Nelson Building Society

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BB+
Short-Term IDR	B

Local Currency

Long-Term IDR	BB+
Short-Term IDR	B
Viability Rating	bb+
Individual Rating	C/D
Support Rating	4
Support Rating Floor	B

Sovereign Risk

Long-Term Foreign-Currency IDR	AA+
Short-Term Foreign-Currency IDR	F1+
Long-Term Local-Currency IDR	AAA
Short-Term Local-Currency IDR	F1+

Outlooks

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

Financial Data

Nelson Building Society

	31 Mar 11	31 Mar 10
Total assets (USDm)	226.1	193.6
Total assets (NZDm)	296.4	272.7
Total equity (NZDm)	18.4	16.7
Operating profit (NZDm)	2.0	2.1
Published net income (NZDm)	1.3	1.5
Comprehensive income (NZDm)	1.3	1.5
Operating ROAA (%)	0.71	0.81
Operating ROAE (%)	11.44	12.49
Tier 1 ratio (%)	10.03	n.a.
Equity/total asset ratio (%)	6.21	6.12

Analysts

Andrea Jaehne
+61 2 8256 0343
andrea.jaehne@fitchratings.com

John Miles
+612 8256 0344
john.miles@fitchratings.com

Key Rating Drivers

Sound Fundamentals: The Long-Term and Short-Term IDRs and Viability Rating of Nelson Building Society (NBS) reflect the strength of its retail funding base and resilient asset quality in the face of an environment that remained challenging in FY11. The ratings also take into account the society's small size, significant geographic concentration, and moderate profitability.

Sound Funding and Liquidity: NBS's loyal customer base enables it to retain and expand deposits. Growth of 8% improved the loan/deposit ratio to 81% at the financial year-end March 2011 (FYE11) from 86% in FYE10. Deposits are mostly retail term deposits which enjoy strong retention rates. Notably, NBS had no wholesale funding exposure at FYE11. Although already sound, NBS continued to improve its liquidity position as liquid assets grew by 33% to account for 21% of total assets at FYE11.

Small Absolute Capital Base: Although NBS's capital base is very small by international standards, Fitch Ratings views its regulatory Tier 1 capital ratio of 10% and equity/ total asset ratio of 6.21% as adequate in light of size and concentration risks. As a mutual institution, NBS's options for raising core capital are limited.

Moderate Profitability: In FY11 NBS's operating performance was helped by declining loan impairment charges. The society's operating profit declined by 5% due to a narrowing of net interest spreads as NBS focused on growing residential mortgages, which attract lower yields than commercial loans.

At the same time, the society's costs/income ratio deteriorated to 72% (FY10: 68%), which is high by international standards, but reflects NBS's strong service ethic being a mutual.

Continuing Sound Asset Quality: NBS's asset quality remains sound. Asset quality improved in FY11, with the impaired loans ratio falling to just 0.07% of gross loans (FY10: 0.19%). While NBS follows prudent underwriting criteria and reduced exposure to commercial mortgage lending in FY11, Fitch acknowledges the society's geographical and industry concentration.

Risks to Growth Remain: While economic conditions in New Zealand appear to have stabilised, a weak and volatile global economic backdrop remains the most significant threat to growth. Potential exists via rebuilding efforts in the earthquake-affected Canterbury region and higher household consumption, but demand for exports may suffer if delicately balanced global economic conditions deteriorate.

Systemic Importance: Fitch considers the propensity for the New Zealand regulatory authorities to provide support to NBS to be limited. In 2010, the Reserve Bank of New Zealand (RBNZ) assumed responsibility for the prudential supervision of non-bank deposit-taking institutions, including NBS, under a new regulatory framework.

What Could Trigger a Rating Action

Stable Ratings: NBS's Long-Term IDR is on a Stable Outlook. Positive rating action is unlikely due to NBS's absolute small capital base as well as its geographic and industry sector concentrations. Downward rating pressure could occur should NBS's profitability, asset quality and capitalisation deteriorate significantly.

- Fourth-largest building society, located in the north-western part of New Zealand's South Island
- Economy in NBS's home region has performed relatively well

Profile

NBS was established in 1862 in Nelson to provide housing and personal finance to members of the local communities in the Nelson and Tasman regions. NBS was incorporated under the Building Societies Act 1965. NBS offers traditional banking services such as loans and deposits to retail and SME customers. In contrast to some of its domestic peers, NBS also offers transaction banking through its six branches and the internet banking channel. It refers its customers to insurance and investment brokers from whom the society receives commission income for a number of large, third-party product manufacturers (eg AXA, AMP, Fidelity, Tower and AMI).

Nelson's regional economy is influenced most by fishing and forestry, although farming, horticulture and tourism also feature. Unemployment in the Nelson/Tasman region is among the lowest in the country, and declined to 4.4% at end-June 2011 from 5.1% at end-December 2010. However, the swing in unemployment also reflects the seasonal nature of some of its main industries. Similar to the rest of the country, property sales in the Nelson/Tasman region have been weak, leading to a drop in prices though there are early signs of stabilisation at the lower end of the market.

Corporate Governance

NBS is an unlisted, mutual building society, meaning that it is owned by its customers (depositors and borrowers) rather than by shareholders. Each customer has one vote, irrespective of the number of accounts held, but customers must hold a minimum of NZD500 on deposit. Consequently, NBS has a relatively strong community link.

NBS's board of directors comprises a chair, deputy chair and three non-executive directors, who bring a range of commercial and non-commercial experience to the group. The board meets monthly, or more frequently if required (eg to consider large loan exposure applications). NBS's current management has been in place for 10 years.

- Declining NIM despite 3% loan growth
- High costs/income ratio reflects NBS's high customer service and community support initiatives
- Decline in loan impairment charges boosts NBS's operating profitability

Performance

In FY11 NBS's weaker operating performance reflected a combination of lower net interest income (down 3%) and higher operating expenses. The impact on net profit was largely offset though by lower loan impairment charges compared to the previous year. Returns relative to equity and assets were sound, but are generally less of a focus for mutuals compared with listed institutions.

The reduction in net interest revenue reflects the impact of a change in asset mix, with the society reducing its exposure to commercial mortgages, which typically earn wider yields than residential mortgages. At the same time, NBS increased its holding of high quality liquid assets, which carry relatively low yields. Overall funding costs remained fairly constant and, as a result, NBS's net interest margin (NIM) deteriorated in FY11. However, at 2.33% remained healthy when compared with domestic and international peers. NBS's non-interest income, which only accounted for 11% of total operating income, expanded by 39% in FY11. The growth mainly reflected larger other income such as increased transactional fees, along with a large goods and service tax refund.

NBS provides a range of branch-based banking services to its members and actively supports its local community through sponsorship. While this results in a relatively high costs/income ratio, it also delivers high customer loyalty, which underpins a high quality and stable retail funding base. The society's cost/income ratio deteriorated to 72% in FY11 (FY10: 68%) as operating costs grew by 7%, while operating revenue remained stable. Staff costs which accounted for 40% of total operating expenses grew by 5%, reflecting inflation. Other administrative costs made up the remainder and grew stronger than staff costs, reflecting an increase in IT expenses and compliance costs.

Related Criteria

Global Financial Institutions Rating Criteria (August 2011)

Figure 1

Peer Group Comparison: Profitability, Capitalisation and Funding

	NBS ('BB+'/Stable)		Southland Building Society (SBS Bank; 'BBB'/Stable)		Wairarapa Building Society (WBS, 'BB+'/Stable)	
(%)	FY11	FY10	FY11	FY10	FY11	FY10
Net interest margin	2.33	2.61	2.44	2.36	1.52	1.44
Cost/income ratio	72.3	68.3	54.5	54.1	115.6	78.7
Impairment charges/pre-impairment operating profit	1.80	8.51	43.3	43.3	-60.5	99.0
Return on average assets	0.71	0.81	0.84	0.80	-0.42	0.00
Return on average equity	11.4	12.5	11.9	12.5	-3.02	0.03
Customer loans/customer deposits	81.5	85.6	108.2	112.5	95.5	103.4
Tangible common equity/tangible assets	6.18	6.06	7.09	6.65	13.86	13.99
Total equity (NZDm)	18.41	16.69	202.04	177.66	15.32	16.15

Long-term IDR and outlook shown in brackets
Source: Fitch

Loan impairment charges declined considerably in FY11 absorbing less than 2% of the bank's pre-impairment operating profit (FY10: 8.5%). Most of these charges related to specific provisions while the society released some of its collective provisions without compromising its sound reserve coverage ratios for impaired loans.

Prospects

NBS's performance outlook is likely to be influenced by developments in the global economy, particularly those that have a direct impact on New Zealand's exports and wholesale funding markets. Weaker demand for exports would likely detract from credit growth, while dislocation in wholesale funding markets, though it does not directly affect NBS, could reignite competition for retail deposits and squeeze NIM. Importantly, NBS has conservative risk settings and a good degree of financial flexibility to absorb lower returns.

Risk Management

- Improved asset quality despite challenging operating environment
- Loan book exhibits geographic and product concentrations
- Market risk is adequately managed
- Small size of society increases operational risk

NBS risk management processes appear adequate for the size and nature of its core business. The board and general manager are responsible for overall performance and risk management across the business. There is no dedicated risk manager in place; however, a credit manager and his three lending administrators report to the assistant general manager. The credit manager also reports through to the board via the general manager on a monthly basis. In 2009 NBS set up a treasury committee, which meets quarterly and monitors interest rate risk.

Credit Risk

NBS's largest risk is credit risk, as the society's loan book accounted for 76% of the total assets at FYE11. Credit risk also arises through interbank loans (20% of total assets), a held-to-maturity securities portfolio (2%), and other assets, including cash reserves (2%), as well as NZD6m in commitments, such as approved but undrawn loans. Although NBS does not use underwriting models, the society benefits from a close link to its home region and therefore has a close understanding of collateral values, income multiples and/or rental coverage ratios which have been factored into underwriting decisions.

At FYE11 NBS's non-bank credit exposure was comprised of: residential mortgages (82%), commercial mortgages (14%), and personal loans and consumer finance (4%). Although NBS's credit exposure increased by a modest 3% in FY11, there were more dramatic moves within various categories of loans – the residential mortgage book grew by 16%, while commercial mortgages reduced by 37%. NBS's small commercial mortgage book consisted mainly of commercial investment mortgages. Its exposure to the riskier commercial development sector has traditionally been small but continued to decline, which was the main reason for the reduction in commercial mortgages. Furthermore, around 80% of commercial exposure is secured on residential property. NBS has limited involvement in business banking, and the society has also no exposure to the struggling winery sector.

Figure 2

Peer Group Comparison: Asset Quality

	NBS		SBS Bank		WBS	
(%)	FY11	FY10	FY11	FY10	FY11	FY10
Residential mortgages	82.0	73.0	65.2	65.9	49.4	60.7
Commercial mortgages	14.4	23.5	28.6	29.2	50.6	39.3
Others[a]	3.6	0.5	6.2	4.9	0.0	0.0
Impaired loans/gross loans	0.07	0.19	1.47	1.21	0.33	0.15
Impairment reserves/impaired loans	142.7	63.23	56.62	57.57	373.9	615.3
Residential mortgages LVR >80%	13.0	13.0	20.9	23.2	1.7	1.2
Collateralised loan book backed	99.8	99.8	99.7	99.7	99.9	99.9

[a] Includes secured and unsecured personal loans, and local authorities
Source: Fitch

NBS's loan book exhibits a relatively high degree of geographic and industry concentration. Single-name loan concentration, however, appears acceptable for an institution of its size as the top 10 largest exposures accounted for just 9.65% of the society's non-bank credit exposure at FYE11. All of these exposures were performing at FYE11. While concentration is a risk, NBS is very familiar with its home region as 85% of loans were written in the Nelson region at FYE11. It also requires loans to be collateralised by mortgages over real estate and subject to conservative loan to value ratios (LVR). The proportion of NBS's residential mortgages exceeding a LVR of 80% accounted for 11% of the residential mortgage book at end-FY11. However, 85% of these higher LVR mortgages are classified as "welcome home" loans, which are mortgage loans guaranteed by Housing New Zealand Corporation which is a government-owned entity.

In FY11 NBS's asset quality continued to improve. Impaired loans reduced by 60% resulting in a very low ratio of impaired loans to gross loans of 0.07% (FY10: 0.19%). Improvements reflect a combination of recoveries and write-offs. While impaired loans decreased, past due loans continued to increase, the result of a still challenging operating environment in FY11. Most of the growth was in the past due up to 29 days category, while all other time buckets decreased. This appears to be the result of technical issues rather than inability or unwillingness of the borrowers to repay their debt. Following the decline in impaired loans, NBS's impairment provisions/impaired loan ratio also improved to 143% at FYE10 (FYE10: 63%) which Fitch considers exceptionally strong especially as around 98% of NBS's non-bank credit exposure is real estate secured. NBS has no significant exposure to the Christchurch area and therefore the society's performance was not directly affected by the two major earthquakes in FY11.

NBS's consumer finance and personal lending portfolio remained small at FYE11. Its asset quality performance was adequate. Strict account management and collection procedures have underpinned good asset quality in this portfolio.

NBS's other assets consisted mainly of high-quality interbank exposures at FYE11, but also included a small held-to-maturity securities portfolio. According to its investment policy, NBS can invest in any New Zealand registered bank or in securities which are rated at least 'AA−'.

Market Risk

The key market risk for NBS is interest rate risk arising out of asset and liability re-pricing. In contrast to its peers, NBS manages its interest rate risk through natural hedging - loans are managed to relatively short maturities, thereby closely matching liabilities. The maximum maturity of a fixed-rate mortgage is two years. If there had been a 100bp parallel movement in the yield curve, and NBS's management had not taken action, the impact would have been around 10% of NBS's pre-impairment operating profit at FYE11 (FYE10: 13%). Despite some improvements, this ratio is higher than that for more diversified international peers. Fitch considers it adequate especially in light of NBS's size and mutuality. NBS holds all its securities in a held-to-maturity portfolio, limiting potential market risk from trading. In addition, the society had no FX exposure at FYE11.

Operational Risk

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

Funding and Capital

- Loan book entirely funded by customer deposits
- Strong retention rate for term deposits
- Deposit growth exceeding loan growth
- Good liquidity position
- Adequately capitalised

Funding

NBS's funding position is sound. At FYE11, the society's total loan book was completely funded by customer deposits, of which the vast majority were classified as retail deposits. Despite strong competition for customer deposits in New Zealand, NBS experienced healthy growth of 8% in FY11, reflecting its solid local franchise. Deposits continued to grow faster than the society's mortgage book, which enabled NBS to increase liquid assets.

Around 85% of NBS's customer deposits have been classified as term deposit and almost 95% of these term deposits had a maturity of up to 12 months at FYE11. In addition, NBS has enjoyed strong roll-over rates of these deposits. Deposit customers do not exhibit any high single-name concentrations - top 10 depositors accounted for 7% of the society's deposits base at FYE11. NBS had no wholesale funding exposure outstanding at FYE11. Due to its small size, the agency believes that NBS is limited in raising debt in the capital markets, which would most likely be more expensive than customer deposits. However, if NBS were to require additional funding at short notice to supplement liquidity, it could use its residential mortgage book as collateral to receive central bank funding.

Liquidity

Liquidity is appropriately managed, based on NBS's size and complexity and its liquidity position compares well with those of domestic peers. The trust deeds of the building society require NBS to hold a minimum of 15% of its total tangible assets in liquid assets. At FYE11, NBS's liquid ratio stood at 25.7% of tangible assets, and is comprised of on-balance sheet liquid assets. NBS's liquid assets consisted of interbank deposits with the major domestic banks, cash reserves and a small portfolio of highly rated held-to-maturity securities, of which around 50% of these are classified as subordinated. Fitch views subordinated securities as less liquid, especially in a stress event. Liquid assets are short-dated being 60 to 90 days and in some instances up to 12 months. In addition, NBS benefits from a small bank facility of NZD6m and a securitisation facility of NZD10m.

Capital

At FYE11, NBS's Tier 1 ratio and tangible common equity/tangible asset ratio stood at 10% and 6.18% respectively. In Fitch's opinion the society is therefore relatively well capitalised but believes that such a high ratio is suitable for NBS, given product and geographic concentrations and limited capital raising alternatives.

Although limited, in FY10 NBS did boost its capital position by issuing NZD8.25m subscription shares, which accounted for a significant 41% of NBS's total capital at FYE11. Subscription shares are treated as equity and accepted as capital under the trust deed because of their characteristics – no maturity but can be redeemed with board approval, and rank behind shareholders' accounts in the event of liquidation and non-cumulative coupons determined by the performance of the society. It is an expensive form of capital, and only a small number of investors held the total of NZD8.25m subscription shares at FYE11. However, the society believes there is further capacity to issue these instruments. In Fitch's opinion the quality of subscription shares is inferior to core equity.

Annex 1

Prudential Regulation

Since March 2010 New Zealand's building societies have been under the prudential supervision of the RBNZ. Unlike in the past, they now have to comply with the RBNZ's minimum prudential and governance standards.

In 2010 the RBNZ tightened regulation and oversight in the following way:

- introduction of a new core funding ratio of 65%, which increased to 70% on 1 July 2011 (see *Funding and Capital* section);
- changes to disclosure requirements which should streamline information provided to the market and reduce compliance costs for the banks; and
- more comprehensive corporate governance requirements;

Other areas which the RBNZ is currently working on include:

- an Open Bank Resolution Scheme to clarify bank failure procedures;
- a significant acquisitions policy for locally incorporated New Zealand registered banks; and
- an all-encompassing framework for the issuance of covered bonds.

While the above changes will have an impact on NBS to varying degrees, the society appears well placed to cope.

Nelson Building Society
Income Statement

	31 Mar 2011			31 Mar 2010		31 Mar 2009		31 Mar 2008	
	Year End USDm Unqualified	Year End NZDth Unqualified	As % of Earning Assets	Year End NZDth Unqualified	As % of Earning Assets	Year End NZDth Unqualified	As % of Earning Assets	Year End NZDth Unqualified	As % of Earning Assets
1. Interest Income on Loans	12.8	16,837.5	5.77	16,705.7	6.22	19,630.0	8.02	18,646.0	9.33
2. Other Interest Income	2.3	2,985.6	1.02	2,525.9	0.94	2,520.9	1.03	2,131.0	1.07
3. Dividend Income	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Gross Interest and Dividend Income	**15.1**	**19,823.1**	**6.79**	**19,231.6**	**7.16**	**22,150.9**	**9.05**	**20,777.0**	**10.40**
5. Interest Expense on Customer Deposits	9.8	12,868.4	4.41	12,087.2	4.50	16,348.9	6.68	15,211.0	7.61
6. Other Interest Expense	0.3	420.7	0.14	437.7	0.16	244.0	0.10	261.0	0.13
7. Total Interest Expense	**10.1**	**13,289.1**	**4.55**	**12,524.9**	**4.66**	**16,592.9**	**6.78**	**15,472.0**	**7.74**
8. Net Interest Income	**5.0**	**6,534.0**	**2.24**	**6,706.7**	**2.50**	**5,558.0**	**2.27**	**5,305.0**	**2.65**
9. Net Gains (Losses) on Trading and Derivatives	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Net Gains (Losses) on Other Securities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
11. Net Gains (Losses) on Assets at FV through Income Statement	0.0	0.0	0.00	-190.0	-0.07	90.0	0.04	60.0	0.03
12. Net Insurance Income	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
13. Net Fees and Commissions	0.1	68.1	0.02	79.9	0.03	104.0	0.04	189.0	0.09
14. Other Operating Income	0.6	765.5	0.26	710.6	0.26	710.1	0.29	669.0	0.33
15. Total Non-Interest Operating Income	**0.6**	**833.6**	**0.29**	**600.5**	**0.22**	**904.1**	**0.37**	**918.0**	**0.46**
16. Personnel Expenses	1.6	2,127.2	0.73	2,024.9	0.75	1,901.7	0.78	1,865.0	0.93
17. Other Operating Expenses	2.4	3,196.7	1.10	2,965.2	1.10	2,569.1	1.05	2,709.0	1.36
18. Total Non-Interest Expenses	**4.1**	**5,323.9**	**1.82**	**4,990.1**	**1.86**	**4,470.8**	**1.83**	**4,574.0**	**2.29**
19. Equity-accounted Profit/ Loss - Operating	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
20. Pre-Impairment Operating Profit	**1.6**	**2,043.7**	**0.70**	**2,317.1**	**0.86**	**1,991.3**	**0.81**	**1,649.0**	**0.83**
21. Loan Impairment Charge	0.0	36.7	0.01	197.1	0.07	812.1	0.33	212.0	0.11
22. Securities and Other Credit Impairment Charges	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
23. Operating Profit	**1.5**	**2,007.0**	**0.69**	**2,120.0**	**0.79**	**1,179.2**	**0.48**	**1,437.0**	**0.72**
24. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
25. Non-recurring Income	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
26. Non-recurring Expense	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
27. Change in Fair Value of Own Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
28. Other Non-operating Income and Expenses	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
29. Pre-tax Profit	**1.5**	**2,007.0**	**0.69**	**2,120.0**	**0.79**	**1,179.2**	**0.48**	**1,437.0**	**0.72**
30. Tax expense	0.5	679.5	0.23	650.2	0.24	392.4	0.16	630.0	0.32
31. Profit/Loss from Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
32. Net Income	**1.0**	**1,327.5**	**0.46**	**1,469.8**	**0.55**	**786.8**	**0.32**	**807.0**	**0.40**
33. Change in Value of AFS Investments	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
34. Revaluation of Fixed Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
35. Currency Translation Differences	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
36. Remaining OCI Gains/(losses)	n.a.	n.a.	-	n.a.	-	n.a.	-	50.0	0.03
37. Fitch Comprehensive Income	**1.0**	**1,327.5**	**0.46**	**1,469.8**	**0.55**	**786.8**	**0.32**	**857.0**	**0.43**
38. Memo: Profit Allocation to Non-controlling Interests	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
39. Memo: Net Income after Allocation to Non-controlling Interests	1.0	1,327.5	0.46	1,469.8	0.55	786.8	0.32	807.0	0.40
40. Memo: Common Dividends Relating to the Period	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
41. Memo: Preferred Dividends Related to the Period	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Exchange rate		USD1 = NZD1.31110		USD1 = NZD1.40885		USD1 = NZD1.77900		USD1 = NZD1.26024	

Nelson Building Society
Balance Sheet

	31 Mar 2011			31 Mar 2010		31 Mar 2009		31 Mar 2008	
	Year End USDm	Year End NZDth	As % of Assets	Year End NZDth	As % of Assets	Year End NZDth	As % of Assets	Year End NZDth	As % of Assets
Assets									
A. Loans									
1. Residential Mortgage Loans	165.6	217,140.7	73.25	210,530.4	77.20	184,907.7	74.41	185,693.0	82.88
2. Other Mortgage Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Other Consumer/ Retail Loans	6.1	7,965.7	2.69	7,634.5	2.80	8,560.5	3.45	8,744.0	3.90
4. Corporate & Commercial Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Other Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Less: Reserves for Impaired Loans/ NPLs	0.2	230.0	0.08	260.0	0.10	716.4	0.29	148.0	0.07
7. Net Loans	**171.5**	**224,876.4**	**75.86**	**217,904.9**	**79.90**	**192,751.8**	**77.57**	**194,289.0**	**86.72**
8. Gross Loans	**171.7**	**225,106.4**	**75.94**	**218,164.9**	**79.99**	**193,468.2**	**77.86**	**194,437.0**	**86.78**
9. Memo: Impaired Loans included above	0.1	161.2	0.05	411.2	0.15	1,435.0	0.58	n.a.	-
10. Memo: Loans at Fair Value included above	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
B. Other Earning Assets									
1. Loans and Advances to Banks	31.5	41,351.6	13.95	42,811.7	15.70	42,297.8	17.02	n.a.	-
2. Reverse Repos and Cash Collateral	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Trading Securities and at FV through Income	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Derivatives	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Available for Sale Securities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Held to Maturity Securities	4.7	6,108.8	2.06	6,137.5	2.25	7,702.0	3.10	3,536.0	1.58
7. At-equity Investments in Associates	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
8. Other Securities	13.4	17,519.5	5.91	n.a.	-	n.a.	-	n.a.	-
9. Total Securities	**18.0**	**23,628.3**	**7.97**	**6,137.5**	**2.25**	**7,702.0**	**3.10**	**3,536.0**	**1.58**
10. Memo: Government Securities included Above	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
11. Memo: Total Securities Pledged	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. Investments in Property	1.4	1,900.0	0.64	1,900.0	0.70	2,090.0	0.84	2,000.0	0.89
13. Insurance Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
14. Other Earning Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	0.0	0.00
15. Total Earning Assets	**222.5**	**291,756.3**	**98.43**	**268,754.1**	**98.54**	**244,841.6**	**98.53**	**199,825.0**	**89.19**
C. Non-Earning Assets									
1. Cash and Due From Banks	0.4	557.0	0.19	481.9	0.18	395.4	0.16	21,255.0	9.49
2. Memo: Mandatory Reserves included above	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Foreclosed Real Estate	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Fixed Assets	2.4	3,167.3	1.07	2,720.6	1.00	2,640.6	1.06	1,857.0	0.83
5. Goodwill	n.a.	n.a.	-	n.a.	-	n.a.	-	0.0	0.00
6. Other Intangibles	0.1	101.0	0.03	156.4	0.06	76.2	0.03	160.0	0.07
7. Current Tax Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
8. Deferred Tax Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Other Assets	0.6	840.5	0.28	610.9	0.22	530.0	0.21	957.0	0.43
11. Total Assets	**226.1**	**296,422.1**	**100.00**	**272,723.9**	**100.00**	**248,483.8**	**100.00**	**224,054.0**	**100.00**
Liabilities and Equity									
D. Interest-Bearing Liabilities									
1. Customer Deposits - Current	31.3	40,993.9	13.83	38,616.0	14.16	34,901.8	14.05	27,047.0	12.07
2. Customer Deposits - Savings	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Customer Deposits - Term	179.5	235,365.1	79.40	216,160.1	79.26	195,045.0	78.49	177,069.0	79.03
4. Total Customer Deposits	**210.8**	**276,359.0**	**93.23**	**254,776.1**	**93.42**	**229,946.8**	**92.54**	**204,116.0**	**91.10**
5. Deposits from Banks	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Repos and Cash Collateral	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Other Deposits and Short-term Borrowings	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
8. Total Deposits, Money Market and Short-term Funding	**210.8**	**276,359.0**	**93.23**	**254,776.1**	**93.42**	**229,946.8**	**92.54**	**204,116.0**	**91.10**
9. Senior Debt Maturing after 1 Year	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Subordinated Borrowing	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
11. Other Funding	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. Total Long Term Funding	**n.a.**	**n.a.**	**-**	**n.a.**	**-**	**n.a.**	**-**	**n.a.**	**-**
13. Derivatives	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
14. Trading Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
15. Total Funding	**210.8**	**276,359.0**	**93.23**	**254,776.1**	**93.42**	**229,946.8**	**92.54**	**204,116.0**	**91.10**
E. Non-Interest Bearing Liabilities									
1. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Credit impairment reserves	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Reserves for Pensions and Other	0.1	173.0	0.06	146.5	0.05	143.0	0.06	125.0	0.06
4. Current Tax Liabilities	0.1	150.4	0.05	200.9	0.07	188.1	0.08	193.0	0.09
5. Deferred Tax Liabilities	0.2	323.1	0.11	193.6	0.07	59.3	0.02	223.0	0.10
6. Other Deferred Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
8. Insurance Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Other Liabilities	0.8	1,003.9	0.34	720.0	0.26	882.3	0.36	810.0	0.36
10. Total Liabilities	**212.0**	**278,009.4**	**93.79**	**256,037.1**	**93.88**	**231,219.5**	**93.05**	**205,467.0**	**91.70**
F. Hybrid Capital									
1. Pref. Shares and Hybrid Capital accounted for as Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
G. Equity									
1. Common Equity	13.3	17,412.1	5.87	15,686.2	5.75	16,263.7	6.55	17,586.0	7.85
2. Non-controlling Interest	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Securities Revaluation Reserves	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Foreign Exchange Revaluation Reserves	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Fixed Asset Revaluations and Other Accumulated OCI	0.8	1,000.6	0.34	1,000.6	0.37	1,000.6	0.40	1,001.0	0.45
6. Total Equity	**14.0**	**18,412.7**	**6.21**	**16,686.8**	**6.12**	**17,264.3**	**6.95**	**18,587.0**	**8.30**
7. Total Liabilities and Equity	**226.1**	**296,422.1**	**100.00**	**272,723.9**	**100.00**	**248,483.8**	**100.00**	**224,054.0**	**100.00**
8. Memo: Fitch Core Capital	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Memo: Fitch Eligible Capital	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Exchange rate		USD1 = NZD1.31110		USD1 = NZD1.40885		USD1 = NZD1.77900		USD1 = NZD1.26024	

Nelson Building Society
Summary Analytics

	31 Mar 2011 Year End	31 Mar 2010 Year End	31 Mar 2009 Year End	31 Mar 2008 Year End
A. Interest Ratios				
1. Interest Income on Loans/ Average Gross Loans	7.60	8.12	10.21	9.95
2. Interest Expense on Customer Deposits/ Average Customer Deposits	4.85	4.99	7.73	7.76
3. Interest Income/ Average Earning Assets	7.07	7.49	10.40	10.75
4. Interest Expense/ Average Interest-bearing Liabilities	5.00	5.17	7.84	7.85
5. Net Interest Income/ Average Earning Assets	2.33	2.61	2.61	2.74
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	2.32	2.53	2.23	2.63
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets	2.33	2.61	2.61	2.74
B. Other Operating Profitability Ratios				
1. Non-Interest Income/ Gross Revenues	11.31	8.22	13.99	14.75
2. Non-Interest Expense/ Gross Revenues	72.26	68.29	69.18	73.50
3. Non-Interest Expense/ Average Assets	1.87	1.91	1.94	2.12
4. Pre-impairment Op. Profit/ Average Equity	11.65	13.65	11.08	9.46
5. Pre-impairment Op. Profit/ Average Total Assets	0.72	0.89	0.86	0.76
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	1.80	8.51	40.78	12.86
7. Operating Profit/ Average Equity	11.44	12.49	6.56	8.25
8. Operating Profit/ Average Total Assets	0.71	0.81	0.51	0.67
9. Taxes/ Pre-tax Profit	33.86	30.67	33.28	43.84
10. Pre-Impairment Operating Profit / Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
11. Operating Profit / Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
C. Other Profitability Ratios				
1. Net Income/ Average Total Equity	7.56	8.66	4.38	4.63
2. Net Income/ Average Total Assets	0.47	0.56	0.34	0.37
3. Fitch Comprehensive Income/ Average Total Equity	7.56	8.66	4.38	4.92
4. Fitch Comprehensive Income/ Average Total Assets	0.47	0.56	0.34	0.40
5. Net Income/ Av. Total Assets plus Av. Managed Securitized Assets	n.a.	n.a.	n.a.	n.a.
6. Net Income/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
7. Fitch Comprehensive Income/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
D. Capitalization				
1. Fitch Core Capital/Weighted Risks	n.a.	n.a.	n.a.	n.a.
2. Fitch Eligible Capital/ Weighted Risks	n.a.	n.a.	n.a.	n.a.
3. Tangible Common Equity/ Tangible Assets	6.18	6.06	6.92	8.23
4. Tier 1 Regulatory Capital Ratio	10.03	n.a.	n.a.	n.a.
5. Total Regulatory Capital Ratio	n.a.	n.a.	n.a.	n.a.
6. Core Tier 1 Regulatory Capital Ratio	n.a.	n.a.	n.a.	n.a.
7. Equity/ Total Assets	6.21	6.12	6.95	8.30
8. Cash Dividends Paid & Declared/ Net Income	n.a.	n.a.	n.a.	n.a.
9. Cash Dividend Paid & Declared/ Fitch Comprehensive Income	n.a.	n.a.	n.a.	n.a.
10. Cash Dividends & Share Repurchase/Net Income	n.a.	n.a.	n.a.	n.a.
11. Net Income - Cash Dividends/ Total Equity	7.21	8.81	4.56	4.34
E. Loan Quality				
1. Growth of Total Assets	8.69	9.76	10.90	8.07
2. Growth of Gross Loans	3.18	12.77	-0.50	7.73
3. Impaired Loans(NPLs)/ Gross Loans	0.07	0.19	0.74	n.a.
4. Reserves for Impaired Loans/ Gross loans	0.10	0.12	0.37	0.08
5. Reserves for Impaired Loans/ Impaired Loans	142.68	63.23	49.92	n.a.
6. Impaired Loans less Reserves for Imp Loans/ Equity	-0.37	0.91	4.16	n.a.
7. Loan Impairment Charges/ Average Gross Loans	0.02	0.10	0.42	0.11
8. Net Charge-offs/ Average Gross Loans	n.a.	n.a.	0.13	0.11
9. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	0.07	0.19	0.74	n.a.
F. Funding				
1. Loans/ Customer Deposits	81.45	85.63	84.14	95.26
2. Interbank Assets/ Interbank Liabilities	n.a.	n.a.	n.a.	n.a.
3. Customer Deposits/ Total Funding excl Derivatives	100.00	100.00	100.00	100.00

Nelson Building Society
Reference Data

	31 Mar 2011			31 Mar 2010		31 Mar 2009		31 Mar 2008	
	Year End USDm	Year End NZDth	As % of Assets	Year End NZDth	As % of Assets	Year End NZDth	As % of Assets	Year End NZDth	As % of Assets
A. Off-Balance Sheet Items									
1. Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Other off-balance sheet exposure to securitizations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Guarantees	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Acceptances and documentary credits reported off-balance sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Committed Credit Lines	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Other Contingent Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Total Business Volume	226.1	296,422.1	100.00	272,723.9	100.00	248,483.8	100.00	224,054.0	100.00
8. Memo: Total Weighted Risks	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Fitch Adjustments to Weighted Risks.	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Fitch Adjusted Weighted Risks	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
B. Average Balance Sheet									
Average Loans	169.0	221,635.7	74.77	205,816.6	75.47	192,256.7	77.37	187,464.0	83.67
Average Earning Assets	213.8	280,255.2	94.55	256,797.9	94.16	212,973.9	85.71	193,344.5	86.29
Average Assets	217.0	284,573.0	96.00	260,603.9	95.56	230,700.3	92.84	215,685.0	96.26
Average Managed Securitized Assets (OBS)	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Average Interest-Bearing Liabilities	202.6	265,567.6	89.59	242,361.5	88.87	211,550.3	85.14	197,139.0	87.99
Average Common equity	12.6	16,549.2	5.58	15,975.0	5.86	16,972.6	6.83	16,451.5	7.34
Average Equity	13.4	17,549.8	5.92	16,975.6	6.22	17,973.4	7.23	17,427.5	7.78
Average Customer Deposits	202.6	265,567.6	89.59	242,361.5	88.87	211,550.3	85.14	196,139.0	87.54
C. Maturities									
Asset Maturities:									
Loans & Advances < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans and Advances 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances > 5 years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Liability Maturities:									
Retail Deposits < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Retail Deposits 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Retail Deposits 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Retail Deposits > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing 3-12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing 1- 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Total Senior Debt on Balance Sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Fair Value Portion of Senior Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Covered Bonds	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing 3-12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing 1- 5 Year	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Total Subordinated Debt on Balance Sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Fair Value Portion of Subordinated Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
D. Equity Reconciliation									
1. Equity	14.0	18,412.7	6.21	16,686.8	6.12	17,264.3	6.95	18,587.0	8.30
2. Add: Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Add: Other Adjustments	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Published Equity	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
E. Fitch Eligible Capital Reconciliation									
1. Total Equity as reported (including non-controlling interests)	14.0	18,412.7	6.21	16,686.8	6.12	17,264.3	6.95	18,587.0	8.30
2. Fair value effect incl in own debt/borrowings at fv on the B/S- CC only	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Non-loss-absorbing non-controlling interests	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Goodwill	n.a.	n.a.	-	n.a.	-	n.a.	-	0.0	0.00
5. Other intangibles	0.1	101.0	0.03	156.4	0.06	76.2	0.03	160.0	0.07
6. Deferred tax assets deduction	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Net asset value of insurance subsidiaries	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
8. First loss tranches of off-balance sheet securitizations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Fitch Core Capital	**n.a.**	**n.a.**	**-**	**n.a.**	**-**	**n.a.**	**-**	**n.a.**	**-**
10. Eligible weighted Hybrid capital	0.0	0.0	0.00	n.a.	-	n.a.	-	10,672.0	4.76
11. Government held Hybrid Capital	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. Fitch Eligible Capital	**n.a.**	**n.a.**	**-**	**n.a.**	**-**	**n.a.**	**-**	**n.a.**	**-**
13. Eligible Hybrid Capital Limit	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Exchange Rate		USD1 = NZD1.31110		USD1 = NZD1.40885		USD1 = NZD1.77900		USD1 = NZD1.26024	