

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies—

1.1 General Accounting Policies

The going concern concept has been adopted in the preparation of these accounts, with historical cost as the measurement base. Accrual accounting is used to match income expenses.

1.2 Particular Accounting Policies

(a) Current Assets and Investments

All current assets and investments are shown at cost with the exception of government and local authority stocks. Government and local authority securities are regarded as long term investments and are redeemable at maturity at their face value. These securities are valued at cost, adjusted by the amortisation of the discount or premium on purchase, on a straight line basis over the term of the stock. The discount or premium is calculated after adjusting for interest accrued in the purchase price.

The realisable value of fixed interest securities fluctuates with movement in market yields and it is customary for such fluctuations to be disregarded in the reporting of the results of the long term institutional investor.

(b) Personal Loans

The Bank's policy is to add interest to the advance at the commencement of the loan. The 'rule of 78' method of accounting for income is used to apportion the income between accounting periods. The effect of this method is that income earned over the term of the loan represents a level rate of return on the declining loan balance outstanding. The personal loan investment is net of unearned interest.

(c) Depreciation

Fixed assets are depreciated on the straight-line method at rates which will write off the cost over their estimated useful lives. The principal rates are:

Furniture and fittings	10% to 20%
Computer equipment	20% to 25%
Vehicles	20%

(d) Taxation

The charge for income tax is the amount of the tax liability in respect of the accounting profit for the year and includes both current and deferred tax.

The liability for deferred taxation arises from items of income and expenditure being included in taxation calculations in periods different from those in which they are dealt with in the financial accounts. The significant timing differences relate to accrued interest income, discounts earned and premiums paid on Government Securities and depreciation.

1.3 Changes in Accounting Policies

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in prior years.

2. New Zealand Government and Local Authority Securities—

	1985 \$	1984 \$
<i>New Zealand Government and Local Authority Securities—</i>		
Cost price plus amortisation	42,086,724	38,204,111
Nominal value	43,247,823	38,731,823
Market value	34,388,163	38,186,908

The Government Guarantee of Depositors' Funds including accrued interest in terms of section 44 of the Trustee Banks Act 1983 and subsequent amendments was in force at balance date and continues to remain in force. However the requirement to hold New Zealand Government Securities pursuant to the same act was removed on 11 February 1985.

3. Fixed Assets—

	1985			1984		
	Cost \$	Accumulated Depreciation \$	Book Value \$	Cost \$	Accumulated Depreciation \$	Book Value \$
Improvements to leasehold premises	742,716	130,625	612,091	674,726	98,292	576,434
Furniture, fittings and equipment	2,038,192	511,887	1,526,305	1,743,569	266,056	1,477,513
Vehicles	80,535	17,404	63,131	59,621	14,533	45,088
	<u>\$2,861,443</u>	<u>\$659,916</u>	<u>\$2,201,527</u>	<u>\$2,477,916</u>	<u>\$378,881</u>	<u>\$2,099,035</u>

4. Current Taxation Refund—

	1985 \$	1984 \$
Taxation of profit	340,025	424,209
Taxation on extraordinary item (note 7)	..	21,206
	<u>340,025</u>	<u>445,415</u>
Less timing differences transferred to deferred taxation	229,519	60,607
	<u>110,506</u>	<u>384,808</u>
Less provisional tax paid	160,124	447,300
Taxation Refund	<u>\$49,618</u>	<u>\$82,492</u>

5. Term Liabilities—

The Housing Corporation of New Zealand liabilities relate to supplemented mortgage loans advanced for eligible depositors under the Home Ownership Savings Scheme.

6. Deferred Taxation Payable—

	1985 \$	1984 \$
Deferred taxation last year	826,901	766,294
Add: Timing differences transferred (note 4)	229,519	60,607
Prior year timing adjustment	433	..
Deferred taxation this year	<u>\$1,056,853</u>	<u>\$826,901</u>