

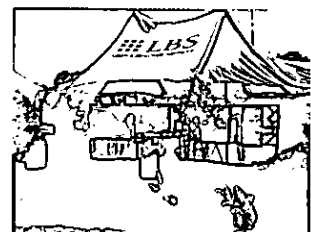
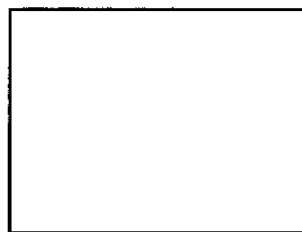
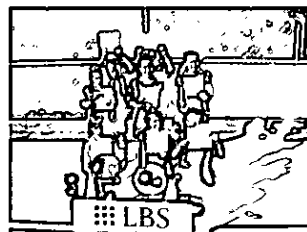
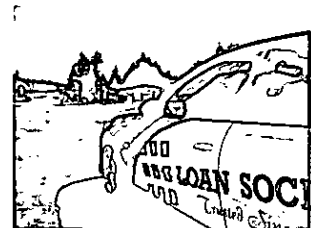
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## Directors and General Manager



**George Brown**, CA, ACIS, ACIM (Chairman)

Long serving director, George Brown has 37 years experience as a practising accountant, is a consultant of Brophy Knight Limited in Ashburton and a director of several other local companies.



**Laurence Cooney**, LLB, Notary Public (Deputy Chairman)

A past director of Trust Bank New Zealand Limited, Laurence Cooney has served on many community organisations as well as directing a number of private companies. He is a practising barrister and solicitor with more than 40 years legal experience in many commercial fields.



**Colin Fleming**

In 1994 Colin Fleming became the first farmer to be elected to the Board and served as Chairman for three years from 2000. He is prominent in a number of community and service organizations, and is Chairman of Ashburton Grain Consolidators Limited.



**Gary Leech**, B.Com (Accounting and Economics), FCA

Gary Leech has 31 years experience as a chartered accountant practising at Leech and Partners Ltd, Ashburton and Christchurch. He is a professional director in a diverse range of business sectors and is active with the New Zealand Institute of Chartered Accountants, at Branch and National Board levels. Currently he is a sitting member of the National Disciplinary Tribunal.



**Roger Bonifant**, MAgSc, MSc, CNZM

Roger Bonifant retired as Managing Director of BNZ Finance Limited in 1995 after a career in the finance/banking sector. He is now a full time company director. He was appointed Companion of the New Zealand Order of Merit in the 2005 Queen's Birthday Honours List for his services to business and the public sector.



**John Moore**, AFNZIM (General Manager)

Since becoming General Manager in 1992, John Moore has overseen the Society's growth from \$16 million of tangible assets to \$180 million this year. He is a former executive member of the Financial Services Federation.

# Notice Of Annual General Meeting



Notice is hereby given that the 98<sup>th</sup> Annual General Meeting of Shareholders of the Loan and Building Society ("the Society") will be held at Heron Lounge, Hotel Ashburton on Thursday 26 July 2006 commencing at 5.30 pm.

## Business

- 1. Annual Report and Directors' Report**

To receive and adopt the Annual Report and the Directors' Report for the year ended 31 March 2007.
- 2. Re-election of directors**

Colin Fleming and Roger Bonifant retire by rotation in accordance with the Society's rules and, being eligible, each stand for re-election.

To consider, and if thought fit, pass the following ordinary resolutions:

Resolution 1. To re-elect Colin Fleming as a director of the Society

Resolution 2. To re-elect Roger Bonifant as a director of the Society
- 3. Directors fees**

Resolution 3. To fix the remuneration of directors at \$127,000 for the financial year commencing 1 April 2007, which is an increase of \$14,000 and is payable to all directors of the Society taken together.
- 4. General Business**

To deal with any other business that may properly be brought before the meeting.

**John Moore** (General Manager)

## Notes

### 1. Proxies

Any member entitled to attend and vote at the above mentioned meeting may vote either by being present in person or by proxy. A proxy must be appointed by a written notice signed by the member, which must state whether the appointment is for a particular meeting, or for a specified term not exceeding 12 months. A proxy need not be a member of the Society but is entitled to attend and be heard as if the proxy were a member. A proxy form is enclosed. To be effective, the proxy must be deposited at the offices of the Society at 69 - 77 Tancred Street Ashburton no later than 5.30 pm on Tuesday 24 July 2007, being 48 hours before the start of the meeting.

### 2. Voting

It is anticipated that all resolutions will be voted on by a show of hands. In the event that a poll is called, voting papers will be distributed at the meeting. An ordinary resolution is a resolution passed by a simple majority of votes of shareholders who are entitled to vote on the resolution and who exercise the right to vote. A special resolution is a resolution passed by at least 75% of votes of shareholders who are entitled to vote on the resolution and who exercise their vote.

## EXPLANATORY NOTES

### Proposed Directors' Fees Increase

The Directors have received a recommendation from an independent consultant that the Directors' fees should be at a level of \$127,000. The Directors' fees received for the financial year ending March 2007 were \$113,000. The Board is satisfied that this level of remuneration proposed is appropriate for the Society. The proposed level of remuneration reflects the Society's need to retain directors with an appropriate range of skills and experience, and is at a level that the Board believes is appropriate for a Society of this size.

If this resolution is not passed the remuneration for directors will remain at \$113,000.

The Directors of the Society will be disqualified from participating in Resolution 3.



## Chairman's Report

The Society has experienced a year of record earnings up by 19% to \$1.2 million after tax, as well as outstanding asset growth of 22% to \$180 million. Further financial details are given in the Accounts and highlights include:

Our Rangiora Branch, which opened in April 2006, has performed up to expectations.

The successful completion of our computer development projects with internet banking services widely used by our customers.

Talks on the proposed merger with CBS and the appointment of joint working committees and independent consultants. This will be subject to a detailed report at a later date.

### Financial Results

	2007 \$million	2006 \$million	Change
Assets	\$ 180	\$ 148	Up 21.8%
Advances	\$ 139	\$ 132	Up 5.9%
Shareholders' Funds	\$ 15.6	\$ 14.9	Up 4.7%
Pre Tax Surplus	\$1.811	\$ 1.550	Up 16.8%
After Tax Surplus	\$1.229	\$ 1.032	Up 19.1%

### Per ordinary share

Net tangible assets Per Share	\$3.89	\$3.71	Up 4.9%
Dividend	15.5 cents	15 cents	Up 0.5 cents

### Dividend

The Directors have declared a fully imputed final dividend of 8 cents per share, which will be paid on 29 June to coincide with the release of the Annual Report. This will give a fully imputed return to our shareholders for the year ended 2007 of 15.5 cents per share and represents an increase over the 2006 year of 0.5 cents (last year 15 cents fully imputed). We continue to adopt a conservative dividend policy, which remains in the vicinity of 50% of tax-paid earnings.

### Deposits

The Society continues to attract investments from the public. Strong marketing initiatives undertaken during the year have resulted in continuing growth of our deposit base. We need to be extremely competitive to attract deposits and our new account types and commitment to high quality service in the past year has been extremely successful. It is also pleasing to note strong support for internet banking and eftpos cards and these have continued to attract further customers to our two branches. Our growth in deposit funds reflects customers' recognition of a secure Society profile supporting their deposits.

### Lending

The demand for lending slowed during the year. Our mortgage advances have grown from \$132 million to \$139 million for the year ended March 2007. The quality and nature of our mortgages is very high and in the present market new quality loans have been difficult to obtain at profitable margins.

### Provision for Doubtful Debts

In accordance with our note last year the Directors have made no additional provision for doubtful debts in this year's accounts. Under the new International Financial Reporting Standards we will be required to only include specifically identified doubtful debts rather than making a general provision. As a result of this in 2008 the provision for doubtful debts of \$450,000 will be transferred to equity in the Society. At this time we have no loans that would need to be specifically provided for.

# Chairman's Report



## Outlook

The outlook in the New Zealand mortgage market continues to be challenging, with a high level of competition for quality mortgages. We continue to grow our business based on quality service and the provision of products that suit our customers, with a heavy concentration on Rangiora, Ashburton and Christchurch area for our mortgage book. We expect this to continue and are investigating the launch of additional products and services to provide an even better offering for new and existing customers.

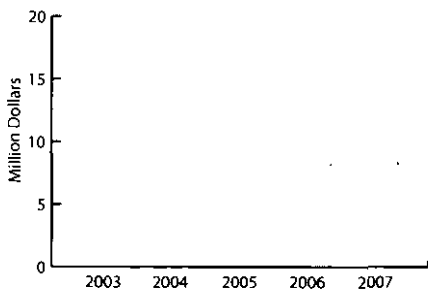
The Board is committed to providing shareholders with strong long-term growth, together with competitive annual dividend returns. We see continued growth in the Rangiora area being a substantial contributor to future profits and we are continuing to evaluate other opportunities as they arise.

In this regard we have, over the past year, looked at several new opportunities to provide enhanced growth to shareholders and the proposed merger with CBS is our priority at this time.

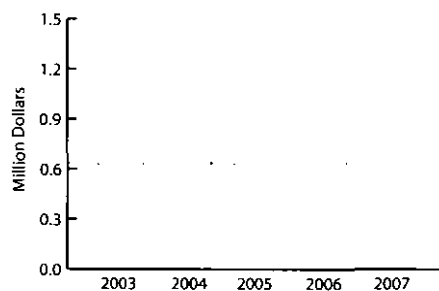
On behalf of the Directors I wish to thank staff for their continued input into what is a very challenging market and without whom we would find it difficult to continue to attract customers. I also wish to thank my fellow Directors for their valuable input and contributions. In particular we extend our gratitude to our customers for their continuing and loyal support.

**George Brown**  
Chairman of Directors

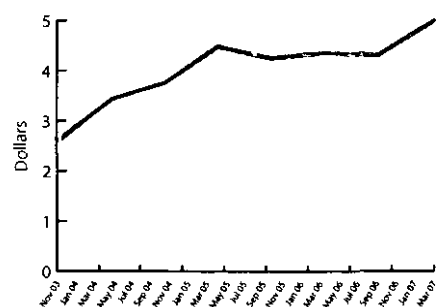
Equity



After Tax Surplus



LBS Share Price





## General Manager's Report

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The opening of the Rangiora Branch on 1 April 2006 proved to be an historic day for the Society, with four new staff members employed to head up and run the branch.

Both our Rangiora and Ashburton outlets offer the same services and products, so that customers enjoy the same friendly service no matter which branch they come into. This has enabled us to have a great year of growth resulting in a strong return for shareholders.

### Brand

During the year we started our rebranding from "Loan Society" to the new and smarter logo, trading as LBS. This transition has been readily accepted by our customers. The decision to rebrand was prompted by confusion in the marketplace between "Loan Society", "Loan and Building Society" and the New Zealand Stock Exchange listing "LBS". Following market research it was agreed that we would trade as LBS, Loan and Building Society, to address this confusion and ensure shareholders and customers become familiar with a distinctive brand. The logo was kept very similar to the old logo and updated slightly and our marketing material is being updated over time to the new logo.

### Sponsorship

We continue to support the community and sports groups through sponsorships. Some of these are Zonta, Mayfield Lions Club, Rangiora Women's Triathlon, Rangiora Golf Club, Rakaia Lions Club, Ashburton Golf Club, Southbrook Touch, and many others. The Society is happy to support these and other groups and we have received considerable support in return. In this context the Society cheerfully adopts the approach that "your support gets our support."

It is great to see children and some parents using our yellow drink bottles and sports bags. The occasional branded golf ball appears in strange places around Canterbury golf courses as well.

### Product Range

The finance industry is becoming more and more competitive, with new players entering. In this challenging environment we have striven to keep our product range up to date. We are continuing to upgrade our Internet Banking facilities, streamlining a number of our investment products and we are currently reviewing our lending product range. In the coming months we will launch a number of new lending products. We welcome feedback and ideas from customers and shareholders. If you think something can be improved, please let us know.

### Staffing

The 2007 financial year was a big year for welcoming new staff to the team. In addition to our new Rangiora Branch team we also employed another staff member in Ashburton to support our IT. Since balance date we have employed a new lending consultant to cope with the growth in business. The Society now employs 20 staff.

# General Manager's Report



## Computer

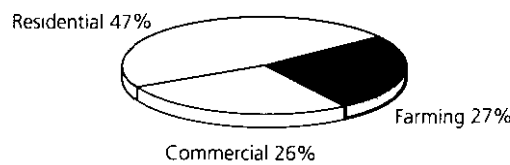
Development of our computer system is a continuing process. We now have Eftpos, ATM Cards and Internet Banking available to our client base and we are continuing to explore further opportunities, using technology to make our banking applications as simple as possible for customers.

## The Future

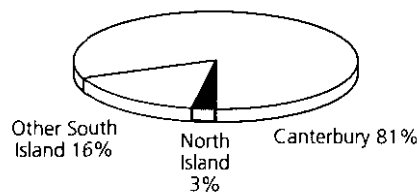
The 2008 financial year will have some big challenges ahead, with possible changes in the financial sector as foreshadowed by the Ministry of Economic Development (MED) Review of Financial Products and Providers. We all await the final outcome, as this report is expected to have a significant impact on the finance industry in New Zealand. With this in mind, the Society is continuing to make sure it holds a strong position financially and structurally, while avoiding putting undue pressure on interest rate margins and operating costs.

**John Moore**  
General Manager

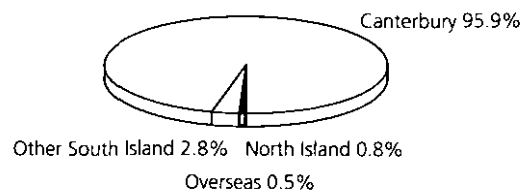
### Lending Concentration



### Mortgage Geographic Spread



### Funding Geographic Spread





## Corporate Governance Statement

The Board of Directors ("Board") of the Loan & Building Society ("Society") is responsible for the overall corporate governance of the Society and for determining the strategic direction according to the goals set by the Society's Directors and Management on a yearly basis. This includes the monitoring of financial and management performance and ensuring business risks have been identified and adequate strategies, controls and reporting are in place. The governance principles adopted by the Board are designed to meet best practice. Generally the Society's Board follows the New Zealand Stock Exchange Corporate Governance Best Practice Code, except that there is no Nominations Committee. The Board has reviewed those rules, principles and guidelines and is taking progressive steps to improve the governance systems and processes by reference to them.

### Board of Directors

The Board is currently made up of five Directors and the profiles for these are found elsewhere in the Annual Report. The Board elects a Chairman whose primary responsibility is to ensure the Board functions efficiently. The full Board meets on a monthly basis and receives detailed monthly reports on the Society's operations. The Board is kept informed of key risks on a continuing basis and if required can and does meet to discuss other matters during the month.

The Directors' primary objective is to increase shareholder value within an appropriate framework that protects the rights and enhances the interests of shareholders and ensures that the Society is properly managed. The function of the Board includes responsibility for:

- Approval of corporate strategies and annual budget;
- Monitoring of financial performance including approval of the annual and half year financial reports;
- Ensuring effective management of the Society's assets;
- Appointment of and assessment of the Society's General Manager including the monitoring of managerial performance;
- Ensuring the business risks facing the Society have been identified and that adequate control, monitoring and reporting mechanisms are in place.

### Audit Committee

The Audit Committee comprises the full Board but with a separate Chairman. All Board members are involved in establishing best practice in relation to audit. They meet independently of the General Manager twice during the year including time spent with the Auditor to discuss concerns and reports from the Auditor.

### Finance Committee

The Finance Committee of the Society approves the lending policy for the Society. This committee is responsible for setting and monitoring the loan and credit policy.

It meets weekly as required for loan approvals. As part of this role the committee also reviews any overdue loans and major advances on a regular basis. This process has identified and corrected problems with loans at an early stage to enable corrective measures to be implemented.

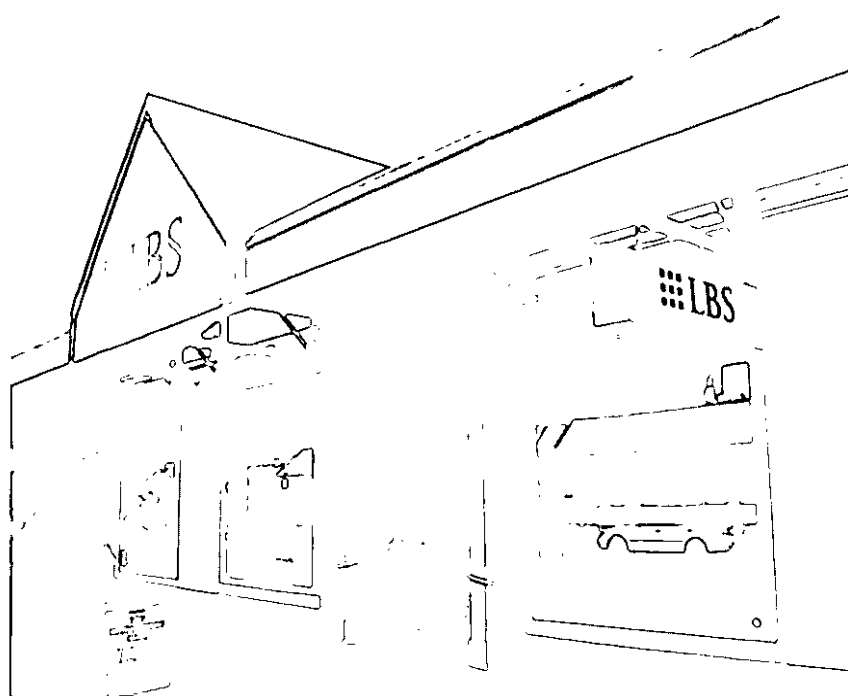
### Role of Shareholders

The Board ensures that shareholders are kept informed by communicating with them through the Interim and Annual Reports and regular newsletters are also produced by the Society for depositors. Material information during the intervening periods is communicated to the New Zealand Stock Exchange under the Continuous Disclosure Regime.

The Board welcomes shareholders' participation at the Society's Annual Meeting. This year's notice of meeting is set out in the Annual Report.



# Financial Statements





## Statement of Financial Performance for the year ended 31 March 2007

	Notes	Consolidated		Society	
		2007	2006	2007	2006
<b>Income from:</b>					
Interest on Mortgages		10,620,207	9,526,664	10,620,207	9,526,664
Interest on Personal Loans		9,918	12,616	9,918	12,616
Interest on Overdrafts and Unsecured Advances		1,814,149	1,467,598	1,818,074	1,467,641
Investments	28	2,055,911	1,131,478	2,055,911	1,131,478
Other Interest		879	1,356	718	1,390
Sundry Income		494,535	403,811	494,535	403,811
		<u>14,995,599</u>	<u>12,543,523</u>	<u>14,999,363</u>	<u>12,543,600</u>
<b>Deduct Direct Costs of Funds:</b>					
Interest on Deposits		10,674,672	8,769,537	10,674,672	8,771,269
Other Interest		25,976	14,890	25,976	14,890
Government Stock and Public Securities Amortisation		(2,510)	8,326	(2,510)	8,326
		<u>10,698,138</u>	<u>8,792,753</u>	<u>10,698,138</u>	<u>8,794,485</u>
<b>Gross Contribution from Activities</b>		<b>4,297,461</b>	<b>3,750,770</b>	<b>4,301,225</b>	<b>3,749,115</b>
<b>Deduct Overhead Expenses:</b>					
Salaries		809,631	623,761	809,631	623,761
Audit Fees		61,621	51,153	61,621	51,153
Auditor- Other Services		-	10,969	-	10,969
Amortisation of Intangibles		2,718	453	-	-
Depreciation	6	222,061	166,296	201,950	153,724
Directors' Fees		113,000	113,000	113,000	113,000
Donations		15,000	30,000	15,000	30,000
Loss on Disposal of Assets		372	2,532	372	2,532
Provision for Doubtful Debts	9	-	50,000	-	50,000
Rent and Lease Payments		36,000	42,753	91,101	76,128
Other Operating Expenses		1,225,110	1,109,015	1,211,172	1,099,476
		<u>2,485,513</u>	<u>2,199,932</u>	<u>2,503,847</u>	<u>2,210,743</u>
<b>Net Surplus Before Taxation</b>		<b>1,811,948</b>	<b>1,550,838</b>	<b>1,797,378</b>	<b>1,538,372</b>
Taxation	2	582,330	518,724	579,834	516,191
<b>Net Surplus for the Year</b>		<b><u>\$1,229,618</u></b>	<b><u>\$1,032,114</u></b>	<b><u>\$1,217,544</u></b>	<b><u>\$1,022,181</u></b>
Earnings per Share	29				

The notes on pages 15-28 form part of and are to be read in conjunction with these financial statements



## Statement of Movements In Equity for the year ended 31 March 2007

	Notes	Consolidated		Society	
		2007	2006	2007	2006
Equity at start of Year		14,910,899	10,325,891	14,731,227	10,315,389
Net Surplus for the Year	5	1,229,618	1,032,114	1,217,544	1,022,181
Increase in Revaluation Reserve	4	77,880	159,237	-	-
Total recognised revenue and expenses for the year		<u>1,307,498</u>	<u>1,191,351</u>	<u>1,217,544</u>	<u>1,022,181</u>
Contributions from Owners	3	-	3,858,658	-	3,858,658
Distributions to Owners	5	(600,004)	(465,001)	(600,004)	(465,001)
Equity at end of Year		<u>\$15,618,393</u>	<u>\$14,910,899</u>	<u>\$15,348,767</u>	<u>\$14,731,227</u>


### Authorisation for Issue

The Directors authorised the issue of these financial statements on 5 June 2007.


### Approval by Directors

The Directors are pleased to present the financial statements of Loan and Building Society for the year ended 31 March 2007 on pages 11 to 28.

### On behalf of the Directors



Director



Director

The notes on pages 15-28 form part of and are to be read in conjunction with these financial statements.



## Statement of Financial Position as at 31 March 2007

	Notes	Consolidated		Society	
		2007	2006	2007	2006
<b>EQUITY</b>					
Share Capital	3	8,358,658	8,358,658	8,358,658	8,358,658
Property Revaluation Reserve	4	409,060	331,180	-	-
Retained Earnings	5	6,850,675	6,221,061	6,990,109	6,372,569
		<u>\$15,618,393</u>	<u>\$14,910,899</u>	<u>\$15,348,767</u>	<u>\$14,731,227</u>
<b>REPRESENTED BY:</b>					
<b>ASSETS</b>					
<b>Non Current Assets</b>					
Property, Plant & Equipment	6	1,269,655	1,187,222	535,576	510,912
Investments	7	5,190,299	5,003,198	5,190,299	5,003,198
Shares in Subsidiary		-	-	500,000	500,000
Advances	8,9,10	139,987,654	132,204,124	140,009,025	132,230,912
Intangibles	27	53,908	56,626	-	-
Total Non Current Assets		<u>146,501,516</u>	<u>138,451,170</u>	<u>146,234,900</u>	<u>138,245,022</u>
<b>Current Assets</b>					
Cash and Bank		1,310,632	2,602,271	1,310,632	2,602,271
Accounts Receivable		19,111	26,019	19,111	18,256
Short Term Deposits	11	32,700,000	7,080,269	32,700,000	7,080,269
Accrued Interest		311,552	276,135	311,552	276,135
Taxation Refund Due		43,890	15,585	46,386	12,285
Total Current Assets		<u>34,385,185</u>	<u>10,000,279</u>	<u>34,387,681</u>	<u>9,989,216</u>
Total Assets		<u>180,886,701</u>	<u>148,451,449</u>	<u>180,622,581</u>	<u>148,234,238</u>
<b>LIABILITIES</b>					
<b>Non Current Liabilities</b>					
Deposits	12	1,499,027	3,106,679	1,499,027	3,106,679
Total Non Current Liabilities		<u>1,499,027</u>	<u>3,106,679</u>	<u>1,499,027</u>	<u>3,106,679</u>
<b>Current Liabilities</b>					
Accounts Payable		467,351	502,116	472,857	464,577
Employee Entitlements		71,543	88,693	71,543	88,693
Accrued Interest		1,073,195	955,976	1,073,195	955,976
Current Portion of Deposits	12	162,157,192	128,887,086	162,157,192	128,887,086
Total Current Liabilities		<u>163,769,281</u>	<u>130,433,871</u>	<u>163,774,787</u>	<u>130,396,332</u>
Total Liabilities		<u>165,268,308</u>	<u>133,540,550</u>	<u>165,273,814</u>	<u>133,503,011</u>
<b>NET ASSETS</b>		<u>\$15,618,393</u>	<u>\$14,910,899</u>	<u>\$15,348,767</u>	<u>\$14,731,227</u>

The notes on pages 15-28 form part of and are to be read in conjunction with these financial statements.

# Statement of Cash Flows for the year ended 31 March 2007



	Notes	Consolidated		Society	
		2007	2006	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash was provided from:					
Interest on Advances		12,452,791	11,060,931	12,456,716	11,060,974
Income from Investments		1,999,073	1,061,657	1,999,073	1,061,657
Other Interest		845	1,390	718	1,390
Sundry Income		494,766	392,109	494,766	392,109
Net GST		8,605	-	-	-
		<u>14,956,080</u>	<u>12,516,087</u>	<u>14,951,273</u>	<u>12,516,130</u>
Cash was disbursed to:					
Direct Cost of Funds - Interest		10,500,143	8,548,135	10,500,143	8,549,867
Overhead Expenses		2,294,937	1,847,273	2,326,088	1,871,207
Taxation Paid		610,636	504,431	613,936	498,186
Net GST		-	7,210	-	-
		<u>13,405,716</u>	<u>10,907,049</u>	<u>13,440,167</u>	<u>10,919,260</u>
Net Cash Flows from Operating Activities	13	<u>1,550,364</u>	<u>1,609,038</u>	<u>1,511,106</u>	<u>1,596,870</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Cash was provided from:					
Net decrease in Short Term Deposits		-	2,877,110	-	2,877,110
Receipts on behalf of Loan Properties Limited		-	-	1,570	-
Advances Repaid		40,552,674	20,913,838	40,558,091	20,887,050
Investments Matured/Sold		4,009,946	1,000,000	4,009,946	1,000,000
		<u>44,562,620</u>	<u>24,790,948</u>	<u>44,569,607</u>	<u>24,764,160</u>
Cash was disbursed to:					
Net increase in Short Term Deposits		25,619,731	-	25,619,731	-
Payments on behalf of Loan Properties Limited		-	-	-	1,570
Purchase of Investments		4,184,591	1,000,000	4,184,591	1,000,000
Advances Made		48,336,204	44,863,580	48,336,204	44,863,580
Intangibles Purchased		-	57,079	-	-
Property, Plant & Equipment Purchased		326,547	170,333	294,276	127,310
		<u>78,467,073</u>	<u>46,090,992</u>	<u>78,434,802</u>	<u>45,992,460</u>
Net Cash Flow Used In Investing Activities		<u>(33,904,453)</u>	<u>(21,300,044)</u>	<u>(33,865,195)</u>	<u>(21,228,300)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Cash was provided from:					
Shares Issued		-	3,960,000	-	3,960,000
Deposits received less withdrawals		31,662,454	18,714,875	31,662,454	18,655,299
		<u>31,662,454</u>	<u>22,674,875</u>	<u>31,662,454</u>	<u>22,615,299</u>
Cash was disbursed to:					
Dividends Paid		600,004	465,001	600,004	465,001
Share Issue Expenses		-	101,342	-	101,342
		<u>600,004</u>	<u>566,343</u>	<u>600,004</u>	<u>566,343</u>
Net Cash Flows from Financing Activities		<u>31,062,450</u>	<u>22,108,532</u>	<u>31,062,450</u>	<u>22,048,956</u>
Net (Decrease) Increase in Cash Held		<u>(1,291,639)</u>	<u>2,417,526</u>	<u>(1,291,639)</u>	<u>2,417,526</u>
Add Opening Cash brought forward		<u>2,602,271</u>	<u>184,745</u>	<u>2,602,271</u>	<u>184,745</u>
Closing Cash Carried Forward		<u>\$1,310,632</u>	<u>\$2,602,271</u>	<u>\$1,310,632</u>	<u>\$2,602,271</u>

The notes on pages 15-28 form part of and are to be read in conjunction with these financial statements.



## Notes to the Financial Statements for the year ended 31 March 2007

### 1. STATEMENT OF ACCOUNTING POLICIES

#### REPORTING ENTITY

Loan and Building Society (the Society) is a Building Society registered under the Building Societies Act 1965. The group consists of the Society and its wholly owned subsidiary, Loan Properties Limited.

The Society is listed on the New Zealand Alternative Exchange (NZAX) and is an issuer for the purposes of the Financial Reporting Act 1993. The consolidated financial statements of the Society have been prepared in accordance with the Financial Reporting Act 1993, the Building Societies Act 1965 and the Securities Regulations 1983.

#### MEASUREMENT BASE

The financial statements have been prepared on the historical cost basis except that certain property has been revalued.

#### SPECIFIC ACCOUNTING POLICIES

##### Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Society and its subsidiary, which has been consolidated using the purchase method. All inter-company transactions and balances are eliminated on consolidation. In the financial statements of the Society, the investment in the subsidiary is stated at cost.

##### Property, Plant & Equipment

All property, plant & equipment is initially recorded at cost.

Land and Buildings are revalued on an annual basis to current market value as determined by an independent registered valuer.

Revaluation surpluses are taken directly to the revaluation reserve. Decreases in value are debited directly to the revaluation reserve to the extent that they reverse previous surpluses and are otherwise recognised as expenses in the statement of financial performance. Additions since the latest revaluation are valued at cost.

##### Depreciation

Depreciation of property, plant & equipment other than land, is calculated on a straight line basis so as to write off the cost or valuation of property, plant & equipment in equal instalments over their expected economic lives. The principal annual rates of depreciation are:

Buildings	2% pa
Office Furniture and Equipment	10% to 20% pa
Motor Vehicles	20% pa
Fixtures and Fittings	11% to 26% pa

##### Investments

Investments are valued at cost, excluding accrued interest that is included in current assets, less provision for any impairment. Where Government or Local Authorities Stocks, Public Securities and Rated Corporate Bonds are purchased at a premium or discount, this premium or discount is amortised over the term of the investment.

##### Intangible Assets

The intangible asset is recognised at cost and is amortised using the straight line method over the period during which benefits are expected to be received.

##### Advances

Advances are stated at their estimated realisable value.

Specific provisions are made on a loan by loan basis to cover identified doubtful debts assessed as not being fully collectable in accordance with the terms of the contract.

The Society has established a general provision to recognise the potential for future losses to occur on advances made. The amount of the provision is determined with regard to the Society's asset base and type of lending.

Impaired assets include non-accrual loans, restructured loans and assets acquired through the enforcement of securities.

Past due assets are loans that have not been operated by the borrower within the key terms of the loan contract for at least 90 days and that are not impaired assets.

Interest charged on impaired assets is, to the extent that a specific provision is held for those loans, credited to the provision for that loan.

All known losses are written off in the statement of financial performance in the period in which it becomes apparent that the loans are not collectable.



<b>Receivables</b>	Receivables are stated at their estimated realisable value.
<b>Interest Income</b>	Interest income includes all interest received and receivable by the Society recognised on a daily accrual basis.
<b>Interest Expense</b>	Interest expense includes interest paid and payable by the Society, recognised on a daily accrual basis.
<b>Operating Leases</b>	Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in the determination of the operating surplus in equal instalments over the lease term.
<b>Taxation</b>	Taxation charged against surpluses includes current and deferred tax. Deferred tax, which is calculated on the comprehensive basis using the liability method arises from amounts of income or expenditure declared for tax purposes in years different from those in which they are dealt with in the financial statements. A debit balance in the deferred tax account is only recognised if there is virtual certainty of realisation.
<b>GST</b>	The Statement of Financial Performance has been prepared so that the components that relate to the operation of the Building Society are stated on a GST inclusive basis and the components that relate to the operation of the subsidiary are stated on a GST exclusive basis.
<b>Statement of Cash Flows</b>	
<b>Basis of Preparation</b>	The Statement of Cash Flows has been prepared using the direct approach modified by the netting of certain items as disclosed below.
<b>Cash</b>	Cash reflects the balance of cash and highly liquid assets used in the day to day cash management of the Society.
<b>Netting of Cash Flows</b>	Certain cash flows have been netted in order to provide more meaningful disclosure. Deposits received less withdrawals are netted as the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Society. Short term deposits made, less short term deposits matured are netted as they are invested for short periods as part of the Society's cash management practice.
<b>Financial Instruments</b>	The Society is party to recognised and unrecognised financial instruments that are subject to interest rate risk and credit risk in the normal course of business. This is to meet the financing and banking needs of customers, for liquidity purposes and to reduce the Society's exposure to fluctuations in interest rates. Financial instruments recognised in the Statement of Financial Position include investments, advances, bank balances, receivables, deposits and payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Unrecognised financial instruments are used from time to time to hedge financial asset/liability exposures, commitments and anticipated transactions. Unrecognised financial instruments include interest rate swap arrangements. For interest rate swap agreements entered into in connection with the management of interest rate exposure, the differential to be paid or received is accrued as interest rates change and is recognised as a component of interest income/expense over the life of the agreement.
<b>CHANGES IN ACCOUNTING POLICIES</b>	There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in the previous year.



## Notes to the Financial Statements for the year ended 31 March 2007

### 2. TAXATION

	Consolidated		Society	
	2007	2006	2007	2006
(a) Net Surplus before taxation	\$1,811,948	\$1,550,838	\$1,797,378	\$1,538,372
Taxation at 33%	597,943	511,777	593,135	507,663
Tax effect of permanent differences:				
Non deductible expenses	-	-	-	-
Timing differences not recognised	4,697	18,740	7,009	20,321
Non assessable income	(20,310)	(11,793)	(20,310)	(11,793)
Taxation Expense	\$582,330	\$518,724	\$579,834	\$516,191
b) Deferred tax benefits not recognised in the statement of financial position	\$85,326	\$80,428	\$106,820	\$99,917

Where a net deferred tax benefit arises in any year and is not covered by an existing deferred tax liability, the deferred tax benefit is not recognised as an asset.

### 3. SHARE CAPITAL

Ordinary Shares	Consolidated and Society 2007		Consolidated and Society 2006	
	\$	Shares	\$	Shares
Opening Balance	8,358,658	4,000,000	4,500,000	3,000,000
Rights Issue	-	-	3,960,000	1,000,000
Issue Expenses	-	-	(101,342)	-
Closing Balance	8,358,658	4,000,000	8,358,658	4,000,000

On 10 November 2005 the Society announced a pro rata renounceable offer of up to 1,000,000 new ordinary shares to existing shareholders. The new ordinary shares were issued for \$3.96 per new ordinary share. The rights were offered on the basis of 1 new ordinary share for every 3 existing ordinary shares held on the record date of 11 November 2005. Allotment of the new ordinary shares occurred on 13 December 2005. A total of 1,000,000 new ordinary shares were issued.

Each share entitles the owner to one vote, provided that the maximum number of votes which may be exercised by any single member and Associated Person (taken together) shall not exceed in aggregate 5% of the total number of votes able to be exercised on the relevant resolution. There is no predetermined dividend rate and there are no conversion rights. They share equally in dividends and on winding up.

All shares have been allotted and all shares are fully paid.

### 4. PROPERTY REVALUATION RESERVE

	Consolidated		Society	
	2007	2006	2007	2006
Opening Balance	331,180	171,943	-	-
Revaluation during the year	77,880	159,237	-	-
Closing Balance	\$409,060	\$331,180	\$0	\$0
Comprising:				
Land	288,941	223,941	-	-
Buildings	120,119	107,239	-	-
	\$409,060	\$331,180	\$0	\$0



## 5. RETAINED EARNINGS

	Consolidated		Society	
	2007	2006	2007	2006
Opening Balance	6,221,061	5,653,948	6,372,569	5,815,389
Net Surplus for the year	1,229,618	1,032,114	1,217,544	1,022,181
Dividends paid	(600,004)	(465,001)	(600,004)	(465,001)
Closing Balance	<u>\$6,850,675</u>	<u>\$6,221,061</u>	<u>\$6,990,109</u>	<u>\$6,372,569</u>

## 6. PROPERTY, PLANT & EQUIPMENT

	Consolidated		Society	
	2007	2006	2007	2006
Land - at valuation	320,000	255,000	-	-
Buildings - at valuation	340,000	335,000	-	-
Fixtures and Fittings - at cost	225,059	225,059	-	-
Accumulated Depreciation	150,980	138,749	-	-
Book Value	<u>74,079</u>	<u>86,310</u>	<u>-</u>	<u>-</u>
Office Equipment & Furniture - at cost	1,184,256	1,075,511	1,184,256	1,075,511
Accumulated Depreciation	748,230	570,471	748,230	570,471
Book Value	<u>436,026</u>	<u>505,040</u>	<u>436,026</u>	<u>505,040</u>
Motor Vehicles - at cost	123,741	23,500	123,741	23,500
Accumulated Depreciation	24,191	17,628	24,191	17,628
Book Value	<u>99,550</u>	<u>5,872</u>	<u>99,550</u>	<u>5,872</u>
Total Property, Plant & Equipment	<u>\$1,269,655</u>	<u>\$1,187,222</u>	<u>\$535,576</u>	<u>\$510,912</u>

### Depreciation:

	Consolidated		Society	
	2007	2006	2007	2006
Buildings	7,880	7,696	-	-
Fixtures and Fittings	12,231	4,876	-	-
Office Equipment & Furniture	177,759	149,024	177,759	149,024
Motor Vehicles	24,191	4,700	24,191	4,700
	<u>\$222,061</u>	<u>\$166,296</u>	<u>\$201,950</u>	<u>\$153,724</u>

Land and Buildings at 69/71 and 75/77 Tancred Street shown at valuation were valued at current market value as at 31 March 2007 by Cunneen McLeod Valuation Limited, independent registered valuers.

## 7. INVESTMENTS

At Cost	Consolidated		Society	
	2007	2006	2007	2006
Public Securities and Corporate Bonds	5,190,299	4,003,198	5,190,299	4,003,198
Shares in Listed Companies	-	1,000,000	-	1,000,000
	<u>\$5,190,299</u>	<u>\$5,003,198</u>	<u>\$5,190,299</u>	<u>\$5,003,198</u>



## Notes to the Financial Statements for the year ended 31 March 2007

### 7. INVESTMENTS (Continued)

At Market Value	Consolidated		Society	
	2007	2006	2007	2006
Public Securities and Corporate Bonds	5,230,000	4,085,000	5,230,000	4,085,000
Shares in Listed Companies	-	1,010,000	-	1,010,000
	<u>\$5,230,000</u>	<u>\$5,095,000</u>	<u>\$5,230,000</u>	<u>\$5,095,000</u>

### 8. ADVANCES

	Consolidated		Society	
	2007	2006	2007	2006
Secured by Mortgages	140,321,088	132,452,568	140,342,459	132,479,356
Secured by Personal Loans	76,097	125,997	76,097	125,997
Unsecured Overdrafts	40,469	75,559	40,469	75,559
	<u>140,437,654</u>	<u>132,654,124</u>	<u>140,459,025</u>	<u>132,680,912</u>
Less Provision for Doubtful Debts (Note 9)	(450,000)	(450,000)	(450,000)	(450,000)
Total Advances	<u>\$139,987,654</u>	<u>\$132,204,124</u>	<u>\$140,009,025</u>	<u>\$132,230,912</u>

### 9. PROVISION FOR DOUBTFUL DEBTS

	Consolidated		Society	
	2007 Performing Assets	2006 Performing Assets	2007 Performing Assets	2006 Performing Assets
Balances at Beginning of Year				
- General	450,000	400,000	450,000	400,000
- Specific	-	-	-	-
	<u>450,000</u>	<u>400,000</u>	<u>450,000</u>	<u>400,000</u>
Additional Amounts Provided				
- General	-	50,000	-	50,000
- Specific	-	-	-	-
	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Net Change in Provisions for Year	-	50,000	-	50,000
Balance at end of Year				
- General	450,000	450,000	450,000	450,000
- Specific	-	-	-	-
	<u>\$450,000</u>	<u>\$450,000</u>	<u>\$450,000</u>	<u>\$450,000</u>

There are no non-accrual assets or restructured assets (2006:Nil)

### 10. ASSET QUALITY

Movements in pre-provision balances of non-accrual and past due assets:

	Consolidated and Society			
	2007		2006	
	Non Accrual Assets	Past Due Assets	Non Accrual Assets	Past Due Assets
Pre-Provision Opening Balance	-	1,615,350	-	-
Transfer In	-	170,224	-	1,615,350
Transfer Out	-	(1,472,633)	-	-
	<u>-</u>	<u>312,941</u>	<u>-</u>	<u>1,615,350</u>
Less Specific Provisions	-	-	-	-
Closing Balance (Net of Provisions)	-	\$312,941	-	\$1,615,350

**11. SHORT TERM DEPOSITS**

Short term deposits consist of deposits with registered trading banks in New Zealand and a NZ Association of Credit Unions Bond and are for maturities of less than one year.

**12. DEPOSITS**

	Consolidated and Society			
	2007	2006	2007	2006
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
(a) Non Current:				
Term deposits due:				
Between 1-2 years	714,618	7.01%	2,078,413	6.91%
2 years and later	784,409	6.85%	1,028,266	6.77%
	<u>\$1,499,027</u>		<u>\$3,106,679</u>	
(b) Current				
Term deposits due within 1 year	126,358,605	7.60%	101,893,233	7.52%
At call deposits	35,798,587	6.62%	26,993,853	6.23%
	<u>\$162,157,192</u>		<u>\$128,887,086</u>	

Call and term deposits are obtained for the Society through retail funding from investors predominantly in the South Island of New Zealand. All deposits are unsecured.

**13. RECONCILIATION OF NET SURPLUS FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES**

	Consolidated		Society	
	2007	2006	2007	2006
Net Surplus for the year	1,229,618	1,032,114	1,217,544	1,022,181
Non Cash Items:				
Depreciation	222,061	166,296	201,950	153,724
Loss on Disposal Of Assets	372	2,532	372	2,532
Amortisation of Intangibles	2,718	453	-	-
Government Stock and Public Securities Amortisation	(2,510)	8,326	(2,510)	8,326
Gain on Sale of Investments	(9,946)	-	(9,946)	-
Increase in Provision for Doubtful Debts	-	50,000	-	50,000
Items Classified as Investing:				
Accounts Payable	99,761	(100,436)	67,490	(68,165)
Accounts Receivable	(200)	201	(1,770)	1,771
Movements in Working Capital:				
Accounts Payable	(34,765)	158,565	8,280	124,039
Employee Entitlements	(17,150)	62,757	(17,150)	62,757
Accrued Interest Payable	117,219	250,248	117,219	250,248
Accrued Interest Receivable	(35,417)	(15,768)	(35,417)	(15,768)
Accounts Receivable	6,908	(18,880)	(855)	(11,117)
Taxation Refund Due	(28,305)	12,630	(34,101)	16,342
Net Cash Flows from Operating Activities	<u>\$1,550,364</u>	<u>\$1,609,038</u>	<u>\$1,511,106</u>	<u>\$1,596,870</u>



## Notes to the Financial Statements for the year ended 31 March 2007

### 14. LIQUIDITY PROFILE

#### Monetary assets receivable matched against liabilities payable as at 31 March 2007

	Total	Call-6 Mth	6-12 Mth	12-24 Mth	24-60 Mth	Over 60 Mth
<b>MONETARY ASSETS:</b>						
Investments	5,190,299	5,190,299	-	-	-	-
Advances	139,987,654	139,987,654	-	-	-	-
Accounts Receivable	19,111	19,111	-	-	-	-
Cash and Bank	1,310,632	1,310,632	-	-	-	-
Short Term Deposits	32,700,000	32,700,000	-	-	-	-
Accrued Interest	311,552	311,552	-	-	-	-
Taxation Refund Due	43,890	43,890	-	-	-	-
	<b>\$179,563,138</b>	<b>\$179,563,138</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

	Total	Call-6 Mth	6-12 Mth	12-24 Mth	24-60 Mth	Over 60 Mth
<b>LIABILITIES</b>						
Deposits	163,656,219	128,416,206	33,740,986	714,618	784,409	-
Accrued Interest	1,073,195	1,073,195	-	-	-	-
Accounts Payable and Employee Entitlements	538,894	538,894	-	-	-	-
	<b>\$165,268,308</b>	<b>\$130,028,295</b>	<b>\$33,740,986</b>	<b>\$714,618</b>	<b>\$784,409</b>	<b>\$0</b>

Repayment of advances are generally spread over the term of the advance. Although the Society has the right to require repayment of advances at any time no such demands have been made. No estimate of the amount likely to be received from an early repayment of advances has been included in these financial statements.

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

	Total	Call-6 Mth	6-12 Mth	12-24 Mth	24-60 Mth	Over 60 Mth
<b>MONETARY ASSETS:</b>						
Investments	5,003,198	5,003,198	-	-	-	-
Advances	132,204,124	132,204,124	-	-	-	-
Accounts Receivable	26,019	26,019	-	-	-	-
Cash and Bank	2,602,271	2,602,271	-	-	-	-
Short Term Deposits	7,080,269	7,080,269	-	-	-	-
Accrued Interest	276,135	276,135	-	-	-	-
Taxation Refund Due	15,585	15,585	-	-	-	-
	<b>\$147,207,601</b>	<b>\$147,207,601</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

	Total	Call-6 Mth	6-12 Mth	12-24 Mth	24-60 Mth	Over 60 Mth
<b>LIABILITIES</b>						
Deposits	131,993,765	106,772,813	22,114,273	2,078,413	1,028,266	-
Accrued Interest	955,976	955,976	-	-	-	-
Accounts Payable and Employee Entitlements	590,809	590,809	-	-	-	-
	<b>\$133,540,550</b>	<b>\$108,319,598</b>	<b>\$22,114,273</b>	<b>\$2,078,413</b>	<b>\$1,028,266</b>	<b>\$0</b>



#### 14. LIQUIDITY PROFILE (Continued)

Of the advances receivable as at  
31 March 2007:

(1) There were 3 advances totalling \$312,941 with arrears in excess of three months (2006: 5 advances totalling \$1,615,350).

(2) The aggregate of the six largest advances as at 31 March 2007 is \$16,452,004 representing 9.16% of total monetary assets (2006: \$16,834,984 representing 11.44% of total monetary assets).

#### 15. FINANCIAL INSTRUMENTS

The Society is party to financial instruments as part of its normal day to day operations. The main financial instruments are cash and bank, investments, advances, receivables, payables and deposits. The Society has unrecognised financial instruments of undrawn credit facilities and interest rate swap arrangements.

##### Management Policies

###### Credit

All prospective mortgagors are subject to lending criteria established by the Board of Directors. These include maximum loan to security value ratios; a demonstrated debt servicing ability and all advances are secured by first mortgage and/or general security agreement or specific security agreement. All approvals are by Management, Finance Committee or the Board of Directors depending on the size of the advance.

###### Interest Rates

The Society's normal lending terms allows it to reset interest rates from time to time at its discretion. Interest rates on at call depositors' funds can be reset immediately. Interest rates on term deposits are fixed until their respective maturity dates.

###### Management Of Liquidity

The Society's liquidity position is set out in the Liquidity Profile included in these statements. The Society monitors its liquidity position on an ongoing basis and endeavours to maintain a mix of call and term deposits, which, together with funds received from mortgage repayments ensure that funds are available as necessary to meet all commitments as they fall due.

The Society has a balance of call funds of approximately \$4,000,000 on a daily basis. The Society has a facility of a committed Money Market Line of up to \$13,000,000 (31 March 2006 \$13,000,000) from the ANZ National Bank Limited. This facility is unsecured and undrawn at 31 March 2007.

###### Fair Value of Financial Instruments

The fair value of the financial instruments as at 31 March 2007 are the carrying values as disclosed in the statement of financial position with the exception of fixed rate advances, public securities and rated corporate bonds and interest rate swaps. The market values of public securities and rated corporate bonds are disclosed in note 7.

For fixed rate advances the cost of making a reasonably reliable estimate of the fair value is considered to be excessive in relation to the perceived benefit to users. At 31 March 2007 the carrying value of fixed rate mortgage advances with repricing dates over one year was \$50,860,647 (2006: \$42,027,190).

The Society has entered into interest rate contracts to fix a portion of interest costs. The notional amount of the interest rate swaps outstanding at 31 March 2007 is \$2,100,000 (31 March 2006 \$2,100,000). The unrecognised loss on the interest rate swaps outstanding at 31 March 2007 is \$25,523 (31 March 2006 \$16,489).

#### 16. CREDIT RISK

Maximum exposures to credit risk are the disclosed carrying values of lending and investment assets. All advances have been lent for use in New Zealand, predominantly concentrated in the South Island. Concentrations of credit risk can arise where the Society is exposed to risk in activities or industries of a similar nature.



## Notes to the Financial Statements for the year ended 31 March 2007

### 16. CREDIT RISK (Continued)

An analysis of advances by type of lending is as follows:-

	Consolidated	
	2007	2006
Residential	66,646,077	65,010,671
Farming	37,392,665	33,286,902
Commercial	36,282,346	34,154,995
Chattel Security	76,097	125,997
Unsecured	40,469	75,559
	<u>\$140,437,654</u>	<u>\$132,654,124</u>

Number of individual lending and investment counter parties with balances:

Percentage of Equity	2007		2006	
	Advances	Short Term Deposits	Advances	Short Term Deposits
10 - 20%	8	1	12	-
20 - 30%	2	4	1	1
30 - 40%	-	2	-	1
90 -100%	-	-	-	-

The Society has entered into interest rate swap contracts with a nominal value of \$2,100,000 to fix a portion of interest costs. The contracts mature within one year. The maximum exposure to credit risk for the interest rate swap arrangement is Nil (2006: Nil).

### 17. INTEREST RATE RISK

Interest rate risk is the risk that the value of the financial instruments will fluctuate due to changes in market interest rates.

Normal mortgage lending terms allow the Society to reset interest rates from time to time for changes in funding costs.

At 31 March 2007 there were fixed rate loans totalling \$87,402,460 (2006: \$67,442,196). At 31 March 2007 there were fixed rate term deposits totalling \$127,857,632 (2006: \$104,999,912). The maturity profile and weighted average interest rates for these deposits are detailed in note 12.

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

#### INTEREST RATE REPRICING SCHEDULE AS AT 31 MARCH 2007

	Weighted Average						
	Int Rate	Total	0-6 Mth	6-12 Mth	12-24 Mth	24-60 Mth	Over 60 Mth
<b>ASSETS</b>							
Investments	7.33%	5,190,299	1,800,317	-	989,941	2,400,041	-
Advances	9.13%	139,987,654	70,250,240	18,872,453	47,111,602	3,753,359	-
Cash and Bank	-	1,310,632	1,310,632	-	-	-	-
Short Term Deposits	7.75%	32,700,000	32,700,000	-	-	-	-
		<u>\$179,188,585</u>	<u>\$106,061,189</u>	<u>\$18,872,453</u>	<u>\$48,101,543</u>	<u>\$6,153,400</u>	<u>\$0</u>
<b>LIABILITIES</b>							
Deposits	7.38%	163,656,219	128,416,206	33,740,986	714,618	784,409	-
		<u>\$163,656,219</u>	<u>\$128,416,206</u>	<u>\$33,740,986</u>	<u>\$714,618</u>	<u>\$784,409</u>	<u>\$0</u>

**17. INTEREST RATE RISK (Continued)****INTEREST RATE REPRICING SCHEDULE  
AS AT 31 MARCH 2006**

	Weighted Average Int Rate	Total	0-6 Mth	6-12 Mth	12-24 Mth	24-60 Mth	Over 60 Mth		
<b>ASSETS</b>									
Investments	7.14%	5,003,198	3,004,106	998,703	1,000,389	-	-		
Advances	9.14%	132,204,124	77,572,602	12,639,810	32,042,523	9,949,189	-		
Cash and Bank	-	2,602,271	2,602,271	-	-	-	-		
Short Term Deposits	7.22%	7,080,269	7,080,269	-	-	-	-		
		\$146,889,862	\$90,259,248	\$13,638,513	\$33,042,912	\$9,949,189	\$0		

	Weighted Average Int Rate	Total	0-6 Mth	6-12 Mth	12-24 Mth	24-60 Mth	Over 60 Mth		
<b>LIABILITIES</b>									
Deposits	7.29%	131,993,765	106,772,813	22,114,273	2,078,413	1,028,266	-		
		\$131,993,765	\$106,772,813	\$22,114,273	\$2,078,413	\$1,028,266	\$0		

**18. IMPUTATION CREDIT ACCOUNT**

	Consolidated		Society	
	2007	2006	2007	2006
Balance Brought Forward	1,530,078	1,235,413	1,493,634	1,205,214
Taxation Paid	613,936	505,418	613,936	499,849
Imputation Credits on Dividends Received	25,415	17,601	25,415	17,601
Resident Withholding Taxation	-	676	-	-
	2,169,429	1,759,108	2,132,985	1,722,664
<b>Less</b>				
Taxation Refunds	(3,300)	-	-	-
Imputation Credits on Dividends Paid	(295,524)	(229,030)	(295,524)	(229,030)
Total Balance Available to shareholders as at 31 March 2007	\$1,870,605	\$1,530,078	\$1,837,461	\$1,493,634



## Notes to the Financial Statements for the year ended 31 March 2007

### 19. RELATED PARTY TRANSACTIONS

Loan Properties Limited is wholly owned by the Society and owns land and buildings which are leased to the Society. The following transactions occurred:-

	Society	
	2007	2006
Rent paid to Loan Properties Limited	91,101	39,375
Interest paid to Loan Properties Limited	-	1,732
Interest paid by Loan Properties Limited	3,925	43

The following were owed to Loan Properties Limited by the Society:

Accounts Payable	11,227	-
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The following were owed by Loan Properties Limited to the Society:

Advances	21,371	26,788
----------	--------	--------

Loan and Building Society has made advances to key management personnel and associated entities. Balances at 31 March 2007 total \$1,055,610 (31 March 2006 \$539,265). These advances are made on normal commercial terms.

Loan and Building Society has received deposits from key management personnel and associated entities. Deposits at 31 March 2007 total \$36,948 (31 March 2006 \$17,217). These deposits are made on the same terms as members of the public.

Key management personnel and associated entities hold 6,124 shares in the Society at 31 March 2007 (31 March 2006 6,124).

Directors who are solicitors or accountants are able to operate Trust Accounts for clients with the Society.

The following Trust Accounts are operated where a director of the Society is involved as a director or partner of the professional services firm:

Nicoll Cooney Silva Trust Account

Leech & Partners Limited Trust Account

Acceptance of these deposits falls within the definition of Related Party in NZAX Listing Rule B4.3.

In some instances the amounts deposited with the Society exceed the threshold of 10% of the average market capitalisation of the Society and therefore fall within the definition of material transaction pursuant to NZAX Listing Rule B4.2.

The Society has obtained a waiver from NZAX Listing Rule B4.1, in order that such deposits can be accepted in the ordinary course of its business as a building society. The waiver is granted for a period of 2 years until 2 June 2008 when application can be made for renewal.

Deposits through Trust Accounts operated where a director of the Society is involved as a director or partner of a professional service firm are received on exactly the same terms and conditions as deposits received from other professional service firms.

The total of deposits in Trust Accounts held by Nicoll Cooney Silva Trust Account and Leech & Partners Limited Trust Account are:	2007	2006
	\$16,612,129	\$10,340,872



## 20. DIRECTORS' TRANSACTIONS

### Services:

During the period no services were purchased from the respective director or firms they represent (2006: \$42,354)

Amounts owing to/by the Directors:	<b>Consolidated and Society</b>	
	<b>2007</b>	<b>2006</b>
Deposits with the Society		
- Current	1,932,920	1,940,839
Advances with the Society	-	-

The deposits with the Society are made by them on the same terms as members of the public.

Advances made to directors are under the same lending criteria and rates as members of the public.

## 21. CONTINGENT LIABILITIES

There are no contingent liabilities at 31 March 2007 (2006 Nil)

## 22. COMMITMENTS

The Society has commitments in respect of advances approved but still awaiting settlement at 31 March 2007 totalling \$25,886,596 (2006: \$5,200,400).

There were no capital commitments at 31 March 2007 (2006: Nil).

Lease commitments under non-cancellable operating leases:

	<b>Consolidated</b>		<b>Society</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Less than One Year	36,000	36,000	-	-
Between 1 and 2 Years	36,000	36,000	-	-
Between 2 and 5 Years	108,000	108,000	-	-
Greater than 5 Years	102,000	138,000	-	-
Total Operating Lease Commitments	<u>282,000</u>	<u>318,000</u>	<u>\$0</u>	<u>\$0</u>

## 23. SIGNIFICANT EVENTS AFTER BALANCE DATE

On 29 May 2007 the directors declared a final dividend of 8 cents per share, fully imputed for taxation purposes.

On Thursday 17 May 2007 the Minister of Finance announced in the Budget that the corporation tax rate will reduce from 33% to 30% with effect from 1 April 2008. This change has not been incorporated in the calculation of deferred tax in Note 2 and will impact this balance in future financial statements.

There are no other significant events after balance date.

## 24. MAJOR TRANSACTIONS

The Society has obtained a waiver from NZAX Listing Rule 9.1.1(b) of Appendix 1 whereby a NZAX Issuer shall not enter into a transaction where the gross value of the transaction is in excess of 50% of the lesser of the Average Market Capitalisation or the Gross Value of Assets of the NZAX Issuer.

No instances have arisen during the financial year where this waiver has been relied upon.

## 25. BUSINESS SEGMENTS

The Society operated in one industry and one geographical location - a building society within the South Island of New Zealand.



## Notes to the Financial Statements for the year ended 31 March 2007

### 26. CONCENTRATIONS OF FUNDING

Funding consists of deposits received.  
The geographical funding concentration is as follows:

	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
Canterbury Region	156,869,856	125,259,989
Other South Island Regions	4,620,871	3,665,698
North Island Regions	1,350,829	1,790,366
Outside New Zealand	814,663	1,277,712
	<b>\$163,656,219</b>	<b>\$131,993,765</b>

### 27. INTANGIBLES

Intangibles represent the payment for the assignment of a lease which has been capitalised and will be amortised over the term of the lease which is a maximum of 21 years.

	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
Cost	57,079	57,079
Accumulated Amortisation	3,171	453
Total Intangible Assets	<b>\$53,908</b>	<b>\$56,626</b>

### 28. INCOME FROM INVESTMENTS

	<b>Consolidated</b>		<b>Society</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Interest	2,010,209	1,079,900	2,010,209	1,079,900
Dividends	35,756	51,578	35,756	51,578
Gain on Sale of Investments	9,946	-	9,946	-
	<b>\$2,055,911</b>	<b>\$1,131,478</b>	<b>\$2,055,911</b>	<b>\$1,131,478</b>

### 29. EARNINGS PER SHARE

	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
Earnings per Share (cents)	30.74	31.29

Earnings per share is based on the weighted average number of shares on issue during the year and the net surplus for the year after taxation.



## Notes to the Financial Statements for the year ended 31 March 2007

### 30. TRANSITION TO NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the Accounting Standards Review Board announced that New Zealand entities would be required to apply the New Zealand equivalents to International Financial Reporting Standards and Interpretations (NZ IFRS) for accounting periods beginning on or after 1 January 2007. Earlier adoption was permitted. The Directors of the Society have chosen to apply NZ IFRS for the first time in the year ending 31 March 2008.

The Society is undertaking the analysis of the impact of NZ IFRS on the financial statements and has contracted outside assistance.

Key differences in the accounting policies between those currently employed and those required by NZ IFRS have been identified. The assessment of the impact of the change to NZ IFRS on the Society's financial statements is in progress with reliable estimates provided (where known) as disclosed below.

The key differences in accounting policies that have been identified are:

- a. Under NZ IAS 39 impairment and uncollectibility of financial assets are assessed based on objective evidence. The provision for doubtful debts allowed for previously did not relate to actual loans that were impaired or uncollectible or a history of similar amounts being written off in the past. Over the last 5 years no financial assets have been uncollectible. The provision will therefore be reversed.
- b. Assets that are held for trading or are designated by management as carried 'at fair value through profit or loss' are restated to fair value and the gain or loss recognised in the Statement of Financial Performance.
- c. Other financial assets are accounted for at amortised cost using the effective interest rate method. Public Securities and Corporate Bonds were previously measured at amortised cost using a straight line method or at face value, and will be reclassified as 'at fair value through profit or loss'.
- d. Income from loan application fees will be spread over the estimated life of loans made. Previously this income was recognised in the year received.
- e. Under NZ IFRS deferred tax is determined using the balance sheet method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases. Previously the Society adopted tax effect accounting principles whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of temporary differences will be recognised at applicable tax rates as deferred tax assets or deferred tax liabilities as applicable.

The estimated impacts on the financial report at transition of the above changes are:

- a. The provision for doubtful debts reversal of \$450,000 will increase advances and opening equity.
- b. The value of shares held will increase by \$10,000.
- c. The value of Public Securities and Corporate Bonds will increase by \$81,802.
- d. Income from loan application fees will reduce for the year ended 31 March 2007 by \$24,799 and loan application fees received as at transition date of \$244,219 will need to be carried forward to be spread over future years in terms of the estimated life of loans made.
- e. A deferred tax liability of \$39,260 will be recognised.

Note that the actual impact of adopting NZ IFRS may vary from the information given above and the variation may be material. In addition, the Directors may, at any time until completion of the Society's first NZ IFRS compliant financial statements, elect to revisit, and where considered necessary, revise the accounting policies applied.



## Audit Report

**Deloitte.**

We have audited the financial statements on pages 11 to 28. The financial statements provide information about the past financial performance and financial position of Loan and Building Society and group as at 31 March 2007. This information is stated in accordance with the accounting policies set out on pages 15 to 16.

### Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of Loan and Building Society and group as at 31 March 2007 and of the results of operations and cash flows for the year ended on that date.

### Auditor's Responsibilities

It is our responsibility to express to you an independent opinion on the financial statements presented by the Board of Directors.

### Basis of Opinion

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

- the significant estimates and judgements made by the Board of Directors in the preparation of the financial statements, and
- whether the accounting policies are appropriate to the company and group circumstances, consistently applied and adequately disclosed.

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

Other than in our capacity as auditor, we have no relationship with or interests in Loan and Building Society or its subsidiary.

### Unqualified Opinion

We have obtained all the information and explanations we have required. In our opinion:

- proper accounting records have been kept by Loan and Building Society as far as appears from our examination of those records; and
- the financial statements on pages 11 to 28;
  - comply with generally accepted accounting practice in New Zealand;
  - give a true and fair view of the financial position of Loan and Building Society and group as at 31 March 2007 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 5 June 2007 and our unqualified opinion is expressed as at that date.

**Chartered Accountants  
Christchurch, New Zealand**

This audit report relates to the financial statements of the Loan and Building Society for the year ended 31 March 2007 included on Loan and Building Society's website. The entity's board of directors is responsible for the maintenance and integrity of the entity's website. We have not been engaged to report on the integrity of the entity's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 5 June 2007 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## Summary of Financial Statements for the years ended 31 March

	2007	2006	2005	2004	2003
<b>TOTAL REVENUE</b>	14,995,599	12,543,523	10,090,470	8,037,283	7,439,874
<b>DIRECT COST OF FUNDS</b>					
Interest Paid to Depositors	10,674,672	8,769,537	6,736,120	5,064,404	4,631,906
Other Interest	25,976	14,890	-	-	3,239
Government Stock & Public Securities Amortisation	(2,510)	8,326	21,382	21,142	27,754
	10,698,138	8,792,753	6,757,502	5,085,546	4,662,899
<b>GROSS CONTRIBUTION FROM ACTIVITIES</b>	4,297,461	3,750,770	3,332,968	2,951,737	2,776,975
<b>DEDUCT OVERHEAD EXPENSES</b>					
Salaries	809,631	623,761	504,537	488,327	454,921
Audit Fees	61,621	51,153	57,364	68,661	34,037
Auditor - Other Services	-	10,969	-	-	-
Amortisation of Intangibles	2,718	453	-	-	-
Depreciation	222,061	166,296	158,547	109,203	51,515
Directors' Fees	113,000	113,000	99,000	85,003	77,000
Donations	15,000	30,000	-	-	-
Loss on Disposal of Assets	372	2,532	-	-	-
Provision for Doubtful Debts	-	50,000	100,000	100,000	100,000
Rent and Lease Payments	36,000	42,753	24,356	19,456	12,158
Other Overhead Expenses	1,225,110	1,109,015	1,020,790	903,377	711,129
	2,485,513	2,199,932	1,964,594	1,774,027	1,440,760
<b>NET SURPLUS BEFORE TAXATION</b>	1,811,948	1,550,838	1,368,374	1,177,710	1,336,215
Less Taxation	582,330	518,724	457,157	404,419	468,345
<b>NET SURPLUS FOR THE YEAR</b>	\$1,229,618	\$1,032,114	\$911,217	\$773,291	\$ 867,870
<b>DIVIDENDS PAID</b>	600,004	465,001	420,000	435,002	405,002
<b>NET SURPLUS RETAINED FOR THE YEAR</b>	\$629,614	\$567,113	\$491,217	\$338,289	\$462,868
<b>RATE OF DIVIDEND (CENTS PER SHARE)</b>	15.0	15.5	14.0	14.5	13.5
<b>TOTAL TANGIBLE ASSETS</b>	180,832,793	148,394,823	124,679,996	115,294,697	102,112,498
<b>TOTAL ASSETS</b>	180,886,701	148,451,449	124,679,996	115,294,697	102,112,498
<b>TOTAL LIABILITIES</b>	165,268,308	133,540,550	114,354,105	105,460,023	92,703,244
<b>SOCIETY'S TOTAL EQUITY</b>	\$15,618,393	\$14,910,899	\$10,325,891	\$9,834,674	\$ 9,409,254

The Summary of Financial Statements for the years ended 31 March 2003 to 31 March 2007 has been taken from audited financial statements.

These financial statements do not include any amounts derived by using the equity method of accounting.



## Security Holders as at 31 May 2007

### 1. TOP 20 SECURITY HOLDERS

As at 31 May 2007

	Securities Held	%
Propertyfinance Securities Limited	350,707	8.77%
New Zealand Central Securities Depository Limited	308,701	7.72%
Custodial Services Limited	126,572	3.16%
Robin Leslie Ford	118,580	2.96%
Russell Stuart McLay	106,613	2.67%
Gordon Frederick Webster & Valerie Joy Webster & Kenneth Craig Ewington	100,000	2.50%
Laurence Killoh Cooney & Merle Rae Cooney & Geoffrey Seaward Cantrell	62,806	1.57%
Laurence Killoh Cooney & Merle Rae Cooney & Geoffrey Seaward Cantrell	62,806	1.57%
Vernon George Ellis & Phyllis Margaret Ellis	38,946	0.97%
Robin Lloyd Corbett & Joan Mary Corbett & BK Trustees (2005) Limited	32,362	0.81%
Forsyth Barr Custodians Ltd	32,267	0.81%
Bryan Simpson Hutchins & Roger Neil Wilson	27,013	0.68%
Floris Beryl Lucy Whitelaw	26,717	0.67%
Gary Richard Leech & Anne Marie Leech & Laurence Killoh Cooney	24,000	0.60%
Richard William Brand Archbold & Katherine Elizabeth Archbold	23,237	0.58%
Richard William Brand Archbold & Katherine Elizabeth Archbold	23,236	0.58%
Elizabeth Joyce Gallagher & Elizabeth Kaye Armstrong & Hubbard Churcher Trust Management Limited	23,236	0.58%
E K Armstrong Limited	22,309	0.56%
George Stanley Brown & Lucille Pamela Brown	22,138	0.55%
David Peter Fisher & Janet Isabelle Fisher & Alistair David Argyle	21,730	0.54%

### 2. SPREAD OF SECURITY HOLDERS

As at 31 May 2007

Size of Security Holders	Number of Holders	Total Securities held	%
1 - 10,000	1,344	1,989,119	49.73%
10,001 - 50,000	45	774,096	19.35%
50,001 - 100,000	3	225,612	5.64%
100,001 - 350,000	4	660,466	16.51%
350,000 and over	1	350,707	8.77%
<b>Totals</b>	<b>1,397</b>	<b>4,000,000</b>	<b>100.00%</b>

### 3. DIRECTORS' INTERESTS

Shares:

The holdings of each director and/or their associates at balance date are:

	Beneficially held	Non Beneficially held	Held by Associated Person
G S Brown	11,069	10,332	11,069
C C Fleming	10,526	-	2,768
L K Cooney	125,612	21,028	-
G R Leech	24,000	11,003	-
R A Bonifant	-	5,000	-



## Directorate and Advisers

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### Directors

George Stanley Brown (Chairman) CA, ACIS, ACIM  
Mitcham Road, 2 RD, Ashburton  
Chartered Accountant

Laurence Killoh Cooney (Deputy Chairman) LLB, Notary Public  
124 Wills Street, Ashburton  
Solicitor

Colin Cordery Fleming  
4 RD, Ashburton  
Farmer

Gary Richard Leech B.Com (Accounting and Economics) FCA  
16 Lane Street, Ashburton  
Chartered Accountant

Roger Anthony Bonifant MAgSc, MSc, CNZM  
Wakanui, 7 RD, Ashburton  
Director

### General Manager

Thomas John Moore AFNZIM  
31 Davidson Street, Ashburton

### Solicitor

Buddle Findlay  
P O Box, 322, Christchurch

### Banker

ANZ National Bank Limited  
East Street, Ashburton

### Auditor

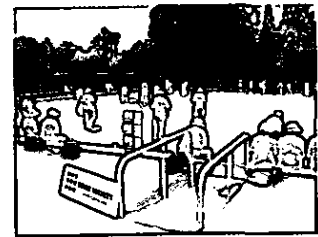
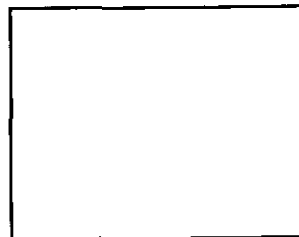
Deloitte  
P O Box 248, Christchurch

### Trustee

Trustees Executors Limited  
Level 1, 50-64 Customhouse Quay, Wellington

### Share Registrar

Link Market Services Limited  
P O Box 384, Ashburton





## Sponsorships

Supporting our communities...

Wheels Week • Mt Somers Classic Mountainbike Race • Ashburton Society of Arts • MC JAB rugby balls • South Island Half Ironman at Lake Hood • ABA Business Awards • Zonta Club of Ashburton • MC Junior Hockey • Ashburton Duathlon Series • Ashburton Borough School's Art Auction • Mayfield and Allenton Schools' sunhats • Ashburton & Mayfield A & P Shows • Lions Clubs' Golf Tournaments; Mayfield, Rakaia, Ellesmere, Ashburton • Ashburton College • Ashburton Bird Club • Ashburton Bowling Club • MC Bowls Sub Centre • MC Bowls Umpires • Rangiora Bowling Club • Ashburton Club & MSA

