Heretaunga Building Society

89TH ANNUAL REPORT 2022

Heretaunga Building Society
Financial Statements
For the year ended 31 March 2022

ANNUAL GENERAL MEETING

The EIGHTY NINTH 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 2022 at 4.00pm.

BUSINESS

Adoption of Annual Report and Financial Statements

Retirement of Director

Election of Director

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

S A Greer L.L.B.

W P S Harvey B.B.S. FPINZ FNZIV

P A Jopling B.A.

T L Webb B.C.A.

BANKERS:	Westpac New Zealand Limited
SOLICITORS:	Bramwell Bate
AUDITORS:	Baker Tilly Staples Rodway Audit Limited
TRUSTEES:	Trustees Executors Limited

CHAIRMAN'S REPORT
89TH ANNUAL REPORT TO MEMBERS
FOR YEAR ENDED 31 MARCH 2022

On behalf of the Board, I am pleased to share with you, our members, Heretaunga Building Society's ("the Society") Annual Report for the year ended 31 March 2022.

Hawkes Bay experienced approximately 25-30% growth in residential property values during the financial year, at least until December 2021, when the market slowed down in terms of value and growth rate. The slowing down is largely due to rising interest rates and restrictions on lending, including the introduction of the CCCFA legislation coupled with rising inflation and costs of living.

The consequence of this is an expected reduction in new loan applications during this current financial year.

The good news is that with the dedication of the Directors and the General Manager, Ray Greenwood, there has been an increase of $3,727,000 in mortgage advances during the financial year ended 31 March 2022. The mortgage advances are now standing at $27,538,386 as at 31 March 2022, compared with $23,811,105 as at 31 March 2021.

Notwithstanding the increase in mortgage advances, there has been an increase in cash with an increase in call and term investments. The total assets of the Society as at 31 March 2022 stand at $42,914,375 being an increase of $5,348,086 from the previous financial year.

On the other hand, there has been an increase of $4,497,046 in liabilities, such increase primarily being an increase in redeemable shares.

The financial result for the year ended 31 March 2022 produced a net operating profit before tax of $952,865 which converts to total comprehensive income of $851,040, up from $394,716 for the previous year. This increased profit is largely due to a gain on the BWR building revaluation coupled with increased interest revenue on mortgage advances and the reduction of interest payable on redeemable shares.

The Society continues to maintain strong liquidity whilst continuing its safe lending practice. With interest rates increasing and values and growth rates slowing, the Directors are mindful of the fact that the Society needs to remain a responsible lender.

The Society continues its sponsorship for the Cornwall Cricket Club and the Hastings Riding for the Disabled.

A big thank you from all the Directors goes out to Ray Greenwood for his good work and guidance as General Manager throughout the year. Ray has quickly proved himself invaluable to the Society.

Finally, a very special thank you to my fellow Directors, namely Trevor Webb, Andrea Jopling and Paul Harvey for their great efforts and contributions to the good governance of the Society throughout the year.

Thank you also to the Directors and Staff at Brown Webb Richardson for their very good accounting and secretarial services and support throughout the year.

For Directors

SA Greer
Chairman
1 June 2022

GENERAL MANAGER'S REPORT
89TH ANNUAL REPORT TO MEMBERS
FOR YEAR ENDED 31 MARCH 2022

Advances on mortgage increased from $23.8 million at March 2021 to $27.5 million by March 2022. This supported an increase in Total Interest Revenue from $1.0 million to $1.1 million.

Redeemable preference shares increased from $31.6 million in March 2021 to $36.0 million in March 2022, but with a decrease in interest rates the amount paid on redeemable shares reduced. Overall net interest income increased by $428,552 to $736,310.

Operating expenses increased from $547,823 to $647,378. This was largely driven by increased workload across the directorship and secretary, in part related to the increasing amount of regulatory compliance that is required.

The value of the BWR building at 111 Avenue Road East increased in value by $646,933 to $4,090,000.

Total comprehensive income of $851,040 is significantly higher than the previous year. This reflected both a larger property revaluation in the 2022 financial year, as well as stronger performance of the underlying business.

The property market is facing some headwinds, with interest rates increasing significantly in recent months. However, demand for lending, both directly and through brokerage networks remains strong.

Like most lenders, we have had to react to the changes introduced to the credit contracts and consumer finance act introduced in December 2021. Our lending criteria has always been prudent, but we now have obligations to more intensively scrutinize spending habits and affordability assessments.

We are conscious of the pressure increasing interest rates places on borrowers generally, but we are in the fortunate position to have a relatively low loan-to-value ratio (LVR) across our portfolio. Market value analysis undertaken in March 2022 indicated a 'market' LVR of approximately 23%. As yet we have not had any hardship requests from our borrowers, and this is reflective of our prudent approach to lending.

As we look forward to the new financial year we are budgeting for another strong performance. While the interest rate market is volatile by remaining vigilant and responding quickly to market dynamics, we are confident that we can maintain margins.

Ray Greenwood
General Manager
26 May 2022

CORPORATE GOVERNANCE
2022 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 Buildings 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

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

MEMBERS 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 reports and at the annual meeting.

Heretaunga Building Society
Statement of Comprehensive Income
For the year ended ended 31 March 2022

	Note	Mar-22	Mar-21
		$	$
Interest Revenue			
Advances		1,038,166	912,349
Bank Deposits		78,282	110,091
Investment Securities		20,376	22,210
Total Interest Revenue		1,136,824	1,044,650
Interest Expense			
Interest on Redeemable Shares		400,514	736,892
Total Interest Expense		400,514	736,892
Net Interest Income		736,310	307,758
Other Income			
Rent Received		207,000	245,015
Gains / (Loss) in Fair Value of Investment Securities		-	14,794
Gain / (Loss) in Fair Value of Investment Property	**7**	646,933	365,000
Realised Gain on Sale of Investment Property		-	15,500
Compensation Income		10,000	-
OPERATING INCOME		1,600,243	948,067
Operating Expenses			
Administration and Other Expenses		82,240	93,628
Audit Fees			
- Audit of the Financial Statements		41,483	46,865
- Other Assurance Services		2,760	2,507
Directors Fees		89,000	82,000
Secretarial and Office Facilities		368,000	293,250
Trust Deed Expenses		35,576	29,360
Depreciation	**9**	2,116	213
Impairment of Investment Securities		26,203	
OPERATING EXPENSES		647,378	547,823
NET OPERATING PROFIT BEFORE TAX		**952,865**	**400,244**
Tax Expense	3	101,825	5,528
TOTAL COMPREHENSIVE INCOME		**851,040**	**394,716**

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Heretaunga Building Society
Statement of Changes in Equity
For the year ended 31 March 2022

Mar-22	Note	Retained Earnings	General Reserve	Revaluation Reserve	Total Equity
Opening Balance 1 April 2021		1,198,780	2,800,000	1,729,717	5,728,497
IFRS 9 adjustments	24				
Adjusted Opening Balance					
Total Comprehensive Income for Year		851,040	-	-	851,040
Transfer between Reserves		(646,933)	-	646,933	-
Closing Balance 31 March 2022	4	1,402,887	2,800,000	2,376,650	6,579,537
Equity % to Total Assets					15.33%

Mar-21	Note	Retained Earnings	General Reserve	Revaluation Reserve	Total Equity
Opening Balance 1 April 2020		1,153,416	2,800,000	1,380,365	5,333,782
Total Comprehensive Income for Year		394,716	-	-	394,716
Transfer between Reserves		(365,000)	-	365,000	-
Reversal of Revaluation on Property		15,648	-	(15,648)	-
Closing Balance 31 March 2021	4	1,198,780	2,800,000	1,729,717	5,728,498
Equity % to Total Assets					15.25%

Heretaunga Building Society
Statement of Financial Position
As at 31 March 2022

	Note	Mar-22	Mar-21
		$	$
ASSETS			
Cash and cash equivalents	**5**	4,327,452	9,590,486
Short Term Bank Deposits	**5**	6,773,290	-
Tax receivable	**3**	-	19,584
Investment securities	**6**	173,942	699,448
Prepayments		6,577	5,323
Investment properties	**7**	4,090,000	3,440,000
Advances on mortgage	**8**	27,538,386	23,811,105
Office equipment	**9**	4,728	343
TOTAL ASSETS		42,914,375	37,566,289
LIABILITIES			
Redeemable shares	**10**	35,988,330	31,553,322
Tax payable	**3**	74,875	-
Trade payables		4,004	39,022
Resident withholding tax		15,588	19,777
GST		11,341	11,445
Directors fees payable	**19**	44,500	41,004
Accruals		35,059	39,030
Deferred taxation	**3**	161,141	134,192
TOTAL LIABILITIES		36,334,838	31,837,792
EQUITY			
Retained earnings	**4**	1,402,887	1,198,780
General reserve	**4**	2,800,000	2,800,000
Revaluation reserve	**4**	2,376,650	1,729,717
TOTAL EQUITY		6,579,537	5,728,497
TOTAL LIABILITIES AND EQUITY		42,914,375	37,566,289

For and on behalf of the Board, who authorised the issue of these Financial Statements on 21 June 2022.

Director

Director

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Heretaunga Building Society
Statement of Cash Flows
For the year ended 31 March 2022

	Note	Mar-22	Mar-21
CASH FLOWS FROM OPERATING ACTIVITIES		$	$
Cash was provided from:			
Interest received		1,135,929	1,053,892
Other income		10,000	-
Tax Refund		38,771	-
Rent received		207,000	248,467
		1,391,700	1,302,359
Cash was applied to:			
Interest paid		(417,372)	(829,113)
Tax paid		(42,438)	(45,768)
Payments to suppliers		(640,574)	(527,068)
		(1,100,384)	(1,401,949)
NET CASH FLOWS FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		291,316	(99,590)
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Net Cash was provided from / (applied to):			
Advances on Mortgages		(3,725,431)	(4,143,866)
Redeemable Shares		4,447,681	(2,279,488)
NET OPERATING CASH FLOWS	**11**	1,013,566	(6,522,944)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Investment Security redeemed		503,190	-
Investment Property sold		-	769,925
Cash was applied to:			
Investment Security purchase / addition		-	(200,000)
Fixed Assets Purchased		(6,500)	
Short Term Bank Deposits		(6,773,290)	-
		(6,276,600)	569,925
Total net increase/(decrease) in cash and cash equivalents held		(5,263,034)	(5,953,019)
Cash and cash equivalents at the beginning of the year		9,590,486	15,543,505
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**5**	4,327,452	9,590,486

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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

Authorisation of the Financial Statements
These financial statements are authorised for issue by the Directors on 21 June 2022.

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
The financial statements have been prepared under the going concern basis which assumes the Building Society will be able to pay its debts as they fall due in the oridinary course of business.

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

Interest Revenue (net of brokerage) on Loans and Investments
Interest income net of brokerage 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) is recognised in the profit or loss on a straight-line basis over the period of the lease.

(b) Expenses

Expenses comprise interest expense on redeemable shares and operating expenses.

Interest expense is recognised on a time proportion basis using the effective interest method.

Operating expenses are recognised over the period in which an asset is consumed (if applicable) or once a liability is created.

(c) Financial Instruments Recognition and Measurement

A financial asset or financial liability is recognised only when the Building Society becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at fair value plus or minus transaction costs. Subsequent to initial recognition these financial instruments are measured according to the classifications as set out below.

The Building Society classifies its financial instruments in the following categories:
Financial assets at fair value through profit or loss, financial assets at amortised cost, financial assets through other comprehensive income, financial liabilities at fair value through profit or loss, and financial liabilities at amortised cost. The classification depends on the Building Society's business model for the relevant financial instrument and the contractual cashflow characteristics of the financial instruments 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 held financial assets at amortised cost and financial liabilities at amortised cost.

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

Financial assets are assessed for impairment at each balance date.

Financial assets at amortised cost

Financial assets at amortised cost are non derivative financial assets with fixed or determinable payments and classified as such as the business model is to collect the contractual cashflows of principal and interest. They are carried at amortised cost using the effective interest method less accumulated impairment losses. Cash and cash equivalents, accounts receivable, advances on mortgage and investment securities with contractual maturity dates are classified as financial assets at amortised cost.

2. SIGNIFICANT ACCOUNTING POLICIES Cont'd

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried at fair value and any fair value movement is recognised in profit or loss. Investment securities with no contractual maturity dates (ie perpetual bonds) are classified as financial assets at fair value through profit or loss.

Financial liabilities at amortised cost

Redeemable shares are recognised initially at fair value, net of transaction costs incurred. They 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 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 Financial Assets

A provision for impairment is measured based on the expected credit loss (ECL) model. The Building Society applies a three-stage model to measure the expected credit losses associated with its financial assets (advances on mortgage, investment securities and cash & cash equivalents) by assessing the changes in credit quality of those financial assets since initial recognition.

Three stage model is as follows:
- Stage 1 (12 months ECL): applies to all items resulting from the possible default events within 12 months after reporting date.
- Stage 2 (Lifetime ECL): represents the ECL that results from all possible default events over the expected life of a financial instrument. If a financial instrument experiences a significant increase in credit risk since initial recognition (30 days past due) then is moved to stage 2 but is not yet deemed to be credit-impaired.
- Stage 3 (Lifetime ECL): when objective evidence of credit-impairment emerges with one or more events that have a detrimental impact on the estimated future cash flows of the financial assets (90 days past due) then the asset is considered credit impaired and moved to Stage 3.

A significant change in the credit quality of a financial asset triggers a transition from Stage 1 to Stage 2.
Refer to note 8. Advances on Mortgages for recognition and measurement of ECL along with the assumptions and significant judgement exercised.

Financial assets which are known to be uncollectible are written off as an expense in the profit or loss. These are only 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 borrowers credit rating), the previously recognised impairment loss is reversed by adjusting the allowance amount, with the reversal being recognised in the profit or loss.

For stage 2 and 3 financial instruments, the interest revenue is recognised using the effective interest rate on the gross carrying amount. For stage 3 financial instruments, the interest revenue is recognised using the effective interest rate on the net carrying amount (gross carrying amount less provision).

2. SIGNIFICANT ACCOUNTING POLICIES Cont'd

(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 measured at fair value 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 profit/(loss) 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) Goods and Services Tax

The principal activity of the Building Society is to provide financial services, 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 Accounts receivable and Trade payables.

2. SIGNIFICANT ACCOUNTING POLICIES Cont'd

(h) 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 most apparent in the following areas:

Going Concern - Covid 19

The New Zealand economy has emerged strongly following the pandemic lockdowns. The Directors have assessed the likely impact of COVID-19 on the Building Society and have concluded that, for the 12 months from the date of signing the financial statements, COVID-19 is not likely to impact the Building Society's ability to continue as a going concern.

Investment Property

Valuation Estimates

The investment properties fair values are estimated by way of a valuation at the end of each financial year and any changes in value are recorded in the profit or loss. A professional valuation of investment properties has been undertaken at 31 March 2022, in line with the Building Society accounting policy, and the updated valuation is reflected in the financial statements.

Details of key assumptions are disclosed in Note 7 of these financial statements.

Impairment of Advances on Mortgage

Notwithstanding the Building Society's historic record in respect of maintaining its advances on mortgage, the directors and management constantly review the risk and likelihood of impairment occurring. The rationale and assumptions applied to this review process are set out in Note 8.

(i) Changes in Accounting Policies

There have been no changes to accounting policies. All policies have been consistently applied.

(j) Standards Issued But Not Yet Effective

NZ IAS 1 – Presentation of Financial Statements: *Classification of liabilities as current or non-current* is applicable for annual periods beginning on or after 1 January 2023. This amendment clarifies the requirement for the presentation of liabilities in the statement of financial position as current or non-current. Management is yet to assess the impact of this accounting standard on the Building Society.

3 TAXATION

(A) CURRENT PERIOD TAX	Mar-22	Mar-21
Profit before tax	952,865	400,244
Fair Value Movement - Investment Properties	(646,933)	(365,000)
Fair Value Movement - Corporate Bonds	-	(14,794)
Tax Depreciation on Buildings	(35,505)	(36,830)
Capital Gain/loss on Sale of Investment Properties	-	(15,500)
Impairment of Investment Securities	26,203	-
Other Non Deductible Expenses	2,661	-
Less Tax Loss Brought Forward	(31,880)	-
Taxable Surplus	267,411	(31,880)
Tax at 28%	74,875	-
Current Period Tax Charge	74,875	-
Effective Tax Rate	28%	28%
Comprising		
Current tax payable	74,875	-
Deferred tax	26,949	5,528
TOTAL TAX EXPENSE	**101,824**	**5,528**
Tax Payable / (Receivable) at start of year	(19,584)	26,191
Less: Tax Received / (Paid)	19,584	(45,775)
Current Tax Payable	74,875	-
TAX PAYABLE / (RECEIVABLE) AT END OF YEAR	**74,874**	**(19,584)**

(B) DEFERRED TAX LIABILITY / (ASSET)

Mar-22	Tax Losses	Depreciation	Fair Value Change	Total
Balance at beginning of period	(8,926)	151,200	(8,082)	134,192
Current period movement	8,926	9,941	8,082	26,949
BALANCE AT END OF YEAR	**-**	**161,141**	**-**	**161,141**

Mar-21	Tax Losses	Depreciation	Fair Value Change	Total
Balance at beginning of period	-	140,888	(12,224)	128,664
Current period movement	(8,926)	10,312	4,142	5,528
BALANCE AT END OF YEAR	**(8,926)**	**151,200**	**(8,082)**	**134,192**

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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.
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 AND SHORT-TERM BANK DEPOSITS

	Mar-22	Mar-21
	$	$
NZ Registered Bank balance	4,327,452	3,573,891
NZ Registered Bank Deposits	-	6,016,595
TOTAL CASH AND CASH EQUIVALENTS	**4,327,452**	**9,590,486**
Short-term bank deposits with initial maturities greater than 90 days	6,773,290	-
TOTAL SHORT-TERM BANK DEPOSITS	**6,773,290**	**-**

All balances are available within 12 months. The bank deposits are liquidity funds held by the Building Society and comprise notice saver accounts and term deposits.

Short-term bank deposits with initial maturities greater than 90 days and held for liquidity purposes are separately classified as they do not meet the definition of Cash & Cash Equivalents.

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.

The effective interest rates on short term deposits held as at 31 March 2022 were in the range of 1.50% to 2.55% with a weighted average of 2.02%.

6 INVESTMENT SECURITIES

	Fair Value	Amortised Cost	Mar-22	Mar-21
(New Zealand debt exchange listed securities)	$	$	$	$
Opening Balance	499,311	200,137	699,448	486,218
Bond Purchased/(Sold) / (Matured)	(500,000)	-	(500,000)	200,000
Reserve Increase/(Decrease)				
Fair value movement	-	-	-	14,794
Amortisation				
Realised Gain/(Loss) on disposal	689	-	689	
Accrued Interest Movement	-	8	8	(1,564)
Impairment		(26,203)	(26,203)	
CLOSING BALANCE	**-**	**173,942**	**173,942**	**699,448**

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

7. INVESTMENT PROPERTIES

	Mar-22	Mar-21
(A) CLASSES OF INVESTMENT PROPERTY	$	$
Freehold land (at valuation)	1,525,000	1,120,000
Buildings (at valuation)	2,565,000	2,320,000
TOTAL INVESTMENT PROPERTIES	**4,090,000**	**3,440,000**

(B) MOVEMENTS IN CARRYING AMOUNTS		
Carrying value at the beginning of the year	3,440,000	3,835,000
Purchases	3,067	
Revaluation movement recognised in profit or loss	646,933	365,000
Heretaunga Street Property sold during year	-	(760,000)
Carrying value at the end of the year	**4,090,000**	**3,440,000**

(C) VALUATION DETAILS

Fair values are determined by Kirsty Miller BBS , SPINZ, ANZIV a registered valuer from Williams Harvey Limited, Hastings effective 31 March 2022. A director of Williams Harvey Limited, Paul Harvey, is a director of the Building Society. He has no involvement in undertaking the valuations. The fair value is determined using the income approach checked against a market approach. The income approach has two methods being the capitalisation of income method and the discounted cash flows method. The fair values resulting from the investment approach is then compared with the value implied by recent market transactions as a secondary check.

This valuation is reported on the basis of 'significant valuation uncertainty' on the basis that the full impacts to the economy of the COVID-19 pandemic may only become evident in the next twelve months. However, there has been no special adjustment to the adopted capitalisation rate for the possible effects of COVID-19.

Investment property details are as follows:

The Avenue Road Building is at a fair value of $4,090,000 (2021 - $3,440,000).
Market rental income has been capitalised at an adopted rate of 5.27% (2021 – 6.00%).
Cash flows have been discounted at a rate of 7.00% (2021 - 7.75%) with an adopted terminal yield of 5.25% (2021 – 6.00%)

The investment property is a commercial office building which generated revenue during the year. Direct property expenses are paid by the tenant (Brown Webb Richardson Ltd – refer note 20 for details). The current lease to Brown Webb Richardson Limited expires on 30 September 2026. The valuation assumes that the current lease will be renewed, the building meets 80% of New Building Standard (NBS), no significant future capital expenditure and no on-site asbestos contamination. The assessed valuation was undertaken on this basis.

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

Assessing the fair value of buildings involves the use of variables with an element of estimation (eg capitalisation rates, discount rates). The sensitivity range of indicative market values calculated by the valuer are set out below

Capitalisation rate range 5.05% to 5.45% gives a valuation range of $4,255,000 to $3,942,000
Discount rate range 6.50% to 7.50% gives a valuation range of $4,225,000 to $3,935,000

8. ADVANCES ON MORTGAGE

	Mar-22		Mar-21	
(A) SUMMARY	**$**	**%**	**$**	**%**
Secured Advances	27,538,386		23,811,105	
Less: Provision for Expected Credit Loss	-		-	
	27,538,386		23,811,105	
(B) ANALYSIS				
Residential	26,141,783	95%	21,948,482	92%
Commercial	840,819	3%	840,443	4%
Rural	555,784	2%	1,022,180	4%
TOTAL	**27,538,386**	**100%**	**23,811,105**	**100%**

	LVR Ranges	Mar-22		Mar-21	
		$	**#**	**$**	**#**
Residential (Policy Maximum 80%)	80% - 70%	4,603,317	10	3,625,015	8
	70% - 60%	3,365,765	9	3,214,344	9
	Less than 60%	18,172,702	88	15,109,123	87
Commercial (Policy Maximum 60%)	60% - 50%	-	-	-	-
	50% to 40%	153,423	1	155,940	-
	Less than 40%	687,395	5	684,503	8
Rural (Policy Maximum 50%)	50% - 40%	299,952	1	857,609	5
	40% - 30%	40,774	2	-	-
	Less than 30%	215,057	1	164,571	3
		27,538,385	117	23,811,105	120

	Mar-22		Mar-21	
	$	**%**	**$**	**%**
(C) GEOGRAPHICAL CONCENTRATION				
Hawkes Bay	21,431,434	78%	21,676,336	91%
Taupo	1,934,386	7%	1,181,651	5%
Auckland / Wellington	1,984,275	7%	707,313	3%
North Island - Other	1,150,495	4%	245,805	1%
South Island	1,037,797	4%	-	0%
TOTAL	27,538,386	100%	23,811,105	100%

(D) CREDIT QUALITY - AGING ANALYSIS

All advances are secured by 1st Mortgage

	Mar-22	Mar-21
Fully compliant advances	25,282,154	19,922,678
Past due not impaired advances		
Up to 30 days	2,183,900	3,180,165
31 - 60 days	-	708,262
61 days - 90 days	-	-
90 days and over	72,332	-
	2,256,232	3,888,427
Less: Provision for Expected Credit Loss	-	-
	27,538,386	23,811,105

(E) CREDIT IMPAIRMENT

The Building Society seeks to provide credit across its core membership base, primarily in the form of residential first mortgages. The Building Society only offers credit to sound customers that have the intent, willingness and ability to repay.

The Building Society manages its credit exposures by maintaining an awareness of the prevailing economic conditions, monitoring repayment requirements and communicating closely with borrowers when necessary.

The Building Society measures expected credit loss by estimating the probability of default (PD), likely loss given default (LGD), and the exposure at default (ED).

The following indicators are incorporated in the calculation of PD and LGD:

- actual or expected significant changes in the financial circumstances of the borrower
- significant changes in the value of the collateral supporting the loan obligation
- significant adverse changes in business or economic conditions
- historical loss experience

A significant increase in credit risk is considered to have occurred when the borrower meets one or more of the following criteria:
- direct debit cancellation or dishonour
- extension of the terms granted
- arrears of repayments in excess of 30 days within the last 12 months
- significant adverse changes in business or economic conditions in which the borrower operates.

The Building Society considers the underlying value of securities and credit assessments on borrowers while assessing the lifetime expected credit loss.
The Building Society uses three categories for loans which reflect their credit risk and how the loan loss provision is determined for each of those categories. A summary of the assumptions underpinning the expected credit loss model is as follows:

Category	Key Assumptions	Basis for recognition of expected credit loss provision
Stage 1	Loans from borrowers with a strong capacity to meet contractual cash flows	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime.
Stage 2	Loans for which there is a significant increase in credit risk which is presumed if interest and/or principal repayments are 30 days past due	Lifetime expected losses
Stage 3	Loans which are deemed credit impaired with all of the following characteristics - they are over 90 days past due in making a contractual payment and, - there is objective evidence of the events that indicate the borrower is in significant financial difficulty and - the Building Society has exhausted all options to rehabilitate a mortgage debt and/or expects to incur a loss.	Lifetime expected losses along with impaired assets being specifically provided for on an individual basis.
Write-off	Loans are written off when there is no reasonable expectation of recovery	Loan less any related provision is written off.

The Building Society accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. Management has assessed at 31 March 2022 that there is no requirement for any provision for expected credit losses (31 March 2021 $nil). No significant changes to estimation techniques or assumptions were made during the reporting period.

As at 31 March 2022	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Specific Loans Stage 3 Lifetime ECL	Total
Advances					
Advances on mortgages (gross)	27,466,054	-	-	72,332	27,538,386
Commitments to Advance	1,813,934	-	-	-	1,813,934
Maximum Exposure	29,279,988	-	-	72,332	29,352,320
Advances on mortgages (net of provision)	27,466,054	-	-	-	27,466,054
Expected credit loss rate	0.0%	0.0%	0.0%	0.0%	0.0%
Other financial assets					
Cash and cash equivalent	4,327,452	-	-	-	4,327,452
Short-term bank deposits	6,773,290	-	-	-	6,773,290
Investment securities	173,942	-	-	-	173,942
Expected credit loss rate	13.10%	0.0%	0.0%	0.0%	13.10%

As at 31 March 2021	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Specific Loans Stage 3 Lifetime ECL	Total
Advances					
Advances on mortgages (gross)	23,102,843	708,262	-	-	23,811,105
Commitments to Advance	3,833,874	-	-	-	3,833,874
Maximum Exposure	26,936,717	708,262	-	-	27,644,979
Advances on mortgages (net of provision)	23,102,843	708,262	-	-	23,811,105
Expected credit loss rate	0.0%	0.0%	0.0%	0.0%	0.0%
Other financial assets					
Cash and cash equivalent	9,590,486	-	-	-	9,590,486
Investment securities	669,448	-	-	-	669,448
Expected credit loss rate	0.0%	0.0%	0.0%	0.0%	0.0%

The weighted average loan to valuation ratio (LVR) of the Building Society's advances (based on loan security valuations on

	2022	2021
- Residential	49.21%	49.54%
- Commercial	21.47%	23.08%
- Rural	35.12%	40.82%

The Building Society lends within its policy limits therefore there is a buffer in the event it becomes necessary to enforce loan security rights.

Based on the Building Society's policies and practices, and its historical impairment losses (nil) it is considered there is a very low likelihood of expected credit loss. As a result no impairment provision has been recognised.

The post COVID-19 environment has not caused any significant change in credit risk status. The building society has first ranking mortgages and low LVR on loans advanced mitigating the potential credit risk. There have been no significant change in the overall quality of the collateral held by the building society since the prior period.

Management has undertaken sensitivity analysis applying a higher probability of default against at risk loans and reducing underlying security valuations using the system property valuations at 31 March 2022 to identify the potential financial impact:

- a 2% probability of default would result in a loss of $17,735
- a 5% probability of default would result in a loss of $44,339
- a 10% drop in property market values would result in a loss of $11,813
- a 25% drop in property values would result in a loss of $20,489

The above sensitivity analysis has been applied to loans which are considered to have a higher risk due to their LVR's exceeding 70%, their terms being interest only or their maturity being over 15 years. The analysis factors in the expected selling costs of the property.

	Mar-22 $	Mar-21 $
9. OFFICE EQUIPMENT		
(A) OFFICE EQUIPMENT		
At cost	62,423	55,923
Accumulated depreciation	(57,695)	(55,579)
TOTAL OFFICE EQUIPMENT	**4,728**	**344**
(B) MOVEMENTS IN CARRYING AMOUNTS		
Balance at beginning of period	344	557
Purchases during the year	6,500	-
Depreciation Expense	(2,116)	(213)
CARRYING AMOUNT AT END OF PERIOD	4,728	344
10. REDEEMABLE SHARES		
Call shares	10,750,019	9,696,597
Term shares	25,238,311	21,856,725
TOTAL SHARES	**35,988,330**	**31,553,322**

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 24 months. At 31 March 2022 interest rates on term shares ranged from 0.50% to 3.00% (31 March 2021 – 0.40% to 3.70%).

Call shares interest rates at 31 March 2022 ranged from 0.50% to 0.90% (31 March 2021 – 0.20% to 0.50%).

11 CASH FLOW STATEMENT RECONCILIATION

	Mar-22 $	Mar-21 $
Reconciliation of cash flow from operating activities with operating profit		
Net Operating Profit/(Loss) after Tax	851,040	394,716
Non Cash Items		
Depreciation	2,116	213
Deferred Tax	26,949	5,528
(Increase) / Decrease in Fair Value of Investment Securities	-	(14,794)
(Increase)/Decrease in Fair Value of Investment Property	(646,933)	(365,000)
Impairment of Investment Securities	26,203	-
Changes in operating Assets and Liabilities		
(Increase)/decrease in Prepayments	(1,254)	166
(Increase)/decrease in Accounts Receivable	-	-
(Increase)/decrease in Accrued Interest Receivable	979	816
Increase/(decrease) in Taxation Payable	94,459	(45,775)
Increase/(decrease) in Accounts Payable	(43,281)	12,635
Increase/(decrease) in Accrued Interest Payable	(12,670)	(78,327)
Increase/(decrease) in Accrual for Directors' Fees	3,496	3,162
Net (increase)/decrease in Advances on Mortgage	(3,735,215)	(4,156,798)
Net increase/(decrease) in Redeemable Shares	4,447,677	(2,279,486)
NET OPERATING CASHFLOW	**1,013,566**	**(6,522,944)**

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, short-term bank deposits, 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-22	Mar-21
Liquidity Ratio (including Bank facilities)	33%	35%

12. RISK MANAGEMENT OBJECTIVES AND POLICIES – Cont'd

(a) Liquidity risk - cont'd
The ability to demand repayment of all member mortgage advances provides the Building Society with potential access to funds if some or all members' redeemable shares required repayment. 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).
- Limits of exposure over the value to individual borrowers, commercial lending and concentrations togeographic 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 a first registered mortgage as 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.

Refer Note 15 for further details of credit risk.

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12. RISK MANAGEMENT OBJECTIVES AND POLICIES – Cont'd

(d) Credit risk – Investment securities, short-term bank deposits 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. In 2021 this policy limit was exceeded for deposits with Westpac while additional banking facilities were put in place, however in 2022 no breaches were recorded.

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 12% 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 2016 and Non Bank Deposit Takers (Credit Rating Minimum Threshold) Exemption Notice 2016 is incorporated into the Trust Deed. The minimum required capital adequacy ratio for the Building Society is 12%. The capital adequacy ratio at balance date is 19.40% (31 March 2021 – 18.94%). 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 2022. 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). Further, 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.

The Expected Maturity Profile has been prepared on the following bases

- Cash & cash equivalents have been calculated to ensure a positive net liquidity gap;
- Advances on mortgage have been calculated based on contractual repayments increased by estimated early repayments spread on a straight line basis;
- Redeemable shares have been calculated as being reinvested at a 86% rate. This compares conservatively with the recent historical reinvestment rates. Based on experience for the past two years the Building Society normally achieves high re-investment rates as follows 31 March 2022 - 86%, (31 March 2021 – 87%).

- Short-term bank deposits are based on contractual maturities.

13. MATURITY PROFILE – Cont'd

Mar-22	CONTRACTUAL MATURITY TIMEFRAME								
	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	1,287,095	-	3,040,357	-	-	-	-	-	4,327,452
Short-term Bank Deposits		1,004,686	1,005,636	1,504,353	3,258,615	-	-	-	6,773,290
Investment Securities	-	-	-	145	-	-	-	173,797	173,942
Advances on Mortgage	-	88,643	112,286	533,832	489,885	1,765,801	4,645,320	19,902,619	27,538,386
Interest Receivable									
Cash and cash equivalents	-	381	-	-	-	-	-	-	381
Short-term Bank Deposits	-	288	2,841	11,910	62,469	-	-	-	77,508
Investment securities	-	-	-	1,415	1,560	3,120	9,360	1,816	17,271
Advances on mortgage	-	94,866	181,868	275,970	527,136	1,014,308	2,741,833	9,381,090	14,217,071
Interest Receivable – sub total	-	95,535	184,709	289,295	591,165	1,017,428	2,751,193	9,382,906	14,312,231
TOTAL MONETARY ASSETS	1,287,095	1,188,864	4,342,988	2,327,625	4,339,665	2,783,229	7,396,513	29,459,322	53,125,301
MONETARY LIABILITIES									
Trade Payables	-	4,004	-	-	-	-	-	-	4,004
Redeemable Shares	10,750,019	3,616,743	8,774,343	8,035,681	4,059,195	752,349	-	-	35,988,330
Interest Payable	-	25,038	57,921	80,698	68,981	38,697	-	-	271,335
TOTAL MONETARY LIABILITIES	10,750,019	3,645,785	8,832,264	8,116,379	4,128,176	791,046	-	-	36,263,669
NET MONETARY ASSETS	(9,462,924)	(2,456,921)	(4,489,276)	(5,788,754)	211,489	1,992,183	7,396,513	29,459,322	16,861,632
Unrecognised Mortgage Commitments (Refer Note 20)	-	(1,813,934)	-	-	-	-	-	-	(1,813,934)
Net Liquidity Gap	(9,462,924)	(4,270,855)	(4,489,276)	(5,788,754)	211,489	1,992,183	7,396,513	29,459,322	15,047,698
NET LIQUIDITY GAP – CUMULATIVE	(9,462,924)	(13,733,779)	(18,223,055)	(24,011,809)	(23,800,320)	(21,808,137)	(14,411,624)	15,047,698	

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13. MATURITY PROFILE – Cont'd

Mar-21	CONTRACTUAL MATURITY TIMEFRAME								
	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	3,573,891	-	6,016,595	-	-	-	-	-	9,590,486
Investment Securities	-	-	1,752	137	-	497,560	-	200,000	699,449
Advances on Mortgage	-	93,209	114,977	875,534	358,530	979,737	2,890,370	18,498,748	23,811,105
Interest Receivable									
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Investment securities	-	-	2,949	6,123	10,960	5,953	9,360	4,548	39,893
Advances on mortgage	-	83,739	155,157	234,046	438,960	858,591	2,351,193	9,021,258	13,142,944
Interest Receivable – sub total	-	83,739	158,106	240,169	449,920	864,544	2,360,553	9,025,806	13,182,837
TOTAL MONETARY ASSETS	3,573,891	176,948	6,291,430	1,115,840	808,450	2,341,841	5,250,923	27,724,554	47,283,877
MONETARY LIABILITIES									
Trade Payables	-	39,021	-	-	-	-	-	-	39,021
Redeemable Shares	9,696,597	2,013,466	5,624,164	8,222,512	5,792,592	203,992	-	-	31,553,323
Interest Payable	-	24,272	69,958	69,047	74,741	5,668	-	-	243,686
TOTAL MONETARY LIABILITIES	9,696,597	2,076,759	5,694,122	8,291,559	5,867,333	209,660	-	-	31,836,030
NET MONETARY ASSETS	(6,122,706)	(1,899,811)	597,308	(7,175,719)	(5,058,883)	2,132,181	5,250,923	27,724,554	15,447,847
Unrecognised Mortgage Commitments (Refer Note 20)	-	(3,833,874)	-	-	-	-	-	-	(3,833,874)
Net Liquidity Gap	(6,122,706)	(5,733,685)	597,308	(7,175,719)	(5,058,883)	2,132,181	5,250,923	27,724,554	11,613,973
NET LIQUIDITY GAP – CUMULATIVE	(6,122,706)	(11,856,391)	(11,259,083)	(18,434,802)	(23,493,685)	(21,361,504)	(16,110,581)	11,613,973	

13. MATURITY PROFILE – Cont'd

Mar-22	Effective Interest	EXPECTED MATURITY TIMEFRAME 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	1.74%	150,000	1,350,000	2,750,000	77,452	-	-	-	-	4,327,452
Short-term Bank Deposits	2.02%		1,004,686	1,005,636	1,504,353	3,258,615	-	-	-	6,773,290
Investment Securities	1.56%	-	-	-	145	-	-	-	200,000	200,145
Advances on Mortgage	4.01%	-	88,642	112,286	533,832	489,885	1,765,801	4,645,320	19,902,620	27,538,386
Interest Receivable										
Cash and cash equivalents		-	381	-	-	-	-	-	-	381
Short-term Bank Deposits		-	288	2,841	21,056	28,350	-	-	-	52,535
Investment securities		-	-	-	1,415	1,560	3,120	9,360	1,816.00	17,271
Advances on mortgage		-	94,866	181,868	275,970	527,136	1,014,308	2,741,833	5,586,665	10,422,646
Interest Receivable – sub total			95,535	184,709	298,441	557,046	1,017,428	2,751,193	5,588,481	10,492,833
TOTAL MONETARY ASSETS		150,000	2,538,863	4,052,631	2,414,223	4,305,546	2,783,229	7,396,513	25,691,101	49,332,106
MONETARY LIABILITIES										
Trade Payables		-	4,004	-	-	-	-	-	-	4,004
Redeemable Shares	1.39%	111,237	1,693,849	3,603,416	2,312,501	568,287	3,053,439	7,877,872	16,767,729	35,988,330
Interest Payable		-	25,038	57,921	130,735	82,181	387,447	870,476	862,560	2,416,358
TOTAL MONETARY LIABILITIES		111,237	1,722,891	3,661,337	2,443,236	650,468	3,440,886	8,748,348	17,630,289	38,408,692
NET MONETARY ASSETS		38,763	815,972	391,294	(29,013)	3,655,078	(657,657)	(1,351,835)	8,060,812	10,923,414
Unrecognised Mortgage Commitments (Refer Note 20)		-	(766,099)	(355,000)	-	(154,835)	(538,000)	-	-	(1,813,934)
Net Liquidity Gap		38,763	49,873	36,294	(29,013)	3,500,243	(1,195,657)	(1,351,835)	8,060,812	9,109,480
NET LIQUIDITY GAP – CUMULATIVE		38,763	88,636	124,930	95,917	3,596,160	2,400,503	1,048,668	9,109,480	

13. MATURITY PROFILE – Cont'd

Mar-21						EXPECTED MATURITY TIMEFRAME				
	Effective Interest	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	0.79%	850,000	1,200,000	2,300,000	1,800,000	-	2,400,000	900,000	140,486	9,590,486
Investment Securities	3.13%	-	-	1,751	137	-	497,560	-	200,000	699,448
Advances on Mortgage	4.04%	-	62,324	1,114,977	1,875,534	2,358,530	4,979,737	8,890,370	4,529,633	23,811,105
Interest Receivable										
Cash and cash equivalents		-	-	-	10,350	13,590	27,180	24,660	7,769	83,549
Investment securities		-	-	2,949	6,123	10,960	5,953	9,360	4,548.00	39,893
Advances on mortgage		-	80,164	159,908	228,601	419,317	743,350	1,626,504	1,280,981	4,538,825
Interest Receivable – sub total		-	80,164	162,857	245,074	443,867	776,483	1,660,524	1,293,298	4,662,267
TOTAL MONETARY ASSETS		850,000	1,342,488	3,579,585	3,920,745	2,802,397	8,653,780	11,450,894	6,163,417	38,763,306
TOTAL MONETARY ASSETS										
Trade Payables		-	39,021	-	-	-	-	-	-	39,021
Redeemable Shares	1.36%	111,237	1,125,496	2,410,712	1,746,400	579,259	1,969,145	5,316,692	18,294,378	31,553,319
Interest Payable		-	24,272	69,958	114,528	87,941	359,382	883,616	957,670	2,497,367
TOTAL MONETARY LIABILITIES		111,237	1,188,789	2,480,670	1,860,928	667,200	2,328,527	6,200,308	19,252,048	34,089,707
NET MONETARY ASSETS		738,763	153,699	1,098,915	2,059,817	2,135,197	6,325,253	5,250,586	(13,088,631)	4,673,599
Unrecognised Mortgage Commitments (Refer Note 20)		-	(930,000)	(1,070,000)	(650,000)	(450,000)	(733,876)	-	-	(3,833,876)
Net Liquidity Gap		738,763	(776,301)	28,915	1,409,817	1,685,197	5,591,377	5,250,586	(13,088,631)	839,723
NET LIQUIDITY GAP – CUMULATIVE		738,763	(37,538)	(8,623)	1,401,194	3,086,391	8,677,768	13,928,354	839,723	

14. INTEREST REPRICING PROFILE AND INTEREST SENSITIVITY ANALYSIS

The Building Society's repricing profile 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 22	**Weighted average Rate %**	**0 - 6 Months**	**6 - 12 Months**	**1 - 2 years**	**>2 years**	**Total**
		MONETARY ASSETS				
Cash and Cash Equivalents	1.74%	4,327,452	-	-	-	4,327,452
Short-Term Bank Deposits	2.02%	3,517,573	3,255,717			6,773,290
Investment Securities	1.56%	-	-	-	173,942	173,942
Advances on Mortgage	4.01%	11,675,845	6,978,677	8,883,864	-	27,538,386
TOTAL MONETARY ASSETS		19,520,870	10,234,394	8,883,864	173,942	38,813,070
		MONETARY LIABILITIES				
Redeemable Shares	1.68%	31,147,262	4,082,317	758,106	645	35,988,330
TOTAL MONETARY LIABILITIES		31,147,262	4,082,317	758,106	645	35,988,330
TOTAL MISMATCH		(11,626,392)	6,152,077	8,125,758	173,297	2,824,740

Mar-21

		MONETARY ASSETS				
Cash and Cash Equivalents	0.79%	9,590,486	-	-	-	9,590,486
Investment Securities	3.13%	-	-	-	699,311	699,311
Advances on Mortgage	4.04%	10,527,051	5,637,105	7,646,949	-	23,811,105
TOTAL MONETARY ASSETS		20,117,537	5,637,105	7,646,949	699,311	34,100,902
		MONETARY LIABILITIES				
Redeemable Shares	1.36%	25,527,464	5,820,927	204,931	-	31,553,322
TOTAL MONETARY LIABILITIES		25,527,464	5,820,927	204,931	-	31,553,322
TOTAL MISMATCH		(5,409,927)	(183,822)	7,442,018	699,311	2,547,580

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-22			31-Mar-21		
	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	4,327,452	(32,459)	32,459	9,590,486	(129,619)	129,619
Short-Term Bank Deposits	6,773,290	(34,506)	34,506	-	-	-
Investment Securities	173,942	(2,000)	2,000	699,448	(9,027)	9,027
Advances on Mortgage	27,538,386	(116,060)	116,060	23,811,105	(100,168)	100,168
		(185,025)	185,025		(238,814)	238,814
FINANCIAL LIABILITIES						
Redeemable Shares	35,988,330	(293,736)	293,736	31,553,322	(229,403)	229,403
		108,711	(108,711)		(9,411)	9,411
Less: Taxation		(3,672)	3,672		(2,635)	2,635
NET IMPACT		112,383	(112,383)		(6,776)	6,776

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. 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.
- Short-term 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-22	Mar-21
	$	$
Cash and Cash Equivalents	4,327,452	9,590,486
Short-Term Bank Deposits	6,773,290	-
Investment Securities	173,942	699,448
Advances on Mortgage	27,538,386	23,811,105
Outstanding loan commitments	980,022	3,833,874
	39,793,092	37,934,913

(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 and short-term bank deposits.

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:

	Advances on Mortgage		Cash and Cash Equivalents short-term bank deposits and Investment securities	
	31/03/2022	31/03/2021	31/03/2022	31/03/2021
Greater than 100% of equity				1
Between 90% and 100% of equity				
Between 80% and 90% of equity				
Between 70% and 80% of equity			1	
Between 60% and 70% of equity				
Between 50% and 60% of equity				
Between 40% and 50% of equity				1
Between 30% and 40% of equity			2	
Between 20% and 30% of equity				1
Between 10% and 20% of equity	8	10	1	

16. CURRENT AND NON-CURRENT DISCLOSURES

	Mar-22	Mar-21
Current and non-current assets and liabilities		
Current assets		
Cash and cash equivalents	4,327,452	9,590,486
Short-Term bank deposits	6,773,290	-
Prepayments	6,577	5,323
Tax Receivable	-	19,584
Current portion of Advances on Mortgage	1,192,997	1,411,364
Total current assets	12,300,316	11,026,757
Non current portion of Investment securities	173,942	699,448
Investment property	4,090,000	3,440,000
Non-current portion of Advances on Mortgage	26,345,389	22,399,741
Office Equipment	4,728	344
Total non-current assets	30,614,059	26,539,533
Total assets	42,914,375	37,566,290
Current liabilities		
Current portion of Redeemable Shares	24,394,698	31,349,331
Tax Payable	74,875	-
Accounts Payable	65,992	109,273
Provision for Directors Fees	44,500	41,004
Total current liabilities	24,580,065	31,499,608
Non-current portion of Redeemable Shares	11,593,632	203,992
Deferred taxation	161,141	134,192
Total non-current assets	11,754,773	338,184
Total liabilities	36,334,838	31,837,792

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-22	Mar-21
Hawke's Bay	30,626,643	30,384,982
Rest of New Zealand	4,276,697	819,386
Overseas	1,084,990	348,954
Total current assets	35,988,330	31,553,322

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 classified as fair value through profit or loss (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 except for investment securities carried at amortised cost which are valued using current market prices on the New Zealand debt exchange. 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.

Investment Securities
Fair value of investment securities (note 6) $173,942.

The fair value estimates were determined using level 3 fair value heirarchy using observable market data.

Cash and cash equivalents and short-term bank deposits
The reported amount approximates fair value because they are available either on demand or within a short period 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-22	Mar-21
Shares from Directors and key management personnel		
Shares at end of year	4,168	4,137
Interest paid	55	176
Shares from Other Related Parties		
Shares at end of year	2,129,227	2,770,329
Interest paid	11,914	6,602
Advances on mortgage to Other Related Parties		
Advances on Mortgage at end of year	164,726	44,575
Interest paid	3,593	4,001
Directors Fees for the year (Short term benefit)	89,000	82,000
Owing to Directors (Directors Fees Payable)	44,500	41,004

Key management personnel include the directors of the Building Society, the general manager 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 expected credit loss against them.

Williams Harvey Limited is a related party by virtue of one of its directors also being a director of the Building Society. Valuation fees incurred by the Building Society to Williams Harvey Limited during the year was $5,922 (2021: $4,600).

Sainsbury Logan & Williams is a related party as one of its Directors is a director of the Building Society. Legal fees were paid to Sainsbury Logan & Williams during the year of $3,450 (31 March 2021 - $1,900).

The investment property is leased to Brown Webb Richardson Ltd. The rental of $207,000 (31 March 2021 - $205,500) 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 $368,000 (31 March 2021 - $293,250). The Building Society owed $31 at year end (31 March 2021 - $15,081).

Brown Webb Richardson Ltd have redeemable shares with the Building Society of $1,347 (31 March 2021 - $1,310).

20 COMMITMENTS

(a) Capital Commitments

There are no capital commitments as at 31 March 2022 (31 March 2021 - $nil).

(b) Outstanding Loan Commitments

	Mar-22	Mar-21
Loans and credit facilities approved but not disbursed or drawn at the end of the financial period:	1,813,934	3,833,874

(c) Sponsorship Commitments

The Building Society has provided sponsorship of $8,625 (31 March 2021 - $8,625) to the Cornwall Cricket Club as from 1 November 2013. This is reviewed annually.

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20. COMMITMENTS - Cont'd

(d) Operating Lease Receivables on Investment Properties

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

Rental income earned from the investment property during the period was $207,000 (31 March 2021 - $245,015). In 2022 and 2021 all direct operating expenses arising on investment property for the year were paid by the tenant.

The lease includes a rachet clause to enable upward revision of the rental charge on a 3 yearly basis according to prevailing market conditions. The building society is exposed to changes in the residual value at the end of the current lease term but typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. The expectations about the future residual values are taken into account when calculating the fair value of the investment properties. Any material damage on these properties are mitigated by way of insurance policies and physical property inspection.

	Mar-22	Mar-21
Non cancellable operating lease receivables		
Not later than 1 year	207,000	207,000
Later than 1 year and not later than 2 years	207,000	207,000
Later than 2 year and not later than 3 years	207,000	207,000
Later than 3 year and not later than 4 years	207,000	207,000
Later than 4 year and not later than 5 years	103,500	207,000
Later than 5 years	-	103,500
	931,500	1,138,500

21. STANDBY BORROWING FACILITIES

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 2021 - $nil). Both facilities are with Westpac Bank and are subject to annual review.

22 CONTINGENT LIABILITIES

There are no contingent liabilities at 31 March 2022 (31 March 2021 $nil).

23 EVENTS AFTER BALANCE DATE

There are no events after balance date for the year ended 31 March 2022.

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INDEPENDENT AUDITOR'S REPORT

To the Members of Heretaunga Building Society

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Heretaunga Building Society ('the Building Society') on pages 5 to 34, which comprise the statement of financial position as at 31 March 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Building Society as at 31 March 2022, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Our report is made solely to the Members of the Building Society. Our audit work has been undertaken so that we might state to the Members of the Building Society those matters we are required to state to them in an auditor's 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 Members of the Building Society as a body, for our audit work, for our report or for the opinions we have formed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Building Society in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor and provider of other assurance services we have no relationship with, or interests in, Heretaunga Building Society. The provision of these other assurance services has not impaired our independence.

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STAPLES RODWAY

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
Valuation of advances on mortgages As disclosed in Note 8 of the financial statements, the Building Society has advances on mortgage assets of $27.5m. Advances on mortgage were significant to our audit due to the size of the asset category and the subjectivity, complexity and uncertainty involved in estimating the expected credit loss (ECL) against these assets. This forward-looking assessment includes assessing the ongoing impact of COVID-19 on the probability of future default and the amount of loss given default. As noted above, this involves complex, subjective estimation and judgement by management.	Our audit procedures included: • Evaluating the design and operating effectiveness of the key controls over advances on mortgages including origination, disbursement, ongoing administration and monitoring of arrears; • Assessing the Building Society's methodology used in calculating the ECL to provide for credit impairment in line with the requirements of the accounting standards; • Reviewing and challenging management's assessment of recoverability of advances on mortgage;. • Testing the accuracy of key inputs into the ECL model by checking historic data from internal data sources; • Assessing forward-looking economic assumptions (including those impacted by COVID-19) against external economic information and its application to the ECL model; • Identifying at risk groups of non-impaired advances (through LVR portfolio analysis) and challenging whether these should be included in the ECL provision or whether additional disclosures are required; and • Assessing the Building Society's accounting policies and financial statement disclosures against the requirements of the accounting standards.
Valuation of investment property As disclosed in Note 7 of the financial statements, the Building Society owns investment property valued at $4.09m. The property is a commercial office building situated in Hastings, Hawkes Bay. The valuation was carried out by a valuation firm, Williams Harvey Limited (the valuer). The valuer was engaged by the Building Society and performed their work in accordance with the International Valuation Standards and the Australia and New Zealand Valuation and Property Standards.	Our audit procedures among others included: ▪ Reviewing the valuation report for the Building Society's investment property; ▪ Confirming that the valuation approach for the property is in accordance with professional valuation standards and accounting standards and is suitable for determining the carrying value of the investment property as at 31 March 2022; ▪ Evaluating the external valuer's competence, capabilities and objectivity including assessing the valuer's qualifications and expertise and reading their terms of engagement with the Building Society to determine whether there were any matters that might have impacted on their objectivity or may have imposed scope limitations upon their work;

Key Audit Matter	How our audit addressed the key audit matter
As noted in Note 7, a director of the valuer is also a director of the Building Society although the director is not personally involved in the valuation. Despite this there remains a potential, perceived conflict of interest in the provision of valuation services for financial reporting purposes. We identified the valuation of investment property as a key audit matter as the fair value involves significant judgement and estimation, particularly in selecting the appropriate valuation methodology and in determining the underlying assumptions. The valuation is sensitive to key assumptions applied, including the capitalisation rate, discount rate, and terminal yield rate. The valuer considers market information when determining a market value for the property. The Building Society has adopted the assessed value determined by the valuer.	▪ Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the market and comparison to similar investment properties and valuations prepared by other valuers for similar property types; ▪ Re-performing the calculations for the capitalisation approach and discounted cashflow approach, and reviewing the sensitivity of the rates used; ▪ Testing the accuracy and relevance of the input data used; ▪ Engaging an independent valuer, from Logan Stone Ltd, to undertake a peer review of management's valuation to manage the objectivity risk in relation to the valuation; ▪ Evaluating the disclosures relating to the investment property included in the financial statements; and ▪ We confirmed with the external valuer that there were no significant market changes subsequent to balance date that would have impacted the valuation.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Building Society's annual report for the year ended 31 March 2022 (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible on behalf of the Building Society for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible on behalf of the Building Society for assessing the Building Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Building Society or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:
https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/

The engagement partner on the audit resulting in this independent auditor's report is D F Goodall.

Baker Tilly Staples Rodway

BAKER TILLY STAPLES RODWAY AUDIT LIMITED
Hastings, New Zealand
21 June 2022

Heretaunga Building Society

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