



Southland Building Society

Disclosure Statement

For the three months ended 30 June 2017

Number 37 Issued August 2017



sbsbank.co.nz

Contents

	Page
General Information	3
Guarantee Arrangements	3
Pending Proceedings or Arbitration	3
Other Material Matters	3
Directorate	3
Credit Rating	3
Conditions of Registration	3
Directors' Statement	4
Interim Financial Statements	
Income Statement	5
Statement of Comprehensive Income	5
Statement of Changes in Equity	6
Statement of Financial Position	7
Statement of Cash Flows	8
Notes to the Financial Statements	9-15
1 Statement of Accounting Policies	
2 Risk Management Policies	
3 Financial Assets Pledged as Collateral	
4 Advances to Customers	
5 Asset Quality and Provisions for Credit Impairment	
6 Contingent Liabilities and Credit Related Commitments	
7 Related Parties	
8 Liquid Assets	
9 Concentrations of Credit Exposures to Individual Counterparties	
10 Capital Adequacy	
11 Fair Value of Financial Instruments	
12 Insurance Business	
13 Subsequent Events	

General Information

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

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

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

Name and Address for Service of Registered Bank

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

Details of Incorporation

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

Ownership

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

Guarantee Arrangements

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

Pending Proceedings or Arbitration

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

Other Material Matters

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

Directorate

Since the publication date of the previous full year Disclosure Statement, A J O'Connell was appointed as an independent director of the Bank on 1 June 2017. There have been no other changes in the composition of the Board.

Credit Rating

As at 30 June 2017, the credit rating assigned to Southland Building Society is BBB with a neutral outlook. This credit rating is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. The credit rating was issued by Fitch Ratings on 5 September 2016. The previous credit rating of BBB with a positive outlook was issued by Fitch Ratings on 9 September 2015. The rating is not subject to any qualifications.

Conditions of Registration

There have been no changes in the Bank's conditions of registration during the period since the reporting date of the previous disclosure statement.

Directors' Statement

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

1. As at the date on which the Disclosure Statement is signed:
 - (a) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and
 - (b) the Disclosure Statement is not false or misleading.
2. Each director of the Bank believes, after due enquiry, that during the three months ended 30 June 2017:
 - (a) the Bank has complied 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 23 August 2017 and has been signed by or on behalf of all the directors.

JF Ward
(Chairman)



KJ Ball
(Deputy Chair)



GJ Mulvey



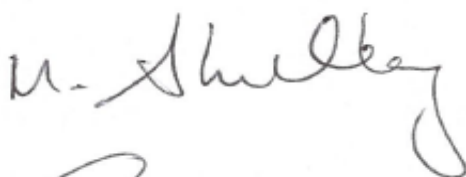
JJ Grant



FE Spencer



MJ Skilling



AL McLeod



AJ O'Connell



Southland Building Society

Income Statement for the three months ending 30 June 2017

All in \$000's



	Unaudited 3 Months 30/06/2017	Unaudited 3 Months 30/06/2016	Audited 12 Months 31/03/2017
Interest income	52,521	47,700	194,822
Interest expense	5,925	4,722	19,375
Dividends on redeemable shares	22,543	21,185	84,967
	28,468	25,907	104,342
Net interest income	24,053	21,793	90,480
Other income	7,515	8,477	32,918
Total operating income	31,568	30,270	123,398
Operating expenses	19,339	18,363	75,879
Provision for credit impairment	2,599	1,511	10,764
Operating surplus	9,630	10,396	36,755
Net gain/(loss) from financial instruments designated at fair value	15	8	(113)
Share of associates and joint ventures profit net of tax	235	177	802
Surplus before income tax	9,880	10,581	37,444
Less income tax expense	2,752	3,123	9,996
Net surplus	7,128	7,458	27,448
Attributable to:			
Members' interests	6,607	7,044	25,654
Non-controlling interests	521	414	1,794
	7,128	7,458	27,448

Southland Building Society

Statement of Comprehensive Income for the three months ending 30 June 2017

All in \$000's



	Unaudited 3 Months 30/06/2017	Unaudited 3 Months 30/06/2016	Audited 12 Months 31/03/2017
Net surplus for the period	7,128	7,458	27,448
Items that may not be reclassified subsequently to profit or loss			
Net change in property, plant and equipment reserve, net of tax	-	-	600
Items that may be reclassified subsequently to profit or loss			
Net change in available for sale asset reserve, net of tax	539	(264)	(1,921)
Net change in cash flow hedging reserve, net of tax	695	2,142	12,513
Other comprehensive income for the period, net of tax	1,234	1,878	11,192
Total comprehensive income for the period	8,362	9,336	38,640
Attributable to:			
Members' interests	7,835	8,910	36,832
Non-controlling interests	527	426	1,808
	8,362	9,336	38,640

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 three months ending 30 June 2017

All in \$000's



As at 30 June 2017 (Unaudited)	Retained earnings	Revaluation reserves			Total equity attributable to members' interests	Non-controlling interests	Total equity
		Property, plant and equipment	Available for sale assets	Cash flow hedging			
Balance as at 31 March 2017	277,136	1,732	3,856	(12,752)	269,972	4,946	274,918
Net surplus for the period	6,607	-	-	-	6,607	521	7,128
Other comprehensive income for the period							
Revaluation/change in fair value	-	-	749	966	1,715	-	1,715
Current/deferred tax impact	-	-	(210)	(271)	(481)	-	(481)
Total comprehensive income for the period	6,607	-	539	695	7,841	521	8,362
Non-controlling share of change in reserve	-	-	(3)	(3)	(6)	6	-
Acquisition of non-controlling interests	(3,496)	-	-	-	(3,496)	-	(3,496)
Non-controlling interests present value adjustment	(159)	-	-	-	(159)	-	(159)
Change in capital of non-controlling interests	-	-	-	-	-	(807)	(807)
Dividends paid	-	-	-	-	-	(307)	(307)
Balance as at 30 June 2017	280,088	1,732	4,392	(12,060)	274,152	4,359	278,511

As at 30 June 2016 (Unaudited)

Balance as at 31 March 2016	253,313	2,384	5,768	(25,242)	236,223	3,737	239,960
Net surplus for the period	7,044	-	-	-	7,044	414	7,458
Other comprehensive income for the period							
Revaluation/change in fair value	-	-	(365)	3,014	2,649	-	2,649
Current/deferred tax impact	-	-	101	(872)	(771)	-	(771)
Total comprehensive income for the period	7,044	-	(264)	2,142	8,922	414	9,336
Non-controlling share of change in reserve	-	-	(4)	(8)	(12)	12	-
Non-controlling interests present value adjustment	(109)	-	-	-	(109)	-	(109)
Dividends paid	-	-	-	-	-	(260)	(260)
Balance as at 30 June 2016	260,248	2,384	5,500	(23,108)	245,024	3,903	248,927

As at 31 March 2017 (Audited)

Balance as at 31 March 2016	253,313	2,384	5,768	(25,242)	236,223	3,737	239,960
Net surplus for the year	25,654	-	-	-	25,654	1,794	27,448
Other comprehensive income for the year							
Revaluation/change in fair value	-	337	(2,634)	17,373	15,076	-	15,076
Current/deferred tax impact	-	263	713	(4,860)	(3,884)	-	(3,884)
Total comprehensive income for the year	25,654	600	(1,921)	12,513	36,846	1,794	38,640
Non-controlling share of change in reserve	-	-	9	(23)	(14)	14	-
Non-controlling interests present value adjustment	(3,083)	-	-	-	(3,083)	-	(3,083)
Transfer from revaluation reserve	1,252	(1,252)	-	-	-	-	-
Dividends paid	-	-	-	-	-	(599)	(599)
Balance as at 31 March 2017	277,136	1,732	3,856	(12,752)	269,972	4,946	274,918

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 June 2017
All in \$000's



	Note	Unaudited 30/06/2017	Unaudited 30/06/2016	Audited 31/03/2017
Assets				
Cash on hand and at bank		55,862	29,804	50,823
Funds with financial institutions		7,249	16,538	49,938
Investment securities	(3)	399,846	436,181	417,540
Derivative financial instruments		4,005	3,140	4,501
Advances to customers	(4)	3,526,906	2,961,671	3,408,075
Investment in associates and joint ventures		7,027	6,351	6,771
Other assets		24,927	18,680	22,467
Property, plant and equipment		21,360	23,401	20,713
Goodwill and intangible assets		6,735	4,582	6,918
Net deferred tax assets		6,231	10,341	6,666
		4,060,148	3,510,689	3,994,412
Liabilities				
Redeemable shares		2,828,960	2,543,769	2,732,581
Deposits from customers		195,273	219,917	212,733
Commercial paper		258,988	199,113	259,017
Due to other financial institutions		392,065	185,636	400,521
Derivative financial instruments		24,904	39,480	26,512
Current tax liabilities		1,971	1,026	1,719
Other liabilities		40,341	33,686	47,287
Subordinated redeemable shares		39,135	39,135	39,124
		3,781,637	3,261,762	3,719,494
Net assets				
		278,511	248,927	274,918
Equity				
Reserves		(5,936)	(15,224)	(7,164)
Retained earnings		280,088	260,248	277,136
Attributable to members of the society		274,152	245,024	269,972
Attributable to non-controlling interests		4,359	3,903	4,946
		278,511	248,927	274,918
Total interest earning and discount bearing assets		3,989,863	3,444,194	3,926,376
Total interest and discount bearing liabilities		3,714,421	3,187,570	3,643,976

For and on behalf of the Board of Directors:

Chairman
JF Ward

Deputy Chair
KJ Ball

23 August 2017

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 three months ending 30 June 2017

All in \$000's



	Unaudited 3 Months 30/06/2017	Unaudited 3 Months 30/06/2016	Audited 12 Months 31/03/2017
Cash flows from operating activities			
Interest and dividends received	52,974	48,006	190,787
Interest and dividends paid	(23,344)	(23,810)	(104,143)
Other cash inflows provided by operating activities	11,202	11,625	46,829
Other cash outflows used in operating activities	(34,173)	(29,011)	(92,441)
Net cash flows from operating activities before changes in operating assets and liabilities	6,659	6,810	41,032
Net changes in operating assets and liabilities	(56,068)	(167)	5,386
Net cash flows provided by/(used in) operating activities	(49,409)	6,643	46,418
Cash flows from investing activities			
Cash inflows provided by investing activities	17,739	29	3,171
Cash outflows used in investing activities	(1,677)	(36,889)	(24,975)
Net cash flows provided by/(used in) investing activities	16,062	(36,860)	(21,804)
Cash flows from financing activities			
Cash inflows provided by financing activities	-	-	-
Cash outflows used in financing activities	(4,302)	(260)	(599)
Net cash flows provided by/(used in) financing activities	(4,302)	(260)	(599)
Net increase/(decrease) in cash held	(37,649)	(30,477)	24,015
Add opening cash and cash equivalents	100,700	76,685	76,685
Closing cash and cash equivalents	63,051	46,208	100,700
Reconciliation of cash and cash equivalents			
Cash on hand and at bank	55,862	29,804	50,823
Funds with financial institutions	7,249	16,538	49,938
Interest accrued on available for sale assets	(60)	(134)	(61)
	63,051	46,208	100,700
Reconciliation of net surplus to net operating cash flows			
Net surplus for period	7,128	7,458	27,448
Non-cash items	2,750	2,118	12,016
Deferral or accruals of past or future operating cash receipts or payments	(59,289)	(2,887)	6,926
Items classified as cash	2	(46)	28
Net cash flows from operating activities	(49,409)	6,643	46,418

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

1. Statement of 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 have been prepared in accordance with NZ IAS 34 Interim Financial Reporting 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 2017.

These financial statements were authorised for issue by the Board of Directors on 23 August 2017.

(b) Comparatives

To ensure consistency with the current period, comparative figures have been restated where appropriate.

(c) 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 2017.

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 30 May 2017.

3. Financial Assets Pledged as Collateral

Included in investment securities as at 30 June 2017 were \$28.1 million encumbered through repurchase agreements. These investment securities have not been derecognised from the Banking Group's Statement of Financial Position as the Banking Group retains substantially all the risks and rewards of ownership. Counterparties have the right to sell or repledge these encumbered securities. The Bank's obligation to repurchase investment securities is classified under due to other financial institutions.

4. Advances to Customers

	Unaudited 30/06/2017	Unaudited 30/06/2016	Audited 31/03/2017
Residential	2,784,207	2,290,069	2,682,415
Agricultural	241,070	251,335	241,436
Commercial	143,272	153,631	147,773
Consumer	376,439	285,009	355,064
Gross advances	3,544,988	2,980,044	3,426,688
Provisions for credit impairment	(20,925)	(18,880)	(21,138)
Deferred fee revenue and expenses	2,843	507	2,525
Total net advances	3,526,906	2,961,671	3,408,075

5. Asset Quality and Provisions for Credit Impairment

Balances as at 30 June 2017 (Unaudited)	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Gross advances individually determined to be impaired	1,373	-	4,339	5,712
Individually assessed provisions	650	-	1,270	1,920
Collective provision	7,130	8,650	3,225	19,005
90 day past due assets not impaired	2,390	1,542	1,322	5,254
Charges to the income statement				
Bad debts written off/(recovered) during the period	(227)	2,198	(230)	1,741
Individual provisions	150	-	-	150
Collective provision	-	483	225	708
Total provision for credit impairment charged to the income statement	(77)	2,681	(5)	2,599

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

- Retail exposures comprise consumer personal, consumer finance 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.

6. Contingent Liabilities and Credit Related Commitments

	Unaudited Contract or Notional Amt 30/06/2017	Unaudited Credit Equivalent 30/06/2017	Unaudited Contract or Notional Amt 30/06/2016	Unaudited Credit Equivalent 30/06/2016	Audited Contract or Notional Amt 31/03/2017	Audited Credit Equivalent 31/03/2017
Credit related commitments						
Commitments with uncertain drawdown	41,516	20,758	50,426	25,213	37,344	18,672
Commitments to extend credit which can be unconditionally cancelled	271,581	-	240,485	-	266,248	-
Total credit related commitments	313,097	20,758	290,911	25,213	303,592	18,672

The Banking Group has no material contingent liabilities.

7. Related Parties

The Banking Group is controlled by SBS who is also the ultimate parent. On 30 June 2017, the Bank increased its shareholding in its subsidiary Southsure Assurance Limited from 80% to 90%. In accordance with International Financial Reporting Standards, as the Bank has had no change in effective control, the acquisition price was recorded through equity to reflect a transaction amongst shareholders. No adjustment has been made to the fair value of the assets and liabilities of Southsure in the consolidated accounts of the Bank in accordance with IFRS, and the associated premium (reflecting the future earnings potential of the entity) is recorded as an adjustment to equity. There have been no other changes to the composition of the Banking Group since 31 March 2017. Details of subsidiaries consolidated into the Banking Group are set out in Note 13 of the Banking Group's Disclosure Statement for the year ended 31 March 2017.

At 30 June 2017 there are no amounts due from, or due to any related entities that are outside of the Banking Group.

8. Liquid Assets

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

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

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

Core liquid assets	Unaudited 30/06/2017
Cash on hand and at bank	55,862
Funds with financial institutions	7,249
Investment securities ²	371,699
Committed and undrawn funding lines	67,000
Eligible RMBS collateral (less haircut ¹)	140,767
Total liquidity	642,577

¹ A "haircut" is a percentage that is subtracted from the par value of the assets that are being used as collateral. The size of the haircut reflects the perceived risk associated with holding the assets.

² Investment securities of \$28.1 million that are encumbered through repurchase agreements have been excluded in the above table as they are not held for liquidity management purposes.

9. 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 equity, is based on actual credit exposures and calculated on a gross basis (net of specific provisions). Credit exposures to the central government of any country with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, and connected persons are excluded. Peak end of day credit exposures to individual counterparties are calculated over the last quarter using the Banking Group's end of period equity.

End of Period Exposure	Number of Non Bank Counterparties 30/06/2017			Number of Non Bank Counterparties 30/06/2016		
	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
Percentage of equity						
10%-14%	2	-	2	2	-	2
15%-19%	-	-	-	-	-	-
20%-24%	-	-	-	1	-	1
Total	2	-	2	3	-	3

Peak Exposure	Number of Non Bank Counterparties 30/06/2017			Number of Non Bank Counterparties 30/06/2016		
	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
Percentage of equity						
10%-14%	2	-	2	3	-	3
15%-19%	-	-	-	-	-	-
20%-24%	-	-	-	1	-	1
Total	2	-	2	4	-	4

End of Period Exposure	Number of Non Bank Counterparties 31/03/2017		
	"A" Rated	"B" Rated	Total
Percentage of equity			
10%-14%	2	-	2
15%-19%	-	-	-
20%-24%	-	-	-
Total	2	-	2

Peak Exposure	Number of Non Bank Counterparties 31/03/2017		
	"A" Rated	"B" Rated	Total
Percentage of equity			
10%-14%	2	-	2
15%-19%	-	-	-
20%-24%	-	-	-
Total	2	-	2

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 counterparties with a credit rating below A- or A3, or its equivalent, which exceeded 10% of the Banking Group's equity for the three months ended 30 June 2017.

10. Capital Adequacy

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. These conditions require capital adequacy ratios for the Banking Group to be calculated under the Basel III framework in accordance with the RBNZ document Capital Adequacy Framework (Standardised Approach) (BS2A).

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.

		BANKING GROUP		
		Unaudited 30/06/2017	Unaudited 30/06/2016	Unaudited 31/03/2017
(i) Regulatory capital ratios	Minimum ratio requirement			
Common equity tier 1 capital ratio	4.50%	11.23%	12.45%	11.58%
Tier 1 capital ratio	6.00%	11.36%	12.54%	11.74%
Total capital ratio	8.00%	11.91%	13.50%	12.56%
Buffer ratio	2.50%	3.91%	5.50%	4.56%

(ii) Qualifying capital

Tier 1 capital

Common equity tier 1 (CET1) capital

Retained earnings	277,136
Current period's retained earnings	6,607
Acquisition of non-controlling interests	(3,496)
Non-controlling interests present value adjustment	(159)
Available for sale assets reserve	4,392
Cash flow hedging reserve	(12,060)
Less deductions from CET1 capital	
Goodwill and intangible assets	(6,735)
Deferred tax assets	(6,231)
Cash flow hedging reserve	12,060
Investments in associates and joint ventures	(7,027)
Total CET1 capital	264,487

Additional tier 1 (AT1) capital

Non-controlling interests (net of deductions and surplus AT1 capital)	3,142
Total AT1 capital	3,142

Total tier 1 capital

267,629

Tier 2 capital

Revaluation reserves	1,732
Subordinated redeemable shares	11,282
Total tier 2 capital	13,014

Total capital

280,643

The subordinated redeemable shares recognised within Tier 2 capital are five year fixed rate bonds issued continuously as subordinated redeemable shares and rank behind redeemable shareholders, depositors and other unsecured creditors of SBS and are subject to loss absorption provisions.

At 30 June 2017 the balance of subordinated redeemable shares issued was \$38.9 million. After adjustments for potential tax or other offsets, \$11.3 million has been recognised as tier 2 capital for RBNZ capital adequacy purposes.

10. Capital Adequacy (continued)

(iii) Pillar one capital requirements

	BANKING GROUP
	Unaudited
	30/06/2017
On balance sheet credit risk	
Residential mortgages (including past due)	84,402
Corporates	4,540
Claims on banks	7,363
Other	64,503
Total on balance sheet credit risk	160,808
Other capital requirements	
Off balance sheet credit exposures	1,264
Operational risk	16,894
Market risk	9,510
Total other capital requirements	27,668
Pillar one capital requirements	188,476

(iv) Residential mortgages by loan to valuation ratio

	On balance sheet	Off balance sheet
	Unaudited	Unaudited
	30/06/2017	30/06/2017
LVR range		
0 - 80%	2,445,972	227,675
80 - 90%	272,953	4,304
90% +	64,329	2,948
Total residential mortgages	2,783,254	234,927

Welcome Home Loans make up 96% of the residential mortgages in the 90%+ loan to valuation grouping and 77% of the 80 - 90% loan to valuation grouping. The Welcome Home Loan product is fully insured by Housing New Zealand Corporation.

(v) Pillar two capital for other material risks

Pillar Two of 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.

As at 30 June 2017 the Bank has made an internal capital allocation of \$25 million to cover these identified risks.

11. 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 30/06/2017	Unaudited Fair value 30/06/2017	Unaudited Carrying value 30/06/2016	Unaudited Fair value 30/06/2016	Audited Carrying value 31/03/2017	Audited Fair value 31/03/2017
Financial assets						
Advances to customers	3,526,906	3,508,223	2,961,671	2,967,558	3,408,075	3,391,025
Total	3,526,906	3,508,223	2,961,671	2,967,558	3,408,075	3,391,025
Financial liabilities						
Redeemable shares	2,828,960	2,832,160	2,543,769	2,553,163	2,732,581	2,737,331
Deposits from customers	195,273	196,176	219,917	221,251	212,733	213,059
Subordinated redeemable shares	39,135	43,077	39,135	45,324	39,124	43,393
Total	3,063,368	3,071,413	2,802,821	2,819,738	2,984,438	2,993,783

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 30/06/2017 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	4,005	-	4,005
Funds with financial institutions	3,231	4,018	-	7,249
Investment securities	1,880	397,966	-	399,846
Total financial assets	5,111	405,989	-	411,100
Financial liabilities				
Derivative financial instruments	-	24,904	-	24,904
Total financial liabilities	-	24,904	-	24,904

As at 30/06/2016 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	3,140	-	3,140
Funds with financial institutions	1,944	14,594	-	16,538
Investment securities	2,132	434,049	-	436,181
Total financial assets	4,076	451,783	-	455,859
Financial liabilities				
Derivative financial instruments	-	39,480	-	39,480
Total financial liabilities	-	39,480	-	39,480

As at 31/03/2017 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	4,501	-	4,501
Funds with financial institutions	45,920	4,018	-	49,938
Investment securities	1,652	415,888	-	417,540
Total financial assets	47,572	424,407	-	471,979
Financial liabilities				
Derivative financial instruments	-	26,512	-	26,512
Total financial liabilities	-	26,512	-	26,512

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

12. Insurance Business

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

The total assets of Southsure Assurance Limited as at 30 June 2017 are \$17.2 million which is 0.4% of the total assets of the Banking Group.

13. Subsequent Events

During July 2017, the Banking Group via its subsidiary Finance Now Limited, conditionally agreed to purchase The Warehouse Financial Services Group. The purchase price is estimated to be \$18 million, but is subject to asset based adjustments on settlement date, which is scheduled for 31 August 2017.