Heretaunga Building Society

83RD ANNUAL REPORT 2016

ANNUAL GENERAL MEETING

The EIGHTY THIRD ANNUAL GENERAL MEETING of the Heretaunga Building Society will be held in the Society's Office, 111 Avenue Road East, HASTINGS on TUESDAY 19 JULY 2016 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
83RD ANNUAL REPORT TO MEMBERS
FOR YEAR ENDED 31 MARCH 2016

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 2016.

Being the 83rd year 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 $72,680. This result is viewed by the Board as satisfactory when loans interest fell $50,779 which illustrated the declining interest rate charged through the year. In a positive endeavour to lessen the interest rate decline the Board decided to invest funds in a Commercial property. The property in the Heretaunga Street mall was purchased in November 2015 to provide a yield of 8.7%. The building is to be earthquake strengthened to a level of not less than 70% of current building codes. A sum of $100,000 was withheld until the completion of the work and a Compliance Certificate is issued. Work is due to commence in June or July 2016.

Total assets stand at $23.6 million which is virtually the same as 2015. Advances on mortgage amounted to $14.4 million which is a slight increase on the 2015 level. The mortgage book lent $6.00 million for new loans and $5.5 million was repaid.

As mentioned in last year's report the seismic assessments on our building had been completed. The Society's consulting engineers are at an advanced stage of completing plans for the work. Work will commence in stages to minimise the disruption to our tenants.

Sponsorship continues for the Cornwall Cricket Club, Ramblers Cycling Club, Riding for the Disabled and Junior Golf.

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

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 express my thanks to my fellow Directors – Mark Morgan, Jeremy Gresson and Trevor Webb for their dedication to the affairs of the Society.

For the Directors

W J Harvey
Chairman
June 2016

HERETAUNGA BUILDING SOCIETY
GENERAL MANAGERS REPORT FOR 2016 YEAR

It is difficult to write a report this year that is not an exact copy of the last few years reports. The general economic conditions have not changed during that period. However the property market has shown increased sales numbers and sale prices in the later few months of the year. Since balance date the market has continued at an increasing pace.

The continuation of new compliance regimes on the financial sector involve more costs for the society. Our members see very little of this increased compliance with the exception of the increased emphasis on Anti Money Laundering and Countering Financing of Terrorism resulting in the requirement to provide photo identification. In the near future the society will be amending the trust deed under which it operates to comply with the Financial Markets Act. Later in the 2016 calendar year the society will transition to a Product Disclosure Statement that will replace the current prospectus regime.

The low interest rate environment with the resulting low interest margins require the society to keep a strict control on expenses. However the increased compliance as noted above puts increasing pressure on costs. With all financial institutions facing low mortgage demand, incentives and special mortgage rate offers make for a difficult market for the society.

The society mortgage portfolio is at a very similar level to the previous year however the mortgage churn (repayments and advances) result in considerable effort to keep the mortgage portfolio from reducing.

S M (George) Speedy

General Manager

June 2016

CORPORATE GOVERNANCE
2016 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 2016

	Note	Mar 2016	Mar 2015
REVENUE		**$**	**$**
Interest Revenue			
Advances		796,206	882,566
Impaired Advances (Restructured Assets)		41,010	5,429
Bank Deposits		196,239	204,586
Investment Securities		56,589	57,320
Total Interest Revenue		1,090,044	1,149,901
LESS: COST OF FUNDS			
Interest on Redeemable Shares		710,704	708,001
GROSS INTEREST MARGIN		**379,340**	**441,900**
OTHER INCOME			
Rent Received	**19**	214,871	192,995
Other Income		58	-
		214,929	192,995
GROSS INCOME		**594,269**	**634,895**
LESS: ADMINISTRATION EXPENSES			
Administration and Other Expenses		100,674	107,437
NBDT licence expenses		-	30,988
Audit Fees			
- Audit of the financial statements		28,040	28,015
- Trust Deed and Prospectus Review Services		4,485	4,370
Directors Fees		73,500	73,500
Movement in Provision for Loan Impairment	**8**	-	35,000
Prospectus Expenses		5,082	5,274
Secretarial and Office Facilities		276,000	276,000
Trust Deed Expenses		27,879	23,000
Depreciation – Office Equipment	**9**	5,929	10,712
TOTAL EXPENSES		521,589	594,296
NET OPERATING PROFIT before Revaluation		**72,680**	**40,599**
Gain/(Loss) on revaluation of Investment Property		91,610	(200,000)
NET OPERATING PROFIT BEFORE TAX		**164,290**	**(159,401)**
Tax Expense	3	20,350	11,368
NET OPERATING PROFIT AFTER TAX		**143,940**	**(170,769)**
OTHER COMPREHENSIVE INCOME			
ITEMS THAT MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS			
Gain/(loss) on available for sale reserve		(5,691)	49,004
Deferred Tax on available for sale reserve		1,593	(13,721)
TOTAL COMPREHENSIVE INCOME		139,842	**(135,486)**

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 2016

Mar 16 Note 4	Retained Earnings	General Reserve	Available for Sale Reserve	Property Revaluation Reserve	Total Equity
Opening Balance 1 Apr 2015	726,121	2,800,000	31,930	800,121	4,358,172
Operating profit for the period	143,940				143,940
Gain/(Loss) on available for sale reserve			(5,691)		(5,691)
Deferred tax on available for sale reserve			1,593		1,593
Total comprehensive income	143,940	-	(4,098)	-	139,842
Transfer between Reserves	(91,610)			91,610	
Closing Balance 31 March 2016	778,451	2,800,000	27,832	891,731	4,498,014
Equity % to Total Assets					19.0%

Mar 15	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%

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 2016

	Note	Mar 2016	Mar 2015
ASSETS		**$**	**$**
Cash and cash equivalents	**5**	4,926,950	6,088,782
Accounts receivable		1,218	-
Prepayments		4,650	4,650
Investment securities	**6**	1,094,952	1,303,489
Investment property	7	3,244,352	2,400,000
Advances on mortgage	**8**	14,389,864	13,930,820
Office equipment	**9**	6,233	12,161
TOTAL ASSETS		**23,668,219**	**23,739,902**
LIABILITIES			
Redeemable shares	**10**	18,823,249	19,144,672
Tax payable	**3**	9,843	7,244
Trade payables		5,118	3,593
Seismic Strengthening - Investment Property	**7**	100,000	-
Resident withholding tax		33,049	34,070
GST		13,989	6,924
Directors fees payable	**19**	36,750	36,751
Accruals		30,375	29,050
Deferred taxation	**3**	117,832	119,426
TOTAL LIABILITIES		**19,170,205**	**19,381,730**
EQUITY			
Retained earnings	**4**	778,451	726,121
General reserve	**4**	2,800,000	2,800,000
Available for sale reserve	**4**	27,832	31,930
Revaluation reserve	**4**	891,731	800,121
TOTAL EQUITY		**4,498,014**	**4,358,172**
TOTAL LIABILITIES AND EQUITY		**23,668,219**	**23,739,902**

For and on behalf of the Board, who authorised the issue of these Financial Statements on 9 June 2016.

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 2016

	Note	Mar 2016	Mar 2015
CASH FLOWS FROM OPERATING ACTIVITIES		**$**	**$**
Cash was provided from:			
Interest received		1,111,261	1,206,424
Other income		58	-
Rent received		214,868	192,995
		1,326,187	1,399,419
Cash was applied to:			
Interest paid		(721,711)	(674,398)
Tax paid		(17,752)	(29,499)
Payments to suppliers		(506,970)	(573,001)
		(1,246,433)	(1,276,898)
NET CASH FLOWS FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		79,754	122,521
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Cash was provided from:			
Mortgage repayments		5,527,472	3,855,544
Redeemable Shares issued		36,299,364	28,085,791
Cash was applied to:			
Mortgage advances		(6,004,888)	(3,039,292)
Redeemable Shares repaid		(36,610,792)	(27,220,417)
NET OPERATING CASH FLOWS	11	(709,090)	1,804,147
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was applied to:			
Investment Security redeemed		200,000	-
Fixed Asset addition		(652,742)	(19,462)
Investment Security purchased		-	(405,422)
NET INVESTING CASH FLOWS		(452,742)	(424,884)
Total net increase/(decrease) in cash and cash equivalents held		(1,161,832)	1,379,263
Cash and cash equivalents at the beginning of the period		6,088,782	4,709,519
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	4,926,950	6,088,782

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 2016

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 been 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.

Authorisation of the Financial Statements

These financial statements are authorised for issue by the Directors on 9 June 2016.

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.

Rent revenue from 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.

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. 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.

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

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 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 reporting 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 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) 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. The area where significant judgement has been applied is the recognition of a seismic strengthening liability which is disclosed in note 7.

(k) 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.

(l) 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 2018	31 March 2019
NZ IFRS 16 Leases	1 January 2019	31 March 2020

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 2018. 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.

NZ IFRS 16 Leases is applicable for annual periods beginning on or after 1 January 2019. Earlier application is permitted. This new Leases standard eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most leases onto their balance sheets with the exemptions for short-term leases and leases of low value assets. The accounting by lessors will remain largely unchanged. Management is still assessing the impact of the adoption of NZ IFRS 16 will have.

3. TAXATION

(A) CURRENT PERIOD TAX

	Mar 16	Mar 15
Profit before tax	164,290	(159,401)
Adjustment for items not subject to tax	(91,610)	200,000
Taxable Surplus	72,680	40,600
Tax at 28%	20,350	11,368
Current Period Tax Charge	20,350	11,368
Effective Tax Rate	28%	28%
Comprising		
Current tax payable	20,350	21,168
Deferred tax	-	(9,800)
TOTAL TAX EXPENSE	**20,350**	**11,368**
Tax Payable at start of year	7,244	15,869
Less: Tax Paid	(17,751)	(29,793)
Current Tax Payable	20,350	21,168
Tax Payable at end of year	9,843	7,244

(B) DEFERRED TAX LIABILITY / (ASSET)

Mar 16	Impairment Provision	Depreciation	Available for Sale	Total
Balance at beginning of period	**(33,880)**	**140,888**	**12,417**	**119,425**
Temporary differences through Income				
Temporary differences through Equity			**(1,593)**	**(1,593)**
Balance at end of period	**(33,880)**	**140,888**	**10,824**	**117,832**

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

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 16	Mar 15
	$	$
Bank balance	2,599	77,228
Bank deposits	4,924,351	6,011,554
TOTAL CASH AND CASH EQUIVALENTS	4,926,950	6,088,782

All balances are available within 9 months. The deposits are liquidity funds held by the Building Society and are available at 31 days notice.

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 16	Mar 15
	$	$
Opening Balance	1,303,489	841,320
Bond Purchased/(Sold)	(200,000)	405,421
Reserve Increase/(Decrease)	(6,756)	49,004
Realised Gain/(Loss)	1,064	-
Accrued Interest Movement	(2,845)	7,744
CLOSING BALANCE (New Zealand Listed Bonds)	**1,094,952**	1,303,489

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

7. INVESTMENT PROPERTIES

	Mar 16	Mar 15
(A) CLASSES OF INVESTMENT PROPERTY		
Freehold land (at valuation)	1,105,852	1,000,000
Buildings (at valuation)	2,138,500	1,400,000
TOTAL INVESTMENT PROPERTY	**3,244,352**	**2,400,000**
(B) MOVEMENTS IN CARRYING AMOUNTS		
Carrying value at the beginning of the period	2,400,000	2,600,000
Purchase of property	744,352	-
Property improvements	8,390	-
Revaluation movement in profit or loss	91,610	(200,000)
Carrying value at the end of the period	**3,244,352**	**2,400,000**

(C) VALUATION DETAILS

Investment property is stated as follows:

i) BWR Building at a fair value of $2,500,000 (2015 - $2,400,000), determined by Paul Harvey BBS , SPINZ, ANZIV an independent registered valuer from Williams Harvey Limited, Hastings on 31 March 2016. The fair value is determined by the investment approach with the contractual rent capitalised at rates ranging from 7.50% to 8.00% (2015 – 8.00% to 8.50%). The fair value of $2,500,000 (2015 - $2,400,000) is determined based on the contractual rent of $196,000 (2015 - $196,000) capitalised at 7.84% (2015 – 8.17%). 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.

ii) The Heretaunga Street building is at a fair value of $744,352. As the property was purchased in December 2015 fair value is considered to be the purchase price. The contractual rent is $65,000 per annum. The investment property is a retail building which generated income during the period. Direct property expenses are paid by the tenant.

$100,000 of the purchase price of the Heretaunga Street building was retained by the Building Society. It is payable on completion of earthquake strengthening work due to be completed by the previous owners of the building. The directors consider this to be a liability despite the earthquake strengthening not yet undertaken due to the certainty of the payment. The fair value of the building is considered to be the full purchase price of $744,352 because the building is fully operational and market rent is received.

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

Assessing the fair value of buildings involves the use of variables with an element of estimation (eg capitalisation rates). For the BWR building the range of indicative market values calculated by the valuer are $2.671m when using a capitalisation rate of 7.25% to $2.334m when using a capitalisation rate of 8.25%. The Heretaunga Street building has been valued at purchase price therefore sensitivity of capitalisation rates are not relevant.

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 $489,517 (2015 - $502,523).

		Mar 16		Mar 15	
(A) ADVANCES ON MORTGAGE COMPRISE					
Secured Advances		14,510,864		14,051,820	
Less: Provision for Impairment		(121,000)		(121,000)	
		14,389,864		**13,930,820**	
(B) MORTGAGES COMPRISE					
Residential		11,531,732	80%	9,645,028	69%
Commercial		1,753,827	12%	3,120,134	22%
Rural		1,104,305	8%	1,165,658	9%
TOTAL		**14,389,864**	**100%**	**13,930,820**	**100%**
Average LVR's	**Policy Maximum**				
Residential	80%		34%		37%
Commercial	60%		29%		31%
Rural	50%		16%		16%

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

	Mar 16		Mar 15	
(C) GEOGRAPHICAL CONCENTRATION				
Hawkes Bay	13,193,566	92%	12,689,632	91%
Taupo	139,165	1%	154,820	1%
Wellington	643,651	4%	692,649	5%
North Island - Other	413,482	3%	393,719	3%
	14,389,864	**100%**	**13,930,820**	**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 16	Mar 15
	$	$
(i) Provision for Individual Loan Impairment		
Opening Balance	121,000	86,000
Movement in Provision during the period	-	35,000
Closing Balance	**121,000**	**121,000**
(ii) Individual Impaired Loan Analysis		
Opening Balance	623,523	595,861
Add/(Less): Additional impaired balance/(impaired loan repayment)	(12,891)	27,662
Closing Balance	**610,632**	**623,523**

The individual loan analysis table shows the movement in the gross loans that the provision for individual loan impairment refers to.

8. ADVANCES ON MORTGAGE

	Mar 16	Mar 15
	$	$
(E) CREDIT QUALITY – AGING ANALYSIS		
Fully compliant advances	13,783.918	12,413,463
Past due not impaired advances	116,239	1,014,835
Up to 90 days		
Impaired Advances		
Restructured Advances	610,707	623,523
	14,510,864	14,051,820
Less: Individual Provision for Impairment	121,000	121,000
	14,389,864	**13,930,820**

9. OFFICE EQUIPMENT

(A) OFFICE EQUIPMENT		
At cost/valuation	55,923	55,875
Accumulated depreciation	(49,690)	(43,714)
TOTAL OFFICE EQUIPMENT	6,233	**12,161**
(B) MOVEMENTS IN CARRYING AMOUNTS		
Balance at beginning of period	12,161	9,762
Addition	-	13,111
Depreciation Expense	(5,928)	(10,712)
CARRYING AMOUNT AT END OF PERIOD	6,233	**12,161**

10. REDEEMABLE SHARES

Call shares	5,872,958	6,406,236
Term shares	12,950,291	12,738,436
TOTAL SHARES	18,823,249	**19,144,672**

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 2016 interest rates on term shares ranged from 3.00% to 4.60% (2015 – 3.75% to 4.60%).

Call shares interest rates at 31 March 2016 ranged from 2.25% to 2.75% (2015 – 3.00% to 3.50%).

11. CASH FLOW STATEMENT RECONCILIATION

Reconciliation of cash flow from operating activities with operating profit

	Mar 16	Mar 15
	$	$
Net Operating Profit/(Loss) after Tax	143,940	(170,769)
Non Cash Items		
Depreciation	5,929	10,712
Deferred Tax	-	(9,800)
Movement in Provision for Loan Impairment	-	35,000
(Increase)/Decrease in fair value of investment property	(91,610)	200,000
Changes in Assets and Liabilities		
(Increase)/decrease in Prepayments	-	2,255
(Increase)/decrease in Accounts Receivable	(1,218)	
(Increase)/decrease in Accrued Interest Receivable	11,458	53,942
Increase/(decrease) in Taxation Payable	2,599	(8,623)
Increase/(decrease) in Accounts Payable	8,894	(2,009)
Increase/(decrease) in Accrued Interest Payable	(9,993)	6,864
Increase/(decrease) in Provision for Directors' Fees	(1)	1,751
Net (increase)/decrease in Advances on Mortgage	(467,658)	880,110
Net increase/(decrease) in Redeemable Shares	(311,430)	804,714
NET OPERATING CASHFLOW	**709,090**	**1,804,147**

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 16	Mar 15
Liquidity Ratio (including Bank facilities)	35%	42%

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 18.37% (31 March 2015 – 19.50%). 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 2016. 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 2015 – 98%) 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-16	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	1,101,114	-	2,915,296	-	910,540	-	-	-	4,926,950
Investment Securities	-	11,089	4,129	-	-	-	314,473	765,261	1,094,952
Advances on Mortgage	-	67,140	99,235	144,887	556,464	1,261,061	2,643,486	9,617,591	14,389,864
Interest Receivable									
Cash and cash equivalents	-	-	13,563	-	-	-	-	-	13,563
Investment securities	-	1,198	8,157	14,281	26,566	57,498	138,496	-	246,196
Advances on mortgage	-	64,205	128,289	194,345	369,105	708,562	1,781,700	5,172,512	8,418,718
Interest Receivable – sub total	-	65,403	150,009	208,626	395,671	766,060	1,920,196	5,172,512	8,678,477
TOTAL MONETARY ASSETS	1,101,114	143,632	3,168,669	353,513	1,862,675	2,027,121	4,878,155	15,555,364	29,090,243
MONETARY LIABILITIES									
Trade Payables	-	5,118	-	-	-	-	-	-	5,118
Redeemable Shares	5,872,958	1,559,829	1,972,858	5,412,910	4,004,694				18,823,249
Interest Payable	-	30,230	51,643	105,369	127,759	-	-	-	315,001
TOTAL MONETARY LIABILITIES	5,872,958	1,595,177	2,024,501	5,518,279	4,132,453	-	-	-	19,143,368
NET MONETARY ASSETS	(4,771,844)	(1,451,545)	1,144,168	(5,164,766)	(2,269,778)	2,027,121	4,878,155	15,555,364	9,946,875
Unrecognised Mortgage Commitments (Refer Note 20)	-	(795,983)	-	-	-	-	-	-	(795,983)
Net Liquidity Gap	(4,771,844)	(2,247,528)	1,144,168	(5,164,766)	(2,269,778)	2,027,121	4,878,155	15,555,364	9,150,892
NET LIQUIDITY GAP – CUMULATIVE	(4,771,844)	(7,019,372)	(5,875,204)	(11,039,970)	(13,309,748)	(11,282,627)	(6,404,472)	9,150,892	

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

EXPECTED MATURITY TIMEFRAME										
Mar-16	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	3.21%	1,011,114	-	800,000	600,000		-		2,515,836	4,926,950
Investment Securities	4.83%	-	11,089	4,129	-	-	-	314,473	765,261	1,094,952
Advances on Mortgage	5.41%	-	67,139	99,235	144,887	556,464	1,261,061	2,643,486	9,617,592	14,389,864
Interest Receivable										
Cash or Cash equivalents			-	13,563	25,005	40,379	80,758	242,275	565,308	967,288
Investment securities			1,198	8,157	14,281	26,566	57,498	138,496	-	246,196
Advances on mortgage			64,205	128,289	194,345	369,105	708,562	1,781,700	5,172,512	8,418,718
Interest Receivable – sub total			65,403	150,009	233,631	436,050	848,818	2,162,471	5,737,820	9,632,202
TOTAL MONETARY ASSETS		1,011,114	143,631	1,053,373	978,518	992,514	2,107,879	5,120,430	18,636,509	30,043,968
MONETARY LIABILITIES										
Trade Payables			5,118	-	-	-	-	-	-	5,118
Redeemable Shares	3.37%	111,237	224,222	333,765	609,530	400,470	1,165,526	3,146,921	12,831,579	18,823,250
Interest Payable			30,230	51,643	238,215	221,559	673,683	1,737,073	2,441,424	5,393,827
TOTAL MONETARY LIABILITIES		111,237	259,570	385,408	847,745	622,029	1,839,209	4,883,994	15,273,003	24,222,195
NET MONETARY ASSETS		899,877	(115,939)	667,965	130,773	370,485	268,670	236,436	3,363,506	5,821,773
Unrecognised Mortgage commitments (Refer Note 20)			(295,983)	(200,000)	(100,000)	(100,000)	(100,000)			(795,983)
Net Liquidity Gap		899,877	(411,922)	467,965	30,733	270,485	168,670	236,436	3,363,506	5,025,790
NET LIQUIDITY GAP – CUMULATIVE		899,877	487,955	955,920	986,693	1,257,178	1,425,848	1,662,284	5,025,790	

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	

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 16	Weighted Average Rate %	0 – 6 Months	6 – 12 Months	1 – 2 Years	2 – 5 Years	Total
MONETARY ASSETS						
Cash and Cash Equivalents	3.21%	4,016,409	910,541			4,926,950
Investment Securities	4.83%		467,500		627,452	1,094,952
Advances on Mortgage	5.41%	6,919,273	5,153,146	1,779,165	538,281	14,389,864
TOTAL MONETARY ASSETS		11,846,223	5,620,645	1,779,165	1,165,734	20,411,766
MONETARY LIABILITIES						
Redeemable Shares	3.37%	14,818,553	4,004,696			18,823,249
TOTAL MONETARY LIABILITIES						
TOTAL MISMATCH		(2,972,330)	1,615,949	1,779,165	1,165,734	1,588,517

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

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 16			31 MAR 15		
	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	4,926,950	(38,539)	38,539	6,088,782	(51,099)	51,099
Investment Securities	1,094,952	(7,890)	7,890	1,303,489	(11,808)	11,808
Advances on Mortgage	14,389,864	(116,783)	116,783	13,930,820	(144,921)	144,921
		(163,212)	163,212		(207,828)	207,828
FINANCIAL LIABILITIES						
Redeemable Shares	18,823,249	(115,174)	115,174	19,144,672	(115,174)	115,174
		(48,039)	48,039		(92,654)	92,654
Less: Taxation		(13,451)	(13,451)		(25,943)	(25,943)
NET IMPACT		(34,588)	34,588		(66,711)	66,711

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 16	Mar 15
	$	$
Cash and Cash Equivalents	4,926,950	6,088,782
Investment Securities	1,094,952	1,303,489
Advances on Mortgage	14,389,864	13,930,820
	20,411,766	21,323,091

(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:

	2016			2015		
	Advances on Mortgages	Cash and Cash Equivalents	Investments	Advances on Mortgages	Cash and Cash Equivalents	Investments
Greater than 100% of equity						
Between 90% and 100% of equity						
Between 80% and 90% of equity		1			1	
Between 70% and 80% of equity						
Between 60% and 70% of equity						
Between 50% and 60% of equity						
Between 40% and 50% of equity						
Between 30% and 40% of equity				1	2	
Between 20% and 30% of equity	1	1		2		
Between 10% and 20% of equity	9	1	1	6	1	

16. CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

	Mar 16	Mar 15
Current assets		
Cash and cash equivalents	4,926,950	6,088,782
Accounts Receivable	1,218	-
Prepayments	4,650	4,650
Current portion of Investment Securities	-	200,740
Current portion of Advances on Mortgage	848,497	2,097,735
Total current assets	5,781,315	8,391,907
Non current portion of Investment securities	1,094,952	1,102,749
Investment property	3,244,352	2,400,000
Non-current portion of Advances on Mortgage	13,541,367	11,833,085
Office Equipment	6,233	12,161
Total non-current assets	17,886,904	15,347,995
Total assets	23,668,219	23,739,902
Current liabilities		
Redeemable Shares	18,823,249	19,144,672
Tax Payable	9,843	7,244
Accounts Payable	182,531	73,637
Provision for Directors Fees	36,750	36,751
Total current liabilities	19,052,373	19,262,304
Deferred taxation	117,832	119,426
Total non-current liabilities	117,832	119,426
Total liabilities	19,170,205	19,381,730

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-16	Mar-15
Hawke's Bay	18,110,984	18,483,952
Rest of New Zealand	594,471	523,346
Overseas	117,794	137,374
	18,823,249	19,144,672

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 and are all level 3 for value measurements.

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 16	Mar 15
Shares from Directors and key management		
Shares at end of period	347,241	606,957
Interest paid	23,648	24,611
Shares from Other Related Parties		
Shares at end of period	210,270	288,818
Interest paid	11,960	8,450
Advances on mortgage to Other Related Parties		
Advances on Mortgage at end of period	637,267	575,766
Interest received	32,031	31,414
Directors Fees for the year (Short term benefit)	73,500	73,500
Owing to Directors (Directors Fees Payable)	36,750	36,751

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 $196,000 (31 March 2015 $192,995) 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 2015 - $276,000). There are no balances outstanding.

Brown Webb Richardson Ltd have redeemable shares with the Building Society of $1,614 (31 March 2015 $92,276).

Williams Harvey Limited are a related party of the Building Society by virtue of a director of Williams Harvey limited being a son of a director of the Building Society. The Building Society paid valuation fees of $3,630 (2015-$nil) to Williams Harvey Limitd during the year.

20. COMMITMENTS

(a) Capital Commitments

Capital commitments were $nil as at 31 March 2016 (31 March 2015 $Nil)

(b) Outstanding Loan Commitments

	Mar 16	Mar 15
Loans and credit facilities approved but not disbursed or drawn at the end of the financial period:	795,983	1,304,708

(c) Sponsorship Commitments

The Building Society has provided sponsorship of $8,625 (2015 - $10,656) per year to the Ramblers Cycling Club as from January 2011. This is reviewed annually.

The Building Society has provided sponsorship of $8,625 (2015 - $8,531) 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

(a) 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.

(b) Leased to a cafe commencing 1 December 2015 for 7 years, with rights of renewal for a further 6 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its options 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 $214,871 (2015: $192,995). In 2016 and 2015 all direct operating expenses arising on investment property for the year were paid by the tenant.

	2016	2015
Non cancellable operating lease receivables		
Not later than 1 year	261,000	196,000
Later than 1 year and not later than 5 years	1,044,000	784,000
Later than 5 years	1,186,550	1,274,000
	2,491,550	2,254,000

21 STANDBY BORROWING FACILITIES

	Mar 16	Mar 15
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 2015 - $nil). Both facilities are with Westpac Bank and are subject to annual review.

22 CONTINGENT LIABILITIES

There are no contingent liabilities at 31 March 2016 (31 March 2015 $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 2015: none).

staplesrodway
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Members of Heretaunga Building Society

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 2016, 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 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 and fair presentation of the financial statements 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 2016 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.

Restriction on Use of our Report

This report is made solely to the building society's members, as a body, in accordance with the Building Societies Act 1965. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the building society and its members, as a body, for our audit work, for this report or for the opinions we have formed.

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 2016 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 9 June 2016 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
9 June 2016

Heretaunga Building Society

PO Box 146, 111 Avenue Road East, Hastings
Ph 06 873 8047 Fax 06 876 5211
Email info @heretaungabuildingsociety.co.nz