



Formerly Southland Credit Union

Annual Report
31st March 2007



10053694858

People Helping People

Our Mission

To be the preferred banking services provider
in Southland, by helping members maximise
their financial well-being.

| Index | Page |
|------------------------------------|-------------|
| Registered Offices | 2 |
| Business Profile | 3 |
| The Southland Credit Union History | 4 |
| Governing Rules and Regulations | 4 |
| Mission Statement | 4 |
| Objectives | 4 |
| Notice of Meeting, Agenda | 5 |
| Directors' Report | 6 |
| General Managers' Report | 8 |
| Statement of Financial performance | 9 |
| Statement of Movements in Equity | 9 |
| Statement of Financial Position | 10 |
| Statement of Cash Flows | 11 |
| Statement of Accounting Policies | 12 |
| Notes to the Financial Statements | 13-20 |
| Nominating Committee Report | 21 |
| Audit Committee Report | 21 |
| Auditors' Report | 22 |

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Auditors' Report
To the members of Credit Union South

We have audited the financial statements on pages 9 to 20. The financial statements provide information about the past financial performance and cash flows of the Credit Union for the year ended 31 March 2007 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 12.

Directors' Responsibilities

The Credit Union's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Credit Union as at 31 March 2007 and its financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

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

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements, and
- (b) whether the accounting policies are appropriate to the Credit Union's circumstances, consistently applied and adequately disclosed.

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

We have no relationships with or interests in the Credit Union, other than in our capacity as auditors.

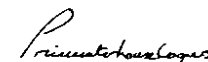
Unqualified Opinion

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

In our opinion:

- (a) proper accounting records have been kept by the Credit Union as far as appears from our examination of those records; and
- (b) the financial statements on pages 9 to 20:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the financial position of the Credit Union as at 31 March 2007 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 7 June 2007 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Dunedin

Credit Union South

Nominating Committee Report

The duty of the nominating committee is to nominate at least one member for each vacancy for which elections are being held and to invite further nominations from the members. All nominations must be forwarded to the secretary at least 30 days prior to each annual meeting.

2006 nominating Committee: Allen Waghorn & Hazel Sycamore

Present Board Members: Ian Macara, Terry O'Neill, Peter McKnight, Wade Devine, Allen Waghorn, Hazel Sycamore, Kerry Cartwright.

Directors due to retire: Wade Devine, Ian Macara, Kerry Cartwright.

Nominations Received: Wade Devine, Ian Macara, Kerry Cartwright.

As there are the required number nominated the above persons are duly elected as Board of Directors for a two year term.

Nominations for Trustee: There are two trustee to be elected from the Directors on the night of the Annual General Meeting. The Nominating Committee's recommendation is Ian Macara and Allen Waghorn be elected trustee for a further two year term. Peter McKnight has one year to serve.

Audit Committee report

The Audit Committee is appointed by the board each year at the first board meeting following the Annual General Meeting. The current audit committee members are Hazel Sycamore (Chair), Wade Devine & Peter McKnight. During the year the Audit Committee engaged the services of Kay Jones to conduct internal audit services on a contract basis. Kay completed 7 on-site audits during the year, assisted by members of the committee from time to time. The audit committee are working through a comprehensive internal audit program developed by BDO Spicers on behalf of a number of Credit Unions in the North Island.

During the year the Wade Devine attended a national training days for Credit Union Audit Chairs, run by the New Zealand Association of Credit Unions. These forums are valuable for sharing internal audit best practices and discussing topical issues within the Credit Union industry.

Additionally the committee held meetings with the external Auditors, PricewaterhouseCoopers of Dunedin, and reviewed their audit program. The Audit committee is responsible to the board for the re-appointment of the external auditors. The Audit committee were pleased with the standard of our operations and are working with staff to ensure continuous improvement in our procedures.

The Audit committee wish to thank PricewaterhouseCoopers, Kay Jones, and the staff members involved in our audits for their support.

Hazel Sycamore
Chair- Audit Committee.

Credit Union South

Registered Office

Credit Union Building
52 Don Street
INVERCARGILL

Postal Address P.O. Box 1437
Phone (03) 211-3950
Facsimile (03) 211-3952

Office Hours

Monday to Friday
8.30am to 5.00pm

Branch Offices

Tiwai Branch
NZAS - Tiwai Point
Phone (03) 218-5594

Friday
1.00 pm to 4.00 pm

Gore Branch
82 Main Street
Gore
Phone (03) 208-5594
Facsimile (03) 208-1172

Monday to Friday
9.00 am to 4.30 pm

South Invercargill Branch
South City Mall
243 Elles Road
Invercargill
Phone (03) 211-3950

Monday, Tuesday, Thursday & Friday
9.00am to 5.00 pm
Wednesday 10.00 am to 5.00 pm

Invercargill Central Branch
Corner Kelvin & Don Streets
Invercargill
Phone (03) 211-3950

Monday, Tuesday, Thursday & Friday
9.00am to 5.00 pm
Wednesday 9.30 am to 5.00 pm
Saturday 10.00 am to 3.00 pm

Accessteller – 24 Hour Telephone Banking

Account balances, transfer funds, pay bills.

Call Fleur on (03) 211-3950 24hrs, 7 days a week.

AccessOnline- 24 hr Internet Banking Service

On-line banking – www.scu.co.nz

Free service to all Credit Union South members.

**Credit Union South
Business Profile**

Board of Directors

Wade Devine (Chairman)
Peter McKnight
Ian Macara
Terry O'Neill
Allen Waghorn
Hazel Sycamore
Kerry Cartwright

General Manager

Andrew Leys

Senior Managers

Helen Malcolm – Credit Manager
Marie Jarvis – Business Development Manager

Member Service Officers

Donna Branks, Julie Colvin, Carolyn Edwards, Pat Lamb, Linda Leonard, April Muijs, Lesley McCurdy, Sue McGowan, Margaret Rohan, Lenora Scott, Lyn Stark, Carol Taylor, Lyle Watson, Rochelle Small, Marc Colyer, Renee Puanaki, Manjula Devi, Arahi McLeod, Neil McDermott, Sandra Warren, Sandra Svensson.

Bankers

New Zealand Association of Credit Unions through the Centralised Banking scheme with Westpac Ltd.

Solicitors

Hewatt Galt

Auditors

PricewaterhouseCoopers – Dunedin

Affiliations

Southland Credit Union Charitable Trust
Southland Credit Union Budget & Financial Services Inc
New Zealand Association of Credit Unions
World Council of Credit Unions

Credit Union South

Notes to the Financial Statements (cont.)

| | As at 31-Mar-07 | As at 31-Mar-06 |
|-----------------------------------|--------------------|--------------------|
| 19. COMMITMENTS | | |
| Capital Commitments at period end | Nil | Nil |
| Commitments to lend at period end | | |
| Loans approved but not disbursed | 258,795 | 624,360 |
| Undrawn Line of Credit Facilities | 116,482 | 104,004 |
| | <u>\$375,277</u> | <u>\$728,364</u> |
| Lease Commitments at period end | | |
| Within 1 year | 70,715 | 93,075 |
| 1-2 years | 6,422 | 70,303 |
| 2-3 years | Nil | 7,500 |
| 3-4 years | Nil | Nil |
| 5 years and over | Nil | Nil |
| | <u>\$77,137</u> | <u>\$170,878</u> |

20. CONTINGENT LIABILITIES

There were no known contingent liabilities as at 31 March 2007. (31 March 2006 Nil)

21. SUBSEQUENT EVENTS

No known events have occurred subsequent to balance date which could materially affect these financial statements.

22. SEGMENTAL REPORTING AND CONCENTRATIONS OF FUNDING AND LENDING

Credit Union South operates in the New Zealand financial services industry providing consumer and personal loans. It has service centres in Invercargill and Gore with savings and lending concentrated in the Southland region.

23. ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board (ASRB) formally announced that New Zealand reporting entities would be required to comply with International Financial Reporting Standards (IFRS) for financial years commencing on or after 1 January 2007. The new standards that have been approved by the ASRB for application in New Zealand are referred to as New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as certain adaptations have been made to reflect New Zealand circumstances.

The transition to NZ IFRS is being managed by the directors, in consultation with staff of the New Zealand Association of Credit Unions and with our auditors, assessing the significance of these changes and preparing for their implementation. It is planned to adopt these standards for the first time for the year ending 30 September 2007 with comparative information being restated to conform to the requirements of the new standards.

The Credit Union has substantially finalised its accounting policies under NZ IFRS that will be required in the opening Statement of Financial Position as at 1 April 2006 on adoption of NZ IFRS.

Only one item has been identified that may have a significant impact on the financial position and financial performance. Under existing accounting standards a provision for doubtful loans comprises both a specific provision and a general provision. Under NZ IFRS a general provision is not permitted. Further work is being performed to determine the effect of this matter.

The change will have no impact on net operating cash flows reported.

Note that the actual impact of adopting NZ IFRS may vary from the information presented and the variation may be material.

Credit Union South

Notes to the Financial Statements (cont.)

18. FINANCIAL INSTRUMENTS

Financial instruments such as loans to members, accounts receivable, bank, NZACU Deposits and NZACU Capital Notes are recorded at fair values. The methods of accounting for possible changes in the fair value of financial instruments, such as doubtful loans receivable, are outlined under the policy statements associated with the particular items. The Credit Union does not carry any off balance sheet risk.

RISK MANAGEMENT POLICIES

CREDIT

All prospective borrowers are subject to certain lending criteria. The Trustees have delegated authority to approve loans to management and staff up to set limits. Collateral is held for the loans to members in accordance with lending policy, and may include property mortgages, vehicle securities, and a charge over savings balances depending on the level of the advance.

INTEREST RATES

The Credit Union's normal lending terms allow rates to be reset on giving notice to borrowers. NZACU deposits carrying fixed interest rates are for terms not exceeding 24 months. Interest rates on members' Call Shares can be reset at any time without notice. Term Shares carrying fixed interest rates are for terms not exceeding 24 months.

CREDIT RISK

Maximum exposure to credit risk are the disclosed carrying values of lending and investment assets. The Credit Union has a wide spread of investments and is not considered to be exposed to any significant concentrations of credit risk; other than the Credit Union makes use of the NZ Association of Credit Unions' Central Finance Facility (CFF) for its cash investments. The CFF reduces counterparty risk by spreading its investments over banking institutions and by maintaining a well diversified investment portfolio with controls over maturity, counterparty and concentrations of investments, thereby limiting its credit exposure.

LIQUIDITY RISK

Loans to members - Loan contracts provide for all loans to be repayable over short terms but subject to being "repayable on demand" should this be necessary.
Investments - With the exception of the NZACU capital notes, these are either on-call investments or can be converted into cash within 5 working days.

INTEREST RATE PROFILE OF MONETARY ASSETS AND MEMBERS SHARES AND LIABILITIES

| | Average Rate Per Annum | |
|---------------------|------------------------|--------------------|
| | As at 31-Mar-07 | As at 31-Mar-06 |
| Cash at Bank | 1.500% | 1.500% |
| NZACU Call Deposits | 7.750% | 7.250% |
| Term Deposits | 7.879% | 7.469% |
| Loans to Members | 13.024% | 12.982% |
| NZACU Capital Notes | 15.000% | 15.000% |
| Call Shares | 2.205% | 2.199% |
| Term Shares | 7.662% | 7.022% |

FAIR VALUE OF FINANCIAL INSTRUMENTS

All financial instruments, except Loans to Members, are carried at their fair value in the Statement of Financial Position. The fair value of Loans to Members cannot be determined with an acceptable level of reliability within the constraints of timeliness and cost, because it is not practicable to consider all relevant factors to determine a fair value for each loan. Loans to Members are stated in these financial statements at their estimated recoverable amounts which is the gross amount receivable for all Loans less the Provision for Doubtful Loans. The Provision for Doubtful Loans set out in note 7 is the maximum expected losses arising from borrowers at balance date. While loans are recoverable for the full loan amounts there are likely to be a number of borrowers who will be unable to repay the full amounts due when called upon to do so and the Provision for Doubtful Loans has been calculated accordingly.

Credit Union South

What is a Credit Union?

A Credit Union is a financial co-operative which is owned and operated by its members. It allows them to save, borrow money and use other banking services. Its members have something in common i.e. place of work, type of employment or area in which they live (common bond). The members run the co-operative themselves by democratic rules.

The first modern Credit Union was formed in Germany during the 1840's by a group of people who decided they would all benefit by saving together and lending money to each other.

In Southland during the late 1970's there were a number of small Credit Unions started at various work sites in the region. The Tiwai Credit Union was started in August 1977 by employees of the New Zealand Aluminium Smelter. In 1987 Tiwai Credit Union changed its name to Southland Credit Union and shortly after this Southland Area Health Board and St Theresa's Credit Union transferred their engagements to the newly named Southland Credit Union. Since that time we have accepted transfers from NZ Paper Mills, Mataka and Makarewa Freezing Works, Bluff Waterfront and Community Credit Unions.

Membership of Credit Union South is now open to all South Islanders, Cartiable Trusts and Incorporated Societies..

Governing Rules & Regulations

Southland Credit Union is governed by the Laws of the Friendly Societies and Credit Union Act 1982 and registrar relating to the Credit Union, its articles of incorporation and bylaws adopted by the Board and approved by the Registrar.

Mission Statement

To be the preferred banking services provider in Southland, by helping members maximise their financial well-being.

The Credit Union South's Objectives

- To Safeguard Members' funds.
- Promote thrift among members by the accumulation of their savings.
- The use and control of members' savings for their mutual benefit and to make loans to members for provident or productive purposes.
- The training and education of the members in the wise use of money and in the management of their financial affairs.
- At the discretion of the Credit Union and as a minor adjunct to its other objects, the welfare of its members and the making of donations for charitable, cultural, benevolent, or philanthropic purposes.

Credit Union South

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Members of the Credit Union South (formerly Southland Credit Union) will be held at the Southland Club, corner of Deveron & Leet Streets, Invercargill, on Thursday the 14th of June 2007, commencing 7.00 pm.

Agenda

1. Welcome to Members and Guests
2. Apologies
3. Confirmation of the minutes of the 2006 AGM.
4. Business arising from the minutes
5. Receipt and Adoption of:
 - (a) Directors' Report
 - (b) Management Report
 - (c) Finance Report
 - (d) Audit Report
6. General Business
 - (a) Appointment of Auditors
 - (b) Adoption of new rules
 - (c) Other business
7. Nominating Committees' Report
8. Election of Directors and Trustees

Credit Union South

Notes to the Financial Statements (cont.)

17. LIQUIDITY PROFILE

| | Total | 0-6 mths | 6-12 mths | 12-24 mths | 24-60 mths | 60 + mths |
|---|---------------------|---------------------|--------------------|--------------------|--------------------|--------------------|
| MONETARY ASSETS RECEIVABLE (000's) | | | | | | |
| Cash and Bank | 802,587 | 802,587 | Nil | Nil | Nil | Nil |
| NZACU Deposits | 1,400,000 | 1,400,000 | Nil | Nil | Nil | Nil |
| Capital Notes | 355,615 | Nil | Nil | Nil | Nil | 355,615 |
| Accounts Receivable | Nil | Nil | Nil | Nil | Nil | Nil |
| Accrued Interest | 70,405 | 70,405 | Nil | Nil | Nil | Nil |
| Loans to Members | 29,356,423 | 3,932,723 | 3,216,300 | 5,550,797 | 8,591,342 | 8,065,261 |
| Total Receivable | \$31,985,030 | \$6,205,715 | \$3,216,300 | \$5,550,797 | \$8,591,342 | \$8,420,876 |
| MEMBERS SHARES AND LIABILITIES PAYABLE (000's) | | | | | | |
| Call Shares | 12,613,712 | 12,613,712 | Nil | Nil | Nil | Nil |
| Term Shares | 14,812,834 | 10,660,748 | 4,096,064 | 56,022 | Nil | Nil |
| Accounts Payable | 747,096 | 747,096 | Nil | Nil | Nil | Nil |
| Dividends Accrued | 233,176 | 233,176 | Nil | Nil | Nil | Nil |
| Total Payable | \$28,406,818 | \$24,254,732 | \$4,096,064 | \$56,022 | Nil | Nil |

Loan terms may vary but all loans are on demand and therefore are classified as current assets of the Credit Union on the statement of financial position. The presentation in the liquidity profile above reflects the anticipated recovery in line with experience and repayment expectations. Members' share deposits provide the source of finance for loans to members. The 6 month and 12 month periods are reporting measures and do not necessarily reflect deposit terms/periods.

In the event that members require their shares repaid and insufficient funds are available, the Credit Union will make no further loans until all applications for share withdrawals are honoured.

| | As at 31-Mar-07 | As at 31-Mar-06 |
|---|--------------------|--------------------|
| The monthly repayments on loans for the period represent an average loan term of (months) | 11.51 | 11.72 |
| The proportion of monetary assets as are amounts receivable (loans) with repayments in arrears in excess of three months is | 0.60% | 1.21% |
| The proportion of monetary assets as are amounts receivable (loans) owed in aggregate by the debtors who owe the six largest amounts is | 3.57% | 3.44% |
| Undrawn Credit Facilities | | |
| The Credit Union has an overdraft facility of: | \$2,000,000 | \$1,000,000 |
| with the NZ Assoc. of Credit Unions. The term of the facility is committed for five years. | | |
| Amount drawn down is: | Nil | Nil |

Credit Union South

General Managers' Report

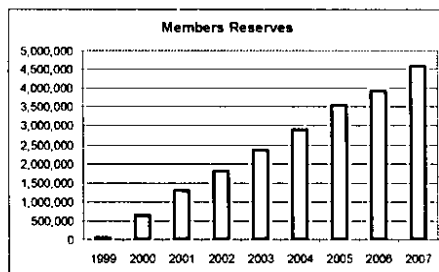
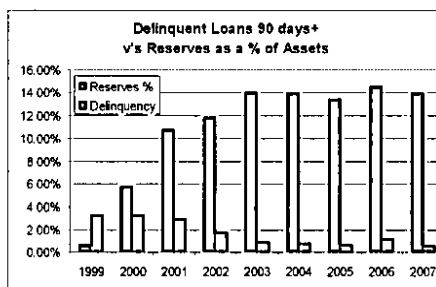
Presented by the General Manager, Credit Union South – Andrew Leys

I am pleased to report that the Credit Union continues to operate profitably thanks to the work done over the past 10 years to ensure your credit union is run prudently and for the benefit of all members. The net profit for the year was a healthy \$638,384, up over 60% on last years result. This is despite many initiatives undertaken in recent years to return more benefits back to members, while maintaining a sound profitable organisation. Initiatives which include:

- Lowering of personal loan interest rates over a number of years.
- Installing our own ATM's and providing free access to those ATM's for members, estimated to save members \$135,000 per year in transaction fees.
- Opening a new branch in Invercargill at the South City Mall in August 2005
- Refurbishment of the Invercargill Central office during 2005.

Our strong profit performance this year came on the back of a very good year for lending, with member support for their Credit Union increasing significantly in the latter half of the year. It appears the message has finally started to get through that members need to see us before they borrow anywhere else as we can almost always save you significant amounts over the term of the loan if you borrow or refinance with us.

As a result, lending was up over 28.9% over the past 12 months. Despite this, our delinquent loans (90 days plus past due) have reduced as a percentage of total loans to their lowest level ever at just 0.6% of total loans, less than half the level last financial year end. With strong profitability maintaining our capital adequacy and low delinquency levels, your credit union is in a very favourable financial position which will enable us to maintain the high level of benefits of membership.



Member reserves continue to grow (see graph to the left). Member reserves were \$4.6 million at the end of the financial year, and are 13.92% of total assets, well above the minimum set in our Trust Deed of 10%. This helps ensure members funds are safeguarded from any potential future losses (if any).

Early in 2006, we added to the services available to members with the introduction of

the 100% financed "Welcomehome Loans" where members can purchase their first property with low or no deposit required. We are always very keen to help members into their first home and are pleased to be a provider under the Housing New Zealand "WelcomeHome" Loan scheme. At year



Credit Union South

Notes to the Financial Statements (cont.)

8. CAPITAL NOTES

NZACU Business Services Division Trust Base Capital Notes represent monies invested with the NZACU Business Services Division Trust for an open ended term. The Base Capital Notes constitute unsecured obligations of the NZACU Business Services Trust and rank equally and without priority or preference among themselves. The Base Capital Notes rank after creditors in the event of the winding up of the NZACU Business Services Division. Capital Notes may only be sold or transferred to another Credit Union that is a member of the NZACU Business Services Division and with the consent of the Business Services Division Board of Directors.

9. PROPERTY, PLANT & EQUIPMENT

| | Cost | Accum. Depm. | Book Value As at 31-Mar-07 | Book Value As at 31-Mar-06 |
|------------------------|--------------------|--------------------|----------------------------|----------------------------|
| Freehold Land | 270,000 | Nil | 270,000 | 270,000 |
| Building | 560,000 | 167,000 | 393,000 | 449,000 |
| Total Land & Buildings | 830,000 | 167,000 | 663,000 | 719,000 |
| Furniture & Fittings | 548,088 | 405,672 | 142,416 | 183,378 |
| Data Processing Equip | 574,257 | 468,901 | 105,356 | 172,367 |
| | <u>\$1,952,345</u> | <u>\$1,041,573</u> | <u>\$910,772</u> | <u>\$1,074,745</u> |
| 31 Mar 2006 | \$1,861,018 | \$786,273 | \$1,074,745 | |

Rateable valuation of land and buildings in Gore as at 1 September 2004 was:

| | |
|---------------|-----------|
| Land Value | \$83,000 |
| Capital Value | \$155,000 |

Rateable valuation of land and buildings in Invercargill at 1 July 2005 was:

| | |
|---------------|-----------|
| Land Value | \$295,000 |
| Capital Value | \$750,000 |

Depreciation Charge for the period ended:

| | 31-Mar-07 | 31-Mar-06 |
|-----------------------|----------------|----------------|
| Building | 56,000 | 56,000 |
| Furniture & Fittings | 83,294 | 47,884 |
| Data Processing Equip | 116,006 | 100,000 |
| Motor Vehicles | Nil | Nil |
| | <u>255,300</u> | <u>203,884</u> |

10. TOTAL ASSETS

Loan terms may vary but all loans are on demand and for the purpose of this analysis are classified as receivable within twelve months.

Included in "Total Assets" is one counterparty in excess of 10% of Equity being total monies held at NZACU 40-50% of Equity

| | As at 31-Mar-07 | As at 31-Mar-06 |
|------------------------------------|---------------------|---------------------|
| 11. CALL SHARES | | |
| Access (S1) | 2,766,896 | 2,232,763 |
| Moneymaker (S2) | 1,247,564 | 1,141,132 |
| Money Management (S3, S4, S5, S11) | 1,478,980 | 1,245,479 |
| Loyalty (S6) * | 6,728,538 | 6,202,833 |
| Christmas (S7) * | 374,634 | 405,061 |
| Christmas Hamper (S10) | 17,100 | 20,172 |
| | <u>\$12,613,712</u> | <u>\$11,247,440</u> |

* "Notice" period for withdrawal of Loyalty Saver shares is fourteen days. Christmas Club shares may not be withdrawn until after 1 December each year.

Shares are secured by the Trust Deed dated 20th Dec 2000 between Trustee Executors Ltd and Credit Union South.

12. TERM SHARES

| | | |
|--|---------------------|---------------------|
| Maturing within twelve months | 14,756,812 | 11,266,554 |
| Maturing within twelve to twenty-four months | 56,022 | 13,621 |
| | <u>\$14,812,834</u> | <u>\$11,280,175</u> |

Shares are secured by the Trust Deed dated 20th Dec 2000 between Trustee Executors Ltd and Credit Union South.

Credit Union South

Notes to the Financial Statements (cont.)

7. LOANS TO MEMBERS (Cont.)

| | As at 31-Mar-07 | As at 31-Mar-06 |
|--------------------------------|--------------------|--------------------|
| Non-Accrual Assets | | |
| Balance at beginning of period | 48,068 | 97,138 |
| Additions | 82,799 | 38,913 |
| Amounts Written Off | (84,662) | (87,983) |
| Deletions | Nil | Nil |
| Balance at end of period | <u>\$46,205</u> | <u>\$48,068</u> |
| Past Due Assets | | |
| Balance at beginning of period | 229,967 | 80,037 |
| Additions | Nil | 149,930 |
| Amounts Written Off | Nil | Nil |
| Deletions | (97,831) | Nil |
| Balance at end of period | <u>\$132,136</u> | <u>\$229,967</u> |

Non-accrual Assets are those loans to members for which the Credit Union expects it will not be able to collect all amounts owing in accordance with the terms of the contract with those members.

Past Due Assets are those loans to members (not being a non-accrual asset, restructured asset, Real Estate or Other asset on enforced security) which have not been operated by the member within the terms of the loan contract for over 90 days.

Provision for Doubtful Loans

A Provision for Doubtful Loans is made in accordance with the Prudential Standards recommended to their members by the New Zealand Association of Credit Unions. These guidelines have been approved by the Board, and pertain to all loans where the loan is not being paid in accordance with the terms of the loan agreement, and the debtor has not entered into a satisfactory arrangement to discharge the loan. The provision comprises a specific provision assessed on certain loans plus a general provision calculated as follows:

| <u>Period in arrears</u> | <u>Percentage applied to balance owing</u> |
|--------------------------|--|
| 31-90 days | 20% |
| 91-181 days | 40% |
| 182-272 days | 60% |
| 273-364 days | 80% |
| 365 days and over | 100% |

Also, an amount equal to 5% of overdrawn savings accounts, together with 1% of "Line of Credit" loans is added to the general provision.

| | For Year ended 31-Mar-07 | For Year ended 31-Mar-06 |
|---|--------------------------------|--------------------------------|
| General Provision | | |
| Balance at Beginning of Period | 196,253 | 167,571 |
| Net charge (credit) to Statement of Financial Performance | 38,506 | 28,682 |
| Balance at End of Period | <u>234,759</u> | <u>196,253</u> |
| Specific Provision | | |
| Balance at Beginning of Period | 131,685 | 97,138 |
| Net charge (credit) to Statement of Financial Performance | (1,863) | 34,547 |
| Balance at End of Period | <u>129,822</u> | <u>131,685</u> |
| Total Provision for Doubtful Loans | <u><u>\$364,581</u></u> | <u><u>\$327,938</u></u> |

end we had helped 32 members move into their first home through this scheme, more than any other Credit Union in the country.



As members will be aware, over the past 10 years your credit union has been adding to the banking services we offer to the point that we can now provide all the banking services most members need. Not only have we been able to implement some leading edge services such as TXT and internet banking, we have also been relentless in trying to make sure members receive the best value possible. To that end, we were pleased to be recognised once again by a review of banking services in New Zealand, conducted by Cannex an international banking services monitoring firm. Once again our cheque account, the "Access Account" has received the highest rating (5 star) in both the low transaction and high transactional banking account. This has shown our commitment to ensure you receive the best possible services at the lowest possible price.

I fully expect the good work undertaken this year will lead to an even more successful year this financial year. One where members increasingly realise that they are indeed better off "banking where you belong"

Andrew.
Andrew Leys
General Manager.

Credit Union South (formerly Southland Credit Union)
Statement of Financial Performance

| | Notes | For Year ended 31-Mar-07 | For Year ended 31-Mar-06 |
|--|-------|-----------------------------|-----------------------------|
| INCOME | | | |
| Interest from | | | |
| Loans to Members - Non Accrual Assets | | Nil | Nil |
| Loans to Members - Other Loans | | 3,334,020 | 2,789,963 |
| | | 3,334,020 | 2,789,963 |
| Interest from Investments & NZACU Deposits | | 265,202 | 288,947 |
| Abnormal Gain - Additional Capital Notes | | 75,957 | Nil |
| Commissions | | 154,501 | 88,908 |
| Bad Loans Recovered | | 15,510 | 30,089 |
| Rent Received | | 105,000 | 105,000 |
| Other Income | 1 | 864,707 | 771,065 |
| Total Operating Revenue | | 4,814,897 | 4,073,972 |
| Gain on Sale of Fixed Assets | | Nil | 14,000 |
| Total Income | | 4,814,897 | 4,087,972 |
| EXPENSES | | | |
| Administration | 2 | 1,566,794 | 1,411,994 |
| Staffing Costs | 3 | 1,029,448 | 906,099 |
| Bad Loans Written Off | | 84,662 | 87,983 |
| Provision for Doubtful Loans | 7 | 36,643 | 63,229 |
| Depreciation | 9 | 255,300 | 203,884 |
| Dividends | | 269,543 | 245,476 |
| Call Shares | | | |
| Term Shares | | 934,123 | 771,989 |
| Total Operating Expenses | | 4,176,513 | 3,690,654 |
| NET SURPLUS FOR PERIOD | | \$638,384 | \$397,318 |
| TRANSFERS TO RESERVES | | | |
| General Reserve | | 240,745 | 203,699 |
| Retained Earnings | | 397,639 | 193,619 |
| | | \$638,384 | \$397,318 |

Statement of Movements in Equity

| | For Year ended 31-Mar-07 | For Year ended 31-Mar-06 |
|--|-----------------------------|-----------------------------|
| TOTAL EQUITY AT BEGINNING OF PERIOD | 3,955,182 | 3,557,864 |
| NET SURPLUS FOR PERIOD | 638,384 | 397,318 |
| Total recognised revenue and expenses for the period | 638,384 | 397,318 |
| TOTAL EQUITY AT END OF PERIOD | \$4,593,566 | \$3,955,182 |

Credit Union South
Notes to the Financial Statements (cont.)

| | As at 31-Mar-07 | As at 31-Mar-06 |
|---|--------------------|--------------------|
| 4. RESERVES (cont) | | |
| Retained Earnings | | |
| Retained earnings have been set aside to provide the Credit Union with a realised capital base. | | |
| Balance brought forward | 2,479,776 | 2,286,157 |
| Add increase this period | 397,639 | 193,619 |
| | \$2,877,415 | \$2,479,776 |
| Proportion of Total Assets | 8.72% | 9.12% |
| Total Reserves | \$4,593,566 | \$3,955,182 |
| Proportion of Total Assets (Capital Adequacy Ratio) | 13.92% | 14.55% |

5. CASH AND BANK
The Credit Union uses the New Zealand Association of Credit Unions' Central Finance Facility (CFF) for its banking. The Credit Union operates a bank account with WestpacTrust for its transactional banking needs.

| | As at 31-Mar-07 | As at 31-Mar-06 |
|---|--------------------|--------------------|
| 6. NZACU DEPOSITS | | |
| New Zealand Association of Credit Unions Central Fund Deposits held are | | |
| Call Deposits | 650,000 | 1,150,000 |
| Term Deposits Maturing within 12 months | 750,000 | 1,150,000 |
| | \$1,400,000 | \$2,300,000 |

| | As at 31-Mar-07 | As at 31-Mar-06 |
|------------------------------|---------------------|---------------------|
| 7. LOANS TO MEMBERS | | |
| Personal Loans | 19,648,279 | 15,798,669 |
| Mortgages | 10,072,725 | 7,251,288 |
| Gross Loans Receivable | 29,721,004 | 23,049,957 |
| Provision for Doubtful Loans | 364,581 | 327,938 |
| Loans Receivable | \$29,356,423 | \$22,722,019 |

At 31 March 2007 there was no loan to a member exceeding 10% of Equity. (31 March 2006 also none)

Asset Quality

To comply with the requirements of the Financial Reporting Standard Number 33, the following analysis of Loans to Members is provided.

| | As at 31-Mar-07 | | | As at 31-Mar-06 | | |
|-----------------------|---------------------|-----------------------|---------------------|---------------------|-----------------------|---------------------|
| | Gross Loans | Provision For Loss | Net Loans | Gross Loans | Provision For Loss | Net Loans |
| Non-accrual Assets | 46,205 | 46,205 | Nil | 48,068 | 48,068 | Nil |
| Restructured Assets | Nil | Nil | Nil | Nil | Nil | Nil |
| Real Estate on | | | | | | |
| Enforced Security | Nil | Nil | Nil | Nil | Nil | Nil |
| Other Assets on | | | | | | |
| Enforced Security | Nil | Nil | Nil | Nil | Nil | Nil |
| Past Due Assets | 132,136 | 96,529 | 35,607 | 229,967 | 135,313 | 94,654 |
| Other Loan Assets | | | | | | |
| with interest accrued | 29,542,663 | 221,847 | 29,320,816 | 22,771,922 | 144,557 | 22,627,365 |
| Total Loans | \$29,721,004 | \$364,581 | \$29,356,423 | \$23,049,957 | \$327,938 | \$22,722,019 |

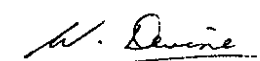
Credit Union South
Notes to the Financial Statements

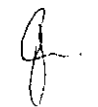
| | For Year ended 31-Mar-07 | For Year ended 31-Mar-06 |
|---|--------------------------------|--------------------------------|
| 1. OTHER INCOME | | |
| Cost Recoveries (Fees) | 636,338 | 542,473 |
| Loan Application Fees | 228,369 | 228,592 |
| | <u>\$864,707</u> | <u>\$771,065</u> |
| 2. ADMINISTRATION EXPENSES | | |
| Accesscard Charges | 337,235 | 349,418 |
| Accesscash ATM Charges | 80,087 | 42,172 |
| Association Dues | 58,491 | 54,515 |
| Audit Fees | 19,277 | 18,487 |
| Other Services Provided by Auditor | Nil | Nil |
| Bank and Cash Handling Fees | 120,782 | 111,642 |
| Data Processing | 180,436 | 164,349 |
| Data Communications Costs | 31,777 | 23,813 |
| Directors Meeting Fees | 5,325 | 4,200 |
| Directors Expenses | 32,215 | 23,295 |
| Fidelity Insurance | 10,037 | 10,219 |
| Lease Costs | 100,725 | 100,496 |
| Marketing | 206,950 | 139,125 |
| Motor Vehicle | 8,802 | 3,175 |
| Postage | 17,212 | 19,208 |
| Office Expenses | 3,722 | 4,102 |
| Property Expenses | 69,435 | 72,389 |
| Stationery and Printing | 107,622 | 82,915 |
| Telephone and Access Teller | 38,333 | 42,915 |
| Other Administration Costs | 138,331 | 145,559 |
| | <u>\$1,566,794</u> | <u>\$1,411,994</u> |
| 3. STAFFING COSTS | | |
| Salaries | 989,573 | 831,476 |
| Staff Training and Seminars | 22,658 | 34,839 |
| Fringe Benefit Tax | Nil | 25,090 |
| Other | 17,217 | 14,694 |
| | <u>\$1,029,448</u> | <u>\$906,099</u> |
| 4. RESERVES | | |
| General Reserve | | |
| A General Reserve has been established in accordance with S119 of the Friendly Societies and Credit Unions Act 1982. The General Reserve may not be distributed until the Credit Union is being wound up or dissolved, but may be applied for the following purposes: | | |
| (i) to offset realised losses from loans to members which have been written off as bad debts; | | |
| (ii) to offset unrealised losses from loans to members which have been included in a provision for doubtful loans | | |
| | As at 31-Mar-07 | As at 31-Mar-06 |
| Balance Brought Forward | 1,475,406 | 1,271,707 |
| Add Increase this Period | 240,745 | 203,699 |
| | <u>\$1,716,151</u> | <u>\$1,475,406</u> |
| Proportion of Total Assets | 5.20% | 5.43% |


Credit Union South
Statement of Financial Position

| | Notes | As at 31-Mar-07 | As at 31-Mar-06 |
|-------------------------------------|-------|--------------------|--------------------|
| RESERVES | | | |
| General Reserve | | 1,716,151 | 1,475,406 |
| Retained Earnings | | 2,877,415 | 2,479,776 |
| Total Reserves | 4 | <u>\$4,593,566</u> | <u>\$3,955,182</u> |
| Represented by | | | |
| ASSETS | | | |
| Cash & Bank | 5 | 802,587 | 674,524 |
| NZACU Deposits | 6 | 1,400,000 | 2,300,000 |
| Accounts Receivable | | Nil | Nil |
| Accrued Interest - Loans to Members | | 49,249 | 33,138 |
| Accrued Interest - Investments | | 21,156 | 21,905 |
| Loans to Members | 7 | 29,356,423 | 22,722,019 |
| Total Current Assets | | <u>31,629,415</u> | <u>25,751,586</u> |
| NZACU Capital Notes | 8 | 460,194 | 355,615 |
| Total Investments | | <u>460,194</u> | <u>355,615</u> |
| Property, Plant & Equipment | 9 | 910,772 | 1,074,745 |
| Total Non-Current Assets | | <u>910,772</u> | <u>1,074,745</u> |
| Total Assets | 10 | <u>33,000,381</u> | <u>27,181,946</u> |
| Less | | | |
| CURRENT LIABILITIES | | | |
| MEMBERS' SHARES | | | |
| Call Shares | 11 | 12,613,712 | 11,247,440 |
| Term Shares | 12 | 14,812,834 | 11,280,175 |
| Total Members' Shares | | <u>27,426,546</u> | <u>22,527,615</u> |
| Accounts Payable | 13 | 747,093 | 497,318 |
| Dividends Accrued | 14 | 233,176 | 201,831 |
| Total Accounts Payable | | <u>980,269</u> | <u>699,149</u> |
| Total Current Liabilities | | <u>28,406,815</u> | <u>23,226,764</u> |
| NET ASSETS | | <u>\$4,593,566</u> | <u>\$3,955,182</u> |

These accounts have been authorised for issue on the 7th June 2007


 Wade Devine
 Chairman


 Allen Robert Waghorn
 Director


 Andrew David Leys
 General Manager

Credit Union South
Statement of Cash Flows

| | Notes | For Year ended 31-Mar-07 | For Year ended 31-Mar-06 |
|---|-------|--------------------------------|--------------------------------|
| CASHFLOWS FROM OPERATING ACTIVITIES | | | |
| Cash was provided from | | | |
| Interest on Loans to Members | | 3,317,909 | 2,789,410 |
| Interest on Investments | | 341,908 | 302,798 |
| Sundry Income | | 1,139,718 | 995,062 |
| | | <u>4,799,535</u> | <u>4,087,270</u> |
| Cash was applied to | | | |
| Administration and Staffing Expenses | | 2,346,467 | 2,404,480 |
| Members Benefits - Dividends | | 1,172,321 | 1,054,093 |
| | | <u>3,518,788</u> | <u>3,458,573</u> |
| Net Operating Cash Flows | 15 | <u>\$1,280,747</u> | <u>\$628,697</u> |
| CASHFLOWS FROM INVESTING ACTIVITIES | | | |
| Cash was provided from | | | |
| Loan Repayments by Members | | 27,516,891 | 22,560,395 |
| Sale of Investments and Deposits | | 900,000 | 1,450,000 |
| Proceeds from Sale of Property, Plant & Equipment | | Nil | 14,000 |
| | | <u>28,416,891</u> | <u>24,024,395</u> |
| Cash was applied to | | | |
| New Loan Advances to Members | | 34,272,600 | 24,695,592 |
| Purchase of Investments and Deposits | | 104,579 | Nil |
| Purchase of Property, Plant & Equipment | | 91,327 | 300,573 |
| | | <u>34,468,506</u> | <u>24,996,165</u> |
| Net Investing Cash Flows | | <u>(\$6,051,615)</u> | <u>(\$971,770)</u> |
| CASHFLOWS FROM FINANCING ACTIVITIES | | | |
| Cash was provided from | | | |
| New Call Shares Deposited | | 180,977,225 | 164,912,116 |
| New Term Shares Deposited | | 18,883,392 | 13,092,024 |
| | | <u>199,860,617</u> | <u>178,004,140</u> |
| Cash was applied to | | | |
| Withdrawal of Call Shares | | 179,610,953 | 164,229,804 |
| Withdrawal of Term Shares | | 15,350,733 | 13,387,379 |
| | | <u>194,961,686</u> | <u>177,617,183</u> |
| Net Financing Cash Flows | | <u>4,898,931</u> | <u>386,957</u> |
| Net Increase(Decrease) in Cash | | <u>128,063</u> | <u>43,884</u> |
| Add Cash at Beginning of Period | | <u>674,524</u> | <u>630,640</u> |
| Ending Cash Carried Forward | | <u>\$802,587</u> | <u>\$674,524</u> |

Credit Union South
Statement of Accounting Policies

BASIS OF REPORTING

Credit Union South is a Credit Union registered under the Friendly Societies and Credit Unions Act 1982. The financial statements have been prepared in accordance with the requirements of the Friendly Societies and Credit Unions Act 1982, the Financial Reporting Act 1993, and the Securities Regulations 1983.

MEASUREMENT BASE

The Accounting Principles recognised as appropriate for the measurement and reporting of Financial Performance and Financial Position on a historical cost basis are followed. All amounts are inclusive of Goods and Services Tax (GST) as the Credit Union is treated as an end user for GST purposes.

PARTICULAR ACCOUNTING POLICIES

The particular accounting policies which materially affect the measurement of Financial Performance, Cash Flows, and Financial Position have been applied as follows:

1 Interest on Loans to Members

Income from interest on loans to members is recorded in the period earned. Each repayment is allocated first to interest up to the date of repayment and the balance to reduction of principal. Outstanding interest has been accrued to balance date on all loans except those which are over 90 days in arrears, where interest is accounted for as received.

2 Loans to Members

Loans to members are stated at the gross amount receivable less the provision for doubtful loans. Loans considered not recoverable are written off as bad debts in the Statement of Financial Performance. Any principal repayments received from previously written off loans is shown separately as income in the period in which it is received.

3 Retained Earnings

Retained earnings together with the General Reserve, forms the basis for the Credit Union's capital adequacy measurement to meet recognised prudential standards for financial institutions, after the statutory amount is transferred to the General Reserve.

4 Property, Plant & Equipment

Property, Plant & Equipment are recorded at cost less accumulated depreciation.

5 Depreciation

Depreciation is charged using the straight line method over the estimated useful lives.

Rates of depreciation used are

| | |
|-------------------------|-------------------|
| Building | 10 % on cost |
| Furniture & Equipment | 25 - 33 % on cost |
| Data Processing Equipme | 25 - 33 % on cost |
| Motor Vehicles | 25 % on cost |

6 Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct approach method. Cash and cash equivalents reflect the balance of cash used in the day to day management of the Credit Union.

7 Non-accrual, Restructured, Real Estate, Enforced Security, and Past Due Assets

These are loans to members which are recognised in accordance with paragraphs 4.27, 4.38 and 5.2 of FRS 33. The gross amounts of these assets and corresponding provision for doubtful loans which has been brought to account in the financial statements are set out in note 7 below (Pages 27-28). Interest income from these assets is not accrued.

CHANGES IN ACCOUNTING POLICIES

There have been no material changes in accounting policies during the period.