



Southland Building Society

Disclosure Statement

For the nine months ended 31 December 2016

Number 35 Issued February 2017



sbsbank.co.nz

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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').

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, JB Walker resigned from the Board effective 19 October 2016. There have been no other changes in the composition of the Board.

Credit Rating

As at 31 December 2016, 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

Effective 1 October 2016, the Bank's conditions of registration were amended. These changes:

- (a) Impose conditions of registration relating to residential mortgage lending nationwide to property investors and non-property investors. The conditions allow only a small (5%) flow of investor mortgage lending with LVRs greater than 60%, and a 10% flow of non-property investor lending with LVRs above 80%.
- (b) Refer to a revised version of "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) which amends some of the terms and conditions (including exemptions) relating to the LVR conditions of registration.

Directors' Statement

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

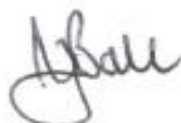
1. As at the date on which the Disclosure Statement is signed:
 - (a) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and
 - (b) the Disclosure Statement is not false or misleading.
2. Each director of the Bank believes, after due enquiry, that during the nine months ended 31 December 2016:
 - (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 22 February 2017 and has been signed by or on behalf of all the directors.

JF Ward
(Chairman)



KJ Ball



GJ Mulvey



JJ Grant



FE Spencer



MJ Skilling



AL McLeod



Southland Building Society

Income Statement for the nine months ended 31 December 2016

All in \$000's



	Unaudited 9 Months 31/12/2016	Unaudited 9 Months 31/12/2015	Audited 12 Months 31/03/2016
Interest income	145,340	147,292	195,112
Interest expense	14,127	12,169	16,721
Dividends on redeemable shares	63,404	72,689	94,458
	77,531	84,858	111,179
Net interest income	67,809	62,434	83,933
Other income	25,400	22,515	30,484
Total operating income	93,209	84,949	114,417
Operating expenses	56,977	56,520	73,542
Provision for credit impairment	8,007	8,449	13,212
Operating surplus	28,225	19,980	27,663
Net gain/(loss) from financial instruments designated at fair value	24	(20)	7
Share of associates and joint ventures profit net of tax	541	515	657
Surplus before income tax	28,790	20,475	28,327
Less income tax expense	7,759	6,090	8,354
Net surplus	21,031	14,385	19,973
Attributable to:			
Members' interests	19,833	13,071	18,603
Non-controlling interests	1,198	1,314	1,370
	21,031	14,385	19,973

Southland Building Society

Statement of Comprehensive Income for the nine months ended 31 December 2016

All in \$000's



	Unaudited 9 Months 31/12/2016	Unaudited 9 Months 31/12/2015	Audited 12 Months 31/03/2016
Net surplus for the period	21,031	14,385	19,973
Items that may not be reclassified subsequently to profit or loss			
Net change in property, plant and equipment reserve, net of tax	865	-	825
Items that may be reclassified subsequently to profit or loss			
Net change in available for sale asset reserve, net of tax	(3,575)	(149)	1,965
Net change in cash flow hedging reserve, net of tax	16,641	(8,288)	(21,119)
Other comprehensive income for the period, net of tax	13,931	(8,437)	(18,329)
Total comprehensive income for the period	34,962	5,948	1,644
Attributable to:			
Members' interests	33,736	4,673	320
Non-controlling interests	1,226	1,275	1,324
	34,962	5,948	1,644

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 nine months ended 31 December 2016

All in \$000's



As at 31 December 2016 (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 2016	253,313	2,384	5,768	(25,242)	236,223	3,737	239,960
Net surplus for the period	19,833	-	-	-	19,833	1,198	21,031
Other comprehensive income for the period							
Revaluation/change in fair value	-	709	(4,964)	23,111	18,856	-	18,856
Current/deferred tax impact	-	156	1,389	(6,470)	(4,925)	-	(4,925)
Total comprehensive income for the period	19,833	865	(3,575)	16,641	33,764	1,198	34,962
Non-controlling share of change in reserve	-	-	-	(28)	(28)	28	-
Non-controlling interests present value adjustment	(334)	-	-	-	(334)	-	(334)
Transfer from revaluation reserve to retained earnings	1,252	(1,252)	-	-	-	-	-
Dividends paid	-	-	-	-	-	(497)	(497)
Balance as at 31 December 2016	274,064	1,997	2,193	(8,629)	269,625	4,466	274,091

As at 31 December 2015 (Unaudited)

Balance as at 31 March 2015	238,221	1,559	3,799	(4,161)	239,418	4,258	243,676
Net surplus for the period	13,071	-	-	-	13,071	1,314	14,385
Other comprehensive income for the period							
Revaluation/change in fair value	-	-	(209)	(11,511)	(11,720)	-	(11,720)
Deferred tax impact	-	-	59	3,223	3,282	-	3,282
Total comprehensive income for the period	13,071	-	(150)	(8,288)	4,633	1,314	5,947
Non-controlling share of change in reserve	-	-	4	35	39	(39)	-
Non-controlling interests present value adjustment	(346)	-	-	-	(346)	-	(346)
Dividends paid					-	(447)	(447)
Balance as at 31 December 2015	250,946	1,559	3,653	(12,414)	243,744	5,086	248,830

As at 31 March 2016 (Audited)

Balance as at 31 March 2015	238,221	1,559	3,799	(4,161)	239,418	4,258	243,676
Net surplus for the year	18,603	-	-	-	18,603	1,370	19,973
Other comprehensive income for the year							
Revaluation/change in fair value	-	1,144	2,729	(29,332)	(25,459)	-	(25,459)
Deferred tax impact	-	(319)	(764)	8,213	7,130	-	7,130
Total comprehensive income for the year	18,603	825	1,965	(21,119)	274	1,370	1,644
Non-controlling share of change in reserve	-	-	4	42	46	(46)	-
Acquisition of non-controlling interests	(3,748)	-	-	(4)	(3,752)	-	(3,752)
Non-controlling interests present value adjustment	237	-	-	-	237	-	237
Change in capital of non-controlling interests					-	(1,247)	(1,247)
Dividends paid					-	(598)	(598)
Balance as at 31 March 2016	253,313	2,384	5,768	(25,242)	236,223	3,737	239,960

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

Southland Building Society
Statement of Financial Position as at 31 December 2016
All in \$000's



	Note	Unaudited 31/12/2016	Unaudited 31/12/2015	Audited 31/03/2016
Assets				
Cash on hand and at bank		50,934	29,463	31,948
Funds with financial institutions		42,351	64,393	44,826
Investment securities	(3)	345,732	342,278	401,074
Derivative financial instruments		5,507	2,711	3,526
Current tax assets		-	915	-
Advances to customers	(4)	3,241,443	2,795,756	2,868,850
Investment in associates and joint ventures		6,872	6,144	6,001
Other assets		21,601	16,129	16,764
Property, plant and equipment		20,747	22,224	23,670
Intangible assets		4,693	4,708	4,618
Net deferred tax assets		5,118	5,780	10,898
		3,744,998	3,290,501	3,412,175
Liabilities				
Redeemable shares		2,659,276	2,444,609	2,487,345
Deposits from customers		201,392	197,144	215,650
Commercial paper		199,375	149,293	198,692
Due to other financial institutions		303,133	150,612	150,471
Derivative financial instruments		21,685	24,104	42,419
Current tax liabilities		1,514	-	34
Other liabilities		45,396	36,773	38,475
Subordinated redeemable shares		39,136	39,136	39,129
		3,470,907	3,041,671	3,172,215
Net assets				
		274,091	248,830	239,960
Equity				
Reserves		(4,439)	(7,201)	(17,090)
Retained earnings		274,064	250,946	253,313
Attributable to members of the society		269,625	243,745	236,223
Attributable to non-controlling interests		4,466	5,085	3,737
		274,091	248,830	239,960
Total interest earning and discount bearing assets		3,680,460	3,231,890	3,346,698
Total interest and discount bearing liabilities		3,402,312	2,980,794	3,091,287

For and on behalf of the Board of Directors:

Chairman
JF Ward

Director
KJ Ball

22 February 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 nine months ended 31 December 2016

All in \$000's



	Unaudited 9 Months 31/12/2016	Unaudited 9 Months 31/12/2015	Audited 12 Months 31/03/2016
Cash flows from operating activities			
Interest and dividends received	142,873	145,569	191,372
Interest and dividends paid	(77,749)	(81,638)	(109,772)
Other cash inflows provided by operating activities	35,860	31,546	42,522
Other cash outflows used in operating activities	(66,880)	(70,347)	(89,587)
Net cash flows from operating activities before changes in operating assets and liabilities	34,104	25,130	34,535
Net changes in operating assets and liabilities	(67,424)	(13,983)	20,589
Net cash flows provided by/(used in) operating activities	(33,320)	11,147	55,124
Cash flows from investing activities			
Cash inflows provided by investing activities	53,164	68	173
Cash outflows used in investing activities	(2,994)	(43,921)	(99,911)
Net cash flows provided by/(used in) investing activities	50,170	(43,853)	(99,738)
Cash flows from financing activities			
Cash inflows provided by financing activities	-	-	-
Cash outflows used in financing activities	(497)	(448)	(5,598)
Net cash flows provided by/(used in) financing activities	(497)	(448)	(5,598)
Net increase/(decrease) in cash held	16,353	(33,154)	(50,212)
Add opening cash and cash equivalents	76,685	126,897	126,897
Closing cash and cash equivalents	93,038	93,743	76,685
Reconciliation of cash and cash equivalents			
Cash on hand and at bank	50,934	29,463	31,948
Funds with financial institutions	42,351	64,393	44,826
Interest accrued on available for sale assets	(247)	(113)	(89)
	93,038	93,743	76,685
Reconciliation of net surplus to net operating cash flows			
Net surplus for period	21,031	14,385	19,973
Non-cash items	9,881	12,297	16,334
Deferral or accruals of past or future operating cash receipts or payments	(64,073)	(16,295)	18,033
Items classified as cash	(159)	760	784
Net cash flows from operating activities	(33,320)	11,147	55,124

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

Southland Building Society

Notes to the Financial Statements for the nine months ended 31 December 2016

All in \$000's



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 2016.

These financial statements were authorised for issue by the Board of Directors on 22 February 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 2016.

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 November 2016.

3. Financial Assets Pledged as Collateral

Included in investment securities as at 31 December 2016 were \$54m 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 31/12/2016	Unaudited 31/12/2015	Audited 31/03/2016
Residential	2,534,030	2,149,616	2,212,665
Agricultural	251,816	263,853	257,735
Commercial	138,644	150,188	150,223
Consumer	335,769	249,133	267,257
Gross advances	3,260,259	2,812,790	2,887,880
Provisions for credit impairment	(20,582)	(17,153)	(19,224)
Deferred fee revenue and expenses	1,766	119	194
Total net advances	3,241,443	2,795,756	2,868,850

5. Asset Quality and Provisions for Credit Impairment

	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Balances as at 31 December 2016 (Unaudited)				
Gross advances individually determined to be impaired	1,299	-	6,149	7,448
Individually assessed provisions	751	-	2,090	2,841
Collective provision	6,130	8,546	3,065	17,741
90 day past due assets not impaired	533	800	6	1,339
Charges to the income statement				
Bad debts written off/(recovered) during the period	(305)	6,498	(243)	5,950
Individual provisions	535	-	225	760
Collective provision	750	334	213	1,297
Total provision for credit impairment charged to the income statement	980	6,832	195	8,007

- 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 lending 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 31/12/2016	Unaudited Credit Equivalent 31/12/2016	Unaudited Contract or Notional Amt 31/12/2015	Unaudited Credit Equivalent 31/12/2015	Audited Contract or Notional Amt 31/03/2016	Audited Credit Equivalent 31/03/2016
Credit related commitments						
Commitments with uncertain drawdown	62,569	31,285	41,302	20,651	40,592	20,296
Commitments to extend credit which can be unconditionally cancelled	262,255	-	240,627	-	247,790	-
Total credit related commitments	324,824	31,285	281,929	20,651	288,382	20,296

The Banking Group has no material contingent liabilities.

7. Related Parties

The Banking Group is controlled by SBS who is also the ultimate parent. There have been no changes to the composition of the Banking Group since 31 March 2016. 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 2016.

At 31 December 2016 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 31/12/2016
Cash on hand and at bank	50,934
Funds with financial institutions	42,351
Investment securities ¹	291,958
Committed and undrawn funding lines	80,000
Eligible RMBS collateral (less haircut ²)	162,619
Total liquidity	627,862

¹ Investment securities of \$54m that are encumbered through repurchase agreements have been excluded in the above table as they are not held for liquidity management purposes.

² 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.

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 31/12/2016			Number of Non Bank Counterparties 31/12/2015		
	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
Percentage of equity						
10%-14%	1	-	1	3	-	3
15%-19%	-	-	-	-	-	-
20%-24%	-	-	-	-	-	-
Total	1	-	1	3	-	3

Peak Exposure	Number of Non Bank Counterparties 31/12/2016			Number of Non Bank Counterparties 31/12/2015		
	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
Percentage of equity						
10%-14%	1	-	1	2	-	2
15%-19%	1	-	1	1	-	1
20%-24%	-	-	-	-	-	-
Total	2	-	2	3	-	3

End of Period Exposure	Number of Non Bank Counterparties 31/03/2016		
	"A" Rated	"B" Rated	Total
Percentage of equity			
10%-14%	3	-	3
15%-19%	-	-	-
20%-24%	-	-	-
Total	3	-	3

Peak Exposure	Number of Non Bank Counterparties 31/03/2016		
	"A" Rated	"B" Rated	Total
Percentage of equity			
10%-14%	4	-	4
15%-19%	-	-	-
20%-24%	-	-	-
Total	4	-	4

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 31 December 2016.

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 31/12/2016	Unaudited 31/12/2015	Unaudited 31/03/2016
(i) Regulatory capital ratios	Minimum ratio requirement			
Common equity tier 1 capital ratio	4.50%	12.31%	12.85%	12.41%
Tier 1 capital ratio	6.00%	12.40%	13.01%	12.50%
Total capital ratio	8.00%	13.27%	14.27%	13.76%
Buffer ratio	2.50%	5.27%	6.27%	5.76%

(ii) Qualifying capital

Tier 1 capital

Common equity tier 1 (CET1) capital

Retained earnings	253,313
Acquisition of non-controlling interests	-
Non-controlling interests present value adjustment	(334)
Current period's retained earnings	21,085
Available for sale assets reserve	2,193
Cash flow hedging reserve	(8,629)
Less deductions from CET1 capital	
Intangible assets	(4,693)
Deferred tax assets	(5,118)
Cash flow hedging reserve	8,629
Total CET1 capital	266,446

Additional tier 1 (AT1) capital

Non-controlling interests (net of deductions and surplus AT1 capital)	2,104
Total AT1 capital	2,104
Total tier 1 capital	268,550

Tier 2 capital

Revaluation reserves	1,997
Subordinated redeemable shares	16,791
Total tier 2 capital	18,788
Total capital	287,338

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 31 December 2016 the balance of subordinated redeemable shares issued was \$38.9 million. After adjustments for potential tax or other offsets, \$16.8 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
	31/12/2016
On balance sheet credit risk	
Residential mortgages (including past due)	76,946
Corporates	4,120
Claims on banks	4,423
Other	63,266
Total on balance sheet credit risk	148,755
Other capital requirements	
Off balance sheet credit exposures	1,760
Operational risk	15,727
Market risk	6,986
Total other capital requirements	24,473
Pillar one capital requirements	173,228

(iv) Residential mortgages by loan to valuation ratio

	On balance sheet	Off balance sheet
	Unaudited	Unaudited
	31/12/2016	31/12/2016
LVR range		
0 - 80%	2,231,447	233,787
80 - 90%	245,523	7,278
90% +	56,089	4,622
Total residential mortgages	2,533,059	245,687

Welcome Home Loans make up 93% of the residential mortgages in the 90%+ loan to valuation grouping and 73% 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 31 December 2016 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 31/12/2016	Unaudited Fair value 31/12/2016	Unaudited Carrying value 31/12/2015	Unaudited Fair value 31/12/2015	Audited Carrying value 31/03/2016	Audited Fair value 31/03/2016
Financial assets						
Advances to customers	3,241,443	3,223,399	2,795,756	2,796,402	2,868,850	2,878,715
Total	3,241,443	3,223,399	2,795,756	2,796,402	2,868,850	2,878,715
Financial liabilities						
Redeemable shares	2,659,276	2,664,273	2,444,609	2,452,470	2,487,345	2,504,672
Deposits from customers	201,392	202,404	197,144	197,587	215,650	217,080
Subordinated redeemable shares	39,136	43,396	39,136	43,520	39,129	45,600
Total	2,899,804	2,910,073	2,680,889	2,693,577	2,742,124	2,767,352

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 31/12/2016 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	5,507	-	5,507
Funds with financial institutions	28,146	14,205	-	42,351
Investment securities	2,011	343,721	-	345,732
Total financial assets	30,157	363,433	-	393,590
Financial liabilities				
Derivative financial instruments	-	21,685	-	21,685
Total financial liabilities	-	21,685	-	21,685

As at 31/12/2015 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	2,711	-	2,711
Funds with financial institutions	54,575	9,818	-	64,393
Investment securities	2,124	340,154	-	342,278
Total financial assets	56,699	352,683	-	409,382
Financial liabilities				
Derivative financial instruments	-	24,104	-	24,104
Total financial liabilities	-	24,104	-	24,104

As at 31/03/2016 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	3,526	-	3,526
Funds with financial institutions	40,031	4,795	-	44,826
Investment securities	2,120	398,954	-	401,074
Total financial assets	42,151	407,275	-	449,426
Financial liabilities				
Derivative financial instruments	-	42,419	-	42,419
Total financial liabilities	-	42,419	-	42,419

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 31 December 2016 are \$15.9 million which is 0.4% of the total assets of the Banking Group.

13. Subsequent Events

There have been no material subsequent events after 31 December 2016.