

# NBS

NELSON BUILDING SOCIETY

## Key Ratios & Financial Information

14<sup>th</sup> October 2016

---

## SELECTED FINANCIAL INFORMATION

|   | 31 March<br>2016 | 31 March<br>2015 | 31 March<br>2014 |
|---|------------------|------------------|------------------|
| Total assets*                             | 558,666,861      | 459,705,842      | 414,210,743      |
| Total liabilities*                        | 522,343,742      | 428,983,339      | 388,055,603      |
| Net profit after tax*                     | 2,879,181        | 2,577,055        | 2,193,337        |
| Net cash flows from operating activities* | 54,557,824       | 1,367,458        | 7,737,547        |
| Cash and cash equivalents*                | 99,569,334       | 50,115,680       | 55,534,318       |
| Capital**                                 | 36,025,644       | 30,268,333       | 25,487,564       |

\*As determined in accordance with GAAP.

\*\*As calculated in accordance with the 2010 Regulations

## CAPITAL RATIO

|   | 31 March<br>2016 | 31 March<br>2015 | 31 March<br>2014 |
|---|------------------|------------------|------------------|
| NBS's capital ratio calculated in accordance with the Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010 ("2010 Regulations") | 10.17%           | 10.33%           | 9.80%            |
| Minimum capital ratio required by Trust Deed  | 8%               | 8%               | 8%               |
| Minimum capital required by 2010 Regulations  | 8%               | 8%               | 8%               |

The capital ratio is a measure of the extent to which NBS is able to absorb losses without becoming insolvent. The lower the capital ratio, the fewer financial assets NBS has to absorb unexpected losses arising out of its business activities. NBS has the benefit of a partial exemption from the minimum capital ratio requirements of the 2010 Regulations, pursuant to the Deposit Takers (Nelson Building Society) Exemption Amendment Notice 2015. The effect of the exemption is as follows:

|  | 31 March<br>2016 | 31 March<br>2015 | 31 March<br>2014 |
|--|------------------|------------------|------------------|
| a) As at 31 March perpetual preference shares on issue | 17,732,500       | 14,362,500       | 11,832,500       |

- b) Under the 2010 Regulations, which set out the minimum capital requirements for non-bank deposit takers, the general rule is that such preference shares may not constitute more than 25% of a deposit-taker's capital. However, this maximum amount is raised from 25% to 50% in the case of "qualifying mutuals";
- c) The 2010 Regulations define the term "qualifying mutual" as including cooperative companies and credit unions, but not building societies;
- d) The Reserve Bank agreed (on application by NBS) to an exemption which has the effect of treating NBS as a "qualifying mutual"; and
- e) The result of the granting of the exemption by the Reserve Bank is that NBS is able to count its preference shares up to 50% of its total capital for the purposes of determining its capital adequacy and the granting of the exemption has enabled NBS to meet the minimum capital adequacy requirements provided for in the 2010 Regulations.

|   | 31 March<br>2016 | 31 March<br>2015 | 31 March<br>2014 |
|---|------------------|------------------|------------------|
| NBS's capital ratio for the purposes of the 2010 Regulations was          | 10.17%           | 10.33%           | 9.80%            |
| NBS's capital ratio without the granting of the exemption would have been | 6.88%            | 7.24%            | 6.97%            |

The 2010 Regulations prescribe the minimum capital ratio for non-bank deposit takers (the ratio of the deposit taker's capital to an amount representing the degree of credit risk, market risk and operational risk to which a non-bank deposit taker is exposed) as 8%. The exemption expires on 1 November 2025.

## RELATED PARTY EXPOSURES

|   | 31 March<br>2016                | 31 March<br>2015              | 31 March<br>2014              |
|---|---------------------------------|-------------------------------|-------------------------------|
| Aggregate exposures to related parties calculated in accordance with 2010 Regulations | 2,800,920<br>(7.80% of capital) | 244,185<br>(0.80% of capital) | 249,967<br>(0.98% of capital) |
| Maximum limit on aggregate exposures to related parties allowed by Trust Deed         | 5,403,847<br>(15% of capital)   | 4,540,250<br>(15% of capital) | 3,823,135<br>(15% of capital) |
| Maximum limit on aggregate exposures to related parties allowed by 2010 Regulations   | 5,403,847<br>(15% of capital)   | 4,540,250<br>(15% of capital) | 3,823,135<br>(15% of capital) |

Related party exposures are financial exposures that NBS has to related parties. A related party is an entity that is related to NBS through common control or some other connection that may give the party influence over NBS (or NBS over the related party). These related parties include NBS directors and senior officers and their relatives, companies owned or controlled by NBS directors and senior officers.

## LIQUIDITY RATIO

|   | 31 March<br>2016 | 31 March<br>2015 | 31 March<br>2014 |
|---|------------------|------------------|------------------|
| <b>Three month mismatch ratio*</b>  |                  |                  |                  |
| Total liquid assets calculated in accordance with Trust Deed  | 150,599,669      | 93,158,253       | 91,173,105       |
| Minimum liquidity requirement stipulated by the Trust Deed (being 115% of the three month deficit calculated in accordance with Trust Deed) | 26,056,985       | 20,013,389       | 21,467,901       |
| Surplus (deficit) of liquid assets above minimum requirements under the Trust Deed  | 124,542,684      | 73,144,864       | 69,705,204       |

Liquidity requirements help to ensure that NBS has sufficient realisable assets on hand to pay its debts as they become due in the ordinary course of business. Failure to comply with liquidity requirements may mean that NBS is unable to repay investors on time, and may indicate other financial problems in its business.

\*The three month mismatch ratio has been calculated retrospectively in accordance with the Deed of Amendment and Restatement dated 18 October 2016.

## Key Ratio Calculations

### 1. CAPITAL COMPLIANCE

| Capital   |  |  | 31 March 2016<br>(\$M) |               | 31 March 2015<br>(\$M) |               | 31 March 2014<br>(\$M) |               |
|---|--|--|------------------------|---------------|------------------------|---------------|------------------------|---------------|
| Retained earnings                                 |  |  |                        | 17464         |                        | 15359         |                        | 13322         |
| Fully paid perpetual preference shares            |  |  |                        | 17733         |                        | 14363         |                        | 11832         |
| Reserves  |  |  |                        | 1.126         |                        | 1.001         |                        | 1.001         |
| <b>Total capital</b>                              |  |  |                        | <b>36.323</b> |                        | <b>30.723</b> |                        | <b>26.155</b> |
| Regulatory deductions from capital<br>Intangibles |  |  |                        | 0.297         |                        | 0.454         |                        | 0.668         |
| <b>Net regulatory capital</b>                     |  |  | (E)                    | <b>36.026</b> | (E)                    | <b>30.269</b> | (E)                    | <b>25.487</b> |

| Exposures  |                |                | (\$M)              |                         | (\$M)              |                         | (\$M)              |                         | (\$M)              |                         |
|--|----------------|----------------|--------------------|-------------------------|--------------------|-------------------------|--------------------|-------------------------|--------------------|-------------------------|
|  | LVR            | Risk Weighting | Value              | Risk Weighted Exposures | Value              | Risk Weighted Exposures | Value              | Risk Weighted Exposures | Value              | Risk Weighted Exposures |
| <b>Agricultural/farming</b>  |                |                |                    |                         |                    |                         |                    |                         |                    |                         |
| Secured by 1st mortgage over rural land & buildings                            | <=70%          | 100%           | 43.655             | 43.655                  | 38.565             | 38.565                  | 29.152             | 29.152                  | 29.152             | 29.152                  |
| Secured by 1st mortgage over rural land & buildings                            | >70% to <=100% | 150%           | 1.407              | 2.111                   | 0.141              | 0.212                   | 3.015              | 4.523                   | 3.015              | 4.523                   |
| Secured by a PPSR charge over rural "qualifying movable machinery"             | <=70%          | 150%           | 1.849              | 2.774                   | 1.438              | 2.157                   | 1.143              | 1.715                   | 1.143              | 1.715                   |
|  |                |                | <b>46.911</b>      | <b>48.539</b>           | <b>40.144</b>      | <b>40.934</b>           | <b>33.310</b>      | <b>35.389</b>           | <b>33.310</b>      | <b>35.389</b>           |
| <b>Property development</b>  |                |                |                    |                         |                    |                         |                    |                         |                    |                         |
| Secured by 1st mortgage over land & buildings                                  | <=60%          | 150%           | 1.241              | 1.862                   | 2.734              | 4.101                   | 1.015              | 1.523                   | 1.015              | 1.523                   |
|  |                |                | <b>1.241</b>       | <b>1.862</b>            | <b>2.734</b>       | <b>4.101</b>            | <b>1.015</b>       | <b>1.523</b>            | <b>1.015</b>       | <b>1.523</b>            |
| <b>Other property (primary/commercial/industrial/ retail property)</b>         |                |                |                    |                         |                    |                         |                    |                         |                    |                         |
| Secured by 1st mortgage over land & buildings                                  | <=70%          | 100%           | 44.967             | 44.967                  | 37391              | 37391                   | 33.332             | 33.332                  | 33.332             | 33.332                  |
| Secured by 1st mortgage over land & buildings                                  | >70% to <=100% | 150%           | 2.247              | 3.371                   | -                  | -                       | -                  | -                       | -                  | -                       |
|  |                |                | <b>47.214</b>      | <b>48.338</b>           | <b>37.391</b>      | <b>37.391</b>           | <b>33.332</b>      | <b>33.332</b>           | <b>33.332</b>      | <b>33.332</b>           |
| <b>Residential mortgages (owner occupied and investment)</b>                   |                |                |                    |                         |                    |                         |                    |                         |                    |                         |
| Secured by 1st mortgage over land & buildings                                  | <=70%          | 35%            | 187154             | 65.504                  | 180.811            | 63.284                  | 166.951            | 58.433                  | 166.951            | 58.433                  |
| Secured by 1st mortgage over land & buildings                                  | >=70% to <=80% | 50%            | 66.830             | 33.415                  | 57324              | 28.662                  | 42.155             | 21.078                  | 42.155             | 21.078                  |
| Secured by 1st mortgage over land & buildings                                  | >80% to <=90%  | 100%           | 1.729              | 1.729                   | 0.268              | 0.268                   | 2.519              | 2.519                   | 2.519              | 2.519                   |
| Mortgage insured by Housing New Zealand Corp                                   | Any            | 20%            | 20.006             | 4.001                   | 20.679             | 4.136                   | 21.133             | 4.227                   | 21.133             | 4.227                   |
|  |                |                | <b>275.719</b>     | <b>104.649</b>          | <b>259.082</b>     | <b>96.350</b>           | <b>232.758</b>     | <b>86.256</b>           | <b>232.758</b>     | <b>86.256</b>           |
| <b>Consumer loans - to individuals with loan balances less than \$40,000</b>   |                |                |                    |                         |                    |                         |                    |                         |                    |                         |
| Secured by PPSR charge over motor vehicle/boat                                 | Any            | 100%           | 11.427             | 11.427                  | 5.829              | 5.829                   | 6.484              | 6.484                   | 6.484              | 6.484                   |
| Secured by PPSR charge over any other asset                                    | Any            | 100%           | 1.318              | 1.318                   | 0.856              | 0.856                   | 0.476              | 0.476                   | 0.476              | 0.476                   |
| Unsecured  | Any            | 150%           | 1.072              | 1.608                   | 0.974              | 1.461                   | 0.774              | 1.161                   | 0.774              | 1.161                   |
|  |                |                | <b>13.817</b>      | <b>14.353</b>           | <b>7.659</b>       | <b>8.146</b>            | <b>7.734</b>       | <b>8.121</b>            | <b>7.734</b>       | <b>8.121</b>            |
| <b>All other loans</b>   |                |                |                    |                         |                    |                         |                    |                         |                    |                         |
| Secured by PPSR charge over motor vehicle/boat                                 | <=70%          | 100%           | 6.168              | 6.168                   | 2.078              | 2.078                   | 2.231              | 2.231                   | 2.231              | 2.231                   |
| Secured by PPSR charge over motor vehicle/boat                                 | >70%           | 150%           | -                  | -                       | -                  | -                       | -                  | -                       | -                  | -                       |
| Secured by PPSR charge over an asset not a motor vehicle/boat                  | Any            | 150%           | 6.313              | 9.470                   | 7.148              | 10.722                  | 4.668              | 7.002                   | 4.668              | 7.002                   |
|  |                |                | <b>12.481</b>      | <b>15.638</b>           | <b>9.226</b>       | <b>12.800</b>           | <b>6.899</b>       | <b>9.233</b>            | <b>6.899</b>       | <b>9.233</b>            |
| <b>Total net loan book (after provisions, deductions and deposit set offs)</b> |                |                | <b>397.383</b>     | <b>233.378</b>          | <b>356.236</b>     | <b>199.721</b>          | <b>315.048</b>     | <b>173.853</b>          | <b>315.048</b>     | <b>173.853</b>          |
| Value of qualifying deposits used as set offs against loans                    |                |                | 3.874              |                         | 4.241              |                         | 2.918              |                         | 2.918              |                         |
| Cash   |                | 0%             | 3.157              | -                       | 2.297              | -                       | 1.872              | -                       | 1.872              | -                       |
| New Zealand registered bank deposits and security                              |                | 20%            | 148.945            | 29.789                  | 92.362             | 18.472                  | 90.051             | 18.010                  | 90.051             | 18.010                  |
| Trade and receivables  |                | 350%           | 0.060              | 0.210                   | -                  | -                       | 0.030              | 0.105                   | 0.030              | 0.105                   |
| Fixed assets   |                | 350%           | 3.338              | 11.683                  | 3.238              | 11.333                  | 2.991              | 10.469                  | 2.991              | 10.469                  |
| Intangibles  |                | 0%             | 0.297              | -                       | 0.454              | -                       | 0.668              | -                       | 0.668              | -                       |
| All other assets   |                | 350%           | 1.613              | 5.646                   | 0.877              | 3.070                   | 0.634              | 2.219                   | 0.634              | 2.219                   |
| <b>Total assets</b>  |                |                | <b>(A) 558.667</b> | <b>(B) 280.705</b>      | <b>(A) 459.705</b> | <b>(B) 232.596</b>      | <b>(A) 414.212</b> | <b>(B) 204.656</b>      | <b>(A) 414.212</b> | <b>(B) 204.656</b>      |
| <b>Market and operational risk</b>   |                |                |                    | <b>(C) 73.445</b>       |                    | <b>(C) 60.576</b>       |                    | <b>(C) 54.151</b>       |                    | <b>(C) 54.151</b>       |
| <b>Total exposure</b>  |                |                |                    | <b>(D) 354.150</b>      |                    | <b>(D) 293.172</b>      |                    | <b>(D) 258.807</b>      |                    | <b>(D) 258.807</b>      |
| <b>Capital ratio as at 31 March</b>  |                |                |                    | <b>10.17%</b>           |                    | <b>10.33%</b>           |                    | <b>9.80%</b>            |                    | <b>9.80%</b>            |

## Key Ratio Calculations

### 2. RELATED PARTY COMPLIANCE

|  |            | 31 March 2016 | 31 March 2015 | 31 March 2014 |
|--|------------|---------------|---------------|---------------|
| Regulatory capital capital less intangible assets    | (A)        | 36,025,644    | 30,268,333    | 25,487,564    |
| Related party loans                                  | (B)        | 2,800,920     | 244,185       | 249,967       |
| Related party loans as a percentage                  | C=B/A      | 7.77%         | 0.81%         | 0.98%         |
| Maximum related party lending 15% regulatory capital | D= A x 15% | 5,403,847     | 4,540,250     | 3,823,135     |

### 3. THREE MONTH MISMATCH RATIOS

|   |            | 31 March 2016 |             |             | 31 March 2015 |            |            | 31 March 2014 |            |            |
|---|------------|---------------|-------------|-------------|---------------|------------|------------|---------------|------------|------------|
|   |            | April 2016    | May 2016    | June 2016   | April 2015    | May 2015   | June 2015  | April 2014    | May 2014   | June 2014  |
| Total liquid assets   | (A)        | 150,599,669   | 150,599,699 | 150,599,669 | 93,158,253    | 93,158,253 | 93,158,253 | 91,173,105    | 91,173,105 | 91,173,105 |
| <b>PLUS:</b>  |            |               |             |             |               |            |            |               |            |            |
| All expected inflows due within each month  | (B)        | 5,071,760     | 2,706,725   | 2,994,823   | 3,288,209     | 9,866,858  | 2,857,741  | 4,055,984     | 2,973,993  | 2,507,131  |
| <b>LESS:</b>  |            |               |             |             |               |            |            |               |            |            |
| Principal of the securities payable during the next three months  | (C)        | 33,882,054    | 48,015,528  | 38,844,505  | 27,940,173    | 26,250,222 | 31,354,328 | 33,997,980    | 35,226,904 | 38,141,189 |
| 40% of term deposits due within each month  | D=C x 40%  | 13,552,822    | 19,206,211  | 15,537,802  | 11,176,069    | 10,500,089 | 12,541,731 | 13,599,192    | 14,090,762 | 15,256,476 |
| <b>Committed undrawn lending facilities</b>   |            |               |             |             |               |            |            |               |            |            |
| Flexible facilities   | (E)        | 16,747,566    | 16,747,566  | 16,747,566  | 15,175,067    | 15,175,067 | 15,175,067 | 11,876,481    | 11,876,481 | 11,876,481 |
| Loans approved but undrawn  | (F)        | 18,695,400    | 18,695,400  | 18,695,400  | 8,612,650     | 8,612,650  | 8,612,650  | 10,934,850    | 10,934,850 | 10,934,850 |
|   | G=E+F      | 35,442,966    | 35,442,966  | 35,442,966  | 23,787,717    | 23,787,717 | 23,787,717 | 22,811,331    | 22,811,331 | 22,811,331 |
| 40% of committed undrawn lending facilities   | H=G x 40%  | 14,177,186    | 14,177,186  | 14,177,186  | 9,515,087     | 9,515,087  | 9,515,087  | 9,124,532     | 9,124,532  | 9,124,532  |
| Three month deficit calculated in accordance with the Trust Deed  | I=B-D-H    | 22,658,247    | 30,676,673  | 26,720,165  | 17,402,947    | 10,148,318 | 19,199,077 | 18,667,740    | 20,241,301 | 21,873,877 |
| Minimum liquidity requirement stipulated by the Trust Deed (being 115% of the three month deficit calculated in accordance with the Trust Deed) | J=I x 115% | 26,056,985    | 35,278,174  | 30,728,189  | 20,013,389    | 11,670,566 | 22,078,939 | 21,467,901    | 23,277,496 | 25,154,959 |
| Surplus (deficit) of liquid assets above minimum requirements under the Trust Deed  | K=A-J      | 124,542,684   | 115,321,495 | 119,871,480 | 73,144,864    | 81,487,687 | 71,079,314 | 69,705,204    | 67,895,609 | 66,018,146 |
| Available liquidity as a % of the minimum liquidity requirement allowed by the Trust Deed   | L=A/J      | 578%          | 427%        | 490%        | 465%          | 798%       | 422%       | 425%          | 392%       | 362%       |

## TRUST DEED RESTRICTIONS

Under its Trust Deed, NBS is bound by the following financial covenants and restrictions on borrowing and transactions with associated persons:

- a) NBS may not borrow money or lend other than as permitted by the Trust Deed and the NBS Rules;
- b) NBS must not at any time permit its Total Liabilities to exceed 95% of its Total Tangible Assets;
- c) NBS may not, without the prior written consent of its Supervisor, issue any Debt Securities while it is in breach of either the Trust Deed or the Financial Markets Conduct Act 2013;
- d) NBS may not create or attempt to create or permit to subsist any Security Interests over any of its assets other than a Permitted Security Interest;
- e) NBS may not at any time permit the aggregate indebtedness secured by Permitted Security Interest to exceed 1% of its Total Tangible Assets;
- f) NBS may not enter into any guaranteed for an unlimited amount;
- g) NBS may not purchase any assets or services from, or dispose of any assets or provide any services to, any associated person other than for full market value, on an arms-length basis and in the ordinary course of business;
- h) NBS must maintain a minimum capital ratio (as defined by the 2010 Regulations) of 8% (this rises to a minimum capital ratio requirement of 10%, for as long as NBS has no credit rating from an approved rating agency);
- i) NBS may not have a maximum aggregate exposure to related parties exceeding 15% of NBS's capital;
- j) NBS may not at any time permit the amount owing to it under any credit facilities by a borrower or related group of borrowers to exceed the greater of:
  - i) 35% of capital calculated in accordance with the 2010 Regulations; or
  - ii) 5% of total Tangible Assets;
- k) NBS must maintain its liquid assets at an amount which is no less than 115% of any deficit arising from:
  - i) The aggregate amount receivable by NBS in cash by way of principal and interest on all moneys due to NBS (excluding, for the avoidance of doubt, any such principal money from Liquid Assets) during the next three months (based on contractual maturities); less
  - ii) The aggregate of the total amount payable by NBS in cash by way of:
    - a) 40% of the principal of deposits payable during the next three months (based on contractual maturities); and
    - b) 40% of NBS's committed undrawn lending facilities.

The full text of these provisions are set out in NBS's Trust Deed, which can be accessed on the Disclose Register. Capitalised expressions used above are defined in the Trust Deed.

## GEOGRAPHICAL SPREAD OF LENDING


| Region         | 31 March 2016 | 31 March 2015 | 31 March 2014 |
|----------------|---------------|---------------|---------------|
| Nelson         | 24.52%        | 25.34%        | 26.59%        |
| Tasman         | 42.24%        | 42.32%        | 42.52%        |
| West Coast     | 11.97%        | 13.38%        | 14.26%        |
| Golden Bay     | 14.17%        | 12.47%        | 11.17%        |
| Mid Canterbury | 7.10%         | 6.49%         | 5.46%         |

## GEOGRAPHICAL SPREAD OF FUNDING

| Region         | 31 March 2016 | 31 March 2015 | 31 March 2014 |
|----------------|---------------|---------------|---------------|
| Nelson         | 34.89%        | 34.04%        | 35.67%        |
| Tasman         | 43.15%        | 44.57%        | 43.30%        |
| West Coast     | 9.51%         | 10.19%        | 10.97%        |
| Golden Bay     | 8.30%         | 7.84%         | 7.62%         |
| Mid Canterbury | 4.15%         | 3.36%         | 2.44%         |

## RANKING DIAGRAM

The diagram below illustrates the ranking of deposits in a liquidation of NBS.

|   | Ranking in a liquidation of NBS                   | Examples   | Amount as at 31 March 2016 |
|---|---|--|----------------------------|
|  | Liabilities that rank in priority to the deposits | Creditors preferred by law (including IRD for unpaid tax) and any permitted prior ranking security interests | 174,722                    |
|   | Liabilities that rank equally with the deposits   | All other unsecured creditors  | 1,623,617                  |
|   | Liabilities that rank below the deposits          | Perpetual preference shares  | 17,732,500                 |
|   | Equity  |  | 36,323,119                 |

(The amounts shown in the above diagram are extracted from the audited financial statements of NBS for the year ended 31 March 2016, adjusted to reflect any changes in the value of NBS's assets and liabilities that NBS reasonably expects to result from the issue of deposits. The amounts have been calculated on the basis of an assumption of \$520,545,403 of deposits on issue).