



PricewaterhouseCoopers
Forsyth Barr House
The Octagon
PO Box 5848
Dunedin, New Zealand
www.pwc.com/nz
Telephone +64 3 470 3600
Facsimile +64 3 470 3601
Direct Phone +64 3 470 3604

Auditors' Report
To the members of Southland Credit Union

We have audited the financial statements on pages 10 to 21. The financial statements provide information about the past financial performance and cash flows of the Credit Union for the year ended 31 March 2006 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 13.

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 2006 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.

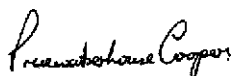
Unqualified Opinion

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 10 to 21:
 - 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 2006 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 15 June 2006 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Dunedin

Southland



Annual Report
31st March 2006

People Helping People

Southland Credit Union 2006 Annual Report

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	10
Statement of Movements in Equity	10
Statement of Financial Position	11
Statement of Cash Flows	12
Statement of Accounting Policies	13
Notes to the Financial Statements	14-21
Nominating Committee Report	22
Audit Committee Report	22
Auditors' Report	23

Southland Credit Union

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: John Bowman & Ian Macara

Present Board Members: John Bowman, Ian Macara, Terry O'Neill, Peter McKnight, Bill Jefferies, Wade Devine, Allen Waghorn.

Directors due to retire: Terry O'Neill, Bill Jefferies, Allen Waghorn, Peter McKnight.

Nominations Received: Peter McKnight, Terry O'Neill, Allen Waghorn, Hazel Sycamore.

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 is one trustee to be elected from the Directors on the night of the Annual General Meeting. The Nominating Committee's recommendation is Peter McKnight be elected trustee for a further two year term. Ian Macara and Terry O'Neill have 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 Wade Devine (Chair), Peter McKnight, and Bill Jefferies. During the year the Audit Committee engaged the services of Kay Jones to conduct internal audit services on a contract basis. Kay completed 4 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 Audit Chair also attended 2 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.

A special thank you to Bill Jefferies who retires this year, for his work and dedication to the audit committee and the board over recent years.



Wade Devine
Chair- Audit Committee.

Southland Credit Union

Notes to the Financial Statements (cont.)

19. COMMITMENTS

	As at 31-Mar-06	As at 31-Mar-05
Capital Commitments at period end	Nil	Nil
Commitments to lend at period end	624,360	206,985
Loans approved but not disbursed	104,004	83,209
Undrawn Line of Credit Facilities	\$728,364	\$290,194
Lease Commitments at period end		
Within 1 year	93,075	78,075
1-2 years	70,303	78,075
2-3 years	7,500	55,303
3-4 years	0	0
5 years and over	0	0
	<u>\$170,878</u>	<u>\$211,453</u>

20. CONTINGENT LIABILITIES

There were no known contingent liabilities as at 31 March 2006. (31 March 2005 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

Southland Credit Union 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 New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) for financial years commencing on or after 1 January 2007. The ASRB also allowed the option of adopting NZ IFRS one or two years earlier.

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 31 March 2008 with comparative information being restated to conform to the requirements of the new standards.

To date, key differences between existing accounting policies and those that are expected to arise from adopting NZ IFRS have not been determined and consequently, the impact of these changes on the financial statements cannot be quantified. Therefore the actual impact of adopting NZ IFRS may result in a variation from the information presented in these accounts and that variation may be material.

Southland Credit Union

Registered Office
Credit Union Building
52 Don Street
INVERCARGILL

Office Hours

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

Monday to Friday
8.30am to 5.00pm

Branch Offices

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

Access/teiler – 24 Hour Telephone Banking
Account balances, transfer funds, pay bills.
Call Fleur on (03) 211-3950 24hrs, 7 days a week.

Access/Online – 24 hr Internet Banking Service
On-line banking – www.scu.co.nz
Free service to all Southland Credit Union members.

Southland Credit Union Business Profile

Board of Directors

John Bowman (Chairman)
Wade Devine
Bill Jefferies
Ian Macara
Peter McKnight
Terry O'Neill
Allen Waghorn
Hazel Sycamore (Associate Director)

General Manager

Andrew Leys

Senior Managers

Heleen Malcolm – Credit Manager
Jamie Campbell – Business Development Manager

Member Service Officers

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

Bankers

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

Solicitors

Hewitt 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

Southland Credit Union 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

	As at	Average Rate Per Annum	As at
Cash at Bank	31-Mar-06		31-Mar-05
NZACU	1,500%		1,500%
Call Deposits	7,250%		6,750%
Term Deposits	7,469%		6,800%
Loans to Members	12,982%		12,538%
NZACU	15,000%		15,000%
Call Shares	2,199%		2,172%
Term Shares	7,022%		6,941%

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.

Southland Credit Union

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	674,524	674,524	Nil	Nil	Nil	Nil
NZACU Deposits	2,300,000	2,300,000	Nil	Nil	Nil	Nil
Capital Notes	355,615	Nil	Nil	Nil	Nil	355,615
Accounts Receivable	Nil	Nil	Nil	Nil	Nil	Nil
Accrued Interest	55,043	55,043	Nil	Nil	Nil	Nil
Loans to Members	22,722,019	3,418,959	2,928,390	4,813,908	6,266,747	5,295,015
Total Receivable	\$26,107,201	\$6,448,526	\$2,928,390	\$4,813,908	\$6,266,747	\$5,650,630
MEMBERS SHARES AND LIABILITIES PAYABLE (000's)						
Call Shares	11,247,440	11,247,440	Nil	Nil	Nil	Nil
Term Shares	11,280,175	7,835,064	3,431,490	13,621	Nil	Nil
Accounts Payable	487,315	487,315	Nil	Nil	Nil	Nil
Dividends Accrued	201,831	201,831	Nil	Nil	Nil	Nil
Total Payable	\$23,226,761	\$19,781,650	\$3,431,490	603,073	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 unfruitful funds are available, the Credit Union will make no further loans until all applications for share withdrawals are honoured.

	As at 31-Mar-06	As at 31-Mar-05
The monthly repayments on loans for the period represent an average loan term of (months)	11.72	10.80
The proportion of monetary assets as are amounts receivable (loans) with repayments in arrears in excess of three months is	1.21%	0.89%
The proportion of monetary assets as are amounts receivable (loans) owed in aggregate by the debtors who owe the six largest amounts is	3.44%	3.69%
Undrawn Credit Facilities		
The Credit Union has an overdraft facility of:	\$1,000,000	\$1,000,000
with the NZ Assoc. of Credit Unions. The term of the facility is committed for five years.	Nil	Nil
Amount drawn down is:		

Southland Credit Union

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, Mataura and Makarewa Freezing Works, Bluff Waterfront and Community Credit Unions.

Membership of the Southland Credit Union is now open to all Southlanders.

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 Southland Credit Unions' 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.

Southland Credit Union

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Members of the Southland Credit Union will be held at the Southland Club, corner of Deveron & Leet Streets, Invercargill, on Thursday the 15th of June 2006, commencing 7.00 pm.

Agenda

1. Welcome to Members and Guests
2. Apologies
3. Confirmation of the minutes of the 2005 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

Southland Credit Union

Notes to the Financial Statements (cont.)

	As at 31-Mar-06	As at 31-Mar-05
13. ACCOUNTS PAYABLE		
Accesscard Settlement	132,440	231,016
Resident Withholding Tax	60,991	52,436
Employee Entitlements	108,060	123,583
Sundry Creditors	195,827	176,870
	<u>\$497,318</u>	<u>\$583,905</u>
14. DIVIDENDS ACCRUED		
Call Shares	Nil	Nil
Christmas Club	2,455	2,203
Term Shares	199,376	236,256
	<u>\$201,831</u>	<u>\$238,459</u>

	397,318	636,962
15. CASH FLOWS RECONCILIATION		
Net Surplus for Period	397,318	636,962
Non Cash Items		
Depreciation	203,884	100,494
Bad Loans Written Off	87,983	81,756
Loss/(Gain) on sale of Fixed Assets	(14,000)	Nil
Increase/(Decrease) in Provision for Doubtful Loans	63,229	23,799
(Increase)/Decrease in Operating Accounts Receivable	200	(200)
(Increase)/Decrease in Prepaid Expenses	Nil	Nil
Increase/(Decrease) in Operating Accounts Payable	(86,587)	110,990
(Increase)/Decrease in Accrued Income on Loans to Members	(563)	(1,033)
Investments	13,851	12,834
Increase/(Decrease) in Dividends Accrued	(36,628)	112,830
Net Operating Cash Flows	<u>\$628,697</u>	<u>\$1,078,392</u>
16. DIRECTOR'S INTERESTS		
Shares - owing to Directors	As at 31-Mar-06 \$42,273	As at 31-Mar-05 \$40,512
Loans - owing to Directors - current due within 1 year	\$5,856	\$5,936
- non-current due between 12-60 months	\$14,288	\$13,532

All directors held shares under normal conditions and are current (terms less than 12 months). Loans were advanced to directors with an interest rate of 11.25% and are repayable under normal commercial arrangements, subject to being "repayable on demand" should this be necessary.

The Directors have arranged an insurance policy to protect
 a) The Credit Union from financial loss in the event of a claim against a Director, Trustee or Employee for an unlawful act and
 b) Directors, Trustees and Employees against personal loss in the event of a claim for an alleged wrongful act.

Southland Credit Union

Notes to the Financial Statements (cont.)

9. 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. Deprn.	Book Value As at	Book Value As at
Freehold Land	270,000	Nil	31-Mar-06	31-Mar-05
Building	560,000	111,000	449,000	270,000
Total Land & Buildings	830,000	111,000	719,000	505,000
Furniture & Fixings	505,796	322,378	183,378	775,000
Data Processing Equip	525,262	352,895	172,367	17,372
Motor Vehicles	0	0	0	185,683
	\$1,861,018	\$786,273	\$1,074,745	0
31 Mar 2005	\$1,600,444	\$622,389	\$978,055	\$978,055

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

Land Value	\$83,000
Capital Value	\$155,000
Land Value	\$295,000
Capital Value	\$750,000

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

Depreciation Charge for the period ended:	31-Mar-06
Building	56,000
Furniture & Fixings	47,884
Data Processing Equip	100,000
Motor Vehicles	0
	203,884

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 60-70% of Equity

	As at	As at
11. CALL SHARES	31-Mar-06	31-Mar-05
Access (S1)	2,232,763	2,084,665
Money Management (S2)	1,141,132	1,213,485
Money Management (S3, S4, S5, S11)	1,245,479	1,198,570
Loyalty (S6) *	6,202,833	5,672,731
Christmas (S7) *	405,081	370,461
Christmas Hamper (S10)	20,172	25,216
	\$11,247,440	\$10,565,128

* "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 Southland Credit Union.

12. TERM SHARES

Maturing within twelve months	11,266,554	10,972,459
Maturing within twelve to twenty-four months	13,621	603,073
	\$11,280,175	\$11,575,532

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

Southland Credit Union

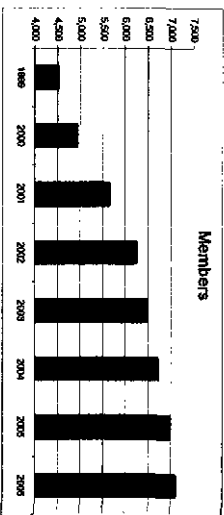
Directors' Report

Delivered by Southland Credit Union Chairman – John Bowman

It is with great pleasure that I, on behalf of the Directors of the Southland Credit Union present the 2006 Directors' Report.

I am glad to report to you on another excellent year for the Credit Union as we continue to go from strength to strength.

Our membership continues to grow although we would like to see many more Southlanders benefiting from banking with the Credit Union. As you will be aware, your Credit Union not only provides an excellent range of personal banking services, but also helps members manage their finances better and encourages savings, to ensure members are better off when they bank with us.



Encouraging savings is a key point of difference for your Credit Union and also extends to lower loan interest rates, and lower fees. Southland Credit Union has been recognised in both endeavours over the past year to be national leaders, by winning the "People Helping People" award for Credit Unions and also receiving a "5 star" rating on our "Access Account" from Canmex. These are the culmination of many years hard work and determination by your board and staff of the Credit Union. None of this is achievable without the ongoing support from you the member.

Southland Credit Union has grown significantly over recent years and one of the obligations of the board is to ensure we continue to maintain and build our skills, so that we can continue to help the Credit Union succeed. You will be pleased to know your board has committed to continuous ongoing training as part of the responsibilities of being a director of Southland Credit Union. Each director is expected to have an annual training program which helps ensure the leadership of your credit union is maintained at the highest standards.

To this end, I myself have been working through a year long diploma course with the Australian Credit Union Institute, in Credit Union Governance. I am the first New Zealand Credit Union director to have done so and expect to graduate later this year.

We have also been working on reviewing our governance processes against current best practices. We have completed a formal Board Evaluation process with the New Zealand Institute of Directors, evaluating both the Whole board, the Chair, and each individual director. Through this process we intend to keep our leadership current with the growing needs of your Credit Union.

Another important change this year has been the appointment of a contracted qualified "internal auditor", to assist the Audit Committee. Kay Jones was appointed just prior to last years AGM and has been working through an internal audit program developed by BDO Spicer's specifically for Credit Unions. Maintaining best practice internal procedures and systems is important to the future success of your credit union and we are pleased to have Kay Jones on board to assist in this ongoing process.


I would also like to thank Bill Jefferies who retires as a Director of your Credit Union at this Annual General Meeting. Bill has been a Director of Southland Credit Union for 10 years, and was previously involved with the Mataura Paper Mills Credit Union. Bill brought a wealth of experience and knowledge and also contributed greatly to the Audit committee during his time on the board. Bill was a staunch advocate for the credit union, particularly in the Gore area. One of the many projects he advocated for over the years has been the Mataura ATM, which should be operating if not by the time of the AGM, then shortly afterwards.

Thank you Bill.

I would also like to highlight a significant community sponsorship initiative undertaken this year by your Credit Union. We recommended that an annual awards night be established to celebrate the achievements of all Southlanders who had achieved a trades qualification in the previous year. The initiative was picked up by the Chamber of Commerce Southland, than we were the naming sponsors for what turned out to be a fabulous event celebrating the achievements of nearly 50 young Southlanders. We are pleased to remain the main sponsors for this event in 2006.

Bereavements

On behalf of all members we offer our sincere sympathy to those who have suffered the loss of a loved one during the year.


John Bowman
Chairman.

Southland Credit Union

Notes to the Financial Statements (cont.)

7. LOANS TO MEMBERS (Cont.)

	As at 31-Mar-06	As at 31-Mar-05
Non-Accrual Assets		
Balance at beginning of period	97,138	56,609
Additions	38,913	122,285
Amounts Written Off	(87,983)	(81,756)
Deletions	Nil	Nil
Balance at end of period	<u>\$48,068</u>	<u>\$97,138</u>
Past Due Assets		
Balance at beginning of period	80,037	91,872
Additions	149,930	(11,835)
Amounts Written Off	Nil	Nil
Deletions	Nil	Nil
Balance at end of period	<u>\$229,967</u>	<u>\$80,037</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:

Period in arrears	Percentage applied to balance owing
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-06	For Year ended 31-Mar-05
General Provision		
Balance at Beginning of Period	167,571	184,311
Net change (credit) to Statement of Financial Performance	28,682	(16,740)
Balance at End of Period	<u>196,253</u>	<u>167,571</u>
Specific Provision		
Balance at Beginning of Period	97,138	56,609
Net change (credit) to Statement of Financial Performance	34,547	40,529
Balance at End of Period	<u>131,685</u>	<u>97,138</u>
Total Provision for Doubtful Loans	<u>\$327,938</u>	<u>\$264,709</u>

Southland Credit Union

Notes to the Financial Statements (cont.)

4. RESERVES (cont.)

	As at 31-Mar-06	As at 31-Mar-05
Retained Earnings		
Retained earnings have been set aside to provide the Credit Union with a realised capital base.	2,286,157	1,829,475
Balance brought forward	193,619	456,692
Add increase this period	\$2,479,776	\$2,286,157
Proportion of Total Assets	9.12%	8.62%

	As at 31-Mar-06	As at 31-Mar-05
Total Reserves	\$3,957,182	\$3,557,884
Proportion of Total Assets (Capital Adequacy Ratio)	14.55%	13.42%

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.

6. NZACU DEPOSITS

	As at 31-Mar-06	As at 31-Mar-05
New Zealand Association of Credit Unions Central Fund Deposits held are	1,150,000	2,700,000
Call Deposits	1,150,000	1,050,000
Term Deposits Maturing within 12 months	\$2,300,000	\$3,750,000

7. LOANS TO MEMBERS

	As at 31-Mar-06	As at 31-Mar-05
Personal Loans	15,798,669	13,447,089
Mortgages	7,251,288	7,556,637
Gross Loans Receivable	23,049,957	21,002,746
Provision for Doubtful Loans	\$27,938	284,709
Loans Receivable	\$22,722,019	\$20,738,037

At 31 March 2006 there was no loan to a member exceeding 10% of Equity. (31 March 2005 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-06			As at 31-Mar-05		
	Gross Loans	Provision For Loss	Net Loans	Gross Loans	Provision For Loss	Net Loans
Non-accrual Assets	48,098	48,098	Nil	97,138	97,138	Nil
Restructured Assets	Nil	Nil	Nil	Nil	Nil	Nil
Real Estate on	Nil	Nil	Nil	Nil	Nil	Nil
Enforced Security	Nil	Nil	Nil	Nil	Nil	Nil
Other Assets on	Nil	Nil	Nil	Nil	Nil	Nil
Enforced Security	229,867	135,313	94,654	80,037	45,716	34,321
Past Due Assets	Nil	Nil	Nil	Nil	Nil	Nil
Other Loan Assets	22,771,922	144,557	22,627,365	20,825,571	121,855	20,703,716
with interest accrued	\$23,049,957	\$327,838	\$22,722,019	\$21,002,746	\$264,709	\$20,738,037
Total Loans						

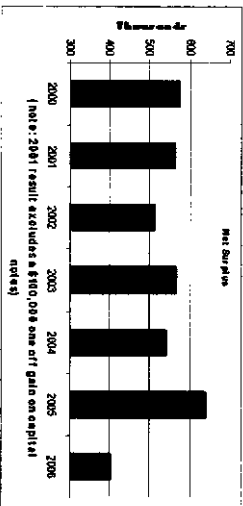
Southland Credit Union

General Managers' Report

Presented by the General Manager, Southland Credit Union – 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 \$397,318, around 55% up on budget, although down on last year (see net surplus graph below). This is because of several initiatives undertaken in recent years and during the past year to return more benefits back to members, while maintaining a sound profitable organisation. Initiatives which have affected profitability in the past 12 months include:

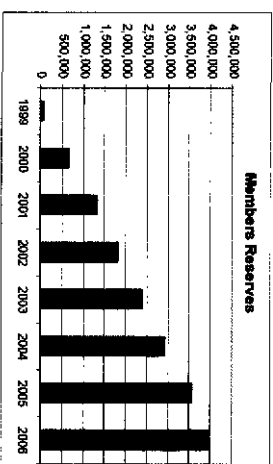
- Lowering of personal loan interest rates over a number of years.
- Installing our own ATM's and providing free access to those ATM's for members, estimated to save members \$135,000 per year in transaction fees.
- Opening a new branch in Invercargill at the South City Mall in August 2005
- Refurbishment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



As you can see, 2005 has been a busy year for us at your Credit Union and we hope members appreciate the new services, particularly the new office in South City and the free access to your funds through our ATM's.

The opening of the South City office has proved popular with members. The ATM installed in that office is the busiest of any Credit Union ATM in the country.

Member reserves continue to grow (see graph to the right). Member reserves were just under \$4 million at the end of the financial year, and are 14.55% of total assets, the highest level recorded to date. This helps ensure members funds are safeguarded from any potential future losses (if any).

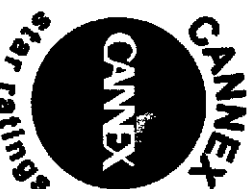


A significant achievement this year, for which I must thank the members, is the move away from providing cash withdrawal services in the offices. Members

have been very supportive of this move, changing their habits to withdrawing funds free of charge from our own ATMs. Over half of all ATM withdrawals are now undertaken at one of our own ATMs. This has significantly reduced the security concerns at the offices, helping safeguard members and staff, and creating opportunities for us to expand and improve services. The South City office would not have been able to have been opened without this change.

Another highlight this year was at the National convention for Credit Unions, held in Invercargill during September 2005. At this event your Credit Union was once again the recipient of the "People Helping People" award, the highest accolade for a New Zealand Credit Union. We won the award based on our efforts to help members save thousands of dollars on finance deals from finance companies, car dealers and even the banks.

Early in 2006, we continue to add to the services available to members. We are very keen to help members into their first home and are pleased to have been accepted into the Housing New Zealand "WelcomeHome" Loan scheme. This scheme allows members who meet certain criteria, to purchase their first home with no deposit required. We believe this will prove to be an enormously beneficial opportunity for many members and their families.



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 by a review of banking services in New Zealand, conducted by Cannex during March 2006. This resulted in our cheque account, the "Access Account" receiving the highest rating (5 star) in both the low transaction and high transactional banking account. Once again 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.

Southland Credit Union

Notes to the Financial Statements

	For Year ended 31-Mar-06	For Year ended 31-Mar-05
1. OTHER INCOME		
Cost Recoveries (Fees)	542,473	532,823
Loan Application Fees	228,592	223,788
	\$771,065	\$756,611
2. ADMINISTRATION EXPENSES		
Accesscard Charges	349,418	349,305
Accesscash ATM Charges	42,172	11,742
Association Dues	54,515	50,343
Audit Fees	18,487	15,202
Other Services Provided by Auditor	Nil	Nil
Bank and Cash Handling Fees	111,642	103,750
Data Processing	184,349	180,041
Data Communications Costs	23,813	20,512
Directors Meeting Fees	4,200	5,250
Directors Expenses	23,285	17,458
Fidelity Insurance	10,219	10,037
Lease Costs	100,496	86,441
Marketing	139,125	142,192
Motor Vehicle	3,175	2,568
Postage	19,208	13,034
Office Expenses	4,102	2,995
Property Expenses	72,389	33,330
Stationery and Printing	82,915	57,285
Telephone and Access Teller	42,915	38,967
Other Administration Costs	145,559	138,476
	\$1,411,984	\$1,258,928
3. STAFFING COSTS		
Salaries	831,476	704,531
Staff Training and Seminars	34,839	8,654
Fringe Benefit Tax	25,080	Nil
Other	14,684	13,436
	\$906,099	\$726,621
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	As at
	31-Mar-06	31-Mar-05
Balance Brought Forward	1,271,707	1,091,427
Add Increase this Period	203,699	180,280
	\$1,475,406	\$1,271,707
Proportion of Total Assets	5.43%	4.80%

Southland Credit Union

Statement of Accounting Policies

BASIS OF REPORTING

Southland Credit Union is a Credit Union registered under the Friendly Societies and Credit Unions Act 1992. The financial statements have been prepared in accordance with the requirements of the Friendly Societies and Credit Unions Act 1992, 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.

Southland Credit Union

Statement of Financial Performance

	For Year ended 31-Mar-06	For Year ended 31-Mar-05
INCOME		
Interest from Loans to Members - Non Accrual Assets	0	0
Loans to Members - Other Loans	2,789,963	2,465,833
Interest from Investments	2,789,963	2,465,833
Commissions	288,947	237,629
Bad Loans Recovered	88,908	62,864
Rent Received	30,089	28,112
Other Income	105,000	52,500
Total Operating Revenue	4,073,972	3,604,549
Gain on Sale of Fixed Assets	14,000	1,052
Total Income	4,087,972	3,605,601
EXPENSES		
Administration	1,411,994	1,258,928
Staffing Costs	906,099	728,621
Bad Loans Written Off	87,983	81,756
Provision for Doubtful Loans	63,229	23,789
Depreciation	203,884	100,464
Dividends	245,476	191,601
Call Shares	771,989	585,480
Term Shares		
Total Operating Expenses	3,890,654	2,968,639
NET SURPLUS FOR PERIOD	\$397,318	\$636,962
TRANSFERS TO RESERVES		
General Reserve	203,699	180,280
Retained Earnings	193,619	456,682
	\$397,318	\$636,962
TOTAL EQUITY AT BEGINNING OF PERIOD	3,557,864	2,920,902
NET SURPLUS FOR PERIOD	397,318	636,962
Total recognised revenue and expenses for the period	397,318	636,962
TOTAL EQUITY AT END OF PERIOD	\$3,955,182	\$3,557,864

Statement of Movements in Equity


	For Year ended 31-Mar-06	For Year ended 31-Mar-05
TOTAL EQUITY AT BEGINNING OF PERIOD	3,557,864	2,920,902
NET SURPLUS FOR PERIOD	397,318	636,962
Total recognised revenue and expenses for the period	397,318	636,962
TOTAL EQUITY AT END OF PERIOD	\$3,955,182	\$3,557,864

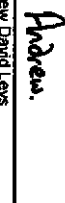
Southland Credit Union Statement of Financial Position

	Notes	As at 31-Mar-05	As at 31-Mar-05
RESERVES			
General Reserve		1,475,406	1,271,707
Retained Earnings		2,479,776	2,286,157
Total Reserves	4	<u>\$3,955,182</u>	<u>\$3,557,864</u>
Represented by			
ASSETS			
Cash & Bank	5	674,524	630,640
NZACU Deposits	6	2,300,000	3,750,000
Accounts Receivable		0	200
Accrued Interest - Loans to Members		33,138	32,585
Accrued Interest - Investments		21,905	35,756
Loans to Members	7	22,722,019	20,738,037
Total Current Assets		<u>25,751,586</u>	<u>25,167,218</u>
NZACU Capital Notes	8	355,615	355,615
Total Investments		<u>355,615</u>	<u>355,615</u>
Property, Plant & Equipment	9	1,074,745	978,055
Total Non-Current Assets		<u>1,074,745</u>	<u>978,055</u>
Total Assets	10	<u>27,181,946</u>	<u>26,520,888</u>
Less			
CURRENT LIABILITIES			
MEMBERS' SHARES			
Call Shares	11	11,247,440	10,566,128
Term Shares	12	11,280,175	11,575,532
Total Members' Shares		<u>22,527,615</u>	<u>22,140,660</u>
Accounts Payable	13	497,318	583,905
Dividends Accrued	14	201,831	238,459
Total Accounts Payable		<u>699,149</u>	<u>822,364</u>
Total Current Liabilities		<u>23,226,764</u>	<u>22,963,024</u>
NET ASSETS		<u>\$3,955,182</u>	<u>\$3,557,864</u>

These accounts have been authorised for issue on the 9th June 2006


John Alexander Bowman
Chairman


Wade Devine
Treasurer


Andrew
Andrew David Leys
General Manager

Southland Credit Union Statement of Cash Flows

	Notes	For Year ended 31-Mar-06	For Year ended 31-Mar-05
CASHFLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
Interest on Loans to Members		2,789,410	2,464,800
Interest on Investments		302,798	250,463
Sundry Income		895,082	902,139
		<u>4,087,270</u>	<u>3,617,402</u>
Cash was applied to			
Administration and Staffing Expenses		2,404,480	1,875,759
Members Benefits - Dividends		1,054,093	663,251
		<u>3,458,573</u>	<u>2,539,010</u>
Net Operating Cash Flows	15	<u>\$628,697</u>	<u>\$1,078,392</u>
CASHFLOWS FROM INVESTING ACTIVITIES			
Cash was provided from			
Loan Repayments by Members		22,560,395	21,815,381
Sale of Investments and Deposits		1,450,000	Nil
Proceeds from Sale of Property, Plant & Equipment		14,000	1,450
		<u>24,024,395</u>	<u>21,816,831</u>
Cash was applied to			
New Loan Advances to Members		24,696,592	24,635,663
Purchase of Investments and Deposits		Nil	2,249,982
Purchase of Property, Plant & Equipment		300,573	969,521
		<u>24,996,165</u>	<u>27,855,166</u>
Net Investing Cash Flows		<u>(\$971,770)</u>	<u>(\$6,038,355)</u>
CASHFLOWS FROM FINANCING ACTIVITIES			
Cash was provided from			
New Call Shares Deposited		164,912,116	149,448,766
New Term Shares Deposited		13,092,024	13,778,302
		<u>178,004,140</u>	<u>163,227,068</u>
Cash was applied to			
Withdrawal of Call Shares		164,229,804	148,849,540
Withdrawal of Term Shares		13,387,379	9,673,953
		<u>177,617,183</u>	<u>158,523,493</u>
Net Financing Cash Flows		<u>386,957</u>	<u>4,703,575</u>
Net Increase(Decrease) in Cash		<u>\$43,884</u>	<u>(\$256,388)</u>
Add Cash at Beginning of Period		630,640	887,028
Ending Cash Carried Forward		<u>\$674,524</u>	<u>\$630,640</u>