

New Zealand
Credit Analysis

Nelson Building Society

Ratings

Foreign Currency	
Long-Term IDR	BB
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB
Short-Term IDR	B
Individual Rating	C/D
Support Rating	5
Support Rating Floor	NF
Sovereign Risk	
Foreign-Currency Long-Term IDR	AA+
Local-Currency Long-Term IDR	AAA

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable
Sovereign Foreign-Currency Long-Term IDR	Negative
Sovereign Local-Currency Long-Term IDR	Negative

Financial Data

Nelson Building Society		
	31 Mar 09	31 Mar 08
Total assets (USDm)	139	178
Total assets (NZDm)	248	224
Total equity (NZDm)	17	19
Operating profit (NZDm)	1.1	1.4
Published net income (NZDm)	0.8	0.8
Comprehensive income (NZDm)	0.8	0.9
Operating ROAA (%)	0.46	0.63
Operating ROAE (%)	5.88	7.77
Equity/assets (%)	6.95	8.30

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Rating Rationale

- Nelson Building Society's (NBS) ratings reflect its relatively small size and concentration in the Nelson region of New Zealand's (NZ) South Island, while also recognising its conservative approach to lending and strong asset quality. NBS primarily lends for residential mortgages, but also offers small business loans and a modest amount of consumer lending.
- Operating profit decreased slightly to NZD1.1m for the 12 months ended 31 March 2009 (FYE09) (FYE08: NZD1.4m), mainly due to deteriorating business conditions and weaker property markets in the Nelson/Tasman region, which resulted in higher loan impairment charges of NZD812,000 (FYE08: NZD212,000). In spite of strong competition for funding, falling interest rates underpinned an increase in the relatively high net interest margin (NIM) to 2.56% (FYE08: 2.16%). Operating expenses were stable at NZD4.5m and the cost/income ratio decreased to 70.7% at FYE09 (FYE08: 74.2%). Although this ratio is high compared with other small relationship-based financial institutions in NZ and Australia, NBS has a relatively large number of branches for its size.
- NBS demonstrates a prudent approach to lending, using conservative loan-to-valuation (LTV) ratios and proactive arrears management. NBS has a relatively small portfolio of generally good-quality loans, although the loan portfolio is concentrated in the Nelson region. While asset quality deteriorated in FY09, this was due to one loan impairment (NZD1.4m).
- NBS is owned by its customers, who are its members. Funding is derived almost entirely (99%) from retail sources, with around 85% of retail deposits held in fixed-term accounts at FYE09.
- NBS observes a minimum 15% liquid assets/total tangible assets ratio as stipulated by its governing trust deed; the ratio at FYE09 was well above the minimum at about 21% (FYE08: 17.2%) reflecting a conservative approach to liquidity. NBS is adequately capitalised with an equity/assets ratio of 6.95% and an estimated Tier 1 ratio of more than 9% at FYE09, although these ratios are at the lower end of the range for its building society peers.

Support

- NBS is one of NZ's smaller institutions and in Fitch Ratings' view, support from the NZ authorities, although possible, cannot be relied on. The Reserve Bank of New Zealand (RBNZ) will assume responsibility for the prudential supervision of non-bank deposit-taking institutions (NBDTIs) in 2010 under a new regulatory framework.

Key Rating Drivers

- The Stable Outlook on NBS's Long-Term IDR may be adversely affected by further asset quality deterioration and the impact on earnings and capital.

Profile

NBS is one of NZ's oldest building societies, based in the north-west of the South Island, and dating back to 1862. NBS operates six branches across the region, which is mainly underpinned by agricultural businesses and associated services.

Profile

History

NBS was established in 1862 in Nelson, NZ, to provide housing and personal finance to members of the local communities in the Nelson and Tasman regions. NBS was incorporated under the Building Societies Act 1965 and, although very small, it is NZ's fourth-largest building society by total assets (FYE09: 248m). It currently employs 31 staff.

Most of NBS's business activities are conducted in the Nelson/Tasman region in the north west of NZ's South Island. Products and services are distributed via six branches, and NBS also offers internet banking. The regional economy is influenced most heavily by fishing and forestry, although farming, horticulture and tourism also feature.

NBS offers most traditional banking products and services to retail and commercial customers, including:

- Loans: residential mortgages, commercial loans (overdrafts, revolving credit, term loans and secured mortgages) and consumer finance (motor vehicles);
- Deposits: call and savings accounts and term deposits; and
- Transaction services: cheque accounts, Electronic funds transfer at point of sale (Eftpos) and internet banking.

NBS also offers insurance products to customers as an agent for a number of large, third-party product manufacturers (eg AXA, AMP, Fidelity, Tower and AMI). Products include income protection, term life, trauma, health, home and contents, boat, motor vehicle and caravan insurance.

Structure and Governance

NBS is an unlisted, mutual building society, meaning that it is owned by its customers (depositors) rather than by shareholders. Consequently, it focuses less on absolute returns than publicly listed financial institutions.

The board comprises a chair, deputy chair and three other non-executive directors. It meets monthly and has responsibility for all governance and risk management issues. There are no board sub-committees.

Industry Structure and Regulatory Environment

Along with finance companies and credit unions which accept retail deposits/debentures, building societies in NZ are classified as NBDTIs. Although they number around 70, their combined assets account for less than 10% of total banking system assets.

Building societies in NZ appear to have largely withstood the adverse effects of the global financial crisis on retail depositor confidence. A 'flight to quality' has taken place where depositors were concerned about an institution's liquidity, however, building societies generally appear to have benefitted from the customer loyalty which characterises their mutual business model and have maintained reasonably stable retail funding bases.

The RBNZ will assume responsibility for the prudential supervision of NBDTIs in 2010. Under the new regime, all NBDTIs will be required to comply with minimum prudential and governance standards stipulated by the RBNZ and monitored by governing bodies (ie trustees). Many of the proposed reforms are taking shape, particularly in relation to risk management policies and capital.

NBS's trustee (the Trustees' Executors and Agency Company of New Zealand) is responsible for protecting the interests of current and future depositors who deposit funds with NBS. The trustee monitors various financial covenants by way of specific ratios, including:

- Total liabilities/total tangible assets ratio: maximum 95%,
- Total secured liabilities/total tangible assets ratio: maximum of 1%, and
- Liquid assets/total tangible assets ratio: minimum of 15%.

Financial Performance

NBS reports under the NZ equivalent of IFRS (NZIFRS) and results for FY07 have also been restated in this report. Prior year results have been reported under NZGAAP. Ratios are based on Fitch's calculations and may differ from NBS's and peer results.

Financial Information

	31 Mar 09	31 Mar 08	31 Mar 07	31 Mar 06	31 Mar 05
Financial position (NZDm)					
Total assets	248	224	207	191	170
Total equity	17	18	16	7	7
Financial performance (NZD000)					
Net profit after tax	794	807	585	335	235
Net interest income	5,558	5,305	3,984	3,197	3,048
Non-interest income	904	941	1,032	1,186	865
Operating expenses	4,504	4,574	3,953	3,785	3,445
Financial performance (%)					
ROAA	0.46	0.64	0.30	0.19	0.15
ROAE	5.88	7.90	5.14	4.84	3.72
Net interest margin	2.56	2.16	2.03	1.89	2.02
Non-interest income/operating income	12.8	15.1	20.6	27.1	22.1
Costs/income	70.7	74.2	82.9	86.4	88.0
Asset quality (%)					
Gross impairments/gross loans	0.74	0	0	0	0
Loan loss provision/pre-tax pre-provision profit	43	13	16	25	26
Capital adequacy (%)					
Equity/assets	6.95	8.30	7.39	3.72	3.95

Source: NBS

NBS reported a 20% decrease in operating profit to NZD1.1m at FYE09 (FYE08: NZD1.4m), primarily due to loan impairment charges of NZD800,000 which offset a 7% increase in net interest income to NZD5.6m, underpinned by a relatively high NIM of 2.56%.

Net Interest Income

NBS reported modest net interest income growth of 5% yoy to NZD5.6m at FYE09 (FYE08: NZD5.3m), reflecting a competitive retail funding market, softer lending growth and increased liquid asset holdings. The NIM of 2.56% is higher than peers' (FYE08: 2.16%) and increased mainly due to declining interest rates and the short-term nature of NBS's funding book, which allows the impact of re-pricing deposits to flow through to the NIM sooner than does the re-pricing of longer term fixed-rate loans.

Net interest income growth is expected to remain modest in FY10, as increased demand for borrowing is likely to be largely dependent on improved economic conditions.

Peer Comparison

	31 Mar 09					31 Mar 09 ^a
	Nelson	TSB Bank	Kiwibank	SBS	Wairarapa	NZ major bank average
Total assets (NZDm)	248	3,832	7,216	2,541	113	80,285
Total equity (NZDm)	17	303	326	156	16	4,938
Net profit after tax (NZDm)	0.7	42.9	37	12	0.2	335
Net interest margin (%)	2.56	2.69	1.95	2.50	2.20	2.14
Non-interest income/operating income (%)	12.8	14.4	51.7	20.8	17.6	29.2
Costs/income (%)	70.7	39.9	75.4	55.2	73.4	40.7

^a Includes data for ASB Bank Limited as at 31 December 2008
Source: Annual and interim financial reports

Non-Interest Income

Non-interest income decreased by 2% to NZD904,000, mainly due to reduced fee and commission income because of moderate lending activity. As a result, non-interest income accounted for around 13% of total operating income, which is below historical levels. Fitch expects loan fee revenue to increase as property market conditions improve.

Operating Expense

NBS demonstrated good cost control in FY09, with operating expenses decreasing by about NZD70,000 to NZD4.5m. As a result, the cost/income ratio decreased to 70.7% (FYE08: 74.2%), although it remains at the higher end of its peer group due to the proportionately large branch network that NBS operates. Due to its size and customer service model, which is mostly branch-based, NBS's cost/income ratio is unlikely to reflect the scale typically enjoyed by larger, more diversified institutions.

Loan Impairment Expense

NBS reported a loan impairment charge (net of recoveries) of NZD812,000 at 31 March 2009 (FYE08: NZD212,000), which equated to a relatively high 43% of pre-tax, pre-provision profit (FYE08: 18%) compared with peers. However, the increase relates to one impaired loan, reflecting a modest deterioration in asset quality within NBS's relatively small loan portfolio.

Outlook

Like most other NZ financial institutions, asset quality deterioration is expected to be a key factor affecting NBS's profitability in FY10. The prospect of a full economic recovery in NZ appears to be largely dependent on greater demand for manufactured and services exports by major trading partners, which may take some time. The short-term outlook for the NZ agricultural sector remains generally negative, while more broadly, higher unemployment could increase pressure on property prices. However, NBS's conservative lending practices should provide a reasonable buffer against material credit losses in the event of foreclosure.

Risk Management

NBS demonstrates a prudent approach to risk management and processes appear adequate for the size and nature of its core business. The board and general manager (GM) are responsible for overall performance and risk management across the business.

Credit Risk

Due to conservative lending practices and active management of overdue accounts, NBS reported only one impaired loan (NZD1.4m) at 31 March 2009; the first impaired loan reported since FYE03. However, due to its relatively large size in terms of the overall loan portfolio, the impaired loan represented 0.74% of gross loans, which is high compared with the average of 0.63% for NZ's four major banks at 31 March 2009.

Loans account for a high 78% of NBS's asset base, making credit its primary risk. NBS lends mainly for residential mortgages, which accounted for 66% of the loan portfolio at 31 March 2009. Commercial loans represented 29% of the total, with consumer finance and unsecured personal loans together accounting for about 5%.

NBS has demonstrated a particularly disciplined approach to lending during the downturn by lowering its maximum LTV ratios for residential mortgages to 70% (from 80%) and to 50% for commercial loans (from 60%) during FY09. The total loan portfolio has a low average LTV ratio of 60%. Borrowers with mortgages that have LTV ratios in excess of 80% are required to purchase lender's mortgage insurance (LMI), which protects the lender against losses incurred in the event of foreclosure.

About 80% of all lending is undertaken in the Nelson region, and although the local economy appears to have withstood NZ's economic recession reasonably well, NBS is exposed to geographic concentration risk. However, the risk of loss is partly offset by the familiarity of lending staff with local business and property market conditions and is reflected in NBS's strong asset quality and proven ability to minimise losses by actively managing problem loans. Residential mortgages are secured by a first-ranking mortgage over residential property for a maximum term of 30 years. All loan applications require a registered valuation and a prudent test of a borrower's debt servicing capacity.

Commercial loans are secured by a first-ranking mortgage over commercial property, and NBS will generally lend up to a maximum LTV of 60%. A small proportion of these loans are secured by residential property. NBS typically requires a supported guarantee and directors' guarantees for loans to companies. Commercial loan applications must include detailed budget and cash flow forecasts and carry a maximum term of 15 years.

Consumer/personal finance accounts for less than 5% of total lending, and is typically provided for the purchase of registered motor vehicles. Arrears are managed by a dedicated staff member in the credit control function, who closely manages overdue accounts and will recommend taking action to enforce security if a customer fails to make payments or communicate with NBS.

Delegated lending authorities (DLAs) are granted by the board to the general manager (GM), assistant GM, credit manager, branch managers and personal bankers, and are scaled according to their credit risk management experience. Individuals with a DLA are authorised to approve loans that meet NBS's standard underwriting criteria – applications that do not meet the criteria are forwarded to the credit manager. NBS's credit policy has clear designations for loan approvals when they exceed modest thresholds with residential mortgage requiring approval by senior credit officers and commercial loan applications requiring approval from a director.

More generally, overdue accounts are managed via a daily exceptions report that detects all accounts in arrears by as little as one day. The report includes any overdrawn accounts or those in excess of approved limits and is sent to each of the six branches from the head office in Nelson each morning. The credit manager sends a monthly performance report to branch managers who provide feedback and commentary regarding overdue accounts or accounts in breach of limits. This report goes to the board monthly, as does a weekly, monthly and quarterly report to NBS's trustee.

Large exposures are defined as loans that require sign-off by the GM or a board member (ie residential mortgages greater than NZD1m or commercial loans in excess of NZD750,000). NBS's 10 largest loan exposures at 31 March 2009 totalled NZD24.2m, equating to 13% of net loans or relatively high 140% of equity.

Operational Risk

NBS has adequate operational risk management systems given its size and the low complexity of its business. The GM is primarily responsible for internal operational risk management oversight and Deloitte undertakes an annual external audit. Business continuity planning employs data replication (ie back-up tapes) to ensure core functions will continue in emergencies. IT systems and support are based in Auckland and NBS has outsourced daily clearing and settlement processes to Westpac New Zealand Limited.

Market Risk

NBS's primary market risk is interest rate risk arising from asset and liability repricing. At 31 March 2009, about 89% of the loan portfolio was fixed-rate loans with a maximum term of two years. However, 97% of term retail deposits mature (and

therefore, re-price) within 12 months. Consequently, NBS is exposed to the risk of interest rate movements adversely affecting the value of its business (ie in a rising interest rate environment, NBS will pass on the increase to depositors within 12 months, but may not be able to immediately pass on the increased cost of funding to its borrowers, resulting in a pricing mismatch).

NBS is planning to introduce interest rate swaps to manage market risk during FY10. However, contractually, NBS is able to re-price variable rate loans based on a 30-day notice period, which overcomes some of the mismatch risk.

Funding, Liquidity and Capital

Funding

NBS funds itself almost entirely from retail deposits in the form of either term deposits (85%) or call deposits (15%). All deposits rank equally in the event of a winding up.

NBS also has access to NZD10m of undrawn, committed bank funding: NZD4m from SBS Bank (via a residential mortgage warehousing facility) and NZD6m from Westpac New Zealand Limited. The facilities are renewable every 12 and 18 months, respectively. These funding lines are not secured but may be withdrawn (and must be repaid) if NBS breaches a trust deed covenant.

Funding Structure

(NZDm)	31 Mar 09	(%)	31 Mar 08	(%)	30 Sep 07	(%)
Debt						
Call deposits	34.9	14	27.0	12	54.6	23
Term deposits	195.0	78	177.1	79	144.0	62
Equity						
Preference shares	9.2	4	10.7	5	12.2	5
Retained earnings	7.0	3	7.9	4	7.9	3
Other borrowings	2.3	1	1.4	0	14.1	7
Total	248.4	100	224.1	100	232.8	100

Source: Annual report

Liquidity

NBS monitors its liquidity position on a daily basis and manages its liquid asset holdings according to a trust deed covenant, which stipulates a minimum liquid assets-to-total tangible assets ratio of 15%, although NBS targets a minimum ratio of 18%. Liquid assets include cash, registered bank and local authority deposits rated 'AA' (minimum long-term foreign currency ratings) and debentures with listed NZ companies.

The undrawn portions of NBS's bank funding facilities also qualify as liquid assets in trust deed calculations: NBS reported a liquid assets/total tangible assets of 21% at 31 March 2009, which is well above the minimum 15% required under its trust deed (FYE08: 17%).

Capital

NBS manages capital according to the terms of its trust deed, which stipulates that total liabilities must not exceed 95% of total tangible assets, equating to a minimum 5% equity/assets ratio. At 31 March 2009, equity comprised perpetual preference shares (NZD9.2m), retained earnings (NZD7.0m) and revaluation reserves (NZD1m), and the equity/assets ratio was a relatively modest 6.95% at FYE09 compared with peers', but remains above the required minimum.

Total equity has been somewhat variable since FYE07, due mainly to transactions relating to preference shares. NBS's preference shares are equity like in nature (ie they carry no voting rights, no cumulative right to interest (dividend) and are only redeemable at the option of NBS). However, only 50% of preference shares are

eligible as Tier 1 capital under the proposed capital adequacy framework for NBDTIs. On this basis, Fitch estimates that NBS would report a Tier 1 ratio in excess of 9% at 31 March 2009.

NBS will be required to report capital according to the RBNZ's proposed capital adequacy framework for NBDTIs in FY10, which sets out asset risk weightings that are broadly consistent with those under the standardised approach to regulatory capital calculations under Basel II.

NELSON BUILDING SOCIETY

Income Statement

	31 Mar 2009				31 Mar 2008			31 Mar 2007	
	Year End	Year End	As % of	Average	Year End	As % of	Year End	As % of	
	USDm	NZDth	Earning Assets	NZDth	NZDth	Earning Assets	NZDth	Earning Assets	
	Original	Original	Original	Original	Original	Original	Restated	Restated	
Income Statement									
1. Interest Income on Loans	11.0	19,630.0	9.76	19,138.0	18,646.0	9.64	15,441.0	-	
2. Other Interest Income	1.4	2,521.0	1.25	2,326.0	2,131.0	1.10	1,796.0	-	
3. Dividend Income	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
4. Gross Interest and Dividend Income	12.5	22,151.0	11.01	21,464.0	20,777.0	10.75	17,237.0	-	
5. Interest Expense on Customer Deposits	9.2	16,349.0	8.13	15,780.0	15,211.0	7.87	13,012.0	-	
6. Preferred Dividends Paid & Declared	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
7. Other Interest Expense	0.1	244.0	0.12	252.5	261.0	0.13	241.0	-	
8. Total Interest Expense	9.3	16,593.0	8.25	16,032.5	15,472.0	8.00	13,253.0	-	
9. Net Interest Income	3.1	5,558.0	2.76	5,431.5	5,305.0	2.74	3,984.0	-	
10. Net Gains (Losses) on Trading and Derivatives	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
11. Net Gains (Losses) on Other Securities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
12. Net Gains (Losses) on Assets at FV through Income Statement	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
13. Net Insurance Income	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
14. Net Fees and Commissions	0.1	104.0	0.05	146.5	189.0	0.10	120.0	-	
15. Other Operating Income	0.4	710.0	0.35	689.5	669.0	0.35	663.0	-	
16. Total Non-Interest Operating Income	0.5	814.0	0.40	836.0	858.0	0.44	783.0	-	
17. Personnel Expenses	1.1	1,902.0	0.95	1,883.5	1,865.0	0.96	1,619.0	-	
18. Other Operating Expenses	1.5	2,602.0	1.29	2,655.5	2,709.0	1.40	2,334.0	-	
19. Total Non-Interest Expenses	2.5	4,504.0	2.24	4,539.0	4,574.0	2.37	3,953.0	-	
20. Equity-accounted Profit/ Loss - Operating	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
21. Pre-Impairment Operating Profit	1.1	1,868.0	0.93	1,728.5	1,589.0	0.82	814.0	-	
22. Loan Impairment Charge	0.5	812.0	0.40	512.0	212.0	0.11	3.0	-	
23. Other Credit Impairment Charges	n.a.	n.a.	-	n.a.	n.a.	-	144.0	-	
24. Operating Profit	0.6	1,056.0	0.52	1,216.5	1,377.0	0.71	667.0	-	
25. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
26. Non-recurring Income	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
27. Non-recurring Expense	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
28. Change in Fair Value of Own Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
29. Other Non-operating Income and Expenses	0.1	90.0	0.04	75.0	60.0	0.03	239.0	-	
30. Pre-tax Profit	0.6	1,146.0	0.57	1,291.5	1,437.0	0.74	906.0	-	
31. Tax expense	0.2	392.0	0.19	511.0	630.0	0.33	224.0	-	
32. Net Income	0.4	754.0	0.37	780.5	807.0	0.42	682.0	-	
33. Profit/Loss from Discontinued Operations	n.a.	n.a.	-	n.a.	n.a.	-	-97.0	-	
34. Change in Value of AFS Investments	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
35. Currency Translation Differences	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
36. Remaining OCI Gains/(losses)	n.a.	n.a.	-	n.a.	50.0	0.03	951.0	-	
37. Fitch Comprehensive Income	0.4	754.0	0.37	805.5	857.0	0.44	1,536.0	-	
38. Memo: Profit Allocation to Non-controlling Interests	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
39. Memo: Net Income after Allocation to Non-controlling Interests	0.4	754.0	0.37	780.5	807.0	0.42	682.0	-	
40. Memo: Common Dividends Paid & Declared in the Period	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
Exchange Rate		USD1 = NZD 1.7790			USD1 = NZD 1.2602		USD1 = NZD 1.4029		

NELSON BUILDING SOCIETY
Assets & Off-Balance Sheet Items

	31 Mar 2009				31 Mar 2008		31 Mar 2007	
	Year End USDm	Year End NZDth	As % of Assets	Average NZDth	Year End NZDth	As % of Assets	Year End NZDth	As % of Assets
	Original	Original	Original	Original	Original	Original	Restated	Restated
A. Loans								
1. Residential Mortgage Loans	103.9	184,908.0	74.41	185,300.5	185,693.0	82.88	173,332.0	83.61
2. Other Consumer/ Retail Loans	4.8	8,560.0	3.44	8,652.0	8,744.0	3.90	7,159.0	3.45
3. Corporate & Commercial Loans	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
4. Other Loans	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
5. Less: Reserves for Impaired Loans/ NPLs	0.4	716.0	0.29	432.0	148.0	0.07	148.0	0.07
6. Total Loans Net of Reserves	108.3	192,752.0	77.57	193,520.5	194,289.0	86.72	180,343.0	86.99
7. Memo: Gross Loans	108.8	193,468.0	77.86	193,952.5	194,437.0	86.78	180,491.0	87.06
8. Memo: Impaired Loans included above	0.8	1,435.0	0.58	717.5	0.0	0.00	0.0	0.00
9. Memo: Loans at Fair Value included above	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
B. Other Earning Assets								
1. Loans and Advances to Banks	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
2. Trading Securities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Derivatives	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
4. Available for Sale Securities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
5. Held to Maturity Securities	4.3	7,702.0	3.10	5,619.0	3,536.0	1.58	4,581.0	2.21
6. At-equity Investments	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
7. Other Securities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
8. Total Securities	4.3	7,702.0	3.10	5,619.0	3,536.0	1.58	4,581.0	2.21
9. Memo: Government Securities included Above	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
10. Investments in Property	1.2	2,090.0	0.84	2,045.0	2,000.0	0.89	1,940.0	0.94
11. Insurance Assets	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
12. Other Earning Assets	n.a.	n.a.	-	n.a.	0.0	0.00	0.0	0.00
13. Total Earning Assets	113.9	202,544.0	81.51	201,184.5	199,825.0	89.19	186,864.0	90.13
C. Non-Earning Assets								
1. Cash and Due From Banks	24.0	42,693.0	17.18	31,974.0	21,255.0	9.49	17,313.0	8.35
2. Foreclosed Real Estate	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Fixed Assets	1.5	2,641.0	1.06	2,249.0	1,857.0	0.83	1,811.0	0.87
4. Goodwill	n.a.	n.a.	-	n.a.	0.0	0.00	0.0	0.00
5. Other Intangibles	0.0	76.0	0.03	118.0	160.0	0.07	362.0	0.17
6. Current Tax Assets	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
7. Deferred Tax Assets	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
8. Discontinued Operations	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
9. Other Assets	0.3	530.0	0.21	743.5	957.0	0.43	966.0	0.47
10. Total Assets	139.7	248,484.0	100.00	236,269.0	224,054.0	100.00	207,316.0	100.00
D. Off-Balance Sheet Items								
1. Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
2. Liquidity Lines to SPEs	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Guarantees	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
4. Acceptances Reported Off-Balance Sheet	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
5. Committed Credit Lines	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
6. Other Contingent Liabilities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
7. Total Business Volume	139.7	248,484.0	100.00	236,269.0	224,054.0	100.00	207,316.0	100.00
8. Memo: Total Weighted Risks	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
Exchange Rate		USD1 = NZD 1.7790			USD1 = NZD 1.2602		USD1 = NZD 1.4029	

NELSON BUILDING SOCIETY

Liabilities and Equity

	31 Mar 2009				31 Mar 2008		31 Mar 2007	
	Year End USDm	Year End NZDth	As % of Assets	Average NZDth	Year End NZDth	As % of Assets	Year End NZDth	As % of Assets
	Original	Original	Original	Original	Original	Original	Restated	Restated
E. Interest-Bearing Liabilities								
1. Customer Deposits - Current	19.6	34,902.0	14.05	30,974.5	27,047.0	12.07	28,627.0	13.81
2. Customer Deposits - Savings	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Customer Deposits - Term	109.6	195,045.0	78.49	186,057.0	177,069.0	79.03	159,535.0	76.95
4. Total Customer Deposits	129.3	229,947.0	92.54	217,031.5	204,116.0	91.10	188,162.0	90.76
5. Deposits from Banks	n.a.	n.a.	-	n.a.	n.a.	-	2,000.0	0.96
6. Other Deposits and Short-term Borrowings	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
7. Total Deposits, Money Market and Short-term Funding	129.3	229,947.0	92.54	217,031.5	204,116.0	91.10	190,162.0	91.73
8. Long-term Borrowing	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
9. Subordinated Borrowing	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
10. Other Funding	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
11. Total Long Term Funding	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
12. Derivatives	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
13. Trading Liabilities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
14. Total Interest Bearing Liabilities	129.3	229,947.0	92.54	217,031.5	204,116.0	91.10	190,162.0	91.73
F. Non-Interest Bearing Liabilities								
1. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
2. Credit impairment reserves	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Reserves for Pensions and Other	0.1	143.0	0.06	134.0	125.0	0.06	116.0	0.06
4. Current Tax Liabilities	0.1	188.0	0.08	190.5	193.0	0.09	54.0	0.03
5. Deferred Tax Liabilities	0.0	59.0	0.02	141.0	223.0	0.10	138.0	0.07
6. Other Deferred Liabilities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
7. Discontinued Operations	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
8. Insurance Liabilities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
9. Other Non-interest Bearing Liabilities	0.5	882.0	0.35	846.0	810.0	0.36	578.0	0.28
10. Total Liabilities	130.0	231,219.0	93.05	218,343.0	205,467.0	91.70	191,048.0	92.15
G. Hybrid Capital								
1. Pref. Shares and Hybrid Capital accounted for as Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
2. Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
H. Equity								
1. Common Equity	9.1	16,264.0	6.55	16,925.0	17,586.0	7.85	15,317.0	7.39
2. Non-controlling Interest	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Securities Revaluation Reserves	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
4. Accumulated Other Comprehensive Income	0.6	1,001.0	0.40	1,001.0	1,001.0	0.45	951.0	0.46
5. Total Equity	9.7	17,265.0	6.95	17,926.0	18,587.0	8.30	16,268.0	7.85
6. Total Liabilities and Equity	139.7	248,484.0	100.00	236,269.0	224,054.0	100.00	207,316.0	100.00
7. Memo: Fitch Core Capital	9.7	17,265.0	6.95	17,926.0	18,587.0	8.30	16,268.0	7.85
8. Memo: Fitch Eligible Capital	9.7	17,265.0	6.95	21,908.9	26,552.8	11.85	23,240.0	11.21
Exchange Rate		USD1 = NZD 1.7790			USD1 = NZD 1.2602		USD1 = NZD 1.4029	

NELSON BUILDING SOCIETY

Summary Analytics

	31 Mar 2009	31 Mar 2008	31 Mar 2007
	Year End NZDth Original	Year End NZDth Original	Year End NZDth Restated
A. Interest Ratios			
1. Interest Income on Loans/ Average Net Loans	10.21	9.95	n.a.
2. Interest Expense on Customer Deposits/ Average Customer Deposits	7.73	7.76	n.a.
3. Interest Income/ Average Earning Assets	11.01	10.75	n.a.
4. Interest Expense/ Average Interest-bearing Liabilities	7.84	7.85	n.a.
5. Net Interest Revenue/ Average Earning Assets	2.76	2.74	n.a.
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	2.36	2.63	n.a.
B. Other Operating Profitability Ratios			
1. Non-interest Income/ Gross Revenues	12.77	13.92	16.43
2. Non-Interest Expense/ Gross Revenues	70.68	74.22	82.92
3. Pre-impairment Op. Profit/ Average Equity	10.39	9.12	n.a.
4. Pre-impairment Op. Profit/ Average Total Assets	0.81	0.74	n.a.
5. Credit Impairment Charges/ Pre-impairment Op. Profit	43.47	13.34	18.06
6. Operating Profit/ Average Equity	5.88	7.90	n.a.
7. Operating Profit/ Average Total Assets	0.46	0.64	n.a.
8. Taxes/ Pre-tax Profit	34.21	43.84	24.72
C. Other Profitability Ratios			
1. Net Income/ Average Total Equity	4.20	4.63	n.a.
2. Net Income/ Average Total Assets	0.33	0.37	n.a.
3. Fitch Comprehensive Income/ Average Total Equity	4.20	4.92	n.a.
4. Fitch Comprehensive Income/ Average Total Assets	0.33	0.40	n.a.
5. Net Income/ Av. Total Assets plus Av. Managed Assets	n.a.	n.a.	n.a.
D. Capitalization			
1. Fitch Eligible Capital/ Regulatory Weighted Risks	n.a.	n.a.	n.a.
2. Tangible Common Equity/ Tangible Assets	6.92	8.23	7.69
3. Tier 1 Regulatory Capital Ratio	n.a.	n.a.	n.a.
4. Total Regulatory Capital Ratio	n.a.	n.a.	n.a.
5. Fitch Eligible Capital/ Tier 1 Regulatory Capital	n.a.	n.a.	n.a.
6. Equity/ Total Assets	6.95	8.30	7.85
7. Cash Dividends Paid & Declared/ Net Income	n.a.	n.a.	n.a.
8. Cash Dividend Paid & Declared/ Fitch Comprehensive Income	n.a.	n.a.	n.a.
9. Net Income - Cash Dividends/ Total Equity	n.a.	n.a.	n.a.
E. Loan Quality			
1. Growth of Total Assets	10.90	8.07	n.a.
2. Growth of Gross Loans	-0.50	7.73	n.a.
3. Impaired Loans(NPLs)/ Gross Loans	0.74	0.00	0.00
4. Loan Impairment Reserves/ Gross loans	0.37	0.08	0.08
5. Reserves for Impaired Loans/ Impaired Loans	49.90	n.a.	n.a.
6. Impaired Loans less Reserves for Imp Loans/ Equity	4.16	-0.80	-0.91
7. Loan Impairment Charges/ Average Gross Loans	0.42	0.11	n.a.
8. Net Charge-offs/ Average Gross Loans	0.13	0.11	n.a.
9. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	n.a.	n.a.	n.a.
F. Liquidity			
1. Loans/ Customer Deposits	84.14	95.26	95.92
2. Loans/ Deposits and Short-term Funding	84.14	95.26	94.91
3. Liquid Assets/ Total Assets	n.a.	n.a.	n.a.
4. Liquid Assets/ Wholesale Funding	n.a.	n.a.	n.a.
5. Wholesale Funding/ Total Funding and Capital	n.a.	n.a.	n.a.

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