

The 145th Annual Report of the Nelson Building Society

Directors	<p>T N Cameron Chartered Accountant (Chairman) P J Robson AREINZ (Deputy Chairman) G R Dayman P A Bell LLB J C Taylor</p>
General Manager	K J Beams
Secretary	A J Cadigan
Solicitor	Glasgow Harley
Bankers	Westpac / ASB Bank
Auditor	Deloitte
Head Office	<p>111 Trafalgar Street PO Box 62 Nelson</p>
Notice Of Annual General Meeting	<p>Notice is hereby given that the One Hundred and Forty Fifth Annual General Meeting of Shareholders of the Nelson Building Society will be held at Monaco Hotel, 6 Point Road, Monaco, Nelson on Wednesday 27 June 2007 at 5.30pm.</p>
Business	<ol style="list-style-type: none"> 1. To receive the Director's Report and Statement of Accounts. 2. To fix the remuneration for the Directors for the ensuing year. 3. To appoint the Auditors for the ensuing year and fix their remuneration. 4. General Business.
Proxies	<p>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.</p> <p>A J Cadigan Secretary</p>

Chairman of Directors' & General Manager's Report



Trevor Cameron



Ken Beams

The Nelson/Tasman economy has proved to be as resilient as ever which has allowed NBS to record its highest ever profit in the history of the Nelson Building Society.

From year to year we continue to be faced with high demand for mortgage finance and it is difficult to meet market needs. Funding from the retail market to support the ongoing mortgage demand continues to be difficult.

The key results for the year:

Borrowings Growth	up 3.5%	\$188m
Advances Growth	up 11.6%	\$180m
Total Asset Growth	up 8.4%	\$207m
Profit Growth	up 74%	\$835k

The profit before tax increased by 74% which is a pleasing result for the Management and Board. This has been achieved as a result of a stabilised interest rate market and some economy of scale now being achieved.

Progress has also been made in achieving a better mix in our lending portfolio while maintaining the quality of our book. The outlook for interest rate fluctuations in the next 12 months will depend on the Reserve Bank's management policies for the Economy, but it certainly looks like more increases are likely in the next few months.

Our branch network has increased to six with the opening of Greymouth Branch on the 26th of March 2007. Karen Atkinson has been appointed as our Branch Manager. Karen has 25 years of retail banking experience and will be an asset to our management team.

With the review of Financial Organisations being currently undertaken by the Ministry of Economic Development, NBS has commenced addressing the capital position of the Society and has issued Perpetual Preference Shares which are classified as equity under the new International Financial Reporting Standards. The Capital Ratio and the Risk Weighted Capital Ratio along with a Credit Rating will determine where organisations like NBS will fit in the new financial structure. The review has seen other

similar organisations looking to merge or being subject to possible takeover. We must be mindful that we may have to look at some form of amalgamation with others to attain what the Ministry of Economic Development is trying to achieve. We are assessing our options at present and keeping an open mind on the future, but are determined to keep our present form of ownership and structure for as long as is commercially viable.

On behalf of the Board we extend our thanks to the staff and management team for their professionalism in managing our client base.

We thank our members for the ongoing support of the Society and trust this will continue into the future which will allow NBS to achieve its goal of being the preferred local financial institution.

The Directors retiring by rotation are Mr Trevor Cameron and Mr Paul Bell. 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

History

Since 1862 Nelson Building Society has been growing and developing competitive financial services tailored specifically to the local community.

Generations of Nelson and Tasman residents have entrusted their savings and their futures to our care. This indeed makes us a very safe pair of hands.

As the region grows, our products continue to diversify and deliver for a modern, fast paced world.

We will always be competitive, and we will always be relevant to the society we live and work in. It's a formula that has stood us in good stead for 145+ years!

NBS, New Zealand's oldest Building Society, building lifestyles, dreams and a sense of local pride since 1862.



“A Safe Pair of Hands”

Personal Banking

It's all about you... no matter who you are, and no matter what you want to achieve, we have a product that will support you and your dreams.

From day to day banking, approving a loan or arranging a mortgage, when you work with us, we will work for you.

And because we know everyone is a little different, we can tailor our services to suit, no matter your age or lifestyle - we love the differences.

Unlike the banks who penalise you when you withdraw personal funds over the counter, we actually like to see you in person! Now THAT'S different – that's personal banking!

Personal banking services include:

- Personal loans and personal accounts
- Personal investments
- A whole host of insurances
- Mortgages
- Online banking and telephone banking
- Direct debits and direct credits
- Bill payments and arranging automatic payments

No Better Support

“How would YOU like that served?”



Business Banking

At NBS you and your business won't get the run around, you'll get the NBS personal touch.

We know everyone's a little different because we work with all sorts of different Business Banking Entities: (aka you!)

- sole traders facing the world alone!
- partnerships
- very big and very small companies
- non-profit organisations making a difference

We actively support businesses with a range of services that recognise your particular needs (even if you're a seasonal or what other banks might call 'non-target market' business!).

To keep the Cash-flowing, try our business overdraft or loan facilities.

Internet banking means you are on top of it all no matter where you are.

Cheque and call accounts give you the flexibility you need to make your business work, and remember, there is ALWAYS a person ready, willing and able, to help and advise you on the best banking services to help your business make it big!

No Business is too Small



“Flexibility is everything!”

Community Involvement





Star and Garter Wheelers

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.



Presentation of Gear Bags to Nelson Bays Age Group Squash Players

Sponsorship recipients this year:

NELSON BRANCH

- Nelson Golf
- Fifeshire Foundation
- Nelson Bays Squash
- Nelson Soccer
- Stoke Hockey Club
- Nelson U19 Basketball
- Waimea U13 Basketball
- Nelson Indoor Bowls Assn
- Dancesport Nelson
- Ngawhatu Bowling Club
- Nelson RSA
- Nelson Croquet Assn
- Tahunanui Bowling Club
- Plunket
- Uniquely Nelson
- Maitai Bowling Club
- Star & Garter Wheelers
- Nelson Marching
- Nelson Giants

RICHMOND BRANCH

- Moutere Community Centre & Sports Complex
- Richmond Contact Bridge Club
- Richmond Bowling Club



NBS tent utilised for fundraising occasions, on this occasion - Waimea Rugby Football Club

- St Pauls School
- Waimea Rugby Football Club
- Richmond Touch Module

MOTUEKA BRANCH

- Motueka RSA
- Top of the South Music Awards
- Ngatimoti Bowling Club
- Motueka Golf Club
- Motueka Bowling Club
- Motueka High School

MURCHISON BRANCH

- Murchison Golf
- Murchison District Historical Society
- Bowls Murchison
- Murchison Area School
- Murchison A&P Association
- Murchison Community Services

WESTPORT

- Westport Golf Club
- Greypower Hokitika
- Westport Contract Bridge Club
- Buller Women's Triathlon



“Where other investments fear to go”

Investments

NBS Term Investments

Offer a higher interest rate for people who want to secure their savings away for a fixed term.

Our investment terms range from 1 to 36 months, so if you are looking for a way to earn a competitive return on your funds this could be the option for you:

- Minimum deposit just \$5,000.
- A choice of interest payment options.
- If necessary, funds can be withdrawn before maturity, subject to a break rate.
- For investment terms less than 1 month a Lifestyle On-Call Account is available.

Audit Report

to the shareholders of Nelson Building Society

We have audited the financial statements on pages 10 to 27. The financial statements provide information about the past financial performance of Nelson Building Society (the Society) and its financial position as at 31 March 2007. This information is stated in accordance with the accounting policies set out on pages 15 to 17.

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 2007 and of the results of operations and cash flows for the year ended on that date.

Auditor's 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 judgments 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.

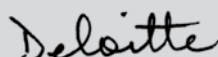
Unqualified Opinion

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 page 10 to 27 :
 - 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 2007 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 31 May 2007 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 2007

	31 March 2007	31 March 2006
	\$	\$
INCOME		
Income Received From:		
Mortgages & Personal Loans	14,604,129	12,403,367
Consumer Lending	936,733	876,950
Bank Deposits, Investments & Debentures	1,790,914	1,020,798
Other Interest	4,970	254
TOTAL OPERATING REVENUE	17,336,746	14,301,369
Deduct Direct Costs		
Interest Incurred on:		
Term & Call Deposits & Shares	13,012,481	10,637,069
Other Borrowings	241,208	215,116
Commission on:		
Consumer Lending	266,783	251,583
	13,520,472	11,103,768
GROSS CONTRIBUTION FROM ACTIVITIES	3,816,274	3,197,601
Add - Other Income		
Bad Debts Recovered	9,602	4,195
Commission	48,235	24,872
Establishment Fees	294,473	254,799
Consumer Lending Fees	84,445	78,897
Other Fees	462,116	410,948
Property Rents	202,089	362,703
Revaluation of Investment Property	238,995	50,000
	1,339,955	1,186,414
OPERATING SURPLUS	5,156,229	4,384,015
Deduct Overhead expenses		
Amortisation of Bonds	23,951	28,927
Auditor - Audit Fees	43,875	47,287
- Other Services	53,142	8,071
Administration Expenses	3,172,076	2,978,922
Bad Debts	13,110	-
Brokerage	76,094	95,169
Depreciation (Note 15)	402,256	374,297
Directors Fees	74,026	70,930
Loss on sale of Investment Property	96,676	-
Loss on Sale of Assets	-	2,553
Operating Lease Costs	221,420	179,511
Provision for Doubtful Debts (Note 10)	144,000	118,000
TOTAL EXPENSES	4,320,626	3,903,727
SURPLUS BEFORE TAXATION	835,603	480,288
Taxation (Note 5)	232,299	144,834
NET SURPLUS FOR THE YEAR	\$603,304	\$335,454

Statement of Movements in Equity

for the Year Ended 31 March 2007

	31 March 2007	31 March 2006
	\$	\$
Equity - Opening Balance	7,114,617	6,717,891
Net Surplus for the year (Note 3)	603,304	335,454
Revaluation of Land & Buildings (Note 4b)	251,258	61,272
Total Recognised Revenues & Expenses for Year	854,562	396,726
Issue of Shares (Note 2)	8,430,000	-
Dividends (Note 3)	(52,655)	-
Equity - Closing Balance	\$16,346,524	\$7,114,617

Approval of Financial Statements for the Year Ended 31 March 2007

Authorisation for Issue

The Directors authorised the issue of these financial statements on 31 May 2007.

Approval by Directors

The Directors are pleased to present the financial statements of Nelson Building Society for the year ended 31 March 2007.



K Beams
General Manager



T N Cameron CA
Chairman of Directors



PJ Robson
Deputy Chairman of Directors

Statement of Financial Position

as at 31 March 2007

	31 March 2007	31 March 2006
	\$	\$
EQUITY		
Share Capital (Note 2)	8,430,000	-
Reserve Fund (Note 3)	6,862,102	6,311,453
Revaluation Reserve (Note 4)	1,054,422	803,164
	<u>16,346,524</u>	<u>7,114,617</u>
NON CURRENT LIABILITIES		
Borrowings (Note 8)	9,722,773	3,884,589
Deferred Taxation (Note 6)	176,403	245,613
	<u>9,899,176</u>	<u>4,130,202</u>
CURRENT LIABILITIES		
Borrowings (Note 8)	178,157,083	177,610,951
Interest Accrued	2,281,862	2,008,484
Withholding Tax	215,327	164,751
Employee Entitlements	74,000	46,043
Sundry Creditors	362,834	153,030
Taxation Payable (Note 5)	53,870	70,829
	<u>181,144,976</u>	<u>180,054,088</u>
TOTAL EQUITY & LIABILITIES	<u>\$207,390,676</u>	<u>\$191,298,907</u>
ADVANCES (Note 9)		
Mortgages	173,406,970	155,421,771
Personal Loans	461,669	259,865
Consumer Lending	6,696,886	6,203,235
Less Provision for Doubtful Debts (Note 10)	(148,000)	(267,090)
	<u>180,417,525</u>	<u>161,617,781</u>
INVESTMENTS (Note 12)		
Deposits, Investments & Debentures	19,667,200	9,182,882
PROPERTY		
Investment Properties (Note 14)	1,940,000	1,700,000
Property, Plant & Equipment (Note 15)	2,829,078	2,687,756
	<u>4,769,078</u>	<u>4,387,756</u>
CURRENT ASSETS		
Bank and Cash on Hand	2,225,493	13,186,469
Debtors and Prepayments	311,380	394,019
Property Intended For Sale (Note 14b)	-	2,530,000
	<u>2,536,873</u>	<u>16,110,488</u>
TOTAL ASSETS	<u>\$207,390,676</u>	<u>\$191,298,907</u>

Statement of Cash Flows

for the Year Ended 31 March 2007

	31 March 2007	31 March 2006
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Interest Received	17,310,229	14,303,636
Fees, Rents & Commission	1,100,960	1,137,707
	<u>18,411,189</u>	<u>15,441,343</u>
Cash was disbursed to:		
Interest Paid	(13,196,518)	(11,187,893)
Operating Expenses	(3,644,616)	(3,380,442)
Taxation Paid	(324,034)	(2,413)
	<u>(17,165,168)</u>	<u>(14,570,748)</u>
Net Cash Flows from Operating Activities	<u>\$1,246,021</u>	<u>\$870,595</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Net Decrease (Increase) in Investments	-	5,784,888
Sale of Property held for Resale	2,433,324	-
	<u>2,433,324</u>	<u>5,784,888</u>
Cash was disbursed to:		
Net increases in Advances	(18,680,654)	(16,587,109)
Net Increase in Investments	(10,481,752)	-
Purchase of Property, Plant & Equipment	(287,759)	(204,283)
	<u>(29,450,165)</u>	<u>(16,791,392)</u>
Net Cash Flows used in Investing Activities	<u>(\$27,016,841)</u>	<u>(\$11,006,504)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from:		
Net Increase in Borrowings	6,384,316	20,749,371
Issue of Shares (Note 2)	8,430,000	-
Net Cash Flows from Financing Activities	<u>14,814,316</u>	<u>20,749,371</u>
Cash was disbursed to:		
Dividends Paid	(4,472)	-
Net Cash Flows from Financing Activities	<u>\$14,809,844</u>	<u>\$20,749,371</u>
Net (Decrease) Increase in Cash	(10,960,976)	10,613,462
OPENING CASH BALANCE	<u>13,186,469</u>	<u>2,573,007</u>
CLOSING CASH BALANCE	<u>\$2,225,493</u>	<u>\$13,186,469</u>

Statement of Cash Flows

for the Year Ended 31 March 2007

RECONCILIATION OF NET SURPLUS TO CASH FLOWS FROM OPERATING ACTIVITIES

	31 March 2007	31 March 2006
	\$	\$
Net Surplus	603,304	335,454
Non Cash Items		
Amortisation of Bonds	23,951	28,927
Deferred Taxation	(50,356)	(1,726)
Depreciation	402,256	374,297
Investment Properties (Revaluation)	(238,995)	(50,000)
(Decrease)/Increase in Provision for Doubtful Debts	(119,090)	23,646
Net Loss on Sale of Assets	96,676	2,553
	<u>114,442</u>	<u>377,697</u>
Movement in Working Capital		
Increase/(Decrease) in Withholding Tax Accrual	50,576	(2,413)
(Decrease)/Increase in Accrued Interest Received	(26,517)	2,267
Decrease/(Increase) in Accrued Interest Expense	273,378	(84,125)
Increase in Sundry Creditors	161,621	14,954
(Decrease)/Increase in Taxation Payable	(41,379)	146,560
Decrease in Debtors and Prepayments	82,639	108,590
Increase/(Decrease) in Employment Entitlements	27,957	(28,389)
	<u>528,275</u>	<u>157,444</u>
	<u>\$1,246,021</u>	<u>\$870,595</u>

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) **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.

Notes to the Financial Statements

- g) **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 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

- h) **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.
- i) **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.
- j) **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.
- k) **Discontinued Activities:** None of the revenue and expense items disclosed in the Statement of Financial Performance result from discontinued activities.
- l) **Leases:** Payments made under operating leases are recognised in the Statement of Financial Performance as they are incurred.
- m) **Consumer Lending:** Interest receivable and dealer commission paid in relation to consumer lending are accrued using the sum of the digits method.
- n) **Goods and Services Tax:** 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.
- o) **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.

Notes to the Financial Statements

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.
- p) **Property Intended for Sale:** Property withdrawn from use and intended for sale is recorded at the lower of carrying value and net market value.

CHANGES IN ACCOUNTING POLICIES

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

2. SHARE CAPITAL

During the year 8,430,000 preference shares were issued for \$1 each, fully paid. Each share attracts a fully imputed dividend. Dividends, paid quarterly, may only be paid from the surplus profits of the Society. The dividend shall be paid at the 90 day bill rate, set at the beginning of each quarter, plus 2% pa. In certain circumstances the Society can cancel the payment of a dividend by giving the holder a Dividend Cancellation Notice. The holder has no rights to attend, vote or speak at general meetings nor do the shares carry any right to participate in any cash, bonus or other issues of shares declared or made by the Society. The shares may only be redeemed by the Society giving a Redemption Notice to the holders.

3. RESERVE FUND	31 March 2007	31 March 2006
Opening Balance	6,311,453	4,405,017
Net Surplus for the Year	603,304	335,454
Transfer from Revaluation Reserve	-	1,570,982
Dividends	(52,655)	-
Closing Balance	<u>\$6,862,102</u>	<u>\$6,311,453</u>
4. REVALUATION RESERVE	31 March 2007	31 March 2006
(a) Investment Properties		
Opening Balance	-	1,570,982
Transfer to Reserve Fund	-	(1,570,982)
Closing Balance	<u>-</u>	<u>-</u>
(b) Land & Buildings		
Opening Balance	803,164	741,892
Revaluation in the Year	256,824	66,824
Deferred Taxation on Revaluation	(5,566)	(5,552)
Closing Balance	<u>1,054,422</u>	<u>803,164</u>
Total Revaluation Reserve	<u>\$1,054,422</u>	<u>\$803,164</u>

Notes to the Financial Statements

5. TAXATION	31 March 2007	31 March 2006
Taxation Expense		
Surplus before Taxation	<u>\$835,603</u>	<u>\$480,288</u>
Taxation at 33%	275,749	158,495
Permanent Differences	(43,450)	(13,661)
Taxation Expense	<u>\$232,299</u>	<u>\$144,834</u>
Comprising:	31 March 2007	31 March 2006
Current Taxation	307,075	146,560
Deferred Taxation	(74,776)	(1,726)
	<u>\$232,299</u>	<u>\$144,834</u>
Current Taxation		
Opening Balance (Refund Due)	70,829	(75,731)
Expense for Year	307,075	146,560
Tax Paid	(324,034)	-
Closing Balance	<u>\$53,870</u>	<u>\$70,829</u>
6. DEFERRED TAXATION	31 March 2007	31 March 2006
Opening Balance	245,613	241,787
Movement in the Year	(74,776)	(1,726)
Arising on Revaluations	5,566	5,552
Closing Balance	<u>\$176,403</u>	<u>\$245,613</u>
7. IMPUTATION CREDIT ACCOUNT	31 March 2007	31 March 2006
Opening Balance	1,660,041	1,660,041
Tax Paid	324,034	-
Dividends Paid	(25,935)	-
Closing Balance	<u>\$1,958,140</u>	<u>\$1,660,041</u>
8. BORROWINGS	31 March 2007	31 March 2006
Non Current Liabilities		
Term Deposits	<u>9,722,773</u>	<u>3,884,589</u>
	<u>\$9,722,773</u>	<u>\$3,884,589</u>
Current Liabilities	31 March 2007	31 March 2006
Term and Call Deposits	47,110,264	50,492,362
Term and Call Shares	129,046,819	122,769,475
ASB Bank Limited Funding Line	2,000,000	-
Mortgage – Backed Securities	-	1,288,264
Subordinated Debt	-	3,060,850
	<u>\$178,157,083</u>	<u>\$177,610,951</u>

Notes to the Financial Statements

8. BORROWINGS (continued)

The maturity analysis of term and current borrowings is:

	2007		2006	
	Weighted %	Amount	Weighted %	Amount
	Per Annum		Per Annum	
Up to one year	7.28	178,157,083	6.22	177,610,951
One to two years	7.67	9,462,481	7.37	3,869,589
Two to five years	6.60	260,292	6.60	15,000
Total	6.79	<u>\$187,879,856</u>	6.39	<u>\$181,495,540</u>
		31 March 2007		31 March 2006
Borrowings attributable to				
(i) Associated Bodies Corporate		Not applicable		Not applicable
(ii) Related Bodies Corporate		Not applicable		Not applicable
(iii) Directors		\$268,796		\$302,468

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

Deposits, shares and ASB Bank Ltd funding line 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.

	31 March 2007	31 March 2006
9. ADVANCES		
Secured	180,103,856	161,625,006
Unsecured	461,669	259,865
Less Provision for Doubtful Debts (Note 10)	(148,000)	(267,090)
	<u>\$180,417,525</u>	<u>\$161,617,781</u>
Advances owing from:		
(i) Associated Bodies Corporate	N/A	N/A
(ii) Related Bodies Corporate	N/A	N/A
(iii) Directors	\$730,877	\$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 \$174,000,474 (2006: \$158,015,386).

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.

Debtors

Amounts owing by the six largest borrowers (i.e., mortgage advances) as at 31 March 2007 totalled \$12,915,659 or 7.16% of the total advances. (March 2006: \$9,968,849 being 6.41%).

Notes to the Financial Statements

10. PROVISION FOR DOUBTFUL DEBTS

	31 March 2007		31 March 2006	
	Performing Assets	Impaired (Non- Accrual)	Performing Assets	Impaired (Non- Accrual)
Balances at beginning of year				
• General	148,000	-	148,000	-
• Specific	119,090	-	95,444	-
	<u>267,090</u>	<u>-</u>	<u>243,444</u>	<u>-</u>
Less: Bad debts offset against provision				
• General	-	-	-	-
• Specific	263,090	-	94,354	-
Additional provisions				
• General	(75,000)	-	-	-
• Specific	219,000	-	118,000	-
Balances at end of year				
• General	73,000	-	148,000	-
• Specific	75,000	-	119,090	-
	<u>\$148,000</u>	<u>-</u>	<u>\$267,090</u>	<u>-</u>

11. ASSET QUALITY

Movements in balances of Impaired and Past Due Assets

	31 March 2007		31 March 2006	
	Past Due Assets	Impaired (Non- Accrual)	Past Due Assets	Impaired (Non- Accrual)
Opening Balance	331,128	-	177,165	-
Assets classified as Past Due	221,328	-	327,137	-
Charges	32,261	-	29,437	-
Customer Repayments	(154,255)	-	(91,128)	-
Loan Balance Written Off	(275,459)	-	(91,639)	-
Assets no Longer Meeting Definition	(46,399)	-	(19,844)	-
Closing Balance	<u>\$108,603</u>	<u>NIL</u>	<u>\$331,128</u>	<u>NIL</u>

12. INVESTMENTS

Investments are made up as follows:

Current:

	31 March 2007	31 March 2006
Bank Deposits	14,995,930	4,512,896
Investment Securities	2,507,298	495,031
Accrued Interest	157,872	131,355
	<u>17,661,100</u>	<u>5,139,282</u>
Term Investment Securities	2,006,100	4,043,600
	<u>\$19,667,200</u>	<u>\$9,182,882</u>

Notes to the Financial Statements

12. INVESTMENTS (continued)

Investment securities have a nominal value of \$4.5m (2006: \$4.5m). Investment securities include subordinated investments with a nominal value of \$2.5m (2006: \$2.5m). Subordinated investments, rank behind other debt in any distributions upon winding-up by the investor organisation.

13. 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, 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 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 and bonds with 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 17 (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.

	31 March 2007		31 March 2006	
	Bank	Other	Bank	Other
Percentages of Equity				
10% to 19%	-	6	-	19
20% to 29%	-	-	-	5
30% to 39%	-	-	1	-
40% to 49%	1	-	-	-
50% to 59%	-	-	-	-
60% to 69%	1	-	-	1

Notes to the Financial Statements

13. FINANCIAL INSTRUMENTS (continued)

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 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 2007 there were 578 fixed rate loans totalling \$73,804,340 not reviewable within one year. (2006: 549 fixed rate loans totalling \$58,042,374).

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 approximates the fair value for each of these items.

14. INVESTMENT PROPERTIES

	31 March 2007	31 March 2006
(a) Investment Properties		
• Land at Valuation	980,000	956,000
• Buildings at Valuation	960,000	744,000
	<u>\$1,940,000</u>	<u>\$1,700,000</u>
(b) Property Intended For Sale		
• Land at Valuation	-	1,781,000
• Buildings at Valuation	-	749,000
	<u>-</u>	<u>\$2,530,000</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 2007, and valued on the basis of market value for existing use.

15. PROPERTY, PLANT & EQUIPMENT

	31 March 2007	31 March 2006
Land & Buildings		
111 Trafalgar Street		
• Land at Valuation	584,000	515,000
• Buildings at Valuation	1,156,000	985,000
	<u>1,740,000</u>	<u>1,500,000</u>
	31 March 2007	31 March 2006
Other Assets – Cost	2,776,928	2,339,002
Less: Accumulated Depreciation	(1,687,850)	(1,151,246)
	<u>1,089,078</u>	<u>1,187,756</u>
	<u>\$2,829,078</u>	<u>\$2,687,756</u>

Notes to the Financial Statements

15. PROPERTY, PLANT & EQUIPMENT (continued)

The property at 111 Trafalgar Street is the head office of the Society. It is shown at Duke & Cooke Ltd, Registered Valuers, valuation dated 31 March 2007 and valued on the basis of market value for existing use.

	31 March 2007	31 March 2006
The depreciation charge for the year comprises:		
Buildings	16,824	16,824
Other Assets	385,432	357,473
	<u>\$402,256</u>	<u>\$374,297</u>

16. LIQUIDITY PROFILE

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

Notes to the Financial Statements

LIQUIDITY PROFILE (continued)

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

2007	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		2,225,493	2,225,493	-	-	-
Bank Deposits	7.65%	14,995,930	14,995,930	-	-	-
Investments	6.64%	4,513,398	2,507,298	-	999,053	1,007,047
Interest Accrued		157,872	157,872	-	-	-
Debtors & Prepayments		311,380	311,380	-	-	-
Personal Loans	13.93%	461,669	461,669	-	-	-
Consumer Lending	13.47%	6,696,886	1,410,949	1,318,887	2,072,220	1,894,830
Mortgage Advances	8.92%	173,406,970	173,406,970	-	-	-
Provision for Doubtful Debts		(148,000)	(148,000)	-	-	-
Total Monetary Assets		\$202,621,598	\$195,329,561	\$1,318,887	\$3,071,273	\$2,901,877
LIABILITIES						
Term & Call Deposits	7.53%	56,833,037	-	47,110,264	9,462,481	260,292
Term & Call Shares	6.43%	129,046,819	129,046,819	-	-	-
ASB Bank Funding Line	9.56%	2,000,000	2,000,000	-	-	-
Deposit Interest Accrued		2,281,862	2,281,862	-	-	-
Sundry Creditors & Employee Entitlements		388,691	388,691	-	-	-
Dividends Payable		48,143	48,143	-	-	-
Withholding Tax		215,327	215,327	-	-	-
Taxation Payable		29,450	29,450	-	-	-
Deferred Taxation		200,823	200,823	-	-	-
Total Monetary Liabilities		\$191,044,152	\$134,211,115	\$47,110,264	\$9,462,481	\$260,292

Notes to the Financial Statements

LIQUIDITY PROFILE (continued)

2006	Effective Interest Rate %	Total	Within 6 Months	6 Months to 1 Year	1 to 2 Years	2 to 5 Year
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	-	-	-
Mortgage-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

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 (2006: \$4,000,000) with the ASB Bank Ltd and \$6,000,000 (2006: \$6,000,000) with Westpac.

17. 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 2007 our capital ratio was 7.88% (2006: 5.38%). This is calculated as Total Equity as a percentage of Total Assets.

31 March 2007

Measurement of Equity

Share Capital	8,430,000
Reserve Fund	6,862,102
Revaluation Reserve	1,054,422
Total Equity	\$16,346,524

Notes to the Financial Statements

17. CAPITAL ADEQUACY (continued)

Risk Weighted Balance Sheet Exposures	Principal	% Risk Weight	Risk Adjusted Risk Value
Cash	2,225,493	-	-
NZ Registered Bank Deposits & Investments	19,667,200	20	3,933,440
Fully Secured Residential	127,352,727	50	63,676,364
Fully Secured Commercial	46,054,243	100	46,054,243
Personal Loans	461,669	100	461,669
Consumer Lending	6,548,886	100	6,548,886
All Property & Equipment	4,769,078	100	4,769,078
Other Assets	311,380	100	311,380
Total Risk Weighted Exposure	<u>\$207,390,676</u>		<u>\$125,755,060</u>

18. 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 deposits. Over 90% of these funds come from individuals residing in the Nelson region.

19. COMMITMENTS AND CONTINGENT LIABILITIES

- (a) The Society has a commitment for loans approved but not yet paid at 31 March 2007 for a total of \$10,053,218 (2006: \$6,286,985).
- (b) The Society has entered into property leases in Richmond, Motueka, Murchison, Westport and Greymouth for 3 years commencing 1 November 2006, 1 August 2005, 1 January 2007, 1 May 2006 and 20 March 2006 respectively, with right of renewal for a further 3 years at the conclusion of the current lease periods.

The Society also entered into certain motor vehicle leases.

	31 March 2007	31 March 2006
Lease commitments under non-cancellable operating leases:		
Less than 1 year	206,277	133,046
Between 1 and 2 years	154,972	57,225
Between 2 and 5 years	68,417	8,633
	<u>\$429,666</u>	<u>\$198,904</u>

- (c) As at 31 March 2007 the Society has a commitment for the upgrade of the existing computer infrastructure to the value of \$71,683 (2006: \$Nil)
- (d) Sponsorship commitments beyond 31 March 2007 total \$27,000 (March 2006: \$115,200).
- (e) The Society has no contingent liabilities (2006: \$Nil).

20. BUSINESS SEGMENT

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

Notes to the Financial Statements

21. 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 2008 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.

22. SUBSEQUENT EVENTS

On 17 May 2007 the Minister of Finance announced in the budget that the rate of company tax will reduce from 33% to 30% with effect from the commencement of the 2008/09 tax year. The change has not been incorporated in NBS' calculation of deferred taxation disclosed in Notes 5 & 6 and will impact these balances in future financial statements.

