

# 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	Stable
Sovereign Long-Term Local-Currency IDR	Stable

### Financial Data

#### Nelson Building Society

	31 Mar 13	31 Mar 12
Total assets (USDm)	315.0	277.8
Total assets (NZDm)	376.2	339.9
Total equity (NZDm)	22.0	20.0
Operating profit (NZDm)	2.1	2.0
Published net income (NZDm)	1.5	1.7
Comprehensive income (NZDm)	1.5	1.7
Operating ROAA (%)	0.60	0.64
Operating ROAE (%)	10.20	10.55
Regulatory capital ratio (%)	9.69	10.03
Tangible common equity/tangible assets (%)	5.82	5.88

### Key Rating Drivers

**Strong Funding and Liquidity:** Nelson Building Society's (NBS) 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 end-March 2013 (FYE13), the society's loans/deposits ratio was a low 82%. NBS had no wholesale funding exposures at FYE13 and liquid assets made up 22% of total assets.

**Robust Asset Quality:** NBS's loan portfolio performance is underpinned by a prudent underwriting approach, local knowledge and solid arrears management. At FYE13, the society had no impaired loans, unchanged from FYE12, and past due loans had declined by 23% to NZD1.1m (FYE12: NZD1.4m). Conservatively, NBS provisions its past due consumer loans.

**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.

**Adequate Capital Levels:** NBS's absolute capital base is very small by international standards, and Fitch Ratings views its regulatory capital ratio of 9.69% and tangible common equity/tangible assets ratio of 5.82% as adequate in light of size and concentration risks. Capital ratios have trended lower compared to its domestic peers as a result of strong loan growth – and as a mutual institution, NBS has limited options to raise capital.

**Healthy and Resilient 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. In FY13, the society benefited from wider net interest spreads, reduced funding costs and strong loan growth, and operating profit increased 6% to NZD2.1m.

**Conservative Risk Settings:** 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.

**Simple Business Model:** NBS has a simple and low-risk business profile, which enables it to run efficient but uncomplicated risk management and underwriting processes. Moreover, their application appears consistent across the society.

**Change in Support:** The downgrade of NBS's Support Rating and revision of the Support Rating Floor follow the introduction of the Open Bank Resolution Scheme (OBR) from 1 July 2013. NBS is excluded from the scheme due to its size; however, Fitch believes the development of such a scheme reflects a lower propensity for potential government support.

### Rating Sensitivities

**Ratings Upgrade Unlikely:** Positive rating action is unlikely due to NBS's small absolute capital base, small domestic franchise, and geographical and large-loan concentrations.

**Negative Rating Action:** 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.

### Analysts

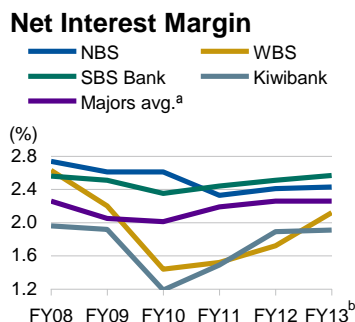
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- Fourth-largest building society in New Zealand, located in the north-western part of the South Island.
- Regional economy performing well.

- Strong loan growth supports NIM.
- High cost/income ratio reflects NBS's high customer service and community support initiatives.
- Loan impairment charges reflect conservative provisioning approach.

Figure 1



<sup>a</sup> Average of ASB Bank, ANZ National Bank, Bank of New Zealand, Westpac New Zealand

<sup>b</sup> Kiwibank and 4 Majors: H112

Source: Financial statements, Fitch

## Profile

NBS was established in 1862 in Nelson to provide housing and personal finance to the local communities in the Nelson and Tasman regions. It has since expanded into the West Coast and, more recently, Canterbury. 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 eight branches and the internet 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.

Fishing, forestry, farming, horticulture and tourism are all important industries in NBS's home market (the Nelson/Tasman/Marlborough and West Coast regions) and have performed well. Unemployment in NBS's market is amongst the lowest in the country. Over the nine months to end-March 2013, the unemployment rate increased marginally to 5.0% (end-June 2012: 4.7%). However, this remains lower than the national unemployment rate, which declined from 6.7% to 6.2% over the same period before increasing to 6.4% at end-June 2013.

The solid performance of the local economy in addition to acceleration in the region's population growth following the Christchurch earthquakes caused an initial rise in property prices and transactions, although this appears to have moderated more recently. The Real Estate Institute reported increased sales turnover but a slight price decline in the Nelson/Marlborough region to end-June 2013, up 3.3% and down 0.8% year on year, respectively.

## Corporate Governance

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

NBS's board of directors comprises a chair, a deputy chair and three other 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 over 10 years.

## Performance

NBS recorded a solid 5% increase in its pre-impairment operating profit to NZD2.4m in FY13, and this included strong net interest income growth of 13%, partially offset by a 14% increase in operating expenses. Loan impairment charges were flat, absorbing 11% of NBS's pre-impairment operating profit, and the society's operating profit increased by 6% to NZD2.1m. Net income was lower in FY13, down 8% to NZD1.5m, although FY12 included a one-off gain from the sale of an investment property.

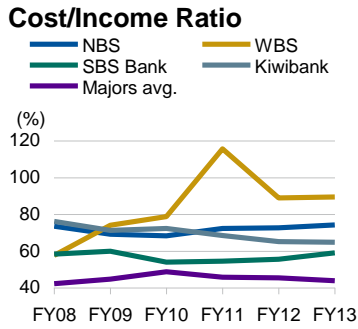
New branches supported robust loan growth in FY13 – up 14% yoy (FY12: 13%). The Takaka branch (established in FY12) contributed 58% of NBS's FY13 loan growth (FY12: 21%), and mainly comprised agricultural lending, and the Ashburton branch (established in FY13) contributed 12%.

The decline in NBS's average funding costs outpaced lower average interest income and, together with loan growth, increased the society's net interest margin (NIM) to 2.43% in FY13 (FY12: 2.41%). 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.

## Related Criteria

Global Financial Institutions Rating Criteria (August 2012)

Figure 2



Source: Financial statements, Fitch

NBS's non-interest income includes transactional fees and insurance commissions, and contributed 8% of total operating income in FY13 (FY12: 10%). The sale of an investment property in FY12 and the loss of rental income more than offset higher commission income.

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 was 74% in FY13 (FY12: 72%), and included the initial strain from the cost of establishing new branches and increased compliance costs.

Loan impairment charges as a percentage of pre-impairment operating profits were unchanged yoy at 11% in FY13 and reflect a conservative provisioning approach. NBS had no impaired loans and only NZD1.1m of past due loans at FYE13, and held NZD400,000 of provisions, up from NZD330,000 at FYE12.

**Prospects**

Regional concentration ties NBS's performance outlook to local developments, and the local economy continues to perform relatively well. Local population growth accelerated as a result of the Christchurch earthquakes, and provided an initial boost to the local housing market. Moreover, Fitch expects NBS to benefit indirectly from the strong stimulatory impact of the Christchurch rebuild as it spills over into the wider New Zealand economy. Offsetting this is intensifying loan competition from a well-capitalised banking system – but to date this has been well managed by NBS.

NBS's strong local presence and its conservative underwriting and operating approach have positioned the society well to meet competitive pressures. NBS competes and differentiates itself through its focus on "personal service", and as a result has achieved profitable above-system credit growth. Fitch does not expect the society to chase unprofitable business.

**Risk Management**

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.

**Credit Risk**

NBS's asset quality remains pristine and no loans were impaired at FYE13 (FYE12: none). Past due loans declined by 23% in FY13 to NZD1.1m and were predominantly well-secured residential mortgages loans. NBS actively monitors past due loans, and management begins on day one of an account registering as past due.

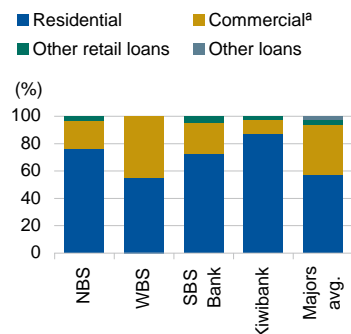
NBS's largest risk is credit risk, and although the society does not use underwriting models, it does benefit from the close community links and local market knowledge when assessing risk. At FYE13, the society's loan book and interbank loans accounted for 77% and 22%, respectively, of total assets. The remaining assets consisted of a held-to-maturity securities portfolio, fixed assets and cash reserves. Committed but undrawn loans of NZD8m were unchanged yoy at FYE13.

There is geographical and single-name concentration in NBS's loan book, although the society's familiarity with its home region and conservative lending approach help mitigate this risk. NBS's 10 largest exposures accounted for 120% of total equity at FYE13 (FYE12: 112%).

- Loan book exhibits geographical and single-name concentrations.
- Market risk is adequately managed.
- Small size of society increases operational risk.

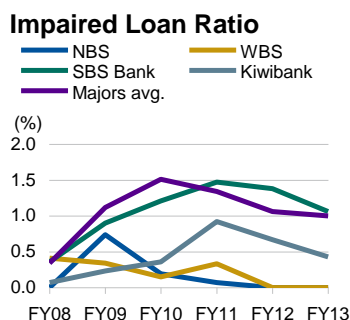
Figure 3

**Loan Composition at FYE13**



<sup>a</sup> Includes SME, corporate and agricultural  
Source: Financial statements

Figure 4



Source: Financial statements

At FYE13, NBS’s non-bank credit exposure included residential mortgages (76%), commercial mortgages (13%), agricultural loans (7%) and personal loans and consumer finance (4%). In FY13, all portfolios experienced growth, with the residential mortgage portfolio and the commercial mortgage portfolio growing by 5% and 17%, respectively.

Loans exceeding an LTV ratio of 80% accounted for 11% of NBS’s total residential mortgages at FYE13, although these consisted of loans originated through the “welcome home” loan programme. These loans are guaranteed by Housing New Zealand Corporation, a government-owned entity; as a guideline, the society does not lend above an 80% LTV ratio.

NBS’s commercial mortgage portfolio consists mainly of investment mortgages, and the society has traditionally had limited exposure to the riskier commercial development sector. All loans are secured by first mortgages over land and buildings, and around 80% of the commercial exposure is secured over residential property. NBS has limited involvement in business banking, and no exposure to the struggling viticulture sector. Average LTV ratios are low, and NBS typically does not write commercial loans in excess of a 60% LTV ratio.

NBS’s “agribusiness” portfolio is small at 7% of net loans but has grown strongly off a low base after the establishment of the Takaka branch. Focusing on established “generational” farms, LTV ratios tend to be under 50%.

NBS’s consumer finance and personal lending portfolio is small (FYE13: 4% of total loans), and strict account management and collection procedures have underpinned asset quality.

NBS’s other assets consisted mainly of high-quality interbank exposures at FYE13. According to its investment policy, NBS can invest in any New Zealand-registered bank or its securities with a minimum credit rating of ‘A-’.

**Market Risk**

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 maturities, thereby closely matching liabilities. The maximum maturity of a fixed-rate mortgage is two years. Sensitivity analysis shows that a 100bp parallel movement in the yield curve, with no management action, would have had an 11% impact on NBS’s pre-impairment operating profit at FYE13 (FYE12: 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. NBS is not exposed to market risk from trading as securities are held to maturity, and at FYE13 the society had no FX exposure.

**Operational Risk**

NBS has adequate operational risk management systems for 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 a mirrored disaster recovery system 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, Liquidity and Capital**

**Funding**

NBS’s funding position is sound, and at FYE13 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 11% or NZD34.4m in FY13 (FY12: 15%) – well above the market and slightly below loan growth of 14% or NZD34.6m.

NBS enjoys strong deposit rollover rates (over 80%), and at FYE13, 84% of its customer deposits were classified as term deposits and 87% were maturing within 12 months. There is

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

modest single-name concentration of deposits, with the top 10 depositors accounting for 7% of the society's deposit base at FYE13. NBS had no wholesale funding exposure outstanding at FYE13 but due to its small size would be unlikely to raise debt in the capital markets. 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

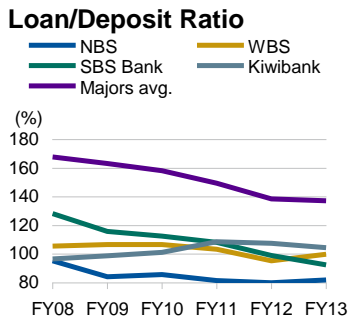
Liquidity is appropriately managed, and for NBS's size and complexity, its liquidity position compares well with those of domestic peers. The trust deeds of the building society require NBS to hold a minimum of 15% of its total tangible assets in liquid assets. At FYE13, NBS's liquid ratio stood at 24.0% of tangible assets (FYE12: 27.4%), and comprised on-balance-sheet liquid assets totalling NZD83m. NBS's liquid assets consisted of interbank deposits, cash reserves and NZD1m of subordinated debt securities. Liquid assets are typically short-dated, and range from on-call to term deposits of up to 12 months.

Capital

Capital ratios have trended down as a result of strong loan growth, and at FYE13, NBS's regulatory capital ratio and tangible common equity/tangible assets ratio stood at 9.69% and 5.82%, respectively. In Fitch's opinion, the society is adequately capitalised, but ratios have trended lower compared to its domestic peers. The agency believes high capital ratios are suitable for NBS given its single-name and geographical concentrations, and limited capital-raising alternatives. Constrained by its mutual status, capital growth can be achieved through either the retention of earnings or the issuance of subscription (preference) shares.

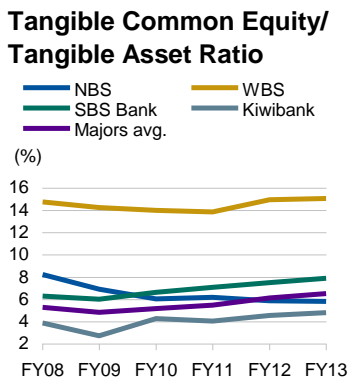
NBS's capital base increased by 10% in FY13 through a net issuance of preference shares (up 10%) and higher retained earnings (up 11%). The preference shares qualify as regulatory capital, carry no voting rights and no cumulative right to interest (dividends), rank behind member deposits, and are only redeemable at the option of NBS. Preference shares can contribute up to 50% of NBS's capital base and were 43% at FYE13, which provides the society with some capacity to issue more. Moreover, relative to other similar instruments, they represent a cheap source of capital.

Figure 5



Source: Financial statements, Fitch

Figure 6



Source: Financial statements, Fitch



**Nelson Building Society  
Income Statement**

	31 Mar 2013			31 Mar 2012		31 Mar 2011		31 Mar 2010	
	Year End	Year End	As % of	Year End	As % of	Year End	As % of	Year End	As % of
	USDm	NZDth		NZDth	Earning	NZDth	Earning	NZDth	Earning
	Audited/Report not seen	l/Report not seen	Earning Assets	Unqualified	Assets	Unqualified	Assets	Unqualified	Assets
1. Interest Income on Loans	16.7	19,996.4	5.39	17,960.2	5.36	16,837.5	5.77	16,705.7	6.22
2. Other Interest Income	2.7	3,169.1	0.85	3,462.5	1.03	2,985.6	1.02	2,525.9	0.94
3. Dividend Income	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>4. Gross Interest and Dividend Income</b>	<b>19.4</b>	<b>23,165.5</b>	<b>6.25</b>	<b>21,422.7</b>	<b>6.40</b>	<b>19,823.1</b>	<b>6.79</b>	<b>19,231.6</b>	<b>7.16</b>
5. Interest Expense on Customer Deposits	11.9	14,176.9	3.82	13,509.2	4.03	12,868.4	4.41	12,087.2	4.50
6. Other Interest Expense	0.4	418.5	0.11	357.9	0.11	420.7	0.14	437.7	0.16
<b>7. Total Interest Expense</b>	<b>12.2</b>	<b>14,595.4</b>	<b>3.93</b>	<b>13,867.1</b>	<b>4.14</b>	<b>13,289.1</b>	<b>4.55</b>	<b>12,524.9</b>	<b>4.66</b>
<b>8. Net Interest Income</b>	<b>7.2</b>	<b>8,570.1</b>	<b>2.31</b>	<b>7,555.6</b>	<b>2.26</b>	<b>6,534.0</b>	<b>2.24</b>	<b>6,706.7</b>	<b>2.50</b>
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.	-	0.0	0.00	(190.0)	(0.07)
12. Net Insurance Income	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
13. Net Fees and Commissions	0.5	568.2	0.15	585.0	0.17	68.1	0.02	79.9	0.03
14. Other Operating Income	0.2	195.6	0.05	227.4	0.07	765.5	0.26	710.6	0.26
<b>15. Total Non-Interest Operating Income</b>	<b>0.6</b>	<b>763.8</b>	<b>0.21</b>	<b>812.4</b>	<b>0.24</b>	<b>833.6</b>	<b>0.29</b>	<b>600.5</b>	<b>0.22</b>
16. Personnel Expenses	2.5	2,975.5	0.80	2,431.4	0.73	2,127.2	0.73	2,024.9	0.75
17. Other Operating Expenses	3.3	3,958.6	1.07	3,655.8	1.09	3,196.7	1.10	2,965.2	1.10
<b>18. Total Non-Interest Expenses</b>	<b>5.8</b>	<b>6,934.1</b>	<b>1.87</b>	<b>6,087.2</b>	<b>1.82</b>	<b>5,323.9</b>	<b>1.82</b>	<b>4,990.1</b>	<b>1.86</b>
19. Equity-accounted Profit/ Loss - Operating	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>20. Pre-impairment Operating Profit</b>	<b>2.0</b>	<b>2,399.8</b>	<b>0.65</b>	<b>2,280.8</b>	<b>0.68</b>	<b>2,043.7</b>	<b>0.70</b>	<b>2,317.1</b>	<b>0.86</b>
21. Loan Impairment Charge	0.2	256.8	0.07	252.1	0.08	36.7	0.01	197.1	0.07
22. Securities and Other Credit Impairment Charges	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>23. Operating Profit</b>	<b>1.8</b>	<b>2,143.0</b>	<b>0.58</b>	<b>2,028.7</b>	<b>0.61</b>	<b>2,007.0</b>	<b>0.69</b>	<b>2,120.0</b>	<b>0.79</b>
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.	-	221.7	0.07	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.	-
<b>29. Pre-tax Profit</b>	<b>1.8</b>	<b>2,143.0</b>	<b>0.58</b>	<b>2,250.4</b>	<b>0.67</b>	<b>2,007.0</b>	<b>0.69</b>	<b>2,120.0</b>	<b>0.79</b>
30. Tax expense	0.5	608.6	0.16	578.1	0.17	679.5	0.23	650.2	0.24
31. Profit/Loss from Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>32. Net income</b>	<b>1.3</b>	<b>1,534.4</b>	<b>0.41</b>	<b>1,672.3</b>	<b>0.50</b>	<b>1,327.5</b>	<b>0.46</b>	<b>1,469.8</b>	<b>0.55</b>
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	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.	-	n.a.	-
<b>37. Fitch Comprehensive Income</b>	<b>1.3</b>	<b>1,534.4</b>	<b>0.41</b>	<b>1,672.3</b>	<b>0.50</b>	<b>1,327.5</b>	<b>0.46</b>	<b>1,469.8</b>	<b>0.55</b>
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	1.3	1,534.4	0.41	1,672.3	0.50	1,327.5	0.46	1,469.8	0.55
40. Memo: Common Dividends Relating to the Period	0.3	398.6	0.11	404.0	0.12	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 = NZD1.19430

USD1 = NZD1.22350

USD1 = NZD1.31110

USD1 = NZD1.40885

Nelson Building Society  
Balance Sheet

	31 Mar 2013			31 Mar 2012		31 Mar 2011		31 Mar 2010	
	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
<b>Assets</b>									
<b>A. Loans</b>									
1. Residential Mortgage Loans	233.7	279,162.1	74.21	245,708.7	72.29	217,140.7	73.25	210,530.4	77.20
2. Other Mortgage Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Other Consumer/ Retail Loans	8.5	10,184.6	2.71	9,006.3	2.65	7,965.7	2.69	7,634.5	2.80
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	0.3	400.0	0.11	330.0	0.10	230.0	0.08	260.0	0.10
<b>7. Net Loans</b>	<b>241.9</b>	<b>288,946.7</b>	<b>76.81</b>	<b>254,385.0</b>	<b>74.84</b>	<b>224,876.4</b>	<b>75.86</b>	<b>217,904.9</b>	<b>79.90</b>
<b>8. Gross Loans</b>	<b>242.3</b>	<b>289,346.7</b>	<b>76.91</b>	<b>254,715.0</b>	<b>74.93</b>	<b>225,106.4</b>	<b>75.94</b>	<b>218,164.9</b>	<b>79.99</b>
9. Memo: Impaired Loans included above	0.0	0.0	0.00	0.0	0.00	161.2	0.05	411.2	0.15
10. Memo: Loans at Fair Value included above	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>B. Other Earning Assets</b>									
1. Loans and Advances to Banks	67.8	80,986.8	21.53	73,167.9	21.53	58,871.1	19.86	42,811.7	15.70
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	0.8	1,000.0	0.27	7,264.9	2.14	6,108.8	2.06	6,137.5	2.25
7. At-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.	-
<b>9. Total Securities</b>	<b>0.8</b>	<b>1,000.0</b>	<b>0.27</b>	<b>7,264.9</b>	<b>2.14</b>	<b>6,108.8</b>	<b>2.06</b>	<b>6,137.5</b>	<b>2.25</b>
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	0.0	0.0	0.00	0.0	0.00	1,900.0	0.64	1,900.0	0.70
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.	-
<b>15. Total Earning Assets</b>	<b>310.6</b>	<b>370,933.5</b>	<b>98.60</b>	<b>334,817.8</b>	<b>98.50</b>	<b>291,756.3</b>	<b>98.43</b>	<b>268,754.1</b>	<b>98.54</b>
<b>C. Non-Earning Assets</b>									
1. Cash and Due From Banks	1.0	1,219.3	0.32	1,081.1	0.32	557.0	0.19	481.9	0.18
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	2.7	3,284.3	0.87	3,302.1	0.97	3,167.3	1.07	2,720.6	1.00
5. Goodwill	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Other Intangibles	0.1	108.2	0.03	59.3	0.02	101.0	0.03	156.4	0.06
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	658.2	0.17	654.7	0.19	840.5	0.28	610.9	0.22
<b>11. Total Assets</b>	<b>315.0</b>	<b>376,203.5</b>	<b>100.00</b>	<b>339,915.0</b>	<b>100.00</b>	<b>296,422.1</b>	<b>100.00</b>	<b>272,723.9</b>	<b>100.00</b>
<b>Liabilities and Equity</b>									
<b>D. Interest-Bearing Liabilities</b>									
1. Customer Deposits - Current	47.8	57,043.8	15.16	50,361.5	14.82	40,993.9	13.83	38,616.0	14.16
2. Customer Deposits - Savings	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Customer Deposits - Term	247.4	295,518.4	78.55	267,830.6	78.79	235,365.1	79.40	216,160.1	79.26
<b>4. Total Customer Deposits</b>	<b>295.2</b>	<b>352,562.2</b>	<b>93.72</b>	<b>318,192.1</b>	<b>93.61</b>	<b>276,359.0</b>	<b>93.23</b>	<b>254,776.1</b>	<b>93.42</b>
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.	-
<b>8. Total Deposits, Money Market and Short-term Funding</b>	<b>295.2</b>	<b>352,562.2</b>	<b>93.72</b>	<b>318,192.1</b>	<b>93.61</b>	<b>276,359.0</b>	<b>93.23</b>	<b>254,776.1</b>	<b>93.42</b>
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.	-
<b>12. Total Long Term Funding</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>-</b>
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.	-
<b>15. Total Funding</b>	<b>295.2</b>	<b>352,562.2</b>	<b>93.72</b>	<b>318,192.1</b>	<b>93.61</b>	<b>276,359.0</b>	<b>93.23</b>	<b>254,776.1</b>	<b>93.42</b>
<b>E. Non-Interest Bearing Liabilities</b>									
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	198.2	0.05	182.7	0.05	173.0	0.06	146.5	0.05
4. Current Tax Liabilities	0.1	171.4	0.05	275.0	0.08	150.4	0.05	200.9	0.07
5. Deferred Tax Liabilities	0.2	222.8	0.06	230.5	0.07	323.1	0.11	193.6	0.07
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	0.9	1,048.1	0.28	999.8	0.29	1,003.9	0.34	720.0	0.26
<b>10. Total Liabilities</b>	<b>296.6</b>	<b>354,202.7</b>	<b>94.15</b>	<b>319,880.1</b>	<b>94.11</b>	<b>278,009.4</b>	<b>93.79</b>	<b>256,037.1</b>	<b>93.88</b>
<b>F. Hybrid Capital</b>									
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.	-
<b>G. Equity</b>									
1. Common Equity	17.6	21,000.2	5.58	19,034.3	5.60	17,412.1	5.87	15,686.2	5.75
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	0.27	1,000.6	0.29	1,000.6	0.34	1,000.6	0.37
<b>6. Total Equity</b>	<b>18.4</b>	<b>22,000.8</b>	<b>5.85</b>	<b>20,034.9</b>	<b>5.89</b>	<b>18,412.7</b>	<b>6.21</b>	<b>16,686.8</b>	<b>6.12</b>
<b>7. Total Liabilities and Equity</b>	<b>315.0</b>	<b>376,203.5</b>	<b>100.00</b>	<b>339,915.0</b>	<b>100.00</b>	<b>296,422.1</b>	<b>100.00</b>	<b>272,723.9</b>	<b>100.00</b>
8. Memo: Fitch Core Capital	18.3	21,892.6	5.82	19,975.6	5.88	n.a.	-	n.a.	-
9. Memo: Fitch Eligible Capital	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-

Exchange rate USD1 = NZD1.19430 USD1 = NZD1.22350 USD1 = NZD1.31110 USD1 = NZD1.40885

**Nelson Building Society  
Summary Analytics**

	31 Mar 2013	31 Mar 2012	31 Mar 2011	31 Mar 2010
	Year End	Year End	Year End	Year End
<b>A. Interest Ratios</b>				
1. Interest Income on Loans/ Average Gross Loans	7.35	7.49	7.60	8.12
2. Interest Expense on Customer Deposits/ Average Customer Deposits	4.23	4.54	4.85	4.99
3. Interest Income/ Average Earning Assets	6.56	6.84	7.07	7.49
4. Interest Expense/ Average Interest-bearing Liabilities	4.35	4.66	5.00	5.17
5. Net Interest Income/ Average Earning Assets	2.43	2.41	2.33	2.61
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	2.36	2.33	2.32	2.53
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets	2.43	2.41	2.33	2.61
<b>B. Other Operating Profitability Ratios</b>				
1. Non-Interest Income/ Gross Revenues	8.18	9.71	11.31	8.22
2. Non-Interest Expense/ Gross Revenues	74.29	72.74	72.26	68.29
3. Non-Interest Expense/ Average Assets	1.94	1.91	1.87	1.91
4. Pre-impairment Op. Profit/ Average Equity	11.42	11.86	11.65	13.65
5. Pre-impairment Op. Profit/ Average Total Assets	0.67	0.72	0.72	0.89
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	10.70	11.05	1.80	8.51
7. Operating Profit/ Average Equity	10.20	10.55	11.44	12.49
8. Operating Profit/ Average Total Assets	0.60	0.64	0.71	0.81
9. Taxes/ Pre-tax Profit	28.40	25.69	33.86	30.67
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.
<b>C. Other Profitability Ratios</b>				
1. Net Income/ Average Total Equity	7.30	8.70	7.56	8.66
2. Net Income/ Average Total Assets	0.43	0.53	0.47	0.56
3. Fitch Comprehensive Income/ Average Total Equity	7.30	8.70	7.56	8.66
4. Fitch Comprehensive Income/ Average Total Assets	0.43	0.53	0.47	0.56
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.
<b>D. Capitalization</b>				
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	5.82	5.88	6.18	6.06
4. Tier 1 Regulatory Capital Ratio	n.a.	n.a.	10.03	n.a.
5. Total Regulatory Capital Ratio	9.69	10.03	n.a.	n.a.
6. Core Tier 1 Regulatory Capital Ratio	n.a.	n.a.	n.a.	n.a.
7. Equity/ Total Assets	5.85	5.89	6.21	6.12
8. Cash Dividends Paid & Declared/ Net Income	25.98	24.16	n.a.	n.a.
9. Cash Dividend Paid & Declared/ Fitch Comprehensive Income	25.98	24.16	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	5.16	6.33	7.21	8.81
<b>E. Loan Quality</b>				
1. Growth of Total Assets	10.68	14.67	8.69	9.76
2. Growth of Gross Loans	13.60	13.15	3.18	12.77
3. Impaired Loans(NPLs)/ Gross Loans	0.00	0.00	0.07	0.19
4. Reserves for Impaired Loans/ Gross loans	0.14	0.13	0.10	0.12
5. Reserves for Impaired Loans/ Impaired Loans	n.a.	n.a.	142.68	63.23
6. Impaired Loans less Reserves for Imp Loans/ Equity	(1.82)	(1.65)	(0.37)	0.91
7. Loan Impairment Charges/ Average Gross Loans	0.09	0.11	0.02	0.10
8. Net Charge-offs/ Average Gross Loans	0.08	0.06	0.03	0.37
9. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	0.00	0.00	0.07	0.19
<b>F. Funding</b>				
1. Loans/ Customer Deposits	82.07	80.05	81.45	85.63
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 2013			31 Mar 2012		31 Mar 2011		31 Mar 2010	
	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
<b>A. Off-Balance Sheet Items</b>									
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	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	315.0	376,203.5	100.00	339,915.0	100.00	296,422.1	100.00	272,723.9	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>B. Average Balance Sheet</b>									
Average Loans	227.8	272,030.9	72.31	239,910.7	70.58	221,635.7	74.77	205,816.6	75.47
Average Earning Assets	295.5	352,875.7	93.80	313,287.1	92.17	280,255.2	94.55	256,797.9	94.16
Average Assets	299.8	358,059.3	95.18	318,168.6	93.60	284,573.0	96.00	260,603.9	95.56
Average Managed Securitised Assets (OBS)	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Average Interest-Bearing Liabilities	280.8	335,377.2	89.15	297,275.6	87.46	265,567.6	89.59	242,361.5	88.87
Average Common equity	16.8	20,017.3	5.32	18,223.2	5.36	16,549.2	5.58	15,975.0	5.86
Average Equity	17.6	21,017.9	5.59	19,223.8	5.66	17,549.8	5.92	16,975.6	6.22
Average Customer Deposits	280.8	335,377.2	89.15	297,275.6	87.46	265,567.6	89.59	242,361.5	88.87
<b>C. Maturities</b>									
<b>Asset Maturities:</b>									
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.	-
<b>Liability Maturities:</b>									
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.	-
<b>D. Equity Reconciliation</b>									
1. Equity	18.4	22,000.8	5.85	20,034.9	5.89	18,412.7	6.21	16,686.8	6.12
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	18.4	22,000.8	5.85	n.a.	-	n.a.	-	n.a.	-
<b>E. Fitch Eligible Capital Reconciliation</b>									
1. Total Equity as reported (including non-controlling interests)	18.4	22,000.8	5.85	20,034.9	5.89	18,412.7	6.21	16,686.8	6.12
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	n.a.	-	n.a.	-
3. Non-loss-absorbing non-controlling interests	0.0	0.0	0.00	0.0	0.00	n.a.	-	n.a.	-
4. Goodwill	0.0	0.0	0.00	0.0	0.00	n.a.	-	n.a.	-
5. Other intangibles	0.1	108.2	0.03	59.3	0.02	101.0	0.03	156.4	0.06
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
<b>9. Fitch Core Capital</b>	<b>18.3</b>	<b>21,892.6</b>	<b>5.82</b>	<b>19,975.6</b>	<b>5.88</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>-</b>
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
<b>12. Fitch Eligible Capital</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>-</b>

Exchange Rate USD1 = NZD1.19430 USD1 = NZD1.22350 USD1 = NZD1.31110 USD1 = NZD1.40885

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