



10055971879

Hastings Building Society

Prospectus

24 JULY 2008

INDEX

As required by Regulation 5(6) of the Securities Regulations 1983 and set out pursuant to the second schedule thereof:

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MAIN TERMS OF OFFER

The Offeror and Issuer

The Offeror and Issuer is Hastings Building Society ("HBS"), 201 Market Street North, Hastings.

Telephone: (06) 872 7299 Fax: (06) 878 9631

Hastings Building Society was incorporated under the Building Societies Act 1965 on 30 March 1885. The Registered Office of HBS is 201 Market Street North, Hastings

The Securities offered

The securities offered which comprise both debt and participatory securities and which will be issued at par are:

- (a) Unsecured deposits at call or for specified fixed terms.
- (b) Redeemable Shares of \$1.00 each for fixed terms.
- (c) Savings Shares of \$1.00 withdrawable at call.

Amount of Issue

HBS is a continuous issuer of securities and there is no maximum amount of debt and participatory securities being offered under this Prospectus.

The Issuer reserves the right to issue a new Prospectus in substitution for or in addition to this Prospectus at any time.

SUBSCRIBER'S LIABILITY

A subscriber's liability in respect to both types of shares (participatory securities) is subject to the subscribers allocations as a member as set out in HBS's Rules.

All those securities are unsecured, are not subject to any guarantees and are issued in accordance with HBS's Rules (copies of which are available at the Registered Office of HBS).

Listing of the securities offered under this Prospectus is not being sought on the New Zealand Stock Exchange. HBS's shares are essentially a vehicle for unsecured borrowing and apart from voting rights and entitlement to certain information have little in common with shares issued as equity by a company.

Interest on Securities

The rates of interest on call deposits and Savings Shares are calculated on a daily basis and this rate may be varied from time to time. The rate of interest on fixed term deposit and fixed term Redeemable Shares is predetermined and may not be varied unless the Issuer agrees to a withdrawal before maturity in which case the rate may be

adjusted, or a break penalty fee charged at such rate as determined from time to time. Interest on call deposit and Savings Shares, is paid on repayment of the whole of the investment but in any event is calculated and compounded on 31 March and 30 September each year.

Interest on fixed term Redeemable Shares is paid at maturity or such frequency as selected by the investor from the options offered at the time of investment.

In accordance with the Income Tax Act 1994 as amended resident withholding tax shall be deducted from all interest payments made by HBS on all of these securities. The tax will be deducted at the rate prescribed under current legislation unless, (i) The investor elects to have resident withholding tax deducted at a higher rate for every dollar, or (ii) If the interest is paid to more than one person and one of them has made an election to apply the higher rate of resident withholding tax deduction, or (iii) the investor has provided evidence of their non-resident tax status.

Resident withholding tax will not be deducted by HBS if the investor produces to HBS a certificate of exemption issued by the Inland Revenue Department pursuant to Section NF9 of the Income Tax Act 1994.

Current rates of interest offered by HBS are available from the Registered Office and Branch Office of HBS.

OTHER TERMS OF OFFER

Right to refuse Applications

The Directors may refuse, either in full or in part, any application for shares or any offer to deposit monies with HBS.

Evidence of indebtedness

A certificate evidencing "at call" and "specified term" deposits and Redeemable Shares will be sent to the investor if such is requested at the time of application.

Evidence in respect of Savings Shares will be the recording of an investor's transactions in either an individual passbook or half-yearly statement of balance.

Right to Repay "at call" Deposits

HBS as Issuer reserves the right to repay any "at call" deposits at any time on notice to, and without demand by, the depositor.

Relevance of Society's Rules

The Rules of HBS contain provisions relevant to the raising of funds. The principal provisions in this respect are:

- Investors whose securities are in the form of Savings or Redeemable shares are members of HBS and bound by its Rules.
- The rates of return on Savings Shares and Redeemable Share of no fixed term may from time to time, and at the discretion of HBS's Directors, be reviewed and either increased or reduced.
- Savings Shares and Redeemable Shares issued for no fixed term may be repaid by HBS, or may be withdrawn by the member on such notice not exceeding thirty days as the Board may require.

How to Invest

Applications may be made by completing the appropriate form or certificate (for a minimum of two hundred Redeemable Shares) copies of which are available from the Registered office and branch office of HBS. Payment in full must be made on application which can be either by mail or by calling personally at HBS's offices. Interest rates, terms and any minimum subscription amount for all types of security are available on request at the registered office or branch office of HBS.

GUARANTORS

There are no guarantors of the obligations of HBS in this Prospectus.

DIRECTORATE AND ADVISORS

Directors:

Elizabeth Philomena Carr CA
Chairperson; 1/705 Roberts Street, Hastings

Warren Garth Duff
Insurance Representative; Lynden Lea, 540 Lyndhurst Road, Hastings

Colin Armstrong Wake
Orchardist; Riverslea Road South Hastings

Jacqueline Antoinette Christina Gray LL.B
Barrister & Solicitor; 2 Reeve Drive, Havelock North

Francis Edwin Spencer
Registered Valuer; 3 Exmoor Street, Havelock North

David John Mackersey
Company Managing Director; 131 St Andrews Road, Havelock North

Lindsay Robert Knowles,
Company Director; 116 St Andrews Road, Havelock North

Trustee:

Trustees Executors Limited, the registered office of which is Level 5, 10 Customhouse Quay, Wellington.

Chief Executive Officer, Secretary and Securities Registrar:

Darryn James Thomas, 328 Frimley Road Hastings

Auditors: Staples Rodway
Cnr Hastings & Eastbourne Streets, Hastings

Solicitors for Society in respect of this Prospectus:

Gifford Devine
206 Queen Street East
Hastings

Bankers: Westpac
Hastings Branch
103 Heretaunga Street West
Hastings

Registered office:

The Registered Office of HBS is situated at 201 Market Street North, Hastings

Branch or District Offices:

HBS has a branch office at 93 Dalton Street, Napier

HBS AND ITS ACTIVITIES

Background, Structure and Details of Incorporation

HBS was founded in Hastings in March 1885 and was incorporated under the Building Societies Act 1880 on the 30 March 1885 with the name The Hastings Permanent Building & Investment Society. At HBS's Annual General Meeting on the 16 July 1997 it was resolved to change the name of HBS to Hastings Building Society. This name change was registered on the 22nd day of July 1997. HBS operated from one branch in Market Street, Hastings from 1899. HBS opened a further office at 93 Dalton Street, Napier in June 2002.

Purpose and Operations

All HBS's activities are conducted within the provisions of the Building Societies Act 1965 and regulations made thereunder and in accordance with HBS's own rules and in accordance with a Debt Security Trust Deed dated 20 December 1990 as amended by a Deed dated the 27th day of February 2002.

The main purpose of HBS is to raise funds from members and the public for providing finance to the public and the business community. It offers facilities for savings and investment by the issue of redeemable shares and the receipt of deposits and it offers residential and commercial mortgages and charges registered under the Personal Property Securities Act 1999. The Society's predominant lending activity is the provision of advances secured by mortgages of land.

Activities During the last Five Years

HBS's activities have not changed significantly during the last five years. A summary of the financial activities of the last five years is contained on page 8 of this Prospectus.

The principal fixed asset of HBS is its building in Market Street, Hastings which is unencumbered.

Plans for the Coming Year and Future Prospects

In the ensuing year HBS plans to continue to acquire funds as before and from similar sources to continue to provide finance by way of mortgages of land and charges registered under the Personal Property Securities Act 1999.

HBS's investment policy will remain sufficiently flexible to permit HBS to appropriately benefit from the freedom afforded under the Building Societies Amendment Act 1987 but it is not anticipated that there will be any significant departure from present policies.

HBS continues to satisfy a requirement in the market place as an organisation in which personal service is a priority. Being principally regionally funded and based, with a specific range of products which are targeted to meet customer requirements at optimum value, and a focus as a 'savings and investment' based organisation, HBS offers a valuable alternative to the traditional 'banking' option for customers. HBS sees an ability to grow further as customers look for investments in organisations which are New Zealand based and customer focussed with personal service a priority.

FINANCIAL INFORMATION

1. Five Year Summary of Financial Statements
 - Financial Performance
 - Financial Position
 - Notes and Additional Information

2. Financial Statements
 - For the year ended 31 March 2008

HASTINGS BUILDING SOCIETY
SUMMARY OF FINANCIAL STATEMENTS
TO 31 MARCH 2008

Statement of Financial Performance
For the 5 years ended 31 March

	NZ IFRS		March 2007 \$000	Previous GAAP		March 2004 \$000
	March 2008 \$000	March 2007 \$000		March 2006 \$000	March 2005 \$000	
Gross Revenues	20,977	17,868	17,868	16,349	12,741	9,153
Interest Expense	(15,851)	(12,888)	(12,888)	(11,561)	(8,933)	(6,330)
Other Expenses	(2,267)	(2,167)	(2,167)	(2,144)	(1,885)	(1,650)
Investment Recoveries	-	-	-	2	71	-
NET PRE-TAX PROFIT	2,859	2,813	2,813	2,646	1,994	1,173
Provision for Tax	(943)	(931)	(931)	(874)	(660)	(395)
NET AFTER-TAX PROFIT	1,916	1,882	1,882	1,772	1,334	778

Statement of Financial Position
As at 31 March

	NZ IFRS		March 2007 \$000	Previous GAAP		March 2004 \$000
	March 2008 \$000	March 2007 \$000		March 2006 \$000	March 2005 \$000	
Total Assets	194,033	194,707	194,707	199,416	171,679	148,633
Total Tangible Assets	194,005	194,698	194,707	199,416	171,679	148,633
Total Liabilities	177,157	179,818	179,521	186,278	160,429	138,858
Total Reserves	16,876	14,889	15,186	13,138	11,250	9,775

**HASTINGS BUILDING SOCIETY
NOTES TO SUMMARY OF FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
TO 31 MARCH 2008**

1. The amounts in the table, other than the NZ IFRS re-stated figures for 31 March 2007, have been taken from the audited financial statements of the Hastings Building Society. The NZ IFRS re-stated figures for 31 March 2007 are unaudited and have been taken from the financial statements for the year ended 31 March 2008 where they are shown as comparatives
2. Significant changes in accounting policies
The financial statements for the year ended 31 March 2008 were prepared in accordance with NZ IFRS and the prior year comparatives were also re-stated to comply with NZ IFRS. There were no material changes to the profit for the year ended 31 March 2007. The equity position at that date was reduced by \$298,000 due to the recognition of temporary differences under NZ IFRS. Full details of the changes are set out in the financial statements included in this prospectus. Other than converting to NZ IFRS, there have been no changes in accounting policies All policies have been applied on a bases consistent with previous years.
3. Investment Recoveries/ (Losses)
Recoveries were made on the following investments previously written down to nil value.

	March 2008 \$000	March 2007 \$000	March 2006 \$000	March 2005 \$000	March 2004 \$000
IFC Securities	-	-	-	71	-
Equiticorp Holdings	-	-	2	-	-
	-	-	2	71	-

4. Equity Accounting Method
Equity accounting has not been used in the period under review.
5. Dividends
HBS does not issue equity securities therefore no dividends have been paid.
6. Ranking of Securities
There were no securities at 31 March 2008 secured by a mortgage or a charge over the assets of HBS ranking in point of security, ahead of or equally with the securities being offered.

The securities on issue at 31 March 2008 were as follows:

Shares	175,810,698
	175,810,698

HASTINGS BUILDING SOCIETY

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HASTINGS BUILDING SOCIETY

INCOME STATEMENT

FOR THE YEAR ENDED 31 March 2008

	Note	Mar 08	Mar 07
		\$000	\$000
REVENUE			
Interest revenue	3	20,739	17,789
Interest expenditure	4	15,851	12,888
Net interest revenue		4,888	4,901
Fair value gain/(loss)	5	125	-
Other income	6	113	79
		5,126	4,980
EXPENDITURE			
Bad & doubtful loans	7	27	62
Employee expenditure	8	870	810
Other expenditure	9	1,370	1,295
		2,267	2,167
Net profit before tax		2,859	2,813
Tax expense	10	943	931
Net profit after tax		1,916	1,882

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 YEAR ENDED 31 March 2008

	Note	Mar 08	Mar 07
		\$000	\$000
Balance at beginning of period		14,889	12,896
Net profit after tax		1,916	1,882
Revaluation reserve movement	11	<u>71</u>	<u>111</u>
Total recognised revenue and expenses		<u>1,987</u>	<u>1,993</u>
Balance at end of period	11	<u>16,876</u>	<u>14,889</u>

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

HASTINGS BUILDING SOCIETY
CASH FLOW STATEMENT
 FOR THE YEAR ENDED 31 March 2008

	Note	Mar 08 \$000	Mar 07 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Interest received		18,739	17,857
Other Income		113	79
		<u>18,852</u>	<u>17,936</u>
Cash was applied to:			
Interest paid		13,536	12,867
Tax paid		874	985
Staff & other expenses		<u>2,091</u>	<u>2,004</u>
		<u>16,501</u>	<u>15,856</u>
Net cashflows from operations before changes in operating assets and liabilities		2,351	2,080
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Loan repayments		70,720	107,201
Loan advances		(84,825)	(78,392)
Share funds received		304,492	373,170
Share funds withdrawn		<u>(307,602)</u>	<u>(380,109)</u>
Net operating cash flows	21	(14,864)	23,950
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was applied to:			
Purchase of property, plant and equipment		(87)	(63)
Net investing cash flows		(87)	(63)
Total net increase/(decrease) in cash held		(14,951)	23,887
Cash at the beginning of the period		<u>62,384</u>	<u>38,497</u>
Cash at the end of the period	12	<u>47,433</u>	<u>62,384</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 YEAR ENDED 31 March 2008

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. HBS is an issuer for the purposes of the Financial Reporting Act 1993. The financial report is a general purpose financial report 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.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. 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 for the benefit of their members. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards ("IFRS").

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 24 June 2008. The Directors have the power to amend these financial statements once issued.

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) Adoption of NZ IFRS 1

First-time adoption of New Zealand Equivalents to International Financial Reporting Standards has been applied by HBS for the period ended 31 March 2008.

In accordance with the requirements of NZ IFRS 1: First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards, adjustments to financial statements resulting from the introduction of NZ IFRS have been applied retrospectively to comparative figures. These financial statements are the first annual financial statements of HBS to be prepared in accordance with New Zealand equivalents to NZ IFRS. Reconciliations of the transition from previous New Zealand Financial Reporting Standards to NZ IFRS are included in Note 35. No NZ IFRS standards have been applied early.

(b) Measurement Base

The financial statements have been prepared on a going concern basis in accordance with historical cost concepts, except for certain identified financial instruments which are stated at their fair value. The currency is New Zealand dollars and figures are rounded to the nearest thousand dollars.

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

(c) Revenue

Interest Revenue on Loans

Interest revenue on loans is calculated on the daily loan balance outstanding and is charged at each payment date. This is the effective interest method, which allocates the interest and all fees paid or received that are an integral part of the loan, over the term of the loans to which they relate.

Investment Revenue

Investment interest revenue is recognised on an effective interest method which allocates the interest over the period that it relates to.

Fees & Commissions Revenue

Fees and commissions are brought to account on an accrual basis once a right to receive consideration has been attained.

(d) Interest Expense

Interest on shares is recognised as an expense in the period that it relates to using the effective interest method, which allocates the interest expense over the term of the shares.

(e) Impairment of Loans

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

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

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

Loans which are known to be uncollectible are written off as an expense in the income statement. Such loans 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 debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance amount, with the reversal being recognised in the income statement.

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.

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

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

(f) 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. Lease payments for operating leases are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and are amortised on a straight-line basis over the life of the lease term.

(g) 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. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. 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 YEAR ENDED 31 March 2008

(h) Financial Instruments Recognition and Measurement

Financial instruments are initially measured at fair value plus transactions costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through income statement

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. HBS has no financial assets at fair value through the income statement in the reported periods.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are stated at amortised cost using the effective interest rate method less accumulated impairment losses. 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. Cash and cash equivalents are classified as available for sale financial assets.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation. Shares and trade and other payables are classified as financial liabilities.

Derivatives

Derivatives are financial instruments whose value changes in response to a specified variable (eg interest rates), requires no initial net investment and is settled at a future date. Derivative financial instruments are recognised at fair value through the income statement. Interest rate swaps are classified as derivatives.

(i) Goods & Services Tax

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

(j) Income Tax

Income tax expense

Income tax on profits for the period comprise 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 realised.

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

(k) Property, Plant and Equipment

All property, plant and equipment is initially recorded at cost including expenditure that is directly attributable to the acquisition of the items. Assets under \$500 are not capitalised. Subsequent costs are included in the asset'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. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Gains and losses on disposals 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 which is the fair value, on a highest and best use basis, 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

Other property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment losses.

Depreciation

Depreciation of property, plant and equipment is calculated using rates which are estimated to expense the cost of the assets over their useful lives (or, for leasehold improvements, the term of lease, if shorter) on a straight line basis. The estimated economic lives are:

Buildings	50 Years	Plant & Equipment	10 Years	Computer Equipment	3 Years
Leasehold Improvements	9 Years	Motor Vehicles	5 Years		

(l) Intangibles

Intangibles comprise computer software that is not an integral part of the related hardware. This software has either been purchased or developed internally and is initially recorded at cost. 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 the Building Society 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 over three years using the straight line method.

(m) Impairment Testing of Non-Financial Assets

At each reporting date, HBS reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

(n) Cash Flow Statement

The Cash Flow Statement is prepared using the direct approach.

Definitions of terms used in the Cash Flow Statement:

Cash and liquid investments includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by HBS as part of their day-to-day cash management. Under IFRS cash & liquid investments include interest accrued at balance date

Investing Activities are those activities relating to the acquisition and disposal of investments securities, investment properties, 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.

(o) Critical Estimates in Applying the Accounting Policies

The preparation of financial statements requires management to make significant judgments, estimates and assumptions which may affect the reported amounts of HBS's assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. This has an impact on one critical estimate, being the impairment provision for doubtful loans.

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

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 March 2008

(p) Changes in Accounting Policies

These are the first annual financial statements to which NZ IFRS have been applied. The comparative figures have been restated. The accounting policies set out above have been consistently applied to both periods presented in these financial statements and in preparing an opening NZ IFRS balance sheet as at 1 April 2006. The change to IFRS has necessitated several changes to accounting policies. The principal changes are:-

- Software is now classified as an intangible asset.
- Land and buildings are valued at fair value as determined by a professional valuer. Previously they were stated at net current value. The difference between the two methodologies is that fair value makes no allowance for the cost of disposal.
- Deferred tax is now calculated on temporary differences rather than timing differences. The most significant impact of this change is that deferred tax is now provided on the difference between the tax value and the full carrying value of the revalued land and buildings.

Changes have been made to the disclosures to comply with IFRS including:-

- A change to the format of the cash flow statement.
- A detailed explanation of how impairment is assessed.
- Where the changes relating to the adoption of IFRS have necessitated amendments to the opening balances of assets or liabilities, the comparative figures have been restated.
- Secured advances are recognised at amortised cost using the effective interest rate method. This method requires any transaction fees to be amortised to the specific secured advance and spread over the anticipated term of that advance.

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

3 INTEREST REVENUE

	Mar 08 \$000	Mar 07 \$000
Interest on Loans	-	-
- restructured	-	-
- acquired through enforcement of security	-	-
- other impaired advances	-	-
- all other loans	13,983	13,843
Interest on Bank Deposits	4,918	3,946
Interest on Derivatives	1,838	-
Total interest revenue	<u>20,739</u>	<u>17,789</u>

4 INTEREST EXPENDITURE

Interest on Shares	14,087	12,888
Interest on Derivatives	1,764	-
Total interest expenditure	<u>15,851</u>	<u>12,888</u>

5 FAIR VALUE MOVEMENT

Gain /(Loss) on interest rate swap contracts	125	-
Total fair value movement	<u>125</u>	<u>-</u>

6 OTHER INCOME

Fees charged	113	79
Total other income	<u>113</u>	<u>79</u>

7 BAD AND DOUBTFUL LOANS

Bad loans written off	-	262
Movement in provision for loan impairments	27	(200)
Total bad and doubtful loans	<u>27</u>	<u>62</u>

8 EMPLOYEE EXPENDITURE

Salaries	851	793
Other	19	17
Total employee expenditure	<u>870</u>	<u>810</u>

9 OTHER EXPENDITURE

Auditors' Remuneration - external audit	23	26
- other services	4	-
Depreciation (Note 19)	141	133
Directors' Fees	110	100
Lease Costs re Napier Premises	42	42
Motor Vehicle Expenses	16	17
Sponsorship	109	93
Promotional & Advertising	211	146
Property Expenses	62	56
Insurance	79	78
Computer Maintenance, Consumables, etc	166	151
Telephone & Communications	61	52
Fringe Benefit tax	29	32
Other Expenses	317	369
Total other expenditure	<u>1,370</u>	<u>1,295</u>

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

10 TAXATION

	Mar 08 \$000	Mar 07 \$000
(a) Current period tax		
Surplus before tax	2,859	2,813
Adjustments for permanent differences	8	8
Taxable surplus	<u>2,867</u>	<u>2,821</u>
Tax at 33%	946	931
Prior year tax adjustment / rate change	(3)	-
Current period tax charge	<u>943</u>	<u>931</u>
Effective tax rate	33%	33%
Comprising		
Current tax payable	926	871
Deferred tax	20	60
Future changes to tax rates	(3)	-
Total tax expense	<u>943</u>	<u>931</u>

(b) Deferred tax/(benefit)

	Mar 08					Total 2008 \$000
	Revaluation \$000	Derivatives \$000	Depreciation \$000	Impairment provisions \$000	Employee entitlements \$000	
Opening balance	298	-	39	(16)	(13)	308
Temporary differences through Income	-	41	(7)	(9)	(4)	21
Temporary differences through Equity	21	-	-	-	-	21
Changes in tax rates through Income	-	(4)	(3)	2	2	(3)
Changes in tax rates through Equity	(29)	-	-	-	-	(29)
Closing balance	<u>290</u>	<u>37</u>	<u>29</u>	<u>(23)</u>	<u>(15)</u>	<u>318</u>

	Mar 07					Total 2007 \$000
	Revaluation \$000	Derivatives \$000	Depreciation \$000	Impairment provisions \$000	Employee entitlements \$000	
Opening balance	243	-	28	(66)	(12)	193
Temporary differences through Income	-	-	11	50	(1)	60
Temporary differences through Equity	55	-	-	-	-	55
Closing balance	<u>298</u>	<u>-</u>	<u>39</u>	<u>(16)</u>	<u>(13)</u>	<u>308</u>

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

11 EQUITY

Mar 08	Retained Earnings \$000	Revaluation Reserve \$000	Total 2008 \$000
Opening balance	14,284	605	14,889
Operating profit for the period	1,916	-	1,916
Reserve increases/(decreases)	-	63	63
Deferred tax movement	-	(21)	(21)
Change to future tax rate	-	29	29
Closing balance	<u>16,200</u>	<u>676</u>	<u>16,876</u>
Equity % to Total Assets			<u>8.7%</u>

Mar 07	Retained Earnings \$000	Revaluation Reserve \$000	Total 2007 \$000
Opening balance	12,402	494	12,896
Operating profit for the period	1,882	-	1,882
Reserve increases/(decreases)	-	166	166
Deferred tax movement	-	(55)	(55)
Reserve transfers	-	-	-
Closing balance	<u>14,284</u>	<u>605</u>	<u>14,889</u>
Equity % to Total Assets			<u>7.6%</u>

Equity Requirements

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

12 CASH AND LIQUID INVESTMENTS

	Mar 08 \$000	Mar 07 \$000
Cash & bank balances	47	54
Bank deposits	48,152	62,330
Bank overdraft	(766)	-
Total cash and liquid investments	<u>47,433</u>	<u>62,384</u>

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

13 TRADE AND OTHER RECEIVABLES

	Mar 08	Mar 07
Sundry debtors	1	1
Taxation receivable	-	39
Total trade and other receivables	<u>1</u>	<u>40</u>

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. These hedges are classified as cash flow hedges. 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 \$37,585,873 (2007; \$Nil).

Interest rate swap contracts (at fair value)	132	-
Total derivatives	<u>132</u>	<u>-</u>

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

15 SECURED ADVANCES

(a) Secured Advances comprise:

Secured Advances

Provision for Impairment (Note 16)

Total Secured Advances

	Mar 08	Mar 07
	\$000	\$000
	144,518	130,312
	(77)	(50)
	<u>144,441</u>	<u>130,262</u>

(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.

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

	LVR < 85%	LVR > 85%	Total
	\$000	\$000	2008
	\$000	\$000	\$000
Mar 08			
Residential property	120,521	-	120,521
Commercial property	19,742	-	19,742
Rural property	4,082	-	4,082
Personal Loans	96	-	96
	<u>144,441</u>	<u>-</u>	<u>144,441</u>
	LVR < 85%	LVR > 85%	Total
	\$000	\$000	2007
	\$000	\$000	\$000
Mar 07			
Residential property	108,467	-	108,467
Commercial property	17,319	-	17,319
Rural property	4,366	-	4,366
Personal Loans	110	-	110
	<u>130,262</u>	<u>-</u>	<u>130,262</u>

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
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16 IMPAIRMENT OF SECURED ADVANCES

(a) Provision for impairment

	Mar 08 \$000	Mar 07 \$000
Opening balance	50	50
Movement in provision during the period	27	-
Provision for impairment	<u>77</u>	<u>50</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.

(c) Impaired loan analysis

	Restructured \$000	Enforced Security \$000	Other Impaired \$000	Total 2008 \$000
Mar 08				
Opening Balance	-	-	136	136
Less				
Repayments	-	-	(136)	(136)
Performing Loans Transferred Out	-	-	-	-
Write Offs	-	-	-	-
Add				
New Non Performing Loans	-	-	1,385	1,385
Closing Balance	<u>-</u>	<u>-</u>	<u>1,385</u>	<u>1,385</u>
	Restructured \$000	Enforced Security \$000	Other Impaired \$000	Total 2007 \$000
Mar 07				
Opening Balance	-	237	785	1,022
Less				
Repayments	-	(46)	(715)	(761)
Performing Loans Transferred Out	-	-	(70)	(70)
Write Offs	-	(191)	-	(191)
Add				
New Non Performing Loans	-	-	136	136
Closing Balance	<u>-</u>	<u>-</u>	<u>136</u>	<u>136</u>

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

16 IMPAIRMENT OF SECURED ADVANCES - cont'd

(d) Impaired loan provision analysis

	Restructured \$000	Enforced Security \$000	Other Impaired \$000	Total 2008 \$000
Mar 08				
Opening balance	-	-	50	50
Less				
Over provision	-	-	(50)	(50)
Write offs to bad debts	-	-	-	-
Add				
Additional provision	-	-	77	77
Net charge/(credit) to Income Statement	-	-	27	27
Closing balance	-	-	77	77
	Restructured \$000	Enforced Security \$000	Other Impaired \$000	Total 2007 \$000
Mar 07				
Opening balance	-	150	100	250
Less				
Over provision	-	-	-	-
Write offs to bad debts	-	(150)	(50)	(200)
Add				
Additional provision	-	-	-	-
Net charge/(credit) to Income Statement	-	(150)	(50)	(200)
Closing balance	-	-	50	50

(e) Interest and Other Revenue recognised and foregone

	March 08 \$000	March 07 \$000
Interest revenue on non-accrual and restructured loans	Nil	Nil
Interest foregone on non-accrual and restructured loans	Nil	Nil

(f) Loans with repayments past due but not impaired

Past due loans overdue by:-	March 08 \$000	March 07 \$000
0-29 days	2,722	885
30-92 days	1,691	3,020
93-184days	457	136
	<u>4,870</u>	<u>4,041</u>

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

17 PROPERTY, PLANT AND EQUIPMENT

(a) Classes of property, plant & equipment

Mar 08	Land & Buildings \$000	Leasehold Improvement \$000	Plant & Equipment \$000	Motor Vehicles \$000	Total 2008 \$000
At cost/valuation	1,650	322	524	110	2,606
Accumulated depreciation	-	(193)	(341)	(74)	(608)
Total property, plant & equipment	1,650	129	183	36	1,998

Mar 07	Land & Buildings \$000	Leasehold Improvement \$000	Plant & Equipment \$000	Motor Vehicles \$000	Total 2007 \$000
At cost/valuation	1,600	322	474	110	2,506
Accumulated depreciation	-	(156)	(286)	(52)	(494)
Total property, plant & equipment	1,600	166	188	58	2,012

(b) Movements in carrying amounts

	Land & Buildings \$000	Leasehold Improvement \$000	Plant & Equipment \$000	Motor Vehicles \$000	Total 2008 \$000
Opening Balance	1,600	166	188	58	2,012
Additions	6	-	51	-	57
Disposals	(19)	(37)	(56)	(22)	(134)
Depreciation Expense	63	-	-	-	63
Revaluation Movement					
Closing Balance	1,650	129	183	36	1,998

	Land & Buildings \$000	Leasehold Improvement \$000	Plant & Equipment \$000	Motor Vehicles \$000	Total 2007 \$000
Opening Balance	1,450	204	173	80	1,907
Additions	-	-	68	-	68
Disposals	(16)	(38)	(53)	(22)	(129)
Depreciation Expense	166	-	-	-	166
Revaluation Movement					
Closing Balance	1,600	166	188	58	2,012

(c) Valuation details

Land and buildings are stated at a fair value of \$1,650,000 as at 31 March 2008, determined by Robert Douglas MPINZ, an independent registered valuer from Logan Stone Limited, Hastings. The fair value is determined by reference to recent market transactions. Mr F E Spencer a director of Logan Stone Limited is also a director of HBS.

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

18 INTANGIBLES

	March 08 \$000	March 07 \$000
<i>(a) Classes of intangibles</i>		
Software at cost/valuation	58	32
Accumulated depreciation	30	23
	<u>28</u>	<u>9</u>
<i>(b) Movements in carrying amounts</i>		
Opening balance	8	3
Additions	26	10
Disposals	-	-
Depreciation expense	(6)	(4)
Closing balance	<u>28</u>	<u>9</u>

19 SHARES

Call shares	77,796	84,806
Redeemable Term Shares	98,015	93,775
Total Shares	<u>175,811</u>	<u>178,581</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.

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)	8.61%	7.45%
Call Shares	(Minimum)	0.00%	0.00%
Call Shares	(Maximum)	8.05%	7.30%

Interest is determined in accordance with market conditions.

20 TRADE AND OTHER PAYABLES

Sundry Creditors and Accrued Expenses	962	871
Employee Entitlements	54	58
Taxation Payable	12	-
Total trade and other payables	<u>1,028</u>	<u>929</u>

21 CASH FLOW STATEMENT RECONCILIATION*Reconciliation of cash flow from operating activities with operating profit*

Operating profit	1,916	1,882
<i>Non Cash Items</i>		
Depreciation	141	133
Realised Loss on loans	-	262
Specific Provision for loan losses	27	(200)
Fair value movement	(125)	-
Realised (gain)/loss on disposal of assets	-	3
Deferred tax	12	60
<i>Movements in working capital items</i>		
(Increase)/Decrease in trade and other receivables	62	1
(Increase)/Decrease in net advances	(14,340)	28,877
Increase/(Decrease) in creditors & employee entitlements	88	(185)
Increase/(Decrease) in Shares	(2,645)	(6,883)
Net Cash from Operating Activities	<u>(14,864)</u>	<u>23,950</u>

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

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 are 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 & Poors 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 YEAR ENDED 31 March 2008

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 trustee 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 YEAR ENDED 31 March 2008

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. 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 at 31 March 2008. 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 95%. 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.

	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	
Mar-08								
Monetary Assets								
Cash and deposits	26,433	21,000	-	-	-	-	-	47,433
Trade and other receivables	1	-	-	-	-	-	-	1
Secured advances	3,551	5,727	12,440	31,004	25,760	21,856	44,103	144,441
Total Monetary Assets	29,985	26,727	12,440	31,004	25,760	21,856	44,103	191,875
Monetary Liabilities								
Trade and other payables	1,016	-	-	-	-	-	-	1,016
Tax payable	-	-	-	12	-	-	-	12
Shares	96,444	40,843	12,907	25,254	363	-	-	175,811
Total Monetary Liabilities	97,460	40,843	12,907	25,266	363	-	-	176,839
Net Liquidity Gap	(67,475)	(14,116)	(467)	5,738	25,397	21,856	44,103	15,036
Cummulative Liquidity Gap	(67,475)	(81,591)	(82,058)	(76,320)	(50,923)	(29,067)	15,036	

	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	
Mar-07								
Monetary Assets								
Cash and deposits	54,384	8,000	-	-	-	-	-	62,384
Trade and other receivables	1	-	-	-	-	-	-	1
Tax receivable	-	-	39	-	-	-	-	39
Secured advances	1,899	3,251	11,854	25,626	31,717	13,757	42,158	130,262
Total Monetary Assets	56,284	11,251	11,893	25,626	31,717	13,757	42,158	192,686
Monetary Liabilities								
Trade and other payables	930	-	-	-	-	-	-	930
Tax payable	-	-	-	-	-	-	-	-
Shares	108,300	47,511	15,722	6,714	334	-	-	178,581
Total Monetary Liabilities	109,230	47,511	15,722	6,714	334	-	-	179,511
Net Liquidity Gap	(52,946)	(36,260)	(3,829)	18,912	31,383	13,757	42,158	13,175
Cummulative Liquidity Gap	(52,946)	(89,206)	(93,035)	(74,123)	(42,740)	(28,983)	13,175	

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

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.

(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		1
Between 90% and 100% of equity		
Between 80% and 90% of equity		
Between 70% and 80% of equity		1
Between 60% and 70% of equity		
Between 50% and 60% of equity		1
Between 40% and 50% of equity		1
Between 30% and 40% of equity	1	1
Between 20% and 30% of equity		1
Between 10% and 20% of equity	3	

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

26 SECURITIES ACT DISCLOSURES

	Mar 08	Mar 07
<i>(a) Proportion of loans with repayments in excess of three months in arrears</i>	0.01%	0.07%
<i>(b) Proportion of loans owed in aggregate by the debtors who owe the six largest amounts</i>	13.86%	9.87%
<i>(c) Current and non-current assets and liabilities</i>		
Current assets	\$000	\$000
Cash and liquid investments	47,433	62,384
Trade and other receivables	1	1
Tax Receivable	-	39
Derivatives	132	-
Secured Advances	52,722	42,630
Total current assets	100,288	105,054
Non-current assets		
Secured Advances	91,719	87,632
Property, plant & equipment	1,998	2,012
Intangibles	28	9
Total non-current assets	93,745	89,653
Total Assets	194,033	194,707
Current liabilities		
Shares	175,448	178,247
Trade and other payables	1,016	930
Tax payable	12	-
Total current liabilities	176,476	179,177
Non-current liabilities		
Shares	363	334
Deferred taxation	318	308
Total Non-current liabilities	681	642
Total Liabilities	177,157	179,819

For the purposes of the above analysis, the carrying value of derivatives (which is their fair value) have been classified as current assets.

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 YEAR ENDED 31 March 2008

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.

	March 2008 Fair Value \$000	March 2008 Book Value \$000	March 2007 Fair Value \$000	March 2007 Book Value \$000
FINANCIAL ASSETS				
Cash and liquid investments	47,433	47,433	62,384	62,384
Trade and other receivables	1	1	1	1
Derivatives	132	132	-	-
Secured Advances	144,441	144,441	130,262	130,262
Total Financial Assets	192,007	192,007	192,647	192,647
FINANCIAL LIABILITIES				
Trade and other payables	1,028	1,028	929	929
Shares	175,811	175,811	178,581	178,581
Total Financial Liabilities	176,839	176,839	179,510	179,510

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 their fair value 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 31 March 2008 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 their fair value is calculated using the average market rate for such loans that was in effect as at the reporting date.

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.

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

29 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 on the same terms and conditions applied to all members.

	Mar 08 \$000	Mar 07 \$000
(a) Key management personnel holdings at balance date		
Owing to key management personnel (Shares)	1,279	373
Owing from key management personnel (Secured advances)	531	650
Interest received from key management's (Secured advances)	46	42
Interest received from key management personnel (guaranteed secure advances)	10	5
Interest paid to key management personnel (Shares)	117	122
(b) Key management personnel compensation		
Total compensation & short term benefits	344	326

Loans made to and borrowings held by key management personnel (including personally related parties) 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. No provision for credit impairment has been recognised for loans made to key management personnel (2007 \$nil).

(c) Provision of services by key management personnel

Elizabeth Carr, a Director of the Building Society is also a director of Geenty Walsh & Partners Limited. This firm provided accounting services for each reporting period to the value of:	19	8
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:	6	1
Frank Spencer, a Director of the Building Society is also a director of Logan Stone Limited. This firm provided valuation services for each reporting period to the value of:	2	3

30 COMMITMENTS

(a) Capital Commitments

HBS has no contracts for the purchase of property, plant or equipment as at 31 March 2008 (2007: Nil)

(b) Outstanding Loan Commitments

Loan and credit facilities approved but not disbursed or drawn at balance date	7,777	6,807
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(c) Operating Lease Commitments

Operating leases contracted for but not capitalised in the financial statements, payable:		
Within 1 year	85	62
1-2 years	85	-
2-3 years	85	-
3-4 years	-	-
4-5 years	-	-
Over 5 years	-	-
	255	62

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

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 March 2008

31 STANDBY BORROWING FACILITIES

HBS has the following facilities in place:-

Bank overdraft facility
Credit line facility (uncommitted)
Total facilities

Mar 08	Mar 07
\$000	\$000
250	250
750	750
<u>1,000</u>	<u>1,000</u>

32 CONTINGENT LIABILITIES

There are no contingent liabilities at 31 March 2008 (2007; Nil)

33 SEGMENTAL REPORTING

HBS operates in the New Zealand financial services industry with a concentration of members and activity principally in the North Island of New Zealand.

34 EVENTS OCCURRING AFTER BALANCE DATE

No known events have occurred subsequent to balance date which would materially affect these financial statements (2007; Nil)

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 March 2008

35 TRANSITION TO NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

(a) Application of NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards .

HBS's financial statements for the year ended 31 March 2008 are the first financial statements that comply with NZ IFRS and NZ IFRS 1 has been applied in their preparation.

HBS's transition date is 1 April 2006 and the opening balances have been prepared following NZ IFRS at that date. The reporting date of these financial statements is 31 March 2008. HBS's NZ IFRS adoption date is 1 April 2007.

The main measurement changes are:-

Under NZ IAS18, income from loan application fees is spread over the estimated life of the loans advanced. Previously such income was recognised in full in the income year received. As HBS derives very little income from such fees no material impact arises from the transition to NZ IFRS. HBS has not paid any fees or commission to any broker in respect of any lending or funding.

Under NZ IAS12, deferred tax is determined using the balance sheet method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax basis.

Under NZ IAS39, derivatives are initially recognised at fair value on the date the derivative contract is entered into, then subsequently measured to the fair value at each reporting date. The resulting gain or loss is recognised in the income statement.

Under NZ IAS38, computer software, which is not an integral part of the related hardware, has been treated as an intangible asset and amortised over the expected life of the software.

Under NZ IAS39, deposits include interest.

Under NZ IAS7, the definition of cash and cash equivalents has been widened and includes accrued interest on bank deposits.

Under NZ IAS7, cash flows from operating activities includes loans and advances made and the repayment of those loans and advances, and net cash proceeds from shares and deposits and other borrowings.

Reconciliations below provide a quantification of the effect of the transition to NZ IFRS. The reconciliations provide details of the impact of transition on:

- equity at 1 April 2006;
- equity at 31 March 2007;

No exemptions from NZ IFRS have been elected when applying the transition to NZ IFRS.

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

35 TRANSITION TO NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS - cont'd

(b) Reconciliation of Equity at 1 April 2006

	FRS at 1 April 2006 \$000	Adjustment \$000	NZIFRS at 1 April 2006 \$000
ASSETS			
Cash and liquid investments	38,412	85	38,497
Accrued Interest Receivable	612	(612)	-
Trade and other receivables	34	-	34
Derivatives	-	-	-
Secured Advances	158,412	527	158,939
Property, plant & equipment	1,896	(6)	1,890
Intangibles	-	6	6
Future Tax Benefit	50	(50)	-
TOTAL ASSETS	199,416	(50)	199,366
LIABILITIES			
Shares	184,108	1,098	185,206
Accrued Interest Payable	1,098	(1,098)	-
Trade and other payables	996	-	996
Tax payable	76	-	76
Deferred taxation	-	193	193
TOTAL LIABILITIES	186,278	193	186,471
EQUITY			
Retained earnings	12,401	-	12,401
Revaluation reserve	737	(243)	494
TOTAL EQUITY	13,138	(243)	12,895
TOTAL LIABILITIES AND EQUITY	199,416	(50)	199,366

(c) Reconciliation of Equity at 31 March 2007

	FRS at 31 March 2007 \$000	Adjustment \$000	NZIFRS at 31 March 2007 \$000
ASSETS			
Cash and liquid investments	62,054	330	62,384
Accrued Interest Receivable	789	(789)	-
Trade and other receivables	1	-	1
Tax Receivable	39	-	39
Secured Advances	129,803	459	130,262
Property, plant & equipment	2,021	(9)	2,012
Intangibles	-	9	9
TOTAL ASSETS	194,707	-	194,707
LIABILITIES			
Shares	177,427	1,154	178,581
Accrued Interest Payable	1,154	(1,154)	-
Trade and other payables	930	-	930
Tax payable	-	-	-
Deferred taxation	10	298	308
TOTAL LIABILITIES	179,521	298	179,819
EQUITY			
Retained earnings	14,283	-	14,283
Revaluation reserve	903	(298)	605
TOTAL EQUITY	15,186	(298)	14,888
TOTAL LIABILITIES AND EQUITY	194,707	-	194,707

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

**35 TRANSITION TO NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING
 STANDARDS - cont'd**

	FRS for 31 March 2007	Adjustment	NZIFRS for 31 March 2007
	\$000	\$000	\$000
<i>(d) Reconciliation of Income for the year ended 31 March 2007</i>			
REVENUE			
Interest revenue	17,789	-	17,789
Interest expenditure	12,888	-	12,888
Net interest revenue	<u>4,901</u>	-	<u>4,901</u>
Fair value gain/(loss)	-	-	-
Other income	79	-	79
	<u>4,980</u>	-	<u>4,980</u>
EXPENDITURE			
Bad & doubtful loans			
Bad Debts Written Off	262	-	262
Movement in Specific Provision	(200)	-	(200)
Employee expenditure	810	-	810
Other expenditure	1,295	-	1,295
	<u>2,167</u>	-	<u>2,167</u>
Net profit before tax	2,813	-	2,813
Tax expense	931	-	931
Net profit after tax	<u>1,882</u>	-	<u>1,882</u>

HASTINGS BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 March 2008

(e) Reconciliation of Cash Flows for the year ended 31 March 2007

	FRS for 31 March 2007	Adjustment	NZIFRS for 31 March 2007
	\$000	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Interest received	17,612	245	17,857
Other Income	79	-	79
Cash was applied to:			
Interest paid	(12,867)	-	(12,867)
Tax paid	(985)	-	(985)
Staff & Other Expenses	(2,004)	-	(2,004)
Net cashflows from operations before changes in operating assets and liabilities	1,835	245	2,080
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Loan repayments	-	107,201	107,201
Loan advances	-	(78,392)	(78,392)
Share funds received	-	373,170	373,170
Share funds withdrawn	-	(380,109)	(380,109)
Net operating cash flows	1,835	22,115	23,950
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Loan repayments	107,201	(107,201)	-
Cash was applied to:			
Loan advances	(78,392)	78,392	-
Purchase of property, plant and equipment	(63)	-	(63)
Net investing cash flows	28,746	(28,809)	(63)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Share funds received	373,170	(373,170)	-
Cash was applied to:			
Share funds withdrawn	(380,109)	380,109	-
Net financing cash flows	(6,939)	6,939	-
Total net increase/(decrease) in cash held	23,642	245	23,887
Cash at the beginning of the period	38,412	85	38,497
Cash at the end of the period	62,054	330	62,384

23 July 2008

The Board of Directors
Hastings Building Society
P O Box 10
HASTINGS

Dear Sirs

As auditors of Hastings Building Society (HBS), we have prepared this report in accordance with Clause 36 of the Second Schedule to the Securities Regulations 1983 (the regulations) for the inclusion in HBS's Prospectus to be dated 24 July 2008 for debt and participatory securities offered by HBS.

We have audited the financial report of HBS for the year ended 31 March 2007 as set out on pages 11 to 40 of this Prospectus. The financial report provides information about the past financial performance of HBS and its financial position as at 31 March 2008. This information is stated in accordance with the accounting policies set out on pages 15 to 19.

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 the financial report which give a true and fair view of the financial position of HBS as at 31 March 2008 and of the results of operations and cash flows for the year ended on that date.

Auditors Responsibilities

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

Basis of Opinion

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

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

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

Other than in our capacity as auditors we have no relationship with or interest in HBS.

Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by HBS as far as appears from our examination of those records; and
- the financial report on pages 11 to 40, required by clauses 16 to 31 of the Second Schedule to the regulations, and that is required to be audited:
 - complies with the regulations; and
 - subject to the regulations, complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the financial position of HBS as at 31 March 2008 and of the results of its operations and cash flows for the year ended on that date.

The amounts stated pursuant to Clause 7(2) and (3) and Clause 12 of the Second Schedule to the regulations set out in the Summary of Financial Statements on pages 8 and 9 for the five years to March 2008 and under the heading "Ranking of Securities" on page 42 have been correctly taken from audited financial statements.

Our audit was completed on 24 June 2008 and our unqualified opinion was expressed as at that date.

Statement of Consent

We hereby consent to the inclusion of this report in HBS's prospectus to be dated 24 July 2007. We confirm that we have not, before delivery of the Prospectus, withdrawn our written consent to the issue thereof.

Yours faithfully


STAPLES RODWAY HAWKES BAY
Chartered Accountants
Hastings, New Zealand

ADDITIONAL STATUTORY INFORMATION

Other matters required by the Securities Regulations 1983 to be included in a Prospectus of this type and not shown elsewhere are:

Places of inspection of documents

The registered number for HBS is 1780996.

The public file relating to the Issuer is available for inspection (on payment of the required fee) during office hours at the Companies Office at Level 18, ASB Building, 135 Albert Street, Auckland. Copies of documents can be accessed on the companies office website – www.companies.govt.nz under 'search', 'search other registers'.

The Registered Office of HBS is 201 Market Street North, Hastings and copies of the Rules of HBS may be inspected at that address during office hours.

Material Contracts

No Material Contracts other than in the ordinary course of business have been entered into within the last two years.

Pending Proceedings

There are no legal proceedings or arbitrations pending at the date of this Prospectus that may have a material adverse effect on HBS.

Issue Expenses

The estimated amount of the expenses of the issue of this Prospectus is \$15,000.00 and is payable by HBS.

Commission or brokerage may be paid to some referrers of investors in securities under this Prospectus. The rate of such commission or brokerage is negotiated from time to time to a maximum of .75% of the initial or renewed investment.

Ranking of Securities

As at 31 March 2008 there were no securities that were secured by a mortgage or charge over any of the assets of HBS which rank ahead of or equally with the securities being offered under this prospectus. All securities issued under this Prospectus are unsecured.

Trust Deed Protection

The Deposits and Redeemable Shares and Savings Shares (together called in sections of this Prospectus relating to the Trust Deed "the Redeemable Shares") offered in this Prospectus are issued under a Trust Deed dated 20th December 1990 as amended by a Deed dated the 27th day of February 2002 made between HBS and Trustees Executors Limited as Trustee. The Deed came into effect on 1st January 1991. Except to the extent that this Prospectus sets out the terms and conditions relating to the securities, those contained in the Trust Deed will apply. The Trustee does not guarantee repayment of the securities nor the payment of any

interest or dividends thereon.

Limitations on the creation of new Mortgages or Charges

The Trust Deed does not prohibit the creation of new mortgages or charges ranking in point of security ahead of the securities which includes all existing Deposits on issue to the public and all Redeemable Shares on issue but imposes a maximum to the total amount that may be so secured over the assets of HBS being the Total Secured Liabilities referred to in Clause 2 of the below mentioned financial restrictions.

All Deposits rank equally on a winding up with all other Deposits and unsecured liabilities before Redeemable Shares and Redeemable Shares rank equally with all other Redeemable Shares notwithstanding that such securities may have been issued at different times and carry different interest rates and be repayable at different times.

Financial Restrictions

The Trust Deed contains continuing covenants from HBS with the Trustee that it will not:-

1. Permit Total Liabilities to exceed 95% of Total Tangible Assets.
2. Permit Total Secured Liabilities to exceed 1% of Total Tangible Assets (additional secured liabilities permitted to Prime Debtors (e.g. banks) in certain prescribed circumstances may increase Total Secured Liabilities up to a maximum of 7% Total Tangible Assets at any particular time).
3.
 - (a) Permit Total Liquid Assets to be less than 15% (of Total Tangible Assets less Reserves);
 - (b) Permit the total amount payable in cash over any half-year as interest and dividends to exceed income actually received in cash over the same period from investments;
 - (c) Fail to ensure that the assets of HBS are sufficient or likely to be sufficient to enable its liabilities to be discharged as they become due;
 - (d) Permit Exposure to a single issuer of Marketable Debt Securities or, in relation to an issuer that is a member of a group of companies, Exposure to the Single Group of which the issuer is a member (other than to a Bank) to exceed 15% of Total Liquid Assets;
4.
 - (a) Permit the aggregate of Total Secured Indebtedness (other than that secured by mortgages) and Total Unsecured Indebtedness owing to HBS and the Total Listed Securities and the Total Unlisted Securities of HBS to exceed 15% of Total Tangible Assets;
 - (b) Permit the aggregate of Total Unsecured Indebtedness, Total Listed Securities and Total Unlisted Securities to exceed 5% of Total Tangible Assets.

Terms which are referred to in this section and which are defined in the Trust Deed have the meaning specified in the Trust Deed.

Transactions with Associated Persons

Apart from equity investments in existence at the date of the Trust Deed, or which may be approved by the Trustee, HBS is not permitted to lend to, invest in, or guarantee the obligations of Associated Persons (as defined in the Trust Deed) unless security is taken by way of mortgage or Guaranteed Investment Principal and (except in the case of staff loans) on normal commercial terms. HBS covenants with the Trustee that it will not enter into transactions with Associated Persons other than for full market value, on an arms-length basis and in the ordinary course of business.

Reports to Trustee

To enable the Trustee to monitor the financial position of HBS, HBS covenants to report regularly to the Trustee on HBS's financial affairs.

Audited financial statements must be presented yearly and unaudited financial statements half-yearly.

The Directors must report to the Trustee every three months on various matters specified in detail in the Trust Deed, and monthly management financial statements are to be supplied to the Trustee.

The Trustee may also request (in special circumstances) that HBS provide further accounts and relevant information.

Duties of Trustee

The following is a summary of the duties of the Trustee as stated by the Trust Deed:-

- (a) To oversee compliance with the covenants and obligations of HBS under the Trust Deed on the basis of the provisions of the Trust Deed;
- (b) To receive and consider the financial statements and reports of the Directors and Auditors;
- (c) To ascertain whether or not HBS has breached the covenants in the Trust Deed or the terms of issue of any Securities issued after 1 January 1991;
- (d) Upon the occurrence of any event of default under the Trust Deed, the Trustee may declare the Deposit Moneys and/or Redeemable Share Moneys immediately due and payable (and shall following an Event of Default declare the Deposit Moneys immediately due and payable at the request of the holders of 1/5th of the Deposits or upon being directed to do so by an Extraordinary Resolution of the Depositors and declare the Redeemable Share Moneys immediately due and payable at the request of the holders of at least 1/5th of the Redeemable Shares or upon the direction of a Special Resolution).

In addition the Trustee has certain statutory duties including those set out in the Fifth Schedule to the Securities Regulations.

Modifications to Trust Deed

The Trustee may concur with HBS in making modifications to the Trust Deed in certain specified cases set out in the Trust Deed.

Release of Trust Deed

The Trust Deed will be discharged if HBS becomes a registered bank or transfers its engagements to a bank or to another building society or entity which has a Trust Deed in place which complies with the Securities Act 1978 and under which the security holders will be beneficiaries or upon the Trustee being satisfied that all moneys owing under the Trust Deed have been repaid or provision has been made for such repayment.


OTHER MATERIAL MATTERS

The Securities Act (Building Societies) Exemption Notice 2002 is applicable to the issue of the securities referred to in this Prospectus. The exemption notice has the effect of allowing HBS to issue the shares offered in the Prospectus as if they were debt securities.

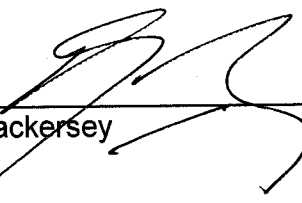
DIRECTOR'S STATEMENT

After due enquiry in relation to the period between the date of the latest Statement of Financial position contained in the Prospectus and the specified date (being the date that this Prospectus was delivered for registration to the District Registrar of Companies) there have not in our opinion arisen any circumstances that materially adversely effect:-

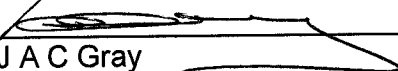
- (a) the trading or profitability of HBS;
- (b) the value of HBS's assets;
- (c) the ability of HBS to pay its liabilities due within the next twelve months.




E P Carr



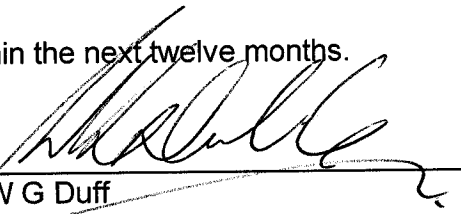
D J Mackersey



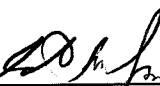
J A C Gray



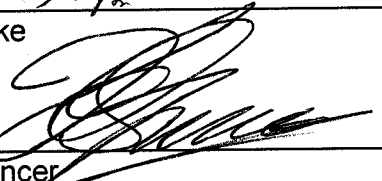
L R Knowles



W G Duff



C A Wake



F E Spencer

This Prospectus has been duly signed by all Directors or their duly authorised agents in writing.

Date: 24 July 2008

24 July 2008

The Directors
Hastings Building Society
PO Box 10
HASTINGS

Dear Sirs

Clause 13(3) of the Second Schedule to the Securities Regulations 1983 requires us to confirm that the offer of securities ("the Securities") set out in this Prospectus complies with any relevant provisions of the Trust Deed dated 20 December 1990. These provisions are those which:

- (i) Entitle Hastings Building Society to constitute and issue under or with the benefit of the Trust Deed (as the case may be) the Securities offered in the Prospectus;
- (ii) Impose restrictions on the right of Hastings Building Society to offer the Securities;

and are described in the summary of the Trust Deed in the Prospectus.

The Auditors have reported on the financial information set out in the Prospectus and our statement does not refer to that information or to any other material in the Prospectus which does not relate to the Trust Deed.

We confirm that the offer of the Securities set out in the Prospectus complies with any relevant provisions of the Trust Deed. We have given the above confirmation on the basis:

- (a) set out above; and
- (b) that, subject to the duties imposed on the Trustee by the Fifth Schedule of the Securities Regulations 1983, the Trustee relies on the information supplied to it by Hastings Building Society pursuant to the Trust Deed and does not carry out an independent check of that information.

Trustees Executors Limited does not guarantee the repayment of Securities or the payment of interest thereon.

Yours sincerely
Trustees Executors Limited



Luiza Moran
Business Manager
Corporate Trust

CERTIFICATE OF REGISTRATION OF PROSPECTUS

(Under Section 42(5) of the Securities Act 1978)

HASTINGS BUILDING SOCIETY

1780996

This is to certify that a Prospectus, for HASTINGS BUILDING SOCIETY, dated the 24th day of July 2008 was registered on the 28th day of July 2008.



Neville Harris
Registrar of Building Societies
Dated this 29th day of July 2008

