



Product Disclosure Statement

31 January 2024

This *Product Disclosure Statement* is dated 31 January 2024 and is issued by Nelson Building Society (NBS) in respect of unsecured deposits (Call and Term), which are debt securities for the purposes of the Financial Markets Conduct Act 2013 and the Financial Markets Conduct Regulations 2014. This *Product Disclosure Statement* replaces the *Product Disclosure Statement* dated 29 November 2023.

This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on disclose-register.companiesoffice.govt.nz. NBS has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial advice provider to help you to make an investment decision.

nbs.co.nz

NBS is not a registered bank

NBS
Banking for life

Key Information Summary

What Is This?

This is an offer of Call and Term Deposits. Call and Term Deposits are debt securities issued by Nelson Building Society (NBS). You give NBS money, and in return NBS promises to pay you interest and repay the money either on demand (for Call Deposits) or at the end of the term (for Term Deposits). If NBS runs into financial trouble, you might lose some or all of the money you invested.

About NBS

NBS was established in 1862 and is a profit-oriented mutual entity incorporated in New Zealand under the Building Societies Act 1965. NBS is a financial institution providing retail and business banking services. Products include transactional accounts, savings and term investment options along with home, personal and business loans. Predominant lending activity for NBS is to provide loans to owner-occupied residential properties, secured by first registered mortgages. NBS is licensed by the Reserve Bank of New Zealand as a non-bank deposit taker.

Key Terms of the Offer

Key term	Description of key term
Type of security	NBS' Call and Term Deposits are unsecured debt securities, ranking equally amongst themselves, equally with NBS' other unsecured creditors and ahead of NBS' Perpetual Preference Shares.
Term	Deposits are issued at call (meaning that they are repayable on demand) or for fixed terms between 30 days and 36 months.
Interest rates	Interest rates on deposits are as set by NBS from time to time. Current interest rates can be found on NBS' website , obtained at any NBS branch, by calling 0800 101 700 or on the Companies Office Disclose Register . Interest rates vary according to the term of the deposit.
Interest accrual and payment	Interest accrues on each deposit on a daily basis from the date monies are deposited with NBS. Interest on Call Deposits is calculated daily and added to the principal amount of the deposit on a monthly basis. Interest on Term Deposits will be calculated and paid at the rates, with the frequency and on the specific terms and dates, agreed at the time of investing.
Early repayment of the deposits	Call Deposits can be withdrawn on demand. Term Deposits are usually withdrawable on expiry of the term. While not obliged, NBS has a discretion to allow early withdrawal of a Term Deposit. In these circumstances an early withdrawal fee may be charged (more information on early withdrawal fees can be found in Section Two).
Fees	Fees may apply to certain transactions, services or other activities (for example, dishonoured transactions, overdrawn accounts and international money transfers).
Opening/closing dates of offer	This is a continuous offer. There are no opening or closing dates.

No Guarantee

The deposits are not guaranteed by any other person and NBS is solely responsible for the repayment of the deposits.

How You Can Get Your Money out Early

Holders of Term Deposits can apply to have all or a portion of their Term Deposit withdrawn prior to the end of their term. NBS is not obliged, but has discretion to allow a depositor to withdraw a Term Deposit before the end of the term. In these circumstances an early withdrawal fee may be charged.

Deposits are not transferable (they cannot be sold to anyone else).

How Call and Term Deposits Rank for Repayment

The following table shows where Call and Term Deposits rank on a liquidation of NBS.

Creditors ranking after deposits	NBS' Perpetual Preference Shares.
Creditors ranking equally with deposits	All of NBS' other unsecured creditors.
Creditors ranking ahead of deposits	Secured creditors of NBS (although at the date of this <i>Product Disclosure Statement</i> (PDS) NBS has no secured creditors and has no intention of incurring any secured debts) and creditors preferred by law (eg, Inland Revenue for any unpaid PAYE).

More information on the ranking of the deposits on liquidation can be found in Sections Two and Four (pages seven and nine).

No Security

The deposits are unsecured.

Where You Can Find NBS' Financial Information

The financial position and performance of NBS is essential to an assessment of NBS' ability to meet its obligations under the deposits. You should also read Section Five of the PDS (Financial Information).

Key Risks Affecting This Investment

Investments in debt securities have risks. A key risk is that NBS does not meet its commitments to repay you or pay you interest (credit risk). Section Six of the PDS (Risks Of Investing) discusses the main factors that give rise to the risk. You should consider if the credit risk of NBS debt securities is suitable for you.

The interest rate for these deposits should also reflect the degree of credit risk. In general, higher returns are demanded by investors from businesses with higher risk of defaulting on their commitments. You need to decide whether the offer is fair. NBS considers that the most significant risk factors are:

- **Credit risk/loan default risk**

NBS relies on its borrowers to repay their loans, and to make interest payments on the due date. If NBS experiences loan defaults from a significant number of borrowers, this will have a negative impact on financial performance and profitability. If this was sufficiently substantial to cause liquidation of NBS, then the amount returned on deposits may be less than the amount invested.

NBS seeks to mitigate this risk by NBS' credit approval policies and processes and by the rules contained in NBS' *Trust Deed*.

- **Liquidity risk**

Liquidity risk refers to NBS' ability to meet its liabilities/debts when they fall due. NBS' ability to meet its payment obligations to depositors is connected to the loans it makes to borrowers and to NBS' reliance on deposits. If reinvestment rates or borrowers' repayments were to reduce materially, there is a risk NBS may not have enough cash on hand at any time to repay depositors in a timely manner.

NBS seeks to mitigate this risk by NBS' liquidity policies and by covenants contained in NBS' *Trust Deed*, which require NBS to maintain certain minimum levels of liquid assets, and to maintain sufficient cash inflows and equity.

- **Regulatory compliance risk**

As a non-bank deposit taker, NBS is subject to prudential oversight and must comply with rules relating to capital adequacy, liquidity, related party exposure and governance. As a lender to consumers, NBS must comply with the Credit Contracts and Consumer Finance Act 2003 including in relation to responsible lending and disclosure obligations. NBS is undertaking a review of its compliance with disclosure requirements under that Act, believes there may have been non-compliance with disclosure requirements, has advised its regulators and statutory supervisor and intends to make appropriate remediation. The financial regulatory environment that NBS operates in is becoming increasingly complex and any material failure by NBS to comply with these obligations could adversely impact NBS' business.

- **Operational and information technology (IT) risk including cyber security risks**

Delivery of NBS' products and services is dependent on the availability and reliability of IT and operational systems managed by NBS or third-party suppliers. Additional significant investment will be required in the short to medium term to ensure that NBS' systems continue to provide ongoing stability and security. There is also a risk of loss arising from fraud, a breach of security (including cyber-security), loss of key staff or damage to reputation. In addition to losses, operational failures could result in NBS operating or information systems failing or becoming disabled. These circumstances could affect NBS' ability to meet payment obligations to depositors.

NBS expects its profits to be impacted over the short to medium term by a need to invest in its business to build a stronger platform for growth. NBS' Board is committed to investing to embed stronger processes, systems, technology and controls.

This summary does not cover all of the risks of investing in the deposits. You should also read Section Six of the PDS (Risks Of Investing).

What Is NBS' Credit Rating?

A credit rating is an independent opinion of the capability and willingness of an entity to repay its debts (in other words, its credit worthiness). It is not a guarantee that the financial product being offered is a safe investment. A credit rating should be considered alongside all other relevant information when making an investment decision.

NBS has been rated by Fitch Australia Pty Limited (Fitch Ratings). Fitch Ratings gives ratings from AAA through to C, excluding ratings attaching to entities in default. Credit ratings by Fitch Ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories. At the date of the PDS, NBS has been assigned a long-term credit rating of BB+ ('outlook stable'). Details of Fitch Ratings' scale of long-term credit ratings, from strongest credit worthiness to most vulnerable, are set out in the following table.

Fitch's credit ratings ¹	Description of the rating	Probability of default ²
AAA	Highest credit quality: Exceptionally strong capacity for payment of financial commitments.	1 in 600
AA	Very high credit quality: Very strong capacity for payment of financial commitments.	1 in 300
A	High credit quality: Strong capacity for payment of financial commitments but may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.	1 in 150
BBB	Good credit quality: Adequate capacity for payment of financial commitments but adverse business or economic conditions are more likely to impair the capacity of the obligor to meet its financial commitments.	1 in 30
BB	Speculative: Elevated vulnerability to default risk, particularly in the event of adverse changes in business economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments. Entity credit rating BB+ ('outlook stable')	1 in 10
B	Highly speculative: Material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.	1 in 5
CCC	Substantial credit risk: Very low margin for safety. Default is a real possibility.	1 in 2
CC	Very high levels of credit risk: Default of some kind appears probable.	1 in 2
C	Near default: A default or default-like process has begun.	-

¹ The modifiers + or – may be added to the above ratings to indicate relative status within the major rating categories.

² The approximate median likelihood that an investor will not receive payment on a five-year investment on time and in full (source: Reserve Bank of New Zealand publication *Know your Credit Ratings* dated March 2010).

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Terms of the Offer

The issue and terms and conditions of the deposits are governed by a *Trust Deed* dated 20 December 1990, as amended and restated by a *Deed of Amendment and Restatement* dated 18 October 2016 made between NBS and Covenant Trustee Services Limited as trustee for depositors. The *Trust Deed* may be accessed from the Disclose Register on the Companies Office website.

Term	Description of term
Type of security	The deposits are unsecured debt securities.
Terms of security	<p>Deposits are issued at call (repayable on demand) or for fixed terms between 30 days and 36 months.</p> <p>The minimum investment amount for a Term Deposit is \$5,000. There is no minimum investment for Call Deposits.</p>
Interest rates	<p>Current interest rates (which vary according to the term of the deposit) are available on NBS' website, obtained at any NBS branch, by calling 0800 101 700 or on the Companies Office Disclose Register.</p> <p>Interest rates are subject to change from time to time. NBS cannot change the interest rate on a Term Deposit once the deposit has been made.</p>
Interest payment	Interest accrues on each deposit on a daily basis from the date monies are deposited with NBS. Interest on Call Deposits is calculated daily and added to the principal amount of the deposit on a monthly basis. Interest on Term Deposits will be calculated and paid at the rates, with the frequency and on the specific terms and dates agreed at the time of investing.
Offer opening and closing dates	This is a continuous offer. There are no opening or closing dates.
Fees	Fees may apply to certain transactions, services or other activities (for example, dishonoured transactions, overdrawn accounts and international money transfers).
Repayment of the deposits	<p>Depositors may withdraw money from a Call Deposit in the manner agreed to between the depositor and NBS at the time the deposit is made or as advised by NBS.</p> <p>In respect of Term Deposits, NBS' rates of interest for a particular deposit term are based on the expectation that the funds will be deposited for the full term. NBS is not obliged, but has discretion to allow, a request for early withdrawal of a Term Deposit. In these circumstances an early withdrawal fee may be charged.</p>
Maturing Term Deposits	<p>Prior to the maturity date of a Term Deposit, NBS will send a notice advising the deposit is about to mature. The depositor can elect to either:</p> <ul style="list-style-type: none"> • reinvest the deposit with NBS, either in the same product or in a different product • request the deposit be transferred to a nominated bank account • withdraw the deposit <p>Unless the depositor instructs NBS otherwise, a Term Deposit will automatically be reinvested for the same term, at the applicable interest rate on the day of maturity.</p>
Ranking of deposits on liquidation of NBS	On a liquidation of NBS, deposits rank after all secured creditors and creditors preferred by law, equally amongst themselves, equally with all other unsecured creditors of NBS and ahead of NBS' Perpetual Preference Shares. At the date of the <i>Product Disclosure Statement</i> , NBS has no secured creditors.

NBS and What It Does

NBS was established in 1862 to provide housing and personal finance to the local communities in the Nelson and Tasman regions. It has since expanded into the West Coast, Golden Bay, and mid-Canterbury regions, using a proven strategy for branch network expansion of appointing skilled and well-connected people. NBS is a building society with eight branches in New Zealand.

Further contact details of NBS' branch network can be found at nbs.co.nz/about/our-branches.

NBS is a profit-oriented mutual entity incorporated under the Building Societies Act 1965. NBS is a financial institution providing banking services aiming to meet the needs of both personal and business banking clients. Products include transactional accounts, savings and term investment options along with home, personal and business loans. Clients transact with NBS via online and mobile banking channels, by using the NBS Debit MasterCard® and face-to-face via our branch network.

NBS is a mutual entity owned by its clients, (who include holders of debt securities). NBS has developed strong community links through its clients. We use profits to improve our services and invest the remainder locally to make a difference in our communities. NBS provides meaningful financial support to the community through sponsorships and grants.

NBS is licensed by the Reserve Bank of New Zealand as a non-bank deposit taker.

NBS offers a high level of personal service provided by its branch staff.

NBS generates income by lending funds to borrowers for varied purposes. These include advances for owner-occupied homes, investment and commercial property acquisitions, refinances of existing debt from other banks along with smaller personal and consumer finance. NBS generates income from the interest charged on these loans.

NBS' Board of Directors comprises a chairperson, and six non-executive directors, who bring a range of commercial experience to NBS. The board meet monthly, or more frequently if required. Board sub-committees include audit and risk, human resources and technology assurance to support the wider governance structure. NBS has a Risk Management Programme that supports NBS in managing risk. NBS is committed to improving controls around regulatory compliance and operational risk, as well as investing in systems, processes and capability.

Some of NBS' major risk categories are described in Section Six of the PDS. These are not the only risks that may impact NBS' business.

Key Features of the Deposits

This section includes a description of the key features of the deposits, to the extent those features are not already disclosed in Section Two.

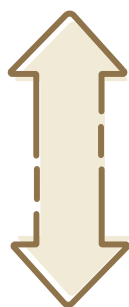
In addition to the features of the deposits which have already been described in Section Two, deposits carry voting rights which may be exercised at meetings of NBS' clients. Furthermore, deposits are issued on the condition that deposits which remain outstanding at the date of commencement of a liquidation of NBS will carry the right to participate in any surplus assets on a liquidation of NBS. Surplus assets are any assets remaining after principal and accrued but unpaid interest has been paid to depositors in full, all amounts outstanding to NBS' other creditors have been paid and amounts payable to the holders of Perpetual Preference Shares on a liquidation of NBS have been paid.

Ranking

The diagram below illustrates the ranking of the deposits in a liquidation of NBS.

Higher ranking

earlier priority



Lower ranking

later priority

Ranking in a liquidation of NBS	Examples
Liabilities ranking in priority to Call and Term Deposits	Creditors preferred by law (including IRD for unpaid tax) and any permitted prior ranking security interests
Liabilities ranking equally with Call and Term Deposits	All other unsecured creditors
Liabilities ranking below Call and Term Deposits	Perpetual Preference Shares

A diagram showing the amounts of the various categories of liabilities of NBS and NBS' equity, being indicative amounts based on the financial position of NBS at its most recent balance date, is available on our website [nbs.co.nz](https://www.nbs.co.nz) or on the Disclose Register (disclose-register.companiesoffice.govt.nz) and is titled 'Ranking Diagram.'

NBS may incur further liabilities which rank equally with, or in priority to, the deposits on a liquidation of NBS. These may include the issuance of additional deposits, fees payable to NBS' supervisor and/or liquidators, and statutory-based claims such as employee entitlements and amounts owing to the IRD, outstanding interest payments and amounts owing to trade and other unsecured creditors. NBS' *Trust Deed* prohibits it from:

- borrowing money except in accordance with the *Trust Deed* and NBS' *Rules*
- permitting its total liabilities (as defined in the *Trust Deed*) to exceed 95% of its total tangible assets (as defined in the *Trust Deed*)

Under the *Trust Deed*, NBS is prohibited from creating, attempting to create or permitting to subsist any security interest over any of its assets, other than permitted security interests which (in summary) are:

- charges or liens arising by operation of law
- suppliers' retention of title claims in respect of goods acquired by NBS in the ordinary course of its business
- certain deemed security interests arising under leases and consignments that do not secure payment or performance of an obligation
- any other security interest consented to by Covenant Trustee Services Limited

NBS' Financial Information

NBS is required by law, including the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010 and the Deposit Takers (Liquidity Requirements) Regulations 2010 (2010 Regulations) and the NBS *Trust Deed* to meet certain financial requirements. *Financial Statements, Key Ratios and Selected Financial Information*, is uploaded to our website nbs.co.nz and to the Disclose Register disclose-register.companiesoffice.govt.nz.

This information illustrates how NBS compares to the minimum standards required by the 2010 Regulations. Meeting the regulatory requirements does not mean NBS is safe. The section on specific risks relating to NBS' credit worthiness sets out risk factors that could cause its financial position to deteriorate.

Trust Deed Financial Covenants And Restrictions On Borrowing And Transactions With Associated Persons

Details of provisions of NBS' *Trust Deed*, under which NBS is bound by certain financial covenants, restrictions on borrowing and transactions with associated persons, are set out on NBS' website at nbs.co.nz/about/documents-and-disclosures/annual-reports-and-disclosures and on the Disclose Register. The full wording of these provisions is set out in the *Trust Deed*, which is available on the Disclose Register.

Section Six

Risks of Investing

General Risks

Your investment is subject to the general risk that if NBS experiences significant losses through its lending, it may become insolvent and may not be able to meet its obligations to depositors to pay interest and to repay the principal amount of deposits. NBS is funded by retail deposits and depositors can withdraw funds which may impact NBS' liquidity.

Specific Risks Relating to NBS' Credit Worthiness

Should the following risks arise, the likelihood NBS may default on its payment obligations under the deposits would significantly increase:

- **Credit risk/loan default risk**

Loan default risk is the risk that NBS is not able to recover loans in full from its borrowers. NBS relies on its borrowers to repay their loans and to make interest payments on their due date. If NBS experiences loan default from a significant number of borrowers, this will have a negative impact on NBS' financial performance and profitability. If this was sufficiently substantial so as to cause the insolvency of NBS, then the value returned to depositors may be less than the amount invested. NBS manages loan default risk by adhering to credit approval policies. All loan applications are subject to assessment by NBS and once approved in accordance with NBS' Credit Approval Policy, all loans are managed and reviewed on an ongoing basis by NBS. Loans are made within prudent loan-to-value and repayment-to-income ratios.

NBS makes provision for credit impairment as set out in its financial statements. In addition, NBS restricts its exposure to any one borrower or group of closely-related borrowers and maintains at least the minimum capital ratio as required by its *Trust Deed*. The minimum capital ratio provides a financial buffer to absorb any losses that may be incurred from lending money to clients who fall

into default.

NBS requires security for the greater majority (more than 89%) of its loans, by way of registered first mortgages over real property. In addition, where the borrower is a company or a trust, NBS generally requires personal guarantees. NBS also provides personal finance primarily to finance motor vehicles. NBS historically did this in conjunction with motor vehicle dealers but as at 1 July 2023 it ceased lending through this channel. Motor vehicle lending currently represents only 6% of NBS' loan book but is reducing as loans are repaid. Further detailed information relating to NBS' credit risks can be found in NBS's latest *Annual Report*, available at:

nbs.co.nz/about/documents-and-disclosures/annual-reports-and-disclosures

- **Interest rate risk**

Interest rate risk is the risk that interest rates will change, thereby increasing or decreasing the cost of borrowing or the profitability of lending. Like all lenders and deposit takers, NBS is exposed to this risk, as its profitability depends on maintaining an appropriate margin between the cost of funds it raises from the public and the interest and fees it receives from borrowers. To mitigate interest margin risk, interest margins are managed and monitored by NBS.

- **Liquidity risk**

Liquidity risk is the risk that NBS will encounter difficulty in meeting commitments associated with its financial liabilities and future commitments. These commitments include repayment of deposits as they mature and payment of interest as it falls due. NBS' ability to meet its payment obligations is connected to the loans it makes and to NBS' ability to obtain a flow of new deposits. If reinvestment rates or borrower repayments were to reduce materially, or there was an event which caused significant loss of confidence in NBS, there is a risk that NBS may not have enough cash on hand at any one time to pay depositors in a timely manner. NBS actively manages the maturity profile of its assets and liabilities, ensuring there are sufficient funds available to meet its financial obligations as they fall due.

NBS aims to maintain consistent reinvestment rates and new investment inflows for its retail funding, to meet its financial commitments.

NBS' *Trust Deed* requires that NBS maintains certain minimum liquidity levels. At the date of the PDS, NBS' liquidity levels are significantly higher than the prescribed minimum set out in the *Trust Deed*. NBS monitors its liquidity on a daily basis.

Further detailed information relating to NBS' liquidity risk can be found in NBS' latest *Annual Report*, available on NBS' website: nbs.co.nz/about/documents-and-disclosures/annual-reports-and-disclosures

- **Competition risk**

The finance sector is highly competitive and if NBS is unable to provide competitive products or services, this may have a materially adverse effect on NBS' financial position. NBS mitigates this risk by continually reviewing competition and anticipating competitive pressures and where possible, evaluating its product range and pursuing new profitable business opportunities when they arise.

- **Credit rating risk**

NBS has a Fitch Ratings credit rating of BB+ ('outlook stable'). Fitch Ratings has stated that NBS' credit rating reflects that NBS is expected to take more than two years to increase its regulatory capital ratio above 15% (NBS' target regulatory capital ratio is 15% or above with the regulatory minimum for NBS being 8%). Fitch has further commented that NBS has sound asset quality and strong profitability among non-bank deposit takers, but a small domestic franchise and weaker core capitalisation relative to peers. NBS has a simple business model that focuses on the provision of lower-risk residential mortgages and secured loans to small business. This offsets its modest franchise and limited pricing power. NBS is the largest NBDT in New Zealand but its lending market share is less than 0.2% in the national context.

NBS' rating can be influenced by the wider New Zealand economy or international events. In the event this credit rating was downgraded, it may have a material and adverse impact on withdrawal and reinvestment rates for maturing deposits and on NBS' ability to raise new funds from prospective depositors.

If, as a result of such event, NBS was unable to raise funds, the costs of raising funds were to materially increase, or significant numbers of deposits were withdrawn, this may have a material and adverse effect on the financial performance and financial condition of NBS, which could affect payment obligations to depositors.

- **Regulatory compliance risk**

As a non-bank deposit taker, NBS is subject to prudential oversight and must comply with rules relating to (amongst other things) consumer regulatory compliance, capital adequacy, liquidity, related party exposure, conduct and governance. The financial regulatory environment that NBS operates in is becoming increasingly complex and any material failure by NBS to comply with these regulatory obligations, including covenants in its *Trust Deed*, could result in damage to NBS' reputation, expose NBS to financial and/or other penalties, reputational loss, litigation, compensation payments, breach of its *Trust Deed* or even revocation of licences. Severe reputational damage and/or large financial penalties could increase withdrawal rates and decrease reinvestment rates, which could have a material and adverse effect on the financial condition of NBS, which ultimately could affect payment obligations to depositors.

NBS is currently undertaking a review of its compliance with the disclosure requirements under the Credit Contracts and Consumer Finance Act 2003 in light of industry-wide issues. NBS believes that there may have been non-compliance with disclosure requirements and has advised its regulators and statutory supervisor. NBS intends to make appropriate remediation payments. Another consequence is that NBS is likely to be in breach of the covenant in its *Trust Deed* regarding compliance with laws, which it has disclosed to its statutory supervisor.

As a result of this review, and following significant growth and a period of extensive regulatory change, NBS has identified a number of areas where its compliance systems, controls, capabilities and assurance processes require enhancement.

NBS has also been reviewing its system calculations against the contractual loan terms. NBS has discovered potential errors for one of its products (which constitutes a small part of its book), which it is continuing to investigate. Other areas of uplift may be identified as reviews continue. NBS has committed to uplifting systems and processes to ensure it is meeting current regulatory obligations and is able to establish systems and processes which enable and facilitate continued growth. Remediation and the systems improvements will involve significant expenditure by NBS over the next few years. However, NBS does not currently expect that that expenditure will impact its compliance with the financial ratios in its *Trust Deed*.

- **Regulatory change or uncertainty risk**

NBS is operating in an environment of unprecedented regulatory changes that are creating challenges for its strategic planning. One of these changes is the Deposit Takers Act 2023 which will create a single regime for banks and non-bank deposit takers. While the Reserve Bank of New Zealand is required to adopt a proportionate approach, it has signalled that the regulatory burden is likely to increase for non-bank deposit takers. Until the new rules are in place, NBS will be operating in an environment of significant regulatory uncertainty. In addition, a deposit compensation scheme is to be introduced by the Deposit Takers Act 2023. While this is likely to be positive for depositors because it will provide for a Crown guarantee for their deposits up to \$100,000, the wider impact of the deposit compensation scheme is yet to be known. In particular for NBS, it is not clear what levies will be imposed on it and the impact of those levies and it is not clear what impact it will have on deposit splitting for those with deposits of over \$100,000 per customer, per institution. NBS has a significant number of depositors with more than \$100,000 deposited.

In addition, NBS must comply with The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 which amended the Financial Markets Conduct Act 2013, the Financial Reporting Act 2013, and the Public Audit Act 2001. This requires NBS amongst other things to:

- prepare an annual climate statement in accordance with the climate standards issued by the External Reporting Board (XRB)

- obtain independent assurance about the part of the climate statement that relates to the disclosure of greenhouse gas emissions
- make the climate statement available to the public and
- comply with record-keeping requirements

NBS has taken some steps to comply with the legislation but the changes impose an additional burden on its business.

NBS must also comply with the Financial Markets (Conduct of Institutions) Amendment Act 2022 (the CoFI Act) which comes into effect on 31 March 2025.

These are only some of the regulatory changes impacting NBS' business. Any change to existing laws, or the introduction of new laws, including as described above, could result in additional legal requirements being imposed on NBS and/or result in increased costs for NBS.

- **Geographic concentration risks**
This is the risk that a particular area or region in which NBS has high exposure (by way of a high proportion of depositors or borrowers residing there), is exposed to loss or hardship including as a result of a regional natural disaster or a sustained dip in the local/regional economy. NBS has higher geographic concentration risk than some other lenders as its business is concentrated in the Nelson Tasman region and upper parts of the South Island and West Coast and Ashburton. That could affect NBS' profitability and even result in losses that could impact its ability to pay interest on its deposits or in a worst case, impact its capacity to repay deposits in full.
- **Operational and information technology (IT) risk including cyber security risks**
This risk is relevant to NBS because the delivery of its products and services is dependent on the availability and reliability of IT and operational systems managed by NBS or third-party suppliers. While current systems are stable and security is regularly reviewed, additional significant investment will be required in the short to medium term to ensure that NBS' systems continue to provide ongoing stability and security. There is also a risk of loss arising from fraud, a breach of security (including cyber security), weakness in operational controls, loss of key staff or damage to reputation. In addition to losses, operational failures could result in NBS operating or information systems failing or becoming disabled. These circumstances could affect NBS' ability to meet payment obligations to depositors. NBS has in place some systems and processes for managing operational risks, including business continuity plans and cyber security risk protocols and insurance. NBS has recognised the need to introduce more robust processes for managing operational risk and is committed to taking steps to build a stronger and more resilient business.
- NBS lists the following risks in its Risk Management Framework (some of which are also discussed above). These risks individually or collectively have the potential to impact NBS adversely due to NBS' size/market position, geographical location, new regulations to be implemented, uplift of existing control environment and resource capacity.

Risk type	Description of risk
Strategic risk	The risk that adverse decisions, ineffective or inappropriate business plans or failure to respond to changes in the environment will impact our ability to meet strategic objectives.
Credit risk	The risk of financial loss where a client or counterparty fails to meet their financial obligations to NBS or defaults on its commitments.
Liquidity risk	The risk that NBS is unable to meet its financial commitments as they fall due or that it suffers a material loss in doing so.
Capital risk	The risk that NBS has insufficient capital resources to meet minimum regulatory requirements, support its credit rating or support its growth and strategic objectives.

Market risk	The risk of loss arising from adverse movements in market prices or rates. This includes interest rate risk – the risk to net interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.
Operational risk - People	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Operational risk - IT	The risk of loss resulting from inadequate or failed internal processes, systems or from external events such as cyber attacks.
Conduct risk	The risk that our provision of services and products results in unsuitable or unfair outcomes for our clients or undermines market integrity.
Compliance risk	The risk of legal or regulatory sanction, financial or reputational loss, arising from our failure to abide by the compliance obligations required of us.
Reputation risk	The risk of the loss of reputation, stakeholder confidence, or public trust and standing due to any action or inaction by NBS Board members or any of its staff.
Climate risk/ sustainability risk	The impact and risk of climate change. The risk of reputational or financial loss due to failure to recognise or address material existing or emerging sustainability related environmental, social or governance issues.
Legislative change risk (eg. CCCFA)	The risk NBS is adversely affected by change in laws, regulations or regulatory policy.
Pandemic risk (eg, COVID)	The risk a pandemic such as COVID having a negative impact on our clients, employees and financial performance.

The above list is not exhaustive. It is not possible to forecast accurately the probability, degree or magnitude of impact of any of the risks described above. While some of these risks will arise to some degree, in the ordinary course of business, NBS is committed to seeking to manage those risks and to uplifting its processes, systems and controls. If unusual, unexpected or unplanned circumstances arise, such as widespread defaults by borrowers, unexpectedly large numbers of withdrawals from deposits or a breakdown in the financial markets, any or all of the risks discussed above could become difficult to manage and could adversely impact on NBS. In extreme circumstances, failure to manage these risks in a material way and/or over a sustained period could mean that we are not able to meet our commitments to depositors.

Section Seven

Tax

New Zealand residents will have Resident Withholding Tax (RWT) deducted from interest that is payable in respect of the deposits, unless they hold a valid RWT exemption certificate.

If you do not provide an IRD number, RWT will be deducted at 45%. If you provide an IRD number but do not choose a RWT rate, the default rate will be used. This rate is 28% for companies and 33% for all other investors.

If you are a company you can choose a RWT rate of 28%, 33% or 39%. For all other investors, the RWT rates are 10.5%, 17.5%, 30%, 33% or 39%. The correct rate depends on your status and income. For more information, see: ird.govt.nz.

There may be other tax consequences from acquiring deposits. Deposits are not transferable.

If you have queries relating to the tax consequences of the investment, you should obtain professional advice.

Who Is Involved?

	Name	Role
Issuer	Nelson Building Society	Issuer of the deposits.
Supervisor	Covenant Trustee Services Limited	Holds certain covenants on trust for the benefit of the depositors, including the right to enforce NBS' obligations under the deposits.

Section Nine

How to Complain

Complaints about the deposits can be made in the first instance to your local branch manager listed on NBS' website under 'Our Branches.'

If you are still not satisfied with the outcome, you can contact complaints@nbs.co.nz or the NBS Head of People and Client Experience at:

Nelson Building Society
111 Trafalgar Street
Nelson 7010
PO Box 62
Nelson 7040
Phone: +64 3 548 2164
Freephone: 0800 101 700

If we cannot resolve your complaint or you are not satisfied with the resolution we propose, you can contact the Banking Ombudsman Scheme which is an approved dispute resolution scheme under the Financial Service Providers (Registration and Dispute Resolution) Act 2008. The Banking Ombudsman Scheme offers a free, independent dispute resolution service that may help investigate or resolve your complaint.

You can contact the Banking Ombudsman Scheme at:

Physical address:
L5, Huddart Parker Building
1 Post Office Square
Wellington 6011

Freepost:
218002
PO Box 25327
Featherston Street
Wellington 6140

Email: help@bankomb.org.nz
Free Phone: 0800 805 950
Website: bankomb.org.nz

Complaints can also be made to:

Covenant Trustee Services Limited
PO Box 4243
Shortland Street
Auckland 1140
Email: team@covenant.co.nz
Phone: +64 9 302 0638

Or, the Financial Markets Authority through their website: fma.govt.nz

Section Ten

Where You Can Find More Information

Further information relating to NBS and the deposits (including NBS' financial statements, latest *Annual Report, Rules and Trust Deed*) are available free of charge on NBS' website at nbs.co.nz/about/documents-and-disclosures/annual-reports-and-disclosures, from any NBS branch and on the Disclose Register disclose-register.companiesoffice.govt.nz. You can also make a request to the Registrar of Financial Service Providers for a copy of the information on the Disclose Register.

Section Eleven

How to Apply

If you wish to make a deposit with NBS, the principal amount must be paid or transferred in full to any branch of NBS. If you are arranging your deposit through an intermediary, you should make arrangements with them for payment to NBS. Payment can be made by means such as cash or electronic funds transfer from another account within NBS or from another financial institution.

NBS may accept your application to deposit when the completed application form and funds has been received.

NBS reserves the right to decline any application in whole or in part, without giving any reason. If you have deposited funds with NBS and your application is subsequently declined, NBS will return your funds together with any interest accrued thereon (interest accrues from the date application monies are deposited with NBS).

Application forms can be obtained from any NBS branch, by phoning 0800 101 700 or by emailing info@nbs.co.nz.

Contact Information

Inquiries about your deposit should be directed to any NBS employee at any branch listed on NBS' website, or via the NBS contact information below.

Nelson Building Society
111 Trafalgar Street
Nelson 7010
PO Box 62, Nelson 7040

Alternatively, you can contact the Secretary of NBS at:

Email: secretary@nbs.co.nz
Phone: +64 3 548 2164
Freephone: 0800 101 700

Nelson

111 Trafalgar Street
P: 03 548 2164
E: nelson@nbs.co.nz

Westport

192 Palmerston Street
P: 03 788 8177
E: westport@nbs.co.nz

Richmond

209 Queen Street
P: 03 543 9391
E: richmond@nbs.co.nz

Greymouth

74 Mackay Street
P: 03 768 9016
E: greymouth@nbs.co.nz

Motueka

185 High Street
P: 03 528 1111
E: motueka@nbs.co.nz

Tākaka

41 Commercial Street
P: 03 525 6200
E: takaka@nbs.co.nz

Murchison

32 Waller Street
P: 03 523 1000
E: murchison@nbs.co.nz

Ashburton

Murney Main
Cnr Burnett & East Street
P: 03 307 6380
E: ashburton@nbs.co.nz

NBS

Banking for life

Head Office 111 Trafalgar Street, Nelson
Post PO Box 62, Nelson 7040 **Freephone** 0800 101 700 **Email** info@nbs.co.nz

Nelson Building Society | nbs.co.nz | NBS is not a registered bank