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Southland Building Society
137th Annual Report 2006
FINANCIAL STATEMENTS



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DIRECTORY

Chairman

Mr J W A Smith
BCom, FNZIM
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

Mrs K J Ball
B Com CA
Chartered Accountant
Invercargill
(appointed April 2006)

Mr R L Smith
BCom FNZIM
Chief Executive
Southland Building Society
Invercargill

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

Chief Executive

Mr R L Smith
BCom FNZIM
Invercargill

Secretary

Mr T D R Loan
BCom CA DipBusStuds(15)
General Manager Finance

Registered Office

51 Don Street
Invercargill

Solicitors

Buddle Findlay
78 Worcester Street
Christchurch

Cruickshank 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

Statement of Financial Performance for the year ended 31 March 2006

	Note	GROUP		PARENT	
		31/3/06 \$000	31/3/05 \$000	31/3/06 \$000	31/3/05 \$000
Interest Income	(5)	170,695	130,498	154,590	121,863
Interest Expense		33,962	16,228	27,560	15,954
Dividends on Redeemable Shares		90,427	71,333	90,427	71,333
		124,389	87,561	117,987	87,287
Net Interest Income		46,306	42,937	36,603	34,576
Other Income	(6)	12,879	11,304	4,907	3,995
Total Operating Income		59,185	54,241	41,510	38,571
Operating Expenses	(7)	38,686	33,978	23,832	21,590
Operating Surplus		20,499	20,263	17,678	16,981
Add Revaluation of Property	(23)	770	625	-	-
Surplus Before Taxation		21,269	20,888	17,678	16,981
Less Taxation Expense	(8)	6,223	6,679	5,606	5,418
Net Surplus		15,046	14,209	12,072	11,563
Net Surplus Comprises:					
Members' Interests		14,296	13,744	12,072	11,563
Minorities' Interests		750	465	-	-

Statement of Movements in Equity for the year ended 31 March 2006

Net Surplus for the year					
Members' Interests		14,296	13,744	12,072	11,563
Minorities' Interests		750	465	-	-
Other Recognised Revenues and Expenses					
Revaluation of Land and Buildings	(23)	-	15	125	15
Total Recognised Revenues and Expenses for the year		15,046	14,224	12,197	11,578
Contribution from Owners					
Adjustment Minority Interests		-	17	-	-
		-	17	-	-
Distribution to Owners					
Dividends to Minority Interests		(203)	(40)	-	-
		(203)	(40)	-	-
Movements in Equity for the year		14,843	14,201	12,197	11,578
Opening Equity		111,732	97,531	104,167	92,589
		126,575	111,732	116,364	104,167
Comprising:					
Members' Interests		123,668	109,372	116,364	104,167
Minorities' Interests		2,907	2,360	-	-
Closing Equity		126,575	111,732	116,364	104,167

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

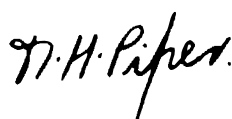
Statement of Financial Position as at 31 March 2006

	Note	GROUP		PARENT	
		31/3/06 \$000	31/3/05 \$000	31/3/06 \$000	31/3/05 \$000
Assets					
Cash on Hand and at Bank		3,025	3,157	733	145
Call Funds with Financial Institutions		6,301	6,501	6,301	6,501
Investment Securities	(9)	3,796	2,605	-	-
Other Securities	(10)	40,361	37,840	40,361	37,840
Advances	(11)	1,983,115	1,753,659	1,780,955	1,630,535
Investments in Subsidiaries	(16)	-	-	9,487	9,487
Loans to Subsidiaries	(16)	-	-	64,899	65,035
Other Assets	(17)	4,101	2,696	2,642	2,410
Investment Properties	(19)	-	450	-	450
Property, Plant and Equipment	(20)	16,637	15,029	6,014	5,200
Intangible Assets	(21)	1,015	1,073	-	-
	(25)	2,058,351	1,823,010	1,911,392	1,757,603
Liabilities					
Redeemable Shares	(25)	1,426,730	1,230,257	1,426,730	1,230,444
Deposits	(25)	255,210	314,539	255,210	314,539
Other Borrowings	(25)	232,499	151,343	100,793	96,045
Bank Overdraft	(25)	-	370	-	370
Other Liabilities	(22)	17,337	14,769	12,295	12,038
	(25)	1,931,776	1,711,278	1,795,028	1,653,436
Equity					
Attributable to Members of the Society	(23)	123,668	109,372	116,364	104,167
Attributable to Minority Shareholders		2,907	2,360	-	-
		2,058,351	1,823,010	1,911,392	1,757,603

For and on behalf of the Board of Directors



Chairman
JWA Smith
31 May 2006



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 2006

	Note	GROUP		PARENT	
		31/3/06 \$000	31/3/05 \$000	31/3/06 \$000	31/3/05 \$000
Cash Flows From Operating Activities					
Cash Provided From (Applied To):					
Advances and Treasury Income		167,940	128,745	152,596	120,305
Sundry Income		12,879	11,304	4,747	3,995
Dividends Received		-	-	160	-
Interest Paid		(34,171)	(16,337)	(27,901)	(16,105)
Dividends Paid on Redeemable Shares		(86,443)	(68,920)	(86,443)	(68,920)
Operating Expenses		(35,576)	(29,613)	(23,025)	(19,135)
Income Taxes Paid		(6,335)	(7,155)	(5,327)	(5,908)
Net Cash Flows From Operating Activities	(24)	18,294	18,024	14,807	14,232
Cash Flows From Investing Activities					
Cash Provided From (Applied To):					
Sale of Property, Plant and Equipment		7	25	7	24
Net Proceeds from Securitised Loans	(15)	-	-	113,866	55,257
Repayment of Subsidiary Advance		-	18	-	-
Purchase of Property, Plant and Equipment		(2,689)	(3,144)	(1,831)	(2,179)
Net Increase in Investment Securities		(1,201)	(839)	-	-
Net Decrease / (Increase) in Loans to Subsidiaries		-	-	136	(3,959)
Net Increase in Advances		(227,239)	(289,206)	(262,655)	(285,995)
Net Cash Flows Applied To Investing Activities		(231,122)	(293,146)	(150,477)	(236,852)
Cash Flows From Financing Activities					
Cash Provided From (Applied To):					
Net Increase in Shares and Deposits		133,501	136,863	133,314	136,792
Net Increase in Other Borrowings		81,024	151,343	4,748	96,045
Increase in Cash held on behalf of Lifestages Mortgage Portfolio		575	1,618	575	1,618
Dividends Paid to Minority Interests		(40)	-	-	-
Net Cash Flows From Financing Activities		215,060	289,824	138,637	234,455
Net Increase in Cash Held		2,232	14,702	2,967	11,835
Add Opening Cash and Cash Equivalents		47,078	32,376	44,066	32,231
Closing Cash and Cash Equivalents		49,310	47,078	47,033	44,066
Reconciliation of Cash and Cash Equivalents					
Cash on Hand and at Bank		3,025	3,157	733	145
Call Funds with Financial Institutions		6,301	6,501	6,301	6,501
Other Securities	(10)	40,361	37,840	40,361	37,840
Less Bank Overdraft		-	(370)	-	(370)
Less Interest Accrued		(377)	(50)	(362)	(50)
		49,310	47,078	47,033	44,066

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, cash flows, 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 are consolidated using the purchase price method of consolidation. The consolidated financial statements include the financial statements of SBS and its subsidiaries:

- Fraser Properties Limited (wholly owned subsidiary) - owns the Southland Building Society's Head Office building;
- Southsure Assurance Limited (80% owned subsidiary) - life insurance and related products;
- Finance Now Limited (71.5% owned subsidiary) - consumer credit and insurance services;
- Funds Administration New Zealand Limited (60% owned subsidiary) - funds management products and financial advisory services; and
- SBS Invercargill VTrust (in substance subsidiary) - special purpose vehicle housing securitised loans purchased from SBS.

On consolidation all significant inter-company transactions have been eliminated.

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.

SBS 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. 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) Investment Securities

Investment Securities are negotiable and comprise debt and equity 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. Equity Securities are recorded at market value and unrealised gains and losses on revaluation are taken to the Statement of Financial Performance. 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.

Market value for listed securities is determined by reference to quoted prices at the reporting date.

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

(f) 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 cash flows.

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.

(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.

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 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 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 all timing differences.

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 advances and deposits according to the yield associated with the outstanding principal. For finance company loans with a commencement date prior to 1 April 2005 interest revenue is recognised on an actuarial basis for Personal Loans and on a Rule of 78 basis for Hire Purchase finance. For loans with a commencement date on or after 1 April 2005, interest bearing Consumer Credit Contracts have interest revenue calculated daily on their daily balance. Interest free loan revenue is recognised on a straight line basis over the original term of the loan. Upon early settlement, the outstanding interest is recognised. Penalty interest for all loans is recognised on a daily accrual basis.

(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

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 the 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.

Finance Now Limited maintains a general provision to reflect potential credit losses inherent in their lending portfolios.

All loans are subject to regular management review.

Provisions for doubtful debts are deducted from loans and advances in the Statement of Financial Position. The amount necessary to bring the provisions to their assessed levels, after net write-offs, is charged to the Statement of Financial Performance.

(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) 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 Deposits, unsecured creditors and those creditors given priority by law.

(v) Lifestages Capital Stable Portfolio

SBS has entered into a trust deed made between SBS and Trustee Executors Limited as Trustee of a registered superannuation scheme known as the Lifestages Capital Stable Portfolio. SBS is a promoter of the Lifestages Capital Stable Portfolio and accepts investments made through SBS's branch network. The fixed interest portion of the Lifestages Capital Stable Portfolio is invested with or 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 Lifestages Capital Stable Portfolio are invested with or managed by SBS. The Lifestages Capital Stable Portfolio 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 Lifestages Capital Stable Portfolio.

(vi) Lifestages Portfolios (Unit Trusts)

SBS has entered into a trust deed made between SBS and Trustee Executors Limited as Trustee of a group investment fund known as 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 invested with or 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.

(vii) 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, FANZ acts as Investment and Administration Manager with respect to the Lifestages Capital Stable Portfolio under an agreement entered into between Trustee Executors (as trustee and issuer), FANZ and SBS.

The fixed interest portion (2.5% to 10% of portfolio) and the mortgage portfolio of the Lifestages Mortgage Portfolios are invested with or managed by SBS. The fixed interest portion (2.5% to 10%) of the Lifestages Australasian Equity Portfolio and Lifestages World Equity Portfolio are invested with or managed by 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 2006

(w) Loan Securitisation

SBS sells its interest in certain 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 are recognised in the Parent and Group 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 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.

(x) 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.

(y) Comparatives

Certain comparative information has been reclassified in order to ensure consistency with the current year treatment.

2 Changes in Accounting Policies

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

3 Risk Management Policies

SBS's objective is to appropriately manage all the risks that arise from its activities. SBS does not naturally seek treasury and financial risk from its involvement in the financial markets and consequently minimises risks wherever possible. Reviews of risk management policies, systems and reporting are conducted on a regular basis.

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; and
- SBS's compliance with regulatory requirements that impact on the business; and the external and internal audit functions.

The Committee consists of four directors. In addition the Chief Executive Officer and GM Finance are in attendance at meetings. The Audit Committee 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 and involves a thorough evaluation of the credit risk associated with potential borrowers, the taking of security against the loan and close ongoing monitoring of account performance. Loans which show signs of adverse performance are managed by the debt management team which is responsible for the collections and recovery process. At a wholesale level credit risk is managed with reference to specific limits as outlined in detailed treasury management policies and reported to the Board on a monthly basis.

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 using appropriate hedging within set limits as defined by SBS treasury policy. Regular reporting of interest rate risk against limits is provided to the Board.

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 budgeted cash flow forecasts and the requirements of SBS's Trust Deed. Management of liquidity risk is achieved by maintaining a prudent level of liquid assets, through the use of committed and uncommitted wholesale funding facilities, through utilisation of securitisation vehicles and through management control of the growth of the business.

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. Regular measurement, monitoring and reporting of operational risk is managed by the Audit Committee with summarised reporting provided to the Board.

4 Adoption of International Financial Reporting Standards

In December 2002 the New Zealand Accounting Standards Review Board announced that New Zealand International Financial Reporting Standards ("NZ IFRS") will apply to all New Zealand reporting entities for the periods commencing on or after 1 January 2007.

SBS intends to implement NZ IFRS in its annual financial statements for the year ending 31 March 2008. In complying with NZ IFRS for the first time, SBS will restate amounts previously reported under current New Zealand accounting standards (NZ GAAP) using NZ IFRS. This requires a restatement of opening balances as at 1 April 2006, with initial transitional adjustments recognised retrospectively and mainly against retained earnings at that date. The balances as at 31 March 2007 and transactions incurred during the year ending 31 March 2007 will also be restated

and will impact the statement of financial performance and statement of financial position for that period.

Transition Management

A conversion project involving professional advisors and finance staff (monitored by the audit committee) has been established. The project team is:

- assessing the impact of changes in financial reporting standards on SBS financial reporting and other related activities;
- designing and implementing processes to deliver financial reporting under NZ IFRS; and
- dealing with any related business impacts.

Change in accounting policies on transition to NZ IFRS

Significant differences identified by SBS are outlined below. It should not be regarded as a complete list of changes in

accounting policies that will result from the transition to NZ IFRS, as some decisions have not yet been finalised where choices of accounting policies are available.

SBS has not yet completed an exercise to quantify all of the effects of the differences in accounting policies discussed below, and is therefore currently unable to reliably quantify impacts on the financial statements, which will arise from transitioning to NZ IFRS. It is possible that the actual impact of adopting NZ IFRS may vary from the information presented below, and the variation may be material.

SBS intends to provide further information, including quantification of the impacts of transitioning to NZ IFRS, in the Society's next interim financial statements for the period ending 30 September 2006.

Notes to the Financial Statements for the year ended 31 March 2006

4 Adoption of International Financial Reporting Standards Continued

Goodwill

Potential volatility in future earnings

The current policy of amortising goodwill over the expected period of benefit (a period of 20 years) will cease. Instead, goodwill will be subject to impairment testing annually, or more frequently if events or circumstances indicate that it might be impaired. This change in policy will result in increased volatility of future earnings where impairment losses may occur.

Intangible Assets - Software

No impact on earnings; Reclassification only

Capitalised software assets will be reclassified from Property, Plant and Equipment to a separately identifiable intangible asset on transition to NZ IFRS.

Taxation

Change in methodology

Under NZ IAS-12: "Income Taxes" a balance sheet method of tax effect accounting will be adopted, replacing the liability method currently used by the Group.

Income tax expense comprises current and deferred taxes, with income tax expense recognised in the Statement of Financial Performance, or recognised in equity to the extent that it relates to items recognised directly in equity.

Deferred tax is calculated using the balance sheet method by determining temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the tax base of those assets and liabilities as used for taxation purposes.

The initial impact of this change in methodology as at 1 April 2006 is yet to be determined.

Employee Benefits

Impact on retained earnings; Some impact on future earnings

Currently employee entitlements to salaries and wages, annual leave, long service leave, and other benefits are recognised when they accrue to employees and are fully vested.

Under NZ IFRS long service leave together with other forms of accrued leave are recognised on an actuarial basis over the period of service.

Fee Revenue

Reduction in retained earnings; Some impact on future earnings

Under NZ IAS-18: 'Revenue', certain service type fees (such as administration fees) will be deferred and amortised over the period of service. Certain fee income (such as loan approval fees) integral to the yield of an originated financial instrument (such as loans and advances measured at amortised cost), net of any direct incremental costs, will be capitalised and deferred over the expected life of the financial instrument.

These changes will cause a reduction to opening retained earnings. The ongoing impact of this change on the Statement of Financial Performance for the Group and the Parent are expected to be immaterial. However, there will be an increase in interest income (offset by a reduction in fee income) and a reclassification of certain assets and liabilities.

Credit Loss Provisioning

Impact on retained earnings; Volatility in future earnings

NZ IFRS adopts an approach known as 'incurred losses' for credit loss provisioning and provides guidance on measurement of incurred losses. Provisions are raised for losses that have already been incurred for exposures that are known to be impaired. The estimates of the cash flows on impaired exposures are then discounted to their present value. As this discount unwinds, there is a resulting recognition of a reduced specific provision and interest in the Statement of Financial Performance during the period between recognition of impairment and recovery of the written down amount.

Exposures found not to be impaired are placed into pools of similar assets with similar risk characteristics to be collectively assessed for losses that have been incurred, but not yet identified. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

It is expected that the proposed changes will have an impact on the overall level of provisioning which the Group holds against its credit exposures on initial adoption. Subsequent to initial adoption it is likely there will be

more volatility in the level of impairment expense included in future earnings.

Derivative Financial Instruments and Hedging

Impact on retained earnings; Volatility in future earnings

All derivative contracts, whether used as hedging instruments or otherwise, will be carried at fair value with changes recognised in the Statement of Financial Performance. NZ IFRS allows fair value hedge accounting and cash flow hedge accounting. Fair value and cash flow hedge accounting can only be considered where certain criteria including documentation requirements and effectiveness tests are met.

Ineffectiveness outside the prescribed effectiveness range precludes the use of hedge accounting and can result in significant volatility in the statement of financial performance. SBS expects to use a mixture of fair value and cash flow hedging in respect of its interest rate risk hedges, which will create volatility in the Statement of Financial Performance.

The hedging rules will impact the way SBS accounts for hedges of its funding and for hedges of its interest rate exposures/gaps in its Statement of Financial Position.

The initial impact of hedge accounting on retained earnings at 1 April 2006 is yet to be fully ascertained.

Business Combinations

No impact

At this stage it is expected that SBS will elect under NZ IFRS 1: "First-time adoption of New Zealand Equivalents to IFRS" to not restate the classification and accounting treatment of business combinations that occurred prior to 1 April 2006.

The impacts outlined above are based on the project team's current interpretation of the standards that have been released to date. There is potential for the significance of the impact to change when SBS prepares its first set of NZ IFRS financial statements due to changes in the standards, changes to the business, or changes in interpretation of the standards. As already indicated SBS will continue to provide users of the financial statements with updated information about the likely impacts of NZ IFRS on the Group's earnings, cash flows and financial position as we progress towards full adoption.

5 Interest Income

	GROUP		PARENT	
	31/3/06 \$000	31/3/05 \$000	31/3/06 \$000	31/3/05 \$000
Advances	167,099	130,210	145,822	116,556
Loans to Subsidiaries	-	-	5,460	5,128
Investment Securities	181	82	-	-
Other Securities	3,415	206	3,308	179
	170,695	130,498	154,590	121,863

6 Other Income

Loan Fees	4,832	4,451	2,466	2,547
Management Fees	2,387	2,337	446	367
Other Fees	1,460	905	920	623
Insurance Income	2,955	2,780	-	-
Dividends	-	-	598	160
Other	1,245	831	477	298
	12,879	11,304	4,907	3,995

Notes to the Financial Statements

for the year ended 31 March 2006

7 Operating Expenses

	Note	GROUP		PARENT	
		31/3/06 \$000	31/3/05 \$000	31/3/06 \$000	31/3/05 \$000
Auditor's Remuneration		174	113	92	70
Fees to Directors *		475	667	430	618
Depreciation		2,248	1,691	1,539	1,304
Personnel		15,285	12,684	11,132	9,424
Marketing		3,601	3,310	2,893	2,897
Computer Expenses		933	1,104	899	936
Other Expenses		9,461	8,557	4,620	4,207
Actuarial Life Adjustment		935	455	-	-
Write Off of Property, Plant and Equipment		46	221	46	221
Amortisation of Goodwill		58	58	-	-
Subvention Payment		-	-	317	308
Bad and Doubtful Debts **	(12(ii))	3,779	3,747	(47)	44
Rent and Leases		1,691	1,371	1,911	1,561
		38,686	33,978	23,832	21,590

* An increase in provision for Directors Retiring Allowance of \$79,000 was made this period (2005 \$294,000).

** 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		172	113	92	70
KPMG Other Assurance Services		2	-	-	-
		174	113	92	70

Amounts received, or due and receivable by Directors

JVA Smith (Chairman)		80	62	80	62
MH Piper (Deputy Chairman)		60	51	55	46
WH Conway		54	42	44	32
JB Walker		56	55	36	35
JA Dowling (resigned February 2005)		-	82 **	-	77 **
JF Ward		55	36	50	32
GJ Mulvey		46	38	41	33
GJ Diack (appointed February 2005)		45	7	45	7
KJ Ball (appointed April 2006)		-	-	-	-
RL Smith *		-	-	-	-
		396	373	351	324
Provision for Directors Retiring Allowance		79	294	79	294
		475	667	430	618

Fees to directors' include chairman fees and travel allowances.

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

** Includes retiring allowance

8 Taxation

Tax on Surplus for the year at 33%		7,019	6,893	5,833	5,604
Adjust for the Tax Effect of :					
Imputation Credits Received		26	26	26	26
Other Permanent Items		(659)	(140)	130	36
Prior Period Adjustments		31	31	13	37
		(602)	(83)	169	99
Tax on Operating Surplus		6,417	6,810	6,002	5,703
Imputation Credits		(79)	(79)	(79)	(79)
Loss Offset		(115)	(52)	(317)	(206)
Taxation Expense		6,223	6,679	5,606	5,418
COMPRISING OF:					
Current Taxation		6,467	6,724	5,505	5,529
Deferred Tax (Asset) / Liability	(18)	(244)	(45)	101	(111)
		6,223	6,679	5,606	5,418

Notes to the Financial Statements for the year ended 31 March 2006

9 Investment Securities

	Note	GROUP		PARENT	
		31/3/06	31/3/05	31/3/06	31/3/05
		\$000	\$000	\$000	\$000
NZ Government Securities		518	528	-	-
Bank Deposits and Money Market		2,743	1,764	-	-
Managed Funds in Lifestages Portfolio		535	313	-	-
	(25)	3,796	2,605	-	-

10 Other Securities

Bank Deposits and Money Market		40,361	37,840	40,361	37,840
Total Other Securities		40,361	37,840	40,361	37,840

11 Advances

Performing Advances		1,983,982	1,754,129	1,780,600	1,630,157
Impaired Advances		816	1,119	520	618
Gross Advances		1,984,798	1,755,248	1,781,120	1,630,775
Less Provisions for Doubtful Debts	(12i)	1,683	1,589	165	240
Advances Net of Specific and General Provisions	(25)	1,983,115	1,753,659	1,780,955	1,630,535
Total Advances secured by mortgage		1,911,540	1,684,080		
Total Personal Loans		73,258	71,168		
Gross Advances		1,984,798	1,755,248		

12 (i) Provision for Bad and Doubtful Debts

Group Provisions as at 31 March 2006	General	Specific	Specific	Total
	\$000	Performing \$000	Non-Accrual \$000	
Balances at Beginning of Year	850	90	649	1,589
Less				
Provisions Released	-	(60)	(99)	(159)
Provisions Utilised	-	-	(126)	(126)
Transfer from Specific Provision	293	-	(293)	-
Add				
New Provisions Made	169	15	195	379
Net Change in Provisions to				
Statement of Financial Performance	462	(45)	(323)	94
Balance at End of Year	1,312	45	326	1,683
Parent Provisions as at 31 March 2006				
Balances at Beginning of Year	-	90	150	240
Less				
Provisions Released	-	(60)	(99)	(159)
Provisions Utilised	-	-	(126)	(126)
Add				
New Provisions Made	-	15	195	210
Net Change in Provisions to				
Statement of Financial Performance	-	(45)	(30)	(75)
Balance at End of Year	-	45	120	165

Notes to the Financial Statements for the year ended 31 March 2006

12 (i) Provision for Bad and Doubtful Debts *Continued*

Group Provisions as at 31 March 2005	General	Specific	Specific	Total
	\$000	Performing \$000	Non-Accrual \$000	
Balances at Beginning of Year	-	118	767	885
Less				
Provisions Released	-	(28)	(28)	(56)
Provisions Utilised	-	-	-	-
Transfer from Specific Provision	330	-	(330)	-
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	850	90	649	1,589
Parent Provisions as at 31 March 2005				
Balances at Beginning of Year	-	118	8	126
Less				
Provisions Released	-	(28)	(28)	(56)
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	-	90	150	240

12 (ii) Bad and Doubtful Debts Expense

	GROUP		PARENT	
	31/3/06	31/3/05	31/3/06	31/3/05
	\$000	\$000	\$000	\$000
Bad Debts Written Off for Year	3,685	3,043	28	(70)
Less Provisions Released	(159)	(56)	(159)	(56)
Less Provisions Utilised	(126)	-	(126)	-
Add New Provisions Made	379	760	210	170
Net Bad Debts Expensed to				
Statement of Financial Performance	3,779	3,747	(47)	44

13 Asset Quality

Asset Quality Information as at 31 March 2006	Note	Recognised	Total Pre-	Specific	Balance
		\$000	Provisioned Amount \$000	Provisions \$000	
GROUP					
Non-Accrual Assets	(14)	816	816	326	490
Past Due Assets	(14)	1,959	1,959	45	1,914
		2,775	2,775	371	2,404
PARENT					
Non-Accrual Assets	(14)	520	520	120	400
Past Due Assets	(14)	941	941	45	896
		1,461	1,461	165	1,296

Notes to the Financial Statements for the year ended 31 March 2006

13 Asset Quality *Continued*

Asset Quality Information as at 31 March 2005	Note	Recognised	Total Pre- Provisioned Amount	Specific Provisions	Balance
GROUP		\$000	\$000	\$000	\$000
Non-Accrual Assets	(14)	1,119	1,119	649	470
Past Due Assets	(14)	2,712	2,712	90	2,622
		3,831	3,831	739	3,092
PARENT					
Non-Accrual Assets	(14)	618	618	150	468
Past Due Assets	(14)	1,045	1,045	90	955
		1,663	1,663	240	1,423

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

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

Pre-Provision Balances as at 31 March 2006	Non-Accrual \$000	Past Due \$000	Total \$000
GROUP			
Opening Balance	1,119	2,712	3,831
Loan Balance Written Off	(333)	-	(333)
Transfer to Performing Ledger	-	(1,714)	(1,714)
Customer Repayments	(532)	(1,143)	(1,675)
Interest	-	38	38
Transfer from Performing Ledger	514	2,045	2,559
Sundry Advances and Fees	48	21	69
Closing Balance	816	1,959	2,775
PARENT			
Opening Balance	618	1,045	1,663
Loan Balance Written Off	(128)	-	(128)
Transfer to Performing Ledger	-	(1,065)	(1,065)
Customer Repayments	(532)	(1,143)	(1,675)
Interest	-	38	38
Transfer from Performing Ledger	514	2,045	2,559
Sundry Advances and Fees	48	21	69
Closing Balance	520	941	1,461
Pre-Provision Balances as at 31 March 2005			
GROUP			
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	1,119	2,712	3,831
PARENT			
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	618	1,045	1,663

Notes to the Financial Statements for the year ended 31 March 2006

15 Loan Securitisation

Mortgages assigned by the Southland Building Society to the Lifestages Mortgage Portfolio unit trust during the 12 months ended 31 March 2006 amounted to \$49,555,000 (2005 \$27,427,000). SBS retains 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. 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.

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 1 (w)).

Mortgages assigned by the Southland Building Society to the SBS Invercargill W Trust during the 12 months ended 31 March 2006 amounted to \$113,866,000 (2005 \$55,257,000).

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.

Securitised Loan Balances		31/3/06	31/3/05
		\$000	\$000
Lifestages Mortgage Portfolio		100,793	96,045
SBS Invercargill W Trust		130,420	53,304
		231,213	149,349

16 Investments in Subsidiaries

		PARENT	
		31/3/06	31/3/05
		\$000	\$000
Investments in Subsidiaries		9,487	9,487
Loans to Subsidiaries		64,899	65,035
		74,386	74,522

Significant Subsidiaries:

Subsidiaries	Percentage Held		Balance Date	Nature of Business
	31/3/06	31/3/05		
Fraser Properties Limited	100.0%	100.0%	31 March	Property Holding
Southsure Assurance Limited	(1)	80.0%	31 March	Insurance
Finance Now Limited	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 Subsidiary:</i>				
SBS Invercargill W Trust	-	-	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.

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 25.

As at 31 March 2006:

- The Southland Building Society had advanced \$64,533,652 (2005 \$64,135,284) to Finance Now Limited
- The Southland Building Society had advanced \$365,080 (2005 \$379,882) to Southsure Investment Holdings Limited
- The Southland Building Society had advanced \$nil (2005 \$520,000) to Fraser Properties Limited
- Southsure Assurance Limited had Redeemable Shares of \$nil (2005 \$187,187) in the Southland Building Society

In respect of Mortgage Securitisations see note 15.

Notes to the Financial Statements for the year ended 31 March 2006

16 Investments in Subsidiaries Continued

		PARENT	
		31/3/06 \$000	31/3/05 \$000
Net Interest Received from Subsidiaries		5,885	5,162
Payments Made to Subsidiaries			
Under Interest Rate Swap Agreements		468	64
Net Rent Paid to Subsidiaries		393	367
Technology Services Fees Received from Subsidiaries		323	225
Net Commission Received from Subsidiaries		40	34
Management Fees Received from Subsidiaries		606	118
Dividends Received/Receivable from Subsidiaries		598	160
Fees Received from Subsidiaries		80	80

17 Other Assets

	Note	GROUP		PARENT	
		31/3/06 \$000	31/3/05 \$000	31/3/06 \$000	31/3/05 \$000
Sundry Debtors		2,877	1,585	2,041	1,530
Deferred Tax	(18)	674	430	145	246
Taxation Refund		550	681	456	634
		4,101	2,696	2,642	2,410

18 Deferred Taxation

Deferred Taxation Benefit brought forward		430	385	246	135
Current Movement		156	25	(193)	107
Prior Period Adjustment		88	20	92	4
Total Movement	(8)	244	45	(101)	111
Deferred Taxation Benefit		674	430	145	246

19 Investment Properties

Freehold Land (at valuation)		-	153	-	153
Buildings (at valuation)		-	297	-	297
Total Land and Buildings		-	450	-	450

Investment Properties

The Investment Property has been transferred to Property, Plant and Equipment at 31 March 2006, as SBS is now utilising this property for operational purposes.

20 Property, Plant and Equipment

Freehold Land (at valuation)		1,153	800	220	-
Buildings (at valuation)		8,408	7,607	355	-
		9,561	8,407	575	-
Leasehold Assets (at cost)		3,231	2,744	3,122	2,744
Less Accumulated Depreciation		943	711	935	711
		2,288	2,033	2,187	2,033
Computer Equipment and Software (at cost)		8,509	7,232	6,509	5,807
Less Accumulated Depreciation		5,787	4,355	4,950	3,984
		2,722	2,877	1,559	1,823
Other Assets (at cost)		5,202	4,663	3,219	2,787
Less Accumulated Depreciation		3,136	2,951	1,526	1,443
		2,066	1,712	1,693	1,344
Total Property, Plant and Equipment		16,637	15,029	6,014	5,200

Notes to the Financial Statements for the year ended 31 March 2006

20 Property, Plant and Equipment *Continued*

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 at 31 March 2006 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 July 2005 is \$10,600,000 (2005 \$5,855,000).

21 Intangible Assets

	GROUP		PARENT	
	31/3/06 \$000	31/3/05 \$000	31/3/06 \$000	31/3/05 \$000
Goodwill at cost	1,160	1,160	-	-
Less Accumulated Amortisation of Goodwill	87	29	-	-
Balance at Beginning of Year	1,073	1,131	-	-
Less Amortisation for the Year	58	58	-	-
Balance at End of Year	1,015	1,073	-	-

22 Other Liabilities

Sundry Creditors	6,913	6,295	4,507	5,190
Employee Entitlements	2,338	1,898	1,926	1,561
Life Fund	2,224	1,289	-	-
Other	5,862	5,287	5,862	5,287
	17,337	14,769	12,295	12,038

23 Equity

Capital Reserve	73	73	73	73
Revaluation Reserve Property, Plant and Equipment	15	-	140	-
Revaluation Reserve Investment Properties	-	15	-	15
Realised Revaluation Reserves	406	406	413	413
Retained Earnings	123,174	108,878	115,738	103,666
	123,668	109,372	116,364	104,167
Minorities' Interests	2,907	2,360	-	-
	126,575	111,732	116,364	104,167
Movement in Reserves:				
Revaluation Reserve - Property, Plant and Equipment				
Balance at Beginning of Year	-	-	-	-
Transfer from Investment Property Revaluation Reserve	15	-	15	-
Surplus on Revaluation of Land and Buildings	770	625	125	-
	785	625	140	-
Transfer to Statement of Financial Performance	770	625	-	-
Balance at End of Year	15	-	140	-
Revaluation Reserve - Investment Properties				
Balance at Beginning of Year	15	-	15	-
Surplus on Revaluation of Land and Buildings	-	15	-	15
	15	15	15	15
Transfer to Property, Plant and Equipment				
Revaluation Reserve	15	-	15	-
Balance at End of Year	-	15	-	15
Retained Earnings				
Balance at Beginning of Year	108,878	95,135	103,666	92,103
Add Net Surplus for the Year	15,046	14,209	12,072	11,563
Less Minorities' Interests	(750)	(466)	-	-
Balance at End of Year	123,174	108,878	115,738	103,666

Notes to the Financial Statements for the year ended 31 March 2006

23 Equity Continued

	GROUP		PARENT	
	31/3/06	31/3/05	31/3/06	31/3/05
	\$000	\$000	\$000	\$000
Revaluation of Land and Buildings				
Total Surplus/(Deficit) on Revaluation	770	640	125	15
Transfer to Statement of Financial Performance	770	625	-	-
Revaluation of Land and Buildings Recognised Through Movements in Equity	-	15	125	15

24 Reconciliation Of Net Surplus To Net Operating Cash Flows

Net Surplus for Year	15,046	14,209	12,072	11,563
Add/(Less) Non Cash Items				
Depreciation	2,248	1,691	1,539	1,304
Amortisation Goodwill	58	58	-	-
Actuarial Life Adjustment	935	455	-	-
Revaluation of Investment Securities	(15)	-	-	-
Dividend Provision - Minority Interest	(162)	-	-	-
Building Revaluations	(770)	(625)	-	-
Write Off Property, Plant and Equipment	46	221	46	221
Deferred Tax	(248)	(45)	101	(111)
	2,092	1,755	1,686	1,414
(Less) Items Classified as Investing				
Accruals Relating to Advances	(2,217)	(997)	(1,631)	(1,398)
Add Items Classified as Financing				
Accruals Relating to Shares and Deposits	3,775	2,304	3,643	2,262
(Less) Items Classified as Cash				
Accruals Relating to Investment and Other Securities	(304)	(51)	(312)	(43)
Add/(Less) Net Movements in Working Capital				
Sundry Debtors	(1,292)	(660)	(511)	(1,047)
Sundry Creditors	1,058	1,895	(318)	1,861
Provision for Tax	136	(431)	178	(380)
	(98)	804	(651)	434
Net Cash Flows From Operating Activities	18,294	18,024	14,807	14,232

Notes to the Financial Statements for the year ended 31 March 2006

25 Maturity Profile

The maturity profile reflects on-balance sheet financial assets and liabilities and has been prepared on the basis of contractual maturity dates.

Monetary assets receivable matched against liabilities payable as at 31 March 2006

GROUP	Note	0-6 Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total
		\$000	\$000	\$000	\$000	\$000	\$000	\$000
Assets								
Advances	(11)	142,457	61,641	204,098	85,608	143,800	1,549,609	1,983,115
Other Securities and Call Funds with Financial Institutions		46,662	-	46,662	-	-	-	46,662
Investment Securities	(9)	3,278	518	3,796	-	-	-	3,796
Cash on Hand and at Bank		3,025	-	3,025	-	-	-	3,025
Other Assets		3,427	-	3,427	-	-	-	3,427
Total		198,849	62,159	261,008	85,608	143,800	1,549,609	2,040,025
Non Monetary Assets								18,326
Total Assets								2,058,351
Liabilities				Current Liabilities				Total
Redeemable Shares	(26)	1,200,107	180,937	1,381,044	36,447	9,239	-	1,426,730
Deposits	(26)	240,201	7,392	247,593	7,354	263	-	255,210
Other Borrowings		-	-	-	-	-	232,499	232,499
Other Liabilities		12,775	-	12,775	-	-	-	12,775
Total		1,453,083	188,329	1,641,412	43,801	9,502	232,499	1,927,214
Non Monetary Liabilities								4,562
Total Liabilities								1,931,776

PARENT	Note	0-6 Months	6-12 Months	Current Assets	12-24 Months	24-60 Months	> 60 Months	Total
		\$000	\$000	\$000	\$000	\$000	\$000	\$000
Assets								
Advances	(11)	116,991	49,899	166,890	54,402	130,576	1,429,087	1,780,955
Other Securities and Call Funds with Financial Institutions		46,662	-	46,662	-	-	-	46,662
Loans to Subsidiaries	(16)	64,899	-	64,899	-	-	-	64,899
Cash on Hand and at Bank		733	-	733	-	-	-	733
Other Assets		2,497	-	2,497	-	-	-	2,497
Total		231,782	49,899	281,681	54,402	130,576	1,429,087	1,895,746
Non Monetary Assets								15,646
Total Assets								1,911,392
Liabilities				Current Liabilities				Total
Redeemable Shares	(26)	1,200,107	180,937	1,381,044	36,447	9,239	-	1,426,730
Deposits	(26)	240,201	7,392	247,593	7,354	263	-	255,210
Other Borrowings		-	-	-	-	-	100,793	100,793
Other Liabilities		10,369	-	10,369	-	-	-	10,369
Total		1,450,677	188,329	1,639,006	43,801	9,502	100,793	1,793,102
Non Monetary Liabilities								1,926
Total Liabilities								1,795,028

Notes to the Financial Statements for the year ended 31 March 2006

25 Maturity Profile Continued

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

GROUP	Note	0-6	6-12	Current	12-24	24-60	> 60	Total
		Months	Months	Assets	Months	Months	Months	
		\$000	\$000	\$000	\$000	\$000	\$000	
Assets								
Advances	(11)	192,545	43,181	235,726	77,225	78,489	1,362,219	1,753,659
Other Securities and Call Funds with Financial Institutions		44,341	-	44,341	-	-	-	44,341
Investment Securities	(9)	2,077	-	2,077	528	-	-	2,605
Cash on Hand and at Bank		3,157	-	3,157	-	-	-	3,157
Other Assets		2,266	-	2,266	-	-	-	2,266
Total		244,386	43,181	287,567	77,753	78,489	1,362,219	1,806,028
Non Monetary Assets								16,982
Total Assets								1,823,010
Liabilities								
				Current				Total
				Liabilities				
Redeemable Shares	(26)	1,048,724	117,077	1,165,801	45,657	18,799	-	1,230,257
Deposits	(26)	296,157	8,904	305,061	2,678	6,800	-	314,539
Other Borrowings		-	-	-	-	-	151,343	151,343
Bank Overdraft		370	-	370	-	-	-	370
Other Liabilities		12,871	-	12,871	-	-	-	12,871
Total		1,358,122	125,981	1,484,103	48,335	25,599	151,343	1,709,380
Non Monetary Liabilities								1,898
Total Liabilities								1,711,278
PARENT								
PARENT	Note	0-6	6-12	Current	12-24	24-60	> 60	Total
		Months	Months	Assets	Months	Months	Months	
		\$000	\$000	\$000	\$000	\$000	\$000	
Assets								
Advances	(11)	187,001	28,413	215,414	49,125	53,721	1,312,275	1,630,535
Other Securities and Call Funds with Financial Institutions		44,341	-	44,341	-	-	-	44,341
Loans to Subsidiaries	(16)	65,035	-	65,035	-	-	-	65,035
Cash on Hand and at Bank		145	-	145	-	-	-	145
Other Assets		2,164	-	2,164	-	-	-	2,164
Total		298,686	28,413	327,099	49,125	53,721	1,312,275	1,742,220
Non Monetary Assets								15,383
Total Assets								1,757,603
Liabilities								
				Current				Total
				Liabilities				
Redeemable Shares	(26)	1,048,911	117,077	1,165,988	45,657	18,799	-	1,230,444
Deposits	(26)	296,157	8,904	305,061	2,678	6,800	-	314,539
Other Borrowings		-	-	-	-	-	96,045	96,045
Bank Overdraft		370	-	370	-	-	-	370
Other Liabilities		10,477	-	10,477	-	-	-	10,477
Total		1,355,915	125,981	1,481,896	48,335	25,599	96,045	1,651,875
Non Monetary Liabilities								1,561
Total Liabilities								1,653,436

Notes to the Financial Statements for the year ended 31 March 2006

25 Maturity Profile *Continued*

The Group's six largest borrowers owe 4.88% (2005 5.35%) of Monetary Assets Receivable. \$1,054,000 (2005 \$1,263,000) of Current Liabilities are owed to directors and \$1,000 (2005 \$44,000) of Term Liabilities are owed to directors. Of advances made, \$567,000 (2005 \$377,000) are made to directors. On 31 March 2006 interest rates on directors advances ranged from 9.10% to 9.35% (2005 8.30% to 8.55%) per annum. Directors loans and investments are made in the ordinary course of business under normal terms and conditions. Additionally \$3,970,000 (2005 \$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 0.026% (2005 0.048%) have repayments in arrears in excess of three months.

26 Analysis of Borrowings

GROUP	Note	31/3/06		31/3/05	
		\$000	Weighted	\$000	Weighted
			Average		Average
		Interest Rate	Interest Rate		
		%	%		
DEPOSITS MATURING					
Between 0 and 1 year		247,593	7.42	305,061	6.90
Between 1 and 2 years		7,354	6.74	2,678	6.39
Between 2 and 3 years		263	6.19	6,800	6.73
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
Total Deposits	(25)	255,210	7.40	314,539	6.88
REDEEMABLE SHARES MATURING					
Between 0 and 1 year		1,381,044	7.11	1,165,801	6.53
Between 1 and 2 years		36,447	6.71	45,657	6.43
Between 2 and 3 years		5,835	6.65	15,638	6.49
Between 3 and 4 years		3,403	6.59	4	5.52
Between 4 and 5 years		1	3.00	3,157	6.59
Over 5 years		-	-	-	-
Total Redeemable Shares	(25)	1,426,730	7.10	1,230,257	6.52
Total Deposits and Redeemable Shares		1,681,940	7.14	1,544,796	6.60
31/3/06					
31/3/05					
PARENT		\$000	Weighted	\$000	Weighted
			Average		Average
				Interest Rate	Interest Rate
		%	%		
DEPOSITS MATURING					
Between 0 and 1 year		247,593	7.42	305,061	6.90
Between 1 and 2 years		7,354	6.74	2,678	6.39
Between 2 and 3 years		263	6.19	6,800	6.73
Between 3 and 4 years		-	-	-	-
Between 4 and 5 years		-	-	-	-
Over 5 years		-	-	-	-
Total Deposits	(25)	255,210	7.40	314,539	6.88
REDEEMABLE SHARES MATURING					
Between 0 and 1 year		1,381,044	7.11	1,165,988	6.53
Between 1 and 2 years		36,447	6.71	45,657	6.43
Between 2 and 3 years		5,835	6.65	15,638	6.49
Between 3 and 4 years		3,403	6.59	4	5.52
Between 4 and 5 years		1	3.00	3,157	6.59
Over 5 years		-	-	-	-
Total Redeemable Shares	(25)	1,426,730	7.10	1,230,444	6.52
Total Deposits and Redeemable Shares		1,681,940	7.14	1,544,983	6.60

Deposits and Redeemable Shares are unsecured.

Floating rate Redeemable Shares and Deposits have been included above, therefore the weighted average interest rates provided are only meaningful at the balance date 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 15 and 16. 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 2006

27 Commitments

	GROUP		PARENT	
	31/3/06 \$000	31/3/05 \$000	31/3/06 \$000	31/3/05 \$000
Advances which have been approved at balance date but not yet drawn	36,186	35,527	35,318	31,504
Undrawn balances under Revolving Credit Mortgage Facilities	182,333	155,345	180,726	155,345

SBS has entered into a trust deed made between SBS and Trustees Executors Limited, as Trustee of a registered superannuation scheme known as Lifestages Capital Stable Portfolio (formerly known as SBS Capital Stable Fund). The trust deed was effective from the 1st day of April 1992. Under the Deed of Guarantee executed on the 26th day of March 1992, the Society unconditionally guarantees the capital invested in the Lifestages Capital Stable Portfolio of \$10,677,000 (2005 \$8,782,000) providing investment is maintained for at least three years. A minimum of 80% of the funds invested in the Lifestages Capital Stable Portfolio are reinvested with the Society.

Lease Commitments

As at 31 March 2006 the value of the residual portion of lease commitments for SBS was \$5,560,000 (2005 \$6,015,000). Of this amount \$304,000 (2005 \$666,000) relates to lease commitments between SBS and its wholly owned subsidiary company, Fraser Properties Ltd.

Lease commitments payable after balance date:					
0-12 months		1,324	1,044	1,415	1,400
12-24 months		1,231	966	1,028	1,189
24-60 months		2,307	2,221	2,104	2,109
>60 months		1,013	1,348	1,013	1,317
		5,875	5,579	5,560	6,015

28 Segmental Analysis

Parent

SBS is a financial institution operating solely in the New Zealand retail financial markets.

Subsidiaries

Fraser Properties Limited owns 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 SBS.

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 wholesale and retail financial market.

29 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 New Zealand Institute of Chartered Accountants. 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.

Investment Securities

For Investment Securities maturing in less than 3 months and Equity Securities, carrying amount is equal 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.

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.

Advances

For variable rate advances the carrying amount is a reasonable estimate of fair value. For fixed rate 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 2006 total interest free advances were \$4,825,000 (2005 \$4,825,000).

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, other than accrued interest.

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 27, 29 and 30.

Notes to the Financial Statements for the year ended 31 March 2006

29 Fair Value Continued

	31/3/06		31/3/05	
	Carrying Amount \$000	Fair Value \$000	Carrying Amount \$000	Fair Value \$000
GROUP				
Statement of Financial Position Items				
Assets				
Cash on Hand and at Bank	3,025	3,025	3,157	3,157
Investment Securities	3,796	3,796	2,605	2,605
Other Securities and Call Funds with Financial Institutions	46,662	46,662	44,341	44,341
Advances	1,983,115	1,976,736	1,753,659	1,749,227
Total	2,036,598	2,030,219	1,803,762	1,799,330
Liabilities				
Redeemable Shares and Deposits	1,681,940	1,684,598	1,544,796	1,544,241
Other Borrowings	232,499	232,499	151,343	151,343
Bank Overdraft	-	-	370	370
Total	1,914,439	1,917,097	1,696,509	1,695,954
Unrecognised Financial Instruments				
Derivative Contracts Used for Hedging Purposes In a Net Receivable/(Payable) Position	725	942	293	2,286
PARENT				
Statement of Financial Position Items				
Assets				
Cash on Hand and at Bank	733	733	145	145
Other Securities and Call Funds with Financial Institutions	46,662	46,662	44,341	44,341
Advances	1,780,955	1,775,022	1,630,535	1,626,244
Loans to Subsidiaries	64,899	64,899	65,035	65,035
Total	1,893,249	1,887,316	1,740,056	1,735,765
Liabilities				
Redeemable Shares and Deposits	1,681,940	1,684,598	1,544,983	1,544,420
Other Borrowings	100,793	100,793	96,045	96,045
Bank Overdraft	-	-	370	370
Total	1,782,733	1,785,391	1,641,398	1,640,835
Unrecognised Financial Instruments				
Derivative Contracts Used for Hedging Purposes In a Net Receivable/(Payable) Position	693	811	273	2,196

30 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, financial covenants, guarantees and registered securities.

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. In excess of 96% of SBS advances are secured by first mortgage over real property as a minimum. 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 28% 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 Bank's 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 Bank's 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 2006

30 Credit Risk Exposure *Continued*

GROUP	Balance		Risk Weighting %	Risk Adjusted Balance	
	31/3/06	31/3/05		31/3/06	31/3/05
	\$000	\$000		\$000	\$000
Statement of Financial Position Exposures					
Cash and Claims on Qualifying Governments with maturities < 1 year	3,025	2,787	0%	-	-
Cash and Claims on Qualifying Governments with maturities > 1 year	518	528	10%	52	53
Claims on banks and NZ local authorities	49,158	46,418	20%	9,832	9,284
Loans Secured by residential mortgage	1,320,888	1,176,531	50%	660,444	588,266
All other assets	684,762	596,746	100%	684,762	596,746
Total Statement of Financial Position Exposures	2,058,351	1,823,010		1,355,090	1,194,349

	Contract or Notional Amount		Credit Equivalent Amount		Risk Weighting %	Risk Adjusted Balance	
	31/3/06	31/3/05	31/3/06	31/3/05		31/3/06	31/3/05
	\$000	\$000	\$000	\$000		\$000	\$000
Unrecognised Financial Instrument Exposures							
Lifestages Capital Stable Portfolio	10,677	8,782	10,677	8,782	100%	10,677	8,782
Commitments with uncertain drawdown	36,186	35,527	18,093	17,763	50-100%	12,068	11,805
Commitments to extend credit which can be unconditionally cancelled	182,333	155,345	-	-	50-100%	-	-
Interest Rate Contracts	675,500	291,000	4,215	2,936	20%	843	587
Option Contracts	254,500	155,000	1,246	936	20%	249	187
Total Unrecognised Financial Instruments Exposures	1,159,196	645,654	34,231	30,417		23,837	21,361

(c) Concentrations of Credit Risk

The Group's dominant activity is the provision of residential mortgage finance which comprise 67% (2005 67%) of the Group's loan portfolio and is undertaken throughout New Zealand. Rural loans which comprise 20%

(2005 20%) 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			
	31/3/06		31/3/05		31/3/06		31/3/05	
	Number	\$000	Number	\$000	Number	\$000	Number	\$000
10-19	1	22,000	1	21,500	-	-	-	-
20-29	-	-	-	-	-	-	-	-
30-39	-	-	-	-	-	-	-	-

In terms of the other counterparty exposures disclosed above the Group's policy in respect of collateral taken is set out in note 30 (a).

31 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 interest rate repricing schedule reflects on-balance sheet financial assets and liabilities and has been prepared on the basis of the next repricing date.

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

Notes to the Financial Statements for the year ended 31 March 2006

31 Interest Rate Risk Continued

As at 31 March 2006							
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
Assets							
Advances	8.93	1,034,232	309,310	467,610	171,963	-	1,983,115
Other Securities and Call Funds with Financial Institutions	7.50	46,662	-	-	-	-	46,662
Investment Securities	6.85	3,278	518	-	-	-	3,796
Cash on Hand and at Bank	-	3,025	-	-	-	-	3,025
		1,087,197	309,828	467,610	171,963	-	2,036,598
Liabilities							
Redeemable Shares	7.10	1,200,107	180,937	36,447	9,239	-	1,426,730
Deposits	7.40	240,201	7,392	7,354	263	-	255,210
Other Borrowings		232,499	-	-	-	-	232,499
Bank Overdraft		-	-	-	-	-	-
		1,672,807	188,329	43,801	9,502	-	1,914,439
Net Interest Earning Assets		(585,610)	121,499	423,809	162,461	-	122,159
Net Unrecognised Financial Instruments		750,000	(205,000)	(409,000)	(136,000)	-	-
Net Open Position		164,390	(83,501)	14,809	26,461	-	122,159
PARENT							
Advances	8.57	937,905	275,953	412,962	154,135	-	1,780,955
Other Securities and Call Funds with Financial Institutions	7.50	46,662	-	-	-	-	46,662
Loans to Subsidiaries	9.29	64,899	-	-	-	-	64,899
Cash on Hand and at Bank	-	733	-	-	-	-	733
		1,050,199	275,953	412,962	154,135	-	1,893,249
Liabilities							
Redeemable Shares	7.10	1,200,107	180,937	36,447	9,239	-	1,426,730
Deposits	7.40	240,201	7,392	7,354	263	-	255,210
Other Borrowings		100,793	-	-	-	-	100,793
Bank Overdraft		-	-	-	-	-	-
		1,541,101	188,329	43,801	9,502	-	1,782,733
Net Interest Earning Assets		(490,902)	87,624	369,161	144,633	-	110,516
Net Unrecognised Financial Instruments		628,000	(190,000)	(379,000)	(59,000)	-	-
Net Open Position		137,098	(102,376)	(9,839)	85,633	-	110,516
As at 31 March 2005							
GROUP							
Assets							
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
		1,054,612	189,862	479,965	79,323	-	1,803,762
Liabilities							
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
		1,496,594	125,980	48,336	25,599	-	1,696,509
Net Interest Earning Assets		(441,982)	63,882	431,629	53,724	-	107,253
Net Unrecognised Financial Instruments		375,000	(60,000)	(288,000)	(27,000)	-	-
Net Open Position		(66,982)	3,882	143,629	26,724	-	107,253
PARENT							
Assets							
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
		1,066,300	173,105	445,888	54,763	-	1,740,056

Notes to the Financial Statements for the year ended 31 March 2006

31 Interest Rate Risk Continued

As at 31 March 2005

	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
PARENT							
Liabilities							
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
		1,441,483	125,980	48,336	25,599	-	1,641,398
Net Interest Earning Assets		(375,183)	47,125	397,552	29,164	-	98,658
Net Unrecognised Financial Instruments		360,000	(60,000)	(273,000)	(27,000)	-	-
Net Open Position		(15,183)	(12,875)	124,552	2,164	-	98,658

32 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 (RBNZ). 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 RBNZ is 8%. The Primary Capital Trust Deed minimum is 4%. In calculating these ratios, securitised assets are excluded from the Parent assets. In addition, Fraser Properties Limited, which is both wholly owned and wholly funded by SBS, is consolidated into the Parent (in terms of the Trust Deed this is referred to as the Guaranteeing Group).

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

	GROUP		PARENT		
	31/3/06 \$000	31/3/05 \$000	31/3/06 \$000	31/3/05 \$000	
(a) Primary Capital Adequacy Ratio Calculation					
Tier One Capital					
Retained Earnings	108,128	94,669	105,674	93,242	
Current Years Retained Surplus	15,046	14,209	13,153	12,433	
Minorities' Interests	2,907	2,360	-	-	
Realised Reserve	406	406	406	406	
Capital Reserve	73	73	73	73	
Goodwill	(1,015)	(1,073)	-	-	
Total Tier One Capital	125,545	110,644	119,306	106,154	
Total Assets	2,058,351	1,823,010	1,914,395	1,759,678	
Less Securitised Assets	-	-	100,793	96,045	
Net Assets	2,058,351	1,823,010	1,813,602	1,663,633	
Primary Capital Adequacy Ratio (Trust Deed Minimum Parent 4%)	6.10%	6.07%	6.58%	6.38%	
(b) Risk Adjusted Capital Adequacy Ratio Calculation					
Risk Adjusted Capital					
Tier One Capital	125,545	110,644	119,306	106,154	
General Provision for Doubtful Debts	1,312	850	-	-	
Less Equity Investments in Subsidiaries	-	-	(4,062)	(4,062)	
Total Risk Adjusted Capital	126,857	111,494	115,244	102,092	
	Principal Amount / Credit Equivalent Amount		Risk Weighting	Risk-Weighted Exposure	
GROUP	31/3/06 \$000	31/3/05 \$000	%	31/3/06 \$000	31/3/05 \$000
On Balance Sheet Exposures					
Cash and Claims on Qualifying Governments with maturities < 1 year	3,025	2,787	0%	-	-
Cash and Claims on Qualifying Governments with maturities > 1 year	518	528	10%	52	53
Claims on banks and NZ local authorities	49,158	46,418	20%	9,832	9,284
Loans Secured by Residential Mortgage	1,320,888	1,176,531	50%	660,444	588,266
All Other Assets	684,762	596,746	100%	684,762	596,746
	2,058,351	1,823,010		1,355,090	1,194,349
Off Balance Sheet Exposures					
Lifestages Capital Stable Portfolio	10,677	8,782	100%	10,677	8,782
Residential Mortgage Commitments	12,051	11,917	50%	6,026	5,959
Other Mortgage Commitments	6,042	5,846	100%	6,042	5,846
Interest Rate Swaps and Options	5,461	3,872	20%	1,092	774
	34,231	30,417		23,837	21,361
Total Risk Adjusted Assets				1,378,927	1,215,710
Risk Adjusted Capital Adequacy Ratio (RBNZ Minimum 8%)				9.20%	9.17%

Notes to the Financial Statements for the year ended 31 March 2006

32 Capital Adequacy Continued

GROUP	Principal Amount / Credit Equivalent Amount		Risk Weighting %	Risk-Weighted Exposure	
	31/3/06 \$000	31/3/05 \$000		31/3/06 \$000	31/3/05 \$000
On Balance Sheet Exposures					
Cash and Claims on Qualifying Governments with maturities < 1 year	885	(128)	0%	-	-
Cash and Claims on Qualifying Governments with maturities > 1 year	-	-	10%	-	-
Claims on banks and NZ local authorities	46,662	44,341	20%	9,332	8,868
Loans Secured by Residential Mortgage	1,141,321	1,063,068	50%	570,661	531,534
All Other Assets	624,734	556,352	100%	624,734	556,352
Total On Balance Sheet Exposures	1,813,602	1,663,633		1,204,727	1,096,754
Off Balance Sheet Exposures					
Lifestages Capital Stable Portfolio	10,677	8,782	100%	10,677	8,782
Residential Mortgages	11,317	10,913	50%	5,659	5,457
Other Mortgages	6,342	4,839	100%	6,342	4,839
Interest Rate Swaps and Options	4,651	3,699	20%	930	740
Total Off Balance Sheet Exposures	32,987	28,233		23,608	19,818
Total Risk Adjusted Assets				1,228,335	1,116,572
Risk Adjusted Capital Adequacy Ratio				9.38%	9.14%

33 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	
	31/3/06 \$000	31/3/05 \$000	31/3/06 \$000	31/3/05 \$000
Geographical Areas				
Within New Zealand	1,855,236	1,644,181	1,723,530	1,589,070
Outside New Zealand	59,203	51,958	59,203	51,958
	1,914,439	1,696,139	1,782,733	1,641,028
Concentrations By Product				
Due to Other Financial Institutions	154,232	148,160	154,232	148,160
Deposits	100,978	166,379	100,978	166,379
Redeemable Shares	1,426,730	1,230,257	1,426,730	1,230,257
Other Borrowings	232,499	151,343	100,793	96,045
Due to Subsidiary Companies	-	-	-	187
	1,914,439	1,696,139	1,782,733	1,641,028

34 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 25 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 2006 the Southland Building Society had total committed funding lines with Registered Banks of \$265,000,000 (2005 \$265,000,000). Of these facilities \$109,200,000 (2005 \$118,000,000) were drawn down on 31 March 2006.

	GROUP		PARENT	
	31/3/06 \$000	31/3/05 \$000	31/3/06 \$000	31/3/05 \$000
Asset Liquidity	53,483	50,102	47,395	44,486
Committed and Undrawn Funding Lines	155,800	147,000	155,800	147,000
Total Liquidity	209,283	197,102	203,195	191,486

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 \$45,000,000 (2005 \$30,000,000) of utilised and \$2,000,000 (2005 \$2,000,000) of unutilised funding arrangements in place with registered banks at 31 March 2006.

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

35 Subsequent Events

There have been no subsequent events in the current financial year.



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 2006. 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 2006 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 judgments 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 interest 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 2006 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 31 May 2006 and our unqualified opinion is expressed as at that date.

Wellington

OUR PEOPLE MAKE THE DIFFERENCE

