

our  
success  
is **your**  
success,  
since 1869



Southland Building Society  
137th Annual Report 2006  
WITH SUMMARY FINANCIAL STATEMENTS



“Mutual ownership delivers to customer needs; whereas corporate ownership acquiesces to shareholder greed ... I know which I prefer!”

“Why have I been with SBS for 47 years? Because no bank would let me be there for members like SBS does.”



The Robertson family home.


#### Colin Winter QSM JP BANKING CONSULTANT

In his 47 years with SBS, banking consultant Colin Winter estimates he's signed up around 10,000 new members. Today, he's still helping young families into their homes, just as he did their parents and grandparents before them.

“Back in the Great Depression, SBS never put people on the street, they never sold anyone up. The building society did its very best to get them through their financial difficulties, when others wouldn't have a bar of them.

“That philosophy lives on today. If members help themselves, we'll support them through as much as we possibly can. No one is a number; here – the only numbers I deal with are the numbers of dollars we're lending. We're about people.”





“The building society stood by my father when he was in the greatest need ... and he never forgot it.”

**Ross Smith** CHIEF EXECUTIVE

Creating a successful business is all about developing a culture that aligns your service levels to your customer needs.

SBS has had many great leaders including James Bain, Hugh Ritchie and Bert Walsh who have left us with a reputation for helping people in times of need.

We are not like the 'big banks' and we have no desire to change a way of doing things that has served us well for 137 years.

We know people do business with people they like and so we develop our staff to have empathy for and have understanding of our customers.

**Phyllis Beer and granddaughter Rachael** SBS MEMBERS

Phyllis Beer still remembers her father's dole book from the Great Depression. Across its cover, he'd boldly written: "Lest we forget". Russell Robertson never did forget the hardship ... or the Southland Building Society's loan that gave his young family a home – and hope – when they needed it most.

"My father kept investments with SBS until his death at 94 and strongly urged us to follow suit. Sure enough, on my first payday in 1949, I made my way to the building society to invest eight shillings.

"Today, my father's grandchildren are members as well, and we'll be sending along his great-grandchildren before too long, I guess!"

## OUR VISION

First choice in banking.

## OUR MISSION

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

## OUR 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.



“For our people, going the extra mile and looking outside the square isn't an effort, it's second nature.”

### **Mike Bell** TAURANGA BRANCH MANAGER

As he prepared to open SBS' Tauranga branch this year, Mike Bell knew its success rested on emulating the excellent service that has won over so many members elsewhere. Come recruitment time, the all-important selection process rested on one question.

"I asked all the applicants to recount an example of excellent service they'd provided. It was instantly obvious from their answers who had that 'special SBS something'.

"Watching them in action today – they're brilliant. They all have a way about them that makes our Bay of Plenty members feel welcome, valued and at ease."





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## OUR HIGHLIGHTS AT A GLANCE

- Total assets \$2.058 billion
- Advances under management up \$229 million, or 13.1 percent, to \$1.98 billion
- Members' equity up \$14 million, or 13.1 percent, to \$124 million
- Members' redeemable shares and customer deposits up \$131 million, or 9.4 percent, to \$1.53 billion
- Operating surplus up \$0.4 million, or 1.8 percent, to \$21.3 million
- Direct benefits to membership as a whole: \$8.2 million\*
- Mortgage arrears remain at historic lows
- Contribution to operating surplus from subsidiaries of \$3.6 million

\* Based on the differential in interest margins for SBS' building society operations, compared with registered banks, as per KPMG Financial Institutions Performance Survey 2006.

“To appreciate the true SBS spirit, you only need to see our staff rolling up their sleeves at community events.”

“If you want to thank anyone for SBS’ community investments, thank our members.”



*The SBS cycling jersey.*

#### Mike Piper DEPUTY CHAIRMAN

SBS’ founding fathers had a vision of fostering community habits of thrift, independence and opportunity. Their insight shaped a legacy, still honoured today by SBS deputy chairman Mike Piper and his fellow directors.

“Some early settlers had money to lend, others needed to borrow. Rich and poor alike relied on each other to build the city. Hence, the mutual was formed.

“One hundred and thirty seven years later, SBS’ community sponsorships are a fitting way to keep that spirit alive. By supporting first-rate sporting and recreational hubs, SBS’ success contributes, as it should, to the greater good of our members’ communities.”





“SBS has helped make this more than a venue. It's a home, the new home of cycling in Southland.”

**Garry Smith** GENERAL MANAGER RETAIL SUPPORT

When Trust Bank was sold to Australian-owned Westpac, Garry Smith struggled with the cultural leap – mainly because he didn't see customers getting a fair deal. Shortly after, though, SBS was looking for a new branch manager ... it was New Zealand-owned and operated ... it placed great stock in its community ... and put people way ahead of profit.

“I walked in to SBS and philosophically felt right at home.

“It's so much more rewarding to see our building society's success flow into top community facilities everyone can enjoy, as opposed to disappearing offshore to a few select shareholders.”

**Stephen Canny** SBS MEMBER

When he was a toddler, Stephen Canny's parents opened his first Southland Building Society account. Today Stephen, Cycling Southland's president, and SBS have both played pivotal roles in making Invercargill's new ILT Velodrome a reality.

“Cycling's a great family sport with a very strong sense of identity and tradition. SBS mirrors those very same qualities.

“The building society's been outstanding, not just in their sponsorship but in giving time and expertise freely right throughout the velodrome's development. What more can you say? They've been excellent – they've been on the journey and shared our dream.

“SBS backs its community in a positive and empowering way.”



## YOUR DIRECTORS' REVIEW

To post another record-breaking result is satisfying – to do so in the face of a tightening economy and aggressive competition is even more rewarding.



  
J W A (Acton) Smith  
Chairman

  
R L (Ross) Smith  
Chief Executive

Prudence, combined with innovation, and competitive products, delivered with our trademark service, have seen SBS rise above the market indicators.

Our result, marginally ahead of last year, has enabled us to deliver our highest-ever contribution to reserves, which now stand at \$126 million.

This success supports our positioning at the conservative end of the financial services sector – the property mortgage market – and bodes well considering our competitors are marketing more stridently than ever.

As always, the year's result would not have been possible without the loyalty and support of SBS' most valuable assets: our members and staff.

### HIGHLIGHTS AT A GLANCE

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### YEAR IN REVIEW

For SBS, the year was one of gaining further traction.

Just four short years after introducing mainstream banking products – including chequebooks, debit cards, telephone and internet banking – the impact has been such that already, increasing numbers of members consider SBS 'their main bank'.

When we entered the banking market, members' main concerns centred on whether SBS' accent on service would be compromised. Our branch teams' dedication, backed by the sterling support of the SBS Contact Centre, mean members today have the best of both worlds: comprehensive banking products – and the same excellent standards of service.

To that end, as newcomers to the Consumer Online banking survey, we were delighted to have achieved higher service performance ratings than any other branch-based banking provider in the country. ►



Tauranga branch.

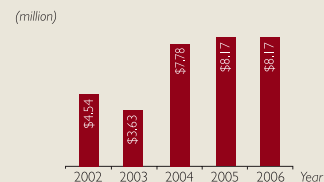
# 25%

average increase in membership benefits from 2002 to 2006

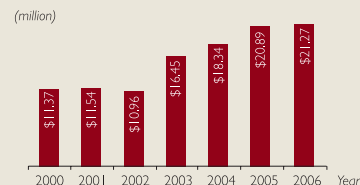


Queenstown branch upgrade completed March 2006.

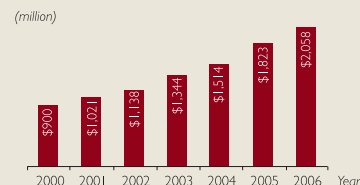
## Estimated Direct Membership Benefits 2002 - 2006



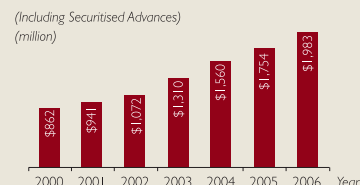
## Surplus Pre-tax 2000 - 2006



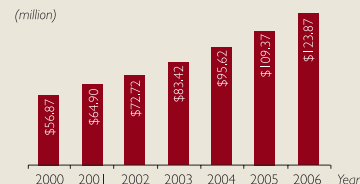
## Total Assets 2000 - 2006



## Loan Advances 2000 - 2006



## Members' Equity 2000 - 2006



In another milestone, total group assets surged past the \$2 billion mark, to end the year at \$2.06 billion – double what they were just five years ago, and four times the 1994 value.

Total Group Assets		
1994	\$500m	125 years
2001	\$1,000m	7 years
2004	\$1,500m	3 years
2006	\$2,058m	2 years

*In the past 12 years, SBS' total group assets have more than quadrupled.*

## LENDING GROWTH

Residential and commercial lending enjoyed healthy growth during the year, despite predictions of a slowdown.

Amid a highly price-competitive market, SBS' loan book grew \$229 million, a great credit to the efforts of our lenders and support teams.

Advances secured against residential homes remain the society's major focus, but we continue to make our mark on the commercial arena, successfully applying the same SBS "member-focused" values that have served us so well in our traditional market.

Such growth, while positive, does present issues on the liability side of our balance sheet. SBS ensures these challenges are prudently managed, and, where necessary, loans are transferred to our mortgage trust and warehouse – common funding mechanisms in the financial industry. The balance of mortgages in these facilities stands at \$231 million.

## YOUR STORY

*In reply to your application of 1st February 1954, I beg to inform you that the Directors have authorised me to offer you a loan...*

**"What a thrill** that was to make it possible for me to acquire my first home in Queenstown which gave me a base from which to teach music and become the Southland Times reporter here for 35 years."

*Irene Adamson*

## THE SBS NETWORK

SBS has been changing the face of banking quite literally.

It's just over a year since we opened our Cromwell and Timaru branches, doing away with traditional bank layouts, opting instead for member-friendly designs, complete with comfy couches and a welcoming cuppa.

Both Cromwell and Timaru have already struck a real chord with their communities, and our newest branch, Tauranga, is following suit.

In keeping with our emphasis on providing an inviting, unhurried environment, our Queenstown branch has been not only expanded but revamped, providing a totally new look and feel.

We had hoped to open our Blenheim branch by now, but the lack of a suitable location has brought delays. While the postponement is frustrating, we feel securing the right site – one that is convenient and easily accessible for our Marlborough members – must be our main priority.

Our makeover programme will continue this year with our flagship Invercargill branch earmarked for its facelift, so our southernmost members can also look forward to a more relaxed banking experience.

## SBS RURAL

SBS has worked closely with the farming community since the society's inception in 1869. One hundred and thirty seven years later, our rural members remain valued and significant contributors to SBS' overall success.

They continue to be strong supporters of our traditional services, bolstering their seal of confidence further through their uptake of our banking facilities.

As farming continues to change, SBS Rural moves with the times. Our broadening rural member base has seen the team's expertise diversify accordingly. As well as its in-depth understanding of traditional sheep, beef and dairy farming, our rural team today works closely with many members in deer farming, fishing and viticulture, as well as the stone fruit and horticulture industries. ►





The Binns family at home on their slice of New Zealand.

## FAMILY SETS DOWN OTAGO ROOTS WITH SBS WELCOME HOME LOAN

*Looking for a safer place to raise a family and a better quality of life, Adam and Lynne Binns farewelled the United Kingdom to settle in New Zealand.*

*First interview up and Adam, a property valuer, had found a job. Landing work was a cinch – sealing a home loan, though, proved anything but.*

*Lynne was pregnant with their son, Callum, so the couple had just the one salary, and moving to the other side of the world had drained any hope of a deposit. Initially, they got as far as a mortgage broker, who advised they wouldn't secure a loan and best they keep renting until they'd saved a 10-to-20 percent down payment.*

*"We'd been paying the same amount in rent as we would for a mortgage, so we knew we could afford it. We're not daft people – we just wouldn't enter into something we thought we couldn't manage," says Adam.*

*After nearly a year of "paying someone else's mortgage", hope came in a television ad for the new Welcome Home Loan. Designed to help young families just like them into their first house, it offered up to 100 percent finance.*

*But again, they hit a brick wall. Approaching a bank that offered the loan, they couldn't get basic information, let alone an appointment.*

*Then, they discovered SBS had also joined the Welcome Home Loan programme. Just one phone call to the building society and the wheels were in motion.*

*"From there it was completely straightforward. The SBS Dunedin team was first class ... absolutely the type of people you need when you're in our position."*

*Almost a year to the day since they'd first made New Zealand home, the Binns were the proud owners of a three-bedroom bungalow.*

*"For us, that was the day we properly arrived in New Zealand. I always think when you're renting you don't fully belong," says Adam.*

*"Because of SBS' Welcome Home Loan, we have our own little corner of New Zealand – we feel like we're real Kiwis now."*

# 51%

of new mortgage market share for Welcome Home Loans in the South Island since November 2005



It is our steadfast, member-focused ethos that sets SBS apart.

### SBS BRAND

With the introduction of banking came a change in SBS' branding. We're making great inroads into getting our message across. The brand highlights our rich heritage, New Zealand ownership and reminds members we are a real alternative.

It is heartening to also see New Zealanders' growing awareness and appreciation of one of our key competitive advantages: our loyalties are not divided. SBS is not only home-grown, we are owned by, and answer to, our members – not foreign shareholders.

### SBS STAFF

It is our steadfast, member-focused ethos that sets SBS apart.

To provide such special service, an organisation needs special people. Much work and consideration is devoted to, firstly, ensuring we recruit the right staff and, secondly, that our people receive the best in training and professional development.

It is with pride we acknowledge our staff throughout the country – and the lengths to which they will go to provide first-class service in true SBS style.

We greatly appreciate their efforts and dedication, and we know you, our members, do too – every day your wonderful feedback tells us so. ►



### YOUR STORY

“**Very pleased** to see you now advertising and push:

1. NZ owned
2. Members own SBS
3. Profits stay in NZ.

Successful super solid Southland.”

*Elizabeth and Raymond Taylor*







Concept design for SBS Invercargill branch.



## FACELIFT FOR OUR FLAGSHIP

**Growing numbers of New Zealanders are realising great service is a pleasure they can afford at SBS.**

When you pay us a visit at any of our branches, we want to make you feel right at home, working with people who understand your needs in an environment that's relaxed and welcoming.

We set about pioneering a new look in banking three years ago and asked: Where do people generally feel most comfortable? Their lounge. So, we've designed our new-look branches with just that in mind, right down to sofas, glowing fireplace and serving up good coffee.

We're about to bring that special ambience to our "grand dame". Despite huge growth in other regions, our Invercargill branch remains the largest – our flagship.

When we opened our current premises in 1991, it left the Southland community in no doubt, SBS was an icon to be proud of, a serious contender in modern-day banking. It's testimony to the quality of the award-winning design that, after 15 years' service – and a 40 per cent growth in assets – we are only now upgrading its commercial interior.

As SBS continues to thrive and our service to members draws national recognition, it's a great time to bring the same warmth to our surrounds as we do to service. The stodgy banking chamber look, complete with queues, is not what we're about. We want branches that show members how much we value them and their business, setting the scene for unhurried, personal attention.

When the doors open on the new-look Invercargill branch in August, we want you, our members, to walk in like you own the place – because you do.

## OUR CONSUMER SUCCESS



**When SBS sought a mandate to launch banking services, members gave us their permission – plus a proviso.**

You pledged your full support but sent a clear message: Don't let the introduction of banking compromise SBS' superior service. Four years

down the track, arguably the most resounding evidence that we honoured our promise, arrived.

Our commitment to providing outstanding service has seen us place first among branch-based banking providers in Consumer Online's banking survey. This accolade came on the heels of another great success, with SBS receiving Cannex's prestigious five-star ratings for two of our mortgage products.

The initial faith members showed in our decision to introduce banking continues to translate into rock solid support, as increasing numbers leave traditional banks, preferring to hold accounts in the care of their building society.

That trend, coupled with the Consumer and Cannex results, shows we're all good for our word – members still steadfastly back SBS, and we've stayed true to our exceptional service standards.



## SBS SCORES TOP SPONSORSHIP

*There's nothing quite like a rugby game, fuelled by provincial pride, to bring a community together.*

So, an application last year by the Tasman Makos for SBS to consider becoming their principal sponsor caught our attention. We were impressed by the ingenuity and determination shown by two proud rugby-loving unions – once staunch rivals – now together in one impressive union.

While our sponsorship philosophy has a strong community focus, we must always weigh that with our responsibility to bringing a sound return for our members.

The Tasman Makos was a great fit on both counts – a team that's set to impact positively on its community, plus a high-profile opportunity for us to raise awareness of SBS in a key growth area.

They face some pretty big challenges as they prepare to compete in the premier division of the Air New Zealand Cup – the fledglings up against the Goliaths. SBS has never been one to be overwhelmed by the clout of the Australian-owned "big banks" so, while we're 137-odd years older than the Tasman Makos, we see a kindred spirit and admire the character that underpins the team.

That good old-fashioned grit and fortitude look sure to win plenty of followers when the season kicks off in late July. The SBS Tasman Makos are up against North Harbour at Lansdowne Park – and their SBS supporters will be there in full voice, getting right behind their team.



SBS Tasman Makos.

## OUR COMMUNITY SPONSORSHIP

### Major sponsorship for 2005/2006

SBS Sports House/ILT Velodrome - Invercargill | SBS Tasman Makos - Nelson/Marlborough | SBS Summer Festival Mardi Gras - Hamilton  
SBS Events Centre - Timaru | SBS Marathon - Christchurch | SBS Media Centre, University Oval - Dunedin | SBS Golf Invitational - Invercargill



### HAMILTON

Sport Waikato  
Lochiel Golf Club  
Hamilton Mafia Triathlon Club  
Opus Chamber Orchestra  
SBS Great Race Indoor Row  
Waikato Diocesan School for Girls  
Hamilton Gardens Summer Festival Mardi Gras

### TAURANGA

Tauranga Bowling Club  
Tauranga Performing Arts Trust

### GORE

Gore Half Marathon & Fun Walk  
Eastern Southland Bowling Centre Championship Fours  
New Zealand Gold Guitars  
Riversdale Mixed Media Exhibition  
Hokonui Moonshine Festival

### DUNEDIN

St Clair Golf Club  
Otago Community Hospice  
Taieri Golf Club  
Otago Chinese Gardens Development  
Otago Triathlon & Multisports Club  
Kings High School

Otago Girls' High School  
Mosgiel RSA Bowling Club  
Malcam Trust  
Otago Children's Athletics

### NELSON

United Bowling Club  
Wakefield Bowling Club  
SBS Tasman Makos  
Stoke Bowling Club  
Nelson Endurance Club  
Antiques and Collectibles Hospice Fundraiser Show

### CHRISTCHURCH

SBS Marathon  
Harewood Golf Club  
Fendalton Bowling Club  
Rossendale Wines 15km Community Run  
NZ Metropolitan Trotting Club  
Devil's Own Golf – Solicitors  
Hunter Cup Golf – Solicitors  
Linwood Table Tennis Club  
Parafed Canterbury – Donation/Schools' Programme  
Southlanders Living in Canterbury Reunion  
Canterbury Ice Figure Skating Championships  
SBS A4 Art Colouring Competition  
Craigieburn Valley Ski Club



## SPONSORSHIP

At a time when more corporates are shying away from sponsorship, at SBS we are strengthening our commitment to community investment.

The SBS Charter is central to our being. Our success comes directly from our members' loyal support, and we consider it our duty to "give back" through competitive rates, superior service and by backing the communities in which our members live.

As always, SBS' sponsorships are driven by our branch staff, who know and understand the needs of each community we support. ►

### PAPANUI

Bowls Papanui  
Kaiaipoi Golf Club  
Parklands Bowling Club  
Rainbow Children's Health Trust  
Morrison Avenue Bowling Club

### RICCARTON

Templeton Golf Club  
Crockfords Bridge Club  
Rotary Club of Riccarton  
Elmwood Bowls  
Five Passes Cycle Tour

### TIMARU

Timaru Girls' High School  
Gleniti Golf Club  
SBS Events Centre  
Timaru Bridge Club  
South Canterbury Hospice  
Meals on Wheels  
South Canterbury Sports Awards

### CROMWELL

Central Otago Arts' Society  
Cromwell Ladies' Bowling Club  
Clyde Winter Bowls Club  
Central Otago Sports Awards  
Alexandra Golf Club  
Cromwell Race Day

### INVERCARGILL

Appleby Cricket Club  
Association of Blind Citizens of NZ  
Bowls Southland  
Cancer Society

Central Indoor Bowls  
Chartered Clubs' Charity Golf  
Cycling Southland  
Dressage Southland  
Drummond Bowling Club  
Georgetown Bowling Club  
Greenacres Country Club  
Grey Power Southland  
Invercargill Bowling Club Senior Invitational  
Invercargill Golf Club  
Invercargill Harness Racing Club  
Invercargill WMC Indoor Bowls  
Limehills Bowling Club  
Oreti Sands Golf Club  
Marist Rugby  
Nightcaps Golf Club  
Northend Bowls Club  
Ohai Golf Club  
Otautau Ladies' Golf Club  
Oyster Bay Bluff Oyster and Southland Seafood Festival  
Queens Park Men's Golf Club  
Queens Park Ladies' Golf Club  
Riverton Golf Club  
Rocks Bowling Club  
Shakespeare in the Park  
Southland Golf  
Southland Indoor Bowls Club  
Southland Kennel Association  
Southland Dog Show  
Southland Veterans' Golf Society  
Surf to City Fun Run – SBS Corporate Challenge  
Tokanui Bowling Club  
Tokanui Golf Club  
Tuatapere Golf Club  
Waiau Valley Lions Club  
Waihopai Women's Bowling Club

Waverley Bowling Club  
Western Districts Bowling Sub Centre  
Western Districts Indoor Bowls  
Women's Golf Drummond  
Women's Golf Southland – Veterans  
Woodlands Bowls  
Winton Central Bowling Club  
Winton Golf Club  
Wyndham Golf Club

### QUEENSTOWN

Altrusa Charity Golf  
SBS Driving Range  
Wanaka Golf Club  
Queenstown Bowling Club  
Arrowtown Bowling Club  
Alexandra Bowling Club  
Arrowtown Autumn Festival – Arts & Authors Day  
Wakatipu High School

### BLenheim

Marlborough Property Investors' Association  
Marlborough Endurance & Competitive Trail Riding Club  
Marlborough Riding for the Disabled

### SBS RURAL

Central Otago Pinot Noir Celebration  
Drummond Golf Club  
Cromwell Golf Club  
Cromwell Junior Rugby  
Tokanui Rugby  
Waikaia Rugby  
Southland Dog Trials  
Cromwell Field Days  
NZ Arab Horse Society  
A & P Society  
Otago Polytechnic (Central Otago Campus)

*An overview of sponsorship and goodwill financial assistance that has been made available to organisations, events and facilities that benefit the local areas in which SBS operates.*

## SUBSIDIARY COMPANIES

SBS' subsidiaries are a success story in themselves.

Established in recent years to increase services to our members, the subsidiaries continue to bring healthy returns, despite their relative youth.

The four operating subsidiaries – Finance Now Ltd (71.5 percent SBS owned), Funds Administration NZ Ltd (60 percent), Southsure Assurance Ltd (80 percent) and Fraser Properties Ltd (100 percent) have added a combined \$3.6 million to our 2005-06 pre-tax surplus.

### Funds Administration NZ Ltd (FANZ)

FANZ considerably outperformed expectations during the past year with many fund investors receiving notable returns.

The decision to lead the New Zealand market with the introduction of performance-based fees has been well received by both new and existing members. The "good times" have brought excellent returns over agreed benchmarks – these have been shared, boosting the bottom line for both fund investors and FANZ.

Our FANZ team is prepared for a year of significant change, which will see changes to the way funds are taxed, the introduction of the voluntary employee savings scheme, as well as new industry standards around adviser supervision.

### Southsure Assurance Ltd

Our specialist life, disability and credit insurance arm, Southsure, continues to perform well. The team is gearing for the challenges of the anticipated economic downturn, but we believe Southsure is well placed for another healthy return next year.

### Finance Now Ltd (FNL)

The past year has been one of consolidation for FNL.

With upgrades in technology inevitably come teething issues, and FNL overcame its share as it transferred to an internally developed consumer finance system, based on SBS' technology.

The FNL team's efforts have proved more than worthwhile, given the major efficiencies and improved service brought about by the change.

It is also pleasing to note, FNL is making headway with a problem inherent to the consumer finance industry – arrears and bad debts. This progress has come about through the establishment of a dedicated internal arrears management team, as opposed to outsourcing.

While we are still not completely comfortable with bad debt levels, the new policies and controls in place are sound and look set to bring about further reductions over the coming year.

FNL has tackled the year's challenges admirably and still put in a strong performance, providing a significant contribution to SBS' surplus.

### Fraser Properties Ltd

Fraser Properties owns SBS' head office building in Invercargill, which is also home to the Alliance Group and NZ Post.

This company continues to trade well and contributes to group profitability. ►



# 35%

increase in life premium income  
from 2005 to 2006



**David Newman**

**Southsure Assurance Ltd**  
11 Don Street  
Invercargill  
(PO Box 1404)  
Telephone: 0800 002 002  
Fax: 03 211 1167

**Southsure**  
ASSURANCE LIMITED  
*A subsidiary of Southland Building Society*

**When Southsure Assurance started four years ago, we rewrote the book on insurance. To be true to the wider SBS ethos of putting our members' wellbeing first, we had to.**

*Who needs fine print? No one, we decided. Who wants unpredictable premiums? Nobody, so we fixed them. Did we want some faceless international company calling the shots? Absolutely not – we're our own underwriters; we make the decisions, according to our own values.*

*Our team offers products to the general public as Southsure Assurance, and this year we launched the SBS Life brand, which encompasses insurances tailored specifically to members' needs.*

*We've set about turning every negative perception about insurance on its head. But, with a business model rooted firmly in genuine caring and up-front, member-focused service, we continue to both succeed and be truly proud of what we do.*

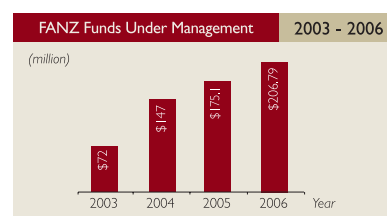
*We'll always have your best interests at heart. After all, SBS Life belongs to you, our members*





# 13.1%

increase in operating revenue  
from 2005 to 2006



**Phil Ellison**

**Finance Now Ltd**  
118 Spey Street  
Invercargill  
(PO Box 1204)  
Telephone: 0508 888 999  
Fax: 03 218 6278



**Graham Duston**

**FANZ Ltd**  
Level 1, SBS House,  
180 Manchester Street  
Christchurch  
(PO Box 13801)  
Telephone: 0800 502 442  
Fax: 03 963 4915



*The past year has seen Finance Now turn in another notable performance and cement the company as a home-grown market leader.*

As SBS' consumer finance arm, we specialise in providing retail finance, personal loans and consumer insurances throughout New Zealand.

The depth of experience among our sales, collections and management teams, the backing of SBS and staying true to our customer-focused values have seen us punch above our weight yet again.

During the year, Finance Now's loan book grew further, our returns to SBS increased, and arrears levels dropped to three-year lows. We capped off a great 12 months launching two new hire purchase products, with more to follow shortly.

In a market filled with foreign-owned competitors, our approach and systems are developed locally. More and more we're seeing how that "grass roots" understanding of the marketplace – and the resultant responsiveness to customers' needs – is winning through.



*As FANZ prepares to celebrate four years' trading, the team continues to build on an impressive base that belies our newness to the market.*

Our investors enjoyed another strong year, and a better-than-forecast profit brought the SBS Group a 43 percent return on capital. Funds under management are growing well, totalling nearly \$206.8 million at the end of the financial year.

We also celebrated the launch of the SBS Financial Advisers' brand. Aligned with the banking arm of SBS, it highlights financial advisers as a key team in the provision of banking products and services.

During the coming year we are geared to capitalise on a good investing climate, which looks set to be buoyed by tax and legislative changes, including Kiwisaver's introduction in April 2007.

With our growing reputation for offering long-term investors a rewarding programme, that healthy environment – coupled with the company's worthy foundations – makes for a solid outlook,

## DIRECTORS

As a board, it is our responsibility to actively manage the mix of skills, knowledge and experience among directors.

At the heart of this duty is our succession planning, the quality of which ensures our board remains fresh, vibrant and with the level of expertise necessary to govern a successful, progressive financial institution.

Three very experienced directors have indicated they are likely to step down between next year and 2009. With this in mind, the board has increased the number of non-executive directors from seven to eight, recently appointing chartered accountant and tax expert Kathryn Ball.

Kathryn, a partner in an Invercargill chartered accounting firm, has already spent several years as an independent member of the SBS Audit Committee. She is the first woman to serve on the board and will bring significant business expertise to the table.

### Board Committees

#### Audit

The SBS Audit Committee comprises four SBS directors under the chairmanship of Mike Piper.

The committee meets at least four times a year to monitor the integrity of the group's financial statements and regulatory reports. It is also responsible for the appointment of the external auditors, KPMG, and our internal auditors, Ward Wilson, as well as approving and monitoring SBS' audit process.

#### Remuneration

Three directors make up SBS' Remuneration Committee, which is chaired by John Ward.

Meeting three to four times annually, the committee reviews the remuneration of the chairman and directors, which is undertaken in conjunction with an independent external report. The committee also assesses the chief executive's performance and sets his remuneration package, as well as those of SBS' senior executives.

#### Risk

The SBS board has recently established a Risk Committee tasked with reviewing controls and monitoring exposure to enterprise, market and operational risks.



SBS' newest director, Kathryn Ball.

# 19%

average increase in group  
operating income from 2001 to 2006



Hamilton branch manager Nicki Bennett at the SBS Mardi Gras.



SBS Queenstown staff.





## Lending

All recommendations come from experienced lenders within the business and must fit within current lending policy.

Our three main trading subsidiaries – FNL, FANZ and Southsure – are each governed by active, independent boards.

Due to Fraser Properties' limited trading, this subsidiary is governed by SBS' board.

A key consideration for the SBS board during the past financial year was whether to apply for a banking licence.

We determined the time is not right for such a move. Under The Building Societies Act, we can conduct the “business of banking” without calling ourselves “a bank”, and, at this stage, we are very happy – and enjoying good success – within that framework.

The government has instigated a “review of the supervision of non-banks”, which we believe will have a significant impact on those non-bank institutions trading in our sector.

It is anticipated that, as part of this review, SBS will come within the Reserve Bank of New Zealand's supervisory regime, and that in itself will bring greater credibility. As one of the largest organisations in this sector; we welcome the review, as it is likely to force greater – and essential – compliance from “fringe operators”;

Once again, economic analysts are predicting a significant slowdown in the next 12 months. We, therefore, expect a flattening in the growth curve SBS has been experiencing in recent years. However, as this year's result has proved, you just never know. We must be prepared to maximise opportunities in all economic climates. ■

# Congratulations... ...on making SBS your choice!

We've been helping people since 1989 and although we've grown significantly since then, we've never forgotten our roots. Our distinctiveness lies in the heart of being a New Zealand-owned building society that invests profits back to its members through competitive interest rates and unparalleled personalised service.

## SBS OFFERS.....

### Home Loans

'making the dream a reality'

### Savings and Investments

'securing the future you want'

### Everyday Banking Needs

'less fees, more convenience, real people'

### Rural Finance Packages

'that will have you covered'

### Life Insurance

'you simply can't predict the future'

### Financial Advice

'planning for your financial independence'

Southern Building Society is not a registered bank



## OUR BRANCH MANAGERS ... on the lighter side of banking



### Steve Beale

**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

### Jim Olsen

#### Gore

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

### UM, GUYS ...

*Invercargill branch's Neil Bramley, Mark Smith and Steve Beale reckoned erecting SBS' marquee at the Southland Cancer Relay for Life would be a breeze. A howling gale put paid to that idea.*

*"There were some terrifying moments – especially when Neil (the lightest of the three) was left literally flapping in the air on the end of a guy rope.*

*"We were patting ourselves on the back for a job well done ... when someone politely pointed out the marquee was plonk in the middle of the relay track, and would we kindly move it."*

#### Steve Beale

*Branch manager, Invercargill*



### Allan Motion

#### 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

### BOWLING THEM OVER

*Take a flair for fundraising, strong community spirit and a love of lawn bowls, and you have Queenstown branch manager, Allan Motion, who has quite the reputation for "making things happen".*

*"We've made really good progress in Queenstown – one new artificial green already in place and another paid for and ready to go down.*

*"Word went round, and now I'm working with the Arrowtown Lawn Bowls Club to fundraise for theirs, too – things are certainly starting to look a lot greener around our community."*

#### Allan Motion

*Branch manager, Queenstown*



### Andrew Kilsby

#### Dunedin

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

### MEMBER SAVES CHOCOLATE

*It started with Dunedin branch manager Andrew Kilsby inviting the Binns family, SBS members, to a garage sale ...*

*"Adam, Lynne and wee Callum arrived just as we were cleaning our guinea pig's cage. Unfortunately, Chocolate took flight stubbornly standing her ground under the camellia.*

*"Adam saved the day very nimbly negotiating the bush, retrieving one totally petrified – and much loved – rodent. And that was after I'd given the thumbs up to the family's home loan!"*

#### Andrew Kilsby

*Branch manager, Dunedin*



### Glen Clarkson (left)

#### Timaru

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

### SERVICE WITH A SMILE

*Our Timaru branch has just put its name to the city's SBS Events Centre, but the team's community zeal doesn't rest solely with high-profile sponsorships.*

*"We felt our contribution should be about service, as well as financial support. So, every fortnight we all pitch in and deliver Meals on Wheels.*

*"We're making a lot of friends on our travels. It's very rewarding, and they seem to be enjoying our company as much as we're enjoying theirs."*

#### Glen Clarkson

*Branch manager, Timaru*



#### Mark Reid

**Christchurch - Central**  
180 Manchester Street  
(PO Box 13801)  
Telephone: 03 962 5900  
Fax: 03 962 5905

#### Mike Brownie

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

#### Greg Cayford

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

### ON YOUR BIKE GREG!

*Riccarton branch manager Greg Cayford recently tackled the gruelling Christchurch-to-Akaroa Le Race, finishing a laudable third. Prize-giving beckoned, but ...*

*"I'd pedaled my bike – but there was a prospective member waiting for me to peddle SBS' benefits. It was over the finish line and straight to the catch up we'd arranged.*

*"Came third in the cycling but first at the meeting – a new SBS member, chuffed to have their new home loan signed, sealed and delivered on the spot."*

#### Greg Cayford

*Branch manager, Riccarton*



#### Nicki Bennett (right)

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

### IN THERE, FEATHERS AND ALL

*Tugging tentatively on the psychedelic feathery frock, the young boy couldn't quite believe his eyes: "Are you really a bank manager?"*

*Nicki Bennett smiled and told him: Yes, she really was SBS' Hamilton branch manager. "Wow, that's so cool," he grinned.*

*"We didn't want to just sponsor the SBS Mardi Gras – we were out to lead by spirited example. When I saw the incredulous look on the boy's face, I knew we'd made our mark."*

#### Nicki Bennett

*Branch manager, Hamilton*



#### Rod Fox

**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

### LENDING A HAND

*Everyone who deals with SBS knows our branch managers are hardly stereotypical. They're approachable, helpful, understanding ... and very domesticated.*

*"One of the best parts of our work is seeing the excitement on people's faces when you say their loan's been approved.*

*"Just recently, though, I was greeted with a look of total shock when I went to visit a family. It wasn't the loan – they just couldn't believe a bank manager would pick up a tea towel and help dry the dishes."*

#### Rod Fox

*Branch manager, Nelson*



#### Mike Bell

**Tauranga**  
Cnr Elizabeth Street &  
Devonport Road  
(PO Box 13020)  
Telephone: 07 578 9217  
Fax: 07 578 9219

### WANT FRIES WITH THAT LOAN?

*As SBS' newest team, our Tauranga branch is busy spreading the word around the Bay of Plenty about our building society's many benefits.*

*"It's nice to see we're already getting a name for the ends to which we'll go to meet our members' needs.*

*"But there was one bloke we just didn't have the facilities to cater for – no kidding, he walked off the street and ordered a burger. We gently brought to his attention the previous tenants – McDonalds – had moved on."*

#### Mike Bell

*Branch manager, Tauranga*

## YOUR STORIES

Now's the time for members to share their stories – accounts of how SBS made a real difference in their lives, standing by them even when the chips were down. We'll let them tell you in their own words:

Dear Sir/Madam,

I am writing to give you my SBS experience, which has basically changed my life. About four years ago my marriage broke up and my (ex) husband up and ran off to Australia. He left me with a mortgage, which we had with another bank. They really didn't want to know me, although myself and my family had banked with them for years. So in desperation I went to bank after bank, all declining to help me.

Finally someone mentioned, try SBS. So off I trot and I felt welcome the moment I sat opposite the manager, Brian. He was so wonderful and made everything seem so easy and stress-free. He helped me organise my finances and enabled me to keep my home, which was so important to me. He gave (SBS gave!!) me a chance and had faith in me, which meant the world.

I battled on, taking in students and working very hard and long hours, and in 12 months I had most finances under control.

A few years ago I sold my house after entering into a new relationship. My new partner sold his flat, and we combined finances and then bought a house together in Rangiora. We ended up with a very small mortgage, which of course we have with SBS, Papanui.

Life is so much better now, but if it wasn't for SBS giving me a chance I would not be where I am today. I always strongly recommend SBS and sing your praises whenever I can.

I thank you from my heart for giving me the opportunity to keep my home, but also for believing in me at a time when I had lost so much faith in human nature.

I will always be so grateful.

Sincerely yours,  
Mrs M J Marshall



Enzo (two and a-half), Scarlett (seven months) and their great-grandmother, Olive Gordon (97).

## YOUR STORY

“**Our family** have been involved with SBS since 1909 when my grandfather took out a loan and, later, shares. Subsequently my parents, my wife and I, our two children, and now our grandchildren have followed suit, in one way or another. Our retirement fund is currently being managed very well with SBS. And so five generations of this family, over almost 100 years have been well cared for by SBS.”

Grant Gordon



## OUR SENIOR EXECUTIVES



Our executive team is charged with delivering on SBS' vision – *first choice in banking*. Together with our staff, they make SBS' first class service and products happen. As with everything at the building society, our executive team remains ever mindful of the values set out in the charter.

FROM LEFT TO RIGHT:

**Malcolm Little**  
General Manager Agribusiness

**Tim Loan**  
General Manager Finance

**Paul Atkinson**  
General Manager Retail

**Ross Smith**  
Chief Executive

**Lana Winders**  
General Manager  
Market Development

**Martin Gale**  
General Manager  
Technology Services

**Garry Smith**  
General Manager  
Retail Support

### YOUR STORY

"At 15 I was given an ultimatum by my (then) boss. 'If you haven't joined SBS within a week I'll fire you.' Well what could I do? The **passion this man had for SBS** then has been passed on to me today. After a few years of saving I went to Mr Tait, who took me to Mr Walsh, and requested my money as I wanted to buy a car. Walsh said, 'No, keep your savings... but I'll give you a loan.' I bought a car, then got a mortgage for our first home. Since then SBS has enabled our family to continue to grow as our family and business has changed."

*Russell Hill*

## OUR DIRECTORS' PROFILES



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

Mr Diack, who joined the board in 2005, is an independent management consultant providing corporate performance and strategy advice to companies throughout Australia and New Zealand.

He also chairs Evolution Technologies Limited and is a member of the New Zealand Institute of Directors and the Australian Institute of Company Directors.

A long-standing supporter of SBS, Mr Diack provided governance, strategy and corporate performance advice to the building society for nine years before joining the board.

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

The Invercargill Licensing Trust's general manager for nearly two decades, Mr Mulvey joined SBS' board in 2004.

He is a member of the New Zealand Institute of Chartered Accountants (CA) and a fellow of the New Zealand Institute of Management.

A director of DB South Island Brewery Limited and Henley Industries Limited, Mr Mulvey is also a trustee of the Stadium Southland Charitable Trust, the ILT Sports Foundation and ILT Charitable Trust.

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

Mr Smith was appointed SBS' chief executive in 1992, joining 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.

A member of the Financial Services Federation's executive, Mr Smith is also a director of Electricity Invercargill Limited, Powernet Limited and Continuity Contracting Limited.

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

A chartered accountant, Mr Ward was appointed to the board in 2002 and was instrumental in forming the group that opposed the sale of SBS in 1991.

He chairs both H & J Smith Holdings Ltd and the AJ Hackett Bungy Group, as well as representing Invercargill city on the Venture Southland board.

A ministerial appointment to the Council of the University of Otago, Mr Ward is also a director of Otago Cricket and chairs the Transport for Disabled Trust (Southland).



#### **M H (Mike) Piper**

*BCom FCA*

*Deputy Chairman*

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

He chairs Stadium Southland Limited, is a director of the New Zealand Academy of Sport (South Island) and serves as trustee of the Southland Amateur Sports Trust and the Southland Cycling Trust.

A sports enthusiast, Mr Piper is a veteran runner and actively involved in athletics, harrier and road running administration in Southland.

#### **W H (Warren) Conway**

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

He is also a director of Barnes Oysters Limited and the Bluff Oyster Management Company Limited.

He has also had a strong association with the timber industry for many years, and presently serves as a director of Hardwood Forests Limited and Invercargill City Forests Limited.

#### **J W A (Acton) Smith**

*BCom, FNZIM*

*Chairman*

Mr Smith is managing director of H & J Smith Holdings Limited, a large, privately-owned group of retail companies that operates five department stores and several allied businesses throughout the lower South Island.

He is deputy chairman of both Mitre 10 (New Zealand) Limited and the Southland Leisure Centre Charitable Trust and was a founding director of Foveaux Radio.

Mr Smith was elected to the board in 1991 and served as deputy chairman until his appointment as chairman 1994.

#### **J B (Jeff) Walker**

*LLB*

Mr Walker, a practising barrister and solicitor in Invercargill, was elected to the board in 1998.

A member of the Southland District Law Society Council for several years, he is currently a president and member of the New Zealand Law Society Council and director of several private companies.

Mr Walker is both past president and a life member of Relationship Services. He was on the board of Soccersouth until this year and is Southland Soccer's president and vice president of the Southland WEA.



## Summary Statement of Financial Performance - Group for the year ended 31 March 2006

	31/3/06 \$000	31/3/05 \$000
Total Operating Income	59,185	54,241
Surplus Before Taxation	21,269	20,888
Less Taxation Expense	6,223	6,679
<b>Net Surplus</b>	<b>15,046</b>	<b>14,209</b>
<b>Net Surplus Comprises:</b>		
Members' Interests	14,296	13,744
Minorities' Interests	750	465

## Summary Statement of Movements in Equity - Group for the year ended 31 March 2006

Total Recognised Revenues and Expenses	15,046	14,224
Contribution from Owners	-	17
Distribution to Owners	(203)	(40)
<b>Movements in Equity for the Year</b>	<b>14,843</b>	<b>14,201</b>
Opening Equity	111,732	97,531
<b>Closing Equity</b>	<b>126,575</b>	<b>111,732</b>

## Summary Statement of Financial Position - Group as at 31 March 2006

<b>Assets</b>		
Liquid Assets and Securities	53,483	50,103
Advances	1,983,115	1,753,659
Other Assets	21,753	19,248
	<b>2,058,351</b>	<b>1,823,010</b>
<b>Liabilities</b>		
Redeemable Shares	1,426,730	1,230,257
Deposits	255,210	314,539
Other Liabilities	249,836	166,482
	<b>1,931,776</b>	<b>1,711,278</b>
<b>Equity</b>		
Attributable to Members of the Society	123,668	109,372
Attributable to Minority Shareholders	2,907	2,360
	<b>2,058,351</b>	<b>1,823,010</b>

## Summary Statement of Cash Flows - Group for the year ended 31 March 2006

Net Cash Inflow from Operating Activities	18,294	18,024
Net Cash Outflow from Investing Activities	(231,122)	(293,146)
Net Cash Inflow from Financing Activities	215,060	289,824
<b>Net Increase in Cash Held</b>	<b>2,232</b>	<b>14,702</b>
Add Opening Cash and Cash Equivalents	47,078	32,376
<b>Closing Cash and Cash Equivalents</b>	<b>49,310</b>	<b>47,078</b>



Chairman  
J W A Smith

31 May 2006



Deputy Chairman  
M H Piper

Deputy Chairman  
M H 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 31 May 2006.

## I. 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 WTrust (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 31 May 2006. 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 31 May 2006. These summary Financial Statements have not been examined by KPMG for consistency with the full Financial Statements.

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

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

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

The full 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.

## 3. Risk Management Policies

SBS' 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.

### *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' 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.

## 4. Commitments

At 31 March 2006 SBS had \$36,186,000 (2005 \$35,527,000) of advances approved but undrawn and \$182,333,000 (2005 \$155,345,000) 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 31 May 2006.

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

### 5. 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.

Further detail on the SBS conversion to NZ IFRS can be obtained by referring to the full financial statements.

### 6. Advances

	GROUP	
	31/3/06 \$000	31/3/05 \$000
Gross Advances	1,984,798	1,755,248
Less General Provision for Doubtful Debts	1,312	850
Less Specific Provision for Doubtful Debts	371	739
Advances Net of Specific and General Provisions	1,983,115	1,753,659

### 7. Bad and Doubtful Debts Expense

	GROUP	
Bad Debts Written Off for the Year	3,685	3,043
Less Provisions Released or Utilised	(285)	(56)
Add New Provisions Made	379	760
Net Bad and Doubtful Debts Expense*	3,779	3,747

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

### 8. Asset Quality

	GROUP - 31/3/2006			GROUP - 31/3/2005		
	Pre-Provision \$000	Specific Provision \$000	Balance \$000	Pre-Provision \$000	Specific Provision \$000	Balance \$000
Non-Accrual Assets	816	326	490	1,119	649	470
Past Due Assets	1,959	45	1,914	2,712	90	2,622
	2,775	371	2,404	3,831	739	3,092

### 9. Maturity Profile

	GROUP - 31/3/2006			GROUP - 31/3/2005		
	Current Assets \$000	Non-current Assets \$000	Total \$000	Current Assets \$000	Non-current Assets \$000	Total \$000
Assets						
Advances	204,098	1,779,017	1,983,115	235,726	1,517,933	1,753,659
Liquid Assets and Securities	53,483	-	53,483	49,575	528	50,103
Other Monetary Assets	3,427	-	3,427	2,266	-	2,266
	261,008	1,779,017	2,040,025	287,567	1,518,461	1,806,028

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 31 May 2006.



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

### 9. Maturity Profile continued

	GROUP - 31/3/2006			GROUP - 31/3/2005		
	Current	Non-current	Total	Current	Non-current	Total
	Liabilities	Liabilities		Liabilities	Liabilities	
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Liabilities</b>						
Redeemable Shares	1,381,044	45,686	1,426,730	1,165,801	64,456	1,230,257
Deposits	247,593	7,617	255,210	305,061	9,478	314,539
Other Monetary Liabilities	12,775	232,499	245,274	13,241	151,343	164,584
	1,641,412	285,802	1,927,214	1,484,103	225,277	1,709,380

### 10. Fair Value Financial Instruments

	GROUP - 31/3/2006		GROUP - 31/3/2005	
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
	\$000	\$000	\$000	\$000
<b>Statement of Financial Position Items</b>				
Assets	2,036,598	2,030,219	1,803,762	1,799,330
Liabilities	1,914,439	1,917,097	1,696,509	1,695,954
<b>Unrecognised Financial Instruments</b>				
Derivative Contracts - Net Receivable Position	725	942	293	2,286

### 11. 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 is a summary of the Capital Ratios for SBS in relation to the above specified benchmarks.

	31/3/06	31/3/05
Primary Capital Ratio (Parent) - Trust Deed Minimum 4%	6.58%	6.38%
Risk Adjusted Capital Ratio (Group) - RBNZ Minimum 8%	9.20%	9.17%

### 12. Liquidity

	GROUP	
	31/3/06	31/3/05
	\$000	\$000
Asset Liquidity	53,483	50,102
Committed and Undrawn Funding Lines	155,800	147,000
<b>Total Liquidity</b>	<b>209,283</b>	<b>197,102</b>

### 13. Subsequent Events

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

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 31 May 2006.



## NOTICE OF ANNUAL GENERAL MEETING 2006

Notice is hereby given that the Annual General Meeting of members of the Southland Building Society (SBS) will be held on the fourth floor of SBS' office building, 51 Don Street, Invercargill on Wednesday 26 July 2006 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 2006.

#### I.2 Election of Directors

Mrs K J Ball and Mr J B Walker retire by rotation and, being eligible, are offering themselves for re-election. There being no other candidates, the re-appointment of the retiring Directors is to be confirmed.

#### I.3 To Appoint Auditors

To record the appointment of the Auditors for the 2006/2007 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*

T D R Loan

Secretary

31 May 2006

#### 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 time of the Annual General Meeting.

## OUR 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  
BCom CA  
Chartered Accountant  
Invercargill

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(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

## OUR 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**

Cnr Elizabeth Street &  
Devonport Road  
(PO Box 13020)  
Telephone: 07 578 9217  
Fax: 07 578 9219





OUR PEOPLE MAKE THE DIFFERENCE

