

The test of time

ESTD.
NEW ZEALAND'S OLDEST
BUILDING SOCIETY
1862



Abbie Cook and her new Subaru Forester.

Abbie, winner of the NBS "Win a Car" promotion February 2006, with Garry Hammond, NBS Nelson Branch Manager.



SERVICE TO THE
14
YEARS
& TASMAN COM

Directors	T N Cameron Chartered Accountant (Chairman) G R Dayman (Deputy Chairman) P J Robson AREINZ K A Carr LLB (Hons) J C Taylor
General Manager	K J Beams
Secretary	A J Cadigan
Solicitor	Glasgow Harley
Bankers	Westpac / ASB Bank
Auditor	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 Fourth 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 28 June 2006 at 5.30pm.

- Business
1. To receive the Director's Report and Financial Statements.
 2. To fix the remuneration for the Directors for the ensuing year.
 3. To appoint the Auditor 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.

A J Cadigan
Secretary



With the downturn in the Nelson/Tasman property market and the high US dollar over the past 12 months, the Nelson/Tasman Region has been placed under pressure.

This however does not reflect in our performance this year and proves that the economy in the Region is more robust than a lot of people thought.

The year past has proven no different than other years with NBS not being able to satisfy the mortgage market demand. Funding from the retail market to support the mortgage demand is difficult and has forced NBS to align itself with other non-bank lenders to satisfy customer needs.

The key results for the year:

Deposit Growth: up 12.9% to \$181M
 Lending Growth: up 11.5% to \$161M
 Total Asset Growth: up 12.4% to \$191M
 Profit Growth: up 29.0% to \$480K

While the profit before tax increased by 29% the Board and management are taking measures to increase the profitability of NBS. The Board has now decided to tender the building known as the Frontrunner site to achieve a better commercial rate of return. Pending this sale, a further decision will be made on the Hannah's property.

The mix of our lending book is also being adjusted to reflect a better balance between Housing and Commercial. This of course has not been to the detriment of the quality book we have at NBS, which is a result of excellent work carried out by our branches and Credit Manager.

On behalf of the Board we would like to extend our thanks to the staff and management team for the way in which they manage our client base.

We thank our members for their ongoing support of the Society and trust this will continue, allowing NBS to develop further as the preferred local financial institution.

The Directors retiring by rotation are Mr Phil Robson and Ms Kathy Carr. Both Directors are eligible for re-election without nomination and accordingly we declare them duly re-elected.



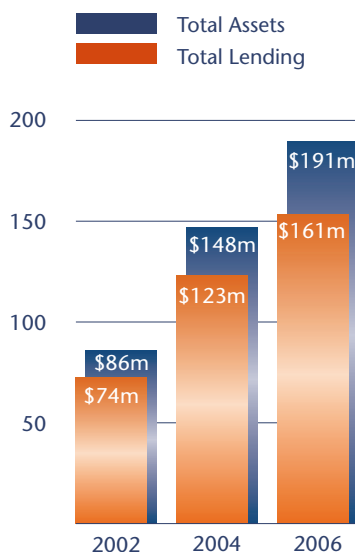
Trevor Cameron
Chairman of Directors



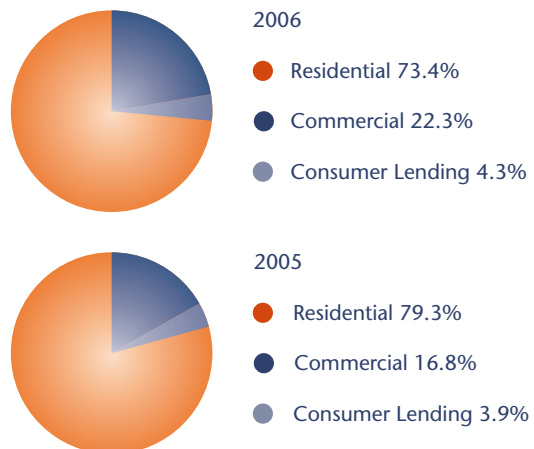

Ken Beams
General Manager



NBS Lending/Asset Growth (\$M)



NBS Lending Profile



RETAIL BANKING

Retail banking is NBS' core business and this continues to grow at a steady rate of 500 new Main Bank clients on an annual basis. Main Bank being direct credit of income to an NBS transactional account of your choice. The success of this growth can in part be attributed to NBS being proactive with "work place" presentations. All accounts can be accessed by phone, cheque, debit card, internet or manually through our branch network.

This year we have entered into an arrangement with Housing New Zealand Corporation to provide finance to first home owners under a product branded "Welcome Home Loan". The benefit to NBS is the ability to offer this quality product guaranteed by HNZC to young clients starting out in home ownership for the first time. This scheme allows a client to borrow up to 100% provided the criteria is met.

Our Target account introduced 4 years ago continues to attract new business. The opportunity to win a motor vehicle while saving at the same time appeals to a wide range of people.

Insurance products are also available through our branches covering home, contents, motor, life, trauma and income protection.

BUSINESS BANKING

NBS is experiencing rapid growth in new business banking clients. This is largely due to a combination of our experienced branch managers and our comprehensive product range including:

- Cheque Accounts (with the option of analysis coding)
- Internet Banking
- Business Loans
- Overdraft Facility
- Detailed Statements
- Call Accounts
- Insurances
- BankLink & Bank Connect

The NBS Managers are empowered to make local decisions and possess the knowledge to work alongside the business owners to ensure a positive banking relationship is developed.

This is an area of strong focus for NBS for the year ahead and a continuation of our current success in attracting new business clients is expected.

From top: Beachside Estate development, Carters Beach, Westport. Nelson Branch. Jeff Hulme, Rob Douglas, Tim Wanklyn and Andrew Conway of adventure tourism company Simply Wild Ltd. Dennis Allen of Allen Plumbing and Gas.

WEST COAST CONNECTION

The Westport branch under the guidance of Craig Scanlon continues to impress. In the space of 18 months Craig has grown his combined book to \$26M, which is a very pleasing result.

NBS has acquired rental premises in Greymouth and will decide later in the year when we may open. This will depend on attaining the right personnel.



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

Each year NBS reinvests many thousands of dollars back into the local community.

Again this year the NBS Nelson Giants was the most significant recipient of NBS sponsorship money. We can all enjoy the success of the Giants knowing they are truly a locally supported team. And successful they have been - again earning a place in the NBL finals.



Sponsorship recipients this year:

NELSON BRANCH

- Nelson Bays Squash
- Nelson Golf
- Fifeshire Foundation
- Nelson Croquet Association
- Tahunanui Bowling Club
- Stoke Bowling Club
- Ngawhatu Bowling Club
- Nelson Bowling Club
- Nelson Indoor Bowls
- Nelson Hospice
- Nelson Performing Arts
- Soccer Nelson
- Nelson RSA
- Broadgreen Historic House
- Haven Sports Trust
- Lions Club
- Classic Cars
- NBS Giants

RICHMOND BRANCH

- Moutere Community Centre and Sports Complex
- Richmond Contract Bridge Club
- Waimea Old Boys Rugby
- Richmond Bowling Club
- Waimea Intermediate School
- Totaradale Golf
- National Left Handed Golfers
- Richmond Rotary Club
- Star and Garter Wheelers
- Richmond GSA
- Tasman Tennis

MOTUEKA BRANCH

- Motueka Golf
- Motueka Bowling Club
- Motueka RSA
- Motueka Rotary Club
- Ngatimoti Bowling Club
- Top of the South Country Music Awards

MURCHISON BRANCH

- Murchison Golf
- Murchison Bowls
- Murchison A& P Show Jumping
- Murchison School
- Murchison Theatre

WESTPORT

- Buller New Years Racing
- Buller Womens Triathlon
- Westport Bridge Club



Above: Mike Fitchett in action against the Canterbury Rams. Top right: Julian Van Mallaerts, recipient of NBS Scholarship to join the National Youth Choir in the UK. The NBS Team for the Nelson Hospice fundraising "Tug of Peace". Cycling Tour de Vineyards, January 2006. NBS Giants Westport school visit 2005. The NBS Touch Rugby Team playing in the Richmond module of the Nelson Touch Association.



J C Taylor

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 franchisee. 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 Carr joined the Board of Directors in 1999 as its first female director. Kathy 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 fulltime career with motherhood and family continues to provide an interesting challenge.

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.

G R Dayman (Deputy Chairman)

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 is 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.

We have audited the financial statements on pages 7 to 19. The financial statements provide information about the past financial performance of Nelson Building Society (the Society) and its financial position as at 31 March 2006. This information is stated in accordance with the accounting policies set out on pages 11 to 12.

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

Auditors' Responsibilities

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

Basis of Opinion

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

- the significant estimates and judgements made by the Board of Directors in the preparation of the financial statements, and
- whether the accounting policies are appropriate to the 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 obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor and the provision of advisory 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 7 to 19:
 - 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 2006 and the results of its operations and cash flows for the year ended on that date.

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



Chartered Accountants
Christchurch, New Zealand.

	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
Consumer Lending 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>\$335,454</u>	<u>\$234,508</u>

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

	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 (Notes 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 (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.

	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>\$7,114,617</u>	<u>\$6,717,891</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.

	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	5,813,815	-
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 used in 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	20,749,371	18,070,204
Net Cash Flows from Financing Activities	<u>20,749,371</u>	<u>18,070,204</u>
Net Increase (Decrease) in Cash	<u>10,613,462</u>	<u>(4,255,139)</u>
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 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 Sundry Creditors & Employee Entitlements	(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.

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 full 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 methods and rates have been applied to 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

	31 March 2006	31 March 2005
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

	31 March 2006	31 March 2005
(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>

4. TAXATION

	31 March 2006	31 March 2005
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 the Year	146,560	80,596
Tax Paid	-	(65,275)
Closing Balance	<u>\$70,829</u>	<u>\$(75,731)</u>

5. DEFERRED TAXATION

	31 March 2006	31 March 2005
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

	31 March 2006	31 March 2005
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

	31 March 2006	31 March 2005
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:

	Weighted % Per Annum	2006 Amount	Weighted % Per Annum	2005 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>

	31 March 2006	31 March 2005
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

	31 March 2006	31 March 2005
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 to:

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

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.

Percentages of Equity	31 March 2006		31 March 2005	
	Bank	Other	Bank	Other
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	-

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. (2005: \$8,338,287 being 6.08%).

8. PROVISION FOR DOUBTFUL DEBTS

	31 March 2006		31 March 2005	
	Performing Assets	Impaired (Non-Accrual)	Performing Assets	Impaired (Non-Accrual)
Balances at beginning of period				
• 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

	31 March 2006		31 March 2005	
	Past Due Assets	Impaired (Non-Accrual)	Past Due Assets	Impaired (Non-Accrual)
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>

10. INVESTMENTS

Investments are made up as follows:

	31 March 2006	31 March 2005
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 debt 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 are 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 sundry 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 debts and bonds with New Zealand registered banks and debentures with New Zealand listed companies. The Society has appointed Bancorp Treasury Services Limited 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

	31 March 2006	31 March 2005
(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	1,781,000	-
• Buildings	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

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

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

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	Effective Interest Rate %	Total	Within 6 Months	6 Months to 1 Year	1 to 2 Years	2 to 5 Years
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 and 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
MONETARY 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 Monetary Liabilities		184,184,290	127,807,339	52,492,362	3,869,589	15,000

2005	Effective Interest Rate %	Total	Within 6 Months	6 Months to 1 Year	1 to 2 Years	2 to 5 Years
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
MONETARY 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 Monetary Liabilities		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

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 5.32% (2005: 5.27%). This is calculated as Total Equity plus Subordinated Debt as a percentage of Total Assets.

31 March 2006

Measurement of Equity

Reserve Fund	6,311,453
Revaluation Reserve	803,164
Total Equity	\$7,114,617

Risk Weighted Balance Sheet Exposures

	Principal	% Risk Weight	Adjusted Risk Value
Cash	13,186,469	0	0
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	\$191,298,907		\$111,150,909

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.

	31 March 2006	31 March 2005
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 REPORTING 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.



SENIOR MANAGEMENT

Above. From left.

Ken Beams
NBS General Manager

Tony Cadigan
NBS Assistant General Manager

Gretchen Beams
NBS Regional Manager

Peter Havill
NBS Credit Manager

Rangi O'Brien
*NBS Administration Manager
 (Absent)*

BRANCH MANAGERS

Left. Clockwise from back left.

Ross Lockhart
Branch Manager Richmond

Craig Scanlon
Branch Manager Westport

Garry Hammond
Branch Manager Nelson

Howie Timms
Branch Manager Motueka



Nelson

111 Trafalgar St
Tel 03 548 2164
Fax 03 548 8900
Email nelson@nbs.co.nz

Richmond

207 Queen St
Tel 03 543 9391
Fax: 03 543 9390
Email richmond@nbs.co.nz

Motueka

185 High St
Tel 03 528 1111
Fax 03 528 0092
Email motueka@nbs.co.nz

Murchison

32 Waller St
Tel 03 523 1000
Fax 03 523 9565
Email murchison@nbs.co.nz

Westport

192 Palmerston St
Tel 03 788 8177
Fax 03 789 7180
Email westport@nbs.co.nz

Post

PO Box 62, Nelson

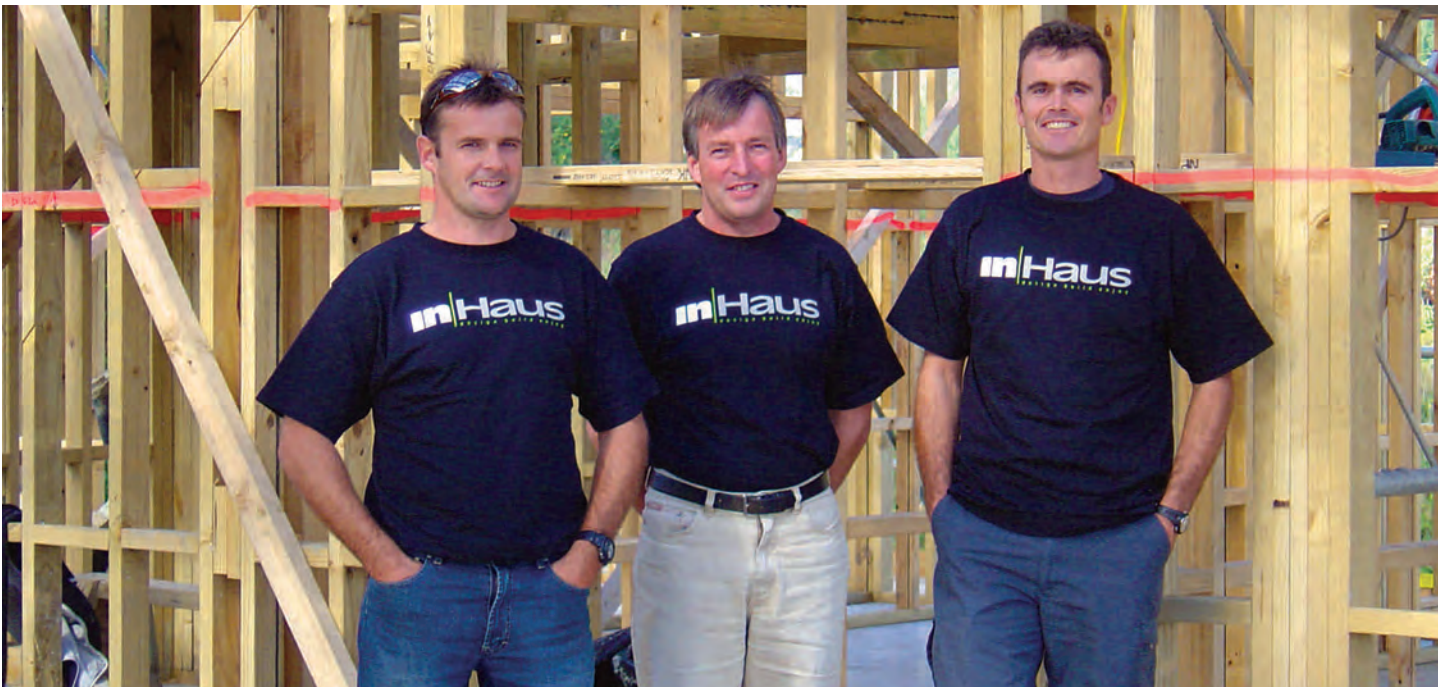
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