

**THE HASTINGS BUILDING SOCIETY**



\*10058694196\*

**DIRECTORS' CERTIFICATE**  
**(Securities Act 1978 Section 37A(1A))**

It is the opinion of all the Directors of the Hastings Building Society that after due inquiry by them:

1. The financial position shown in the Statement of Financial Position referred to in the Registered Prospectus dated 27 August 2009 has not materially and adversely changed during the period 31 March 2009 to the date of this Certificate; and
2. The Registered Prospectus is not at the date of this Certificate false or misleading in a material particular by reason of failing to refer or give proper emphasis to adverse circumstances.

This Certificate is accompanied by financial statements for the six month period from the date of the Statement of Financial Position referred to in the Registered Prospectus and which have been prepared in accordance with the Regulations.

DATED this 15<sup>th</sup> day of December 2009.

SIGNED for and on behalf of  
all the Directors by  
F E Spencer  
and  
EP Carr  
in the presence of:

DAVID ANTONY JENSEN  
AREA LENDING MANAGER  
HASTINGS

  
.....  
Eleanore Carr  
.....

**HASTINGS BUILDING SOCIETY**

**FINANCIAL STATEMENTS**

**FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009**

# **HASTINGS BUILDING SOCIETY**

## **CONTENTS OF FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009**

### **Directory**

Statement of Comprehensive Income	Page 1
Statement of Changes in Equity	Page 2
Statement of Financial Position	Page 3
Statement of Cash Flows	Page 4
Notes to the Financial Statements	Page 5 - 25
Auditors' Report	Page 26

# HASTINGS BUILDING SOCIETY

## DIRECTORY

### Board of Directors

Francis E Spencer (Chairman)  
Warren G Duff (Deputy Chairman)  
Elizabeth P Carr  
Jacqueline A C Gray  
Lindsay R Knowles  
David J Mackersey  
Ian R Wilmot

### Chief Executive Officer

Darryn J Thomas

### Area Lending Manager

David A Jensen

### Auditors

Staples Rodway Hawke's Bay  
Hastings

### Bankers

Westpac Banking Corporation  
Hastings

### Solicitors

Gifford Devine  
Hastings

### Trustee

Trustees Executors Limited  
Wellington

### Registered Office

201 Market Street North  
Hastings 4122  
P O Box 10, Hastings 4156  
Telephone: 06 872 7299  
Fax: 06 878 9631

### Branch

93 Dalton Street  
Napier, 4110

### Website

[www.hbsnz.com](http://www.hbsnz.com)

### Rating

Fitch Ratings have rated HBS as follows:BB speculative."BB" ratings indicate that there is a possibility of credit risk developing,particularly as the result of adverse economic change over time;however, business or financial alternatives may be available to allow financial commitments to be met.Securities rated in this category are not investment grade.

# HASTINGS BUILDING SOCIETY

## STATEMENT OF COMPREHENSIVE INCOME FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009

	Note	Sep 09 (6 mths) Unaudited \$000	Sep 08 (6 mths) Unaudited \$000	Mar 09 (12 mths) \$000
<b>REVENUE</b>				
Interest revenue	3	6,261	11,006	19,735
Finance costs	4	4,864	8,773	16,498
<b>Net interest revenue</b>		<u>1,397</u>	<u>2,233</u>	<u>3,237</u>
Other income	5	262	31	304
<b>Total Operating Income</b>		<u>1,659</u>	<u>2,264</u>	<u>3,541</u>
<b>EXPENDITURE</b>				
Bad & doubtful loans	6	134	376	1,025
Employee expenditure	7	443	487	911
Other expenditure	8	593	700	1,367
		<u>1,170</u>	<u>1,563</u>	<u>3,303</u>
<b>Net operating surplus before fair value adjustment</b>		<b>489</b>	<b>701</b>	<b>238</b>
Fair value gain/(loss) on interest rate swaps	9	539	(1,022)	(1,886)
<b>Net surplus/(deficit) before tax</b>		<u>1,028</u>	<u>(321)</u>	<u>(1,648)</u>
Tax expense/(credit)	10	320	(96)	(510)
<b>Net profit/(loss) after tax</b>		<u>708</u>	<u>(225)</u>	<u>(1,138)</u>
Movement in revaluation reserve		<u>(1)</u>	<u>-</u>	<u>210</u>
<b>Comprehensive income for the period</b>		<u><u>707</u></u>	<u><u>(225)</u></u>	<u><u>(928)</u></u>

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements

# HASTINGS BUILDING SOCIETY

## STATEMENT OF CHANGES IN EQUITY FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009

	Retained Earnings	Revaluation Reserve	Total Equity
<i>Balance at 1 April 2008</i>	16,200	676	16,876
Total comprehensive income for the period	-1,138	210	-928
	<u>15,062</u>	<u>886</u>	<u>15,948</u>
<i>Balance at 31 March 2009</i>			
<i>Balance at 1 April 2008</i>	16,200	676	16,876
Total comprehensive income for the period	-225	-	-225
	<u>15,975</u>	<u>676</u>	<u>16,651</u>
<i>Balance at 30 September 2008 - Unaudited</i>			
<i>Balance at 1 April 2009</i>	15,062	886	15,948
Total comprehensive income for the period	708	(1)	707
	<u>15,770</u>	<u>885</u>	<u>16,655</u>
<i>Balance at 30 September 2009 - Unaudited</i>			

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements

# HASTINGS BUILDING SOCIETY

## STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2009

	Note	Sep 09 (6 mths) Unaudited \$000	Sep 08 (6 mths) Unaudited \$000	Mar 09 (12 mths) \$000
<b>ASSETS</b>				
Cash and cash equivalents	12	37,685	44,053	45,873
Trade and other receivables	13	5	-	53
Taxation balance		106	-	-
Secured advances	15-16	141,495	140,951	134,825
Property, plant & equipment	17	1,940	1,941	2,004
Intangibles	18	20	28	25
Deferred taxation	10	373	90	632
<b>TOTAL ASSETS</b>		<b><u>181,624</u></b>	<b><u>187,063</u></b>	<b><u>183,412</u></b>
<b>LIABILITIES</b>				
Shares	19	163,266	168,587	164,886
Trade and other payables	20	437	895	703
Taxation payable		-	31	64
Derivative financial instruments	14	1,266	899	1,811
<b>TOTAL LIABILITIES</b>		<b><u>164,969</u></b>	<b><u>170,412</u></b>	<b><u>167,464</u></b>
<b>EQUITY</b>				
Retained earnings	11	15,770	15,975	15,062
Revaluation reserve	11	885	676	886
<b>TOTAL EQUITY</b>		<b><u>16,655</u></b>	<b><u>16,651</u></b>	<b><u>15,948</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>181,624</u></b>	<b><u>187,063</u></b>	<b><u>183,412</u></b>

These Financial Statements are authorised for issue on behalf of the Board by:

F E Spencer - Director

W G Duff - Director

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

# HASTINGS BUILDING SOCIETY

## STATEMENT OF CASH FLOWS FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009

	Note	Sep 09 Unaudited \$000 (6 mths)	Sep 08 Unaudited \$000 (6 mths)	Mar 09 \$000 (12 mths)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Cash was provided from:</b>				
Interest received		6,299	9,348	19,981
Other income		262	31	304
		<u>6,561</u>	<u>9,379</u>	<u>20,285</u>
<b>Cash was applied to:</b>				
Interest paid		5,572	7,119	16,453
Break fees on derivatives		96	-	498
Tax paid		230	293	293
Staff & other expenses		973	1,139	2,171
		<u>6,871</u>	<u>8,551</u>	<u>19,415</u>
<b>Net cashflows from operations before changes in operating assets and liabilities</b>		<b>(310)</b>	<b>828</b>	<b>870</b>
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES</b>				
Loan repayments		17,636	19,451	38,406
Loan advances		(24,465)	(16,318)	(29,966)
Share funds received		128,096	120,108	221,862
Share funds withdrawn		(129,148)	(127,433)	(232,696)
<b>Net operating cash flows</b>	<b>21</b>	<b>(8,191)</b>	<b>(3,364)</b>	<b>(1,524)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Cash was provided from:</b>				
Sale of property, plant and equipment and intangible assets		12	-	-
<b>Cash was applied to:</b>				
Purchase of property, plant and equipment and intangible assets		(9)	(16)	(36)
<b>Net investing cash flows</b>		<u>3</u>	<u>(16)</u>	<u>(36)</u>
Total net increase/(decrease) in cash held		(8,188)	(3,380)	(1,560)
Cash at the beginning of the period		45,873	47,433	47,433
Cash at the end of the period	<b>12</b>	<u><b>37,685</b></u>	<u><b>44,053</b></u>	<u><b>45,873</b></u>

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009

**1. REPORTING ENTITY**

**Legislative Framework**

Hastings Building Society (HBS) was established in 1885. It is a financial institution registered under the Building Societies Act 1965 in New Zealand. It is domiciled in New Zealand and its main place of business is Hawke's Bay. HBS is an issuer for the purposes of the Financial Reporting Act 1993. The financial report is a general purpose financial report for HBS as an individual entity, which has been prepared in accordance with the Financial Reporting Act 1993, the Building Societies Act 1965 and relevant Securities Regulations.

To meet the requirements of The Securities Act 1978 a Trust Deed was entered into on 20 December 1990 between HBS and Trustees Executors Limited. Trustees Executors Limited as the Prudential Supervisor was appointed to act in the interests of the members of HBS by monitoring the compliance by HBS of its obligations, its Rules, the Trust Deed and the Building Societies Act 1965. In addition, the Prudential Supervisor is under duty to exercise reasonable diligence to ascertain whether HBS has:

- (a) committed any breach of the Trust Deed or any of the conditions of issue of the deposits and
- (b) sufficient assets to meet its obligations to members, as they fall due.

**Nature of Business**

HBS operates in the financial services industry, taking deposits from and providing loans to members.

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

HBS 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 xx December 2009.

**Basis of preparation**

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. They also comply with International Financial Reporting Standards (IFRS).

**Basis of measurement**

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

**Presentation currency**

The financial statements are presented in New Zealand dollars, which is the functional currency of HBS. All values are rounded to the nearest thousand dollars, unless otherwise stated.

**2. SIGNIFICANT ACCOUNTING POLICIES**

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

**(a) Revenue**

HBS recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to HBS and when specific criteria have been met for each of HBS' 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.

**Fees & Commissions Revenue**

Fees and commissions are recognised in the accounting period in which the services to which they relate are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

**(b) Finance Expenses**

Finance expenses comprise interest expense on borrowings, impairment losses recognised on financial assets (except for loans and receivables), losses on the disposal of available-for-sale financial assets, and losses on hedging instruments that are recognised through the income statement (including break costs for exiting interest rate swaps prior to the maturity date).

All borrowing costs are recognised in profit or loss using the effective interest method

**(d) Leases**

Leases of property, plant and equipment are operating leases as the substantial risks and benefits incidental to ownership of the asset, are retained by the legal owner. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease

**(e) Employee Benefits**

Liabilities for wages and salaries, including non monetary benefits, annual leave, and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. The liability for employee entitlements is carried at the present value of the estimated future cash flows. All employee entitlements are expected to be paid within 12 months of balance date.

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009

**(f) Financial Instruments Recognition and Measurement**

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

**Financial assets at fair value through profit or loss**

A financial asset is classified in this category only when the HBS becomes a party to the contractual provisions of the financial asset. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

**Derivatives**

Derivatives are financial instruments whose value changes in response to a specified variable (eg interest rates); require no initial net investment and are settled at a future date. HBS uses derivative financial instruments (interest rate swaps) to hedge its risks associated with interest rate fluctuations. Derivative financial instruments do not qualify for hedge accounting and are recognised at fair value through profit or loss. The carrying value of derivatives (which is their fair value) has been classified as either a current asset or a current liability, depending on whether the fair value is positive or negative.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are stated at amortised cost using the effective interest rate method less accumulated impairment losses. Cash and cash equivalents, Secured advances to members and Trade and other receivables listed in HBS's balance sheet are classified as loans and receivables.

**Held-to-maturity investments**

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

**Available-for-sale financial assets**

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity. HBS has no available-for-sale financial assets in the reported periods.

**Borrowings (Shares)**

Borrowings are recognised initially at fair value plus transaction costs. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement 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 HBS prior to the end of the financial year which are unpaid. Trade and other payables are recognised initially at fair value plus transaction costs 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.

**Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement purposes. The fair value of interest rate swaps is determined by reference to market values for similar contracts. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques.

**(g) Impairment of Loans**

Collectability of loan receivables is reviewed on an ongoing basis.

Individual debts which are known to be uncollectible are written off. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

A provision for impairment of loan receivables (an allowance account) is established when there is objective evidence that HBS will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, a breach of contract (such as a default or delinquency in interest or principal payments), a concession granted to the borrower that HBS would not otherwise consider for economic or legal reasons relating to the borrower's financial difficulty and probability that the debtor will enter bankruptcy or financial reorganisation are considered objective evidence of impairment. The amount of the provision for impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Impairment provisions are recognised in the income statement. If, in a subsequent period, the amount of 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 debtor's credit rating), the previously recognised impairment loss is reversed and the reversal is recognised in through profit and loss.

Subsequent recoveries of amounts written off are recognised in the income statement.

Impaired Loans are classified as:

**Restructured**, when the terms of the contract have been substantially modified to provide concessions to the member.

**Enforced Security**, when HBS has taken action to exercise its security rights.

**Other impaired loans** are loans and advances for which there is reasonable doubt that HBS 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.

**Past due loans** are those loans to members more than 1 day in arrears (not being impaired loans), for which instalments have not been received in accordance with the terms of the contract with those members.

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009

**(h) Goods & Services Tax**

All amounts are inclusive of GST as HBS is treated as an end user for GST purposes.

**(i) Income Tax**

**Income tax expense**

Income tax expense for the period comprises current tax, deferred tax and any adjustment for tax payable in previous periods. Income tax is recognised in the income statement as tax expense except when it relates to items credited directly to equity, in which case it is recorded in equity.

**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 balance sheet method. Deferred tax arises by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the equivalent amounts used for tax purposes.

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

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

**(j) Property, Plant and Equipment**

All items of property, plant and equipment are initially measured at cost. The cost of an item of property, plant and equipment includes costs directly attributable to bringing it to the location and condition necessary for it to operate as intended. Where an item of property, plant and equipment is self-constructed, its construction cost includes the cost of materials and direct labour and an appropriate proportion of production overheads. Assets under \$500 are not capitalised.

After initial recognition, property, plant and equipment are measured as detailed below.

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to HBS and the cost of the item can be measured reliably. All other repairs and maintenance costs are recognised in the income statement as an expense as incurred.

Where material parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and 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 property, plant and 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 income statement.

**Land and buildings**

Land and buildings are subsequently valued by independent registered valuers and are carried at the revalued amount less any subsequent accumulated depreciation and impairment losses. The revalued amount is the fair value at date of revaluation.

Any revaluation surplus net of tax is credited to the asset revaluation reserve unless it reverses a revaluation decrease previously recognised in the income statement. Any revaluation deficit is recognised in the income statement unless it directly offsets a previous surplus of the same asset recognised in the revaluation reserve.

Upon disposal any revaluation reserve relating to the particular asset being disposed of is transferred to retained earnings.

**Other property, plant and equipment**

**Depreciation**

Capital work in progress is not depreciated until commissioned.

Depreciation on other assets (except land which is not depreciated) is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives (or for leasehold improvements, the term of the lease, if shorter). Depreciation is charged to the income statement.

**Asset classes have the following useful lives:**

Buildings	50 years
Leasehold Fitout	9 years
Plant and Equipment	10 years
Computer Equipment	3 years
Motor Vehicles	5 years

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

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009

**(k) Intangibles**

Intangibles comprise computer software that is not an integral part of the related hardware and has a finite useful life. This software has either been purchased or developed internally and is initially recorded at cost which is the sum of the costs incurred to acquire and bring to use the specific intangible asset. Costs include the software development employee costs and an appropriate portion of relevant overheads. Following initial recognition, software is carried at cost less accumulated amortisation and any accumulated impairment losses. Subsequent costs are included in the software's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to HBS and the cost of the item can be measured reliably. The costs of maintaining the software are charged to the income statement.

Software is amortised on a straight line basis over its estimated useful life (three years).

Software is tested for impairment whenever there is an indication that it may be impaired.

**(l) 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. HBS 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 income statement.

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

**(m) Cash Flow Statement**

The Cash Flow Statement is prepared using the direct approach.

Definitions of terms used in the Cash Flow Statement:

*Cash and cash equivalents* includes coins and notes, demand deposits and other highly liquid investments that are readily convertible into cash and which are subject to an insignificant risk of changes in value and includes at call borrowings such as bank overdrafts, used by HBS as part of their day-to-day cash management. Cash & cash equivalents include interest accrued at balance date. 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 higher returns, but are still considered cash and cash equivalents.

*Investing Activities* are those activities relating to the acquisition and disposal of investments securities, property, plant and equipment and intangibles.

*Financing Activities* are those activities relating to changes the size and composition of the capital structure of HBS.

*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.

**(n) Critical Estimates in Applying the Accounting Policies**

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying HBS' accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 16 Impairment of Secured Advances.

**(o) Changes in Accounting Policies**

There have been no changes in accounting policies. All policies have been applied on a basis consistent with the previous year.

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009

	Sep 09 (6 mths) Unaudited \$000	Sep 08 (6 mths) Unaudited \$000	Mar 09 (12 mths) \$000
<b>3 INTEREST REVENUE</b>			
Interest on Loans	5,018	7,360	13,457
Interest on Bank Deposits	826	1,935	3,467
Interest on Derivatives	417	1,711	2,811
<b>Total interest revenue</b>	<b>6,261</b>	<b>11,006</b>	<b>19,735</b>
<b>4 FINANCE EXPENSES</b>			
Interest on Shares	3,701	7,118	12,827
Interest on Derivatives	1,067	1,655	3,173
Break fees on Derivatives	96	-	498
<b>Total finance expenses</b>	<b>4,864</b>	<b>8,773</b>	<b>16,498</b>
<b>5 OTHER INCOME</b>			
Fees charged	162	31	304
Bad debts recovered	100	-	-
<b>Total other income</b>	<b>262</b>	<b>31</b>	<b>304</b>
<b>6 BAD AND DOUBTFUL LOANS</b>			
Bad loans written off	484	37	149
Movement in provision for loan impairments	-350	339	876
<b>Total bad and doubtful loans</b>	<b>134</b>	<b>376</b>	<b>1,025</b>
<b>7 EMPLOYEE EXPENDITURE</b>			
Salaries	443	487	902
Other	-	-	9
<b>Total employee expenditure</b>	<b>443</b>	<b>487</b>	<b>911</b>
<b>8 OTHER EXPENDITURE</b>			
Auditors' Remuneration - audit of the financial statements (incl. accrual)	13	13	43
- other audit related services	7	0	11
Depreciation	57	66	139
Amortisation of Intangibles	9	6	13
Directors' Fees	60	60	120
Lease Costs re Napier Premises	43	43	85
Motor Vehicle Expenses	5	9	20
Sponsorship	22	28	60
Promotional & Advertising	19	94	141
Property Expenses	27	28	66
Insurance	44	2	29
Computer Maintenance, Consumables, etc	102	103	175
Telephone & Communications	28	32	62
Fringe Benefit tax	3	6	26
Other Expenses	154	210	377
<b>Total other expenditure</b>	<b>593</b>	<b>700</b>	<b>1,367</b>
<b>9 FAIR VALUE MOVEMENT</b>			
Gain/(Loss) on interest rate swap contracts	539	-1,022	-1,886
<b>Total fair value movement</b>	<b>539</b>	<b>-1,022</b>	<b>-1,886</b>

The fair value movement of interest rate swap contracts is recorded in the Statement of Financial Position with the adjustment to fair value recorded in the Statement of Comprehensive Income. The interest rate swaps are not hedge accounted.

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009

Sep 09  
(6 mths)  
Unaudited  
\$000

Sep 08  
(6 mths)  
Unaudited  
\$000

Mar 09  
(12 mths)  
\$000

**10 TAXATION**

*(a) Current period tax*

Surplus/(Deficit) before tax	1,028	(321)	(1,648)
Adjustments for permanent differences	-	1	5
<b>Taxable surplus</b>	<b>1,028</b>	<b>(320)</b>	<b>(1,643)</b>
Taxation	320	(96)	(510)
<b>Current period tax charge</b>	<b>320</b>	<b>(96)</b>	<b>(510)</b>
Effective tax rate	31%	30%	31%
<i>Comprising</i>			
Current tax payable	60	312	349
Deferred tax	260	(408)	(859)
<b>Total tax expense</b>	<b>320</b>	<b>(96)</b>	<b>(510)</b>

*(b) Deferred tax/(benefit)*

**Sep 09 - Unaudited**

	Accruals	Revaluation	Derivatives	Depreciation	Impairment provisions	Employee entitlements	Total 2009
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Opening balance	(11)	199	(528)	1	(286)	(7)	(632)
Temporary differences through Income	5	-	161	(8)	105	(3)	260
Temporary differences through Equity	-	(1)	-	-	-	-	(1)
<b>Closing balance</b>	<b>(6)</b>	<b>198</b>	<b>(367)</b>	<b>(7)</b>	<b>(181)</b>	<b>(10)</b>	<b>(373)</b>

**Sep 08 - Unaudited**

	Accruals	Revaluation	Derivatives	Depreciation	Impairment provisions	Employee entitlements	Total 2008
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Opening balance	-	290	37	29	-23	-15	318
Temporary differences through Income	-	-	(306)	(6)	(102)	6	(408)
Temporary differences through Equity	-	-	-	-	-	-	-
<b>Closing balance</b>	<b>-</b>	<b>290</b>	<b>(269)</b>	<b>23</b>	<b>(125)</b>	<b>(9)</b>	<b>(90)</b>

**Mar 09**

	Accruals	Revaluation	Derivatives	Depreciation	Impairment provisions	Employee entitlements	Total 2009
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Opening balance	-	290	37	29	(23)	(15)	318
Temporary differences through Income	(11)	-	(565)	(28)	(263)	8	(859)
Temporary differences through Equity	-	(91)	-	-	-	-	(91)
<b>Closing balance</b>	<b>(11)</b>	<b>199</b>	<b>(528)</b>	<b>1</b>	<b>(286)</b>	<b>(7)</b>	<b>(632)</b>

Deferred tax benefits are recognised as it is probable that there will be future taxable profits to utilise the temporary differences. This is supported by the fact that HBS has a history of making taxable profits, and the loss for the year ending 31 March 2009 relates primarily to fair value losses of interest rate swaps. These fair value losses are expected to reverse as the interest rate swaps near maturity.

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009**

**11 EQUITY**

**Sep 09 - Unaudited**

	Retained Earnings \$000	Revaluation Reserve \$000	Total 2009 \$000
Opening balance	15,062	886	15,948
Operating profit for the period	708	-	708
Deferred tax movement	-	-1	-1
Closing balance	<u>15,770</u>	<u>885</u>	<u>16,655</u>

Equity % to Total Assets

9.2%

**Sep 08 - Unaudited**

	Retained Earnings \$000	Revaluation Reserve \$000	Total 2009 \$000
Opening balance	16,200	676	16,876
Operating profit for the period	(225)	-	(225)
Reserve increases/(decreases)	-	-	-
Deferred tax movement	-	-	-
Closing balance	<u>15,975</u>	<u>676</u>	<u>16,651</u>

Equity % to Total Assets

8.9%

**Mar 09**

	Retained Earnings \$000	Revaluation Reserve \$000	Total 2009 \$000
Opening balance	16,200	676	16,876
Operating profit for the period	(1,138)	-	(1,138)
Reserve increases/(decreases)	-	119	119
Deferred tax movement	-	91	91
Closing balance	<u>15,062</u>	<u>886</u>	<u>15,948</u>

Equity % to Total Assets

8.7%

**Equity Requirements**

The Trust Deed requires that total equity equals at least 5% of the total tangible assets of HBS.

**Revaluation reserve**

The revaluation reserve contains the revaluation amount of land and buildings, net of tax.

Sep 09 (6 mths) Unaudited \$000	Sep 08 (6 mths) Unaudited \$000	Mar 09 (12 mths) \$000
--	--	------------------------------

**12 CASH AND CASH EQUIVALENTS**

Cash & bank balances	39	381	53
Bank deposits	37,893	43,672	45,820
Bank overdraft	(247)	-	-
<b>Total cash and cash equivalents</b>	<u>37,685</u>	<u>44,053</u>	<u>45,873</u>

The bank deposits are liquidity funds held by HBS. The bank overdraft formed an integral part of HBS's cash management.

**13 TRADE AND OTHER RECEIVABLES**

Sundry debtors	1	-	7
Prepayments	4	-	46
<b>Total trade and other receivables</b>	<u>5</u>	<u>-</u>	<u>53</u>

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009**

**Sep 09**      **Sep 08**      **Mar 09**  
**(6 mths)**      **(6 mths)**      **(12 mths)**  
**Unaudited**      **Unaudited**  
**\$000**              **\$000**              **\$000**

**14 DERIVATIVES**

HBS enters into interest rate swap transactions in the normal course of business to hedge exposure to fluctuations in interest rates in accordance with HBS's financial risk management policies. An independent valuation of their fair value is obtained at the end of each reporting period from BNZ Bank Limited and from ANZ National Bank Limited.

The nominal value of interest rate swap contracts is \$29,503,690 (Sep 08 \$40,144,104) (Mar 09 \$28,877,519).

Interest rate swap contracts (at fair value)	(1,266)	(899)	(1,811)
<b>Total derivatives</b>	<b>(1,266)</b>	<b>(899)</b>	<b>(1,811)</b>

**15 SECURED ADVANCES**

**(a) Secured Advances comprise:**

Secured Advances	142,098	141,367	135,778
Provision for Impairment (Note 16)	(603)	(416)	(953)
<b>Total Secured Advances</b>	<b>141,495</b>	<b>140,951</b>	<b>134,825</b>

**Loan Impairment status**

Neither past due nor impaired	139,110	134,653	131,471
Past due but not impaired			
0 - 29 days	233	1,387	1,326
30 - 92 days	1,353	2,209	895
92+ days	59	-	313
Impaired loans	1,343	3,118	1,773
Provision for impairment	(603)	(416)	(953)
	<b>141,495</b>	<b>140,951</b>	<b>134,825</b>

**(b) Credit quality - Security dissection**

It is impracticable to provide a valuation of the collateral security held against loans on an aggregated basis because of the large number of loans that HBS has & because of ongoing changes to the market valuations of the properties held as first mortgage securities for the loans advanced

HBS's policy in relation to lending on secured advances is that the principal advanced or that portion of the principal outstanding is for:-

**Residential Property:**

No greater than 80% of the value of the freehold property secured, provided that residential lending up to a maximum of 90% LVR can be made if & only if approved mortgage insurance cover is in place for at least the top 20% of the advance.

**Commercial Property:**

No greater than 60% of the value of the freehold property secured.

**Rural Property:**

No greater than 50% of the value of the freehold property secured

A breakdown of the classification of the security on a loan by loan basis is as follows:-

	LVR < 80% LVR < 60% LVR < 50% \$000	LVR 80 - 85% LVR 60 - 65% \$000	LVR > 85% LVR > 65% Unsecured \$000	Total \$000
<b>Sep 09 - Unaudited</b>				
Residential property	115,840	41	185	116,066
Commercial property	17,544	22	-	17,566
Rural property	8,372	-	-	8,372
Personal loans	6	-	88	94
	<b>141,762</b>	<b>63</b>	<b>273</b>	<b>142,098</b>
<b>Sep 08 - Unaudited</b>				
Residential property	108,673	7,100	1,329	117,102
Commercial property	17,989	-	-	17,989
Rural property	6,200	-	-	6,200
Personal loans	-	-	76	76
	<b>132,862</b>	<b>7,100</b>	<b>1,405</b>	<b>141,367</b>

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009

**15 SECURED ADVANCES - cont'd**

	LVR < 80%	LVR 80 - 85%	LVR > 85%	Total
	LVR < 60%	LVR 60 - 65%	LVR > 65%	
Mar 09	LVR < 50%		Unsecured	
	\$000	\$000	\$000	\$000
Residential property	108,925	5,508	341	114,774
Commercial property	13,258	2,552	-	15,810
Rural property	5,086	-	-	5,086
Personal loans	40	-	68	108
	<u>127,309</u>	<u>8,060</u>	<u>409</u>	<u>135,778</u>

  

	Sep 09 (6 mths) Unaudited \$000	Sep 08 (6 mths) Unaudited \$000	Mar 09 (12 mths) \$000

**16 IMPAIRMENT OF SECURED ADVANCES**

*(a) Provision for impairment*

Opening balance		953	77	77
Movement in provision during the period		(350)	339	876
Provision for impairment		<u>603</u>	<u>416</u>	<u>953</u>

*(b) Key assumptions in determining the provision for impairment*

HBS constantly reviews its loan portfolio to assess impairment. The impairment provision is adjusted as required based on evidence relating to borrowers' circumstances. In the course of the preparation of these financial statements HBS has determined the likely impairment loss on loans which have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or other economic circumstances.

In identifying the impairment likely from these events HBS is required to estimate the potential impairment using the length of time the loan is in arrears, historical loss experience and future expectations. The circumstances may vary for each loan over time resulting in higher or lower impairment losses.

All impaired loans have mortgage security, but the security may not be sufficient to cover the full amount of the loan.

*(c) Impaired loan analysis*

	Restructured \$000	Enforced Security \$000	Other Impaired \$000	Total \$000
<b>Sep 09 - Unaudited</b>				
Opening Balance	-	-	1,773	1,773
Less				
Repayments	-	-	(467)	(467)
Bad Debts written off to Expenses (refer Note 6)	-	-	(484)	(484)
Add				
New Non Performing Loans	-	-	521	521
Closing Balance	-	-	<u>1,343</u>	<u>1,343</u>
<b>Sep 08 - Unaudited</b>				
Opening Balance	-	-	1,385	1,385
Add				
New Non Performing Loans	-	-	1,733	1,733
Closing Balance	-	-	<u>3,118</u>	<u>3,118</u>
<b>Mar 09</b>				
Opening Balance	-	-	1,385	1,385
Less				
Repayments	-	(858)	(565)	(1,423)
Bad Debts written off to Expenses (refer Note 6)	-	(149)	-	(149)
Add				
New Non Performing Loans	-	1,007	953	1,960
Closing Balance	-	-	<u>1,773</u>	<u>1,773</u>

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009**

**16 IMPAIRMENT OF SECURED ADVANCES - cont'd**

*(d) Impaired loan provision analysis*

	Restructured \$000	Enforced Security \$000	Other Impaired \$000	Total \$000
<b>Sep 09 - Unaudited</b>				
Opening balance	-	-	953	953
Less				
Over provision	-	-	(175)	(175)
Write offs to bad debts	-	-	(422)	(422)
Add				
Additional provision	-	-	247	247
Net charge/(credit) to Expenses (refer Note 6)	-	-	(350)	(350)
Closing balance	-	-	603	603
<b>Sep 08 - Unaudited</b>				
Opening balance	-	-	77	77
Add				
Additional provision	-	-	339	339
Net charge/(credit) to Expenses (refer Note 6)	-	-	339	339
Closing balance	-	-	416	416
<b>Mar 09</b>				
Opening balance	-	-	77	77
Less				
Over provision	-	-	(35)	(35)
Add				
Additional provision	-	-	911	911
Net charge/(credit) to Expenses (refer Note 6)	-	-	876	876
Closing balance	-	-	953	953

	Sep 09 (6 mths) Unaudited \$000	Sep 08 (6 mths) Unaudited \$000	Mar 09 (12 mths) \$000
<i>(e) Interest and Other Revenue recognised and foregone</i>			
Interest revenue on restructured loans	-	9	28
Interest foregone on restructured loans	67	-	265

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009**

**17 PROPERTY, PLANT AND EQUIPMENT**

*(a) Classes of property, plant & equipment*

Sep 09 - Unaudited	Land & Buildings \$000	Leasehold Improvement \$000	Plant & Equipment \$000	Motor Vehicles \$000	Total \$000
At cost/valuation	1,750	322	347	69	2,488
Accumulated depreciation	(9)	(250)	(225)	(64)	(548)
<b>Total property, plant &amp; equipment</b>	<b>1,741</b>	<b>72</b>	<b>122</b>	<b>5</b>	<b>1,940</b>

Sep 08 - Unaudited	Land & Buildings \$000	Leasehold Improvement \$000	Plant & Equipment \$000	Motor Vehicles \$000	Total \$000
At cost/valuation	1,650	322	534	110	2,616
Accumulated depreciation	(9)	(212)	(371)	(83)	(675)
<b>Total property, plant &amp; equipment</b>	<b>1,641</b>	<b>110</b>	<b>163</b>	<b>27</b>	<b>1,941</b>

Mar 09	Land & Buildings \$000	Leasehold Improvement \$000	Plant & Equipment \$000	Motor Vehicles \$000	Total \$000
At cost/valuation	1,750	322	340	110	2,522
Accumulated depreciation	-	(231)	(196)	(91)	(518)
<b>Total property, plant &amp; equipment</b>	<b>1,750</b>	<b>91</b>	<b>144</b>	<b>19</b>	<b>2,004</b>

*(b) Movements in carrying amounts*

Sep 09 - Unaudited	Land & Buildings \$000	Leasehold Improvement \$000	Plant & Equipment \$000	Motor Vehicles \$000	Total \$000
Opening Balance	1,750	91	144	19	2,004
Additions (Disposals)	-	-	6	(12)	(6)
Depreciation Expense	(9)	(19)	(28)	(2)	(58)
Revaluation Movement	-	-	-	-	-
<b>Closing Balance</b>	<b>1,741</b>	<b>72</b>	<b>122</b>	<b>5</b>	<b>1,940</b>

Sep 08 - Unaudited	Land & Buildings \$000	Leasehold Improvement \$000	Plant & Equipment \$000	Motor Vehicles \$000	Total \$000
Opening Balance	1,650	129	183	36	1,998
Additions	-	-	9	-	9
Depreciation Expense	(9)	(19)	(29)	(9)	(66)
Revaluation Movement	-	-	-	-	-
<b>Closing Balance</b>	<b>1,641</b>	<b>110</b>	<b>163</b>	<b>27</b>	<b>1,941</b>

Mar 09	Land & Buildings \$000	Leasehold Improvement \$000	Plant & Equipment \$000	Motor Vehicles \$000	Total \$000
Opening Balance	1,650	129	183	36	1,998
Additions	-	-	26	-	26
Depreciation Expense	(19)	(38)	(65)	(17)	(139)
Revaluation Movement	119	-	-	-	119
<b>Closing Balance</b>	<b>1,750</b>	<b>91</b>	<b>144</b>	<b>19</b>	<b>2,004</b>

*(c) Valuation details*

Land and buildings are stated at a fair value of \$1,750,000 as at 29 April 2009, determined by M C Pleded, an independent registered valuer from Teffer Young (Hawkes Bay) Limited. The fair value is determined by reference to recent market transactions.

If the cost model had been used, the carrying value of the land & buildings would approximately be \$379,703 (Sep 08 \$382,629) (Mar 09 \$384,321).

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009**

**18 INTANGIBLES**

*(a) Classes of intangibles*

	Sep 09 (6 mths) Unaudited \$000	Sep 08 (6 mths) Unaudited \$000	Mar 09 (12 mths) \$000
Software at cost/valuation	71	64	68
Accumulated amortisation	51	36	43
	<u>20</u>	<u>28</u>	<u>25</u>

*(b) Movements in carrying amounts*

Opening balance	25	28	28
Additions	3	6	10
Amortisation expense	(8)	(6)	(13)
Closing balance	<u>20</u>	<u>28</u>	<u>25</u>

**19 SHARES**

Call shares	52,502	66,822	62,387
Redeemable term shares	110,764	101,765	102,499
<b>Total Shares</b>	<u>163,266</u>	<u>168,587</u>	<u>164,886</u>

Deposits from members are accepted on the basis of a nominal value of \$1 per share and are fully paid. Deposits not in whole dollars are deemed to be advance subscriptions for shares. Interest not paid in cash, and reinvested by members, is deemed to be subscriptions for shares and add to the members' share balance in HBS. The Directors believe the reported values reflect fair value. The reported values are inclusive of accrued interest. 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. HBS's Rules provide for a minimum shareholding of \$200 to attain voting rights.

Interest Rates Paid During the Period were:-

Redeemable term shares	(Average)	5.29%	8.78%	8.25%
Call shares	(Minimum)	nil	nil	nil
Call shares	(Maximum)	3.25%	8.05%	7.79%

Interest is determined in accordance with market conditions.

**20 TRADE AND OTHER PAYABLES**

Sundry Creditors and Accrued Expenses	398	858	669
Employee Entitlements	39	37	34
<b>Total trade and other payables</b>	<u>437</u>	<u>895</u>	<u>703</u>

**21 CASH FLOW STATEMENT RECONCILIATION**

*Reconciliation of cash flow from operating activities with operating profit*

Operating surplus/(deficit) after tax	708	(225)	(1,138)
<i>Non Cash Items</i>			
Depreciation	66	73	152
Realised loss on loans	-	37	149
Specific provision for loan losses	(350)	339	876
Derivatives recorded at fair value	(545)	1,022	1,886
Deferred tax	260	(408)	(859)
<i>Movements in working capital items</i>			
(Increase)/Decrease in trade and other receivables	47	1	(53)
(Increase)/Decrease in tax balance	(170)	-	-
(Increase)/Decrease in secured advances	(6,320)	3,129	8,589
Increase/(Decrease) in payables & employee entitlements	(267)	(102)	(292)
Increase/(Decrease) in shares	(1,620)	(7,230)	(10,834)
<b>Net Cash from Operating Activities</b>	<u>(8,191)</u>	<u>(3,364)</u>	<u>(1,524)</u>

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009

**22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

HBS recognises that risk is inherent in all its business and administrative activities. It acknowledges that risk management is an essential element in the framework of good corporate governance and an integral part of good management practice. The aim of risk management is to provide the structural means to identify, prioritise, minimise and manage the risk involved with HBS's activities. The board has endorsed a policy of compliance and risk management to suit the risk profile of HBS.

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

- Liquidity risk management
- Market risk and hedging policy management
- Credit risk management
- Capital adequacy management

HBS has undertaken the following strategies to minimise the risks arising from financial instruments:

**(a) Liquidity risk**

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

HBS 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
- Regularly monitoring loan repayments and comparing to forecast cash flows.

HBS's Trust Deed dictates that at least 15% of its total tangible assets less reserves, be maintained as liquid funds. HBS ensures that this ratio is not only achieved but usually exceeded. HBS's policy is that these liquid funds are only invested with registered NZ Banks that meet the definition of prime debtors in accordance with the Trust Deed. Investments with Banks are limited to no more than 10% of HBS's assets with any one bank. The ratio is checked daily. Should the liquidity ratio fall below this level, the management and board are to address the matter and ensure that liquid funds are obtained from new deposits or borrowing facilities available.

The ability to demand repayment of all member loans provides HBS with potential access to funds if some or all members shares required repayment.

The maturity profile of the financial liabilities, based on the contractual repayment terms is set out in note 23.

**(b) Market risk & hedging policy**

HBS is exposed to interest rate risk arising from changes in market interest rates. HBS is not exposed to any material currency risk. HBS does not trade in the financial instruments it holds on its books.

The policy of HBS 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 measured gap each month is to be \$500,000 or less. These gaps are measured monthly to identify any large exposures to interest rate movements and to rectify the excess through the use of financial instruments, including derivatives, i.e. interest rate swaps. All hedging counter parties must be a registered bank in terms of the Reserve Bank Act and have a long term credit rating of "A" or above from Standard & Pooors or equivalent from another recognised credit rating agency. Derivatives may not be used for speculative purposes under any circumstances.

HBS performs sensitivity analysis to measure market risk exposures. The method used in determining the sensitivity is to evaluate the profit based on the timing of the interest repricing on the book of HBS for the next year. In doing the calculation the assumptions applied are that:

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

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

HBS's exposure to interest rate risk is set out in Note 24 which details the contractual interest rate re-pricing profile.

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009

**22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - cont'd**

**(c) Credit risk - Secured advances**

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

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

HBS has established policies or procedures over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements
- 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 HBS 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 which carry Loan to Valuation Ratios (LVR) as follows: residential 80%, commercial 60% and rural 50%.

Daily 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.

The significant accounting judgements that are related to the determination of the provision for impairment of loans are set out in Note 16.

**(d) Credit risk - Investment securities and cash and liquid investments**

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

The board policy is to place the investments with New Zealand registered banks. It also limits these investments to no more than 10% of HBS's assets with any one bank.

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

**(e) Capital management**

To manage HBS's capital, which can be affected by excessive growth and by changes in total assets, HBS regularly reviews the capital adequacy ratio and monitors major movements in the asset levels. Policies have been implemented to require reporting to the board and the trustees if the capital ratio falls below 5%. Further, an annual capital budget projection of the capital level is maintained to address how strategic decisions or trends may impact on the capital level.

**(f) Operational risk**

Operational risks arising from day to day operating activities include fraudulent activity, failure of systems, failure to comply with legislation and regulations. A number of policies are in place to regularly review risks arising from operations. In addition, sub committees of management and staff exist to regularly review the IT systems, possible areas that could be exposed to fraudulent activity, legislative compliance, etc. Policies are in place and are subject to regular review by the board.

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009

**23 MATURITY PROFILE**

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans the repayment amount and frequency. The associated table shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained. This is consistent with the expected repayment profile. No estimate of the amount likely to be received from any early repayment of loans has been included in this profile. The fair value of derivative financial instruments is not included in the table as they have no principal cash flows.

The maturity profile indicates a significant liquidity deficiency for the "At Call or Within 1 Month" period. In order to help manage the potential mismatch and meet its obligations as they fall due, HBS has available credit facilities with its bank. The profile assumes that all shares are repaid when they mature. In the ordinary course of business HBS normally achieves high re-investment rates, ensuring that it does not need to demand repayment of the loans. Over the three months prior to balance date the average reinvestment rate of shares was in excess of 90%. There has been no significant change to the average reinvestment rate since balance date.

No account is taken of possible early loan repayments. Loans are for varying terms but the standard loan contract includes an "on demand" clause. Repayments of loans for the previous periods represent an average loan term of approximately 6 years.

The maturity profiles include all cashflows relating to the respective financial instrument as at balance date, not just the principal.

**Sep 09 - Unaudited**

	MATURITY TIMEFRAME							Total \$000
	Less than 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1-2 years	2 - 5 Years	Over 5 Years	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
<b>Monetary Assets</b>								
Cash and deposits	23,685	14,000	-	-	-	-	-	37,685
Trade and other receivables	5	-	-	-	-	-	-	5
Secured advances	1,489	11,439	16,925	24,245	24,913	19,949	42,535	141,495
Future interest receivable	834	1,542	2,101	3,504	4,878	9,766	25,372	47,997
<b>Total Monetary Assets</b>	<b>26,013</b>	<b>26,981</b>	<b>19,026</b>	<b>27,749</b>	<b>29,791</b>	<b>29,715</b>	<b>67,907</b>	<b>227,182</b>
<b>Monetary Liabilities</b>								
Trade and other payables	436	-	-	-	-	-	-	436
Shares	72,771	64,936	8,383	12,705	4,470	-	-	163,265
Future interest payable	406	993	334	400	224	-	-	2,357
<b>Total Monetary Liabilities</b>	<b>73,613</b>	<b>65,929</b>	<b>8,717</b>	<b>13,105</b>	<b>4,694</b>	<b>-</b>	<b>-</b>	<b>166,058</b>
<b>Net Liquidity Gap</b>	<b>(47,600)</b>	<b>(38,948)</b>	<b>10,309</b>	<b>14,644</b>	<b>25,097</b>	<b>29,715</b>	<b>67,907</b>	<b>61,124</b>
<b>Cumulative Liquidity Gap</b>	<b>(47,600)</b>	<b>(86,548)</b>	<b>(76,239)</b>	<b>(61,595)</b>	<b>(36,498)</b>	<b>(6,783)</b>	<b>61,124</b>	

**Sep 08 - Unaudited**

	MATURITY TIMEFRAME							Total \$000
	Less than 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1-2 years	2 - 5 Years	Over 5 Years	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
<b>Monetary Assets</b>								
Cash and deposits	12,662	24,000	7,000	-	-	-	-	43,662
Secured advances	1,146	13,081	16,869	22,793	26,747	18,591	41,724	140,951
Future interest receivable	1,188	3,105	3,239	5,087	7,069	13,768	44,680	78,136
<b>Total Monetary Assets</b>	<b>14,996</b>	<b>40,186</b>	<b>27,108</b>	<b>27,880</b>	<b>33,816</b>	<b>32,359</b>	<b>86,404</b>	<b>262,749</b>
<b>Monetary Liabilities</b>								
Trade and other payables	894	-	-	-	-	-	-	894
Shares	78,990	35,179	19,737	33,447	716	-	-	168,069
Future interest payable	625	1,642	1,314	1,342	58	-	-	4,981
<b>Total Monetary Liabilities</b>	<b>80,509</b>	<b>36,821</b>	<b>21,051</b>	<b>34,789</b>	<b>774</b>	<b>-</b>	<b>-</b>	<b>173,944</b>
<b>Net Liquidity Gap</b>	<b>(65,513)</b>	<b>3,365</b>	<b>6,057</b>	<b>(6,909)</b>	<b>33,042</b>	<b>32,359</b>	<b>86,404</b>	<b>88,805</b>
<b>Cumulative Liquidity Gap</b>	<b>(65,513)</b>	<b>(62,148)</b>	<b>(56,091)</b>	<b>(63,000)</b>	<b>(29,958)</b>	<b>2,401</b>	<b>88,805</b>	

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009**

Mar 09

	MATURITY TIMEFRAME							Total
	Less than 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1-2 years	2 - 5 Years	Over 5 Years	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
<b>Monetary Assets</b>								
Cash and deposits	16,873	24,000	5,000	-	-	-	-	45,873
Trade and other receivables	14	14	21	4	-	-	-	53
Tax Refund	-	-	46	-	-	-	-	46
Secured advances	2,122	14,414	13,478	27,908	22,800	14,007	40,098	134,825
Future interest receivable	828	2,090	2,260	3,336	4,770	9,228	24,631	47,143
<b>Total Monetary Assets</b>	<b>19,837</b>	<b>40,518</b>	<b>20,805</b>	<b>31,246</b>	<b>27,570</b>	<b>23,235</b>	<b>64,729</b>	<b>227,940</b>
<b>Monetary Liabilities</b>								
Trade and other payables	703	-	-	-	-	-	-	703
Tax Payable	-	110	-	-	-	-	-	110
Shares	81,167	43,880	21,931	15,468	2,233	207	-	164,886
Future interest payable	621	1,238	847	451	83	-	-	3,240
<b>Total Monetary Liabilities</b>	<b>82,491</b>	<b>45,228</b>	<b>22,778</b>	<b>15,919</b>	<b>2,316</b>	<b>207</b>	<b>-</b>	<b>168,939</b>
<b>Net Liquidity Gap</b>	<b>(62,654)</b>	<b>(4,710)</b>	<b>(1,973)</b>	<b>15,327</b>	<b>25,254</b>	<b>23,028</b>	<b>64,729</b>	<b>59,001</b>
<b>Cummulative Liquidity Gap</b>	<b>(62,654)</b>	<b>(67,364)</b>	<b>(69,337)</b>	<b>(54,010)</b>	<b>(28,756)</b>	<b>(5,728)</b>	<b>59,001</b>	

**24 INTEREST REPRICING PROFILE**

HBS's exposure to interest rate risk, which is the risk that the reported financial result will fluctuate as a result of changes in market interest rates is set out below. The effect of HBS's hedging policy is also discussed. The effective weighted average interest rate on classes of financial assets and financial liabilities are also included in the table below. Trade and other receivables, trade and other payables and tax payable are non-interest sensitive.

Interest rates on floating mortgages are subject to review on one month's notice being given.

The impact on profit, excluding fair value movement in the value of derivatives, for the following 12 months of a 1% increase/(decrease) in interest rates is an increase/(decrease) of \$412,365 (Sep 2008 \$164,716) (Mar 2009 \$312,353). The fair value movement of derivatives is excluded as it is not possible to reliably estimate the impact of a change in interest rates on the yield curve.

Sep 08 - Unaudited

Interest Rates	Effective	REPRICING TIMEFRAME							Total
		Less than 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1-2 years	2 - 5 Years	Over 5 Years	
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	
<b>Monetary Assets</b>									
Cash and deposits	4.08%	23,685	14,000	-	-	-	-	37,685	
Trade and other receivables		5	-	-	-	-	-	5	
Tax refund		-	-	-	-	106	-	106	
Secured advances	7.08%	91,630	3,684	9,278	13,838	12,594	10,471	141,495	
<b>Total Monetary Assets</b>		<b>115,320</b>	<b>17,684</b>	<b>9,278</b>	<b>13,838</b>	<b>12,700</b>	<b>10,471</b>	<b>179,291</b>	
<b>Monetary Liabilities</b>									
Trade and other payables		436	-	-	-	-	-	436	
Shares	4.51%	73,161	64,569	8,251	12,433	4,852	-	163,266	
<b>Total Monetary Liabilities</b>		<b>73,597</b>	<b>64,569</b>	<b>8,251</b>	<b>12,433</b>	<b>4,852</b>	<b>-</b>	<b>163,702</b>	
<b>Total mismatch</b>		<b>41,723</b>	<b>(46,885)</b>	<b>1,027</b>	<b>1,405</b>	<b>7,848</b>	<b>10,471</b>	<b>15,589</b>	
<b>Hedging</b>		<b>28,577</b>	<b>-</b>	<b>-</b>	<b>(8,161)</b>	<b>(10,275)</b>	<b>(10,141)</b>	<b>-</b>	
<b>Net mismatch</b>		<b>70,300</b>	<b>(46,885)</b>	<b>1,027</b>	<b>(6,756)</b>	<b>(2,427)</b>	<b>330</b>	<b>15,589</b>	

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009**

**24 INTEREST REPRICING PROFILE - cont'd**

Sep 08 - Unaudited	Effective Interest Rates	REPRICING TIMEFRAME							Total
		Less than 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1-2 years	2 - 5 Years	Over 5 Years	
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	
<b>Monetary Assets</b>									
Cash and deposits	8.60%	13,053	24,000	7,000	-	-	-	-	44,053
Secured advances	10.19%	89,539	4,101	888	19,051	13,987	13,385	-	140,951
<b>Total Monetary Assets</b>		<b>102,592</b>	<b>28,101</b>	<b>7,888</b>	<b>19,051</b>	<b>13,987</b>	<b>13,385</b>	<b>-</b>	<b>185,004</b>
<b>Monetary Liabilities</b>									
Trade and other payables		894	-	-	-	-	-	-	894
Tax payable		-	-	32	-	-	-	-	32
Shares	8.41%	82,246	34,530	19,022	32,133	656	-	-	168,587
<b>Total Monetary Liabilities</b>		<b>83,140</b>	<b>34,530</b>	<b>19,054</b>	<b>32,133</b>	<b>656</b>	<b>-</b>	<b>-</b>	<b>169,513</b>
<b>Total mismatch</b>		<b>19,452</b>	<b>(6,429)</b>	<b>(11,166)</b>	<b>(13,082)</b>	<b>13,331</b>	<b>13,385</b>	<b>-</b>	<b>15,491</b>
<b>Less hedging</b>		<b>40,144</b>	<b>-</b>	<b>-</b>	<b>(13,204)</b>	<b>(13,613)</b>	<b>(13,327)</b>	<b>-</b>	<b>-</b>
<b>Net mismatch</b>		<b>59,596</b>	<b>(6,429)</b>	<b>(11,166)</b>	<b>(26,286)</b>	<b>(282)</b>	<b>58</b>	<b>-</b>	<b>15,491</b>

Mar 09	Effective Interest Rates	REPRICING TIMEFRAME							Total
		Less than 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1-2 years	2 - 5 Years	Over 5 Years	
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	
<b>Monetary Assets</b>									
Cash and deposits	7.33%	16,873	24,000	5,000	-	-	-	-	45,873
Trade and other receivables		14	14	21	4	-	-	-	53
Tax refund		-	-	46	-	-	-	-	46
Secured advances	9.57%	88,645	3,372	13,236	5,855	12,228	11,379	110	134,825
<b>Total Monetary Assets</b>		<b>105,532</b>	<b>27,386</b>	<b>18,303</b>	<b>5,859</b>	<b>12,228</b>	<b>11,379</b>	<b>110</b>	<b>180,797</b>
<b>Monetary Liabilities</b>									
Trade and other payables		703	-	-	-	-	-	-	703
Tax payable		-	110	-	-	-	-	-	110
Shares	7.54%	83,103	43,124	21,462	14,861	2,129	207	-	164,886
<b>Total Monetary Liabilities</b>		<b>83,806</b>	<b>43,234</b>	<b>21,462</b>	<b>14,861</b>	<b>2,129</b>	<b>207</b>	<b>-</b>	<b>165,699</b>
<b>Total mismatch</b>		<b>21,726</b>	<b>(15,848)</b>	<b>(3,159)</b>	<b>(9,002)</b>	<b>10,099</b>	<b>11,172</b>	<b>110</b>	<b>15,098</b>
<b>Less hedging</b>		<b>28,877</b>	<b>(2,223)</b>	<b>(1,703)</b>	<b>-</b>	<b>(13,637)</b>	<b>(11,314)</b>	<b>-</b>	<b>-</b>
<b>Net mismatch</b>		<b>50,603</b>	<b>(18,071)</b>	<b>(4,862)</b>	<b>(9,002)</b>	<b>(3,538)</b>	<b>(142)</b>	<b>110</b>	<b>15,098</b>

**25 CREDIT RISK**

**(a) Maximum credit risk exposure**

HBS'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 Balance Sheet.

**(b) Concentrations of credit risk**

Credit risk is currently managed in accordance with policies to reduce HBS's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement.

HBS considers there is no concentration of credit risk on loans with respect to customer, industry or economic sector as HBS has a large, diversified number of loans. HBS considers there is no concentration of credit risk on cash and liquid investments with respect to customer, industry or economic sector as HBS spreads its cash deposits and liquid investments with registered NZ banks that meet the definition of prime debtors in accordance with the Trust Deed.

All counterparties to financial assets are based in New Zealand.

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009**

**25 CREDIT RISK - cont'd**

*(c) Large counterparties*

HBS has exposure to counter parties in excess of 10% of equity as follows:

	Loans	Bank Deposits
Between 100% and 110% of equity	-	-
Between 90% and 100% of equity	-	1
Between 80% and 90% of equity	-	-
Between 70% and 80% of equity	-	-
Between 60% and 70% of equity	-	-
Between 50% and 60% of equity	-	2
Between 40% and 50% of equity	-	-
Between 30% and 40% of equity	1	-
Between 20% and 30% of equity	-	-
Between 10% and 20% of equity	5	1

**26 SECURITIES ACT DISCLOSURES**

	Sep 09 (6 mths) Unaudited	Sep 08 (6 mths) Unaudited	Mar 09 (12 mths)
<i>(a) Proportion of loans with repayments in excess of three months in arrears</i>	0.74%	2.06%	0.88%
<i>(b) Proportion of loans owed in aggregate by the debtors who owe the six largest amounts</i>	12.27%	13.63%	13.35%
<i>(c) Current and non-current assets and liabilities</i>	\$000	\$000	\$000
<b>Current assets</b>			
Cash and liquid investments	37,685	44,053	45,873
Trade and other receivables	5	-	53
Tax balance	106	-	-
Secured advances	54,098	75,434	57,920
<b>Total current assets</b>	<b>91,894</b>	<b>119,487</b>	<b>103,846</b>
<b>Non-current assets</b>			
Secured advances	87,397	65,517	76,905
Property, plant & equipment	1,940	1,941	2,004
Intangibles	20	28	25
Deferred taxation	373	90	632
<b>Total non-current assets</b>	<b>89,730</b>	<b>67,576</b>	<b>79,566</b>
<b>Total Assets</b>	<b>181,624</b>	<b>187,063</b>	<b>183,412</b>
<b>Current liabilities</b>			
Shares	158,795	167,871	162,446
Derivatives	1,266	899	1,811
Trade and other payables	437	926	703
Tax payable	-	-	64
<b>Total current liabilities</b>	<b>160,498</b>	<b>169,696</b>	<b>165,024</b>
<b>Non-current liabilities</b>			
Shares	4,470	716	2,440
<b>Total Non-current liabilities</b>	<b>4,470</b>	<b>716</b>	<b>2,440</b>
<b>Total Liabilities</b>	<b>164,968</b>	<b>170,412</b>	<b>167,464</b>

For the purposes of the above analysis, the carrying value of derivatives (which is their fair value) has been classified as either a current asset or a current liability, depending on whether the fair value is positive or negative.

**27 CONCENTRATION OF FUNDING**

HBS's source of funding is members' shares. The majority of funding from shares is from within Hawke's Bay. The balance is spread throughout New Zealand with a small percentage from overseas. The funding from members is recorded as shares in the balance sheet.

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009**

**28 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. Significant assumptions used in the 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 HBS

	Sep 2009 Fair Value \$000	Sep 2009 Book Value \$000	Sep 2008 Fair Value \$000	Sep 08 Book Value \$000	March 2009 Fair Value \$000	March 2009 Book Value \$000
<b>FINANCIAL ASSETS</b>						
Cash and liquid investments	37,685	37,685	44,053	44,053	45,873	45,873
Trade and other receivables	5	5	-	-	53	53
Secured Advances	141,495	141,495	140,951	140,951	136,636	134,825
<b>Total Financial Assets</b>	<b>179,185</b>	<b>179,185</b>	<b>185,004</b>	<b>185,004</b>	<b>182,562</b>	<b>180,751</b>

<b>FINANCIAL LIABILITIES</b>						
Trade and other payables	437	437	895	895	703	703
Shares	163,266	163,266	168,587	168,587	164,886	164,886
Derivatives	1,266	1,266	899	899	1,811	1,811
<b>Total Financial Liabilities</b>	<b>164,969</b>	<b>164,969</b>	<b>170,381</b>	<b>170,381</b>	<b>167,400</b>	<b>167,400</b>

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

**Cash and liquid investments**

The reported amount is equal to fair value.

**Receivables**

The reported amount takes into account the likelihood of collecting the amounts owed. The Directors believe these amounts reflect their fair value

**Derivatives**

An independent valuation of the fair value of interest rate swap contracts is obtained at the end of each reporting period from BNZ Bank Limited and ANZ National Bank Limited. The fair value is determined by each bank as at balance date by reference to Mark to Market Valuations.

**Secured advances**

Loans are comprised of a mix of floating rate and fixed rate loans. At the end of each reporting period a surrogate for fair value is calculated by adjusting loans for the fair value of derivatives.

**Shares**

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

**Other liabilities**

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

**29 FAIR VALUE CLASSIFICATION OF FINANCIAL INSTRUMENTS**

Classification	Definition	Applicable Financial Instruments
Level 1	Quoted prices (unadjusted) in active markets for identical assets and liabilities	Cash and liquid investments Derivatives
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices)	
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs)	

There have been no significant transfers between the levels during the period under review.

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009**

**30 RELATED PARTY TRANSACTIONS**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of HBS. They include the board of directors and senior management of HBS. HBS deals with key management personnel, with respect to loans and deposits, on the same terms and conditions applied to all members.

	Sep 09 (6 mths) Unaudited \$000	Sep 08 (6 mths) Unaudited \$000	Mar 09 (12 mths) \$000
<b>(a) Key management personnel (including close family members) holdings at balance date</b>			
Owing to key management personnel (Shares)	373	1,271	410
Owing from key management personnel (Secured advances)	679	536	793
Interest received from key management personnel (Secured advances)	18	24	71
Interest received from key management personnel (Guaranteed secured advances)	4	5	16
Interest paid to key management personnel (Shares)	5	52	66
<b>(b) Key management personnel compensation</b>			
Total compensation & short term benefits	182	177	368

Loans made to and borrowings held by key management personnel (including close family members) are made in the course of ordinary business on normal commercial terms and conditions no more favourable than those given to other employees or customers. Loans have been made in accordance with HBS's lending policies including security. No provision for credit impairment or doubtful debts expense has been recognised for loans made to key management personnel (including close family members) (Sep 08 Nil) (Mar 09 Nil).

**(c) Provision of services by key management personnel**

Elizabeth Carr, a Director of the Building Society is also a director of Barnes Mossman Limited.

This company provided accounting services for each reporting period to the value of:

4	12	26
-	(1)	-

The balance outstanding at the end of the period is:

Jacqui Gray, a Director of the Building Society is also a partner of Gifford Devine.

This firm provided legal services for each reporting period to the value of:

5	7	17
-	-	-

The balance outstanding at the end of the period is:

Frank Spencer, a Director of the Building Society is also a director of Logan Stone Limited.

This company provided valuation services for each reporting period to the value of:

1	1	2
(1)	-	-

The balance outstanding at the end of the period is:

All of the above services are provided on normal commercial terms.

**31 COMMITMENTS**

**(a) Capital Commitments**

HBS has no contracts for the purchase of property, plant or equipment as at 30 September 2009 (Sep 08 Nil) (Mar 09 Nil).

**(b) Outstanding Loan Commitments**

Loan and credit facilities approved but not disbursed or drawn at balance date

4,401	2,243	6,829
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**(c) Operating Lease Commitments**

Operating leases contracted for but not capitalised in the financial statements, payable:

Within 1 year	85	85	85
1-2 years	43	85	85
2-3 years	-	43	-
3-4 years	-	-	-
4-5 years	-	-	-
Over 5 years	-	-	-
	<u>128</u>	<u>213</u>	<u>170</u>

The lease for the Napier premises contains renewal rights to 2014.

**HASTINGS BUILDING SOCIETY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2009**

<b>Sep 09</b> <b>(6 mths)</b> <b>Unaudited</b> <b>\$000</b>	<b>Sep 08</b> <b>(6 mths)</b> <b>Unaudited</b> <b>\$000</b>	<b>Mar 09</b> <b>(12 mths)</b> <b>\$000</b>
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**32 STANDBY BORROWING FACILITIES**

HBS has the following facilities in place:-

Bank overdraft facility  
 Total facilities

250	250	250
<u>250</u>	<u>250</u>	<u>250</u>

The interest rate applicable to the overdraft facility is 17.6%.

HBS entered into a Deed of Guarantee with The Crown on 21 November 2008 under the New Zealand Deposit Guarantee Scheme

**33 CONTINGENT LIABILITIES**

There are no contingent liabilities at 30 September 2009 (Sep 08 Nil) (Mar 09 Nil).

**34 SEGMENTAL REPORTING**

An operating segment is defined as a component of an entity that engages in business activity from which it may earn revenues whose operating results are regularly reviewed by the entity's chief operating decision maker for which discrete financial information is available. As HBS' entity-wide results are reported to the Board in their entirety, and not separated into branches, regions or business activities, HBS is deemed to operate in one region, being New Zealand and one industry, being the financial services industry. It has a concentration of members and activity principally in the North Island of New Zealand.

**35 EVENTS OCCURRING AFTER BALANCE DATE**

CEO, Darryn Thomas resigned effective 20 November 2009. The position will be filled by Wilmot Consulting Group Limited until a replacement is appointed. Ian Wilmot is a director and shareholder of Wilmot Consulting Group Limited and a director of HBS.

## ACCOUNTANTS REVIEW REPORT

### To the Board of Directors of Hastings Building Society

We have completed a review of the financial statements of Hastings Building Society ("the Building Society") for the period ended 30 September 2009 on pages 1 to 25, for the six month period ended 30 September 2009 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants New Zealand. The financial statements provide information about the past financial performance of the Building Society and its financial position as at 30 September 2009.

### Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of a financial report which gives a true and fair view of the financial position of the Building Society as at 30 September 2009 and of the results of operations and cashflows for the six months ended on that date.

### Basis of Opinion

A review is limited primarily to enquiries of Building Society personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

### Review Opinion

Based on our review nothing has come to our attention that causes us to believe that the financial statements on pages 1 to 25 do not give a true and fair view of the financial position of the Building Society as at 30 September 2009 and the results of its operations and cashflows for the six month period ended on that date.

Our review was completed on 15 December 2009 and our opinion is expressed as at that date.

  
Chartered Accountants  
Hastings, New Zealand