



Southland Building Society

Disclosure Statement

For the nine months ended 31 December 2015

Number 31 Issued February 2016

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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, A G Neill resigned from the Board effective 22 July 2015. In addition, A L McLeod was appointed as an independent director of the bank on 23 July 2015. There have been no other changes in the composition of the Board.

Credit Rating

As at 31 December 2015, and for the period to the date of this Disclosure Statement, the credit rating assigned to Southland Building Society is BBB positive. 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 9 September 2015. The rating is not subject to any qualifications.

Conditions of Registration

Effective 1 November 2015, the Bank's conditions of registration were amended. Under the revised conditions of registration, Southland Building Society is required to comply with updated versions of the Reserve Bank documents: *Capital Adequacy Framework (Standardised Approach)* (BS2A); *Application for Capital Recognition or Repayment* (BS16); *Connected Exposures Policy* (BS8); and *Framework for Restrictions of High-LVR Residential Mortgage Lending* (BS19). Main changes include:

- (a) New asset classification and capital treatment of residential mortgage loans which are for property investment purposes and for reverse mortgages;
- (b) Imposing revised high-LVR speed limits for Auckland investment property loans and non-Auckland loans, in line with the revised BS19;
- (c) Conditions that the Bank must receive a notice of non-objection from the Reserve Bank before recognising any Additional Tier 1 or Tier 2 instrument as capital and to apply certain notification and capital repayment approval obligations on the Bank as amended in BS16;
- (d) Removal of superseded references to the Financial Reporting Act 1993.

Directors' Statement

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

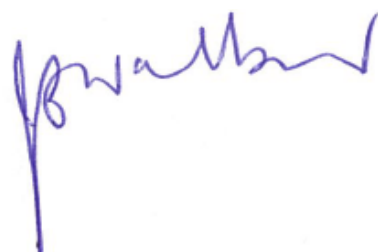
1. As at the date on which the Disclosure Statement is signed:
 - (a) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and
 - (b) the Disclosure Statement is not false or misleading.
2. Each director of the Bank believes, after due enquiry, that during the nine months ended 31 December 2015:
 - (a) the Bank has complied with the 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 17 February 2016 and has been signed by or on behalf of all the directors.

JF Ward
(Chairman)



JB Walker
(Deputy 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 2015

All in \$000's



	Note	BANKING GROUP		
		Unaudited 9 Months 31/12/2015	Unaudited 9 Months 31/12/2014	Audited 12 Months 31/03/2015
Interest income		147,292	136,492	183,307
Interest expense		12,169	8,487	11,142
Dividends on redeemable shares		72,689	67,490	91,100
		84,858	75,977	102,242
Net interest income		62,434	60,515	81,065
Other income		22,515	18,554	25,525
Total operating income		84,949	79,069	106,590
Operating expenses		56,520	50,804	68,331
Provision for credit impairment	(4)	8,449	7,466	12,173
Operating surplus		19,980	20,799	26,086
Net gain/(loss) from financial instruments designated at fair value		(20)	(355)	(46)
Share of associates as joint ventures profit net of tax		515	443	515
Surplus before income tax		20,475	20,887	26,555
Income tax expense		6,090	5,596	7,118
Net surplus		14,385	15,291	19,437
Attributable to:				
Members' interests		13,071	14,151	18,009
Non-controlling interests		1,314	1,140	1,428
		14,385	15,291	19,437

Southland Building Society

Statement of Comprehensive Income for the nine months ended 31 December 2015

All in \$000's

	BANKING GROUP		
	Unaudited 9 Months 31/12/2015	Unaudited 9 Months 31/12/2014	Audited 12 Months 31/03/2015
Net surplus for the period	14,385	15,291	19,437
Items that may not be reclassified subsequently to profit or loss			
Net change in property, plant and equipment reserve, net of tax	-	-	754
Items that may be reclassified subsequently to profit or loss			
Net change in available for sale asset reserve, net of tax	(149)	2,952	3,729
Net change in cash flow hedging reserve, net of tax	(8,288)	(8,022)	(11,991)
Other comprehensive income for the period, net of tax	(8,437)	(5,070)	(7,508)
Total comprehensive income for the period	5,948	10,221	11,929
Attributable to:			
Members' interests	4,673	9,106	10,544
Non-controlling interests	1,275	1,115	1,385
	5,948	10,221	11,929

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 2015

All in \$000's

	BANKING GROUP		
	Unaudited 9 Months 31/12/2015	Unaudited 9 Months 31/12/2014	Audited 12 Months 31/03/2015
Revaluation reserve - property, plant and equipment			
Balance at beginning of the period	1,559	805	805
Other comprehensive income for the period	-	-	754
Balance at end of the period	1,559	805	1,559
Revaluation reserve - available for sale assets			
Balance at beginning of the period	3,799	67	67
Other comprehensive income for the period	(146)	2,955	3,732
Balance at end of the period	3,653	3,022	3,799
Revaluation reserve - cash flow hedging			
Balance at beginning of the period	(4,161)	7,775	7,775
Other comprehensive income for the period	(8,253)	(8,000)	(11,951)
Acquisition of non-controlling interests	-	15	15
Balance at end of the period	(12,414)	(210)	(4,161)
Retained earnings			
Balance at beginning of the period	238,221	221,136	221,136
Net surplus for the period	13,071	14,151	18,009
Acquisition of non-controlling interests	-	(1,590)	(1,590)
Non-controlling interests present value adjustment	(346)	1,563	666
Balance at end of the period	250,946	235,260	238,221
Total equity attributable to member's interests	243,744	238,877	239,418
Non-controlling interests			
Balance at beginning of the period	4,258	4,430	4,430
Net surplus for the period	1,314	1,140	1,428
Other comprehensive income for the period	(38)	(25)	(43)
Dividends	(448)	(652)	(652)
Change in capital of non-controlling interests	-	(905)	(905)
Balance at end of the period	5,086	3,988	4,258
Total equity at end of the period	248,830	242,865	243,676
Represented by:			
Equity at beginning of the period	243,676	234,213	234,213
Net surplus for the period	14,385	15,291	19,437
Other comprehensive income for the period	(8,437)	(5,070)	(7,508)
Total comprehensive income for the period	5,948	10,221	11,929
Dividends	(448)	(652)	(652)
Acquisition of non-controlling interests and non-controlling interests present value adjustment	(346)	(917)	(1,814)
Total equity at end of the period	248,830	242,865	243,676

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 2015

All in \$000's

	Note	BANKING GROUP		
		Unaudited 31/12/2015	Unaudited 31/12/2014	Audited 31/03/2015
Assets				
Cash on hand and at bank		29,463	20,082	29,432
Funds with financial institutions		64,393	88,061	98,337
Investment securities		342,278	346,669	306,273
Derivative financial instruments		2,711	4,399	1,792
Current tax assets		915	815	-
Advances to customers	(3)	2,795,756	2,336,376	2,391,963
Investment in associates and joint ventures		6,144	3,415	4,985
Other assets		16,129	3,239	2,763
Investment properties		-	3,130	-
Property, plant and equipment		22,224	18,130	18,738
Goodwill and intangible assets		4,708	3,674	4,941
Net deferred tax assets		5,780	1,238	3,433
		3,290,501	2,829,228	2,862,657
Liabilities				
Redeemable shares		2,444,609	2,268,455	2,289,754
Deposits from customers		197,144	183,658	185,472
Commercial paper		149,293	59,665	64,639
Due to other financial institutions		150,612	-	-
Derivative financial instruments		24,104	8,201	9,989
Current tax liabilities		-	-	21
Other liabilities		36,773	22,607	28,057
Subordinated redeemable shares		39,136	43,777	41,049
		3,041,671	2,586,363	2,618,981
Net assets				
		248,830	242,865	243,676
Equity				
Reserves		(7,201)	3,618	1,197
Retained earnings		250,946	235,260	238,221
Attributable to members of the society		243,745	238,878	239,418
Attributable to non-controlling interests		5,085	3,987	4,258
		248,830	242,865	243,676
Total interest earning and discount bearing assets		3,231,890	2,791,188	2,826,005
Total interest and discount bearing liabilities		2,980,794	2,555,555	2,580,914

For and on behalf of the Board of Directors:

Chairman
J F Ward

Deputy Chairman
J B Walker

17 February 2016

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

Statement of Cash Flows for the nine months ended 31 December 2015

All in \$000's

	BANKING GROUP		
	Unaudited 9 Months 31/12/2015	Unaudited 9 Months 31/12/2014	Audited 12 Months 31/03/2015
Cash flows from operating activities			
Interest and dividends received	145,495	134,594	180,187
Interest and dividends paid	(81,638)	(72,509)	(100,952)
Other cash inflows provided by operating activities	31,620	24,641	34,092
Other cash outflows used in operating activities	(70,347)	(57,226)	(73,364)
Net cash flows from operating activities before changes in operating assets and liabilities	25,130	29,500	39,963
Net changes in operating assets and liabilities	(13,983)	(39,806)	(72,292)
Net cash flows provided by/(used in) operating activities	11,147	(10,306)	(32,329)
Cash flows from investing activities			
Cash inflows provided by investing activities	68	15,538	59,805
Cash outflows used in investing activities	(43,921)	(4,755)	(7,206)
Net cash flows provided by/(used in) investing activities	(43,853)	10,783	52,599
Cash flows from financing activities			
Cash inflows provided by financing activities	-	-	-
Cash outflows used in financing activities	(448)	(3,132)	(3,132)
Net cash flows provided by/(used in) financing activities	(448)	(3,132)	(3,132)
Net increase/(decrease) in cash held	(33,154)	(2,655)	17,138
Add opening cash and cash equivalents	126,897	109,759	109,759
Closing cash and cash equivalents	93,743	107,104	126,897
Reconciliation of cash and cash equivalents			
Cash on hand and at bank	29,463	20,082	29,432
Funds with financial institutions	64,393	88,061	98,337
Interest accrued on available for sale assets	(113)	(1,039)	(872)
	93,743	107,104	126,897
Reconciliation of net surplus to net operating cash flows			
Net surplus for period	14,385	15,291	19,437
Non-cash items	12,297	12,752	17,982
Deferral or accruals of past or future operating cash receipts or payments	(16,295)	(37,975)	(69,541)
Change in accruals relating to funds with financial institutions	760	(374)	(207)
Net cash flows from operating activities	11,147	(10,306)	(32,329)

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 2015.

These financial statements were authorised for issue by the Board of Directors on 17 February 2016.

(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 2015.

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 25 November 2015.

3. Advances to Customers

	BANKING GROUP		
	Unaudited 31/12/2015	Unaudited 31/12/2014	Audited 31/03/2015
Residential	2,149,616	1,770,584	1,801,746
Agricultural	263,853	276,491	274,044
Commercial	150,188	153,651	163,893
Consumer	249,133	150,669	170,553
Gross advances	2,812,790	2,351,395	2,410,236
Provisions for credit impairment	(17,153)	(14,565)	(17,981)
Deferred fee revenue and expenses	119	(454)	(292)
Total net advances	2,795,756	2,336,376	2,391,963

4. Asset Quality and Provisions for Credit Impairment

	BANKING GROUP			
	Residential Mortgages	Retail Exposures	Corporate Exposures	Total
Balances as at 31 December 2015 (Unaudited)				
Gross advances individually determined to be impaired	722	-	8,289	9,011
Individually assessed provisions	626	-	2,435	3,061
Collective provision	5,380	7,000	1,712	14,092
90 day past due assets not impaired	5,201	892	1,435	7,528
Charges to the income statement				
Bad debts written off/(recovered) during the period	(31)	4,291	70	4,330
Individual provisions	167	-	2,015	2,182
Collective provision	-	1,798	139	1,937
Total provision for credit impairment charged to the income statement	136	6,089	2,224	8,449

- 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 and consumer finance lending

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

5. Contingent Liabilities and Credit Related Commitments

	BANKING GROUP					
	Unaudited Contract or Notional Amt 31/12/2015	Unaudited Credit Equivalent 31/12/2015	Unaudited Contract or Notional Amt 31/12/2014	Unaudited Credit Equivalent 31/12/2014	Audited Contract or Notional Amt 31/03/2015	Audited Credit Equivalent 31/03/2015
Credit related commitments						
Commitments with uncertain drawdown	41,302	20,651	27,964	13,982	55,610	27,805
Commitments to extend credit which can be unconditionally cancelled	240,627	-	211,017	-	208,665	-
Total credit related commitments	281,929	20,651	238,981	13,982	264,275	27,805

The Banking Group has no material contingent liabilities.

6. 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 2015. Details of subsidiaries consolidated into the Banking Group are set out in note 15 of the Banking Group's Disclosure Statement for the year ended 31 March 2015.

At 31 December 2015 there are no amounts due from, or due to any related entities that are outside of the Banking Group.

7. 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	BANKING GROUP
	Unaudited 31/12/2015
Cash on hand and at bank	29,463
Funds with financial institutions	64,393
Investment securities	342,278
Committed and undrawn funding lines	80,000
Eligible RMBS collateral (less haircut ¹)	106,932
Total liquidity	623,066

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.

8. 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 31/12/2015			Number of Non Bank Counterparties 31/12/2014		
	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
Percentage of equity						
10%-14%	3	-	3	3	-	3
15%-19%	-	-	-	1	-	1
20%-24%	-	-	-	-	-	-
Total	3	-	3	4	-	4

Peak Exposure	Number of Non Bank Counterparties 31/12/2015			Number of Non Bank Counterparties 31/12/2014		
	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
Percentage of equity						
10%-14%	2	-	2	2	-	2
15%-19%	1	-	1	3	-	3
20%-24%	-	-	-	-	-	-
Total	3	-	3	5	-	5

End of Period Exposure	Number of Non Bank Counterparties 31/03/2015		
	"A" Rated	"B" Rated	Total
Percentage of equity			
10%-14%	2	-	2
15%-19%	1	-	1
20%-24%	-	-	-
Total	3	-	3

Peak Exposure	Number of Non Bank Counterparties 31/03/2015		
	"A" Rated	"B" Rated	Total
Percentage of equity			
10%-14%	3	-	3
15%-19%	1	-	1
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 2015.

9. 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 31/12/2015	Unaudited 31/12/2014	Unaudited 31/03/2015
(i) Regulatory capital ratios	Minimum ratio requirement			
Common equity tier 1 capital ratio	4.50%	12.85%	14.16%	13.73%
Tier 1 capital ratio	6.00%	13.01%	14.27%	13.85%
Total capital ratio	8.00%	14.27%	16.07%	15.61%
Buffer ratio	2.50%	6.27%	8.07%	7.61%
(ii) Qualifying capital				
Tier 1 capital				
Common equity tier 1 (CET1) capital				
Retained earnings		238,221		
Acquisition of non-controlling interests		-		
Non-controlling interests present value adjustment		(346)		
Current period's retained earnings		13,071		
Available for sale assets reserve		3,653		
Cash flow hedging reserve		(12,414)		
Less deductions from CET1 capital				
Intangible assets		(4,708)		
Deferred tax assets		(5,780)		
Cash flow hedging reserve		12,414		
Total CET1 capital		244,111		
Additional tier 1 (AT1) capital				
Non-controlling interests (net of deductions and surplus AT1 capital)		2,930		
Total AT1 capital		2,930		
Total tier 1 capital		247,041		
Tier 2 capital				
Revaluation reserves		1,559		
Subordinated redeemable shares		22,388		
Total tier 2 capital		23,947		
Total capital		270,988		

The Bank has on issue 'SBS Premier Bonds' to retail investors. These five year fixed rate bonds are issued continuously as subordinated redeemable shares and rank behind redeemable shareholders, depositors and unsecured creditors of SBS and are subject to loss absorption provisions. At 31 December 2015 the balance issued was \$38.4 million. After adjustments for potential tax or other offsets, \$22.4 million has been recognised as tier 2 capital for RBNZ capital adequacy purposes.

9. Capital Adequacy (continued)
(iii) Pillar one capital requirements
BANKING GROUP
Unaudited
31/12/2015
On balance sheet credit risk

Residential mortgages (including past due)

Corporates

Claims on banks

Other

Total on balance sheet credit risk
Other capital requirements

Off balance sheet credit exposures

Operational risk

Market risk

Total other capital requirements
Pillar one capital requirements

62,521
5,866
4,121
57,639
130,147
1,205
14,131
6,457
21,793
151,940

(iv) Residential mortgages by loan to valuation ratio
**On balance
sheet**
Unaudited
31/12/2015
**Off balance
sheet**
Unaudited
31/12/2015

LVR range

0 - 80%

80 - 90%

90% +

Total residential mortgages

1,821,982	198,090
242,496	7,244
82,763	1,192
2,147,241	206,526

Welcome Home Loans make up 89% of the residential mortgages in the 90%+ loan to valuation grouping and 68% 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 2015 the Bank has made an internal capital allocation of \$25 million to cover these identified risks.

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 are outlined below:

BANKING GROUP

	Unaudited Carrying value 31/12/2015	Unaudited Fair value 31/12/2015	Unaudited Carrying value 31/12/2014	Unaudited Fair value 31/12/2014	Audited Carrying value 31/03/2015	Audited Fair value 31/03/2015
Financial assets						
Advances to customers	2,795,756	2,796,402	2,336,376	2,334,168	2,391,963	2,392,298
Total	2,795,756	2,796,402	2,336,376	2,334,168	2,391,963	2,392,298
Financial liabilities						
Redeemable shares	2,444,609	2,452,470	2,268,455	2,269,249	2,289,754	2,293,850
Deposits from customers	197,144	197,587	183,658	183,415	185,472	185,836
Subordinated redeemable shares	39,136	43,520	43,777	45,880	41,049	44,288
Total	2,680,889	2,693,577	2,495,890	2,498,544	2,516,275	2,523,974

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:

BANKING GROUP 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
BANKING GROUP at 31/12/2014 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	4,399	-	4,399
Funds with financial institutions	37,919	50,142	-	88,061
Investment securities	1,703	344,966	-	346,669
Total financial assets	39,622	399,507	-	439,129
Financial liabilities				
Derivative financial instruments	-	8,201	-	8,201
Total financial liabilities	-	8,201	-	8,201
BANKING GROUP at 31/03/2015 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	1,792	-	1,792
Funds with financial institutions	28,199	70,138	-	98,337
Investment securities	1,564	304,709	-	306,273
Total financial assets	29,763	376,639	-	406,402
Financial liabilities				
Derivative financial instruments	-	9,989	-	9,989
Total financial liabilities	-	9,989	-	9,989

Further information on valuation techniques and assumptions for specific asset classes is included in Note 26 of the Bank's annual Disclosure Statement.

11. 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 2015 are \$15.5 million which is 0.5% of the total assets of the Banking Group.

12. Subsequent Events

There have been no material subsequent events after 31 December 2015.