



THE 142ND ANNUAL REPORT OF THE NELSON BUILDING SOCIETY

A member of the Financial Services Federation

DIRECTORY

- **Directors** T N Cameron Chartered Accountant (Chairman)
P J Robson AREINZ (Deputy Chairman)
J C Taylor
K A Carr LLB (Hons)
R G Butler
- **General Manager** K J Beams
- **Secretary** A J Cadigan
- **Solicitors** Glasgow Harley
- **Bankers** ASB Bank / Westpac
- **Auditors** West Yates
- **Head Office** 111 Trafalgar Street
P O Box 62
Nelson

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the One Hundred and Forty Second Annual General Meeting of Shareholders of the Nelson Building Society will be held at the Society's Head Office, 111 Trafalgar Street, Nelson on Wednesday 23 June 2004 at 5.30pm.

- **Business**
 1. To receive the Director's Report and Statement of Accounts.
 2. To fix the remuneration for Directors for the ensuing year.
 3. To appoint the Auditors for the ensuing year and fix their remuneration.
 4. General Business.

PROXIES

A member entitled to vote is entitled to appoint one proxy who need not be a member of the Society to attend and vote instead. Proxies shall be deposited with the Society not less than 72 hours before the meeting. Proxy forms are available at the Society's office during normal business hours.

A J Cadigan
Secretary



For the third year in succession we can proudly report that we have continued to achieve significant results which are summarised below:

Key end of year results for 31 March 2004:

- Operation Profit pre tax \$468,113 Last Year \$394,992
- Net Profit after tax \$310,972 Last Year \$262,401
- Total Assets up 19.5% to \$148.1m
- Deposits up 18.6% to \$138m
- Loans up 24.6% to \$123.2m

We have seen the implementation and settling in of a new computer system, which required a substantial commitment of time and effort from our personnel. We are now able to offer full banking services for personal and business clients.

On top of that we have successfully opened a new branch in Murchison which is showing good promise and which was warmly embraced by the local community on opening night. One local member recalled with some pride that her great, great grandfather was one of the first people to take out a loan with NBS back in 1863, with the family continuing to bank with us today.

Whilst we cannot record further branch openings in the West Coast region at present, we can report that we have made good progress on this front and we are now more confident of this occurring over the next 12 months. It is interesting to observe the big banks are now returning to a policy of branch re-openings.

With the growth we have experienced over the last three years, it has become naturally more difficult to attract retail investment deposits needed to fund such growth. This has required us to explore other means of providing this funding and we can report that we have successfully secured a funding line from a major bank. Our lifeblood continues to be our members' deposits and we thank you for your continued support.

On the marketing front we have been successful in securing naming sponsor rights to the "NBS Giants" national basketball team which gives us an excellent profile in the region.

We cannot speak highly enough of the effort and accomplishments of our staff and management team this year and congratulate them on their operational achievements.

The directors who retire by rotation are Mr Phil Robson and Ms Kathy Carr, both of whom are eligible for re-election without nomination and accordingly we declare them duly re-elected.

NBS is in a sound financial position going forward and this coupled with our commitment to deliver a high quality of service and competitive financial products, should see another year of well managed growth.



T N Cameron
Chairman of Directors



K J Beams
General Manager

We have audited the financial report on pages 4 to 17. The financial report provides information about the past financial performance and financial position of the Nelson Building Society (the Society) as at 31 March 2004. This information is stated in accordance with the accounting policies set out on pages 7 and 8.

Directors' Responsibilities The Directors are responsible for the preparation of a financial report which gives a true and fair view of the financial position of the Society as at 31 March 2004 and of the results of operations and cashflows for the year ended on 31 March 2004.

Auditors' Responsibilities It is our responsibility to express an independent opinion on the financial report presented by the Directors.

Basis of Opinion An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial report; and
- whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial report is free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial report.

Our firm carries out other assignments for the Society in the area of taxation advice and special consultancy projects. In addition to this, principals and employees of our firm deal with the Society on normal terms within the ordinary course of trading activities of the business of the Society. The firm has no other interests in the Society.

Unqualified Opinion We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Society as far as appears from our examination of those records; and
- the financial report on pages 4 to 17:
 - complies with generally accepted accounting practice in New Zealand;
 - gives a true and fair view of the financial position of the Society as at 31 March 2004 and the results of its operations and cashflows for the year ended on that date.

Our audit was completed on 23 June 2004 and our unqualified opinion is expressed as at that date.



WEST YATES
Nelson

STATEMENT OF FINANCIAL PERFORMANCE for the year ended 31 March 2004

	31 March 2003	31 March 2004
INCOME		
Income Received From:		
Mortgages and Personal Loans	6,254,404	8,381,766
Hire Purchase	404,755	675,125
Bank Deposits, Invests & Debenture	762,199	700,976
Other Interest	40,968	(1,342)
	7,462,326	9,756,525
Deduct Direct Costs		
Interest Incurred On:		
Home Ownership Deposits	1,344	562
Term & Call Despoits and Shares	5,205,496	6,806,099
Other Borrowings	0	22,824
Commission on:		
Hire Purchase	119,666	258,105
	5,326,506	7,078,590
GROSS CONTRIBUTION FROM ACTIVITIES	2,135,820	2,668,935
Add— Other Income:		
Other Fees	152,227	243,811
Property Rents	322,498	350,077
Commission	23,599	28,776
Establishment Fees	170,158	193,980
Bad Debts Recovered	1,339	64
Brokerage	(150,711)	(112,544)
Profit on Investment Securities	0	3,366
Hire Purchase Fees	74,669	86,010
Profit on Sale of Assets	4,400	2,184
Other Income	4,045	1,157
	602,224	796,881
GROSS CONTRIBUTION	2,738,044	3,465,816
Deduct Overhead Expenses		
Directors Fees	58,500	56,373
Auditor — Audit Fees	24,538	32,332
—Other Services	5,667	15,190
Administration Expenses	1,864,316	2,424,070
Loss on Sale of Asset	0	0
Depreciation	233,600	251,875
Branch Rent	47,971	58,833
Write Down on Bonds	20,438	45,493
Bad Debts	12,022	17,537
General Prov'n for Doubtful Debts	24,000	24,000
Specific Prov'n for Doubtful Debts	52,000	72,000
	2,343,052	2,997,703
TOTAL EXPENSES	2,343,052	2,997,703
SURPLUS (Pre-Tax)	394,992	468,113
Provision for Tax (Note 4)	132,591	157,141
	262,401	310,972
SURPLUS (After-Tax)	262,401	310,972
TRANSFERRED TO RESERVE FUND	262,401	310,972

These financial statements must be read in conjunction with the Notes which form part of these financial statements.

STATEMENT OF FINANCIAL POSITION as at 31 March 2004

	31 March 2003	31 March 2004
EQUITY (Note 3)		
Reserve Fund	3,859,537	4,170,509
Revaluation Reserve	972,531	1,731,232
	<u>4,832,068</u>	<u>5,901,741</u>
REDEEMABLE SHARES (Notes 6 & 9)		
Regular Payment Shares	121	0
Term & Call Shares	77,850,386	95,211,333
	<u>77,850,507</u>	<u>95,211,333</u>
BORROWINGS AT INTEREST (Notes 6 & 9)		
Term & Call Deposits	38,435,181	42,769,522
Home Ownership Deposits	45,482	45,987
	<u>38,480,663</u>	<u>42,815,509</u>
OTHER LIABILITIES		
Subordinated Debt	1,766,792	2,219,102
Hire Purchase Dealer Accounts	96,924	76,357
Interest Accrued	707,115	1,556,391
Withholding Tax	0	70,664
Taxation Payable	0	0
Deferred Tax Provision (Note 5)	6,429	59,721
Sundry Creditors	229,023	176,482
Employee Entitlements	16,400	97,341
	<u>2,822,683</u>	<u>4,256,058</u>
TOTAL RESERVES & LIABILITIES	123,985,921	148,184,641
ADVANCES (Notes 2,7 & 11)		
Mortgages	98,934,581	123,297,463
Personal Loans	163,579	109,227
Less Prov'n for Bad Debts	0	0
Less Prov'n for Doubtful Debts	124,000	148,000
	<u>98,974,160</u>	<u>123,258,690</u>
INVESTMENTS (Note 10)		
Deposits, Investments & Debentures	10,032,426	6,753,624
Plus Accrued Interest	113,666	81,811
	<u>10,146,092</u>	<u>6,835,435</u>
HIRE PURCHASE (Notes 11 & 17)		
Hire Purchase Contracts	3,102,810	4,453,269
Less Prov'n for Doubtful Debts	52,000	72,000
	<u>3,050,810</u>	<u>4,381,269</u>
FIXED ASSETS (Note 14)		
Investment Property & Buildings	3,374,281	3,919,281
Other Property & Buildings	1,170,675	1,384,376
Other Assets	1,984,753	2,964,376
	<u>6,529,709</u>	<u>8,268,033</u>
Depreciation	<u>(1,710,757)</u>	<u>(1,941,048)</u>
	4,818,952	6,326,985
OTHER ASSETS		
Bank Account & Cash on Hand	6,608,333	6,828,146
Hire Purchase Prepaid Commission	310,944	322,676
Prepayments	30,698	33,650
Sundry Debtors	7,910	106,738
Taxation Refund (Note 4)	38,022	91,052
	<u>6,995,907</u>	<u>7,382,262</u>
TOTAL ASSETS	123,985,921	148,184,641

These financial statements must be read in conjunction with the Notes which form part of these financial statements.

STATEMENTS OF MOVEMENT IN EQUITY for the year ended 31 March 2004

		31 March 2003	31 March 2004
EQUITY			
Opening Balance		4,094,667	4,832,068
General Reserve	Transfer of Surplus/(Deficit)	262,401	310,972
Revaluation Reserve	111 Trafalgar Street	90,000	213,701
	Cnr Trafalgar & Bridge Streets	275,000	355,000
	231 Trafalgar Street	110,000	190,000
Sale of Shares		0	0
Total Recognised Revenues & Expenses for Period		737,401	1,069,673
Closing Balance		4,832,068	5,901,741



K J Beams
General Manager



T N Cameron CA
Chairman of Directors



P J Robson
Deputy Chairman of Directors

23 June 2004

These financial statements must be read in conjunction with the Notes which form part of these financial statements.

1 STATEMENT OF ACCOUNTING POLICIES

The financial statements presented here are for the reporting entity Nelson Building Society, duly incorporated under the Building Societies Act 1965. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993. The Society is an issuer as defined in the Financial Reporting Act.

GENERAL ACCOUNTING POLICIES

The General Accounting Policies appropriate for the measurement and reporting of results and financial position under the historical cost method, as modified by the revaluation of certain assets, have been adopted by the Society.

There have been no changes in accounting policies. All policies have been applied on a basis consistent with those used in previous years.

SPECIFIC ACCOUNTING POLICIES
Recognition of Income and Expenditure

Income and Expenditure on financial instruments are reported on an annual basis with all receivables and payables being accrued to balance date. Establishment fees are accounted for when funds are advanced to the client.

Investments

Investments comprise short term deposits with financial institutions and investment securities that are managed by Bancorp Treasury Services Limited. These investment securities comprise local authority stock, financial institution subordinated debts and financial institution bonds.

Short term deposits are recorded at cost adjusted by the year end interest accrual.

Investment securities with an original term of maturity greater than one year are recorded at purchase price less a discount for any premium paid, apportioned on a daily basis over the period to maturity of the investment. All financial instruments are recorded in the financial statements.

Taxation

The charge for income tax is the estimated liability in respect of the profit for the year. A deferred tax account has been established to reflect the timing difference between accounting and taxable income. Deferred tax has been calculated on a comprehensive basis.

Fixed Assets

Land and buildings, with the exception of those classed as investment properties, are usually recorded at cost and are subsequently valued by independent valuers on an annual cycle. Fixed asset revaluations are transferred to a Revaluation Reserve.

Investment properties are stated at valuation as determined annually by an independent valuer. The revaluation is transferred to a Revaluation Reserve. Where revaluations result in a debit balance in the reserve they are expensed in the Statement of Financial Performance. Investment properties are not depreciated. All other assets are recorded at cost.

Impaired Assets

Any loss on an advance or loan is only recognised once all reasonable actions to recover the debt have been exhausted. Until such time, the Society treats all amounts owing as collectable within the terms of the contract with the other party. Debt restructuring will only occur within the normal terms of a facility with comparable risk. If a restructuring would take the facility outside the normal terms then action would be taken to recover the debt security. The Society does not hold assets acquired under enforcement of a debt security. If the security is required then it is immediately realised in satisfaction of the advance or loan. It is the Society's contention that of the advances and loans recorded in the Statement of Financial Position none meet the definition of "Impaired Assets" or "Restructured Assets" as set out in FRS-33 of the Institute of Chartered Accountants' financial reporting standards. Details of this advance are recorded in Note 17 (Asset Quality) to the financial statements. "Non Accrual Assets" are a sub category of Impaired Assets relating to loans on which all amounts owing will not be collected in accordance with the terms of the contract.

A specific provision is raised to cover the expected loss where full recovery of principal is doubtful.

Depreciation	<p>Depreciation is provided in the financial statements, on all fixed assets other than land and investment properties, on a basis that will write down the value of the fixed assets over their expected useful lives. The following rates have been applied to the major categories:</p> <table border="0"> <tr> <td>Buildings</td> <td>SL</td> <td>Over 50 years</td> </tr> <tr> <td>General Office Equipment</td> <td>10%</td> <td>Diminishing value</td> </tr> <tr> <td>Computer Hardware</td> <td>SL</td> <td>Over 5 years</td> </tr> <tr> <td>Computer Software</td> <td>SL</td> <td>Over 5 years</td> </tr> <tr> <td>Other Assets</td> <td>SL</td> <td>Over 3-5 years</td> </tr> <tr> <td>Motor Vehicles</td> <td>SL</td> <td>Over 5 years</td> </tr> </table> <p>Ultradata Computer System: In accordance with FRS-3 of the Institute of Chartered Accountants' financial reporting standards, this system has been depreciated at such rates as to write its value down to nil as at 31 August 2003, when it became obsolete.</p>	Buildings	SL	Over 50 years	General Office Equipment	10%	Diminishing value	Computer Hardware	SL	Over 5 years	Computer Software	SL	Over 5 years	Other Assets	SL	Over 3-5 years	Motor Vehicles	SL	Over 5 years
Buildings	SL	Over 50 years																	
General Office Equipment	10%	Diminishing value																	
Computer Hardware	SL	Over 5 years																	
Computer Software	SL	Over 5 years																	
Other Assets	SL	Over 3-5 years																	
Motor Vehicles	SL	Over 5 years																	
Income Recognition on Impaired Assets	<p>When a loan is classified as impaired, income ceases to be recognised in the Statement of Financial Performance on an accrual basis as reasonable doubt exists as to the collectability of interest and principal.</p> <p>All cash receipts on impaired assets are applied against the carrying value of the loans, and are not recognised in the Statement of Financial Performance as interest income until the principal has been fully repaid, or the loan has been transferred out of the impaired assets category.</p>																		
Past Due Assets	<p>Past due assets are loans that have not been operated by the borrower within the key terms of their contract for at least 90 days. However they are not impaired assets.</p>																		
Doubtful Debts Provision	<p>The balances recorded in the Statement of Financial Position represent the recoverable value of the Society's advances and loans. Any known loss was accounted for prior to balance date. In recognition of the potential for a loss to occur at some future time on the current advances and loans, the Society has established a general provision. This provision is maintained at a level consistent with other prudent lending institutions. All loans are subject to regular management review.</p> <p>Specific provisions are made against advances, investments and other securities where recovery of part, or the whole, of individual assets is considered to be in doubt. Specific provisions are based upon an assessment of each individual circumstance. Advances and loans are disclosed net of any specific provision within the Statement of Financial Position.</p>																		
Discounted Activities	<p>None of the revenue and expense items disclosed in the Statement of Financial Performance result from discontinued activities.</p>																		
Leases	<p>Payments made under operation leases are recognised in the Statement of Financial Performance as they are incurred.</p>																		
Hire Purchase Contracts	<p>Interest receivable and dealer commission paid under Hire Purchase Contracts are accrued using the rule of 78.</p>																		
Goods and Services Tax	<p>GST only relates to Investment Property activities and has been recorded on an inclusive basis. All other activities are exempt by virtue of their financial institution status.</p>																		
Cash Flows	<p>For the purpose of the statement of cash flows, cash includes cash on hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts. The following are the definitions of the terms used in the Statement of Cash Flows;</p> <ul style="list-style-type: none"> • Operating activities include all transactions other than events that are investing or financing activities. • Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. • Financing activities are those activities that result in changes in the size of and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. 																		
Loan Management	<p>The Society manages a selection of loans on behalf of third parties. The commission for managing these funds is included under Brokerage in the Statement of Financial Performance. The income is accounted for as it arises. Recourse for these funds remains with the Society.</p>																		

2	PROVISION FOR DOUBTFUL DEBTS	31 March 2003		31 March 2004	
		Performing Assets	Impaired (Non-Accrual)	Performing Assets	Impaired (Non-Accrual)
	Balances at beginning of period				
	General	100,000	—	124,000	—
	Specific	—	—	52,000	—
		<u>100,000</u>	<u>—</u>	<u>176,000</u>	<u>—</u>
	Less: Bad debts offset against provision				
	General	—	—	—	—
	Specific	—	—	52,000	—
	Additional provisions				
	General	24,000	—	24,000	—
	Specific	52,000	—	72,000	—
	Balances at end of period				
	General	124,000	—	148,000	—
	Specific	52,000	—	72,000	—
		<u>\$176,000</u>	<u>—</u>	<u>\$220,000</u>	<u>—</u>

3	FIXED CAPITAL AND EQUITY	31 March 2003		31 March 2004	
	Fixed capital		nil		nil
	General Reserves		3,859,539		4,170,511
	Revaluation Reserve— Investment Properties		651,842		1,196,842
	Revaluation Reserve— Other Properties		320,687		534,388
	Total Capital and Equity		<u>4,832,068</u>		<u>5,901,741</u>

4	TAXATION	31 March 2003		31 March 2004	
	Provision for Tax at 33%		130,347		154,477
	Permanent Timing Differences		2,244		2,664
			<u>132,591</u>		<u>157,141</u>
	Adjustment re Deferred Tax		40,048		(53,292)
	Tax Payable for Year		172,639		103,849
	Provisional Tax Paid		210,661		194,901
	Taxation Refund		<u>\$38,022</u>		<u>\$91,052</u>

5	DEFERRED TAXATION	31 March 2003		31 March 2004	
	Opening Balance		(46,478)		(6,430)
	Adjustment re Timing Difference		40,048		(53,292)
	Closing Balance		<u>\$(6,430)</u>		<u>\$(59,722)</u>

6	TERM LIABILITIES				\$5,848,511
	Aggregate amount of term liabilities				
	Term Liability Maturity Analysis		31 March 2003		31 March 2004
		Amount	Weighted %pa	Amount	Weighted %pa
	One to two years	2,884,266	6.18	3,974,973	6.24
	Two to five years	1,334,063	7.30	1,873,538	6.04
	Total	\$4,218,329	6.53	\$5,848,511	6.18
	Term Liabilities attributable to				
	Associated Bodies Corporate				not applicable
	Related Bodies Corporate				not applicable
	Directors				\$0
	All term liabilities are unsecured				

7	ADVANCES				\$123,297,463
	Aggregate amount of secured loans				
	Aggregate amount of unsecured loans				\$109,227
	Loans attributable to				
	Associated Bodies Corporate				not applicable
	Related Bodies Corporate				not applicable
	Directors				\$202,535
					The loans to Directors are under normal criteria and rates as if they were members of the public.

8	MINORITY INTERESTS	The Society has no minority interests.
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9	CURRENT LIABILITIES				\$136,434,389
	Aggregate amount of current liabilities				
	Current liabilities are made up as follows:		31 March 2003		31 March 2004
	Shares maturing within 12 months		77,289,528		95,211,333
	Deposits maturing within 12 months		34,262,334		36,966,998
	Hire Purchase		96,924		76,357
	Subordinated Debt		1,766,792		2,219,102
	Other Liabilities		1,519,946		1,960,599
			\$114,935,524		\$136,434,389
	Current liabilities owing to:				
	Associated Bodies Corporate				not applicable
	Related Bodies Corporate				not applicable
	Directors				\$28,789
					The current liabilities owing to Directors are in respect of normal investments made by them as if they were members of the public.
	All current liabilities are unsecured				

The table below shows the number of parties, or closely related parties, where the Society has large credit exposures. These have been disclosed in bands of 10% of the Society's equity at balance date.

Percentages of Equity	31 March 2003		31 March 2004	
	Bank	Other	Bank	Other
10% to 19%	—	14	—	13
20% to 29%	—	1	—	—
30% to 39%	—	1	—	—
40% to 49%	1	—	—	1
50% to 59%	—	—	—	1
60% to 69%	—	—	1	—
70% to 79%	—	—	—	1
80% to 89%	1	—	—	—
90% to 99%	—	1	—	—
100% to 109%	—	—	1	—
110% to 119%	—	1	—	—

Fair Values

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties, in an arm's length transaction. The book value of all financial instruments is the fair value for each of these items. The fair values of the Fixed Term Investments as set out in Note 10 are their market values as at 31 March 2004. The Society currently has no Government Stock.

Interest Rate Risk

The Society's normal lending terms allow it to reset interest rates at thirty days notice. Interest rates on "at call" depositors' funds can be reset immediately. Interest rates on term shares, subordinated debt and deposits are all fixed until their respective maturity dates. Over 99% of the term shares and deposits can be repriced within twelve months. Changes in interest rates can impact on the Society's financial result by impacting on the market value of investment securities.

Currency Risk

The Society is not involved in activities that give rise to currency risk.

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INTANGIBLE ASSETS

The Society has no intangible assets.

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FIXED ASSETS

Aggregate amount of fixed assets

Fixed asset categories	31 March 2003	31 March 2004
Investment Properties		
• 231 Trafalgar Street		
Land— Cost	633,000	633,000
Revaluation	165,800	195,000
Buildings— Cost	698,875	698,875
Revaluation	(156,709)	4,091
Less: Accumulated Depreciation	20,966	20,966
	<u>1,320,000</u>	<u>1,510,000</u>
• Corner Trafalgar & Bridge Streets		
Land— Cost	919,050	919,050
Revaluation	310,550	541,850
Buildings— Cost	471,514	471,514
Revaluation	332,201	455,901
Less: Accumulated Depreciation	148,315	148,315
	<u>1,885,000</u>	<u>2,240,000</u>

Land & Buildings		
• 111 Trafalgar Street		
Land— Cost	16,550	16,550
Revaluation	268,450	323,450
Buildings— Cost	833,435	833,435
Revaluation	52,240	210,941
Less: Accumulated Depreciation	176,990	194,376
	<u>993,685</u>	<u>1,190,000</u>
Other Assets— Cost	1,984,753	2,964,376
Less: Accumulated Depreciation	1,364,486	1,577,391
	<u>620,267</u>	<u>1,386,985</u>
	<u>\$4,818,952</u>	<u>\$6,326,985</u>

Our properties on the corner of Trafalgar and Bridge Streets and at 231 Trafalgar Street are treated as investment properties. These properties are shown at Duke & Cooke Ltd, Registered Valuers, valuations both dated 31 March 2004. Our property at 111 Trafalgar Street is the head office of the Society and is not treated as an investment property. It is shown at Duke & Cooke Ltd, Registered Valuers, valuation dated 31 March 2004.

The aggregate of the latest Government Valuations of land and buildings is \$4,250,000. The valuations of land and buildings at 111 Trafalgar Street, 231 Trafalgar Street and on the corner of Trafalgar and Bridge Streets are \$880,000, \$1,550,000 and \$1,820,000 respectively, all dated 1 September 2003.

The depreciation charge for the year comprises	31 March 2003	31 March 2004
Investment Properties	0	0
Other Properties	17,386	17,386
Other Assets	216,214	234,489
	<u>233,600</u>	<u>251,875</u>

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LIQUIDITY PROFILE

The Society monitors its liquidity (cash) position on a continuous basis. Cashflow forecasts for operating activities are prepared taking into account the cashflow characteristics of, and expected volatility in, the balances of the various classes of assets and liabilities that have or can have, a significant cashflow effect.

The liquidity profile of assets and liabilities presented below is not considered by the Society to be in any way indicative of future cashflows. This is primarily because a significant proportion of the Society's Redeemable Shares, Subordinated Debt and Deposits are renewed at maturity and therefore do not have a cashflow effect. In addition all advances are repayable on demand, or repayable upon three months notice of demand, at the Society's discretion. While the Society is not likely to call advances on demand the contractual maturity date is not indicative of future cashflows due to early repayments, further drawdowns and principal reductions.

To meet both expected and unexpected fluctuations in operating cashflows the Society maintains a stock of liquid investments. Taking into account analysis of historical cashflows, forecast cashflows and the current composition of the Statement of Financial Position it considers these to be adequate.

While the Society's Trust Deed prescribes that liquid assets (as defined in the Trust Deed) are to be maintained at a minimum of 15% of Total Tangible Assets less Reserves, the Society under normal conditions maintains liquid assets in the range of 18% to 22% of Total Tangible Assets.

MONETARY ASSETS	Effective Interest Rate	Total	Within 6 Months	6 Months to 1 Year	1 to 2 Years	2 to 5 Years	5 Years & Over
Mortgage Advances	7.19%	123,297,463	123,297,463	—	—	—	—
Personal Loans	11.93%	109,227	109,227	—	—	—	—
Hire Purchase Contracts (less unearned interest)	15.16%	4,453,269	935,829	987,469	1,585,741	944,230	—
Investment Securities	7.66%	4,582,624	—	1,010,318	2,527,646	1,044,660	—
Bank Deposits	5.27%	2,171,000	2,171,000	—	—	—	—
Interest Accrued		81,811	81,811	—	—	—	—
Cash on Hand or Bank		6,828,146	6,828,146	—	—	—	—
Taxation Refund		91,052	91,052	—	—	—	—
Hire Purchase Pre-paid Commission		322,676	322,676	—	—	—	—
Prepayments		33,650	33,650	—	—	—	—
Sundry Debtors		106,738	106,738	—	—	—	—
Provision for Doubtful Debts		(220,000)	(220,000)	—	—	—	—
Total Monetary Assets		141,857,656	133,757,592	1,997,787	4,113,387	1,988,890	—
LIABILITIES							
Term & Call Deposits	} 5.27%	42,815,509	22,614,576	14,352,422	3,974,973	1,873,538	—
Call Shares		95,211,333	93,910,426	1,300,907	—	—	—
Subordinated Debt	7.88%	2,219,102	1,050,000	1,169,102	—	—	—
Sundry Creditors/ATM/Pos/Employee Entitlements		273,823	273,823	—	—	—	—
Deposit Interest Accrued		1,556,391	1,556,391	—	—	—	—
Withholding Tax		70,664	70,664	—	—	—	—
Deferred Taxation		59,721	59,721	—	—	—	—
Dealer Current Accounts		76,357	76,357	—	—	—	—
Total		142,282,900	119,611,958	16,822,431	3,974,973	1,873,538	—

Debtors Amounts owing by the six largest borrowers (ie, mortgage advances) at 31 March 2004 totalled \$8,025,060 or 6.50% of the total advances.

Mortgage Advances Table Mortgages with no minimum term: The principal balances are shown as "on demand" from the time of advance.

Credit Facility Line of Credit facilities up to \$4,000,000 with the ASB Bank and \$6,000,000 with Westpac.

Security The debt securities are unsecured and deposits will rank equally with the Society's other unsecured obligations and ahead of redeemable shares. As at balance date there were no secured liabilities by way of mortgage or charge over any of the Society's assets and accordingly nothing that ranks in priority to the Society's unsecured obligations.

16

CAPITAL ADEQUACY

The Nelson Building Society is subject to a minimum capital requirement of 5% as specified in our Trust Deed dated 20 December 1990. As at 31 March 2004 our capital ratio was 5.48%.

New Zealand registered banks are subject to minimum capital requirements as specified by the Reserve Bank of New Zealand. These requirements are based on internationally accepted banking conventions and the minimum current capital ratio set by the Reserve Bank is 8%. Set out below are risk weighted Balance Sheet exposures calculated in the same way as required for registered banks for capital adequacy requirements.

Measurement of Equity	31 March 2003	31 March 2004
General Reserve	3,859,539	4,170,509
Revaluation Reserve	972,529	1,731,232
Total Equity	\$4,832,068	\$5,901,741

Risk Weighted Balance Sheet Exposures	Principal	% Risk Weight	Adjusted Risk Value
Cash	6,828,146	0	0
NZ Registered Bank Deposits & Investments	6,835,435	20	1,367,087
Fully Secured Residential	96,727,769	50	48,363,885
Fully Secured Commercial	26,569,694	100	26,569,694
Personal Loans	109,227	100	109,227
Hire Purchase Contracts	4,381,269	100	4,381,269
All Fixed Assets	6,326,985	100	6,326,985
Total Risk Weighted Exposure			\$87,118,147
Calculation of Risk Adjusted Capital Adequacy Ratio			31 March 2004
Total Capital		$\frac{5,901,741}{87,118,147} \times 100 =$	6.77%
Total Risk Weighted Exposure			31 March 2003 7.09%

17 ASSET QUALITY Movements in pre-provision balances of Impaired and Past Due Assets	Past Due	31 March 2003	Past Due	31 March 2004
	Assets	Impaired (Non-Accrual)	Assets	Impaired (Non-Accrual)
Pre-provision Opening Balance	25,292	nil	128,851	nil
Assets now Recognised as Impaired	116,367	—	103,482	—
Charges	—	—	4,173	—
Customer Repayments	(12,808)	—	(34,252)	—
Loan Balance Written Off	—	—	(36,489)	—
Assets now Recognised as not Impaired	—	—	(36,711)	—
Pre-provision Closing Balance	128,851	nil	129,054	nil
Less: Specific Provisions	—	—	—	—
Closing Balance (Net of Provisions)	\$128,851	nil	\$129,054	nil

18 **FUNDING Concentrations of Funding** As detailed in the Statement of Financial Position the majority of the Society's funding comes from redeemable shares and to a lesser extent deposits and subordinated debt. Over 90% of these funds come from individuals residing in the Nelson region.

19 **COMMITMENTS AND CONTINGENT LIABILITIES** The Society has a capital commitment for loans approved but not yet paid at 31 March 2004 for a total of \$2,123,000.

The Society has not made material commitments in respect of any leases or hire purchase agreements.

The Society has entered into leases in Richmond, Motueka and Murchison for 3 years commencing 1 November 2003, 1 August 2002 and 1 January 2004 respectively.

Lease commitments under non-cancellable operating leases:	Richmond	Motueka	Murchison
	Less than 1 year	\$31,538	\$18,000
1 to 2 years	\$31,538	\$ 9,000	\$10,000
2 to 5 years	\$18,397	—	\$ 6,667
Greater than 5 years	—	—	—

The Society has no contingent liabilities.

20 **BUSINESS SEGMENT** The Society operated in one industry and one geographical location— a building society within the South Island of New Zealand.

21 **AUDITOR OTHER SERVICES** Non auditing professional services supplied by West Yates including system review and business development.

Costs expensed	15,190
Costs capitalised	<u>26,550</u>
Total	\$41,740

22 **POST BALANCE DATE EVENTS** The Society has secured a line of credit up to an additional \$30,000,000.

23 **LOANS ON BEHALF OF THIRD PARTIES** The following third party loans are managed by the Society:

	31 March 2003	31 March 2004
Loans & Building Society	—	3,648,714
Sydenham Money Club	<u>937,316</u>	<u>727,837</u>
	\$937,316	\$4,376,551

STATEMENT OF CASH FLOWS for the year ended 31 March 2004

	31 March 2003	31 March 2004
OPENING CASH BALANCE	684,672	6,608,333
Cash Flows from Operating Activities		
Cash was provided from:		
Interest Received	7,365,789	9,788,380
Fees, Rents & Commission	614,923	698,053
	7,980,712	10,486,433
Cash was disbursed to:		
Net Interest Paid	4,934,054	6,760,928
Operating Expenses	2,030,506	2,678,564
Tax Payment	152,681	156,879
	7,117,241	9,596,371
Net Cash Flows from Operating Activities	863,471	890,062
Cash Flows from Investing Activities		
Cash was provided from:		
Net Decrease in Investments	0	1,928,343
	0	1,928,343
Cash was disbursed to:		
Net Increase in Advances	(24,482,045)	(24,308,530)
Net Increase in Investments	(5,932,463)	0
Net Increase in Fixed Assets	(354,902)	(999,023)
	(30,769,410)	(25,307,553)
Net Cash Flows from Investing Activities	(30,769,410)	(23,379,210)
Cash Flows from Financing Activities		
Cash was provided from:		
Net Increase in Customer Investments	35,829,600	22,708,961
	35,829,600	22,708,961
Net Cash Flows from Financing Activities	35,829,600	22,708,961
CLOSING CASH BALANCE	6,608,333	6,828,146
RECONCILIATION OF OPERATING PROFIT TO CASH FLOW from operating activity	31 March 2003	31 March 2004
Operating Surplus after Tax	262,401	310,972
Depreciation	233,600	251,875
Increase in Provision for Doubtful Debts	76,000	44,000
Increase/Decrease in Withholding Tax Accrual	4,365	70,664
Net Profit/Loss on Sale of Assets	(4,400)	(2,184)
Decrease/Increase in Accrued Interest Received	(96,537)	31,855
Decrease/Increase in Accrued Interest Expense	643,627	288,297
Decrease/Increase in Accrued Charges	32,044	28,400
Increase/Decrease in Taxation Provision/Refund	(20,090)	262
Decrease/Increase in Accrued Other Income	12,699	(98,828)
Increase in Prepayments	(24,698)	(2,952)
Decrease/Increase in Hire Purchase Accruals	(255,540)	(32,299)
	601,070	579,090
	863,471	890,062

These financial statements must be read in conjunction with the Notes which form part of these financial statements.