Heretaunga Building Society

82ND ANNUAL REPORT 2015

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ANNUAL GENERAL MEETING

The EIGHTY SECOND ANNUAL GENERAL MEETING of the Heretaunga Building Society will be held in the Society's Office, 111 Avenue Road East, HASTINGS on TUESDAY 21 JULY 2015 AT 4.00pm.

BUSINESS

Adoption of Annual Report and Financial Statements

Election of Two Directors

Appointment of Auditors

General

BROWN WEBB RICHARDSON LIMITED, Secretaries

PROXIES

Members are advised that they are entitled to appoint a proxy to attend the meeting and to vote on their behalf, and that any such proxy need not be a member. The instrument appointing the proxy must be deposited at the Society's Office not less than forty-eight hours before the time fixed for the meeting. Proxy forms are available at the Society's Office.

DIRECTORS

W J (Jim) Harvey, F.N.Z.I.V., F.P.I.N.Z., F.R.E.I.N.Z.

J F Gresson, L.L.B.

T M A (Mark) Morgan, L.B.P

T L (Trevor) Webb, B.C.A.,

BANKERS:	Westpac New Zealand Ltd
SOLICITORS:	Bate Hallett
AUDITORS:	Staples Rodway Hawkes Bay
TRUSTEES:	Trustees Executors Limited

CHAIRMAN'S REPORT
82ND ANNUAL REPORT TO MEMBERS
FOR YEAR ENDED 31 MARCH 2015

On behalf of your Directors it is with pleasure that I present the Heretaunga Building Society's Annual Report and Financial Statements for the year ended 31 March 2015.

Being the 82nd for the Heretaunga Building Society it continues to highlight the history and stability of the support received from you our members.

The financial result for the year under review produced a profit before tax of $40,600. This result is viewed by the Board as satisfactory when the cost of receiving a licence from the Reserve Bank to receive deposits under the Non-Bank Deposit Takers Act 2013 as a "one off" was $26,946 and an amount of $35,000 for provision for mortgage impairment.

Total assets stand at $23.7 million some $700,000 higher than 2014. Advances on mortgage amounted to $14 million which is $900,000 below the 2014 level. The mortgage book lent $3 million for new loans and $3.9 million was repaid. The Society's building in Avenue Road has been valued at $2.4 million which is a decrease of $200,000 from 2014. The reason for this is because the Society received a detailed seismic assessment from the Society's Consulting Engineers which shows the building requires some earthquake strengthening. It is the Boards intention to implement strengthening procedures in the near future.

The Heretaunga Building Society continues its sponsorship programmes by supporting local sports clubs and community charitable organisations. The Cornwall Cricket Club, Riding for the Disabled, Hawkes Bay Junior Golf and Ramblers Cycling Club are all part of our sponsorship programme. Ramblers Cycling Club had a wonderful National Club's Tournament with 8 Gold, 2 Silver and 3 Bronze medals. Well done to Ramblers.

The Society has strong liquidity with funds available for home buying, pursue a business venture or simply take that long holiday.

Competition through lending institutions is strong and the main Banks continue to entice borrowers with give aways or cash. We need more borrowers.

The Directors place on record their thanks for both support and service the Society has received from Brown Webb Richardson Ltd over the past year.

George Speedy our General Manager and his secretarial team give our affairs first class attention and the continuing support of BWR Directors in promoting the business of the Society is greatly appreciated. I again express my thanks to my fellow Directors – Trevor Webb, Mark Morgan and Jeremy Gresson for their dedication to the affairs of the Society.

For the Directors

W J Harvey
Chairman

HERETAUNGA BUILDING SOCIETY
GENERAL MANAGERS REPORT FOR 2015 YEAR

The mortgage market has been very difficult with very low demand even though interest rates are at low levels. The Society is not prepared to alter its lending standards to increase the mortgage portfolio.

The increased compliance costs of operating in the financial services sector are reflected in the current year Administration and Other expenses. The cost of gaining the Non Bank Deposit Takers licence was one example of compliance costs incurred during the year. The total costs are not expected to reduce in the near future. The provision for impairment of $35,000 reflects the one impaired mortgage in the Society mortgage portfolio.

Each year the investment property is valued by independent registered valuers however in the current year the value has reduced by $200,000 solely to reflect the expected costs of increasing the building seismic assessment to a level acceptable to the directors.

The increased compliance costs, increase in provision for loan impairment and reduction in the value of the investment property have resulted in Net Operating loss after tax of $170,769.

The subdued mortgage market coupled with incentives offered by the banks has resulted in the mortgage portfolio reduction of almost $1 million. Arrears in the portfolio are still at a very low level.
Redeemable shares increased by just over $800,000 during the year reflecting the members confidence in the Society.

S M (George) Speedy
General Manager
June 2015

CORPORATE GOVERNANCE
2015 ANNUAL REPORT

NATURE OF BUSINESS

Heretaunga Building Society (the Building Society) was formed in 1933 and has operated as a building society throughout its history. The Building Society is incorporated under the Building Societies Act 1965.

ROLE OF THE BOARD

The Board oversees the Building Society's business affairs and is committed to protecting and enhancing the value of the Building Society's assets in the best interests of the Members, subject to full compliance with legal requirements. The Board's primary responsibilities include the following:

- Directing and controlling the Building Society's activities and its strategic development;
- Ensuring systems and processes are in place so that the business of the Building Society is conducted honestly, ethically and responsibly;
- Overseeing the conduct of the Building Society's business and
- Ensuring the Building Society is appropriately resourced to manage all the risks that arise from its activities.

Directors are required to disclose, and avoid, wherever possible any potential conflicts of interest.

COMPOSITION OF THE BOARD

The Board currently comprises four Directors, all of whom are independent, selected to ensure that a broad range of skills, knowledge and experience are available.
The day-to-day management of the Building Society is delegated to the secretaries, who are accountable to the Board.
Procedures for the appointment and removal of Directors are governed by the Building Society rules.

BOARD COMMITTEES

There are no Board committees.

BOARD MEETINGS

Regular Board meetings are held eleven times per year with additional meetings held as and when required.

MEMBER ACCESS TO INFORMATION

The Board of Directors ensures that the Building Society members are kept informed of important developments affecting the Building Society by communicating with members through newsletters, annual report and at the annual meeting.

HERETAUNGA BUILDING SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2015

	Note	Mar 2015	Mar 2014
REVENUE		**$**	**$**
Interest Revenue			
Advances		882,566	853,642
Impaired Advances (Restructured Assets)		5,429	31,053
Bank Deposits		204,586	169,250
Investment Securities		57,320	35,396
Total Interest Revenue		1,149,901	1,089,341
LESS: COST OF FUNDS			
Interest on Redeemable Shares		708,001	716,006
GROSS INTEREST MARGIN		**441,900**	**373,335**
OTHER INCOME			
Rent Received	**19**	192,995	189,991
Other Income		-	127
		192,995	190,118
GROSS INCOME		**634,895**	**563,453**
LESS: ADMINISTRATION EXPENSES			
Administration and Other Expenses		107,437	72,854
NBDT licence expenses		30,988	-
Audit Fees			
- Audit of the financial statements		28,015	27,792
- Trust Deed and Prospectus Review Services		4,370	4,370
Directors Fees		73,500	70,000
Movement in Provision for Loan Impairment	**8**	35,000	10,000
Prospectus Expenses		5,274	3,489
Secretarial and Office Facilities		276,000	276,000
Trust Deed Expenses		23,000	23,000
Depreciation – Office Equipment	**9**	10,712	140
TOTAL EXPENSES		594,296	487,645
NET OPERATING PROFIT before Revaluation		**40,599**	**75,808**
Gain/(Loss) on revaluation of Investment Property		(200,000)	400,000
NET OPERATING PROFIT BEFORE TAX		**(159,401)**	**475,808**
Tax Expense	**3**	11,368	21,226
NET OPERATING PROFIT AFTER TAX		**(170,769)**	**454,582**
OTHER COMPREHENSIVE INCOME			
ITEMS THAT MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS			
Gain/(loss) on available for sale reserve		49,004	21,257
Deferred Tax on available for sale reserve		(13,721)	(5,952)
TOTAL COMPREHENSIVE INCOME		**(135,486)**	**469,887**

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

HERETAUNGA BUILDING SOCIETY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2015

Mar 15 Note 4	Retained Earnings	General Reserve	Available for Sale Reserve	Property Revaluation Reserve	Total Equity
Opening Balance 1 Apr 2014	696,890	2,800,000	(3,353)	1,000,121	4,493,658
Operating profit for the period	(170,769)				(170,769)
Gain/(Loss) on available for sale reserve			49,004		49,004
Deferred tax on available for sale reserve			(13,721)		(13,721)
Total comprehensive income	(170,769)	-	35,283	-	(135,486)
Transfer between Reserves	200,000			(200,000)	
Closing Balance 31 March 2015	726,121	2,800,000	31,930	800,121	4,358,172
Equity % to Total Assets					18.4%

Mar 14 Note 4	Retained Earnings	General Reserve	Available for Sale Reserve	Property Revaluation Reserve	Total Equity
Opening Balance 1 April 2013	642,308	2,800,000	(18,658)	600,121	4,023,771
Operating profit for the period	454,582				454,582
Gain/(Loss) on available for sale reserve			21,257		21,257
Deferred tax on available for sale reserve			(5,952)		(5,952)
Total comprehensive income	454,582		15,305	-	469,887
Transfer between Reserves	(400,000)			400,000	
Closing Balance 31 March 2014	696,890	2,800,000	(3,353)	1,000,121	4,493,658
Equity % to Total Assets					19.5%

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

HERETAUNGA BUILDING SOCIETY
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2015

	Note	Mar 2015	Mar 2014
ASSETS		**$**	**$**
Cash and cash equivalents	5	6,088,782	4,709,519
Prepayments		4,650	6,905
Investment securities	6	1,303,489	841,320
Investment property	7	2,400,000	2,600,000
Advances on mortgage	8	13,930,820	14,907,612
Office equipment	9	12,161	9,762
TOTAL ASSETS		**23,739,902**	**23,075,118**
LIABILITIES			
Redeemable shares	10	19,144,672	18,333,094
Tax payable	3	7,244	15,867
Trade payables		3,593	10,710
Resident withholding tax		34,070	30,460
GST		6,924	7,399
Directors fees payable	19	36,751	35,000
Accruals		29,050	33,425
Deferred taxation	3	119,426	115,505
TOTAL LIABILITIES		19,381,730	18,581,460
EQUITY			
Retained earnings	4	726,121	696,890
General reserve	4	2,800,000	2,800,000
Available for sale reserve	4	31,930	(3,353)
Revaluation reserve	4	800,121	1,000,121
TOTAL EQUITY		**4,358,172**	**4,493,658**
TOTAL LIABILITIES AND EQUITY		**23,739,902**	**23,075,118**

For and on behalf of the Board, who authorised the issue of these Financial Statements on 16 June 2015.

Director

Director

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

HERETAUNGA BUILDING SOCIETY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2015

	Note	Mar 2015	Mar 2014
CASH FLOWS FROM OPERATING ACTIVITIES		**$**	**$**
Cash was provided from:			
Interest received		1,206,424	1,104,965
Other income		-	127
Tax Refund		651	-
Rent received		192,995	189,996
		1,400,070	1,295,088
Cash was applied to:			
Interest paid		(674,398)	(715,462)
Tax paid		(30,150)	(3,330)
Payments to suppliers		(573,001)	(471,192)
		(1,277,549)	(1,189,984)
NET CASH FLOWS FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		122,521	105,104
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Cash was provided from:			
Mortgage repayments		3,855,544	4,783,684
Redeemable Shares issued		28,085,791	34,223,171
Cash was applied to:			
Mortgage advances		(3,039,292)	(4,149,761)
Redeemable Shares repaid		(27,220,417)	(34,985,789)
NET OPERATING CASH FLOWS	11	1,804,147	(23,591)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was applied to:			
Fixed Asset addition		(19,462)	(2,852)
Investment Security purchased		(405,422)	-
NET INVESTING CASH FLOWS		(424,884)	(2,852)
Total net increase/(decrease) in cash and cash equivalents held		1,379,263	(26,443)
Cash and cash equivalents at the beginning of the period		4,709,519	4,735,962
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	6,088,782	4,709,519

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2015

1. REPORTING ENTITY

Legislative Framework

The Heretaunga Building Society (the Building Society) is a financial institution registered in New Zealand under the Building Societies Act 1965. It is domiciled in New Zealand and its principal place of business is Avenue Road East, Hastings. The Building Society is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 (the “FMCA”). As a FMC Reporting Entity, the Building Society must report in accordance with Part 7 of the FMCA and the Financial Reporting Act 2013 (the “FRA 2013”). The financial report is a general purpose financial report for the Building Society as an individual entity which has bee prepared in accordance with the FRA 2013 and the FMCA.

To meet the requirements of the Securities Act 1978 a Trust Deed was entered into on 20 December 1990 between the Building Society and Trustees Executors Limited. Trustees Executors Limited was appointed to act in the interests of the members of the Building Society by monitoring the compliance by the Building Society of its obligations under the Trust Deed. In addition, the Trustee is under a duty to exercise reasonable diligence to ascertain whether the Building Society has:

(a) committed any breach of the Trust Deed or any of the conditions of issue of the deposits and
(b) sufficient assets to meet its obligations to depositors, as they fall due.

Nature of Business

The Building Society operates in the financial services industry, taking deposits from and providing loans to members.

Members invest in the Building Society by way of redeemable shares. The shares cannot be transferred or sold. Throughout this document in keeping with their nature and the Securities Act 1978 shares are classified as debt instruments. Members are able to withdraw their funds subject to certain conditions. The Building Society makes loans to members or invests funds on the members’ behalf. Interest and other income are received by the Building Society and interest is paid on members’ shares.

The Building Society has no interest in any subsidiary, associate entity or joint venture.

Authorisation of the Financial Statements

These financial statements are authorised for issue by the Directors on 16 June 2015.

Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and they comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for for-profit entities. They also comply with International Financial Reporting Standards (IFRS).

Basis of measurement

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

Presentation currency

The financial statements are presented in New Zealand dollars ($), which is the functional currency of the Building Society. All values are rounded to the nearest dollar, unless otherwise stated.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the material accounting policies adopted by the Building Society in the preparation of the financial report. Except where stated, the accounting policies have been consistently applied.

(a) Revenue

The Building Society recognised revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Building Society and when specific criteria have been met for each of the Building Society's activities, as described below.

Interest Revenue on Loans and Investments

Interest income is recognised on a time-proportion basis using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rent revenue from leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Revenue received under operating leases (net of any incentives paid to the lessee) are recorded in the profit or loss on a straight-line basis over the period of the lease.

(b) Finance expenses

Finance expenses comprise interest expense on redeemable shares, impairment losses recognised on financial assets (except for loans and receivables), and losses on the disposal of available-for-sale financial assets.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. A qualifying asset is one that takes six months or longer to prepare for its intended use or sale. Other borrowing costs are expensed when incurred. The Building Society does not have any qualifying assets and consequently all borrowing costs are expensed when incurred.

(c) Financial Instruments Recognition and Measurement

The Building Society classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss, loans and receivables financial assets, held to maturity financial assets, available for sale financial assets, and financial liabilities at amortised cost (including redeemable shares and trade payables). The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date. At the reporting date the Building Society only had financial instruments classified as loans and receivables, available for sale financial assets and financial liabilities at amortised cost.

A financial asset is recognised only when the Building Society becomes a party to the contractual provisions of the financial asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit or loss. Subsequent to initial recognition these instruments are measured as set out below.

Purchases and sales of investments are recognised on trade date, the date on which the Building Society commits to purchase or sell the asset.

Financial assets are assessed for impairment at each balance date.

Financial assets at fair value through profit or loss

Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the profit or loss in the period in which they arise. The Building Society has no financial assets at fair value through profit or loss in the reported periods.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are stated at amortised cost using the effective interest method less accumulated impairment losses. Cash and cash equivalents and Advances on Mortgage listed in the Building Society's statement of financial position are classified as loans and receivables.

2. SIGNIFICANT ACCOUNTING POLICIES Cont'd

Held-to-maturity investments

These investments have fixed maturities, and the Building Society has the intention and ability to hold these investments to maturity. Any held-to-maturity investments held by the Building Society are stated at amortised cost using the effective interest method less accumulated impairment losses. The Building Society has no held to maturity investments in the reported periods.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets specifically classified as such by management and those financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity. If available-for-sale financial instruments suffer a significant or prolonged decline in market value the impairment is recognised in the profit or loss. Investment securities are classified as available for sale financial assets. The Building Society does not own any equity instruments.

The fair value of available for sale financial assets must be estimated for recognition and measurement purposes. The fair value of financial instruments that are traded in an active market is determined by reference to recent market transactions. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques.

Derecognition of Financial Instruments

Financial assets are derecognised when the Building Society neither retains the risks and rewards of ownership nor controls the contractual rights to the cash flows from them. Financial liabilities are derecognised when the Building Society obligation under the liability is discharged, cancelled or expires.

Borrowings (Redeemable shares)

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Trade payables

Trade and other payables represent unsecured liabilities for goods and services provided to the Building Society prior to the end of the financial year which are unpaid. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. As trade and other payables are usually paid within 30 days, they are carried at face value.

(d) Impairment of Advances on Mortgage

An assessment is made at each balance date when there is objective evidence that Advances on Mortgage are impaired. Individually significant Advances on Mortgage are assessed for impairment. All Advances on Mortgage not assessed as individually impaired or individually significant are then collectively assessed for impairment. The Building Society considers the history of loan write offs and overdue loans when assessing collective impairment. An Advance on Mortgage is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the Advances on Mortgage and can be reliably estimated. Objective evidence that an Advance on Mortgage is impaired includes observable data that comes to the attention of the directors about the following loss events:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- a concession granted to the borrower that the Building Society would not otherwise consider for economic or legal reasons relating to the borrower's financial difficulty; or
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Advances on Mortgage which are known to be uncollectible are written off as an expense in the profit or loss. Such Advances on Mortgage are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors credit rating), the previously recognised impairment loss is reversed by adjusting the allowance amount, with the reversal being recognised in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES Cont'd

The various components of impaired loans are as follows:

Restructured loans are loans where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member and the yield on the asset following restructuring is equal to or greater than the average cost of funds or a loss is not otherwise expected.

Financial assets acquired through the enforcement of security are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

Other impaired loans (individually and collectively impaired) are loans and advances for which there is reasonable doubt that the Building Society will be able to collect all amounts of principal and interest in accordance with the terms of the agreement and provisions for impairment are recognised.

(e) Income tax

Income tax expense

Income tax comprises current tax, deferred tax and any adjustments for tax payable in previous periods. Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss.

Current tax

Current tax is the expected tax payable on the income for the period based on tax rates and tax laws which are enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is accounted for using the liability method. Deferred tax arises by providing for temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the equivalent amounts used for tax purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the asset and liability giving rise to them are realised or settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be realised. Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(f) Investment Property

Investment property (property held for long term rental yields or capital appreciation) is initially recognised at cost and subsequently valued by independent registered valuers. Investment property is carried at the revalued amount which is the fair value at date of revaluation.

Movements in fair value are recognised in the profit or loss then any revaluation surplus/(deficit) is transferred from retained earnings to the revaluation reserve to show the revaluation of investment property distinct from core business earnings.

Gains or losses on disposal are recognised in the profit or loss. Upon disposal any revaluation reserve relating to the particular asset being disposed of is transferred back to retained earnings.

(g) Office Equipment

All items of office equipment are initially measured at cost. The cost of an item of office equipment includes its purchase price and costs directly attributable to bringing it to the location and condition necessary for it to operate as intended.

2. SIGNIFICANT ACCOUNTING POLICIES Cont'd

After initial recognition, all items of office equipment are measured at cost less accumulated depreciation and impairment losses.

Subsequent costs are added to the carrying amount of an item of office equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Building Society and the cost of the item can be measured reliably. All other repairs and maintenance costs are recognised in the profit or loss as an expense as incurred.

Where material parts of an item of office equipment have different useful lives, they are accounted for as separate items of office equipment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (i.e. if the asset is impaired).

An item of office equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

Depreciation

Depreciation on office equipment is calculated using the diminishing value method to allocate their cost to their residual values over their estimated useful lives. Depreciation is charged to the profit or loss.
Depreciation rates are as follows:

Office Equipment	10% - 60% per annum

The residual value and useful lives of all assets are reviewed and adjusted if appropriate at each reporting date.

(h) Impairment Testing of Non-Financial Assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Building Society conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses directly reduce the carrying amount of assets and are recognised in the profit or loss.

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Goods and Services Tax

The principal activity of the Building Society is a financial institution, which is a non taxable activity for GST purposes in accordance with section 14(1) (a) of The Goods and Services Tax Act 1985. With the exception of rental income from its investment property, the Building Society is treated as an end user for GST purposes. GST exclusive accounting is adopted except for non-recoverable GST which is added to expenses and office equipment. GST is included on Trade receivables and Trade payables.

2. SIGNIFICANT ACCOUNTING POLICIES Cont'd

(j) Cash Flow Statement

The Cash Flow Statement is prepared using the direct approach.

Definitions of terms used in the Statement of Cash Flows:

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. The directors consider all bank deposits to be cash and cash equivalents, as they are available as cash for liquidity purposes. Deposits are sometimes longer than three months to obtain greater returns, but are considered cash and cash equivalents.

Investing Activities are those activities relating to the acquisition and disposal of long term assets and other investments not included in cash and cash equivalents.

Financing Activities are those activities relating to changes in the size and composition of the capital structure of the Building Society. There were no financing activities in the reporting periods.

Operating Activities include all transactions and other events that are not investing or financing activities. Cash flows arising from movements in loans and shares are classified as operating activities. Operating activities are the principal revenue generating activities of the Building Society.

(k) Critical Estimates, Judgements and Assumptions in Applying the Accounting Policies

The preparation of financial statements in conformity with NZ IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Building Society's accounting policies. The areas involving a higher degree of complexity, or areas where assumptions and estimates are significant to the financial statements are determining the fair value of the investment property and impairment of the advances on mortgage which are disclosed in notes 7 and 8.

(l) Changes in Accounting policies

There have been no other changes in accounting policies. All policies have been applied on bases consistent with those used in previous periods.

(m) NZ IFRS issued but not yet effective

The following NZ IFRS has been issued but is not yet effective. The impact of this revision has not yet been assessed.

Standard	Effective for periods Beginning on or After	Initial Application In year ending
NZ IFRS 9 Financial instruments	1 January 2018	31 March 2019
NZ IFRS 15 Revenue from contracts with customers	1 January 2017	31 March 2018

2. SIGNIFICANT ACCOUNTING POLICIES Cont'd

(m) NZ IFRS issued but not yet effective (Cont'd)

NZ IFRS 9 Financial Instruments is applicable for annual periods beginning on or after 1 January 2018. Earlier application is permitted. NZ IFRS 9 is part of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard introduces amended requirements for classifying and measuring financial assets and liabilities, impairing financial assets and for hedge accounting. Management is still assessing the impact that the adoption of NZ IFRS 9 will have.

NZIFRS 15 Revenue from Contracts with Customers is applicable for annual periods beginning on or after 1 January 2017. Earlier application is permitted. The standard provides a single, comprehensive principles based five step model to be applied to all contracts with customers including some new disclosures about revenue. Management is still assessing the impact that the adoption of NZ IFRS 15 will have.

3. TAXATION

(A) CURRENT PERIOD TAX

(A) CURRENT PERIOD TAX	Mar 15	Mar 14
Profit before tax	(159,401)	475,808
Adjustment for items not subject to tax	200,000	(400,000)
Taxable Surplus	40,600	75,808
Tax at 28%	11,368	21,226
Current Period Tax Charge	11,368	21,226
Effective Tax Rate	28%	28%
Comprising		
Current tax payable	21,168	24,026
Deferred tax	(9,800)	(2,800)
TOTAL TAX EXPENSE	**11,368**	**21,226**
Tax Payable at start of year	15,869	(4,827)
Less: Tax Paid	(29,793)	(3,330)
Current Tax Payable	21,168	24,026
Tax Payable at end of year	7,244	15,869

(B) DEFERRED TAX LIABILITY / (ASSET)

Mar 15	Impairment Provision	Depreciation	Available for Sale	Total
Balance at beginning of period	**(24,080)**	**140,888**	**(1,304)**	**115,504**
Temporary differences through Income	**(9,800)**			**(9,800)**
Temporary differences through Equity			**13,721**	**13,721**
Balance at end of period	**(33,880)**	**140,888**	**12,417**	**119,425**

Mar 14	Impairment Provision	Depreciation	Available for Sale	Total
Balance at beginning of period	(21,280)	140,888	(7,256)	112,352
Temporary differences through Income	(2,800)			(2,800)
Temporary differences through Equity			5,952	5,952
Balance at end of period	(24,080)	140,888	(1,304)	115,504

4. EQUITY

The nature and purpose of each reserve is as follows:

Retained earnings: The undistributed profits of the Building Society that have not been transferred to another reserve.

General reserve: A reserve set aside to ensure the equity of the Building Society is sufficient to cover required reserve ratios. Refer note 12(e) for details.

Available for sale reserve: A reserve to maintain the cumulative difference between the fair value and cost of investment securities.

Revaluation reserve: A reserve to maintain the cumulative difference between the fair value and cost of investment property. The revaluation amount in each year is transferred to this reserve from Retained Earnings.

5. CASH AND CASH EQUIVALENTS

	Mar 15	Mar14
	$	$
Bank balance	77,228	73,999
Bank deposits	6,011,554	4,635,520
TOTAL CASH AND CASH EQUIVALENTS	6,088,782	4,709,519

All balances are available within 4 months. The deposits are liquidity funds held by the Building Society.

Two of the operational bank accounts are set off by the bank for debt and interest purposes. The bank accounts are not offset for financial reporting purposes.

6. INVESTMENT SECURITIES (New Zealand debt exchange listed bonds)

	Mar 15	Mar 14
	$	$
Opening Balance	841,320	823,596
Bond Purchased	405,421	-
Reserve Increase/(Decrease)	49,004	21,257
Accrued Interest Movement	7,744	(3,533)
CLOSING BALANCE (New Zealand Listed Bonds)	1,303,489	841,320

The fair value of investment securities is derived from their quoted prices on the New Zealand Debt Exchange (NZDX).

7. INVESTMENT PROPERTY

	Mar 15	Mar 14
(A) CLASSES OF INVESTMENT PROPERTY		
Freehold land (at valuation)	1,000,000	1,000,000
Buildings (at valuation)	1,400,000	1,600,000
TOTAL INVESTMENT PROPERTY	**2,400,000**	**2,600,000**
(B) MOVEMENTS IN CARRYING AMOUNTS		
Carrying value at the beginning of the period	2,600,000	2,200,000
Revaluation movement in profit or loss	(200,000)	400,000
Carrying value at the end of the period	2,400,000	2,600,000

(C) VALUATION DETAILS

Investment property is stated at a fair value of $2,400,000 (2014 - $2,600,000), determined by Louise Thompson BBS (VPM), MPINZ, an independent registered valuer from Logan Stone Limited, Hastings on 31 March 2015. The fair value is determined by the investment approach with the proposed contractual rent capitalised at rates ranging from 8.00% to 8.50% (2014 – 7.25% to 7.75%). The fair value of $2,400,000 (2014 - $2,600,000) is determined based on the contractual rent of $196,000 (2014 - $189,990) capitalised at 8.17% (2014 – 7.31%). The fair value resulting from the investment approach is then compared with the value implied by recent market transactions as a secondary check method. The investment property is a commercial office building which generated income during the period. Direct property expenses are paid by the tenant (Brown Webb Richardson Ltd – refer note 19 for details).

The current lease to Brown Webb Richardson Limited expires on 30 September 2026. The assessed valuation was undertaken on this basis.

The investment property is Level 3 on the fair value hierarchy. Refer to Note 18 for details of the fair value hierarchy.

8. ADVANCES ON MORTGAGE

All advances are secured by 1st Mortgage. There is one borrower which exceeds the Building Society's maximum Loan to Value Ratio (LVR) set out in Note 12 (c) being the impaired residential advance (refer D below) with a carrying value of $502,523 (2014 - $509,861).

		Mar 15		Mar 14	
(A) ADVANCES ON MORTGAGE COMPRISE					
Secured Advances		14,051,820		14,993,612	
Less: Provision for Impairment		(121,000)		(86,000)	
		13,930,820		**14,907,612**	
(B) MORTGAGES COMPRISE					
Residential		9,645,028	69%	10,587,184	71%
Commercial		3,120,134	22%	3,120,715	21%
Rural		1,165,658	9%	1,199,713	8%
TOTAL		**13,930,820**	**100%**	**14,907,612**	**100%**
Average LVR's	**Policy Maximum**				
Residential	80%		37%		33%
Commercial	60%		31%		35%
Rural	50%		16%		18%

Calculation based on value of property at loan inception and current balance of loan.

	Mar 15		Mar 14	
(C) GEOGRAPHICAL CONCENTRATION				
Hawkes Bay	12,689,632	91%	12,898,168	87%
Taupo	154,820	1%	199,965	1%
Wellington	692,649	5%	734,213	5%
North Island - Other	393,719	3%	507,302	3%
South Island	-	-	567,964	4%
	13,930,820	**100%**	**14,907,612**	**100%**

(D) CREDIT IMPAIRMENT

The Building Society makes estimates and assumptions concerning the future when assessing the impairment provision on loans including the expected cash flows of the borrower and the valuation of security. The resulting accounting estimates will seldom equal the related actual results and there is a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Directors have assessed that a collective impairment provision is not required based on there being no write-offs in recent years and consistently low average LVR's.

	Mar 15	Mar 14
	$	$
(i) Provision for Individual Loan Impairment		
Opening Balance	86,000	76,000
Movement in Provision during the period	35,000	10,000
Closing Balance	**121,000**	**86,000**
(ii) Individual Impaired Loan Analysis		
Opening Balance	595,861	598,617
Add/(Less): Additional impaired balance/(impaired loan repayment)	27,662	(2,756)
Closing Balance	**623,523**	**595,861**

8. ADVANCES ON MORTGAGE

	Mar 15	Mar 14
	$	$
(E) CREDIT QUALITY – AGING ANALYSIS		
Fully compliant advances	12,413,463	14,405,089
Past due not impaired advances	1,014,835	-
Up to 90 days		
Impaired Advances		
Restructured Advances	623,523	588,523
	14,051,820	14,993,612
Less: Individual Provision for Impairment	121,000	86,000
	13,930,820	**14,907,612**

9. OFFICE EQUIPMENT

(A) OFFICE EQUIPMENT

	Mar 15	Mar 14
At cost/valuation	55,875	42,764
Accumulated depreciation	(43,714)	(33,002)
TOTAL OFFICE EQUIPMENT	**12,161**	**9,762**

(B) MOVEMENTS IN CARRYING AMOUNTS

	Mar 15	Mar 14
Balance at beginning of period	9,762	699
Addition	13,111	9,203
Depreciation Expense	(10,712)	(140)
CARRYING AMOUNT AT END OF PERIOD	**12,161**	**9,762**

10. REDEEMABLE SHARES

	Mar 15	Mar 14
Call shares	6,406,236	6,415,601
Term shares	12,738,436	11,917,493
TOTAL SHARES	**19,144,672**	**18,333,094**

Shares are classified as financial liabilities because they are repayable on demand for call shares, and repayable at the end of the term for term shares and the total expected cashflows attributable to the shares are not based on the profit or change in fair value of net assets.

Term shares are invested for terms between one to twelve months. At 31 March 2015 interest rates on term shares ranged from 3.75% to 4.60% (2014 – 3.30% to 4.50%).

Call shares interest rates at 31 March 2015 ranged from 3.00% to 3.50% (2014 – 3.00% to 3.50%).

11. CASH FLOW STATEMENT RECONCILIATION

Reconciliation of cash flow from operating activities with operating profit

	Mar 15	Mar 14
	$	$
Net Operating Profit/(Loss) after Tax	(170,769)	454,582
Non Cash Items		
Depreciation	10,712	140
Deferred Tax	(9,800)	(2,800)
Movement in Provision for Loan Impairment	35,000	10,000
(Increase)/Decrease in fair value of investment property	200,000	(400,000)
Changes in Assets and Liabilities		
(Increase)/decrease in Prepayments	2,255	(39)
(Increase)/decrease in Accrued Interest Receivable	53,942	15,622
Increase/(decrease) in Taxation Payable	(8,623)	20,694
Increase/(decrease) in Accounts Payable	(2,009)	(761)
Increase/(decrease) in Accrued Interest Payable	6,864	2,134
Increase/(decrease) in Provision for Directors' Fees	1,751	5,527
Net (increase)/decrease in Advances on Mortgage	880,110	633,929
Net increase/(decrease) in Redeemable Shares	804,714	(762,622)
NET OPERATING CASHFLOW	**1,804,147**	**(23,591)**

12. RISK MANAGEMENT OBJECTIVES AND POLICIES

The board has endorsed a policy of compliance and risk management to suit the risk profile of the Building Society.

Key risk management policies encompassed in the overall risk management framework include:

- Liquidity risk management
- Market risk management
- Credit risk management
- Capital adequacy management

The Building Society has undertaken the following strategies to minimise the risks arising from financial instruments:

(a) Liquidity risk

Liquidity risk is the risk that the Building Society may encounter difficulties raising funds to meet commitments associated with financial liabilities. It is the policy of the Board of Directors that the Building Society maintains adequate cash reserves and committed credit facilities (refer note 21) so as to meet member withdrawal demands when requested.

The Building Society manages liquidity risk by:

- Continuously monitoring forecast and actual daily cash flows
- Reviewing the maturity profiles of financial assets and liabilities
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities

The Building Society's policy is to maintain at least 15% of total assets less equity as liquid assets (i.e. cash and cash equivalents, investment securities and standby bank facilities) capable of being converted to cash within 30 days. Should the liquidity ratio fall below this level, the management and board are to address the matter and ensure that liquid funds are obtained from new deposits or borrowing facilities available.

	Mar 15	Mar 14
Liquidity Ratio (including Bank facilities)	42%	34%

12. RISK MANAGEMENT OBJECTIVES AND POLICIES – Cont'd

(a) Liquidity risk – cont'd

The ability to demand repayment of all member loans provides the Building Society with potential access to funds if some or all members' shares required repayment. The Building Society also has the right at any time to require a fourteen days notice period for repayment of term redeemable shares. The Building Society also has bank facilities (refer Note 21). The Maturity Profile – (note 13) provides more detail of liquidity risk.

Priority of Creditors Claims

In liquidation or insolvency, claims by redeemable shareholders will rank equally with other redeemable shareholders, and behind unsecured creditors and those creditors given priority by Law.

(b) Market risk

The Building Society is exposed to interest rate risk arising from changes in market interest rates. The Building Society is not exposed to any currency risk. The Building Society does not trade in the financial instruments it holds on its books.

Interest rate risk is the risk of loss to the Building Society arising from adverse changes in interest rates. The Building Society is exposed to interest rate risk in respect of its following activities: borrowing from and lending to customers and investing in money market instruments. Changes in interest rates can impact the Building Society's financial results by affecting the spread earned on interest earning assets and interest paying liabilities and impacting on the market value of other financial instruments held.

The policy of the Building Society to manage the risk is to maintain a balanced "on book" strategy by ensuring the net interest rate gaps between financial assets and liabilities are not excessive.

The interest repricing profile and interest sensitivity analysis details are provided in Note 14.

(c) Credit risk – Advances on Mortgage

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Building Society incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Building Society.

The nature of the Building Society's activities as a financial intermediary necessitates the Building Society dealing in financial instruments that contain an inherent element of credit risk. Credit exposure means the amount of the maximum loss that the Building Society could incur as a result of the counterparty to a contract failing to discharge its obligations, without taking into account the value of collateral, guarantees, indemnities, other support arrangements and any potential recoveries. The Building Society's activities are conducted within the bounds of prudent and conservative banking practice.

Loans can only be made to Building Society members. The Building Society has a lending policy that requires various levels of security for loans.

The Building Society has established policies or procedures over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements. Maximum loan to value ratios are 80% (Residential), 60% (Commercial and 50% (Rural). As detailed in note 8, only one loan is outside the maximum loan to value ratio policy.
- Limits of exposure over the value to individual borrowers, commercial lending and concentrations to geographic and industry groups considered at high risk of default
- Reassessing and review of the credit exposures on loans and facilities
- Establishing appropriate provisions to recognise the impairment of loans
- Debt recovery procedures

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. All loans require collateral security which the Building Society can enforce by disposing of the secured assets in the event of default. The board policy is to maintain the loans in well secured mortgages.

Regular reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days if not rectified. For loans where repayments are not being met after normal internal collection procedures, external consultants are engaged to conduct recovery action.

Refer Note 15 for further details of credit risk.

12. RISK MANAGEMENT OBJECTIVES AND POLICIES – Cont'd

(d) Credit risk – Investment securities and cash and cash equivalents

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Building Society incurring a financial loss. This occurs when debtors fail to settle their obligations owing to the Building Society.

The board policy is to place the investments either with New Zealand registered banks or other board approved entities which carry an investment grade rating (BBB). The maximum investment with any one New Zealand registered bank is not to exceed $6,000,000.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investee and the limits to concentration on one entity.

Refer Note 15 for further details of credit risk.

(e) Capital management

To manage the Building Society's capital (referred to as equity in the statement of financial position), which can be affected by excessive growth and by changes in total assets, the Building Society regularly reviews the capital adequacy ratio to ensure it is above 10% and monitors major movements in the asset levels.

The capital adequacy requirement is defined and set out in the Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010 and is incorporated into the Trust Deed. The minimum required capital adequacy ratio for the Building Society is 10%. The capital adequacy ratio at balance date is 19.50% (31 March 2014 – 19.36%). The Society has complied with the Capital adequacy requirement throughout the year.

13. MATURITY PROFILE

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in case of loans the repayment amount and frequency. The associated table shows the period in which different financial assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained.

The contractual maturity profile indicates a significant liquidity deficiency for the 1 to 3 month, 3 to 6 month and 6 to 12 month periods from 31 March 2015. In order to help manage the potential mismatch and meet its obligations as they fall due the Building Society has available credit facilities with its bank (refer note 21 for details). Also, no account is taken of possible early loan repayments and all loans to members are payable on demand. The contractual profile assumes that all shares are repaid when they mature. In the ordinary course of business the Building Society normally achieves high re-investment rates 98%, (31 March 2014 – 95%) ensuring that it does not need to demand repayment of the loans. These factors have been incorporated into the expected maturity profile. It is difficult to reliably predict early loan repayments therefore these have not been included in the expected maturity profile.

13. MATURITY PROFILE – Cont'd

CONTRACTUAL MATURITY TIMEFRAME									
Mar-15	On Demand	Within 1 Month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Total
MONETARY ASSETS									
Cash and Cash Equivalents	1,407,228	1,213,375	1,765,357	1,702,822	-	-	-	-	6,088,782
Investment Securities		212,925	4,075	-	-	-	316,299	770,190	1,303,489
Advances on Mortgage		100,488	163,800	359,765	1,499,522	796,001	2,127,646	8,883,598	13,930,820
Interest Receivable									
Cash and cash equivalents		1,353	11,344	25,326	-	-	-	-	38,023
Investment securities		1,865	11,778	15,653	37,230	64,358	175,059	-	305,943
Advances on mortgage		72,785	145,399	218,327	426,074	723,571	1,879,589	5,039,834	8,505,579
Interest Receivable – sub total	-	76,003	168,521	259,306	463,304	787,929	2,054,648	5,039,834	8,849,545
TOTAL MONETARY ASSETS	1,407,228	1,602,791	2,101,753	2,321,893	1,962,826	1,583,930	4,498,593	14,693,622	30,172,636
MONETARY LIABILITIES									
Trade Payables		3,593							3,593
Redeemable Shares	6,406,236	1,690,668	2,524,986	5,318,627	3,204,155				19,144,672
Interest Payable		32,362	64,144	125,278	121,982				343,766
TOTAL MONETARY LIABILITIES	6,406,236	1,726,623	2,589,130	5,443,905	3,326,137	-	-	-	19,492,031
NET MONETARY ASSETS	(4,999,008)	(123,832)	(487,377)	(3,122,012)	(1,363,311)	1,583,930	4,498,593	14,693,622	10,680,605
Unrecognised Mortgage Commitments (Refer Note 20)		(1,304,708)							(1,304,708)
Net Liquidity Gap	(4,999,008)	(1,428,540)	(487,377)	(3,122,012)	(1,363,311)	1,583,930	4,498,593	14,693,622	9,375,897
NET LIQUIDITY GAP – CUMULATIVE	(4,999,008)	(6,427,548)	(6,914,925)	(10,036,937)	(11,400,248)	(9,816,318)	(5,317,725)	9,375,897	

13. MATURITY PROFILE – Cont'd

CONTRACTUAL MATURITY TIMEFRAME									
Mar-14	On Demand	Within 1 Month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Total
MONETARY ASSETS									
Cash and Cash Equivalents	2,040,143	861,268	1,503,965	304,143	-	-	-	-	4,709,519
Investment Securities		10,320	-	-	-	195,010	-	635,990	841,320
Advances on Mortgage		136,231	241,246	142,638	704,137	2,262,638	2,749,776	8,670,946	14,907,612
Interest Receivable									
Bank Deposit (Cash or Cash Equivalents)		996	10,672	2,140	-	-	-	-	13,808
Investment Securities		1,310	11,629	6,349	17,979	35,541	92,573	-	165,381
Advances on mortgage		67,488	132,901	196,577	376,058	699,075	1,927,975	3,277,621	6,677,695
Interest Receivable – sub total	-	69,794	155,202	205,066	394,037	734,616	2,020,548	3,277,621	6,856,884
TOTAL MONETARY ASSETS	2,040,143	1,077,613	1,900,413	651,847	1,098,174	3,192,264	4,770,324	12,584,557	27,315,335
MONETARY LIABILITIES									
Trade Payables		10,710							10,710
Redeemable Shares	6,415,601	1,766,442	2,630,150	4,530,237	2,990,664				18,333,094
Interest Payable		19,555	46,894	87,177	92,293				245,919
TOTAL MONETARY LIABILITIES	6,415,601	1,796,707	2,677,044	4,617,414	3,082,957	-	-	-	18,589,723
NET MONETARY ASSETS	(4,375,458)	(719,093)	(776,631)	(3,965,567)	(1,984,783)	3,192,264	4,770,324	12,584,557	8,725,612
Unrecognised Mortgage commitments (Refer Note 20)		(1,451,963)							(1,451,963)
Net Liquidity Gap	(4,375,458)	(2,171,056)	(776,631)	(3,965,567)	(1,984,783)	3,192,264	4,770,324	12,584,557	7,273,649
NET LIQUIDITY GAP – CUMULATIVE	(4,375,458)	(6,546,514)	(7,323,145)	(11,288,711)	(13,273,494)	(10,081,230)	(5,310,907)	7,273,649	

13. MATURITY PROFILE – Cont'd

EXPECTED MATURITY TIMEFRAME										
Mar-15	Effective Interest rate	On Demand	Within 1 Month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Total
MONETARY ASSETS										
Cash and Cash Equivalents	3.79%	150,000	350,000	800,000	700,000		-		4,088,782	6,088,782
Investment Securities	5.18%		212,925	4,075	-	-	-	316,299	770,190	1,303,489
Advances on Mortgage	6.33%		100,487	163,800	359,765	1,499,522	796,001	2,127,646	8,883,599	13,930,820
Interest Receivable										
Cash or Cash Equivalents			1,353	11,344	45,374	77,482	154,965	464,895	1,084,754	1,840,167
Investment securities			1,865	11,778	15,653	37,230	64,358	175,059	-	305,943
Advances on mortgage			72,785	145,399	218,327	426,074	723,571	1,879,589	5,039,834	8,505,579
Interest Receivable – sub total			76,003	168,521	279,354	540,786	942,894	2,519,543	6,124,588	10,651,689
TOTAL MONETARY ASSETS		150,000	739,415	1,136,396	1,339,119	2,040,308	1,738,895	4,963,488	19,867,159	31,974,780
MONETARY LIABILITIES										
Trade Payables			3,593							3,593
Redeemable Shares	4.07%	111,237	370,626	655,617	733,422	320,416	1,146,459	3,095,440	12,711,455	19,144,672
Interest Payable			32,362	64,144	240,357	215,782	665,731	1,717,863	2,422,967	5,359,206
TOTAL MONETARY LIABILITIES		111,237	406,581	719,761	973,779	536,198	1,812,190	4,813,303	15,134,422	24,507,471
NET MONETARY ASSETS		38,763	332,834	416,635	365,340	1,504,110	(73,295)	150,185	4,732,737	7,467,309
Unrecognised Mortgage commitments (Refer Note 20)			(304,708)	(300,000)	(300,000)	(300,000)	(100,000)			(1,304,708)
Net Liquidity Gap		38,763	28,126	116,635	65,340	1,204,110	(173,296)	150,185	4,732,738	6,162,601
NET LIQUIDITY GAP – CUMULATIVE		38,763	66,889	183,524	248,864	1,452,974	1,279,678	1,429,863	6,162,601	

13. MATURITY PROFILE – Cont'd

EXPECTED MATURITY TIMEFRAME										
Mar-14	Effective Interest rate	On Demand	Within 1 Month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Total
MONETARY ASSETS										
Cash and Cash Equivalents	3.77%	150,000	300,000	500,000	500,000		400,000		2,859,519	4,709,519
Investment Securities	4.00%		10,320	-	-	-	195,010	443,335	192,655	841,320
Advances on Mortgage	5.76%		136,230	241,246	142,638	704,137	2,262,638	2,749,776	8,670,947	14,907,612
Interest Receivable										
Cash or Cash Equivalents			996	10,672	35,433	61,442	122,884	323,412	754,627	1,309,466
Investment securities			1,310	11,629	6,349	17,979	35,541	92,573	-	165,381
Advances on mortgage			67,488	132,902	196,578	376,059	699,075	1,927,974	3,277,619	6,677,695
Interest Receivable – sub total		-	69,794	155,203	238,360	455,480	857,500	2,343,959	4,032,246	8,152,542
TOTAL MONETARY ASSETS		150,000	516,344	896,449	880,998	1,159,617	3,715,148	5,537,070	15,755,367	28,610,993
MONETARY LIABILITIES										
Trade Payables			10,710							10,710
Redeemable Shares	4.04%	103,900	88,322	339,308	330,412	149,533	566,081	1,613,331	15,142,207	18,333,094
Interest Payable			19,555	46,894	220,002	188,594	638,559	1,783,603	2,640,908	5,538,115
TOTAL MONETARY LIABILITIES		103,900	118,587	386,202	550,414	338,127	1,204,640	3,396,934	17,783,115	23,881,919
NET MONETARY ASSETS		46,100	397,757	510,247	330,584	821,490	2,510,508	2,140,136	(2,027,748)	4,729,072
Unrecognised Mortgage commitments (Refer Note 20)			(200,000)	(500,000)	(300,000)	(451,963)				(1,451,963)
Net Liquidity Gap		46,100	197,757	10,247	30,584	369,527	2,510,508	2,140,136	(2,027,748)	3,277,109
NET LIQUIDITY GAP – CUMULATIVE		46,100	243,857	254,104	284,688	654,214	3,164,723	5,304,858	3,277,109	

14. INTEREST REPRICING PROFILE AND INTEREST SENSITIVITY ANALYSIS

The Building Society's interest rate repricing timeframes are set out below. The effective weighted average interest rate on classes of financial assets and financial liabilities are also included in the table below. Only interest sensitive financial assets and liabilities have been included.

REPRICING TIMEFRAME						
Mar 15	Weighted average rate %	0 – 6 Months	6 – 12 Months	1 – 2 Years	2 – 5 Years	Total
MONETARY ASSETS						
Cash and Cash Equivalents	3.79%	6,088,782				6,088,782
Investment Securities	5.18%	200,740	472,500		630,249	1,303,489
Advances on Mortgage	6.33%	8,232,141	1,522,224	4,106,422	70,033	13,930,820
TOTAL MONETARY ASSETS		14,521,663	1,522,224	4,106,422	1,172,782	21,323,091
MONETARY LIABILITIES						
Redeemable Shares	4.07%	15,940,515	3,204,157			19,144,672
TOTAL MONETARY LIABILITIES		15,940,515	3,204,157			19,144,672
TOTAL MISMATCH		(1,418,852)	(1,681,933)	4,106,422	1,172,782	2,178,419

14. INTEREST REPRICING PROFILE AND INTEREST SENSITIVITY ANALYSIS

The Building Society's interest rate repricing timeframes are set out below. The effective weighted average interest rate on classes of financial assets and financial liabilities are also included in the table below. Only interest sensitive financial assets and liabilities have been included.

REPRICING TIMEFRAME						
Mar 14	Weighted average rate %	0 – 6 Months	6 – 12 Months	1 – 2 Years	2 – 5 Years	Total
MONETARY ASSETS						
Cash and Cash Equivalents	3.77%	4,709,519				4,709,519
Investment Securities	4.00%	196,420	447,500		197,400	841,320
Advances on Mortgage	5.76%	11,454,689	1,995,033	1,457,890		14,907,612
TOTAL MONETARY ASSETS		16,360,628	2,442,533	1,457,890	197,400	20,458,451
MONETARY LIABILITIES						
Redeemable Shares	3.75%	15,342,428	2,990,666			18,333,094
TOTAL MONETARY LIABILITIES		15,342,428	2,990,666			18,333,094
TOTAL MISMATCH		1,018,200	(548,133)	1,457,890	197,400	2,125,357

14. INTEREST REPRICING PROFILE AND INTEREST SENSITIVITY ANALYSIS

Sensitivity Analysis

The following table summarises the sensitivity of the Building Society's financial assets and financial liabilities to 1% movement in interest rates on the Building Society's financial results and position.

	31 MAR 15			31 MAR 14		
	Carrying Amount $	-1% Profit and Equity $	+1% Profit and Equity $	Carrying Amount $	-1% Profit and Equity $	+1% Profit and Equity $
FINANCIAL ASSETS						
Cash and Cash Equivalents	6,088,782	(51,099)	51,099	4,709,519	(42,301)	42,301
Investmenat Securities	1,303,489	(11,808)	11,808	841,320	(6,808)	6,808
Advances on Mortgage	13,930,820	(144,921)	144,921	14,907,612	(139,108)	139,108
		(207,828)	207,828		(188,217)	188,217
FINANCIAL LIABILITIES						
Redeemable Shares	19,144,672	(115,174)	115,174	18,333,094	(109,340)	109,340
		(92,654)	92,654		(78,877)	78,877
Less: Taxation		(25,943)	(25,943)		(22,086)	(22,086)
NET IMPACT		(66,711)	66,711		(56,791)	56,791

Assumptions:

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on loans and bank deposits for the next 12 months. In doing the calculation the assumptions applied were that:

- The interest rate change would be applied equally over all the financial assets.
- The rate change would be as at the beginning of the 12-month period and no other rate changes would be effective during the year.
- Bank deposits and investment securities would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable.
- The value and mix of mortgage loans will be unchanged.
- Impaired loans would not generate a profit effect from interest rate changes.

15. CREDIT RISKS

(a) Maximum credit risk exposure

The Building Society's maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the Statement of Financial Position.

	Mar 15	Mar 14
	$	$
Cash and Cash Equivalents	6,088,782	4,709,519
Investment Securities	1,303,489	841,320
Advances on Mortgage	13,930,820	14,907,613
	21,323,091	20,458,452

(b) Concentrations of credit risk

Credit risk is currently managed in accordance with policies to reduce the Building Society's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement.

The Building Society considers there is no concentration of credit risk on Advances on Mortgage with respect to customer, industry or economic sector as the Building Society has a large, diversified number of loans. Advances on mortgages are concentrated in Hawke's Bay (refer Note 8). The Building Society considers there is no concentration of credit risk on investment securities or cash and cash equivalents with respect to industry or economic sector as the Building Society spreads its investments and cash deposits across various well rated banks with Standard and Poors (or equivalent) rating of BBB+ or better. There are five counterparties for investment securities and cash and cash equivalents.

All counterparties to financial assets are based in New Zealand.

(c) Large counterparties

The Building Society has exposure to counterparties in excess of 10% of equity as follows:

	2015		2014	
	Advances on Mortgages	Cash and Cash Equivalents	Advances on Mortgages	Cash and Cash Equivalents
Greater than 100% of equity				
Between 90% and 100% of equity				
Between 80% and 90% of equity		1		
Between 70% and 80% of equity				
Between 60% and 70% of equity				1
Between 50% and 60% of equity				
Between 40% and 50% of equity				1
Between 30% and 40% of equity	1	2		
Between 20% and 30% of equity	2		3	
Between 10% and 20% of equity	6	1	6	

16. CURRENT AND NON- CURRENT ASSETS AND LIABILITIES

	Mar 15	Mar 14
Current assets		
Cash and cash equivalents	6,088,782	4,709,519
Prepayments	4,650	6,905
Current portion of Investment Securities	200,740	-
Current portion of Advances on Mortgage	2,097,735	1,523,803
Total current assets	8,389,907	6,240,227
Non current portion of Investment securities	1,100,749	841,320
Investment property	2,400,000	2,600,000
Non-current portion of Advances on Mortgage	11,833,085	13,383,809
Office Equipment	12,161	9,762
Total non-current assets	15,345,995	16,834,891
Total assets	23,735,902	23,075,118
Current liabilities		
Redeemable Shares	19,144,672	18,333,094
Tax Payable	7,244	15,867
Accounts Payable	73,637	81,994
Provision for Directors Fees	36,751	35,000
Total current liabilities	19,262,304	18,465,955
Deferred taxation	119,426	115,505
Total non-current liabilities	119,426	115,505
Total liabilities	19,381,730	18,581,460

17. CONCENTRATION OF FUNDING

The Building Society's source of funding is redeemable shares. The funding is concentrated within the Hawke's Bay region of the North Island of New Zealand. The funding from members is recorded as Redeemable Shares in the Statement of Financial Position.

	Mar-15	Mar-14
Hawke's Bay	18,483,952	17,809,464
Rest of New Zealand	523,346	438,992
Overseas	137,374	84,638
	19,144,672	18,333,094

18. FAIR VALUE OF ASSETS AND LIABILITIES AND FAIR VALUE HIERARCHY

(a) Fair value hierarchy

The following fair value information provides an analysis of the assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Investment securities (Level 1) and Investment Property (Level 3) are the only items carried at fair value. The securities are valued using current market prices. Refer to note 6 for details of the fair value of investment securities and the effect of the fair value measurement on other comprehensive income.

For details of the valuation method, inputs and the effect of fair value measurement on profit or loss for Investment Property, refer to note 7.

(b) Fair value of financial instruments not carried at fair value

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Building Society.

For financial instruments not carried at fair value, the carrying amount approximates fair value for the reasons detailed below. The fair value estimates were determined by the above methodologies and following assumptions.

Cash and cash equivalents

The reported amount approximates fair value because they are available on Call and attract interest at market rates.

Advances on Mortgage

Loans are comprised of a mix of floating rate and fixed rate loans. At the end of each reporting period their fair value is calculated using the average market rate for such loans that was in effect as at the reporting date. The loan interest rates and market interest rates are similar and the loans are assessed for impairment so the reported amounts approximate fair value.

Redeemable Shares

The fair value of shares is calculated using average market rates. The share interest rates and market interest rates are similar so the reported amounts approximate fair value.

Other Liabilities

The reported amount of trade and other payables approximates fair value because they are payable in a short time frame.

19. RELATED PARTY TRANSACTIONS

	Mar 15	Mar 14
Shares from Directors and key management		
Shares at end of period	606,957	582,181
Interest paid	24,611	25,450
Shares from Other Related Parties		
Shares at end of period	288,818	259,634
Interest paid	8,450	8,637
Advances on mortgage to Other Related Parties		
Advances on Mortgage at end of period	398,909	342,068
Interest received	19,047	20,350
Directors Fees for the year (Short term benefit)	73,500	70,000
Owing to Directors (Directors Fees Payable)	36,751	35,000

Key management personnel include the directors of the Building Society and the director of Brown Webb Richardson Ltd responsible for the management of the Building Society.

Other related parties are the spouses, children and other related party entities of the key management personnel.

All shares and advance on mortgage transactions with directors and other related parties are at normal commercial rates and terms, including the provision of security and settlement. No balances owing by directors or close family members have been written off or have a provision for doubtful debts against them.

The investment property is leased to Brown Webb Richardson Ltd. The rental of $192,995 (31 March 2014 $189,991) is at market rates, as assessed by an independent valuer. There are no rental balances outstanding.

Brown Webb Richardson Ltd provided secretarial services to the Building Society to the value of $276,000 (31 March 2014 - $276,000). There are no balances outstanding.

Brown Webb Richardson Ltd have redeemable shares with the Building Society of $92,276 (31 March 2014 $91,849).

20. COMMITMENTS

(a) Capital Commitments

There are no capital commitments as at 31 March 2015 (31 March 2014 - $11,938).

(b) Outstanding Loan Commitments

Loans and credit facilities approved but not disbursed or drawn at the end of the financial period:	1,304,708	1,451,963

(c) Sponsorship Commitments

The Building Society has provided sponsorship of $10,656 (2014 - $10,000) per year to the Ramblers Cycling Club as from January 2011. This is reviewed annually.

The Building Society has provided sponsorship of $8,531 (2014 - $8,625) per year to the Cornwall Cricket Club as from 1 November 2013. This is reviewed annually.

20. COMMITMENTS – Cont'd

(d) Operating Lease Commitments

Operating leases relate to the investment property owned by the building society and leased to Brown Webb Richardson Ltd commencing 1 October 2014 for 12 years, with rights of renewal for a further 12 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental income earned from the investment property during the year was $192,995 (2014: $189,991). In 2015 and 2014 all direct operating expenses arising on investment property for the year were paid by the tenant.

	2015	2014
Non cancellable operating lease receivables		
Not later than 1 year	196,000	94,996
Later than 1 year and not later than 5 years	784,000	-
Later than 5 years	1,274,000	-
	2,254,000	94,996

21 STANDBY BORROWING FACILITIES

	Mar 15	Mar 14
Bank overdraft facility	200,000	200,000
Business Finance Line	500,000	500,000
	700,000	700,000

Of these facilities $nil was drawn down (31 March 2014 - $nil). Both facilities are with Westpac Bank and are subject to annual review.

22 CONTINGENT LIABILITIES

There are no contingent liabilities at 31 March 2015 (31 March 2014 $Nil).

23 EVENTS AFTER BALANCE DATE

There are no significant events that have occurred after balance date that require reporting in these financial statements (31 March 2014: none).

staplesrodway
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Members of Heretaunga Building Society

Report on the Financial Statements

We have audited the accompanying financial statements of Heretaunga Building Society (the building society) on pages 6 to 35, which comprise the statement of financial position of the building society as at 31 March 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows of the building society for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the building society's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the building society's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the building society.

Opinion

In our opinion, the financial statements on pages 6 to 35 present fairly, in all material respects, the financial position of the building society as at 31 March 2015 and of its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements of Heretaunga Building Society for the year ended 31 March 2015 included on the building society's website. The building society's Board of Directors is responsible for the maintenance and integrity of the building society's website. We have not been engaged to report on the integrity of the building society's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyper linked to / from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 16 June 2015 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Staples Rodway

STAPLES RODWAY HAWKES BAY
HASTINGS
16 June 2015

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