

**INDEPENDENT AUDITOR'S REPORT**

**To the Members of The Napier Building Society (Permanent)**

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

*Directors' Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

Other than in our capacity as auditor we have no relationship with, or interests in, The Napier Building Society (Permanent).

*Opinion*

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

  
**STAPLES RODWAY HAWKES BAY**  
HASTINGS  
3 July 2015



**ANNUAL REPORT**  
FOR THE YEAR ENDED 31 MARCH 2015





## THE NAPIER BUILDING SOCIETY (PERMANENT)

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## THE NAPIER BUILDING SOCIETY (PERMANENT)

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

The exemption is conditional on the Society providing to the Reserve Bank annually prior to the end of March in each year, a statement from the Directors that the Society meets the requirements of the exemption for that forthcoming year. Figures supporting the Directors' statement must be attached to this statement.

## THE NAPIER BUILDING SOCIETY (PERMANENT)

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

The Society has not approved any loans to Directors during this financial year (2014: Nil). Loans made to and borrowing held by key management personnel are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other customers. Loans have been made in accordance with the Society's lending policies including the provision of security and settlement. No guarantees are given by the Society or received from related parties. No balances owing by key management personnel or other related parties have been written off or have a provision for impairment against them (2014: Nil).

The Society's related party ratio (related party lending to equity) at 31 March 2015 calculated in accordance with the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010 is 3.92% (2014: 3.93%).

The Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010 require that the related party ratio be no more than 15% of equity. The Society has complied with this requirement at all times during the 2014 and 2015 financial years.

#### 17 EVENTS AFTER BALANCE DATE

There are no significant events that have occurred after balance date that require reporting in these financial statements (2014: Nil).

#### 18 AUDIT FEES

The Society has a policy of not accruing audit fees in relation to the current year being audited. The fees paid or payable to the auditor for the audit of the 2015 financial statements are \$17,250 (2014: \$12,022), and fees paid or payable to the auditor for the audit of the prospectus and Trust Deed reporting are \$3,278 (2014: \$2,875).

#### 19 CREDIT RATING EXEMPTION

From 1 March 2010, the Reserve Bank of New Zealand Act 1989 requires every deposit taker (unless otherwise exempted), including Building Societies, to have a current rating of its credit worthiness given by an approved rating agency.

The Society is not required to obtain a credit rating as it operates under the exemption contained in the Deposit Takers (credit ratings minimum threshold) Exemption Notice 2009. The credit worthiness of the Society is therefore not rated by an approved rating agency under the above Act. The Exemption Notice applies to the Society because it has liabilities less than \$20 million and it would be unduly onerous and burdensome for the Society to comply with the requirement to have a credit rating.

## THE NAPIER BUILDING SOCIETY (PERMANENT)

### DIRECTORY

Registered Office:	86 Station Street Napier 4110
Nature of Business:	Deposit Taker and Mortgagee
Directors:	M R Doole G J Sullivan R W G Brady M W Williams
Secretary:	G A Fan-Robertson
Banker:	ANZ Bank Limited
Solicitor:	Sainsbury Logan & Williams
Accountant:	BDO Central (NI) Limited
Auditor:	Staples Rodway Hawkes Bay
Trustees:	Trustees Executors Limited

**THE NAPIER BUILDING SOCIETY (PERMANENT)**  
**COMPILATION REPORT AND DISCLAIMER OF LIABILITY**

**Scope**

On the basis of information provided to us by the Directors we have compiled, in accordance with Service Engagement Standard No. 2: Compilation of Financial Information issued by the New Zealand Institute of Chartered Accountants, the attached financial statements of The Napier Building Society (Permanent) for the year ended 31 March 2015. These have been prepared in accordance with the basis of preparation described in note 1 to the financial statements.

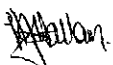
**Responsibilities**

The Directors are solely responsible for the information contained in the financial statements and have determined that the basis of preparation used is appropriate to meet the Directors' needs and purpose for which the financial statements were prepared. The financial statements were prepared exclusively for the Directors' benefit. We do not accept responsibility to any other person for the contents of the financial statements.

Our procedures use accounting expertise to undertake the compilation of the financial statements from information provided to us by the Directors' and in accordance with the limited procedures agreed in our letter of engagement dated 19 November 2013. These do not include verification or validation procedures.

**Disclaimer of liability**

Neither we nor any of our employees accept any responsibility for the reliability, accuracy or completeness of the compiled financial information nor do we accept any liability of any kind whatsoever, including liability by reason of negligence, to any person for losses incurred as a result of placing reliance on the compiled financial information.

  
 Director  
 BDO Central (NI) Limited  
 3 July 2015

**THE NAPIER BUILDING SOCIETY (PERMANENT)**

**NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31 MARCH 2015**

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**RELATED PARTY TRANSACTIONS**

Key Management personnel are those persons having authority and responsibility for planning directing and controlling the activities of the Society directly or indirectly including the Directors' and the Secretary.

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

The only compensation of any kind paid to key management personnel are the Directors fees and expenses disclosed in the Statement of Comprehensive Income and a salary paid to M W Williams, a Director of the Society, of \$45,000 (2014: \$45,000).

G J Sullivan, a Director of the Society, is a partner in Sainsbury Logan & Williams, the firm of solicitors who provides legal services to the Society. Payments for such services during the year were \$2,525 (2014: \$Nil).

G A Fan-Robertson, the secretary of the Society, is a director of BDO Central (NI) Limited which provides accounting services and office space to the Society. Payments for such services during the year totalled \$53,880 (2014: \$53,347).

	Mar-15	Mar-14
	\$	\$
<b>Shares from Managing Director</b>		
Shares at end of period	2,752	8,891
Interest paid	173	355
<b>Shares from Directors (excluding Executive Director)</b>		
Shares at end of period	42,141	40,997
Interest paid	2,220	2,394
<b>Shares from other related parties</b>		
Shares at end of period	1,122,892	1,370,293
Interest paid	49,225	56,370
<b>Loans on mortgage to other related parties</b>		
Mortgage at end of period	81,790	81,989
Interest received	4,756	3,870

**THE NAPIER BUILDING SOCIETY (PERMANENT)**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015**

**14 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

*Fair value of financial instruments not carried at fair value*  
The Society does not carry any financial instruments at fair value.

For financial instruments not carried at fair value, the carrying amount approximates fair value for the reasons detailed below.

*Cash and Cash Equivalents*

The reported amount approximates the fair value because they are available on call or within 31 days' notice, and attract interest at market rates.

*Loans on Mortgage*

Loans are comprised of a mix of floating and fixed rate loans. At the end of each reporting period the fair value is calculated using the average market rate for such loans that was in effect 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 timeframe.

**15 COMMITMENTS AND CONTINGENT LIABILITIES**

At balance date the Society had no material contingent liabilities. Future commitments comprised undrawn approved loans of \$20,000 (2014: \$Nil).

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**THE NAPIER BUILDING SOCIETY (PERMANENT)**

**CHAIRMAN'S REPORT**



The Directors are pleased to present the Annual Report and Financial Statements for the 12 months ending 31 March 2015.

This was a year during which the Society, along with other institutions, were brought under the regulation of the Financial Markets Authority thereby moving away from the Security Act regime. Consequently a good part of the year has been spent dealing with compliance issues with such costs increasing significantly. A good measure of these costs are expected to be "one-off" but they have impacted on the Society financially.

The Reserve Bank held its OCR rate for the year at a comparatively high level with the principal aim of deflating the Auckland housing "bubble" and pre-empting possible inflation trends. The Hawkes Bay's real estate market suffered as a result. Added to this the banking sector has been extremely competitive on mortgage lending which has reflected in our results.

At balance date our mortgages totaled \$4,394,659 while our equity currently stands at \$2,088,491.

In accordance with the rules Messrs GJ Sullivan and MW Williams retire from the Board and both are available for re-election.

This year it is my intention to retire as Chairman. I have been such for 13 years and I would like to thank the Directors for their continued support, contribution and commitment over that time. It has been an interesting period of time which commenced with a rampant real estate market followed by the Global Financial crises which is still threatening our economy today.

I also wish to thank Glenn Fan-Robertson, our secretary, for his and BDO's expertise and service throughout the year.

Martin Doole  
Chairman



**THE NAPIER BUILDING SOCIETY (PERMANENT)**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 MARCH 2015**

	Note	Mar-15	Mar-14
		\$	\$
<b>REVENUE</b>			
Interest from Loans on Mortgage		307,907	324,241
Interest from Bank Deposits		79,524	63,164
Entrance and Release Fees		2,842	2,045
<b>TOTAL REVENUE</b>		<b>390,273</b>	<b>389,450</b>
<b>DEDUCT INTEREST PAID</b>			
Interest on Redeemable Shares		171,749	174,868
<b>NET INTEREST RECEIVED</b>		<b>218,524</b>	<b>214,582</b>
<b>DEDUCT ADMINISTRATION EXPENSES</b>			
Administration and Other Expenses		168,467	143,461
Directors' Fees and Expenses		26,000	26,000
Trustees Fees		16,688	16,688
<b>TOTAL ADMINISTRATION EXPENSES</b>		<b>211,155</b>	<b>186,149</b>
<b>NET OPERATING PROFIT BEFORE TAX</b>		<b>7,369</b>	<b>28,433</b>
Taxation Expense	4	2,269	8,095
<b>NET PROFIT / TOTAL COMPREHENSIVE INCOME</b>		<b>5,100</b>	<b>20,338</b>

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

**THE NAPIER BUILDING SOCIETY (PERMANENT)**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015**



**INTEREST RATE RISK ANALYSIS - REPRICING TIMEFRAME**

2014	WEIGHTED AVERAGE RATE %	FLOATING \$	UP TO 6 MONTHS \$	7 - 12 MONTHS \$	1 - 2 YEARS \$	2 - 5 YEARS OVER 5 YEARS \$	TOTAL \$
Monetary Assets	3.4	746,014	1,100,000	250,000	-	-	2,096,014
Cash and Cash Equivalents	4.9	-	-	-	200,000	-	200,000
Investments	6.4	4,588,947	220,241	58,061	-	-	4,867,249
Loans on Mortgage		5,334,961	1,320,241	308,061	200,000	-	7,163,263
<b>Total Monetary Assets</b>							
Monetary Liabilities	3.8	1,479,139	2,056,356	1,329,916	200,000	-	5,065,411
Redeemable Shares		1,479,139	2,056,356	1,329,916	200,000	-	5,065,411
<b>Total Monetary Liabilities</b>							
<b>Total Mismatch</b>		<b>3,855,822</b>	<b>(736,115)</b>	<b>(1,021,855)</b>	<b>-</b>	<b>-</b>	<b>2,097,852</b>

THE NAPIER BUILDING SOCIETY (PERMANENT)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015

INTEREST RATE RISK ANALYSIS - REPRICING TIMEFRAME

2015	WEIGHTED AVERAGE RATE %	FLOATING \$	UP TO 6 MONTHS \$	7 - 12 MONTHS \$	1 - 2 YEARS \$	2 - 5 YEARS OVER 5 YEARS \$	TOTAL \$
Monetary Assets							
Cash and Cash Equivalents	3.4	359,009	458,763	652,790	-	-	1,470,062
Investments	4.9	-	-	201,845	-	-	201,845
Loans on Mortgage	6.6	3,434,844	836,847	122,968	-	-	4,394,659
Total Monetary Assets		3,793,853	1,295,610	977,103	-	-	6,066,566
Monetary Liabilities							
Redeemable Shares	4.0	651,167	1,625,559	1,349,904	339,771	-	3,966,401
Total Monetary Liabilities		651,167	1,625,559	1,349,904	339,771	-	3,966,401
Total Mismatch		3,142,686	(329,949)	(372,801)	(339,771)	-	2,100,165

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THE NAPIER BUILDING SOCIETY (PERMANENT)

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

2015	Note	Retained Earnings \$	General Reserve \$	Total Equity \$
Equity at 1 April 2014		225	2,083,167	2,083,392
Net Profit / Total Comprehensive Income		5,100	-	5,100
Transfer from Retained Earnings to General Reserve		(5,000)	5,000	-
Equity at 31 March 2015	5	324	2,088,167	2,088,491
2014		Retained Earnings \$	General Reserve \$	Total Equity \$
Equity at 1 April 2013		887	2,062,167	2,063,054
Net Profit / Total Comprehensive Income		20,338	-	20,338
Transfer from Retained Earnings to General Reserve		(21,000)	21,000	-
Equity at 31 March 2014	5	225	2,083,167	2,083,392

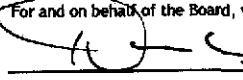

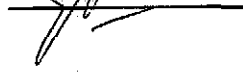
The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

**THE NAPIER BUILDING SOCIETY (PERMANENT)**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2015**

	Note	Mar-15 \$	Mar-14 \$
<b>ASSETS</b>			
Cash and Cash Equivalents	6	1,470,062	2,096,014
Prepayments		-	1,508
Income Tax Receivable	4	3,428	638
Investments		201,845	200,000
Loans on Mortgage	7	4,394,659	4,867,249
<b>TOTAL ASSETS</b>		<b>6,069,994</b>	<b>7,165,409</b>
<b>LIABILITIES</b>			
Redeemable Shares	8	3,966,401	5,065,411
Trade Payables		15,101	16,606
<b>TOTAL LIABILITIES</b>		<b>3,981,502</b>	<b>5,082,017</b>
<b>EQUITY</b>			
General Reserve		2,088,167	2,083,167
Retained Income		324	225
<b>TOTAL EQUITY</b>	5	<b>2,088,491</b>	<b>2,083,392</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6,069,993</b>	<b>7,165,409</b>

For and on behalf of the Board, who authorised the issue of these Financial Statements on 3 July 2015.

  
Director  
  
Director  
  
Secretary

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

**THE NAPIER BUILDING SOCIETY (PERMANENT)**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015**

13 **INTEREST RATE ANALYSIS**

The Society's exposure to interest rate risk, which is the risk that the reported financial results will fluctuate as a result of changes in market interest rates, is set out below. The effective weighted average interest rate on classes of financial assets and financial liabilities are also included in the table on the following page. Only interest sensitive financial assets and liabilities have been included.

The Society performs sensitivity analysis to measure interest rate risk exposures. The method used in determining the sensitivity is to evaluate the change in profit based on the timing of the interest repricing on the book of the Society for the next year. In doing the calculation the assumptions applied are that:

- Interest rate change would be applied in accordance with the repricing profile.
- Term deposits reprice to the new interest rate at maturity, or be replaced by deposits with similar terms and rates.
- All loans be repaid in accordance with the contractual terms and be replaced with loans of a similar rate and term.
- The value and mix of call and term deposits will be unchanged.
- No change in basis risk.

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

	31-Mar-15			31-Mar-14		
	Carrying Amount \$	-1% Profit and Equity \$	+1% Profit and Equity \$	Carrying Amount \$	-1% Profit and Equity \$	+1% Profit and Equity \$
<b>Financial Assets (excl. accrued interest)</b>						
Cash and Cash Equivalents	1,458,997	(8,551)	8,551	2,096,014	(17,148)	17,148
Loans on Mortgage	4,394,659	(40,932)	40,932	4,867,249	(47,792)	47,792
Investments	200,000	(486)	486	200,000	-	-
	<b>6,053,656</b>	<b>(49,969)</b>	<b>49,969</b>	<b>7,163,263</b>	<b>(64,940)</b>	<b>64,940</b>
<b>Financial Liabilities (excl. accrued interest)</b>						
Redeemable Shares	3,913,004	(21,678)	21,678	5,065,411	(32,156)	32,156
Non-accrual Creditors	10,956	-	-	9,555	-	-
	<b>3,923,960</b>	<b>(21,678)</b>	<b>21,678</b>	<b>5,074,966</b>	<b>(32,156)</b>	<b>32,156</b>
<b>Change in Net Profit Before Tax</b>		<b>(28,291)</b>	<b>28,291</b>		<b>(32,784)</b>	<b>32,784</b>

The impact on profit for the following twelve months of a 1% increase/(decrease) in interest rates is an increase/(decrease) of \$28,291 (2014: \$32,784). See table above.

THE NAPIER BUILDING SOCIETY (PERMANENT)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015

EXPECTED MATURITY TIMEFRAME

	EIR %	ON DEMAND \$	UP TO 6 MONTHS \$	7 - 12 MONTHS \$	1 - 2 YEARS \$	2 - 5 YEARS \$	OVER 5 YEARS \$	TOTAL \$
<b>Monetary Assets</b>								
Cash and Cash Equivalents	3.0	564	956,267	429,006	476,845	50,000	583,332	2,096,014
Interest Receivable			183,309	195,511	406,566	1,219,697	872,783	2,877,866
Loans on Mortgage Investments	7.0	3,500	178,897	19,602	28,636	100,416	4,536,198	4,867,249
	4.6					200,000		200,000
		4,064	918,473	644,119	912,047	1,370,113	6,192,313	10,041,129
<b>Monetary Liabilities</b>								
Redeemable Shares	3.7		428,423	79,145	108,290	274,869	4,174,684	5,085,411
Non-accrual Creditors			9,555					9,555
Interest Payable			92,422	96,450	202,086	606,258	225,145	1,222,361
			530,400	175,595	310,376	881,127	4,399,829	6,297,327
<b>Net Monetary Assets</b>		4,064	388,073	468,524	601,671	488,986	1,792,484	3,743,802
<b>Undrawn Loans</b>								
<b>Net Liquidity Gap</b>		4,064	388,073	468,524	601,671	488,986	1,792,484	3,743,802
<b>Net Liquidity Gap - Cumulative</b>		4,064	392,137	860,661	1,462,332	1,951,318	3,743,802	3,743,802

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THE NAPIER BUILDING SOCIETY (PERMANENT)

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 MARCH 2015

	Note	Mar-15 \$	Mar-14 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash was provided from:			
Interest Received		385,586	387,400
Sundry Income		900	1,850
		<u>386,486</u>	<u>389,250</u>
Cash was applied to:			
Taxation paid		5,059	8,038
Payments to Employees		45,000	45,000
Payments to Suppliers		163,246	141,594
Interest Paid		90,745	41,879
		<u>304,050</u>	<u>236,511</u>
<b>Net cash flows from operating activities before changes in operating assets and liabilities</b>		<u>82,436</u>	<u>152,739</u>
<b>Changes in operating assets and liabilities:</b>			
Loans on Mortgage Repaid		967,728	748,353
Loans on Mortgage Advanced		(578,535)	(1,058,873)
Redeemable Share Deposits Received		2,465,839	2,626,157
Redeemable Share Deposits Withdrawn		(3,563,420)	(1,877,356)
		<u>(708,388)</u>	<u>438,281</u>
<b>NET OPERATING CASH FLOWS</b>	9	<u>(625,952)</u>	<u>591,020</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash was applied to:			
Term Investments Made		-	(200,000)
<b>NET INVESTING CASH FLOWS</b>		<u>-</u>	<u>(200,000)</u>
Total net increase in Cash and Cash Equivalents		(625,952)	391,020
Opening Cash and Cash Equivalents		2,096,014	1,704,994
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	6	<u>1,470,062</u>	<u>2,096,014</u>

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



**THE NAPIER BUILDING SOCIETY (PERMANENT)**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015**

**1 REPORTING ENTITY**

**Reporting Entity:**

The Napier Building Society (Permanent) ("the Society") is a Building Society registered under the Building Societies Act 1965. The Society is incorporated and domiciled in New Zealand and its principal place of business is Station Street, Napier. The Society is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 and as such must report in accordance with Part 7 of that Act and the Financial Reporting Act 2013. The financial report is a general purpose financial report and has been prepared in accordance with these two Acts.

The Society's operations are entirely within New Zealand and are in the financial services industry, taking deposits from and providing loans to members.

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

**2 BASIS OF PREPARATION**

**a) Statement of Compliance**

For the purposes of complying with generally accepted accounting practice in New Zealand (NZ GAAP), the Society is a for-profit entity. These financial statements comply with NZ GAAP, New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

The financial statements were approved by the directors on 3 July 2015. The directors have the power to amend the financial statements once they are issued.

**b) Functional and Presentation Currency**

The financial statements are presented in New Zealand dollars which is the Society's functional currency. All financial information has been rounded to the nearest whole dollar.

**c) Basis of Measurement**

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

**d) Critical Estimates, Judgements and Assumptions in Applying the Accounting Policies**

The preparation of the financial statements requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. It also requires the exercise of judgement in the process of applying the Society's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances.

**THE NAPIER BUILDING SOCIETY (PERMANENT)**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015**

**EXPECTED MATURITY TIMEFRAME**

	2015	ON DEMAND	UP TO 6 MONTHS	7 - 12 MONTHS	1 - 2 YEARS	2 - 5 YEARS OVER 5 YEARS	TOTAL
		\$	\$	\$	\$	\$	\$
<b>Monetary Assets</b>							
Cash and Cash Equivalents	3.4	2,101	20,000	20,000	40,000	120,000	1,267,961
Interest Receivable			87,194	77,998	149,982	475,090	1,530,465
Loans on Mortgage Investments	6.6	6,481	573,844	158,405	113,043	80,478	3,462,408
	4.9	8,582	681,038	256,403	303,025	675,568	201,845
							6,462,679
<b>Monetary Liabilities</b>							
Redeemable Shares	4.0		136,604	209,402	434,448	1,146,941	2,039,006
Non-accrual Creditors			10,956				10,956
Interest Payable			39,555	38,403	72,408	215,052	458,776
			187,115	247,805	506,856	1,361,993	2,497,782
		8,582	493,923	8,598	(203,831)	(686,425)	3,964,897
<b>Net Monetary Assets</b>			(20,000)				(20,000)
<b>Undrawn Loans</b>							
<b>Net Liquidity Gap</b>		8,582	473,923	8,598	(203,831)	(686,425)	3,964,897
<b>Net Liquidity Gap - Cumulative</b>		8,582	482,505	491,103	287,272	(399,153)	3,565,744

THE NAPIER BUILDING SOCIETY (PERMANENT)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015

CONTRACTUAL MATURITY TIMEFRAME

2014	EIR %	ON DEMAND \$	UP TO 6 MONTHS \$	7 - 12 MONTHS \$	1 - 2 YEARS \$	2 - 5 YEARS OVER 5 YEARS \$	TOTAL \$
<b>Monetary Assets</b>							
Cash and Cash Equivalents	3.0	733,896	1,106,266	254,006	1,846		2,096,014
Interest Receivable			135,431	104,763	138,714	165,887	990,183
Loans on Mortgage Investments	7.0	3,500	1,274,079	1,052,018	958,403	881,877	4,867,249
	4.6	737,394	2,513,776	1,410,787	1,298,963	1,047,764	200,000
							8,153,446
<b>Monetary Liabilities</b>							
Redeemable Shares	3.7	1,479,140	2,056,356	1,329,916	200,000		5,068,412
Non-accrual Creditors Interest Payable			9,555				9,555
		1,479,140	2,075,711	1,380,149	19,013		79,046
		(741,744)	438,065	30,638	1,079,950	1,047,764	1,144,761
<b>Net Monetary Assets</b>							2,999,433
<b>Undrawn Loans</b>							
<b>Net Liquidity Gap</b>		(741,744)	438,065	30,638	1,079,950	1,047,764	1,144,761
		(741,744)	438,065	30,638	1,079,950	1,047,764	2,999,433
<b>Net Liquidity Gap - Cumulative</b>		(741,744)	(303,679)	(273,041)	806,909	1,854,672	2,999,433

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THE NAPIER BUILDING SOCIETY (PERMANENT)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015

Information about estimates and judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 7 Loans on Mortgage and Impairment
- Note 12 Liquidity Profiles
- Note 13 Interest Rate Analysis
- Note 14 Fair Value of Financial Assets and Liabilities

e) Standards, Amendments and Interpretations to Existing Standards that are not yet effective

There are new or revised Accounting Standards and Interpretations on issue that are not yet effective. These include the following Standards and Interpretations that are applicable to the Society and may have an impact on the future financial statements.

Standard/Interpretation	Effective Date (Annual Periods Commencing on or After)
Annual Improvements	Annual Improvements to NZ IFRSs 2010-2012 Cycle
Annual Improvements	Annual Improvements to NZ IFRSs 2011-2013 Cycle
Annual Improvements	Annual Improvements to NZ IFRSs 2012-2014 Cycle
NZ IAS 1	Presentation of Financial Statements - Disclosure Initiative
NZ IFRS 9	Financial Instruments
NZ IFRS 15	Revenue from Contracts with Customers
	1 July 2014
	1 July 2014
	1 January 2016
	1 January 2016
	1 January 2017 and 2018
	1 July 2017

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity). The Directors are of the opinion that the proposed Standards and Interpretations that are relevant to the business of the Society will not have a significant impact on the Society's financial statements in future periods.

f) Newly Adopted Standards

The Society, applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 April 2014. The adoption of these standards, in the opinion of the Directors, has not had a material impact on the financial statements of the Society.

Amendments to Accounting Standards - Omnibus Amendments (Legislative Updates)

- NZ IAS 32 Financial Instruments: Presentation amendment - offsetting
- NZ IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
- FRS-42 Amendments to Prospective Financial Statements



**THE NAPIER BUILDING SOCIETY (PERMANENT)**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015**

**3 SIGNIFICANT ACCOUNTING POLICIES**

The following accounting policies which materially affect the measurement of financial performance and position have been applied. There have been no changes in accounting policy during the year and the accounting policies adopted are consistent with those of last year.

**a) Financial Assets**

The Society classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. At balance date all of the Society's financial assets are classified as loans and receivables.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Society provides money, goods or services directly to a debtor with no intention of selling the receivable.

The Society's loans and receivables comprise loans on mortgage, investments and cash & cash equivalents.

Loans and receivables are recognised when the Society becomes a party to the contractual provisions of the instrument. Loans and receivables are initially recognised at fair value plus transaction costs and are thereafter carried at amortised cost using the effective interest method.

Loans and receivables are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Society has transferred substantially all the risks and rewards of ownership.

The Society assesses at each balance date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

**Loans on Mortgage and Impairment**

Loans on mortgage are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Collectability of loans is reviewed on an ongoing basis. Individual loans which are known to be uncollectible are written off. A provision for impairment of loans is established when there is objective evidence that the Society will not be able to collect all amounts due according to the original terms of the loans. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered objective evidence of impairment. Loans not individually impaired are collectively assessed for impairment.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in profit or loss.

**THE NAPIER BUILDING SOCIETY (PERMANENT)**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015**

**CONTRACTUAL MATURITY TIMEFRAME**

2015	EIR %	ON DEMAND \$	UP TO 6 MONTHS \$	7 - 12 MONTHS \$	1 - 2 YEARS \$	2 - 5 YEARS \$	OVER 5 YEARS \$	TOTAL \$
<b>Monetary Assets</b>								
Cash and Cash Equivalents	3.4	359,009	458,763	652,290	-	-	-	1,470,062
Interest Receivable		-	108,597	64,544	69,237	137,920	394,213	774,511
Loans on Mortgage	6.6	125,171	1,507,656	1,297,270	619,309	261,088	584,165	4,394,659
Investments	4.9	-	-	201,845	-	-	-	201,845
		484,180	2,075,016	2,215,949	688,546	399,008	978,378	6,841,077
<b>Monetary Liabilities</b>								
Redeemable Shares	4.0	651,167	1,625,559	1,349,904	339,771	-	-	3,966,401
Non-accrual Creditors		-	10,956	-	-	-	-	10,956
Interest Payable		651,167	1,666,806	1,393,014	362,231	-	-	95,661
		(166,987)	408,410	822,935	326,315	399,008	978,378	2,768,059
<b>Net Monetary Assets</b>								
		(20,000)						(20,000)
<b>Undrawn Loans</b>								
<b>Net Liquidity Gap</b>		(166,987)	368,410	822,935	326,315	399,008	978,378	2,748,059
<b>Net Liquidity Gap - Cumulative</b>		(166,987)	221,423	1,044,358	1,370,673	1,769,681	2,748,059	2,748,059

**THE NAPIER BUILDING SOCIETY (PERMANENT)**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015**

The following contractual maturity tables reflect interest receivable or payable only up to the end of the contracts held by the Society at the respective balance dates. The expected maturity tables reflect the Society's best estimate of what the actual maturities of contracts held at balance date might be including estimated rollovers of contracts etc. The interest receivable and payable is calculated to reflect these expected maturities and includes an assumed 0.5% increase of interest rates in the second to fifth years after balance date. All the sources of the Society's liquidity are included in these tables.

**THE NAPIER BUILDING SOCIETY (PERMANENT)**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015**

Non performing loans are classified as follows:

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

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

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

If, in a subsequent period, the amount of 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 debtor's credit rating), the previously recognised impairment loss is reversed and the reversal is recognised in profit or loss.

Loans on mortgage known to be uncollectable are written off as an expense in profit or loss.

Subsequent recoveries of amounts written off are recognised in profit or loss.

**Investments**

Investments include bank term deposits held for purposes other than liquidity. Investments are initially recognised at fair value plus transaction costs and are thereafter carried at amortised cost using the effective interest method less any accumulated impairment.

**Cash and Cash Equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments used as part of the Society's liquidity management that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. The Directors consider all bank deposits with terms of twelve months or less to be cash and cash equivalents, as they are considered to be available as cash for liquidity purposes.

**b) Financial Liabilities**

The Society classifies all of its financial liabilities as non derivative financial liabilities at amortised cost.

**Borrowings (Redeemable Shares)**

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

THE NAPIER BUILDING SOCIETY (PERMANENT)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015

Trade Payables

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

c) Revenue

Revenue comprises interest income and sundry fees.

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

Interest Income

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

Fees

Loan fees are amortised over the average expected term of the loan. Other fees are recognised in the period of receipt.

d) Interest on Redeemable Shares

Interest on redeemable shares is recognised on an accruals basis as an expense in the period that it relates to using the effective interest method, which allocates the interest expense over the term of the shares.

e) Goods and Services Tax

The Society is a financial institution which is a non-taxable activity for GST purposes in accordance with section 14(1)(a) of the Goods and Services Tax Act 1985. GST is included in expenses and trade payables.

f) Income Tax

Income tax comprises current tax, deferred tax and any adjustments for tax payable in previous periods. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. This is reviewed at each reporting date.

THE NAPIER BUILDING SOCIETY (PERMANENT)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015

Large counterparty risk

The Society has exposure to counterparties in respect of loans and investments with registered banks in excess of 10% of equity as follows. Of the monetary assets receivable 46.8% (2014: 47.5%) is due from the Society's six largest debtors (including registered banks).

Loans	LVR	Mar-15	LVR	Mar-14
Exposures from 10% to 20% of Equity	46%	6	47%	6
Exposures from 20% to 30% of Equity	55%	1	56%	2
Investments and Cash and Cash Equivalents		Mar-15		Mar-14
Exposures from 10% to 20% of Equity		0		1
Exposures from 20% to 30% of Equity		2		1
Exposures from 30% to 40% of Equity		1		2

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LIQUIDITY PROFILES

Monetary assets and liabilities have differing maturity profiles depending on the contractual terms and in the case of Loans on Mortgage the repayment amount and frequency. The table below shows the period in which different financial assets and liabilities held will mature and be eligible for renegotiation or withdrawal. For Loans on Mortgage, the table reflects 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 on demand period from 31 March 2015. In order to help manage the potential mismatch and meet its obligations as they fall due, the Society's loans to members are all payable on demand. Also, no account is taken of possible early loan repayments. The contractual profile assumes that all shares are repaid when they mature.

In the ordinary course of business the Society normally achieves high redeemable share re-investment rates of at least 88% (2014: 95%). These factors have been incorporated into the expected maturity profile. It is difficult to reliably predict early loan repayments; therefore, these have not been included in the expected maturity profile. No default loans have been assumed.

**THE NAPIER BUILDING SOCIETY (PERMANENT)**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015**

**Capital ratios**

The Society's capital ratio (equity to total assets) at year end is 34.4% (2014: 29.1%). The minimum capital ratio required by the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010 for financial institutions which do not have a credit rating such as the Society is 10% and is incorporated into the Trust Deed. The Society's capital adequacy ratio (equity to risk weighted assets) at year end calculated in accordance with the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010 is 56.0% (2014: 39.3%). The Society has complied with the capital adequacy requirement throughout 2015 and 2014 financial years.

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**CREDIT RISKS**

**Maximum credit risk exposure**

The 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 the following assets recognised in the Statement of Financial Position:

	Mar-15 \$	Mar-14 \$
Cash and Cash Equivalents	1,470,062	2,096,014
Loans on Mortgage	4,394,659	4,867,249
Investments	201,845	200,000
	<u>6,066,566</u>	<u>7,163,263</u>

**Concentration of credit risk**

Credit risk is currently managed in accordance with policies to reduce the Society's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement. The Society considers the concentration of credit risk is acceptable for the type of business undertaken and the regional basis of operation. Set out in note 7 and below are tables analysing the loans on mortgage book according to the nature of security held, the geographic location of security property and individual large counterparties. The Society considers that there is no concentration of credit risk on cash and cash equivalents and investments as the Society spreads its cash deposits with registered banks in accordance with its policy which is a maximum of \$750,000 for any one entity.

All counterparties to financial assets are based in New Zealand.

**THE NAPIER BUILDING SOCIETY (PERMANENT)**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015**

**g) Statement of Cash Flows**

The Statement of Cash Flows is prepared using the direct approach. It is prepared on a GST inclusive basis which is consistent with the method used in the Statement of Comprehensive Income. The definitions of the terms used in the Statement of Cash Flows are as follows:

- Operating activities are the principal revenue generating activities of the Society which include cash flows arising from the movements in loans on mortgage and redeemable shares.
- Financing activities are those activities relating to changes in the size and composition of the capital structure of the Society.
- Investing activities are those activities relating to the acquisition and disposal of long term investment securities.

THE NAPIER BUILDING SOCIETY (PERMANENT)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015

4	<b>TAXATION</b>		
		Mar-15	Mar-14
		\$	\$
	Net Profit Before Tax	7,369	28,433
	Non-deductible Expenditure	736	478
		8,105	28,911
	Taxation at 28%	2,269	8,095
	Current Period Tax Charge	2,269	8,095
	Less Tax Paid	5,697	8,733
	Tax Refund Due	(3,428)	(638)

There is no deferred taxation.

5 EQUITY

The nature and purpose of each reserve is as follows:

- Retained Earnings: The undistributed profits of the Society that have not been transferred to another reserve.
- General Reserve: A reserve set aside to ensure the equity of the Society is sufficient to cover required reserve ratios. See Note 10 (capital management) for details.

6 CASH AND CASH EQUIVALENTS

		Mar-15	Mar-14
		\$	\$
	Cash and Cash Equivalents	1,458,997	2,083,887
	Accrued Interest	11,065	12,127
	Total Cash and Cash Equivalents	1,470,062	2,096,014

THE NAPIER BUILDING SOCIETY (PERMANENT)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015

The Society's liquidity position is set out in the Liquidity Profiles included in note 14. The Society monitors its liquidity. The Society's liquidity position on an ongoing basis by monitoring daily cash flows and reviewing contractual and expected maturities and endeavours to maintain a mix of call and term deposits which together with funds received from mortgage repayments ensures that funds are available as necessary to meet all commitments as they fall due.

The Society has an ongoing reinvestment rate for its term share deposits of at least 88%. The term investments held by the Society are all capable of being broken within 31 days, with some deposits able to be broken within 24 to 48 hours if necessary. These investments are made for terms in line with the Society's projected liquidity needs.

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.

Market risk

The Society is exposed to interest rate risk arising from changes in market interest rates. The Society is not exposed to any material currency risk.

Interest rate risk is the risk that the cost of borrowing will move adversely against the returns from investing. The Society is exposed to interest rate risk arising from changes in market interest rates to the extent that its interest rate profile is not matched. Further detail is included in the repricing profile in note 13. Interest rates on the Society's Term Redeemable Shares are all fixed until their respective maturity dates. The Society's normal lending terms allow it to reset floating rate mortgage interest rates at one month's notice. Market rates and interest rates on the Society's investments are continuously monitored and taken into account when Loans on Mortgage and Redeemable Share interest rates are reset. The Effective Interest Rates (EIRs) are detailed in the Liquidity Profiles (refer note 12).

Capital management

The Society's capital consists of a General Reserve and Retained Earnings as shown under the heading of Equity in the Statement of Financial Position. The General Reserve comprises transfers from the net surplus each year which are used to build the Society's Capital base.

The Society's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The Society's policy in respect of capital management and allocation is reviewed regularly by the Board of Directors. There have been no material changes in the Society's management of capital during the period. The Society is subject to externally imposed capital adequacy requirements via its Trust Deed and legislation, as detailed below.

THE NAPIER BUILDING SOCIETY (PERMANENT)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015

10 RISK MANAGEMENT OBJECTIVES AND POLICIES

Risks arising from the Society's financial assets and liabilities are inherent in the nature of the Society's activities, and are managed through an ongoing process of identification, measurement and monitoring. The Society is exposed to credit risk, liquidity risk and market risk.

The Society has no commodity instruments, non-accrual, real estate, or other assets acquired through the enforcement of security and no involvement in managed funds, trust funds or any other activities of this nature. The Society has no secured liabilities and has not pledged any assets for loans. The Society has not incurred any impairment losses.

**Credit risk - loans and mortgages**

Credit risk represents the risk that a counter party to a financial asset fails to discharge an obligation which will cause the Society to incur a financial loss.

The Society performs credit evaluations of all prospective mortgagors. All loans are secured by a first mortgage and lending margins are maintained within the percentages set out in the Society's Trust Deed (refer note 7). The risk of losses from the loans undertaken is primarily reduced by the credit evaluations and the nature and quality of the security taken. All loans require collateral security which the Society can enforce by disposing of the secured assets in the event of default. All loans are approved by a minimum of two Directors. The Trust Deed sets out the loan/security percentage allowable (refer note 7).

**Credit risk - investments, cash, deposits**

Investments are made only with registered banks or their wholly owned subsidiaries and local bodies to a maximum of \$750,000 for any one entity. The maximum investment in any one entity was increased to \$1 million during the year, as the Society had a period when they had surplus funds which would have breached the previous maximum. The risk of losses from investments and cash deposits is reduced by the nature and quality of the independent rating of the investee and the limits to concentration in any one entity. See note 11 for further details on credit risk.

**Liquidity risk**

Liquidity risk is the risk that the Society may encounter difficulties raising funds to meet commitments which are associated with financial liabilities, e.g. share redemptions. The Directors have a policy that the Society maintains a minimum of \$700,000 in term deposits with registered banks or their wholly owned subsidiaries as its source of emergency funds. The Directors have also established a policy that a minimum level of call and term deposits of 30% of the total balance of redeemable shares be maintained at all times as a hedge against a call on funds by investors. The Society has complied with this requirement during the financial years ended 31 March 2015 and 2014.

THE NAPIER BUILDING SOCIETY (PERMANENT)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015

7 LOANS ON MORTGAGE

	Mar-15	Mar-14
	\$	\$

All advances are secured by first mortgage.

**Mortgages analysed by:**

**Contractual repayments:**

Current	2,898,535	2,329,597
Non-current	1,496,124	2,537,652
	<u>4,394,659</u>	<u>4,867,249</u>

**Industry/economic sector (by security property):**

Commercial	28%	1,229,251	29%	1,418,050
Rural	9%	399,186	8%	402,537
Residential/Personal	63%	2,766,222	63%	3,046,662
	<u>100%</u>	<u>4,394,659</u>	<u>100%</u>	<u>4,867,249</u>

**Geographical concentration (by security property):**

Hawkes Bay	72%	3,175,543	69%	3,352,438
Central North Island	20%	851,326	20%	969,876
Wellington	6%	279,993	6%	285,018
Auckland	0%	-	3%	159,966
Other	2%	87,797	2%	99,951
	<u>100%</u>	<u>4,394,659</u>	<u>100%</u>	<u>4,867,249</u>

**Lending policy**

The Society's policy is to lend only within the percentages set out as "Approved Mortgage Principal" in the Trust Deed. The Society's Trust Deed describes "Approved Mortgage Principal" as follows:

- 75% of the value of the value of freehold land (including buildings and improvements) used for residential purposes;
- 60% of the value of freehold land (including buildings and improvements) used for commercial purposes; and
- 50% of the value of freehold land (including buildings and improvements) used for rural purposes.

These requirements were fully complied with during the 2014 and 2015 financial years.

Where an applicant is a business, the Society's requirement is that it receive copies of at least the last three years financial statements so that it can assess the suitability of the business as a borrower.

THE NAPIER BUILDING SOCIETY (PERMANENT)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015

Impairment of mortgages

The Society constantly reviews its loan portfolio to assess impairment. All loan payments have been made on or near time and as the Society does not expect to incur any loss on any loan, no impairment loss (individual or collective) has been provided for in the financial statements. In making this assessment the Directors have had to use judgement and have considered overdue loans, historic loss experience and future expectations.

Loans with repayments past due date but not impaired

	Mar-15	Mar-14
	\$	\$
Past due but not impaired (< 30 days)	129,080	396,320
Past due but not impaired (31 to 90 days)	356,072	-
Fully compliant	3,909,507	4,470,929
	<u>4,394,659</u>	<u>4,867,249</u>

The past due but not impaired loans less than 30 days represent mortgage customers whose regular repayment date differs from the original documented date for repayment. All of these loans had their expected repayments made within 7 days of balance date.

The comparative figures have been amended to disclose the principal balance past due but not impaired, rather than the overdue portion of the loans.

REDEEMABLE SHARES

	Mar-15	Mar-14
	\$	\$
<b>Current</b>		
Call Shares	651,167	1,479,140
Term Shares	2,840,054	3,381,391
	<u>3,491,221</u>	<u>4,860,531</u>
<b>Non-current</b>		
Term Shares	475,180	204,880
<b>Total Redeemable Shares</b>	<u>3,966,401</u>	<u>5,065,411</u>

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 cash flows attributable to the shares are not based on the profit or change in fair value of net assets.

The Directors consider that the reported values reflect fair value.

THE NAPIER BUILDING SOCIETY (PERMANENT)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015

Average interest paid on the redeemable shares during the period was 3.81% (2014: 3.74%). Interest is determined based on market conditions. As at 31 March 2015, the interest rate for call shares ranged between 2.50% and 3.10% (2014: 2.50% to 3.10%) and term shares ranged between 3.30% and 5.00% (2014: 3.30% to 4.75%).

Term and Call Redeemable Shares have been issued to personal investors and trusts or to commercial investors as follows:

	Mar-15	Mar-14
	\$	\$
Personal/Family Trusts	3,132,501	3,215,224
Commercial	833,900	1,850,187
	<u>3,966,401</u>	<u>5,065,411</u>

The 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.

	Mar-15	Mar-14
	\$	\$
Hawkes Bay	93% 3,702,874	96% 4,860,974
Rest of New Zealand	2% 91,347	2% 110,568
Overseas	5% 172,180	2% 93,869
	<u>100% 3,966,401</u>	<u>100% 5,065,411</u>

STATEMENT OF CASH FLOWS RECONCILIATION

Reconciliation of Net Surplus for the Year to Net Operating Cash Flows

	Mar-15	Mar-14
	\$	\$
Net Surplus for the Year after Tax	5,100	20,338
<b>Add/(Deduct) Changes in Working Capital</b>		
Decrease in Prepayments	1,508	-
Decrease in Trade Payables	(1,504)	(2,609)
Increase in Accrued Interest on Investments	(1,845)	-
(Increase)/Decrease in Income Tax Receivable	(2,790)	58
Net Movement in Redeemable Shares	(1,099,011)	841,565
Net Loan Transactions	472,590	(268,332)
<b>Net Cash From Operating Activities</b>	<u>(625,952)</u>	<u>591,020</u>