


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



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





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

“major contributor
to the Invercargill
Civic Theatre
upgrade”



Angelina Hamilton SBS MEMBER

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

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

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



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

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

Lyndal Robinson INVESTMENT CONSULTANT

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

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

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

Acton Smith CHAIRMAN

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

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

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

VISION

First choice in banking.

MISSION

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

VALUES

Commitment to mutual benefit

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

Sustainability through prudence


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

Our people make the difference

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

The prosperity of our community

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



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

Kim Leith CONTACT CENTRE MANAGER

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

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

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



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HIGHLIGHTS AT A GLANCE

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

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

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



“major **sponsor**
of the Lochiel
Golf Club”


HAMILTON



Neville Reid SBS MEMBER

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

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



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

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

Garry Diack DIRECTOR

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

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

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

Rachael Walter MARKETING ASSISTANT

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

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

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

DIRECTORS' REVIEW

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



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

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

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YEAR IN REVIEW

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

That tactical decision has certainly paid dividends.

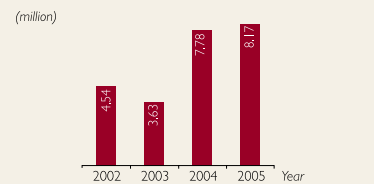
In December, we introduced internet banking, the last in a roll-out of services first planned in 2000 to give our members access to options they could expect from a large bank.



33.1%

average increase in membership
benefits from 2002 to 2005

Estimated Direct Membership Benefits 2002 - 2005



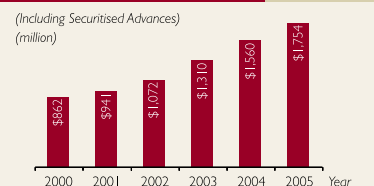
Surplus Pre-tax 2000 - 2005



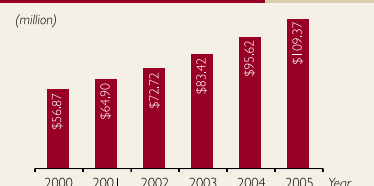
Total Assets 2000 - 2005



Loan Advances 2000 - 2005



Members' Equity 2000 - 2005



Christchurch Central - new branch opening, Manchester Street, April 2005

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

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

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

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

LENDING GROWTH

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

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

SBS DISTRIBUTION

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

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

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

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

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

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

SBS AGRIBUSINESS

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

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

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

“SBS proud
to sponsor
Gore Bowls”

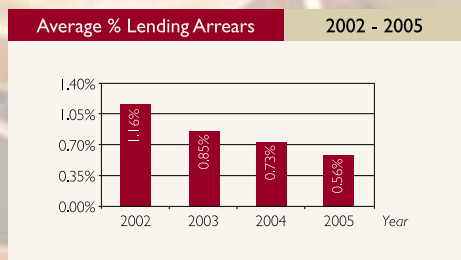
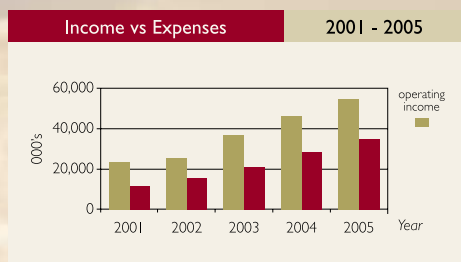




Lynn Manson, Sales Manager, SBS Central Otago

21%

average increase in Group
Operating Income from 2001 to 2005



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



EXTENDING A WARM WELCOME

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

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

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

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

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

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

PARTNERS ON THE LAND

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

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

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

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

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

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



SBS is a building society and not a registered bank.

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

BRAND RELAUNCH

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

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

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

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

SBS CONTACT CENTRE

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

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



SBS CONTACT CENTRE

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

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

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

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

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

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



SBS Marathon - Christchurch



SBS Staff

Andrew Kilsby, Manager SBS Dunedin,
University Oval



CONTRIBUTING WHERE IT COUNTS

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

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

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

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

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

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

SPONSORSHIP

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

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

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

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

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

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

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

SUBSIDIARY COMPANIES

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

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

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

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

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

SOUTHSURE ASSURANCE LTD

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

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

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



Kirsten Miller
Sales Manager Southsure Assurance



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

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

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

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

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

As SBS' consumer finance company, we operate in two key areas – providing a hire purchase facility to retailers, and personal loans of between \$1000 and \$20,000.

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

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

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



Michelle Campbell
Senior Sales Consultant Finance NOW

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

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

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

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

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

FUNDS ADMINISTRATION NZ LTD (FANZ)

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

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

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

FINANCE NOW LTD

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

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

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

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

DIRECTORS

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

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

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

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

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

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

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



Steve Beale
Manager SBS Invercargill,
Lend a hand promotion.



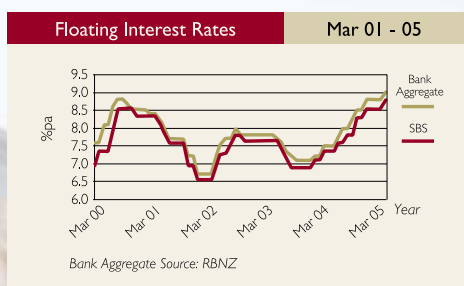
SBS Cromwell Team



SBS Hamilton Team



Timaru Branch, June 2005



Timaru Branch, June 2005

THE YEAR AHEAD

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

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

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

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

SBS STAFF

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

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

JWA (Acton) Smith
Chairman

Ross Smith
Chief Executive

DIRECTORS' PROFILES



G J (Garry) Diack MA (Hons)

Mr Diack joined SBS in February 2005.

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

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

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

G J (Greg) Mulvey BCom CA, FNZIM

Mr Mulvey joined SBS in February 2004.

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

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

R L (Ross) Smith BCom

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

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

J F (John) Ward BCom CA

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

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

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

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



M H (Mike) Piper BCom FCA
Deputy Chairman

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

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

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

W H (Warren) Conway

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

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

J W A (Acton) Smith BCom
Chairman

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

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

J B (Jeff) Walker LLB

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

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

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

SBS MANAGERS

SENIOR EXECUTIVE TEAM



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



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



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

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

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

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

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

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

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

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



Chairman
JWA Smith
22 June 2005



Deputy Chairman
MH Piper

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

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

1. Accounting Policies

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

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

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

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

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

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

2. Changes In Accounting Policies

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

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

3. Risk Management Policies

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

Credit risk management

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

Interest rate risk management

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

Liquidity risk management

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

4. Commitments

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

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

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

5. Bad and Doubtful Debts

			GROUP	
			31/3/05 \$000	31/3/04 \$000
Bad Debts for Year			3,043	1,899
Less Provisions Released or Utilised			(56)	(853)
Add New Provisions Made General and Specific			760	1,230
Net Bad and Doubtful Debts Expense*			\$3,747	\$2,276
* Note that the group charge for bad and doubtful debts is primarily in relation to consumer finance lending by Finance Now Limited				

6. Asset Quality

	GROUP - 31/3/2005			GROUP - 31/3/2004		
	Pre-Provision \$000	Specific Provision \$000	Balance \$000	Pre-Provision \$000	Specific Provision \$000	Balance \$000
Non-Accrual Assets	1,119	649	470	856	767	89
Past Due Assets	2,712	90	2,622	1,672	118	1,554
	\$3,831	\$739	\$3,092	\$2,528	\$885	\$1,643

7. Maturity Profile

	GROUP - 31/3/2005			GROUP - 31/3/2004		
	Current Assets \$000	Non-current Assets \$000	Total \$000	Current Assets \$000	Non-current Assets \$000	Total \$000
Advances	235,726	1,517,933	1,753,659	233,451	1,230,005	1,463,456
Liquid Assets and Securities	49,575	528	50,103	34,141	-	34,141
Other Monetary Assets	2,266	-	2,266	1,175	-	1,175
	\$287,567	\$1,518,461	\$1,806,028	\$268,767	\$1,230,005	\$1,498,772
	Current Liabilities	Non-current Liabilities	Total	Current Liabilities	Non-current Liabilities	Total
Redeemable Shares	1,165,801	64,456	1,230,257	1,143,271	46,490	1,189,761
Deposits	305,061	9,478	314,539	209,114	6,754	215,868
Other Monetary Liabilities	164,584	-	164,584	9,561	-	9,561
	\$1,635,446	\$73,934	\$1,709,380	\$1,361,946	\$53,244	\$1,415,190

8. Fair Value

	GROUP - 31/3/2005		GROUP - 31/3/2004	
	Carrying Amount \$000	Fair Value \$000	Carrying Amount \$000	Fair Value \$000
Statement of Financial Position Items				
Assets		\$1,803,762		\$1,497,597
Liabilities		\$1,696,509		\$1,405,629
Unrecognised Financial Instruments				
Derivative Contracts - Net Receivable/(Payable) Position		\$293		\$(359)

9. Liquidity

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

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



NOTICE OF ANNUAL GENERAL MEETING 2005

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

I. Ordinary Business

I.1 Adoption of Annual Report

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

I.2 Election of Directors

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

I.3 To Appoint Auditors

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

I.4 General Business

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

By order of the Board

TDR Loan

Secretary

16 June 2005

NOTE: Proxies

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

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

DIRECTORY

Chairman

Mr J W A Smith
BCom
Company Director
Invercargill

Deputy Chairman

Mr M H Piper
BCom FCA
Chartered Accountant
Invercargill

Mr W H Conway
Company Director
Invercargill

Mr J B Walker
LLB
Barrister & Solicitor
Invercargill

Mr J F Ward
BCom CA
Chartered Accountant
Invercargill

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

Mr G J Diack
MA (Hons)
Management Consultant
Christchurch

Mr R L Smith
BCom
Chief Executive
Southland Building Society
Invercargill

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

Chief Executive

Mr R L Smith
BCom
Invercargill

Secretary

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

Registered Office

51 Don Street
Invercargill

Solicitors

Buddle Findlay
78 Worcester Street
Christchurch

Cruikshank Pryde
42 Don Street
Invercargill

Group Auditors

KPMG
135 Victoria Street
Wellington

Banker

Westpac Banking Corporation

Trustee

Trustees Executors Limited
Level 1
50-64 Customhouse Quay
Wellington

BRANCH DIRECTORY

Invercargill - Head Office

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

North Invercargill

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

Gore

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

Dunedin

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

Queenstown

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

Cromwell

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

Timaru

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

Christchurch - Central

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

Christchurch - Riccarton

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

Christchurch - Papanui

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

Nelson

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

Blenheim

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

Hamilton

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

Tauranga

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



OUR PEOPLE MAKE THE DIFFERENCE

