



Heretaunga Building Society

Investment Statement

(Updated 7 February 2011)

IMPORTANT INFORMATION

(The information in this section is required under the Securities Act 1978)

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

Choosing an Investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

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In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.

Creditworthiness not Rated

The creditworthiness of Heretaunga Building Society is not rated by a rating agency approved by the Reserve Bank of New Zealand under section 157J of the Reserve Bank of New Zealand Act 1989.

Engaging an Investment Advisor

An investment adviser must give you a written disclosure statement that contains information about the adviser and his or her ability to give advice. You are strongly encouraged to read that document and consider the information in it when deciding whether or not to engage an adviser.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes, and carry different levels of risk.

The written statement should contain important information about the adviser, including:

- Relevant experience and qualifications, and whether dispute resolution facilities are available to you
- What types of investments the adviser gives advice about
- Whether the advice is limited to investments offered by one or more particular financial institutions

- Information that may be relevant to the adviser's character, including certain criminal convictions, bankruptcy, any adverse findings by a court against the adviser in a professional capacity, and whether the adviser has been expelled from, or prohibited from joining, a professional body; and
- Any relationships likely to give rise to a conflict of interest.

The adviser must also tell you about fees and remuneration before giving you advice about an investment. The information about fees and remuneration must include

- The nature and level of the fees you will be charged for receiving the advice; and
- Whether the adviser will or may receive a commission or other benefit from advising you.

An investment adviser commits an offence if he or she does not provide you with the information required.

What sort of Investment is this?

This statement relates to interest bearing call and term investments with the Heretaunga Building Society as redeemable shares.

Call Deposits

A call deposit is a deposit invested with the Society that has no fixed term of investment and a variable interest rate.

The principal sum invested is repayable by the Society to you when called (requested by you).

Term Deposits

The term options of a Term Deposit are for three, six and twelve months. The Society may change time frames from time to time at its discretion.

Who is involved in providing it for me?

The Issuer Heretaunga Building Society, 111 Avenue Road East, Hastings

Directors W J (Jim) Harvey
J B (Bryce) Jones
T M A (Mark) Morgan
N K (Neville) Norwell
T L (Trevor) Webb

The Trustee Trustees Executors Limited, Level 5, 10 Customhouse Quay, PO Box 3222, Wellington.

Activities Heretaunga Building Society was established in 1933 and has provided both saving services and loan services, including residential, commercial and rural mortgage finance, to its members and those in the community it serves since that time.

How Much do I pay?

The minimum amount payable in respect of any investment is \$1.00. Otherwise, investors may select the amount they wish to invest. Cheques for the full sum selected, crossed "non transferable" and made payable to the Heretaunga Building Society, must accompany a duly completed application form if sent by post or through a third party.

Payment may be lodged in cash, cheque or by direct credit with the Heretaunga Building Society by either:

- Mailing investments to the Society at, PO Box 146, Hastings,
- By calling at our office located at 111 Avenue Road East, Hastings
- By automatically transferring into Westpac Hastings 03-0642-022885-02 with appropriate references.

What are the charges?

Investors pay no fees or charges of any sort in relation to this investment.

If early repayment of an investment is agreed to, an interest rate reduction may apply.

What returns will I get?

Call Deposits

The return on your investment will be interest paid to you, or added to the principal sum of the Deposit, on a six monthly basis at a rate determined by the Board of the Society from time to time. Interest is calculated daily.

The call deposit rate is not fixed and may change during the period of your investment.

Term Deposits

Interest, at a fixed rate, is paid to you or added to the principal sum of the Deposit on maturity, at the rate agreed between you and the Society at the time that you make your Term Deposit. Interest on term deposits of one year is paid six monthly.

Unless you instruct the Society otherwise, on maturity, the Society will reinvest your Term Deposit for the same investment term.

Interest will be paid, or accrued, net of Government Resident Withholding Tax at the appropriate rate unless an IRD exemption certificate is provided. For overseas investors Non Resident Withholding tax will be deducted unless approved issuer arrangements apply.

What are my risks?

A Financial institution like Heretaunga Building Society is exposed to various types of risk. These risks include:

Credit Risk

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

- **Advances on Mortgage**

The Heretaunga Building Society has a lending policy that requires lending only secured by first mortgage security. 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 Society can enforce by disposing of the secured assets in the event of default.

Regular reports monitor the loan repayments to detect delays in repayments and recovery action is taken.

- **Bank Deposits and Investment Securities**

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

The risk of losses from the liquid movements undertaken is reduced by the nature and quality of the independent rating of the investee and the limits to concentration on one entity.

Property Market

The Society lends to borrowers based on first mortgage security over residential, commercial and rural properties based only in New Zealand (predominantly Hawkes Bay). Any deterioration of the property market could adversely affect the value of properties and may also impact the ability of the Society's borrowers to repay their loans. The Heretaunga Building Society manages its exposure through on going management of loans and ensuring that adequate loan to value ratios are monitored.

Interest Margin Risk

Interest Margin Risk is the risk that interest rates will change, thereby increasing or decreasing the cost of borrowing or lending. Heretaunga Building Society is exposed to this risk, as its profitability depends on maintaining an appropriate margin between the cost of funds it raises from the public and the interest it receives from borrowers. To mitigate interest margin risk, interest margins are constantly managed and monitored by the Society.

Liquidity Risk

Liquidity risk is the risk that Heretaunga Building Society may encounter difficulty in meeting commitments associated with financial liabilities, for example call and term borrowing, and future commitments, for example, loan draw-downs. The Society manages its exposure to liquidity risk by maintaining sufficient funds to meet its commitments based on historical and forecasted cash flow requirements. Heretaunga Building Society monitors its liquidity on a daily basis.

Regulatory Environment

As is the case with other non bank deposit-taking institutions, the Society faces increasing levels of regulation. In particular the Reserve Bank is imposing new regulations such as minimum capital requirements, restrictions on related party transactions and the requirement to develop and comply with risk management programmes appropriate for the size of the financial institution.

The Board of the Society is confident that each of these compliance requirements will be met in a timely manner by the Society. The Society risk management programme has been reviewed and approved by the Society's Trustee in accordance with the requirements of the Reserve Bank of New Zealand Amendment Act 2008.

Credit Rating Exemption

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

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

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

Can the investment be altered??

Call Deposits

The Board of the Society may vary the Call Deposit Interest Rate from time to time.

Term Deposits

Once Term Deposit investment is made, its terms, including the fixed investment term and fixed interest rate, cannot generally be altered. However, you may request early repayment of the Term deposit if your personal needs change or if circumstances arise that were not foreseen by you at the time you made the investment.

The Society will consider such requests at its complete discretion. If the Society agrees to early repayment of your Term Deposit, the Society may reduce the interest rate payable on your Term Deposit to reflect the withdrawal.

How do I cash in my investment?

On maturity you can withdraw your investment or reinvest it for a further term.

You will be contacted by mail prior to maturity of your investment. The investment will be reinvested for a similar term unless alternative instructions are received by the maturity date.

In cases of hardship or death investments may be repaid early, at the discretion of The Heretaunga Building Society. If early repayment is agreed to this may be subject to an interest rate reduction appropriate to the shorter term.

You are not able to sell the investment to any other person or entity.

Who do I contact with enquiries about my investment?

Enquiries about these investments should be directed to:

- The Secretary, Heretaunga Building Society, 111 Avenue Road East, PO Box 146, Hastings.

Or

- By telephoning the Society on (06) 873-8047

Is there anyone to whom I can complain if I have problems with the investment?

Complaints about the securities can be made to

- The Society ó by contacting the Secretaries, Heretaunga Building Society, 111 Avenue Road East, PO Box 146, Hastings Telephone (06) 873-8047
- The Insurance and Savings Ombudsman by contacting them at PO Box 10 845, Wellington 6143 Telephone 0800 888 202
- The Trustee ó by contacting Trustees Executors Limited, Level 5, 10 Customhouse Quay, Wellington, Telephone (04) 495-0999
- The industry association to which we belong ó by contacting the Executive Director, Financial Services Federation (Inc.), 6th Floor, Wakefield House, 90 The Terrace, PO Box 10 053, Wellington, Telephone (04) 472 1731

What other information can I obtain about this investment?

Other information about the Heretaunga Building Society and these securities is contained in the Society's latest registered prospectus. A copy of this prospectus and most recent financial statements is available free of charge from:

- The Secretaries, the Heretaunga Building Society, 111 Avenue Road East, PO Box 146, Hastings.

A copy of the prospectus, financial statements and other documents are filed with the Companies Office of the Ministry of Economic Development at Auckland and are available for public inspection.

In addition other information about this investment is available without charge, as follows

- A copy of the most recent annual report
- A copy of the most recent financial statements that have been registered under the Financial Reporting Act 1993, together with all documents that are required to be registered with those statements.
- A copy of the trust deed.

This information is available for inspection at the office of the Heretaunga Building Society. A copy will be sent on request. All requests should be made to the Secretaries, Heretaunga Building Society, PO Box 146, Hastings. Telephone (06) 873-8047