

# NBS

NELSON BUILDING SOCIETY

## Key Ratios & Financial Information

31 March 2017

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## SELECTED FINANCIAL INFORMATION

	31 March 2017	31 March 2016	31 March 2015
Total assets*	638,481,611	558,666,861	459,705,842
Total liabilities*	596,651,231	522,343,742	428,983,339
Net profit after tax*	3,710,832	2,879,181	2,577,055
Net cash flows from operating activities*	(6,602,885)	54,557,824	1,367,458
Cash and cash equivalents*	94,641,711	99,569,334	50,115,680
Capital**	41,128,544	36,025,644	30,268,333

\*As determined in accordance with GAAP.

\*\*As calculated in accordance with the 2010 Regulations

## CAPITAL RATIO

	31 March 2017	31 March 2016	31 March 2015
NBS's capital ratio calculated in accordance with the Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010 ("2010 Regulations")	9.33%	10.17%	10.33%
Minimum capital ratio required by Trust Deed	8%	8%	8%
Minimum capital required by 2010 Regulations	8%	8%	8%

The capital ratio is a measure of the extent to which NBS is able to absorb losses without becoming insolvent. The lower the capital ratio, the fewer financial assets NBS has to absorb unexpected losses arising out of its business activities. NBS has the benefit of a partial exemption from the minimum capital ratio requirements of the 2010 Regulations, pursuant to the Deposit Takers (Nelson Building Society) Exemption Amendment Notice 2015. The effect of the exemption is as follows:

	31 March 2017	31 March 2016	31 March 2015
a) As at 31 March perpetual preference shares on issue	20,280,500	17,732,500	14,362,500

- b) Under the 2010 Regulations, which set out the minimum capital requirements for non-bank deposit takers, the general rule is that such preference shares may not constitute more than 25% of a deposit-taker's capital. However, this maximum amount is raised from 25% to 50% in the case of "qualifying mutuals";
- c) The 2010 Regulations define the term "qualifying mutual" as including cooperative companies and credit unions, but not building societies;
- d) The Reserve Bank agreed (on application by NBS) to an exemption which has the effect of treating NBS as a "qualifying mutual"; and
- e) The result of the granting of the exemption by the Reserve Bank is that NBS is able to count its preference shares up to 50% of its total capital for the purposes of determining its capital adequacy and the granting of the exemption has enabled NBS to meet the minimum capital adequacy requirements provided for in the 2010 Regulations.

	31 March 2017	31 March 2016	31 March 2015
NBS's capital ratio for the purposes of the 2010 Regulations was	9.33%	10.17%	10.33%
NBS's capital ratio without the granting of the exemption would have been	6.30%	6.88%	7.24%

The 2010 Regulations prescribe the minimum capital ratio for non-bank deposit takers (the ratio of the deposit taker's capital to an amount representing the degree of credit risk, market risk and operational risk to which a non-bank deposit taker is exposed) as 8%. The exemption expires on 1 November 2025.

## RELATED PARTY EXPOSURES

	31 March 2017	31 March 2016	31 March 2015
Aggregate exposures to related parties calculated in accordance with 2010 Regulations	777,034 (1.89% of capital)	2,800,920 (7.77% of capital)	244,185 (0.81% of capital)
Maximum limit on aggregate exposures to related parties allowed by Trust Deed	6,169,282 (15% of capital)	5,403,847 (15% of capital)	4,540,250 (15% of capital)
Maximum limit on aggregate exposures to related parties allowed by 2010 Regulations	6,169,282 (15% of capital)	5,403,847 (15% of capital)	4,540,250 (15% of capital)

Related party exposures are financial exposures that NBS has to related parties. A related party is an entity that is related to NBS through common control or some other connection that may give the party influence over NBS (or NBS over the related party). These related parties include NBS directors and senior officers and their relatives, companies owned or controlled by NBS directors and senior officers.

## LIQUIDITY RATIO

	31 March 2017	31 March 2016	31 March 2015
<b>Three month mismatch ratio</b>			
Total liquid assets calculated in accordance with Trust Deed	144,223,438	150,599,669	93,158,253
Three month deficit calculated in accordance with Trust Deed	19,163,737	22,658,247	17,402,947
Minimum liquidity requirement stipulated by the Trust Deed (being 115% of the three month deficit calculated in accordance with Trust Deed)	22,038,297	26,056,985	20,013,389
Surplus (deficit) of liquid assets above minimum requirements under the Trust Deed	122,185,141	124,542,684	73,144,864

Liquidity requirements help to ensure that NBS has sufficient realisable assets on hand to pay its debts as they become due in the ordinary course of business. Failure to comply with liquidity requirements may mean that NBS is unable to repay investors on time, and may indicate other financial problems in its business.

## Key Ratio Calculations

### 1. CAPITAL COMPLIANCE

Capital			31 March 2017 (\$M)		31 March 2016 (\$M)		31 March 2015 (\$M)
Retained earnings			20.322		17.464		15.359
Fully paid perpetual preference shares			20.280		17.733		14.363
Reserves			1.228		1.126		1.001
<b>Total capital</b>			<b>41.83</b>		<b>36.323</b>		<b>30.723</b>
Regulatory deductions from capital Intangibles			0.702		0.297		0.454
<b>Net regulatory capital</b>		(E)	<b>41.128</b>	(E)	<b>36.026</b>	(E)	<b>30.269</b>

Exposures			(S)	(S)	(S)	(S)	(S)	(S)
	LVR	Risk Weighting	Value	Risk Weighted Exposures	Value	Risk Weighted Exposures	Value	Risk Weighted Exposures
<b>Agricultural/farming</b>								
Secured by 1st mortgage over rural land & buildings	<=70%	100%	46.142	46.142	43.655	43.655	38.565	38.565
Secured by 1st mortgage over rural land & buildings	>70% to <=100%	150%	1.394	2.091	1.407	2.111	0.141	0.212
Secured by a PPSR charge over rural "qualifying movable machinery"	<=70%	100%	2.109	2.109	1.849	2.774	-	-
Secured by a PPSR charge over rural "qualifying movable machinery"	>70%	150%	0.488	0.732	1.849	2.774	1.438	2.157
			<b>50.133</b>	<b>51.074</b>	<b>46.911</b>	<b>48.539</b>	<b>40.144</b>	<b>40.934</b>
<b>Property development</b>								
Secured by 1st mortgage over land & buildings	<=60%	150%	0.945	1.418	1.241	1.862	2.734	4.101
			<b>0.945</b>	<b>1.418</b>	<b>1.241</b>	<b>1.862</b>	<b>2.734</b>	<b>4.101</b>
<b>Other property (primary/commercial/industrial/ retail property)</b>								
Secured by 1st mortgage over land & buildings	<=70%	100%	53.596	53.596	44.967	44.967	37.391	37.391
Secured by 1st mortgage over land & buildings	>70% to <=100%	150%	0.433	0.650	2.247	3.371	-	-
			<b>54.029</b>	<b>54.246</b>	<b>47.214</b>	<b>48.338</b>	<b>37.391</b>	<b>37.391</b>
<b>Residential mortgages (owner occupied and investment)</b>								
Secured by 1st mortgage over land & buildings	<=70%	35%	212.120	74.242	187.154	65.504	180.811	63.284
Secured by 1st mortgage over land & buildings	>=70% to <=80%	50%	80.939	40.470	66.830	33.415	57.324	28.662
Secured by 1st mortgage over land & buildings	>80% to <=90%	100%	1.426	1.426	1.729	1.729	0.268	0.268
Mortgage insured by Housing New Zealand Corp	Any	20%	18.995	3.799	20.006	4.001	20.679	4.136
			<b>313.480</b>	<b>119.937</b>	<b>275.719</b>	<b>104.649</b>	<b>259.082</b>	<b>96.350</b>
<b>Consumer loans - to individuals with loan balances less than \$40,000</b>								
Secured by PPSR charge over motor vehicle/boat	Any	100%	29.005	29.005	11.427	11.427	5.829	5.829
Secured by PPSR charge over any other asset	Any	100%	1.915	1.915	1.318	1.318	0.856	0.856
Unsecured	Any	150%	1.015	1.523	1.072	1.608	0.974	1.461
			<b>31.935</b>	<b>32.443</b>	<b>13.817</b>	<b>14.353</b>	<b>7.659</b>	<b>8.146</b>
<b>All other loans</b>								
Secured by PPSR charge over motor vehicle/boat	<=70%	100%	7.275	7.275	6.168	6.168	2.078	2.078
Secured by PPSR charge over motor vehicle/boat	>70%	150%	7.361	11.042	-	-	-	-
Secured by PPSR charge over an asset not a motor vehicle/boat	Any	150%	16.967	25.451	6.313	9.470	7.148	10.722
			<b>31.603</b>	<b>43.767</b>	<b>12.481</b>	<b>15.638</b>	<b>9.226</b>	<b>12.800</b>
<b>Total net loan book (after provisions, deductions and deposit set offs)</b>			<b>482.125</b>	<b>302.883</b>	<b>397.383</b>	<b>233.378</b>	<b>356.236</b>	<b>199.721</b>
Value of qualifying deposits used as set offs against loans								
Cash		0%	2.346	-	3.157	-	2.297	-
New Zealand registered bank deposits and security		20%	143.410	28.682	148.945	29.789	92.362	18.472
Trade and receivables		350%	0.026	0.091	0.060	0.210	-	-
Fixed assets		350%	3.198	11.193	3.338	11.683	3.238	11.333
Intangibles		0%	0.702	-	0.297	-	0.454	-
All other assets		350%	3.223	11.281	1.613	5.646	0.877	3.070
<b>Total assets</b>			<b>(A) 638.482</b>	<b>(B) 354.130</b>	<b>(A) 558.667</b>	<b>(B) 280.705</b>	<b>(A) 459.705</b>	<b>(B) 232.596</b>
<b>Market and operational risk</b>		(A+B)/2 x 0.175		<b>(C) 86.854</b>		<b>(C) 73.445</b>		<b>(C) 60.576</b>
<b>Total exposure</b>		B+C		<b>(D) 440.984</b>		<b>(D) 354.150</b>		<b>(D) 293.172</b>
<b>Capital ratio as at 31 March</b>		E/D		<b>9.33%</b>		<b>10.17%</b>		<b>10.33%</b>

## Key Ratio Calculations

### 2. RELATED PARTY COMPLIANCE

		31 March 2017	31 March 2016	31 March 2015
Regulatory capital capital less intangible assets	(A)	41,128,544	36,025,644	30,268,333
Related party loans	(B)	777,034	2,800,920	244,185
Related party loans as a percentage	C=B/A	1.89%	7.77%	0.81%
Maximum related party lending 15% regulatory capital	D= A x 15%	6,169,282	5,403,847	4,540,250

### 3. THREE MONTH MISMATCH RATIOS

		31 March 2017			31 March 2016			31 March 2015		
		April 2017	May 2017	June 2017	April 2016	May 2016	June 2016	April 2015	May 2015	June 2015
Total liquid assets	(A)	144,223,438	144,223,438	144,223,438	150,599,669	150,599,699	150,599,669	93,158,253	93,158,253	93,158,253
<b>PLUS:</b>										
All expected inflows due within each month	(B)	5,766,266	3,409,413	3,465,249	5,071,760	2,706,725	2,994,823	3,288,209	9,866,858	2,857,741
<b>LESS:</b>										
Principal of the securities payable during the next three months	(C)	30,803,988	34,241,268	55,965,176	33,882,054	48,015,528	38,844,505	27,940,173	26,250,222	31,354,328
40% of term deposits due within each month	D=C x 40%	12,321,595	13,696,507	22,386,070	13,552,822	19,206,211	15,537,802	11,176,069	10,500,089	12,541,731
<b>Committed undrawn lending facilities</b>										
Flexible facilities	(E)	15,374,019	15,374,019	15,374,019	16,747,566	16,747,566	16,747,566	15,175,067	15,175,067	15,175,067
Loans approved but undrawn	(F)	16,147,000	16,147,000	16,147,000	18,695,400	18,695,400	18,695,400	8,612,650	8,612,650	8,612,650
	G=E+F	31,521,019	31,521,019	31,521,019	35,442,966	35,442,966	35,442,966	23,787,717	23,787,717	23,787,717
40% of committed undrawn lending facilities	H=G x 40%	12,608,408	12,608,408	12,608,408	14,177,186	14,177,186	14,177,186	9,515,087	9,515,087	9,515,087
Three month deficit calculated in accordance with the Trust Deed	I=B-D-H	19,163,737	22,895,502	31,529,229	22,658,247	30,676,673	26,720,165	17,402,947	10,148,318	19,199,077
Minimum liquidity requirement stipulated by the Trust Deed (being 115% of the three month deficit calculated in accordance with the Trust Deed)	J=I x 115%	22,038,297	26,329,827	36,258,613	26,056,985	35,278,174	30,728,189	20,013,389	11,670,566	22,078,939
Surplus (deficit) of liquid assets above minimum requirements under the Trust Deed	K=A-J	122,185,141	117,893,611	107,964,825	124,542,684	115,321,495	119,871,480	73,144,864	81,487,687	71,079,314
Available liquidity as a % of the minimum liquidity requirement allowed by the Trust Deed	L=A/J	654%	548%	398%	578%	427%	490%	465%	798%	422%

## TRUST DEED RESTRICTIONS

Under its Trust Deed, NBS is bound by the following financial covenants and restrictions on borrowing and transactions with associated persons:

- a) NBS may not borrow money or lend other than as permitted by the Trust Deed and the NBS Rules;
- b) NBS must not at any time permit its Total Liabilities to exceed 95% of its Total Tangible Assets;
- c) NBS may not, without the prior written consent of its Supervisor, issue any Debt Securities while it is in breach of either the Trust Deed or the Financial Markets Conduct Act 2013;
- d) NBS may not create or attempt to create or permit to subsist any Security Interests over any of its assets other than a Permitted Security Interest;
- e) NBS may not at any time permit the aggregate indebtedness secured by Permitted Security Interest to exceed 1% of its Total Tangible Assets;
- f) NBS may not enter into any guaranteed for an unlimited amount;
- g) NBS may not purchase any assets or services from, or dispose of any assets or provide any services to, any associated person other than for full market value, on an arms-length basis and in the ordinary course of business;
- h) NBS must maintain a minimum capital ratio (as defined by the 2010 Regulations) of 8% (this rises to a minimum capital ratio requirement of 10%, for as long as NBS has no credit rating from an approved rating agency);
- i) NBS may not have a maximum aggregate exposure to related parties exceeding 15% of NBS's capital;
- j) NBS may not at any time permit the amount owing to it under any credit facilities by a borrower or related group of borrowers to exceed the greater of:
  - i) 35% of capital calculated in accordance with the 2010 Regulations; or
  - ii) 5% of total Tangible Assets;
- k) NBS must maintain its liquid assets at an amount which is no less than 115% of any deficit arising from:
  - i) The aggregate amount receivable by NBS in cash by way of principal and interest on all moneys due to NBS (excluding, for the avoidance of doubt, any such principal money from Liquid Assets) during the next three months (based on contractual maturities); less
  - ii) The aggregate of the total amount payable by NBS in cash by way of:
    - a) 40% of the principal of deposits payable during the next three months (based on contractual maturities); and
    - b) 40% of NBS's committed undrawn lending facilities.

The full text of these provisions are set out in NBS's Trust Deed, which can be accessed on the Disclose Register. Capitalised expressions used above are defined in the Trust Deed.

## GEOGRAPHICAL SPREAD OF LENDING


Region	31 March 2017	31 March 2016	31 March 2015
Nelson	27.53%	24.52%	25.34%
Tasman	38.88%	42.24%	42.32%
West Coast	11.10%	11.97%	13.38%
Golden Bay	12.49%	14.17%	12.47%
Mid Canterbury	10.00%	7.10%	6.49%

## GEOGRAPHICAL SPREAD OF FUNDING

Region	31 March 2017	31 March 2016	31 March 2015
Nelson	33.82%	34.89%	34.04%
Tasman	42.66%	43.15%	44.57%
West Coast	9.73%	9.51%	10.19%
Golden Bay	9.05%	8.30%	7.84%
Mid Canterbury	4.74%	4.15%	3.36%

## RANKING DIAGRAM

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

	Ranking in a liquidation of NBS	Examples	Amount as at 31 March 2017
	Liabilities that rank in priority to the deposits	Creditors preferred by law (including IRD for unpaid tax) and any permitted prior ranking security interests	180,491
	Liabilities that rank equally with the deposits	All other unsecured creditors	1,472,024
	Liabilities that rank below the deposits	Perpetual preference shares	20,280,500
	Equity		41,830,380

(The amounts shown in the above diagram are extracted from the audited financial statements of NBS for the year ended 31 March 2017, adjusted to reflect any changes in the value of NBS's assets and liabilities that NBS reasonably expects to result from the issue of deposits. The amounts have been calculated on the basis of an assumption of \$594,998,716 of deposits on issue).