

looking  
after **our**  
members'  
interests  
since 1869



Southland Building Society  
136th Annual Report 2005  
WITH SUMMARY FINANCIAL STATEMENTS





“ Thanks SBS for making life a little easier and being there when it counts. ”

“major contributor to the Invercargill Civic Theatre upgrade”



**Angelina Hamilton** SBS MEMBER

Disappointed by a string of mistakes and poor management of her portfolio, newspaper managing editor Angelina Hamilton switched her banking to SBS, albeit with reservations.

“Because of my previous experiences, I was a bit cynical at first. I thought SBS’ promises must be too good to be true. I was pleasantly surprised to find SBS is actually as good as – if not better than – it says.

“The SBS team did all the hard work making the transition from bank to building society seamless. Nowadays, my accounts operate perfectly.”



“When someone asks where I work, I feel so proud to say SBS.”

“When we’re making decisions, all roads point straight to our members’ best interests.”

**Lyndal Robinson** INVESTMENT CONSULTANT

Before coming to SBS, Lyndal Robinson heard what a great working environment it was. When she first joined the team, she wasn't disappointed, just a little suspicious.

“I remember thinking: I've never experienced anything like this before – there must be a catch.

“But after two years, I still absolutely love coming to work. Everyone is so happy working here. And that culture is infectious, because it reflects onto our members who, in turn, feel really positive about SBS.”

**Acton Smith** CHAIRMAN

This year, Acton Smith celebrates a decade as SBS chairman, but arguably his most significant influence came in 1991 – before he was even a director. He led a small, but gritty group against the proposed sale to Westpac.

“We were determined the Society should remain in members' hands and would not only survive, but thrive.

“Those opposed to the sale were accused of letting quaint parochialism jeopardise sound business. Far from being an Achilles heel, that loyalty and pride has been at the heart of SBS' ensuing success.”

## VISION

First choice in banking.

## MISSION

SBS will be the essential partner on an individual's path to financial independence.

## VALUES

### *Commitment to mutual benefit*

We will ensure members' interests are at the heart of our purpose and at the forefront of decisions made. The Society must prosper; but members' common interests will always be paramount in commercial decisions.

### *Sustainability through prudence*

Through careful stewardship, based on commercial robustness and operational prudence, we will continue to exercise ethical practices and due care in growing the value of SBS.

### *Our people make the difference*

The people of SBS are the driving force behind our purpose. Our charge is to provide an environment offering challenge, encouragement and fair recognition, thereby allowing delivery of professional service to members.

### *The prosperity of our community*

We will contribute to community development and prosperity on behalf of, and for the ultimate benefit of, our members.



“Our members are never just a number ... we're all about let's get it right the first time.”

### **Kim Leith** CONTACT CENTRE MANAGER

Kim Leith knows job interviews for new Contact Centre staff are a bit “off the wall”, but they're the best test to predict whether applicants have the “SBS x-factor”.

“Our members want happy people, so we look for staff with a warm, genuine approach and a great sense of humour, because they're qualities that can't really be taught.

“Our team is very close-knit and shares a real pride in providing our members the best service – with a touch of fun.”



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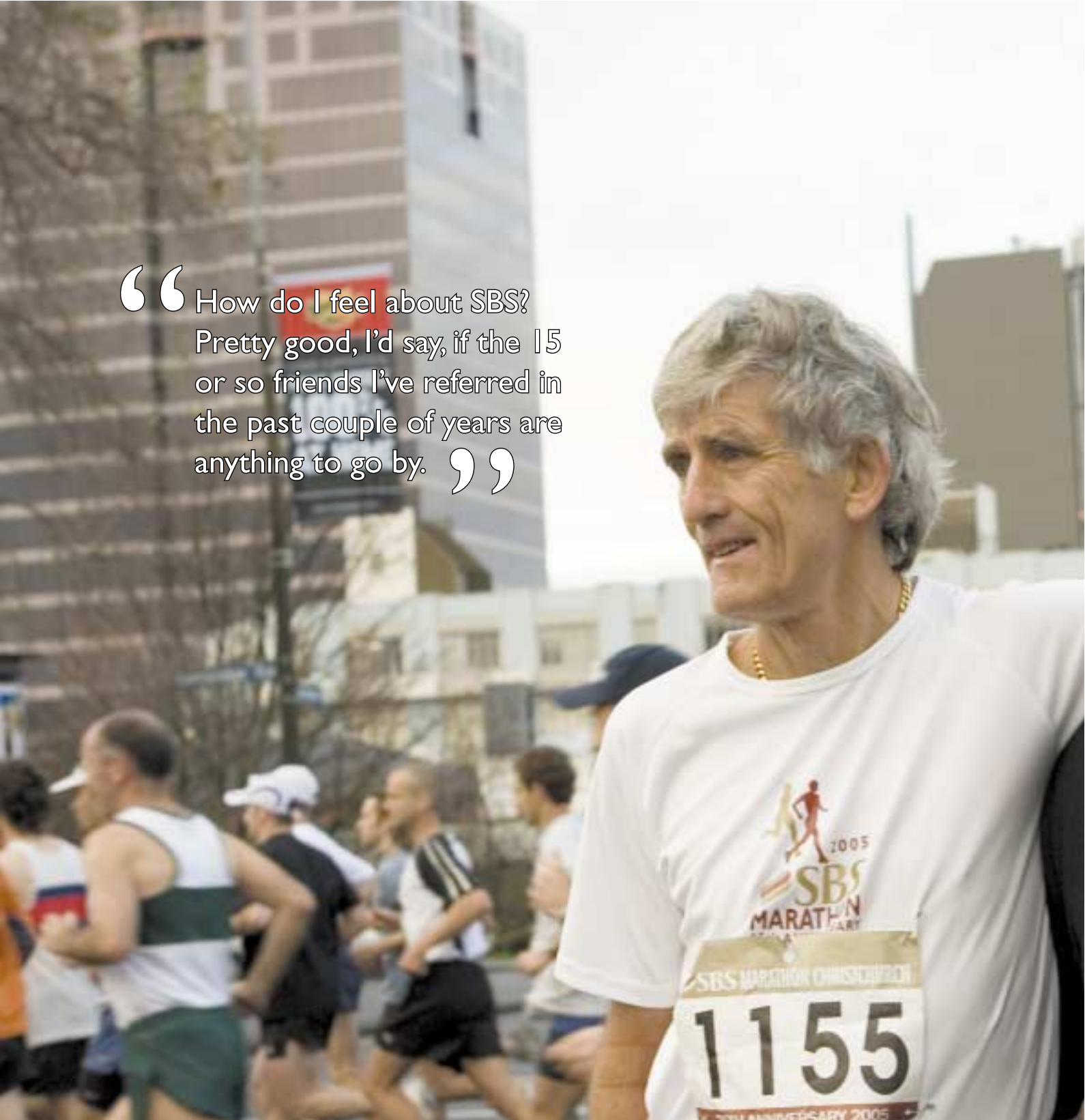
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## HIGHLIGHTS AT A GLANCE

- Total assets \$1.823 billion
- Advances under management up \$194 million, or 12.4 percent, to \$1.75 billion
- Members' equity up \$14 million, or 14.4 percent, to \$109 million
- Loan approvals for the year: \$785 million
- New loans advanced: \$660 million
- Members' redeemable shares and customer deposits up \$116 million, or 9.1 percent, to \$1.39 billion
- Net operating surplus up \$2.5 million, or 13.9 percent, to \$20.9 million
- Direct benefits to membership as a whole: \$8.2 million\*
- Mortgage arrears remain at historic lows
- Doubtful debt provision increased by \$0.7 million

\* Based on the differential in interest margins for SBS's Building Society operations, compared with registered banks, as per KPMG Financial Institutions Performance Survey 2005.

“ How do I feel about SBS?  
Pretty good, I'd say, if the 15  
or so friends I've referred in  
the past couple of years are  
anything to go by. ”



“major sponsor  
of the Lochiel  
Golf Club”


HAMILTON



**Neville Reid** SBS MEMBER

Neville Reid is one member who's really picked up the SBS ball and run with it. So taken is he by the SBS approach, after just two years as a member, the champion runner has all his banking business with the Building Society. He is also a leading light on the SBS Marathon organising committee.

“So much of what SBS stands for fits with me. Through the services, I get peace-of-mind banking and because of the Society's commitment to the community, we now get to enjoy a premier sporting event with Christchurch's SBS Marathon.”



“ “ I believe in mutuality, I believe in heartland New Zealand and I believe in the little guys footing it with the big guys. ” ”

“ “ Growing up in Invercargill, I remember SBS always being part of the landscape ... and feeling quite important because I had my very own savings account there. ” ”

**Garry Diack** DIRECTOR

Corporate performance improvement specialist Garry Diack is SBS' newest director.

"I've seen a lot of boards in action where it's all about the board. This board is made up of very successful people in their own right, but they come together and make decisions where the only agenda is the good of the organisation and it's members, and that's really exciting to be part of.

"As we challenge the 'big banks', our guiding light is the SBS charter. We're governed by something that comes from the members. It's real, it's live, it's local."

**Rachael Walter** MARKETING ASSISTANT

Rachael Walter has been with SBS since March – as an employee. In reality, her relationship with SBS began shortly after birth.

"When we were born, my great aunt gave all four of us kids an SBS account with \$100 in it. A big childhood excitement was ripping open my statement to see how much interest I'd accrued.

"The deal was the money was to stay in my account at SBS until I started my first 'real' job – which just happened to be here."

## DIRECTORS' REVIEW

It is usually with a great deal of satisfaction that your directors present the annual report, but this year is particularly rewarding given the record-breaking result. With the Society now in its 136<sup>th</sup> year, it does not come much better.



What makes it most satisfying is knowing our success as a Society is a mirror of the success of individual members who this year have continued to take advantage of our competitive rates to upgrade their homes, upsize their farms and develop investment portfolios.

Economic commentators have been predicting a property "correction" for most of the year. So far that has failed to eventuate and figures released last month indicate property values are still on the up – albeit at a slower rate. Throughout these growth years, SBS maintained its policy of conservative mortgage lending, so if and when the market does "correct", we believe your Society is well protected.

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### YEAR IN REVIEW

As a board, we made a strategic decision five years ago that in order to cover the cost of expanding services to our members, without raising fees, we would aggressively grow our lending portfolio.

That tactical decision has certainly paid dividends.

In December, we introduced internet banking, the last in a roll-out of services first planned in 2000 to give our members access to options they could expect from a large bank.

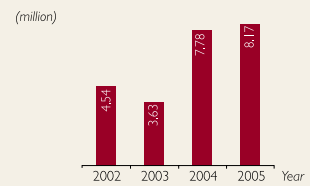




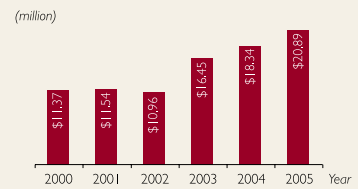
# 33.1%

average increase in membership benefits from 2002 to 2005

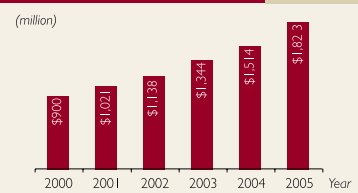
### Estimated Direct Membership Benefits 2002 - 2005



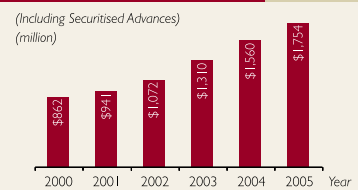
### Surplus Pre-tax 2000 - 2005



### Total Assets 2000 - 2005



### Loan Advances 2000 - 2005



### Members' Equity 2000 - 2005



While there is a cost to technology, like the contact centre, cheque books, EFTPOS cards and internet banking options SBS has introduced in recent years, we thought it more important our service levels remain competitive. As the financial accounts

show, we have managed to offer “remote access” and our traditionally superior on-site customer services without hitting members in the pocket.

These accounts detail a year of continued strong trading across the SBS Group, driven by the buoyant lending market and supported by our focused management.

It is appropriate to acknowledge the calibre of staff whose genuine dedication to our members is coupled with a real “David versus Goliath” mentality. Throughout the organisation, SBS employees are determined to stand up and succeed in a competitive environment where even the legislation favours international companies over our home-grown building society.

## LENDING GROWTH

The rapid growth in lending has brought other challenges. At first, additional lending was matched by investment from members. Latterly, however, we have used increased wholesale facilities and securitisation through our subsidiary company, Funds Administration NZ Limited (FANZ), and, finally, mortgage warehousing to cover loans. These activities are consistent with most Australasian building societies when faced with rapid growth caused by members’ demands for increased mortgages.

Again, it is thanks to our well-trained and dedicated lending team that we have been able to achieve the growth we wanted, without compromising SBS lending standards.

## SBS DISTRIBUTION

It is not just lending that has contributed to our growth. It is also SBS’ expanding geographic spread as we open new branches to meet demand from new markets.

A decade ago, most of our members were Southlanders, usually following a family banking tradition, but now as we have expanded our services, we are attracting new members throughout the country.

Since 1997, our central Christchurch branch increased business by 346 percent, which necessitated the move in February to larger premises on the corner of Manchester and Worcester Streets.

Our sales managers, Glen Clarkson, in Timaru, and Lynn Manson, in Cromwell, both rose to the challenge of rapidly building an economic customer base so that we have now opened new branches in their respective communities. In both communities we followed our policy of first putting a sales manager into low-cost premises to develop the market before committing to the significant capital expenditure needed for a full branch. Timaru started business in January and Cromwell in March. We are delighted that already both are now not only profitable, but ahead of budget.

Meanwhile, sales managers are hard at work in Tauranga and Blenheim, where we hope to expand our branch network in line with demand.

In terms of décor, both Invercargill and Queenstown are due for refurbishments, which we have planned for this financial year.

## SBS AGRIBUSINESS

We have always valued our rural customers and have developed the SBS rural sub-brand to reflect their specialised needs.

A dedicated general manager, supported by Agribusiness Managers, works in this sector that represents more than a fifth of our total lending portfolio. It is not all sheep, beef and dairy either – we also have a share in the emerging viticulture and stonefruit horticulture markets.

Farming, particularly with new industries, can be high-risk territory. Here we are once again reliant on the calibre of our staff and their specialist farming knowledge in assessing risk, as evidenced by the minimal arrears in this portfolio.

“SBS proud  
to sponsor  
Gore Bowls”

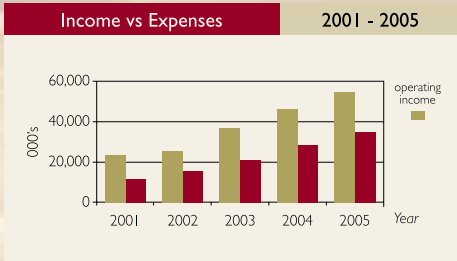




Lynn Manson, Sales Manager, SBS Central Otago

# 21%

average increase in Group  
Operating Income from 2001 to 2005



Anne Ashby-Neilson, Agribusiness Manager, Central Otago  
Malcolm Little, General Manager Agribusiness



## EXTENDING A WARM WELCOME

*After 136 years in business, SBS may be steeped in tradition – but, with our new branch and office designs, we’re pioneering the look and feel of modern-day banking.*

We don’t want our members’ experience to be based around queuing for a teller in a clinical, commercial setting, or discussing their major financial decisions over an imposing office desk.

When deciding where to put our resources, we’re recognising the need is waning for branches geared mainly for everyday banking, as more members opt to use electronic means. The products and services the SBS Group offers is growing, and members are seeking more in-depth help and support around major financial decisions, especially loans and investments.

And, when you’re talking potentially life-changing choices, at SBS, we think you should do it in an inviting and unhurried environment. So, it’s been out with the office furniture and in with comfortable sofas, a welcoming cup of coffee and a totally fresh outlook on banking.

In March, we took that evolution one step further, opening our first “cashless office” in Cromwell, complete with cosy fireplace and a “lounge-like” ambience.

As for the novel new look spreading through the branch network nationally, Invercargill is earmarked for a major makeover this year. That means our southernmost members can also look forward to coffee and a relaxed fireside chat with their SBS consultant.

## PARTNERS ON THE LAND

*If members working with our Agribusiness team thought they’d already struck the cream of the crop in banking customer service, things are about to get even better.*

With growth tracking around \$60 million a year, our team’s swelled from nine to a dozen in the past 12 months, and we’re looking to take on two agri-support field staff soon. The upcoming appointments really underscore our commitment to reliability and continuity of service.

We want our rural-based members to have easy access to someone they know, so we’re creating the new positions to complement the Agribusiness managers’ role. Under this “two-person contact” scenario, managers will continue to oversee the likes of valuation, budgeting, farm production systems and major loans, but members will have further backup from the agri-support field staff, who can cater for their day-to-day banking needs, including smaller-scale lending.

As well as launching our sub-brand “SBS rural”, the year in review has seen more Agribusiness managers on new turf throughout New Zealand.

We’ve always competed on price and strike a chord with parochial rural members, who appreciate SBS is New Zealand owned-and-operated and committed to giving back to the community.

And now, with the advent of transactional and internet banking services, we’re looking to a future where our Agribusiness team is better braced to foot it with the big banks.



SBS is a building society and not a registered bank.

“Our most recent monthly statistics showed we were answering 91 percent of calls in 20 seconds.”

## BRAND RELAUNCH

You may have noticed a subtle change in the way we promote SBS.

In January, the Society launched a new campaign in print, television and radio to emphasise all our services, rather than just focusing on home lending.

We believe we can genuinely compete with corporate banks – and we wanted everyone to know it.

Our message is getting through, as we have had positive feedback from both existing members and the wider public.

## SBS CONTACT CENTRE

Nearly five years ago, the SBS Contact Centre was established with one “pod” of four operators and provision for another. Today, the contact centre is a jewel in the SBS service crown, and this year was one of four finalists in the TUANZ Awards’ under-50 seat category.

During the year, 210,000 incoming calls were received and 60,000 outbound calls made. Such has been the member acceptance of our contact centre that a further “pod”, dedicated to outbound calls, is planned for this year.



Zeda McEwan - Contact Centre

## SBS CONTACT CENTRE

***When rating our SBS Contact Centre, the statistics paint a great picture – but it’s the response from members that really brings out the smiles.***

*The judges at this year’s Telecommunications Users Association of New Zealand (TUANZ) Awards shared callers’ sentiments, placing our contact centre in the top four finalists in the under-50 seat category. First-time entrants, we were judged on everything from how long our callers wait, our ability to address members’ inquiries without having to refer them elsewhere, to staff retention.*

*We were chuffed to earn such an industry accolade, but more satisfying is our members’ feedback. Building relationships over the phone might be challenging, but we know we’ve struck a true rapport when members drop into the SBS Contact Centre, in Invercargill, to put faces to names and bearing chocolates.*

*Established nearly five years ago, today our contact centre handles more than 200,000 calls a year, ranging from “putting a call through” to helping with lending and investments, opening and closing transactional accounts and registering members for internet and telephone banking. Our team is also responsible for checking in periodically with members who have taken a loan with SBS, to ensure everything is as it should be.*

*“We’ve set our benchmark at answering 80 percent of calls within the first 20 seconds – our most recent monthly statistics showed we were hitting 91 percent.”*

*To us, a figure doesn’t mean much if a member is unhappy.*



SBS Marathon - Christchurch



SBS Staff

Andrew Kilsby, Manager SBS Dunedin,  
University Oval



## CONTRIBUTING WHERE IT COUNTS

***In a financially record-breaking year, SBS hit another major milestone – our largest sponsorship.***

*When the refurbishment of Invercargill's Civic Theatre was threatened by cost overruns, we responded to a call for help, gifting the project an interest-free loan, equating to \$1.2 million over a five-year term.*

*At SBS, we think of sponsorship as investing in our community. Like any good business, we do look for a financial return on money spent, but just as important is the social payback – how those funds will benefit our members.*

*There were several key factors that sold us on the Civic Theatre project. SBS and the Civic Theatre both share a significant place in Southland's heritage; we really wanted to see southerners enjoy the quality shows a refurbished building would attract; we saw the need for local artists to have a great place to showcase their talents; and, this was an opportunity to make a difference, not just for now, but for generations to come.*

*Just as SBS takes a unique approach to the financial services we provide, our sponsorship philosophies also sit outside the square.*

*Because it's so important to us that we always act in our members' best interests, many of the decisions around where we invest in our community rest with branch managers throughout the country. After all, it's the staff on the ground who know best the communities in which they work and live.*

## SPONSORSHIP

The prosperity of our community is one of the guiding lights of the SBS charter enshrined last year, and one of the most satisfying jobs for our staff.

In the past five years, we have invested over \$3 million in the wider SBS community. We rely heavily on staff at local levels to help us decide where, and how, to put our money to best use.

**At Southsure Assurance, our philosophy of putting clients' wellbeing before profit might be unorthodox in the insurance world, but it's proving no hindrance – in fact, quite the opposite.**

*Having just celebrated our second full year, we're continuing to build a strong business, proving the SBS Group's tenet of "people first" wins through – even in the competitive insurance market.*

*One of the rewards of our structure is the ability to grow with our members' needs. In short, if members are interested in a new product, we're interested in making it happen. During the year in review, we've built on our core term life, loan repayment and payment protection insurances to tailor loan protection for SBS' Agribusiness members and a special life insurance policy for Finance Now.*

*Members continue to find peace of mind in our "level premiums". Southsure Assurance is one of only three providers we know of that actually locks in premiums – once they're set, they'll never be as much as reviewed, let alone increased.*

*This coming year, we're forecasting steady growth, though our focus will be on continuing to meet the needs of SBS members first and foremost, and also on updating the computer system. This upgrade will allow us to broaden our client base and develop further products, without compromising the personal approach to service we think sets Southsure so far apart.*

## SUBSIDIARY COMPANIES

When the time came to expand the SBS stable into new financial markets, your directors decided that a greenfields start, rather than buying existing companies, was our preferred option.

Why? Culture. At SBS, we are proud of our Charter and the community and customer focus that is at its core, so it was important for us to ensure that all subsidiary companies shared our ethos, and the best way to achieve that was building from the bottom up.

That has also meant, at a governance level, we have been able to better understand each business and make sure they are appropriately resourced.

Our consumer finance company, Finance Now Limited (FNL), for example, was set up with an external supplier for computer programmes and services. When problems developed in that relationship, it was our own SBS Information Technology team that planned and delivered a modern, tailored, internet-capable lending package within 12 months.

Despite some start-up difficulties, FNL, along with our specialist insurance company, Southsure Assurance Limited (Southsure), and FANZ, are each running at a profit.

## SOUTHSURE ASSURANCE LTD

During the second full year as an autonomous subsidiary company, Southsure enjoyed significant growth as it developed its core business and capabilities.

Sales results exceeded budget, with gross premium income increasing 98 percent to \$2.04 million, driven by increased acceptance of SBS Life Loan Protection and sales of Credit Insurance through FNL. Further new products were successfully released to the market, all specifically designed to meet the needs of selected customer groups.

We have a positive outlook for Southsure in the coming year and forecast further growth in premium income and operating surplus.



*Kirsten Miller*  
Sales Manager Southsure Assurance



**Just three years ago, FANZ was little more than a vision. Today, we're a \$190 million business and one of the fastest growing investment advisory companies in New Zealand.**

*Our success stems from wise investing underpinned by quality, flexible products. It's our team's prudence and ability to identify and eliminate risk wherever possible that's proving a sound formula for both FANZ and our investors.*

*Given most of our clients are SBS members and, thus, our shareholders, we operate in a unique environment where we all share the same goal.*

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### **To measure Finance Now's growth, you need look no further than staffing levels.**

Starting with just two employees four and a half years ago, our team is now 50 strong, and, with further exciting initiatives in the wind, we're not putting away the welcome mat just yet.

As SBS' consumer finance company, we operate in two key areas – providing a hire purchase facility to retailers, and personal loans of between \$1,000 and \$20,000.

While personal lending was our strongest performer for the year in the hire purchase arena, retailers, including some of New Zealand's biggest chains, continue to come on board, which we attribute to two critical strengths – commitment to service and our determination right back at start-up to operate superior technology.

Finance Now was the first in the market to offer an internet-based loan approval system, supplying documentation at the point of sale within seconds of submitting the completed proposal.

The number of major national retail chains we work with is testament to how far we've come since 2000, but we're proud also to work with many small-to-medium operators, businesses that are often overlooked by our competitors.



*Michelle Campbell*  
Senior Sales Consultant Finance NOW

Accordingly, we're our own toughest taskmasters, as evidenced by our performance-based fees. When a portfolio outdoes the 90-day bank bill rate, we collect; if it doesn't, there is no performance fee.

FANZ's other arm, SBS Financial Advisory Services, was launched two years ago and is following the same successful lines, doubling in size during the past year to hold portfolios worth nearly \$50 million.

In all we do, it's our aim that the dollar our clients invest today holds the same buying power in 10 years, a fundamental in maintaining a good lifestyle. It's a responsibility we at FANZ carry willingly, but not lightly.

For the FANZ team, the coming year means more of the same – building on sturdy foundations. Longer term, our five-year mission is to grow the business to \$300 million. As ever, though, it'll be steady as she goes.

“One of the rewards of our structure is the ability to grow with our members' needs. In short, if members are interested in a new product, we're interested in making it happen.”

### **FUNDS ADMINISTRATION NZ LTD (FANZ)**

FANZ continues to be a quiet achiever, recording a maiden profit this year, equating to a return on equity of 18.5 percent pre-tax, which was slightly ahead of budget.

Total funds under management or advice have now exceeded \$175 million, the result of steady growth as our members increasingly recognise that the FANZ consistent “stay wealthy” investment proposition, coupled with performance-based fees, provide superior returns.

Prospects for the year ahead look solid rather than spectacular, as we continue to build on the previous year's base.

### **FINANCE NOW LTD**

FNL has completed its fourth full year of operation and continues to make a solid contribution to group profitability.

While arrears and bad debts are an inherent problem within the consumer finance industry, it is fair to say we have incurred more than we anticipated this year. Your directors have been disappointed with the bad debt position and you can be assured that steps are now in place to more actively manage delinquent files for an improvement in 2006.

Even with this higher-than-expected level of bad debt, FNL has proved an excellent investment for the SBS Group.

“As always, the primary focus of all who work for SBS lies in service to our members.”

## DIRECTORS

In January 2005, after nine years of service to our members, John Dowling retired.

John was not only the first director appointed to your Board from Dunedin, he was also the first appointment outside of Southland, thus recognising the importance of our growing branch network. John's considered opinions at the Board table, his enthusiasm for the future of your Society, when coupled with his natural integrity, always ensured the affairs of your Society were conducted appropriately. We wish John well in his retirement and thank him for his service.

Following his retirement, we looked a little further afield. In another first, we invited Christchurch consultant Garry Diack onto the board. Garry's credentials include helping establish the structure of dairy giant Fonterra, as well as nine years' consulting with SBS itself.

We were delighted when Garry accepted our invitation and are confident his breadth of practical business experience will ensure his immediate contribution.

Under the rules of the society, both Garry Diack and Mike Piper are required to retire by rotation and seek re-election. As there have been no additional nominations from members, their re-appointment for a further three-year term will be reconfirmed at the annual general meeting.

Directors' fees were raised this year on the recommendation of independent consultants after a review highlighted the increasing gap between our remuneration and that paid in similar-sized New Zealand companies. The review was wide-ranging, thorough, and encompassed the actual time logs of two of our directors working in professional partnerships. Consequently, we are satisfied the levels set are fair and representative of good business practice.

Directors' retirement allowances have been board policy for many years, but only brought to account when a director retired. The future directors' retirement benefit is now detailed as a contingent liability, but the cash cost to SBS will only be incurred when a director retires.



Steve Beale  
Manager SBS Invercargill,  
Lend a hand promotion.



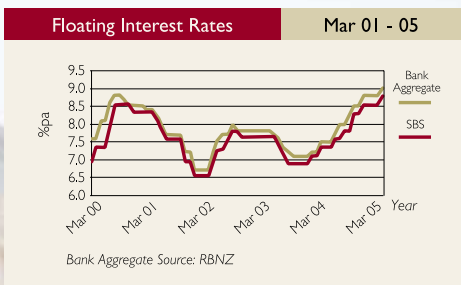
SBS Cromwell Team



SBS Hamilton Team



Timaru Branch, June 2005



Timaru Branch, June 2005

## THE YEAR AHEAD

SBS is a small player in a market dominated by four Australian-owned banks. It is our loyal membership, dedicated staff and good management that have enabled us to compete with them so successfully.

The Reserve Bank Amendment Act of 2004 is a card dealt by the New Zealand Government in the big banks' favour as it restricts the way we can advertise our banking services, because we are not a registered bank.

As a board, we will, during the coming months, be seriously considering the option of applying for a banking licence to even up the playing field. Such a licence may require significant changes to our capital structure, so we will not be making any recommendations to change unless we have the full support of members.

Your directors also expect lending activity to slow as the property market quietens down, leading to increased competitor activity as we all strive to retain market share. SBS, with its expanded network, high levels of customer service and very competitive rates is well positioned to meet the competitive challenges head on.

## SBS STAFF

The demands of a growing organisation mean staff numbers continue to rise. The SBS Group now employs 250 staff, up from 207 last year.

The buoyant economy has led to personnel challenges for many organisations which are struggling to recruit and retain. So far, our reputation as an employer that puts human resources first has helped us employ outstanding individuals who bring new skills to complement our already strong teams. As always, the primary focus of all who work for SBS lies in service to our members.

J.W.A. (Acton) Smith  
Chairman

Ross Smith  
Chief Executive

## DIRECTORS' PROFILES



### **G J (Garry) Diack MA (Hons)**

Mr Diack joined SBS in February 2005.

He is an independent management consultant providing corporate performance and strategy advice to a wide range of companies in Australia and New Zealand.

Mr Diack is also chairman of Evolution Technologies Limited, a member of the NZ Institute of Directors and a member of the Australian Institute of Company Directors.

He is a long standing supporter and adviser to SBS, having provided governance, strategy and corporate performance advice to SBS for the past nine years.

### **G J (Greg) Mulvey BCom CA, FNZIM**

Mr Mulvey joined SBS in February 2004.

He is General Manager of the Invercargill Licensing Trust, a position he has held since April 1988. He is a member of the New Zealand Institute of Chartered Accountants (CA) and is a fellow of the New Zealand Institute of Management. He holds a Bachelor of Commerce degree from Otago University, majoring in marketing/management and accounting.

Greg is a director of DB South Island Brewery Limited and Henley Industries Limited. In addition, he is a trustee of the Stadium Southland Charitable Trust, trustee of the ILT Sports Foundation and ILT Charitable Trust.

### **R L (Ross) Smith BCom**

Mr Smith joined SBS as Chief Executive in 1992 and joined the board as an executive director later that year. He has a financial accounting background and has held various executive positions in the banking and travel industries, both in New Zealand and overseas.

He is a member of the Executive of the Financial Services Federation, a director of Electricity Invercargill Ltd and Powernet Ltd, Continuity Contracting Ltd and a trustee for James Hargest College.

### **J F (John) Ward BCom CA**

A chartered accountant, Mr Ward was appointed to the board in 2002.

He is involved in a number of commercial ventures and serves on various boards. He is the chairman of directors of H & J Smith Holdings Ltd, the AJ Hackett Bungy Group and represents Invercargill on the Venture Southland Board.

He is a ministerial appointment to the Council of the University of Otago, a director of Otago Cricket and chairman of the Transport for Disabled Trust (Southland).

Mr Ward has been a significant supporter of the Society for many years. He was instrumental in forming the group that opposed the sale of SBS in 1991.



**M H (Mike) Piper BCom FCA**  
**Deputy Chairman**

A practising chartered accountant in partnership with McCulloch & Partners, Mr Piper has been a director since 1991 and was appointed deputy chairman in 1994.

He is currently the chair of Stadium Southland Ltd, and a director of the New Zealand Academy of Sport (South Island), a trustee of the Southland Amateur Sports Trust and the Southland Cycling Trust. A keen sports enthusiast, he is a veteran runner and actively involved in athletics, harrier and road running administration in Southland.

A former sharebroker, Mr Piper was a member of the New Zealand Stock Exchange and past chair of the Southland Branch of the Institute of Chartered Accountants. He was secretary of the Southland A & P Association for many years, and the founding secretary and treasurer of Sport Southland and also served as a trustee for Sport Southland for five years.

**W H (Warren) Conway**

Mr Conway was elected to the board in 1991. He is managing director of the Jones Group of Companies, which is involved in the Bluff Oyster and fishing industries.

Mr Conway is also a director of Barnes Oysters Ltd and the Bluff Oyster Management Company Ltd. He has lived in Invercargill since 1961 and has been involved in the timber industry for many years, presently as director of Hardwood Forests Ltd and Invercargill City Forests Ltd.

**JW A (Acton) Smith BCom**  
**Chairman**

Mr Smith is managing director of H & J Smith Ltd, a large privately owned retail company that operates five department stores and several allied businesses throughout the South Island. He is deputy chairman of Mitre 10 (NZ) Ltd, deputy chairman of the Southland Leisure Centre Charitable Trust, and was a founding director of Foveaux Radio.

Mr Smith was elected to the SBS board in 1991 and was vice president until his appointment as president in 1994.

**J B (Jeff) Walker LLB**

Mr Walker, a practising barrister and solicitor in Invercargill, was elected to the board in 1998. He has been a member of the Southland District Law Society Council for several years and is currently president. He has also served on the New Zealand Law Society Technology Committee.

He is a director of several private companies and has played an active part in the administration of a number of businesses. He is a marine farmer in partnership with his wife, Caroline.

Mr Walker was president of Relationship Services from 1993-98 and is a life member. An office holder in several community organisations, he is currently a board member of Soccersouth, president of Southland Soccer and vice president of the Southland WEA.

# SBS MANAGERS

## SENIOR EXECUTIVE TEAM



Tim Loan General Manager Finance	Martin Gale General Manager Technology Services	Lana Winders General Manager Market Development	Ross Smith Chief Executive	Paul Atkinson General Manager Retail	Garry Smith General Manager Retail Support	Malcolm Little General Manager Agribusiness
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## SBS BRANCH MANAGERS



Steve Beale Invercargill	Jim Olsen Gore	Andrew Kilsby Dunedin	Allan Motion Queenstown	Nicki Bennett Hamilton
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Mark Reid Christchurch	Sue McErlich Papanui	Greg Cayford Riccarton	Rod Fox Nelson	Glen Clarkson Timaru
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## SBS SUBSIDIARY MANAGERS



Graham Duston FANZ Ltd	David Newman Southsure Assurance Ltd	Wayne Evans Finance Now Ltd
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## Summary Statement of Financial Performance - Group for the year ended 31 March 2005

	31/3/05 \$000	31/3/04 \$000
Total Operating Income	54,241	45,606
Surplus Before Taxation	20,888	18,340
Less Taxation Expense	6,679	5,610
<b>Net Surplus</b>	<b>\$14,209</b>	<b>\$12,730</b>
<b>Net Surplus Comprises:</b>		
Members Interest	13,744	12,199
Minority Interest	465	531

## Summary Statement of Movements in Equity - Group for the year ended 31 March 2005

Total Recognised Revenues and Expenses	14,224	12,730
Contribution from Owners	17	371
Distribution to Owners	(40)	(446)
<b>Movements in Equity for the year</b>	<b>14,201</b>	<b>12,655</b>
Equity as at 1 April 2004	97,531	84,876
<b>Equity as at 31 March 2005</b>	<b>\$111,732</b>	<b>\$97,531</b>

## Summary Statement of Financial Position - Group as at 31 March 2005

<b>Assets</b>		
Liquid Assets and Securities	50,103	34,141
Advances	1,753,659	1,463,456
Other Assets	19,248	16,324
	<b>\$1,823,010</b>	<b>\$1,513,921</b>
<b>Liabilities</b>		
Deposits	314,539	215,868
Redeemable Shares	1,230,257	1,189,761
Other Liabilities	166,482	10,761
	<b>1,711,278</b>	<b>1,416,390</b>
<b>Equity</b>		
Attributable to Members of the Society	109,372	95,615
Attributable to Minority Shareholders	2,360	1,916
	<b>\$1,823,010</b>	<b>\$1,513,921</b>

## Summary Statement of Cash Flows - Group for the year ended 31 March 2005

Net Cash Inflow from Operating Activities	18,024	13,986
Net Cash Outflow from Investing Activities	(293,146)	(181,989)
Net Cash Inflow from Financing Activities	289,824	156,797
<b>Net increase/ (decrease) in Cash Held</b>	<b>14,702</b>	<b>(11,206)</b>
Add Opening Cash & Cash Equivalents	32,376	43,582
<b>Closing Cash and Cash Equivalents</b>	<b>\$47,078</b>	<b>\$32,376</b>



Chairman  
JWA Smith  
22 June 2005



Deputy Chairman  
MH Piper

The information included in the Summary Financial Statements has been extracted from the audited full financial statements and authorised for issue by the Board on 22 June 2005.

## Notes to the Summary Financial Statements for the year ended 31 March 2005

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### 1. Accounting Policies

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Southland Building Society (SBS) was established in 1869 and was incorporated under the Building Societies Act 1880 on 13 August 1883. The summary financial statements presented here are consolidated statements for the reporting entity of the group comprising SBS and its wholly owned subsidiary, Fraser Properties Limited, Southsure Assurance Limited (80% owned subsidiary), Finance Now Limited (71.5% owned subsidiary), Funds Administration New Zealand Limited (60% owned subsidiary) and the SBS Invercargill W Trust (in substance subsidiary).

SBS has prepared the summary financial statements for members who have made an election under section 97B of the Building Societies Act 1965 to receive summary financial statements. The specific disclosures included in the summary financial statements have been extracted from the full financial statements dated 7 June 2005. The full financial statements from which the summary financial statements have been produced have been audited by KPMG, who expressed an unqualified opinion in relation to those financial statements as at 7 June 2005. These summary financial statements have not been examined by KPMG for consistency with the full financial statements.

Users of the summary financial statements should note that the information contained therein cannot be expected to provide as complete an understanding as provided by the full financial statements of the financial performance, financial position and cash flows of the Group. In particular users should note that the full financial statements should be consulted for a complete disclosure of the requirements of FRS-33: Disclosure of Information By Financial Institutions.

Users who require additional information are encouraged to access the full SBS Financial Statements on the SBS website at [www.sbs.net.nz](http://www.sbs.net.nz). Alternatively users may request a hard copy of the full SBS Financial Statements by contacting SBS at the following address:

The Secretary  
Southland Building Society  
PO Box 835, Invercargill, Telephone: 0800 502 442

The Financial Statements have been prepared in accordance with generally accepted accounting practice in New Zealand.

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### 2. Changes In Accounting Policies

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There have been no changes in accounting policies covered by these financial statements.

SBS has revised its accounting treatment to re-recognise the Lifestages Mortgage Portfolio securitised assets in the Summary Statement of Financial Position on the basis that the Society retains the majority of risks and rewards of ownership. This reflects a change in the application of the Society's accounting policy, and is not a change in that accounting policy. The financial impact is to recognise \$95,696,000 in Advances and other Liabilities. There is no material impact on Net Surplus for the year.

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### 3. Risk Management Policies

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SBS manages risk through an approval delegation and limits structure. Regular reviews of the policies, systems and risk reports are conducted within SBS.

#### *Credit risk management*

Credit risk is the risk of loss arising from the non-performance of a counterparty to an instrument or facility. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual arrangements, and encompasses both on and off-balance sheet instruments. Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent on the level of risk. Credit risk at a retail level is managed by the branch retail network and lending committee. At a wholesale level credit risk is managed by the treasury department.

#### *Interest rate risk management*

Interest rate risk is the risk of loss arising from adverse changes in interest rates. Management's objective is to produce strong and stable net interest income over time. Interest rate risk management focuses on mismatches between the repricing dates of interest bearing assets and liabilities. Interest rate risk is managed by the treasury department.

#### *Liquidity risk management*

Liquidity risk is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. SBS maintains sufficient liquid funds to meet its commitments based on historical and forecasted cash flow requirements and the requirements of SBS's Trust Deed. Liquidity risk is managed by the treasury department.

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### 4. Commitments

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At 31 March 2005 SBS had \$35,527,000 (2004 \$62,408,000) of advances approved but undrawn and \$155,345,000 (2004 \$139,195,000) of undrawn balances under revolving credit mortgage facilities.

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The information included in the Summary Financial Statements has been extracted from the audited full financial statements and authorised for issue by the Board on 22 June 2005.



Notes to the Summary Financial Statements for the year ended 31 March 2005

**5. Bad and Doubtful Debts**

	GROUP	
	31/3/05 \$000	31/3/04 \$000
Bad Debts for Year	3,043	1,899
Less Provisions Released or Utilised	(56)	(853)
Add New Provisions Made General and Specific	760	1,230
Net Bad and Doubtful Debts Expense*	<b>\$3,747</b>	<b>\$2,276</b>

\* Note that the group charge for bad and doubtful debts is primarily in relation to consumer finance lending by Finance Now Limited

**6. Asset Quality**

	GROUP - 31/3/2005			GROUP - 31/3/2004		
	Pre- Provision \$000	Specific Provision \$000	Balance \$000	Pre- Provision \$000	Specific Provision \$000	Balance \$000
	Non-Accrual Assets	1,119	649	470	856	767
Past Due Assets	2,712	90	2,622	1,672	118	1,554
	<b>\$3,831</b>	<b>\$739</b>	<b>\$3,092</b>	<b>\$2,528</b>	<b>\$885</b>	<b>\$1,643</b>

**7. Maturity Profile**

Assets	GROUP - 31/3/2005			GROUP - 31/3/2004		
	Current Assets \$000	Non-current Assets \$000	Total \$000	Current Assets \$000	Non-current Assets \$000	Total \$000
	Advances	235,726	1,517,933	1,753,659	233,451	1,230,005
Liquid Assets and Securities	49,575	528	50,103	34,141	-	34,141
Other Monetary Assets	2,266	-	2,266	1,175	-	1,175
	<b>\$287,567</b>	<b>\$1,518,461</b>	<b>\$1,806,028</b>	<b>\$268,767</b>	<b>\$1,230,005</b>	<b>\$1,498,772</b>

Liabilities	GROUP - 31/3/2005			GROUP - 31/3/2004		
	Current Liabilities	Non-current Liabilities	Total	Current Liabilities	Non-current Liabilities	Total
	Redeemable Shares	1,165,801	64,456	1,230,257	1,143,271	46,490
Deposits	305,061	9,478	314,539	209,114	6,754	215,868
Other Monetary Liabilities	164,584	-	164,584	9,561	-	9,561
	<b>\$1,635,446</b>	<b>\$73,934</b>	<b>\$1,709,380</b>	<b>\$1,361,946</b>	<b>\$53,244</b>	<b>\$1,415,190</b>

**8. Fair Value**

	GROUP - 31/3/2005		GROUP - 31/3/2004	
	Carrying Amount \$000	Fair Value \$000	Carrying Amount \$000	Fair Value \$000
	<b>Statement of Financial Position Items</b>			
Assets	<b>\$1,803,762</b>	<b>\$1,799,330</b>	\$1,497,597	\$1,502,088
Liabilities	<b>\$1,696,509</b>	<b>\$1,695,954</b>	\$1,405,629	\$1,407,212
<b>Unrecognised Financial Instruments</b>				
Derivative Contracts - Net Receivable/(Payable) Position		<b>\$293</b>	\$(359)	\$(942)

**9. Liquidity**

	GROUP	
	31/3/05 \$000	31/3/04 \$000
Asset Liquidity	50,102	34,141
Committed and Undrawn Funding Lines	147,000	140,000
<b>Total Liquidity</b>	<b>\$197,102</b>	<b>\$174,141</b>

The information included in the Summary Financial Statements has been extracted from the audited full financial statements and authorised for issue by the Board on 22 June 2005.



## NOTICE OF ANNUAL GENERAL MEETING 2005

Notice is hereby given that the Annual General Meeting of members of the Southland Building Society (SBS) will be held on the 4<sup>th</sup> floor of SBS' office building, 51 Don Street, Invercargill on Wednesday 27 July 2005 at 5.30pm.

### I. Ordinary Business

#### I.1 Adoption of Annual Report

To receive and consider the Financial Statements together with the reports of the Directors and Auditors of Southland Building Society for the year ended 31 March 2005.

#### I.2 Election of Directors

Messrs M H Piper and G J Diack retire by rotation and, being eligible, are offering themselves for re-election. There being no other candidates, the reappointment of the retiring directors is to be confirmed.

#### I.3 To Appoint Auditors

To record the appointment of the auditors for the 2005/2006 year and to authorise the directors to fix their remuneration.

#### I.4 General Business

To transact any other business which may be properly submitted to the Annual General Meeting.

*By order of the Board*

TDR Loan

Secretary

16 June 2005

NOTE: Proxies

In compliance with Section 79 of the Building Societies Act 1965, members are reminded that a member entitled to attend and vote at the above meeting, is entitled to appoint a proxy to attend and vote instead of him/her, and that a proxy need not also be a member. Proxy forms are available from SBS' registered office.

To be valid, proxies must be deposited at SBS' registered office not less than 48 hours before the scheduled meeting time of the Annual General Meeting.

## DIRECTORY

### Chairman

Mr J W A Smith  
BCom  
Company Director  
Invercargill

### Deputy Chairman

Mr M H Piper  
BCom FCA  
Chartered Accountant  
Invercargill

Mr W H Conway  
Company Director  
Invercargill

Mr J B Walker  
LLB  
Barrister & Solicitor  
Invercargill

Mr J F Ward  
BCom CA  
Chartered Accountant  
Invercargill

Mr G J Mulvey  
BCom CA FNZIM  
General Manager  
Invercargill Licensing Trust  
Invercargill

Mr G J Diack  
MA (Hons)  
Management Consultant  
Christchurch

Mr R L Smith  
BCom  
Chief Executive  
Southland Building Society  
Invercargill

All Directors can be contacted  
c/- SBS  
51 Don Street  
Invercargill

### Chief Executive

Mr R L Smith  
BCom  
Invercargill

### Secretary

Mr T D R Loan  
BCom CA DipBusStuds(IS)  
General Manager Finance

### Registered Office

51 Don Street  
Invercargill

### Solicitors

Buddle Findlay  
78 Worcester Street  
Christchurch

Cruikshank Pryde  
42 Don Street  
Invercargill

### Group Auditors

KPMG  
135 Victoria Street  
Wellington

### Banker

Westpac Banking Corporation

### Trustee

Trustees Executors Limited  
Level 1  
50-64 Customhouse Quay  
Wellington

## BRANCH DIRECTORY

### **Invercargill - Head Office**

51 Don Street  
(PO Box 835)  
Telephone: 03 211 0700  
Fax: 03 211 0793

### **North Invercargill**

54 Windsor Street  
Telephone: 03 211 0745  
Fax: 03 217 7933

### **Gore**

80 Main Street  
(PO Box 212)  
Telephone: 03 209 0080  
Fax: 03 209 0077

### **Dunedin**

Cnr George & Hanover Streets  
(PO Box 5492)  
Telephone: 03 477 5100  
Fax: 03 471 4439

### **Queenstown**

7 Shotover Street  
(PO Box 710)  
Telephone: 03 441 0033  
Fax: 03 441 0279

### **Cromwell**

21 The Mall  
(PO Box 226)  
Telephone: 03 445 0672  
Fax: 03 445 0697

### **Timaru**

235 Stafford Street  
(PO Box 844)  
Telephone: 03 684 9536  
Fax: 03 688 4598

### **Christchurch - Central**

180 Manchester Street  
(PO Box 13801)  
Telephone: 03 962 5900  
Fax: 03 962 5905

### **Christchurch - Riccarton**

109 Riccarton Road  
(PO Box 80058)  
Telephone: 03 982 5700  
Fax: 03 982 5706

### **Christchurch - Papanui**

2-6 Main North Road  
(PO Box 5038)  
Telephone: 03 375 0840  
Fax: 03 375 0841

### **Nelson**

126 Trafalgar Street  
(PO Box 211)  
Telephone: 03 548 9200  
Fax: 03 545 9839

### **Blenheim**

Level 1  
47 Queen Street  
(PO Box 1188)  
Telephone: 03 579 5293  
Fax: 03 579 5249

### **Hamilton**

Novotel Building  
354 Victoria Street  
(PO Box 19222)  
Telephone: 07 957 6350  
Fax: 07 957 6351

### **Tauranga**

Level 1  
KPMG Building  
35 Grey Street  
(PO Box 13020)  
Telephone: 07 578 9217  
Fax: 07 578 9219



OUR PEOPLE MAKE THE DIFFERENCE



looking  
after **our**  
members'  
interests  
since 1869



Southland Building Society  
136th Annual Report 2005  
FINANCIAL STATEMENTS



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## DIRECTORY

### Chairman

Mr J W A Smith  
BCom  
Company Director  
Invercargill

### Deputy Chairman

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Chartered Accountant  
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Wellington

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Westpac Banking Corporation

### Trustee

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Level 1  
50-64 Customhouse Quay  
Wellington

## Statement of Financial Performance for the year ended 31 March 2005

	Note	GROUP		PARENT	
		31/3/05 \$000	31/3/04 \$000	31/3/05 \$000	31/3/04 \$000
Interest Income	(4)	130,498	107,171	121,863	100,769
Interest Expense		16,228	9,560	15,954	9,555
Dividends on Redeemable Shares		71,333	61,591	71,333	61,591
		87,561	71,151	87,287	71,146
Net Interest Income		42,937	36,020	34,576	29,623
Other Income	(5)	11,304	9,586	3,995	3,628
<b>Total Operating Income</b>		54,241	45,606	38,571	33,251
Operating Expenses	(6)	33,978	28,004	21,590	18,643
<b>Operating Surplus</b>		20,263	17,602	16,981	14,608
Add Revaluation of Property	(22)	625	738	-	10
<b>Surplus Before Taxation</b>		20,888	18,340	16,981	14,618
Less Taxation Expense	(7)	6,679	5,610	5,418	4,609
<b>Net Surplus</b>		\$14,209	\$12,730	\$11,563	\$10,009
<b>Net Surplus Comprises</b>					
Members Interest		13,744	12,199	11,563	10,009
Minority Interest		465	531	-	-

## Statement of Movements in Equity for the year ended 31 March 2005

Net surplus for the year					
Members Interest		13,744	12,199	11,563	10,009
Minority Interest		465	531	-	-
<b>Other Recognised Revenues and Expenses</b>					
Revaluation of Investment Property	(22)	15	-	15	-
<b>Total Recognised Revenues and Expenses for the year</b>		14,224	12,730	11,578	10,009
<b>Contribution from Owners</b>					
Minority Interest Capital		-	371	-	-
Adjustment Minority Interest		17	-	-	-
		17	371	-	-
<b>Distribution to Owners</b>					
Dividends to Minority Interest		(40)	(32)	-	-
Purchase Minority Interest		-	(414)	-	-
		(40)	(446)	-	-
<b>Movements in Equity for the year</b>		14,201	12,655	11,578	10,009
Equity as at 1 April 2004		97,531	84,876	92,589	82,580
		111,732	97,531	104,167	92,589
<b>Comprising:</b>					
Members Interest		109,372	95,615	104,167	92,589
Minority Interest		2,360	1,916	-	-
<b>Equity as at 31 March 2005</b>		\$111,732	\$97,531	\$104,167	\$92,589

The Notes to the Financial Statements (pages 5 to 25) form part of and should be read in conjunction with these financial statements.

# Statement of Financial Position as at 31 March 2005

	Note	GROUP		PARENT	
		31/3/05 \$000	31/3/04 \$000	31/3/05 \$000	31/3/04 \$000
<b>Assets</b>					
Cash on Hand and at Bank		3,157	3,379	145	3,234
Call Funds with Financial Institutions		6,501	29,004	6,501	29,004
Investment Securities	(8)	2,605	1,758	-	-
Other Securities	(9)	37,840	-	37,840	-
Advances	(10)(14)	1,753,659	1,463,456	1,630,535	1,398,399
Investments in Subsidiaries	(15)	-	-	9,487	9,487
Loans to Subsidiaries	(15)	-	-	65,035	61,076
Other Assets	(16)	2,696	1,560	2,410	872
Investment Properties	(18)	450	435	450	435
Property, Plant and Equipment	(19)	15,029	13,198	5,200	4,570
Intangible Assets	(20)	1,073	1,131	-	-
	(24)	<b>\$1,823,010</b>	<b>\$1,513,921</b>	<b>\$1,757,603</b>	<b>\$1,507,077</b>
<b>Liabilities</b>					
Deposits	(24)	314,539	215,868	314,539	215,868
Redeemable Shares	(24)	1,230,257	1,189,761	1,230,444	1,190,061
Other Borrowings	(2)(24)	151,343	-	96,045	-
Bank Overdraft	(24)	370	-	370	-
Other Liabilities	(21)	14,769	10,761	12,038	8,559
	(24)	<b>1,711,278</b>	<b>1,416,390</b>	<b>1,653,436</b>	<b>1,414,488</b>
<b>Equity</b>					
Attributable to Members of the Society	(22)	109,372	95,615	104,167	92,589
Attributable to Minority Shareholders		2,360	1,916	-	-
		<b>\$1,823,010</b>	<b>\$1,513,921</b>	<b>\$1,757,603</b>	<b>\$1,507,077</b>



Chairman  
JWA Smith  
7 June 2005



Deputy Chairman  
MH Piper

The Notes to the Financial Statements (pages 5 to 25) form part of and should be read in conjunction with these financial statements.



## Statement of Cash Flows for the year ended 31 March 2005

	Note	GROUP		PARENT	
		31/3/05 \$000	31/3/04 \$000	31/3/05 \$000	31/3/04 \$000
<b>Cash Flows From Operating Activities</b>					
<b>Cash Provided From:</b>					
Advances and Treasury Income		128,745	107,304	120,305	100,906
Sundry Income		11,304	9,461	3,995	3,375
Dividends Received		-	-	-	128
		140,049	116,765	124,300	104,409
<b>Cash Was Applied To:</b>					
Interest Paid		16,337	9,280	16,105	9,275
Dividends Paid		68,920	61,850	68,920	61,850
Operating Expenses		29,613	26,076	19,135	16,602
Income Taxes Paid		7,155	5,573	5,908	4,436
		122,025	102,779	110,068	92,163
<b>Net Cash Flows From Operating Activities</b>	(23)	18,024	13,986	14,232	12,246
<b>Cash Flows From Investing Activities</b>					
<b>Cash Provided From:</b>					
Sale of Property, Plant and Equipment		25	66	24	65
Net Proceeds from Securitised Loans	(2)	-	88,148	55,257	88,148
Repayment of Subsidiary Advance		18	-	-	-
Sale of Associate Shares		-	2,625	-	2,625
		43	90,839	55,281	90,838
<b>Cash Was Applied To:</b>					
Purchase of Property, Plant and Equipment		3,144	3,045	2,179	2,006
Purchase of Subsidiary Shares		-	1,160	-	2,062
Net increase in Investment Securities		839	(5,400)	-	-
Loans to Subsidiaries		-	-	3,959	13,415
Net increase in Advances		289,206	274,023	285,995	253,766
		293,189	272,828	292,133	271,249
<b>Net Cash Flows From Investing Activities</b>		(293,146)	(181,989)	(236,852)	(180,411)
<b>Cash Flows From Financing Activities</b>					
<b>Cash Provided From:</b>					
Net increase in Shares and Deposits		136,863	153,417	136,792	154,112
Net Increase in Other Borrowings		151,343	-	96,045	-
Capital Introduced Minority Interest		-	371	-	-
Increase in Collections Account		1,618	3,041	1,618	3,041
		289,824	156,829	234,455	157,153
<b>Cash Was Applied To:</b>					
Dividend paid to Minority Interests		-	32	-	-
<b>Net Cash Flows From Financing Activities</b>		289,824	156,797	234,455	157,153
Net increase/ (decrease) in Cash Held		14,702	(11,206)	11,835	(11,012)
Add Opening Cash and Cash Equivalents		32,376	43,582	32,231	43,243
Closing Cash and Cash Equivalents		\$47,078	\$32,376	\$44,066	\$32,231
<b>Reconciliation of Cash and Cash Equivalents</b>					
Cash on Hand and at Bank		3,157	3,379	145	3,234
Call Funds with Financial Institutions		6,501	29,004	6,501	29,004
Other Securities	(9)	37,840	-	37,840	-
Less Bank Overdraft		(370)	-	(370)	-
Less Interest Accrued and Amortisation		(50)	(7)	(50)	(7)
		\$47,078	\$32,376	\$44,066	\$32,231

The Notes to the Financial Statements (pages 5 to 25) form part of and should be read in conjunction with these financial statements.

## I Statement Of Accounting Policies

Southland Building Society (SBS) was established in 1869 and was incorporated under the Building Societies Act 1880 on 13 August 1883. The consolidated financial statements presented here are for the reporting entity of the group comprising SBS and its subsidiaries.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and comprise statements of the following: financial performance, movements in equity, financial position, cashflows, as well as the notes to these statements contained on pages 5 to 25. The group is an issuer under the Financial Reporting Act 1993.

The financial statements have been prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are identified.

### (a) Consolidation

The group accounts consolidate the accounts of the Southland Building Society and its wholly owned subsidiary, Fraser Properties Limited, Southsure Assurance Limited (80% owned subsidiary), Finance Now Limited (71.5% owned subsidiary), Funds Administration New Zealand Limited (FANZ) (60% owned subsidiary) and the SBS Invercargill W Trust (in substance subsidiary) using the purchase method of consolidation. SBS purchased an additional 11.5% of Finance Now Limited during the year ended 31 March 2004. Southsure Assurance Limited's main activity is to provide life assurance. Fraser Properties Limited owns the Southland Building Society's Head Office building. Finance Now Limited's main activity is to provide hire purchase, consumer loans and insurance services. FANZ's main activity is to provide a range of funds management products for wholesale and retail investors. The SBS Invercargill W Trust's main activity is to house securitised loans purchased from Southland Building Society. On consolidation all significant inter-company transactions have been eliminated. Fraser Properties Limited is a guaranteeing subsidiary.

Southsure Assurance Limited's financial statements have been prepared in accordance with Financial Reporting Standard No. 34 "Life Insurance Business". The adoption of accounting policies in accordance with Financial Reporting Standard No. 34 is not material in the Group financial statements.

Southland Building Society records its investment in subsidiaries at cost.

### (b) Property, Plant and Equipment

Land and Buildings are initially recorded at cost and are subsequently valued by independent registered valuers. Property revaluations are credited or debited to a Revaluation Reserve. Where revaluations result in a debit balance in the Revaluation Reserve they are expensed in the Statement of Financial Performance. Subsequent upward revaluations of these assets are taken to the Statement of Financial Performance only to the extent of the earlier charge and any remaining surplus is credited to the Revaluation Reserve.

Valuations of Land and Buildings are carried out annually, at highest and best use and disposal costs

are not deducted. All other plant and equipment including internally developed assets are recorded at cost.

### (c) Investment Properties

Investment Properties are stated at valuation as determined annually by an independent registered valuer. The basis of valuation is market value less the estimated costs of disposal based on the properties highest and best use. Any increase in revaluation is transferred to a Revaluation Reserve in equity unless it offsets a previous decrease in value recognised in the Statement of Financial Performance in which case it is recognised in the Statement of Financial Performance. Where revaluations result in a debit balance in the Revaluation Reserve they are expensed in the Statement of Financial Performance.

Where an investment property is disposed of, the gain or loss recognised in the statement of financial performance is the difference between the sale price and the historical cost of the property. Any amount in equity that related to the property is transferred to the statement of financial performance in calculating the gain or loss.

Investment properties are not depreciated.

### (d) Depreciation

Depreciation is provided in the financial statements, on all property, plant and equipment, other than land, on a basis which will write down the value of the property, plant and equipment over their expected useful lives to their estimated realisable value. The primary annual rates used are:-

- (i) Buildings – 1 % on diminishing value.
- (ii) Building Alterations – 9% to 39.6% on diminishing value.
- (iii) Computer Equipment – 20% to 48% on diminishing value.
- (iv) Computer Software - 40% to 48% on diminishing value.
- (v) Other assets - 9% to 60% on diminishing value.

### (e) Other Securities

Other Securities are negotiable and comprise debt securities which are not purchased with the primary intent to hold for the long term or until maturity. Other Securities provide a liquidity reserve to meet expected and unexpected fluctuations in operating cashflows.

Bond Securities are recorded at cost adjusted for the amortisation of premiums and discounts. The remainder of Other Securities are recorded at cost adjusted for accruals. Gains and losses due to changes in market value are only taken to account if a security is sold.

Interest income and discounts on Other Securities are recognised on an accrual basis. Other Securities are recorded on a trade date basis.

### (f) Investment Securities

Investment Securities are negotiable and comprise debt securities, which are purchased with the intention

to hold for the long term or until maturity. Investment Securities are not primarily intended to provide a liquidity reserve to meet expected and unexpected fluctuations in operating cashflows; however they can be used for liquidity purposes.

Bond Securities are recorded at cost adjusted for the amortisation of premiums and discounts. The remainder of Investment Securities are recorded at cost adjusted for accruals. Gains and losses due to changes in market value are only taken to account if a security is sold.

Interest income and discounts on Investment Securities are recognised on an accrual basis. Investment Securities are recorded on a trade date basis.

### (g) Financial Instruments

A financial asset or financial liability is recognised in the Statement of Financial Position if it is probable that any future economic benefit or service potential associated with the item will flow to or from the Group and the item has a cost or value that can be measured with reliability.

Adequate allowance is made in the Statement of Financial Performance for unrealised losses arising from financial instruments that are not recognised in the Statement of Financial Position.

Unrecognised financial instruments are from time to time used to hedge underlying financial asset/liability exposures, commitments and anticipated transactions and are accounted for on the same basis as the underlying exposures. They can include forward rate agreements, interest rate swap agreements including more complex options and swaps and interest rate futures and options.

### (h) Nature and Extent of Activities with Respect to Financial Instruments

The Group is party to recognised and unrecognised financial instruments, which are exposed to interest rate and credit risk in the normal course of business. This is to meet the financing and banking needs of customers, for liquidity purposes, and to reduce the Group's exposure to fluctuations in interest rates. Further disclosure of the nature and extent of activities in financial instruments is incorporated in the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and other Accounting Policy and Explanatory Notes to the financial statements.

### (i) Advances and Sundry Debtors

Advances and Sundry Debtors are recorded at expected net realisable value including accrued interest.

### (j) Redeemable Shares and Deposits

Redeemable Shares and Deposits are recorded in the Statement of Financial Position inclusive of accrued interest.

### (k) Taxation

The income tax expense charged to the consolidated Statement of Financial Performance includes both the

# Notes to the Financial Statements for the year ended 31 March 2005

current year expense and the income tax effects of timing differences calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to those timing differences expected to reverse in the foreseeable future.

A debit balance in the deferred tax account, arising from timing differences is only recognised if there is virtual certainty of realisation.

## (l) Recognition of Interest Revenue and Expenses

Interest revenue and expenses are recognised on a daily accrual basis. Interest is accrued on loans and deposits according to the yield associated with the outstanding principal. Finance company interest is recognised on an actuarial basis for personal loans and on a rule of 78 basis for hire purchase finance.

## (m) Income Recognition on Non-Accrual Loans

When a loan is classified as non-accrual, income ceases to be recognised in the Statement of Financial Performance on an accruals basis as reasonable doubt exists as to the collectibility of interest and principal.

All cash receipts on non-accrual loans are applied against the carrying value of the loans and are not recognised in the Statement of Financial Performance as interest income until the principal has been fully repaid or the loan has been transferred out of the non-accrual category.

## (n) Recognition of Fee Income

Fee income is recognised at the time the service is provided. All fee income is non yield related. Non yield related application and activation lending fees are recognised as income no later than when the loan is disbursed or the commitment to lend expires.

## (o) Offsetting

In accordance with International Accounting Standard IAS 1 "Presentation of Financial Statements", costs that represent expenditure that is reimbursed under a contract arrangement have been netted against the related revenue. Included in this category are brokerage fees, and insurance premiums.

## (p) Impaired Assets

The Group has classified its impaired assets into the following broad categories:

### Non-accrual assets

Non-accrual assets are credit exposures for which it is probable the Group will not be able to collect all amounts owing in terms of the contract and includes:

- loans that are not contractually past due but where there is insufficient security to cover principal outstanding
- loans which are past due with insufficient security to cover principal and arrears of interest
- restructured loans where the interest rate charged is below that Group's average cost of funds; and
- loans not included in the above, that are maintained on a cash basis because of a significant deterioration in the financial performance or position of the borrower

### Restructured loans

Restructured loans are defined as loans on which the original contractual terms have been concessionally

modified due to the financial difficulties of borrowers, and on which interest continues to be accrued at a rate which is equal to or greater than the Group's average cost of funds at the date of restructuring.

*Real estate or other assets acquired through security enforcement*

A specific provision is raised to cover the expected loss where full recovery of principal is doubtful.

## (q) Past Due Assets

Past due assets are loans which have not been operated by the borrower within its key terms for at least 90 days and which are not impaired assets.

## (r) Bad and Doubtful Debts

Specific provisions are made against advances, investment and other securities and unrecognised financial instruments where recovery of part or the whole of individual assets is considered to be in doubt. Specific provisions are based on identification on a counterparty by counterparty basis.

Certain subsidiaries maintain general provisions to reflect potential credit losses inherent in their lending portfolios.

All loans are subject to regular management review.

The amount necessary to bring the provisions to their assessed levels, after net write-offs, is charged to the Statement of Financial Performance.

Provisions for doubtful debts are deducted from loans and advances in the Statement of Financial Position.

## (s) Leases

Payments made under operating leases are recognised in the Statement of Financial Performance on a basis representative of the pattern of benefits expected to be derived from the leased asset.

## (t) Statement of Cash Flows

### Basis of Preparation

The Statement of Cash Flows has been prepared using the direct approach modified by the netting of certain items as disclosed below.

### Cash and Cash Equivalents

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day to day cash management of the Group, which are unconditionally convertible at the Group's option within no more than two working days.

### Netting of Cash Flows

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Group. These include customer loans and advances, customer shares and deposits and parent company funding.

## (u) Discontinued Activities

None of the revenue and expense items disclosed in the Statement of Financial Performance result from discontinued activities.

## (v) Ranking of Securities

Deposits rank equally with other unsecured creditors and behind creditors given priority by law. Redeemable Shares rank equally with other existing securities of their own class and behind unsecured creditors and those creditors given priority by law.

## (w) SBS Capital Stable Fund

SBS has entered into a trust deed made between SBS and Trustee Executors Limited as Trustee of a registered superannuation scheme known as the SBS Capital Stable Fund. SBS is a promoter of the SBS Capital Stable Fund and accepts investments made through the SBS's branch network. The fixed interest portion of the SBS Capital Stable Fund is managed by SBS who unconditionally guarantees the capital invested in it providing the investment is maintained for at least three years. A minimum of 80% of the funds invested in the SBS Capital Stable Fund are invested with SBS. The SBS Capital Stable Funds that are invested with SBS are included in the Statement of Financial Position as deposits. Funds Administration New Zealand Limited (FANZ) is the Investment and Administration Manager of the SBS Capital Stable Fund.

## (wi) SBS Growth Fund

SBS has entered into a trust deed made between SBS and Trustee Executors Limited as Trustee of a group investment fund known as the SBS Growth Fund. SBS is a promoter of the SBS Growth Fund and accepts investments made through SBS's branch network. The fixed interest portion of the SBS Growth Fund is managed by SBS. A minimum of 20% of the funds invested in the SBS Growth Fund are invested with SBS. The SBS Growth Funds that are invested with SBS are included in the Statement of Financial Position as deposits.

## (wii) Lifestages Portfolio Funds

Funds Administration New Zealand Limited (FANZ - 60% owned subsidiary) has entered into a trust deed made between FANZ and Trustee Executors Limited as Trustee of four unit trusts registered under the Unit Trusts Act 1960, known as Lifestages Mortgage Portfolio (Distributing), Lifestages Mortgage Portfolio (Non-distributing), Lifestages Australasian Equity Portfolio and Lifestages World Equity Portfolio. FANZ is the issuer and manager of the above Portfolios. In addition, from 1<sup>st</sup> November 2004 FANZ was appointed as Investment and Administration Manager with respect to the SBS Capital Stable Fund by entering into an agreement between Trustee Executors (as trustee and issuer), FANZ and SBS

The fixed interest portion and the mortgage portfolio of the Lifestages Mortgage Portfolios are managed by SBS.

The fixed interest portion of this portfolio (from 2.5% to 10% of the portfolio) is invested with SBS.

The fixed interest portion of the Lifestages Australasian Equity Portfolio and Lifestages World Equity Portfolio are managed by SBS. The fixed interest portion of these portfolios (from 2.5% to 10% of the portfolio) are invested with SBS.

The Lifestages Portfolio Funds that are invested with SBS are included in the Statement of Financial Position as deposits.

# Notes to the Financial Statements for the year ended 31 March 2005

## (x) Loan Securitisation

SBS sells its interest in certain loans (principally housing mortgage loans) to a unit trust known as the Lifestages Mortgage Portfolio by way of an equitable assignment. At the time of the sale all legal, equitable and certain beneficial interests in the mortgages are transferred to the purchaser. SBS has agreed from time to time to repurchase loans in order to facilitate liquidity in the Lifestages Mortgage Portfolio at the request of the Trustee. Securitised assets, that do not meet the definition of a disposal, are recognised in the Parent Statement of Financial Position.

SBS receives from the investment manager (Funds Administration New Zealand Limited – a 60% owned subsidiary) an ongoing fee for the management and administration of loans assigned to the Lifestages Mortgage Portfolio. This fee is recognised when received.

SBS has revised its accounting treatment to re-recognise the Lifestages Mortgage Portfolio securitised assets in the Statement of Financial Position on the basis that the Society retains the majority of risks and rewards of ownership.

SBS also sells its interest in certain loans (principally housing mortgage loans) to a trust known as the SBS Invercargill W Trust by way of an equitable assignment. At the time of the sale all legal, equitable and beneficial interests in the mortgages are transferred to the purchaser. On sale to the SBS Invercargill W Trust the securitised assets are removed from advances in the Parent Statement of Financial Position.

SBS is the manager and servicer of mortgages assigned to the SBS Invercargill W Trust. SBS receives a fee for providing these management services. This fee is recognised when earned.

## (y) Goodwill

Goodwill arising on the acquisition of subsidiary shares represents the excess of the purchase consideration over the fair value of the identifiable net assets acquired. Goodwill is amortised to the statement of financial performance on a straight line basis over the period during which benefits are expected to be derived – a period of 20 years.

## (z) Comparatives

Certain comparative information has been reclassified in order to provide a more appropriate basis for comparison.

## 2 Changes in Accounting Policies

There have been no changes in accounting policies covered by these financial statements.

As set out in note 1(x) Loan Securitisation, SBS has revised its accounting treatment to re-recognise the Lifestages Mortgage Portfolio securitised assets in the Statement of Financial Position on the basis that the Society retains the majority of risks and rewards of ownership. This reflects a change in the application of the Society's accounting policy, and is not a change in that accounting policy. The financial impact is to recognise \$95,696,000 in advances and borrowings. There is no material impact on Net Surplus for the year.

## 3 Risk Management Policies

SBS manages risk through an approval delegation and limits structure. Regular reviews of the policies, systems and risk reports are conducted within SBS.

### Role of the Board and Audit Committee

The Board has responsibility for reviewing all aspects of risk management. The Audit Committee which is a sub committee of the Board is charged with the responsibility of:

- Overseeing the quality of financial information presented to the board;
- The effectiveness and integrity of the internal control environment;
- SBS's compliance with regulatory requirements that impact on the business; and the external and internal audit functions.

The Committee consists of two directors and one independent member. In addition the Chief Executive Officer and GM Finance are in attendance at meetings. It meets at least four times a year; and reports directly to the Board.

### Internal Audit

SBS's internal audit function conducts independent reviews that assist the Board of Directors and management to meet their statutory and other obligations. The internal audit function has no reporting line to SBS management. The function reports directly to the Chairman of the Audit Committee. The internal audit function is carried

out by the Invercargill based firm of Chartered Accountants, Ward Wilson. In performing this role, the internal audit function adopts a risk-based approach, encompassing reviews of the major risks that could impact upon SBS. Significant findings are reported quarterly to the Audit Committee.

An audit plan is prepared annually covering each business area of SBS, with greater emphasis placed on those areas where highest risk exists. The plan is endorsed by the Audit Committee.

### Specific Areas of Risk Management

#### Credit risk management

Credit risk is the risk of loss arising from the non-performance of a counterparty to an instrument or facility. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual arrangements, and encompasses both on and off-balance sheet instruments. Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent on the level of risk. Credit risk at a retail level is managed by the branch retail network and lending committee. At a wholesale level credit risk is managed by the treasury department.

#### Interest rate risk management

Interest rate risk is the risk of loss arising from adverse changes in interest rates. Management's objective is to

produce strong and stable net interest income over time. Interest rate risk management focuses on mismatches between the repricing dates of interest bearing assets and liabilities. Interest rate risk is managed by the treasury department.

#### Liquidity risk management

Liquidity risk is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. SBS maintains sufficient liquid funds to meet its commitments based on historical and forecasted cash flow requirements and the requirements of SBS's Trust Deed. Liquidity risk is managed by the treasury department.

#### Operational risk management

Operational risk is the risk arising from day to day operational activities which may result in direct or indirect loss. These losses may result from failure to comply with policies, procedures, laws and regulations, from fraud or forgery, from a breakdown in the availability or integrity of services, systems and information, or damage to SBS's reputation. Examples include failure to comply with policy and legislation, human error; natural disasters, fraud and other malicious acts. Where appropriate, risks are mitigated by insurance.

Business units have primary responsibility for the identification and management of operational risk. The Operational Risk Adviser together with the Audit Committee provides policy and framework, measurement, monitoring and reporting.

## 4 Interest Income

	Note	GROUP		PARENT	
		31/3/05 \$000	31/3/04 \$000	31/3/05 \$000	31/3/04 \$000
Advances		130,210	104,993	116,556	94,470
Advances to Subsidiaries		-	-	5,128	4,207
Investment Securities		82	76	-	-
Other Securities		206	2,102	179	2,092
		<b>\$130,498</b>	<b>\$107,171</b>	<b>\$121,863</b>	<b>\$100,769</b>

## Notes to the Financial Statements for the year ended 31 March 2005

### 5 Other Income

	Note	GROUP		PARENT	
		31/3/05 \$000	31/3/04 \$000	31/3/05 \$000	31/3/04 \$000
Loan Fees		4,451	4,190	2,547	2,481
Management Fees		2,337	1,785	367	288
Other Fees		905	621	623	359
Insurance Income		2,780	1,862	-	-
Dividends		-	-	160	128
Gain on Sale of Shares		-	125	-	125
Other		831	1,003	298	247
		<b>\$11,304</b>	<b>\$9,586</b>	<b>\$3,995</b>	<b>\$3,628</b>

### 6 Operating Expenses

Auditor's Remuneration		241	213	177	193
Fees to Directors *		667	305	618	255
Depreciation		1,691	1,525	1,304	1,276
Personnel		12,684	10,778	9,424	8,257
Marketing		3,310	3,407	2,897	2,564
Computer Expenses		1,104	803	936	619
Other Expenses		8,884	7,503	4,100	4,092
Write Off of Property, Plant and Equipment		221	-	221	-
Amortisation of Goodwill		58	29	-	-
Subvention Payment		-	-	308	195
Bad and Doubtful Debts **	(11(ii))	3,747	2,276	44	(233)
Rent and Leases		1,371	1,165	1,561	1,425
		<b>\$33,978</b>	<b>\$28,004</b>	<b>\$21,590</b>	<b>\$18,643</b>

\* A provision for Directors Retiring Allowance of \$294,000 was made in the current financial year.

\*\* Note that the group charge for bad and doubtful debts is primarily in relation to consumer finance lending by Finance Now Limited.

Amounts received, or due and receivable by the auditors:					
KPMG Auditing the Financial Statements		113	-	70	-
Ward Wilson Auditing the Financial Statements		13	139	-	119
Ward Wilson Other Assurance Services		115	74	107	74
		<b>\$241</b>	<b>\$213</b>	<b>\$177</b>	<b>\$193</b>

Amounts received, or due and receivable by Directors for the year ended 31 March 2005	SBS	SBS	Subsidiary	Total
	Director Fees \$000	Committee Fees \$000	Director Fees \$000	Fees Received \$000
JWA Smith	59	3	-	62
MH Piper	43	3	5	51
WH Conway	30	2	10	42
JB Walker	28	7	20	55
JA Dowling (resigned February 2005)	26	51**	5	82
JF Ward	30	2	4	36
GJ Mulvey	30	3	5	38
GJ Diack (appointed February 2005)	7	-	-	7
RL Smith *	-	-	-	-
	<b>\$253</b>	<b>\$71</b>	<b>\$49</b>	<b>373</b>
Provision for Directors Retiring Allowance				294
				<b>\$667</b>

\* RL Smith is an executive director and received no directors fees in addition to his salary

\*\* Includes retiring allowance

## Notes to the Financial Statements for the year ended 31 March 2005

### 6 Operating Expenses Continued

Amounts received, or due and receivable by Directors for the year ended 31 March 2004	SBS	SBS	Subsidiary	Total
	Director	Committee	Director	Fees
	Fees	Fees	Fees	Received
	\$000	\$000	\$000	\$000
JWA Smith	49	5	10	64
MH Piper	37	7	5	49
WH Conway	25	3	10	38
JB Walker	25	4	20	49
MP Fenton (resigned December 2003)	18	28**	-	46
JA Dowling	24	-	5	29
JF Ward	24	2	-	26
GJ Mulvey	4	-	-	4
RL Smith *	-	-	-	-
	<b>\$206</b>	<b>\$49</b>	<b>\$50</b>	<b>\$305</b>

\* RL Smith is an executive director and received no directors fees in addition to his salary

\*\* Includes retiring allowance

### 7 Taxation

	Note	GROUP		PARENT	
		31/3/05	31/3/04	31/3/05	31/3/04
		\$000	\$000	\$000	\$000
Tax on Surplus for the year at 33%		<b>6,893</b>	6,052	<b>5,604</b>	4,823
Adjust for the Tax Effect of:					
Imputation Credits Received		<b>26</b>	21	<b>26</b>	21
Other Permanent Items		<b>(140)</b>	(357)	<b>36</b>	23
Prior Period Adjustments		<b>31</b>	(64)	<b>37</b>	(64)
		<b>(83)</b>	(400)	<b>99</b>	(20)
Tax on Operating Surplus		<b>6,810</b>	5,652	<b>5,703</b>	4,803
Imputation Credits		<b>(79)</b>	(64)	<b>(79)</b>	(64)
Loss Offset		<b>(52)</b>	22	<b>(206)</b>	(130)
Taxation Expense		<b>\$6,679</b>	\$5,610	<b>\$5,418</b>	\$4,609
Comprising of:					
Current Taxation		<b>6,704</b>	5,543	<b>5,525</b>	4,292
Deferred Tax Liability	(17)	<b>(25)</b>	67	<b>(107)</b>	317
		<b>\$6,679</b>	\$5,610	<b>\$5,418</b>	\$4,609

### 8 Investment Securities

NZ Government Securities		<b>528</b>	544	-	-
Bank Deposits and Money Market		<b>1,764</b>	839	-	-
Managed Funds in Lifestages Portfolios		<b>313</b>	375	-	-
		<b>\$2,605</b>	\$1,758	-	-

### 9 Other Securities

Bank Deposits and Money Market		<b>37,840</b>	-	<b>37,840</b>	-
Total Other Securities		<b>\$37,840</b>	-	<b>\$37,840</b>	-

## Notes to the Financial Statements for the year ended 31 March 2005

### 10 Advances

	Note	GROUP		PARENT	
		31/3/05 \$000	31/3/04 \$000	31/3/05 \$000	31/3/04 \$000
Performing Advances		1,754,128	1,463,485	1,630,157	1,398,428
Impaired Advances		1,119	856	618	97
Gross Advances		1,755,247	1,464,341	1,630,775	1,398,525
Less Provisions for Doubtful Debts	(11)	1,589	885	240	126
Advances Net of Specific and General Provisions		<b>\$1,753,658</b>	<b>\$1,463,456</b>	<b>\$1,630,535</b>	<b>\$1,398,399</b>

	GROUP	
	31/3/05 \$000	31/3/04 \$000
Total Advances secured by mortgage	1,682,081	1,398,463
Total Personal Loans	73,166	65,878
Gross Advances	<b>\$1,755,247</b>	<b>\$1,464,341</b>

### 11 (i) Provision for Doubtful Debts and Bad Debts

Group Provisions as at 31 March 2005	General	Specific	Specific	Total
	\$000	Performing \$000	Non-Accrual \$000	\$000
Balances at Beginning of Year	-	118	767	885
Less				
Provisions Released	-	(28)	(28)	(56)
Provision Transfer	330	-	(330)	-
Less				
Provisions Utilised	-	-	-	-
Add				
New Provisions Made	520	-	240	760
Net Change in Provisions to				
Statement of Financial Performance	850	(28)	(118)	704
Balance at End of Year	<b>\$850</b>	<b>\$90</b>	<b>\$649</b>	<b>\$1,589</b>

Parent Provisions as at 31 March 2005	General	Specific	Specific	Total
Balances at Beginning of Year	-	118	8	126
Less				
Provisions Released	-	(28)	(28)	(56)
Less				
Provisions Utilised	-	-	-	-
Add				
New Provisions Made	-	-	170	170
Net Change in Provisions to				
Statement of Financial Performance	-	(28)	142	114
Balance at End of Year	-	<b>\$90</b>	<b>\$150</b>	<b>\$240</b>

# Notes to the Financial Statements for the year ended 31 March 2005

## II (i) Provision for Doubtful Debts and Bad Debts Continued

Group Provisions as at 31 March 2004	General	Specific	Specific	Total
	\$000	Performing \$000	Non-Accrual \$000	
Balances at Beginning of Year	-	308	200	508
Less Provisions Released	-	(205)	(449)	(654)
Less Provisions Utilised	-	-	(199)	(199)
Add New Provisions Made	-	15	1,215	1,230
Net Change in Provisions to Statement of Financial Performance	-	(190)	567	377
Balance at End of Year	-	\$118	\$767	\$885
<b>Parent Provisions as at 31 March 2004</b>				
Balances at Beginning of Year	-	308	200	508
Less Provisions Released	-	(205)	(449)	(654)
Less Provisions Utilised	-	-	(199)	(199)
Add New Provisions Made	-	15	456	471
Net Change in Provisions to Statement of Financial Performance	-	(190)	(192)	(382)
Balance at End of Year	-	\$118	\$8	\$126

## II (ii) Bad Debts

	GROUP		PARENT	
	31/3/05 \$000	31/3/04 \$000	31/3/05 \$000	31/3/04 \$000
Bad Debts for Year	3,043	1,899	(70)	149
Less Provisions Released	(56)	(654)	(56)	(654)
Less Provisions Utilised	-	(199)	-	(199)
Add New Provisions Made	760	1,230	170	471
Net Bad Debts to Statement of Financial Performance	\$3,747	\$2,276	\$44	\$(233)

## 12 Asset Quality

Asset Quality Information as at 31 March 2005	Note	Recognised	Total Pre-	Specific	Balance
		\$000	Provisioned Amount \$000	Provisions \$000	
<b>GROUP</b>					
Non-Accrual Assets	(13)	1,119	1,119	649	470
Past Due Assets	(13)	2,712	2,712	90	2,622
		\$3,831	\$3,831	\$739	\$3,092
<b>PARENT</b>					
Non-Accrual Assets	(13)	618	618	150	468
Past Due Assets	(13)	1,045	1,045	90	955
		\$1,663	\$1,663	\$240	\$1,423



## Notes to the Financial Statements for the year ended 31 March 2005

### I2 Asset Quality *Continued*

Asset Quality Information as at 31 March 2004	Note	Recognised	Total Pre- Provisioned Amount	Specific Provisions	Balance
<b>GROUP</b>		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Non-Accrual Assets	(13)	856	856	767	89
Past Due Assets	(13)	1,672	1,672	118	1,554
		<b>\$2,528</b>	<b>\$2,528</b>	<b>\$885</b>	<b>\$1,643</b>
<b>PARENT</b>					
Non-Accrual Assets	(13)	97	97	8	89
Past Due Assets	(13)	569	569	118	451
		<b>\$666</b>	<b>\$666</b>	<b>\$126</b>	<b>\$540</b>

Note: Pre-provisioned amount relates to asset balances prior to provisions

### I3 Movements in Pre-Provision Balances of Impaired and Past Due Assets

Pre-Provision Balances as at 31 March 2005	Non-Accrual	Past Due	Total
<b>GROUP</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Opening Balance	856	1,672	2,528
Loan Balance written off	-	-	-
Transfer to Performing Ledger	(92)	(401)	(493)
Customer Repayments	(62)	(324)	(386)
Interest	-	18	18
Transfer from Performing Ledger	367	1,728	2,095
Sundry Advances and Fees	50	19	69
Closing Balance	<b>\$1,119</b>	<b>\$2,712</b>	<b>\$3,831</b>
<b>PARENT</b>			
Opening Balance	97	569	666
Loan Balance written off	-	-	-
Transfer to Performing Ledger	(92)	(401)	(493)
Customer Repayments	(62)	(324)	(386)
Interest	-	18	18
Transfer from Performing Ledger	625	1,164	1,789
Sundry Advances and Fees	50	19	69
Closing Balance	<b>\$618</b>	<b>\$1,045</b>	<b>\$1,663</b>
<b>Pre-Provision Balances as at 31 March 2004</b>			
<b>GROUP</b>			
Opening Balance	926	3,655	4,581
Loan Balance written off	(206)	-	(206)
Transfer to Performing Ledger	(641)	(3,204)	(3,845)
Customer Repayments	(471)	(507)	(978)
Interest	-	47	47
Transfer from Performing Ledger	1,234	1,664	2,898
Sundry Advances and Fees	14	17	31
Closing Balance	<b>\$856</b>	<b>\$1,672</b>	<b>\$2,528</b>
<b>PARENT</b>			
Opening Balance	926	3,017	3,943
Loan Balance written off	(206)	-	(206)
Transfer to Performing Ledger	(641)	(3,204)	(3,845)
Customer Repayments	(471)	(507)	(978)
Interest	-	47	47
Transfer from Performing Ledger	475	1,199	1,674
Sundry Advances and Fees	14	17	31
Closing Balance	<b>\$97</b>	<b>\$569</b>	<b>\$666</b>

# Notes to the Financial Statements for the year ended 31 March 2005

## I4 Loan Securitisation

Mortgages assigned by the Southland Building Society to the Lifestages Mortgage Portfolio unit trust during the 12 months ended 31 March 2005 amounted to \$27,427,000 (2004 \$88,149,000).

In prior periods SBS has derecognised these securitised assets removing them from advances in the Statement of Financial Position. However, it is now considered that SBS receives the majority of the risks and rewards of ownership and accordingly it is appropriate to record these securitised assets within the Statement of Financial Position. There is no material impact on Net Surplus for the year. This reflects a change in the application of the Society's accounting policy and is not a change in that accounting policy.

The securities issued by the Lifestages Mortgage Portfolio do not represent deposits or other liabilities of the Southland Building Society. The Southland Building Society does not in any way stand behind the capital value and/or the performance of the securities or the assets of the trust except to the limited extent provided in the assignment agreement documents, through the provision of arms length services and facilities (refer note I (x)).

Mortgages assigned by the Southland Building Society to the SBS Invercargill W Trust during the 12 months ended 31 March 2005 amounted to \$55,257,000 (2004 \$ nil). These loans have been removed from the Statement of

Financial Position of the Parent, although they are consolidated into the group as an In-Substance subsidiary.

The Southland Building Society does not guarantee the payment of interest or the repayment of principal due on the securities. The Southland Building Society is not obliged to support any losses that may be suffered by investors and does not intend to provide such support. In respect of the Lifestages Mortgage Portfolio the Southland Building Society has an obligation to repurchase loans in certain circumstances, when the securitised loans cease to conform with the terms and conditions of the assignment agreement or in order to facilitate liquidity in the trust as requested by the Trustee.

Securitized Loan Balances		31/3/05	31/3/04
		\$000	\$000
Lifestages Mortgage Portfolio		95,696	96,575
SBS Invercargill W Trust		53,113	-
		<b>\$148,809</b>	<b>\$96,575</b>

## I5 Investments in Subsidiaries

		PARENT	
		31/3/05	31/3/04
		\$000	\$000
Investments in Subsidiaries		9,487	9,487
Loans to Subsidiaries		65,035	61,076
		<b>\$74,522</b>	<b>\$70,563</b>

Significant Subsidiaries:

Subsidiaries		Percentage Held		Balance Date	Nature of Business
		31/3/05	31/3/04		
Fraser Properties Limited		100.0%	100.0%	31 March	Property Holding
Southsure Assurance Limited	(1)	80.0%	80.0%	31 March	Insurance
Finance Now Limited	(2)	71.5%	71.5%	31 March	Finance Company
Funds Administration New Zealand Limited		60.0%	60.0%	31 March	Funds Administration
Southsure Investment Holdings Limited		80.0%	80.0%	31 March	Property Holding
<i>In-Substance Subsidiaries</i>					
SBS Invercargill W Trust		100%		31 March	Mortgage Securitisation
Lifestages Mortgage Portfolio		100%		31 March	Mortgage Securitisation

(1) Southsure Assurance Limited has a 100% shareholding in Southsure Investment Holdings Limited (31 March Balance Date). Southsure Investment Holdings Limited owns Southsure Assurance Limited's Head Office.

(2) Finance Now Limited has previously held a 51% shareholding in Datafusion Limited (31 March Balance Date). Datafusion Limited has ceased trading and has been wound up during the year ended 31 March 2005.

### Material Related Party Transactions:

During the period Southland Building Society has entered into, or had in place financial transactions with members of the group, which includes directors. In all cases these arrangements were conducted on normal market terms and conditions. Transactions with directors are disclosed in note 24.

As at 31 March 2005 the Southland Building Society had advanced \$64,135,000 (2004 \$59,634,000) to Finance Now Limited.

As at 31 March 2005 the Southland Building Society had advanced \$380,000 (2004 \$394,000) to Southsure Investment Holdings Limited.

As at 31 March 2005 Southsure Assurance Limited had Redeemable Shares of \$187,000 (2004 \$300,000) in the Southland Building Society.

As at 31 March 2005 SBS had advanced \$520,000 (2004 \$1,048,000) to Fraser Properties Limited.

In respect of Mortgage Securitisations see note I4.

## Notes to the Financial Statements for the year ended 31 March 2005

### I5 Investments in Subsidiaries *Continued*

	Note	PARENT	
		31/3/05 \$000	31/3/04 \$000
Net Interest Received from Subsidiaries		5,098	4,109
Net Rent Paid to Subsidiaries		367	383
Technology Services Fees received from Subsidiaries		225	243
Net Commission Received from Subsidiaries		34	31
Management Fees Received from Subsidiaries		118	20
Dividends Received/Receivable from Subsidiaries		160	128
Bank Fees Received from Subsidiaries		80	70

### I6 Other Assets

	Note	GROUP		PARENT	
		31/3/05 \$000	31/3/04 \$000	31/3/05 \$000	31/3/04 \$000
Sundry Debtors		1,585	925	1,530	483
Deferred Tax	(17)	430	385	246	135
Taxation Refund		681	250	634	254
		<b>\$2,696</b>	<b>\$1,560</b>	<b>\$2,410</b>	<b>\$872</b>

### I7 Deferred Taxation

Deferred Taxation Benefit brought forward		385	427	135	427
Current Movement	(7)	25	(67)	107	(317)
Prior Period Adjustment		20	25	4	25
Deferred Taxation Benefit		<b>\$430</b>	<b>\$385</b>	<b>\$246</b>	<b>\$135</b>

### I8 Investment Properties

Freehold Land (at valuation)		153	144	153	144
Buildings (at valuation)		297	291	297	291
Total Land and Buildings		<b>\$450</b>	<b>\$435</b>	<b>\$450</b>	<b>\$435</b>

#### Investment Properties

Independent valuations of freehold land and buildings were carried out at at 31 March 2005 by Chadderton & Associates. The valuations were based on capitalisation of net market rental less estimated costs of disposal. Current Rateable valuations of Land and Buildings notified 1/9/02 is \$435,000 (2004 \$435,000).

## Notes to the Financial Statements for the year ended 31 March 2005

### 19 Property, Plant and Equipment

	GROUP		PARENT	
	31/3/05	31/3/04	31/3/05	31/3/04
	\$000	\$000	\$000	\$000
Freehold Land (at valuation)	800	650	-	-
Buildings (at valuation)	7,607	7,190	-	-
	<b>8,407</b>	<b>7,840</b>	<b>-</b>	<b>-</b>
Leasehold Assets (at cost)	2,744	2,618	2,744	2,618
Less Accumulated Depreciation	711	635	711	635
	<b>2,033</b>	<b>1,983</b>	<b>2,033</b>	<b>1,983</b>
Computer Equipment and Software (at cost)	7,232	5,207	5,807	4,607
Less Accumulated Depreciation	4,355	3,226	3,984	3,019
	<b>2,877</b>	<b>1,981</b>	<b>1,823</b>	<b>1,588</b>
Other Assets (at cost)	4,663	4,211	2,787	2,408
Less Accumulated Depreciation	2,951	2,817	1,443	1,409
	<b>1,712</b>	<b>1,394</b>	<b>1,344</b>	<b>999</b>
Total Property, Plant and Equipment	<b>\$15,029</b>	<b>\$13,198</b>	<b>\$5,200</b>	<b>\$4,570</b>

Other assets include plant, furniture and fittings, motor vehicles.

#### Land and Buildings

Independent valuations of Subsidiary Company freehold land and buildings were carried out at 31 March 2005 by Chadderton & Associates and Trevor Thayer Valuations Limited. The valuations were based on capitalisation of net market rental. Current Rateable valuations of Land and Buildings notified 1/9/02 is \$5,855,000 (2004 \$5,855,000).

### 20 Intangible Assets

	GROUP		PARENT	
	31/3/05	31/3/04	31/3/05	31/3/04
	\$000	\$000	\$000	\$000
Goodwill at cost	1,160	1,160	-	-
Less Accumulated Amortisation of Goodwill	29	-	-	-
Balance at Beginning of Year	<b>\$1,131</b>	<b>\$1,160</b>	<b>-</b>	<b>-</b>
Less Amortisation for the Year	58	29	-	-
Balance at End of Year	<b>\$1,073</b>	<b>\$1,131</b>	<b>-</b>	<b>-</b>

### 21 Other Liabilities

Sundry Creditors	6,295	5,058	5,190	3,880
Employee Entitlements	1,898	1,200	1,561	1,010
Life Fund	1,289	834	-	-
Other	5,287	3,669	5,287	3,669
	<b>\$14,769</b>	<b>\$10,761</b>	<b>\$12,038</b>	<b>\$8,559</b>

## Notes to the Financial Statements for the year ended 31 March 2005

### 22 Equity

	GROUP		PARENT	
	31/3/05 \$000	31/3/04 \$000	31/3/05 \$000	31/3/04 \$000
Capital Reserve	73	73	73	73
Revaluation Reserve Investment Properties	15	-	15	-
Realised Revaluation Reserves	406	407	413	413
Retained Earnings	108,878	95,135	103,666	92,103
	<b>109,372</b>	<b>95,615</b>	<b>104,167</b>	<b>92,589</b>
Minority Interests	2,360	1,916	-	-
	<b>\$111,732</b>	<b>\$97,531</b>	<b>\$104,167</b>	<b>\$92,589</b>
<b>Movement in Reserves:</b>				
<b>Revaluation Reserve -Fixed Assets</b>				
Balance at Beginning of Year	-	-	-	-
Surplus/(Deficit) on Revaluation of Land and Buildings	625	728	-	-
	<b>625</b>	<b>728</b>	<b>-</b>	<b>-</b>
Transfer to Statement of Financial Performance	625	728	-	-
Balance at End of Year	-	-	-	-
<b>Revaluation Reserve - Investment Properties</b>				
Balance at Beginning of Year	-	-	-	-
Surplus/(Deficit) on Revaluation of Land and Buildings	15	10	15	10
	<b>15</b>	<b>10</b>	<b>15</b>	<b>10</b>
Realised Surplus Transferred to Statement of Movements in Equity	-	-	-	-
Transfer to Statement of Financial Performance	-	10	-	10
Balance at End of Year	<b>\$15</b>	<b>-</b>	<b>\$15</b>	<b>-</b>
<b>Retained Earnings</b>				
Balance at Beginning of Year	95,135	82,935	92,103	82,094
Add Net Surplus for the Year	14,209	12,730	11,563	10,009
Minority Interest Adjustment	39	-	-	-
Net Change in Minority Interest on Acquisition/Disposal	-	33	-	-
Less Dividend Distributed	(40)	(32)	-	-
Less Minority Interests	(465)	(531)	-	-
Balance at End of Year	<b>\$108,878</b>	<b>\$95,135</b>	<b>\$103,666</b>	<b>\$92,103</b>

### 23 Reconciliation Of Net Surplus To Net Operating Cash Flows

<b>Net Surplus for Year</b>	14,209	12,730	11,563	10,009
<b>Add/(Less) Non Cash Items</b>				
Depreciation	1,691	1,525	1,304	1,276
Amortisation Goodwill	58	29	-	-
Actuarial Life Adjustment	455	174	-	-
Building Revaluations	(625)	(738)	-	(10)
Write-Off Property, Plant and Equipment	221	-	221	-
Deferred Tax	(45)	42	(111)	292
	<b>1,755</b>	<b>1,032</b>	<b>1,414</b>	<b>1,558</b>
<b>Add/(Less) Items Classified as Investing</b>				
Accruals relating to Advances	(997)	(373)	(1,398)	(372)
Gain on Sale of Shares	-	(125)	-	(125)
	<b>(997)</b>	<b>(498)</b>	<b>(1,398)</b>	<b>(497)</b>
<b>Add/(Less) Items Classified as Financing</b>				
Accruals relating to Deposits and Shares	2,304	(4)	2,262	(4)
Purchase Minority Interest	-	(414)	-	-
	<b>2,304</b>	<b>(418)</b>	<b>2,262</b>	<b>(4)</b>
<b>Add/(Less) Items Classified as Cash</b>				
Accruals relating to Investment and Other Securities	(51)	324	(43)	326
<b>Add/(Less) Net Movements in Working Capital</b>				
Sundry Debtors	(660)	(669)	(1,047)	(287)
Sundry Creditors	1,895	1,490	1,861	1,261
Provision for Tax	(431)	(5)	(380)	(120)
	<b>804</b>	<b>816</b>	<b>434</b>	<b>854</b>
<b>Net Cash Flows From Operating Activities</b>	<b>\$18,024</b>	<b>\$13,986</b>	<b>\$14,232</b>	<b>\$12,246</b>

## Notes to the Financial Statements for the year ended 31 March 2005

### 24 Maturity Profile

Monetary assets receivable matched against liabilities payable as at 31 March 2005

	Note	0-6 Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Non-current Assets	Total
<b>GROUP</b>		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Assets</b>									
Advances	(10)	192,545	43,181	235,726	77,225	78,489	1,362,219	1,517,933	1,753,659
Other Securities and Call Funds with Financial Institutions		44,341	-	44,341	-	-	-	-	44,341
Investment Securities	(8)	2,077	-	2,077	528	-	-	528	2,605
Other Monetary Assets, Cash on Hand and at Bank		3,157	-	3,157	-	-	-	-	3,157
Other Assets		2,266	-	2,266	-	-	-	-	2,266
<b>Total</b>		<b>\$244,386</b>	<b>\$43,181</b>	<b>\$287,567</b>	<b>\$77,753</b>	<b>\$78,489</b>	<b>\$1,362,219</b>	<b>\$1,518,461</b>	<b>\$1,806,028</b>
Non Monetary Assets									16,982
<b>Total Assets</b>									<b>\$1,823,010</b>
<b>Liabilities</b>				<b>Current Liabilities</b>				<b>Term Liabilities</b>	
Redeemable Shares	(25)	1,048,724	117,077	1,165,801	45,657	18,799	-	64,456	1,230,257
Deposits	(25)	296,157	8,904	305,061	2,678	6,800	-	9,478	314,539
Other Borrowings		151,343	-	151,343	-	-	-	-	151,343
Bank Overdraft		370	-	370	-	-	-	-	370
Other Liabilities		12,871	-	12,871	-	-	-	-	12,871
<b>Total</b>		<b>\$1,509,465</b>	<b>\$125,981</b>	<b>\$1,635,446</b>	<b>\$48,335</b>	<b>\$25,599</b>	<b>-</b>	<b>\$73,934</b>	<b>\$1,709,380</b>
Non Monetary Liabilities									1,898
<b>Total Liabilities</b>									<b>\$1,711,278</b>

Monetary assets receivable matched against liabilities payable as at 31 March 2005

	Note	0-6 Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Non-current Assets	Total
<b>PARENT</b>		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Assets</b>									
Advances	(10)	187,001	28,413	215,414	49,125	53,721	1,312,275	1,415,121	1,630,535
Other Securities and Call Funds with Financial Institutions		44,341	-	44,341	-	-	-	-	44,341
Investment Securities	(8)	-	-	-	-	-	-	-	-
Loans to Subsidiaries	(15)	65,035	-	65,035	-	-	-	-	65,035
Other Monetary Assets, Cash on Hand and at Bank		145	-	145	-	-	-	-	145
Other Assets		2,164	-	2,164	-	-	-	-	2,164
<b>Total</b>		<b>\$298,686</b>	<b>\$28,413</b>	<b>\$327,099</b>	<b>\$49,125</b>	<b>\$53,721</b>	<b>\$1,312,275</b>	<b>\$1,415,121</b>	<b>\$1,742,220</b>
Non Monetary Assets									15,383
<b>Total Assets</b>									<b>\$1,757,603</b>
<b>Liabilities</b>				<b>Current Liabilities</b>				<b>Term Liabilities</b>	
Redeemable Shares	(25)	1,048,911	117,077	1,165,988	45,657	18,799	-	64,456	1,230,444
Deposits	(25)	296,157	8,904	305,061	2,678	6,800	-	9,478	314,539
Other Borrowings		96,045	-	96,045	-	-	-	-	96,045
Bank Overdraft		370	-	370	-	-	-	-	370
Other Liabilities		10,477	-	10,477	-	-	-	-	10,477
<b>Total</b>		<b>\$1,451,960</b>	<b>\$125,981</b>	<b>\$1,577,941</b>	<b>\$48,335</b>	<b>\$25,599</b>	<b>-</b>	<b>\$73,934</b>	<b>\$1,651,875</b>
Non Monetary Liabilities									1,561
<b>Total Liabilities</b>									<b>\$1,653,436</b>

## Notes to the Financial Statements for the year ended 31 March 2005

### 24 Maturity Profile *Continued*

Monetary assets receivable matched against liabilities payable as at 31 March 2004

	Note	0-6 Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Non-current Assets	Total
<b>GROUP</b>		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Assets</b>									
Advances	(10)	189,074	44,377	233,451	57,394	83,645	1,088,966	1,230,005	1,463,456
Other Securities and Call Funds with Financial Institutions		29,004	-	29,004	-	-	-	-	29,004
Investment Securities	(8)	1,758	-	1,758	-	-	-	-	1,758
Other Monetary Assets, Cash on Hand and at Bank		3,379	-	3,379	-	-	-	-	3,379
Other Assets		1,175	-	1,175	-	-	-	-	1,175
<b>Total</b>		<b>\$224,390</b>	<b>\$44,377</b>	<b>\$268,767</b>	<b>\$57,394</b>	<b>\$83,645</b>	<b>\$1,088,966</b>	<b>\$1,230,005</b>	<b>\$1,498,772</b>
Non Monetary Assets									15,149
<b>Total Assets</b>									<b>\$1,513,921</b>
<b>Liabilities</b>									
				Current Liabilities				Term Liabilities	
Redeemable Shares	(25)	942,122	201,149	1,143,271	37,401	9,089	-	46,490	1,189,761
Deposits	(25)	200,359	8,755	209,114	5,489	1,265	-	6,754	215,868
Bank Overdraft		-	-	-	-	-	-	-	-
Other Liabilities		9,561	-	9,561	-	-	-	-	9,561
<b>Total</b>		<b>\$1,152,042</b>	<b>\$209,904</b>	<b>\$1,361,946</b>	<b>\$42,890</b>	<b>\$10,354</b>	<b>-</b>	<b>\$53,244</b>	<b>\$1,415,190</b>
Non Monetary Liabilities									1,200
<b>Total Liabilities</b>									<b>\$1,416,390</b>

Monetary assets receivable matched against liabilities payable as at 31 March 2004

	Note	0-6 Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Non-current Assets	Total
<b>PARENT</b>		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Assets</b>									
Advances	(10)	183,885	30,959	214,844	32,569	62,020	1,088,966	1,183,555	1,398,399
Other Securities and Call Funds with Financial Institutions		29,004	-	29,004	-	-	-	-	29,004
Investment Securities	(8)	-	-	-	-	-	-	-	-
Loans to Subsidiaries	(15)	61,076	-	61,076	-	-	-	-	61,076
Other Monetary Assets, Cash on Hand and at Bank		3,234	-	3,234	-	-	-	-	3,234
Other Assets		737	-	737	-	-	-	-	737
<b>Total</b>		<b>\$277,936</b>	<b>\$30,959</b>	<b>\$308,895</b>	<b>\$32,569</b>	<b>\$62,020</b>	<b>\$1,088,966</b>	<b>\$1,183,555</b>	<b>\$1,492,450</b>
Non Monetary Assets									14,627
<b>Total Assets</b>									<b>\$1,507,077</b>
<b>Liabilities</b>									
				Current Liabilities				Term Liabilities	
Redeemable Shares	(25)	942,422	201,149	1,143,571	37,401	9,089	-	46,490	1,190,061
Deposits	(25)	200,359	8,755	209,114	5,489	1,265	-	6,754	215,868
Bank Overdraft		-	-	-	-	-	-	-	-
Other Liabilities		7,549	-	7,549	-	-	-	-	7,549
<b>Total</b>		<b>\$1,150,330</b>	<b>\$209,904</b>	<b>\$1,360,234</b>	<b>\$42,890</b>	<b>\$10,354</b>	<b>-</b>	<b>\$53,244</b>	<b>\$1,413,478</b>
Non Monetary Liabilities									1,010
<b>Total Liabilities</b>									<b>\$1,414,488</b>

## Notes to the Financial Statements for the year ended 31 March 2005

### 24 Maturity Profile *Continued*

The Group's six largest borrowers owe 5.35% (2004 6.67%) of Monetary Assets Receivable. \$1,263,000 (2004 \$215,000) of Current Liabilities are owed to directors and \$44,000 (2004 \$1,000) of Term Liabilities are owed to directors. Of advances made, \$377,000 (2004 \$514,000) are made to directors. On 31 March 2005 interest rates on directors advances ranged from 8.30% to 8.55% (2004 7.10% to 7.35% per annum). Directors loans and investments are made in the ordinary course of business under normal terms and conditions. Additionally \$3,400,000 of floating rate advances had been made to employees of the Group with a discount from market rates of 0.25%. Of Monetary Assets Receivable .010% (2004 .005%) have repayments in arrears in excess of three months.

### 25 Analysis of Group Borrowings

GROUP	31/3/05		31/3/04	
	\$000	Weighted Average Interest Rate	\$000	Weighted Average Interest Rate
		%		%
DEPOSITS MATURING				
Between 0 & 1 year	305,061	6.90	209,114	5.67
Between 1 & 2 years	2,678	6.39	5,489	6.38
Between 2 & 3 years	6,800	6.73	1,265	5.86
Between 3 & 4 years	-	-	-	-
Between 4 & 5 years	-	-	-	-
Over 5 years	-	-	-	-
Total Deposits	\$314,539	6.88	\$215,868	5.71
REDEEMABLE SHARES MATURING				
Between 0 & 1 year	1,165,801	6.53	1,143,271	5.43
Between 1 & 2 years	45,657	6.43	37,401	5.85
Between 2 & 3 years	15,638	6.49	9,009	5.81
Between 3 & 4 years	4	5.52	76	5.89
Between 4 & 5 years	3,157	6.59	4	5.52
Over 5 years	-	-	-	-
Total Redeemable Shares	\$1,230,257	6.52	\$1,189,761	5.44
Total Deposits and Redeemable Shares	\$1,544,796	6.60	\$1,405,629	5.49

PARENT	31/3/05		31/3/04	
	\$000	Weighted Average Interest Rate	\$000	Weighted Average Interest Rate
		%		%
DEPOSITS MATURING				
Between 0 & 1 year	305,061	6.90	209,114	5.67
Between 1 & 2 years	2,678	6.39	5,489	6.38
Between 2 & 3 years	6,800	6.73	1,265	5.86
Between 3 & 4 years	-	-	-	-
Between 4 & 5 years	-	-	-	-
Over 5 years	-	-	-	-
Total Deposits	\$314,539	6.88	\$215,868	5.71
REDEEMABLE SHARES MATURING				
Between 0 & 1 year	1,165,988	6.53	1,143,571	5.43
Between 1 & 2 years	45,657	6.43	37,401	5.85
Between 2 & 3 years	15,638	6.49	9,009	5.81
Between 3 & 4 years	4	5.52	76	5.89
Between 4 & 5 years	3,157	6.59	4	5.52
Over 5 years	-	-	-	-
Total Redeemable Shares	\$1,230,444	6.52	\$1,190,061	5.44
Total Deposits and Redeemable Shares	\$1,544,983	6.60	\$1,405,929	5.49

Deposits and Redeemable Shares are unsecured.

The Deposits and Redeemable Shares detailed above include Deposits and Redeemable Shares that have been issued at floating rates. The weighted average interest rate details provided are therefore only meaningful at the balance dates noted.

No analysis of Other Borrowings has been included above, on the basis that these amounts relate to the Loan Securitisation vehicles discussed in Notes 14 and 15. The Lifestages Mortgage Portfolio borrowings are in the nature of a Unit Trust and therefore, no weighted average interest rate is available.



# Notes to the Financial Statements for the year ended 31 March 2005

## 26 Commitments

	GROUP		PARENT	
	31/3/05 \$000	31/3/04 \$000	31/3/05 \$000	31/3/04 \$000
Advances which have been approved at balance date but not yet drawn	\$35,527	\$62,408	\$31,504	\$60,246
Undrawn balances under Revolving Credit Mortgage Facilities	\$155,345	\$139,195	\$155,345	\$139,195

### Lease Commitments

As at 31 March 2005 the value of the residual portion of lease commitments for SBS was \$6,015,000 (2004 \$5,772,000). Of this amount \$666,000 (2004 \$1,100,000) relates to lease commitments between Southland Building Society and its wholly owned subsidiary company, Fraser Properties Ltd.

Lease commitments payable after balance date:				
0-12 months	1,044	835	1,400	1,242
12-24 months	966	752	1,189	1,165
24-60 months	2,221	1,790	2,109	2,065
>60 months	1,348	1,300	1,317	1,300
	\$5,579	\$4,677	\$6,015	\$5,772

## 27 Segmental Analysis

### Parent

The Southland Building Society is a financial institution. The Southland Building Society operates solely in the New Zealand Retail Financial Market.

### Subsidiaries

Fraser Properties Limited owns the Southland Building Society's Head Office building which is located in the Central Business District of Invercargill. Major tenants are New Zealand Post, the Alliance Group Ltd and the Southland Building Society.

Southsure Assurance Limited is a life insurance company operating in the New Zealand Domestic Market.

Finance Now Limited is a finance company operating in the New Zealand Financial Market.

Funds Administration New Zealand Limited (FANZ) is a funds management company operating in the New Zealand Retail and Wholesale Financial Markets.

## 28 Fair Value

Disclosed below is the estimated fair value of the Group's financial instruments disclosed in terms of FRS-33: Disclosure of Information by Financial Institutions issued by the Financial Reporting Standards Board of the Institute of Chartered Accountants of New Zealand. It is intended to provide an indication of the fair value of financial instruments and not the fair value of the Group's business as a whole. It specifically excludes certain non-financial instruments and a range of intangible and relationship benefits which are integral to a full assessment of the Group's financial position and the value of its business.

### Methodologies

The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments. The following methods have been used:

#### Statement of Financial Position Items

##### Cash, Cash at bank

Carrying Amount is equivalent to Fair Value.

##### Other Securities

For Other Securities maturing in less than 3 months, carrying amount is equivalent to fair value. For securities with terms to maturity between 3 months and 12 months, fair values are based on quoted market prices. For securities with terms to maturity

greater than 12 months, estimated fair values are based on quoted market prices which are also the carrying amounts.

### Investment Securities

For Investment Securities maturing in less than 3 months, carrying amount is equivalent to fair value. For securities with terms to maturity between 3 months and 12 months, fair values are based on quoted market prices. For securities with terms to maturity greater than 12 months, estimated fair values are based on quoted market prices which are also the carrying amounts.

### Advances

For variable rate advances, the carrying amount is a reasonable estimate of fair value. For fixed rate mortgage advances, fair values have been estimated using the discounted cash flow approach by reference to current rates at which similar advances would be made to other borrowers with a similar credit rating and the same remaining maturities.

Advances include some interest free advances made in support of community projects. As at 31 March 2005 total interest free advances were \$4,825,000 (2004 \$3,825,000).

### Redeemable Shares and Deposits

The fair value of demand deposits is the amount payable on demand at the reporting date. For other liabilities with maturities of less than 3 months the carrying amount is a reasonable estimate of fair value.

For liabilities with maturities of 3 months or longer, fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values have been estimated using the discounted cash flow approach by reference to rates currently offered for similar liabilities of similar remaining maturities.

### Unrecognised Financial Instruments

#### Interest Rate Contracts

Hedge contracts are not recognised in the financial statements therefore no carrying amount is shown.

Fair values are based on quoted market prices.

For unrecognised financial instruments which include financial guarantees and lending commitments, no secondary market exists, so no fair value can be calculated. The face value of these items are given in Notes 26, 28 and 29.

# Notes to the Financial Statements for the year ended 31 March 2005

## 28 Fair Value Continued

	31/3/05		31/3/04	
	Carrying Amount \$000	Fair Value \$000	Carrying Amount \$000	Fair Value \$000
<b>GROUP</b>				
<b>Statement of Financial Position Items</b>				
<b>Assets</b>				
Cash on Hand and at Bank	3,157	3,157	3,379	3,379
Investment Securities	2,605	2,605	1,758	1,758
Other Securities and Call Funds with Financial Institutions	44,341	44,341	29,004	29,004
Advances	1,753,659	1,749,227	1,463,456	1,467,947
<b>Total</b>	<b>\$1,803,762</b>	<b>\$1,799,330</b>	<b>\$1,497,597</b>	<b>\$1,502,088</b>
<b>Liabilities</b>				
Redeemable Shares and Deposits	1,544,796	1,544,241	1,405,629	1,407,212
Other Borrowings	151,343	151,343	-	-
Bank Overdraft	370	370	-	-
<b>Total</b>	<b>\$1,696,509</b>	<b>\$1,695,954</b>	<b>\$1,405,629</b>	<b>\$1,407,212</b>
<b>Unrecognised Financial Instruments</b>				
Derivative Contracts Used for hedging purposes: In a Net Receivable/(Payable) Position	\$293	\$2,286	\$(359)	\$(942)
<b>PARENT</b>				
<b>Statement of Financial Position Items</b>				
<b>Assets</b>				
Cash on Hand and at Bank	145	145	3,234	3,234
Other Securities and Call Funds with Financial Institutions	44,341	44,341	29,004	29,004
Advances	1,630,535	1,626,244	1,398,399	1,402,890
Loans to Subsidiaries	65,035	65,035	61,076	61,076
<b>Total</b>	<b>\$1,740,056</b>	<b>\$1,735,765</b>	<b>\$1,491,713</b>	<b>\$1,496,204</b>
<b>Liabilities</b>				
Redeemable Shares and Deposits	1,544,983	1,544,420	1,405,929	1,407,512
Other Borrowings	96,045	96,045	-	-
Bank Overdraft	370	370	-	-
<b>Total</b>	<b>\$1,641,398</b>	<b>\$1,640,835</b>	<b>\$1,405,929</b>	<b>\$1,407,512</b>
<b>Unrecognised Financial Instruments</b>				
Derivative Contracts Used for hedging purposes: In a Net Receivable/(Payable) Position	\$273	\$2,196	\$(319)	\$(764)

## 29 Credit Risk Exposure

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

### (a) Collateral Held

The Group takes collateral where it is considered necessary to support credit risk on financial instruments including both recognised and unrecognised financial instruments. An evaluation is undertaken of the customer's credit risk on a case by case basis and the amount of collateral taken if deemed necessary, is based on management's credit evaluation of the counterparty. The collateral taken varies but could include cash deposits, mortgages, debentures, investments and financial covenants.

In terms of SBS retail lending activity, credit is extended within predetermined loan to security valuation ratios, which vary depending on the class of an advance, and within established and proven repayment to income ratios. Independent credit evaluations are undertaken where this is deemed necessary. Additionally some advances are insured with an independent third party mortgage insurer. With minor exceptions all advances are secured at the minimum by registered securities. Once established, loan performance is monitored constantly. The Debt Management team monitor exposures to non-performing loans on a daily basis and provide monthly reports to senior management and the board.

In terms of consumer finance lending by Finance Now Limited, it is estimated that 33% of lending is secured by registered securities.

Investment and Other Securities are restricted to high quality credits only. These credits include the New Zealand Government, selected local authorities, banks, quasi government institutions, State Owned Enterprises and marketable debt securities.

### (b) Risk Weighted Assets and Unrecognised Financial Instruments

Based on the Reserve Banks risk based capital adequacy framework for registered banks risk weightings have been applied to the Statement of Financial Position assets and unrecognised financial instruments to determine total risk weighted assets. Categories of risk weightings are assigned based upon factors such as the nature of the counterparty, the collateral held, and the residual maturity of the exposure. For unrecognised financial instruments the Group's exposure to credit loss is only a fraction of the contract or notional amount. Exposures are measured by applying credit conversion factors to calculate the credit equivalent amounts. The credit equivalents are determined in accordance with the Reserve Banks risk weighted capital adequacy guidelines. The Group's maximum credit exposure for each class of financial asset are the carrying values which are disclosed in the Statement of Financial Position.

## Notes to the Financial Statements for the year ended 31 March 2005

### 29 Credit Risk Exposure Continued

GROUP	Balance		Risk Weighting %	Risk Adjusted Balance	
	31/3/05	31/3/04		31/3/05	31/3/04
	\$000	\$000		\$000	\$000
<b>Statement of Financial Position Exposures</b>					
Cash and Claims on Qualifying Governments with maturities < 1 year	3,157	3,379	0.00%	-	-
Cash and Claims on Qualifying Governments with maturities > 1 year	528	544	10.00%	53	54
Claims on banks and NZ local authorities	46,418	30,218	20.00%	9,284	6,044
Loans Secured by residential mortgage	1,174,536	983,666	50.00%	587,268	491,833
All other assets	598,371	496,114	100.00%	598,371	496,114
<b>Total Statement of Financial Position Exposures (Excluding General Provision for Doubtful Debts)</b>	<b>\$1,823,010</b>	<b>\$1,513,921</b>		<b>\$1,194,976</b>	<b>\$994,045</b>

	Contract or Notional Amount		Credit Equivalent Amount		Risk Weighting %	Risk Adjusted Balance	
	31/3/05	31/3/04	31/3/05	31/3/04		31/3/05	31/3/04
	\$000	\$000	\$000	\$000		\$000	\$000
<b>Unrecognised Financial Instrument Exposures</b>							
Commitments with uncertain draw down	35,527	62,408	17,763	31,204	50-100%	11,814	20,716
Commitments to extend credit which can be unconditionally cancelled	155,345	139,195	-	-	-	-	-
Interest Rate Contracts	291,000	372,000	2,936	1,389	20%	587	278
Option Contracts	155,000	20,000	936	-	20%	187	-
<b>Total Unrecognised Financial Instruments Exposures</b>	<b>\$636,872</b>	<b>\$593,603</b>	<b>\$21,635</b>	<b>\$32,593</b>		<b>\$12,588</b>	<b>\$20,994</b>

#### (c) Concentrations of Credit Risk

The Group's dominant activity is the provision of residential mortgage finance which comprise 67% (2004 67%) of the Group's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 20%

(2004 18%) of the Group's loan portfolio are predominantly concentrated in the Southland/South Otago region. The residential lending portfolio has an even geographical spread so there are no material concentrations.

The table below shows the numbers of counterparties where the Group has large credit exposures. These have been disclosed in bands of 10% of the Group's equity at balance date.

Percentage of Equity %	Counterparties							
	Bank				Other			
	31/3/05		31/3/04		31/3/05		31/3/04	
	Number	\$000	Number	\$000	Number	\$000	Number	\$000
10-19	1	21,500	2	20,000	-	-	1	12,715
20-29	-	-	-	-	-	-	-	-

In terms of the other counterparty exposures disclosed above the Group's policy in respect of collateral taken is set out in note 29 (a).

### 30 Interest Rate Risk

#### Policies for Managing Interest Rate Risk

Interest rate risk is the risk of loss to the Group arising from adverse changes in interest rates. The Group is exposed to interest rate risk in respect of its following activities: borrowing from and lending to customers, investing in physical money market instruments as well as derivatives such as interest rate contracts used for hedging purposes.

Changes in interest rates can impact the Group's financial results by affecting the spread earned on interest earning

assets and impacting on the market value of other financial instruments held.

Exposure to interest rate risk is measured primarily through the analysis of repricing maturities of the Group's assets, liabilities and unrecognised financial instruments. Exposures are monitored continuously and reported to the board on a monthly basis.

The Group actively manages its portfolios and may take positions to maximise the potential gain from anticipated rate movements.

Effective interest rates on hedged transactions within classes of financial assets or liabilities are disclosed exclusive of the impact of the hedging transaction. The financial assets or liabilities carrying values do not incorporate the values of the hedging transactions.

The following schedule details the Group's interest rate repricing profile.

## Notes to the Financial Statements for the year ended 31 March 2005

### 30 Interest Rate Risk *Continued*

#### Interest Rate Repricing Schedule as at 31 March 2005

GROUP	Weighted Average Interest Rate %	0-6 Months \$000	6-12 Months \$000	12-24 Months \$000	24-60 Months \$000	> 60 Months \$000	Total \$000
<b>Assets</b>							
Advances	8.56	1,005,037	189,862	479,437	79,323	-	1,753,659
Other Securities and Call Funds with Financial Institutions	6.85	44,341	-	-	-	-	44,341
Investment Securities	6.53	2,077	-	528	-	-	2,605
Cash on Hand and at Bank		3,157	-	-	-	-	3,157
<b>Total</b>		1,054,612	189,862	479,965	79,323	-	1,803,762
<b>Liabilities</b>							
Redeemable Shares	6.52	1,048,724	117,076	45,658	18,799	-	1,230,257
Deposits	6.88	296,157	8,904	2,678	6,800	-	314,539
Other Borrowings		151,343	-	-	-	-	151,343
Bank Overdraft	8.45	370	-	-	-	-	370
<b>Total</b>		1,496,594	125,980	48,336	25,599	-	1,696,509
<b>Net Interest Earning Assets</b>		(441,982)	63,882	431,629	53,724	-	107,253
<b>Net Unrecognised Financial Instruments</b>		375,000	(60,000)	(288,000)	(27,000)	-	-
<b>Net Open Position</b>		\$(66,982)	\$3,882	\$143,629	\$26,724	-	\$107,253
<b>PARENT</b>							
<b>Assets</b>							
Advances	8.10	956,779	173,105	445,888	54,763	-	1,630,535
Other Securities and Call Funds with Financial Institutions	6.85	44,341	-	-	-	-	44,341
Loans to Subsidiaries	7.48	65,035	-	-	-	-	65,035
Cash on Hand and at Bank		145	-	-	-	-	145
<b>Total</b>		1,066,300	173,105	445,888	54,763	-	1,740,056
<b>Liabilities</b>							
Redeemable Shares	6.52	1,048,911	117,076	45,658	18,799	-	1,230,444
Deposits	6.88	296,157	8,904	2,678	6,800	-	314,539
Other Borrowings		96,045	-	-	-	-	96,045
Bank Overdraft	8.45	370	-	-	-	-	370
<b>Total</b>		1,441,483	125,980	48,336	25,599	-	1,641,398
<b>Net Interest Earning Assets</b>		(375,183)	47,125	397,552	29,164	-	98,658
<b>Net Unrecognised Financial Instruments</b>		360,000	(60,000)	(273,000)	(27,000)	-	-
<b>Net Open Position</b>		\$(15,183)	\$(12,875)	\$124,552	\$2,164	-	\$98,658

## Notes to the Financial Statements for the year ended 31 March 2005

### 30 Interest Rate Risk *Continued*

#### Interest Rate Repricing Schedule as at 31 March 2004

GROUP	Weighted Average Interest Rate %	0-6 Months \$000	6-12 Months \$000	12-24 Months \$000	24-60 Months \$000	> 60 Months \$000	Total \$000
<b>Assets</b>							
Advances	7.91	908,991	215,573	236,795	102,097	-	1,463,456
Other Securities and Call Funds with Financial Institutions	5.25	29,004	-	-	-	-	29,004
Investment Securities	5.77	1,214	-	-	544	-	1,758
Cash on Hand and at Bank		3,379	-	-	-	-	3,379
<b>Total</b>		942,588	215,573	236,795	102,641	-	1,497,597
<b>Liabilities</b>							
Redeemable Shares	5.44	942,122	201,149	37,401	9,089	-	1,189,761
Deposits	5.70	200,359	8,755	5,489	1,265	-	215,868
Bank Overdraft		-	-	-	-	-	-
<b>Total</b>		1,142,481	209,904	42,890	10,354	-	1,405,629
<b>Net Interest Earning Assets</b>		(199,893)	5,669	193,905	92,287	-	91,968
<b>Net Unrecognised Financial Instruments</b>		265,000	(59,000)	(121,000)	(85,000)	-	-
<b>Net Open Position</b>		\$65,107	\$(53,331)	\$72,905	\$7,287	-	\$91,968
<b>PARENT</b>							
<b>Assets</b>							
Advances	7.41	903,895	202,155	211,970	80,379	-	1,398,399
Other Securities and Call Funds with Financial Institutions	5.25	29,004	-	-	-	-	29,004
Loans to Subsidiaries	6.34	61,076	-	-	-	-	61,076
Cash on Hand and at Bank		3,234	-	-	-	-	3,234
<b>Total</b>		997,209	202,155	211,970	80,379	-	1,491,713
<b>Liabilities</b>							
Redeemable Shares	5.43	942,422	201,149	37,401	9,089	-	1,190,061
Deposits	5.70	200,359	8,755	5,489	1,265	-	215,868
Bank Overdraft		-	-	-	-	-	-
<b>Total</b>		1,142,781	209,904	42,890	10,354	-	1,405,929
<b>Net Interest Earning Assets</b>		(145,572)	(7,749)	169,080	70,025	-	85,784
<b>Net Unrecognised Financial Instruments</b>		225,000	(45,000)	(110,000)	(70,000)	-	-
<b>Net Open Position</b>		\$79,428	\$(52,749)	\$59,080	\$25	-	\$85,784

### 31 Capital Adequacy

The Southland Building Society is subject to minimum capital requirements (Primary Capital) as specified in its Trust Deed dated 20 December 1990. New Zealand registered banks are subject to minimum capital requirements as specified by the Reserve Bank of New Zealand. These requirements are based on international banking conventions and are generally accepted by all banking supervisory authorities. The current minimum risk adjusted capital ratio set by the Reserve Bank is 8%. The primary capital Trust Deed minimum is 4%. In calculating the Primary Capital Ratio below, securitised assets are excluded.

Set out below are the Southland Building Society's Capital Ratios in relation to the above specified benchmarks.

		PARENT	
		31/3/05	31/3/04
		%	%
Primary Capital		6.38	6.32
Risk Adjusted Capital Ratio		9.50	9.40

## Notes to the Financial Statements for the year ended 31 March 2005

### 32 Concentrations of Funding

Funding consists of Deposits, Redeemable Shares, Loans from financial institutions and Other Borrowings. The funding portfolio has an even geographical spread so there are no material concentrations within New Zealand.

	GROUP		PARENT	
	31/3/05 \$000	31/3/04 \$000	31/3/05 \$000	31/3/04 \$000
<b>Geographical Areas</b>				
Within New Zealand	1,644,181	1,357,490	1,589,070	1,357,790
Outside New Zealand	51,958	48,139	51,958	48,139
	<b>\$1,696,139</b>	<b>\$1,405,629</b>	<b>\$1,641,028</b>	<b>\$1,405,929</b>
<b>Concentrations By Product</b>				
Due to Other Financial Institutions	148,160	125,718	148,160	125,718
Deposits	166,379	90,150	166,379	90,150
Redeemable Shares	1,230,257	1,189,761	1,230,257	1,189,761
Other Borrowings	151,343	-	96,045	-
Due to Subsidiary Companies	-	-	187	300
	<b>\$1,696,139</b>	<b>\$1,405,629</b>	<b>\$1,641,028</b>	<b>\$1,405,929</b>

### 33 Liquidity

The Group monitors its liquidity position on a daily basis and forecasts cashflows from operating activities taking account of the cashflow characteristics of and expected volatility in the balances of the various classes of recognised assets and liabilities and unrecognised items that have or can have a significant cashflow effect.

The maturity profile of assets and liabilities presented in note 24 is not considered by the Group to be in any way indicative of future cashflows. This is primarily because a significant proportion of the Southland Building Society's Redeemable Shares and Deposits are renewed at maturity and therefore do not have a cashflow impact. In addition,

all mortgage advances are repayable on demand, or repayable on three months notice of demand, at the Southland Building Society's discretion. While the Southland Building Society is not likely to call advances on demand the contractual maturity date is not indicative of future cashflows due to early repayments, further drawdowns and principal reductions.

To meet both expected and unexpected fluctuations in operating cashflows the Group maintains a stock of liquid investments which it considers from analysis of historical cashflows, forecast cashflows and the current composition of the Statement of Financial Position to be adequate.

The Southland Building Society's Trust Deed prescribes that liquid assets are to be maintained at, at least 12% of Total Redeemable Shares and Deposits with less than 12 months to maturity. Total Liquidity must exceed 50% of Redeemable Shares and Deposits on call.

Included in the definition of liquid assets are committed but undrawn funding lines. As at 31 March 2005 the Southland Building Society had total committed funding lines with Registered Banks of \$265,000,000 (2004 \$245,000,000). Of these facilities \$118,000,000 (2004 \$105,000,000) were drawn down on 31 March 2005.

	GROUP		PARENT	
	31/3/05 \$000	31/3/04 \$000	31/3/05 \$000	31/3/04 \$000
Asset Liquidity	50,102	34,141	44,486	32,238
Committed and Undrawn Funding Lines	147,000	140,000	147,000	140,000
<b>Total Liquidity</b>	<b>\$197,102</b>	<b>\$174,141</b>	<b>\$191,486</b>	<b>\$172,238</b>

Asset liquidity includes Other Securities, Investment Securities, Cash on Hand and at Bank and Call Funds with Financial Institutions.

In addition to committed lines the Southland Building Society has \$30 million of utilised and \$2 million of unutilised (2004 \$20 million utilised and \$2 million unutilised) funding arrangements in place with registered banks at 31 March 2005.

Cash demands are usually met by realising liquid investments, drawing uncommitted lines and raising new deposits.



## Audit Report

### To the Members of Southland Building Society

We have audited the financial statements on pages 2 to 25. The financial statements provide information about the past financial performance and financial position of the Society and group as at 31 March 2005. This information is stated in accordance with the accounting policies set out on pages 5 to 7.

### Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Society and group as at 31 March 2005 and the results of their operations and cash flows for the year ended on that date.

### Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

### Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Society's and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided audit related services to the Society and group. Partners and employees of our firm may also deal with the Society and group on normal terms within the ordinary course of trading activities of the business of the Society and group. There are, however, certain restrictions on borrowings which the partners and employees of our firm can have with the Society and group. These matters have not impaired our independence as auditors of the Society and group. The firm has no other relationship with, or interests in, the Society or any of its subsidiaries.

### Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Society as far as appears from our examination of those records;
- the financial statements on pages 2 to 25:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Society and group as at 31 March 2005 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 7 June 2005 and our unqualified opinion is expressed as at that date.

Wellington

OUR PEOPLE MAKE THE DIFFERENCE

