk.

A8. Risk Management Policies continued

A8.1 Information about risk continued

Material risks

The Banking Group distinguishes between different types of risk and take an integrated approach toward identifying, assessing and managing all material risks including through the annual review of the Risk Management Strategy and the establishment of additional controls through supporting frameworks and policies. The Banking Group considers risk through the lens of the following risk categories.

Type	Description	Managing the Risk
Strategic risk	The risk that adverse decisions, ineffective or inappropriate business plans or failure to respond to changes in the environment will impact our ability to meet objectives.	The Banking Group considers and manages strategic risk through the annual strategic planning process which is approved by the Board of Directors. SBS Group's Risk Management Strategy documents the Banking Group's key risk management practices across all major risk classes, and demonstrates collectively, how the Banking Group ensures the comprehensive management of risks across the Banking Group in support of achieving its strategic goals.
Capital risk	The risk that SBS Group has insufficient capital resources to meet minimum regulatory requirements, support its credit rating or support its growth and strategic objectives.	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, 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 Board of Directors has ultimate responsibility for capital adequacy, approves capital policy and establishes minimum internal capital levels and limits. These are typically higher than the regulatory minimum. The Bank monitors its capital adequacy and reports this on a regular basis to the Board and on a monthly basis to the RBNZ. Refer to Note A4 - Capital Adequacy under the Standardised Approach, and Regulatory Liquidity Ratios for more information.
Credit risk	The risk of financial loss where a customer or counterparty fails to meet their financial obligations to the Banking Group or defaults on its commitments.	Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent on the level of risk. Credit risk management involves a thorough evaluation of the credit risk associated with potential borrowers, the taking of security against the loan and close ongoing monitoring of account performance. Loans which show signs of adverse performance are managed by the credit risk management function which is responsible for the collections and recovery process. For wholesale arrangements, credit risk is managed with reference to specific limits as outlined in detailed treasury management policies and reported to the Board on a monthly basis. Refer to Note 24 - Credit Risk for more information.
Liquidity risk	Liquidity risk is the risk that the Banking Group is unable to meet its financial commitments as they fall due or that it suffers a material loss in doing so.	The Banking Group has a Board approved liquidity strategy that defines policy, systems and procedures for measuring, assessing, reporting and managing liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis. Consistent with the requirements of the RBNZ's Liquidity Policy, liquidity risk is managed in the Banking Group on a cash flow mismatch and also core funding basis to ensure that the Banking Group exceeds the RBNZ specified minimum standards for those metrics. This information is measured daily and reported to the Board monthly. To meet both expected and unexpected patterns in operating cash flows the Banking Group maintains a stock of core liquid assets to adequately meet day-to-day operational requirements, a potential crisis, or 'funding stress' scenario. Refer to Note 23 - Liquidity Risk for more information.
Market risk - interest rate risk	Interest rate risk is the risk of loss arising from adverse changes in interest rates. This includes interest rate risk in the banking book - the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business.	Interest rate risk is managed using financial instruments to manage the risks with set limits as defined by the SBS treasury policy. The Banking Group undertakes 100% of its transactions interest rate contracts with other financial institutions. Management has established limits such that, at any time, less than 60% of equity is at risk with any individual counterparty. Exposure to interest rate risk is measured primarily through the analysis of repricing maturities of the Banking Group's assets, liabilities and unrecognised financial instruments. Exposure to interest rate risk is also measured, managed and monitored using VaR, scenario analysis (to a 1% shock) and interest rate sensitivity gap. Exposures are monitored continuously and reported to the Board on a monthly basis.
Market risk - equity risk	Equity risk is the risk of financial loss arising from the unexpected reduction in value of the Banking Group equity investments not held in the trading book, including the Banking Group's associates.	Equity risk is managed based on the SBS Treasury Policy, which outlines allowable investment and credit limits. Maximum credit limits are approved on the basis of long-term credit ratings from S&P, Fitch or Moody's. The credit limit system ensures both credit quality and liquidity of investments held to meet liquidity requirements. A monthly report is produced to report credit usage against limits.

A8. Risk Management Policies continued

A8.1 Information about risk continued

Material risks continued

Type	Description	Managing the Risk
Market risk - currency risk	Currency risk results from the mismatch of foreign currency assets and liabilities.	SBS has no appetite to carry any foreign exchange risk and as such all material foreign exchange risk is hedged. Refer to Note 10 - Derivative Financial instruments and Hedging Activities and Note 25 - Market risk for more information.
Insurance risk	The risk of mis-estimation of the expected cost of insured events, volatility in the number or severity of insured events, and mis-estimation of the cost of incurred claims.	Insurance risks are managed using the following strategies: - the use of approved and documented underwriting policies and procedures to determine the acceptance and appropriate pricing of risk; - the use of actuarial models to calculate premiums and to monitor claim patterns; - reinsurance arrangements that limit the Banking Group's exposure to individual and catastrophic risks; and - the diversification of insurance business over different risk types and distribution channels.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	The Banking Group aims to minimise the impact of operational risks by: - ensuring the appropriate risk management policies, controls, systems, staff and processes are in place; - maintaining an appropriate organisational and management structure with clearly defined responsibilities and accountabilities including the division of duties where appropriate.

A8.2 Capital adequacy

The Board of Directors has ultimate responsibility for capital adequacy, approves capital policy and establishes minimum internal capital levels and limits. These are typically higher than the regulatory minimum. The Bank monitors its Capital Adequacy and reports this on a regular basis to the Board and on a monthly basis to the RBNZ. No formal reviews of the Banking Group's approach to assessing the adequacy of its capital were undertaken by external parties during the year ended 31 March 2024.

A8.3 Reviews of banking group's risk management systems

Following the RBNZ liquidity thematic in 2021, the Banking Group engaged an external party to review systems and processes around liquidity during the year ended 31 March 2023. Other reviews of risk management policies, systems and reporting, some of which are external, are conducted on a regular basis.

A8.4 Internal audit function of banking group

SBS's internal audit function conducts independent reviews that assist the Board of Directors and Management to meet their statutory and other obligations. The Chief Risk Officer has responsibility for the internal audit function, and for internal audit matters reports directly to the chairperson of the SBS Group Audit and Risk Committee. The internal audit function is performed by Chartered Accountants, Deloitte. In performing this role, the internal audit function adopts a risk-based approach, encompassing reviews of the major risks that could impact upon SBS. Significant findings are reported quarterly to the Group Audit and Risk Committee.

An audit plan is prepared annually covering each entity, with greater emphasis placed on those areas with perceived higher risk. The plan is approved by the Group Audit and Risk Committee.

A8.5 Measurement of impaired assets

Refer to Note 12 - Provision for Credit Impairment and Note 13 - Asset Quality for details of the Banking Group's approach to measurement of impaired assets. Impairment is assessed monthly, with individual allowances for credit impairment also updated monthly and collective allowances for credit impairments updated quarterly.

A8.6 Credit risk mitigation

The Banking Group offset financial assets and financial liabilities in the statement of financial position in accordance with NZ IAS 32 Financial Instruments: Presentation, when there is:

- a current legally enforceable right to set off the recognised amount in all circumstances; and
- an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

If the above conditions are not met, the financial assets and financial liabilities are presented on a gross basis.

As at 31 March 2024, the Banking Group does not have any master netting arrangements.

Directors' Statement

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

1. As at the date on which the Disclosure Statement is signed:
   (a) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and
   (b) the Disclosure Statement is not false or misleading;
2. Each director of the Bank believes, after due enquiry, that during the year ending 31 March 2024:
   (a) the Bank has complied in all material respects with all conditions of registration applicable during the period;
   (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
   (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk, and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 22 May 2024 and has been signed by or on behalf of all the directors.

AJ O'Connell (Chairperson)

MJ Skilling (Deputy Chairperson)

MP O'Connor

KJ Murphy

SJ Brown

PRN Ellison

LM Robertson

Independent Auditor's Report

To the members of Southland Building Society

Report on the audit of the consolidated disclosure statement

Opinion

In our opinion, the accompanying consolidated financial statements (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) of Southland Building Society (the 'bank') and its subsidiaries (the'banking group') on pages 17 to 78:

i. give a true and fair view of the banking group's financial position as at 31 March 2024 and its financial performance and cash flows for the year ended on that date; and

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

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the 'Order') and is included within notes A1 to A8 of the disclosure statement:

i. presents fairly the matters to which it relates;

ii. is disclosed in accordance with those schedules; and

iii. has been prepared, in all material respects, in accordance with any conditions of registration relating to the disclosure requirements, imposed under section 74(4)(c) of the Banking (Prudential Supervision) Act 1989 and any conditions of registration.

We have audited the accompanying consolidated financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) which comprise:

— the consolidated statement of financial position as at 31 March 2024;

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

— notes, including material accounting policy information and other explanatory information; and

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

Basis for Opinion

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

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

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

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

Emphasis of matter

We draw attention to Note A1.8 Conditions of Registration. The Reserve Bank's Liquidity Thematic Review published in 2021 and an independent PwC review of SBS's liquidity models and associated governance and controls framework in 2022 identified a number of quantitative areas of technical non-compliance with BS13. As described in Note A1.8 Conditions of Registration, the Reserve Bank decided these findings do not individually constitute a material breach of SBS's Conditions of Registration 11 and at no time has SBS been close to breaching minimum regulatory limits. The Reserve Bank also undertook a consolidated assessment and has concluded the findings of non-compliance with BS13 do collectively constitute a material breach of Conditions of Registration 11. SBS has remediated the majority of the findings and continues to work with the Reserve Bank on resolving those remaining.

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

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $2,000,000 determined with reference to a benchmark of the Banking Group's performance. We chose the benchmark because, in our view, this is a key measure of the Banking Group's performance.

Key audit matters

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

The key audit matter | How the matter was addressed in our audit

Provision for credit impairment – ($40 million – refer note 12)

The key audit matter	How the matter was addressed in our audit
The provision for credit impairment is a key audit matter because of the financial significance of the gross advances to which it relates, and the high degree of complexity and judgement required and applied by management in estimating the appropriate provision. The Banking Group's provision for credit impairment comprises a collective provision and to a lesser extent a specific provision. The collective provision is based on an Expected Credit Loss (ECL) model using credit risk characteristics of the gross advances portfolio to group the loans with like characteristics. For loans that haven't or have had a significant deterioration in credit risk since origination, the provision is based on either the 12 month or lifetime expected credit losses respectively. The collective provision requires the assessment of the probability of default (PD), and loss given default (LGD), which includes forming an estimate of future economic performance and how this will impact on the loan recoverability. An overlay adjustment to the ECL model result is made to address future market conditions not reflected in the model assumptions. A significant level of economic uncertainty remains in the current macro-economic environment with rising interest rates and inflationary pressures on cost of living. The result is the judgement and complexity involved in estimating the provision remain heightened and there is continuing uncertainty in the Banking Group's assessment of ECL.	Our audit procedures included • Evaluating the design and implementation effectiveness of key controls relating to the Banking Group's lending, credit review and monitoring processes. • Testing key inputs used in the collective provision for credit impairment including macroeconomic factors, arrears profile information, historic loss rates and losses incurred (for probability and loss given default inputs) as well as comparing the consistency of the calculations with prior year models and overall coverage compared to market participants. • Assessment of the appropriateness of basis for and data used to determine overlays. • Assessing the appropriateness of the disclosure of key assumptions and sensitivities of these changes on the year end credit provision.

Application of hedge accounting – (refer to note 10)

The key audit matter	How the matter was addressed in our audit

The Banking Group enters into derivatives (interest rate swaps) to manage it's interest rate risk. Cash flow hedge accounting is applied to swaps taken out to hedge floating rate loans and funding. Fair value hedge accounting is applied to swaps taken out to hedge fixed rate funding and investments.
 	
In the prior year the rapidly changing interest rate environment has meant that the New Zealand retail interest rates have not moved in step with benchmark interest rates and term deposit rates have been below the benchmark interest rates. This divergence creates heightened risk of hedges not demonstrating an effective hedge relationship in order to qualify for hedge accounting and a greater level of ineffectiveness being recognised on those hedges that do continue to meet the requirements for hedge accounting. As a result, the Banking Group could experience significant volatility in the Income Statement from changes in the fair value of the derivatives.
 	
Due to the complexity and magnitude of cash flow hedge accounting (including capacity testing) which increased in the current interest rate environment, we consider this to be a key audit matter.
	Our audit procedures included:
	
	• reviewing The Banking Group's accounting policies related to financial instruments.
	• agreeing the terms of the derivatives to the confirmation provided by the derivative counterparty.
	• using our hedge accounting and valuations specialists we:
	  ○ independently recalculated the fair value of all derivatives recorded by the Banking Group.
	  ○ tested management's assumptions in relation to hedge capacity to determine if there is a sufficient level of floating rate loans and funding in order for the derivatives to be designated in hedge relationships.
	  ○ performed hedge effectiveness calculations for a sample of derivatives and used these results to independently calculate an estimate of hedge ineffectiveness to compare to management's assessment.

Operation of IT system and controls

The key audit matter	How the matter was addressed in our audit
The Banking Group is heavily dependent on complex IT systems for the processing and recording of a large volume of transactions each day, as well as other core banking activity. Given this, there are areas of our audit where we seek to place reliance on certain IT systems, automated controls, and system generated reports. The ability to rely on IT is dependent on the Banking Group's General IT environment being designed, implemented, and operating effectively. This includes controls relevant to system change authorisation, testing and implementation.	Our audit procedures, for the Banking Group, amongst others, included: • Gaining an understanding of business processes, key controls, and IT systems relevant to our planned audit approach; • Assessing the design and operating effectiveness of the General IT control environment, including core banking IT systems, in-scope automated controls, and in-scope reports; • Evaluating General IT controls relevant to system change authorisation, testing and implementation.

Other information

The Directors, on behalf of the Banking Group, are responsible for the other information included in the Bank's Disclosure Statement. Other information includes disclosures required by Schedule 2 of the Order and other information in respect of the Bank including directories. Our opinion on the disclosure statement does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the disclosure statement our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the disclosure statement or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

KPMG

Responsibilities of Directors for the consolidated financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements)

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

— the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order, NZIFRS and International Financial Reporting Standards;

— the preparation and fair presentation of supplementary information (excluding the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements), in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;

— implementing necessary internal control to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

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

Our objective is:

— to obtain reasonable assurance about whether the disclosure statement, including the consolidated financial statements prepared in accordance with Clause 24 of the Order, and supplementary information (excluding the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements), in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and

— to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA's (NZ) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/—

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

The engagement partner on the audit resulting in this independent auditor's report is Sonia Isaac For and on behalf of

KPMG

KPMG
Wellington

22 May 2024

KPMG

Independent Limited Assurance Report to the members of Southland Building Society

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

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

We have reviewed the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, as disclosed in note A4 of the Disclosure Statement for the year ended 31 March 2024. The supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements comprises the information that is required to be disclosed in accordance with Schedule 9 of the Order.

Standards we followed

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

– used our professional judgement to plan and perform the engagement to obtain limited assurance that the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements is free from material misstatement and non-compliance, whether due to fraud or error;

– considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on the effectiveness of these controls; and

– ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

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

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

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

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

Inherent Limitations

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

A limited assurance engagement for the year ended 31 March 2024 does not provide assurance on whether compliance with Schedule 9 of the Order will continue in the future.

Restriction of distribution and use

Our report is made solely for Southland Building Society's members. Our assurance work has been undertaken so that we might state to the members those matters we are required to state to them in the assurance report and for no other purpose.

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

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

The Directors are responsible for the preparation of supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements that is required to be disclosed in accordance with Schedule 9 of the Order, which the Directors have determined to meet the needs of the recipients. This responsibility includes such internal control as the Directors determine is necessary to enable the preparation of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements that is free from material misstatement and non-compliance whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion to Southland Building Society on whether anything has come to our attention that the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements has not, in all material respects, been prepared in accordance with Schedule 9 of the Order for the year ended 31 March 2024.

Our independence and quality control

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

The firm applies Professional and Ethical Standard 3 (Amended) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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

KPMG

KPMG
Wellington

22 May 2024

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To view this Annual Report online go to **sbsbank.co.nz**