



# Heretaunga Building Society

78TH ANNUAL REPORT 2011





<b>INDEX</b>	<b>PAGE</b>
CHAIRMAN'S REPORT FOR 2011 ANNUAL REPORT	3
GENERAL MANAGER'S REPORT FOR 2011 ANNUAL REPORT	4
CORPORATE GOVERNANCE 2011 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 - 35
AUDIT REPORT TO THE MEMBERS	36

## **ANNUAL GENERAL MEETING**

The SEVENTY-EIGHTH ANNUAL GENERAL MEETING of the Heretaunga Building Society will be held in the Society's Office, 111 Avenue Road East, HASTINGS on Tuesday 19 July, 2011 at 4pm.

### **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

## 78TH ANNUAL REPORT TO MEMBERS FOR YEAR ENDING 31 MARCH 2011

On behalf of your Directors it is with pleasure that I present the Heretaunga Building Society's annual report and financial statements for the year ending 31 March 2011. This report is the 78th for the Heretaunga Building Society and the long history and stability of the Heretaunga is a tribute to the support from you our members. The financial result for the year under review is considered satisfactory with a profit before tax of \$148,000. Total assets have climbed to a record level of \$24,172,661 which is an increase of 11% or almost \$2.5 million.

Advances on mortgage amount to \$14,109,637 which is a decrease of approximately \$1.6 million however the mortgage book lent \$3.68 million in new loans and \$5.3 million was repaid.

Interest rates for both deposits and mortgages have been 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 achievements 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 12 months or more have produced more forced and mortgagee sales than for a considerable period of time. The downturn in New Zealand's economy and beyond has been difficult for borrowers particularly in the speculative/development fields. I can report that none of Heretaunga's loans are in this category.

The Society has completed a year where our liquidity has climbed rapidly however the other side of the ledger has dictated a very slow volume of applications to borrow. Unfortunately this scenario has and is affecting most lending institutions at this time and will have negative effects on profitability into the future.

The Board has had to make minor adjustments through the year to on-call interest rates and while they still rank as an attractive investment, the support the members are providing continues to result in the funds becoming almost long term.

In last year's report I mentioned the huge compliance workload that is being forced upon the financial industry with the worrying aspect of it all is that somebody will have to pay. These costs have started to be incurred by the Society during the current year with more expected in the next few years.

During the year the Board has entered into a sponsorship with Ramblers Cycling Club with the sponsorship giving the Heretaunga Building Society naming rights and field exposure. The Building Society's logo and name now appears on Ramblers Cycling Club strip and the Society is delighted to record the success of Ramblers Cycling Club at the recent national road cycling championships which involved 615 competitors across 28 age group categories. The Club was also runner-up in the Club Points Shield at the nationals and three of the Club riders won national titles. The Building Society is delighted with these results and the continuing exposure this sponsorship will give to the Society and to Ramblers Cycling Club. Also Heretaunga continues to sponsor Hastings Riding for the Disabled as a wonderful community facility.

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

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 continuing fantastic efforts in the running of the Society.

For the Directors  
W J Harvey  
CHAIRMAN

June 2011

## GENERAL MANAGER'S REPORT FOR 2011 YEAR

The 2011 year has been a year of low and stable interest rates with very little demand for mortgage finance. Gross interest margin for the year reduced by 6% reflecting the reduced interest rate environment the Society has operated in for the entire year.

The reduction in gross income was offset by a reduction in the administration costs. The significant reductions being no loss on disposal of fixed assets and the provision for loan impairment reducing by \$31,000. The one loan requiring the loan impairment provision for the 2010 and 2011 years is subject to regular appraisal and scrutiny. The resulting net operating profit after tax of \$110,652 represents an increase of 16% from the previous year. Movement in property revaluation reserve is the result of a change in the accounting treatment of certain aspects of the deferred tax regime.

Cash and cash equivalents at year end have increased by \$4m reflecting the reduced demand for mortgage finance and New Zealanders changing their spending habits.

The Society's investment property value is unchanged at \$2.4m.

Advances on mortgage have reflected the declining demand for credit reducing to \$14.1m from \$15.7m the previous year.

Total assets at \$24.2m are a record for the Society. This significant increase reflects the \$2.4m increase in redeemable shares invested in the Society.

Total equity now stands at \$4m which equates to 16.7% of total assets.

Increased compliance demands by the regulatory authorities during the year were minimal however more demands are expected in the near future. The future costs of these compliance requirements are still to be determined.

Low demand for mortgage finance has continued since balance date. This coupled with increasing member investment in redeemable shares has resulted in record levels of liquidity.

Continuing membership of the Financial Services Federation gives the Society access to a greater voice when dealing with regulatory changes.

S M (George) Speedy  
General Manager  
June 2011

# CORPORATE GOVERNANCE 2011 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 2011**

	Note	Mar 11	Mar 10
<b>REVENUE</b>		<b>\$</b>	<b>\$</b>
<b>Interest Revenue</b>			
Advances		935,408	1,006,949
Impaired Advances		34,822	35,490
Bank Deposits		147,140	104,321
Investment Securities		94,021	98,105
Total Interest Revenue		<u>1,211,391</u>	<u>1,244,865</u>
<b>LESS: COST OF FUNDS</b>			
Interest Payable on Shares		<u>772,929</u>	<u>780,143</u>
<b>GROSS INTEREST MARGIN</b>		<b>438,462</b>	<b>464,722</b>
<b>OTHER INCOME</b>			
Rent Received		189,991	189,495
Other Income		-	278
		<u>189,991</u>	<u>189,773</u>
<b>GROSS INCOME</b>		<b>628,453</b>	<b>654,495</b>
<b>LESS: ADMINISTRATION EXPENSES</b>			
Administration and Other Expenses		345,386	349,319
Audit Fees			
- Audit of the financial statements		21,227	21,300
- Trust Deed and Prospectus Review Services		4,350	3,700
Directors Fees		66,000	61,000
Loss on Disposal of Plant	7	-	10,500
Movement in Provision for Loan Impairment		20,000	51,000
Prospectus Expenses		284	284
Trust Deed Expenses		22,558	20,000
Depreciation – Office Equipment		648	1,587
TOTAL EXPENSES		<u>480,453</u>	<u>518,690</u>
<b>NET PROFIT BEFORE TAX</b>		<b>148,000</b>	<b>135,805</b>
Tax Expense	3	<u>37,348</u>	<u>40,741</u>
<b>NET OPERATING PROFIT AFTER TAX</b>		<b>110,652</b>	<b>95,064</b>
Increase relating to deferred tax on investment property		-	1,282
Gain on available for sale reserve		2,426	152,215
Deferred Tax on available for sale reserve		(728)	(45,665)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b><u>112,350</u></b>	<b><u>202,896</u></b>

**HERETAUNGA BUILDING SOCIETY  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2011**

Mar 11	Note 4	Retained Earnings	General Reserve	Available for Sale Reserve	Revaluation Reserve	Total Equity
Opening Balance		385,292	2,800,000	(57,399)	800,123	3,928,016
Operating profit for the period		110,652				110,652
Reserve increases/(decreases)				2,426		2,426
Deferred tax movement				(728)		(728)
<b>CLOSING BALANCE</b>		<b>495,944</b>	<b>2,800,000</b>	<b>(55,701)</b>	<b>800,123</b>	<b>4,040,366</b>
Equity % to Total Assets						16.7%

Mar 10		Retained Earnings	General Reserve	Available for Sale Reserve	Revaluation Reserve	Total Equity
Opening Balance		290,230	2,800,000	(163,949)	798,841	3,725,122
Operating profit for the period		95,064				95,064
Reserve increases/(decreases)				152,215	1,282	153,497
Deferred tax movement				(45,665)		(45,665)
<b>CLOSING BALANCE</b>		<b>385,294</b>	<b>2,800,000</b>	<b>(57,399)</b>	<b>800,123</b>	<b>3,928,018</b>
Equity % to Total Assets						18.1%

**HERETAUNGA BUILDING SOCIETY  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2011**

	Note	Mar 11	Mar 10
<b>ASSETS</b>		<b>\$</b>	<b>\$</b>
Cash and cash equivalents	5	6,385,218	2,316,117
Prepayments		9,638	7,295
Investment securities	6	1,267,667	1,265,008
Investment property	7	2,400,000	2,400,000
Advances on mortgage	8	14,109,637	15,710,626
Office equipment	9	501	1,149
<b>TOTAL ASSETS</b>		<b>24,172,661</b>	<b>21,700,195</b>
<b>LIABILITIES</b>			
Redeemable shares	10	19,908,308	17,529,827
Tax payable	3	11,441	21,063
Trade payables		2,421	2,533
Resident withholding tax		41,690	44,178
Accruals		28,650	36,850
GST		8,057	7,238
Directors fees payable		33,000	30,500
Deferred taxation	3	98,728	99,990
<b>TOTAL LIABILITIES</b>		<b>20,132,295</b>	<b>17,772,179</b>
<b>EQUITY</b>			
Retained earnings	4	495,944	385,292
General reserve	4	2,800,000	2,800,000
Available for sale reserve	4	(55,701)	(57,399)
Revaluation reserve	4	800,123	800,123
<b>TOTAL EQUITY</b>		<b>4,040,366</b>	<b>3,928,016</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>24,172,661</b>	<b>21,700,195</b>

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



WJ HARVEY  
DIRECTOR  
23 JUNE 2011



TL WEBB  
DIRECTOR  
23 JUNE 2011

**HERETAUNGA BUILDING SOCIETY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 MARCH 2011**

	Note	Mar 11	Mar 10
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>\$</b>	<b>\$</b>
<b>Cash was provided from:</b>			
Interest received		1,212,337	1,237,700
Other Income		-	278
Rent received		189,991	189,495
		<u>1,402,328</u>	<u>1,427,473</u>
<b>Cash was applied to:</b>			
Interest paid		(757,089)	(855,262)
Tax paid		(48,960)	(36,563)
Payments to suppliers		(467,142)	(442,688)
		<u>(1,273,191)</u>	<u>(1,334,513)</u>
<b>NET CASH FLOWS FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES</b>	<b>11</b>	<b>129,137</b>	<b>92,960</b>
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES</b>			
<b>Cash was provided from:</b>			
Mortgage repayments		5,264,253	5,300,706
Redeemable Shares Issued		33,193,072	33,056,991
<b>Cash was applied to:</b>			
Mortgage Advances		(3,684,439)	(5,772,418)
Redeemable Shares Repaid		(30,832,922)	(33,257,197)
		<u>4,069,101</u>	<u>(578,958)</u>
<b>NET OPERATING CASH FLOWS</b>		<b>4,069,101</b>	<b>(578,958)</b>
<b>Cash was applied to:</b>			
Investment Property Addition		-	(9,220)
		<u>-</u>	<u>(9,220)</u>
<b>NET INVESTING CASH FLOWS</b>		<b>-</b>	<b>(9,220)</b>
Total net increase/(decrease) in cash and cash equivalents held		4,069,101	(588,178)
Cash and cash equivalents at the beginning of the period		2,316,117	2,904,295
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>5</b>	<b><u>6,385,218</u></b>	<b><u>2,316,117</u></b>

# HERETAUNGA BUILDING SOCIETY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2011

## 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 and relevant Securities Regulations issued pursuant to The Securities Act 1978.

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 2011.

### **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 2011

## 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 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.

Purchases and sales of investments are recognised on trade date, the date on which the Building Society commits to purchase or sell the asset.

#### *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.

# HERETAUNGA BUILDING SOCIETY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2011

## 2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *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.

### *Held-to-maturity investments*

These investments have fixed maturities, and the Building Society 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. Individually significant loans are assessed for impairment. All loans not assessed as individually impaired are then collectively assessed for impairment. 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.

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 2011

#### **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* (individually and collectively impaired) 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, except for investment property for which deferred tax arises only on the difference between original cost and depreciated value.

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

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

#### **(f) Investment Property**

Investment property (property held for long term rental yields or capital appreciation) is initially recognised at cost and subsequently 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 Revaluation Reserve through other comprehensive income.

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.

#### **(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.

# HERETAUNGA BUILDING SOCIETY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2011

#### **2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

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 in accordance with section 14(1) (a) of The Goods and Services Tax Act 1985. With the exception of rental income from its investment property, the Building Society is treated as an end user for GST purposes. GST exclusive accounting is adopted except for non-recoverable GST which is added to expenses and 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 2011

## 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. The directors consider all bank deposits to be cash and cash equivalents, as they are available as cash for liquidity purposes. Deposits are sometimes longer than three months to obtain greater returns, but are considered cash and cash equivalents.

*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 investment property and advances on mortgage which are disclosed in notes 7 and 8.

### **(l) Changes in accounting policies**

The Building Society has changed its deferred tax accounting policy to reflect a change to NZ IAS 12 Income Taxes during the year. The change is to no longer record a deferred tax liability for the revaluation uplift between the carrying value of investment property and its tax and accounting cost. There is still a deferred tax liability for the difference between accounting cost and depreciated tax value relating to the depreciation that would be recorded as taxable income if the investment property were to be sold. This change has been retrospectively applied, which has increased the opening 2010 revaluation reserve and decreased the opening 2010 deferred tax liability by \$107,560. Closing 2010 revaluation reserve has increased and closing 2010 deferred tax liability has decreased by \$98,946. The movement in the revaluation reserve in the 2010 statement of comprehensive income has dropped from \$9,896 to \$1,282.

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 24 Related parties	1 January 2011	1 April 2012

# HERETAUNGA BUILDING SOCIETY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2011

**(m) NZ IFRS issued but not yet effective (Cont'd)**

NZ IFRS 9 *Financial Instruments* is applicable for annual periods beginning on or after 1 January 2013. Earlier application is permitted. NZ IFRS 9 is part of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces amended requirements for classifying and measuring financial assets and liabilities. Management is still assessing the impact that the adoption of NZ IFRS 9 will have.

NZ IAS 24 *Related Party Disclosures* replaces the 2004 version of the standard. The revised NZ IAS 24 is to be applied retrospectively for annual periods beginning on or after 1 January 2011. Earlier application is permitted. The revised NZ IAS 24 clarifies the definition of a related party and requires the disclosure of commitments involving related parties. Although management is still assessing the impact that adoption of the revised NZ IAS 24 will have, any impact will be to disclosure only (i.e. there will be no recognition or measurement impacts).

### 3 TAXATION

(A) CURRENT PERIOD TAX	Mar 11	Mar 10
Profit before tax	148,000	135,805
Adjustment for items not subject to tax		
Taxable Surplus	<u>148,000</u>	<u>135,805</u>
Tax at 30%	44,400	40,741
Impact of Deferred Tax as a result of reducing tax rate from 30% to 28% from 1 April 2011	(7,052)	-
Current Period Tax Charge	<u>37,348</u>	<u>40,741</u>
Effective Tax Rate	25%	30%
Comprising		
Current tax payable	39,339	46,204
Deferred tax	(1,991)	(5,463)
<b>TOTAL TAX EXPENSE</b>	<b><u>37,348</u></b>	<b><u>40,741</u></b>
Tax Payable at start of year	21,063	11,421
Less: Tax Paid	(48,961)	(36,562)
Current Tax Payable	<u>39,339</u>	<u>46,204</u>
Tax Payable at end of year	<u>11,441</u>	<u>21,063</u>

**HERETAUNGA BUILDING SOCIETY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2011**

**(B) DEFERRED TAX / (BENEFIT)**

	Impairment Provision	Depreciation	Available for sale	Total
<b>Mar 11</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at 1 April	(15,300)	139,889	(24,599)	99,990
Temporary differences through Income	(6,000)	11,061		5,061
Temporary differences through Equity			728	728
Change in Tax Rates	1,420	(10,063)	1,591	(7,052)
Balance at end of period	<u>(19,880)</u>	<u>140,887</u>	<u>(22,280)</u>	<u>98,727</u>
<b>Mar 10</b>				
Balance at 1 April		130,051	(70,264)	59,787
Temporary differences through Income	(15,300)	9,838		(5,462)
Temporary differences through Equity			45,665	45,665
Balance at end of period	<u>(15,300)</u>	<u>139,889</u>	<u>(24,599)</u>	<u>99,990</u>

**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.

**5 CASH AND CASH EQUIVALENTS**

	Mar 11	Mar 10
	<b>\$</b>	<b>\$</b>
Bank balance	17,765	41,285
Bank deposits	6,367,453	2,274,832
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u><b>6,385,218</b></u>	<u><b>2,316,117</b></u>

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. The bank accounts are not offset for financial reporting purposes.

**HERETAUNGA BUILDING SOCIETY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2011**

**6 INVESTMENT SECURITIES (New Zealand listed bonds)**

	Mar 11	Mar 10
	\$	\$
Opening Balance	1,265,008	1,117,296
Reserve Increase	2,426	152,215
Accrued Interest Movement	233	(4,503)
<b>CLOSING BALANCE (New Zealand Listed Bonds)</b>	<b>1,267,667</b>	<b>1,265,008</b>

**7 INVESTMENT PROPERTY**

<b>(A) CLASSES OF INVESTMENT PROPERTY</b>		
Freehold land (at valuation)	710,000	710,000
Buildings (at valuation)	1,690,000	1,690,000
<b>TOTAL INVESTMENT PROPERTY</b>	<b>2,400,000</b>	<b>2,400,000</b>

<b>(B) MOVEMENTS IN CARRYING AMOUNTS</b>		
Carrying value at the beginning of the period	2,400,000	2,400,000
Loss on Sale	-	(10,500)
Investment Addition	-	9,220
Revaluation movement	-	1,280
Carrying value at the end of the period	<b>2,400,000</b>	<b>2,400,000</b>

**(C) VALUATION DETAILS**

Investment property is stated at a fair value of \$2,400,000 as at 31 March 2011, determined by Mark Harris BBS (Val & PM) ANZIV, SPINZ, AAPI, an independent registered valuer from Crighton Stone Limited, Hastings. The fair value is determined by reference to a combination of recent market transactions and capitalised rent (investment approach with the rent capitalised at rates ranging from 7.69% to 8.14%). The investment property is a commercial office building which generated income during the period. Direct property expenses are paid by the tenant.

**HERETAUNGA BUILDING SOCIETY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2011**

**8 ADVANCES ON MORTGAGE**

All advances are secured by 1st Mortgage. There are three borrowers which exceed the Building Society's maximum Loan to Value Ratio (LVR) set out in Note 12 (c) being the impaired residential advance (refer D below) with a carrying value of \$511,770 and other borrowers with a total carrying value of \$505,204.

	Mar 11	Mar 10
	\$	\$

**(A) ADVANCES ON MORTGAGE COMPRISE**

Secured Advances	14,180,637		15,761,626	
Less: Provision for Impairment	(71,000)		(51,000)	
	<b>14,109,637</b>		<b>15,710,626</b>	

**(B) MORTGAGES COMPRISE**

Residential	9,951,815	71%	11,193,447	71%
Commercial	2,024,099	14%	2,385,099	15%
Rural	2,133,723	15%	2,132,080	14%
<b>TOTAL</b>	<b>14,109,637</b>	<b>100%</b>	<b>15,710,626</b>	<b>100%</b>
<b>Average LVR's</b>				
Residential		34%		35%
Commercial		29%		31%
Rural		20%		17%

**(C) GEOGRAPHICAL CONCENTRATION**

Hawke's Bay	10,736,529	76%	11,201,690	71%
Taupo	1,496,465	11%	1,873,827	12%
Wellington	1,440,619	10%	1,558,389	10%
Auckland			588,273	4%
North Island - Other	344,718	2%	392,580	2%
South Island	91,306	1%	95,867	1%
	<b>14,109,637</b>	<b>100%</b>	<b>15,710,626</b>	<b>100%</b>

**(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. The Directors have assessed that a collective impairment provision is not required based on there being no write-offs in recent years and consistently low average LVR's.

**HERETAUNGA BUILDING SOCIETY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2011**

**(D) CREDIT IMPAIRMENT (cont'd)**

	Mar 11	Mar 10
	\$	\$
(i) Provision for Individual Loan Impairment		
Opening Balance	51,000	-
Movement in Provision during the period	20,000	51,000
<b>Closing Balance</b>	<b>71,000</b>	<b>51,000</b>
(ii) Individual Impaired Loan Analysis		
Opening Balance	569,423	-
Add: Additional impaired balance	13,347	569,423
<b>Closing Balance</b>	<b>582,770</b>	<b>569,423</b>

There are no loans with repayments past due but not specifically impaired greater than 90 days, restructured or enforced security.

**9 OFFICE EQUIPMENT**

	Mar 11	Mar 10
	\$	\$
<b>(A) OFFICE EQUIPMENT</b>		
At cost/valuation	32,721	32,721
Accumulated depreciation	(32,220)	(31,572)
<b>TOTAL OFFICE EQUIPMENT</b>	<b>501</b>	<b>1,149</b>
<b>(B) MOVEMENTS IN CARRYING AMOUNTS</b>		
Balance at 1 April	1,149	2,736
Depreciation Expense	(648)	(1,587)
<b>CARRYING AMOUNT AT END OF PERIOD</b>	<b>501</b>	<b>1,149</b>

**HERETAUNGA BUILDING SOCIETY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2011**

**10 REDEEMABLE SHARES**

	Mar 11	Mar 10
	\$	\$
Call shares	10,165,654	8,703,838
Term shares	9,742,654	8,825,989
<b>TOTAL SHARES</b>	<b>19,908,308</b>	<b>17,529,827</b>

Shares are classified as financial liabilities because they are repayable on demand for call shares, and repayable at the end of the term for term shares and the total expected cashflows attributable to the shares are not based on the profit or change in fair value of net assets.

The Building Society had a guarantee under the New Zealand deposit guarantee scheme effective from 12 October 2008 and ended on 12 October 2010.

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](http://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](http://www.treasury.govt.nz)).

**11 CASH FLOW STATEMENT RECONCILIATION**

	Mar 11	Mar 10
	\$	\$
<b>RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES WITH OPERATING PROFIT</b>		
Net Operating Profit/(Loss) after Tax	110,652	95,064
Non Cash Items		
Depreciation	648	1,587
Deferred Tax	(1,991)	(5,463)
Loss on Disposal	-	10,500
Movement in Provision for Loan Impairment	20,000	51,000
Changes in Assets and Liabilities		
Increase in Prepayments	(2,343)	587
Increase in Accrued Interest Receivable	940	(1,646)
Increase in Taxation Payable	(9,622)	9,642
Increase in Accounts Payable	(9,979)	(2,366)
Increase in Accrued Interest Payable	18,332	(67,445)
Increase in Provision for Directors' Fees	2,500	1,500
<b>NET OPERATING CASHFLOW</b>	<b>129,137</b>	<b>92,960</b>

# HERETAUNGA BUILDING SOCIETY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2011

## 12 RISK MANAGEMENT OBJECTIVES AND POLICIES

The board has endorsed a policy of compliance and risk management to suit the risk profile of the Building Society.

Key risk management policies encompassed in the overall risk management framework include:

- Liquidity risk management
- Market risk management
- Credit risk management
- Capital adequacy management

The Building Society has undertaken the following strategies to minimise the risks arising from financial instruments:

### **(a) Liquidity risk**

Liquidity risk is the risk that the Building Society may encounter difficulties raising funds to meet commitments associated with financial liabilities. It is the policy of the Board of Directors that the Building Society maintains adequate cash reserves and committed credit facilities so as to meet member withdrawal demands when requested.

The Building Society manages liquidity risk by:

- Continuously monitoring forecast and actual daily cash flows
- Reviewing the maturity profiles of financial assets and liabilities
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities

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

	Mar 11	Mar 10
	\$	\$
Liquidity Ratio (including Bank facilities)	41%	24%

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 redeemable shares. The Building Society also has bank facilities (refer Note 21). The Maturity Profile - note 13 provides more detail of liquidity risk.

### **(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 interest repricing profile and interest sensitivity analysis details are provided in Note 14.

# HERETAUNGA BUILDING SOCIETY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2011

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

##### **(c) Credit risk – Advances on Mortgage**

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

The nature of the Building Society's activities as a financial intermediary necessitates the Building Society dealing in financial instruments that contain an inherent element of credit risk. Credit exposure means the amount of the maximum loss that the Building Society could incur as a result of the counterparty to a contract failing to discharge its obligations, without taking into account the value of collateral, guarantees, indemnities, other support arrangements and any potential recoveries. The Building Society's activities are conducted within the bounds of prudent and conservative banking practice.

Loans can only be made to Building Society members. The Building Society has a lending policy that requires various levels of security for loans.

The Building Society has established policies or procedures over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements. (Maximum loan to value ratios are 80% (Residential), 60% (Commercial) and 50% (Rural)).
- Limits of exposure over the value to individual borrowers, commercial lending and concentrations 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.

Refer Note 15 for further details of credit risk.

##### **(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.

Refer Note 15 for further details of credit risk.

##### **(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 to ensure it is above 10% and monitors major movements in the asset levels.

The capital adequacy requirement is defined and set out in the Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010 and is incorporated into the Trust Deed. The minimum required capital adequacy ratio for the Building Society is 10%. The capital adequacy ratio at balance date is 17.8% (31 March 2010 - 17.6%).

# HERETAUNGA BUILDING SOCIETY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## 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 contractual maturity profile indicates a significant liquidity deficiency for the one month, 3 to 6 month and 6-12 month periods from 31 March 2011. 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 contractual 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, 95% (31 March 2010 - 91%) ensuring that it does not need to demand repayment of the loans. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

**13 MATURITY PROFILE (cont'd)**

<b>CONTRACTUAL MATURITY TIMEFRAME</b>									
Mar-11	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
<b>MONETARY ASSETS</b>									
Cash and Cash Equivalents	4.27%	2,867,656	3,517,563						6,385,219
Investment securities	7.26%	13,395	3,693	198,480				1,052,099	1,267,667
Advances on Mortgage	6.19%	113,001	135,926	298,157	722,232	1,135,657	2,181,221	9,523,444	14,109,638
Interest Receivable									
Cash and cash equivalents		5,180	24,509						29,690
Investment securities		1,790	13,712	21,279	38,925	77,850	233,550	24,975	412,081
Advances on Mortgage		72,388	141,423	210,111	400,016	757,644	2,366,151	7,180,023	11,127,757
		79,358	179,644	231,390	438,941	835,494	2,599,701	7,204,998	11,569,526
<b>TOTAL MONETARY ASSETS</b>		<b>3,073,410</b>	<b>3,836,826</b>	<b>728,027</b>	<b>1,161,173</b>	<b>1,971,151</b>	<b>4,780,922</b>	<b>17,780,541</b>	<b>33,332,050</b>
<b>MONETARY LIABILITIES</b>									
Other Liabilities		2,421							2,421
Redeemable Shares	4.28%	11,196,671	2,056,554	3,603,788	3,051,295				19,908,308
Interest Payable		25,436	48,133	256,456	155,782				485,807
<b>TOTAL MONETARY LIABILITIES</b>		<b>11,224,528</b>	<b>2,104,687</b>	<b>3,860,244</b>	<b>3,207,077</b>				<b>20,396,536</b>
<b>NET MONETARY ASSETS</b>		<b>(8,151,118)</b>	<b>1,732,139</b>	<b>(3,132,217)</b>	<b>(2,045,904)</b>	<b>1,971,151</b>	<b>4,780,922</b>	<b>17,780,541</b>	<b>12,935,514</b>
Unrecognised Mortgage Commitments (Refer Note 20)		(860,900)							(860,900)
Net Liquidity Gap		(9,012,018)	(1,732,139)	(3,132,217)	(2,045,904)	1,971,151	4,780,922	17,780,541	12,074,614
<b>NET LIQUIDITY GAP - CUMULATIVE</b>		<b>(9,012,018)</b>	<b>(7,279,880)</b>	<b>(10,412,097)</b>	<b>(12,458,000)</b>	<b>(10,486,849)</b>	<b>(5,705,927)</b>	<b>12,074,614</b>	

**13 MATURITY PROFILE (cont'd)**

<b>CONTRACTUAL MATURITY TIMEFRAME</b>									
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
<b>MONETARY ASSETS</b>									
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									
Bank Deposits		101	7,594	6,889					14,584
Investment securities		4,281	9,587	18,200	37,681	65,702	154,843	24,395	314,689
Advances on mortgage		82,157	161,439	308,745	438,561	1,424,269	2,413,617	7,025,810	11,854,598
		86,539	178,620	333,834	476,242	1,489,971	2,568,460	7,050,205	12,183,871
<b>TOTAL MONETARY ASSETS</b>		<b>884,600</b>	<b>1,443,825</b>	<b>1,800,566</b>	<b>813,026</b>	<b>2,931,049</b>	<b>5,798,192</b>	<b>17,804,365</b>	<b>31,475,623</b>
<b>MONETARY LIABILITIES</b>									
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
<b>TOTAL MONETARY LIABILITIES</b>		<b>10,332,397</b>	<b>1,592,542</b>	<b>3,438,036</b>	<b>2,517,334</b>				<b>17,880,309</b>
<b>NET MONETARY ASSETS</b>		<b>(9,447,797)</b>	<b>(148,717)</b>	<b>(1,637,470)</b>	<b>(1,704,308)</b>	<b>2,931,049</b>	<b>5,798,192</b>	<b>17,804,365</b>	<b>13,595,314</b>
Unrecognised Mortgage Commitments (Refer Note 20)		(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
<b>NET LIQUIDITY GAP - CUMULATIVE</b>		<b>(9,748,534)</b>	<b>(9,897,251)</b>	<b>(11,534,720)</b>	<b>(13,239,028)</b>	<b>(10,307,979)</b>	<b>4,509,787</b>	<b>13,294,577</b>	

**13 MATURITY PROFILE (cont'd)**

<b>EXPECTED MATURITY TIMEFRAME</b>									
Mar-11	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
<b>MONETARY ASSETS</b>									
Cash and Cash Equivalents	4.27%	325,656	1,707,563	250,000				4,102,000	6,385,219
Investment securities	7.26%	13,395	3,693	198,480				1,052,099	1,267,667
Advances on Mortgage	6.19%	113,001	135,926	298,157	722,232	1,135,657	2,181,221	9,523,444	14,109,638
Interest Receivable									
Cash and cash equivalents		5,180	24,509	46,458	92,915	185,830	557,491	1,300,813	2,213,197
Investment securities		1,790	13,712	21,279	38,925	77,850	233,550	545,160	932,266
Advances on mortgage		72,388	141,423	210,111	400,016	757,644	2,366,151	7,180,023	11,127,757
		79,358	179,644	277,848	531,857	1,021,325	3,157,193	9,025,996	14,273,221
<b>TOTAL MONETARY ASSETS</b>		<b>531,410</b>	<b>2,026,826</b>	<b>1,024,485</b>	<b>1,254,089</b>	<b>2,156,982</b>	<b>5,338,414</b>	<b>23,703,539</b>	<b>36,035,745</b>
<b>MONETARY LIABILITIES</b>									
Other Liabilities		2,421							2,421
Redeemable Shares	4.28%	292,788	1,794,665	549,426	493,097	867,891	2,343,305	13,467,712	19,808,884
Interest Payable		25,436	48,133	389,470	386,149	700,567	1,854,598	2,924,928	6,329,280
<b>TOTAL MONETARY LIABILITIES</b>		<b>320,645</b>	<b>1,842,798</b>	<b>938,896</b>	<b>879,246</b>	<b>1,568,457</b>	<b>4,197,903</b>	<b>16,392,640</b>	<b>26,140,585</b>
<b>NET MONETARY ASSETS</b>									
Unrecognised Mortgage Commitments (Refer Note 20)		(60,000)	(60,000)	(70,000)	(400,000)	(270,900)			(860,900)
Net Liquidity Gap		150,765	124,027	15,589	(25,157)	317,624	1,140,510	7,310,899	9,034,257
<b>NET LIQUIDITY GAP - CUMULATIVE</b>		<b>150,765</b>	<b>274,792</b>	<b>290,381</b>	<b>265,224</b>	<b>582,848</b>	<b>1,723,358</b>	<b>9,034,257</b>	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

**13 MATURITY PROFILE (cont'd)**

<b>EXPECTED MATURITY TIMEFRAME</b>									
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
<b>MONETARY ASSETS</b>									
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									
Bank Deposits		101	7,594	6,889	63,625	78,209	234,627	860,299	1,251,344
Investment securities		4,281	9,587	18,200	37,681	65,702	154,843	24,395	314,689
Advances on mortgage		82,157	161,439	308,745	438,561	1,424,269	2,413,617	7,025,810	11,854,598
		86,539	178,620	333,834	539,867	1,568,180	2,803,087	7,910,504	13,420,631
<b>TOTAL MONETARY ASSETS</b>		<b>564,600</b>	<b>293,824</b>	<b>1,300,566</b>	<b>876,651</b>	<b>3,009,258</b>	<b>6,032,819</b>	<b>20,634,664</b>	<b>32,712,383</b>
<b>MONETARY LIABILITIES</b>									
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
<b>TOTAL MONETARY LIABILITIES</b>		<b>474,177</b>	<b>352,196</b>	<b>853,713</b>	<b>791,681</b>	<b>716,504</b>	<b>2,149,512</b>	<b>23,824,935</b>	<b>29,162,719</b>
<b>NET MONETARY ASSETS</b>									
Unrecognised Mortgage Commitments (Refer Note 20)		(60,000)		(240,737)					(300,737)
Net Liquidity Gap		30,423	(58,372)	206,117	84,970	2,292,754	3,883,306	(3,190,271)	3,248,927
<b>NET LIQUIDITY GAP - CUMULATIVE</b>		<b>30,423</b>	<b>(27,949)</b>	<b>178,168</b>	<b>263,138</b>	<b>2,555,892</b>	<b>6,439,198</b>	<b>3,248,927</b>	

**HERETAUNGA BUILDING SOCIETY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2011**

**14 INTEREST REPRICING PROFILE AND INTEREST SENSITIVITY ANALYSIS**

The Building Society's interest rate repricing timeframes are set out below. The effective weighted average interest rate on classes of financial assets and financial liabilities are also included in the table below.

<b>REPRICING TIMEFRAME</b>							
<b>Mar-11</b>	Weighted Average Rate %	0 - 6 Months	6 - 12 Months	1-2 Years	2 - 5 Years	Non Interest Sensitive	Total
<b>MONETARY ASSETS</b>							
Cash and Cash Equivalents	4.27%	6,385,218					6,385,218
Investment securities	7.26%	467,778	153,892	419,917	226,081		1,267,668
Advances on Mortgage	6.19%	12,005,496	798,824	1,305,317			14,109,637
<b>TOTAL MONETARY ASSETS</b>		<b>18,858,492</b>	<b>952,716</b>	<b>1,725,234</b>	<b>226,081</b>		<b>21,762,523</b>
<b>MONETARY LIABILITIES</b>							
Accounts Payable						92,261	92,261
Provision for Directors Fees						33,000	33,000
Redeemable Shares	4.28%	17,012,511	2,895,796				19,908,307
<b>TOTAL MONETARY LIABILITIES</b>		<b>17,012,511</b>	<b>2,895,796</b>			<b>125,261</b>	<b>20,033,568</b>
<b>TOTAL MISMATCH</b>		1,845,981	(1,943,080)	1,725,234	226,081	(125,261)	1,728,955
<b>Mar-10</b>							
<b>MONETARY ASSETS</b>							
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%	11,153,536	1,175,662	2,184,580	1,196,848		15,710,626
<b>TOTAL MONETARY ASSETS</b>		<b>13,737,881</b>	<b>1,337,513</b>	<b>2,184,580</b>	<b>2,031,777</b>		<b>19,291,751</b>
<b>MONETARY LIABILITIES</b>							
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
<b>TOTAL MONETARY LIABILITIES</b>		<b>15,106,720</b>	<b>2,423,107</b>			<b>142,362</b>	<b>17,672,189</b>
<b>TOTAL MISMATCH</b>		(1,368,839)	(1,085,594)	2,184,580	2,031,777	142,362	1,619,562

**HERETAUNGA BUILDING SOCIETY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2011**

**14 INTEREST REPRICING PROFILE AND INTEREST SENSITIVITY ANALYSIS**

Sensitivity Analysis

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

	Mar 11			Mar 10		
	Carrying Amount \$	-1% Profit and Equity \$	+1% Profit and Equity \$	Carrying Amount \$	-1% Profit and Equity \$	+1% Profit and Equity \$
<b>FINANCIAL ASSETS (excluding accrued interest)</b>						
Cash and Cash Equivalents	6,359,765	(45,450)	45,450	2,311,285	(19,297)	19,297
Investment securities	1,249,068	(3,638)	3,638	1,246,643	(3,625)	3,625
Advances on Mortgage	14,043,399	(87,832)	87,832	15,643,214	(180,330)	180,330
		<b>(136,920)</b>	<b>136,920</b>		<b>(203,252)</b>	<b>203,252</b>
<b>FINANCIAL LIABILITIES (excluding accrued interest)</b>						
Redeemable Shares	19,808,885	(131,534)	131,534	17,445,394	(132,891)	132,891
		<b>(5,386)</b>	<b>5,386</b>		<b>(70,361)</b>	<b>70,361</b>
Less: Taxation		(1,616)	1,616		(21,108)	21,108
		<b>(3,770)</b>	<b>3,770</b>		<b>(49,253)</b>	<b>49,253</b>

**HERETAUNGA BUILDING SOCIETY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2011**

**15 CREDIT RISKS**

**(a) Maximum credit risk exposure**

The Building Society's maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the Statement of Financial Position.

	Mar 11	Mar 10
	\$	\$
Cash and Cash Equivalents	6,385,218	2,316,117
Investment Securities	1,267,667	1,265,008
Advances on Mortgage	14,109,637	15,710,626
	<b>21,762,522</b>	<b>19,291,751</b>

**(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 with Standard and Poors (or equivalent) rating of A+ or better.

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%		1
Between 40% and 50%		1
Between 30% and 40%		1
Between 20% and 30%		1
Between 10% and 20%	8	

HERETAUNGA BUILDING SOCIETY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2011

**16 SECURITIES ACT DISCLOSURES**

	Mar 11	Mar 10
	\$	\$
<i>(a) Proportion of loans with repayments in excess of three months in arrears</i>	4.11%	3.42%
<i>(b) Proportion of loans owed in aggregate by the debtors who owe the six largest amounts</i>	27.91%	28.28%
<b>(c) Current and non-current assets and liabilities</b>		
<b>Current assets</b>		
Cash and cash equivalents	6,385,218	2,316,117
Prepayments	9,638	7,295
Current portion of Advances on Mortgage	1,269,316	1,532,300
<b>Total current assets</b>	<b>7,664,172</b>	<b>3,855,712</b>
Investment securities	1,267,667	1,265,008
Investment property	2,400,000	2,400,000
Non-current portion of Advances on Mortgage	12,840,321	14,178,326
Office Equipment	501	1,149
<b>Total non-current assets</b>	<b>16,508,489</b>	<b>17,844,483</b>
<b>Total assets</b>	<b>24,172,661</b>	<b>21,700,195</b>
<b>Current liabilities</b>		
Redeemable Shares	19,908,308	17,529,827
Tax Payable	11,441	21,063
Accounts Payable	80,820	90,799
Provision for Directors Fees	33,000	30,500
<b>Total current liabilities</b>	<b>20,033,569</b>	<b>17,672,189</b>
Deferred taxation	98,728	198,936
<b>Total non-current liabilities</b>	<b>98,728</b>	<b>198,936</b>
<b>Total liabilities</b>	<b>20,132,297</b>	<b>17,871,125</b>

**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 11	Mar 10
	\$	\$
Hawke's Bay	19,434,645	16,928,911
Rest of New Zealand	292,253	401,540
Overseas	181,410	199,376
	<b>19,908,308</b>	<b>17,529,827</b>

# HERETAUNGA BUILDING SOCIETY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2011

#### 18 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

##### (a) Fair value hierarchy

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).

Investment securities (Level 1) are the only financial instruments carried at fair value. An independent valuation of their fair value is obtained at the end of each reporting period from Mr C Lane of Forsyth Barr Limited. The securities are valued using current market prices.

##### (b) Fair value of financial instruments not carried at fair value

	March 2011 Fair Value \$	March 2011 Book Value \$	March 2010 Fair Value \$	March 2010 Book Value \$
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	6,385,218	6,385,218	2,316,117	2,316,117
Advances on Mortgage	14,109,637	14,109,637	15,710,626	15,710,626
<b>Total Financial Assets</b>	<b>20,494,855</b>	<b>22,494,855</b>	<b>18,026,743</b>	<b>18,026,743</b>
<b>FINANCIAL LIABILITIES</b>				
Accounts Payable	2,421	2,421	2,532	2,532
Redeemable Shares	19,908,308	19,908,308	17,529,827	17,529,827
<b>Total Financial Liabilities</b>	<b>19,910,729</b>	<b>19,910,729</b>	<b>17,532,359</b>	<b>17,532,359</b>

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

##### **Cash and cash equivalents**

The reported amount approximates fair value.

##### **Advances on Mortgage**

Loans are comprised of a mix of floating rate and fixed rate loans. At the end of each reporting period their fair value is calculated using the average market rate for such loans that was in effect as at the reporting date. The loan interest rates and market interest rates are similar so the reported amounts approximate market value.

**HERETAUNGA BUILDING SOCIETY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2011**

**18 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES - CONT'D**

***Redeemable Shares***

The fair value of shares is calculated using average market rates. The share interest rates and market interest rates are similar so the reported amounts approximate fair value.

***Other Liabilities***

The reported amount of trade and other payables approximates fair value because they are payable in a short time frame.

**19 RELATED PARTY TRANSACTIONS**

	Mar 11	Mar 10
	\$	\$
Owing to Directors (Shares)	191,219	180,106
Owing by Directors (Advances on Mortgage)	194,600	168,662
Owing by close family member of key management personnel	177,428	-

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 was also a director of Brown Webb Richardson Ltd until 30 June 2010. The investment property is leased to Brown Webb Richardson Ltd. The rental of \$189,991 (31 March 2010 \$189,495) 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 (31 March 2010 \$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 \$109,339 (31 March 2010 \$221,706).

**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 2011 (2010: \$Nil)

***(b) Outstanding Loan Commitments***

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

860,900	300,737
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***(c) Sponsorship Commitments***

The Building Society has provided sponsorship of \$10,000 per year to the Ramblers Cycling Club as from 1 January 2011. This is reviewed annually.

**HERETAUNGA BUILDING SOCIETY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2011**

**21 STANDBY BORROWING FACILITIES**

	<b>Mar 11</b>	<b>Mar 10</b>
	\$	\$
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 (31 March 2010: \$Nil).  
Both facilities are with Westpac Bank.

**22 CONTINGENT LIABILITIES**

There are no contingent liabilities at 31 March 2011 (31 March 2010: Nil).

**23 EVENTS AFTER BALANCE DATE**

There are no significant events that have occurred after balance date that require reporting in these financial statements (31 March 2010: The May 2010 New Zealand government budget statement proposals included reduction in corporate tax rate to 28%, increase in GST rate to 15% and disallowance of depreciation deduction for buildings.).

# HERETAUNGA BUILDING SOCIETY INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HERETAUNGA BUILDING SOCIETY



## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Heretaunga Building Society (the building society) on pages 6 to 35, which comprise the statement of financial position as at 31 March 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ending 31 March 2011, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, 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 of financial statements that give a true and fair view of the matters to which they relate 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 building society.

## OPINION

In our opinion the financial statements on pages 6 to 35:

- Comply with generally accepted accounting practice in New Zealand;
- Comply with International Financial Reporting Standards; and
- Give a true and fair view of the financial position of the building society as at 31 March 2011, and of its financial performance and its cash flows for the year ending 31 March 2011.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Financial Reporting Act 1993, we report that:

- 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 an examination of those records.

A handwritten signature in black ink, appearing to read 'Staples Rodway', written over a stylized signature line.

Staples Rodway Hawkes Bay Partnership  
23rd June 2011  
Hastings, New Zealand





# Heretaunga Building Society

## 78TH ANNUAL REPORT 2011



Pictured, is our chairman's wife Megan Harvey, with 'Tonto' in front of the new clubrooms of the Hastings Group Riding for the Disabled.

Megan, who gives so much of her time as a 'Riding for the Disabled' volunteer, tells us that 'Tonto' is by an Appaloosa horse - hence the name with a Red Indian touch. He is bigger than a pony and will be ideal for taller and older clients. "He's very friendly and we are confident he will be a valuable addition to our stable" she says.

The Heretaunga Directors were unanimous in their decision to sponsor 'Tonto' and continue their support for such a worthy cause.

PO Box 146,  
111 Avenue Road East, Hastings  
Ph 06 873 8047 Fax 06 876 5211  
Email [info@heretaungabuildingsociety.co.nz](mailto:info@heretaungabuildingsociety.co.nz)