Southland Building Society

Disclosure Statement

For the year ended 31 March 2025

Number 54 Issued May 2025

Contents

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

Symbols

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Annual Financial Statements for the year ended 31 March 2025

Registered Bank Disclosures for the year ended 31 March 2025

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 2025

All in $000's

	Note	31/03/2025	31/03/2024
Interest income		475,549	439,975
Interest expense		86,136	86,776
Dividends on redeemable shares		231,577	202,441
		317,713	289,217
Net interest income	(2)	**157,836**	**150,758**
Net fee and commission income	(3)	29,658	26,047
Insurance service result and other income	(4)	826	1,199
Total operating income		**188,320**	**178,004**
Operating expenses	(5)	119,398	115,480
Credit impairment losses	(12(c))	25,847	20,330
Operating surplus		**43,075**	**42,194**
Net gain/(loss) from financial instruments at fair value through profit or loss	(6)	(1,954)	334
Net gain/(loss) from sale of associate	(14)	-	12,976
Share of associates profit net of tax		-	1,057
Surplus before income tax		**41,121**	**56,561**
Less income tax expense	(7)	12,019	13,739
Net surplus		**29,102**	**42,822**
Attributable to:			
Members' interests		**29,102**	**42,822**

Southland Building Society
Statement of Comprehensive Income for the year ended 31 March 2025

All in $000's

	31/03/2025	31/03/2024
Net surplus for the year	29,102	42,822
Items that may not be reclassified subsequently to profit or loss		
Net change in property, plant and equipment reserve, net of tax	1,599	1,242
Items that may be reclassified subsequently to profit or loss		
Net change in fair value through other comprehensive income ("FVOCI") reserve, net of tax	8,192	8,043
Net change in cash flow hedging reserve, net of tax	(36,067)	(33,075)
Other comprehensive income for the year, net of tax	(26,276)	(23,790)
Total comprehensive income for the year	**2,826**	**19,032**
Attributable to:		
Members' interests	**2,826**	**19,032**

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 2025

All in $000's

BANKING GROUP as at 31 March 2025	Retained earnings	Reserves: Property, plant and equipment	Reserves: FVOCI	Reserves: Cash flow hedging	Total equity
Balance as at 31 March 2024	511,881	3,579	(7,837)	17,283	**524,906**
Net surplus for the year	29,102	-	-	-	**29,102**
Other comprehensive income for the year					
Amortised to income statement	-	-	-	(11,109)	**(11,109)**
Revaluation/change in fair value	-	2,146	11,378	(39,163)	**(25,639)**
Current/deferred tax impact	-	(547)	(3,186)	14,205	**10,472**
Total comprehensive income for the year	29,102	1,599	8,192	(36,067)	**2,826**
Dividends paid	-	-	-	-	**-**
As at 31 March 2025	**540,983**	**5,178**	**355**	**(18,784)**	**527,732**

BANKING GROUP as at 31 March 2024	Retained earnings	Reserves: Property, plant and equipment	Reserves: FVOCI	Reserves: 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**

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 2025

All in $000's

	Note	31/03/2025	31/03/2024
Assets			
Cash on hand and at bank		64,350	63,731
Funds with financial institutions and central bank	(8)	34,986	150,204
Investment securities	(9)	736,196	592,766
Derivative financial instruments	(10)	25,302	49,682
Current tax assets		3,458	-
Advances to customers	(11)	5,679,904	5,501,423
Investments in associates	(14)	-	-
Other assets		76,636	79,282
Property, plant and equipment		25,809	19,575
Right-of-use assets		18,812	19,457
Goodwill and intangible assets		13,693	10,158
Deferred tax assets	(7)	15,549	4,291
		6,694,695	**6,490,569**
Liabilities			
Redeemable shares	(16)	4,511,890	4,353,334
Deposits from customers	(16)	44,259	54,686
Medium term notes	(16)	456,311	326,934
Commercial paper	(16)	387,770	360,992
Due to other financial institutions	(16)	539,878	663,430
Derivative financial instruments	(10)	54,345	16,013
Current tax liabilities		-	10,387
Deferred tax liabilities	(7)	-	-
Other borrowings		-	-
Other liabilities	(17)	67,378	72,944
Subordinated redeemable shares	(16)	105,132	106,943
		6,166,963	**5,965,663**
Net assets		**527,732**	**524,906**
Equity			
Reserves		(13,251)	13,025
Retained earnings		540,983	511,881
Attributable to members of the society		**527,732**	**524,906**

For and on behalf of the Board of Directors:

Chairperson
AJ O'Connell

Deputy Chairperson
MJ Skilling

20 May 2025

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 2025

All in $000's

	Note	31/03/2025	31/03/2024
Cash flows from operating activities			
Interest received		500,559	437,551
Fees and other income		51,190	49,852
Dividends received		400	181
Interest paid		(87,277)	(70,331)
Dividends paid on redeemable shares		(244,294)	(185,666)
Operating expenses		(135,740)	(142,349)
Income taxes received/(paid)		(28,470)	(13,260)
Net cash flows from operating activities before changes in operating assets and liabilities		56,368	75,978
Net changes in operating assets and liabilities			
Change in advances		(205,797)	(491,610)
Change in shares and deposits from customers		155,823	225,717
Change in medium term notes		124,061	173,028
Change in commercial paper		27,812	13,939
Change in amounts due to other financial institutions		(121,371)	(17,996)
Change in subordinated redeemable shares		(3,422)	41,464
Net cash flows provided by/(used in) operating activities	(19)	**33,474**	**20,520**
Cash flows from investing activities			
Change in investment securities		(132,495)	(6,550)
Change in funds with financial institutions and central bank		-	1,876
Acquisition of associated investments	(14)	-	-
Sale of associated investments	(14)	-	24,000
Proceeds of property, plant and equipment		35	19
Purchase of property, plant and equipment		(6,315)	(1,601)
Purchase of intangible assets		(5,735)	(2,990)
Dividends from associates		-	547
Net cash flows provided by/(used in) investing activities		**(144,510)**	**15,301**
Cash flows from financing activities			
Lease payments		(3,541)	(3,444)
Net cash flows provided by/(used in) financing activities		**(3,541)**	**(3,444)**
Net increase/(decrease) in cash held		(114,577)	32,377
Add opening cash and cash equivalents		213,850	181,473
Closing cash and cash equivalents		**99,273**	**213,850**
Reconciliation of cash and cash equivalents			
Cash on hand and at bank		64,350	63,731
Funds with financial institutions and central bank	(8)	34,986	150,204
Interest accrued on assets at amortised cost		(63)	(85)
		99,273	**213,850**

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

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 20 May 2025.

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 annually publishes Climate Statements, prepared in accordance with New Zealand Climate Statements (NZCS1 : NZCS3). These Statements can be found 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.

1. Statement of General Accounting Policies (continued)

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.

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 2024.

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.

The New Zealand Accounting Standards Board ("NZ ASB") replaced "NZ IAS 1, Presentation of Financial Statements" with a new standard, "NZ IFRS 18, Presentation and Disclosure in Financial Statements," in May 2024. This new standard will take effect for reporting periods starting on or after January 1, 2027. The income statement is now structured according to NZ IFRS 18, which mandates that income and expenses be divided into operating, investment, financing, income taxes, and discontinued activities categories. Additional guidelines on disaggregation/aggregation principles applied to all financial statements and notes, as well as improved disclosures for "management-defined performance measures," are among the other requirements. In the annual reporting period starting on July 1, 2027, the Group anticipates adopting NZ IFRS 18 and any pertinent consequential changes to other accounting standards. At the moment, the group is now evaluating the impact and will release a more thorough evaluation in the future.

All in $000's

2. Net Interest Income

		31/03/2025	31/03/2024
Interest income	**Financial assets measured at**		
Cash at bank	Amortised cost	2,750	2,963
Funds with financial institutions	Amortised cost	2,189	999
Investment securities	FVOCI	39,464	37,842
Derivative financial instruments	At fair value	21,157	49,539
Advances to customers	Amortised cost	400,452	340,113
Advances to customers	Fair value through profit or loss	9,179	8,460
Advances to customers - impaired	Amortised cost	22	59
Net finance income from insurance and reinsurance contracts		336	-
Total interest income		**475,549**	**439,975**
Interest expense	**Financial liabilities measured at**		
Redeemable shares	Amortised cost	223,836	197,266
Deposits from customers	Amortised cost	24,440	25,368
Medium term notes	Amortised cost	24,396	17,156
Other financial institutions	Amortised cost	10,789	17,878
Other borrowings	Amortised cost	25,307	25,410
Subordinated redeemable shares	Amortised cost	7,741	5,175
Lease liabilities	Amortised cost	693	697
Net finance expense from insurance and reinsurance contracts		511	267
Total interest expense		**317,713**	**289,217**
Net interest income		**157,836**	**150,758**

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

	31/03/2025	31/03/2024
Fee and commission income		
Asset management fees	11,935	10,528
Lending fees	7,039	7,414
Credit card fees	4,499	2,038
Current and funding account fees	2,530	2,603
Other fee and commission income	4,211	3,892
Total fee and commission income	30,214	26,475
Fee and commission expense	(556)	(428)
Net fee and commission income	**29,658**	**26,047**

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. 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 management fees is recognised over time as the services are provided. 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. Transaction-based fees for restructures, discharges, etc. are charged to the customer's account when the specific event happens.	Revenue from ongoing service fees is recognised over time as the services are provided. 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. 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 ongoing service fees is recognised over time as the services are provided. 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. The Banking Group charges break fees for early withdrawal of investment balances, and is calculated at a fixed percentage of the amount withdrawn.	Revenue related to transactions is recognised at the point in time when the transaction takes place. Revenue relating to break fees is recognised at the point in time when the transaction takes place.

All in $000's

4. Insurance Service Result and Other Income

	Note	31/03/2025	31/03/2024
Insurance revenue		7,484	7,285
Insurance service expenses	(5)	(7,084)	(6,467)
Net (expenses)/revenue from reinsurance contracts held		(1,010)	(1,196)
Insurance service result		(610)	(378)
Dividends		400	181
Gain on sale of shares		4	231
Sundry income		1,032	1,165
Other income		1,436	1,577
		826	**1,199**

Revenue is recognised based on the nature and timing of the satisfaction of performance obligations in contracts with customers.

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.

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.

All in $000's

5. Operating Expenses

	Note	31/03/2025	31/03/2024
Auditors remuneration - audit and statutory		832	814
Information technology		17,402	15,258
Fees to directors		989	998
Marketing		7,975	7,697
Personnel		62,079	61,103
Claims, benefits and other insurance business related expenses		1,854	3,134
Amortisation, depreciation and impairment		7,210	7,814
Rent and leases		663	457
Write off of property, plant and equipment		154	49
Loss on sale of shares		20	-
Bank charges and funding line fees		9,313	7,922
Other expenses		17,990	16,701
		126,481	**121,947**
Represented by:			
Insurance service expense	(4)	7,084	6,467
Operating expenses		119,397	115,480
		126,481	**121,947**
Amounts received, or due and receivable by the auditors, KPMG:			
Audit or review of the financial statements *		717	786
Audit or review related services - Insurance solvency return		15	23
Tax return review		5	5
		737	**814**
Amounts received, or due and receivable by other group auditors:			
Year end audit of financial statements		**95**	**-**
		95	**-**

* Includes limited assurance performed over capital adequacy and regulatory liquidity ratios disclosures

Amounts received, or due and receivable by directors:

For the year ended 31 March 2025	**SBS Fees**	**Committee/ Other Fees**	**Subsidiary Fees**	**Total**
AJ O'Connell (Chairperson)	166	-	44	210
MJ Skilling (Deputy Chairperson)	76	-	70	146
MP O'Connor	76	5	70	151
KJ Murphy	76	-	70	146
SJ Brown (Resigned 31 December 2024)	57	-	26	83
PRN Ellison	76	11	35	122
LM Robertson	76	17	-	93
J R Franklin (Appointed 1 October 2024)	38	-	-	38
	641	33	315	989
Provision for directors retiring allowance	-	-	-	-
	641	**33**	**315**	**989**
For the year ended 31 March 2024				
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**

* Includes a retirement allowance.

All in $000's

5. Operating Expenses (continued)

Personnel expenses includes key management personnel[1] compensation which comprised:	31/03/2025	31/03/2024
Salaries and short-term employee benefits	7,522	7,325
Post-employment benefits	145	134
Other long term benefits	-	-
	7,667	**7,459**

[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

Net gain/(loss) arising on:	Note	31/03/2025	31/03/2024
Investment securities		5,976	512
Derivative financial instruments		(428)	3,754
Hedge ineffectiveness on cash flow hedging	(10)	(952)	784
Advances to customers		(1,475)	(144)
Liabilities		(5,075)	(4,572)
		(1,954)	**334**

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.
It includes the fair value adjustments on the hedged item and hedging instrument where fair value hedge accounting is applied.

7. Taxation

The major components of the income tax expense comprise:	31/03/2025	31/03/2024
Current tax expense		
Current income tax charge	12,349	13,518
Adjustments recognised in the current period in relation to current tax of prior periods	518	16
Deferred taxation expense		
Deferred tax expenses relating to the origination and reversal of temporary differences	(848)	205
Total income tax expense recognised in the income statement	**12,019**	**13,739**
The following amounts were charged/(credited) direct to other comprehensive income:		
Current income tax	74	5,769
Deferred income tax	(10,546)	(15,379)
Total income tax expense recognised directly in other comprehensive income	**(10,472)**	**(9,610)**

All in $000's

7. Taxation (continued)

	31/03/2025	31/03/2024
Reconciliation of the prima facie income tax payable on profit with income tax expense in the income statement:		
Surplus before income tax	41,121	56,561
Prima facie income tax at 28%	11,514	15,837
Adjust for the tax effect of:		
Adoption of accounting standard	-	-
Imputed dividends	(11)	(16)
Building depreciation legislation change	-	1,904
Other permanent items	(1)	(4,002)
Prior period adjustments ((over)/under provision)	517	16
	505	(2,098)
Taxation expense/(benefit)	**12,019**	**13,739**

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 other comprehensive income, in which case it is recorded in other comprehensive income.

Movement in net deferred taxation assets/liabilities are as follows:

As at 31 March 2025	**Provision for credit impairment**	**Derivative financial instruments**	**Property, plant and equipment**	**Provisions**	**Other**	**Total**
Balance at beginning of the year	11,525	(4,055)	(2,553)	852	(1,478)	4,291
Prior period adjustments ((over)/under provision)	-	(86)	2	31	(83)	(136)
Amounts recognised in equity	-	11,094	(548)	-	-	10,546
Amounts recognised in income statement	780	440	61	32	(465)	848
Balance at end of the year	**12,305**	**7,393**	**(3,038)**	**915**	**(2,026)**	**15,549**
As at 31 March 2024						
Balance at beginning of the year	10,707	(19,780)	(422)	956	(1,962)	(10,501)
Prior period adjustments ((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**

There are no unrecognised deferred tax assets as at 31 March 2025 (31 March 2024 $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.

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.

All in $000's

8. Funds with Financial Institutions and Central Bank

	Note	31/03/2025	31/03/2024
Cash with central bank		-	120,053
Call and overnight advances with financial institutions		35,004	29,539
Term deposits with financial institutions		-	623
		35,004	**150,215**
Provisions for credit impairment	(12(a))	(18)	(11)
		34,986	**150,204**
Maturity for cash flow purposes			
Up to 3 months		34,986	150,204
Over 3 months		-	-
		34,986	**150,204**

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	31/03/2025	31/03/2024
Equity securities		-	-
Managed funds		13,163	6,431
Local authority and Local Government Funding Agency bonds		186,796	115,977
Bank securities		383,048	342,586
Other bonds		153,462	128,017
		736,469	**593,011**
Provisions for credit impairment	(12(a))	(273)	(245)
		736,196	**592,766**

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 2025			As at 31 March 2024		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Held as economic hedges	3,143,420	7,691	9,982	2,921,982	13,780	903
Held as fair value hedges	696,800	10,204	9,793	321,200	4,279	1,118
Held as cash flow hedges	2,577,550	7,407	34,570	3,005,850	31,623	13,992
Interest rate swaps	6,417,770	25,302	54,345	6,249,032	49,682	16,013
Held as cash flow hedges	-	-	-	-	-	-
Cross currency interest rate swaps	-	-	-	-	-	-
Total derivative financial instruments	**6,417,770**	**25,302**	**54,345**	**6,249,032**	**49,682**	**16,013**

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.

10. Derivative Financial Instruments and Hedging Activities (continued)

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 customer advances and deposits are hedged with interest rate derivatives. Customer advances and deposits 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.
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 Net Gain/(Loss) from Financial Instruments at Fair Value Through Profit or Loss.
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.

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 Net Gain/(Loss) from Financial Instruments at Fair Value Through Profit or Loss.
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 Net Gain/(Loss) from Financial Instruments at Fair Value Through Profit or Loss.
Hedged item sold or repaid	The effective portion of the hedge (or the un-amortised portion) is recognised immediately in Net Gain/(Loss) from Financial Instruments at Fair Value Through Profit or Loss.

All in $000's

10. Derivative Financial Instruments and Hedging Activities (continued)

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:

Derivative financial instruments - interest rate swaps	Note	31/03/2025	31/03/2024
Change in fair value of outstanding hedging instruments		40,115	50,327
Change in fair value of exposures		(39,163)	(51,111)
Hedge ineffectiveness	(6)	(952)	784
Hedge ratio		0.98:1	1.02:1

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 2025	Under 1 Month	1-3 Months	3-6 Months	6-12 Months	12-24 Months	Over 24 Months	Total
Cash flow hedge							
Interest rate swaps							
Pay fixed			120,000	375,000	1,050,750	559,800	2,105,550
Average fixed interest rate paid			4.35%	4.42%	3.84%	4.27%	4.15%
Receive fixed	50,000		170,000		165,000	87,000	472,000
Average fixed interest rate received	5.07%		3.72%		3.34%	4.08%	3.99%
Total notional amount	**50,000**	**-**	**290,000**	**375,000**	**1,215,750**	**646,800**	**2,577,550**
Fair value hedge							
Interest rate swaps							
Pay fixed	25,000				16,500	295,300	336,800
Average fixed interest rate paid	5.61%				4.98%	4.27%	4.36%
Receive fixed						360,000	360,000
Average fixed interest rate received						4.29%	4.29%
Total notional amount	**25,000**	**-**	**-**	**-**	**16,500**	**655,300**	**696,800**
As at 31 March 2024							
Cash flow hedge							
Interest rate swaps							
Pay fixed	35,000	145,000	86,500	307,500	1,211,800	815,050	2,600,850
Average fixed interest rate paid	2.09%	3.53%	2.54%	4.08%	4.32%	3.84%	3.87%
Receive fixed			205,000	20,000		180,000	405,000
Average fixed interest rate received			4.78%	5.36%		4.38%	4.71%
Total notional amount	**35,000**	**145,000**	**291,500**	**327,500**	**1,211,800**	**995,050**	**3,005,850**
Fair value hedge							
Interest rate swaps							
Pay fixed					25,000	61,200	86,200
Average fixed interest rate paid					5.61%	4.52%	4.74%
Receive fixed						235,000	235,000
Average fixed interest rate received						4.67%	4.67%
Total notional amount	**-**	**-**	**-**	**-**	**25,000**	**296,200**	**321,200**

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 2025 as a result of highly probable cash flows no longer expected to occur (31 March 2024 $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. All future gains and losses on these interest rate swaps will be recognised immediately in operating income.

All in $000's

10. Derivative Financial Instruments and Hedging Activities (continued)

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	31/03/2025	31/03/2024
Residential		4,480,072	4,321,159
Agricultural		31,656	41,234
Commercial		105,884	111,080
Consumer		1,091,028	1,054,926
Gross advances		**5,708,640**	**5,528,399**
Provisions for credit impairment on advances to customers	(12(b))	(40,917)	(38,304)
Deferred fee revenue and expenses		12,181	11,328
Total net advances		**5,679,904**	**5,501,423**

Included in advances to customers are $96.0 million (31 March 2024 $93.2 million) of reverse equity mortgages which are valued at fair value through profit or loss rather than at amortised cost.

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.

All in $000's

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 2025	**Note**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Advances to customers						
Residential mortgages		4,279	2,134	2,517	110	9,040
Retail exposures		16,310	7,365	5,995	-	29,670
Corporate exposures		958	403	846	-	2,207
Total advances to customers	(11)	21,547	9,902	9,358	110	40,917
Off-balance sheet credit related commitments						
Residential mortgages		116	2	-	-	118
Retail exposures		1,107	-	-	-	1,107
Corporate exposures		181	16	-	-	197
Total off-balance sheet credit related commitments	(17)	1,404	18	-	-	1,422
Other exposures						
Funds with financial institutions and central bank	(8)	18	-	-	-	18
Investment securities	(9)	273	-	-	-	273
		23,242	**9,920**	**9,358**	**110**	**42,630**
As at 31 March 2024						
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	(8)	11	-	-	-	11
Investment securities	(9)	245	-	-	-	245
		20,302	**13,166**	**6,432**	**50**	**39,950**

(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 2023	19,315	9,471	5,210	503	34,499
Transfer between stages	2,800	(2,406)	(394)	-	-
Transferred 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**
Transfer between stages	5,556	(5,524)	(32)	-	-
Transferred to specific provision	-	-	-	-	-
New provisions	8,575	6,892	6,502	60	22,029
Charge/(credit) to income statement excluding transfers	(3,634)	(314)	270	-	(3,678)
Reversal of previously recognised provision	(7,621)	(4,302)	(3,815)	-	(15,738)
As at 31 March 2025	**21,548**	**9,902**	**9,357**	**110**	**40,917**

All in $000's

12. Provision for Credit Impairment (continued)

(b) Provision for credit impairment - Movement (continued)

Movement in provision - off-balance sheet credit related commitments	Expected Credit Losses Stage 1	Stage 2	Stage 3	Specific Provision Stage 3	Total
Balance 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**
Transfer between stages	(16)	7	9	-	-
New provisions	400	(9)	(8)	-	383
Charge/(credit) to income statement excluding transfers	(68)	4	(1)	-	(65)
Reversal of previously recognised provision	(286)	-	-	-	(286)
As at 31 March 2025	**1,404**	**18**	**-**	**-**	**1,422**

(c) Reconciliation of credit impairment losses - Income statement

As at 31 March 2025	Residential Mortgages	Retail Exposures	Corporate Exposures	Other	Total
Bad debts written off/(recovered) during the year	(9)	21,903	1,223	-	23,117
Individual provisions	60	-	-	-	60
Collective provision	(2,075)	4,389	321	-	2,635
Other credit provisions	-	-	-	35	35
Credit impairment losses to income statement	**(2,024)**	**26,292**	**1,544**	**35**	**25,847**
As at 31 March 2024					
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**

At 31 March 2025 the Banking Group's total provision for credit impairment relating to advances to customers was $40.9 million (31 March 2024 $38.3 million) representing 0.72% of total net loans and advances (31 March 2024 0.70%). The provisions represent provisions against individual loans and collective provisions.

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).

12. Provision for Credit Impairment (continued)

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 or more 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 or more 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.

Definition of default, credit impaired and write-offs:

The definition of default used in measuring ECL is aligned to the definition used for internal credit risk management purposes across all portfolios. This definition is also in line with the regulatory definition of default. Default occurs when there are indicators that a debtor is unlikely to fully satisfy contractual credit obligstions to the Banking Group, or the exposure is 90 days past due.

Financial assets, including those that are well secured, are considered credit impaired for financial reporting purposes when they default.

When there is no realistic probability of recovery, loans are written off against the related impairment allowance on completion of the Banking Group's internal processes and when all reasonably expected recoveries have been collected. In subsequent periods, any recoveries of amounts previously written-off are recorded as a release to the credit impairment charge in the income statement.

12. Provision for Credit Impairment (continued)

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.

(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. As a small open economy, New Zealand, and therefore SBS customers, are also exposed to volatility caused by changes in global tariffs, trade and competition. These risks are not captured by the normal macro-economic variables unemployment and GDP. The temporary overlay will be released as management become more satisfied with the diminishing effects of the current economic and geopolitical environment on the Banking Group's loan book. Conversely, the provisions may increase if management become concerned with the potential worsening in economic conditions.

All in $000's

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 heightened 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 10%.

	Base	% change	High	Low
- Unemployment	As high as 5.4%	+/- 1%	996	(1,002)
- GDP	As low as -1.1%	+/- 1%	(327)	325
- Temporary adjustment		+/- 100%	4,088	(5,154)

All in $000's

13. Asset Quality

(a) Asset quality - advances to customers

As at 31 March 2025	Note	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Neither past due or impaired		4,398,948	961,378	130,501	5,490,827
Individually impaired	(13(b))	459	-	-	459
Past due	(A3.1)	98,377	127,086	4,072	229,535
Provision for credit impairment	(12(a))	(9,044)	(29,668)	(2,205)	(40,917)
Carrying amount		**4,488,740**	**1,058,796**	**132,368**	**5,679,904**
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**

(b) Impaired assets

As at 31 March 2025	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Balance at beginning of the year	45	-	-	45
Additions to individually impaired assets	407	-	-	407
Reductions to individually impaired assets	(3)	-	-	(3)
Transfers back to productive ledger	10	-	-	10
Balance at end of the year	459	-	-	459
Provision at end of the year	(110)	-	-	(110)
Net carrying amount at end of the year	**349**	**-**	**-**	**349**
Undrawn balances on individually impaired lending commitments	-	-	-	-
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	-	-	-	-

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.

All in $000's

14. Investments in Subsidiaries, Associates and Joint Ventures

	Percentage Held		Date	Nature of Business
Subsidiaries:	**31/03/2025**	**31/03/2024**		
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
SBS Wealth Limited (Previously Funds Administration New Zealand Limited "FANZ")	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	-	-	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%	15.9%	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 2025 there are no amounts due from, or due to any related entities that are outside of the Banking Group. (31 March 2024: Nil)

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.

All in $000's

15. Loan Securitisation

	31/03/2025	31/03/2024
Securitised loan balances		
SBS Invercargill W Trust	253,603	207,145
SBS Warehouse Trust No.2	62,411	81,814
SBS Oreti Trust No. 2	296,484	406,960
Finance Now Warehouse Trust	380,509	378,811
TWGFS Warehouse A Trust	89,887	97,438
	1,082,894	**1,172,168**
Mortgages assigned during the year		
By SBS to SBS Invercargill W Trust	99,506	272,036
By SBS to SBS Warehouse Trust No.2	-	41,285
By SBS Invercargill W Trust to SBS Oreti Trust No. 2	-	147,003
By FNL to Finance Now Warehouse Trust	219,946	228,789
By The Warehouse Financial Services Limited and SBS Money Limited to TWGFS Warehouse A Trust	213,433	217,785

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.

All in $000's

16. Funding

(a) Concentrations of funding

Concentrations of funding by geographical location	Note	31/03/2025	31/03/2024
North Island other		1,052,515	1,110,035
Auckland		1,049,556	1,003,863
Canterbury		1,060,609	1,049,446
Otago		1,093,694	987,882
Southland		1,172,995	1,164,289
South Island other		460,801	434,131
Overseas		155,070	116,673
Total concentrations of funding by geographical location		**6,045,240**	**5,866,319**
Concentrations of funding by product			
Redeemable shares		4,511,890	4,353,334
Deposits from customers		44,259	54,686
Medium term notes	(16(c))	456,311	326,934
Commercial paper		387,770	360,992
Due to other financial institutions	(16(d))	539,878	663,430
Subordinated redeemable shares	(16(b))	105,132	106,943
Total concentrations of funding by product		**6,045,240**	**5,866,319**

(b) Subordinated redeemable shares

	31/03/2025	31/03/2024
SBS Capital Bond	-	11,592
SBS Capital Bonds No. 2	42,989	34,826
SBS Listed Capital Bond	62,143	60,525
	105,132	**106,943**

The SBS Capital Bond was issued to retail and wholesale investors. These ten year bonds were fixed for the first five years, and are then subject to a quarterly floating rate. The Bank had the right to repay the principal amount on or after the five-year anniversary, subject to regulatory approval, but there was no right for a holder to redeem before maturity. The Bank exercised its right to redeem the shares on their five-year call date. During the year ending 31 March 2025 $11.6 million (31 March 2024 $12.1 million) of SBS Capital Bonds were redeemed. The Bonds were issued as subordinated redeemable shares and ranked behind redeemable shareholders, depositors and unsecured creditors of SBS and were subject to loss absorption provisions.

During the year ended 31 March 2023, the Bank commenced issuance of the 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 are issued on a continuing basis 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.

At 31 March 2025 the balance of all subordinated redeemable shares issued was $105.1 million. After adjustment for potential tax and transitional recognition amortisation, $102.7 million has been recognised as tier 2 capital for RBNZ capital adequacy purposes (31 March 2024 $99.8 million).

All in $000's

16. Funding (continued)

(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 2025 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 2025 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

During September 2024, the Bank issued the SBS Senior Bond, unsecured, senior, fixed rate, medium term debt securities. As at 31 March 2025 the notes carried a BBB+ credit rating from Fitch Ratings.

Issue date	30 September 2024
Issue amount	Issue amount: $125 million
Principal amount	$1
Interest frequency	Quarterly in arrears
Interest rate	Fixed at 4.98%
Maturity	10 April 2030

(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 2025, the Bank had drawn down $146 million (31 March 2024 $246 million), which is included in 'Due to other financial institutions' in the statement of financial position. A total of $195 million (31 March 2024 $319 million) of residential mortgage-backed securities ("RMBS") have been pledged as approved collateral in relation to the amount currently drawn down.

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.

All in $000's

16. Funding (continued)

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	31/03/2025	31/03/2024
Lease liabilities		20,082	20,603
Trade and other payables		31,886	36,414
Insurance policy liabilities		8,246	8,535
Employee entitlements		5,742	6,002
Provisions for credit impairment on undrawn commitments	(12(a))	1,422	1,390
		67,378	**72,944**

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 31/03/2025	Credit equivalent 31/03/2025	Contract or notional amt 31/03/2024	Credit equivalent 31/03/2024
Commitments with uncertain drawdown	91,715	45,858	89,840	44,920
Commitments to extend credit which can be unconditionally cancelled	283,204	-	305,038	-
Total credit related commitments	**374,919**	**45,858**	**394,878**	**44,920**

As at 31 March 2025, collective provisions relating to credit related commitments of $1.4 million is included in other liabilities (31 March 2024 $1.4 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 2025. (31 March 2024: Nil)

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.

All in $000's

19. Reconciliation of Net Surplus to Net Operating Cash Flows

	31/03/2025	31/03/2024
Net surplus for year	29,102	42,822
Add/(deduct) non cash items		
Depreciation, amortisation and impairment	7,210	7,814
Provision for credit impairment	25,847	20,330
Share of associates profit net of tax	-	(1,057)
Write off of property, plant and equipment	154	49
Loss on sale of shares	20	-
Gain on sale of associate	-	(12,975)
Actuarial life adjustment	1,807	1,150
Liabilities fair value adjustment	5,074	4,543
Deferred fee revenue and expenses	(510)	(1,155)
Derivatives fair value adjustment	5,160	(4,183)
Advances to customers fair value adjustment	(211)	144
Investment securities fair value adjustment	-	-
Net deferred tax assets	(4,926)	(3,067)
Interest on lease liabilities	694	698
	40,319	**12,291**
Deferral or accruals of past or future operating cash receipts or payments		
Change in income tax payable/receivable	(12,555)	3,546
Change in sundry debtors	2,646	(11,813)
Change in sundry creditors	(4,756)	675
Change in accruals relating to interest receivable	15,108	(2,732)
Change in accruals relating to accrued interest and dividends payable to customers	(12,738)	17,099
Change in accruals relating to accrued interest payable to financial institutions	(780)	14,108
Change in net advances	(205,797)	(491,610)
Change in shares and deposits	155,823	225,717
Change in medium term notes	124,061	173,028
Change in commercial paper	27,812	13,939
Change in amounts due to other financial institutions and central bank	(121,371)	(17,996)
Change in subordinated redeemable shares	(3,422)	41,464
	(35,969)	**(34,575)**
Items classified as cash		
Change in accruals relating to funds with financial institutions and central bank	22	(18)
Net cash flows from operating activities	**33,474**	**20,520**

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.

All in $000's

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 2025	**At Fair Value (*)**	**At Amortised Cost**	**FVOCI**	**FVTPL**	**Total Carrying Amount**
Assets					
Cash on hand and at bank	-	64,350	-	-	**64,350**
Funds with financial institutions and central bank	-	34,986	-	-	**34,986**
Investment securities	-	-	723,032	13,164	**736,196**
Derivative financial instruments	25,302	-	-	-	**25,302**
Advances to customers	-	5,583,888	-	96,016	**5,679,904**
	25,302	5,683,224	723,032	109,180	**6,540,738**
Liabilities					
Redeemable shares	-	4,511,890	-	-	**4,511,890**
Deposits from customers	-	44,259	-	-	**44,259**
Medium term notes	-	456,311	-	-	**456,311**
Commercial paper	-	387,770	-	-	**387,770**
Due to other financial institutions	-	539,878	-	-	**539,878**
Derivative financial instruments	54,345	-	-	-	**54,345**
Subordinated redeemable shares	-	105,132	-	-	**105,132**
	54,345	6,045,240	-	-	**6,099,585**

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**

* 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 continue to apply existing NZ IAS 39 policy on hedge accounting for the year ending 31 March 2025.

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.

All in $000's

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:

		31/03/2025		31/03/2024	
Financial assets	**Valuation Hierarchy**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Advances to customers (excluding REM)	Level 2	5,583,888	5,592,862	5,408,194	5,368,119
Total financial assets		**5,583,888**	**5,592,862**	**5,408,194**	**5,368,119**
Financial liabilities					
Redeemable shares	Level 2	4,511,890	4,526,361	4,353,334	4,352,474
Deposits from customers	Level 2	44,259	44,528	54,686	54,631
Medium term notes	Level 2	456,311	460,770	326,934	323,980
Subordinated redeemable shares	Level 2	105,132	110,832	106,943	106,986
Total financial liabilities		**5,117,592**	**5,142,491**	**4,841,897**	**4,838,071**

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 2025	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	-	25,302	-	**25,302**
Investment securities	-	736,469	-	**736,469**
Advances to customers - REM	-	-	96,016	**96,016**
Total financial assets	**-**	**761,771**	**96,016**	**857,787**
Financial liabilities				
Derivative financial instruments	-	54,345	-	**54,345**
Total financial liabilities	**-**	**54,345**	**-**	**54,345**

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**

All in $000's

21. Fair Value of Financial Instruments (continued)

The following table presents the changes in level 3 instruments:	Note	31/03/2025	31/03/2024
Loans and advances at fair value through profit or loss			
Balance at beginning of the year		93,230	87,874
New loans		5,105	6,590
Interest charged	(2)	9,179	8,460
Loan repayments		(14,783)	(13,597)
Net change in fair value	(6)	2	(144)
Drawdowns (net of part repayments) on current loans		3,283	4,047
Balance at end of the year		**96,016**	93,230

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 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.

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

All in $000's

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 2025, the Banking Group had total committed funding lines with other registered banks of $721.4 million (31 March 2024 $727.7 million). Of these facilities, $371.4 million were drawn down at 31 March 2025 (31 March 2024 $377.7 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.

Core liquid assets	31/03/2025	31/03/2024
Cash on hand and at bank	64,350	63,731
Funds with central bank	-	120,053
Funds with financial institutions	34,986	30,151
Investment securities	736,196	592,766
Committed and undrawn funding lines[2]	350,000	350,000
Eligible RMBS collateral (less haircut[1])[3]	81,978	62,565
Total liquidity	**1,267,510**	**1,219,266**

[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 $28.6 million available funding, not included as core liquid assets, in securitisation vehicles (31 March 2024: $22.3 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. Subsequent to year end the Reserve Bank has confirmed they are satisfied the findings of the review have been remediated.

All in $000's

23. Liquidity Risk (continued)

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.

As at 31 March 2025	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Liabilities							
Redeemable shares	457,043	3,128,996	836,946	115,567	40,430	-	**4,578,982**
Deposits from customers	2,342	36,486	6,940	4,629	107	-	**50,504**
Medium term notes	-	6,370	6,335	162,721	18,692	126,571	**320,689**
Commercial paper	-	390,500	-	-	-	-	**390,500**
Due to other financial institutions	-	22,303	165,035	310,330	73,220	-	**570,888**
Derivative financial instruments							
- cash outflows	-	16,684	12,632	17,795	23,373	1,724	**72,208**
- cash inflows	-	(21,207)	(18,939)	(23,789)	(24,568)	(3,012)	**(91,515)**
Current tax liabilities	-	-	-	-	-	-	**-**
Other liabilities	-	49,053	1,718	3,051	6,859	11,001	**71,682**
Subordinated redeemable shares	-	4,604	4,579	9,183	27,560	139,353	**185,279**
Total liabilities (inclusive of interest)	**459,385**	**3,633,789**	**1,015,246**	**599,487**	**165,673**	**275,637**	**6,149,217**
Unrecognised loan commitments	91,715	-	-	-	-	-	**91,715**

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**

All in $000's

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 2024 79%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Consumer loans which comprise 19% (31 March 2024 19%) of the Banking Group's loan portfolio are largely concentrated across Auckland and the rest of the North Island.

(a) Maximum credit exposures

	31/03/2025	31/03/2024
Cash on hand and at bank	64,350	63,731
Funds with financial institutions and central bank	34,986	150,204
Investment securities	736,196	592,766
Derivative financial instruments	25,302	49,682
Current tax assets	3,458	-
Advances to customers	5,679,904	5,501,423
Other assets	76,636	79,282
Total on-balance sheet credit exposures	**6,620,832**	**6,437,088**
Off balance sheet exposures - undrawn commitments	374,919	394,878
Total credit exposures	**6,995,751**	**6,831,966**

(b) Concentrations of credit risk by sector

	31/03/2025	31/03/2024
Residential	3,952,098	3,717,727
Residential investing	754,008	831,426
Agricultural	42,484	55,618
Commercial finance	22,314	18,368
Commercial other	74,576	72,948
Commercial vehicle	12,733	22,687
Consumer vehicle	725,986	739,520
Consumer lending	276,949	232,129
Consumer credit card	193,675	205,878
Local authority	186,796	115,977
NZ registered banks	452,105	424,068
Central bank	-	120,053
Multilateral development banks and other international institutions	75,359	79,720
Corporate investments	146,574	116,565
Other	80,094	79,282
Total concentrations of credit risk by sector	**6,995,751**	**6,831,966**

(c) Concentrations of credit risk by geographical location

	31/03/2025	31/03/2024
Auckland	1,790,436	1,664,542
North Island other	2,081,320	2,031,973
Canterbury	1,247,122	1,288,715
Otago	758,396	762,255
Southland	716,247	725,637
South Island other	259,726	258,684
Overseas	142,504	100,160
Total concentrations of credit risk by geographical location	**6,995,751**	**6,831,966**

All in $000's

24. Credit Risk (continued)

(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.

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:

	31/03/2025	31/03/2024
Against individually impaired property	-	-
Against past due but not impaired property	184,490	175,044
	184,490	**175,044**

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").

All in $000's

25. Market Risk (continued)

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 2025	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	64,350	-	-	-	-	-	**64,350**
Funds with financial institutions and central bank	34,986	-	-	-	-	-	**34,986**
Investment securities	132,359	8,975	14,716	104,821	475,325	-	**736,196**
Derivative financial instruments	-	-	-	-	-	25,302	**25,302**
Current tax assets	-	-	-	-	-	3,458	**3,458**
Advances to customers	1,487,723	736,041	1,099,080	1,188,036	1,209,941	(40,917)	**5,679,904**
Other assets	-	-	-	-	-	150,499	**150,499**
	1,719,418	**745,016**	**1,113,796**	**1,292,857**	**1,685,266**	**138,342**	**6,694,695**
Liabilities and equity							
Redeemable shares	1,898,684	1,341,770	816,284	109,228	38,530	307,396	**4,511,892**
Deposits from customers	16,783	15,979	6,748	4,641	106	-	**44,257**
Medium term notes	-	-	-	-	456,311	-	**456,311**
Commercial paper	338,452	49,318	-	-	-	-	**387,770**
Due to other financial institutions	539,879	-	-	-	-	-	**539,879**
Derivative financial instruments	-	-	-	-	-	54,345	**54,345**
Other liabilities	-	-	-	-	-	67,378	**67,378**
Subordinated redeemable shares	-	-	-	-	105,131	-	**105,131**
Equity	-	-	-	-	-	527,732	**527,732**
	2,793,798	**1,407,067**	**823,032**	**113,869**	**600,078**	**956,851**	**6,694,695**
On-balance sheet interest sensitivity gap	(1,074,380)	(662,051)	290,764	1,178,988	1,085,188	(818,509)	**-**
Net balance of derivative financial instruments	1,340,350	406,000	(406,000)	(932,250)	(408,100)	-	**-**
Total interest rate sensitivity gap	**265,970**	**(256,051)**	**(115,236)**	**246,738**	**677,088**	**(818,509)**	**-**

All in $000's

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
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**
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**
Deferred tax liabilities	-	-	-	-	-	-	**-**
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)**	**-**

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:

	31/03/2025	31/03/2024
Impact on equity of increase or decrease to market interest rates		
100 bp parallel increase	5,964	12,306
100 bp parallel decrease	(5,964)	(12,306)
Impact on profit and loss of increase or decrease to market interest rates		
100 bp parallel increase	(569)	(387)
100 bp parallel decrease	569	387

All in $000's

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

	31/03/2025	31/03/2024
Directors and other key management personnel		
Loans and advances outstanding at beginning of year	1,668	1,173
Net loans issued/(repaid) during the year	3,814	495
Loans and advances outstanding at end of year	**5,482**	**1,668**
Interest income earned on amounts due from related parties	**48**	**71**

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 2025 (31 March 2024 $nil).

(b) Deposits from related parties

	31/03/2025	31/03/2024
Directors and other key management personnel		
Deposits at beginning of year	9,079	6,366
Net deposits received/(repaid) during the year	8,955	2,713
Deposits at end of year	**18,034**	**9,079**
Interest expense on amounts due to related parties	**754**	**368**

(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.

<u>Lifestages Investment Funds</u>
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.

<u>Lifestages KiwiSaver Scheme</u>
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 2025.

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

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. General Disclosures (continued)

A1.4 Directorate (continued)

AJ (Joe) O'Connell BCom FCA CFInstD (Chairperson - Board of Directors) Company Director Independent Non-Executive Director	External Directorships: Fern Energy Ltd, OKC Holdings Limited, AJO Management Limited, R Richardson Limited, TNZ Growing Products Limited, Log Marketing New Zealand Limited, Log Logistics Limited, Niagara Forestry Ltd, Tulloch Transport Ltd, Craigpine Timber Ltd, Wood Energy NZ GP Ltd, K G Richardson Ltd, Niagara Sawmilling Company Limited, McNeil Distriution Ltd, Northwood Properties Limited.
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
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
PRN (Phil) Ellison BMS MInstD Company Director Non-Executive Director	External Directorships: Sabre Corporate Trustee Company Ltd, Simfuni Ltd, Biowrap Limited
LM (Linda) Robertson BCom, PGDipBank, CFInstD Company Director Independent Non-Executive Director	External Directorships: RML Consulting Ltd, Crown Irrigation Investments Ltd, NZ Local Government Funding Agency Limited, Central Lakes Direct Ltd, Central Lakes Trust (as a Trustee), Aquaheat Fire New Zealand Ltd, Aquaheat New Zealand Ltd, Aquaheat Facility Services Limited, Coollogic Refrigeration Limited, Horizon Energy Distribution Ltd, Horizon Services Ltd, Horizon Energy Group Ltd, Horizon Energy Ltd, Caldwell and Levesque Ltd, Kordia Group Ltd, Invercargill City Holdings Ltd, Aquaheat South Pacific Limited
JR (Jason) Franklin BCom, PG Dip Economics & Marketing, FCA, CFInstD Chief Executive Officer - Powerco Limited Company Director Independent Non-Executive Director	External Directorships: Southland Regional Development Agency, SmartCo Limited, Electricity Networks Association, PowerNet Limited, OtagoNet Limited, OtagoNet Properties Limited, Canoldir Investments Limited.

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.

All in $000's

A1. General Disclosures - unaudited (continued)

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 23 July 2024. The previous credit rating of a positive outlook was issued by Fitch Ratings on 1 August 2023. 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.

A1.8 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 July 2024.

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 9 percent;
   (b) the Tier 1 capital ratio of the banking group is not less than 7 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

A1. General Disclosures - unaudited (continued)

A1.8 Conditions of Registration (continued)

(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 condition 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.

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. The bank must comply with all the requirements set out in the following document: BS8 Connected Exposures 1 October 2023.

A1. General Disclosures - unaudited (continued)

A1.8 Conditions of Registration (continued)

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.

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.

A1. General Disclosures - unaudited (continued)

A1.8 Conditions of Registration (continued)

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.

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.

All in $000's

A1. General Disclosures - unaudited (continued)

A1.8 Conditions of Registration (continued)

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 31 December 2024, 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 70%, 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 after 31 December 2024, 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 20% 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, for a debt-to-income measurement period, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a debt-to-income ratio of more than 7, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the debt-to-income measurement period.

22. That, for a debt-to-income measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a debt-to-income ratio of more than 6, must not exceed 20% of the total the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the debt-to-income measurment period.

23. 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.

    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 July 2024
BPR110: Capital definitions	1 October 2023
BPR120: Capital adequacy process requirements	1 October 2023
BPR130: Credit risk RWAs overview	1 July 2024
BPR131: Standardised credit risk RWAs	1 July 2024
BPR132: Credit risk mitigation	1 July 2024
BPR133: IRB credit risk RWAs	1 July 2024
BPR134: IRB minimum system requirements	1 July 2024
BPR140: Market risk exposure	1 July 2024
BPR150: Standardised operational risk	1 July 2024
BPR151: AMA operational risk	1 July 2024
BPR160: Insurance, securitisation, and loan transfers	1 July 2024
BPR001: Glossary	1 October 2023

In conditions of registration 19 to 20, -

"loan-to-valuation", "non property-investment residential mortgage loan","property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", and "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans" 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.

In conditions of registration 21 to 22, -

"debt-to-income ratio", "debt-to-income measurement period", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", and qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans" have the same meaning as in the Reserve Bank of New Zealand document entitled " Framework for Restrictions on High Debt-To-Income Residential Mortgage lending" (BS20) dated 3 April 2023:

"debt-to-income measurement period" means -

(a) the initial period of six calendar months from the date of this conditions of registration (1 July 2024) ending on 31 December 2024; and

A1. General Disclosures - unaudited (continued)

A1.8 Conditions of Registration (continued)

(b) thereafter, a rolling period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on 31 January 2025 and covers the months of August, September, October, November and December 2024 and January 2025.

In conditions of registration 23, -
"residential mortgage loan" has the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High Debt-To-Income Residential Mortgage lending" (BS20) dated 3 April 2023.

Changes in Conditions of Registration during the period

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

From 1 April 2024, the Conditions of Registration was updated to reflect the changes in Connected Exposures policy document (BS8).

From 1 July 2024, the following changes were made:
Changes to capital ratios:
- The Total capital ratio minimum of the banking group was updated from 8% to 9%;
- The Tier 1 capital ratio minimum of the banking group was updated from 6% to 7%.

Changes to loan-to-valuation restrictions:
- On or after 31 December 2024, property-investment residential mortgage loans was updated from 65% to 70%;
- On or after 31 December 2024, non property-investment residential mortgage loans was updated from 15% to 20%.

Debt-to-income limits introduced:
- The total of the bank's qualifying new mortgage lending amounts in respect of property-investment residential mortgage loans with a debt-to-income ratio of more than 7 must not exceed 20% of total property-investment residential mortgage arising in the DTI measurement period.

- The total of the Bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a debt-to-income ratio of more than 6, must not exceed 20% of total non property-investment residential mortgages arising in the DTI measurement period.

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 did 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.

Subsequent to year end the Reserve Bank confirmed they are satisfied all the individual breaches have been remediated and closed the material breach disclosed on their website.

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. General Disclosures - unaudited (continued)

A1.10 Historical Summary of Financial Statements

Income Statements
All in $000's

	31/03/2025	31/03/2024	31/03/2023	31/03/2022	31/03/2021
Interest income	475,549	439,975	288,189	192,337	216,375
Interest expense	86,136	86,776	48,466	21,764	31,073
Dividends on redeemable shares	231,577	202,441	98,326	37,401	66,101
	317,713	289,217	146,792	59,165	97,174
Net interest income	**157,836**	**150,758**	**141,397**	**133,172**	**119,201**
Net fee and commission income	29,658	26,047	24,557	24,785	24,511
Other income	826	1,199	1,620	5,868	7,546
Total operating income	**188,320**	**178,004**	**167,574**	**163,825**	**151,258**
Operating expenses	119,398	115,480	104,626	96,567	91,423
Credit impairment losses	25,847	20,330	12,671	5,977	4,641
Operating surplus	**43,075**	**42,194**	**50,277**	**61,281**	**55,194**
Net gain/(loss) from financial instruments at fair value through profit or loss	(1,954)	334	(32)	(207)	729
Net gain/(loss) from associates	-	12,976	-	-	-
Share of associates profit net of tax	-	1,057	1,230	819	1,203
Surplus before income tax	**41,121**	**56,561**	**51,475**	**61,893**	**57,126**
Less income taxation expense	12,019	13,739	14,013	17,030	15,987
Net surplus	**29,102**	**42,822**	**37,462**	**44,863**	**41,139**
Attributable to:					
Members' interests	29,102	42,822	37,462	44,863	41,139
Non-controlling interests	-	-	-	-	-
	29,102	**42,822**	**37,462**	**44,863**	**41,139**

Significant Statement of Financial Position Items
All in $000's

	31/03/2025	31/03/2024	31/03/2023	31/03/2022	31/03/2021
Total assets	6,694,695	6,490,569	6,006,430	5,219,795	4,836,346
Individually impaired assets	459	45	1,431	1,209	1,407
Total liabilities	6,166,963	5,965,663	5,500,556	4,756,843	4,447,630
Equity	527,732	524,906	505,874	462,952	388,716
Regulatory capital					
Tier one capital	512,096	489,595	433,362	397,220	359,650
Total capital	619,929	592,955	473,963	465,308	437,230
Tier one capital expressed as a percentage of total risk weighted assets	13.5%	13.5%	12.4%	13.1%	12.9%
Total capital expressed as a percentage of total risk weighted assets	16.4%	16.3%	13.6%	15.4%	15.7%

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

All in $000's

A2. Additional Financial Disclosures

A2.1 Additional information on the statement of financial position

	31/03/2025	31/03/2024
Total interest earning and discount bearing assets	6,556,353	6,346,428
Total interest and discount bearing liabilities	5,737,844	5,558,214

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	31/03/2025
Gross residential mortgage loans	(11)	4,480,072
Other lending residentially secured		36,539
Provision for credit impairment relating to residential mortgages	(12(a))	(9,042)
Deferred fee revenue and expenses relating to residential mortgages		17,703
Residential mortgage loans net of provision for impairment		4,525,272
Off balance sheet exposures - undrawn commitments	(A4.4)	217,365
Total on and off balance sheet residential mortgage loans		**4,742,637**

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

	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
As at 31 March 2025				
Past due 0-9 days	52,873	70,441	1,009	124,323
Past due 10-29 days	18,186	28,268	393	46,847
Past due 0-29 days	71,059	98,709	1,402	171,170
Past due 30-59 days	5,767	13,268	414	19,449
Past due 60-89 days	3,513	6,132	381	10,026
Past due 90 days +	18,038	8,977	1,875	28,890
Carrying amount	**98,377**	**127,086**	**4,072**	**229,535**
As at 31 March 2024				
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**

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 2025	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Movement in provisions relating to advances to customers - Total					
Balance at beginning of year	18,671	13,150	6,433	50	38,304
Transfer between stages	5,556	(5,524)	(32)	-	-
New provisions	8,575	6,892	6,502	60	22,029
Charge/(credit) to income statement excluding transfers	(3,634)	(314)	270	-	(3,678)
Reversal of previously recognised provision	(7,621)	(4,302)	(3,815)	-	(15,738)
Balance at end of year - Total	**21,547**	**9,902**	**9,358**	**110**	**40,917**
Movement in provisions relating to credit related commitments - Total					
Balance at beginning of year	1,374	16	-	-	1,390
Transfer between stages	(16)	7	9	-	-
New provisions	400	(9)	(8)	-	383
Charge/(credit) to income statement excluding transfers	(68)	4	(1)	-	(65)
Reversal of previously recognised provision	(286)	-	-	-	(286)
Balance at end of year - Total	**1,404**	**18**	**-**	**-**	**1,422**

Movement in gross exposures on loss allowances - Total	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	5,707,912	116,059	20,647	5,844,618
Transfer between stages				
Transferred to stage 1	62,207	(59,375)	(2,832)	-
Transferred to stage 2	(21,199)	26,177	(4,978)	-
Transferred to stage 3	(14,143)	(9,635)	23,778	-
New loans	1,551,654	10,182	2,945	1,564,781
Assets derecognised and payments made	(1,225,873)	(31,044)	(9,873)	(1,266,790)
Other movements	(139,914)	23	(90)	(139,981)
Gross exposure - Total	**5,920,644**	**52,387**	**29,597**	**6,002,628**
Provision for credit impairment	(22,951)	(9,920)	(9,468)	(42,339)
Net exposure - Total	**5,897,693**	**42,467**	**20,129**	**5,960,289**

All in $000's

A3. Asset Quality (continued)

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

Residential mortgages

As at 31 March 2025	Expected Credit Losses Stage 1	Expected Credit Losses Stage 2	Expected Credit Losses Stage 3	Specific Provision Stage 3	Total
Movement in provisions relating to advances to customers - Residential mortgages					
Balance at beginning of year	3,749	5,532	1,765	50	11,096
Transfer between stages	3,512	(3,362)	(150)	-	-
New provisions	552	254	690	60	1,556
Charge/(credit) to income statement excluding transfers	(3,534)	(290)	212	-	(3,612)
Reversal of previously recognised provision	-	-	-	-	-
Balance at end of year - Residential mortgages	**4,279**	**2,134**	**2,517**	**110**	**9,040**

Movement in provisions relating to credit related commitments - Residential mortgages

	Stage 1	Stage 2	Stage 3	Specific Provision Stage 3	Total
Balance at beginning of year	127	3	-	-	130
Transfer between stages	1	(1)	-	-	-
New provisions	11	-	-	-	11
Charge/(credit) to income statement excluding transfers	(23)	-	-	-	(23)
Balance at end of year - Residential mortgages	**116**	**2**	**-**	**-**	**118**

Movement in gross exposures on loss allowances - Residential mortgages

	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	4,406,916	86,049	13,425	4,506,390
Changes to the opening balance due to transfer between stages:				
Transferred to stage 1	56,779	(54,531)	(2,248)	-
Transferred to stage 2	(7,972)	12,840	(4,868)	-
Transferred to stage 3	(7,551)	(8,129)	15,680	-
New loans	1,039,618	1,381	564	1,041,563
Assets derecognised and payments made	(746,533)	(14,087)	(3,954)	(764,574)
Other movements	(133,034)	(205)	(132)	(133,371)
Gross exposure - Residential mortgages	**4,608,223**	**23,318**	**18,467**	**4,650,008**
Provision for credit impairment	(4,395)	(2,136)	(2,627)	(9,158)
Net exposure - Residential mortgages	**4,603,828**	**21,182**	**15,840**	**4,640,850**

Impact of changes in gross exposures - Residential mortgages

Overall, credit impairment provisions for residential mortgages decreased by $2.1 million (18%) for the year ending 31 March 2025, mainly due to a movement in exposures from Stage 2 to Stage 1 partially offset by portfolio growth of $143.6 million (3%).

All in $000's

A3. Asset Quality (continued)

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

Retail exposures

As at 31 March 2025	Expected Credit Losses Stage 1	Expected Credit Losses Stage 2	Expected Credit Losses Stage 3	Specific Provision Stage 3	Total
Movement in provisions relating to advances to customers - Retail exposures					
Balance at beginning of year	14,043	6,987	4,329	-	25,359
Transfer between stages	1,992	(1,974)	(18)	-	-
New provisions	7,621	6,459	5,424	-	19,504
Reversal of previously recognised provision	(7,346)	(4,107)	(3,740)	-	(15,193)
Balance at end of year - Retail exposures	**16,310**	**7,365**	**5,995**	**-**	**29,670**

Movement in provisions relating to credit related commitments - Retail exposures

	Stage 1	Stage 2	Stage 3	Specific Provision Stage 3	Total
Balance at beginning of year	1,026	-	-	-	1,026
Transfer between stages	(17)	9	8	-	-
New provisions	384	(9)	(8)	-	367
Reversal of previously recognised provision	(286)	-	-	-	(286)
Balance at end of year - Retail exposures	**1,107**	**-**	**-**	**-**	**1,107**

Movement in gross exposures on loss allowances - Retail exposures	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	1,138,743	16,656	6,405	1,161,804
Transfer between stages				
Transferred to stage 1	4,938	(4,355)	(583)	-
Transferred to stage 2	(12,554)	12,663	(109)	-
Transferred to stage 3	(6,252)	(656)	6,908	-
New loans	472,299	5,951	2,238	480,488
Assets derecognised and payments made	(434,330)	(10,320)	(5,595)	(450,245)
Balance at end of year - Retail Exposures	**1,162,844**	**19,939**	**9,264**	**1,192,047**
Provision for credit impairment	(17,417)	(7,365)	(5,995)	(30,777)
Net exposure - Retail Exposures	**1,145,427**	**12,574**	**3,269**	**1,161,270**

Impact of changes in gross exposures - Retail exposures

Overall, credit impairment provisions for retail exposures increased by $4.4 million (17%) for the year ending 31 March 2025, mainly due to portfolio growth of $30.2 million (3%) and movement in exposures from Stage 1 to Stage 2 and Stage 3.

All in $000's

A3. Asset Quality (continued)

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

Corporate exposures

As at 31 March 2025	Expected Credit Losses Stage 1	Expected Credit Losses Stage 2	Expected Credit Losses Stage 3	Specific Provision Stage 3	Total
Movement in provisions relating to advances to customers - Corporate exposures					
Balance at beginning of year	879	631	339	-	1,849
Transfer between stages	52	(188)	136	-	-
New provisions	402	179	388	-	969
Charge/(credit) to income statement excluding transfers	(100)	(24)	58	-	(66)
Reversal of previously recognised provision	(275)	(195)	(75)	-	(545)
Balance at end of year - Corporate exposures	**958**	**403**	**846**	**-**	**2,207**
Movement in provisions relating to credit related commitments - Corporate exposures					
Balance at beginning of year	221	13	-	-	234
Transfer between stages	-	(1)	1	-	-
New provisions	5	-	-	-	5
Charge/(credit) to income statement excluding transfers	(45)	4	(1)	-	(42)
Balance at end of year - Corporate exposures	**181**	**16**	**-**	**-**	**197**

Movement in gross exposures on loss allowances - Corporate exposures

	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	162,253	13,354	817	176,424
Transfer between stages				
Transferred to stage 1	490	(489)	(1)	-
Transferred to stage 2	(673)	674	(1)	-
Transferred to stage 3	(340)	(850)	1,190	-
New loans	39,737	2,850	143	42,730
Assets derecognised and payments made	(45,010)	(6,637)	(324)	(51,971)
Other movements	(6,880)	228	42	(6,610)
Balance at end of year - Corporate exposures	**149,577**	**9,130**	**1,866**	**160,573**
Provision for credit impairment	(1,139)	(419)	(846)	(2,404)
Net exposure - Corporate exposure	**148,438**	**8,711**	**1,020**	**158,169**

Impact of changes in gross exposures on loss allowances - Corporate exposures
Overall, credit impairment provisions for corporate exposures increased by $0.3 million (15%) for the year ending 31 March 2025, mainly due to an increase in exposures in Stage 3.

All in $000's

A3. Asset Quality (continued)

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

Residential mortgages

As at 31 March 2024	Expected Credit Losses Stage 1	Stage 2	Stage 3	Specific Provision Stage 3	Total
Movement in provisions relating to advances to customers					
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					
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 - credit related commitments	**127**	**3**	**-**	**-**	**130**

Movement in gross exposures on loss allowances - Residential mortgages	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	4,155,172	37,274	11,534	4,203,980
Changes to the opening balance due to 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**

Retail exposures

As at 31 March 2024	Expected Credit Losses Stage 1	Stage 2	Stage 3	Specific Provision Stage 3	Total
Movement in provisions relating to advances to customers					
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					
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 - credit related commitments	**1,026**	**-**	**-**	**-**	**1,026**

Movement in gross exposures on loss allowances - Retail exposures	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
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)
Gross exposure - 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**

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					
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					
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 - credit related commitments	**221**	**13**	**-**	**-**	**234**

Movement in gross exposures on loss allowances - Corporate exposures	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
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**

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

	31/03/2025	**31/03/2024**
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 9%;
- Tier 1 capital ratio of the banking group is not less than 7%;
- 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 below summarise the composition of regulatory capital and capital adequacy ratios. For the purposes of calculating the capital adequacy ratios for the Registered Bank, wholly-owned and wholly-funded subsidiaries of the Banking Group are consolidated with the Registered Bank. In this context, wholly funded by the Registered Bank means that there are no liabilities (including off-balance sheet obligations) to anyone other than the Registered Bank, the Inland Revenue Department, and trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's equity. Wholly owned means that all the equity issued by the subsidiary is held by the Registered Bank.

All in $000's

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 31/03/2025	BANKING GROUP 31/03/2024	REGISTERED BANK 31/03/2025	REGISTERED BANK 31/03/2024
Common equity tier 1 capital ratio	4.5%	13.5%	13.5%	11.5%	10.7%
Tier 1 capital ratio	7.0%	13.5%	13.5%	11.5%	10.7%
Total capital ratio	9.0%	16.4%	16.3%	15.1%	14.1%
Prudential capital buffer ratio	2.5%	6.5%	7.5%		

A4.2 Capital

	BANKING GROUP 31/03/2025
Tier 1 capital	
Common equity tier 1 (CET1) capital	
Retained earnings	511,881
Current year's retained earnings	29,102
FVOCI reserve	355
Cash flow hedging reserve	(18,784)
Less deductions from CET1 capital	
Goodwill & intangible assets	(13,693)
Deferred tax assets	(15,549)
Cash flow hedging reserve	18,784
Investments in associates	-
Total CET1 capital	**512,096**
Additional tier 1 (AT1) capital	
Non-controlling interests (net of deductions and surplus AT1 capital)	-
Total AT1 capital	-
Total tier 1 capital	**512,096**
Tier 2 capital	
Revaluation reserves - Property, plant and equipment	5,178
Subordinated redeemable shares [1]	102,655
Total tier 2 capital	**107,833**
Total capital	**619,929**
Less deductions from capital	-
Total capital	**619,929**

[1] Classified as a liability on the balance sheet under NZ GAAP. At 31 March 2025 the balance of all subordinated redeemable shares issued was $105.1 million (31 March 2024 $106.1 million). After adjustments for potential tax and transitional recognition amortisation, $102.7 million (31 March 2024 $99.8 million) has been recognised as tier 2 capital for RBNZ capital adequacy purposes.

All in $000's

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

A4.3 Credit risk
On balance sheet exposures

BANKING GROUP As at 31 March 2025	**Total Exposure after Credit Risk Mitigation [2]**	**Risk Weighting**	**Risk Weighted Exposure**	**Minimum Pillar One Capital Requirement**
Cash	582	0%	-	-
Sovereigns and central banks	-	0%	-	-
Multilateral development banks	142,504	0%	-	-
Public sector entities	117,583	20%	23,517	2,117
Banks				
Rating grade 1	215,700	20%	43,140	3,883
Rating grade 2	236,406	50%	118,203	10,638
Corporates				
Rating grade 1	72,568	20%	14,514	1,306
Rating grade 2	24,037	50%	12,019	1,082
Rating grade 3-4	12,989	100%	12,989	1,169
Residential mortgages owner occupied				
< 80% loan to value ratio (LVR)	2,394,453	35%	838,059	75,425
80<= 90% LVR	124,351	50%	62,176	5,596
90<=100% LVR	10,322	75%	7,742	697
> 100% LVR	995	100%	995	90
Residential mortgages property investment				
<=80% LVR	897,646	40%	359,058	32,315
80<=90% LVR	8,758	70%	6,131	552
90<=100% LVR	1,498	90%	1,348	121
Residential mortgages first home loans (Kainga Ora)	965,832	20%	193,166	17,385
Reverse residential mortgage loans				
<=30%	33,077	40%	13,231	1,191
30<=60%	59,085	50%	29,543	2,659
60<=80%	1,906	80%	1,525	137
80<=100%	1,946	100%	1,946	175
Past due residential mortgages	20,294	100%	20,294	1,826
Past due residential mortgages - Kainga Ora	4,760	20%	952	86
Impaired residential mortgages	349	100%	349	31
Equity holdings	13,163	400%	52,652	4,739
Other assets	1,279,346	100%	1,279,346	115,141
Non-risk weighted assets	54,545	0%	-	-
Total on balance sheet credit exposures	6,694,695		3,092,895	278,361

Off balance sheet exposures

As at 31 March 2025	**Total Exposure after Credit Risk Mitigation [2]**	**Credit Conversion Factor**	**Credit Equivalent Amount**	**Average Risk Weighting**	**Weighted Exposure / Implied Risk Weighted**	**Minimum Pillar One Capital Requirement**
Commitments with uncertain drawdown	91,715	50%	45,858	64%	29,255	2,633
Commitments to extend credit which can be unconditionally cancelled	283,204	0%	-	0%	-	-
Market related contracts[1]						
Interest rate contracts	6,417,770	n/a	42,229	29%	12,414	1,117
Credit valuation adjustment ("CVA")					1,007	91
Total off balance sheet credit exposures	6,792,689		88,087		42,676	3,841
Total credit risk	13,487,384		88,087		3,135,571	282,202

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

All in $000's

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

A4.4 Additional mortgage information

Residential mortgages by loan-to-valuation ratio	**BANKING GROUP**	
As at 31 March 2025	**On balance sheet**	**Off balance sheet**
LVR range		
0 - 80%	3,539,287	205,407
80 - 90%	716,146	5,148
90% +	269,839	6,810
Total residential mortgages	**4,525,272**	**217,365**

First Home Loans make up 95% of the residential mortgages in the 90% + loan to valuation grouping as at 31 March 2025 (31 March 2024 97%) and 81% of the 80-90% loan to valuation grouping (31 March 2024 83%). 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 requirement**
Operational risk	381,313	30,505

A4.7 Market Risk

	Implied risk-weighted exposure		**Aggregate capital charge**	
	End of period	**Peak**	**End of period**	**Peak**
Interest rate risk	268,175	282,513	21,454	22,601
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	13,487,384	3,135,571	282,202
Operational risk	n/a	381,313	30,505
Market risk	n/a	268,175	21,454
Total Pillar I risk	**n/a**	**3,785,059**	**334,161**

All in $000's

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

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 $51 million to cover these identified risks (31 March 2024 $50 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.

Average liquidity ratios	**31/03/2025**	**30/12/2024**
One-week mismatch ratio	8.6%	8.4%
One-month mismatch ratio	12.8%	12.5%
Core funding ratio	91.4%	96.3%

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 2025			**For the six months ending 31 March 2025**		
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%	2	-	**2**	2	-	**2**
15%-19%	2	-	**2**	1	-	**1**
20%-24%	-	-	**-**	-	-	**-**
25%-29%	-	-	**-**	-	-	**-**
30%-34%	1	-	**1**	2	-	**2**
35%-39%	-	-	**-**	-	-	**-**
40%-45%	-	-	**-**	-	-	**-**
45%-49%	-	-	**-**	-	-	**-**
Total	**5**	**-**	**5**	**5**	**-**	**5**

Exposures to non-banks						
Percentage of Common Equity Tier 1 capital	**"A" Rated**	**"B" Rated**	**Total**	**"A" Rated**	**"B" Rated**	**Total**
10%-14%	-	-	**-**	-	-	**-**
15%-19%	-	-	**-**	-	-	**-**
20%-24%	1	-	**1**	1	-	**1**
Total	**1**	**-**	**1**	**1**	**-**	**1**

All in $000's

A6. Credit Exposures to Connected Persons

	Connected persons		Non-bank connected	
	Amount $	% of Tier 1 Capital	Amount $	% of Tier 1 Capital
At year end	-	-	3,737	0.7%
Peak during the year	-	-	3,737	0.7%

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 2025 (31 March 2024 $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 2025 (31 March 2024 $nil).

All in $000's

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 2025 are $27.2 million (31 March 2024 $27.0 million) which is 0.4% of the total assets of the Banking Group (31 March 2024 0.4%). 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.

	31/03/2025	31/03/2024
Funds under management on behalf of customers	1,571,400	1,453,400

A7.3 Securitised assets

As at 31 March 2025, the Banking Group had securitised assets amounting to $1,083 million (31 March 2024 $1,172 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.

A7.4 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 was disbanded in September 2024 and the SBS Board absorbed the responsibility of reviewing and approving all lending proposals with an aggregated exposure in excess of $5 million.

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 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. 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.
	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.

All in $000's

A8. Risk Management Policies (continued)

A8.1 Information about risk (continued)

Material risks (continued)

Type	Description	Managing the Risk
Market 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 2025.

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

The Banking Group engaged an external party to review systems and processes around liquidity reporting during the year ended 31 March 2025. 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 2025, the Banking Group does not have any master netting arrangements.

Southland Building Society
Directors' Statement

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

1. As at the date on which the Disclosure Statement is signed:
   (a) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and
   (b) the Disclosure Statement is not false or misleading;
2. Each director of the Bank believes, after due enquiry, that during the year ending 31 March 2025:
   (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 20 May 2025 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

PRN Ellison

LM Robertson

JR Franklin

Independent Auditor's Report

To the members of Southland Building Society

Report on the audit of the consolidated disclosure statement

Opinion

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

- the consolidated financial statements comprised of:
  - the consolidated statement of financial position as at 31 March 2025;
  - the consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the year then ended; and
  - notes, including material accounting policy information and other explanatory information; and
- the supplementary information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.

In our opinion, the accompanying consolidated financial statements excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements of Southland Building Society (the **Registered Bank**) and its subsidiaries (the **Banking Group**) on pages 4 to 70:

- give a true and fair view of the Banking Group's financial position as at 31 March 2025 and its financial performance and cash flows for the year ended on that date; and
- comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards (**NZ IFRS**) issued by the New Zealand Accounting Standards Board and the International Financial Reporting Standards issued by the International Accounting Standards Board.

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) (**Order**) and is included within notes A2 to A8 of the disclosure statement:

- presents fairly the matters to which it relates;
- is disclosed in accordance with those schedules; and
- 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (**ISAs (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 Southland Building Society 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**), as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with Professional and Ethical Standards 1 and the IESBA Code.

Our responsibilities under ISAs (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 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 on Greenhouse Gas emissions reporting, 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 auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

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 and supplementary information as a whole. The materiality for the consolidated financial statements and supplementary information as a whole was set at $2,050,000 determined with reference to a benchmark of the Banking Group's surplus before income tax. 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 and supplementary information 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 audit opinion on the consolidated financial statements and supplementary information as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements and supplementary information.

The key audit matter	How the matter was addressed in our audit
Provision for credit impairment – ($42.6 million – refer to note 12)	
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.	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

The key audit matter	How the matter was addressed in our audit
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 high (but now falling) interest rates, inflationary pressures on cost of living and falling security values. 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.	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 the basis for and, when applicable, 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.
Operation of IT system and controls	
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. The other information comprises information includes disclosures required by Schedule 2 of the Order and other information in respect of the Bank including directories.

Our opinion on the consolidated Disclosure statement and supplementary information does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated Disclosure statement our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the consolidated disclosure statement or our knowledge obtained in the audit or otherwise appears materially misstated.

If, based on the work we have performed, we conclude there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the members. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in the independent auditor's 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 anyone other than the members for our audit work, this independent auditor's report, or any of the opinions we have formed.

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 Banking Group, are responsible for:

— the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order;

— the preparation and fair presentation of 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;

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

— assessing the ability of the Banking Group 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 consolidated disclosure statement, including the financial statements prepared in accordance with Clause 24 of the Order and supplementary information (excluding 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 are 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 it is not a guarantee that an audit conducted in accordance with ISAs 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 the consolidated financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/audit-report-1-1/

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

20 May 2025

Independent Limited Assurance Report to Southland Building Society

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

Our limited assurance conclusion has been formed on the basis of the matters outlined in this report.

Based on our limited assurance engagement, 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**).

Information subject to assurance

We have reviewed the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, as disclosed in note A4 of the disclosure statement as at and for the six months ended 31 March 2025.

Criteria

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 Standard on Assurance Engagements 3100 (Revised) Compliance Engagements **(SAE 3100 (Revised))** issued by the New Zealand Auditing and Assurance Standards Board (**Standard**). We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our limited conclusion. In accordance with the Standard, we have:

— 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 possesses the appropriate knowledge, skills and professional competencies.
- obtained an understanding of the process, data and internal controls implemented over the preparation of the information relating to the Capital Adequacy and Regulatory Liquidity Requirements;
- performed inquiry and analytical review procedures over the Capital Adequacy and Regulatory Liquidity Requirements;
- agreed the information relating to the Capital Adequacy and Regulatory Liquidity Requirements, extracted from the Bank's accounting records and other supporting documentation to the Disclosure Statement.

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 judgment, including identifying areas where the risk of material misstatement and non-compliance with Schedule 9 of the Order.

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 aggregate, they it 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 as at and for the six months ended 31 March 2025 does not provide assurance on whether compliance with Schedule 9 of the Order will continue in the future.

Use of this assurance Report

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

Our report should not be regarded as suitable to be used or relied on by anyone other than the Bank and it's members for any purpose or in any context. Any other person who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk.

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 anyone other than Southland Building Society for our work, for this independent assurance report, and/or for the opinions or conclusions we have reached.

Our conclusion is not modified in respect of this matter.

KPMG

Southland Building Society's responsibility for the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

The Directors of Southland Building Society are responsible for the disclosure of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements in accordance with Schedule 9 of the Order, which the Directors have determined meets the needs of Southland Building Society. This responsibility includes such internal control as the Directors determine is necessary to enable compliance and to monitor ongoing compliance and to enable the disclosure 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 would lead us to believe that, in all material respects the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements has not been disclosed in accordance with Schedule 9 of the Order as at and for the six months ended 31 March 2025.

Our independence and quality management

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) (**PES 1**) 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 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (**PES 3**), which requires the firm to design, implement and operate a system of quality control including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our firm has also provided other services to the banking group in relation to audit of the banking group's full-year Disclosure Statement, review of the banking group's half-year Disclosure Statement, reasonable assurance engagement on Greenhouse Gas emissions reporting, 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

20 May 2025

Southland Building Society
Directory

Directors
Mr A J O'Connell, BCom FCA CFInstD - Chartered Accountant, Invercargill
Chairperson

Mr M J Skilling, BAgrSci PGDipBank SFFINSIA CMInstD - Company Director, Auckland
Deputy Chairperson

Mr M P O'Connor, BCom FCA FNZIM - Company Director, Christchurch

Mr K J Murphy, CA FCA CFInstD - Company Director, New Plymouth

Mr P R N Ellison, BMS MInstD - Company Director, Auckland

Ms L M Robertson, BCom PGDipBank CFInstD CTP FINFINZ MAICD - Company Director, Queenstown

Mr J R Franklin BCom, PG Dip Economics & Marketing, FCA, CFInstD - Chartered Accountant, Invercargill

All directors can be contacted through
Southland Building Society, 51 Don Street, Invercargill

Group Chief Executive
Mr M R McLean, Chartered Accountant, BCom (Acctg), DipGrad (Marketing), Invercargill

Secretary
Mr J D Mitchell, Chartered Accountant, BSC, BCA (Acctg), DipGrad (Accounting), Invercargill

Registered Office
51 Don Street, Invercargill

Solicitors
Buddle Findlay, 83 Victoria Street, Christchurch

Auditors
KPMG, Level 6, 44 Bowen Street, Wellington

Southland Building Society
Branch Directory

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PO Box 835

Invercargill - *Windsor*
54 Windsor Street

Gore
80 Main Street
PO Box 212

Dunedin
Cnr George & Hanover Streets
PO Box 5492

Queenstown
Cnr Central Street and Grant Road, Frankton
PO Box 710

Cromwell
21 The Mall
PO Box 226

Timaru
248 Stafford Street
PO Box 844

Christchurch - *Riccarton*
109 Riccarton Road
PO Box 80058

Christchurch - *Northlink*
Unit 6A, Northlink Shopping Centre, 148 Langdons Road
PO Box 5038

Nelson
126 Trafalgar Street
PO Box 211

Blenheim
Cnr Market and Main Streets
PO Box 1188

Hawke's Bay
Cnr Queen & Market Streets, Hastings
PO Box 10

Hamilton
Cnr Victoria & Bryce Streets
PO Box 19222

Tauranga
Bethlehem Shopping Centre, 19 Bethlehem Road
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