

Heretaunga Building Society



81ST ANNUAL REPORT 2014



INDEX	PAGE
CHAIRMAN'S REPORT FOR 2014 ANNUAL REPORT	3
GENERAL MANAGER'S REPORT FOR 2014 ANNUAL REPORT	4
CORPORATE GOVERNANCE 2014 ANNUAL REPORT	5
STATEMENT OF COMPREHENSIVE INCOME	6 - 7
STATEMENT OF CHANGES IN EQUITY	8
STATEMENT OF FINANCIAL POSITION	9
STATEMENT OF CASH FLOWS	10
NOTES TO THE FINANCIAL STATEMENTS	11 - 37
AUDIT REPORT TO THE MEMBERS	38

ANNUAL GENERAL MEETING

The EIGHTY FIRST ANNUAL GENERAL MEETING of the Heretaunga Building Society will be held in the Society's Office, 111 Avenue Road East, HASTINGS on TUESDAY 15 JULY 2014 AT 4.00pm.

BUSINESS

Adoption of Annual Report and Financial Statements

Election of Two Directors

Appointment of Auditors

General

BROWN WEBB RICHARDSON LIMITED, Secretaries

PROXIES

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

DIRECTORS

W J (Jim) Harvey, F.N.Z.I.V., F.P.I.N.Z., F.R.E.I.N.Z.

J F Gresson, L.L.B.

T M A (Mark) Morgan, L.B.P

T L (Trevor) Webb, B.C.A.,

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

CHAIRMAN'S REPORT

81ST ANNUAL REPORT TO MEMBERS FOR YEAR ENDED 31 MARCH 2014

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 ended 31 March 2014. This report is the 81st for the Heretaunga Building Society which highlights the history and stability of the support from you our members.

We record with pride the contribution which the Society has made to the development of our local community over the past 81 years and we look forward to continuing this contribution in the years ahead.

The financial result for the year under review produced a profit before tax of \$75,808. It is considered that under the circumstances of an "ebb and flow" real estate market, restrictions on necessary deposits when buying, an almost bidding war between trading Banks to entice borrowers this result is satisfactory.

Total assets are \$23 million which is slightly less than 2013. Advances on mortgage amounted to \$14.9 million which is a decrease of \$656,019 from 2013. The mortgage book lent \$4,149,761 on new loans and \$4,783,684 was repaid. The Society's building in Avenue Road East has been valued at \$2.6 million, an increase of \$400,000. The Society has negotiated with Brown Webb Richardson Ltd a new lease for a 12 year term.

The Directors continue to thoroughly investigate all applications to borrow. Income, price being paid, location and amount to be borrowed are considered critical factors to satisfy.

The Society has only one mortgage that is in arrears at balance date.

Compliance factors for the financial sector continue in the forefront of management time. We have just completed a change over to a new computer programme and provider. We are sure this change will be of great assistance to staff in the day-to-day functions of the Society. Our General Manager has overseen the implementation and at time of writing this report the change is almost complete.

The Heretaunga Building Society continues its sponsorship programme by supporting local sports clubs and community charitable organisations. These include the Cornwall Cricket Club, Ramblers Cycling Club, Riding for the Disabled and Hawkes Bay junior golf.

Heretaunga Building Society Cornwall Cricket Club continue as a leading force in the H B Cricket Competition and provide excellent exposure in all cricket grades with our smart shirts all emblazoned with Heretaunga Building Society. Ramblers Cycling Club also give good exposure with their sponsor marked shirts. Riding for the Disabled continue to provide wonderful therapeutic assistance to the many people who ride the horses. The Heretaunga sponsored horse TONTO is in second place (at time of writing) in the national survey to find the RDA Horse of the Year. The Golf Club sponsorship has provided \$750 to Junior Golf created by 3 holes-in-one at the 13th hole at Hastings Golf Club.

The Directors place on record their thanks for both the support and service the Society has received from Brown Webb Richardson Ltd over the past year.

George Speedy, our General Manager, and his secretarial team give our affairs first class attention and the continuing support of the BWR Directors in promoting the business of the Society is greatly appreciated. I once again express my thanks to my fellow Directors – Trevor Webb, Mark Morgan and Jeremy Gresson for their dedication to the affairs of the Society.

For the Directors

W J Harvey
CHAIRMAN

June 2014

HERETAUNGA BUILDING SOCIETY GENERAL MANAGERS REPORT FOR 2014 YEAR

This year has again been characterised for stable and low interest rates. However the low mortgage rates has not resulted in increased mortgage activity during the year but there some promising signs of increased mortgage demand late in the year. Recent Reserve Bank of New Zealand OCR rate increases has started on the path of increased interest rates.

Net Operating profit after tax has shown a large increase due to the annual valuation of the Society's investment property increasing by \$400,000. The operating profit also reflects increased compliance costs with additional costs also expected in future years.

Advances on mortgage have shown a reduction from the 2013 year. The incentives offered by the banks has made it difficult for the Society to compete in this sector of the financial markets so important to the on going success of this financial institution.

As with most financial institutions the Society has funds available to invest in mortgages. The increased liquidity does not improve the profitability of the Society however a reasonable level of liquidity is required to comply with the Trust Deed regulated by Trustees Executors Ltd.

The society has commenced the process to become a Licenced Non Bank Deposit Taker. This licence is required for the Society to be able to operate from 1 May 2015.

S M (George) Speedy
GENERAL MANAGER

June 2014

CORPORATE GOVERNANCE

2014 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 four 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 2014

	Note	Mar 14	Mar 13
REVENUE		\$	\$
Interest Revenue			
Advances		853,642	867,832
Impaired Advances		31,053	30,188
Bank Deposits		169,250	105,529
Investment Securities		35,396	65,757
Total Interest Revenue		<u>1,089,341</u>	<u>1,069,306</u>
LESS: COST OF FUNDS			
Interest on Redeemable Shares		716,006	675,873
GROSS INTEREST MARGIN		373,335	393,433
OTHER INCOME			
Rent Received	19	189,991	189,991
Other Income		127	7
		<u>190,118</u>	<u>189,998</u>
GROSS INCOME		563,453	583,431
LESS: ADMINISTRATION EXPENSES			
Administration and Other Expenses		116,504	118,142
Audit Fees			
- Audit of the financial statements		24,167	22,711
- Trust Deed and Prospectus Review Services		3,800	3,700
Directors Fees		70,000	70,000
Movement in Provision for Loan Impairment	8	10,000	5,000
Prospectus Expenses		3,034	10,565
Realised Loss on Investment Securities	6	0	41,966
Secretarial and Office Facilities		240,000	227,333
Trust Deed Expenses		20,000	21,491
Depreciation – Office Equipment	9	140	276
TOTAL EXPENSES		<u>487,645</u>	<u>521,184</u>

HERETAUNGA BUILDING SOCIETY
STATEMENT OF COMPREHENSIVE INCOME (cont'd)
FOR THE YEAR ENDED 31 MARCH 2014

	Note	Mar14	Mar 13
NET OPERATING PROFIT before Revaluation		75,808	62,247
Gain/(Loss) on revaluation of Investment Property		400,000	(100,000)
NET OPERATING PROFIT BEFORE TAX		475,808	(37,753)
Tax Expense	3	21,226	17,975
NET OPERATING PROFIT AFTER TAX		454,582	(55,728)
ITEMS THAT MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS			
Gain/(loss) on available for sale reserve		21,257	87,327
Deferred Tax on available for sale reserve		(5,952)	(24,897)
TOTAL COMPREHENSIVE INCOME		469,887	6,702

**HERETAUNGA BUILDING SOCIETY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2014**

Mar 14	Note 4	Retained Earnings	General Reserve	Available for Sale Reserve	Property Revaluation Reserve	Total Equity
Opening Balance 1 Apr 2013		642,308	2,800,000	(18,658)	600,121	4,023,771
Operating profit for the period		454,582				454,582
Transfer between Reserves		(400,000)			400,000	
Gain/(Loss) on available for sale reserve				21,257		21,257
Deferred tax on available for sale reserve				(5,952)		(5,952)
Total comprehensive income		696,890	2,800,000	(3,353)	1,000,121	4,493,658
CLOSING BALANCE 31 March 2014		696,890	2,800,000	(3,353)	1,000,121	4,493,658
Equity % to Total Assets						19.5%

Mar 13		Retained Earnings	General Reserve	Available for Sale Reserve	Property Revaluation Reserve	Total Equity
Opening Balance 1 April 2012		598,036	2,800,000	(81,088)	700,123	4,017,071
Operating profit for the period		(55,728)				(55,728)
Transfer between Reserves		100,000			(100,000)	
Gain/(Loss) on available for sale reserve				87,327		87,327
Deferred tax on available for sale reserve				(24,897)		(24,897)
Total comprehensive income		44,272		62,430	(100,000)	6,702
CLOSING BALANCE 31 March 2013		642,308	2,800,000	(18,658)	600,121	4,023,771
Equity % to Total Assets						17.2%

**HERETAUNGA BUILDING SOCIETY
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2014**

	Note	Mar 14	Mar 13
ASSETS		\$	\$
Cash and cash equivalents	5	4,709,519	4,735,962
Prepayments		6,905	6,866
Tax receivable	3	-	4,827
Investment securities	6	841,320	823,596
Investment property	7	2,600,000	2,200,000
Advances on mortgage	8	14,907,612	15,563,631
Office equipment	9	9,762	699
TOTAL ASSETS		23,075,118	23,335,581
LIABILITIES			
Redeemable shares	10	18,333,094	19,093,580
Tax payable	3	15,867	-
Trade payables		10,710	3,448
Resident withholding tax		30,460	32,050
GST		7,399	8,206
Directors fees payable	19	35,000	29,473
Accruals		33,425	32,700
Deferred taxation	3	115,505	112,353
TOTAL LIABILITIES		18,581,460	19,311,810
EQUITY			
Retained earnings	4	696,890	642,308
General reserve	4	2,800,000	2,800,000
Available for sale reserve	4	(3,353)	(18,658)
Revaluation reserve	4	1,000,121	600,121
TOTAL EQUITY		4,493,658	4,023,771
TOTAL LIABILITIES AND EQUITY		23,075,118	23,335,581

For and on behalf of the Board, who authorised the issue of these Financial Statements on 6 June 2014.



WJ HARVEY
DIRECTOR
6 JUNE 2014



TL WEBB
DIRECTOR
6 JUNE 2014

**HERETAUNGA BUILDING SOCIETY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2014**

	Note	Mar 14	Mar 13
CASH FLOWS FROM OPERATING ACTIVITIES		\$	\$
Cash was provided from:			
Interest received		1,104,965	1,057,705
Other Income		127	7
Rent received		189,996	189,991
		<u>1,295,088</u>	<u>1,247,703</u>
Cash was applied to:			
Interest paid		(715,462)	(654,968)
Tax paid		(3,330)	(40,521)
Payments to suppliers		(471,192)	(475,128)
		<u>(1,189,984)</u>	<u>(1,170,617)</u>
NET CASH FLOWS FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		105,104	77,086
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Cash was provided from:			
Mortgage repayments		4,783,684	4,179,480
Redeemable Shares Issued		34,223,171	30,929,892
Cash was applied to:			
Mortgage Advances		(4,149,761)	(4,366,348)
Redeemable Shares Repaid		(34,985,789)	(28,475,407)
NET OPERATING CASH FLOWS	11	<u>(23,591)</u>	<u>2,344,703</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Investment Security Matured		-	478,442
Cash was applied to:			
Fixed Asset Addition		(2,852)	-
Investment Security purchased		-	(229,016)
NET INVESTING CASH FLOWS		<u>(2,852)</u>	<u>249,426</u>
Total net increase/(decrease) in cash and cash equivalents held		(26,443)	2,594,129
Cash and cash equivalents at the beginning of the period		4,735,962	2,141,833
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	<u>4,709,519</u>	<u>4,735,962</u>

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

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 the Securities Regulations 2009.

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 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 Trustee is under a 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 depositors, 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 redeemable 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 6 June 2014.

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 for-profit 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 2014

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 recognised 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 redeemable shares, 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 assets at fair value through profit or loss, financial liabilities 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.

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial assets are assessed for impairment at each balance date.

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are stated at amortised cost using the effective interest method less accumulated impairment losses. Cash and cash equivalents and Advances on Mortgage 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 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 specifically classified as such by management and those 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. If available-for-sale financial instruments suffer a significant or prolonged decline in market value the impairment is recognised in the profit or loss. Investment securities are classified as available for sale financial assets. The Building Society does not own any equity instruments.

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.

Derecognition of Financial Instruments

Financial assets are derecognised when the Building Society neither retains the risks and rewards of ownership nor controls the contractual rights to the cash flows from them. Financial liabilities are derecognised when the Building Society obligation under the liability is discharged, cancelled or expires.

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.

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Impairment of Advances on Mortgage

An assessment is made at each balance date when there is objective evidence that Advances on Mortgage are impaired. Individually significant Advances on Mortgage are assessed for impairment. All Advances on Mortgage not assessed as individually impaired or individually significant are then collectively assessed for impairment. The Building Society considers the history of loan write offs and overdue loans when assessing collective impairment. An Advance on Mortgage 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 Advances on Mortgage and can be reliably estimated. Objective evidence that an Advance on Mortgage 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.

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

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.

HERETAUNGA BUILDING SOCIETY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Current tax

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

Deferred tax

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

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

Deferred tax assets 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.

Movements in fair value are recognised in the profit or loss then any revaluation surplus/(deficit) is transferred from retained earnings to the revaluation reserve to show the revaluation of investment property distinct from core business earnings.

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 back 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.

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.

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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
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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 office equipment. GST is included on Trade receivables and Trade payables.

(j) Cash Flow Statement

The Cash Flow Statement is prepared using the direct approach.

Definitions of terms used in the Statement of Cash Flows:

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. The directors consider all bank deposits 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.

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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. There were no financing activities in the reporting periods.

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 determining the fair value of the investment property and impairment of the advances on mortgage which are disclosed in notes 7 and 8.

(l) Changes in Accounting policies

The society has implemented NZ IFRS 13 and NZ IAS 1 during the year. The implementation of NZ IFRS 13 has increased disclosures in note 7 and brought Investment Property into the fair value hierarchy in note 18.

The implementation of NZ IAS 1 has resulted in items of other comprehensive income being classified into two categories on the Statement of Comprehensive Income.

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

(m) NZ IFRS issued but not yet effective

The following NZ IFRS has been issued but is not yet effective. The impact of this revision has not yet been assessed.

Standard	Effective for periods beginning on or after	Initial Application in year ending
NZ IFRS 9 Financial instruments	1 January 2017	31 March 2018

NZ IFRS 9 *Financial Instruments* is applicable for annual periods beginning on or after 1 January 2017. 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.

HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014

3 TAXATION

(A) CURRENT PERIOD TAX	Mar 14	Mar 13
Profit before tax	475,808	(37,753)
Adjustment for items not subject to tax	(400,000)	101,951
Taxable Surplus	<u>75,808</u>	<u>64,198</u>
Tax at 28%	21,226	17,975
Current Period Tax Charge	<u>21,226</u>	<u>17,975</u>
Effective Tax Rate	28%	28%
Comprising		
Current tax payable	24,026	19,375
Deferred Tax	(2,800)	(1,400)
TOTAL TAX EXPENSE	<u>21,226</u>	<u>17,975</u>
Tax Payable at start of year	(4,827)	16,319
Less: Tax Paid	(3,330)	(40,521)
Current Tax Payable	<u>24,026</u>	<u>19,375</u>
Tax (Receivable)/Payable at end of year	<u>15,869</u>	<u>(4,827)</u>

**HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

(B) DEFERRED TAX LIABILITY / (Asset)

Mar 14	Impairment Provision	Depreciation	Available for Sale	Total
Balance at beginning of period	(21,280)	140,888	(7,256)	112,352
Temporary differences through Income	(2,800)			(2,800)
Temporary differences through Equity			5,952	5,952
Balance at end of period	<u>(24,080)</u>	<u>140,888</u>	<u>(1,304)</u>	<u>115,504</u>

Mar 13	Impairment Provision	Depreciation	Available for Sale	Total
Balance at beginning of period	(19,880)	140,888	(32,153)	88,855
Temporary differences through Income	(1,400)			(1,400)
Temporary differences through Equity			24,897	24,897
Balance at end of period	<u>(21,280)</u>	<u>140,888</u>	<u>(7,256)</u>	<u>112,352</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. Refer note 12(e) for details.
- Available for sale reserve: A reserve to maintain the cumulative difference between the fair value and 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

	March 14	March 13
	\$	\$
Bank balance	73,999	556,535
Bank deposits	4,635,520	4,179,427
TOTAL CASH AND CASH EQUIVALENTS	<u>4,709,519</u>	<u>4,735,962</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 2014**

6 INVESTMENT SECURITIES (New Zealand debt exchange listed bonds)

	March 14	March 13
	\$	\$
Opening Balance	823,596	1,030,878
Bond Matured/Sold	-	(478,442)
Bond Purchased	-	229,016
Reserve Increase/(Decrease)	21,257	87,327
Realised Loss	-	(41,966)
Accrued Interest Movement	(3,533)	(3,217)
CLOSING BALANCE (New Zealand Listed Bonds)	841,320	823,596

The fair value of investment securities is derived from their quoted prices on the New Zealand Debt Exchange (NZDX).

7 INVESTMENT PROPERTY

(A) CLASSES OF INVESTMENT PROPERTY	March 14	March 13
Freehold land (at valuation)	1,000,000	810,000
Buildings (at valuation)	1,600,000	1,390,000
TOTAL INVESTMENT PROPERTY	2,600,000	2,200,000

(B) MOVEMENTS IN CARRYING AMOUNTS

Carrying value at the beginning of the period	2,200,000	2,300,000
Revaluation movement in profit or loss	400,000	(100,000)
Carrying value at the end of the period	2,600,000	2,200,000

(C) VALUATION DETAILS

Investment property is stated at a fair value of \$2,600,000 as at 31 March 2014 (2013 - \$2,200,000), determined by Louise Thompson BBS (VPM), MPINZ, an independent registered valuer from Logan Stone Limited, Hastings on 31 March 2014. The fair value is determined by the investment approach with the proposed contractual rent capitalised at rates ranging from 7.25% to 7.75% (2013 – 8.25% to 8.75%). The fair value resulting from the investment approach is then compared with the value implied by recent market transactions as a secondary check method. The investment property is a commercial office building which generated income during the period. Direct property expenses are paid by the tenant (Brown Webb Richardson Ltd – refer note 19 for details).

The current lease to Brown Webb Richardson Limited expires on 30 September 2014. The Building Society and Brown Webb Richardson Limited have agreed to renew the lease for a 12 year term. The assessed valuation was undertaken on this basis.

The investment property is Level 3 on the fair value hierarchy. Refer to Note 18 for details of the fair value hierarchy.

**HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

8 ADVANCES ON MORTGAGE

All advances are secured by 1st Mortgage. There is one borrower which exceeds 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 \$509,861 (2013 - \$522,617).

	March 14	March 13
(A) ADVANCES ON MORTGAGE COMPRISE		
Secured Advances	14,993,612	15,639,631
Less: Provision for Impairment	(86,000)	(76,000)
	14,907,612	15,563,631

(B) MORTGAGES COMPRISE

Residential	10,587,184	71%	10,637,318	69%
Commercial	3,120,715	21%	2,847,050	18%
Rural	1,199,713	8%	2,079,263	13%
TOTAL	14,907,612		15,563,631	100%

Average LVR's Policy Maximum

Residential	80%	33%	28%
Commercial	60%	35%	31%
Rural	50%	18%	26%

Calculation based on value of property at loan inception and current balance of loan.

(C) GEOGRAPHICAL CONCENTRATION

Hawke's Bay	12,898,168	87%	13,444,904	86%
Taupo	199,965	1%	623,573	4%
Wellington	734,213	5%	740,108	5%
North Island - Other	507,302	3%	669,386	4%
South Island	567,964	4%	85,660	1%
	14,907,612	100%	15,563,631	100%

(D) CREDIT IMPAIRMENT

The Building Society makes estimates and assumptions concerning the future when assessing the impairment provision on loans including the expected cash flows of the borrower and the valuation of security. 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 2014**

(D) CREDIT IMPAIRMENT (cont'd)

	Mar 14	Mar 13
	\$	\$
(i) Provision for Individual Loan Impairment		
Opening Balance	76,000	71,000
Movement in Provision during the period	10,000	5,000
Closing Balance	86,000	76,000
(ii) Individual Impaired Loan Analysis		
Opening Balance	598,617	588,643
Add: /(Less)Additional impaired balance /(Impaired loan repayment)	(2,756)	9,974
Closing Balance	595,861	598,617

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

9 OFFICE EQUIPMENT

	Mar 14	Mar 13
(A) OFFICE EQUIPMENT		
At cost/valuation	42,764	33,561
Accumulated depreciation	(33,002)	(32,862)
TOTAL OFFICE EQUIPMENT	9,762	699
(B) MOVEMENTS IN CARRYING AMOUNTS		
Balance at beginning of period	699	975
Addition	9,203	-
Depreciation Expense	(140)	(276)
CARRYING AMOUNT AT END OF PERIOD	9,762	699

10 REDEEMABLE SHARES

	Mar 14	Mar 13
Call shares	6,415,601	7,751,623
Term shares	11,917,493	11,341,957
TOTAL SHARES	18,333,094	19,093,580

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

(D) CREDIT IMPAIRMENT (cont'd)

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.

Term shares are invested for terms between one to twelve months. At 31 March 2014 interest rates on term shares ranged from 3.30% to 4.50% (2013 – 3.50% to 4.70%).

Call shares interest rates at 31 March 2014 ranged from 3.00% to 3.50% (2013 – 3.00% to 3.50%).

11 CASH FLOW STATEMENT RECONCILIATION

	Mar 14	Mar 13
	\$	\$
Reconciliation of cash flow from operating activities with operating profit		
Net Operating Profit/(Loss) after Tax	454,582	(55,728)
Non Cash Items		
Depreciation	140	275
Deferred Tax	(2,800)	(1,400)
Loss on Disposal of Investment Securities	-	41,966
Movement in Provision for Loan Impairment	10,000	5,000
(Increase)/decrease in Revaluation Reserve	(400,000)	100,000
Changes in Assets and Liabilities		
(Increase)/decrease in Prepayments	(39)	1,644
(Increase)/decrease in Accrued Interest Receivable	15,622	(11,604)
Increase/(decrease) in Taxation Payable	20,694	(21,149)
Increase/(decrease) in Accounts Payable	(761)	1,383
Increase/(decrease) in Accrued Interest Payable	2,134	20,228
Increase/(decrease) in Provision for Directors' Fees	5,527	(3,527)
Net (increase)/decrease in Advances on Mortgage	633,929	(186,871)
Net increase/(decrease) in Redeemable Shares	(762,622)	2,454,486
NET OPERATING CASHFLOW	(23,591)	2,344,703

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

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 (refer note 21) 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 less equity as liquid assets (ie cash and cash equivalents, investment securities and standby bank facilities) 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 14	Mar 13
Liquidity Ratio (including Bank facilities)	34%	32%

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

Priority of Creditors Claims

In liquidation or insolvency, claims by redeemable shareholders will rank equally with other redeemable shareholders, and behind unsecured creditors and those creditors given priority by Law.

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

(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 and 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.

(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). As detailed in note 8, only one loan is outside the maximum loan to value ratio policy.
- 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.

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

12 RISK MANAGEMENT OBJECTIVES AND POLICIES – Cont'd

(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 (BBB). The maximum investment with any one New Zealand registered bank is not to exceed \$6,000,000.

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 (referred to as equity in the statement of financial position), 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 19.36% (31 March 2013 – 18.1%). The Society has complied with the Capital adequacy requirement throughout the year.

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 financial 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 1 to 3 month, 3 to 6 month and 6 to 12 month periods from 31 March 2014. 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 (refer note 21 for details). 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 2013 – 97%) 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 2014

13 MATURITY PROFILE (cont'd)

CONTRACTUAL MATURITY TIMEFRAME									
Mar 14	On demand	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 Years	2 - 5 Years	Over 5 Years	Total
MONETARY ASSETS									
Cash and Cash Equivalents	2,040,143	861,268	1,503,965	304,143	-	-	-	-	4,709,519
Investment securities		10,320	-	-	-	195,010	-	635,990	841,320
Advances on Mortgage		136,231	241,246	142,638	704,137	2,262,638	2,749,776	8,670,946	14,907,612
Interest Receivable									
Cash and cash equivalents		996	10,672	2,140	-	-	-	-	13,808
Investment securities		1,310	11,629	6,349	17,979	35,541	92,573	-	165,381
Advances on Mortgage		67,488	132,901	196,577	376,058	699,075	1,927,975	3,277,621	6,677,695
Interest Receivable – sub total	-	69,794	155,202	205,066	394,037	734,616	2,020,548	3,277,621	6,856,884
TOTAL MONETARY ASSETS	2,040,143	1,077,613	1,900,413	651,847	1,098,174	3,192,264	4,770,324	12,584,557	27,315,335
MONETARY LIABILITIES									
Trade Payables		10,710							10,710
Redeemable Shares	6,415,601	1,766,442	2,630,150	4,530,237	2,990,664				18,333,094
Interest Payable		19,555	46,894	87,177	92,293				245,919
TOTAL MONETARY LIABILITIES	6,415,601	1,796,707	2,677,044	4,617,414	3,082,957	-	-	-	18,589,723
NET MONETARY ASSETS	(4,375,458)	(719,093)	(776,631)	(3,965,567)	(1,984,783)	3,192,264	4,770,324	12,584,557	8,725,612
Unrecognised Mortgage Commitments (Refer Note 20)		(1,451,963)							(1,451,963)
Net Liquidity Gap	(4,375,458)	(2,171,056)	(776,631)	(3,965,567)	(1,984,783)	3,192,264	4,770,324	12,584,557	7,273,649
NET LIQUIDITY GAP - CUMULATIVE	(4,375,458)	(6,546,514)	(7,323,145)	(11,288,711)	(13,273,494)	(10,081,230)	(5,310,907)	7,273,649	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

13 MATURITY PROFILE (cont'd)

CONTRACTUAL MATURITY TIMEFRAME									
Mar 13	On demand	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 Years	2 - 5 Years	Over 5 Years	Total
MONETARY ASSETS									
Cash and Cash Equivalents	1,921,499	807,126	1,706,425	300,912					4,735,962
Investment securities		13,852					194,539	615,205	823,596
Advances on Mortgage		142,131	264,002	804,433	636,018	850,813	3,754,662	9,111,572	15,563,631
Interest Receivable									
Bank Deposits		1,386	11,802	3,141					16,329
Investment securities		1,709	15,560	5,900	21,460	47,070	119,362		211,061
Advances on Mortgage		77,284	152,241	220,566	411,608	792,271	2,142,142	3,807,508	7,603,620
Interest Receivable – sub total		80,379	179,603	229,607	433,068	839,341	2,261,504	3,807,508	7,831,010
TOTAL MONETARY ASSETS	1,921,499	1,043,488	2,150,030	1,334,952	1,069,086	1,690,154	6,210,705	13,534,285	28,954,199
MONETARY LIABILITIES									
Trade Payables		3,448							3,448
Redeemable Shares	7,751,623	1,555,449	2,535,702	4,279,790	2,971,018				19,093,583
Interest Payable		16,484	46,898	92,204	104,379				259,965
TOTAL MONETARY LIABILITIES	7,751,623	1,575,381	2,582,600	4,371,994	3,075,397				19,356,995
NET MONETARY ASSETS	(5,830,124)	(531,893)	(432,570)	(3,037,042)	(2,006,311)	1,690,154	6,210,705	13,534,285	9,597,204
Unrecognised Mortgage Commitments (Refer Note 20)		(732,745)							(732,745)
Net Liquidity Gap	(5,830,124)	(1,264,638)	(432,570)	(3,037,042)	(2,006,311)	1,690,154	6,210,705	13,534,285	8,864,459
NET LIQUIDITY GAP - CUMULATIVE	(5,830,124)	(7,094,762)	(7,527,332)	(10,564,374)	(12,570,685)	(10,880,531)	(4,669,826)	8,864,459	

13 MATURITY PROFILE (cont'd)

EXPECTED MATURITY TIMEFRAME										
Mar 14	Effective Interest Rate	On demand	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 Years	2 - 5 Years	Over 5 Years	Total
MONETARY ASSETS										
Cash and Cash Equivalents	3.77%	150,000	300,000	500,000	500,000	-	400,000		2,859,519	4,709,519
Investment securities	4.00%		10,320	-	-	-	195,010	443,335	192,655	841,320
Advances on Mortgage	5.76%		136,230	241,246	142,638	704,137	2,262,638	2,749,776	8,670,947	14,907,612
Interest Receivable										
Cash and Cash equivalent			996	10,672	35,433	61,442	122,884	323,412	754,627	1,309,466
Investment securities			1,310	11,629	6,349	17,979	35,541	92,573	-	165,381
Advances on mortgage			67,488	132,902	196,578	376,059	699,075	1,927,974	3,277,619	6,677,695
Interest Receivable – sub total		-	69,794	155,203	238,360	455,480	857,500	2,343,959	4,032,246	8,152,542
TOTAL MONETARY ASSETS		150,000	516,344	896,449	880,998	1,159,617	3,715,148	5,537,070	15,755,367	28,610,993
MONETARY LIABILITIES										
Trade Payables			10,710							10,710
Redeemable Shares	4.04%	103,900	88,322	339,308	330,412	149,533	566,081	1,613,331	15,142,207	18,333,094
Interest Payable			19,555	46,894	220,002	188,594	638,559	1,783,603	2,640,908	5,538,115
TOTAL MONETARY LIABILITIES		103,900	118,587	386,202	550,414	338,127	1,204,640	3,396,934	17,783,115	23,881,919
NET MONETARY ASSETS		46,100	397,757	510,247	330,584	821,490	2,510,508	2,140,136	(2,027,748)	4,729,072
Unrecognised Mortgage Commitments (Refer Note 20)			(200,000)	(500,000)	(300,000)	(451,963)				(1,451,963)
Net Liquidity Gap		46,100	197,757	10,247	30,584	369,527	2,510,508	2,140,136	(2,027,748)	3,277,109
NET LIQUIDITY GAP - CUMULATIVE		46,100	243,857	254,104	284,688	654,214	3,164,723	5,304,858	3,277,109	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

13 MATURITY PROFILE (cont'd)

EXPECTED MATURITY TIMEFRAME		On demand	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 Years	2 - 5 Years	Over 5 Years	Total
MONETARY ASSETS										
Cash and Cash Equivalents	1,119,535		100,000				400,000		3,116,427	4,735,962
Investment securities		13,852						610,754	198,990	823,596
Advances on Mortgage		142,130	264,002		804,433	636,018	850,813	3,754,662	9,111,572	15,563,630
Interest Receivable										
Cash or Cash Equivalent		1,386	11,802	33,582	67,164		134,328	357,143	833,333	1,438,738
Investment securities		1,709	15,560	5,900	21,460		47,070	119,363		211,062
Advances on mortgage		77,284	152,241	220,566	411,608		792,271	2,142,142	3,807,508	7,603,620
Interest Receivable Subtotal		80,379	179,603	260,048	500,232		973,669	2,618,648	4,460,841	9,253,420
TOTAL MONETARY ASSETS	1,119,535	236,361	543,605	1,064,481	1,136,250	2,224,482	17,067,830	30,376,608		
MONETARY LIABILITIES										
Trade Payables		2,315								2,315
Redeemable Shares	1,062,906	155,545	379,382	490,885	297,102	1,020,776	2,756,096	12,930,890	19,093,582	
Interest Payable		16,484	46,898	248,583	225,879	670,654	1,762,122	2,693,608	5,664,228	
TOTAL MONETARY LIABILITIES	1,062,906	174,344	426,280	739,468	522,981	1,691,430	15,624,498	24,760,125		
NET MONETARY ASSETS	56,629	62,017	117,325	325,013	613,269	533,052	2,465,846	1,443,332	5,616,483	
Unrecognised Mortgage Commitments (Refer Note 20)		(50,000)	(50,000)	(200,000)	(432,745)					(732,745)
Net Liquidity Gap	56,629	12,017	67,325	125,013	613,269	100,307	2,465,846	1,443,332	4,883,738	
NET LIQUIDITY GAP - CUMULATIVE	56,629	68,646	135,971	260,984	874,253	3,440,406	4,883,738			

**HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

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. Only interest sensitive financial assets and liabilities have been included.

REPRICING TIMEFRAME						
Mar 14	Weighted Average Rate %	0 - 6 Months	6 - 12 Months	1 - 2 Years	2 - 5 Years	Total
MONETARY ASSETS						
Cash and Cash Equivalents	3.77%	4,709,519				4,709,519
Investment securities	4.00%	196,420	447,500		197,400	841,320
Advances on Mortgage	5.76%	11,454,689	1,995,033	1,457,890		14,907,612
TOTAL MONETARY ASSETS		16,360,628	2,442,533	1,457,890	197,400	20,458,451
MONETARY LIABILITIES						
Redeemable Shares	3.75%	15,342,428	2,990,666			18,333,094
TOTAL MONETARY LIABILITIES		15,342,428	2,990,666			18,333,094
TOTAL MISMATCH		1,018,200	(548,133)	1,457,890	197,400	2,125,357

REPRICING TIMEFRAME						
Mar 13	Weighted Average Rate %	0 - 6 Months	6 - 12 Months	1-2 Years	2 - 5 Years	Total
MONETARY ASSETS						
Cash and Cash Equivalents	3.82%	4,735,962				4,735,962
Investment securities	4.77%	403,649	419,947			823,596
Advances on Mortgage	5.77%	13,137,019	748,582	1,678,030		15,563,631
TOTAL MONETARY ASSETS		18,276,630	1,168,529	1,678,030		21,123,189
MONETARY LIABILITIES						
Redeemable Shares	3.97%	16,122,561	2,971,019			19,093,580
TOTAL MONETARY LIABILITIES		16,122,561	2,971,019			19,093,580
TOTAL MISMATCH		2,154,069	(1,802,490)	1,678,030		2,029,609

**HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

14 INTEREST REPRICING PROFILE AND INTEREST SENSITIVITY ANALYSIS (cont'd)

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.

	31 Mar 14			31 Mar 13		
	Carrying Amount	-1% Profit and Equity	+1% Profit and Equity	Carrying Amount	-1% Profit and Equity	+1% Profit and Equity
	\$	\$	\$	\$	\$	\$
FINANCIAL ASSETS						
Cash and Cash Equivalents	4,709,519	(42,301)	42,301	4,735,962	(23,955)	23,955
Investment securities	841,320	(6,808)	6,808	823,596	(6,808)	6,808
Advances on Mortgage	14,907,612	(139,108)	139,108	15,563,631	(144,256)	144,256
		(188,217)	188,217		(175,019)	175,019
FINANCIAL LIABILITIES						
Redeemable Shares	18,333,094	(109,340)	109,340	19,093,580	(122,193)	122,193
		(78,877)	78,877		(52,826)	52,826
Less: Taxation		(22,086)	(22,086)		(14,791)	14,791
Net Impact		(56,791)	56,791		(38,035)	38,035

Assumptions:

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on loans and bank deposits for the next 12 months. In doing the calculation the assumptions applied were that:

- The interest rate change would be applied equally over the loan portfolio and bank term deposits.
- The rate change would be as at the beginning of the 12-month period and no other rate changes would be effective during the year.
- Bank deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable.
- The value and mix of mortgage loans will be unchanged.
- Impaired loans would not generate a profit effect from interest rate changes.

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

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 14	Mar 13
	\$	\$
Cash and Cash Equivalents	4,709,519	4,735,962
Investment Securities	841,320	823,596
Advances on Mortgage	14,907,613	15,563,631
	20,458,452	21,123,189

(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 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 industry or economic sector as the Building Society spreads its investments and cash deposits across various well rated banks with Standard and Poors (or equivalent) rating of BBB+ or better. There are five counterparties for investment securities and cash and cash equivalents.

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	2014			2013		
	Advances on Mortgage	Cash and Cash Equivalents	Investments	Advances on Mortgage	Cash and Cash Equivalents	Investments
Greater than 100% of equity						
Between 90% and 100% of equity						
Between 80% and 90% of equity						
Between 70% and 80% of equity						
Between 60% and 70% of equity		1			1	
Between 50% and 60% of equity						
Between 40% and 50% of equity		1				
Between 30% and 40% of equity				1	1	
Between 20% and 30% of equity	3			2	1	
Between 10% and 20% of equity	6			9		1

HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014

16 SECURITIES ACT DISCLOSURES

	Mar 14	Mar 13
	\$	\$
<i>Current and non-current assets and liabilities</i>		
<i>Current assets</i>		
Cash and cash equivalents	4,709,519	4,735,962
Prepayments	6,905	6,866
Tax receivable	-	4,827
Current portion of Advances on Mortgage	1,523,803	1,834,052
Total current assets	<u>6,240,227</u>	<u>6,581,707</u>
Investment securities	841,320	823,596
Investment property	2,600,000	2,200,000
Non-current portion of Advances on Mortgage	13,383,809	13,729,579
Office Equipment	9,762	699
Total non-current assets	<u>16,834,891</u>	<u>16,753,874</u>
Total assets	<u><u>23,075,118</u></u>	<u><u>23,335,581</u></u>
<i>Current liabilities</i>		
Redeemable Shares	18,333,094	19,093,580
Tax Payable	15,867	-
Accounts Payable	81,994	76,404
Provision for Directors Fees	35,000	29,473
Total current liabilities	<u>18,465,955</u>	<u>19,199,457</u>
Deferred taxation	115,505	112,353
Total non-current liabilities	<u>115,505</u>	<u>112,353</u>
Total liabilities	<u><u>18,581,460</u></u>	<u><u>19,311,810</u></u>

17 CONCENTRATION OF FUNDING

The Building Society's source of funding is redeemable shares. The funding is concentrated within the Hawke's Bay region of the North Island of New Zealand. The funding from members is recorded as Redeemable Shares in the Statement of Financial Position.

	Mar 14	Mar 13
	\$	\$
Hawke's Bay	17,809,464	18,247,851
Rest of New Zealand	438,992	433,091
Overseas	84,638	412,638
	<u>18,333,094</u>	<u>19,093,580</u>

HERETAUNGA BUILDING SOCIETY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

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

(a) Fair value hierarchy

The following fair value information provides an analysis of the assets and liabilities 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) and Investment Property (Level 3) are the only items carried at fair value. The securities are valued using current market prices. Refer to note 6 for details of the fair value of investment securities and the effect of the fair value measurement on other comprehensive income.

For details of the valuation method, inputs and the effect of fair value measurement on profit or loss for Investment Property, refer to note 7.

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

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.

For financial instruments not carried at fair value, the carrying amount approximates fair value for the reasons detailed below. The fair value estimates were determined by the above methodologies and following assumptions.

Cash and cash equivalents

The reported amount approximates fair value because they are available on Call and attract interest at market rates.

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 and the loans are assessed for impairment so the reported amounts approximate fair value.

Redeemable Shares

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

Other Liabilities

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

**HERETAUNGA BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

19 RELATED PARTY TRANSACTIONS

	Mar 14	Mar 13
	\$	\$
Shares from Directors and key management		
Shares at end of period	582,181	565,005
Interest paid	25,450	14,254
Shares from Other Related Parties		
Shares at end of period	259,634	231,015
Interest paid	8,637	2,682
Advances on mortgage to Other Related Parties		
Advances on Mortgage at end of period	342,068	385,924
Interest received	20,350	18,263
Directors Fees for the year (Short term benefit)	70,000	70,000
Directors retirement benefit	-	5,000
Owing to Directors (Directors Fees Payable)	35,000	29,473

Key management personnel include the directors of the Building Society and the director of Brown Webb Richardson Ltd responsible for the management of the Building Society.

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

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

The investment property is leased to Brown Webb Richardson Ltd. The rental of \$189,991 (31 March 2013 \$189,991) 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 \$240,000 (31 March 2013 - \$227,333). There are no balances outstanding.

Brown Webb Richardson Ltd have redeemable shares with the Building Society of \$91,849 (31 March 2013 \$155,550).

HERETAUNGA BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

20 COMMITMENTS

	Mar 14	Mar 13
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(a) Capital Commitments

The Building Society has one contract for the purchase of property, plant and equipment at 31 March 2014 - \$11,938 (31 March 2013 \$Nil)

(b) Outstanding Loan Commitments

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

	1,451,963	732,745
	1,451,963	732,745

(c) Sponsorship Commitments

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

The Building Society has provided sponsorship of \$8,625 (2013 - \$2,875) per year to the Cornwall Cricket Club as from 1 November 2013. This is reviewed annually.

(d) Operating Lease Commitments

Operating leases relate to the investment property owned by the Building Society and leased to Brown Webb Richardson Ltd commencing 1 October 2002 for 12 years, with rights of renewal for a further 12 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental income earned from the investment property during the year was \$189,991 (2013: \$189,991). In 2014 and 2013 all direct operating expenses arising on investment property for the year were paid by the tenant.

Non cancellable operating lease receivables	2014	2013
	\$	\$
Not later than 1 year	94,996	189,991
Later than 1 year and not later than 5 years	-	94,996
	94,996	284,987

21 STANDBY BORROWING FACILITIES

	Mar 14	Mar 13
--	--------	--------

	\$	\$
Bank overdraft facility	200,000	200,000
Business Finance Line	500,000	500,000
	700,000	700,000

Of these facilities \$nil was drawn down (31 March 2013 - \$nil). Both facilities are with Westpac Bank and are subject to annual review.

22 CONTINGENT LIABILITIES

There are no contingent liabilities at 31 March 2014 (31 March 2013 \$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 2013: none).

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 37, which comprise the statement of financial position as at 31 March 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation 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 37:

- 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 2014, and of its financial performance and its cash flows for the year ending 31 March 2014.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

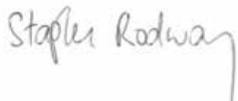
- we have obtained all the information and explanations we have required.
- in our opinion proper accounting records have been kept by the building society as far as appears from an examination of those records.

MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL STATEMENTS

This audit report relates to the financial statements of Heretaunga Building Society for the year ended 31 March 2014 included on Heretaunga Building Society's website. Heretaunga Building Society's Board of Directors is responsible for the maintenance and integrity of Heretaunga Building Society's website. We have not been engaged to report on the integrity of Heretaunga Building Society's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyper linked to / from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 6 June 2014 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Staples Rodway Hawkes Bay Partnership

6 June 2014

Hastings, New Zealand