

PROSPECTUS

No. 31

**FOR THE ISSUE OF DEBT SECURITIES
AS DEFINED IN THE SECURITIES ACT 1978
UP TO A MAXIMUM OF \$220,000,000**

ISSUE DATE: 31 AUGUST 2006

The Index of Matters Required in a Registered Prospectus for Debt Securities as set down in the Securities Regulations 1983

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NAME OF ISSUER

Nelson Building Society (“the Society”)

REGISTERED OFFICE

111 Trafalgar Street, NELSON, 7001

THE ISSUER

Nelson Building Society is a Building Society incorporated under the Building Societies Act 1965 and registered on 22nd April 1862. The Society’s registration number is 1881/1. Copies of the documents forming the Society’s public file may be obtained (on payment of a fee) by telephoning the Companies Office Contact Centre at 0508 266 726. File reference “CHBS 1881/1” should be quoted. Copies of the Rules of the Society may be inspected and are available during normal office hours at 111 Trafalgar Street, Nelson and 207 Queen Street, Richmond.

CURRENCY OF ISSUE

The Society reserves the right to close this offer of Securities, refuse in whole or part and without assigning reasons any funds offered to it, and or issue a new Prospectus in substitution for or in addition to this Prospectus at any time.

REGISTRATION

A copy of this Prospectus duly signed and having attached thereto the documents required by Section 41 of the Securities Act 1978 (being the Auditor’s Report as set out on pages 7 - 9 of this Prospectus, the Auditors consent to their report and the Trustee’s letter as set out on page 10 of this Prospectus) was delivered for registration to the offices of the Companies Office, Level 5, District Court Building, 3 Kingston Street, Auckland on the 31st day of August 2006.

MAIN TERMS OF OFFER

DESCRIPTION OF THE ACTIVITIES OF THE SOCIETY

The raising by subscriptions of the members and deposits from the public of a fund for making advances to members or other persons on security by way of mortgage of freehold or leasehold land, or on the security of the shares of members. To afford facilities to its investors for the profitable advances upon security of freehold or leasehold properties. To afford facilities by way of advances under Consumer Lending contracts secured on motor vehicles or chattels. The activities of the Society being conducted primarily within the Nelson region. The Society has, during the five years prior to the date of this Prospectus, been engaged in providing and developing these activities.

Amounts owing by the six largest borrowers (ie, mortgage advances) as at 31 March 2006 totalled \$9,968,849.49 or 6.41% of the total advances. (March 2005: \$8,338,287 being 6.08%)

PLANS, PROSPECTS AND FORECASTS

The Society intends to continue to carry on the activities of a Building Society mentioned above, funded by deposits and subscriptions from members.

SECURITIES OFFERED

All securities (being Deposits and Redeemable Shares) (the “Securities”) offered are unsecured Debt Securities under the terms of the Securities Act 1978 and the Securities Act (Building Societies) Exemption Notice 2002 (SR2002/319). This Prospectus is for the issue of Debt Securities up to a maximum of \$220,000,000.

Deposits: Deposits rank ahead of Redeemable Shares in the event of the Society’s dissolution or winding up. A Member’s Liability is limited to the amount invested.

Redeemable Shares: The Society’s Rules provide for the issue of fully paid redeemable shares of \$1.00 each to be issued for no fixed term or for such fixed term as the Board may determine at the time of issue of the shares. Shares issued for a fixed term may be fixed as to time or related to a specific purpose. A Member’s Liability is limited to the amount invested. In the event of the Society’s dissolution or winding up, the holders of any class of the abovementioned shares participate in the Society’s Reserves. Shareholders are entitled to attend any Special or Annual General Meeting of the Society. Each shareholder age 18 years or more who holds shares to the value of \$200.00 or more, is entitled to one vote. In the case of joint shareholding, the person named first in the Society’s records is entitled to vote.

APPLICATION FORMS

No application forms are required in respect of any transaction on a deposit or share account. Deposits and shares are accepted by the Society subject to the terms agreed by negotiation, established by the normal course of business, and/or contained in this Prospectus or the Rules of the Society and applicable law. There is no minimum subscription for deposits or shares and all subscriptions must be in cash.

PAYMENT OF INTEREST

The rate at which interest (if any) is payable and the manner in which it is calculated and paid in respect of deposits and shares is fixed by negotiation and any such rate or manner of calculation or payment may be reviewed by the Society from time to time except in the case of deposits or shares for a fixed term in which case the interest rate will remain as negotiated at the time of acceptance.

TRANSFER & NEW ZEALAND STOCK EXCHANGE

The Securities are not transferable. Listing of the Securities on the New Zealand Stock Exchange is not being sought.

PENDING PROCEEDINGS

There are no legal proceedings or arbitrations pending at the date of this Prospectus that may have a material adverse effect on the Society.

RANKING OF SECURITIES

The Debt Securities being offered are unsecured Deposits and Redeemable Shares. The unsecured Deposits rank equally with the Society’s other unsecured Deposits (\$54,376,951 as at 31 March 2006) and ahead of Redeemable Shares (\$122,769,475 as at 31 March 2006). As at the 31st day of March 2006, there were no securities that were secured by a mortgage or charge over any of the

Society's assets and accordingly that rank in priority ahead of these securities. There are no charges registered over any of the Society's assets.

MATERIAL CONTRACTS

There are no material contracts entered into by the Society during the previous two years other than contracts entered into in the ordinary course of the business of the Society.

ISSUE EXPENSES

There will be no material issue expenses as this issue is not being made through a promoter or any organising brokers. Brokerage will be paid to agents during the term of this Prospectus for some funds received. Brokerage is paid monthly and is calculated on the investment balance of the agency at the end of each month at the rate of either 0.50% per annum or 0.75% per annum. This Prospectus has been prepared and printed by staff of the Society using equipment owned by the Society. The estimated cost of issuing this Prospectus is \$3,700.

REPAYMENT

The Society reserves the right to repay any call deposits or shares at any time. Deposits and shares which are accepted for a fixed term and for which the Society has not received instructions for re-investment or repayment by the date of maturity will be re-invested at the rate of interest (if any) then being paid by the Society for deposits or shares of similar amounts for the terms on current issue.

EARLY REPAYMENT

Deposits and shares for fixed terms will usually be repaid only on maturity, but in exceptional circumstances, and at the Society's sole discretion, they may be repaid prior to maturity. In any case of withdrawal before maturity, the Society reserves the right to adjust the interest rate to that which would have applied had the shortened period been the term originally fixed for the deposit or shares.

DIRECTORS' STATEMENT

In the opinion of the Directors of the Society after due enquiry by them in relation to the period between 31 March 2006 and the specified date, no circumstances have arisen which materially adversely affect the trading or profitability of the Society, the value of its assets, or of its ability to pay its liabilities due within the next twelve months.

Trevor Nelson Cameron (Chairman)

Garry Richard Dayman

Phillip James Robson

Paul Anthony Bell

Jeffrey Craig Taylor

*PROVISIONS APPLICABLE TO DEBT SECURITIES
DIRECTORATE & ADVISORS*

<i>Directors</i>	T N Cameron (Chairman) 10 Di Pierri Way NELSON 7001	Chartered Accountant
	P A Bell 18 The Cliffs NELSON 7001	Company Director “Appointed July 2006 replacing K A Carr”
	J C Taylor 466 Main Road, Stoke NELSON 7001	Company Manager
	P J Robson 53 Fifeshire Crescent NELSON 7001	Businessman
	G R Dayman 2 Whitehead Place NELSON 7001	Dealer Principal
<i>General Manager</i>	K J Beams Neudorf Road Upper Moutere NELSON 7152	
<i>Secretary Securities Registrar</i>	A J Cadigan 27 Lobank Place, Richmond NELSON 7001	
<i>Auditor</i>	Deloitte 32 Oxford Street Christchurch	
<i>Solicitor</i>	Glasgow Harley Halifax Street NELSON 7001	
<i>Trustee</i>	Trustees Executors Limited Level 1 50-64 Customhouse Quay WELLINGTON	
<i>Registered Valuers</i>	Duke & Cooke Limited 42 Halifax Street NELSON 7001	

31 August 2006

The Directors
Nelson Building Society
P O Box 62
NELSON

Dear Directors

AUDITOR'S REPORT FOR INCLUSION IN PROSPECTUS

As auditor of Nelson Building Society (the 'Society'), we have prepared this report pursuant to clause 36 of the Second Schedule of the Securities Regulations 1983 for inclusion in a prospectus to be dated 31 August 2006 for the issue of debt securities up to a maximum of \$220,000,000.

We have audited the financial statements of the Society, set out at pages 16 to 31. The financial statements provide information about the past financial performance and cash flows of the Society for the year ended 31 March 2006 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 19 to 21.

We report on the summary of financial statements of the Society set out on page 15. The summary of financial statements has been taken from the audited financial statements for the financial years ended 31 March 2002, 31 March 2003, 31 March 2004, 31 March 2005 and 31 March 2006. The financial statements of the Society for the years ended 31 March 2002, 31 March 2003 and 31 March 2004 were audited by West Yates. The financial statements of the Society for the years ended 31 March 2005 and 31 March 2006 were audited by Deloitte.

We report on the information provided in respect of the ranking of securities of the Society as at 31 March 2006. The amounts in respect of the ranking of securities have been taken from the audited financial statements of the Society for the year ended 31 March 2006.

Board of Directors' Responsibilities

The board of directors (the 'directors') are responsible for the preparation of:

- (a) the financial statements as required by clauses 16 to 32 of the Second Schedule of the Securities Regulations 1983, that comply with the regulations; and subject to the regulations comply with generally accepted accounting practice in New Zealand; and give a true and fair view of the state of affairs of the Society as at 31 March 2006 and its financial performance and cash flows for the financial year ended on that date; and
- (b) the summary of financial statements of the Society for the financial years ended 31 March 2002, 31 March 2003, 31 March 2004, 31 March 2005 and 31 March 2006 as required by clauses 7(2) and 7(3) of the Second Schedule of the Securities Regulations 1983.
- (c) the details and amounts in respect of the ranking of securities of the Society as at 31 March 2006 as required by clause 12 of the Second Schedule of the Securities Regulations 1983.

Auditors' Responsibilities

It is our responsibility to:

- (a) express an independent opinion on the financial statements of the Society as at 31 March 2006 and for the year ended on that date, prepared and presented by the directors, and report our opinion in accordance with clause 36(1) of the Second Schedule of the Securities Regulations 1983; and
- (b) report in accordance with clause 36(1)(g) of the Second Schedule of the Securities Regulations 1983 on the amounts included in the summary of financial statements for the financial years ended 31 March 2002, 31 March 2003, 31 March 2004, 31 March 2005 and 31 March 2006 presented by the directors; and
- (c) report in accordance with clause 36(1)(g) of the Second Schedule of the Securities Regulations 1983 on the amounts included in the ranking of securities of the Society as at 31 March 2006 presented by the directors.

This report has been prepared for inclusion in the prospectus for the purpose of meeting the requirements of clause 36 of the Second Schedule of the Securities Regulations 1983. We disclaim any assumptions of responsibility for reliance on this report or the amounts included in the financial statements, the summary financial statements or the amounts included in the ranking of securities, for any other purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the prospectus not specifically mentioned in this report.

Basis of Opinion on the Financial Statements

An audit of the financial statements for the year ended 31 March 2006 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 Society 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.

Basis of Opinion on the Summary of Financial Statements

We have undertaken procedures to provide reasonable assurance that the amounts set out in the summary of financial statements on page 15 of this prospectus, pursuant to clauses 7(2) and 7(3) of the Second Schedule of the Securities Regulations 1983, have been correctly taken from the audited financial statements of the Society for the financial years ended 31 March 2002, 31 March 2003, 31 March 2004, 31 March 2005 and 31 March 2006. For a better understanding of the financial position and results of the Society's operations for the financial period the summary financial information should be read in conjunction with the related annual financial statements.

Basis of Opinion on the Ranking of Securities

We have undertaken procedures to provide reasonable assurance that the amounts set out in the ranking of securities on page 3 of this prospectus, pursuant to clause 12 of the Second Schedule of the Securities Regulations 1983, have been correctly taken from the audited financial statements of the Society as at 31 March 2006.

Other than in our capacity as auditor and the provision of advisory services we have no relationship with or interests in Nelson Building Society.

Unqualified Opinion on the Financial Statements

We have obtained all the information and explanations we have required.

In our opinion :

- proper accounting records have been kept by the Society as far as appears from our examination of those records; and
- the financial statements of the Society on pages 16 to 31 of this prospectus, as required by clauses 16 to 32 of the Second Schedule of the Securities Regulations 1983, and that are required to be audited, have been drawn up to:
 - comply with the Securities Regulations 1983; and
 - subject to these Regulations, comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the financial position of the Society as at 31 March 2006 and the results of its operations and cash flows for the financial year ended on that date.

Our audit for the Society was completed on 1 June 2006 and our unqualified opinion is expressed as at that date.

Unqualified Opinion on the Summary of Financial Statements

In our opinion the amounts set out in the summary of financial statements on page 15 of this prospectus, as required by clauses 7(2) and 7(3) of the Second Schedule of the Securities Regulations 1983, have been correctly taken from the audited financial statements of the Society for the financial years ended 31 March 2002, 31 March 2003, 31 March 2004, 31 March 2005 and 31 March 2006 from which they were extracted.

Unqualified Opinion on the Ranking of Securities

In our opinion the amounts set out in the ranking of securities on page 3 of this prospectus, as required by clause 12 of the Second Schedule of the Securities Regulations 1983, have been correctly taken from the audited financial statements of the Society for the financial year ended 31 March 2006.

In terms of Regulations 7(1)(b)(ii) of the Securities Regulations 1983 we hereby give our consent to the inclusion in the above mentioned prospectus of this report in the form in which it is included. We also confirm that we have not, before delivery of this prospectus for registration, withdrawn our consent to the issue thereof.

Yours faithfully

Chartered Accountants Christchurch, New Zealand

This audit report relates to the prospectus of Nelson Building Society dated 31 August 2006 included on Nelson Building Society's website. The Board of Directors are responsible for the maintenance and integrity of Nelson Building Society's website. We have not been engaged to report on the integrity of Nelson Building Society's website. We accept no responsibility for any changes that may have occurred to the prospectus since it was initially presented on the website. The audit report refers only to the prospectus named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the prospectus. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the prospectus and related audit report dated 31 August 2006 to confirm the information included in the prospectus presented on this website. Legislation in New Zealand governing the preparation and dissemination of prospectuses may differ from legislation in other jurisdictions.



31 August 2006

The Directors
Nelson Building Society
P O Box 62
NELSON

Dear Sirs

Re: PROSPECTUS NO. 31

Clause 13(3) of the Second Schedule to the Securities Regulations 1983 requires us to confirm that the offer of securities ("the Securities") set out in this Prospectus complies with any relevant provisions of the Trust Deed dated 20 December 1990 (as amended). These provisions are those which:

- (i) Entitle Nelson Building Society to constitute and issue under or with the benefit of the Trust Deed (as the case may be) the Securities offered in the Prospectus;
- (ii) Impose restrictions on the right of Nelson Building Society to offer the Securities;

and are described in the summary of the Trust Deed in the Prospectus.

The Auditors have reported on the financial information set out in the Prospectus and our statement does not refer to that information or to any other material in the Prospectus which does not relate to the Trust Deed.

We confirm that the offer of the Securities set out in the Prospectus complies with any relevant provisions of the Trust Deed. We have given the above confirmation on the basis:

- (a) set out above; and
- (b) that, subject to the duties imposed on the Trustee by the Fifth Schedule of the Securities Regulations 1983, the Trustee relies on the information supplied to it by Nelson Building Society pursuant to the Trust Deed and does not carry out an independent check of that information.

Trustees Executors Limited does not guarantee the repayment of the Securities or the payment of interest.

Signed for and on behalf of
Trustees Executors Limited

Richard McLoughlin
Business Manager
Corporate Trust

INVESTOR PROTECTION

THE TRUST DEED

IMPORTANT DEFINITIONS

“Deposits” means all Debt Securities other than Redeemable Shares and includes the Principal Moneys thereof and other moneys payable in respect thereof.

“Redeemable Share” means any participatory security (within the meaning of the Securities Act) in the form of the share issued, or to be issued, by the Society pursuant to Section 11 of the Building Societies Act and not redeemed; but does not include a share which carries the right to payment of any dividend, or on which interest is payable from the annual surplus of the Society, which is irredeemable or redeemable only at the option of the Society.

“Principal Moneys” means in relation to Deposits or Redeemable Shares, the amount (other than interest) payable on redemption of the Deposits or Redeemable Shares (as the case may be) inclusive of the premium (if any) of the Deposits or Redeemable Shares (as the case may be) payable in accordance with the conditions of issue thereof.

“Total Liabilities” means the aggregate on a consolidated basis of the amounts of all Liabilities of the Society and Guaranteeing Subsidiaries as would be disclosed in a Guaranteeing Group statement of financial position if one was prepared as at the reference date adjusted by deducting all Subordinated Debt.

“Total Secured Liabilities” means the total on a consolidated basis of the amounts of all Secured Liabilities of the Guaranteeing Group as would be disclosed in a Guaranteeing Group statement of financial position if one was prepared as at the Reference date.

“Total Liquid Assets” means total on a consolidated basis of the values of all Liquid Assets of the Guaranteeing Group as would be disclosed in a Guaranteeing Group statement of financial position if one was prepared as at the Reference date.

“Guaranteed Investment Principal” means the principal or that portion of the principal outstanding to the Guaranteeing Group under any investment, liability or obligation not included in Liquid Assets for which a Prime Debtor is liable whether as principal debtor, guarantor, endorser or otherwise; including without limitation a registered mortgage, to the extent repayment of the principal outstanding is guaranteed by the Housing Corporation of New Zealand or by an insurance company or a wholly owned Subsidiary thereof which is certified by a Director’s Certificate to be, to the best of the Director’s knowledge and belief after taking appropriate advice, of a comparable credit-standing to a Prime Debtor as defined in the Trust Deed.

“Extraordinary Resolution” means an Extraordinary Resolution of the Depositors or a class thereof or of the Redeemable Shareholders or a class thereof, passed in the manner provided in Schedule 1 of the Trust Deed.

“Guaranteeing Group” means the Society and (if there are any) the Guaranteeing Subsidiaries or when the context so admits or requires any one or more of them.

THE TRUST DEED

1. The Deposits and Redeemable Shares (collectively the “Securities”) offered in this Prospectus are issued under a Trust Deed dated 20th December 1990 as amended by subsequent deeds of amendment (the “Trust Deed”) made between the Society and Trustees Executors Limited as Trustee for the Securityholders, which came into effect on 1st January 1991. Except to the extent that this Prospectus sets out the terms and conditions relating to the Securities, those contained in the Trust Deed will apply.
2. The Securities constituted under the Trust Deed include all existing Deposits on issue to the public and all Redeemable Shares on issue. The holder of any Deposits or Redeemable Shares issued before 1st January 1991 has the benefit of the Trust Deed unless and until the holder notifies the Trustee or Society that he or she does not wish to be a beneficiary or be bound by the terms of the Trust Deed.
3. All Deposits rank equally on a winding up with all other Deposits and unsecured liabilities and before Redeemable Shares, and Redeemable Shares rank equally with all other Redeemable Shares, notwithstanding that such Securities may have been issued at different times and carry interest at different rates and are repayable at different times. The Rules of the Society applicable to Deposits and Redeemable Shares continue to apply.
4. The Terms referred to in this section and which are defined in the Trust Deed have the same meaning specified in the Trust Deed.

THE TRUSTEE

5. Under the Trust Deed, Trustees Executors Limited (“the Trustee”), is appointed, as trustee for Depositors and Redeemable Shareholders. The Trustee does not guarantee repayment of the Securities or the payment of any interest or dividends thereon.

LIMITATIONS

6. The Trust Deed does not prohibit the creation of new mortgages or charges ranking in point of security ahead of securities, but imposes a maximum to the total amount that may be so secured (“the Total Secured Liabilities”) over the assets of the Society (see 7.2).

FINANCIAL RESTRICTIONS

7. The Trust Deed contains continuing covenants from the Guaranteeing Group with the Trustee that it will not:
 - 7.1 Permit Total Liabilities to exceed 95% of Total Tangible Assets;
 - 7.2 Permit Total Secured Liabilities to exceed 1% of Total Tangible Assets; Additional Secured Liabilities owed to Prime Debtors, (for example, Banks) are permitted for a limited time in certain prescribed circumstances and may increase Total Secured Liabilities up to a maximum of 7% of Total Tangible Assets at any particular time.
- 7.3
 - (a) Permit Total Liquid Assets to be less than 15% of (Total Tangible Assets less Reserves);
 - (b) Permit the total amount payable in cash over any half-years as interest and dividends to exceed income actually received in cash over the same period from investments of the Guaranteeing Group;

- (c) Fail to ensure that the assets of the Guaranteeing Group are sufficient or likely to be sufficient to enable its liabilities to be discharged as they become due;
 - (d) Permit Exposure to a single issuer of Marketable Debt Securities or, in relation to such an issuer that is a member of a group of companies, Exposure to the Single Group of which the issuer is a Member (other than to a Bank) to exceed 15% of Total Liquid Assets.
- 7.4 (a) Permit the aggregate of Total Secured Indebtedness and Total Unsecured Indebtedness owing to the Guaranteeing Group and the Total Listed Securities and the Total Unlisted Securities of the Guaranteeing Group to exceed 15% of Total Tangible Assets;
- (b) Permit the aggregate of Total Unsecured Indebtedness, Total Listed Securities and Total Unlisted Securities to exceed 5% of Total Tangible Assets.
- 7.5 Secure by way of charge over any assets of the Guaranteeing Group the payment of Principal or interest or other moneys payable under any Debt Securities or issue any Debt Securities to “bearer”.
- 7.6 Sell or transfer the whole or any substantial part of the business, undertaking or assets of the Guaranteeing Group except to any member of the Guaranteeing Group.
- 7.7 Enter into or permit the subsistence of any guarantee, indemnity or security for the obligations of any External Person for any unlimited amount of liability.

TRANSACTIONS WITH ASSOCIATED PERSONS

8. An associated person is (broadly) any person (including a body corporate) or a relative of any person who controls or manages the Society, or who is controlled by the Society or whoever controls or manages the Society, and includes any non-guaranteeing body corporate which is related to or associated (in terms of accounting standards) with the Society.
9. Apart from equity investments in existence at the original date of the Trust Deed or which may be approved by the Trustee, the Guaranteeing Group covenants not to lend, invest in or guarantee the obligations of Associated Persons unless security is taken by way of mortgage or as Guaranteed Investment Principal on (except in the case of staff loans) normal commercial interest rates.
10. The Guaranteeing Group also covenants with the Trustee that it will not enter into transactions with Associated Persons other than for full market value, on an arms-length basis and in the ordinary course of business.

REPORTS TO TRUSTEE

11. To enable the Trustee to monitor the financial position of the Guaranteeing Group, the Guaranteeing Group covenants to report regularly to the Trustee on the Guaranteeing Group’s financial affairs.
12. Audited financial statements must be presented yearly and unaudited financial statements half-yearly. The directors of the Society must report to the Trustee every three months on various matters specified in detail in the Trust Deed, and monthly management financial statements are to be supplied to the Trustee.

13. The Trustee may also request (in special circumstances) that the Society provide further accounts and relevant information.

DUTIES OF TRUSTEE

14. The following is a summary of the duties of the Trustee as stated by the Trust Deed:
- (a) to oversee compliance with the covenants and obligations of the Guaranteeing Group under the Trust Deed on the basis of the provisions of the Trust Deed;
 - (b) to receive and consider the financial statements and reports of the Directors and Auditors;
 - (c) to ascertain whether or not the Guaranteeing Group has breached the covenants in the Trust Deed or the terms of issue of any of the Securities issued after 1st January 1991;
 - (d) upon occurrence of certain Events of Default under the Trust Deed, the Trustee may, or upon the written request of the holders of 20% of the principal amount of Depositors or Redeemable Shares or upon the Extraordinary Resolution of Depositors or Special Resolution of Shareholders, shall declare the Deposit Moneys and/or Redeemable Share Moneys to be immediately due and payable.

In addition, the Trustee has a statutory duty pursuant to the Securities Act 1978 and the Securities Regulations 1983 to exercise reasonable diligence to:

- (a) ascertain whether or not there has been any breach of the terms of the Trust Deed or of the terms of the offer of the deposits and to do all it is empowered to do to cause any such breach to be remedied (except where satisfied that the breach will not materially prejudice the interest of the Holders); and
- (b) ascertain whether or not assets of the Guaranteeing Group that are or may be available, whether by way of security or otherwise, are sufficient or likely to be sufficient to discharge the amounts on the deposits and redeemable shares as they become due.

POWER OF MAJORITY

15. The Trust Deed contains provisions for meetings of Depositors, Redeemable Shareholders and/or any class thereof. An Extraordinary Resolution (ie: a resolution passed by three-quarters of the votes cast at a meeting where there was a quorum of the holders of not less than a majority of the relevant Securities) of the Depositors or the Redeemable Shareholders (or a Class thereof) generally binds all the members of that Class (whether they vote or not). However, an Extraordinary Resolution which exclusively affects the rights and interests of a Class of Securityholders or unless it has been assented to in writing by not less than three-fourths in Principal amounts that Class of Securityholders.

MODIFICATIONS TO TRUST DEED

16. The Trustee may concur with the Society in making modifications to the Trust Deed in certain specified cases including where the modification is approved by an Extraordinary Resolution passed by the Depositors and Redeemable Shareholders, and (without such a resolution) where the Trustee is of the opinion that such alteration is not or is not likely to become prejudicial to the general interests of the Securityholders (or any Class thereof).

RELEASE OF TRUST DEED

17. The Trust Deed will be discharged if the Society becomes a registered bank or transfers its engagements to a bank or to another building society or entity which has a Trust Deed in place which complies with the Securities Act and under which the Securityholders will be beneficiaries or upon the Trustee being satisfied that all moneys owing under the Trust Deed have been repaid or provision has been made for such repayment.

SUMMARY OF FINANCIAL STATEMENTS FROM 2002 TO 2006

Statement of Financial Performance

	Year Ended 31 Mar 06	Year Ended 31 Mar 05	Year Ended 31 Mar 04	Year Ended 31 March 03	Year Ended 31 Mar 02
Total Operating Revenue	15,487,783	12,859,250	10,553,406	8,064,550	5,999,452
Less Total Interest Expenses	11,103,768	8,870,864	7,087,590	5,326,506	3,925,424
Administration Expenses	3,903,727	3,616,961	2,997,703	2,343,052	1,853,320
Total Expenses	15,007,495	12,487,825	10,085,293	7,669,558	5,778,744
Net Surplus Before Taxation	480,288	371,425	468,113	394,992	220,708
Less Provision for Taxation	144,834	136,917	157,141	132,591	62,402
Net Surplus After Taxation	335,454	234,508	310,972	262,401	158,306
Transfer to General Reserve Fund	335,454	234,508	310,972	262,401	158,306

Statement of Financial Position as at 31 March

Total Assets	191,298,907	170,178,128	148,184,641	123,985,921	86,857,386
Total Tangible Assets	191,298,907	170,178,128	148,184,641	123,985,921	86,857,386
Total Liabilities	184,184,290	163,460,237	142,282,900	119,153,853	82,762,719
Total Equity	7,114,617	6,717,891	5,901,741	4,832,068	4,094,667

NOTES TO THE SUMMARY OF FINANCIAL STATEMENTS FROM 2002 TO 2006

1. The amounts stated in the above Summary of Financial Statements have been taken from Audited Annual Financial Statements.
2. There are no securities that are secured by a charge over the assets of the Society that rank in point of security ahead of or equal to the Securities being offered.
3. For the period reviewed, there were no:
 - abnormal items
 - extraordinary items
 - minority interests
 - amounts derived using equity accounting
4. As it is impossible to estimate the proportion of Securities that will be taken up, it is not possible to estimate the net tangible asset backing per unit of Securities in accordance with the assumption that all Securities had been allotted and subscriptions received before balance date.

The Net Tangible Asset backing per dollar of Redeemable Shares as at:

- (a) 31 March 2006 was \$1.06
- (b) 31 March 2005 was \$1.06
- (c) 31 March 2004 was \$1.06
- (d) 31 March 2003 was \$1.06
- (e) 31 March 2002 was \$1.07

Statement of Financial Performance for the Year Ended 31 March 2006

	31 March 2006	31 March 2005
	\$	\$
INCOME		
Income Received From:		
Mortgages & Personal Loans	12,403,367	10,345,760
Consumer Lending	876,950	880,227
Bank Deposits, Investments & Debentures	1,020,798	689,747
Other Interest	254	2,828
TOTAL OPERATING REVENUE	<u>14,301,369</u>	<u>11,918,562</u>
Deduct Direct Costs		
Interest Incurred on:		
- Term & Call Deposits & Shares	10,637,069	8,490,704
- Other Borrowings	215,116	149,373
Commission on:		
- Consumer Lending	251,583	230,787
	<u>11,103,768</u>	<u>8,870,864</u>
GROSS CONTRIBUTION FROM ACTIVITIES	3,197,601	3,047,698
Add Other Income		
Bad Debts Recovered	4,195	949
Commission	24,872	26,341
Establishment Fees	254,799	164,510
Hire Purchase Fees	78,897	99,630
Other Fees	410,948	304,310
Property Rents	362,703	344,948
Revaluation of Investment Property	50,000	-
	<u>1,186,414</u>	<u>940,688</u>
OPERATING SURPLUS	4,384,015	3,988,386
Deduct Overhead expenses		
Auditor - Audit Fees	47,287	58,943
- Other Services	8,071	31,275
Administration Expenses	2,978,922	2,709,770
Bad Debts	-	8,885
Brokerage	95,169	75,338
Depreciation (Note 13)	374,297	371,648
Directors Fees	70,930	66,583
Loss on Investment Securities	-	453
Loss on Sale of Assets	2,553	2,244
Operating Lease Costs	179,511	146,744
Specific Provision for Doubtful Debts (Note 8)	118,000	96,000
Write Down On Bonds	28,927	49,078
TOTAL EXPENSES	<u>3,903,727</u>	<u>3,616,961</u>
SURPLUS BEFORE TAXATION	480,288	371,425
Taxation (Note 4)	144,834	136,917
NET SURPLUS FOR THE YEAR	<u><u>\$335,454</u></u>	<u><u>\$234,508</u></u>

These financial statements must be read in conjunction with the Notes which form part of these financial statements.

Statement of Financial Position as at 31 March 2006

	31 March 2006	31 March 2005
	\$	\$
EQUITY		
Reserve Fund (Note 2)	6,311,453	4,405,017
Revaluation Reserve (Note 3)	803,164	2,312,874
	<u>7,114,617</u>	<u>6,717,891</u>
NON CURRENT LIABILITIES		
Borrowings (Note 6)	3,884,589	4,261,438
Deferred Taxation (Note 5)	245,613	241,787
	<u>4,130,202</u>	<u>4,503,225</u>
CURRENT LIABILITIES		
Borrowings (Note 6)	177,610,951	156,484,731
Interest Accrued	2,008,484	2,092,609
Withholding Tax	164,751	167,164
Employee Entitlements	46,043	74,432
Sundry Creditors	153,030	138,076
Taxation Payable (Note 4)	70,829	-
	<u>180,054,088</u>	<u>158,957,012</u>
TOTAL EQUITY & LIABILITIES	<u>\$191,298,907</u>	<u>\$170,178,128</u>
ADVANCES (Note 7)		
Mortgages	155,421,771	139,474,370
Personal Loans	259,865	99,856
Consumer Lending	6,203,235	5,723,536
Less Provision for Doubtful Debts (Note 8)	(267,090)	(243,444)
	<u>161,617,781</u>	<u>145,054,318</u>
INVESTMENTS (Note 10)		
Deposits, Investments & Debentures	9,182,882	14,998,964
PROPERTY		
Investment Properties (Note 12)	1,700,000	4,180,000
Property, Plant & Equipment (Note 13)	2,687,756	2,793,499
	<u>4,387,756</u>	<u>6,973,499</u>
CURRENT ASSETS		
Bank Accounts & Cash on Hand	13,186,469	2,573,007
Debtors and Prepayments	394,019	502,609
Taxation Refund Due (Note 4)	-	75,731
Property Intended For Sale (Note 12)	2,530,000	-
	<u>16,110,488</u>	<u>3,151,347</u>
TOTAL ASSETS	<u>\$191,298,907</u>	<u>\$170,178,128</u>

These financial statements must be read in conjunction with the Notes which form part of these financial statements.

Statement of Movements in Equity for the Year Ended 31 March 2006

	31 March 2006	31 March 2005
	\$	\$
Equity - Opening Balance	6,717,891	5,901,741
Net Surplus for the Year	335,454	234,508
Revaluation of Investment Properties (Note 3a)	-	374,137
Revaluation of Land and Buildings (Note 3b)	61,272	207,505
Total Recognised Revenues & Expenses for the Year	<u>396,726</u>	<u>816,150</u>
Equity - Closing Balance	<u><u>\$7,114,617</u></u>	<u><u>\$6,717,891</u></u>

Approval of Financial Statements for the Year Ended 31 March 2006

Authorisation for Issue

The Directors authorised the issue of these financial statements on 1 June 2006.

Approval by Directors

The Directors are pleased to present the financial statements of Nelson Building Society for the year ended 31 March 2006.

K Beams
General Manager

T N Cameron CA
Chairman of Directors

G R Dayman
Deputy Chairman of Directors

These financial statements must be read in conjunction with the Notes which form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements presented here are for the reporting entity Nelson Building Society, duly incorporated under the Building Societies Act 1965. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993. The Society is an issuer as defined in the Financial Reporting Act 1993.

GENERAL ACCOUNTING POLICIES

The General Accounting Policies appropriate for the measurement and reporting of results and financial position under the historical cost method, as modified by the revaluation of certain assets, have been adopted by the Society.

SPECIFIC ACCOUNTING POLICIES

- a) **Recognition of Income and Expenditure:** Income and Expenditure on financial instruments are reported on an accruals basis with all receivables and payables being accrued to balance date. Establishment fees are accounted for when funds are advanced to the client.
- b) **Investments:** Investments comprise short term deposits with financial institutions and investment securities that are managed by Bancorp Treasury Services Limited. These investment securities comprise financial institution subordinated debts and financial institution bonds.

Short term deposits are recorded at cost adjusted by the year end interest accrual.

Investment securities with an original term of maturity greater than one year are recorded at purchase price including any discount or premium paid, apportioned on a daily basis over the period to maturity of the investment. All financial instruments are recorded in the financial statements.

- c) **Taxation:** The taxation expense recognised for the year is based on the surplus before taxation adjusted for permanent differences between accounting and taxable income.

Deferred taxation, which is calculated on the comprehensive basis using the liability method, arises from amounts of income or expense recognised for tax purposes in years different from those in which they are dealt with in the financial statements.

- d) **Property, Plant & Equipment:** All items of property, plant and equipment are initially recognised at cost in the statement of financial position. Land and buildings are subsequently revalued to fair value determined annually by independent registered valuers. Revaluation surpluses are taken directly to the revaluation reserve.
- e) **Investment Properties:** Investment properties, which are revalued annually, are recorded at net current value and are not depreciated. All revaluations are taken to the statement of financial performance.
- f) **Property Intended for Sale:** Property withdrawn from use and intended for sale is recorded at the lower of carrying value and net market value.
- g) **Impaired Assets:** Any loss on an advance or loan is recognised once all reasonable actions to recover the debt have been exhausted. Until such time, the Society treats all amounts owing as collectable within the terms of the contract with the other party. Debt restructuring will only occur within the normal terms of a facility with comparable risk. If a restructuring would take the facility outside the normal terms then action would be taken to recover the debt security. The Society does not hold assets acquired under enforcement of a debt security. If the security is acquired then it is immediately realised in satisfaction of the advance or loan. Of the advances and loans recorded in the Statement of Financial Position none meet the definition of “Impaired Assets” or “Restructured Assets” as set out in FRS-33 of the Institute of Chartered Accountants’ financial reporting standards. “Non Accrual Assets” are a sub category of

Impaired Assets relating to loans on which all amounts owing will not be collected in accordance with the terms of the contract.

A specific provision is raised to cover the expected loss where recovery of principal is doubtful.

- h) **Depreciation:** Depreciation is provided in the financial statements, on all property, plant and equipment other than land, on a basis that will write down the value of the property, plant and equipment over their expected useful lives. The following rates have been applied to the major categories:

Buildings & Improvements	SL	10 - 50 years
Other Assets	SL	Over 3 - 5 years
General Office Equipment	DV	10% per annum

- i) **Income Recognition on Impaired Assets:** When a loan is classified as impaired, income ceases to be recognised in the Statement of Financial Performance on an accrual basis as reasonable doubt exists as to the collectability of interest and principal.

All cash receipts on impaired assets are applied against the carrying value of the loans, and are not recognised in the Statement of Financial Performance as interest income until the principal has been fully repaid, or the loan has been transferred out of the impaired assets category.

- j) **Past Due Assets:** Past due assets are loans that have not been operated by the borrower within the key terms of their contract for at least 90 days. However they are not impaired assets.
- k) **Doubtful Debts Provision:** The balances recorded in the Statement of Financial Position represent the recoverable value of the Society's advances and loans. Any known loss was accounted for prior to balance date. In recognition of the potential for a loss to crystallise at some future time on the current advances and loans, the Society has established a general provision. This provision is maintained at a level consistent with other prudent lending institutions. All loans are subject to regular management review.

Specific provisions are made against advances, investments and other securities where recovery of part, or the whole, of individual assets is considered to be in doubt. Specific provisions are based upon an assessment of each individual circumstance. Advances and loans are disclosed net of any specific provision within the Statement of Financial Position.

- l) **Discontinued Activities:** None of the revenue and expense items disclosed in the Statement of Financial Performance result from discontinued activities.
- m) **Leases:** Payments made under operating leases are recognised in the Statement of Financial Performance as they are incurred.
- n) **Consumer Lending:** Interest receivable and dealer commission paid in relation to Consumer Lending are accrued using the sum of the digits method.
- o) **Goods and Services Tax:** GST relating to Investment Property activities has been recorded on an exclusive basis. All other transactions have been recorded GST inclusive by virtue of the Society's financial institution status.
- p) **Cash Flows:** For the purpose of the statement of cash flows, cash includes cash on hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts. The cash flow from deposits received and withdrawn have been netted in order to provide more meaningful disclosure as these are received and disbursed on behalf of customers and reflect the activities of the customers rather than Nelson Building Society.

The following are the definitions of the terms used in the Statement of Cash Flows;

- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of current and non-current investments.
- Financing activities are those activities that result in changes in the equity and debt capital structure of the Society.

CHANGES IN ACCOUNTING POLICIES

Nelson Building Society has changed its policy of accounting for revaluation increments on its investment properties. In prior years revaluation increments on investment properties have been transferred directly to the Revaluation Reserve. From the current financial year, revaluation increments on investment properties are recorded as income in the Statement of Financial Performance, in accordance with SSAP 17 (Accounting for investment properties and properties intended for sale).

The effect of this change in accounting policy is to increase the surplus before taxation by \$50,000 in the current year and to transfer the opening balance of \$1,570,982 in the revaluation reserve (investment properties) to the reserve fund.

All other policies have been applied on bases consistent with those used in the previous year.

2. RESERVE FUND

	<u>31 March</u> <u>2006</u>	<u>31 March</u> <u>2005</u>
Opening Balance	4,405,017	4,170,509
Net Surplus for the Year	335,454	234,508
Transfer from Revaluation Reserve	1,570,982	-
Closing Balance	<u>\$6,311,453</u>	<u>\$4,405,017</u>

3. REVALUATION RESERVE

(a) Investment Properties

Opening Balance	1,570,982	1,196,845
Revaluation in the Year	-	430,000
Transfer to Reserve Fund	(1,570,982)	-
Deferred Taxation on Revaluation	-	(55,863)
Closing Balance	<u>-</u>	<u>1,570,982</u>

(b) Land & Buildings

Opening Balance	741,892	534,387
Revaluation in the Year	66,824	277,386
Deferred Taxation on Revaluation	(5,552)	(69,881)
Closing Balance	<u>803,164</u>	<u>741,892</u>

Total Revaluation Reserve	<u>\$803,164</u>	<u>\$2,312,874</u>
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4. TAXATION

	<u>31 March</u> <u>2006</u>	<u>31 March</u> <u>2005</u>
Taxation Expense		
Surplus before Taxation	<u>\$480,288</u>	<u>\$371,425</u>
Taxation at 33%	158,495	122,570
Permanent Differences	(13,661)	2,417
Adjustment to prior year estimate	-	11,930
Taxation Expense	<u>\$144,834</u>	<u>\$136,917</u>
Comprising:		
Current Taxation	146,560	80,596
Deferred Taxation	(1,726)	56,321
	<u>\$144,834</u>	<u>\$136,917</u>
Current Taxation		
Opening Balance (Refund Due)	(75,731)	(91,052)
Expense for Year	146,560	80,596
Tax Paid	-	(65,275)
Closing Balance	<u>\$70,829</u>	<u>\$(75,731)</u>

5. DEFERRED TAXATION

Opening Balance	241,787	59,722
Movement in the Year	(1,726)	56,321
Arising on Revaluations	5,552	125,744
Closing Balance	<u>\$245,613</u>	<u>\$241,787</u>

6. BORROWINGS

Non Current Liabilities		
Term and Call Deposits	3,884,589	4,011,438
Subordinated Debt	-	250,000
	<u>3,884,589</u>	<u>4,261,438</u>

Current Liabilities		
Term and Call Deposits	50,492,362	38,031,741
Term and Call Shares	122,769,475	114,024,744
Mortgage – Backed Securities	1,288,264	2,430,021
Subordinated Debt	3,060,850	1,998,225
	<u>177,610,951</u>	<u>156,484,731</u>

The maturity analysis of term and current borrowings is:

	2006		2005	
	Weighted % Per Annum	Amount	Weighted % Per Annum	Amount
Up to one year	6.22	177,610,951	6.24	156,484,731
One to two years	7.37	3,869,589	6.54	3,827,462
Two to five years	6.60	15,000	6.81	433,976
Total	<u>6.39</u>	<u>\$181,495,540</u>	<u>6.25</u>	<u>\$160,746,169</u>

6. BORROWINGS (continued)

	<u>31 March 2006</u>	<u>31 March 2005</u>
Borrowings attributable to		
(i) Associated Bodies Corporate	Not applicable	Not applicable
(ii) Related Bodies Corporate	Not applicable	Not applicable
(iii) Directors	\$302,468	\$5,895

The borrowings from Directors are in respect of normal deposits made by them as if they were members of the public.

Deposits, shares and mortgage-backed securities will rank equally with the Society's other unsecured obligations and ahead of subordinated debt. As at balance date there were no secured liabilities by way of mortgage or charge over any of the Society's assets and accordingly nothing that ranks in priority to the Society's unsecured obligations.

The Debt Security Trust Deed excludes Subordinated Debt from Total Liabilities for the purposes of calculating the financial covenants contained in the Trust Deed.

7. ADVANCES

	<u>31 March 2006</u>	<u>31 March 2005</u>
Secured	161,625,006	145,197,906
Unsecured	259,865	99,856
Less Provision for Doubtful Debts (Note 8)	(267,090)	(243,444)
	<u>\$161,617,781</u>	<u>\$145,054,318</u>

Advances owing from:

(i) Associated Bodies Corporate	N/A	N/A
(ii) Related Bodies Corporate	N/A	N/A
(iii) Directors	\$722,159	\$920,392

The loans to directors are under normal criteria and rates as if they were members of the public.

Advances due within 12 months amount to \$158,015,386 (2005: \$141,628,409).

In certain circumstances Nelson Building Society has a right of set off between a customer's share/deposit account and their advance accounts. All balances are shown without any right of set off applied.

The table below shows the number of parties, or closely related parties, where the Society has large credit exposures. These have been disclosed in bands of 10% of the Society's equity at balance date.

	<u>31 March 2006</u>		<u>31 March 2005</u>	
	<u>Bank</u>	<u>Other</u>	<u>Bank</u>	<u>Other</u>
Percentages of Equity				
10% to 19%	-	19	-	16
20% to 29%	-	5	-	2
30% to 39%	1	-	-	1
40% to 49%	-	-	-	-
50% to 59%	-	-	-	-
60% to 69%	-	1	-	-
70% to 79%	-	-	-	1
80% to 89%	-	-	1	-
100% to 109%	-	-	-	-
110% to 119%	-	-	1	-

7. ADVANCES (continued)

Debtors

Amounts owing by the six largest borrowers (ie, mortgage advances) as at 31 March 2006 totalled \$9,968,849.49 or 6.41% of the total advances. (March 2005: \$8,338,287 being 6.08%)

8. PROVISION FOR DOUBTFUL DEBTS

	<u>31 March 2006</u>		<u>31 March 2005</u>	
	<u>Performing Assets</u>	<u>Impaired Non-Accrual)</u>	<u>Performing Assets</u>	<u>Impaired (Non-Accrual)</u>
Balances at beginning of year				
• General	148,000	-	148,000	-
• Specific	95,444	-	72,000	-
	<u>243,444</u>	<u>-</u>	<u>220,000</u>	<u>-</u>
Less: Bad debts offset against provision				
• General	-	-	-	-
• Specific	94,354	-	72,556	-
Additional provisions				
• General	-	-	-	-
• Specific	118,000	-	96,000	-
Balances at end of year				
• General	148,000	-	148,000	-
• Specific	119,090	-	95,444	-
	<u>\$267,090</u>	<u>-</u>	<u>\$243,444</u>	<u>-</u>

9. ASSET QUALITY

Movements in balances of Impaired and Past Due Assets

	<u>31 March 2006</u>		<u>31 March 2005</u>	
	<u>Past Due Assets</u>	<u>Impaired Non-Accrual)</u>	<u>Past Due Assets</u>	<u>Impaired (Non-Accrual)</u>
Opening Balance	177,165	NIL	129,054	NIL
Assets now Recognised as Impaired	327,137	-	213,229	-
Charges	29,437	-	58,808	-
Customer Repayments	(91,128)	-	(51,551)	-
Loan Balance Written Off	(91,639)	-	(61,551)	-
Assets no Longer Meeting Definition	(19,844)	-	(110,824)	-
Closing Balance	<u>\$331,128</u>	<u>NIL</u>	<u>\$177,165</u>	<u>NIL</u>

In respect of clause 31(b)(i) of the Second Schedule of the Securities Regulations 1983, the proportion of monetary assets with repayments in arrears in excess of 3 months was 0.18% (2005:0.11%).

10. INVESTMENTS

	<u>31 March</u> <u>2006</u>	<u>31 March</u> <u>2005</u>
Investments are made up as follows:		
Bank Deposits	4,538,631	10,300,889
Investment Securities	4,512,896	4,564,453
Accrued Interest	131,355	133,622
	<u>\$9,182,882</u>	<u>\$14,998,964</u>

Investment securities have a nominal value of \$4.5m (2005: \$4.5m). Investment securities include subordinated investments with a nominal value of \$2.5m (2005: \$2.5m). Subordinated investments, while attracting a higher rate of return, rank behind other lenders and creditors in any distributions upon winding-up by the investee organisation. Current investments total \$5,139,282 (2005: \$11,938,643)

11. FINANCIAL INSTRUMENTS

Financial instruments are entered into by Nelson Building Society in the course of providing financial services to its customers for trading purposes. Derivative financial instruments may be used as a means of reducing exposure to fluctuations in interest rates.

Financial instruments are incorporated in the financial statements at their expected realisable value. The fair value of all financial instruments is considered by the directors to be approximate to the carrying amount disclosed in the financial statements. For variable interest rate advances which comprise the major portion of the Society's advances portfolio, the carrying amount is a reasonable estimate of fair value. For fixed rate mortgage advances and term deposits the cost of making a reasonably reliable estimate of fair value is considered to be excessive in relation to the perceived benefit to users.

Credit Risk

Financial instruments which potentially subject the Society to credit risk are mortgages, personal loans, consumer lending, investments, bank accounts and debtors. The Society's advances are secured by first mortgage over residential and commercial properties. As a guideline the Society will lend up to 80% of a property's valuation by a registered valuer on a residential first mortgage and up to 60% on a commercial first mortgage. The Society invests in New Zealand Government and Local Authority Stock, deposits, subordinated debt and bonds within New Zealand registered banks and debentures with New Zealand listed companies. The Society has appointed Bancorp Treasury Services Ltd to manage its investment securities. Personal advances are generally secured by way of guarantee. Consumer lending advances are all secured by chattel security. In the normal course of business, the Society incurs credit risk from debtors. The Society has a credit policy, which is used to manage its exposure to unsecured advances. There are no significant concentrations of credit risk in any of the above areas. As detailed in note 15 (Capital Adequacy) the majority of the Society's funds are invested in residential mortgages. Over 90% of all advances are in the Nelson region. This concentration does not significantly increase the Society's credit exposure.

Interest Rate Risk

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

The Society's normal lending terms allow it to reset interest rates at thirty days notice.

Interest rates on "at call" depositors' funds can be reset immediately. Interest rates on term shares, subordinated debt and deposits are all fixed until their respective maturity dates. Over 99% of the term shares and deposits can be repriced within twelve months. Changes in interest rates can impact on the Society's financial result by impacting on the market value of investment securities.

At 31 March 2006 there were 549 fixed rate loans totalling \$58,042,374 not reviewable within one year. (2005: 350 fixed rate loans totalling \$39,299,199).

Currency Risk

The Society is not involved in activities that give rise to currency risk.

Fair Values

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties, in an arms length transaction. The directors consider that the carrying value of all financial instruments is the fair value for each of these items.

12. INVESTMENT PROPERTIES

	<u>31 March</u> <u>2006</u>	<u>31 March</u> <u>2005</u>
(a) Investment Properties		
• Land at Valuation	956,000	2,679,000
• Buildings at Valuation	744,000	1,501,000
	<u>\$1,700,000</u>	<u>\$4,180,000</u>
(b) Property Intended For Sale		
• Land at Valuation	1,781,000	-
• Buildings at Valuation	749,000	-
	<u>\$2,530,000</u>	<u>-</u>

The property at 231 Trafalgar Street is classified as an investment property. It is shown at Duke & Cooke Ltd, Registered Valuers, valuation dated 31 March 2006, and valued on the basis of market value for existing use.

The directors have resolved to sell the property on the corner of Trafalgar and Bridge Streets. Accordingly it has been reclassified as a current asset – property intended for sale.

13. PROPERTY, PLANT & EQUIPMENT

	<u>31 March</u> <u>2006</u>	<u>31 March</u> <u>2005</u>
Land & Buildings		
111 Trafalgar Street		
• Land at Valuation	515,000	470,000
• Buildings at Valuation	985,000	980,000
Less: Accumulated Depreciation	-	-
	<u>1,500,000</u>	<u>1,450,000</u>
Other Assets – Cost	2,339,002	2,139,555
Less: Accumulated Depreciation	(1,151,246)	(796,056)
	<u>1,187,756</u>	<u>1,343,499</u>
	<u>\$2,687,756</u>	<u>\$2,793,499</u>

The property at 111 Trafalgar Street is the head office of the Society and is treated as a fixed asset. It is shown at Duke & Cooke Ltd, Registered Valuers, valuation dated 31 March 2006 and valued on the basis of market value for existing use.

	<u>31 March</u> <u>2006</u>	<u>31 March</u> <u>2005</u>
The depreciation charge for the period comprises:		
Buildings	16,824	17,386
Other Assets	357,473	354,262
	<u>\$374,297</u>	<u>\$371,648</u>

14. LIQUIDITY PROFILE

The Society monitors its liquidity (cash) position on a continuous basis. Cashflow forecasts for operating activities are prepared taking into account the cashflow characteristics of, and expected volatility in, the balances of the various classes of assets and liabilities that have or can have, a significant cashflow effect.

The liquidity profile of assets and liabilities presented below is not considered by the Society to be in any way indicative of future cash flows. This is primarily because a significant proportion of the Society's Shares, Subordinated Debt and Deposits are renewed at maturity and therefore do not have a cash flow effect. In addition all advances are repayable on demand, or repayable upon three months notice of demand, at the Society's discretion. While the Society is not likely to call advances on demand the contractual maturity date is not indicative of future cash flows due to early repayments, further drawdowns and principal reductions.

To meet both expected and unexpected fluctuations in operating cash flows the Society maintains a stock of liquid investments. Taking into account analysis of historical cash flows, forecast cash flows and the current composition of the Statement of Financial Position it considers these to be adequate.

The Society's Trust Deed prescribes that liquid assets (as defined in the Trust Deed as including cash, bank deposits, undrawn funding lines and securities) are to be maintained at a minimum of 15% of Total Tangible Assets less Reserves.

The Society's monetary assets and liabilities in order of liquidity are as follows:

2006	<u>Effective Interest Rate %</u>	<u>Total</u>	<u>Within 6 Months</u>	<u>6 Months to 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 5 Years</u>
MONETARY ASSETS						
Cash on Hand or Bank		13,186,469	13,186,469	-	-	-
Bank Deposits	7.23%	4,538,631	-	495,031	3,033,370	1,010,230
Investments	6.30%	4,512,896	4,512,896	-	-	-
Interest Accrued		131,355	131,355	-	-	-
Debtors & Prepayments		394,019	394,019	-	-	-
Personal Loans	12.75%	259,865	259,865	-	-	-
Consumer Lending	12.60%	6,203,235	1,192,811	1,408,029	1,793,296	1,809,098
Mortgage Advances	8.80%	155,421,771	155,421,771	-	-	-
Provision for Doubtful Debts		(267,090)	(267,090)	-	-	-
Total Monetary Assets		184,381,151	174,832,096	1,903,060	4,826,666	2,819,328
LIABILITIES						
Term & Call Deposits	7.35%	54,376,951	-	50,492,362	3,869,589	15,000
Term & Call Shares	7.03%	122,769,475	122,769,475	-	-	-
Deposit Interest Accrued		2,008,484	2,008,484	-	-	-
Sundry Creditors & Employee Entitlements		199,073	199,073	-	-	-
Withholding Tax		164,751	164,751	-	-	-
Mortgaged-backed Securities	7.84%	1,288,264	1,288,264	-	-	-
Taxation Payable		70,829	70,829	-	-	-
Deferred Taxation		245,613	245,613	-	-	-
Subordinated Debt	8.42%	3,060,850	1,060,850	2,000,000	-	-
Total		184,184,290	127,807,339	52,492,362	3,869,589	15,000

14. LIQUIDITY PROFILE (continued)

<u>2005</u>	<u>Effective Interest Rate %</u>	<u>Total</u>	<u>Within 6 Months</u>	<u>6 Months to 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 5 Years</u>
MONETARY ASSETS						
Cash on Hand or Bank		2,573,007	2,573,007	-	-	-
Bank Deposits	6.89%	10,300,889	10,300,889	-	-	-
Investments	7.51%	4,564,453	1,504,132	-	-	3,060,321
Interest Accrued		133,622	133,622	-	-	-
Debtors & Prepayments		502,609	502,609	-	-	-
Taxation Refund		75,731	75,731	-	-	-
Personal Loans	10.84%	99,856	99,856	-	-	-
Consumer Lending	12.80%	5,723,536	1,129,056	1,222,571	1,996,228	1,375,681
Mortgage Advances	8.06%	139,474,370	139,474,370	-	-	-
Provision for Doubtful Debts		(243,444)	(243,444)	-	-	-
Total Monetary Assets		163,204,629	155,549,828	1,222,571	1,996,228	4,436,002
LIABILITIES						
Term & Call Deposits	6.87%	42,043,179	-	38,031,741	3,577,462	433,976
Term & Call Shares	6.03%	114,024,744	114,024,744	-	-	-
Deposit Interest Accrued		2,092,609	2,092,609	-	-	-
Sundry Creditors & Employee Entitlements		212,508	212,508	-	-	-
Withholding Tax		167,164	167,164	-	-	-
Mortgaged-backed Securities	8.06%	2,430,021	2,430,021	-	-	-
Deferred Taxation		241,787	241,787	-	-	-
Subordinated Debt	8.27%	2,248,225	600,000	1,398,225	250,000	-
Total		163,460,237	119,768,833	39,429,966	3,827,462	433,976

Mortgage Advances

Table Mortgages with no minimum term: The principal balances are shown as “on demand” from the time of advance.

Credit Facility

Nelson Building Society has Line of Credit facilities up to \$4,000,000 (2005: \$8,000,000) with the ASB Bank and \$6,000,000 (2005: \$6,000,000) with Westpac.

15. CAPITAL ADEQUACY

The Nelson Building Society is subject to a minimum capital requirement of 5% as specified in our Trust Deed dated 20 December 1990. As at 31 March 2006 our capital ratio was 5.38% (2005: 5.27%). This is calculated as Total Equity plus Subordinated Debt as a percentage of Total Assets.

	<u>31 March 2006</u>
Reserve Fund	6,311,453
Revaluation Reserve	803,164
Total Equity	<u>\$7,114,617</u>

15. CAPITAL ADEQUACY (Continued)

Risk Weighted Balance Sheet Exposures	<u>Principal</u>	<u>% Risk Weight</u>	<u>Adjusted Risk Value</u>
Cash	13,186,469	-	-
NZ Registered Bank Deposits & Investments	9,182,882	20	1,836,576
Fully Secured Residential	119,230,447	50	59,615,224
Fully Secured Commercial	36,043,324	100	36,043,324
Personal Loans	259,865	100	259,865
Consumer Lending	6,084,145	100	6,084,145
All Property & Equipment	6,917,756	100	6,917,756
Other Assets	394,019	100	394,019
Total Risk Weighted Exposure	<u>\$191,298,907</u>		<u>\$111,150,909</u>

16. FUNDING

Concentrations of Funding

As detailed in the Statement of Financial Position the majority of the Society's funding comes from term and call shares and to a lesser extent deposits and subordinated debt. Over 90% of these funds come from individuals residing in the Nelson region.

17. COMMITMENTS AND CONTINGENT LIABILITIES

- (a) The Society has a commitment for loans approved but not yet paid at 31 March 2006 for a total of \$6,286,985 (2005: \$5,196,613).
- (b) The Society has entered into property leases in Richmond, Motueka, Murchison and Westport for 3 years commencing 1 November 2003, 1 August 2005, 1 January 2004 and 15 November 2004 respectively, with right of renewal for a further 3 years at the conclusion of the current lease periods.

	<u>31 March 2006</u>	<u>31 March 2005</u>
Lease commitments under non-cancellable operating leases:		
Less than 1 year	133,046	162,257
Between 1 and 2 years	57,225	107,148
Between 2 and 5 years	8,633	31,328
	<u>\$198,904</u>	<u>\$300,733</u>

- (c) Sponsorship commitments beyond 31 March 2006 total \$115,200 (March 2005: \$153,600).
- (d) The Society has no contingent liabilities (2005: nil).

18. BUSINESS SEGMENT

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

19. IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTS STANDARDS

Nelson 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 reserve fund 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 that are expected to arise from adopting NZ IFRS are not known and may materially vary from the information presented.

Statement of Cash Flows for the Year Ended 31 March 2006

	31 March 2006	31 March 2005
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Interest Received	14,303,636	11,866,751
Fees, Rents & Commission	1,137,707	965,982
	<u>15,441,343</u>	<u>12,832,733</u>
Cash was disbursed to:		
Interest Paid	11,187,893	8,383,407
Operating Expenses	3,409,369	3,276,874
Taxation Paid	2,413	65,275
	<u>14,599,675</u>	<u>11,725,556</u>
Net Cash Flows from Operating Activities	<u>841,668</u>	<u>1,107,177</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Net Decrease in Investments	<u>5,813,815</u>	<u>-</u>
Cash was disbursed to:		
Net Increase in Advances	(16,587,109)	(13,737,515)
Net Increase in Investments	-	(9,381,985)
Purchase of Property, Plant & Equipment	(204,283)	(313,020)
	<u>(16,791,392)</u>	<u>(23,432,520)</u>
Net Cash Flows from Investing Activities	<u>(10,977,577)</u>	<u>(23,432,520)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from:		
Net Increase in Borrowings	<u>20,749,371</u>	<u>18,070,204</u>
Net Cash Flows from Financing Activities	<u>20,749,371</u>	<u>18,070,204</u>
Net Increase (Decrease) in Cash	10,613,462	(4,255,139)
OPENING CASH BALANCE	<u>2,573,007</u>	<u>6,828,146</u>
CLOSING CASH BALANCE	<u>\$13,186,469</u>	<u>\$2,573,007</u>

Reconciliation of Net Surplus to Cash Flows from Operating Activities

	31 March 2006	31 March 2005
	\$	\$
Net Surplus	335,454	234,508
Non Cash Items:		
Deferred Taxation	(1,726)	56,321
Depreciation	374,297	371,648
Investment Properties (Revaluation)	(50,000)	-
Increase in Provision for Doubtful Debts	23,646	23,444
Net (Profit)/Loss on Sale of Assets	2,553	2,244
	<u>684,224</u>	<u>688,165</u>
Movement in Working Capital:		
Increase in Withholding Tax Accrual	(2,413)	96,500
Decrease/(Increase) in Accrued Interest Received	2,267	(51,811)
Decrease in Accrued Interest Expense	(84,125)	536,218
(Increase) in accrued charges	(13,435)	(61,314)
Increase in Taxation Provision/Refund	146,560	15,321
Decrease/(Increase) in Debtors and Prepayments	108,590	(115,902)
	<u>157,444</u>	<u>419,012</u>
	<u>\$841,668</u>	<u>\$1,107,177</u>

These financial statements must be read in conjunction with the Notes which form part of these financial statements.