Southland Building Society

Disclosure Statement

For the six months ended 30 September 2024

Number 53 Issued November 2024

Southland Building Society

Contents

Disclosure Statement for the six months ended 30 September 2024

Registered Bank Disclosures for the six months ended 30 September 2024

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

Abbreviations

The following abbreviations are used throughout the report:

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

Symbols


Specific accounting policy


Accounting estimates and areas of judgement

General Information

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

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

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

Name and Address for Service of Registered Bank

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

Details of Incorporation

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

Ownership

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

Directors' Statement

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

1. As at the date on which the Disclosure Statement is signed:
   (a) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and
   (b) the Disclosure Statement is not false or misleading.
2. Each director of the Bank believes, after due enquiry, that during the six months ended 30 September 2024:
   (a) the Bank has complied in all material respects with all conditions of registration applicable during the period; and
   (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
   (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk, and other business risks, and that those systems were being properly applied.

This disclosure statement is dated 20 November 2024 and has been signed by or on behalf of all the directors.

AJ O'Connell (Chairperson)	SJ Brown
MJ Skilling (Deputy Chairperson)	PRN Ellison
MP O'Connor	LM Robertson
KJ Murphy	JR Franklin

Southland Building Society
Income Statement for the six months ended 30 September 2024

All in $000's

	Note	Unaudited 6 Months 30/09/2024	Unaudited 6 Months 30/09/2023	Audited 12 Months 31/03/2024
Interest income		243,507	206,242	439,975
Interest expense		45,043	40,609	86,776
Dividends on redeemable shares		119,625	91,926	202,441
		164,668	132,535	289,217
Net interest income		**78,839**	**73,707**	**150,758**
Net fee and commission income	(A2.2)	**14,601**	**13,117**	**26,047**
Insurance service result and other income	(A2.2)	466	2,196	1,199
Total operating income		**93,906**	**89,020**	**178,004**
Operating expenses		60,673	59,985	115,480
Credit impairment losses	(6(d))	11,176	8,121	20,330
Operating surplus		**22,057**	**20,914**	**42,194**
Net gain/(loss) from financial instruments at FVTPL	(A2.2)	(820)	899	334
Net gain/(loss) from sale of associate		-	-	12,976
Share of associates profit net of tax		-	789	1,057
Surplus before income tax		**21,237**	**22,602**	**56,561**
Less income tax expense		6,285	6,435	13,739
Net surplus		**14,952**	**16,167**	**42,822**
Attributable to:				
Members' interests		**14,952**	**16,167**	**42,822**

Southland Building Society
Statement of Comprehensive Income for the six months ended 30 September 2024

All in $000's

	Unaudited 6 Months 30/09/2024	Unaudited 6 Months 30/09/2023	Audited 12 Months 31/03/2024
Net surplus for the period	14,952	16,167	42,822
Items that may not be reclassified subsequently to profit or loss			
Net change in property, plant and equipment reserve, net of tax	-	-	1,242
Items that may be reclassified subsequently to profit or loss			
Net change in FVOCI reserve, net of tax	7,588	(1,484)	8,043
Net change in cash flow hedging reserve, net of tax	(34,217)	2,731	(33,075)
Other comprehensive income for the period, net of tax	(26,629)	1,247	(23,790)
Total comprehensive income for the period	**(11,677)**	**17,414**	**19,032**
Attributable to:			
Members' interests	**(11,677)**	**17,414**	**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 six months ended 30 September 2024

All in $000's

As at 30 September 2024 (Unaudited)	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 period	14,952	-	-	-	**14,952**
Other comprehensive income for the period					
Amortised to income statement	-	-	-	(8,114)	**(8,114)**
Revaluation/change in fair value	-	-	10,538	(39,598)	**(29,060)**
Current/deferred tax impact	-	-	(2,950)	13,495	**10,545**
Total comprehensive income for the period	14,952	-	7,588	(34,217)	**(11,677)**
Dividends paid	-	-	-	-	**-**
Balance as at 30 September 2024	**526,833**	**3,579**	**(249)**	**(16,934)**	**513,229**

As at 30 September 2023 (Unaudited)	Retained earnings	Reserves: Property, plant and equipment	Reserves: FVOCI	Reserves: Cash flow hedging	Total equity
Balance as at 31 March 2023	469,371	2,337	(15,880)	50,358	**506,186**
Net surplus for the period	16,167	-	-	-	**16,167**
Other comprehensive income for the period					
Revaluation/change in fair value	-	-	(2,061)	3,753	**1,692**
Current/deferred tax impact	-	-	577	(1,022)	**(445)**
Total comprehensive income for the period	16,167	-	(1,484)	2,731	**17,414**
Dividends paid	-	-	-	-	**-**
Balance as at 30 September 2023	485,538	2,337	(17,364)	53,089	**523,600**

As at 31 March 2024 (Audited)	Retained earnings	Reserves: Property, plant and equipment	Reserves: FVOCI	Reserves: Cash flow hedging	Total equity
Balance as at 31 March 2023	469,371	2,337	(15,880)	50,358	**506,186**
Balance adjusted for adoption of accounting standard	(312)	-	-	-	**(312)**
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	-	-	-	-	**-**
Balance 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 30 September 2024

All in $000's

	Note	Unaudited 30/09/2024	Unaudited 30/09/2023	Audited 31/03/2024
Assets				
Cash on hand and at bank		59,455	47,506	63,731
Funds with financial institutions and central bank		78,559	11,554	150,204
Investment securities		700,000	613,589	592,766
Derivative financial instruments		37,702	106,151	49,682
Current tax assets		4,566	-	-
Advances to customers	(5)	5,605,221	5,341,035	5,501,423
Investments in associates		-	10,756	-
Other assets		80,750	77,025	79,282
Property, plant and equipment		19,500	18,759	19,575
Right-of-use assets		18,517	20,312	19,457
Goodwill and intangible assets		11,596	9,697	10,158
Net deferred tax assets		16,394	-	4,291
		6,632,260	**6,256,384**	**6,490,569**
Liabilities				
Redeemable shares		4,332,967	4,136,043	4,353,334
Deposits from customers		52,565	72,584	54,686
Commercial paper		374,390	345,963	360,992
Due to other financial institutions		800,074	685,542	663,430
Medium term notes	(11)	332,627	319,456	326,934
Derivative financial instruments		54,746	24,649	16,013
Current tax liabilities		-	2,027	10,387
Net deferred tax liabilities		-	8,615	-
Other liabilities		67,303	66,262	72,944
Subordinated redeemable shares		104,359	71,643	106,943
		6,119,031	**5,732,784**	**5,965,663**
Net assets		**513,229**	**523,600**	**524,906**
Equity				
Reserves		(13,604)	38,062	13,025
Retained earnings		526,833	485,538	511,881
Attributable to members of the society		**513,229**	**523,600**	**524,906**

For and on behalf of the Board of Directors:

Chairperson
AJ O'Connell

Deputy Chairperson
MJ Skilling

20 November 2024

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

Southland Building Society

Statement of Cash Flows for the six months ended 30 September 2024

All in $000's

	Unaudited 6 Months 30/09/2024	Unaudited 6 Months 30/09/2023	Audited 12 Months 31/03/2024
Cash flows from operating activities			
Interest and dividends received	257,955	203,179	437,732
Interest and dividends paid	(172,008)	(116,491)	(255,997)
Other cash inflows provided by operating activities	25,715	24,050	49,852
Other cash outflows used in operating activities	(100,889)	(92,172)	(155,609)
Net cash flows from operating activities before changes in operating assets and liabilities	10,773	18,566	75,978
Net changes in operating assets and liabilities	13,212	(98,717)	(55,458)
Net cash flows provided by/(used in) operating activities	**23,985**	**(80,151)**	**20,520**
Cash flows from investing activities			
Cash inflows provided by investing activities	-	1,429	26,442
Cash outflows used in investing activities	(98,109)	(43,034)	(11,141)
Net cash flows provided by/(used in) investing activities	**(98,109)**	**(41,605)**	**15,301**
Cash flows from financing activities			
Cash inflows provided by financing activities	-	-	-
Cash outflows used in financing activities	(1,764)	(1,715)	(3,444)
Net cash flows provided by/(used in) financing activities	**(1,764)**	**(1,715)**	**(3,444)**
Net increase/(decrease) in cash held	(75,888)	(123,471)	32,377
Add opening cash and cash equivalents	213,850	181,473	181,473
Closing cash and cash equivalents	**137,962**	**58,002**	**213,850**
Reconciliation of cash and cash equivalents			
Cash on hand and at bank	59,455	47,506	63,731
Funds with financial institutions and central bank	78,559	10,538	150,204
Interest accrued	(52)	(42)	(85)
	137,962	**58,002**	**213,850**
Reconciliation of net surplus to net operating cash flows			
Net surplus for period	14,952	16,167	42,822
Non-cash items	21,287	6,612	12,291
Deferral or accruals of past or future operating cash receipts or payments	(12,287)	(102,955)	(34,575)
Items classified as cash	33	25	(18)
Net cash flows from operating activities	**23,985**	**(80,151)**	**20,520**

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

1. Significant Accounting Policies

(a) Basis of Preparation

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

These financial statements were authorised for issue by the Board of Directors on 20 November 2024.

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), NZ IAS 34 Interim Financial Reporting, Financial Markets Conduct Act 2013 and the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014 (as amended) and should be read in conjunction with the Banking Group's financial statements for the year ended 31 March 2024.

(b) Changes in Accounting Policies

There have been no changes in accounting policies and all accounting policies adopted are consistent with those used in the financial year ended 31 March 2024.

2. Risk Management Policies

There has been no material change in the Banking Group's policies for managing risk, or material exposures to any new types of risk since the authorisation date of the previous Disclosure Statement on 22 May 2024.

3. Management Judgement, Estimates and Assumptions

The Banking Group considers the collective provision on advances to customers and related commitments as an area that requires significant management judgement and estimation. Estimation uncertainty remains at a heightened level due to the impact of changing interest rates, inflationary pressures and increased geopolitical tensions around the world. Refer to Note 6(e) - Basis of Inputs, Key Judgements and Assumptions used in the Calculation of ECL and Note 6(f) - Sensitivity of the Collective Provision ECL for further information on impact on ECL and related sensitivity analysis on assumptions made.

4. Financial Assets Pledged as Collateral

As at 30 September 2024, no investments were encumbered through repurchase agreements (30 September 2023 $nil).

Funding for lending program
The funding for lending programme ("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, and was open from 7 December 2020 to 6 December 2022.

The Bank's allocation made up of an initial allocation of 4% when launched and an additional incentive-based allocation of 2% based on new lending since inception.

As at 30 September 2024, the Bank had drawn down $146 million, after repayment of the first tranche of $100 million on 9 September 2024, which is included in 'Due to other financial institutions' in the statement of financial position. A total of $192 million of residential mortgage-backed securities ("RMBS") have been pledged as approved collateral in relation to the amount currently drawn down.

All in $000's

5. Advances to Customers

	Note	Unaudited 30/09/2024	Unaudited 30/09/2023	Audited 31/03/2024
Residential		4,425,044	4,201,715	4,321,159
Agricultural		36,075	47,387	41,234
Commercial		113,451	114,342	111,080
Consumer		1,057,403	1,002,694	1,054,926
Gross advances		**5,631,973**	**5,366,138**	**5,528,399**
Provisions for credit impairment	(6(b))	(38,409)	(35,624)	(38,304)
Deferred fee revenue and expenses		11,657	10,521	11,328
Total net advances		**5,605,221**	**5,341,035**	**5,501,423**

Included in advances to customers are $96.6 million (30 September 2023 $88.9 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.

6. Asset Quality and Provisions for Credit Impairment

(a) Asset quality - advances to customers

As at 30 September 2024	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Neither past due or impaired	4,337,218	955,083	138,904	**5,431,205**
Individually impaired	516	-	-	**516**
Past due	104,475	99,572	7,862	**211,909**
Provision for credit impairment	(10,272)	(25,269)	(2,868)	**(38,409)**
Carrying amount	**4,431,937**	**1,029,386**	**143,898**	**5,605,221**

- **Residential mortgages** comprise advances to individuals and corporates that are secured against residential properties. The security against these loans include investments in residential property as well as owner-occupied housing.

- **Retail exposures** comprise consumer personal, consumer finance, consumer credit card and motor vehicle lending.

- **Corporate exposures** comprise primarily advances to individuals, corporates or small to medium enterprises that are secured against commercial or agricultural properties.

All in $000's

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

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

		Expected Credit Losses			Specific Provision	
As at 30 September 2024	**Note**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Residential mortgages		3,101	5,580	1,541	50	10,272
Retail exposures		13,792	6,581	4,896	-	25,269
Corporate exposures		885	1,599	384	-	2,868
Total advances to customers	(5)	17,778	13,760	6,821	50	38,409
Residential mortgages		124	4	-	-	128
Retail exposures		979	-	-	-	979
Corporate exposures		173	11	-	-	184
Total off-balance sheet credit related commitments		1,276	15	-	-	1,291
Funds with financial institutions		10	-	-	-	10
Investment securities		259	-	-	-	259
		19,323	**13,775**	**6,821**	**50**	**39,969**
As at 30 September 2023						
Residential mortgages		4,649	4,202	929	200	9,980
Retail exposures		13,372	6,403	3,276	-	23,051
Corporate exposures		891	531	1,171	-	2,593
Total advances to customers	(5)	18,912	11,136	5,376	200	35,624
Residential mortgages		194	4	2	-	200
Retail exposures		1,387	-	-	-	1,387
Corporate exposures		279	12	-	-	291
Total off-balance sheet credit related commitments		1,860	16	2	-	1,878
Funds with financial institutions		3	-	-	-	3
Investment securities		253	-	-	-	253
		21,028	**11,152**	**5,378**	**200**	**37,758**
As at 31 March 2024						
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	(5)	18,672	13,150	6,432	50	38,304
Residential mortgages		127	3	-	-	130
Retail exposures		1,026	-	-	-	1,026
Corporate exposures		221	13	-	-	234
Total off-balance sheet credit related commitments		1,374	16	-	-	1,390
Funds with financial institutions		11	-	-	-	11
Investment securities		245	-	-	-	245
		20,302	**13,166**	**6,432**	**50**	**39,950**

All in $000's

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

(c) Provision for credit impairment - Statement of financial position movement

The following tables present the movement in the provision for credit impairment.

	Expected Credit Losses			Specific Provision	
Advances to customers	Stage 1	Stage 2	Stage 3	Stage 3	Total
Balance at the beginning of the period	18,671	13,150	6,433	50	38,304
Changes to the opening balance due to transfer between stages:					
Transferred to collective provision 12-months ECL	5,998	(5,354)	(644)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(682)	1,397	(715)	-	-
Transferred to collective provision lifetime ECL credit impaired	(237)	(1,318)	1,555	-	-
New provisions	2,792	6,380	4,107	-	13,279
Charge/(credit) to income statement excluding transfers	(3,410)	2,534	(327)	-	(1,203)
Assets derecognised and payments made	(5,354)	(3,029)	(3,588)	-	(11,971)
	17,778	**13,760**	**6,821**	**50**	**38,409**
Credit related commitments					
Balance at the beginning of the period	1,374	16	-	-	1,390
Changes to the opening balance due to transfer between stages:					
Transferred to collective provision 12-months ECL	1	(1)	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(12)	12	-	-	-
Transferred to collective provision lifetime ECL credit impaired	(8)	-	8	-	-
New provisions	189	(12)	(8)	-	169
Charge/(credit) to income statement excluding transfers	(64)	-	-	-	(64)
Assets derecognised and payments made	(204)	-	-	-	(204)
	1,276	**15**	**-**	**-**	**1,291**

(d) Credit impairment income statement reconciliation

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

	Unaudited 30/09/2024	Unaudited 30/09/2023	Audited 31/03/2024
Bad debts written off/recovered during the period	11,157	7,269	17,154
Individual provisions charge/(release)	-	(303)	(323)
Collective provision charge/(release)	6	1,155	3,498
Other credit provisions charge/(release)	13	-	1
Provision for credit impairment to income statement	**11,176**	**8,121**	**20,330**

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

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

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

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

All in $000's

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

(f) Sensitivity of the collective provision ECL

To provide a better understanding on the sensitivity of the credit impairment calculation based on the assumptions made, the Banking Group performed sensitivity analysis on the ECL. The sensitivity primarily reflects the impact on parent ECL (mainly relating to residential and corporate exposures), while historical loss experience for retail exposures has not shown a correlation to specific individual macro-economic indicators. The impact of macro-economic uncertainty for retail exposures has been incorporated by increasing the historical loss experience rates by a total of approximately 20%.

	Base	% change	Increase	Decrease
- Unemployment	as high as 5.2%	+/- 1%	1,956	(2,069)
- GDP	as low as 0%	+/- 1%	(1,175)	1,117
- House price	-20%	+/- 10%	(494)	183

7. Contingent Liabilities and Credit Related Commitments

	Unaudited Contract or Notional Amt 30/09/2024	Unaudited Credit Equivalent 30/09/2024	Unaudited Contract or Notional Amt 30/09/2023	Unaudited Credit Equivalent 30/09/2023	Audited Contract or Notional Amt 31/03/2024	Audited Credit Equivalent 31/03/2024
Credit related commitments						
Commitments with uncertain drawdown	112,717	56,359	126,142	63,071	89,840	44,920
Commitments to extend credit which can be unconditionally cancelled	291,864	-	327,894	-	305,038	-
Total credit related commitments	**404,581**	**56,359**	**454,036**	**63,071**	**394,878**	**44,920**

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.

All in $000's

8. Related Parties

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

At 30 September 2024 there are no amounts due from, or due to any related entities that are outside of the Banking Group.

9. Credit Risk

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

The Banking Group's main activity is the provision of residential mortgage finance which comprises 79% (30 September 2023 79%; 31 March 2024 79%) of the Banking Group's loan portfolio and is undertaken throughout New Zealand. Consumer loans which comprise 18% (30 September 2023 18%; 31 March 2024 19%) of the Banking Group's loan portfolio are largely concentrated across Auckland and the rest of the North Island.

(a) The maximum exposures to credit risk

	Unaudited 30/09/2024	Unaudited 30/09/2023	Audited 31/03/2024
Cash on hand and at bank	59,455	47,506	63,731
Funds with financial institutions and central bank	78,559	11,554	150,204
Investment securities	700,000	613,589	592,766
Derivative financial instruments	37,702	106,151	49,682
Current tax assets	4,566	-	-
Advances to customers	5,605,221	5,341,035	5,501,423
Other assets	80,750	77,025	79,282
Total on-balance sheet credit exposures	**6,566,253**	**6,196,860**	**6,437,088**
Off balance sheet exposures - undrawn commitments	404,581	454,036	394,878
Total credit exposures	**6,970,834**	**6,650,896**	**6,831,966**

(b) Concentrations of credit risk by geographical location

	Unaudited 30/09/2024	Unaudited 30/09/2023	Audited 31/03/2024
Auckland	1,861,763	1,651,505	1,664,542
North Island other	2,094,238	1,788,856	2,031,973
Canterbury	1,273,842	1,319,493	1,288,715
Otago	760,171	777,148	762,255
Southland	591,752	731,754	725,637
South Island other	256,957	261,036	258,684
Overseas	132,111	121,104	100,160
Total concentrations of credit risk by geographical location	**6,970,834**	**6,650,896**	**6,831,966**

All in $000's

10. Fair Value of Financial Instruments

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

	Unaudited Carrying value 30/09/2024	Unaudited Fair value 30/09/2024	Unaudited Carrying value 30/09/2023	Unaudited Fair value 30/09/2023	Audited Carrying value 31/03/2024	Audited Fair value 31/03/2024
Financial assets						
Advances to customers	5,508,620	5,501,142	5,252,128	5,184,528	5,408,194	5,368,119
Total financial assets	**5,508,620**	**5,501,142**	**5,252,128**	**5,184,528**	**5,408,194**	**5,368,119**
Financial liabilities						
Redeemable shares	4,332,967	4,330,583	4,136,043	4,132,844	4,353,334	4,352,474
Deposits from customers	52,565	52,481	72,584	72,463	54,686	54,631
Medium term notes	332,627	335,973	319,456	311,878	326,934	323,980
Subordinated redeemable shares	104,359	106,191	71,643	68,095	106,943	106,986
Total financial liabilities	**4,822,518**	**4,825,228**	**4,599,726**	**4,585,280**	**4,841,897**	**4,838,071**

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

Level 1: Fair values are determined using quoted (unadjusted) prices in active markets for identical assets and liabilities;
Level 2: Fair values are determined using other techniques where all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: Fair values are determined using techniques that use inputs which have a significant effect on the recorded fair value and are not based on observable market data.

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

As at 30/09/2024 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	37,702	-	**37,702**
Investment securities	-	700,259	-	**700,259**
Advances to customers - REM	-	-	96,601	**96,601**
Total financial assets	**-**	**737,961**	**96,601**	**834,562**
Financial liabilities				
Derivative financial instruments	-	54,746	-	**54,746**
Total financial liabilities	**-**	**54,746**	**-**	**54,746**

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

As at 31/03/2024 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	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**

Further information on valuation techniques and assumptions for specific asset classes is included in Notes 20 and 21 of the Bank's annual Disclosure Statement.

11. Subsequent Events

During October 2024, the Bank issued the SBS Senior Bonds, unsecured, senior, fixed rate, medium term debt securities. The notes were assigned a BBB+ credit rating from Fitch Ratings on 3 October 2024.

Issue date	3 October 2024
Issue amount	Issue amount: $125 million
Face value	$1
Interest frequency	Quarterly in arrears
Interest rate	Fixed at 4.98%
Maturity	10 April 2030

A1. General disclosures

A1.1 Guarantee Arrangements

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

A1.2 Directorate

Since the publication date of the previous year Disclosure Statement, the following changes took place in the composition of the Board:
- Jason Franklin was appointed effective 1 October 2024;

A1.3 Auditors

KPMG
Level 6, 44 Bowen Street
Wellington

A1.4 Conditions of Registration

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

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

From 1 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 do collectively constitute a material breach of Conditions of Registration 11. Although the liquidity ratios remained well above regulatory minimum requirements, the Reserve Bank considered that collectively the number of individual breaches of Conditions of Registration 11 raise prudential concerns as they are all in relation to a matter that is of the same nature.

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

A1.5 Pending Proceedings or Arbitration

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

All in $000's

A1. General disclosures

A1.6 Credit Rating

As at 30 September 2024, the credit rating assigned to Southland Building Society is BBB with a stable outlook. This credit rating is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. This rating was issued by Fitch Ratings on 1 August 2023, and reaffirmed on 23 July 2024. The rating is not subject to any qualifications.

A1.7 Other Material Matters

As noted in A1.4 the Registered Bank continues to discuss some issues with the Reserve Bank arising from findings relevant to the Registered Bank in relation to the Reserve Bank's industry thematic review of compliance with the Liquidity Policy (BS13). Any amendments from this review will be reported in the Disclosure Statement as required.

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

A2. Additional financial disclosures

A2.1 Additional information on the statement of financial position

	30/09/2024
Total interest earning and discount bearing assets	6,443,235
Total interest and discount bearing liabilities	5,705,225
Total amounts due from related entities	-
Total amounts due to related entities	-
Securities sold under agreement to repurchase	-
Residential mortgage pledged as security for repurchase agreements with RBNZ	191,605

Refer to Note 4 - Financial Assets Pledged as Collateral for more information on assets pledged as collateral under the funding-for-lending program.

A2.2 Additional information on the income statement

Fee and commission income	30/09/2024
Asset management fees	6,138
Lending fees	3,132
Credit card fees	1,908
Current and funding account fees	1,378
Other fee and commission income	2,189
Total fee and commission income	14,745
Fee and commission expense	144
Net fee and commission income	**14,601**

Insurance service result and other operating income	30/09/2024
Insurance revenue	3,537
Insurance service expenses	(3,681)
Net (expenses)/revenue from reinsurance contracts held	(69)
Insurance service result	**(213)**
Dividends	195
Sundry income	484
Other income	**679**
	466

Net gain/(loss) from financial instruments	30/09/2024
Investment securities	311
Derivative financial instruments	7,890
Hedge ineffectiveness on cash flow hedges	(235)
Advances to customers	(1,475)
Liabilities	(7,311)
	(820)

All in $000's

A2. Additional financial disclosures (continued)

A2.3 Additional information on concentrations of credit risk

Composition of financial instruments that give rise to credit risk by sector are presented below:

	30/09/2024
Residential	3,877,785
Residential investing	798,228
Agricultural	46,633
Commercial finance	22,797
Commercial other	79,344
Commercial vehicle	15,677
Consumer vehicle	727,682
Consumer lending	243,460
Consumer credit card	198,196
Local authority	174,496
NZ registered banks	418,700
Central bank	60,000
Multilateral development banks and other international institutions	82,582
Corporate investments	139,938
Other	85,316
Total concentrations of credit risk by sector	**6,970,834**

A2.4 Additional information on concentrations of funding

(a) Concentrations of funding by product	30/09/2024
Redeemable shares	4,332,967
Deposits from customers	52,565
Medium term note	332,627
Commercial paper	374,390
Due to other financial institutions	800,074
Subordinated redeemable shares	104,359
Total concentrations of funding by product	**5,996,982**

(b) Concentrations of funding by geographical location	30/09/2024
North Island other	982,825
Auckland	1,237,441
Canterbury	1,025,800
Otago	1,020,709
Southland	1,171,651
South Island other	443,283
Overseas	115,273
Total concentrations of funding by geographical location	**5,996,982**

All in $000's

A2. Additional financial disclosures (continued)

A2.5 Additional information on interest rate sensitivity

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

As at 30 September 2024 (Unaudited)	Up to 3 Months	3-6 Months	6-12 Months	12-24 Months	>24 Months	Non-Interest Bearing	Total
Assets							
Cash on hand and at bank	59,455	-	-	-	-	-	**59,455**
Funds with financial institutions and central bank	78,559	-	-	-	-	-	**78,559**
Investment securities	101,216	83,988	35,720	79,163	399,913	-	**700,000**
Derivative financial instruments	-	-	-	-	-	37,702	**37,702**
Current tax assets	-	-	-	-	-	4,566	**4,566**
Advances to customers	1,272,526	730,596	1,110,110	1,103,807	1,426,591	(38,409)	**5,605,221**
Other assets	-	-	-	-	-	146,757	**146,757**
	1,511,756	814,584	1,145,830	1,182,970	1,826,504	150,616	**6,632,260**
Liabilities and equity							
Redeemable shares	1,551,730	1,399,209	968,331	83,706	38,234	291,757	**4,332,967**
Deposits from customers	11,205	15,883	21,901	2,132	1,444	-	**52,565**
Medium term notes	-	-	-	-	332,627	-	**332,627**
Commercial paper	325,297	49,093	-	-	-	-	**374,390**
Due to other financial institutions	800,074	-	-	-	-	-	**800,074**
Derivative financial instruments	-	-	-	-	-	54,746	**54,746**
Other liabilities	-	-	-	-	-	67,303	**67,303**
Subordinated redeemable shares	169	-	-	-	104,190	-	**104,359**
Equity	-	-	-	-	-	513,229	**513,229**
	2,688,475	1,464,185	990,232	85,838	476,495	927,035	**6,632,260**
On-balance sheet interest sensitivity gap	(1,176,719)	(649,601)	155,598	1,097,132	1,350,009	(776,419)	**-**
Net balance of derivative financial instruments	1,584,250	380,500	(400,800)	(1,079,750)	(484,200)	-	**-**
Total interest rate sensitivity gap	**407,531**	**(269,101)**	**(245,202)**	**17,382**	**865,809**	**(776,419)**	**-**

All in $000's

A2. Additional financial disclosures (continued)

A2.6 Additional information on liquidity risk

Maturity analysis of financial liabilities

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

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

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

Monetary liabilities payable as at 30 September 2024 (contractual cash flows including expected interest to maturity)

Liabilities	On demand	0-6 Months	6-12 Months	12-24 Months	24-60 Months	> 60 Months	Total
Redeemable shares	456,518	2,871,047	972,156	92,098	40,685	-	**4,432,504**
Deposits from customers	1,706	30,031	24,209	2,235	1,434	-	**59,615**
Medium term notes	-	8,589	8,636	17,225	355,111	-	**389,561**
Commercial paper	-	377,900	-	-	-	-	**377,900**
Due to other financial institutions	-	142,808	90,081	633,147	-	-	**866,036**
Derivative financial instruments							
- cash outflows	-	154,072	89,367	91,652	90,553	5,125	**430,769**
- cash inflows	-	(143,178)	(95,322)	(105,171)	(93,269)	(6,638)	**(443,578)**
Other liabilities	-	49,241	1,486	2,878	6,193	11,317	**71,115**
Subordinated redeemable shares	-	4,750	4,580	9,160	27,492	142,393	**188,374**
Total liabilities (inclusive of interest)	**458,224**	**3,495,260**	**1,095,193**	**743,224**	**428,199**	**152,197**	**6,372,296**
Unrecognised loan commitments	112,717	-	-	-	-	-	**112,717**

Liquidity portfolio management

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

Total liquidity includes committed but undrawn funding lines with other registered banks.

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

Core liquid assets	**30/09/2024**
Cash on hand and at bank	59,455
Funds with central bank	60,000
Funds with financial institutions[2]	2,249
Investment securities	700,000
Committed and undrawn funding lines[3]	85,000
Eligible RMBS collateral (less haircut[1])[4]	132,806
Total liquidity	**1,039,510**

[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] Collateral cash of $16.3 million that are encumbered have been excluded in the above table as they are not held for liquidity management purposes.

[3] The Group also has another $28.0 million available funding, not included as core liquid assets, in two of the securitisation vehicles. This is subject to having sufficient assets available to be securitised and has therefore not been included.

[4] Refer to Note 4 - Financial Assets Pledged as Collateral for funding drawn down against eligible RMBS collateral.

All in $000's

A2. Additional financial disclosures (continued)

A2.7 Reconciliation of mortgage-related amounts

	30/09/2024
Gross residential mortgage loans (Note 5)	4,425,044
Other lending residentially secured	37,115
Provision for credit impairment relating to residential mortgages (Note 6(b))	(10,272)
Deferred fee revenue and expenses relating to residential mortgages	17,166
Residential mortgage loans net of provision for impairment	4,469,053
Off balance sheet exposures - undrawn commitments	238,421
Total on and off balance sheet residential mortgage loans (Note A4)	**4,707,474**

A3. Asset quality

This section should be read in conjunction with the estimates, assumptions and judgements included in Note 1 - Significant Accounting Policies, Note 6 - Asset Quality and Provisions for Credit Impairment and Note 9 - Credit Risk.

A3.1 Movement in provisions and gross exposures

	Expected Credit Losses			Specific Provision	
As at 30 September 2024	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Residential Mortgages					
Movement in provision relating to advances to customers					
Balance at beginning of period	3,749	5,532	1,765	50	11,096
Changes to the opening balance due to transfer between stages	2,425	(2,433)	8	-	-
New provisions	260	516	33	-	809
Assets derecognised and payments made	(3,333)	1,965	(265)	-	(1,633)
Balance at end of period - Residential Mortgages	**3,101**	**5,580**	**1,541**	**50**	**10,272**
Movement in provision relating to undrawn commitments					
Balance at beginning of period	127	3	-	-	130
Changes to the opening balance due to transfer between stages	1	(1)	-	-	-
New provisions	9	-	-	-	9
Assets derecognised and payments made	(13)	2	-	-	(11)
Balance at end of period - Residential Mortgages	**124**	**4**	**-**	**-**	**128**

Movement in gross exposures on loss allowances	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of period	4,406,916	86,049	13,425	4,506,390
Changes to the opening balance due to transfer between stages:				
Transferred to Stage 1	40,187	(39,296)	(891)	-
Transferred to Stage 2	(64,306)	70,158	(5,852)	-
Transferred to Stage 3	(1,084)	(5,641)	6,725	-
New loans	516,631	4,937	7	521,575
Assets derecognised and payments made	(347,455)	(8,729)	(1,890)	(358,074)
Other movements	(65,305)	(1,105)	51	(66,359)
Gross exposure - Residential Mortgages	**4,485,584**	**106,373**	**11,575**	**4,603,532**
Provision for credit impairment	(3,225)	(5,584)	(1,591)	(10,400)
Net exposure - Residential Mortgages	**4,482,359**	**100,789**	**9,984**	**4,593,132**

Impact of changes in gross exposures

Overall, credit impairment provisions for residential mortgages decreased $0.8 million (7.4%) for the six months ending 30 September 2024 relative to a 2% increase in gross exposure, mainly due to the following factors:

- Welcome Home Loans loss given defaults were reassessed, lowering the provision.
- 14% reduction in stage 3 exposures.

All in $000's

A3. Asset quality (continued)

A3.1 Movement in provisions and gross exposures (continued)

Retail Exposures	Expected Credit Losses Stage 1	Expected Credit Losses Stage 2	Expected Credit Losses Stage 3	Specific Provision Stage 3	Total
Movement in provision relating to advances to customers					
Balance at beginning of period	14,043	6,987	4,329	-	25,359
Changes to the opening balance due to transfer between stages	2,492	(2,669)	177	-	-
New provisions	2,384	5,240	3,903	-	11,527
Assets derecognised and payments made	(5,127)	(2,977)	(3,513)	-	(11,617)
Balance at end of period - Retail Exposures	**13,792**	**6,581**	**4,896**	**-**	**25,269**
Movement in provision relating to undrawn commitments					
Balance at beginning of period	1,026	-	-	-	1,026
Changes to the opening balance due to transfer between stages	(20)	12	8	-	-
New provisions	177	(12)	(8)	-	157
Assets derecognised and payments made	(204)	-	-	-	(204)
Balance at end of period - Retail Exposures	**979**	**-**	**-**	**-**	**979**

Movement in gross exposures on loss allowances	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	1,138,743	16,656	6,405	1,161,804
Changes to the opening balance due to transfer between stages:				
Transferred to Stage 1	6,866	(6,060)	(806)	-
Transferred to Stage 2	(12,119)	12,320	(201)	-
Transferred to Stage 3	(5,048)	(1,521)	6,569	-
New loans	9,237	104	3	9,344
Assets derecognised and payments made	1,659	(6,144)	(4,962)	(9,447)
Gross exposure - Retail Exposures	**1,139,338**	**15,355**	**7,008**	**1,161,701**
Provision for credit impairment	(14,771)	(6,581)	(4,896)	(26,248)
Net exposure - Retail Exposures	**1,124,567**	**8,774**	**2,112**	**1,135,453**

Impact of changes in gross exposure
Overall, credit impairment provisions for retail exposures has remained flat for the six months ending 30 September 2024, in line with minimal movement in gross exposures.

All in $000's

A3. Asset quality (continued)

A3.1 Movement in provisions and gross exposures (continued)

Corporate Exposures	Expected Credit Losses Stage 1	Expected Credit Losses Stage 2	Expected Credit Losses Stage 3	Specific Provision Stage 3	Total
Movement in provision relating to advances to customers					
Balance at beginning of period	879	631	339	-	1,849
Changes to the opening balance due to transfer between stages	162	(173)	11	-	-
New provisions	148	624	171	-	943
Charge/(credit) to income statement excluding transfers	(77)	569	(62)	-	430
Assets derecognised and payments made	(227)	(52)	(75)	-	(354)
Balance at end of period - Corporate Exposures	**885**	**1,599**	**384**	**-**	**2,868**
Movement in provision relating to undrawn commitments					
Balance at beginning of period	221	13	-	-	234
Changes to the opening balance due to transfer between stages	-	-	-	-	-
New provisions	3	-	-	-	3
Assets derecognised and payments made	(51)	(2)	-	-	(53)
Balance at end of period - Corporate Exposures	**173**	**11**	**-**	**-**	**184**

Movement in gross exposures on loss allowances	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	162,253	13,354	817	176,424
Changes to the opening balance due to transfer between stages:				
Transferred to Stage 1	779	(779)	-	-
Transferred to Stage 2	(909)	1,075	(166)	-
Transferred to Stage 3	(242)	(91)	333	-
New loans	26,109	1,294	31	27,434
Assets derecognised and payments made	(25,703)	(3,683)	(247)	(29,633)
Other movements	(3,287)	430	(23)	(2,880)
Gross exposure - Corporate Exposures	**159,000**	**11,600**	**745**	**171,345**
Provision for credit impairment	(1,058)	(1,610)	(384)	(3,052)
Net exposure - Corporate Exposures	**157,942**	**9,990**	**361**	**168,293**

Impact of changes in gross exposures

Overall, credit impairment provisions for corporate exposures increased by $1.0 million (55.1%) for the six months ending 30 September 2024, mainly due to a specific agricultural exposure moving into stage 2, which carries a higher loss allowance.

A3.2 Past due assets

As at 30 September 2024	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Past due 0-9 days	63,615	55,815	2,112	**121,542**
Past due 10-29 days	18,080	22,307	551	**40,938**
Past due 0-29 days	81,695	78,122	2,663	**162,480**
Past due 30-59 days	8,238	10,081	1,916	**20,235**
Past due 60-89 days	3,468	4,621	2,538	**10,627**
Past due 90+ days	11,074	6,748	745	**18,567**
Carrying amount	**104,475**	**99,572**	**7,862**	**211,909**

All in $000's

A3. Asset quality (continued)

A3.3 Movement in individually impaired assets

As at 30 September 2024	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Balance at beginning of the period	45	-	-	**45**
Additions to individually impaired assets	474	-	-	**474**
Reductions to individually impaired assets	(3)	-	-	**(3)**
Balance at end of the period	**516**	**-**	**-**	**516**
Specific provision at end of the period	(50)	-	-	**(50)**
Net carrying amount at end of the period	**466**	**-**	**-**	**466**

A3.4 Other asset quality information

	30/09/2024
Undrawn balances on individually impaired lending commitments	-
Other assets under administration	-

A4. Capital adequacy under the standardised approach, and regulatory liquidity ratios

A4.1 Regulatory capital ratios	Minimum ratio requirement	BANKING GROUP 30/09/2024	BANKING GROUP 30/09/2023	BANKING GROUP 31/03/2024	REGISTERED BANK 30/09/2024	REGISTERED BANK 30/09/2023	REGISTERED BANK 31/03/2024
Common equity tier 1 capital ratio	4.5%	13.5%	12.1%	13.5%	11.5%	9.9%	11.3%
Tier 1 capital ratio	7.0%	13.5%	12.1%	13.5%	11.5%	9.9%	11.3%
Total capital ratio	9.0%	16.3%	13.5%	16.3%	15.0%	11.7%	14.8%
Prudential capital buffer ratio	2.5%	6.5%	5.5%	7.5%			

A4.2 Qualifying capital

	BANKING GROUP 30/09/2024
Tier one capital	
Common equity tier 1 (CET1) capital	
Retained earnings	511,881
Current period's retained earnings	14,952
FVOCI reserve	(249)
Cash flow hedging reserve	(16,934)
Less deductions from CET1 capital	
Goodwill and intangible assets	(11,596)
Cash flow hedging reserve	16,934
Investments in associates	-
Total CET1 capital	498,594
Additional tier 1 (AT1) capital	
Non-controlling interests (net of deductions and surplus AT1 capital) (Capital in nature)	-
Total AT1 capital	-
Total tier 1 capital	**498,594**
Tier 2 capital	
Revaluation reserves	3,579
Subordinated redeemable shares	101,396
Total tier 2 capital	**104,975**
Total capital	**603,569**

At 30 September 2024, the balance of all subordinated redeemable shares issued was $101.5 million. After adjustments for potential tax and transitional recognition amortisation, $101.4 million has been recognised as tier 2 capital for RBNZ capital adequacy purposes.

All in $000's

A4. Capital adequacy under the standardised approach, and regulatory liquidity ratios (continued)

A4.3 Total risk weighted assets

BANKING GROUP as at 30 September 2024

On balance sheet credit exposures	**Total exposure after credit risk mitigation**	**Risk weighting**	**Risk weighted exposure**	**Minimum pillar one capital requirement**
Cash	562	0%	-	-
Sovereigns and central banks	60,000	0%	-	-
Multilateral development banks	132,111	0%	-	-
Public sector entities	122,047	20%	24,409	2,197
Banks				-
Rating grade 1	207,027	20%	41,405	3,726
Rating grade 2	211,673	50%	105,837	9,525
Corporates				-
Rating grade 1	55,611	20%	11,122	1,001
Rating grade 2	24,148	50%	12,074	1,087
Rating grade 3 - 4	12,900	100%	12,900	1,161
Residential mortgages				-
<= 80% loan to value ratio (LVR)	2,378,283	35%	832,399	74,916
80 <= 90% LVR	106,666	50%	53,333	4,800
90 <= 100% LVR	7,544	75%	5,658	509
> 100% LVR	151	100%	151	14
Impaired	466	100%	466	42
Property investment residential mortgage				-
<= 80% LVR	942,069	40%	376,828	33,915
80 <= 90% LVR	4,385	70%	3,070	276
Residential mortgages first home loans (Kainga Ora)	913,792	20%	182,758	16,448
Reverse residential mortgage loans				-
<= 30% LVR	41,974	40%	16,790	1,511
30 <= 60% LVR	52,341	50%	26,171	2,355
60 <= 80% LVR	2,111	80%	1,689	152
80 <= 100% LVR	175	100%	175	16
Past due residential mortgages	14,864	100%	14,864	1,338
Past due residential mortgages - Kainga Ora	4,232	20%	846	76
Equity holdings	11,935	400%	47,740	4,297
Other assets	1,259,501	100%	1,259,501	113,355
Non-risk weighted assets	65,692	0%	-	-
Total on balance sheet credit exposures	6,632,260		3,030,186	272,717

Off balance sheet credit exposures	**Total exposure after credit risk mitigation**	**Credit conversion factor**	**Credit equivalent amount**	**Average risk weighting**	**Risk weighted exposure / implied risk weighted exposure**	**Minimum pillar one capital requirement**
Commitments with uncertain drawdown	112,717	50%	56,359	59%	33,256	2,993
Commitments to extend credit which can be unconditionally cancelled	291,864	0%	-	0%	-	-
<u>Market related contracts</u>[1]						
Interest rate contracts	6,559,208	n/a	49,980	31%	15,674	1,411
Credit valuation adjustment (CVA)					1,264	114
Total off balance sheet credit exposures	6,963,789		106,339		50,194	4,518
Total credit risk	13,596,049		106,339		3,080,380	277,235
Operational risk	n/a				365,135	29,211
Market risk	n/a				253,113	20,249
Total risk weighted assets	13,596,049				3,698,628	326,695

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

All in $000's

A4. Capital adequacy under the standardised approach, and regulatory liquidity ratios (continued)

A4.4 Additional mortgage information

	BANKING GROUP	
	30/09/2024	30/09/2024
LVR range	On balance sheet	Off balance sheet
0 - 80%	3,565,027	228,442
80 - 90%	652,533	4,476
90% +	251,493	5,503
Total residential mortgages	**4,469,053**	**238,421**

First Home Loans make up 96% of the residential mortgages in the 90% + loan to valuation grouping and 83% of the 80 - 90% loan to valuation grouping. The First Home Loan product is fully insured by Kāinga Ora - Homes and Communities.

A4.5 Credit risk mitigation

The Banking Group determines whether it requires security to mitigate credit risk associated with its advances to customers and investment securities that it makes in the course of its business.

The Banking Group's dominant activity is the provision of residential mortgage finance which comprises 79% (31 March 2024 79%) of the Banking Group's loan portfolio, which are secured by first-ranking registered mortgages over residential property.

Investment security exposures are carried at fair value which reflects the credit risk. The Banking Group does not hold guarantees or credit derivatives against these investments.

The Banking Group does not currently take into consideration any credit risk mitigants within the capital adequacy calculations.

A4.6 Market risk capital charges

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

	BANKING GROUP	
	30/09/2024	30/09/2024
Interest rate exposures	End of Period	Peak End of Day
Implied risk weighted exposure	253,113	264,963
Aggregate capital charge	20,249	21,197

A4.7 Capital for other material risks

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

i Earnings Risk - The risk due to uncertainty in future reported earnings arising from adverse changes in the business environment and from adverse business decisions.

ii Liquidity Risk - The risk that the Bank cannot meet or generate sufficient cash resources to meet its cash out goings as they fall due. Capital is not held for day to day liquidity. Instead a portfolio of cash, highly liquid instruments and committed funding lines is held. This largely mitigates the requirement to hold additional capital for liquidity risk, however capital is held to allow for excessive costs of raising suitable funds in adverse market conditions.

iii Access to Capital - The risk that the Bank may not be able to raise additional capital as required in a timely manner, particularly arising from the mutual status of SBS.

iv Reputational Risk - The potential that negative publicity regarding the banks business practices or financial position, whether true or not, will cause a decline in the customer base, costly litigation or impact future earnings and funding.

The Bank has made an internal capital allocation of $50 million to cover these identified risks (30 September 2023 $45 million; 31 March 2024 $50 million).

All in $000's

A4. Capital adequacy under the standardised approach, and regulatory liquidity ratios (continued)

A4.8 Regulatory liquidity ratios

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

	30/09/2024	30/06/2024
One-week mismatch ratio	7.3%	8.4%
One-month mismatch ratio	11.7%	13.2%
Core funding ratio	95.6%	95.7%

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

A5. Concentration of credit exposures to individual counterparties

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

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

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

	Number of bank counterparties		Number of non-bank counterparties	
	Unaudited	Unaudited	Unaudited	Unaudited
"A" Rated exposures	As at	Peak end of day over 6 months to	As at	Peak end of day over 6 months to
Percentage of common equity tier 1	30/09/2024	30/09/2024	30/09/2024	30/09/2024
10-14%	3	1	-	-
15-19%	1	2	-	-
20-24%	-	1	1	1
25-29%	-	-	-	-
30-34%	1	-	-	-
35-39%	-	-	-	-
40-44%	-	-	-	-
45-49%	-	-	-	-
50-54%	-	1	-	-

Note:
"A" Rated - those counterparties that have a long term credit rating of A- or A3 or above
"B" Rated - those counterparties that have a long term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent

There were no peak or balance date credit exposures to bank or non-bank counterparties with a credit rating below A- or A3, or its equivalent, which exceeded 10% of the Banking Group's equity for the six months ended 30 September 2024.

A6. Insurance business, securitisation, fund management, other fiduciary activities, and marketing and distribution of insurance products

A6.1 Insurance Business

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

The total assets of Southsure Assurance Limited as at 30 September 2024 are $28.4 million which is 0.4% of the total assets of the Banking Group.

Independent Auditor's Review Report

To the shareholders of Southland Building Society (**Banking Group**)

Report on the consolidated half year disclosure statement

Conclusion

Based on our review of the consolidated half year disclosure statement and supplementary information of Southland Building Society (the **Registered Bank**) and its subsidiaries (B**anking Group**) on pages 5 to 29, nothing has come to our attention that causes us to believe that:

i. the interim financial statements (excluding the supplementary information disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the **Order**)), have not been prepared, in all material respects, with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (**NZ IAS 34**)

ii. the supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) that is required to be disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Order and is included within notes A1 to A3 and A5 to A6 of the half year disclosure statement:

   - does not present fairly, in all material respects, the matters to which it relates;
   - is not disclosed, in all material respects, in accordance with those schedules; and
   - has not been prepared, in all material respects, in accordance with any condition of registration relating to disclosure requirements, imposed under section 74(4)(c) of the Banking (Prudential Supervision) Act 1989.

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

- the interim financial statements formed of:
  - the consolidated statement of financial position as at 30 September 2024;
  - the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
  - notes, including material accounting policy information and other explanatory information;
- the supplementary information prescribed in Schedules 5, 7, 13, 16 and 18 of the Order.
-

Basis for conclusion

We conducted our review of the financial statements in accordance with NZ SRE 2410 (Revised) Review of Financial Statements Performed by the Independent Auditor of the Entity (**NZ SRE 2410 (Revised)**). Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the consolidated half year disclosure statement* section of our report.

We are independent of Southland Building Society in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual disclosure statement and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements.

Our firm has provided other services to the Banking Group in relation to a limited assurance engagement of the Capital Adequacy and Regulatory Liquidity disclosures, reasonable assurance engagement over a subsidiary's solvency return and a subsidiary's tax compliance. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the 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.

Emphasis of matter

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

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

Use of this Independent Auditor's Review Report

This report is made solely to the shareholders. Our review work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent Auditor's Review Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders for our review work, this report, or any of the conclusions we have formed.

Responsibilities of directors for the consolidated half year disclosure statement

The directors on behalf of the Banking Group are responsible for:

- the preparation and fair presentation of the consolidated Banking Group half year disclosure statement in accordance with NZ IAS 34 and Schedules 3, 5, 7, 13, 16 and 18 of the Order; and
- implementing necessary internal control to enable the preparation of consolidated half year disclosure statement that is fairly presented and free from material misstatement, whether due to fraud or error.

KPMG

Auditor's responsibilities for the review of the consolidated half year disclosure statement

Our responsibility is to express a conclusion on the consolidated half year disclosure statement based on our review.

NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the:

- interim consolidated financial statements**,** taken as a whole, do not present fairly, in all material respects, the Banking Group's financial position as at 30 September 2024 and its financial performance and cash flows for the 6 month period ended on that date;
- interim consolidated financial statements, taken as a whole, do not, in all material respects, comply with NZ IAS 34; and
- the supplementary information does not, fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

A review of the consolidated half year disclosure statement prepared in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on the half year disclosure statement**.**

The engagement partner on the review resulting in this independent auditor's review report is Sonia Isaac.

For and on behalf of:

KPMG

KPMG

Wellington

20 November 2024

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 for the period 1 April 2024 to 30 September 2024.

The supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements comprises the information that is required to be disclosed in accordance with Schedule 9 of the Order.

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 Accounting 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 for the period 1 April 2024 to 30 September 2024 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 is released to the shareholders on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent. No other third party is intended to receive our report.

Our report should not be regarded as suitable to be used or relied on by anyone other than Southland Building Society and the shareholders 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.

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 for the period 1 April 2024 to 30 September 2024.

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

KPMG

KPMG

Wellington

20 November 2024