

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+
Support Rating	5
Support Rating Floor	NF

Sovereign Risk

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

Outlooks

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

Financial Data

Nelson Building Society

	31 Mar 14	31 Mar 13
Total assets (USDm)	358.8	315.0
Total assets (NZDm)	414.2	376.2
Total equity (NZDm)	26.2	22.0
Operating profit (NZDm)	3.1	2.1
Published net income (NZDm)	2.2	1.5
Comprehensive income (NZDm)	2.2	1.5
Operating ROAA (%)	0.78	0.60
Operating ROAE (%)	12.74	10.20
Regulatory capital ratio (%)	9.80	9.69
Tangible common equity/tangible assets (%)	6.16	5.82

Key Rating Drivers

Moderate Franchise: Nelson Building Society (NBS) is a small, mutual and regionally focused financial institution. The society benefits from strong local community support but is susceptible to competition as a “price taker”. A higher rating would require a stronger franchise.

Healthy Operating Profitability: A solid regional presence and strong community links enable NBS to compete on a “service” proposition and partially offset pricing pressure in the market. The society benefited from a higher net interest margin and strong organic loan growth in the financial year ended 31 March 2014 (FY14), and operating profits increased 43% to NZD3.1m.

Adequate Capital Levels: NBS’s absolute capital base is very small by international standards, and Fitch Ratings views its regulatory capital ratio of 9.80% and tangible common equity/tangible assets ratio of 6.16% as adequate in light of size and concentration risks. Capital ratios have been pressured by strong loan growth, and as a mutual institution NBS has limited options to raise capital.

Low Risk Appetite: Strong organic loan growth and branch expansion have not compromised underwriting criteria or operating performance. Low loan/value (LTV) ratios reflect the society’s low-risk underwriting approach, and branch expansion has been measured and has involved attracting staff with proven local experience and expertise.

High Concentration Risk: Regional concentration limits NBS’s franchise value, and as a small institution, large-loan exposure relative to the size of NBS’s capital base is higher than that of local and international peers. However, conservative underwriting helps mitigate these risks.

Robust Asset Quality: NBS’s loan portfolio performance is underpinned by a prudent underwriting approach, local knowledge and solid arrears management. At FYE14, the society had NZD1.4m in impaired loans (FYE13: nil), and past due loans had declined by 62% to NZD0.4m (FYE13: NZD1.1m).

Strong Funding and Liquidity: NBS’s funding requirements are supported by a loyal local customer base, and characterised by good term deposit retention rates. Strong loan growth has been accommodated by equally strong deposit growth, and at FYE14, the society’s loans/deposits ratio was a low 83%. NBS had no wholesale funding exposures at FYE14 and liquid assets made up 22% of total assets.

Rating Sensitivities

Small Capital Base, Franchise: Positive rating action is unlikely due to NBS’s small absolute capital base, small domestic franchise, and geographical and large-loan concentrations.

Unexpected Asset Quality Decline: NBS’s ratings could be downgraded if its asset quality unexpectedly deteriorated due to its large single-name or geographical concentrations, or because of poorly managed expansion and loan growth. Weaker capitalisation and damage to NBS’s reputation and franchise could also result in a ratings downgrade. Moreover, this could have an impact on deposits and threaten the society’s access to funding.

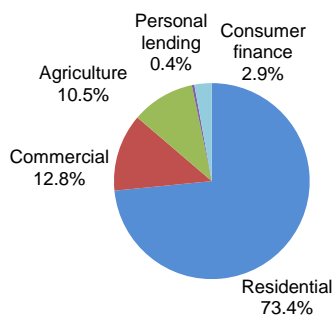
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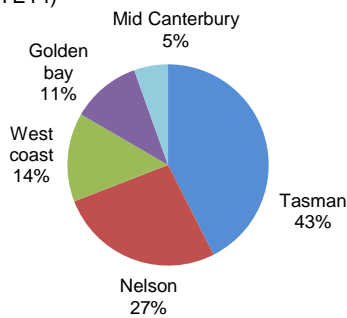
- Located in the north-western part of the South Island.
- Regional economy performing well.

Figure 1
Lending by Category
(FYE14)



Source: FY14 annual report

Figure 2
Lending by Region
(FYE14)



Source: FY14 annual report

Operating Environment

NBS operates in Nelson, Tasman, the West Coast and Golden Bay (and to a lesser extent Canterbury) in the top of the South Island. GDP/capita is lower than the national average although the region has a larger proportion of retired residents. With a total population of around 175,000 the unemployment rates in these regions are below the national average. Nelson is the smallest of NZ’s regions by land area and is the urban complement to the rural surrounding regions of Tasman, the West Coast and Golden Bay. Large primary industries include horticulture (including viticulture), other agriculture, forestry and fishing and Nelson, with a large port and busy commercial airport, acts as a transport hub for the region.

Company Profile

NBS’s market share is small in the national context as it is regionally concentrated in the smaller economic regions of the upper South Island of New Zealand which limits the society’s franchise value. The society operates in a competitive market, and against the major banks in New Zealand has limited pricing power. However, NBS has been able to increase profitability at growth rates that would appear to be in excess of its competitors through a combination of a strong service proposition and community links developed through local sponsorship and grants.

NBS is owned by its members and was established in 1862. It 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 eight branches and the internet (including mobile) banking channel. It refers its customers to insurance and investment brokers, from which the society receives commission income for a number of large, third-party product manufacturers.

The society’s main focus remains residential mortgage lending and SME commercial lending. However the opening of the Takaka branch in Golden Bay in 2011 and hire of an experienced agribusiness banker has resulted in solid loan growth to the agricultural sector (10% of total loans at FYE14) and the Golden Bay region (11% of total loans at FYE14).

NBS operates an uncomplicated business model and has a simple organisational structure. As a result of the structure being a standard FI model it does not affect the ratings. NBS does not have any subsidiaries.

Management

NBS has a stable and long serving management team consisting of the general manager (GM), assistant general manager and accountant. Typical of mutual FIs in New Zealand the GM and board maintain a close relationship, and the board is active in monitoring through detailed monthly reviews the performance of society and provides regular direction to management. The board comprises five directors with extensive local regional knowledge and solid experience across the motor, property, retailing and finance sectors.

To achieve its strategic objectives the society has focused on developing full banking relationship with its customers (members) and delegating authority to its local branch managers to make lending decisions. NBS’s performance has been ahead to its stated strategic objectives as local support for the society has translated into growth in excess of expectations. Actions taken to improve NBS’s service offering and reducing costs have been successful such as the development of a mobile banking application and introduction of an AccessDebit Mastercard and electronic format loan origination. NBS does not appear to have undertaken activities that are inconsistent with its overriding community based strategy.

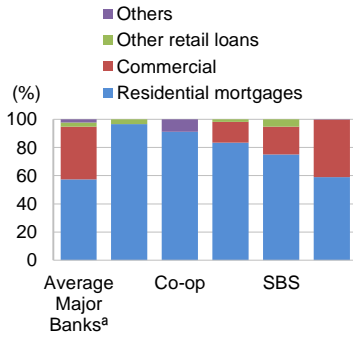
Risk Appetite

NBS adopts a conservative approach to lending and at FYE14 90% of NBS’s residential loans

Related Criteria

Global Financial Institutions Rating Criteria (January 2014)

Figure 3
Loan Book Composition at FYE14



^a 1H14 Average of ASB Bank, ANZ National Bank, Bank of New Zealand, Westpac New Zealand
 NBS = Nelson Building Society, SBS = (SBS Bank) Southland Building Society, Co-op = The Co-operative Bank Ltd, TSB = TSB Bank
 Source: Financial disclosure statements

had a LTV <80%, and more than 90% of all loans at FYE14, were secured by a registered first mortgage over residential, commercial or rural property. The society applies - with the exception of 'Welcome Home Loans' which are guaranteed by the Housing New Zealand Corporation – a maximum ratio of 35% of the borrower's annual gross income when assessing serviceability.

NBS's 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 three lending administrators report to the assistant general manager. The credit manager also reports 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. The seven branch managers are able to approve loans up to pre-approved limits within underwriting criteria, with any exceptions forwarded to the credit manager.

Geographic concentration risk and large loan exposures reflect the small absolute size of NBS and local focus. However, the local property market knowledge, from a credit risk perspective, is reflected in strong asset quality and a demonstrated ability to minimise losses through active management of problem accounts.

NBS does not currently hold investments securities and income earnings assets outside of the loan portfolio consisted entirely of high-quality interbank exposures at FYE14. According to its investment policy, NBS can invest in the securities of any New Zealand government or local authority stock, registered banks or corporate entities with a minimum credit rating of 'A-'.

NBS is focused on growing organically within the upper South Island of New Zealand. New branches have been established in recent years and by installing experienced managers with lending authority the society has been able to service a growing customer demand. Loan growth has been very strong over the last three years without loosening credit standards and the 'service proposition' appears to resonate strongly with customers. Gross loans grew by 10% in FY14 and followed strong (13%) growth in FY13.

The key market risk for NBS is interest rate risk arising out of asset and liability repricing. In contrast to its peers, NBS manages its interest rate risk through natural hedging – loans are managed to relatively short fixed-interest periods, thereby closely matching liabilities. The maximum maturity of a fixed-rate mortgage is two years. Sensitivity analysis to a 100bp parallel movement in the yield curve, with no management action, would result in an 8% impact on NBS's pre-impairment operating profit at FYE14 (FYE13: 11%). This is a greater impact than at some more diversified international peers. However, Fitch considers it adequate in light of NBS's size and mutuality.

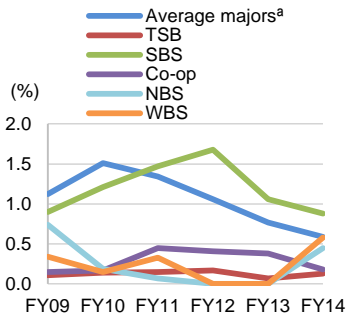
Financial Profile

Asset Quality

NBS's loan portfolio performance is underpinned by a prudent underwriting approach, deep local knowledge and solid arrears management. At FYE14, the society had NZD1.4m (FYE13: nil) of impaired loans which related to two mortgages (one restructured) and against which NBS had made specific provisions of NZD360,000. Past due loans had declined by 62% to NZD0.4m (FYE13: NZD1.1m).

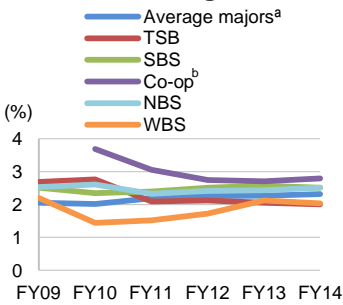
- Loan book exhibits geographical and single-name concentrations.

Figure 5
Impaired Loan Ratio



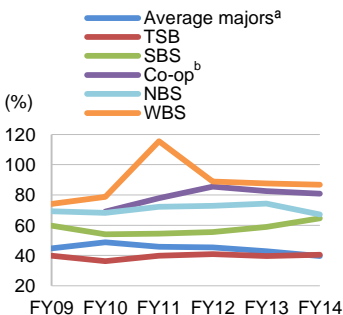
^a 1H14 for average major banks
Source: Financial disclosure statements

Figure 6
Net Interest Margin



^a 1H14 for average major banks
^b Data available from FY10
Source: Financial disclosure statements

Figure 8
Cost to Income Ratio



^a 1H14 for average major banks
^b Data available from FY10
Source: Financial disclosure statements

Figure 4
Sound Asset Quality

(%)	FY14	FY13	FY12	FY11
Growth of gross loans	10.19	13.60	13.15	3.18
Impaired loans /gross loans	0.45	0.00	0.00	0.07
Reserves for impaired loans/impaird loans	0.27	0.14	0.13	0.10
Impaired loans less reserves for impaired loans/	2.21	-1.83	-1.65	-0.38
Fitch core capital				
Loan impairment charges/average gross loans	0.16	0.09	0.11	0.02

Source: Financial statements/Fitch calculations

NBS's small absolute size and large relative loan sizes make the society susceptible to deterioration in a small number of loans. The impaired loan to gross loan ratio of 0.45% at FYE14 was the highest recorded in the last four years and towards the mid-range when compared to local peers but well below compared to more highly rated international peers. Moreover, due to NBS actively monitoring past due loans, and management beginning on day one of an account registering as past due, the arrears management process is robust and net charge offs have historically been very low (0.01% of average gross loans in FY14).

Earnings and Profitability

Figure 7
Solid Earnings Growth

(%)	FY14	FY13	FY12	FY11
Net interest income/average earning assets	2.51	2.43	2.41	2.33
Non-interest expense/gross revenues	67.08	74.29	72.74	72.26
Loans and securities impairment charges/ pre-impairment operating profit	13.48	10.70	11.05	1.80
Operating profit/average total assets	0.78	0.60	0.64	0.71
Operating profit/risk-weighted assets	n.a.	n.a.	n.a.	n.a.
Net income/average equity	9.11	7.30	8.70	7.56

Source: Financial statements

NBS recorded a strong 48% increase in its pre-impairment operating profit to NZD3.5m in FY14, and this included net interest income growth of 14% and a smaller 4% increase in operating expenses. Loan impairment charges rose 86% to NZD478m but absorbed only 13% of NBS's pre-impairment operating profit, and the society's operating profit increased by 43% to NZD3.1m.

The decline in NBS's average funding costs outpaced a lower average interest income and increased the society's net interest margin (NIM) to 2.51% in FY14 (FY13: 2.43%). Fitch considers NBS's NIM strong relative to domestic and international peers and this was achieved despite the society's increased holding of high-quality liquid assets, which carry relatively low yields.

NBS's non-interest income includes transactional fees and insurance commissions, and contributed 9% of total income in FY14 (FY13: 8%). 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 cost/income ratio compared with domestic banks, it also delivers customer loyalty, which underpins a high-quality and stable retail funding base. NBS's cost/income ratio declined to 67% in FY14 (FY13: 74%), as revenue from the new branches started to offset costs from initial establishment costs.

- Strong loan growth supports NIM.
- High cost/income ratio reflects NBS's high customer service and community support initiatives.

Capitalisation and Leverage

Figure 10
Adequate Capital Ratios

(%)	FY14	FY13	FY12	FY11
Fitch core capital/weighted risk	n.a.	n.a.	n.a.	n.a.
Fitch eligible capital/weighted risks	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	6.16	5.82	5.88	6.18
Total regulatory capital ratio	9.80	9.69	10.03	10.03
Internal capital generation	6.72	5.16	6.33	7.21

Source: Financial statements/Fitch calculations

Capital ratios strengthened slightly in FY14 - despite robust loan growth - as a result of stronger profitability. At FYE14 NBS's regulatory capital ratio and tangible common equity/tangible assets ratio stood at 9.80% and 6.16%, respectively. In Fitch's opinion the society is adequately capitalised. Capital ratios are lower compared to domestic peers however NBS's un-risk weighted capital ratios are comfortably above more highly rated international peers. The agency believes high capital ratios are suitable for NBS given its single-name and geographical concentrations, and limited capital-raising alternatives. Due to its mutual status, capital growth is achieved only through retained earnings or the issuance of subscription (preference) shares.

NBS's equity increased by 19% in FY14 through a net issuance of preference shares (up 25%) and higher retained earnings (up 15%). The preference shares qualify as regulatory capital, carry no voting rights and no cumulative right to interest (dividends), rank behind member deposits, and are only redeemable at the option of NBS. Preference shares can contribute up to 50% of NBS's regulatory capital base and were 47% at FYE14, which is towards the top end of the regulatory limit and whose future issuance volume will be reliant on an equal amount of retained earnings growth.

Funding and Liquidity

Figure 12
Funding and Liquidity No Constraint to Rating

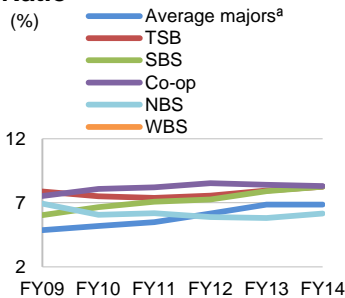
(%)	FY14	FY13	FY12	FY11
Loans/customer deposits	82.51	82.07	80.05	81.45
Interbank assets/interbank liabilities	n.a.	n.a.	n.a.	n.a.
Customer deposits/total funding (excluding derivatives)	100.00	100.00	100.00	100.00

Source: Financial statements/Fitch calculations

NBS's funding position is sound, and at FYE14 the society's loan book was completely funded by customer deposits, of which the vast majority were classified as retail deposits. NBS was able to grow deposits by a healthy 10% or NZD34m in FY14 (FY13: 11%) – well above the market and slightly ahead of loan growth of 10% or NZD29m. NBS enjoys strong deposit rollover rates (over 80%), and at FYE14, 80% of its customer deposits were classified as term deposits and 91% were maturing within 12 months. There is modest single-name concentration of deposits, with the top 10 depositors accounting for 7% of the society's deposit base at FYE14.

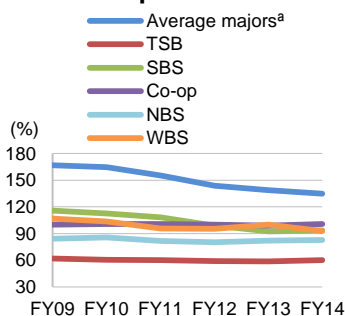
Liquidity is appropriately managed, and for NBS's size and complexity, its liquidity position compares well with those of domestic peers. The trust deeds of the building society require NBS to hold a minimum of 15% of its total tangible assets (less reserves) in liquid assets. At FYE14, NBS's liquid ratio stood at 24% of tangible assets (FYE13: 24%), and comprised on-balance-sheet liquid assets totalling NZD92m. NBS's liquid assets consisted of interbank deposits and cash reserves. Liquid assets are typically short-dated, and range from on-call to term deposits of up to 12 months.

Figure 9
Tangible Common Equity Ratio



^a 1H14 for average major banks
Source: Fitch Ratings analysis

Figure 11
Loan to Deposit Ratio



^a 1H14 for average major banks
Source: Financial Disclosure Statements

**Nelson Building Society
Income Statement**

	31 Mar 2014			31 Mar 2013		31 Mar 2012		31 Mar 2011	
	Year End USDm Unqualified	Year End NZDth Unqualified	As % of Earning Assets	Year End NZDth Eport not seen	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	18.4	21,263.8	5.20	19,996.4	5.39	17,960.2	5.36	16,837.5	5.77
2. Other Interest Income	3.3	3,768.6	0.92	3,169.1	0.85	3,462.5	1.03	2,985.6	1.02
3. Dividend Income	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Gross Interest and Dividend Income	21.7	25,032.4	6.12	23,165.5	6.25	21,422.7	6.40	19,823.1	6.79
5. Interest Expense on Customer Deposits	12.9	14,849.0	3.63	14,176.9	3.82	13,509.2	4.03	12,868.4	4.41
6. Other Interest Expense	0.4	408.3	0.10	418.5	0.11	357.9	0.11	420.7	0.14
7. Total Interest Expense	13.2	15,257.3	3.73	14,595.4	3.93	13,867.1	4.14	13,289.1	4.55
8. Net Interest Income	8.5	9,775.1	2.39	8,570.1	2.31	7,555.6	2.26	6,534.0	2.24
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	n.a.	n.a.	-	n.a.	-	n.a.	-	0.0	0.00
12. Net Insurance Income	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
13. Net Fees and Commissions	0.6	697.9	0.17	568.2	0.15	585.0	0.17	68.1	0.02
14. Other Operating Income	0.3	295.0	0.07	195.6	0.05	227.4	0.07	765.5	0.26
15. Total Non-Interest Operating Income	0.9	992.9	0.24	763.8	0.21	812.4	0.24	833.6	0.29
16. Personnel Expenses	2.7	3,127.5	0.77	2,975.5	0.80	2,431.4	0.73	2,127.2	0.73
17. Other Operating Expenses	3.5	4,095.3	1.00	3,958.6	1.07	3,655.8	1.09	3,196.7	1.10
18. Total Non-Interest Expenses	6.3	7,222.8	1.77	6,934.1	1.87	6,087.2	1.82	5,323.9	1.82
19. Equity-accounted Profit/ Loss - Operating	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
20. Pre-Impairment Operating Profit	3.1	3,545.2	0.87	2,399.8	0.65	2,280.8	0.68	2,043.7	0.70
21. Loan Impairment Charge	0.4	477.8	0.12	256.8	0.07	252.1	0.08	36.7	0.01
22. Securities and Other Credit Impairment Charges	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
23. Operating Profit	2.7	3,067.4	0.75	2,143.0	0.58	2,028.7	0.61	2,007.0	0.69
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.	-	221.7	0.07	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	2.7	3,067.4	0.75	2,143.0	0.58	2,250.4	0.67	2,007.0	0.69
30. Tax expense	0.8	874.1	0.21	608.6	0.16	578.1	0.17	679.5	0.23
31. Profit/Loss from Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
32. Net Income	1.9	2,193.3	0.54	1,534.4	0.41	1,672.3	0.50	1,327.5	0.46
33. Change in Value of AFS Investments	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
34. Revaluation of Fixed Assets	0.0	0.0	0.00	0.0	0.00	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.	-	n.a.	-
37. Fitch Comprehensive Income	1.9	2,193.3	0.54	1,534.4	0.41	1,672.3	0.50	1,327.5	0.46
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	1.9	2,193.3	0.54	1,534.4	0.41	1,672.3	0.50	1,327.5	0.46
40. Memo: Common Dividends Relating to the Period	0.4	435.0	0.11	398.6	0.11	404.0	0.12	n.a.	-
41. Memo: Preferred Dividends Related to the Period	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-

Exchange rate

USD1 = NZD1.15430

USD1 = NZD1.19500

USD1 = NZD1.22350

USD1 = NZD1.31110

**Nelson Building Society
Balance Sheet**

	31 Mar 2014			31 Mar 2013		31 Mar 2012		31 Mar 2011	
	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	267.2	308,378.1	74.45	279,162.1	74.21	245,708.7	72.29	217,140.7	73.25
2. Other Mortgage Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Other Consumer/ Retail Loans	9.1	10,448.3	2.52	10,184.6	2.71	9,006.3	2.65	7,965.7	2.69
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	0.7	860.0	0.21	400.0	0.11	330.0	0.10	230.0	0.08
7. Net Loans	275.5	317,966.4	76.76	288,946.7	76.81	254,385.0	74.84	224,876.4	75.86
8. Gross Loans	276.2	318,826.4	76.97	289,346.7	76.91	254,715.0	74.93	225,106.4	75.94
9. Memo: Impaired Loans included above	1.2	1,424.4	0.34	0.0	0.00	0.0	0.00	161.2	0.05
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	78.6	90,732.4	21.90	80,986.8	21.53	73,167.9	21.53	58,871.1	19.86
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	n.a.	n.a.	-	1,000.0	0.27	7,264.9	2.14	6,108.8	2.06
7. Equity Investments in Associates	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
8. Other Securities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Total Securities	n.a.	n.a.	-	1,000.0	0.27	7,264.9	2.14	6,108.8	2.06
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	n.a.	n.a.	-	0.0	0.00	0.0	0.00	1,900.0	0.64
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.	-	n.a.	-
15. Total Earning Assets	354.1	408,698.8	98.67	370,933.5	98.60	334,817.8	98.50	291,756.3	98.43
C. Non-Earning Assets									
1. Cash and Due From Banks	1.0	1,189.1	0.29	1,219.3	0.32	1,081.1	0.32	557.0	0.19
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	2.6	2,991.3	0.72	3,284.3	0.87	3,302.1	0.97	3,167.3	1.07
5. Goodwill	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Other Intangibles	0.6	667.6	0.16	108.2	0.03	59.3	0.02	101.0	0.03
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	663.9	0.16	658.2	0.17	654.7	0.19	840.5	0.28
11. Total Assets	358.8	414,210.7	100.00	376,203.5	100.00	339,915.0	100.00	296,422.1	100.00
Liabilities and Equity									
D. Interest-Bearing Liabilities									
1. Customer Deposits - Current	68.0	78,486.8	18.95	57,043.8	15.16	50,361.5	14.82	40,993.9	13.83
2. Customer Deposits - Savings	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Customer Deposits - Term	266.8	307,941.2	74.34	295,518.4	78.55	267,830.6	78.79	235,365.1	79.40
4. Total Customer Deposits	334.8	386,428.0	93.29	352,562.2	93.72	318,192.1	93.61	276,359.0	93.23
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	334.8	386,428.0	93.29	352,562.2	93.72	318,192.1	93.61	276,359.0	93.23
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	334.8	386,428.0	93.29	352,562.2	93.72	318,192.1	93.61	276,359.0	93.23
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	0.2	220.4	0.05	198.2	0.05	182.7	0.05	173.0	0.06
4. Current Tax Liabilities	0.4	420.7	0.10	171.4	0.05	275.0	0.08	150.4	0.05
5. Deferred Tax Liabilities	0.1	98.2	0.02	222.8	0.06	230.5	0.07	323.1	0.11
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	888.3	0.21	1,048.1	0.28	999.8	0.29	1,003.9	0.34
10. Total Liabilities	336.2	388,055.6	93.69	354,202.7	94.15	319,880.1	94.11	278,009.4	93.79
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	21.8	25,154.5	6.07	21,000.2	5.58	19,034.3	5.60	17,412.1	5.87
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	0.9	1,000.6	0.24	1,000.6	0.27	1,000.6	0.29	1,000.6	0.34
6. Total Equity	22.7	26,155.1	6.31	22,000.8	5.85	20,034.9	5.89	18,412.7	6.21
7. Total Liabilities and Equity	358.8	414,210.7	100.00	376,203.5	100.00	339,915.0	100.00	296,422.1	100.00
8. Memo: Fitch Core Capital	22.1	25,487.5	6.15	21,892.6	5.82	19,975.6	5.88	n.a.	-
9. Memo: Fitch Eligible Capital	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-

Exchange rate USD1 = NZD1.15430 USD1 = NZD1.19500 USD1 = NZD1.22350 USD1 = NZD1.31110

**Nelson Building Society
Summary Analytics**

	31 Mar 2014 Year End	31 Mar 2013 Year End	31 Mar 2012 Year End	31 Mar 2011 Year End
A. Interest Ratios				
1. Interest Income on Loans/ Average Gross Loans	6.99	7.35	7.49	7.60
2. Interest Expense on Customer Deposits/ Average Customer Deposits	4.02	4.23	4.54	4.85
3. Interest Income/ Average Earning Assets	6.42	6.56	6.84	7.07
4. Interest Expense/ Average Interest-bearing Liabilities	4.13	4.35	4.66	5.00
5. Net Interest Income/ Average Earning Assets	2.51	2.43	2.41	2.33
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	2.39	2.36	2.33	2.32
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets	2.51	2.43	2.41	2.33
B. Other Operating Profitability Ratios				
1. Non-Interest Income/ Gross Revenues	9.22	8.18	9.71	11.31
2. Non-Interest Expense/ Gross Revenues	67.08	74.29	72.74	72.26
3. Non-Interest Expense/ Average Assets	1.83	1.94	1.91	1.87
4. Pre-impairment Op. Profit/ Average Equity	14.72	11.42	11.86	11.65
5. Pre-impairment Op. Profit/ Average Total Assets	0.90	0.67	0.72	0.72
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	13.48	10.70	11.05	1.80
7. Operating Profit/ Average Equity	12.74	10.20	10.55	11.44
8. Operating Profit/ Average Total Assets	0.78	0.60	0.64	0.71
9. Taxes/ Pre-tax Profit	28.50	28.40	25.69	33.86
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	9.11	7.30	8.70	7.56
2. Net Income/ Average Total Assets	0.55	0.43	0.53	0.47
3. Fitch Comprehensive Income/ Average Total Equity	9.11	7.30	8.70	7.56
4. Fitch Comprehensive Income/ Average Total Assets	0.55	0.43	0.53	0.47
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/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
2. Fitch Eligible Capital/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
3. Tangible Common Equity/ Tangible Assets	6.16	5.82	5.88	6.18
4. Tier 1 Regulatory Capital Ratio	n.a.	n.a.	n.a.	10.03
5. Total Regulatory Capital Ratio	9.80	9.69	10.03	n.a.
6. Core Tier 1 Regulatory Capital Ratio	n.a.	n.a.	n.a.	n.a.
7. Equity/ Total Assets	6.31	5.85	5.89	6.21
8. Cash Dividends Paid & Declared/ Net Income	19.83	25.98	24.16	n.a.
9. Cash Dividend Paid & Declared/ Fitch Comprehensive Income	19.83	25.98	24.16	n.a.
10. Cash Dividends & Share Repurchase/Net Income	n.a.	n.a.	n.a.	n.a.
11. Internal Capital Generation	6.72	5.16	6.33	7.21
E. Loan Quality				
1. Growth of Total Assets	10.10	10.68	14.67	8.69
2. Growth of Gross Loans	10.19	13.60	13.15	3.18
3. Impaired Loans/ Gross Loans	0.45	0.00	0.00	0.07
4. Reserves for Impaired Loans/ Gross Loans	0.27	0.14	0.13	0.10
5. Reserves for Impaired Loans/ Impaired Loans	60.38	n.a.	n.a.	142.68
6. Impaired loans less Reserves for Impaired Loans/ Fitch Core Capital	2.21	(1.83)	(1.65)	(0.38)
7. Impaired Loans less Reserves for Impaired Loans/ Equity	2.16	(1.82)	(1.65)	(0.37)
8. Loan Impairment Charges/ Average Gross Loans	0.16	0.09	0.11	0.02
9. Net Charge-offs/ Average Gross Loans	0.01	0.08	0.06	0.03
10. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	0.45	0.00	0.00	0.07
F. Funding				
1. Loans/ Customer Deposits	82.51	82.07	80.05	81.45
2. Interbank Assets/ Interbank Liabilities	n.a.	n.a.	n.a.	n.a.
3. Customer Deposits/ Total Funding (excluding derivatives)	100.00	100.00	100.00	100.00

Nelson Building Society
Reference Data

	31 Mar 2014			31 Mar 2013		31 Mar 2012		31 Mar 2011	
	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 Securitised 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	9.5	10,934.9	2.64	n.a.	-	n.a.	-	n.a.	-
6. Other Contingent Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Total Business Volume	368.3	425,145.6	102.64	376,203.5	100.00	339,915.0	100.00	296,422.1	100.00
8. Memo: Risk Weighted Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Fitch Adjustments to Risk Weighted Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Fitch Adjusted Risk Weighted Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
B. Average Balance Sheet									
Average Loans	263.4	304,086.6	73.41	272,030.9	72.31	239,910.7	70.58	221,635.7	74.77
Average Earning Assets	337.7	389,816.2	94.11	352,875.7	93.80	313,287.1	92.17	280,255.2	94.55
Average Assets	342.4	395,207.1	95.41	358,059.3	95.18	318,168.6	93.60	284,573.0	96.00
Average Managed Securitised Assets (OBS)	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Average Interest-Bearing Liabilities	320.1	369,495.1	89.20	335,377.2	89.15	297,275.6	87.46	265,567.6	89.59
Average Common equity	20.0	23,077.4	5.57	20,017.3	5.32	18,223.2	5.36	16,549.2	5.58
Average Equity	20.9	24,078.0	5.81	21,017.9	5.59	19,223.8	5.66	17,549.8	5.92
Average Customer Deposits	320.1	369,495.1	89.20	335,377.2	89.15	297,275.6	87.46	265,567.6	89.59
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.	-
Loans & Advances to Banks < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks > 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.	-
Deposits from Banks < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Deposits from Banks 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Deposits from Banks 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Deposits from Banks > 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	22.7	26,155.1	6.31	22,000.8	5.85	20,034.9	5.89	18,412.7	6.21
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	22.7	26,155.1	6.31	22,000.8	5.85	20,034.9	5.89	18,412.7	6.21
E. Fitch Eligible Capital Reconciliation									
1. Total Equity as reported (including non-controlling interests)	22.7	26,155.1	6.31	22,000.8	5.85	20,034.9	5.89	18,412.7	6.21
2. Fair value effect incl in own debt/borrowings at fv on the B/S- CC only	0.0	0.0	0.00	0.0	0.00	0.0	0.00	n.a.	-
3. Non-loss-absorbing non-controlling interests	0.0	0.0	0.00	0.0	0.00	0.0	0.00	n.a.	-
4. Goodwill	0.0	0.0	0.00	0.0	0.00	0.0	0.00	n.a.	-
5. Other intangibles	0.6	667.6	0.16	108.2	0.03	59.3	0.02	101.0	0.03
6. Deferred tax assets deduction	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
7. Net asset value of insurance subsidiaries	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
8. First loss tranches of off-balance sheet securitizations	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
9. Fitch Core Capital	22.1	25,487.5	6.15	21,892.6	5.82	19,975.6	5.88	18,311.70	-
10. Eligible weighted Hybrid capital	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
11. Government held Hybrid Capital	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
12. Fitch Eligible Capital	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
						19,975.6		18,311.7	
Exchange Rate		USD1 = NZD1.15430		USD1 = NZD1.19500		USD1 = NZD1.22350		USD1 = NZD1.31110	

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