

ANNUAL REPORT 2005

ESTD.
NEW ZEALAND'S OLDEST
BUILDING SOCIETY
1862

“It surprises me how often people say they like the idea of their investment staying local. They feel more connected. They like the idea of investing in their region.” Gretchen Beams, Regional Manager

refreshingly local
banking



For all practical purposes NBS is a bank. However, unlike a bank that is continually under pressure to maximise a dividend, NBS has been able to offer competitive fees and consistently offer attractive interest rates—frequently among the best in New Zealand for their degree of security. This places NBS in an excellent position to provide its customers with full banking facilities with local decision making.

As a non-profit society the NBS doesn't need to pay dividends to overseas owners. Instead we return our profits back to the communities from where they came in the form of sponsorships.

The Nelson/Tasman region is a special corner of New Zealand. This is our home.
Sponsorship for the year ending 31 March 2005:

Sport & Recreation

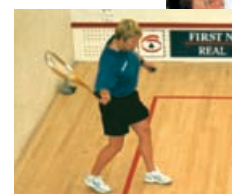
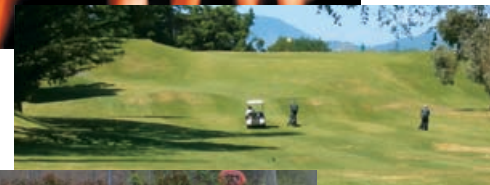
- Basketball NBS Nelson Giants (Major Sponsor)
- Golf Nelson Golf Club (Major Sponsor)
Motueka Golf Club
Totaradale Golf Club
Murchison Golf Club
- Bowls Richmond Bowling Club
Richmond RSA Bowls
Tahunanui Bowling Club
Maitai Bowling Club
Stoke Bowling Club
Ngawatu Bowling Club
Nelson Bowling Club
Nelson Indoor Bowls
Motueka Bowling Club
Murchison Bowls
Ngatimoti Bowls
- Squash Nelson Bays Junior
Development Squad
- Bridge Richmond Contract Bridge Club
- Judo Nelson Judo Club
- Croquet Nelson Croquet Association
- Dance Dancesport Nelson

Cultural & Social

- Nelson Performing Arts
- Nelson Hospice
- Fifeshire Foundation
- RSA Nelson & Motueka
- New Zealand Red Cross Club Waimea
- Star & Garter Wheelers
- Motueka High School
- Nelson Lions Club
- Heart Foundation

“Money invested with NBS stays right here. It doesn't leave town. After government and policy statutory requirements, the money local people invest with NBS is reinvested back with local people, usually as loans to build homes, develop businesses or to pursue personal goals.”

This make NBS rather unique as a banking service in this area.



DIRECTORS



T N Cameron CA (Chairman)

Trevor has been a chartered accountant and Partner of the firm Richards Woodhouse for 20 years, dealing with an extensive range of business clients. He is also a director of local companies in the finance and building industries. His extensive knowledge, experience and contacts in business and community organisations have contributed significantly to the growth of the Building Society in his role as a director over the past 12 years. Trevor and his wife Maria have four children. He is keen on mountain biking and yoga.



J C Taylor (Deputy Chairman)

Craig was appointed to the board in 1987, coinciding with the opening of the Society's first full branch in Richmond and has been part of considerable change in the last 18 years. His background is in accountancy and retailing. He has been managing director of Taylor's Shoes, with branches in Richmond and Nelson, for 31 years. For 15 years Craig has also been a director of the country's largest retail buying group, Composite Retail Group, in Auckland.



P J Robson AREINZ

Phil joined the board in 1999. After education at Nelson College, Phil started his career in land surveying before entering real estate in 1980. He has 25 years experience in the local real estate industry becoming a licensee in 1983 with a local firm that was later to become the first South Island Harcourts franchise. During this time he has held interests in offices in Nelson, Richmond, Motueka and Westport. Since selling out of the real estate business he has maintained other business interests both in and out of the Nelson region.



K A Carr LLB (Hons)

Having grown up in Nelson (Stoke Primary School, Broadgreen Intermediate and Nelson College for Girls) and spending some years away, Kathy joined the Board of Directors in 1999 as its first female director. Kathy is now a partner at Hunter Ralfe, Solicitors, Nelson and has been in legal practice for almost 20 years, dealing with a wide variety of property and commercial matters. She contributes a legal perspective to the NBS Board and is also a member of the Institute of Directors. Combining a full-time career with motherhood and family continues to provide an interesting challenge.



G R Dayman

Garry was nominated to the board in the last quarter of 2004. He is a company director of Dayman Motors Limited with 27 years of Motor Industry experience and knowledge. He is a director of several other companies in the motor industry, property sector and finance sector. Garry's extensive knowledge and commercial experience will be of great benefit to the Society. Garry is married to Julie, has two grown up children and is interested in squash, fishing, diving and rugby.

A member of the Financial Services Federation

Directors	T N Cameron Chartered Accountant (Chairman) J C Taylor (Deputy Chairman) P J Robson AREINZ K A Carr LLB (Hons) G R Dayman
General Manager	K J Beams
Secretary	A J Cadigan
Solicitors	Glasgow Harley
Bankers	Westpac / ASB Bank
Auditors	Deloitte
Head Office	111 Trafalgar Street PO Box 62 Nelson

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the One Hundred and Forty Third Annual General Meeting of Shareholders of the Nelson Building Society will be held at the Society's Head Office, 111 Trafalgar Street, Nelson on Wednesday 22 June 2005 at 5.30pm.

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|----------|--|
| Business | <ol style="list-style-type: none">1. To receive the Director's Report and Financial Statements.2. To fix the remuneration for the Directors for the ensuing year.3. To re-appoint Deloitte as auditors for the ensuing year and fix their remuneration.4. General Business. |
|----------|--|

Proxies	A member entitled to vote is entitled to appoint one proxy who need not be a member of the Society to attend and vote instead. Proxies shall be deposited with the Society not less than 72 hours before the meeting. Proxy forms are available at the Society's office during normal business hours.
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A J Cadigan
Secretary

CHAIRMAN OF DIRECTORS' AND GENERAL MANAGER'S REPORT

The dynamics of business are always challenging and the year just completed has seen the Society make progress in most areas, but experience a decline in profitability.

During this year we have seen the continuation of the property boom, only to have it run out of puff towards the end. This resulted in a significant period where we could not fund from member's deposits, the loan applications we were receiving and when we finally got our funding in order, the loans were starting to dry up. Presently we have good reserves for lending as a result.

Our key end of year results were:

- Operating profit before tax \$371,425 (2004: \$468,113)
- Total assets Up 14.8% to \$170 M
- Deposits Up 14.8% to \$158 M
- Loans Up 13.6% to \$145 M

Our fifth branch was opened in Westport in November and at the time of this report had deposit assets of nearly 6 million dollars, a fine effort by the team down there. The society now employs 30 personnel spread across five branches and is a significant contributor to our local economy.

Whilst we are disappointed with the final profit result declining this year, it is difficult to increase profitability during years of growth of branches and infrastructure. The significant depreciation expense alone for computer systems and branch assets has increased from \$158,000 in 2002 to \$354,000 this year as an example. In addition the training and set up costs associated with branch openings, as well as the lack of funding for lending purposes for several months, all had their impact on this year's profit result.

The year ahead will see the Society switch focus from growth in infrastructure to growth in profitability, not an easy goal in a year of rising interest rates and a declining housing market. This has led us to further diversify our lending into such areas as commercial and personal hire purchase. The society has relatively low equity reserves when compared with similar sized financial institutions and the board is keen to build these steadily on the now healthy asset platform built up over the last three to four years of growth.

Once again we extend our thanks to the staff and management team who proudly represent NBS to the public.

The directors retiring by rotation are Mr Craig Taylor and our new director, Mr Garry Dayman, who replaced Mr Ross Butler who resigned last year for business reasons. Both directors are eligible for re-election without nomination and accordingly we declare them duly re-elected.

We thank our members for their continued support of our society and trust this will continue into what we believe is a very bright future for New Zealand's oldest Building Society.



T N Cameron
Chairman of Directors



K J Beams
General Manager

AUDIT REPORT to the shareholders of the Nelson Building Society

We have audited the financial statements on pages 6 to 18. The financial statements provide information about the past financial performance of Nelson Building Society (the Society) and its financial position as at 31 March 2005. This information is stated in accordance with the accounting policies set out on pages 9 to 10.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of the Society as at 31 March 2005 and of the results of its operations and cash flows for the year ended on that date.

Auditors' Responsibilities

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

Basis of Opinion

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

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

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

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

Unqualified Opinion

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 on pages 6 to 18:
 - comply with generally accepted accounting practice in New Zealand;
 - give a true and fair view of the financial position of the Society as at 31 March 2005 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 27 May 2005 and our unqualified opinion is expressed as at that date.



Chartered Accountants
Christchurch, New Zealand.

STATEMENT OF FINANCIAL PERFORMANCE for the year ended 31 March 2005

	31 March 2004	31 March 2005
	\$	\$
INCOME		
Income Received From:		
Mortgages & Personal Loans	8,381,766	10,345,760
Hire Purchase	675,125	880,227
Bank Deposits, Investments & Debentures	700,976	689,747
Other Interest	(1,342)	2,828
	<u>9,756,525</u>	<u>11,918,562</u>
Deduct Direct Costs		
Interest Incurred on:		
Home Ownership Deposits	562	0
Term & Call Deposits & Shares	6,806,099	8,490,704
Other Borrowings	22,824	149,373
Commission on:		
Hire Purchase	<u>258,105</u>	<u>230,787</u>
	7,087,590	8,870,864
GROSS CONTRIBUTION FROM ACTIVITIES	2,668,935	3,047,698
Add—Other Income		
Other Fees	243,811	304,310
Property Rents	350,077	344,948
Commission	28,776	26,341
Establishment Fees	193,980	164,510
Bad Debts Recovered	64	949
Brokerage	(112,544)	(75,338)
Profit/(Loss) on Investment Securities	3,366	(453)
Hire Purchase Fees	86,010	99,630
Profit on Sale of Assets	2,184	0
Other Income	<u>1,157</u>	<u>0</u>
	796,881	864,897
GROSS CONTRIBUTION	3,465,816	3,912,595
Deduct Overhead expenses		
Directors Fees	56,373	66,583
Auditor—Audit Fees (Note 20)	32,332	58,943
—Other Services (Note 20)	15,190	31,275
Administration Expenses	2,391,722	2,709,770
Loss on Sale of Asset	0	2,244
Depreciation (Note 13)	251,875	371,648
Operating Lease Costs	91,181	146,744
Write Down On Bonds	45,493	49,078
Bad Debts	17,537	8,885
General Prov'n for Doubtful Debts (Note 2)	24,000	0
Specific Prov'n for Doubtful Debts (Note 2)	<u>72,000</u>	<u>96,000</u>
TOTAL EXPENSES	2,997,703	3,541,170
SURPLUS BEFORE TAXATION	468,113	371,425
Taxation (Note 5)	<u>157,141</u>	<u>136,917</u>
NET SURPLUS FOR THE YEAR	<u>\$310,972</u>	<u>\$234,508</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 2005

	31 March 2004	31 March 2005
	\$	\$
EQUITY		
Reserve Fund (Note 3)	4,170,509	4,405,017
Revaluation Reserve (Note 4)	<u>1,731,232</u>	<u>2,312,874</u>
	5,901,741	6,717,891
BORROWINGS AT INTEREST (Notes 7 & 8)		
Term & Call Deposits	42,769,522	42,043,179
Term & Call Shares	95,211,333	114,024,744
Mortgage-backed Securities	0	2,430,021
Home Ownership Deposits	<u>45,987</u>	<u>0</u>
	138,026,842	158,497,944
OTHER LIABILITIES (Notes 7 & 8)		
Subordinated Debt	2,219,102	2,248,225
Hire Purchase Dealer Accounts	76,357	11,408
Interest Accrued	1,556,391	2,092,609
Withholding Tax	70,664	167,164
Deferred Taxation (Note 6)	59,722	241,787
Sundry Creditors	176,481	138,076
Employee Entitlements	<u>97,341</u>	<u>74,432</u>
	4,256,058	4,973,701
TOTAL RESERVES & LIABILITIES	<u>\$148,184,641</u>	<u>\$170,189,536</u>
ADVANCES (Notes 9 & 11)		
Mortgages	123,297,463	139,474,370
Personal Loans	109,227	99,856
Less Provision for Doubtful Debts (Note 2)	<u>148,000</u>	<u>148,000</u>
	123,258,690	139,426,226
INVESTMENTS (Notes 10 & 11)		
Deposits, Investments & Debentures	6,753,624	14,865,342
Plus Accrued Interest	<u>81,811</u>	<u>133,622</u>
	6,835,435	14,998,964
HIRE PURCHASE (Notes 11 & 16)		
Hire Purchase Contracts	4,453,269	5,723,536
Less Provision for Doubtful Debts (Note 2)	<u>72,000</u>	<u>95,444</u>
	4,381,269	5,628,092
PROPERTY, PLANT & EQUIPMENT (Note 13)		
Investment Properties	3,750,000	4,180,000
Property, Plant & Equipment	<u>2,576,985</u>	<u>2,793,499</u>
	6,326,985	6,973,499
OTHER ASSETS (Note 11)		
Bank Accounts & Cash on Hand	6,828,146	2,573,007
Hire Purchase Prepaid Commission	322,676	402,988
Prepayments	33,650	105,376
Sundry Debtors	106,738	5,653
Taxation Refund (Note 5)	<u>91,052</u>	<u>75,731</u>
	7,382,262	3,162,755
TOTAL ASSETS	<u>\$148,184,641</u>	<u>\$170,189,536</u>

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

STATEMENT OF MOVEMENT IN EQUITY for the year ended 31 March 2005

	31 March 2004	31 March 2005
	\$	\$
EQUITY		
Opening Balance	4,832,068	5,901,741
Net Surplus for the Year (Note 3)	310,972	234,508
Revaluation of Investment Properties (Note 4)	545,000	374,137
Revaluation of Land and Buildings (Note 4)	213,701	207,505
Total Recognised Revenues & Expenses for Year	1,069,673	816,150
Closing Balance	<u>\$5,901,741</u>	<u>\$6,717,891</u>

Authorisation for Issue

The Directors authorised the issue of these financial statements on 27 May 2005

Approval by Directors

The directors are pleased to present the financial statements of the Nelson Building Society for the year ended 31 March 2005.



K Beams
General Manager



T N Cameron CA
Chairman of Directors



J C Taylor
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.

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in the previous year.

SPECIFIC ACCOUNTING POLICIES 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.

Investments

Investments comprise short term deposits with financial institutions and investment securities that are managed by Bancorp Treasury Services Limited. These investment securities comprise local authority stock, 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.

Taxation

The charge for income tax is the estimated liability in respect of the profit for the year. A deferred tax account has been established to reflect the timing difference between accounting and taxable income. Deferred tax has been calculated on a comprehensive basis.

Property, Plant & Equipment

Land and buildings are usually recorded at cost and are subsequently valued by independent valuers on an annual cycle. Fixed asset revaluations are transferred to a Revaluation Reserve. All other assets are recorded at cost.

Investment Properties

Investment properties are stated at valuation as determined annually by an independent valuer. The revaluation is transferred to a Revaluation Reserve. Where revaluations result in a debit balance in the reserve they are expensed in the Statement of Financial Performance. Investment properties are not depreciated.

Impaired Assets

Any loss on an advance or loan is only 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 full recovery of principal is doubtful.

Depreciation

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

Buildings & Improvements	SL	10–50 years
General Office Equipment	10%	Diminishing value
Computer Hardware	SL	Over 3–5 years
Computer Software	SL	Over 3–5 years
Other Assets	SL	Over 3–5 years

Income Recognition on Impaired Assets	<p>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.</p> <p>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.</p>
Past Due Assets	<p>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.</p>
Doubtful Debts Provision	<p>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.</p> <p>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.</p>
Discontinued Activities	<p>None of the revenue and expense items disclosed in the Statement of Financial Performance result from discontinued activities.</p>
Leases	<p>Payments made under operating leases are recognised in the Statement of Financial Performance as they are incurred.</p>
Hire Purchase Contracts (Advances)	<p>Interest receivable and dealer commission paid under Hire Purchase Contracts (advances) are accrued using the sum of the digits method.</p>
Goods and Services Tax	<p>GST only relates to Investment Property activities and has been recorded on an exclusive basis. All other activities are exempt by virtue of their financial institution status.</p>
Cash Flows	<p>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 following are the definitions of the terms used in the Statement of Cash Flows;</p> <ul style="list-style-type: none"> · Operating activities include all transactions other than events that are investing or financing activities. · Investing activities are those activities relating to investments and advances and the acquisition, holding and disposal of property, plant and equipment. · Financing activities are those activities that result in changes in the size of and composition of the capital structure. This includes both equity and debt not falling within the definition of cash.

2	PROVISION FOR DOUBTFUL DEBTS	31 March 2004		31 March 2005	
		Performing Assets	Impaired (Non-accrual)	Performing Assets	Impaired (Non-accrual)
	Balances at beginning of year				
	General	124,000	—	148,000	—
	Specific	52,000	—	72,000	—
		<u>176,000</u>	<u>—</u>	<u>220,000</u>	<u>—</u>
	Less: Bad debts offset against provision				
	General	—	—	—	—
	Specific	52,000	—	72,556	—
	Additional provisions				
	General	24,000	—	—	—
	Specific	72,000	—	96,000	—
	Balances at end of year				
	General	148,000	—	148,000	—
	Specific	72,000	—	95,444	—
		<u>\$220,000</u>	<u>—</u>	<u>\$243,444</u>	<u>—</u>

3	RESERVE FUND	31 March 2004		31 March 2005	
			Opening Balance	3,859,537	4,170,509
	Net Surplus for the Year	310,972	234,508		
	Closing Balance	<u>\$4,170,509</u>	<u>\$4,405,017</u>		

4	REVALUATION RESERVE	31 March 2004		31 March 2005	
			Investment Properties		
	Opening Balance	651,845	1,196,845		
	Revaluation in the Year	545,000	430,000		
	Deferred Taxation on Revaluation	—	(55,863)		
	Closing Balance	<u>1,196,845</u>	<u>1,570,982</u>		
	Land & Buildings				
	Opening Balance	320,686	534,387		
	Revaluation in the Year	213,701	277,386		
	Deferred Taxation on Revaluation	—	(69,881)		
	Closing Balance	<u>534,387</u>	<u>741,892</u>		
	Total Revaluation Reserve	<u>\$1,731,232</u>	<u>\$2,312,874</u>		

5	TAXATION	31 March 2004		31 March 2005	
			Surplus before Taxation	\$468,113	\$371,425
	Provision for Taxation at 33%	154,477	122,570		
	Permanent Differences	2,664	2,417		
	Adjustment to Prior Year Estimate	—	11,930		
	Taxation Expense	157,141	136,917		
	Movement in deferred taxation for the Year	(53,292)	(56,321)		
	Taxation Payable for Year	103,849	80,596		
	Provisional Taxation Paid	194,901	156,327		
	Taxation Refund	<u>\$91,052</u>	<u>\$75,731</u>		

6	DEFERRED TAXATION			
	Opening Balance		31 March 2004	31 March 2005
	Movement in the Year		(6,430)	(59,722)
	Arising on Revaluations		(53,292)	(56,321)
	Closing Balance		—	(125,744)
			<u>\$(59,722)</u>	<u>\$(241,787)</u>

7	NON CURRENT LIABILITIES			
	Aggregate amount of non current liabilities			\$4,261,438
	Non Current Liability Maturity Analysis			
		Amount	31 March 2004	31 March 2005
	One to two years	3,974,973	Weighted %pa	Weighted %pa
	Two to five years	1,873,538	6.24	3,827,462
			6.04	433,976
	Total	\$5,848,511	6.18	\$4,261,438
	Term Liabilities attributable to			
	Associated Bodies Corporate			not applicable
	Related Bodies Corporate			not applicable
	Directors			\$0
	All term liabilities are unsecured			

8	CURRENT LIABILITIES			
	Aggregate amount of current liabilities			\$159,210,207
	Current liabilities are made up as follows:			
			31 March 2004	31 March 2005
	Shares maturing within 12 months		95,211,333	114,024,744
	Deposits maturing within 12 months		36,966,998	38,031,741
	Mortgage-backed Securities		—	2,430,021
	Hire Purchase		76,357	11,408
	Subordinated Debt maturing within 12 Months		2,219,102	1,998,225
	Other Liabilities		1,960,599	2,714,068
			<u>\$136,434,389</u>	<u>\$159,210,207</u>
	Current liabilities owing to:			
	Associated Bodies Corporate			not applicable
	Related Bodies Corporate			not applicable
	Directors			\$5,895
				The current liabilities owing to Directors are in respect of normal deposits made by them as if they were members of the public.
	All current liabilities are unsecured			

9	ADVANCES			
	Aggregate amount of secured loans		31 March 2004	31 March 2005
			\$123,297,463	\$139,474,370
	Aggregate amount of unsecured loans		\$109,227	\$99,856
	Loans attributable to			
	Associated Bodies Corporate			not applicable
	Related Bodies Corporate			not applicable
	Directors and related entities			\$920,392
				The loans to Directors are under normal criteria and rates as if they were members of the public.

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INVESTMENTS
Aggregate amount of investments

		\$14,865,342
Investments are made up as follows:	31 March 2004	31 March 2005
Bank Deposits	2,171,000	10,300,889
Investment Securities	<u>4,582,624</u>	<u>4,564,453</u>
	\$6,753,624	\$14,865,342
Investment Securities		
Market Value		\$4,593,498
Nominal Value		\$4,500,000

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CURRENT ASSETS
Aggregate amount of current assets

		\$156,783,807
Current assets are made up as follows:	31 March 2004	31 March 2005
Mortgages & Loans	123,258,690	139,426,226
Bank Deposits, Investment Securities & Debentures	3,263,129	11,938,643
Other Assets	7,382,262	3,162,755
Hire Purchase Contracts	<u>1,851,298</u>	<u>2,256,183</u>
	\$135,755,379	\$156,783,807
Current assets owing to:		
Associated Bodies Corporate		not applicable
Related Bodies Corporate		not applicable
Directors		\$0

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FINANCIAL INSTRUMENTS
Credit Risk

Financial instruments which potentially subject the Society to credit risk are mortgages, personal loans, hire purchase advances, investments, bank accounts and sundry debtors. The Society's advances are secured by 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 debts 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. Hire Purchase advances are all secured directly against the property to which the contract relates. 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.

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.

Percentages of Equity	31 March 2004		31 March 2005	
	Bank	Other	Bank	Other
10% to 19%	—	13	—	16
20% to 29%	—	—	—	2
30% to 39%	—	—	—	1
40% to 49%	—	1	—	—
50% to 59%	—	1	—	—
60% to 69%	1	—	—	—
70% to 79%	—	1	—	1
80% to 89%	—	—	1	—
100% to 109%	1	—	—	—
110% to 119%	—	—	1	—

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 book value of all financial instruments is the fair value for each of these items. The fair values of the Fixed Term Investments as set out in Note 10 are their market values as at 31 March 2005. The Society currently has no Government Stock.

Interest Rate Risk 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 2005 there were 350 fixed rate loans totaling \$39,299,199 not reviewable within one year. (2004: 378 fixed rate loans totalling \$42,032,720)

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

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PROPERTY, PLANT & EQUIPMENT & INVESTMENT PROPERTIES	31 March 2004	31 March 2005
Investment Properties		
231 Trafalgar Street		
Land at Valuation	828,000	898,000
Buildings at Valuation	<u>682,000</u>	<u>752,000</u>
	1,510,000	1,650,000
Corner Trafalgar & Bridge Streets		
Land at Valuation	1,460,900	1,781,000
Buildings at Valuation	<u>779,100</u>	<u>749,000</u>
	2,240,000	2,530,000
	<u>\$3,750,000</u>	<u>\$4,180,000</u>

Our properties on the corner of Trafalgar and Bridge Streets and at 231 Trafalgar Street are treated as investment properties. These properties are shown at Duke & Cooke Ltd, Registered Valuers, valuations both dated 31 March 2005. These are valued on the basis of market value for existing use.

Property, Plant & Equipment		
Land & Buildings		
111 Trafalgar Street		
Land at Valuation	340,000	470,000
Buildings at Valuation	<u>850,000</u>	<u>980,000</u>
	1,190,000	1,450,000
Other Assets—Cost	2,964,376	2,139,555
Less Accumulated Depreciation	<u>1,577,391</u>	<u>796,056</u>
	1,386,985	1,343,499
	<u>\$2,576,985</u>	<u>\$2,793,499</u>

Our 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 2005.

The aggregate of the latest Government Valuations of land and buildings is \$4,250,000. The valuations of land and buildings at 111 Trafalgar Street, 231 Trafalgar Street and on the corner of Trafalgar and Bridge Streets are \$880,000, \$1,550,000 and \$1,820,000 respectively, all dated 1 September 2003.

The depreciation charge for the year comprises:	31 March 2004	31 March 2005
Buildings	17,386	17,386
Other Assets	<u>234,489</u>	<u>354,262</u>
	\$251,875	\$371,648

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 cashflows. This is primarily because a significant proportion of the Society's Redeemable Shares, Subordinated Debt and Deposits are renewed at maturity and therefore do not have a cashflow 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 cashflows due to early repayments, further drawdowns and principal reductions.

To meet both expected and unexpected fluctuations in operating cashflows the Society maintains a stock of liquid investments. Taking into account analysis of historical cashflows, forecast cashflows 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:

MONETARY ASSETS	Effective Interest Rate	Total	Within 6 Months	6 Months to 1 Year	1 to 2 Years	2 to 5 Years	5 Years & Over
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	—
Sundry Debtors		5,653	5,653	—	—	—	—
Prepayments		105,376	105,376	—	—	—	—
Interest Accrued		133,622	133,622	—	—	—	—
Hire Purchase Pre-paid Commission		402,988	402,988	—	—	—	—
Taxation Refund		75,731	75,731	—	—	—	—
Personal Loans	10.84%	99,856	99,856	—	—	—	—
Hire Purchase Contracts (less unearned interest)	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		163,216,037	155,561,236	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/ATM/Pos/Employee Entitlements		212,508	212,508	—	—	—	—
HP Dealer Accounts		11,408	11,408	—	—	—	—
Withholding Tax		167,164	167,164	—	—	—	—
Mortgage-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		163,471,645	119,780,241	39,429,966	3,827,462	433,976	—

Debtors

Amounts owing by the six largest borrowers (ie, mortgage advances) at 31 March 2005 totalled \$8,338,287 or 6.08% of the total advances. (2004: \$8,025,060 being 6.5%)

Mortgage Advances

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

Credit Facility Line of Credit facilities up to \$8,000,000 (2004: \$4,000,000) with the ASB Bank and \$6,000,000 (2004: \$6,000,000) with Westpac.

Security The debt securities are unsecured and deposits will rank equally with the Society's other unsecured obligations and ahead of redeemable shares. 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.

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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 2005 our capital ratio was 5.27% (2004: 5.48%).

Measurement of Equity	31 March 2004		31 March 2005
Reserve Fund	4,170,509		4,405,017
Revaluation Reserve	1,731,232		2,312,874
Total Equity	\$5,901,741		\$6,717,891
Risk Weighted Balance Sheet Exposures	Principal	% Risk Weight	Adjusted Risk Value
Cash	2,573,007	0	0
NZ Registered Bank Deposits & Investments	14,998,964	20	2,999,793
Fully Secured Residential	110,013,198	50	55,006,599
Fully Secured Commercial	29,313,172	100	29,313,172
Personal Loans	99,856	100	99,856
Hire Purchase Contracts	5,628,092	100	5,628,092
All Property & Equipment	6,973,499	100	6,973,499
Other Assets	589,748	100	589,748
Total Risk Weighted Exposure	\$170,189,536		\$100,610,759

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ASSET QUALITY

Movements in pre-provision balances of Impaired and Past Due Assets

	Past Due Assets	31 March 2004 Impaired (Non-Accrual)	Past Due Assets	31 March 2005 Impaired (Non-Accrual)
Pre-provision Opening Balance	128,851	nil	129,054	nil
Assets now Recognised as Impaired	103,482	—	213,229	—
Charges	4,173	—	58,808	—
Customer Repayments	(34,252)	—	(51,551)	—
Loan Balance Written Off	(36,489)	—	(61,551)	—
Assets now Recognised as not Impaired	(36,711)	—	(110,824)	—
Pre-provision Closing Balance	129,054	nil	177,165	nil
Less: Specific Provisions	—	—	—	—
Closing Balance (Net of Provisions)	129,054	nil	177,165	nil

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FUNDING Concentrations of Funding

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

18 COMMITMENTS AND CONTINGENT LIABILITIES

The Society has a capital commitment for loans approved but not yet paid at 31 March 2005 for a total of \$5,196,613 (2004: \$2,123,000).

The Society has entered into leases in Richmond, Motueka, Murchison and Westport for 3 years commencing 1 November 2003, 1 August 2002, 1 January 2004 and 15 November 2004 respectively, with right of renewal.

Lease commitments under non-cancellable operating leases:	31 March 2004	31 March 2005
Less than 1 year	59,538	162,257
Between 1 and 2 years	50,538	107,148
Between 2 and 5 years	25,064	31,328
Greater than 5 years	—	—
	\$135,140	\$300,733

Sponsorship commitments beyond 31 March 2005 total \$153,600 (2004: \$228,600).

The Society has no contingent liabilities (2004: nil).

19 BUSINESS SEGMENT

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

AUDITOR SERVICES	31 March 2004	31 March 2005
Audit:		
Deloitte	—	36,306
West Yates	32,332	22,637
	\$32,332	\$58,943
Other professional services:		
Deloitte—Consultancy	—	31,275
West Yates—System Review & Development	15,190	—
Expensed	26,550	—
Capitalised	\$41,740	\$31,275

STATEMENT OF CASHFLOWS for the year ended 31 March 2005

	31 March 2004	31 March 2005
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from		
Interest Received	9,788,380	11,866,751
Fees, Rents & Commission	698,053	965,982
	10,486,433	12,832,733
Cash was disbursed to		
Interest Paid	6,760,928	8,383,407
Operating Expenses	2,678,564	3,276,874
Taxation Paid	156,879	65,275
	9,596,371	11,725,556
Net Cash Flows from Operating Activities	890,062	1,107,177
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from		
Net Decrease in Investments	1,928,343	0
	1,928,343	0
Cash was disbursed to		
Net Increase in Advances	(24,308,530)	(13,737,515)
Net Increase in Investments	0	(9,381,985)
Purchase of Property, Plant & Equipment	(999,023)	(313,020)
	(25,307,553)	(23,432,520)
Net Cash Flows from Investing Activities	(23,379,210)	(23,432,520)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from		
Net Increase in Shares & Borrowings	22,708,961	18,070,204
Net Cash Flows from Financing Activities	22,708,961	18,070,204
Net Increase (Decrease) in Cash	219,813	(4,255,139)
OPENING CASH BALANCE	6,608,333	6,828,146
CLOSING CASH BALANCE	\$6,828,146	\$2,573,007

	31 March 2004	31 March 2005
	\$	\$
Reconciliation of Net Surplus to		
Cash Flows from Operating Activities		
Net Surplus	310,972	234,508
Depreciation	251,875	371,648
Increase in Provision for Doubtful Debts	44,000	23,444
Increase in Deferred Tax Liability	53,292	56,321
Increase in Withholding Tax Accrual	70,664	96,500
Net (Profit)/Loss on Sale of Assets	(2,184)	2,244
Decrease/(Increase) in Accrued Interest Received	31,855	(51,811)
Increase in Accrued Interest Expense	288,297	536,218
Decrease/(Increase) in Accrued Charges	28,400	(61,314)
(Increase)/Decrease in Taxation Provision/Refund	(53,030)	15,321
Increase/(Decrease) in Accrued Other Income	(98,828)	101,085
(Increase) in Prepayments	(2,952)	(71,726)
(Increase) in Hire Purchase Accruals	(32,299)	(145,261)
	579,090	872,669
	\$890,062	\$1,107,177

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

NBS MANAGEMENT



From left

Gretchen Beams
NBS Regional Manager

Rangi O'Brien
NBS Administration Manager

Ken Beams
NBS General Manager

Tony Cadigan
NBS Assistant General Manager

Peter Havill
NBS Credit Manager



Nicky McNabb
Customer Service Manager
Nelson



Rebecca Keating
Customer Service Manager
Richmond



Mark Chapman
Customer Service Manager
Motueka



Liz Hocking
Customer Service Manager
Murchison



Craig Scanlon
Branch Manager
Westport



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