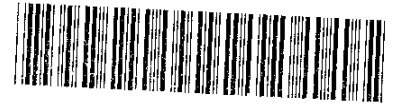


LOAN SOCIETY

Trusted Since 1909



10052409366

Loan and Building Society
Annual Report
2006



The Loan and Building Society has provided a wide range of personal banking, mortgage and investment services to its expanding Canterbury and South Island client base since its formation in 1909. In this time the Society has built a performance record based on delivering trusted and responsive banking service to homeowners, businesses, farmers, schools and non-profit groups across all communities.

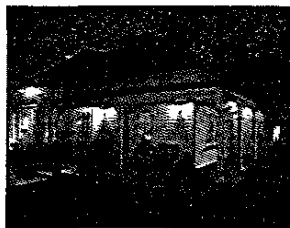
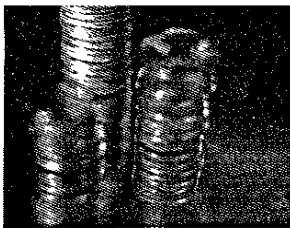
As a progressive building society it has grown appreciably in recent years by offering new products and services, such as eftpos cards and internet banking, to meet client needs for convenience and choice.

The Society is funded from retail deposits and lends on first registered mortgage on rural, commercial and residential property. It offers attractive interest rates for call and term deposits, competitive mortgage packages and seasonal finance through cheque account facilities.

Since 1999 it has issued a total of four million shares to Loan Society shareholders and in 2003 it listed on the New Zealand Stock Exchange alternative board (NZAX).

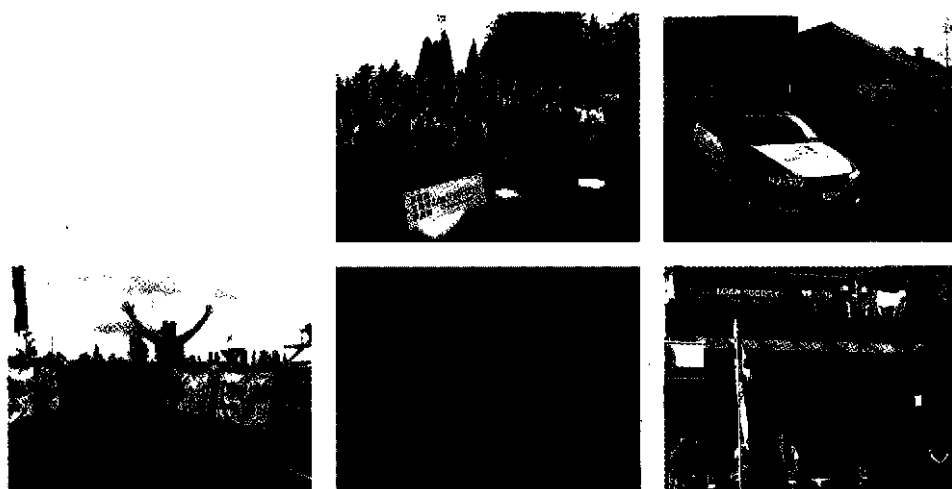
In April 2006, the Society expanded its operation into North Canterbury, opening its first ever branch office in Rangiora.

“To provide trusted personal banking”





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Directors and General Manager



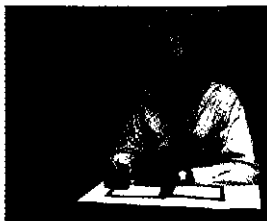
George Brown, CA, ACIS, ACIM (Chairman)

Long serving director, George Brown has 36 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 30 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 Chartered Accountants Institute of New Zealand, 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 \$148 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 97th Annual General Meeting of Shareholders of the Loan and Building Society ("the Society") will be held at Heron Lounge, Hotel Ashburton on Wednesday 26 July 2006 commencing at 5.30pm.

Business

- 1. Annual Report and Directors' Report** To receive and adopt the Annual Report and the directors' report for the year ended 31 March 2006.
- 2. Re-election of directors** George Brown and Laurence Cooney 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:
 - to re-elect George Brown as a director of the Society
 - to re-elect Laurence Cooney as a director of the Society
- 3. Adoption of new rules** To consider and if thought fit pass the following special resolution:
"That the Society approve and adopt the new rule in the form to be tabled at the Annual General Meeting."
[See Explanatory Notes]
- 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 no later than 5.30pm on Monday 24 July 2006, 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 Rule Change

That Rule 30 be amended to allow the common seal of the Society to be affixed in the presence of the General Manager in the presence of a director. That the new rule is proposed to read as follows:

"30.1 The common seal of the Society shall remain in the custody of the Board and shall be affixed either in the presence of two directors, or in the presence of one director and the General Manager."

The proposed rule change allows the General Manager to be present with one director when the common seal is affixed, rather than two directors. On a daily basis the Society is required to sign a large number of documents under seal, in particular discharges of mortgages and other charges and consent forms. This involves the directors (who are not usually present at the Society's premises) and the Society's staff in significant amounts of time in respect of what is essentially an administrative task. The purpose of the proposed rule change is to provide for ease of administration. The proposed rule change has been approved by the New Zealand Exchange Limited.



Directors' Report

On behalf of the Board of Directors it is our pleasure to present the Annual Report of the Loan and Building Society for the year ended 31 March 2006.

Overview

The Society has posted a tax paid profit of \$1,032,114 compared to \$911,217 in 2005, an increase of 13% over 2005.

Our total assets now stand at \$148,451,449 which is an increase of 19% over the previous year.

Our mortgages and advances increased from \$108 million in 2005 to \$132 million in 2006. This increase was funded from the public's investment in our extensive range of savings products.

The Loan Society is listed on the New Zealand Alternative Exchange, NZAX.

Financial Results

Our results have continued to consolidate our position, with highlights being:

	2006 \$million	2005 \$million	Change
Assets	148	125	up 19.1%
Advances	132	108	up 22.1%
Shareholders' Funds	14.9	10.3	up 44.4%
Pre Tax Surplus	1.551	1.368	up 13.3%
After Tax Surplus	1.032	0.911	up 13.3%

Shareholder Returns

The Directors have continued the policy of providing cash returns to shareholders by way of a consistent dividend rate. It is proposed that a final dividend be paid for the year ended 31 March 2006 of 7.5 cents per share. This will take the total dividends for the year to 15 cents per share, consistent with 2005. The final dividend will be based on the new share capital of 4 million shares, following the issue of one million new shares during the year.

The statistics on shareholders' returns are as follows:

	2006	2005
Shares on Issue	4 million	3 million
Shareholders' Funds (at year end)	\$14.9 million	\$10.33 million
Net Tangible Assets per Share	\$3.71	\$3.44
Earnings per Share	31.29 cents	30.37 cents
Dividend per Share (fully imputed)	15 cents	15 cents

Directors

Messrs L K Cooney and G S Brown retire by rotation in accordance with the Society's constitution and, being eligible, offer themselves for re-election.

Directors' Remuneration

Directors' remuneration and other benefits for the year ended 31 March 2006 were as follows:

G S Brown – Chairman	32,000
L K Cooney – Deputy Chairman	21,000
G R Leech	20,000
R Bonifant	20,000
C Fleming	20,000
	<u>113,000</u>

Auditors

Deloitte continued as Auditors for the year ended 31 March 2006.

Directors' Approval of Financial Statements

For the year ended 31 March 2006 the Board of Directors is pleased to present the Financial Statements and have authorised their issue. Signed for and on behalf of Board of Directors.

George Brown
Chairman of Directors

Laurence Cooney
Deputy Chairman



The Society has achieved another year of solid growth and record earnings. The highlights of our results are detailed in the accounts and notably include:

- The opening of our first branch at Rangiora in April this year, following extensive research into expansion options available to us.
- The successful completion of capital raising of \$3,858,658 with a new issue of one million shares.
- The continued development of our product base including our Integra account, along with refinements to our internet banking services.
- A major donation to the development of the Ashburton Performing Arts Theatre Trust for building a new theatre in Ashburton.

Dividend

The Directors have declared a fully imputed final dividend of 7.5 cents per share which will be paid in June to coincide with the release of the Annual Report. This will give a fully imputed return of 15 cents to Society shareholders for the 2006 year. This is the same amount per share as in 2005 but it should be noted this year's final dividend will be paid on increased capital.

New Issue of Shares

During the year the Society issued one million new shares, resulting in an injection of \$3,858,658 in cash. I thank everybody involved with this issue and its successful placement.

Investments

The Society continues to attract investments from the public. Our strong marketing initiatives undertaken during the year have resulted in continuing growth of assets. We need to be extremely competitive to attract deposits and our new account types launched in the past year have been extremely well received. It is also pleasing to note steady support for internet banking and eftpos cards, which have attracted new customers.

Lending

There has been strong demand for lending during the year. Mortgage advances have grown from \$108 million to \$132 million during the year ended 31 March 2006. The quality and nature of our mortgages is of a very high standard, with no bad debt write-offs during the year.

Provision for Doubtful Debts

The Directors have continued to make a provision for doubtful debts. Under the new International Financial Reporting Standards we will be required to change this policy. There will be no general provisioning in future, with only actual bad debts being written off as and when the expense occurs. As a result of the new policy, the Society's provision for doubtful debts of \$450,000 will be transferred into the equity of the Society in 2007.

Outlook

During the year the Society has been working on and devoted resources to developing our new Rangiora Branch. This was opened in April and has grown steadily over the past two months in line with budget. We have been fortunate to acquire good quality premises and staff and expect continued growth over the next year.

Throughout the year the Society undertook a review and consolidation of our account products and launched the Integra account. This product gives customers one account that provides cheque, Eftpos and ATM card, Internet Banking facilities, or just use of the account as a call account. It also delivers very competitive interest rates with a low fee structure.

We are confident Integra will deliver what customers want in the future, while the Society continues to research further good long-term sustainable products for customers.

The Board is committed to delivering long term growth and returns to shareholders whilst ensuring that a conservative approach to lending is maintained. We are well positioned to take advantage of growth opportunities as they arise and will continue to evaluate new options for growth and development.

On behalf of the Directors I thank our many clients for their support and also thank our shareholders and staff for their commitment to the Society's ongoing success.

George Brown
Chairman of Directors



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.

Statement of Financial Performance for the year ended 31 March 2006



	Notes	Consolidated		Society	
		2006	2005	2006	2005
Income from:					
Interest on Mortgages		9,526,664	7,368,364	9,526,664	7,368,364
Interest on Personal Loans		12,616	14,485	12,616	14,485
Interest on Overdrafts and Unsecured Advances		1,467,598	1,039,001	1,467,641	1,039,001
Interest on Investments		1,131,478	1,301,837	1,131,478	1,301,837
Other Interest		1,356	2,273	1,390	2,271
Sundry Income		403,811	364,510	403,811	364,510
		<u>12,543,523</u>	<u>10,090,470</u>	<u>12,543,600</u>	<u>10,090,468</u>
Deduct Direct Costs of Funds:					
Interest on Deposits		8,769,537	6,736,120	8,771,269	6,737,804
Other Interest		14,890	-	14,890	-
Government Stock and Public Securities Amortisation		8,326	21,382	8,326	21,382
		<u>8,792,753</u>	<u>6,757,502</u>	<u>8,794,485</u>	<u>6,759,186</u>
Gross Contribution from Activities		3,750,770	3,332,968	3,749,115	3,331,282
Deduct Overhead Expenses:					
Salaries		623,761	504,537	623,761	504,537
Audit Fees		51,153	57,364	51,153	57,364
Auditor- Other Services		10,969	-	10,969	-
Amortisation of Intangibles	30	453	-	-	-
Depreciation	6	166,296	158,547	153,724	146,923
Directors' Fees		113,000	99,000	113,000	99,000
Donations		30,000	-	30,000	-
Loss on Disposal of Assets		2,532	-	2,532	-
Provision for Doubtful Debts		50,000	100,000	50,000	100,000
Rent and Lease Payments		42,753	24,356	76,128	63,731
Other Operating Expenses		1,109,015	1,020,790	1,099,476	1,014,104
		<u>2,199,932</u>	<u>1,964,594</u>	<u>2,210,743</u>	<u>1,985,659</u>
Net Surplus Before Taxation		1,550,838	1,368,374	1,538,372	1,345,623
Taxation	2	518,724	457,157	516,191	451,588
Net Surplus for the Year		\$1,032,114	\$911,217	\$1,022,181	\$894,035
Earnings per Share	31				

The notes on pages 12-24 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 2006

	Notes	Consolidated		Society	
		2006	2005	2006	2005
Income from:					
Equity at start of Year		10,325,891	9,834,674	10,315,389	9,841,354
Net Surplus for the year	5	1,032,114	911,217	1,022,181	894,035
Increase in revaluation reserve	4	159,237	-	-	-
Total recognised revenue and expenses for the year		<u>1,191,351</u>	<u>911,217</u>	<u>1,022,181</u>	<u>894,035</u>
Contributions from Owners	3	3,858,658	-	3,858,658	-
Distributions to owners	5	(465,001)	(420,000)	(465,001)	(420,000)
Equity at end of year		<u>\$14,910,899</u>	<u>\$10,325,891</u>	<u>\$14,731,227</u>	<u>\$10,315,389</u>

Authorisation for Issue

The Directors authorised the issue of these financial statements on 30 May 2006.

Approval by Directors

The Directors are pleased to present the financial statements of Loan and Building Society for the year ended 31 March 2006 on pages 8 to 24.

On behalf of the Directors



Director



Director

The notes on pages 12-24 form part of and are to be read in conjunction with these financial statements.



Statement of Financial Position as at 31 March 2006

	Notes	Consolidated		Society	
		2006	2005	2006	2005
EQUITY					
Share Capital	3	8,358,658	4,500,000	8,358,658	4,500,000
Property Revaluation Reserve	4	331,180	171,943	-	-
Retained Earnings	5	6,221,061	5,653,948	6,372,569	5,815,389
		<u>\$14,910,899</u>	<u>\$10,325,891</u>	<u>\$14,731,227</u>	<u>\$10,315,389</u>
REPRESENTED BY:					
ASSETS					
Non Current Assets					
Property, Plant & Equipment	6	1,187,222	926,244	510,912	471,893
Investments	7	5,003,198	5,011,525	5,003,198	5,011,525
Shares in Subsidiary		-	-	500,000	500,000
Advances	8,9,10	132,204,124	108,304,382	132,230,912	108,304,382
Intangibles	30	56,626	-	-	-
Total Non Current Assets		<u>138,451,170</u>	<u>114,242,151</u>	<u>138,245,022</u>	<u>114,287,800</u>
Current Assets					
Cash and bank		2,602,271	184,745	2,602,271	184,745
Accounts receivable		16,686	7,139	18,256	7,139
Short term deposits	11	7,080,269	9,957,379	7,080,269	9,957,379
Accrued interest		276,135	260,367	276,135	260,367
GST Receivable		9,333	-	-	-
Taxation refund due		15,585	28,215	12,285	28,627
Total Current Assets		<u>10,000,279</u>	<u>10,437,845</u>	<u>9,989,216</u>	<u>10,438,257</u>
Total Assets		<u>148,451,449</u>	<u>124,679,996</u>	<u>148,234,238</u>	<u>124,726,057</u>
LIABILITIES					
Non Current Liabilities					
Deposits	12	3,106,679	3,946,360	3,106,679	3,946,360
Total Non Current Liabilities		<u>3,106,679</u>	<u>3,946,360</u>	<u>3,106,679</u>	<u>3,946,360</u>
Current Liabilities					
Accounts Payable		502,116	341,640	464,577	340,538
Employee Entitlements		88,693	25,936	88,693	25,936
Accrued Interest		955,976	705,728	955,976	705,728
GST Payable		-	1,911	-	-
Current Portion of Deposits	12	128,887,086	109,332,530	128,887,086	109,392,106
Total Current Liabilities		<u>130,433,871</u>	<u>110,407,745</u>	<u>130,396,332</u>	<u>110,464,308</u>
Total Liabilities		<u>133,540,550</u>	<u>114,354,105</u>	<u>133,503,011</u>	<u>114,410,668</u>
NET ASSETS		<u>\$14,910,899</u>	<u>\$10,325,891</u>	<u>\$14,731,227</u>	<u>\$10,315,389</u>

The notes on pages 12-24 form part of and are to be read in conjunction with these financial statements.



Statement of Cash Flows for the year ended 31 March 2006

	Notes	Consolidated		Society	
		2006	2005	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash was provided from:					
Interest on Advances		11,060,931	8,376,710	11,060,974	8,376,710
Interest on Investments		1,061,657	1,299,177	1,061,657	1,299,177
Other Interest		1,390	415	1,390	413
Sundry Income		392,109	361,178	392,109	361,178
		<u>12,516,087</u>	<u>10,037,480</u>	<u>12,516,130</u>	<u>10,037,478</u>
Cash was disbursed to:					
Direct Cost of Funds - Interest		8,548,135	6,513,734	8,549,867	6,515,418
Overhead Expenses		1,847,273	1,671,418	1,871,207	1,704,209
Taxation Paid		504,431	444,501	498,186	439,391
Net GST		7,210	156	-	-
		<u>10,907,049</u>	<u>8,629,809</u>	<u>10,919,260</u>	<u>8,659,018</u>
Net Cash Flows from Operating Activities	13	<u>1,609,038</u>	<u>1,407,671</u>	<u>1,596,870</u>	<u>1,378,460</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Cash was provided from:					
Net decrease in Short Term Deposits		2,877,110	6,569,817	2,877,110	6,569,817
Advances Repaid		20,913,838	24,255,727	20,887,050	24,255,727
Investments Matured/Sold		1,000,000	-	1,000,000	-
		<u>24,790,948</u>	<u>30,825,544</u>	<u>24,764,160</u>	<u>30,825,544</u>
Cash was disbursed to:					
Receipts on behalf of Loan Properties Limited		-	-	1,570	-
Purchase of Investments		1,000,000	-	1,000,000	-
Advances Made		44,863,580	41,024,900	44,863,580	41,024,900
Intangibles Purchased		57,079	-	-	-
Property, Plant & Equipment Purchased		170,333	101,612	127,310	101,612
		<u>46,090,992</u>	<u>41,126,512</u>	<u>45,992,460</u>	<u>41,126,512</u>
Net Cash Flows Used In Investing Activities		<u>(21,300,044)</u>	<u>(10,300,968)</u>	<u>(21,228,300)</u>	<u>(10,300,968)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Cash was provided from:					
Shares Issued		3,960,000	-	3,960,000	-
Deposits received less withdrawals		18,714,875	8,649,507	18,655,299	8,678,718
		<u>22,674,875</u>	<u>8,649,507</u>	<u>22,615,299</u>	<u>8,678,718</u>
Cash was disbursed to:					
Dividends Paid		465,001	420,000	465,001	420,000
Share Issue Expenses		101,342	-	101,342	-
		<u>566,343</u>	<u>420,000</u>	<u>566,343</u>	<u>420,000</u>
Net Cash Flows from Financing Activities		<u>22,108,532</u>	<u>8,229,507</u>	<u>22,048,956</u>	<u>8,258,718</u>
Net Increase (Decrease) in Cash Held		2,417,526	(663,790)	2,417,526	(663,790)
Add Opening Cash brought forward		184,745	848,535	184,745	848,535
Closing Cash Carried Forward		<u>\$2,602,271</u>	<u>\$184,745</u>	<u>\$2,602,271</u>	<u>\$184,745</u>

The notes on pages 12-24 form part of and are to be read in conjunction with these financial statements.



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 subsidiary. 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 a regular 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
Computers and Software	20% pa
Office Furniture	10% pa
Office Equipment	20% pa
Motor Vehicles	20% pa
Fixtures and Fittings	11%-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 assignment of lease is recognised at cost and is amortised using the straight line method over the period during which benefits are expected to be received. This is a maximum of 21 years.

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.



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

Receivables	Receivables are stated at their estimated realisable value.
Interest Income	Interest income includes all interest received and receivable by the Society, recognised on a daily accrual basis.
Interest Expense	Interest expense include interest paid and payable by the Society, recognised on a daily accrual basis
Operating Leases	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.
Taxation	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.
GST	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.
Statement of Cash Flows Basis of Preparation	The Statement of Cash Flows has been prepared using the direct approach modified by the netting of certain items as disclosed below.
Cash	Cash reflects the balance of cash and liquid assets used in the day to day cash management of the Society.
Netting of Cash Flows	<p>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.</p> <p>Short term deposits made, less short term deposits matured are invested for short periods as part of the Society's cash management practice.</p>
Financial Instruments	<p>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.</p> <p>Financial instruments recognised in the Statement of Financial Position include investments, advances, bank balances, receivables, deposits and payables. These instruments are carried at their estimated realisable value. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.</p> <p>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.</p> <p>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.</p>
CHANGES IN ACCOUNTING POLICIES	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 2006

2. TAXATION	Consolidated		Society	
	2006	2005	2006	2005
(a) Net Surplus before taxation	1,550,838	1,368,374	1,538,372	1,345,623
Taxation at 33%	511,777	451,563	507,663	444,056
Tax effect of permanent differences:				
Non deductible expenses	-	-	-	-
Timing differences not recognised	18,740	5,594	20,321	7,532
Other	(11,793)	-	(11,793)	-
Taxation Expense	\$518,724	\$457,157	\$516,191	\$451,588
b) Deferred tax benefits not recognised in the statement of financial position	\$80,428	\$61,433	\$99,917	\$79,596

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	Consolidated and Society		Consolidated and Society	
	2006		2005	
Ordinary Shares	\$	Shares	\$	Shares
Opening Balance	4,500,000	3,000,000	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	4,500,000	3,000,000

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. Share issue expenses of \$101,342 relating directly to the issue were incurred.

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	
	2006	2005	2006	2005
Opening Balance	171,943	171,943	-	-
Revaluation during the year	159,237	-	-	-
Closing Balance	\$331,180	\$171,943	\$0	\$0
Comprising:				
Land	223,941	73,941	-	-
Buildings	107,239	98,002	-	-
	\$331,180	\$171,943	\$0	\$0



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

5. RETAINED EARNINGS

	Consolidated		Society	
	2006	2005	2006	2005
Opening Balance	5,653,948	5,162,731	5,815,389	5,341,354
Net Surplus for the year	1,032,114	911,217	1,022,181	894,035
Dividends paid	(465,001)	(420,000)	(465,001)	(420,000)
Closing Balance	<u>\$6,221,061</u>	<u>\$5,653,948</u>	<u>\$6,372,569</u>	<u>\$5,815,389</u>

6. PROPERTY, PLANT & EQUIPMENT

	Consolidated		Society	
	2006	2005	2006	2005
Land- at valuation	255,000	105,000	-	-
Buildings- at valuation	335,000	345,000	-	-
Accumulated Depreciation	-	11,543	-	-
Book Value	<u>335,000</u>	<u>333,457</u>	<u>-</u>	<u>-</u>
Fixtures and Fittings - at cost	225,059	149,762	-	-
Accumulated Depreciation	138,749	133,868	-	-
Book Value	<u>86,310</u>	<u>15,894</u>	<u>-</u>	<u>-</u>
Office Equipment & Furniture - at cost	1,075,511	1,143,245	1,075,511	1,143,245
Accumulated Depreciation	570,471	681,924	570,471	681,924
Book Value	<u>505,040</u>	<u>461,321</u>	<u>505,040</u>	<u>461,321</u>
Motor Vehicles - at cost	23,500	23,500	23,500	23,500
Accumulated Depreciation	17,628	12,928	17,628	12,928
Book Value	<u>5,872</u>	<u>10,572</u>	<u>5,872</u>	<u>10,572</u>
Total Property, Plant & Equipment	<u>1,187,222</u>	<u>926,244</u>	<u>510,912</u>	<u>471,893</u>

Depreciation:

	Consolidated		Society	
	2006	2005	2006	2005
Buildings	7,696	7,696	-	-
Fixtures and Fittings	4,876	3,928	-	-
Office Equipment & Furniture	149,024	142,223	149,024	142,223
Motor Vehicle	4,700	4,700	4,700	4,700
	<u>\$166,296</u>	<u>\$158,547</u>	<u>\$153,724</u>	<u>\$146,923</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 2006 by Cunneen McLeod Valuation Limited, independent registered valuers.

7. INVESTMENTS

At Cost	Consolidated		Society	
	2006	2005	2006	2005
Public Securities and Corporate Bonds	4,003,198	5,011,525	4,003,198	5,011,525
Shares in Listed Companies	1,000,000	-	1,000,000	-
	<u>5,003,198</u>	<u>5,011,525</u>	<u>5,003,198</u>	<u>5,011,525</u>



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

7. INVESTMENTS (Continued)

At Market Value	Consolidated		Society	
	2006	2005	2006	2005
Public Securities and Corporate Bonds	4,085,000	5,164,000	4,085,000	5,164,000
Shares in Listed Companies	1,010,000	-	1,010,000	-
	<u>5,095,000</u>	<u>5,164,000</u>	<u>5,095,000</u>	<u>5,164,000</u>

8. ADVANCES

	Consolidated		Society	
	2006	2005	2006	2005
Secured by Mortgages	132,452,568	108,505,060	132,479,356	108,517,106
Secured by Personal Loans	125,997	161,788	125,997	161,788
Unsecured Overdrafts	75,559	37,534	75,559	25,488
	<u>132,654,124</u>	<u>108,704,382</u>	<u>132,680,912</u>	<u>108,704,382</u>
Less Provision for Doubtful Debts (Note 9)	(450,000)	(400,000)	(450,000)	(400,000)
Total Advances	<u>132,204,124</u>	<u>108,304,382</u>	<u>132,230,912</u>	<u>108,304,382</u>

9. PROVISION FOR DOUBTFUL DEBTS

	Consolidated		Society	
	2006 Performing Assets	2005 Performing Assets	2006 Performing Assets	2005 Performing Assets
Balances at Beginning of Year				
- General	400,000	300,000	400,000	300,000
- Specific	-	-	-	-
	<u>400,000</u>	<u>300,000</u>	<u>400,000</u>	<u>300,000</u>
Additional Amounts Provided				
- General	50,000	100,000	50,000	100,000
- Specific	-	-	-	-
	<u>50,000</u>	<u>100,000</u>	<u>50,000</u>	<u>100,000</u>
Net Change in Provisions for Year	50,000	100,000	50,000	100,000
Balance at end 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>

There are no non-accrual assets (2005:Nil)

10. ASSET QUALITY

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

	Consolidated and Society			
	2006		2005	
	Non Accrual Assets	Past Due Assets	Non Accrual Assets	Past Due Assets
Pre-Provision Opening Balance	-	-	-	1,272,212
Transfer In	-	1,615,350	-	-
Transfer Out	-	-	-	(1,272,212)
	<u>-</u>	<u>1,615,350</u>	<u>-</u>	<u>-</u>
Pre-Provision Closing Balance	-	1,615,350	-	-
Less Specific Provisions	-	-	-	-
Closing Balance (Net of Provisions)	<u>-</u>	<u>1,615,350</u>	<u>-</u>	<u>-</u>



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

11. SHORT TERM DEPOSITS

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

12. DEPOSITS

	2006		2005	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
(a) Non Current:				
Term deposits due:				
Between 1-2 years	2,078,413	6.91%	1,284,809	6.27%
2 years and later	1,028,266	6.77%	2,661,551	6.86%
	<u>\$3,106,679</u>		<u>\$3,946,360</u>	
(b) Current				
Term deposits due within 1 year	101,893,233	7.52%	83,352,625	6.87%
At call deposits	26,993,853	6.23%	25,979,905	5.48%
Total Consolidated	<u>128,887,086</u>		<u>109,332,530</u>	
At call deposits held by Loan Properties Limited	-	0.00%	59,576	4.00%
Total Society	<u>\$128,887,086</u>		<u>\$109,392,106</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	
	2006	2005	2006	2005
Net Surplus for the year	1,032,114	911,217	1,022,181	894,035
Non Cash Items:				
Depreciation	166,296	158,547	153,724	146,923
Loss on Disposal Of Assets	2,532	-	2,532	-
Amortisation of Intangibles	453	-	-	-
Government Stock and Public Securities Amortisation	8,326	21,382	8,326	21,382
Increase in Provision for Doubtful Debts	50,000	100,000	50,000	100,000
Items Classified as Investing:				
Accounts Payable	(100,436)	12,374	(68,165)	12,374
Accounts Receivable	201	-	1,771	-
Movements in Working Capital:				
Accounts Payable	160,476	92,784	124,039	92,682
Employee Entitlements	62,757	5,462	62,757	5,462
Accrued Interest Payable	250,248	146,485	250,248	146,485
Accrued Interest Receivable	(15,768)	(65,229)	(15,768)	(65,229)
Accounts Receivable	(9,547)	11,749	(11,117)	11,749
GST Payable	(11,244)	(156)	-	-
Taxation Refund Due	12,630	13,056	16,342	12,597
Net Cash Flows from Operating Activities	<u>1,609,038</u>	<u>1,407,671</u>	<u>1,596,870</u>	<u>1,378,460</u>



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

14. LIQUIDITY PROFILE

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

	Total	0-6 Mth	6-12 Mth	12-24 Mth	24-60 Mth	Over 60 Mth
MONETARY ASSETS:						
Investments	5,003,198	5,003,198	-	-	-	-
Advances	132,204,124	132,204,124	-	-	-	-
Accounts Receivable	16,686	16,686	-	-	-	-
Cash and Bank	2,602,271	2,602,271	-	-	-	-
Short Term Deposits	7,080,269	7,080,269	-	-	-	-
Accrued Interest	276,135	276,135	-	-	-	-
GST Receivable	9,333	9,333	-	-	-	-
Taxation Refund Due	15,585	15,585	-	-	-	-
	\$147,207,601	\$147,207,601	\$0	\$0	\$0	\$0

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

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 2005

	Total	0-6 Mth	6-12 Mth	12-24 Mth	24-60 Mth	Over 60 Mth
MONETARY ASSETS:						
Investments	5,011,525	5,011,525	-	-	-	-
Advances	108,304,382	108,304,382	-	-	-	-
Accounts Receivable	7,139	7,139	-	-	-	-
Cash and Bank	184,745	184,745	-	-	-	-
Short Term Deposits	9,957,379	9,957,379	-	-	-	-
Accrued Interest	260,367	260,367	-	-	-	-
Taxation Refund Due	28,215	28,215	-	-	-	-
	\$123,753,752	\$123,753,752	\$0	\$0	\$0	\$0

	Total	0-6 Mth	6-12 Mth	12-24 Mth	24-60 Mth	Over 60 Mth
LIABILITIES						
Deposits	113,278,890	92,138,563	17,193,967	1,284,809	2,661,551	-
Accrued Interest	705,728	705,728	-	-	-	-
Accounts Payable	369,487	369,487	-	-	-	-
	\$114,354,105	\$93,213,778	\$17,193,967	\$1,284,809	\$2,661,551	\$0



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

14. LIQUIDITY PROFILE (Continued)

Of the advances receivable as at
31 March 2006:

(1) There were 5 advances totalling \$1,615,350 with arrears in excess of three months (2005: Nil).

(2) The aggregate of the six largest advances as at 31 March 2006 is \$16,834,984 representing 11.44% of total monetary assets (2005: \$16,303,080 representing 13.17% 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 depositor's 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 2005 \$8,000,000) from the ANZ National Bank Limited. This facility is unsecured.

Fair Value of Financial Instruments

The fair value of the financial instruments as at 31 March 2006 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, shares and interest rate swaps. The market values of public securities, rated corporate bonds and shares 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 2006 the carrying value of fixed rate mortgage advances with repricing dates over one year was \$42,027,190 (2005: \$27,928,564).

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 2006 is \$2,100,000 (31 March 2005 \$2,100,000). The unrecognised loss on the interest rate swaps outstanding at 31 March 2006 is \$16,489 (31 March 2005 \$31,936).

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

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



16. CREDIT RISK (Continued)

	Consolidated	
	2006	2005
Residential	65,010,671	46,001,642
Farming	33,286,902	31,570,183
Commercial	34,154,995	30,933,235
Chattel Security	125,997	161,788
Unsecured	75,559	37,534
	132,654,124	108,704,382

Number of individual lending and investment counter parties with balances:

Percentage of Equity	2006		2005	
	Advances	Short Term Deposits	Advances	Short Term Deposits
10 - 20%	12	-	7	-
20 - 30%	1	1	5	-
30 - 40%	-	1	2	-
90 -100%	-	-	-	1

The Society has entered into interest rate swap contracts to fix a portion of interest costs. The terms of these fixed interest rates are between 4 and 5 years. The maximum exposure to credit risk for the interest rate swap arrangement is \$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 2006 there were fixed rate loans totalling \$67,442,196 (2005: \$49,773,153). At 31 March 2006 there were fixed rate term deposits totalling \$104,999,912 (2005: \$87,298,985). 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 2006

	Weighted Average Int Rate	Total	Maturity Profile				Over 60 Mth
			0-6 Mth	6-12 Mth	12-24 Mth	24-60 Mth	
ASSETS							
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
LIABILITIES							
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



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

17. INTEREST RATE RISK (Continued) INTEREST RATE REPRICING SCHEDULE AS AT 31 MARCH 2005

	Weighted Average	Total	0-6 Mth	6-12 Mth	12-24 Mth	24-60 Mth	Over 60 Mth
	Int Rate						
ASSETS							
Investments	7.26%	5,011,524	1,004,352	3,006,394	1,000,778	-	-
Advances	8.80%	108,304,382	68,997,856	11,377,962	21,768,995	6,159,569	-
Cash and Bank	-	184,745	184,745	-	-	-	-
Short Term Deposits	6.58%	9,957,379	9,957,379	-	-	-	-
		123,458,030	80,144,332	14,384,356	22,769,773	6,159,569	\$0

	Weighted Average	Total	0-6 Mth	6-12 Mth	12-24 Mth	24-60 Mth	Over 60 Mth
	Int Rate						
LIABILITIES							
Deposits	6.55%	113,278,890	92,138,563	17,193,967	1,284,809	2,661,551	-
		\$113,278,890	\$92,138,563	\$17,193,967	\$1,284,809	\$2,661,551	\$0

18. IMPUTATION CREDIT ACCOUNT

	Consolidated		Society	
	2006	2005	2006	2005
Balance Brought Forward	1,235,413	998,179	1,205,214	973,089
Taxation Paid	505,418	443,491	499,849	438,991
Imputation Credits on Dividends Received	17,601	-	17,601	-
Resident Withholding Taxation	676	657	-	-
	1,759,108	1,442,327	1,722,664	1,412,080
Less				
Taxation Refunds	-	(48)	-	-
Imputation Credits on Dividends Paid	(229,030)	(206,866)	(229,030)	(206,866)
Total Balance Available to Shareholders as at 31 March 2006	\$1,530,078	\$1,235,413	\$1,493,634	\$1,205,214



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

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:-

	2006	2005
Rent paid to Loan Properties Limited	39,375	39,375
Interest paid to Loan Properties Limited	1,732	1,684
Interest paid by Loan Properties Limited	43	-

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

Deposits	-	59,576
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The following were owed by Loan Properties Limited to the Society:

Advances	26,788	-
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Loan and Building Society has made advances to the General Manager and associated entities. Balances at 31 March 2006 total \$539,265 (31 March 2005 \$340,719). These advances are made on normal commercial terms.

Loan and Building Society has received deposits from the General Manager and associated entities. Deposits at 31 March 2006 total \$17,217 (31 March 2005 \$31,029). These deposits are made on same terms as members of the public.

The General Manager and associated entities hold 6,124 shares in the Society at 31 March 2006 (31 March 2005 5,658).

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 & Co Trust Account
Leech & Partners Limited Trust Account

Acceptance of these deposits falls within the definition of Related Party in NZAX Listings 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 & Co Trust Account	2006	2005
and Leech & Partners Limited Trust Account are:	\$10,340,872	\$8,664,931
(2005 includes Brophy Knight Limited Trust Account)		



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

20. DIRECTORS' TRANSACTIONS

Services:

During the period the Society purchased accounting services totalling \$42,354 on normal commercial terms from the respective director or firms they represent (2005: \$66,958).

Amounts owing to/by the Directors:	Consolidated and Society	
	2006	2005
Deposits with the Society		
- Current	1,940,839	2,522,575
Advances with the Society		
- Current	-	-

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 2006 (2005 Nil)

22. LENDING COMMITMENTS

Commitments at 31 March 2006 in respect of advances approved but still awaiting settlement amounted to \$5,200,400 (2005: \$9,770,050).

23. CAPITAL COMMITMENTS

At 31 March 2006 there were no capital commitments (2005: Nil).

24. LEASE COMMITMENTS

Lease commitments under non-cancellable operating leases:

	Consolidated		Society	
	2006	2005	2006	2005
Less than One Year	36,000	-	-	-
Between 1 and 2 Years	36,000	-	-	-
Between 2 and 5 Years	108,000	-	-	-
Greater than 5 Years	138,000	-	-	-
Total Operating Lease Commitments	<u>318,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

25. SIGNIFICANT EVENTS AFTER BALANCE DATE

The directors have declared a final dividend of 7.5 cents per share, fully imputed for taxation purposes. There are no other significant events after balance date.

26. 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.

27. 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 2006

28. CONCENTRATIONS OF FUNDING

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

	Consolidated	
	2006	2005
Canterbury Region	125,259,989	108,103,980
Other South Island Regions	3,665,698	2,883,821
North Island Regions	1,790,366	1,469,792
Outside New Zealand	1,277,712	821,297
	\$131,993,765	\$113,278,890

29. INTERNATIONAL FINANCIAL REPORTING STANDARDS

Loan and Building Society is required to adopt the New Zealand equivalent to International Financial Reporting Standards (NZ IFRS) no later than for the year ending 31 March 2008. In presenting the first year of NZ IFRS compliant financial statements, the Society will be required to restate the comparative financial statements to amounts which reflect the application of NZ IFRS. Where applicable, adjustments required on transition will be made retrospectively against the opening equity recognised in the statement of financial position.

Management is overseeing the transition of the Society to reporting under NZ IFRS. During the 2007 financial year, the Society will review the changes in the standards under NZ IFRS and prepare appropriate accounting policies for review by the Directors prior to the adoption of these policies by the Society under NZ IFRS. The key differences in accounting policies and their impacts that are expected to arise from adopting NZ IFRS are not known and may materially vary from the information presented.

30. 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.

	Consolidated	
	2006	2005
Cost	57,079	-
Accumulated Amortisation	453	-
Total Intangible Assets	\$56,626	\$0

31. EARNINGS PER SHARE

	Consolidated	
	2006	2005
Earnings per Share (cents)	31.29	30.37

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.



We have audited the financial statements on pages 8 to 24. The financial statements provide information about the past financial performance and financial position of Loan and Building Society and group as at 31 March 2006. This information is stated in accordance with the accounting policies set out on pages 12 and 13.

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 2006 and of the results of operations and cash flows for the year ended on that date.

Auditors' 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 8 to 24 :
 - 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 2006 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 30 May 2006 and our unqualified opinion is expressed as at that date.

**Chartered Accountants
Christchurch, New Zealand**



Summary of Financial Statements for the years ended 31 March

	2006	2005	2004	2003	2002
TOTAL REVENUE	12,543,523	10,090,470	8,037,283	7,439,874	6,807,022
DIRECT COST OF FUNDS					
Interest Paid to Depositors	8,769,537	6,736,120	5,064,404	4,631,906	4,382,422
Other Interest	14,890	-	-	3,239	17,657
Government Stock & Public Securities Amortisation	8,326	21,382	21,142	27,754	59,672
	8,792,753	6,757,502	5,085,546	4,662,899	4,459,751
GROSS CONTRIBUTION FROM ACTIVITIES	3,750,770	3,332,968	2,951,737	2,776,975	2,347,271
DEDUCT OVERHEAD EXPENSES					
Salaries	623,761	504,537	488,327	454,921	367,933
Audit Fees	51,153	57,364	68,661	34,037	30,909
Auditor - Other Services	10,969	-	-	-	-
Amortisation of Assignment of Lease	453	-	-	-	-
Depreciation	166,296	158,547	109,203	51,515	48,055
Directors' Fees	113,000	99,000	85,003	77,000	60,550
Donations	30,000	-	-	-	-
Interest	-	-	-	-	21
Loss on Disposal of Assets	2,532	-	-	-	-
Provision for Doubtful Debts	50,000	100,000	100,000	100,000	100,000
Rent and Lease Payments	42,753	24,356	39,375	39,375	39,375
Share Issue Expenses	-	-	-	-	13,567
Other Overhead Expenses	1,109,015	1,020,790	883,458	683,912	532,493
	2,199,932	1,964,594	1,774,027	1,440,760	1,179,336
NET SURPLUS BEFORE TAXATION	1,550,838	1,368,374	1,177,710	1,336,215	1,167,935
Less Taxation	518,724	457,157	404,419	468,345	419,080
NET SURPLUS FOR THE YEAR	1,032,114	911,217	773,291	867,870	748,855
DIVIDENDS PAID	465,001	420,000	435,002	405,002	367,503
NET SURPLUS RETAINED FOR THE YEAR	567,113	491,217	338,289	462,868	381,352
RATE OF DIVIDEND (CENTS PER SHARE)	15.5	14.0	14.5	13.5	18.5
TOTAL TANGIBLE ASSETS	148,394,823	124,679,996	115,294,697	102,112,498	86,827,870
TOTAL ASSETS	148,451,449	124,679,996	115,294,697	102,112,498	86,827,870
TOTAL LIABILITIES	133,540,550	114,354,105	105,460,023	92,703,244	77,881,484
SOCIETY'S TOTAL EQUITY	14,910,899	10,325,891	9,834,674	9,409,254	8,946,386

The Summary of Financial Statements for the years ended 31 March 2001 to 31 March 2006 has been taken from audited financial accounts.

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



Security Holders as at 31 May 2006

1. SECURITY HOLDERS

As at 31 May 2006

	Securities Held	%
Sinclair Long Term Holdings Limited	326779	8.17%
New Zealand Central Securities	209322	5.23%
Robin Leslie Ford	118580	2.96%
Brand Family Trust	116182	2.90%
Russell Stuart McLay	106613	2.67%
Merle Rae Cooney Family Trust	62806	1.57%
Laurence Killoh Cooney Family Trust	62806	1.57%
Custodial Services Limited	54066	1.35%
Vernon George Ellis & Phyllis Margaret Ellis	38946	0.97%
Michael John Williams	36146	0.90%
Gordon Frederick Webster	33990	0.85%
Valerie Joy Webster	33990	0.85%
Russell Thomas Grieve	30666	0.77%
Robin Lloyd Corbett	27949	0.70%
Floris Beryl Lucy Whitelaw	26717	0.67%
G R & A M Leech Family Trust	24000	0.60%
E K Armstrong Limited	22309	0.56%
George Stanley & Lucille P Brown	22138	0.55%
Ashburton UFS Dispensary	21986	0.55%
Fisher Family Trust	21730	0.54%

2. SPREAD OF SECURITY HOLDERS

As at 31 May 2006

Size of Security Holders	Number of Holders held	Total Securities	%
1 - 10,000	1,357	2,171,360	54.28%
10,001 - 50,000	44	777,214	19.43%
50,001 - 100,000	3	179,678	4.49%
100,001 - 350,000	5	871,748	21.79%
350,000 and over	0	0	0.00%
Totals	1,409	4,000,000	100.00%

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	-

During the period directors acquired or disposed of shares as follows:

G S Brown acquired 2,767 shares
 L K Cooney acquired 31,402 shares
 G R Leech acquired 3,000 shares

Directors and Advisers



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

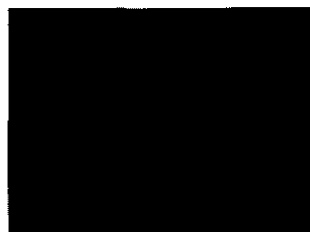
Deloitte
P O Box 248, Christchurch

Trustee

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

Share Registrar

Link Market Services Limited
P O Box 384, Ashburton





Supporting our communities...

Ashburton Club and MSA Bowling Club • Ashburton Bowling Club • Mid Canterbury Bowling Sub Centre • Age Concern • Zonta Club of Ashburton • Ashburton Operatic Society – Project 101 • Ashburton Performing Arts Theatre Trust • Ashburton Community Pool • Ashburton Bird Club • Ashburton A & P Association • Ashburton Borough School • Allenton School • Ashburton Society of Arts • Rakaia Lions Club Golf Tournament • Mid Canterbury Basketball

