

## Product Disclosure Statement

Offer of Call and Term Redeemable Shares in Heretaunga Building Society ('HBS')

This is a Product Disclosure Statement (PDS) dated 21 August 2019 which replaces the PDS dated 26 July 2019 and is issued by Heretaunga Building Society (HBS) in respect of call and term redeemable shares which are unsecured debt securities for the purposes of the Financial Markets Conduct Act 2013 and the Financial Markets Conduct Regulations 2014.

This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose). HBS has prepared this document in accordance with the Financial Markets Conduct Act 2013.

You can also seek advice from a financial adviser to help you to make an investment decision.



# Heretaunga Building Society

## Section 1 - KEY INFORMATION SUMMARY

### WHAT IS THIS?

This is an offer of call and term redeemable shares. These call and term redeemable shares are debt securities issued by HBS. You give HBS money, and in return HBS promises to pay you interest and repay the money at the end of the term.

If HBS runs into financial trouble, you might lose some or all of the money you invested.

### ABOUT HBS

HBS was established in 1933 and since that time has provided both saving services and loan services, including residential, commercial and rural mortgage finance, to its members and predominantly in the Hawkes Bay community. HBS's principal lending activity is the provision of finance for residential property secured by first ranking mortgages.

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

### KEY TERMS OF THE OFFER

#### Call redeemable shares

Debt security description	Unsecured debt security.
Term	There is no fixed term as the call redeemable shares are repayable at call.
Interest rate	<p>The interest rate for call investments is available on the HBS website and is a floating rate subject to change without notice. Interest rates are tiered; \$0-\$49,999, \$50,000-\$99,999, \$100,000+.</p> <p>We review our interest rates regularly and may adjust them after considering the market for similar investment products and in light of our funding requirements.</p> <p>If we change the interest rate it will apply to your Call Investments from the date of the interest rate adjustment.</p>
Interest payment dates	In arrears on 30 September and 31 March in each year (or if those dates are not business days, on the next business day) for call redeemable shares, or on closure of the call redeemable shares.
Offer opening and closing date	<p>The offer opened on 24 November 2016.</p> <p>This is a continuous offer, so that there is no closing date.</p>
Fees or charges	Investors pay no fees or charges of any sort in relation to making this investment and have no liability to make any further payment relating to the redeemable shares.
HBS cannot defer or cancel interest & principal	HBS has no right to extend the time for payment of principal or interest, nor to reduce or cancel payments of principal or interest.

## Term redeemable shares

Debt security description	Unsecured debt security.
Term	Term redeemable shares are issued for terms of three months, six months, one year and two years.
Interest rates	<p>The interest rate for term shares is available on HBS website and is subject to change without notice.</p> <p>We review our interest rates regularly and may adjust them after considering the market for similar investment products and in light of our funding requirements.</p> <p>The interest rate at the start of your Term Investment is fixed for the duration of the agreed term unless you have requested that HBS repay your investment prior to maturity and HBS has agreed to do so.</p>
Interest payment dates	Interest payable in respect of a term six months or less will be paid on maturity. For the one year and two year terms interest is payable six monthly in arrears. Investors may choose for interest to be compounded, or to be credited to a nominated bank account.
Offer opening and closing date	<p>The offer opened on 24 November 2016.</p> <p>This is a continuous offer, so that there is no closing date.</p>
Fees or charges	Investors pay no fees or charges of any sort in relation to making this investment and have no liability to make any further payment relating to the redeemable shares.
HBS cannot defer or cancel interest & principal	HBS has no right to extend the time for payment of principal or interest, nor to cancel payments of principal or interest. If HBS agrees to make an early repayment of an investment, the interest rate payable in respect of the investment may be reduced by 2% per annum to reflect the reduced term of the investment.

### **GUARANTEE**

The securities are not guaranteed by HBS or any other person. HBS is solely responsible for repayment.

### **HOW CAN YOU GET YOUR MONEY OUT EARLY**

HBS's fixed rates of interest for a particular investment amount and term are based on the expectation the funds will be invested for the full term. While it is not expected that funds will be drawn before maturity, HBS accepts that clients' circumstances change and so will consider, but is not obliged to accept, requests for early repayment of an investment.

If HBS agrees to make an early repayment of an investment, the interest rate payable in respect of the investment may be reduced by 2% per annum to reflect the reduced term of the investment. Any tax that has already been paid on the interest earned cannot be refunded and will have to be claimed from the IRD directly.

These redeemable shares cannot be sold to anyone else.

### **HOW HBS'S REDEEMABLE SHARES RANK FOR REPAYMENT**

The securities being offered are unsecured redeemable shares, which on a liquidation rank equally with HBS's other redeemable shares and behind any secured creditors, any creditors given priority by law, and all unsecured creditors.

See also under the headings "Ranking of call redeemable shares on liquidation" in the tables at the beginning of Section 2 below, and under the heading "**Ranking and security**" at the beginning of Section 4 below.

### **NO SECURITY**

The debt securities are unsecured.

## **WHERE YOU CAN FIND HERETAUNGA BUILDING SOCIETY'S FINANCIAL INFORMATION**

The financial position and performance of HBS are essential to an assessment of HBS's ability to meet its obligations under the redeemable shares. You should also read the financial information section on page 11.

## **KEY RISKS AFFECTING THIS INVESTMENT**

Investments in debt securities have risks. A key risk is that HBS does not meet its commitments to repay you or pay you interest (credit risk). Section 6 of the PDS (risks of investing) discusses the main factors that give rise to the risk. You should consider if the credit risk of these debt securities is suitable for you.

The interest rate risk for these redeemable shares should also reflect the degree of credit risk, in general, higher returns are demanded from investors from businesses with higher risk of defaulting on their commitments. You need to decide whether the offer is fair.

HBS considers that the most significant risk factors are:

### **Geographic Risk**

HBS has a significant geographic concentration in the Hawkes Bay, both in terms of sourcing most of its funding and its lending activities. HBS is therefore dependent to a significant degree on the fortunes of the wider Hawkes Bay economy.

### **Credit risk**

If a number of borrowers defaulted on their loan repayments around the same time, as a result HBS may then have insufficient funds to repay its redeemable shareholders or pay interest.

### **Liquidity Risk**

Liquidity risk refers to the ability of HBS to meet its liabilities/debts when they fall due. HBS's ability to meet its payment obligations to depositors is connected to the loans it makes to borrowers and to HBS's reliance on deposits. If reinvestment rates or borrowers' repayments were to reduce materially, there is a risk that HBS may not have enough cash on hand at any time to repay depositors in a timely manner. This risk is mitigated by HBS's liquidity policies and by rules contained in HBS's Trust Deed, which require HBS to maintain certain minimum levels of liquid assets.

### **Interest rate risk**

HBS's income is from the difference between what we pay to depositors and what we earn from borrowers and investments. In the event of a drop in interest rates, the interest rate we receive on surplus funds we have invested with NZ banks may be less than the amount we pay under the call and term redeemable shares, and could have a significant impact on the income we receive. If HBS has reduced income this may cause the interest rates that can be offered to depositors to decline.

This summary does not cover all the risks of investing in redeemable shares. You should also read Section 6 - Risks of Investing on page 12.

## **NO CREDIT RATING**

HBS's creditworthiness has not been assessed by an approved rating agency.

HBS is exempt from the requirement to have its creditworthiness assessed by an approved rating agency. This is because HBS operates under the exemption contained in the Deposit Takers (Credit Ratings Minimum Threshold) Exemption Notice 2016, which applies because HBS's liabilities are less than \$40m making it unduly onerous and burdensome for HBS to comply with the requirement to have a credit rating. The exemption is conditional on HBS providing to the Reserve Bank prior to March in each year, a statement by the directors that HBS meets the requirements of the exemption and that HBS will be operating on the basis of the exemption for that forthcoming year. Figures supporting the directors' statement must be attached to this statement. The exemption is currently due to expire on 29 February 2020.

This means that HBS has not received an independent opinion of its capability and willingness to repay its debts from an approved source.

As at the date of this Product Disclosure Statement, HBS complies with the requirements of the Deposit Takers (Credit Ratings Minimum Threshold) Exemption Notice 2016.

# PRODUCT DISCLOSURE STATEMENT

## Table of Contents

	<b>Page</b>
Section 1 - Key information summary	2
Section 2 - Terms of the offer	6
Section 3 - HBS and what it does	8
Section 4 - Key features of redeemable shares	10
Section 5 - HBS's financial information	11
Section 6 - Risks of investing	12
Section 7 – Tax	14
Section 8 - Who is involved?	15
Section 9 - How to complain	15
Section 10 - Where you can find more information	15
Section 11 - How to apply	16
Section 12 - Contact information	16

## Section 2 - TERMS OF THE OFFER

The issue, term and conditions of redeemable shares are governed by a Trust Deed dated 20 December 1990, as restated and amended by a Deed of Amendment and Restatement dated 16 November 2016, both made between HBS and Trustees Executors Limited as trustee for the redeemable shareholders. The Trust Deed may be obtained from the Disclose Register.

### Call redeemable shares

Debt security description	Unsecured debt security
Term	There is no fixed term as the call redeemable share are repayable at call.
Interest rates	<p>The interest rate for call shares is available on HBS website and is a floating rate subject to change without notice. Interest rates are tiered; \$0-\$49,999, \$50,000-\$99,999, \$100,000+.</p> <p>We review our interest rates regularly and may adjust them after considering the market for similar investment products and in light of our funding requirements.</p> <p>If we change the interest rate it will apply to your Call Investments from the date of the interest rate adjustment.</p>
Interest payments	<p>In arrears on 30 September and 31 March in each year (or if those dates are not business days, on the next following business day) of the call redeemable shares, or on closure of the call redeemable shares.</p> <p>Interest is paid by HBS crediting it to the call share account.</p>
Offer opening and closing dates	<p>The offer opened on 24 November 2016.</p> <p>This is a continuous offer, so that there is no closing date.</p>
Ranking of call redeemable shares on liquidation	<p>On a liquidation of HBS, your rights and claims under the call redeemable shares:</p> <ul style="list-style-type: none"> <li>• Would rank after all creditors and any permitted prior security interests (at the date of this PDS there are none of the latter)</li> <li>• Would rank equally with all other call and term redeemable shares</li> </ul>
Fees or charges	Investors pay no fees or charges of any sort in relation to making this investment and have no liability to make any further payment relating to the redeemable shares.
HBS cannot defer or cancel interest & principal	HBS has no right to extend the time for payment of principal or interest, nor to reduce or cancel payments of principal or interest.
Minimum investment amount	\$1

## Term redeemable shares

Debt security description	Unsecured debt security
Term	Term redeemable shares are issued for terms of three months, six months, one year and two years.
Interest rates	<p>The interest rate for term shares is available on HBS website and is subject to change without notice.</p> <p>We review our interest rates regularly and may adjust them after considering the market for similar investment products and in light of our funding requirements.</p> <p>The interest rate at the start of your Term Investment is fixed for the duration of the agreed term unless you have requested that HBS repay your investment prior to maturity and HBS has agreed to do so.</p>
Interest payments	Interest payable in respect of a term six months or less will be paid on maturity. For the one year and two year terms interest is payable six monthly in arrears. Investors may choose for interest to be compounded, or to be credited to a nominated bank account.
Offer opening and closing dates	<p>The offer opened on 24 November 2016.</p> <p>This is a continuous offer, so that there is no closing date.</p>
Ranking of call redeemable shares on liquidation	<p>On a liquidation of HBS, your rights and claims under the call redeemable shares:</p> <ul style="list-style-type: none"> <li>• Would rank after all creditors and any permitted prior security interests (at the date of this PDS there are none of the latter)</li> <li>• Would rank equally with all other call and term redeemable shares</li> </ul>
Fees or charges	Investors pay no fees or charges of any sort in relation to making this investment and have no liability to make any further payment relating to the redeemable shares.
HBS cannot defer interest & principal	HBS has no right to extend time for payment of principal or interest, or reduce or cancel payments of principal or interest.
Early repayment of Term Shares	HBS may agree to make an early repayment of a term investment, but is not obliged to do so. Further details are given under “HOW CAN YOU GET YOUR MONEY OUT EARLY” on page 3 above
Minimum investment amount	\$1

### Section 3 - HBS AND WHAT IT DOES

HBS was established in 1933 and since that time has provided both saving services and loan services, including residential, commercial and rural mortgage finance, to its members and predominantly those in the Hawkes Bay community. HBS's principal lending activity and source of income is the provision of finance for residential property secured by first ranking mortgages over freehold property, and that is expected to continue to be the case.

HBS is incorporated under The Building Societies Act 1965, and is licensed as a non bank deposit taker by the Reserve Bank of New Zealand. As such, HBS operates in the financial services industry, as also do banks and other non bank deposit takers.

HBS's Board of Directors comprises a chair and three directors, all of whom are non –executive directors. The Board meets eleven times per year and more often when required.

The Risk Management Programme sets out the roles and responsibilities of those managing and accepting the risks identified and provides what HBS's Board of Directors considers to be a reasonable level of assurance of the achievement of operating objectives and regulatory compliance requirements.

#### HBS OPERATIONS AND ACTIVITIES

##### Loan application and loan assessment policies

All loan applications are subject to careful assessment by HBS and are approved in accordance with HBS's credit approval policy whereby all loans are approved by the directors. All loans are managed and reviewed on an on-going basis. Regular reports are prepared to monitor loan repayments in order to detect delays in repayments early and recovery action is undertaken promptly where appropriate.

Loans are made within defined loan-to-value ratios. HBS maintains a maximum loan to value ratio of 80% for lending on residential-based security, 60% for lending on commercial-based security and 50% for lending on rural-based security. At 31 March 2019, HBS's average loan to value ratios across each sector was 41% for residential, 20% for commercial and 4% for rural.

Loans are also made within defined repayment to income ratios.

##### Security

HBS has a lending policy that requires lending to always be secured by a first-ranking mortgage security over real property. The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. HBS can enforce the security by disposing of the secured assets in the event of default.

##### Loan portfolio

	Mar 19		Mar 18		Mar 17	
<b>(A) Advance on mortgage comprise</b>						
Secured Advances	21,011,060		17,145,762		15,825,187	
Less: Provision for Impairment	-		-		(121,000)	
<b>TOTAL</b>	<b>21,011,060</b>		<b>17,145,762</b>		<b>15,704,187</b>	
<b>(B) Mortgages comprise</b>						
Residential	20,021,745	95%	15,625,687	91%	13,591,875	87%
Commercial	757,107	4%	920,969	5%	1,484,152	9%
Rural	232,208	1%	599,106	4%	628,160	4%
<b>Total</b>	<b>21,011,060</b>	<b>100%</b>	<b>17,145,762</b>	<b>100%</b>	<b>15,704,187</b>	<b>100%</b>

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



Average LVR's	Policy Maximum	Mar 19	Mar 18	Mar 17
Residential	80%	41%	38%	34%
Commercial	60%	20%	23%	29%
Rural	50%	4%	10%	16%

**(C) Geographical concentration**

Hawkes Bay	19,027,980	91%	15,352,328	91%	14,517,738	93%
Taupo	586,690	3%	611,038	1%	122,304	1%
Wellington	78,731	-%	79,890	5%	80,549	-%
North Island - Other	1,317,659	6%	1,102,506	3%	983,596	6%
<b>Total</b>	<b>21,011,060</b>	<b>100%</b>	<b>17,145,762</b>	<b>100%</b>	<b>15,704,187</b>	<b>100%</b>

Updated details about the HBS Loan portfolio for subsequent financial years may be found in the notes to HBS's annual financial statements, which are available either under "Documents and Forms" on HBS's website at [www.heretaungabuildingsociety.co.nz](http://www.heretaungabuildingsociety.co.nz), or alternatively in HBS's entries in the offer register at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose).

### **Board of Directors and Senior Management**

#### **Directors -**

##### **Thomas Mark Alistair Morgan**

Mark Morgan has been a director of HBS since 2008. Mark spent 53 years working in the construction industry as a manager and director of his family business, retiring in 2013. He has maintained a presence in the construction industry consulting with a number of former clients. He is a past Commodore of the Napier Sailing Club and is a trustee for the Havelock North Function Centre.

##### **Trevor Leonard Webb BCA**

Trevor Webb has been a director of HBS since 2002. Trevor was a director of Brown Webb Richardson Ltd (Chartered Accountants) from 2002 until 2010 and has been a director of Trevor Webb Limited since October 2010. Trevor is a Fellow of the NZ Institute of Chartered Accountants, practised as a chartered accountant for 37 years before retiring in June 2010. He is active in the Hawkes Bay community supporting Rotary, Lindisfarne College and local health providers.

##### **Stephen Alexander Greer LLB (Chairperson)**

Stephen Greer was appointed a director in February 2017. Stephen was appointed a Partner of Sainsbury Logan & Williams (Lawyers) in 1985. He acts for a large number of rural and commercial clients concentrating on the areas of agribusiness, trusts, asset protection, finance, sales, acquisitions and taxation. Stephen currently holds trusteeships for many Hawkes Bay farming families. He has an active interest in tennis and rugby and is active in local charitable organisations.

##### **Andrea Berry (nee Jopling) BA (Hons)**

Andrea Berry joined the Board in June 2019 and has been a resident of Hawke's Bay since 2008. Born in the UK and educated at the University of London, she moved to New Zealand in 2000, and has been working in senior roles in the health and social services sector since that time. Andrea now provides expertise in project management, stakeholder engagement, strategic planning, health programme design, service evaluation and new revenue generation to a range of clients as an independent consultant. Andrea is an experienced governor and is currently Deputy Chair of the Cranford Hospice Trust.

#### **Senior Management -**

##### **David Gareth Sexton (BCom, DipCom, DipBank)**

David Sexton has been the general manager of HBS since April 2019. He holds a BCom and DipCom from the University of Auckland and a Diploma in Banking from Massey University, he has over 20 years experience in the banking and

financial services industry. He is an employee of Brown Webb Richardson Limited (Chartered Accountants) ("BWR"), which are the secretaries for HBS. David is paid a salary by BWR for his role as general manager of HBS, BWR is paid a fee for its secretarial duties.

None of the Directors or Senior Management have been adjudged bankrupt, convicted of a crime involving dishonesty, or prohibited from acting as a director or taking part in the management of a corporate entity.

#### Section 4 - KEY FEATURES OF REDEEMABLE SHARES

##### RANKING

The call and term redeemable shares are unsecured.

In the event of liquidation the call and term redeemable shares would rank equally with all other call and term redeemable shares and behind any creditors given priority by law, other creditors and any permitted prior security interests (of which there are none at the date of this PDS).

The HBS Trust Deed permits HBS to incur further liabilities which rank equally with or in priority to the call and term redeemable shares on liquidation, including as part of normal trading and by issuing further call and term redeemable shares.

HBS is also permitted under the Trust Deed to create security interests over HBS assets which may rank in priority above other liabilities, so long as the amount secured does not exceed 1% of HBS total tangible assets.

Illustration of ranking of redeemable shares on a winding-up of HBS.

Ranking	Liability types	Indicative Amount (as at 31 March 2019)
Higher ranking (earlier priority)	Liabilities that rank in priority to call and term redeemable shares	Liabilities preferred by Law. \$ 39,978
	Liabilities that rank in priority to call and term redeemable shares	Trade and general creditors. \$ 242,448
	Redeemable Shares, ranking equally with each other	Call and term redeemable shares. \$ 26,038,061
Lower ranking (later priority)	Liabilities that rank below the call and term redeemable shares	Nil
	Equity	\$ 5,110,413

Updated details about the ranking of redeemable shares may be found in a document named "Ranking of Redeemable Shares" showing the amounts in each above category at the most recent balance date, which is available under "Documents and Forms" on the HBS website at [www.heretaungabuildingsociety.co.nz](http://www.heretaungabuildingsociety.co.nz)

## Section 5 - HBS FINANCIAL INFORMATION

HBS is required by law and its trust deed to meet certain financial requirements. This table shows how HBS is currently meeting those requirements. These are minimum requirements. Meeting them does not mean that HBS is safe. The section on specific risks relating to HBS's creditworthiness sets out risk factors that could cause its financial position to deteriorate. The Disclose register also contains a document titled "Quarterly Report" which provides a breakdown of how the figures in this table are calculated, as well as full financial statements.

### KEY RATIOS

	31 March 2019	31 March 2018	31 March 2017
<b>Capital Ratio</b>			
<b>HBS Capital Ratio calculated in accordance with the Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010 (the 2010 Regulations)</b>	17.63%	17.78%	17.75%
<b>Minimum capital ratio Required by the Trust Deed</b>	12%	12%	12%
<b>Minimum capital ratio required by the 2010 Regulations</b>	12%	12%	12%
The capital ratio is a measure of the extent to which HBS is able to absorb losses without becoming insolvent. The lower the capital ratio, the fewer financial assets HBS has to absorb unexpected losses arising out of its business activities.			
<b>Related party exposures: Aggregate exposures to related parties calculated in accordance with the 2010 Regulations</b>	5.32%	6.26%	11.95%
<b>Maximum related party exposures permitted by the Trust Deed</b>	15% of capital	15% of capital	15% of capital
<b>Maximum related party exposures permitted by the 2010 Regulations</b>	15% of capital	15% of capital	15% of capital
Related party exposures are financial exposures that HBS has to related parties. A related party is an entity that is related to HBS through common control or some other connection that may give the party influence over HBS (or HBS over the related party). These related parties include relatives of directors or senior management.			
<b>Ratio of Liquid Assets calculated in accordance with the Trust Deed</b>	28%	42%	40%
<b>Minimum Liquidity Requirements required by the Trust Deed</b>	15%	15%	15%
<b>Liquidity mismatch ratio</b>	267.3%	335.1%	393.1%
<b>Minimum Liquidity mismatch ratio required by Trust Deed</b>	115%	115%	115%
Liquidity requirements help to ensure that HBS has sufficient realisable assets on hand to pay its debts as they become due in the ordinary course of business. Failure to comply with liquidity requirements may mean that HBS is unable to repay investors on time, and may indicate other financial problems in its business.			

Updated details about the Key Ratios may be found in a document named "Key Ratios and Selected Financial Information" showing the amounts in each above category as updated quarterly and which is available under "Documents and Forms" on the HBS website at [www.heretaungabuildingsociety.co.nz](http://www.heretaungabuildingsociety.co.nz)

## Selected Financial Information

	31 March 2019	31 March 2018	31 March 2017
	\$	\$	\$
<b>Total Assets</b>	31,430,900	30,702,991	27,515,363
<b>Total Liabilities</b>	26,320,487	25,910,021	23,044,506
<b>Net Profit after Tax</b>	50,696	242,166	31,687
<b>Net Cash Flows from operating activities</b>	(3,299,158)	1,614,901	2,567,572
<b>Cash &amp; Cash Equivalents</b>	5,886,161	8,985,319	7,479,463
<b>Capital</b>	5,110,413	4,792,970	4,470,857

Updated details about the above Selected Financial Information may be found in a document named “Key Ratios and Selected Financial Information” showing the amounts in each above category as updated quarterly and which is available under “Documents and Forms” on the HBS website at [www.heretaungabuildingsociety.co.nz](http://www.heretaungabuildingsociety.co.nz)

### Other Financial Covenants

The Trust Deed also requires HBS to comply with certain other financial covenants besides those which are referred to under “**Key Ratios**” above or elsewhere in this Product Disclosure Statement, including –

- a) HBS must not permit the total amount payable in cash over any half year as interest to exceed income actually received in cash over the same period from investments; and
- b) HBS must not Permit the aggregate of Total Secured Indebtedness and Total Unsecured Indebtedness owing to the Society, and the Total Listed Securities and the Total Unlisted Securities of the Society to exceed 15% of Total Tangible Assets

Besides the financial covenants outlined under “**Key Ratios**” above, further financial covenants are referred to under “Specific risks relating to HBS creditworthiness” in Section 6, immediately below.

## Section 6 - RISKS OF INVESTING

### GENERAL RISKS

Your investment is subject to the general risk that if HBS experiences significant losses through its lending, it may become insolvent and may not be able to meet its obligations to depositors to pay interest and to repay the principal amount of deposits.

The maximum risk you carry is the loss of your invested funds together with any interest owed to you because HBS is not able to repay you. However, in no circumstances will investors have any additional liability to HBS or to any person whatsoever.

### SPECIFIC RISKS RELATING TO HBS CREDITWORTHINESS

The following is a description of the circumstances that HBS is aware of that exist or are likely to arise that significantly increase the risk that HBS may default on any of its payment obligations under the redeemable shares. The NBDT Act requires that we have and maintain a Risk Management Programme. Our risk management programme is in writing, is regularly reviewed, and sets out how we identify, analyse, evaluate, eliminate and/or mitigate risk. The principal risks that we face are: geographic concentration risk; loan default risk; liquidity risk and interest rate risk.

### **Geographic concentration risk**

HBS has a significant geographic concentration in the Hawkes Bay, both in terms of sourcing the majority of its funding and its lending activities. HBS is therefore dependent to a significant degree on the fortunes of the wider Hawkes Bay economy. Should the Hawkes Bay region suffer an adverse event then HBS, and ultimately your Investment, could be adversely impacted.

### **Loan default risk**

HBS lends money to a variety of customers. Loan default risk is the risk that if a material number of our borrower's default on their loan obligations there may be insufficient funds available to repay investors. This is a risk that is inherent to any lending institution. However, as noted in section 3 of this PDS (HBS and what it does), HBS employs a conservative lending policy to manage and mitigate this risk. This lending policy helps to ensure that any credit risk assumed by HBS falls within acceptable parameters:

- a. Loan to Valuation Ratios (LVR's) Retention of conservative LVR's:
  - Residential housing loans –80% LVR;
  - Commercial loans –60% LVR;
  - Rural loans –50% LVR;
- b. Debt servicing - Similarly to the LVR's, HBS adopts a conservative approach to debt servicing such that most borrowers contribute less than 1/3 of their gross household income to debt servicing.
- c. Credit history - Credit checks are undertaken on all new borrowers and if the result is a score lower than our usual lending criteria then an application is declined unless mitigating circumstances are present.
- d. Borrower concentration - HBS restricts its exposures to any one borrower or group of closely-related borrowers.

Updated details about the HBS Loan portfolio for subsequent financial years may be found in the notes to HBS's annual financial statements, which are available either under "Documents and Forms" on HBS's website at [www.heretaungabuildingsociety.co.nz](http://www.heretaungabuildingsociety.co.nz), or alternatively in HBS's entries in the offer register at <https://disclose-register.companiesoffice.govt.nz/>

### **Liquidity Risk**

Similar to virtually all financial institutions, HBS has a mismatch in the maturity profile of our available sources of funding and loans to customers. This mismatch arises in the ordinary course of business given that HBS is taking in short-term or on-call funding, while a major part of our lending to customers is in long-term residential mortgages. Liquidity risk is the risk that HBS may have insufficient funds or may not be able to raise sufficient funds at short notice, to meet our financial obligations as they fall due, including the repayment of your Investment. We manage liquidity risk on a daily basis and in a number of ways including:

- Monitoring the maturity profile for existing loans, Redeemable Shares and Deposits.
- Seeking to maintain diversity and stability in our retail funding base.
- Holding cash surpluses in the form of on call or liquid securities to ensure we retain immediate access to these funds.
- Maintaining strong bank relationships including access to committed standby funding lines for a period of at least 12 months forward.
  - Forecasting and managing our cash position so as to maintain cash surpluses where possible to minimise bank funding line utilisation.
  - Ensuring on-going compliance with Trust Deed and RBNZ NBDT liquidity requirements as set out in section 5 (HBS's Financial Information).

If there was a sustained decline in our ability to retain or attract new Redeemable Shares and Deposits or if access to our committed bank funding lines were not able to be renewed, this could result in increased liquidity pressure and could affect our ability to repay investors.

Updated details about HBS liquidity levels may be found in the notes to HBS's annual financial statements, which are available either under "Documents and Forms" on HBS's website at [www.heretaungabuildingsociety.co.nz](http://www.heretaungabuildingsociety.co.nz), or alternatively in HBS's entries in the offer register at <https://disclose-register.companiesoffice.govt.nz/>.

### **Interest rate risk**

HBS's income is from the difference between what we pay to depositors and what we earn from borrowers and investments. In the event of a drop in interest rates, the interest rate we receive on surplus funds we have invested with NZ registered banks may be less than the amount we pay under the call and term redeemable shares, and thus could have a significant impact on the income we receive. If HBS has reduced income this may cause the interest rates that can be offered to depositors to decline. This is mitigated by ensuring net interest rate gaps between HBS's financial assets and liabilities are not excessive.

## **Section 7 – TAX**

Under current New Zealand tax legislation, HBS must deduct resident withholding tax (RWT) from all interest payable before it is paid or credited to New Zealand-resident investors.

If an investor holds a current certificate of exemption and has given HBS a copy of that certificate, HBS will not deduct RWT.

The applicable RWT rates are available on the IRD website [www.ird.co.nz](http://www.ird.co.nz). Please note that the IRD may instruct interest payers to change the RWT rate where the IRD determines a RWT rate is inconsistent with a client's marginal tax rate. If an investor does not provide their IRD number RWT will be deducted at 33%.

For investors who are not resident in New Zealand for tax purposes, HBS will deduct non-resident withholding tax (NRWT). The rate is currently 10% or 15%, depending on the country of residence.

There may be other tax consequences arising from acquiring or disposing of redeemable shares issued by HBS. If an investor has questions relating to the tax consequences of an investment, they should seek professional advice on those consequences.

## Section 8 – WHO IS INVOLVED?

	<b>Name</b>	<b>Role</b>
<b>Issuer</b>	Heretaunga Building Society	Issuer of the call and term redeemable shares.
<b>Supervisor</b>	Trustees Executors Limited	Provides independent oversight of HBS in relation to the call and term redeemable shares.
<b>Solicitor to the issuer</b>	Crengle, Shreves & Ratner	Legal adviser to HBS.

## Section 9 - HOW TO COMPLAIN

In the first instance complaints should be made to the General Manager HBS – by contacting the Secretary, Heretaunga Building Society, 111 Avenue Road East, PO Box 146, Hastings Telephone (06) 873-8047

Complaints can also be made to:

The Supervisor – by contacting Trustees Executors Limited, Level 5, 10 Customhouse Quay, Wellington, Telephone (04) 495-0999

If the issue is not resolved:

HBS is registered under the Financial Service Providers (Registration and Dispute Resolution) Act 2008 and complaints about these investments can be made to the Insurance and Financial Services Ombudsman Scheme Inc (IFSO) (an approved dispute resolution scheme under that Act), Level 8, Shamrock House, 81 Molesworth Street, Wellington 6011, Telephone 0800 888 202.

This scheme will not charge a fee to any complainant to investigate or resolve a complaint.

The Dispute Resolution service covers all matters concerning your investment with HBS.

## Section 10 - WHERE YOU CAN FIND MORE INFORMATION

Further information regarding HBS and the call and term redeemable shares is available on the offer register at <https://disclose-register.companiesoffice.govt.nz/> and can be obtained from the Financial Service Providers Register on request <https://fsp-register.companiesoffice.govt.nz/>.

In addition further information about HBS and redeemable shares is available in the following documents;

- (a) HBS's latest Annual Report
- (b) HBS's Trust Deed
- (c) HBS's Rules

All of these documents are available free of charge from HBS, 111 Avenue Road East, P O Box 146, Hastings, phone (06) 873 8047 and are also available for public inspection at the Companies Office of the Ministry of Commerce, Auckland and at [www.business.govt.nz/companies](http://www.business.govt.nz/companies) and are also available on the HBS website <http://www.heretaungabuildingsociety.co.nz/forms.htm>

## **Section 11 - HOW TO APPLY**

If you wish to make a deposit with HBS, payment can be made by means such as a cheque made out to HBS (crossed "not transferable"), cash or transferring money from another account with HBS or with another bank. HBS will not accept your application to deposit until full payment of the deposit amount is received in cleared funds. Payment must accompany a duly completed application form. The new account application form is available at <http://www.heretaungabuildingsociety.co.nz/forms.htm>

All applicants must meet our customer due diligence requirements which arise under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009.

HBS will not accept your application to invest until full payment has been received and all customer due diligence procedures have been adequately completed.

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

Payment may be lodged in cash, cheque or by direct credit with Heretaunga Building Society by either:

Mailing investments to HBS at, PO Box 146, Hastings 4156,

By calling at our office located at 111 Avenue Road East, Hastings

By automatically transferring into Westpac Hastings 03-0642-022885-02 with appropriate references.

## **Section 12 - CONTACT INFORMATION**

Heretaunga Building Society  
111 Avenue Road East  
P O Box 146  
Hastings 4156

Telephone 06 873 8047  
[www.heretaungabuildingsociety.co.nz](http://www.heretaungabuildingsociety.co.nz)