

77TH ANNUAL REPORT 2010



Heretaunga Building Society

INDEX	PAGE
CHAIRMAN'S REPORT FOR 2010 ANNUAL REPORT	3
GENERAL MANAGERS REPORT FOR 2010 ANNUAL REPORT	4
CORPORATE GOVERNANCE 2010 ANNUAL REPORT	5
STATEMENT OF COMPREHENSIVE INCOME	6
STATEMENT IN CHANGES IN EQUITY	7
STATEMENT OF FINANCIAL POSITION	8
STATEMENT OF CASH FLOWS	9
NOTES TO THE FINANCIAL STATEMENTS	10 - 31
AUDIT REPORT TO THE MEMBERS	32

ANNUAL GENERAL MEETING

The SEVENTY-SEVENTH ANNUAL GENERAL MEETING of the Heretaunga Building Society will be held in the Society's Office, 111 Avenue Road East, HASTINGS on TUESDAY 20TH JULY 2010 AT 4.00pm.

BUSINESS

Adoption of Annual Report and Financial Statements
Election of Two Directors
Appointment of Auditors
General

BROWN WEBB RICHARDSON LIMITED, Secretaries

PROXIES

Members are advised that they are entitled to appoint a proxy to attend the meeting and to vote on their behalf, and that any such proxy need not be a member. The instrument appointing the proxy must be deposited at the Society's Office not less than forty-eight hours before the time fixed for the meeting. Proxy forms are available at the Society's Office.

DIRECTORS

W J (Jim) Harvey, F.N.Z.I.V., F.P.I.N.Z., F.R.E.I.N.Z.
J B (Bryce) Jones, M.B.E., C.A. (Ret).
T M A (Mark) Morgan
N K (Neville) Norwell, Dip. Arch, A.N.Z.I.A.
T L (Trevor) Webb, B.C.A., F.C.A.

BANKERS: Westpac New Zealand Ltd
SOLICITORS: Bate Hallett
AUDITORS: Staples Rodway Hawke's Bay
TRUSTEES: Trustees Executors Limited

CHAIRMAN'S REPORT FOR 2010 ANNUAL REPORT

On behalf of the Directors, I have pleasure in presenting the Heretaunga Building Society's 77th annual report and financial statements for the year ended 31 March 2010. The long history and stability of Heretaunga, is a continuing tribute to the support we receive from you our members.

The financial result for the year under review is considered satisfactory with a profit before tax of \$135,805. Total assets are \$21,700,195 which almost matches the total in 2009.

Advances on mortgage amount to \$15,710,626 which shows small growth on last year.

With interest rates for both deposits and mortgages being very stable throughout the year under review, Heretaunga has continued its policy of conservative and thorough investigation into all applications for borrowing. The Board is proud of its achievement in being able to report only one loan that is in arrears at balance date. This is a very satisfactory state of affairs when it is considered that nationally the past twelve months has produced more forced and mortgagee sales for many a year. The recession has struck hard at borrowers in a speculative/development situation. None of Heretaunga's loans are in this category.

The changes made by the Board in 2009 to call interest rates, have proved very beneficial to our shareholders and quite importantly the funds have become almost long term.

I am compelled to mention here, that the huge compliance workload that is being forced upon the financial industry at present is quite astounding. The worrying aspect of it all is someone will have to pay.

To my fellow Directors Bryce Jones, Neville Norwell, Trevor Webb and Mark Morgan, my sincere thanks for the diligent way that you have worked for the Heretaunga Building Society.

I want to record on behalf of the Board, our thanks to Brown Webb Richardson Limited for their support and to George Speedy our General Manager and secretarial team for their efforts.

For the Directors

W J Harvey
CHAIRMAN
June 2010

GENERAL MANAGERS REPORT FOR 2010 ANNUAL REPORT

The 2010 year has been a slow return to a more stable interest environment albeit with considerably reduced returns for our members.

Gross Income for the year increased by 5% reflecting increased interest margins and a small rent increase.

The increased Gross Income was offset by the cost of administering the Society increasing by \$69,142. The increase being the result of three major items. An air conditioning unit was discarded and replaced resulting in a loss on disposal of \$10,500. The only Advance on Mortgage in arrears has been assessed to require a Provision for \$51,000 to recognise the default of full recovery. Trust Deed expenses has significantly increased as a result of the Trustee's increased fees.

As a result the Net Profit after tax for the year is \$95,064 compared to \$130,084 the previous year.

With the world moving out of the global financial crisis and confidence returning to financial markets investments are being revalued upwards. The increase in the market of Investment securities for the year has almost recovered the reduction recorded in the 2009 year.

The investment property market value is unchanged from the 2009 year at \$2,400,000.

Total Assets are virtually unchanged from 2009, a good result when the financial environment during the year is taken into account.

Total equity has increased to \$3,829,070 and this equates to 17.7% of Total Assets. This percentage is one of the higher in the New Zealand Savings Institutions Association.

Increasing compliance activities still being developed by the regulatory authorities will result in increased costs for the Society next year and the following years. These measures include Registration of financial entities, Dispute Resolution Service, Financial Adviser Regulation, Anti Money Laundering and Countering Terrorism Financing. The detailed regulations for some of these measures have not yet been finalised and therefore initial and ongoing costs are still unknown.

The New Zealand Deposit Guarantee Scheme ends on 12 October 2010. The Society does not have and is not required to have a credit rating and is therefore not eligible to enter the extended guarantee scheme which ends on 31 December 2011.

Membership of the Financial Services Federation and New Zealand Savings Institutions Association has provided a voice for the Society when dealing with the development of new regulatory measures.

S M (George) Speedy
General Manager
June 2010



Heretaunga's Chairman, Jim Harvey, is pictured congratulating Hastings Golf Club member, Jack Shaw, on his hole-in-one at the Heretaunga Building Society's sponsored 13th hole. Jack won a \$250 voucher for himself, and \$250 for the Club's Junior Golf Programme. Incidentally, every week hundreds of golfers pass the prominently displayed Heretaunga billboard at the 13th tee. All good advertising for Society.

CORPORATE GOVERNANCE 2010 ANNUAL REPORT

NATURE OF BUSINESS

Heretaunga Building Society (the Building Society) was formed in 1933 and has operated as a building society throughout its history. The Building Society is incorporated under the Building Societies Act 1965.

ROLE OF THE BOARD

The Board oversees the Building Society's business affairs and is committed to protecting and enhancing the value of the Building Society's assets in the best interests of the Members, subject to full compliance with legal requirements. The Board's primary responsibilities include the following:

- Directing and controlling the Building Society's activities and its strategic development;
- Ensuring systems and processes are in place so that the business of the Building Society is conducted honestly, ethically and responsibly;
- Overseeing the conduct of the Building Society's business and
- Ensuring the Building Society is appropriately resourced to manage all the risks that arise from its activities.

Directors are required to disclose, and avoid, wherever possible any potential conflicts of interest.

COMPOSITION OF THE BOARD

The Board currently comprises five Directors, all of whom are independent, selected to ensure that a broad range of skills, knowledge and experience are available.

The day-to-day management of the Building Society is delegated to the secretaries, who are accountable to the Board.

Procedures for the appointment and removal of Directors are governed by the Building Society rules.

BOARD COMMITTEES

There are no Board committees.

BOARD MEETINGS

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

MEMBER ACCESS TO INFORMATION

The Board of Directors ensures that the Building Society members are kept informed of important developments affecting the Building Society by communicating with members through newsletters, annual report and at the annual meeting.

**HERETAUNGA BUILDING SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2010**

	Note	Mar 10	Mar 09
REVENUE		\$	\$
Interest Revenue			
Advances		1,006,949	1,325,226
Impaired Advances		35,490	0
Bank Deposits		104,321	262,354
Investment Securities		98,105	98,386
Total Interest Revenue		<u>1,244,865</u>	<u>1,685,966</u>
LESS: COST OF FUNDS			
Interest Payable on Shares		780,143	1,246,422
GROSS INTEREST MARGIN		464,722	439,544
OTHER INCOME			
Rent Received		189,495	185,425
Other Income		278	392
		<u>189,773</u>	<u>185,817</u>
GROSS INCOME		654,495	625,361
LESS: ADMINISTRATION EXPENSES			
Administration and Other Expenses		349,319	353,208
Audit Fees			
- Audit of the financial statements		21,300	18,398
- Trust Deed and Prospectus Review Services		3,700	4,600
Directors Fees		61,000	61,000
Loss on Disposal of Plant	7	10,500	0
Movement in Provision for Loan Impairment		51,000	0
Prospectus Expenses		284	0
Trust Deed Expenses		20,000	8,420
Depreciation – Office Equipment		1,587	3,922
TOTAL EXPENSES		<u>518,690</u>	<u>449,548</u>
NET PROFIT BEFORE TAX		135,805	175,813
Tax Expense	3	40,741	45,729
NET OPERATING PROFIT AFTER TAX		95,064	130,084
Movement in Property Revaluation Reserve		9,896	(100,000)
Movement in Available for Sale Reserve		106,550	(130,387)
TOTAL COMPREHENSIVE INCOME (LOSS)		<u>211,510</u>	<u>(100,303)</u>

**HERETAUNGA BUILDING SOCIETY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010**

Mar 10	Note	Retained Earnings	General Reserve	Available for Sale Reserve	Revaluation Reserve	Total Equity
Balance brought forward	4	290,230	2,800,000	(163,949)	691,281	3,617,562
Operating profit for the period		95,064				95,064
Reserve increases/(decreases)				152,215		152,215
Deferred tax movement				(45,665)		(45,665)
Reserve transfers					9,896	9,896
BALANCE CARRIED FORWARD		385,294	2,800,000	(57,399)	701,177	3,829,070
Equity % to Total Assets						17.7%

Mar 09		Retained Earnings	General Reserve	Available for Sale Reserve	Revaluation Reserve	Total Equity
Balance brought forward		266,146	2,700,000	(33,562)	785,281	3,717,865
Operating profit for the period		130,084				130,084
Reserve increases/(decreases)				(186,267)		(186,267)
Deferred tax movement				55,880		55,880
Reserve transfers		(106,000)	100,000		(94,000)	(100,000)
BALANCE CARRIED FORWARD		290,230	2,800,000	(163,949)	691,281	3,617,562
Equity % to Total Assets						16.7%

**HERETAUNGA BUILDING SOCIETY
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2010**

	Note	Mar 10	Mar 09
ASSETS		\$	\$
Cash and cash equivalents	5	2,316,117	2,904,295
Prepayments		7,295	7,882
Investment securities	6	1,265,008	1,117,296
Investment property	7	2,400,000	2,400,000
Advances on mortgage	8	15,710,626	15,278,233
Office equipment	9	1,149	2,736
TOTAL ASSETS		21,700,195	21,710,442
LIABILITIES			
Redeemable shares	10	17,529,827	17,791,947
Tax payable	3	21,063	11,421
Accounts payable		90,799	93,165
Directors fees payable		30,500	29,000
Deferred taxation	3	198,936	167,347
TOTAL LIABILITIES		17,871,125	18,092,880
EQUITY			
Retained earnings	4	385,292	290,230
Revaluation reserve	4	701,177	691,281
Available for sale reserve	4	(57,399)	(163,949)
General reserve	4	2,800,000	2,800,000
TOTAL EQUITY		3,829,070	3,617,562
TOTAL LIABILITIES AND EQUITY		21,700,195	21,710,442

These Financial statements were authorised for issue by the board by:



WJ HARVEY
DIRECTOR
23 JUNE 2010



TL WEBB
DIRECTOR
23 JUNE 2010

**HERETAUNGA BUILDING SOCIETY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2010**

	Note	Mar 10	Mar 09
CASH FLOWS FROM OPERATING ACTIVITIES		\$	\$
Cash was provided from:			
Interest received		1,237,700	1,661,725
Other Income		278	392
Rent received		189,495	185,423
		<u>1,427,473</u>	<u>1,847,540</u>
Cash was applied to:			
Interest paid		855,262	1,296,091
Tax paid		36,563	19,524
Payments to suppliers		442,688	491,706
		<u>1,334,513</u>	<u>1,807,321</u>
NET CASH FLOWS FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES	11	<u>92,960</u>	<u>40,219</u>
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Cash was provided from:			
Mortgage repayments		5,300,706	3,028,271
Redeemable Shares Issued		33,056,991	33,589,840
		<u>38,357,697</u>	<u>36,618,111</u>
Cash was applied to:			
Mortgage Advances		5,772,418	3,565,179
Redeemable Shares Repaid		33,257,197	34,233,453
		<u>39,029,615</u>	<u>37,798,632</u>
NET OPERATING CASH FLOWS		<u>(671,918)</u>	<u>(1,180,521)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from			
Investment Securities Maturing		-	748,210
Cash was applied to:			
Investment Securities Purchases		-	918,837
Investment Property Addition		9,220	-
		<u>9,220</u>	<u>918,837</u>
NET INVESTING CASH FLOWS		<u>(9,220)</u>	<u>(170,627)</u>
Total net increase/(decrease) in cash held		(588,178)	(1,310,929)
Cash at the beginning of the period		2,904,295	4,215,224
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	<u><u>2,316,117</u></u>	<u><u>2,904,295</u></u>

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

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 an issuer for the purposes of the Financial Reporting Act 1993. 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 Financial Reporting Act 1993, the Building Societies Act 1965 and relevant Securities Regulations.

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 as the Prudential Supervisor 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 Prudential Supervisor is under 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 members, 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 withdrawable shares. The shares cannot be transferred or sold. Throughout this document in keeping with their nature and the Securities Act 1978 shares are classified as debt instruments. Members are able to withdraw their funds subject to certain conditions. The Building Society makes loans to members or invests funds on the members' behalf. Interest and other income are received by the Building Society and interest is paid on members' shares.

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

Authorisation of the Financial Statements

These financial statements are authorised for issue by the Directors on 23 June 2010.

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 profit-oriented entities. They also comply with International Financial Reporting Standards (IFRS).

Basis of measurement

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

Presentation currency

The financial statements are presented in New Zealand dollars (\$), which is the functional currency of the Building Society. All values are rounded to the nearest dollar, unless otherwise stated.

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

2 SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the material accounting policies adopted by the Building Society in the preparation of the financial report. Except where stated, the accounting policies have been consistently applied.

(a) Revenue

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

Interest Revenue on Loans and Investments

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

Rent revenue from leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Revenue received made under operating leases (net of any incentives paid to the lessee) are recorded in the profit or loss on a straight-line basis over the period of the lease.

(b) Finance expenses

Finance expenses comprise interest expense on borrowings, impairment losses recognised on financial assets (except for loans and receivables), and losses on the disposal of available-for-sale financial assets.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. A qualifying asset is one that takes six months or longer to prepare for its intended use or sale. Other borrowing costs are expensed when incurred. The Building Society does not have any qualifying assets and consequently all borrowing costs are expensed when incurred.

(c) Financial Instruments Recognition and Measurement

The Building Society classifies its financial instruments in the following categories: financial instruments at fair value through profit or loss, loans and receivables financial assets, held to maturity financial assets, available for sale financial assets, and financial liabilities at amortised cost (including redeemable shares and trade payables). The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date. At the reporting date the Building Society only had financial instruments classified as loans and receivables, available for sale financial assets and financial liabilities at amortised cost.

A financial asset is recognised only when the Building Society becomes a party to the contractual provisions of the financial asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit or loss. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit or loss

Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the profit or loss in the period in which they arise. The Building Society has no financial assets at fair value through profit or loss in the reported periods.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are stated at amortised cost using the effective interest rate method less accumulated impairment losses. Cash and cash equivalents, Advances on Mortgage and Trade and other receivables listed in the Building Society's statement of financial position are classified as loans and receivables.

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Held-to-maturity investments

These investments have fixed maturities, and the Building Society's has the intention and ability to hold these investments to maturity. Any held-to-maturity investments held by the Building Society are stated at amortised cost using the effective interest rate method less accumulated impairment losses. The Building Society has no held to maturity investments in the reported periods.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity. Investment securities are classified as available for sale financial assets.

The fair value of available for sale financial assets must be estimated for recognition and measurement purposes. The fair value of financial instruments that are traded in an active market is determined by reference to recent market transactions. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques.

Borrowings (Redeemable shares)

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

Trade payables

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

(d) Impairment of Loans

An assessment is made at each balance date when there is objective evidence that loans are impaired. A loan is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the loan and can be reliably estimated. Objective evidence that a loan is impaired includes observable data that comes to the attention of the directors about the following loss events:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- a concession granted to the borrower that the Building Society would not otherwise consider for economic or legal reasons relating to the borrower's financial difficulty; or
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

The amount provided for impairment of loans is determined by management and the directors. They make a provision for loans based on estimated losses, where the collectability of the debts is considered doubtful.

Loans which are known to be uncollectible are written off as an expense in the profit or loss. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors credit rating), the previously recognised impairment loss is reversed by adjusting the allowance amount, with the reversal being recognised in the profit or loss.

The various components of impaired loans are as follows:

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

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

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

(e) Income tax

Income tax expense

Income tax comprises current tax, deferred tax and any adjustments for tax payable in previous periods. Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss.

Current tax

Current tax is the expected tax payable on the income for the period based on tax rates and tax laws which are enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is accounted for using the liability method. Deferred tax arises by providing for temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the equivalent amounts used for tax purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the asset and liability giving rise to them are realised or settled.

Deferred tax assets, including those related to the tax effect of income tax losses available to be carried forward are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be realised. Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(f) Investment Property

Investment property (property held for long term rental yields or capital appreciation) is initially recognised at cost and subsequently valued by independent registered valuers. Investment property is carried at the revalued amount which is the fair value at date of revaluation.

Any revaluation surplus is credited to the profit or loss and is then transferred net of tax to Revaluation Reserve.

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 to retained earnings.

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Office Equipment

All items of office equipment are initially measured at cost. The cost of an item of office equipment includes its purchase price and costs directly attributable to bringing it to the location and condition necessary for it to operate as intended.

After initial recognition, all items of office equipment are measured at cost less accumulated depreciation and impairment losses.

Subsequent costs are added to the carrying amount of an item of office equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Building Society and the cost of the item can be measured reliably. All other repairs and maintenance costs are recognised in the profit or loss as an expense as incurred.

Where material parts of an item of office equipment have different useful lives, they are accounted for as separate items of office equipment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (i.e. if the asset is impaired).

An item of office equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

Depreciation

Depreciation on office equipment is calculated using the diminishing value method to allocate their cost to their residual values over their estimated useful lives. Depreciation is charged to the profit or loss.

Depreciation rates are as follows:

Office Equipment	10% - 60% per annum
------------------	---------------------

The residual value and useful lives of all assets are reviewed and adjusted if appropriate at each reporting date.

(h) Impairment Testing of Non-Financial Assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Building Society conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses directly reduce the carrying amount of assets and are recognised in the profit or loss.

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Goods and Services Tax

The principal activity of the Building Society is a financial institution, which is a non taxable activity for GST purposes. 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 property, plant and equipment. GST is included on Trade receivables and Trade payables. The net amount of GST recoverable from, or payable to, Inland Revenue, is included as part of receivables or payables in the statement of financial position.

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Cash Flow Statement

The Cash Flow Statement is prepared using the direct approach.

Definitions of terms used in the Cash Flow Statement:

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings on the statement of financial position.

Investing Activities are those activities relating to the acquisition and disposal of long term assets and other investments not included in cash and cash equivalents.

Financing Activities are those activities relating to changes in the size and composition of the capital structure of the Building Society.

Operating Activities include all transactions and other events that are not investing or financing activities. Cash flows arising from movements in loans and shares are classified as operating activities. Operating activities are the principal revenue generating activities of the Building Society.

(k) 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 disclosed in notes 7 and 8.

(l) Changes in accounting policies

Amendments to NZ IAS 1 Presentation of financial statements and NZ IFRS 7 Financial Instruments Disclosures have been implemented during the period. The effect of implementing amendments to NZ IAS 1 Presentation of financial statements was to require non-owner changes in equity to be presented in a performance statement, rather than the statement of changes in equity. Performance information can either be provided in two statements (an income statement and a statement of comprehensive income) or in one (a statement of comprehensive income). The Building Society has elected to provide one statement. The revised standard also changes the presentation of the statement of changes in equity and changes the name of the balance sheet to the statement of financial position. The effect of implementing amendments to NZ IFRS 7 Financial Instruments Disclosures was to include a fair value hierarchy in Note 18 and require certain liquidity disclosures.

There have been no other changes in accounting policies. All other policies have been applied on bases consistent with those used in previous periods.

(m) NZ IFRS issued but not yet effective

The following NZ IFRS have been issued but are not yet effective. The impact of these revisions has not yet been assessed.

Standard	Effective for periods beginning in	Initial Application year ending on or after
NZ IFRS 9 Financial instruments	1 January 2013	1 April 2014
NZ IAS 1 Presentation of financial statements	1 January 2013	1 April 2014
NZ IAS 8 Accounting policies, changes in accounting estimates and errors	1 January 2013	1 April 2014

**HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010**

3 TAXATION

(A) CURRENT PERIOD TAX	Mar 10	Mar 09
Profit before tax	135,805	175,813
Adjustment for items not subject to tax		(23,383)
Taxable Surplus	135,805	152,430
Tax at 30%	40,741	45,729
Current Period Tax Charge	40,741	45,729
Effective Tax Rate	30%	30%
Comprising		
Current tax payable	46,204	39,433
Deferred tax	(5,463)	6,296
TOTAL TAX EXPENSE	40,741	45,729
Tax Refundable at start of year	(11,421)	8,488
Tax Paid	36,562	19,524
Less: Current Tax Payable	(46,204)	(39,433)
Tax Refundable (Payable) at end of year	(21,063)	(11,421)

(B) DEFERRED TAX / (BENEFIT)

Mar 10	Impairment	Revaluation	Depreciation	Available for Sale	Total
	\$	\$	\$	\$	\$
Balance at 1 April		107,560	130,051	(70,264)	167,347
Temporary differences through Income	(15,300)		9,838		(5,462)
Temporary differences through Equity		(8,614)		45,665	37,051
Changes in tax rates					
Balance at 31 March	(15,300)	98,946	139,889	(24,599)	198,936

Mar 09	Impairment	Revaluation	Depreciation	Available for Sale	Total
	\$	\$	\$	\$	\$
Balance at 1 April		113,560	117,756	(14,384)	216,932
Temporary differences through Income		(6,000)	12,295		6,295
Temporary differences through Equity				(55,880)	(55,880)
Changes in tax rates					
Balance at 31 March		107,560	130,051	(70,264)	167,347

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

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.
Available for sale reserve:	A reserve to maintain the cumulative difference between the fair value and amortised cost of investment securities.
Revaluation reserve:	A reserve to maintain the cumulative difference between the fair value and cost of investment property. Any fair value movement in the value of Investment Property is recognised in the profit or loss then transferred to Revaluation Reserve.

5 CASH AND CASH EQUIVALENTS

	Mar 10	Mar 09
	\$	\$
Bank balance	41,285	48,839
Bank deposits	2,274,832	2,855,456
TOTAL CASH AND CASH EQUIVALENTS	2,316,117	2,904,295

All balances are available within 4 months. The deposits are liquidity funds held by the Building Society. Two of the operational bank accounts are set off by the bank for debt and interest purposes.

6 INVESTMENT SECURITIES

	Mar 10	Mar 09
	\$	\$
NEW ZEALAND LISTED BONDS	1,265,008	1,117,296

7 INVESTMENT PROPERTY

(A) CLASSES OF INVESTMENT PROPERTY	Mar 10	Mar 09
	\$	\$
Freehold land (at valuation)	710,000	680,000
Buildings (at valuation)	1,690,000	1,720,000
TOTAL INVESTMENT PROPERTY	2,400,000	2,400,000

(B) MOVEMENTS IN CARRYING AMOUNTS

Carrying value at the beginning of the period	2,400,000	2,500,000
Loss on Sale	(10,500)	-
Investment Addition	9,220	-
Revaluation movement	1,280	(100,000)
Carrying value at the end of the period	2,400,000	2,400,000

(C) VALUATION DETAILS

Investment property is stated at a fair value of \$2,400,000 as at 31 March 2010, determined by Robert Douglas BBS (VPN) MPINZ, an independent registered valuer from Logan Stone Limited, Hastings. The fair value is determined by reference to recent market transactions. The investment property is a commercial office building.

**HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010**

8 ADVANCES ON MORTGAGE

	Mar 10	Mar 09
	\$	\$

All advances are secured by 1st Mortgage. There is only one borrower which exceeds Building Society maximum LVR's set out in Note 12(C)

(A) ADVANCES ON MORTGAGE COMPRISE

Secured Advances	15,761,626	15,278,233
Less: Provision for Impairment	(51,000)	-
	15,710,626	15,278,233

(B) MORTGAGES COMPRISE:

Residential	11,193,447	71%	11,273,221	74%
Commercial	2,385,099	15%	1,869,431	12%
Rural	2,132,080	14%	2,135,581	14%
TOTAL	15,710,626	100%	15,278,233	100%

(C) GEOGRAPHICAL CONCENTRATION

Hawke's Bay	11,201,690	71%	11,220,461	73%
Taupo	1,873,827	12%	1,227,490	8%
Wellington	1,558,389	10%	1,338,483	9%
Auckland	588,273	4%	543,506	4%
North Island - Other	488,447	3%	948,293	6%
	15,710,626	100%	15,278,233	100%

(D) CREDIT IMPAIRMENT

The Building Society makes estimates and assumptions concerning the future when assessing the impairment provision on loans. The resulting accounting estimates will seldom equal the related actual results and there is a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

	Mar 10	Mar 09
	\$	\$
(i) Provision for Loan Impairment		
Opening Balance	-	-
Movement in Provision during the year	51,000	-
Closing Balance	51,000	-
(ii) Other Impaired Loan Analysis		
Opening Balance	-	-
Add: New Non-Performing Loans	569,423	-
Closing Balance	569,423	-
(iii) Loans with Repayments past due but not Impaired: -		
91-121 days	-	554,588
(iv) Restructured	Nil	Nil
(v) Enforced Security	Nil	Nil

**HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010**

9 OFFICE EQUIPMENT

(A) OFFICE EQUIPMENT	Mar 10	Mar 09
	\$	\$
At cost/valuation	32,721	32,721
Accumulated depreciation	(31,572)	(29,985)
TOTAL OFFICE EQUIPMENT	1,149	2,736
(B) MOVEMENTS IN CARRYING AMOUNTS		
Balance at 1 April	2,736	6,658
Depreciation Expense	(1,587)	(3,922)
CARRYING AMOUNT AT 31 MARCH	1,149	2,736

10 REDEEMABLE SHARES

	Mar 10	Mar 09
	\$	\$
Call shares	8,703,838	8,436,028
Term shares	8,825,989	9,355,919
TOTAL SHARES	17,529,827	17,791,947

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.

The Building Society has a guarantee under the New Zealand deposit guarantee scheme effective from 12 October 2008.

Further information about the deposit guarantee scheme is available free of charge and at all reasonable times on the internet site maintained by, or on behalf of, the Treasury (which is currently www.treasury.govt.nz).

The most recent audited statement of financial position of the Crown is available, free of charge and at all reasonable times, on the internet site maintained by, or on behalf of, the Treasury (which is currently www.treasury.govt.nz).

**HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010**

11 CASH FLOW STATEMENT RECONCILIATION

	Mar 10	Mar 09
	\$	\$
RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES WITH OPERATING PROFIT		
Net Operating Profit after Tax	95,064	(130,084)
Non Cash Items		
Depreciation	1,587	3,922
Deferred Tax	(5,463)	6,296
Loss on Disposal	10,500	-
Movement in Provision for Loan Impairment	51,000	-
Changes in Assets and Liabilities		
Increase in Prepayments	587	450
Increase in Accrued Interest Receivable	(1,646)	(24,244)
Increase in Taxation Payable	9,642	19,909
Increase in Accounts Payable	(2,366)	(22,361)
Increase in Accrued Interest Payable	(67,445)	(41,837)
Increase in Provision for Directors' Fees	1,500	(32,000)
NET CASH FROM OPERATING ACTIVITIES	92,960	40,219

12 FINANCIAL 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 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

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

12 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

The Building Society's policy is to maintain at least 15% of total assets as liquid assets 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.

The ability to demand repayment of all member loans provides the Building Society with potential access to funds if some or all members' shares required repayment. The Building Society also has the right at any time to require a fourteen days notice period for repayment of members' shares. The Building Society also has bank facilities (refer Note 21).

(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, 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 method used in determining the sensitivity is to evaluate the profit based on the timing of the interest repricing on the book of the Building Society for the next year. In doing the calculation the assumptions applied are that:

- The interest rate change would be applied in accordance with the repricing profile
- The rate change would be as at the beginning of the period and no other rate changes would be effected during the period
- The term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable
- All loans would be repaid in accordance with the contractual repayment terms and replaced with loans of a similar rate and term
- The value and mix of call and term deposits will be unchanged
- The value and mix of loans will be unchanged
- No change in basis risk

There has been no change to the Building Society's exposure to market risk or the way it manages and measures market risk in the reporting period.

The Building Society's exposure to interest rate risk is set out in Note 14 which details the contractual interest rate repricing profile.

(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.

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

12 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

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 to geographic and industry groups considered at high risk of default
- Reassessing and review of the credit exposures on loans and facilities
- Establishing appropriate provisions to recognise the impairment of loans
- Debt recovery procedures

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. All loans require collateral security which the Building Society can enforce by disposing of the secured assets in the event of default. The board policy is to maintain the loans in well secured mortgages.

Regular reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days if not rectified. For loans where repayments are not being met after normal internal collection procedures, external consultants are engaged to conduct recovery action.

(d) Credit risk - Investment securities and cash and cash equivalents

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Building Society incurring a financial loss. This occurs when debtors fail to settle their obligations owing to the Building Society.

The board policy is to place the investments either with New Zealand registered banks or other board approved entities which carry an investment grade rating.

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.

(e) Capital management

To manage the Building Society's capital, which can be affected by excessive growth and by changes in total assets, the Building Society regularly reviews the capital adequacy ratio and monitors major movements in the asset levels.

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 monetary 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 maturity profile indicates a significant liquidity deficiency for the one month period from 31 March 2010. 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. Also, no account is taken of possible early loan repayments and all loans to members are payable on demand. The profile assumes that all shares are repaid when they mature. In the ordinary course of business the Building Society normally achieves high re-investment rates, ensuring that it does not need to demand repayment of the loans. These factors have been incorporated into the expected maturity profile.

13 MATURITY PROFILE (cont'd)

CONTRACTUAL MATURITY TIMEFRAME									
Mar-10	Effective Interest Rate	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	3.97%	663,092	1,152,866	500,159					2,316,117
Investment securities	7.15%	14,672	3,693			190,005	313,127	743,511	1,265,008
Advances on Mortgage	6.42%	120,297	108,646	966,573	336,784	1,251,073	2,916,605	10,010,649	15,710,627
Interest Receivable		86,539	178,620	333,834	476,242	1,489,971	2,568,460	7,050,205	12,183,871
TOTAL MONETARY ASSETS		884,600	1,443,825	1,800,566	813,026	2,931,049	5,798,192	17,804,365	31,475,623
MONETARY LIABILITIES									
Other Liabilities		142,362							142,362
Redeemable Shares	4.24%	10,181,996	1,573,673	3,331,767	2,442,391				17,529,827
Interest Payable		8,039	18,869	106,269	74,943				208,120
TOTAL MONETARY LIABILITIES		10,332,397	1,592,542	3,438,036	2,517,334				17,880,309
NET MONETARY ASSETS		(9,447,797)	(148,717)	(1,637,470)	(1,704,308)	2,931,049	5,798,192	17,804,365	13,595,314
Unrecognised Mortgage commitments		(300,737)							(300,737)
Net Liquidity Gap		(9,748,534)	(148,717)	(1,637,469)	(1,704,308)	2,931,049	5,798,192	17,804,365	13,294,577
NET LIQUIDITY GAP - CUMULATIVE		(9,748,534)	(9,897,251)	(11,534,720)	(13,239,028)	(10,307,979)	(4,509,787)	13,294,577	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

13 MATURITY PROFILE (cont'd)

CONTRACTUAL MATURITY TIMEFRAME									
Mar-09	Effective Interest Rate	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	4.75%	1,440,515	861,190	602,590					2,904,295
Investment securities	8.77%	19,285	3,584				398,502	695,925	1,117,296
Advances on Mortgage	8.15%	308,851	131,038	952,190	465,182	655,712	2,779,845	9,985,415	15,278,233
Interest Receivable		108,301	212,834	343,122	599,047	1,150,377	3,063,343	7,681,297	13,158,321
TOTAL MONETARY ASSETS		1,876,952	1,208,646	1,897,902	1,064,229	1,806,089	6,241,690	18,362,637	32,458,145
MONETARY LIABILITIES									
Other Liabilities		133,586							133,586
Redeemable Shares	5.30%	9,855,287	1,461,182	3,709,465	2,766,013				17,791,947
Interest Payable		27,218	33,227	131,301	113,720				305,466
TOTAL MONETARY LIABILITIES		10,016,091	1,494,409	3,840,766	2,879,733				18,230,999
NET MONETARY ASSETS		(8,139,139)	(285,763)	(1,942,864)	(1,815,504)	1,806,089	6,241,690	18,362,637	14,227,146
Unrecognised Mortgage commitments		(383,500)							(383,500)
Net Liquidity Gap		(8,522,639)	(285,763)	(1,942,864)	(1,815,504)	1,806,089	6,241,690	18,362,637	13,843,646
NET LIQUIDITY GAP - CUMULATIVE		(8,522,639)	(8,808,402)	(10,751,266)	(12,566,770)	(10,760,681)	(4,518,991)	13,843,646	

13 MATURITY PROFILE (cont'd)

EXPECTED MATURITY TIMEFRAME									
Mar-10	Effective Interest Rate	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	3.97%	343,092	2,866	159				1,970,000	2,316,117
Investment securities	7.15%	14,672	3,693			190,005	313,127	743,511	1,265,008
Advances on Mortgage	6.42%	120,297	108,646	966,573	336,784	1,251,073	2,916,605	10,010,649	15,710,627
Interest Receivable		86,539	178,620	333,834	539,867	1,568,180	2,803,087	7,910,504	13,420,631
TOTAL MONETARY ASSETS		564,600	293,824	1,300,566	876,651	3,009,258	6,032,819	20,634,664	32,712,383
MONETARY LIABILITIES									
Other Liabilities		142,362							142,362
Redeemable Shares	4.24%	323,776	333,327	509,137	420,197			15,943,390	17,529,827
Interest Payable		8,039	18,869	344,576	371,484	716,504	2,149,512	7,881,545	11,490,530
TOTAL MONETARY LIABILITIES		474,177	352,196	853,713	791,681	716,504	2,149,512	23,824,935	29,162,719
NET MONETARY ASSETS		90,423	(58,372)	446,854	84,970	2,292,754	3,883,306	(3,190,271)	3,549,664
Unrecognised Mortgage commitments		(60,000)		(240,737)					(300,737)
Net Liquidity Gap		38,423	(58,372)	206,117	84,970	2,292,754	3,883,306	(3,190,271)	3,248,927
NET LIQUIDITY GAP - CUMULATIVE		30,423	(27,949)	178,168	263,138	2,555,892	6,439,198	3,248,927	

**HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010**

14 INTEREST REPRICING PROFILE

The Building Society's exposure to interest rate risk, which is the risk that the reported financial result will fluctuate as a result of changes in market interest rates 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.

The impact on after tax profit and equity for the following 12 months of a:

1% increase in interest rates is - (\$49,252) 2009 (\$33,953)

1% decrease in interest rates is - \$49,252 \$33,953

REPRICING TIMEFRAME							
Mar-10	Weighted Average Rate %	0 - 6 Months	6 - 12 Months	1-2 Years	2 - 5 Years	Non Interest Sensitive	Total
MONETARY ASSETS							
Cash and Cash Equivalents	3.97%	2,316,117					2,316,117
Investment securities	7.15%	268,228	161,851		834,929		1,265,008
Advances on Mortgage	6.42%	11,173,536	1,175,662	2,184,580	1,196,848		15,710,626
TOTAL MONETARY ASSETS		13,757,881	1,337,513	2,184,580	2,031,777	7,295	19,299,046
MONETARY LIABILITIES							
Accounts Payable						111,862	111,862
Provision for Directors Fees						30,500	30,500
Redeemable Shares	4.23%	15,106,720	2,423,107				17,529,827
TOTAL MONETARY LIABILITIES		15,106,720	2,423,107			142,362	17,672,189
TOTAL MISMATCH		(1,348,839)	(1,085,594)	2,184,580	2,031,777	(135,067)	1,626,857
Mar-09							
MONETARY ASSETS							
Cash and Cash Equivalents	4.75%	2,904,295					2,904,295
Investment securities	8.77%	235,746	163,347		718,203		1,117,296
Advances on Mortgage	8.15%	12,557,618	1,558,391	1,162,224			15,278,233
TOTAL MONETARY ASSETS		15,697,659	1,721,738	1,162,224	718,203	7,882	19,307,706
MONETARY LIABILITIES							
Accounts Payable						104,586	104,586
Provision for Directors Fees						29,000	29,000
Redeemable Shares	5.30%	15,025,935	2,766,012				17,791,947
TOTAL MONETARY LIABILITIES		15,025,935	2,766,012	-	-	133,586	17,925,533
TOTAL MISMATCH		671,724	(1,044,274)	1,162,224	718,203	(125,704)	1,382,173

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

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, except for investment securities for which the credit risk exposure is the principal amount of \$1,300,000 (2009, \$1,300,000).

(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 (refer Note 8) 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 customer, industry or economic sector as the Building Society spreads its investments and cash deposits across various well rated institutions.

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:

% of equity	Advances on Mortgage	Investments
Greater than 100%		
Between 90% and 100%		
Between 80% and 90%		
Between 70% and 80%		
Between 60% and 70%		
Between 50% and 60%		
Between 40% and 50%		
Between 30% and 40%		1
Between 20% and 30%	3	1
Between 10% and 20%	8	1

**HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010**

16 SECURITIES ACT DISCLOSURES

	Mar 10	Mar 09
	\$	\$
(a) Proportion of loans with repayments in excess of three months in arrears	3.42%	3.63%
(b) Proportion of loans owed in aggregate by the debtors who owe the six largest amounts	28.28%	26.65%
(c) Current and non-current assets and liabilities		
Current assets		
Cash and cash equivalents	2,316,117	2,904,295
Prepayments	7,295	7,882
Current portion of Advances on Mortgage	1,532,300	1,857,261
Total current assets	<u>3,855,712</u>	<u>4,769,438</u>
Investment securities	1,265,008	1,117,296
Investment property	2,400,000	2,400,000
Non-current portion of Advances on Mortgage	14,178,326	13,420,972
Office Equipment	1,149	2,736
Total non-current assets	<u>17,844,483</u>	<u>16,941,004</u>
Total assets	<u><u>21,700,195</u></u>	<u><u>21,710,442</u></u>
Current liabilities		
Redeemable Shares	17,529,827	17,791,947
Tax Payable	21,063	11,421
Accounts Payable	90,799	93,165
Provision for Directors Fees	30,500	29,000
Total current liabilities	<u>17,672,189</u>	<u>17,925,533</u>
Deferred taxation	198,936	167,347
Total non-current liabilities	<u>198,936</u>	<u>167,347</u>
Total liabilities	<u><u>17,871,125</u></u>	<u><u>18,092,880</u></u>

17 CONCENTRATION OF FUNDING

The Building Society's source of funding is members' shares. Accordingly, 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 10	Mar 09
	\$	\$
Hawke's Bay	16,928,911	17,112,803
Rest of New Zealand	401,540	254,917
Overseas	199,376	424,227
	<u>17,529,827</u>	<u>17,791,947</u>

**HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010**

18 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Building Society.

The following fair value information provides an analysis of the financial instruments 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).

	March 2010 Fair Value \$	March 2010 Book Value \$	March 2009 Fair Value \$	March 2009 Book Value \$
FINANCIAL ASSETS				
Cash and cash equivalents	2,316,117	2,316,117	2,904,295	2,904,295
Investment securities	1,265,008	1,265,008	1,117,296	1,117,296
Advances on Mortgage	15,710,626	15,710,626	15,278,233	15,278,233
Total Financial Assets	19,291,751	19,291,751	19,299,824	19,299,824
FINANCIAL LIABILITIES				
Accounts Payable	90,799	90,799	93,165	93,165
Redeemable Shares	17,529,827	17,529,827	17,791,947	17,791,947
Total Financial Liabilities	17,620,626	17,620,626	17,885,112	17,885,112

The fair value estimates were determined by the following methodologies and assumptions.

Cash and cash equivalents

The reported amount is equal to fair value.

Investment securities (Level 1)

An independent valuation of their fair value is obtained at the end of each reporting period from Mr C Lane of Forsyth Barr Ltd. The securities are valued using current market prices.

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.

Redeemable Shares

The fair value of shares is calculated using average market rates.

Other Liabilities

The reported amount of trade and other payables is equal to fair value.

**HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010**

19 RELATED PARTY TRANSACTIONS

	Mar 10	Mar 09
	\$	\$
Owing to Directors (Shares)	180,106	171,696
Owing by Directors (Advances on Mortgage)	168,662	321,301

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 have been written off or have a provision for doubtful debts against them.

Mr T L Webb, a Director of the Building Society is also a director of Brown Webb Richardson Ltd. The investment property is leased to Brown Webb Richardson Ltd. The rental of \$189,495 (2009: \$185,425) 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 \$248,000 (2009: \$248,000). The fee is at normal market rates for the estimated time required for management of the Building Society. There are no balances outstanding.

Brown Webb Richardson Ltd have redeemable shares with the Building Society of \$221,706 (2009: \$75,582).

20 COMMITMENTS

	Mar 10	Mar 09
	\$	\$

(a) Capital Commitments

The Building Society has no contracts for the purchase of property, plant and equipment at 31 March 2010 (2009: Nil)

(b) Outstanding Loan Commitments

Loans and credit facilities approved but not disbursed or drawn at the end of the financial period:

300,737	383,500
---------	---------

21 STANDBY BORROWING FACILITIES

	Mar 10	Mar 09
	\$	\$
Bank overdraft	200,000	200,000
Business Finance Line	500,000	500,000
	<u>700,000</u>	<u>700,000</u>

Of these facilities \$Nil were drawn down (2009: \$Nil).

Both facilities are with Westpac Bank.

HERETAUNGA BUILDING SOCIETY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

22 CONTINGENT LIABILITIES

There are no contingent liabilities at 31 March 2010 (2009: Nil).

23 EVENTS OCCURRING AFTER BALANCE DATE

On 21 May 2010 the New Zealand government released its budget statement for 2010. Within this document were several proposals which will affect the carrying value of deferred tax balances and increase future operating costs. The specific proposals to affect the Building Society are as follows:-

- a reduction in the corporate tax rate from 30% to 28%
- the disallowance of depreciation deductions for buildings with a life greater than 50 years
- the increase in the rate of GST from 12.5% to 15%

The monetary impact on the Building Society is expected to be an increase in the deferred tax liability by approximately \$268,166 in the 2011 financial year. The net effect of changes to GST and income tax rates, and the non deductibility of depreciation on buildings are unlikely to materially affect the reported results.

There are no other known events that have occurred subsequent to balance date which would materially affect these financial statements (2009: Nil).

HERETAUNGA BUILDING SOCIETY AUDIT REPORT



TO THE MEMBERS OF HERETAUNGA BUILDING SOCIETY

We have audited the financial report on pages 5 to 30. The financial report provides information about the past financial performance of Heretaunga Building Society (the building society) and its financial position as at 31 March 2010. This information is stated in accordance with the accounting policies set out on pages 9 to 14.

BOARD OF DIRECTORS' RESPONSIBILITIES

The Board of Directors' is responsible for the preparation of a financial report which fairly reflects the financial position of the building society as at 31 March 2010 and of the results of operations and cash flows for the year ended 31 March 2010.

AUDITORS' RESPONSIBILITIES

It is our responsibility to express an independent opinion on the financial report presented by the Board of Directors' and report our opinion to you.

BASIS OF OPINION

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- the significant estimates and judgements made by the Board of Directors' in the preparation of the financial report, and
- whether the accounting policies are appropriate to the building society's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial report is free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial report.

Other than in our capacity as auditor of the financial report, we have no other relationship with or interest in the building society.

UNQUALIFIED OPINION

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the building society as far as appears from our examination of those records; and
- the financial report on pages 5 to 31
 - complies with generally accepted accounting practice in New Zealand;
 - gives a true and fair view of the financial position of the building society as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 23 June 2010 and our unqualified opinion is expressed as at that date.

Chartered Accountants
Hastings, New Zealand



Heretaunga Building Society

PO Box 146,

111 Avenue Road East, Hastings

Ph 06 873 8047 Fax 06 876 5211

Email info@heretaungabuildingsociety.co.nz