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The Securities Act 1978

MEMORANDUM OF AMENDMENTS TO A REGISTERED PROSPECTUS

(Section 43)

Name of Issuer

HEARTLAND BUILDING SOCIETY

Issuer Number

2541477

Introduction

The Issuer has registered a prospectus for an offer deposits dated 27 September 2011 (as amended on 19 January 2012 and 3 April 2012) (the *Prospectus*) under section 42 of the Securities Act 1978 (the *Act*).

The Issuer now wishes to amend the Prospectus in accordance with section 43 of the Act.

Amendments

The Prospectus is amended in the manner indicated by the changes marked on the copy of the Prospectus attached.

A copy of the Prospectus as amended accompanies this Memorandum of Amendments.

Dated: 15 May 2012

Signed by all of the directors of the Issuer or by their agents authorised in writing:

Bruce Robertson Irvine

Jeffrey Kenneth Greenslade



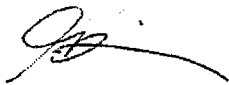
Edward John Harvey



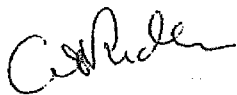
Graham Russell Kennedy



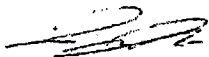
Gary Richard Leech



Christopher Robert Mace



Geoffrey Thomas Ricketts



Michelle Anne Smith

HEARTLAND BUILDING SOCIETY

PROSPECTUS NO. 3

Relating to the offer of Deposits

27 September 2011 (as amended on ~~19~~ 19 January 2012, 3 April 2012 and 15 May 2012)

IMPORTANT NOTICE

This Prospectus is dated 27 September 2011 (as amended on ~~19~~ 19 January 2012, 3 April 2012 and 15 May 2012) and is a prospectus in respect of the offer of Deposits to be issued by Heartland Building Society (*Heartland*). You should read the content of this Prospectus and the Investment Statement carefully.

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No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus or in other communications from the Directors of Heartland. Any information or representation not so contained may not be relied upon as having been authorised by Heartland.

Registration of Prospectus

A copy of this Prospectus duly signed by or on behalf of the Directors of Heartland and having attached to it copies of the documents and other materials required by section 41 of the Securities Act, has been delivered to the Registrar of Financial Service Providers for registration in accordance with section 42 of the Securities Act on 7 October 2011.

The documents required by section 41 of the Securities Act to be endorsed on or attached to the copy of this Prospectus delivered to the Registrar of Financial Service Providers for registration are:

- the signed report of the Auditor in respect of certain financial information included in this Prospectus, as set out in this Prospectus;
- the signed consent of the Auditor to its audit report appearing in this Prospectus;
- the signed statement from the Trustee as set out in this Prospectus;
- copies of the material contracts referred to in this Prospectus, which have not already been registered by, or filed with, the Registrar of Financial Service Providers;¹ and
- letters of authority authorising this Prospectus to be signed by an agent of any Director of Heartland (if and where required).

~~Forward Looking Statements~~ looking statements

This Prospectus contains certain statements that relate to the future. Such statements are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of Heartland and which may cause actual results, performance or achievements of the Heartland Group to differ materially from those expressed or implied by such statements.

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Definitions

Capitalised terms used in this Prospectus have the specific meaning given to them in the Glossary, in the relevant section of this Prospectus or in the Trust Deed.

This Prospectus refers to various legislation in force in New Zealand from time to time. Copies of any such legislation may be viewed online at www.legislation.govt.nz free of charge.

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¹ Subject to the Securities Act (Pyne Gould Corporation Limited and Building Society Holdings Limited) Exemption Notice 2011. See the information under the heading "Places of Inspection of Documents" for further details.

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SECTION 1: HEARTLAND DEPOSITS

This is a Prospectus in respect of the offer of debt securities to be an offer for Deposits issued by Heartland Building Society (Incorporation number 2541477) (*Heartland*) under its Trust Deed.²

Heartland offers a wide range of investment products ~~debt securities for investors. Details of the types of debt securities offered to investors to which this Prospectus relates (Deposits) are set out in Section 3 of this Prospectus. Investors can choose the term of their Deposit from at call to five years and with varying features. Further details on the products available to investors are set out in Section 3 of this Prospectus.~~

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~~Heartland offers flexible investment options through its range of products. Investors can choose how much to invest (subject to a minimum of \$1,000 for Term Accounts and \$2,000 for PWF Savings Optimiser) and whether their interest rate will be fixed for the term of the investment or whether it will be floating.~~

~~The Deposits are direct, unsecured, unsubordinated debt obligations ranking equally with all other deposits issued under the Trust Deed. The Deposits are issued subject to the terms and conditions contained in the Trust Deed.~~

² Heartland Building Society changed its name from Combined Building Society on 1 June 2011.

SECTION 2: INTRODUCING HEARTLAND

Heartland Building Society is a building society established in New Zealand on 22 October 2010 under the Building Societies Act. Heartland Building Society commenced business as a financial services provider in January 2011, on completion of the merger of the financial services businesses of Canterbury Building Society (CBS Canterbury), MARAC Finance Limited (MARAC) and Southern Cross Building Society (Southern Cross), which was completed on 7 January 2011.

As at the date of this Prospectus, Heartland Building Society comprises the former businesses of CBS Canterbury and Southern Cross and 100% shareholdings in MARAC and PGG Wrightson Finance Limited (PWF). Heartland Building Society is New Zealand's largest non-bank deposit taker.

Heartland Building Society is wholly-owned by Heartland New Zealand Limited (through its subsidiaries)³, Heartland New Zealand Limited (Heartland New Zealand) listed on the NZSX on 1 February 2011⁴.

~~**Heartland is a building society established under the Building Societies Act and comprises the former businesses of CBS Canterbury, Southern Cross and 100% shareholdings in MARAC and PGG Wrightson Finance Limited (PWF). Heartland is wholly-owned by Heartland New Zealand (through its subsidiaries)⁵, which listed on the NZSX on 1 February 2011.⁶**~~

Part of NZ since 1875

Heartland's roots stretch back to 1875 with the inception of Ashburton Permanent Building & Investment Society, which subsequently merged with SMC Building Society and Loan & Building Society. Together they became CBS Canterbury. Over the decades they have provided the people in the Canterbury region with home, rural and business loans, term investments, and savings and day-to-day accounts.

Southern Cross similarly has had a long history. Opening in Auckland in 1923, it has offered a similar range of financial services to its customers throughout the North Island.

For nearly 60 years MARAC has supported the growth of small-to-medium sized New Zealand businesses with a range of finance, investment and insurance solutions.

On 31 August 2011, PWF became a subsidiary of Heartland. PWF is was an important acquisition for Heartland, bringing significant impetus to Heartland's rural strategy and

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³ Neither Heartland New Zealand nor any of its subsidiaries that hold shares in Heartland guarantee the obligations of Heartland in relation to the Deposits. All payments to be made in respect of the Deposits will be made by Heartland and are guaranteed by the Guaranteeing Subsidiaries.

⁴ Heartland New Zealand shares are tradeable on the NZSX. However, NZX accepts no responsibility for any statement in this Prospectus. NZSX is a registered market operated by NZX, which is a registered exchange, regulated under the Securities Markets Act 1988.

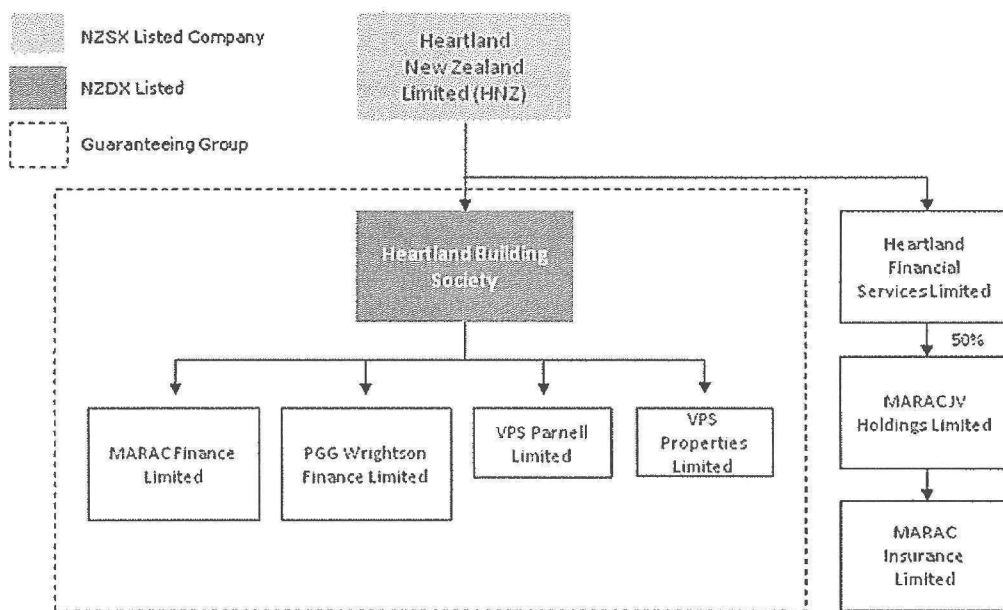
⁵ Neither Heartland New Zealand nor any of its subsidiaries that hold shares in Heartland guarantee the obligations of Heartland in relation to the Deposits.

⁶ Heartland New Zealand shares are tradeable on the NZSX. However, NZX accepts no responsibility for any statement in this Prospectus. The NZSX is a registered market operated by NZX Limited, which is a registered exchange, regulated under the Securities Markets Act 1988.

diversity to Heartland’s asset base. The financial services activities of PWF were established over more than 75 years, by leading Stock and Station companies, Williams & Kettle, Wrightson, Pyne Gould Guinness, and Reid Farmers. Mergers brought the finance arms of these entities together creating what is now PWF.

These four entities are now commercially-CBS Canterbury, Southern Cross, MARAC and PWF now operate as one, Heartland, combining their experience, knowledge and a shared vision to partner with enterprising New Zealanders to succeed.

The Heartland New Zealand Group Structure Diagram (simplified)



Heartland Building Society – principal activities

Heartland Building Society is the principal operating subsidiary of Heartland New Zealand Limited. Heartland Building Society carries out the financial services operations, deposit taking and funding functions for itself and its subsidiaries (the *Heartland Group*).

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The Heartland Group operates in the following major sectors:

- Rural: Specialist financial services to the farming sector primarily offering livestock, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.
- Retail and Consumer: Providing a comprehensive range of financial services to New Zealand families, including term, transactional and savings based deposit accounts together with residential mortgage lending and motor vehicle finance.

- Business: Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized New Zealand businesses.

The Heartland Group is unlike the traditional model of building society, in that a large portion of its lending is based on security other than land.

Across New Zealand, in Heartland Communities

Heartland operates nationwide and has a network of branches and offices spread throughout New Zealand. The people at Heartland, who are experienced in banking and the finance sector, are part of the local communities and have established relationships with Depositors as well as with rural, business and individual customers.

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The people at Heartland are part of your local community. They work with you and your community to help provide a sustainable future for all. Heartland has an extensive network of branches and agencies spread throughout New Zealand.

Branches of the Heartland Group (as at 31 August-December 2011)



Service the Heartland way

Heartland values its heritage, and puts a strong emphasis on customer relationships and enhancing and extending its product and service offerings, and works hard to earn and retain its customers' respect and loyalty every day. As a Heartland customer you will experience service with a personal touch.

Investing in New Zealand

Heartland funds households, small-to-medium sized businesses and farms that form the backbone of the country's economy. When you invest in Heartland, your deposit helps to drive prosperity in your local community and throughout New Zealand. As at the date of this Prospectus, all of Heartland's lending is in relation to New Zealand based assets.

100% FOR ~~_____ We like home-grown _____ and that~~
NEW ZEALAND ~~_____ goes for financial services too _____~~

We are New Zealand operated and managed, with a parent company listed on the NZSX⁷, and use our strong presence in communities across the country to meet the needs of small to medium sized businesses, farmers and families.

100% FOR NEW ZEALAND

Our vision is to drive prosperity in heartland communities across New Zealand for businesses, farmers and families. We are proudly New Zealand operated and managed, with our parent company listed on the NZSX.



Highlights of the ~~Business~~business

Here are just some of Heartland's strengths, which together form a solid base on which our depositors can rely:

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- **Credit Rating**

At the date of the amendment of ~~As at the most recent update to this Prospectus,~~ Heartland has a credit rating of BBB- (Outlook Stable)⁸ from Standard & Poor's, which is considered an investment grade rating by market participants. For the most up to date Heartland credit rating information refer to www.heartland.co.nz.⁹ Further detail on credit ratings is set out in Schedule 1 on pages 34 to 36 of this Prospectus.

- **Banking registration objective**

A key objective of the Heartland Group is ultimately to create a New Zealand operated, controlled and managed banking group, with a parent company listed on the NZSX. Heartland has engaged with the Reserve Bank regarding its application for bank registration. The making of any formal application is subject to Heartland being satisfied that it has met all requirements of the Reserve Bank. The process through to

⁷ Heartland New Zealand shares are tradeable on the NZSX. However, NZX accepts no responsibility for any statement in this Prospectus. The NZSX is a registered market operated by NZX Limited, which is a registered exchange, regulated under the Securities Markets Act 1988.

⁸ On 7 December 2011, S&P updated Heartland's credit rating outlook from "negative" to "stable".

⁹ For an explanation of Standard & Poor's credit rating system, please see Schedule 1 of this Prospectus and also <http://www.standardandpoors.com/ratings/definitions-and-faqs/en/us> under the Section "What do the letter ratings mean?"

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formal application is of indeterminate length. As at the most recent update to this Prospectus, neither Heartland New Zealand, Heartland nor any Guaranteeing Subsidiary is a registered bank under the Reserve Bank Act.

- **All investors rank equally**

All depositors-Depositors in Heartland rank equally with each other, and equally with Heartland's bank fundingcurrent bank funders, Bank of New Zealand and Westpac Banking Corporation. Heartland has undertaken in the Trust Deed not to grant security over any of its assets except in certain limited circumstances.

- **Balance sheet and cash flow**

As at 31 December 2011, the Heartland Group had approximately \$357 million in shareholder funds, with approximately \$2.38 billion in total assets and approximately \$2.02 billion in total liabilities.¹⁰ Heartland's focus is on lending against assets that generate cash flow, assets that have essential uses and assets that have sound realisable values to ensure a sound cashflow to Heartland.

The Heartland Group has two securitisation trusts – Heartland (formerly MARAC) ABCP Trust 1 and CBS Warehouse A Trust (the *Trusts*), the purpose of which is to provide liquidity support for the Heartland Group. IFRS requires that the Trusts are consolidated in the Heartland Group's financial statements. As at 31 December 2011, approximately \$295 million of net securitised receivables and cash continue to be recognised in the Heartland Group's financial statements, however those \$295 million of assets are set aside for the benefit of the investors in the Trusts and no longer form part of the Heartland Group's assets which are available to repay Depositors. However, any surplus income arising in each of these Trusts is distributed back to the Heartland Group.

- ~~Substantial balance sheet, sound cash flow~~

~~Heartland is a substantial business. As at 30 June 2011 (before the acquisition of PWF), Heartland had \$294 million in shareholder funds, with \$2.1 billion in total assets and \$1.8 billion in total liabilities.¹¹ Heartland's focus is on lending against assets that generate cash flow, assets that have essential uses and assets that have sound realisable values. Through this Heartland maintains a sound cashflow.~~

- **Lending diversity**

~~Looking after Depositors' money is something Heartland takes very seriously. Diversification of risk is coupled with robust governance, experienced management and a rigorous approach to credit. Heartland's~~The Heartland Group's lending is diversified across the small-to-medium sized business, rural and household sectors, and geographically across New Zealand. Heartland Group's policy is to lend on the basis of first ranking security. The exceptions to this policy are limited to:

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¹⁰ These amounts have been taken from the statement of financial position of the Heartland Group dated 31 December 2011. The amounts were calculated as at that date. The amounts and statement of financial position are included in the Heartland Group's audited interim financial statements for the six months ended 31 December 2011.

¹¹ These amounts have been taken from the most recent statement of financial position of Heartland dated 30 June 2011. The amounts were calculated as at that date. The amounts and statement of financial position are included in Heartland's audited financial statements for the year ended 30 June 2011.

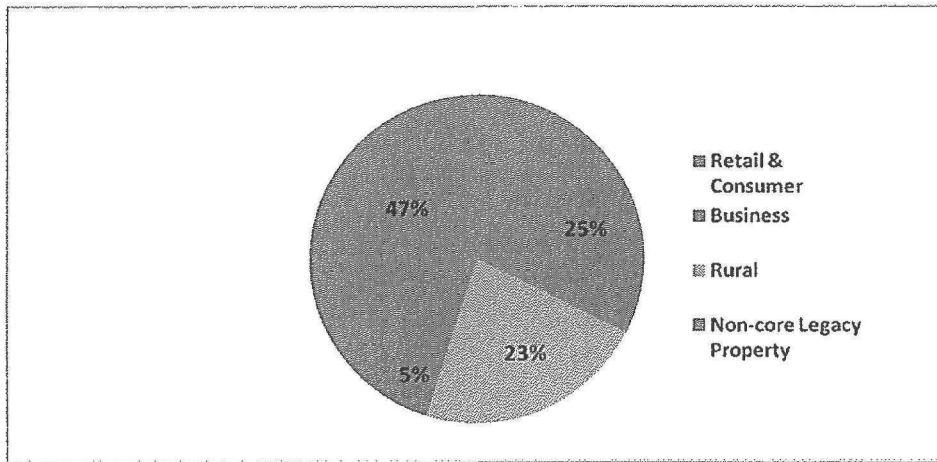
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- everyday or overdraft facilities provided to customers, which represent less than 0.25% of the total lending book; and,
- certain old loans, which are being exited over time.

Of the Heartland Group's total lending book, well over 97% was secured by first ranking security as at 31 December 2011. As the overwhelming majority of the balance (i.e. the 3%) relates to the old loans which are being exited over time, the percentage of first ranking secured will improve even further over time.

Net Receivables of the Heartland Group¹¹ by Division (as at 31 December 2011)¹²

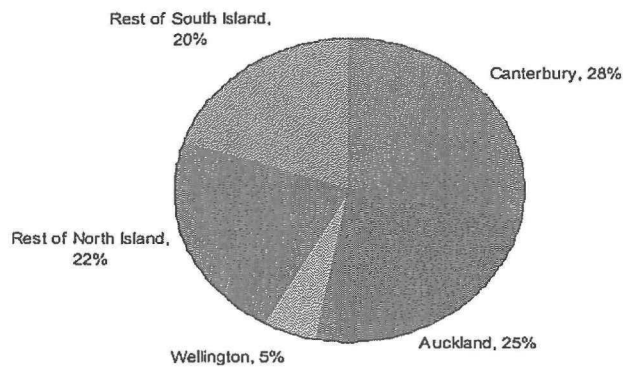


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¹¹ The Heartland Group consolidates two securitisation trusts – Heartland (formerly MARAC) ABCP Trust 1 and CBS Warehouse A Trust (the *Trusts*). Net securitised receivables continue to be recognised in the Heartland Group's financial statements and these graphs, however those assets are set aside for the benefit of the investors in the Trusts and no longer form part of the Heartland Group's assets which are available to repay Depositors. Any surplus income arising in each of these Trusts is, however, distributed back to the Heartland Group.

¹² The information contained in the graph has been taken and derived from the Heartland Group's unaudited management information as at 31 December 2011. Net receivables of the Heartland Group exclude operating lease vehicles and investment properties. The graph is provided for illustrative purposes only.

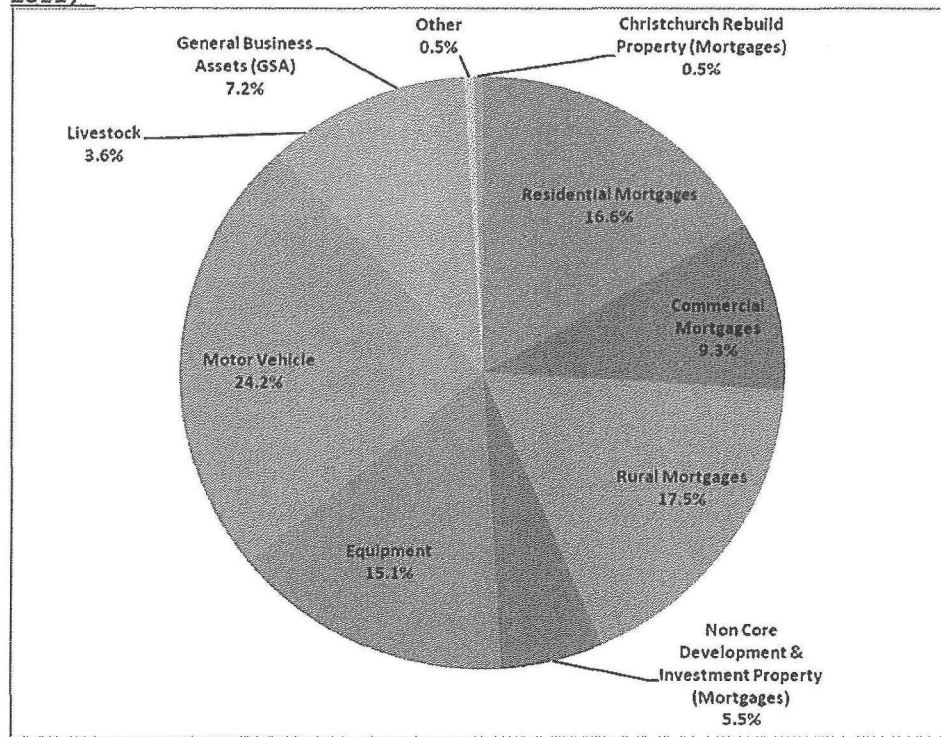
Net Receivables of the Heartland Group¹¹ by Geography (as at 31 December 2011)¹³



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¹³ The information contained in the graph has been taken and derived from the Heartland Group's audited financial statements for the six months ending on 31 December 2011. Net receivables of the Heartland Group exclude operating lease vehicles and investment properties. The graph is provided for illustrative purposes only.

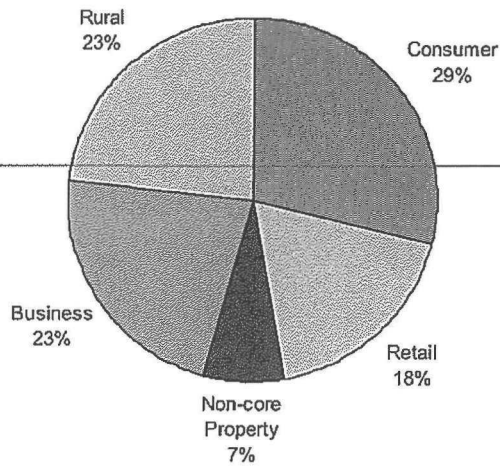
Lending Book of the Heartland Group¹¹ by Secured Asset Type (as at 31 December 2011)¹⁴



Net Receivables of Heartland Group¹⁵ and PWF by Division (as at 30 June 2011)¹⁶

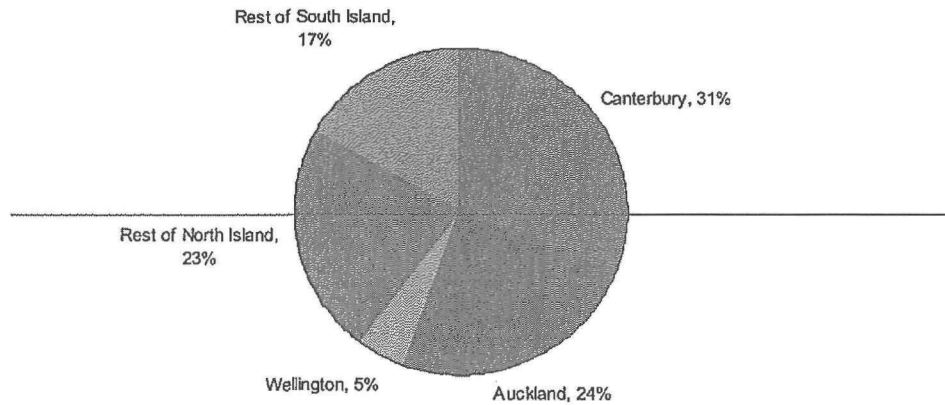
¹⁴ The information contained in the graph has been taken and derived from Heartland Group's unaudited management information as at 31 December 2011. The graph is provided for illustrative purposes only.

¹⁵ Heartland consolidates two securitisation trusts—MARAC-ABCP Trust 1 and CBS Warehouse A Trust (the Trusts)—\$210 million of net securitised receivables continue to be recognised in Heartland's financial statements and in the graph above, however those \$210 million of assets are set aside for the benefit of the investors in the Trusts and no longer form part of Heartland's assets which are available to repay depositors.



¹⁶ The information contained in the graph has been taken and derived, from the most recent audited financial statements of Heartland Group dated 30 June 2011 and PWF dated 30 June 2011 (but excludes \$32.7 million operating lease vehicles, \$34.5 million investment properties and the loan assets that were sold by PWF on or about 31 August 2011). The 30 June 2011 financial statements precede the 31 August 2011 acquisition of PWF by Heartland. The categories have been reclassified and aggregated where necessary for consistency of presentation. The graph is provided for illustrative purposes only.

Net Receivables of Heartland Group¹⁷ and PWF by Geography (as at 30 June 2011)¹⁸



• **Low concentration of lending exposure to a single borrower**

The Heartland Group has limited exposure to any single customer or counterparty. Under the Trust Deed, the Heartland Group's exposure to its largest single borrower may not exceed 15% of capital, and the Board regularly monitors the largest amounts owing by any individual borrower or group of related borrowers to ensure compliance with this ratio. The Heartland Group operates across a broad New Zealand customer base. This helps to limit the risk of the Heartland Group being exposed to any one group of customers failing to meet their repayments.

• **Funding mix**

Heartland relies on its retail deposit base (including call deposit balances, and reinvestment or new investment in retail term deposits) as its primary source of balance sheet funding. In the context of retail term deposits, Heartland relies on substantial levels of reinvestment, the actual and targeted levels of which will vary from time to time. For the calendar year 2011, Heartland's average year to date retail deposit reinvestment rate was always in excess of 70%. This included a period during which a number of Depositors who were attracted by the Crown guarantee did not reinvest due to the impending expiry of the Crown guarantee on 31 December 2011.

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¹⁷ Heartland consolidates two securitisation trusts – MARAC ABCP Trust 1 and CBS Warehouse A Trust (the Trusts) – \$210 million of net securitised receivables continue to be recognised in Heartland's financial statements and in the graph above, however those \$210 million of assets are set aside for the benefit of the investors in the Trusts and no longer form part of Heartland's assets which are available to repay depositors.

¹⁸ The information contained in the graph has been taken and derived, from the most recent audited financial statements of Heartland Group dated 30 June 2011 and PWF dated 30 June 2011 (but excludes \$22.7 million operating lease vehicles, \$24.5 million investment properties and the loan assets that were sold by PWF on or about 31 August 2011). The 30 June 2011 financial statements precede the 31 August 2011 acquisition of PWF by Heartland. The categories have been reclassified and aggregated where necessary for consistency of presentation. The graph is provided for illustrative purposes only.

For the calendar year 2012 to the end of April (being the period from the expiry of the Crown guarantee through to the last full month as at the most recent update to this Prospectus), Heartland's average year to date retail deposit reinvestment rate has remained in excess of 70%. Heartland also has other sources of funding. As at the most recent update to this Prospectus, this includes:

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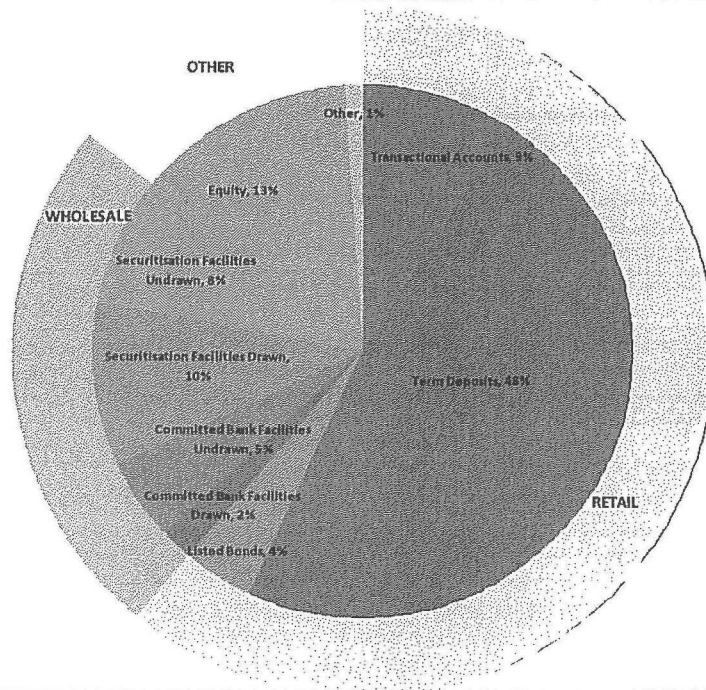
- NZDX-quoted bonds with a principal amount of \$104.2 million. These NZDX-quoted bonds mature on 15 July 2013.
- Committed bank facilities with a maximum principal amount of \$200 million. These facilities are comprised of two \$100 million tranches. The first tranche matures on 30 September 2012. The second tranche matures on 30 June 2013, if Heartland obtains bank registration by 30 June 2012, or otherwise on 30 September 2013.
- The Heartland (formerly MARAC) securitisation programme with a maximum principal amount of \$300 million. The Heartland Group can access funding through this securitisation programme by selling motor vehicle and other equipment receivables provided those receivables satisfy certain specified criteria.
- The CBS Canterbury securitisation programme with a maximum principal amount of \$150 million. The Heartland Group can access funding through this securitisation programme by selling residential property receivables provided those receivables satisfy certain specified criteria.

The types and amounts of these other sources of funding, and their availability, may change from time to time, perhaps significantly. However, access to both retail and wholesale funding reduces Heartland's reliance on a single funding source, and together with the staggering of maturity dates assists in managing liquidity risk.

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Funding Mix of the Heartland Group (as at 31 December 2011)¹⁹



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Funding diversity

Heartland is funded through retail deposits, committed bank facilities, a securitisation programme and an NZDX-listed bond. This diversified funding base reduces Heartland's reliance on any single funding source, and together with the staggering of maturity dates assists in managing liquidity and re-financing risk.

Management of capital

Heartland's policy is to maintain its capital base to insulate against risk so as to maintain investor, creditor and market confidence and to support future growth of the business. Heartland has minimum capital requirements which it is required to maintain in accordance with its Trust Deed, borrowing facilities and the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010.

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NZSX-listed parent company

Heartland's parent company, Heartland New Zealand, is listed on the NZSX and has approximately 8,000 shareholders as at the most recent update to this Prospectus.²⁰ Having an NZSX-listed parent provides the potential to access further capital.

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¹⁹ The information contained in the graph has been taken and derived from the Heartland Group's unaudited management information as at 31 December 2011. The graph is provided for illustrative purposes only.

• **Heartland's Board of Directors**

The Board and management of Heartland are committed to ensuring that it maintains corporate governance practices in line with current best practice. The Board has established policies and protocols which comply with the corporate governance requirements of the NZSX/NZDX Listing Rules. The Directors of Heartland and its executive management team have extensive experience in the financial services and banking industries. All of the Directors have extensive corporate governance experience.

Of Heartland's eight current Directors:

- five of those current Directors (Bruce Irvine, Geoffrey Ricketts, Christopher Mace, Graham Kennedy and Gary Leach) are independent directors of Heartland New Zealand for the purposes of the NZSX Listing Rules; and
- two of those current Directors (Michelle Smith and John Harvey) do not sit on the board of Heartland New Zealand, and are independent directors of Heartland Building Society.



Bruce Irvine BCom, LLB, FCA, AF Inst D, FNZIM
Chairman

Bruce is Chairman of Heartland Building Society and Heartland New Zealand Limited. He is a chartered accountant and was admitted into the Christchurch partnership of Deloitte in 1988. He was Managing Partner from 1995 to 2007 before his retirement from Deloitte in May 2008 to pursue his career as a professional director.



Jeffrey Greenslade LLB
Managing Director

Jeff has over 20 years' experience as a senior banking executive, and is responsible for the strategy and operational management of Heartland Building Society. He joined MARAC Finance Limited as Chief Executive Officer in 2009, and was appointed to its board in December of that year.

²⁰ Neither Heartland New Zealand nor any of its shareholders guarantee the obligations of Heartland in relation to the Deposits.



John Harvey BCom, CA
Director

John has considerable financial services experience and 35 years in the professional services industry, including 23 years as a partner of PricewaterhouseCoopers before his retirement in 2009 to pursue a career as a professional director. John was appointed to the MARAC Finance Limited board in 2010 and subsequently joined the Heartland Building Society Board upon its creation.

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Graham Kennedy J.P., BCom, FCA, ACIS, ACIM, AF Inst D
Director

Graham has 37 years' experience as a chartered accountant and was a director of CBS Canterbury for 24 years, holding the position of Chairman from 2002 - 2008.



Gary Leech BCom, FCA, AF Inst D, FNZTA
Director

Gary has 38 years' experience as a chartered accountant, and was the Chairman of the board of CBS Canterbury leading up to the merger with MARAC Finance Limited and Southern Cross Building Society.

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Christopher Mace CNZM
Director

Chris is an Auckland based businessman, company director and investor with experience in the New Zealand and Australian business environment. He holds a number of directorships and was a director of Southern Cross Building Society leading up to the merger with MARAC Finance Limited and CBS Canterbury.



Geoffrey Ricketts LLB (Hons), F Inst D
Director

Geoff is a commercial lawyer, company director and investor with wide experience in the New Zealand and Australian business environment. He was Chairman of Southern Cross Building Society leading up to the merger with MARAC Finance Limited and CBS Canterbury.



Michelle Smith MCom, CA – NZICA and ICAEW
Director

Michelle is a professional director who has over 20 years' experience working within the financial services industry. Michelle was appointed to the MARAC Finance Limited board in 2010 and subsequently joined the Heartland Building Society Board upon its creation.

The Directors of Heartland may change after the date of this Prospectus. The names of Heartland's current Directors may be obtained from www.heartland.co.nz. Each of the Directors of Heartland can be contacted at Heartland's registered office.

• **Strong governance**

The Directors of Heartland and its executive management team are experienced in the financial services and banking industries. All of the Directors have extensive corporate governance experience. You can find out more about Heartland's Directors on pages 66 to 67.

• **NZSX listed parent company**

Heartland's parent company, Heartland New Zealand, is listed on the NZSX and has over 8,000 shareholders as at the date of this Prospectus²¹. Having an NZSX listed parent provides the potential to access further capital.

²¹ Heartland New Zealand does not guarantee the obligations of Heartland in relation to the Deposits. Heartland New Zealand shares are tradeable on the NZSX. However, NZX accepts no responsibility for any statement in this Prospectus. The NZSX is a registered market operated by NZX Limited, which is a registered exchange, regulated under the Securities Markets Act 1988.

Banking registration objective²²

A key objective of the Heartland Group is ultimately to create a New Zealand-operated, controlled and managed banking group, with a parent company listed on the NZSX. Following the acquisition of PWF, Heartland intends to commence the formal application for bank registration during the 2011-2012 financial year. The bank registration process after application is of indeterminate length, and bank registration is subject to satisfaction of the Reserve Bank's requirements.

²² As at the date of this Prospectus, neither Heartland New Zealand, Heartland, nor any Guaranteeing Subsidiary is a registered bank under the Reserve Bank Act. The bank registration process is of indeterminate length and bank registration is subject to satisfaction of the Reserve Bank's requirements.

SECTION 3: DETAILS OF THE OFFER DEPOSITS OFFERED

The following is a brief description of the types of Deposits being offered. The Deposits are direct, unsecured, unsubordinated debt obligations of Heartland ranking equally with all other debt securities issued by Heartland under the Trust Deed. The Deposits are issued subject to the terms and conditions contained in the Trust Deed.

Investors can call 0800 85 20 20 for further information in relation to Deposits, including to request a copy of the Investment Statement or any specific Deposit terms and conditions. The Investment Statement can also be obtained by downloading a copy from Heartland's website, www.heartland.co.nz or visiting a Heartland branch.

The names and features of Deposits set out below are subject to change, including following the completion of a formal rebranding and product rationalisation exercise which Heartland is currently undertaking.

Deposits offered fall into three broad classes being Term Accounts, Savings Accounts and Transactional Accounts²³

TERM ACCOUNTS	SAVINGS ACCOUNTS	TRANSACTIONAL ACCOUNTS
<p>These are Deposits for a fixed term.</p> <p>Usually a fixed interest rate, except for Heartland Flexi Rate Term Deposit and CBS Canterbury Top Rate Term Deposit for which the interest rate may change throughout the term.</p> <p>No fees are payable, except for international transfers, same day cleared payments and passing on charges incurred on behalf of an investor.</p> <p>Term Accounts include, but are not limited to, the following:</p> <ul style="list-style-type: none"> • Heartland Term Deposit • Heartland Flexi Rate Term Deposit • Heartland Heart of Gold Term Deposit • CBS Canterbury Top Rate Term Deposit • CBS Canterbury Fixed Rate Term Deposit • CBS Canterbury Monthly Income Term Deposit 	<p>These are accounts with features designed to assist saving - offering higher interest rates than Transactional Accounts, but with less transactional capability.</p> <p>Funds may be deposited from time to time. In some cases, withdrawals outside of specified criteria may be subject to fees.</p> <p>Savings Accounts include, but are not limited to, the following:</p> <ul style="list-style-type: none"> • Heartland Saver • Heartland Savings Optimiser • Heartland Call Deposit • CBS Canterbury Special Purpose Account • CBS Canterbury Living Style Savings Account • MARAC Call Deposit • MARAC Business Call Deposit • MARAC Rapid Saver 	<p>These are everyday transactional accounts.</p> <p>Funds may be deposited from time to time, and are available at call. An extensive range of access options are available including in-branch transactions, debit cards, telephone and internet banking. Overdraft and revolving credit options are also available²⁴.</p> <p>Fees may apply to transactions, services and other activity.</p> <p>Transactional Accounts include, but are not limited to, the following:</p> <ul style="list-style-type: none"> • Heartland Everyday Account • CBS Canterbury Everyday Ultimate Account • CBS Canterbury Optimum Club Account • CBS Canterbury Kids Cash & Everyday @ Max Account • PWF Current Account • Southern Cross Current Account Saver

²³ Constituted pursuant to the Supplemental Trust Deed (Accounts) which is supplemental to the Master Trust Deed. Copies of these documents are filed on a public register monitored by the Registrar of Financial Service Providers and are available on request.

²⁴ Heartland's credit and lending criteria will apply. Fees and charges may apply.

<ul style="list-style-type: none"> • CBS Canterbury Heart of Gold Term Deposit • MARAC Term Deposit • PWF Term Deposit • Southern Cross Term Investment 	<ul style="list-style-type: none"> • PWF Rural Saver • PWF Savings Optimiser • Southern Cross Net Saver
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TERM ACCOUNTS	
Interest Rate	Usually a fixed interest rate (the rate as set out on your application form, or as otherwise agreed between you and Heartland), except for Heartland Flexi Rate Term Deposit and CBS Canterbury Top Rate Term Deposit for which the interest rate may change throughout the term.
Payment of Interest	Interest is paid to you, or added to the balance, on the basis set out on your application form, or as otherwise agreed between you and Heartland (usually monthly, quarterly, six-monthly, annually or at maturity).
Term	Fixed term (the term as set out on your application form, or as otherwise agreed between you and Heartland).
Withdrawal Restrictions	You do not have a right to withdraw your investment before maturity, but Heartland understands that people's circumstances do change. Heartland will consider, but is not obliged to accept, written requests for early repayment in certain circumstances such as (and without limitation) the death of an investor or unforeseen financial hardship. If Heartland agrees to make an early repayment the interest rate payable in respect of the Deposit may be reduced by up to 3% per annum (calculated across the term of the investment). Any tax that has already been paid on interest earned cannot be refunded back to you and tax must be claimed from the IRD directly.
Upon Maturity	<p>Prior to the maturity date, Heartland will send you a notice to tell you that your investment is about to mature. You can then elect to:</p> <p>(a) withdraw your investment by cheque;</p> <p>(b) withdraw your investment in cash at Heartland branches;</p> <p>(c) request that Heartland transfer your investment to a bank account nominated by you; or</p> <p>(d) reinvest your money with Heartland, either in the same account or in a different account.</p> <p>Unless you instruct Heartland otherwise, on maturity your balance will be automatically reinvested for the same investment term. Alternatively Heartland may advise you that your matured investment will, in the absence of maturity instructions, be placed on call at the then "past maturity account rate" detailed in its then current rate card, which investors can obtain by calling 0800 85 20 20, or by visiting Heartland's website www.heartland.co.nz.</p>
Fees	No fees are payable on Term Accounts, except for international transfers, same day cleared payments and passing on charges incurred on behalf of an investor and the charge referred to above if the investment is withdrawn before maturity.

	Details of applicable fees are available from Heartland on request or can be found by visiting Heartland's website at www.heartland.co.nz .
Minimum Amount of Investment	As at the most recent update to this Prospectus, the minimum investment is \$1,000. Heartland may alter minimum investment amounts from time to time. Details of the current minimum investment amounts are available from Heartland on request or can be found by visiting Heartland's website at www.heartland.co.nz .

SAVINGS ACCOUNTS	
Interest Rate	Floating Rate. Heartland may vary interest rates at any time without notice (except for PWF Savings Optimiser, for which a specific notice period will apply before interest rate changes take effect).
Payment of Interest	Interest is paid to you, or added to the account balance, on a monthly or quarterly basis (depending on your account type).
Term	On call, although restrictions may apply to withdrawals from certain Savings Accounts (see below).
Withdrawal Restrictions	Withdrawals from Heartland Savings Optimiser, CBS Canterbury Living Style Savings Account and PWF Savings Optimiser are subject to minimum notice periods. For withdrawals without the required notice, a fee will be payable of 3% of the total funds withdrawn subject to a minimum fee of \$30 and maximum fee of \$150.
Fees	No fees are payable on Savings Accounts, except for the charge referred to above for withdrawals without the required notice.
Minimum Amount of Investment	As at the most recent update to this Prospectus, there is no minimum investment amount (apart from a \$2,000 minimum investment for investments in PWF Savings Optimiser). However, Heartland may alter minimum investment amounts from time to time. Details of the current minimum investment amounts are available from Heartland on request or can be found by visiting Heartland's website at www.heartland.co.nz .

TRANSACTIONAL ACCOUNTS	
Interest Rate	Floating Rate. Heartland may vary interest rates at any time without notice.
Payment of Interest	Interest is paid to you, or added to the account balance, on a monthly or quarterly basis (depending on your account type).
Term	On call.
Withdrawal Restrictions	None.

Fees	Fees may apply to transactions, services and other activity on Transactional Accounts, and those fees are subject to change from time to time. Details of applicable fees are available from Heartland on request or can be found by visiting Heartland's website at www.heartland.co.nz .
Minimum Amount of Investment	As at the most recent update to this Prospectus, there is no minimum investment amount. However, Heartland may alter minimum investment amounts from time to time. Details of the current minimum investment amounts are available from Heartland on request or can be found by visiting Heartland's website at www.heartland.co.nz .

TERMS APPLICABLE TO ALL DEPOSITS

Interest Rate and Accrual	<p>Interest accrues on balances on a daily basis from the date a valid application is received and the application moneys are deposited into a Heartland bank account.</p> <p>Heartland's current interest rates and maturity terms are set out in its current rate card which investors can obtain by calling 0800 85 20 20, visiting a Heartland branch or by visiting Heartland's website www.heartland.co.nz.</p>
Taxation	<p>Under current New Zealand tax legislation, Heartland must deduct resident withholding tax (RWT) from all interest paid or compounded before it is paid or credited to New Zealand resident investors, and investors who hold deposits through a fixed establishment in New Zealand.</p> <p>If an investor holds a current certificate of exemption and has given Heartland a copy of that certificate, then Heartland will not deduct RWT.</p> <p>Non-resident withholding tax (NRWT) or approved issuer levy (AIL) deductions will arise in respect of non-resident investors.</p> <p>Heartland will advise investors (unless interest paid is less than \$50) of the amount of interest paid or credited and any RWT, NRWT or AIL deducted for the year ending 31 March by 20 May in the same year.</p>
Transfers	<p>Investments in a MARAC Term Deposit, MARAC Call Deposit, PWF Term Deposit or a PWF Savings Optimiser can be sold privately in minimum amounts of \$1,000 using the standard form for security transfers, which must be executed and delivered to Heartland.</p> <p>No other type of Deposit may be transferred or sold without the prior written consent of Heartland. Heartland will consider, but is not obliged to accept, written requests for transfer.</p>
Statements / Certificates	Heartland will provide to you at the times, and in the manner, agreed between you and Heartland a certificate detailing your Deposit or a statement detailing all transactions that have taken place in relation to your Deposit during the relevant period.

You can invest in a Deposit by visiting any Heartland branch, or by completing the application form distributed with the Investment Statement and returning it, with a cheque for the amount of your investment, to Heartland. Cheques should be made payable to Heartland and be crossed "not transferrable". Heartland will also accept investments by way of electronic funds transfer or cash presented in person at a branch.

Heartland may refuse all or any part of an application without giving a reason.

The following is a summary of the main terms of the Offer. Investors should refer to the more detailed information in other sections of this Prospectus, including the section entitled Statutory Information on pages 66 to 77 and the Investment Statement, which can be obtained by calling 0800 26 27 22, downloading a copy from Heartland's website, www.heartland.co.nz, visiting a Heartland branch, or visiting Heartland's registered office. The product names set out below are subject to change, including following the completion of a formal rebranding exercise which Heartland is currently undertaking.

Key Terms of Security	Deposits	
Type of Investment	Term Account or Call Account. ²⁵	
Products Available	Term Accounts <ul style="list-style-type: none"> • CBS Canterbury Top Rate Term Deposit • CBS Canterbury Fixed Rate Term Deposit • CBS Canterbury Monthly Income Term Deposit • CBS Canterbury Heart of Gold Term Deposit • Heartland Term Deposit • MARAC Term Deposit • MARAC Deferred Interest Term Deposit • MARAC Capital Drawdown Term Deposit • MARAC Rapid Saver • MARAC Floating Rate Term Deposit • PWF Term Deposit • Southern Cross Term Investment 	Call Accounts <ul style="list-style-type: none"> • CBS Canterbury Everyday Ultimate Account • CBS Canterbury Optimum Club Account • CBS Canterbury Special Purpose Account • CBS Canterbury Living Style Savings Account • CBS Canterbury Kids Cash & Everyday @ Max Account • Heartland Call Deposit • MARAC Call Deposit • MARAC Business Call Deposit • PWF Current Account • PWF Rural Saver • PWF Savings Optimiser²⁶ • Southern Cross Current Account Saver • Southern Cross Net Saver
Issuer	Heartland Building Society.	
Listed or Unlisted	Unlisted.	

²⁵ Constituted pursuant to the Supplemental Trust Deed (Accounts) which is supplemental to the Master Trust Deed. Copies of these documents are filed on a public register monitored by the Registrar of Financial Service Providers and are available on request.

²⁶ Withdrawals are subject to 14 days notice.

Key Terms of Security	Deposits
Maximum amount of Deposits being issued	\$4.0 billion.
Ranking	Direct, unsecured, unsubordinated debt obligations ranking equally with all other Deposits.
Interest Rate	<p>Heartland's current interest rates and maturity terms are set out in its current rate card which investors can obtain by calling 0800 26 27 22, visiting a Heartland branch, or by visiting Heartland's website www.heartland.co.nz or its registered office.</p> <p>Heartland may vary any of the interest rates applicable to Deposits at any time without notice. Any change in interest rate will not apply to any Term Accounts established before the date of change and which have a fixed rate of interest. For PWF Savings Optimiser deposit interest rate changes, 14 days notice of any change will be given.</p>
Payment of Interest	<p>Interest will accrue on each Account on a daily basis from the date a valid application is received and the application moneys are deposited into a Heartland bank account.</p> <p>Interest on your Call Account is paid to you, or added to the principal sum of the Deposit, on a monthly or quarterly basis (depending on your account type).</p> <p>Interest on your Term Account is paid to you or added to the principal sum of the Deposit on maturity in the case of a term of less than three or six months (depending on your account type) or, in the case of longer terms, on the basis set out on your Application Form (quarterly, six monthly, annually or at maturity) at the rate agreed between you and Heartland at the time that you make your Deposit.</p>
Upon Maturity of a Term Account	<p>Prior to the maturity date of your Term Account, Heartland will send you a notice to tell you that your investment is about to mature. You can then elect to:</p> <ul style="list-style-type: none"> (a) withdraw your investment by cheque; (b) withdraw your investment in cash at CBS Canterbury or Southern Cross branches; (c) request that Heartland transfer your investment to a bank account nominated by you; or (d) reinvest your money with Heartland, either in the same product or in a different product. <p>Unless you instruct Heartland otherwise, on maturity your Term Account will be automatically reinvested for the same investment term, except if your Deposit type is a MARAC or PWF product and Heartland does not receive a maturity instruction from you. In this circumstance, Heartland will place the matured investment on call at the then "past maturity account rate" detailed in its then current rate card (which investors can obtain by calling 0800 26 27 22, visiting a Heartland branch, or by visiting Heartland's website www.heartland.co.nz, or its registered office).</p>

Key Terms of Security	Deposits
Withdrawals from a Call Account	<p>In general, you may withdraw money from your Call Account in the manner agreed to between you and Heartland at the time you make your Deposit or as advised by Heartland from time to time. Withdrawal methods include in person at a CBS Canterbury or a Southern Cross branch; utilising a Heartland cheque book or EFTPOS / ATM card; providing written instruction; or via internet and telephone banking service (subject to any rules that Heartland may apply to online or telephone transfers). For MARAC Call Deposit, withdrawal instructions must be provided in writing, by phone or by email. For PWF Rural Savings Deposit withdrawals, instructions must be provided in writing, by phone, email, in person at a PWF branch or via internet banking. Requests for withdrawals to be paid by electronic funds transfer must be made on a Business Day and in time to enable processing prior to 3.00pm on that date (or such later time as Heartland may agree). For PWF Savings Optimiser Deposits a 14 day notice of withdrawal period will apply. Notice may be provided in writing, by phone, email or in person at a PWF branch.</p> <p>You can register for internet banking, the telephone transfer service or telephone banking by contacting the branch at which your Call Account was opened (for the avoidance of doubt, Heartland is not a registered bank).</p> <p>Restrictions may apply to withdrawals from certain Call Accounts.</p>
Fees	<p>Certain fees may apply to transactions, services and other activity in relation to certain Deposits (including fees for dishonoured transactions and cheques, overdrawn accounts, and international transfers) and those fees are subject to change from time to time.</p> <p>Withdrawals from CBS Canterbury Living Style Accounts are subject to specific notice of withdrawal criteria or, in the absence of required notice, the interest rate payable on these accounts will be reduced by up to 3% (calculated across the term of the investment), unless that amounts to a reduction in interest payable of less than \$30, in which case a fee of \$30 will be payable by the Depositor.</p> <p>Details of applicable fees are available from Heartland on request or can be found by visiting Heartland's website at www.heartland.co.nz</p> <p>No other charges are payable by any investor or by Heartland or any associated person of Heartland that would affect the amount of your returns.</p>
Minimum Amount of Investment	<p>Apart from the \$2,000 minimum investment for investments in PWF Savings Optimiser, there is no minimum investment for Call Accounts.</p> <p>The minimum investment in Term Accounts as at the date of this Prospectus is \$1,000.</p> <p>Heartland may alter the minimum investment amounts from time to time. Details of the current minimum investment amounts are available from Heartland on request or can be found by visiting Heartland's website at www.heartland.co.nz.</p>

Key Terms of Security	Deposits										
<p>Taxation</p>	<p>Under current New Zealand tax legislation, Heartland must deduct resident withholding tax (RWT) from all interest paid or compounded before it is paid or credited to New Zealand resident investors.</p> <p>If an investor holds a current certificate of exemption and has given Heartland a copy of that certificate, then Heartland will not deduct RWT.</p> <p>The applicable RWT rates are set out below. Please note that the IRD may instruct interest payers, such as Heartland, to move the RWT rate where the IRD determines they are on a RWT rate inconsistent with their marginal tax rate.</p> <p>RWT for individuals and trustees</p> <p>If an investor is an individual investor or trustee then RWT will be deducted at the rate indicated by that investor, as follows:</p> <table border="0"> <thead> <tr> <th>Investor's Income</th> <th>RWT Rate</th> </tr> </thead> <tbody> <tr> <td>\$0 - \$14,000</td> <td>10.5%</td> </tr> <tr> <td>\$14,001 - \$48,000</td> <td>17.5%</td> </tr> <tr> <td>\$48,001 - \$70,000</td> <td>30.0%</td> </tr> <tr> <td>\$70,001 and over</td> <td>33.0%</td> </tr> </tbody> </table> <p>The 10.5% RWT rate is only available to individuals and trustees of testamentary trusts.</p> <p>If an investor is an individual investor or trustee and none of the above apply (for example, the investor has provided their IRD number but not elected a RWT rate), then RWT will be deducted at the default rate of 33.0%.</p>	Investor's Income	RWT Rate	\$0 - \$14,000	10.5%	\$14,001 - \$48,000	17.5%	\$48,001 - \$70,000	30.0%	\$70,001 and over	33.0%
Investor's Income	RWT Rate										
\$0 - \$14,000	10.5%										
\$14,001 - \$48,000	17.5%										
\$48,001 - \$70,000	30.0%										
\$70,001 and over	33.0%										
	<p>RWT for Companies</p> <p>If an investor is a company then RWT will be deducted at the rate indicated by that investor, as follows:</p> <table border="0"> <thead> <tr> <th>Criteria</th> <th>RWT Rate</th> </tr> </thead> <tbody> <tr> <td>No IRD number</td> <td>33%</td> </tr> <tr> <td>Elected rate</td> <td>33%</td> </tr> <tr> <td>Default rate</td> <td>28%</td> </tr> </tbody> </table> <p>Non-resident withholding tax</p> <p>For investors who are not resident in New Zealand for tax purposes, Heartland will deduct non-resident withholding tax (NRWT). The rate of NRWT is currently 10% or 15% depending on the country of residence.</p> <p>Heartland is also an approved issuer and is able to deduct an approved issuer levy (AIL), which is currently 2%, instead of NRWT.</p> <p>All non-resident investors must provide Heartland with their current overseas residential address.</p>	Criteria	RWT Rate	No IRD number	33%	Elected rate	33%	Default rate	28%		
Criteria	RWT Rate										
No IRD number	33%										
Elected rate	33%										
Default rate	28%										

Key Terms of Security	Deposits
	<p>Annual interest advice</p> <p>Heartland will advise investors (unless interest paid is less than \$50) of the amount of interest paid or credited and any RWT, NRWT or AIL deducted for the year ending 31 March by 20 May in the same year.</p>
<p>Early repayment of Term Accounts</p>	<p>Heartland's fixed rates of interest for a particular investment amount and term are based on the expectation that the funds will be invested by you for the full term. You do not have a right to withdraw your investment before maturity, but Heartland understands that people's circumstances do change. Heartland will consider, but is not obliged to accept, written requests for early repayment in certain circumstances such as (and without limitation) the death of an investor or unforeseen financial hardship.</p> <p>In such cases Heartland will require a written application giving full details and confirmation of the situation and the reasons for requesting early repayment.</p> <p>If Heartland agrees to make an early repayment the interest rate payable in respect of the Deposit may be reduced by 3% per annum (calculated across the term of the investment). Any tax that has already been paid on interest earned cannot be refunded back to you and tax must be claimed from the IRD directly.</p>
<p>Transfers</p>	<p>No Account may be transferred or sold without the prior written consent of Heartland, except that investments in a MARAC Term Deposit, MARAC Call Deposit, PWF Savings Optimiser and PWF Term Accounts can be sold privately in minimum amounts of \$1,000 using the standard form for security transfers, which must be executed and delivered to Heartland's registered office.</p>
<p>Statements/certificates</p>	<p>Heartland will provide to you at the times, and in the manner, agreed between you and Heartland a certificate detailing your Deposit or a statement detailing all transactions that have taken place in relation to your Deposit during the relevant period.</p>

You can invest in a Deposit by visiting any Heartland branch, or by completing the application form distributed with the Investment Statement and returning it, with a cheque for the amount of your investment, to Heartland. Cheques should be made payable to Heartland and be crossed "not transferrable". Heartland will also accept investments by way of electronic funds transfer or cash presented in person at a branch.

Heartland may refuse all or any part of an application without giving a reason.

SPECIAL FEATURES OF PARTICULAR PRODUCTS

Product	Features
CBS Canterbury Top Rate Term Deposit	Fixed term investment of 12, 24 or 36 months. The interest rate is reviewed during the term to be always equal to the rate available for a similar term CBS Canterbury Fixed Rate Term Deposit. Interest is paid 3 monthly. Additional funds, from \$1,000 to \$250,000, may be added to your deposit at any time.
CBS Canterbury Fixed Rate Term Deposit	Fixed amount investment with a range of terms available from 1 to 60 months at a rate fixed at the commencement of the term and with a range of interest frequencies.
CBS Canterbury Monthly Income Term Deposit	Fixed amount investment with terms available of 12, 24 or 36 months at a rate fixed at the commencement of the term and with interest paid monthly into an account of your choice.
CBS Canterbury Heart of Gold Term Deposit	Fixed amount investment with a range of terms available from 6 to 36 months at a rate fixed at the commencement of the term and with a range of interest frequencies. In addition to the interest paid to you Heartland will also sponsor a charity of your choice (from a list of available charities) an amount equivalent to 0.25% per annum of your investment.
CBS Canterbury Everyday Ultimate Account	An everyday transactional account with funds available at call. An extensive range of access options including in-branch transactions, debit cards, telephone and internet banking. Interest rates are tiered according to the balance with interest calculated on the total daily balance at the applicable rate and compounded quarterly. Overdraft and revolving credit options are also available.
CBS Canterbury Optimum Club Account	A CBS Canterbury Everyday Ultimate style account only available to clubs and non-profit organisations and featuring higher interest rates to reflect our support of such organisations in our community.
CBS Canterbury Special Purpose Account	A range of accounts designed to assist general savings or saving towards any special purpose. The interest is calculated on the daily balance with bonus interest earned subject to balance or minimum monthly deposit criteria and is compounded quarterly. Funds are available on call subject to withdrawal fees for excess number of withdrawals. Includes a CBS Canterbury Christmas Club Account where the total balance and interest is paid to your nominated account on the first day of December to assist with expenses over the festive period.
CBS Canterbury Living Style Savings Account	A CBS Canterbury Special Purpose style account for longer term savings. Features higher interest rates with more restrictive withdrawal fees and criteria.
CBS Canterbury Kids' Cash Account	A CBS Canterbury Everyday Ultimate style account only available to children under the age of 12 years. Features include higher interest rates to help encourage saving habits, certain fee exemptions and other special gifts and incentives.
CBS Canterbury Everyday @ Max Account	A CBS Canterbury Everyday Ultimate style account only available to young people aged from 12 to 21 years. Features include higher interest rates to help encourage saving habits, certain fee exemptions and other special gifts and incentives.
Heartland Term Deposit	Fixed interest rate, fixed term investment with regular quarterly or annual interest payments for terms ranging from 30 days to 5 years.

Product	Features
Heartland Call Deposit	Interest-bearing floating rate investment with interest compounded monthly and unlimited withdrawals.
MARAC Term Deposit	Fixed interest rate, fixed term investment with regular quarterly or annual interest payments for terms ranging from 30 days to 5 years.
MARAC Deferred Interest Term Deposit	On the same terms as the MARAC Term Deposit but all interest/returns are deferred to maturity rather than being paid at regular intervals.
MARAC Capital Drawdown Term Deposit	On the same terms as the MARAC Term Deposit but with a special feature of allowing regular payments made up of interest earned and part of the principal invested.
MARAC Rapid Saver	Savings account set up with an initial investment and fixed rate into which regular contributions are made during the term of the account.
MARAC Floating Rate Term Deposit	On the same terms as the MARAC Term Deposit but a floating interest rate linked to a benchmark applies.
MARAC Call Deposit	Interest-bearing floating rate investment with interest compounded monthly and unlimited withdrawals.
MARAC Business Call Deposit	Interest-bearing floating rate call deposit with interest compounded monthly and unlimited withdrawals to meet businesses' working capital requirements.
PWF Current Account ²⁷	An on-call current account with a floating interest rate, with chequebook, EFTPOS card, electronic payment and internet services. Interest is calculated daily and compounded monthly.
PWF Rural Saver	An on-call savings account with a higher floating interest rate than PWF Current Account, and unlimited withdrawals. Interest is calculated daily and compounded monthly.
PWF Savings Optimiser	An enhanced savings account with a floating interest rate and with a 14 day notice period for withdrawals. The minimum investment is \$2,000 and minimum withdrawal is \$200. Interest rate reduction is subject to 14 days prior notice.
PWF Term Deposit	Fixed interest rate, fixed term investment with interest paid or compounded monthly, quarterly or annually for terms ranging from 3 months to 5 years.
Southern Cross Term Investment	Fixed interest rate, fixed term investment with regular interest payments (or with interest paid at maturity, as agreed with Heartland) for terms ranging from 1 month to 36 months.
Southern Cross Current Account Saver	An at-call deposit account with a variable interest rate. Interest is paid to you, or added to the principal sum, on a quarterly basis.

²⁷— Credit and lending criteria, fees and charges apply to any overdraft associated with the PWF Current Account.

Product	Features
Southern Cross Net Saver	Online at call deposit savings account with a variable interest rate. Interest is paid to you, or added to the principal sum, on a monthly basis.

In addition to the above products Heartland has several products which are being phased out and are only available to existing investors in those products.

SECTION 4: SUMMARY OF THE TRUST DEED

General

TEL has been appointed to act as trustee on behalf of the holders of Deposits.

The Heartland Master Trust Deed (which contains the terms and conditions that apply to all Heartland Debt Instruments, as defined in the Master Trust Deed) was entered into by Heartland and the Trustee on 29 October 2010. The Supplemental Trust Deed (Accounts) (which contains terms specific to different types of Deposits) was also entered into by Heartland and the Trustee on 29 October 2010. Other supplemental trust deeds have also been entered into by Heartland and the Trustee to specify the terms applicable to bonds issued by Heartland.

~~the Supplemental Deed (Accounts) and the Supplemental Deed (Bonds) were entered into by Heartland and the Trustee on 29 October 2010 and the Supplemental Deed (PWF Bonds) was entered into by Heartland and the Trustee on 11 July 2011 (together, the "Trust Deed"). The Trust Deed governs the Deposits. The Heartland Master Trust Deed contains the terms and conditions that apply to all Heartland Debt Instruments (as defined in the Master Trust Deed) and the supplemental deeds contain terms specific to different types of Deposits. MARAC was added as a guarantor under a Supplemental Trust Deed on 14 December 2010, VPS Properties and VPS Parnell were added as guarantors under Supplemental Trust Deeds dated 24 March 2011 and PWF was added as a guarantor under a Supplemental Trust Deed dated 31 August 2011.~~

The Master Trust Deed and all supplemental trust deeds are together referred to as the "Trust Deed". The Trust Deed governs the Deposits.

Depositors are not entitled to enforce any of their rights or remedies under the Trust Deed directly against Heartland or the Guaranteeing Subsidiaries unless the Trustee fails to enforce such rights or remedies within a reasonable period after having become bound to do so in accordance with the Trust Deed. The Trustee does not guarantee the payment of principal or interest on the Deposits.

In this summary of the Trust Deed, defined terms have the meanings given to them in the Trust Deed. If you require further information you should refer to the Trust Deed itself, which is available for inspection at the places referred to under the heading "Places of Inspection ~~inspection of Documents~~ documents" in the Statutory Information section of this Prospectus.

The Guaranteeing Group under the Trust Deed as at the date of this Prospectus is made up of Heartland (as issuer and principal debtor), MARAC, VPS Properties, VPS Parnell and PWF.

Status of Debt Instruments

The Debt Instruments are and will at all times be direct, unsecured, unsubordinated and unconditional indebtedness of Heartland and the Guaranteeing Subsidiaries and will at all times rank equally without any preference or priority among themselves and at least equally with all other present and future Debt Instruments issued by Heartland (subject to laws affecting creditors' rights generally and general equitable principles).

Financial covenants

Heartland has undertaken that it will ensure that, at all times:

- (a) the Capital Ratio of the Consolidated Group is not less than 8%;
- (b) the Capital Ratio of the Guaranteeing Group is not less than 8%;
- (c) the Liquid Assets of the Consolidated Group are at least 15% of the Total Liabilities of the Consolidated Group;
- (d) the Liquid Assets of the Guaranteeing Group are at least 15% of the Total Liabilities of the Guaranteeing Group;
- (e) the Related Party Exposures of the Consolidated Group do not exceed 15% of the Consolidated Group's Capital;
- (f) the Related Party Exposures of the Guaranteeing Group do not exceed 15% of the Guaranteeing Group's Capital; and
- (g) the indebtedness of the Largest Single Borrower does not exceed an amount equal to 15% of the Consolidated Group's Capital or the Guaranteeing Group's Capital.

Negative Pledge

Although the Deposits will be unsecured, Heartland and each Guaranteeing Subsidiary has undertaken that it will not create or permit any security over any of its assets other than a Permitted Security.

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"Permitted Security" is defined in the Trust Deed and includes (but is not limited to) netting or set-off arrangements in the ordinary course of business, liens arising by operation of law in the ordinary course of trading, securities arising out of suppliers' retention of title provisions where goods are acquired in the ordinary course of business, and any other security, provided that the total amount secured by such other securities may not exceed 5% of the Total Tangible Assets of the Guaranteeing Group.

Guarantee

While Heartland is the issuer (and so principal debtor) Heartland's obligations are supported by its Guaranteeing Subsidiaries. As at the date of this Prospectus the Guaranteeing Subsidiaries are MARAC, VPS Properties, VPS Parnell and PWF.

Each Guaranteeing Subsidiary absolutely, unconditionally and irrevocably guarantees to the Trustee the due and punctual payment by Heartland of the Debt Instrument Moneys. The guarantees are not secured by a mortgage or other charge.

Other parties may become guarantors at the discretion of Heartland. As at the date of this Prospectus, it is not intended that any other party will be a Guaranteeing Subsidiary.

General Undertakings

~~Heartland and the Guarantors may not~~ For so long as any Debt Instruments are outstanding, Heartland and the Guaranteeing Subsidiaries may not (except in limited circumstances) enter into transactions to sell, lease, transfer or otherwise dispose of any asset other than in the ordinary course of business, or for fair value or on normal commercial terms except in limited circumstances. Heartland may not make any

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distributions other than to a Guaranteeing Subsidiary while money is due and owing under any Debt Instrument and is unpaid.

Heartland and the ~~Guarantors~~ Guaranteeing Subsidiaries have further undertaken, among other things, that they will comply with and perform their obligations under all applicable laws and under each Transaction Document, ensure that a Register is maintained, maintain ~~its~~ its ~~their~~ corporate existence, not make any substantial change to the general nature of ~~its~~ its ~~their~~ core business, notify the Trustee of the occurrence of an Event of Default, and will provide various notices to the Trustee.

Duties of the Trustee

The Trustee is appointed to act as trustee in respect of the Deposits. The principal duties of the Trustee under the Trust Deed are summarised as follows:

- (a) upon the occurrence of an Event of Default the Trustee may in its discretion, and must immediately upon being directed to do so by an Extraordinary Resolution, declare the relevant Debt Instruments to be immediately due and payable and then distribute all moneys received in respect of the Debt Instruments from Heartland in accordance with the provisions of the Trust Deed;
- (b) to receive the regular financial and other reports and certificates furnished to it by Heartland and the wider Guaranteeing Group;
- (c) to perform functions relating to the ongoing administration of the Trust Deed including in relation to the meetings of Holders, the joining and releasing of ~~Guarantors~~ Guaranteeing Subsidiaries, and the exercise of discretions or the giving or withholding of consents (as appropriate) relating to such administration; and
- (d) on being satisfied that all Debt Instruments have been repaid, at the request of Heartland, to execute a deed of release of the Trust Deed.

In addition, the Trustee has a statutory duty to exercise reasonable diligence to:

- (a) ascertain whether or not there has been any breach of the terms of the Trust Deed or of the terms of the offer of the Debt Instruments and to do all it is empowered to do to cause any such breach to be remedied (except where satisfied that the breach will not materially prejudice the interests of the Holders);
- (b) ascertain whether or not the assets of Heartland and the Guaranteeing Subsidiaries that are or may be available, whether by way of security or otherwise, are sufficient or likely to be sufficient to discharge the amounts of the Debt Instruments as they become due; and
- (c) discharge its statutory obligations as a trustee to report and otherwise provide information in relation to a non bank deposit taker.

The Trustee has the right to be indemnified for all expenses, losses and liabilities sustained or incurred by it in carrying out the trusts, powers, authorities or discretions vested in the Trustee by the Trust Deed or otherwise for any action taken, or omitted to be taken in accordance with the provisions of the Trust Deed, other than a claim arising out of a wilful default, gross negligence or wilful breach of trust.

The Trustee is not required to take any action or exercise any trusts, powers, authorities or discretions vested in the Trustee by the Trust Deed or comply with any request or direction pursuant to the Trust Deed unless it has first been indemnified to its satisfaction against all expenses, losses and liabilities it may sustain or incur by so doing.

Except to the limited extent provided in the Trust Deed, the Trustee owes no duties to Wholesale Holders.

Reporting

Heartland has undertaken to supply to the Trustee a range of regular reports, certificates, accounts and other information as to its and the Guaranteeing Group's financial condition and as to compliance with the Trust Deed.

This includes a requirement for the ~~directors~~ Directors of Heartland to certify to the Trustee, following the end of each quarter, stating that to the best of the ~~directors'~~ Directors' knowledge and belief no Event of Default has occurred and continues unremedied and to confirm compliance with the financial covenants set out in the Trust Deed as at the end of the period. Annual and semi-annual statements and quarterly reports will also be provided to the Trustee.

Events of Default and Enforcement

Upon the occurrence of an Event of Default that is continuing unremedied, the Trustee may in its discretion, and must immediately if directed to do so by an Extraordinary Resolution, declare the Debt Instruments to be immediately due and payable.

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The Events of Default include:

- (a) a failure by any member of the Guaranteeing Group to pay any principal or interest amount within three business days of its due date for payment, or a failure to pay any other amount in respect of any Debt Instruments within ten business days of its due date;
- (b) a failure by an ~~Obligor~~ any member of the Guaranteeing Group to perform or comply with any of its other material undertakings under the Trust Deed and, in the case of a failure that is capable of remedy, that failure is not remedied within 30 days of the date that the ~~Obligor~~ Heartland first became aware of it, and in any case, such default has or is likely to have, in the reasonable opinion of the Trustee, a material adverse effect;
- (c) any representation, warranty or statement made or deemed to be repeated by an ~~Obligor~~ a member of the Guaranteeing Group under the Trust Deed which is or was untrue or incorrect in a material respect and, in respect of any misrepresentation which is capable of being remedied, is not remedied within 30 days of Heartland becoming aware of that misrepresentation;
- (d) an ~~Obligor~~ a member of the Guaranteeing Group ceasing or threatening in writing to cease to carry on the whole or a substantial part substantially all of its business or an application or order is made (or resolution passed or proposed) for the dissolution of that ~~Obligor~~ member of the Guaranteeing Group (with some exceptions);
- (e) an ~~Obligor~~ a member of the Guaranteeing Group being unable or admitting an inability to pay its debts as they fall due or suspending making payments on any of

its debts, being declared or becoming insolvent or being deemed under any applicable law to be unable to pay its debts when they fall due; or

- (f) a receiver, liquidator, provisional liquidator, administrator or statutory manager being appointed to an Obligor member of the Guaranteeing Group, or a recommendation is made by any governmental authority to the Financial Markets Authority supporting the appointment of a statutory manager.

Heartland has undertaken to notify the Trustee promptly of the occurrence of any Event of Default.

Meetings

The Trust Deed contains provisions for meetings of Holders. Each Holder is bound by any resolutions that are passed, whether or not that Holder voted or was present at the meeting and whether or not that Holder supported the resolution. An Extraordinary Resolution is a resolution where not less than 75% of the votes cast are in favour of the resolution.

Waivers

Heartland and the Guaranteeing Subsidiaries give certain covenants and undertakings in the Trust Deed for the benefit of Holders. However, the Trustee may waive any breach or prospective breach of those covenants and undertakings if it is satisfied such waiver would not materially prejudice the Holders or the Holders approve the waiver by way of an Extraordinary Resolution (on terms and conditions approved by the Extraordinary Resolution).

Amendments to the Trust Deed

The Trust Deed may be amended without the consent of Holders if the amendment is (among other things) of a minor, formal, administrative or technical nature, is to correct a manifest error or, is made to comply with any applicable law and, in any such case, Heartland is of the opinion that such amendment will not be materially prejudicial to the interests of Holders generally and the Trustee is of the opinion that such amendment will not be materially prejudicial to the interests of the Holders generally. Notice will be provided to the Holders within 30 days of the amendment being made.

In addition, the Trust Deed may be amended if the amendment has been approved by an Extraordinary Resolution.

Substitution

Heartland may, with the consent of the Trustee but without the consent of the Holders, substitute any person incorporated in New Zealand in place of Heartland as the principal debtor under the Trust Deed in relation to any one or more series of Debt Instruments. This is subject to certain conditions being fulfilled, including the new issuer becoming bound by the Trust Deed, the new issuer being solvent and the new issuer having a credit rating no lower than that assigned to Heartland.

Bank Registration~~registration~~²⁶

Heartland intends to apply to become a registered bank under the Reserve Bank Act and may convert to a company. Under the Trust Deed, Heartland is entitled to take all steps that may be necessary to do this and no consent will be required from the Trustee or the Holders in relation to such registration or conversion provided that no such step may be taken without the prior written consent of the Trustee if such step, in the reasonable opinion of Heartland and the Trustee, would be materially prejudicial to the interest of the Holders. The Trustee is authorised to give any consents or waivers or to enter into any document or agreement that the Trustee considers necessary or desirable to enable Heartland to become a registered bank or convert to a company. Immediately upon Heartland becoming a registered bank, the Trust Deed will be released and the terms of each Debt Instrument will be converted into direct, unsecured, unsubordinated and unconditional indebtedness of Heartland on the terms set out in the deed poll annexed to the Trust Deed, or, in each case, such other terms as Heartland and the Trustee may agree.

The terms of the deed poll are similar to the terms of the Trust Deed but ~~exclude~~ excluding a number of representations, warranties, covenants and events of default. There are no financial covenants in the deed poll and no person will guarantee the Debt Instruments. In addition, a breach of a representation or warranty will not constitute an event of default.

²⁶ Neither Heartland nor any member of the Heartland Group is a registered bank, and Heartland will not be a registered bank until it is registered as such under the Reserve Bank Act. As part of any application for bank registration Heartland may convert into a company.

TRUSTEE'S STATEMENT

27 September 2011

The Directors
Heartland Building Society
75 Riccarton Road
CHRISTCHURCH 8011

Dear Sirs

Re: Prospectus No. 3

Clause 14(3) of the Schedule 2 to the Securities Regulations 2009 requires us to confirm that the offer of securities ("the Deposits") set out in this Prospectus complies with any relevant provisions of the Trust Deed. These provisions are those which:

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

The Auditor has 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 Deposits 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 Schedule 15 of the Securities Regulations 2009 and otherwise under the Trust Deed, the Trustee relies on the information supplied to it by Heartland 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 the Deposits or the payment of interest thereon.

Signed for and on behalf of
Trustees Executors Limited

Luiza Moran
Manager
Corporate Trust

SECTION 65: WHAT ARE MY RISKS?

The principal risk to Depositors is that they do not recover their investment in full (or at all), and/or do not receive the full amount of (or any) return on that investment.

Ultimately, Depositors are taking a risk on the ability of the Heartland Group to meet its payment obligations under the Deposits. The ability of the Heartland Group to meet its payment obligations will be dependent on the financial performance and condition of the Heartland Group. The financial performance and condition of the Heartland Group may be affected by a number of factors.

Set out in this section is a brief description of the principal factors which may affect the financial performance or condition of the Heartland Group. This is not an exhaustive description of risk factors. There may be additional risk factors that the Heartland Group is currently unaware of, or that the Heartland Group currently deems immaterial (but which may subsequently become key risk factors). You should consider the risk factors described below in conjunction with other information in this Prospectus and the Investment Statement.

The risk factors described below necessarily include forward-looking statements. Actual events may be materially different to those described below and may therefore affect the Heartland Group in a different way.

General risks related to the New Zealand financial services sector

Macro-economic conditions

The financial performance and condition of participants in the New Zealand financial services sector (such as the Heartland Group) may be affected by overall economic conditions in New Zealand, which may in turn be affected by economic conditions in the world in general. A deterioration in economic conditions in New Zealand may, for example, result in reduced demand for credit or other services provided by the Heartland Group, adversely affect the ability of borrowers from the Heartland Group to repay loans or make it more difficult for the Heartland Group to realise assets held as security.

Other macro-events

The financial performance and condition of participants in the New Zealand financial services sector (such as the Heartland Group) may be affected by other events in New Zealand (or elsewhere in the world) which result in non-functioning financial markets, or decreased investor or borrower confidence. These other events could include natural disasters, wars, acts of terrorism, or the failure of a financial market or a finance market participant. Such events may, for example, make it difficult for the Heartland Group to source funding, or adversely affect the Heartland Group's interest margins or overall cost of funds.

Confidence in the financial services sector

As a result of the "Global Financial Crisis", the New Zealand financial services sector has been adversely affected by a number of NBDT (predominantly finance companies) failures. Further failures could occur, which could impact the confidence of investors. This may, for example, make it more difficult for the Heartland Group to source funding, or adversely affect the Heartland Group's interest margins or overall cost of funds.

Regulation

The financial performance and condition of participants in the New Zealand financial services sector (such as the Heartland Group) may be affected by policies and decisions of the Government and other regulatory bodies in New Zealand. These policies and decisions (which may be reflected in changes to existing law or regulation, or the introduction of new law or regulation) may make it more difficult for participants in the New Zealand financial services sector (such as the Heartland Group) to source retail funding, may impact the demand for credit or other financial services, may impact the performance and debt servicing abilities of borrowers or may result in increased costs being incurred by participants in the New Zealand financial services sector.

Specific risks related to the Heartland Group

Liquidity risk

Liquidity risk is the risk that the Heartland Group may be unable to raise funds at short notice to meet its commitments. Liquidity risk will arise where:

- there is a mismatch in the maturity profile of the Heartland Group's financial assets and liabilities; and
- the resulting funding gap cannot be satisfied from the Heartland Group's liquid assets (which may include back-up liquidity available under committed bank facilities or securitisation facilities).

The Heartland Group manages this mismatch by regularly forecasting its future cash flows. The forecasts take into account the assessed maturity profile of its assets and liabilities, and are used to identify the scale of any projected funding gaps that may need to be filled. The assessed maturity profile of its assets and liabilities is based on then current market conditions, and on past experience. The assessment will include assumptions as to (among other things) movement in call deposits, retail reinvestment rates, new retail investment inflows, and net lending growth. The validity of these assumptions is tested, and subject to hindsight review on a regular basis. The Heartland Group manages projected funding gaps by adjusting retail investment offerings and lending activity to minimise any mismatch.

Liquidity risk may be increased if Heartland incorrectly forecasts its future cash flows and accordingly the scale of any funding gaps. This may arise because:

- there is an unanticipated reduction in call deposit balances held by Heartland (discussed below under "Rate of retail investment inflows");
- retail reinvestment rates or new retail investment inflows are lower than assumed by Heartland (discussed below under "Rate of retail investment inflows");
- there is an unanticipated delay or failure on the part of borrowers from the Heartland Group to make interest or principal payments on time (discussed below under "Credit risk and realisation risk"); or
- there is an unanticipated demand for credit from borrowers, which the Heartland Group is contractually obliged to fund.

The Heartland Group is contractually obliged (under its Trust Deed) to hold a minimum ratio of liquid assets to liabilities (in order to enhance the Heartland Group's ability to bridge any funding gaps which may arise). Liquid assets may include back-up liquidity available under committed bank facilities or securitisation facilities. If there is any material change in the availability of this back-up liquidity, then the ability of the Heartland Group to bridge any funding gaps may be significantly decreased (and accordingly the liquidity risk of the Heartland Group may be significantly increased). The availability of back-up liquidity may be affected (for example) by:

- existing committed bank facilities expiring in accordance with their terms, and not being replaced with sufficient alternative liquid assets;
- existing committed bank facilities ceasing to be available or being terminated as a result of any failure to comply with relevant terms and conditions, or an event of default. For example, Heartland has a number of financial covenants under its committed bank facilities that it is required to comply with (although these may be waived or varied without notice to or consent of investors);
- an existing securitisation programme ceasing to be available as a result of the committed debt facilities provided to that programme expiring in accordance with their terms, and not being replaced; or
- an existing securitisation programme ceasing to be available or being terminated as a result of any failure to comply with relevant terms and conditions. For example, the relevant pool of receivables may fail to meet agreed performance parameters. Heartland may choose to purchase non-performing loans out of a pool of receivables, to avoid the relevant securitisation programme ceasing to be available. This would be adverse to the overall quality of assets which are available to repay Depositors.

Further detail on Heartland's bank facilities and securitisation programmes is on page 15 of this Prospectus.

Rate of retail investment inflows

Heartland relies on its retail deposit base (including call deposit balances, and reinvestment or new investment in retail term deposits) as its primary source of balance sheet funding. In the context of retail term deposits, Heartland relies on substantial levels of reinvestment, the actual and targeted levels of which will vary from time to time.

Call deposit balances, retail reinvestment rates or new retail investment inflows may be lower than assumed by Heartland in forecasting its future cash flows from time to time. As noted above, this could increase the liquidity risk of the Heartland Group. Whether it has that effect will depend on the extent of the reduction and the availability (or otherwise) of alternative funding. In addition this could also adversely affect the financial performance and condition of the Heartland Group (as the Heartland Group may, for example, offer higher rates to attract investment or may adjust its lending activity).

Call deposit balances, reinvestment rates and new investment inflows are at times affected by the level of investor confidence in the New Zealand financial services sector generally. In addition there are a number of other matters relevant to the level of investor confidence in the Heartland Group specifically. These include:

- the expiry of the Crown retail deposit guarantee scheme;

- the credit rating of Heartland; and
- Heartland ultimately achieving its key objective of bank registration.

The expiry of the Crown retail deposit guarantee scheme

Heartland had a guarantee under the Crown retail deposit guarantee scheme which expired on 31 December 2011. In the context of the existing investor base, the absence of this guarantee could adversely affect call deposit balances or retail funding reinvestment rates, and so increase the liquidity risk of the Heartland Group.

The credit rating of Heartland

Heartland has a credit rating of BBB- (Outlook Stable) from S&P which is considered an investment grade rating by market participants. Heartland's credit rating is in the lowest tier of the investment grade category²⁹.

Ratings may be changed, withdrawn or suspended by S&P at any time. Any reduction, withdrawal or suspension in Heartland's credit rating could adversely affect the Heartland Group's ability to source cost effective funding and (in addition to adversely affecting the financial performance and condition of the Heartland Group) increase the liquidity risk of the Heartland Group, as described above. Any such reduction, withdrawal or suspension could also adversely affect the bank registration process described below.

As credit ratings or outlooks may change from time to time, for the most up to date Heartland credit rating information refer to www.heartland.co.nz.

Bank registration³⁰

A key objective of the Heartland Group is ultimately to create a New Zealand operated, controlled and managed banking group, with a parent company listed on the NZSX. Heartland has engaged with the Reserve Bank regarding its application for bank registration. The making of any formal application is subject to Heartland being satisfied that it has met all requirements of the Reserve Bank. The process through to formal application is of indeterminate length. The Reserve Bank Act prescribes what factors the Reserve Bank must take into account when determining an application. These factors comprise a range of qualitative and quantitative factors and include the ability of an applicant to carry on its business in a prudent manner and in particular include:

- capital in relation to size and nature of the business;
- loan concentration and risk exposures;
- liquidity;
- separation of the business from other interests of the owner;

²⁹ For an explanation of the Standard & Poor's credit rating system, please see Schedule 1 of this Prospectus and also <http://www.standardandpoors.com/ratings/definitions-and-faqs/en/us> under the Section "What do the letter ratings mean?".

³⁰ Neither Heartland nor any member of the Heartland Group is a registered bank, and Heartland will not be a registered bank until it is registered as such under the Reserve Bank Act. As part of any application for bank registration Heartland may convert into a company.

- internal controls and accounting systems;
- risk management systems and policies; and
- outsourcing arrangements.

These factors are not exhaustive.

There is no certainty that Heartland will be able to meet all relevant criteria (which may change in the future) and become a registered bank. In the event Heartland is unable to obtain bank registration, or there is a significant delay in obtaining such registration, the profitability or liquidity of the Heartland Group may be adversely affected³¹.

Credit risk and realisation risk

Borrowers from the Heartland Group may fail to make interest or principal payments on time, or may fail to pay at all.

As noted above, any such delay or failure on the part of borrowers in making payments could increase the liquidity risk of the Heartland Group. Whether it has that effect will depend on the extent of these defaults.

In addition, any such delay or failure would result in the Heartland Group suffering financial loss if the Heartland Group was ultimately unable to recover the full amount owed (and so would adversely affect the financial performance and condition of the Heartland Group). This failure to recover in full may occur because the full amount owed cannot be recovered from assets held as security (because of lack of demand for those assets, for example).

In terms of property lending, the Heartland Group does lend to borrowers based on mortgage security over residential, commercial and rural real estate and (in addition) has a number of non-core legacy property development loans which it is seeking to exit through realisation of the real estate held as security for those loans³². The Heartland Group has the benefit of the RECL Management Agreement³³ to compensate it for loss on certain of these non-core legacy property loans to a limit of \$30 million. As at 31 December 2011, the net book value of loans remaining subject to the RECL Management Agreement was approximately \$150 million. To the extent that the aggregate value of claims made by the Heartland Group under the RECL Management Agreement (plus interest to the due date for payment) reaches the \$30 million limit, the Heartland Group will not be able to make any further claims under the RECL Management Agreement. As at 31 December 2011, \$18.1 million of claims had been made by the Heartland Group under the RECL Management Agreement (of which \$1.5 million of claims was paid) and there is a reasonable expectation that the Heartland Group will fully utilise the \$30 million limit.

³¹ If Heartland does obtain bank registration, the Trust Deed will be discharged and Heartland will be subject to supervision by the Reserve Bank. The Deposits will then be governed by the terms set out in the deed poll annexed to the Trust Deed. Further detail on this is set out in the Summary of the Trust Deed section of this Prospectus.

³² Further information on the proportion which these loans represent of the net receivables of the Heartland Group (as at 31 December 2011) is included in the first graph on page 10.

³³ Further information on the RECL Management Agreement is contained in the "Material contracts" section of this Prospectus on page 87.

Current economic conditions make it difficult to recover the full amount owed in respect of certain property lending, because of a reduced demand for the relevant real estate assets at the present time. While the Heartland Group does have the benefit of the RECL Management Agreement to compensate it for loss up to the stated limit on certain of that property lending, there is a risk that the full amount due from RECL under the RECL Management Agreement may not be recovered.

Where borrower default occurs and the Heartland Group determines it will be unable to recover the full amount owed from assets held as security, impairment provisions may be required to be made by the Heartland Group.³⁴

As at 31 December 2011:

- The balance of provisions held on the Heartland Group's balance sheet for impairments was approximately 1.4 % of the Heartland Group's gross finance receivables. If securitised receivables are excluded from the Heartland Group's gross finance receivables, the ratio becomes approximately 1.6%;
- The aggregate of net non-performing loans taken together with investment property (being property taken onto the balance sheet on enforcement of security) represented approximately 6.8% of the Heartland Group's net finance receivables plus investment property. If net securitised receivables are excluded from the Heartland Group's net finance receivables, the ratio becomes approximately 7.9%. Net non-performing loans include specifically impaired, past due over 90 days, and restructured assets less provision for impairment.

For fuller information refer to note 29 to Heartland's audited financial statements for the 6 months ending on 31 December 2011.

Concentration risk

Concentrations of credit risk exist if there is a large exposure to a single counterparty, a number of counterparties are in a similar geographic location or a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

As all of Heartland's lending is in relation to New Zealand based assets, the Heartland Group is exposed to economic conditions within New Zealand.

While the Heartland Group does lend to a variety of borrowers in different geographic and industry sectors in New Zealand, each sector has particular risks associated with it. The rural sector is subject to environmental changes (for example, drought and disease), and all industry sectors are subject to economic changes (for example, price movements) or political changes (for example, New Zealand Government and foreign government actions affecting factors such as tariffs), which could disrupt the business and competitiveness of borrowers from the Heartland Group, or otherwise affect the ability of borrowers to make payments.

³⁴ Further information on impairment provisions is included in note 29 to Heartland's audited financial statements for the six months ending on 31 December 2011.

Currency risk

While Heartland has no direct exposure to currency risk, fluctuations in the value of the New Zealand dollar relative to other currencies may impact on export sales and returns on those sales to the rural and business sectors in particular. In turn this may affect the ability of the borrowers from the Heartland Group to repay loans.

Interest rate risk

The Heartland Group holds interest earning assets (funds lent) and interest bearing liabilities (funds borrowed) which will mature or re-price in different periods. Since market interest rates fluctuate, this may impact on the Heartland Group's financial performance by affecting the interest margin between these interest earning assets and interest bearing liabilities.

Investment property

The Heartland Group may enforce security over property loans and hold the underlying security as investment property. The carrying value of investment property will be based on fair value as determined by independent valuers or similar evidence (adjusted where necessary to take into account market movements since the date of valuation). If property values decline, this may have an adverse effect on the financial performance and condition of the Heartland Group.

NBDT regulations

Heartland as an NBDT is required to comply with a set of prudential requirements as prescribed in Part 5D of the Reserve Bank Act, and relevant regulations. The prudential requirements are broadly categorised into the following six areas:

- credit rating;
- risk management;
- capital;
- related party exposures;
- liquidity; and
- governance.

Any material failure to comply with these requirements could result in damage to the reputation of the Heartland Group, and expose the Heartland Group to financial or other penalties.

Any change to existing law or regulation, or the introduction of new law or regulation, could result in additional requirements being imposed on the Heartland Group and result in increased costs being incurred by the Heartland Group. As at the most recent update to this Prospectus, there is an NBDT Bill in select committee which, if enacted, will require licensing, approval of directors and restrictions on changes in ownership for NBDTs.

Competition in the financial services sector

The financial performance and condition of the Heartland Group may be affected by competition from both incumbent financial services sector participants (including banks, savings institutions and finance companies) and new entrants to the market. The Heartland Group may not be able to retain existing investors or borrowers, or attract new

investors or borrowers, if it is unable to maintain the competitiveness of its products and services as compared to those offered by other financial services sector participants.

Failure to implement strategy

If the Heartland Group's strategy is not achieved as anticipated, or is significantly delayed, the financial performance of the Heartland Group could be adversely affected.

As part of the Heartland Group's strategic initiatives, the Heartland Group may seek to grow its existing business organically or through acquisitions of new businesses or assets that fit with its lending criteria. This strategy involves a number of risks, including:

- failure to identify material risks or liabilities associated with the acquired business or assets prior to acquisition;
- the Heartland Group failing to achieve the anticipated benefits of acquired businesses or assets due to unexpected difficulties in successfully integrating the operations of acquired businesses or assets with existing operations;
- the acquired businesses or assets proving not to be as profitable as expected, or resulting in the Heartland Group incurring unforeseen liabilities; and
- Heartland not being able to raise the additional capital required in order to increase its asset base.

Operational risks

If operational risks are not identified and properly managed, the Heartland Group may be exposed to financial loss and damage to its reputation. These risks include:

- potential failure of business continuity and disaster recovery processes, and data integrity risk;
- a breakdown in internal control systems or operating procedures;
- the possibility of key personnel leaving the businesses and the potential short-term disruption caused by seeking appropriate replacements;
- the risk that the Heartland Group or any of its businesses and customers is the victim of fraud;
- the possibility of a dispute that results in court or arbitration proceedings that could adversely affect the Heartland Group's financial position and reputation;
- the possibility of a competitor introducing new technology, products or services into the market or of a competitor following an aggressive pricing strategy, thereby undermining the competitiveness or profitability of any of the Heartland Group's products or services; and
- a natural disaster disrupting the ability of the Heartland Group to operate its business.

Information technology risks

Information technology plays a critical role in the Heartland Group's business, with the delivery of financial services to customers dependent on the availability and reliability of its information technology systems. The Heartland Group's ability to compete effectively in the future will, in part, be driven by its ability to maintain an appropriate information technology platform for the efficient delivery of the Heartland Group's products and services. The Heartland Group's business operations are likely to be significantly affected should its information technology systems fail or not operate in an efficient manner.

Consequences of insolvency

Depositors will not be liable to pay any money to any person as a result of the insolvency of Heartland or any Guaranteeing Subsidiary.

In the event of Heartland or any Guaranteeing Subsidiary becoming insolvent, certain claims or payments must be met before investments can be repaid to the Depositors. These include payments to secured creditors and certain claims set out in legislation including taxes, certain payments to employees and any liquidator's costs.

After the payment of these preferred creditors, the Deposits will rank equally in all respects with all existing and future debt securities issued by Heartland pursuant to the Trust Deed, as well as Heartland's bank funding and all other unsecured and unsubordinated obligations of Heartland, and without priority or preference amongst themselves.

~~A brief description of the principal risks of the money paid by a Depositor not being recovered in full by the Depositor, Depositors not receiving the returns described in this Prospectus, and any Depositor being required to pay more money in respect of Deposits are detailed in this section. These risk factors are not the only ones faced by the Heartland Group. There may be additional risk factors that the Heartland Group is currently unaware of, or that are beyond the control of the Heartland Group or that the Heartland Group currently deems immaterial but which may subsequently become key risk factors for Heartland specifically or for the Heartland Group as a whole. You should consider these risk factors in conjunction with other information in this Prospectus and the Investment Statement.~~

~~The risk factors described below necessarily include forward-looking statements. Actual events may be materially different to those described below and may therefore affect the Heartland Group in a different way.~~

Summary of Principal Risks

~~The main risk of you not recovering the sum which you paid for the Investment, or of not receiving the returns described in this Prospectus, is the insolvency or statutory management of the Heartland Group. This could arise as a result of circumstances such as those set out below.~~

General risks related to the Heartland Group

Macro-economic risks

~~There are several factors which impact the activities of the Heartland Group over which management has little or no control, including the political and economic environment in New Zealand and legislation. New Zealand's markets are influenced by the overall economic conditions in New Zealand and in the world in general. A continued and/or prolonged deterioration in general market conditions may result in reduced demand for funding or other products and services provided by the Heartland Group and a reduced~~

ability of borrowers to service loans and it may also make it more difficult for the Heartland Group to realise assets held as security.

The Heartland Group could be affected by national or international events or occurrences which result in non-functioning financial markets and/or decreased investor and/or borrower confidence. These market risks include natural disasters (such as earthquakes), wars, acts of terrorism, a recession, or a downturn in a financial market or the failure of a finance market participant. Investment market events would include developments in the global credit market and any further finance company failures. These events could, for example, reduce the Heartland Group's ability to source funds and adversely affect the Heartland Group's borrowing margins and overall cost of funds.

Competition in the finance sector

The Heartland Group faces competition from both incumbent service providers (including banks, savings institutions and finance companies) and new entrants to the market. The Heartland Group may not be able to maintain existing levels of new customers or investors and retain existing customers or investors if it is unable to maintain the competitiveness of its products and services in comparison to those offered by other financial services sector participants.

Financial services sector confidence

As a result of the "Global Financial Crisis", the broader New Zealand financial services sector has been adversely affected by a number of NBDT (predominantly finance companies) failures. Further failures or insolvencies could occur, which are events outside of the control of the Heartland Group, and impact the confidence of Depositors/investors. This could make it more difficult for the Heartland Group to obtain funding from Depositors/investors, either through reinvestment of existing funds or investment of new funds. Such events could also adversely affect the Heartland Group's borrowing margins, overall cost of funds or the ability to issue listed retail debt securities on the NZDX or obtain wholesale funding.

Regulatory risks

The Heartland Group is required to comply with a range of statutory and regulatory requirements. Any material failure to comply with these requirements could result in damage to the reputation of the Heartland Group and/or expose the Heartland Group to financial or other penalties.

Any change to existing laws or the introduction of new laws could result in additional requirements being imposed on the Heartland Group or result in increased costs being incurred by the Heartland Group.

Policies and decisions of the Government and other regulatory bodies in New Zealand may impact on the rural industry (or any other industry sector) and in turn, performance and debt servicing abilities of farmers and Heartland Group borrowers.

Specific risks related to the Heartland Group

Liquidity and reinvestment risk

There is a risk that the Heartland Group may not have sufficient liquid funds, or may not be able to raise sufficient funds, to meet its financial obligations as they fall due. These financial obligations include repayment of Deposits, bonds and other retail funding issued by Heartland as they mature.

The Heartland Group may not have sufficient liquid funds to meet its financial obligations as they fall due if there is a significant mismatch in the maturity profile of the Heartland Group's financial assets and liabilities.

The Heartland Group may not be able to raise sufficient funds to meet its financial obligations as they fall due if there is any material change in the availability of any of its sources of funding.

The Heartland Group's sources of funding include:

- shareholders' funds;
- bank facilities and securitisation facilities (both commonly referred to as "wholesale funding facilities"); and
- retail funding (including NZDX-listed bonds).

As to shareholders' funds, Heartland may seek to raise funds from the shareholders of its parent Heartland New Zealand if it does not have sufficient liquid funds, or cannot raise sufficient funds, to meet its financial obligations as they fall due. These persons may not support such a capital raising at the time it is contemplated and Heartland may be required to seek equity funding from external investors, who may in turn refuse to support such a capital raising.

As to wholesale funding facilities, these facilities may expire in accordance with their terms and may not be able to be renewed or replaced on acceptable terms. These facilities could also cease to be available or be terminated if there is any failure to comply with relevant terms and conditions, or there is some other default. For example, Heartland has a number of financial covenants under these facilities that it is required to comply with (although these may be waived or varied without investor consent). Such events could adversely affect the Heartland Group's ability to source cost-effective funding (and so adversely affect the financial performance and financial condition of the Heartland Group) and ultimately significantly increase the liquidity risk of the Heartland Group.

As to retail funding, the Heartland Group seeks to maintain consistent reinvestment rates and new investment inflows for its retail funding in order to meet its financial obligations and continue to grow its business. If there was to be any significant reduction in reinvestment rates or new investment inflows, it could (depending on the extent of the reduction) adversely affect the Heartland Group's ability to source cost-effective funding (and so adversely affect the financial performance and financial condition of the Heartland Group) and ultimately significantly increase the liquidity risk of the Heartland Group. Heartland had a guarantee under the Crown retail deposit scheme which expired on 31 December 2011. The expiry of this guarantee could adversely affect retail funding reinvestment rates or new investment inflows, and so increase the liquidity and investment risk of the Heartland Group.

Reinvestment rates and new investment inflows are affected by the level of investor confidence in the New Zealand financial services sector generally. In addition there are a number of other matters relevant to the level of investor confidence in the Heartland Group specifically. These include the following:

Heartland's credit rating

What is it and what does it mean?

At the date of the amendment of this Prospectus, Heartland has a credit rating of BBB- (Outlook Stable) from S&P which is considered an investment grade rating by market participants. Heartland's credit rating of BBB- is in the lowest tier of the Investment Grade category.

On [---] December 2011 S&P updated Heartland's credit rating outlook from "negative" to "stable". A "stable" outlook indicates that the credit rating is unlikely to change in the following 6 to 24 months.

As credit ratings or outlooks may change from time to time, for the most up to date Heartland credit rating information refer to www.heartland.co.nz.³⁵

What is a credit rating?

A credit rating is a rating agency's opinion of an institution's ability to pay back in full and on time all the money they have promised an investor. In Heartland's case, this is the funds its investors have invested with it.

Credit ratings are based on research and analysis by a ratings agency, which takes into account the financial history and current financial position of the institution. Ratings are continuously reviewed, although most ratings are subject to annual review.

What is the scale used for credit ratings?

The S&P rating scale is shown below. The rating scale used by S&P represents the breadth of opinions about the creditworthiness of an issuer. Generally a lower credit rating indicates a higher risk that an institution will "default" and an investor will not get their money back in full and/or on time, as promised.

S&P's long-term issuer rating categories, from strongest creditworthiness to most vulnerable, are outlined below:

³⁵ For an explanation of Standard & Poor's credit rating system, please see <http://www.standardandpoors.com/ratings/definitions-and-facts/en/us> under the Section "What do the letter ratings mean?"

	Grade	Description
Investment Grade	AAA	Extremely strong: An obligor rated AAA has extremely strong capacity to meet its financial commitments. AAA is the highest issuer credit rating assigned by S&P.
	AA	Very strong: An obligor rated AA has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.
	A	Strong: An obligor rated A has strong capacity to meet its financial commitments, but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
Heartland's credit rating of BBB sits in the lowest tier of this Investment Grade category	BBB	Adequate capacity: An obligor rated BBB has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.
	BB	Less vulnerable: An obligor rated BB is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitments.
	B	More vulnerable: An obligor rated B is more vulnerable than the obligors rated BB, but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.
	CCC	Currently vulnerable: An obligor rated CCC is currently vulnerable, and is dependent upon favourable business, financial, and economic conditions to meet its financial commitments.
	CC	Currently highly vulnerable: An obligor rated CC is currently highly vulnerable.
Speculative Grade	D/SD	Selective Default/Default: An obligor rated SD (selective default) or D (default) has failed to pay one or more of its financial obligations (rated or unrated) when it came due.

Ratings between AA and CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

"Investment grade" is broadly used to describe issuers and issues with relatively high levels of creditworthiness and credit quality. In contrast, the term "noninvestment grade," or "speculative grade," generally refers to debt securities where the issuer currently has

the ability to repay but faces significant uncertainties, such as adverse business or financial circumstances that could affect credit risk.

In S&P's long-term rating scale, issuers and debt issues that receive a rating of 'BBB-' or above are generally considered by regulators and market participants to be "investment grade," while those that receive a rating lower than 'BBB-' are generally considered to be "speculative grade."

If S&P anticipates that a credit rating may change in the coming 6 to 24 months, it may issue an updated ratings "Outlook" assessment. An Outlook assessment considers the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). An Outlook assessment is not necessarily a precursor of a rating change. The common rating outlook definitions are: Positive—means that a rating may be raised; Negative—means that a rating may be lowered; Stable—means that a rating is not likely to change; and Developing—means a rating may be raised or lowered.

S&P may also offer an opinion (termed a "CreditWatch") as to whether a credit rating is likely to be upgraded (positive), downgraded (negative) or uncertain (neutral). It focuses on identifiable events and short-term trends that cause ratings to be placed under special surveillance by S&P.

Additional information about Heartland's rating

Heartland's rating is a long-term issuer rating which reflects Heartland's creditworthiness over a time period of one year or more. The rating also assesses Heartland's capacity to repay in New Zealand dollars.

Where can I find more information?

The Reserve Bank has some useful information on credit ratings on its website www.rbnz.govt.nz.

Additional information can also be found on S&P's website www.standardandpoors.com.

Investors may also wish to engage an investment adviser for independent advice and Heartland encourages you to do so.

Two final things to note

Credit ratings are only one tool in assessing risk, and the Reserve Bank advises investors to seek more information on making wise investment decisions.

S&P's credit ratings are statements of opinion, not statements of fact or recommendations to buy, hold or sell any securities. Accordingly, any user of credit ratings should not rely on any such ratings or other opinion issued by S&P in making any investment decision. Ratings are based on information received by S&P.

Ratings may be changed, withdrawn or suspended by S&P at any time. Any reduction in its credit rating could adversely affect the Heartland Group's ability to source cost-effective funding (and so adversely affect the financial performance and financial condition of the Heartland Group) and ultimately significantly increase the liquidity and reinvestment risk of the Heartland Group, as described above.

Bank Registration³⁶

A key objective of Heartland is to become a registered bank under the Reserve Bank Act over the medium term. Following the acquisition of PWF, Heartland intends to commence the formal application for bank registration during the 2011-2012 financial year. The registration process after application is of indeterminate length, and registration is subject to satisfaction of the Reserve Bank's requirements. The Reserve Bank Act prescribes what factors the Reserve Bank must take into account when determining an application. These factors comprise a range of qualitative and quantitative factors and include the ability of an applicant to carry on its business in a prudent manner and in particular include:

- capital in relation to size and nature of the business;
- loan concentration and risk exposures;
- liquidity;
- separation of the business from other interests of the owner;
- internal controls and accounting systems;
- risk management systems and policies; and
- outsourcing arrangements;

These factors are not exhaustive. There is no certainty that Heartland will be able to meet all relevant criteria (which may change in the future) and become a registered bank.

In the event Heartland is unable to obtain bank registration, or there is a significant delay in obtaining such registration, the profitability of the Heartland Group may be adversely affected.

If Heartland does obtain bank registration, the Trust Deed will be discharged and Heartland will be subject to governance by the Reserve Bank.

NBDT Regulations

As in the case with other NBDTs, the Heartland Group faces increased levels of regulation and is required to comply with a range of statutory and regulatory requirements.

NBDTs are required to comply with a set of prudential requirements as prescribed in Part 5D of the Reserve Bank Act and relevant regulations. The prudential requirements are broadly categorised into the following six areas:

- credit rating;
- risk management;

³⁶ Neither Heartland nor any member of the Heartland Group is a registered bank, and Heartland will not be a registered bank until it is registered as such under the Reserve Bank Act. As part of any application for bank registration Heartland may convert into a company.

- capital;
- related party exposures;
- liquidity; and
- governance.

Any change to existing regulations or the introduction of new regulations could result in additional requirements being imposed on the Heartland Group or result in increased costs being incurred by the Heartland Group. There is a NBDT Bill in Select Committee which, if enacted, will require licensing, approval of directors and restrictions on changes in ownership.

Interest rate risk

The Heartland Group holds interest-bearing assets and liabilities, and incurs interest rate risk because these assets and liabilities will mature or re-price in different periods. Since market interest rates fluctuate, this may impact on the Heartland Group's financial performance by affecting the interest margin between funds lent and funds borrowed.

Credit risk and realisation risk

The Heartland Group lends money to a variety of customers, including individuals, farming operations, companies and other business organisations, and there is a risk of financial loss if customers do not pay interest on time or repay their loans on time and in full.

If a borrower fails to meet its principal or interest payment obligations, the Heartland Group may need to realise any asset which has been provided as security for that loan. There is a risk that the realisable value of any such asset may be less than the value of the loan, for example because of lack of demand for that asset, and that the Heartland Group will be unable to recover the full amount owed. Current economic conditions may make it more difficult to recover the full amount of loans through the realisation of security interests because of a reduced demand for assets generally at the present time. Any loss suffered by the Heartland Group as a result of such events could have an adverse effect on its financial performance and condition.

In terms of property lending, the Heartland Group lends to borrowers based on mortgage security over residential, commercial and rural properties based only in New Zealand. Each of these property sectors has particular risks associated with it. In addition, Heartland has a number of legacy property development loans which it is seeking to exit through realisation of the real estate held as security for those loans. There is a risk Heartland will be unable to recover the full amount owed.

However, the board of Heartland considers that factors such as the diversity of the Heartland Group's loan portfolio and the limited concentration of the Heartland Group's lending to any particular customer, offer the Heartland Group some degree of protection in the event of any further deterioration in property values in New Zealand.

Investment property

The Heartland Group may enforce security over property loans and hold the underlying security as investment property. The carrying value of investment property will be based on fair value as determined by independent valuers or similar evidence adjusted where necessary to take into account market movements since the date of valuation. If property

values decline, this may have an adverse effect on the financial performance and the financial condition of the Heartland Group.

Impairment of assets

As noted above, borrowers from the Heartland Group may default on payments. In such cases if the value of the underlying security held by the Heartland Group is insufficient to meet the debt and the cost of enforcing such security, then the Heartland Group could suffer an overall loss.

Where appropriate, impairments and other provisions relating to assets may be required to be made by the Heartland Group.

Failure to implement strategy

The successful implementation of the Heartland Group's strategy will be a very important driver for the Heartland Group's prospective financial performance. If this strategy is not achieved as anticipated, or is significantly delayed, the financial performance of the Heartland Group could be adversely affected.

As part of the Heartland Group's strategic initiatives, the Heartland Group may grow its existing business organically or via acquisitions of new businesses or assets that fit with its lending criteria, the recent acquisition by Heartland of all the shares in PWF being an example of such an acquisition. This strategy involves a number of risks, including:

- failure to identify material risks or liabilities associated with the acquired business or assets prior to acquisition;
- the Heartland Group failing to achieve the anticipated benefits of acquired businesses or assets due to unexpected difficulties in successfully integrating the operations of acquired businesses or assets with existing operations;
- the acquired businesses or assets may not prove to be as profitable as expected or may result in the Heartland Group incurring unforeseen liabilities;
- that Heartland may not be able to raise the additional capital required in order to increase its asset base.

Environmental risk

The Heartland Group may be exposed to a number of external risks that are beyond its control. The rural sector is subject to environmental changes (for example, drought and disease), and all industry sectors are subject to economic changes (for example, decreases in commodity prices) or political changes (for example, New Zealand Government and foreign government actions affecting factors such as tariffs), which could disrupt the business and competitiveness of the Heartland Group's clients and consequently the ability of those clients to make repayments under their loans.

The demand for lending and the ability of borrowers to repay the Heartland Group may be affected by the state of New Zealand's economy. A prolonged economic slowdown or recession may have a negative impact on the demand for lending and may adversely affect a borrower's ability to repay or refinance loan facilities with the Heartland Group.

Currency risk

Fluctuations in the value of the New Zealand dollar relative to other currencies may impact on export sales and returns on those sales to the rural sector in particular. In turn this may affect the ability of the Heartland Group to lend to, or be repaid by, borrowers.

Integration risk

The success of the Heartland Group will in turn depend on the successful integration of the operations of MARAC, CBS Canterbury, Southern Cross and PWF, over time. Although it is intended that the integration of the respective activities will be undertaken on a staged basis, it cannot be assured that the integration of the respective activities of those parties is undertaken within the planned timeframe and/or within the estimated integration costs expected to be incurred as part of the Merger integration process and/or the PWF integration process.

Operational and other risks

The Heartland Group may be exposed to financial loss and/or damage to its reputation if operational risks are not identified and properly managed. These risks include:

- potential failure of business continuity and disaster recovery processes, and data integrity risk;
- a breakdown in internal control systems or operating procedures;
- the possibility of key personnel leaving the businesses and the potential short-term disruption caused by seeking appropriate replacements;
- the risk that the Heartland Group or any of its businesses and customers is the victim of fraud;
- the possibility of a dispute that results in court or arbitration proceedings that could adversely affect the Heartland Group's financial position and reputation;
- the possibility of a competitor introducing new technology, products or services into the market or of a competitor following an aggressive pricing strategy, thereby undermining the competitiveness and/or profitability of any of the Heartland Group's business products or services; and
- a natural disaster disrupting the ability of the Heartland Group to operate its business.

Information technology risks

Information technology plays a critical role in the Heartland Group's business, with the delivery of financial services to customers dependent on the availability and reliability of its information technology systems. The Heartland Group's ability to compete effectively in the future will, in part, be driven by its ability to maintain an appropriate information technology platform for the efficient delivery of the Heartland Group's products and services. The Heartland Group's business operations are likely to be significantly affected should its information technology systems fail or not operate in an efficient manner.

Consequences of insolvency

Depositors will not be liable to pay any money to any person as a result of the insolvency of Heartland or any Guaranteeing Subsidiary.

~~In the unlikely event of Heartland or any Guaranteeing Subsidiary becoming insolvent, certain claims or payments must be met before investments can be repaid to the Depositors. These claims are set out in legislation and include secured creditors, taxes, certain payment to employees and any liquidator's costs.~~

~~After the payment of these preferred creditors, the Deposits will rank equally in all respects with all existing and future debt securities issued by Heartland pursuant to the Trust Deed and without priority or preference amongst themselves.~~

SECTION 76: FINANCIAL INFORMATION

This section contains financial information required by clauses 8 and 9 of Schedule 2 to the Securities Regulations.

Audited Financial Statements

This section contains summary historical financial information of the Heartland Group for the last five financial years. This historical financial information has been prepared from the 30 June 2011 audited financial statements of Heartland and PWF, the 30 June 2010 audited financial statements of MARAC and Southern Cross, the audited financial statements of CBS Canterbury at 31 March 2010 and the unaudited financial statements of CBS Canterbury for the three months ending 30 June 2010.

KPMG's report in relation to the financial statements of MARAC for the year ended 30 June 2009 made reference to those financial statements being prepared assuming the successful conclusion of matters relating to MARAC's bank financing arrangements. These matters were successfully concluded subsequent to the completion of KPMG's 2009 audit, and this was noted in their December 2009 report for inclusion in MARAC's prospectus. With the exception of this explanatory paragraph, none of the audit reports for the audited financial statements on which these historical summaries are based contain *qualified opinions* or any explanatory paragraphs highlighting matters regarded as relevant to a proper understanding of the basis of the opinions given.

The full financial statements for each entity were prepared in accordance with NZ GAAP. Each of Heartland, PWF, MARAC, Southern Cross and CBS Canterbury is a profit-oriented entity and has made an explicit and unreserved statement of compliance with IFRS in its full financial statements.

The summary financial statements have been prepared in accordance with FRS43 ("Summary Financial Statements"). However, these cannot be expected to provide as complete an understanding as provided by the full financial statements of each entity.

Copies of the full latest financial statements for Heartland, PWF, MARAC, Southern Cross, and CBS Canterbury may be obtained from the Heartland registered office or by downloading these from www.heartland.co.nz. Copies of the full annual financial statements for each entity may also be downloaded from the public register for companies or building societies maintained by the Companies Office at www.business.govt.nz/companies.

Heartland: Summary Financial Statements

Heartland Building Society Summary Financial Statements						
	NZ IFRS					PREVIOUS NZ GAAP
Statements of Comprehensive Income						
	Audited 12 months to 30 June 2011 \$000	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000	Audited 12 months to 30 June 2007 \$000	Audited 12 months to 30 June 2007 \$000
Consolidated						
Interest income	161,297	148,337	168,933	173,438	134,849	121,226
Interest expense	99,705	89,271	109,318	108,637	80,371	81,059
Net interest income	61,592	59,066	59,615	64,801	54,478	40,167
Other net income	8,888	10,015	6,004	5,389	5,504	18,961
Total operating income before other gains	70,580	69,081	65,619	70,190	59,982	59,128
Employee benefits	22,049	13,049	13,377	14,411	12,454	12,080
Other operating expenses	22,777	11,976	11,671	11,404	9,697	9,477
Profit before impairment and tax	25,754	44,056	40,571	44,375	37,831	37,571
Impairment	13,298	23,765	13,318	5,726	955	356
Net profit before tax	12,456	20,291	27,253	38,649	36,876	37,215
Tax expense	4,712	5,992	8,199	12,785	12,199	12,311
Net profit after tax	7,744	14,299	19,054	25,864	24,677	24,904
Statements of Comprehensive Income						
Net profit after tax attributable to owners of the society	7,744	14,299	19,054	25,864	24,677	24,904
Other comprehensive income/(loss) for the period, net of tax						
Net change in available-for-sale reserve, net of tax	111	-	-	-	-	-
Net change in defined benefit plan reserve, net of tax	14	-	-	-	-	-
Effective portion of changes in fair value of cash flow hedges, net of tax	596	4,208	(4,427)	(1,765)	-	-
Total comprehensive income for the period, net of tax	8,465	18,507	14,627	24,099	24,677	24,904
Total comprehensive income attributable to owners of the society	8,465	18,507	14,627	24,099	24,677	24,904
Statements Of Changes In Equity						
Opening balance	206,468	152,961	139,989	120,890	107,463	110,790
Total comprehensive income for the period attributable to: owners of the society	8,465	18,507	14,627	24,099	24,677	24,904
Contributions from owners	79,774	35,000	11,345	-	-	-
Distributions to owners	(866)	-	(13,000)	(5,000)	(11,250)	(11,250)
Closing Balance	293,841	206,468	152,961	139,989	120,890	124,444
Components of equity:						
Share capital	134,774	55,000	20,000	20,000	20,000	20,000
Capital reserve	-	-	-	-	-	14
Retained earnings	160,330	153,452	139,153	121,754	100,890	104,430
Available for sale reserve	111	-	-	-	-	-
Defined benefit reserve	14	-	-	-	-	-
Fair value through other comprehensive income reserve	(1,388)	(1,984)	(6,192)	(1,765)	-	-
Total Equity	293,841	206,468	152,961	139,989	120,890	124,444

From a legal perspective MARAC is a subsidiary of Heartland, however, under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) MARAC is treated as the acquirer of CBS Canterbury and Southern Cross. The effect of this is that the comparative consolidated financial statements for the years ending 30 June 2010, 2009, 2008 and 2007 represent a continuation of the MARAC Group only, given Heartland was not formed until 5 January 2011.

Heartland's consolidated Statements of Comprehensive Income and consolidated Statements of Cash Flows reflects the operations of the MARAC Group from 1 July 2010 to 5 January 2011 and the Heartland Group from 6 January to 30 June 2011, whilst the consolidated Statements of Financial Position as at 30 June 2011 reflects that of the Heartland Group.

Heartland: Summary Financial Statements

Heartland Building Society Summary Financial Statements						
	NZ IFRS					PREVIOUS NZ GAAP
Statements of Financial Position						
	Audited As at 30 June 2011 \$000	Audited As at 30 June 2010 \$000	Audited As at 30 June 2009 \$000	Audited As at 30 June 2008 \$000	Audited As at 30 June 2007 \$000	Audited As at 30 June 2007 \$000
Consolidated						
Assets						
Cash and cash equivalents	267,034	86,406	62,462	8,655	-	-
Investments	17,831	-	-	-	-	-
Investment Properties	34,499	-	-	-	-	-
Finance receivables	1,497,618	941,328	1,136,646	1,011,954	1,197,815	1,204,210
Finance receivables - securitised	209,693	160,853	157,941	291,532	-	-
Operating lease vehicles	32,727	42,895	36,209	29,719	36,834	36,675
Intangible assets	21,602	901	-	-	-	-
Other assets	34,481	62,173	19,537	10,404	7,261	5,129
Total Assets	2,115,485	1,294,556	1,412,795	1,352,264	1,241,910	1,246,014
Liabilities						
Bank overdraft	-	-	-	-	910	910
Deposits and interest accruals	1,593,247	834,381	1,066,231	901,091	1,088,450	1,089,200
Borrowings - Securitised	194,277	149,298	150,728	283,042	-	-
Other liabilities	34,120	104,409	42,875	28,142	31,660	31,460
Total Liabilities	1,821,644	1,088,088	1,259,834	1,212,275	1,121,020	1,121,570
Net Assets	293,841	206,468	152,961	139,989	120,890	124,444
Equity						
Share capital	134,774	55,000	20,000	20,000	20,000	20,000
Reserves	159,067	151,468	132,961	119,989	100,890	104,444
Total Equity	293,841	206,468	152,961	139,989	120,890	124,444
Statements Of Cash Flows						
	Audited 12 months to 30 June 2011 \$000	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000	Audited 12 months to 30 June 2007 \$000	Audited 12 months to 30 June 2007 \$000
Consolidated						
Net cash flows from/(used in) operating activities	2,820	99,664	5,915	5,115	29,374	38,066
Net cash flows from/(used in) investing activities	20,502	124,213	73,764	(77,612)	(168,415)	(177,107)
Net cash flows from/(used in) financing activities	(49,820)	(199,933)	(23,036)	82,062	144,427	144,427
Net increase/(decrease) in cash held	(26,498)	23,944	56,643	9,565	5,386	5,386
Add opening cash brought forward:						
Cash on hand and at bank	86,406	62,462	8,655	(910)	(6,296)	(6,296)
Acquired on amalgamation	207,126	-	(2,836)	-	-	-
Closing cash carried forward	267,034	86,406	62,462	8,655	(910)	(910)
Comprising:						
Cash on hand and at bank/ bank overdraft	267,034	86,406	62,462	8,655	(910)	(910)
Date of Authorisation of Financial Statements						
Authorised for issue by the Board	19-Aug-2011	26-Aug-2010	28-Aug-2009	26-Aug-2008	24-Aug-2007	24-Aug-2007

From a legal perspective MARAC is a subsidiary of Heartland, however, under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) MARAC is treated as the acquirer of CBS Canterbury and Southern Cross. The effect of this is that the comparative consolidated financial statements for the years ending 30 June 2010, 2009, 2008 and 2007 represent a continuation of the MARAC Group only, given Heartland was not formed until 5 January 2011.

Heartland's consolidated Statements of Comprehensive Income and consolidated Statements of Cash Flows reflects the operations of the MARAC Group from 1 July 2010 to 5 January 2011 and the Heartland Group from 6 January to 30 June 2011, whilst the consolidated Statements of Financial Position as at 30 June 2011 reflects that of the Heartland Group.

Heartland: Notes to Summary Financial Statements

Heartland is a profit-oriented entity, which for accounting purposes consolidates the MARAC Group. The "MARAC Group" is a profit-oriented entity, which consists of MARAC, Heartland (formerly MARAC) ABCP Trust 1 (Trust), MARAC Retirement Bonds Superannuation Fund (Fund) and Heartland (previously MARAC) PIE Fund (PIE). The Fund was wound up with effect from 31 October 2010.

Heartland consolidates two securitisation trusts — Heartland (formerly MARAC) ABCP Trust 1 (as above) and CBS Warehouse A Trust (Trusts). The assets securitised into the Trusts continue to be recognised in Heartland's financial statements, however those assets are set aside for the benefit of the investors in the Trusts and do not form part of Heartland's assets which are available to repay holders of Heartland debt securities.

The summary financial statements of Heartland have been prepared on the following basis:

- The values presented in the summary financial statements for the financial year ending 30 June 2011 were extracted from the full financial statements of Heartland Building Society. The values presented in the summary financial statements for the financial years ending 30 June 2010, 2009, 2008 and 2007 were extracted from the full financial statements of the MARAC Group.
- The full financial statements for the financial years ending 30 June 2011, 2010, 2009, 2008 and 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit oriented entities. The full financial statements for the financial years ending 30 June 2011, 2010, 2009, 2008 and 2007 included an explicit and unreserved statement of compliance with IFRS. The full financial statements for the financial year ended 30 June 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Financial Reporting Standards (NZ FRS) applicable prior to the implementation of NZ IFRS (previous NZ GAAP).
- Heartland Building Society full financial statements for the financial year ending 30 June 2011, and the MARAC Group full financial statements for the financial years ending 30 June 2010, 2009, 2008 and 2007 presented in the summary financial statements as the Heartland Building Society comparatives have been audited. KPMG's report in relation to the financial statements of the MARAC Group for the year ended 30 June 2009 made reference to those financial statements being prepared assuming the successful conclusion of matters relating to MARAC's bank financing arrangements. These matters were successfully concluded subsequent to the completion of KPMG's 2009 audit, and this was noted in their December 2009 report for inclusion in MARAC's prospectus. With the exception of this explanatory paragraph, none of these audit reports contain qualified opinions or any explanatory paragraphs highlighting matters regarded as relevant to proper understanding of the basis of the opinions given. These financial statements may be obtained from the Heartland registered office, or downloaded from the public register for building societies maintained by the Companies Office at www.business.govt.nz/companies.
- The accounting policies that have been applied in preparing Heartland Building Society's full financial statements for the year ended 30 June 2011 are consistent with the

accounting policies applied in the MARAC Group full financial statements for the year ended 30 June 2010.

- The cash impact of the movement in finance receivables and operating lease assets are reflected as operating cash flows, from 30 June 2010 and 30 June 2009, respectively. The impact of these adjustments on historical periods, previously recorded as investing cash flows, can be calculated from the audited financial statements from which those summary financial statements are extracted.
- The summary financial statements cannot be expected to provide a complete understanding as provided by the full financial statements from which they are extracted.
- The summary financial statements comply with the Financial Reporting Standard 43 (FRS 43) "Summary Financial Statements" as required by the Securities Regulations.
- The summary financial statements reflect the current presentation requirements of FRS 43 "Summary Financial Statements" (as amended by the consequential amendments of NZ IAS 1 Presentation of Financial Statements (revised 2007)) for all periods presented, including the presentation of other comprehensive income and total comprehensive income.
- The summary financial statements are presented in New Zealand dollars which is the functional currency of Heartland. Unless otherwise indicated, amounts are rounded to the nearest thousand.

The summary financial statements were authorised for issue by the Directors of Heartland on 19 August 2011.

PWF: Summary Financial Statements

PGG Wrightson Finance Limited Summary Financial Statements							
	NZ IFRS						PREVIOUS NZ GAAP
Statements of Comprehensive Income							
	Audited 12 months to 30 June 2011 \$000	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000	Audited 12 months to 30 June 2007 \$000	Audited 12 months to 30 June 2007 \$000	
Interest income	54,183	58,730	56,685	49,678	37,877	37,779	
Interest expense	32,609	30,357	37,758	34,322	25,064	24,755	
Net interest income	21,574	28,373	18,927	15,356	12,813	13,024	
Other net income	946	925	916	338	-	98	
Total operating income before other gains	22,520	29,298	19,843	15,694	12,813	13,122	
Employee benefits	4,703	4,385	4,542	3,786	3,443	3,443	
Other operating expenses	3,761	2,869	2,314	3,035	1,611	1,713	
Profit before impairment and tax	14,056	22,044	12,987	8,873	7,759	7,966	
Impairment	8,812	8,949	2,877	460	(480)	(480)	
Net profit before non-recurring items and tax	5,244	13,095	10,110	8,413	8,239	8,446	
Non-operating items	(136)	-	-	-	-	-	
Fair value adjustments	2,172	(338)	1,002	245	-	-	
Total non-recurring items	2,036	(338)	1,002	245	-	-	
Net profit before tax	7,280	12,757	11,112	8,658	8,239	8,446	
Tax expense	2,747	3,824	3,334	2,839	2,787	2,787	
Net profit after tax	4,533	8,933	7,778	5,819	5,452	5,659	
Statements of Comprehensive Income							
Net profit after tax attributable to owners of the entity	4,533	8,933	7,778	5,819	5,452	5,659	
Other comprehensive income/(loss) for the period, net of tax							
Effective portion of changes in fair value of cash flow hedges, net of tax	(1,282)	(2,992)	5,146	(52)	(538)	-	
Total comprehensive income for the period, net of tax	3,251	5,941	12,924	5,767	4,914	5,659	
Total comprehensive income attributable to owners of the entity	3,251	5,941	12,924	5,767	4,914	5,659	
Statements Of Changes in Equity							
Opening balance	100,375	66,816	53,892	40,625	31,211	31,623	
Total comprehensive income for the period attributable to owners of the entity	3,251	5,941	12,924	5,767	4,914	5,659	
Contributions from owners	-	33,850	-	7,500	10,000	10,000	
Distributions to owners	(2,707)	(6,232)	-	-	(5,500)	(5,500)	
Closing Balance	100,919	100,375	66,816	53,892	40,625	41,782	
Components of equity:							
Share capital	31,500	31,500	31,500	31,500	24,000	24,000	
Capital reserve	-	-	-	-	-	-	
Retained earnings	35,569	33,743	31,042	23,394	17,575	17,782	
Preference Shares	33,850	33,850	-	-	-	-	
Fair value through other comprehensive income reserve	-	1,282	4,274	(1,002)	(950)	-	
Total Equity	100,919	100,375	66,816	53,892	40,625	41,782	

PGW: Summary Financial Statements

PGW Wrightson Finance Limited						
Summary Financial Statements						
	NZ IFRS					PREVIOUS NZ GAAP
Statements of Financial Position						
	Audited As at 30 June 2011 \$000	Audited As at 30 June 2010 \$000	Audited As at 30 June 2009 \$000	Audited As at 30 June 2008 \$000	Audited As at 30 June 2007 \$000	Audited As at 30 June 2007 \$000
Assets						
Cash and cash equivalents	71,617	9,277	3,779	625	-	-
Loans and advances	381,778	530,119	559,659	502,591	394,443	394,443
Assets classified as held for sale	50,522	-	-	-	-	-
Other assets	14,815	10,266	12,037	4,248	3,823	3,251
Total Assets	518,732	549,662	575,475	507,464	398,266	397,694
Liabilities						
Bank overdraft	-	-	-	-	475	475
Borrowings	412,293	439,057	499,146	449,483	351,631	352,405
Other liabilities	5,520	10,230	9,513	4,089	5,535	3,032
Total Liabilities	417,813	449,287	508,659	453,572	357,641	355,912
Net Assets	100,919	100,375	66,816	53,892	40,625	41,782
Equity						
Share capital	65,350	65,350	31,500	31,500	24,000	24,000
Reserves	35,569	35,025	35,316	22,392	16,625	17,782
Total Equity	100,919	100,375	66,816	53,892	40,625	41,782
Statements Of Cash Flows						
	Audited 12 months to 30 June 2011 \$000	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000	Audited 12 months to 30 June 2007 \$000	Audited 12 months to 30 June 2007 \$000
Net cash flows from/(used in) operating activities	4,814	20,638	14,232	5,496	7,539	7,539
Net cash flows from/(used in) investing activities	88,897	20,373	(61,143)	(109,439)	(112,885)	(63,307)
Net cash flows from/(used in) financing activities	(31,371)	(35,513)	50,055	105,043	103,402	53,824
Net increase/(decrease) in cash held	62,340	5,498	3,154	1,100	(1,944)	(1,944)
Add opening cash brought forward:						
Cash on hand and at bank	9,277	3,779	625	(475)	1,469	1,469
Closing cash carried forward	71,617	9,277	3,779	625	(475)	(475)
Comprising:						
Cash on hand and at bank/ bank overdraft	71,617	9,277	3,779	625	(475)	(475)
Date of Authorisation of Financial Statements						
Authorised for Issue by the Board	29-Aug-2011	12-Aug-2010	27-Aug-2009	19-Aug-2008	16-Aug-2007	16-Aug-2007

PWF: Notes to Summary Financial Statements

The amounts stated above for the financial years ending 30 June 2011, 2010, 2009, 2008 and 2007 are taken from the audited financial statements of PWF. All years' financial statements have received an unqualified audit opinion with no matters highlighted by the auditor that would be regarded as relevant to a proper understanding of the basis of the opinion. The summary financial statements for the years ending 30 June 2011, 2010, 2009, 2008 and 2007 were prepared on the basis of New Zealand equivalents to International Financial Reporting Standards as disclosed in the basis of preparation section of the notes to the full financial statements. The results for the year ending 30 June 2007 have also been amended for comparison purposes. Pre-NZ IFRS figures for the year ending 30 June 2007 were prepared in accordance with previous GAAP. At the date of preparing the summary financial statements, PWF was a single entity profit oriented company that did not qualify for differential reporting concessions.

The summary financial statements cannot provide as complete an understanding as provided by full financial statements. These financial statements may be obtained from the Heartland registered office, or downloaded from the public register for companies maintained by the Companies Office at www.business.govt.nz/companies.

The Summary Financial Statements have been extracted from the following audited full Financial Statements:

- Year ended 30 June 2011, which were authorised by the PWF board on 29 August 2011 and audited by KPMG who issued an unqualified opinion on 29 August 2011;
- Year ended 30 June 2010, which were authorised by the PWF board on 12 August 2010 and audited by KPMG who issued an unqualified opinion on 12 August 2010;
- Year ended 30 June 2009, which were authorised by the PWF board on 27 August 2009 and audited by KPMG who issued an unqualified opinion on 27 August 2009;
- Year ended 30 June 2008, which were authorised by the PWF board on 19 August 2008 and audited by KPMG who issued an unqualified opinion on 19 August 2008;
- Year ended 30 June 2007, which were authorised by the PWF board on 16th August 2007 and audited by KPMG who issued an unqualified opinion on 16 August 2007.

Each of the full financial statements are presented in New Zealand dollars which was PWF's functional and presentation currency at the date of preparing the summary financial statements. All values are rounded to the nearest thousand dollars. The summary financial statements have been prepared in accordance with FRS 43 subject to the Securities Regulations 2009.

The summary financial statements were authorised for issue by the directors of PWF on 29 August 2011.

MARAC: Summary Financial Statements

MARAC Finance Limited Summary Financial Statements					
	NZ IFRS				PREVIOUS NZ GAAP
Statements of Comprehensive Income					
	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000	Audited 12 months to 30 June 2007 \$000	Audited 12 months to 30 June 2007 \$000
Parent and Consolidated					
Interest income	148,337	168,933	173,438	134,849	121,226
Interest expense	89,271	109,318	108,637	80,371	81,059
Net interest income	59,066	59,615	64,801	54,478	40,167
Other net income	10,015	6,004	5,989	5,504	18,961
Total operating income before other gains	69,081	65,619	70,790	59,982	59,128
Employee benefits	13,049	13,377	14,411	12,454	12,080
Other operating expenses	11,976	11,671	11,404	9,697	9,477
Profit before impairment and tax	44,056	40,571	44,375	37,831	37,571
Impairment	23,765	13,318	5,726	955	356
Net profit before tax	20,291	27,253	38,649	36,876	37,215
Tax expense	5,992	8,199	12,785	12,199	12,311
Net profit after tax	14,299	19,054	25,864	24,677	24,904
Statements of Comprehensive Income					
Net profit after tax attributable to owners of the entity	14,299	19,054	25,864	24,677	24,904
Other comprehensive income/(loss) for the period, net of tax					
Effective portion of changes in fair value of cash flow hedges, net of tax	4,208	(4,427)	(1,765)	-	-
Total comprehensive income for the period, net of tax	18,507	14,627	24,099	24,677	24,904
Total comprehensive income attributable to owners of the entity	18,507	14,627	24,099	24,677	24,904
Statements Of Changes in Equity					
Opening balance	152,961	139,989	120,890	107,463	110,790
Total comprehensive income for the period attributable to: owners of the entity	18,507	14,627	24,099	24,677	24,904
Contributions from owners	35,000	11,345	-	-	-
Distributions to owners	-	(13,000)	(5,000)	(11,250)	(11,250)
Closing Balance	206,468	152,961	139,989	120,890	124,444
Components of equity:					
Share capital	55,000	20,000	20,000	20,000	20,000
Capital reserve	-	-	-	-	14
Retained earnings	153,452	139,153	121,754	100,890	104,430
Fair value through other comprehensive income reserve	(1,984)	(6,192)	(1,765)	-	-
Total Equity	206,468	152,961	139,989	120,890	124,444

MARAC: Summary Financial Statements

MARAC Finance Limited Summary Financial Statements					
	NZ IFRS				PREVIOUS NZ GAAP
Statements of Financial Position					
	Audited As at 30 June 2010 \$000	Audited As at 30 June 2009 \$000	Audited As at 30 June 2008 \$000	Audited As at 30 June 2007 \$000	Audited As at 30 June 2007 \$000
Parent and Consolidated					
Assets					
Cash and cash equivalents	86,406	62,462	8,655	-	-
Finance receivables	941,328	1,136,646	1,011,984	1,197,815	1,204,210
Finance receivables - securitised	160,853	157,941	291,532	-	-
Operating lease vehicles	42,895	36,209	29,719	36,834	36,675
Other assets	63,074	19,537	10,404	7,261	5,129
Total Assets	1,294,556	1,412,795	1,352,284	1,241,910	1,246,014
Liabilities					
Bank overdraft	-	-	-	910	910
Deposits and interest accruals	834,381	1,066,231	901,091	1,088,450	1,069,200
Borrowings - Securitised	149,298	150,728	283,042	-	-
Other liabilities	104,409	42,875	28,142	31,660	31,460
Total Liabilities	1,088,088	1,259,834	1,212,275	1,121,020	1,121,570
Net Assets	206,468	152,961	139,989	120,890	124,444
Equity					
Share capital	55,000	20,000	20,000	20,000	20,000
Reserves	151,468	132,961	119,989	100,890	104,444
Total Equity	206,468	152,961	139,989	120,890	124,444
Statements Of Cash Flows					
	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000	Audited 12 months to 30 June 2007 \$000	Audited 12 months to 30 June 2007 \$000
Parent and Consolidated					
Net cash flows from/(used in) operating activities	30,373	5,915	5,115	29,374	38,066
Net cash flows from/(used in) investing activities	193,504	73,764	(77,612)	(168,415)	(177,107)
Net cash flows from/(used in) financing activities	(199,933)	(23,036)	82,062	144,427	144,427
Net increase/(decrease) in cash held	23,944	56,643	9,565	5,386	5,386
Add opening cash brought forward:					
Cash on hand and at bank	62,462	8,655	(910)	(6,296)	(6,296)
Acquired on amalgamation	-	(2,836)	-	-	-
Closing cash carried forward	86,406	62,462	8,655	(910)	(910)
Comprising:					
Cash on hand and at bank/ bank overdraft	86,406	62,462	8,655	(910)	(910)
Date of Authorisation of Financial Statements					
Authorised for issue by the Board	26-Aug-2010	28-Aug-2009	26-Aug-2008	24-Aug-2007	24-Aug-2007

MARAC: Notes to Summary Financial Statements

The "MARAC Group" is a profit-oriented entity, which consists of MARAC, Heartland (formerly MARAC) ABCP Trust 1 ("Trust"), MARAC Retirement Bonds Superannuation Fund ("Fund") and Heartland (previously MARAC) PIE Fund ("PIE"). The Fund was wound up with effect from 31 October 2010.

The assets securitised into the Trust continue to be recognised in MARAC's financial statements, however those assets are set aside for the benefit of the investors in the Trust and do not form part of MARAC's assets which are available to repay holders of Heartland debt securities. Accordingly, as MARAC's and the MARAC Group's financial performance and position are the same in all material respects, a single set of numbers is presented.

The summary financial statements of the MARAC Group have been prepared on the following basis:

- The values presented in the summary financial statements were extracted from the full financial statements of the MARAC Group for the financial years ending 30 June 2010, 2009, 2008 and 2007.
- The full financial statements for the financial years ended 30 June 2010, 2009, 2008 and 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit oriented entities. The full financial statements for each of these years included an explicit and unreserved statement of compliance with IFRS. The full financial statements for the financial year ended 30 June 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Financial Reporting Standards (NZ FRS) applicable prior to the implementation of NZ IFRS ("previous NZ GAAP").
- The full financial statements for each year presented in the summary financial statements have been audited. KPMG's report in relation to the financial statements of MARAC for the year ended 30 June 2009 made reference to those financial statements being prepared assuming the successful conclusion of matters relating to MARAC's bank financing arrangements. These matters were successfully concluded subsequent to the completion of KPMG's 2009 audit, and this was noted in their December 2009 report for inclusion in MARAC's prospectus. With the exception of this explanatory paragraph, none of the audit reports for the audited financial statements of MARAC on which these historical summaries are based contain qualified opinions or any explanatory paragraphs highlighting matters regarded as relevant to a proper understanding of the basis of the opinions given. These financial statements may be obtained from the Heartland registered office, or downloaded from the public register for companies maintained by the Companies Office at www.business.govt.nz/companies.
- The accounting policies that have been applied in preparing the full financial statements for the year ended 30 June 2010 are consistent with the accounting policies applied in the previous year.
- The summary financial statements cannot be expected to provide a complete understanding as provided by the full financial statements from which they are extracted.
- The summary financial statements comply with the Financial Reporting Standard 43 "Summary Financial Statements" as required by the Securities Regulations.
- The summary financial statements reflect the current presentation requirements of FRS 43 Summary Financial Statements (as amended by the consequential amendments of NZ IAS 1 Presentation of Financial Statements (revised 2007)) for all periods presented,

Including the presentation of other comprehensive income and total comprehensive income.

- The summary financial statements are presented in New Zealand dollars which is the functional currency of the MARAC Group. Unless otherwise indicated, amounts are rounded to the nearest thousand.

The summary financial statements were authorised for issue by the directors of MARAC on 24 September 2010.

Southern Cross: Summary Financial Statements

Southern Cross Building Society Summary Financial Statements					
	NZ IFRS				PREVIOUS NZ GAAP
Statements of Comprehensive Income					
	Audited 12 months to 30 June 2010	Audited 12 months to 30 June 2009	Audited 12 months to 30 June 2008	Audited 12 months to 30 June 2007	Audited 12 months to 30 June 2007
Parent and Consolidated	\$000	\$000	\$000	\$000	\$000
Interest income	27,372	38,125	44,451	39,706	38,908
Interest expense	17,675	27,545	33,304	30,708	30,403
Net interest income	9,697	10,580	11,147	8,998	8,505
Other net income	39	428	1,824	2,154	2,665
Total operating income before other net gains	9,736	11,008	12,971	11,152	11,170
Employee benefits	3,313	3,352	3,108	2,806	2,806
Other operating expenses	4,196	4,437	4,229	4,344	4,344
Profit before impairment, other net gains, restructuring costs and tax impairment	2,227	3,219	5,634	4,002	4,020
Impairment	5,765	14,625	593	1,222	1,180
Profit/(loss) before non-recurring items and tax	(3,538)	(11,406)	5,041	2,780	2,840
Other net gains/(losses)	(1,183)	-	2,668	2,871	-
Restructuring costs	(458)	47	(1,905)	(1,600)	(1,600)
Total non-recurring items	(1,641)	47	763	1,271	(1,600)
Net profit/(loss) before tax	(5,179)	(11,359)	5,804	4,051	1,240
Tax expense/(benefit)	(477)	(2,614)	636	1,386	531
Net profit/(loss) after tax	(4,702)	(8,745)	5,168	2,665	709
Statements of Comprehensive Income					
Net profit/(loss) after tax attributable to: owners of the Society	(4,702)	(8,745)	5,168	2,665	709
Other comprehensive income/(loss) for the period, net of tax					
Net change in asset revaluation reserve, net of tax	(174)	-	-	690	2,484
Net change in available-for-sale reserve, net of tax	-	1,015	(1,504)	(391)	-
Net change in defined benefit plan reserve, net of tax	-	(502)	(286)	-	-
Net change in fair value through other comprehensive income reserve	(353)	-	-	-	-
Total comprehensive income/(loss) for the period, net of tax	(5,229)	(8,232)	3,378	2,964	3,193
Total comprehensive income/(loss) attributable to: owners of the Society	(5,229)	(8,232)	3,378	2,964	3,193
Statements Of Changes In Equity					
Opening balance	52,198	60,405	57,140	43,676	44,163
Change in accounting policy - early adoption of NZ IFRS 9	612	-	-	-	-
Opening balance restated	52,810	60,405	57,140	43,676	44,163
Total comprehensive income/(loss) for the period attributable to: owners of the Society	(5,229)	(8,232)	3,378	2,964	3,193
Contributions from owners	25	25	425	10,500	10,500
Distributions to owners	-	-	(538)	-	-
Closing Balance	47,606	52,198	60,405	57,140	57,856
Components of equity:					
Share capital	10,475	10,450	10,425	10,500	10,500
Capital reserve	40,000	40,000	40,000	40,000	40,000
Retained earnings	(3,676)	1,026	9,771	(729)	-
Available for sale reserve	-	(612)	(1,627)	(123)	-
Asset revaluation reserve	1,074	1,248	1,248	6,618	7,356
Defined benefit reserve	86	86	588	874	-
Fair value through other comprehensive income reserve	(353)	-	-	-	-
Total Equity	47,606	52,198	60,405	57,140	57,856

Southern Cross: Summary Financial Statements

Southern Cross Building Society Summary Financial Statements					
	NZ IFRS				PREVIOUS NZ GAAP
Statements of Financial Position					
	Audited As at 30 June 2010 \$000	Audited As at 30 June 2009 \$000	Audited As at 30 June 2008 \$000	Audited As at 30 June 2007 \$000	Audited As at 30 June 2007 \$000
Parent and Consolidated					
Assets					
Cash and cash equivalents	681	1,006	1,306	645	645
Short term deposits	122,013	95,368	55,392	29,835	29,834
Investment securities	19,123	25,477	49,488	57,848	57,147
Investment property	-	-	-	16,000	15,610
Loans and advances	249,822	275,621	338,498	371,787	374,848
Deferred tax asset	5,572	5,414	2,824	2,171	1,224
Other assets	5,785	9,126	8,408	15,081	14,775
Total Assets	402,996	412,012	455,916	493,367	494,083
Liabilities					
Deposits and interest accruals	353,737	358,162	384,791	423,653	423,543
Redeemable shares	-	-	7,845	10,097	10,097
Other liabilities	1,653	1,652	2,875	2,477	2,587
Total Liabilities	355,390	359,814	395,511	436,227	436,227
Net Assets	47,606	52,198	60,405	57,140	57,856
Equity					
Share capital	10,475	10,450	10,425	10,500	10,500
Reserves	37,131	41,748	49,980	46,640	47,356
Total Equity	47,606	52,198	60,405	57,140	57,856
Statements Of Cash Flows					
	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000	Audited 12 months to 30 June 2007 \$000	Audited 12 months to 30 June 2007 \$000
Parent and Consolidated					
Net cash flows from/(used in) operating activities	(282)	(1)	(22,039)	(5,208)	27,023
Net cash flows from/(used in) investing activities	(43)	(299)	17,987	(393)	(6,670)
Net cash flows from/(used in) financing activities	-	-	4,713	5,500	(20,454)
Net increase/(decrease) in cash held	(325)	(300)	661	(101)	(101)
Add opening cash brought forward:					
Cash on hand and at bank	1,006	1,306	645	746	746
Closing cash carried forward	681	1,006	1,306	645	645
Comprising:					
Cash on hand and at bank	681	1,006	1,306	645	645
Date of Authorisation of Financial Statements					
Authorised for issue by the Board	11-Aug-2010	12-Aug-2009	22-Aug-2008	23-Aug-2007	23-Aug-2007

Southern Cross: Notes to Summary Financial Statements

At the date these Summary Financial Statements were prepared, Southern Cross was a profit-oriented building society registered in New Zealand under the Building Societies Act. For the purposes of these Financial Statements the "Southern Cross Group" consists of Southern Cross and its wholly owned subsidiaries, Southern Cross Building and Investments Limited and Southern Cross Nominees Limited.

The summary financial statements of Southern Cross have been prepared on the following basis:

- The values presented in the summary financial statements were extracted from the full financial statements of Southern Cross for the financial years ending 30 June 2010, 2009, 2008 and 2007.
- The full financial statements for the financial years ended 30 June 2010, 2009, 2008 and 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit oriented entities. The full financial statements for each of these years included an explicit and unreserved statement of compliance with IFRS. The full financial statements for the financial year ended 30 June 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Financial Reporting Standards (NZ FRS) applicable prior to the implementation of NZ IFRS ("previous NZ GAAP").
- The full financial statements for each year presented in the summary financial statements have been audited. None of these audit reports contain qualified opinions or any explanatory paragraphs highlighting matters regarded as relevant to proper understanding of the basis of the opinions given. These financial statements may be obtained from the Heartland registered office, or downloaded from the public register for building societies maintained by the Companies Office at www.business.govt.nz/companies.
- The accounting policies that have been applied in preparing the full financial statements for the year ended 30 June 2010 are consistent with the accounting policies applied in the previous year.
- The summary financial statements cannot be expected to provide a complete understanding as provided by the full financial statements from which they are extracted.
- The summary financial statements comply with the Financial Reporting Standard 43 "Summary Financial Statements" as required by the Securities Regulations.
- The summary financial statements are presented in New Zealand dollars which was the functional currency of the Southern Cross Group at that date of preparing the summary financial statements. Unless otherwise indicated, amounts are rounded to the nearest thousand.

The summary financial statements were authorised for issue by the directors of Southern Cross on 22 September 2010.

CBS Canterbury: Summary Financial Statements

Canterbury Building Society Summary Financial Statements						
	NZ IFRS					PREVIOUS NZ GAAP
Statements of Comprehensive Income						
	Unaudited 3 months to 30 June 2010 \$000	Audited 12 months to 31 March 2010 \$000	Audited 12 months to 31 March 2009 \$000	Audited 12 months to 31 March 2008 \$000	Audited 12 months to 31 March 2007 \$000	Audited 12 months to 31 March 2007 \$000
Parent and Consolidated						
Interest income	7,928	30,406	50,993	35,650	28,657	28,675
Interest expense	5,789	22,372	39,794	27,455	21,984	21,744
Net interest income	2,139	8,034	11,199	8,195	6,673	6,931
Other net income	363	2,362	696	827	982	1,065
Total operating income before other net gains	2,502	10,396	11,895	9,022	7,655	7,996
Employee benefits	1,153	4,141	3,801	2,531	2,139	2,133
Other operating expenses	1,158	4,469	4,935	3,273	3,059	3,106
Profit before impairment and tax	191	1,786	3,159	3,218	2,457	2,757
Impairment	75	589	2,410	15	-	1
Net profit before tax	116	1,197	749	3,203	2,457	2,756
Impairment of goodwill	-	-	(4,148)	-	-	-
Restructuring costs	(165)	-	-	-	-	-
Special finance charge	-	-	-	(1,110)	-	-
Total non-recurring items	(165)	-	(4,148)	(2,110)	-	-
Net profit/(loss) before tax	(49)	1,197	(3,399)	2,093	2,457	2,756
Tax expense/(benefit)	332	(711)	82	1,209	845	904
Net profit/(loss) after tax	(381)	1,908	(3,481)	884	1,612	1,852
Statements of Comprehensive Income						
Net profit/(loss) after tax attributable to: owners of the Society	(381)	1,908	(3,481)	884	1,612	1,852
Other comprehensive income/(loss) for the period, net of tax						
Net change in asset revaluation reserve, net of tax	-	101	(127)	68	628	765
Net change in available-for-sale reserve, net of tax	120	412	(349)	(211)	12	-
Net change in capital gains reserve, net of tax	-	-	-	241	-	-
Total comprehensive income/(loss) for the period, net of tax	(261)	2,421	(3,957)	982	2,252	2,617
Total comprehensive income/(loss) attributable to: owners of the Society	(261)	2,421	(3,957)	982	2,252	2,617
Statements Of Changes In Equity						
Opening balance	51,552	48,594	53,490	24,920	19,399	22,116
Total comprehensive income/(loss) for the period attributable to: owners of the Society	(261)	2,421	(3,957)	982	2,252	2,617
Contributions from owners	-	537	1,175	28,176	4,251	4,251
Distributions to owners	-	-	(2,114)	(588)	(982)	(1,223)
Closing Balance	51,291	51,552	48,594	53,490	24,920	27,761
Components of equity:						
Share capital	44,288	44,288	43,752	42,577	14,401	17,401
Retained earnings	5,203	5,583	3,674	9,270	8,974	8,544
Available for sale reserve	(40)	(135)	(547)	(199)	12	-
Asset revaluation reserve	1,553	1,529	1,428	1,555	1,487	1,770
Realised capital gains reserve	287	287	287	287	46	46
Total Equity	51,291	51,552	48,594	53,490	24,920	27,761

CBS Canterbury: Summary Financial Statements

Canterbury Building Society Summary Financial Statements						
	NZ IFRS					PREVIOUS NZ GAAP
Statements of Financial Position						
	Unaudited As at 30 June 2010 \$000	Audited As at 31 March 2010 \$000	Audited As at 31 March 2009 \$000	Audited As at 31 March 2008 \$000	Audited As at 31 March 2007 \$000	Audited As at 31 March 2007 \$000
Parent and Consolidated						
Assets						
Cash and cash equivalents	33,460	44,309	93,615	75,334	65,906	825
Short term deposits	31,500	27,000	5,300	10,300	-	65,133
Investment securities	8,025	7,918	17,131	8,166	4,876	4,824
Loans and advances	450,499	445,262	417,424	449,071	270,616	270,405
Intangibles	9,824	9,897	10,122	13,479	530	443
Other assets	5,950	6,459	6,058	5,377	7,347	7,440
Total Assets	539,258	540,845	549,650	561,727	349,275	349,070
Liabilities						
Deposits and interest accruals	484,675	486,262	493,151	506,156	319,952	319,952
Preference Shares	-	-	-	-	3,000	-
Other liabilities	3,292	3,031	7,905	2,081	1,403	1,357
Total Liabilities	487,967	489,293	501,056	508,237	324,355	321,309
Net Assets	51,291	51,552	48,594	53,490	24,920	27,761
Equity						
Share capital	44,288	44,288	43,752	42,577	14,401	17,401
Reserves	7,003	7,264	4,842	10,913	10,519	10,360
Total Equity	51,291	51,552	48,594	53,490	24,920	27,761
Statements Of Cash Flows						
	Unaudited 3 months to 30 June 2010 \$000	Audited 12 months to 31 March 2010 \$000	Audited 12 months to 31 March 2009 \$000	Audited 12 months to 31 March 2008 \$000	Audited 12 months to 31 March 2007 \$000	Audited 12 months to 31 March 2007 \$000
Parent and Consolidated						
Net cash flows from/(used in) operating activities	(6,263)	(37,754)	24,697	(6,936)	(1,602)	2,653
Net cash flows from/(used in) investing activities	(4,586)	(12,088)	(5,476)	4,639	(328)	(9,883)
Net cash flows from/(used in) financing activities	-	536	(940)	11,724	8,225	7,985
Net increase/(decrease) in cash held	(10,849)	(49,306)	18,281	9,427	6,295	755
Add opening cash brought forward:						
Cash on hand and at bank	44,309	93,615	75,334	65,907	59,611	70
Closing cash carried forward	33,460	44,309	93,615	75,334	65,906	825
Comprising:						
Cash on hand and at bank	33,460	44,309	93,615	75,334	65,906	825
Date of Authorisation of Financial Statements						
Authorised for Issue by the Board	30-Sep-2010	11-Jun-2010	12-Jun-2009	27-Jun-2008	14-Jun-2007	14-Jun-2007

CBS Canterbury: Notes to Summary Financial Statements

At the date these Summary Financial Statements were prepared, CBS Canterbury was a profit-oriented building society registered in New Zealand under the Building Societies Act. For the purpose of these Financial Statements, CBS Canterbury consists of Canterbury Building Society and its subsidiary, Loan Properties Limited. Loan Properties Limited was acquired on 1 February 2008, through the business combination with Loan and Building Society, and was subsequently struck off on 3 March 2009. For the 2007 financial year the parent and group financial statements are the same due to no group existing at these reporting dates.

The summary financial statements of CBS Canterbury have been prepared on the following basis:

- The values presented in the summary financial statements were extracted from the unaudited financial statements of CBS Canterbury for the three months ending 30 June 2010 and from the full audited financial statements of CBS Canterbury for the financial years ending 31 March 2010, 2009, 2008 and 2007.
- The full financial statements for the three months ended 30 June 2010 and the financial years ended 31 March 2010, 2009, 2008 and 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit oriented entities. The full financial statements for the financial years ended 31 March 2010, 2009, 2008 and 2007 included an explicit and unreserved statement of compliance with IFRS. The full financial statements for the financial year ended 31 March 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Financial Reporting Standards (NZ FRS) applicable prior to the implementation of NZ IFRS ("previous NZ GAAP").
- The full financial statements for the financial years ending 31 March 2010, 2009, 2008 and 2007 presented in the summary financial statements have been audited. None of these audit reports contain qualified opinions or any explanatory paragraphs highlighting matters regarded as relevant to proper understanding of the basis of the opinions given. These financial statements may be obtained from the Heartland registered office, or downloaded from the public register for building societies maintained by the Companies Office at www.business.govt.nz/companies.
- The accounting policies that have been applied in preparing the unaudited financial statements for the three months ended 30 June 2010 and the full financial statements for the year ended 31 March 2010 are consistent with the accounting policies applied in the previous year.
- The summary financial statements cannot be expected to provide a complete understanding as provided by the full financial statements from which they are extracted.
- The summary financial statements comply with the Financial Reporting Standard 43 "Summary Financial Statements" as required by the Securities Regulations.
- The summary financial statements reflect the current presentation requirements of FRS 43 Summary Financial Statements (as amended by the consequential amendments of NZ IAS 1 Presentation of Financial Statements (revised 2007)) for all periods presented,

including the presentation of other comprehensive income and total comprehensive income.

- The summary financial statements are presented in New Zealand dollars which was the functional currency of CBS Canterbury at the date of preparing the summary financial statements. Unless otherwise indicated, amounts are rounded to the nearest thousand.

On 1 April 2006 the assets, liabilities and engagements of SMC Building Society were transferred to CBS Canterbury at fair value, including goodwill of \$0.5 million.

On 16 August 2007 a non-renounceable issue to both ordinary and preference shareholders was made in the ratio of 1 for 10 at an issue price of \$4.50 per new ordinary share. The offer resulted in CBS Canterbury allotting 801,578 new ordinary shares fully paid.

Also on 16 August 2007 CBS Canterbury redeemed the 3,000,000 preference shares that were on issue. Shareholders received an aggregate redemption amount of \$1.37 comprising a redemption dividend of 37 cents per share together with the \$1.00 originally subscribed per share. In accordance with NZ IFRS accounting requirements, these dividends are accounted for as a finance charge through the Statements of Comprehensive Income.

On 30 November 2007 an interim dividend of 8 cents per share (fully imputed) was paid on the ordinary shares on issue.

On 1 February 2008 the assets, liabilities and engagements of Loan and Building Society were transferred to CBS Canterbury at fair value as a business combination, including goodwill of \$13.2 million.

On 25 July 2008 an interim dividend of 8 cents per share (fully imputed) was paid on the ordinary shares on issue.

On 19 December 2008 a bonus issue of shares, in lieu of an Interim dividend, equivalent to 10 cents per share (fully imputed) was paid on the ordinary shares on issue.

The summary financial statements were authorised for issue by the directors of CBS Canterbury on 30 September 2010.

AUDIT REPORT

The Directors
Heartland Building Society
75 Riccarton Road
Christchurch 8011

27 September 2011

Independent Auditor's Report To the Readers of the Prospectus No. 3 of Heartland Building Society

As auditor of Heartland Building Society ("the Society") and the group, comprising the Society and its subsidiaries ("the Group"), we have prepared this report pursuant to clause 22 of Schedule 2 of the Securities Regulations 2009 for inclusion in the prospectus dated 27 September 2011.

Report on the Society and Group Financial Statements

We have audited the financial statements of the Society and the Group, comprising the Society and its subsidiaries, for the year ending 30 June 2011. We expressed an unmodified audit opinion on those financial statements in our report dated 19 August 2011.

Report on the Summary Financial Statements of Heartland Building Society, Canterbury Building Society, Southern Cross Building Society, MARAC Finance Limited and PGG Wrightson Finance Limited

The summary financial statements on pages 4359 to 6279 are derived from the audited financial statements of Heartland Building Society, Canterbury Building Society, Southern Cross Building Society, MARAC Finance Limited and PGG Wrightson Finance Limited for the years ended as follows:

Entity	Reporting Dates	Pages
Heartland Building Society	30 June 2011	4360 to 4865
<i>Acquired businesses and Subsidiary</i>		
PGG Wrightson Finance Limited	30 June 2011 30 June 2010 30 June 2009 30 June 2008 30 June 2007	4966 to 5468
MARAC Finance Limited	30 June 2010 30 June 2009 30 June 2008 30 June 2007	5269 to 5572
Southern Cross Building Society	30 June 2010 30 June 2009 30 June 2008 30 June 2007	5673 to 5875
Canterbury Building Society	31 March 2010 31 March 2009 31 March 2008 31 March 2007	5976 to 6279

The summary financial statements do not reflect the effects of events that occurred subsequent to the date of the report on those financial statements.

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Heartland Building Society, Canterbury Building Society, Southern Cross Building Society, MARAC Finance Limited and PGG Wrightson Finance Limited.

Directors' Responsibility for the Summary Financial Statements of Heartland Building Society, Canterbury Building Society, Southern Cross Building Society, MARAC Finance Limited and PGG Wrightson Finance Limited

The Directors are responsible for preparing a summary of the audited financial statements as detailed in the table above, in accordance with clause 8, 9(2) and 9(3) of Schedule 2 of the Securities Regulations 2009.

Auditor's Responsibility for the Summary Financial Statements of Heartland Building Society, Canterbury Building Society, Southern Cross Building Society, MARAC Finance Limited and PGG Wrightson Finance Limited

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted to confirm that the amounts set out in the historical summaries of financial statements on pages 4359 to 6279, pursuant to clauses 8, 9(2) and 9(3) of the Securities Regulations 2009 Schedule 2, have been correctly taken from the audited financial statements, as detailed in the table above.

Opinion on the Summary Financial Statements of Heartland Building Society, Canterbury Building Society, Southern Cross Building Society, MARAC Finance Limited and PGG Wrightson Finance Limited

In our opinion, the amounts set out in the summary financial statements on pages 4359 to 6279 of this prospectus, derived from the audited financial statements, as detailed above, as required by clauses 8, 9(2) and 9(3) of Schedule 2 of the Securities Regulations 2009, have been correctly taken from the audited financial statements detailed in the table above.

Report on the Ranking of Securities

Directors' Responsibility for the Ranking of Securities

The Directors are responsible for the preparation and presentation of the details and amounts in respect of the ranking of securities of the Society and the Group as at 30 June 2011, in accordance with clause 13 of Schedule 2 of the Securities Regulations 2009.

Auditor's Responsibility for the Ranking of Securities

Our responsibility is to express an opinion on whether the amounts set out in the ranking of securities have been correctly taken from the audited financial statements of the Society and the Group as at 30 June 2011.

Opinion on the Ranking of Securities

In our opinion, the amounts set out in the ranking of securities on page 7491 of this prospectus, have been correctly taken from the audited financial statements of Heartland Building Society and the Group as at 30 June 2011.

Report on other legal and regulatory requirements

In accordance with the requirements of clauses 22(d) and 22(e) of Schedule 2 of the Securities Regulations 2009, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Heartland Building Society and the Group as far as appears from our examination of those records.

Other Matters

Responsibility for Updating

We have no responsibility to update our opinion on any of the matters above for events and circumstances occurring after the date of this report.

Restriction on Use

This report has been prepared for inclusion in the prospectus for the purpose of meeting the requirements of clause 22 of Schedule 2 of the Securities Regulations 2009. We disclaim any assumption of responsibility for reliance on this report or the amounts included in the summary financial statements, or the ranking of securities for any purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the prospectus not specifically mentioned in this report.

Auditor's Consent

In accordance with regulation 18(1)(c)(ii) of the Securities Regulations 2009, we hereby give our consent to the inclusion of this report in the prospectus in the form in which it appears. We also confirm that we have not, before delivery of this prospectus, withdrawn our consent to the issue thereof.

27 September 2011

AUCKLAND

SECTION 82: STATUTORY INFORMATION

This section contains information required by Schedule 2 of the Securities Regulations that is not set out elsewhere in this Prospectus.

Main terms of the Offer

The issuer of the Deposits is Heartland Building Society. Heartland's registered office is 75 Riccarton Road, Riccarton, Christchurch 8011.

The Deposits are direct, unsecured, unsubordinated debt obligations of Heartland ranking equally with all other debt securities issued by Heartland under the Trust Deed, as well as Heartland's bank funding. The Deposits are issued subject to the terms and conditions contained in the Trust Deed. Further information in relation to the Deposits is set out in Section 3 of this Prospectus.

The maximum amount of Deposits being offered is \$4.0 billion (excluding any amount that may result from the replacement of Deposits redeemed after the date of this Prospectus).

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Price to be paid for Deposits

The Deposits will be issued at face value, being \$1.00 for each \$1.00 of Deposits.

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Details of Incorporation-incorporation of Heartland

Heartland was established in New Zealand on 22 October 2010 under the Building Societies Act. Heartland's registration number is 2541477. Heartland's registered office is set out in the Directory.

The public file relating to the incorporation of Heartland is kept by the Companies Office and can be accessed on the Companies Office website at www.business.govt.nz/companies.

Guarantors

As at the most recent update to this Prospectus, MARAC, VPS Properties, VPS Parnell and PWF which are subsidiaries of Heartland are guarantors of the Deposits pursuant to the Trust Deed. The guarantees are unsecured. Further information in respect of the guarantees given by MARAC, VPS Properties, VPS Parnell and PWF is set out in the Summary of the Trust Deed section of this Prospectus.

Names, Addressesaddresses, and Other Informationother information

DirectorateDirectors

The Directors of Heartland (as issuer) as at the date of most recent update to this Prospectus are: Bruce Robertson Irvine (Christchurch, New Zealand), Jeffrey Kenneth Greenslade (Auckland, New Zealand), Edward John Harvey (Auckland, New Zealand), Graham Russell Kennedy (Ashburton, New Zealand), Gary Richard Leech (Ashburton, New Zealand), Christopher Robert Mace (Auckland, New Zealand), Geoffrey Thomas Ricketts (Auckland, New Zealand) and Michelle Anne Smith (Christchurch, New Zealand).

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Each of the Directors named above can be contacted at the registered office of Heartland set out in the Directory.

As at the date of this Prospectus, except for the Director named below, none of the Directors named above are employees of Heartland, or of an associated person of Heartland.

Jeffrey Greenslade is the CEO and Managing Director of Heartland and Heartland New Zealand.

Secretary

The Secretary of Heartland is Martin-Dilly ~~Anna-Lisa Strain~~. The Secretary can be contacted at the registered office of Heartland set out in the Directory.

Registrar

Heartland is the registrar for all Deposits. The registered address of Heartland is set out in the Directory.

Auditor

The Auditor of Heartland is KPMG. The registered address of the Auditor is set out in the Directory.

Advisors

The name and address of the solicitors and other professional advisors who have been involved in the preparation of this Prospectus are set out in the Directory.

Trustee

The Trustee of Heartland is Trustees Executors Limited. The registered address of the Trustee is set out in the Directory.

Restrictions on Directors' Powers

The Rules provide that the Board of Heartland may only declare and make distributions to shareholders if it is satisfied on reasonable grounds that (a) such money is not immediately necessary for the performance of the functions of Heartland described in the Rules (including to meet the application or withdrawal of funds by depositors), (b) Heartland will hold and will continue to hold sufficient assets and funds to perform those functions and (c) Heartland will be and will continue to be solvent immediately after making such distributions.

The Building Societies Act contains provisions that could have the effect, in certain circumstances, of imposing restrictions on the powers of the Board. For example, a building society must have one or more of the specified functions set out in the Building Societies Act. These provisions apply to any building society under the Building Societies Act.

Description of Activities

Set out below is a description of the principal activities of Heartland and the Guaranteeing Subsidiaries.

Heartland is the principal operating subsidiary of Heartland New Zealand, and commenced business as a financial services provider in January 2011, on completion of the Merger. Since it commenced business, Heartland's principal activities have been its lending and other financial services activities, and its fundraising activities.

MARAC became a wholly owned subsidiary of Heartland under the Merger. MARAC and its predecessors have serviced the consumer and small-to-medium business market for approximately 60 years, with its principal activities involving the provision of consumer and commercial lending across a broad range of sectors and providing a select range of insurance products.

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VPS Properties and VPS Parnell are both wholly owned subsidiaries of Heartland. These entities each currently own one or more properties that were originally mortgaged to MARAC to secure financial indebtedness owed to MARAC. MARAC has funded the acquisition by VPS Properties and VPS Parnell of these properties and holds a registered first mortgage over the properties.

PWF became a wholly owned subsidiary of Heartland on 31 August 2011. Prior to this date, the principal activities of PWF have had been to raise funds from the public, banks and other entities and on-lend those funds to borrowers in the rural sector of New Zealand. Today, PWF continues to offer financial services to the rural sector of New Zealand. PWF has been carrying on these activities since 2006. However, some of the businesses that now comprise PWF (including the finance divisions of the former stock and station companies Williams & Kettle, Wrightson, Pyne Gould Guinness and Reid Farmers) have been carrying on these activities for over a century.

Principal assets

The principal assets of the Heartland Group used in undertaking the Heartland Group's principal activities are:

- cash and cash equivalents (held for liquidity purposes, and to the extent not required for that purpose used to make loans and finance available to borrowers);
- finance receivables, securitised finance receivables, operating leases, and trade and other receivables (used to make loans and finance available to borrowers); and
- investment properties (held to earn rental income and/or for capital appreciation).

The assets referred to above are owned or held under lease by the Heartland Group and are subject to obligations in favour of other persons that modify or restrict the ability of the Heartland Group to deal with the assets. These obligations include the arrangements with Heartland's trustee Trustee and depositors Depositors and the arrangements with the Heartland Group's financiers described below under the heading "Material Contracts contracts". In addition, Heartland Group consolidates two securitisation trusts - Heartland (formerly MARAC) ABCP Trust 1 and CBS Warehouse A Trust (Trusts). The assets securitised into the Trusts continue to be recognised in Heartland's financial statements; however, those assets are set aside for the benefit of the investors in the Trusts and are not available to repay holders of debt securities issued by Heartland.

Acquisition of ~~Business~~ business or ~~Subsidiary~~ subsidiary

On 5 January 2011, pursuant to the Merger, Heartland acquired the businesses of CBS Canterbury and Southern Cross (by taking a transfer of engagements from each of CBS Canterbury and Southern Cross under the Building Societies Act) and all of the shares in MARAC.

Prior to the Merger, each of MARAC, CBS Canterbury and Southern Cross provided financial services involving making loans or otherwise providing financial services, and taking investments.

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The summary financial statements and reference to the latest audited financial statements of CBS Canterbury, Southern Cross and MARAC are set out in the Financial Information section of this Prospectus.

In addition, on 31 August 2011, Heartland acquired all of the shares in PWF.

The consideration paid for the shares in PWF was an amount equal to the net tangible assets of PWF adjusted to take account of certain agreed items. Heartland also agreed to assume all of PWF's obligations in relation to the PWF deposits.

Details of the business carried on by PWF are set out on page 6885 of this Prospectus. The summary financial statements and reference to the latest audited financial statements of PWF are set out in the Financial Information section of this Prospectus.

Material contracts

The following material contracts have been entered into in the two years preceding the date of registration of this Prospectus by Heartland and/or the Guaranteeing Subsidiaries.

Contracts with ongoing day to day application

Crown Deed of Guarantee (Building Society)

Heartland and Her Majesty the Queen in right of New Zealand are party to a Crown Deed of Guarantee (Building Society) dated 15 December 2010 (as amended and restated by a Deed of Amendment and Restatement of Crown Deed of Guarantee (Building Society) dated 30 August 2011). The guarantee given under this Crown Deed of Guarantee has expired on 31 December 2011.

Deed of Indemnity and Postponement

Heartland New Zealand, MARAC, Heartland and certain other group companies (being any subsidiary or holding company of Heartland New Zealand and/or Heartland) entered into a Deed of Indemnity and Postponement with Her Majesty the Queen in right of New Zealand on 14 December 2010, under which (among other things) MARAC indemnifies the Crown for amounts paid by the Crown pursuant to the Heartland Crown Guarantee. ~~Two wholly-owned subsidiaries of Heartland, being VPS Properties and VPS Parnell, have joined into this Deed of Indemnity and Postponement as indemnifiers by deeds of accession dated 21 March 2011. PWF has joined into this Deed of Indemnity and Postponement as an indemnifier by a deed of accession dated 30 August 2011.~~

Standby Cash Advances Facility Agreement

Heartland and MARAC entered into a Standby Cash Advances Facility Agreement with Bank of New Zealand and Westpac Banking Corporation New Zealand Limited dated 15 December 2010 (as amended and restated on 7 February 2012), for facilities of up to \$200 million, the purpose of which is to provide liquidity support and funding for the Heartland Group and MARAC loan portfolios. VPS Properties and VPS Parnell have joined into this Standby Cash Advances Facility Agreement as guarantors by guarantor accession deeds dated 21 March 2011. PWF has joined into this Standby Cash Advances Facility Agreement as a guarantor by a guarantor accession deed dated 31 August 2011.

All Obligations Cross Guarantee and Indemnity Deed Poll

MARAC and Heartland entered into an All Obligations Cross Guarantee and Indemnity Deed Poll dated 15 December 2010, under which each of MARAC and Heartland guarantee each other's obligations to Bank of New Zealand and Westpac Banking Corporation. VPS

Properties and VPS Parnell have joined into this All Obligations Cross Guarantee and Indemnity Deed Poll as guarantors by supplemental deeds dated 21 March 2011. PWF has joined into this All Obligations Cross Guarantee and Indemnity Deed Poll as a guarantor by a supplemental deed dated 31 August 2011.

Master Trust Deed

Heartland entered into a Master Trust Deed dated 29 October 2010 with the Trustee, relating to the ongoing issue of unsecured debt instruments by Heartland (and for the benefit of the holders of those debt instruments). MARAC has joined into this Master Trust Deed as a guarantor by a supplemental trust deed dated 14 December 2010. VPS Properties and VPS Parnell have joined into this Master Trust Deed as guarantors by supplemental trust deeds dated 24 March 2011. PWF has joined into this Master Trust Deed as a guarantor by a supplemental trust deed dated 31 August 2011.

Supplemental Trust Deed (Accounts)

Heartland entered into a Supplemental Trust Deed (Accounts) dated 29 October 2010 with the Trustee which is supplemental to the Master Trust Deed and governs the terms of the Accounts-Deposits issued by Heartland.

Supplemental Trust Deed (Bonds)

Heartland entered into a Supplemental Trust Deed (Bonds) dated 29 October 2010 with the Trustee which is supplemental to the Master Trust Deed and governs the terms of the NZDX quoted bonds originally issued by MARAC, liability for which was assumed by Heartland as part of its acquisition of MARAC (other than the PWF Bonds).

Supplemental Trust Deed (PWF Bonds)

Heartland entered into a Supplemental Trust Deed (PWF Bonds) dated 11 July 2011 with the Trustee which is supplemental to the Master Trust Deed and governs the terms of the PWF Bonds. The PWF Bonds were have now been fully repaid ~~on 10 October 2011.~~

RECL Management Agreement

MARAC and RECL (which as at the most recent update to this Prospectus is a wholly owned subsidiary of PGC) are parties to a Management Agreement dated 5 January 2011 as subsequently amended (RECL Management Agreement), by which RECL agreed to manage certain non-core real estate loan assets of MARAC for a 5 year period, and assume the risk of loss on those loans for that period (with any payment by RECL to MARAC in respect of that loss at the end of that period, subject to limited rights on the part of MARAC to earlier payment). As at 31 December 2011, the net book value of loans subject to the RECL Management Agreement was approximately \$150 million. The maximum amount payable by RECL in respect of loss (including interest accruing on loss payments until the due date for payment) is limited to \$30 million. RECL's payment obligations are "limited in recourse" to a pool of security provided by RECL. This pool of security includes an \$11 million 5 year zero coupon bond, and an initial minimum \$22 million in security value of other qualifying assets with a minimum security value of (initially) \$19 million (reduced to \$17.5 million as at 31 December 2011 on account of claims of \$1.5 million already paid).

Service Amount Security Agreement

MARAC and RECL are parties to a Service Amount Security Agreement dated 5 January 2011 (in connection with the RECL Management Agreement). Under this agreement RECL grants to MARAC security over its assets to secure its obligations under the RECL Management Agreement.

Support Provider Undertaking

MARAC and PGC are parties to a Support Provider Undertaking dated 5 January 2011 (in connection with the RECL Management Agreement). Under this agreement PGC undertakes to procure that RECL complies with its obligations to ensure that the security value of other qualifying assets subject to a first priority security interest under the Service Amount Security Agreement is not less than ~~a stated~~ the required minimum amount (initially \$22 million).

Transitional Services Agreement (PGW)

PGW and Heartland entered into a Transitional Services Agreement dated 31 August 2011 relating to the provision of services by each of Heartland and PGW to the other of them, following administration by PGW post-completion of the sale of all of the ordinary shares in PWF from PGW to Heartland.

Deed of Guarantee and Indemnity (PGW)

PGW and Heartland entered into a Deed of Guarantee and Indemnity dated 31 August 2011 which relates to PGW providing a guarantee and indemnity to Heartland in respect of certain existing credit facilities provided by PWF.

Distribution and Services Agreement (PGW)

PGW and Heartland entered into a Distribution and Service Agreement dated 31 August 2011. This agreement relates to PGW distributing to its customers certain Heartland products and services.

Other ~~Contracts~~ contracts (including contracts fully performed)

Merger Implementation Agreement

CBS Canterbury, Southern Cross, PGC, MARAC and ~~MFSL~~ MARAC Financial Services Limited entered into a Merger Implementation Agreement dated 15 September 2010, pursuant to which the parties conditionally agreed to implement the Merger.

Deed of Defeasance (MARAC)

Heartland entered into a Deed of Defeasance with MARAC, The New Zealand Guardian Trust Company Limited and the Trustee dated 14 December 2010, which sets out the terms on which Heartland assumed liability for the stock issued by MARAC under its then existing Debenture Trust Deed.

Deed of Defeasance (CBS Canterbury)

Heartland entered into a Deed of Defeasance with CBS Canterbury and the Trustee dated 14 December 2010, which sets out the terms on which Heartland assumed liability for the deposits of CBS Canterbury outstanding under its then existing Debt Security Trust Deed.

Deed of Defeasance (Southern Cross)

Heartland entered into a Deed of Defeasance with Southern Cross and the Trustee dated 14 December 2010, which sets out the terms on which Heartland assumed liability for the deposits of Southern Cross outstanding under its then existing Debt Security Trust Deed.

Crown Deed of Guarantee

PWF and Her Majesty the Queen in right of New Zealand entered into a Crown Deed of Guarantee (Non-Bank Deposit Taker) dated 8 December 2009. The guarantee given under this Crown Deed of Guarantee expired at 12.01am on 12 October 2010.

Extended Crown Deed of Guarantee

PWF and Her Majesty the Queen in right of New Zealand entered into an Extended Crown Deed of Guarantee (Non-Bank Deposit Taker) dated 1 April 2010. The guarantee given under this Extended Crown Deed of Guarantee expires at 11.59pm on 31 December 2011.

Supplemental Deed to Crown Deed of Guarantee

PWF and Her Majesty the Queen in right of New Zealand entered into a Supplemental Deed to the Extended Crown Bank Guarantee (Non-Bank Deposit Taker) dated 17 June 2010. This deed amended the Extended Crown Deed of Guarantee above so as to clarify the status of excluded securities issued in accordance with the terms of the previous Crown guarantee.

Deed of Variation to PWF Bond Trust Deed

PWF entered into a Deed of Variation of PWF Bonds trust deed dated 7 July 2010 with New Zealand Permanent Trustees Limited (as trustee of the PWF Bonds). This deed clarified the status of overseas bondholders with reference to the PWF's Bonds.

Second Deed of Variation to PWF Bond Trust Deed

PWF entered into a Second Deed of Variation of PWF Bond trust deed dated 12 August 2010 with New Zealand Permanent Trustees Limited (as trustee of the PWF Bonds). This deed varied the conditions of the PWF's Bonds, so as to permit PWF to exercise its term extension option notwithstanding the variation of the Crown retail deposit guarantee scheme. This variation was authorised by an Extraordinary Resolution of the relevant bondholders.

Third Deed of Variation of PWF Bond Trust Deed

PWF and New Zealand Permanent Trustees Limited (as trustee of the PWF Bonds) entered into a Third Deed of Variation of PWF Bond trust deed dated 1 December 2010. This deed varied the PWF Bond trust deed, so as to meet the requirements of the NBDT regime, including the Deposit Takers Regulations, which came into force on 1 December 2010.

Fourth Deed of Variation of PWF Bond Trust Deed

PWF and New Zealand Permanent Trustees Limited (as trustee of the PWF Bonds) entered into a Fourth Deed of Variation of PWF Bond trust deed dated 9 February 2011. This deed varied the PWF Bond trust deed, so as to amend the definition of Treasury Stock.

Fifth Deed of Variation of PWF Bond Trust Deed

PWF and New Zealand Permanent Trustees Limited (as trustee of the PWF Bonds) entered into a Fifth Deed of Variation of PWF Bond trust deed dated 15 August 2011. This deed varied the PWF Bond trust deed, so as to effect certain amendments as a consequence of an extraordinary resolution of bondholders.

Second Deed of Modification of PWF Debenture Trust Deed

PWF and New Zealand Permanent Trustees Limited entered into a Second Deed of Modification of trust deed dated 1 December 2010. This deed varied the PWF Debenture Trust Deed, so as to meet the requirements of the NBDT regime, including the Deposit Takers Regulations, which came into force on 1 December 2010.

Third Deed of Modification of PWF Debenture Trust Deed

PWF and New Zealand Permanent Trustees Limited entered into a Third Deed of Modification of trust deed dated 15 August 2011. This deed varied the PWF Debenture

Trust Deed, so as to effect certain amendments as a consequence of an extraordinary resolution of bondholders.

Agreement relating to Sale and Purchase of Shares in PWF

PGW and Heartland New Zealand entered into an agreement dated as of 13 June 2011 for the sale and purchase of all of the ordinary shares in PWF from PGW to Heartland New Zealand. On 30 August 2011, Heartland acceded to this agreement as purchaser of the PWF shares by a deed of accession dated 30 August 2011. The sale was completed on 31 August 2011.

Agreement for Sale and Purchase of Loans No. 1

PWF, PGW Rural Capital Limited and PGW entered into an Agreement for Sale and Purchase of Loans No. 1 dated 30 August 2011. This agreement is was in connection with the sale of all of the ordinary shares in PWF, from PGW to Heartland, where PWF agreed to sell certain finance contracts and receivables to PGW Rural Capital Limited, a wholly owned subsidiary of PGW.

Agreement for Sale and Purchase of Loans No. 2

PWF, PGW Rural Capital Limited and PGW entered into an Agreement for Sale and Purchase of Loans No. 2 dated 31 August 2011. This agreement is was in connection with the sale of all of the ordinary shares in PWF, from PGW to Heartland, where PWF agreed to sell certain finance contracts and receivables to PGW Rural Capital Limited, a wholly owned subsidiary of PGW.

Deed of Defeasance (in relation to PWF Deposits)

PWF, New Zealand Permanent Trustees Limited, Heartland and the Trustee entered into a Deed of Defeasance dated 31 August 2011 which sets out the terms on which Heartland assumed liability for the PWF deposits of PWF outstanding under its then existing debt security trust deed.

Deed of Defeasance (in relation to PWF Bonds)

PWF, New Zealand Permanent Trustees Limited, Heartland and the Trustee entered into a Deed of Defeasance dated 31 August 2011 which sets out the terms on which Heartland assumed liability for the PWF Bonds outstanding under its then existing debt security bond trust deed.

Pending proceedings

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

Issue Expenses

The estimated expenses for the issue of the Deposits pursuant to this Prospectus are \$538,000 excluding brokerage and commission but including Trustee, legal and Auditor's fees and printing costs. Details of brokerage are set out below.

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Brokerage

No brokerage or commission is payable by investors. Heartland will pay brokerage (up to 0.50% per annum) to NZX Primary Market Participants and other Heartland accredited brokers. Heartland will pay commission (up to 0.85% per annum) to accredited agents.

Brokerage will be paid to brokers on the value of applications lodged by them. Brokerage will also be paid (at the rates prevailing at the time of renewal) on Deposits which are

reinvested at the end of their fixed term, provided the renewal ~~reinvestment~~ advice bears the broker name/stamp.

Commission will be paid to agents based on growth in the total value of applications lodged by them.

Heartland reserves the right to adjust brokerage or commission on investments which are repaid early and any other charges applicable to the Deposits.

Brokers are the agents of investors whom they advise. Brokers are accredited by Heartland solely for the purpose of lodging applications on behalf of their client investors. Accordingly, Heartland is not responsible for the advice given by such brokers. Heartland agents operate in accordance with the Financial Advisers Act 2008, under Heartland's qualifying financial entity *(QFE)* status.

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Ranking of Securities~~securities~~

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The Deposits offered under this Prospectus are debt securities which constitute direct, unsecured, unsubordinated debt obligations of Heartland and the Guaranteeing Subsidiaries and are not secured by a mortgage or charge. The Deposits will rank equally in all respects with all existing and future debt securities issued by Heartland pursuant to the Trust Deed and without priority or preference amongst themselves and equally with all other unsecured and unsubordinated indebtedness of Heartland, except indebtedness preferred by law.

As at 30 June 2011, the only securities of Heartland Group that are secured by a mortgage or charge over any of the assets of the Heartland Group and that rank in point of security ahead of, or equally with, the Deposits subject to the Offer were:

- the mortgages granted by VPS Properties securing \$27,168,532 and VPS Parnell securing \$7,330,000 to Heartland which rank ahead of the Deposits.³⁷ As these are an intra-group transaction they should not affect the return to investors. Any amount paid by VPS Properties and VPS Parnell under these mortgages will be paid to MARAC so will be available to repay Depositors.
- a total of \$1,593,247,000 Deposits and NZDX Bonds on issue that rank equally with the Deposits being offered under this Prospectus.

Refer to the Summary of the Trust Deed section of this Prospectus for more detail about permitted security interests which can be granted by a Heartland Group member which may rank ahead of, or equally with, the Deposits.

Other Restrictions~~restrictions~~ on the Heartland Group

Description of ~~trust deed~~ Trust Deed documents

The Deposits to be issued pursuant to the Offer will be governed by the Master Trust Deed and the Supplemental Deed (Accounts), each dated 29 October 2010 between Heartland and the Trustee.

³⁷ The mortgages and the loans were transferred from Heartland to MARAC by way of a deed of assignment of loans dated 19 September 2011.

The Supplemental Deed referred to above and the Master Trust Deed (except to the extent it is modified by that Supplemental Deed) set out the terms and conditions of the Deposits. Depositors are bound by, and are deemed to have notice of, the provisions of the Trust Deed. A summary of the terms of the Trust Deed is set out in the Summary of Trust Deed section of this Prospectus. Copies of the Trust Deed are available at the places referred to under the heading "Places of inspection of documents" below.

Limitation on mortgages, charges, liabilities

The Deposits are unsecured indebtedness of Heartland. The Trust Deed imposes a limitation on the ability of Heartland and the Heartland Group to grant security over their assets (for further details refer to the Summary of the Trust Deed section of this Prospectus). However as the Deposits are and will in the future be unsecured, the Trust Deed does not contain any limitations on the creation of new mortgages or charges ranking in point of security ahead of, or equally with, any mortgage or charge securing the Deposits.

The Trust Deed also includes a covenant from Heartland that the Capital Ratio for each of the Consolidated Group and the Guaranteeing Group will be not less than 8% (as each of those terms is defined in the Trust Deed), which is consistent with requirements of regulations applicable to NBDTs with a credit rating under the Reserve Bank Act.

Duties and powers of the Trustee

The Trustee is appointed to act as trustee of the Depositors. The principal duties of the Trustee under the Trust Deed and under the Securities Act and the Securities Regulations are set out in the Summary of Trust Deed section of this Prospectus.

Borrowing Restrictions

The following restrictions on the ability of any member of the Heartland Group to borrow (as a result of any undertaking given, or contract or deed entered into by any of them) will apply:

Trust Deed

There are no restrictions in the Trust Deed on the ability of Heartland or the Heartland Group to borrow funds, other than the financial covenants described in the Summary of the Trust Deed section of this Prospectus.

Standby Cash Advances Facility Agreement

As at the most recent update to this Prospectus, Heartland has a \$200 million committed bank facility, to provide liquidity support for the Heartland Group. Pursuant to the Standby Cash Advances Facility Agreement entered into by Heartland and MARAC with Bank of New Zealand and Westpac Banking Corporation New Zealand Limited:

- Heartland undertakes to comply with certain financial covenants (such as a tangible net worth covenant) which may restrict levels of borrowing; and
- Heartland undertakes not to enter into any further borrowing facility with a registered bank, without first obtaining written consent.

Investors should be aware that Heartland's banking arrangements may change in the future or Heartland may enter into new financing arrangements, which require compliance with different covenants and ratios and have different events of review and events of

default. The ~~Banks~~banks may grant waivers in relation to any event of review or event of default.

Financial statements

The Heartland Group's most recent annual audited financial statements (for the year ended 30 June 2011) may be obtained from Heartland's website at www.heartland.co.nz or from the Companies Office website at www.business.govt.nz/companies. The Heartland Group's most recent annual audited financial statements (for the year ended 30 June 2011) were registered with the Companies Office on 20 September 2011.

Interim financial statements

The Heartland Group's audited financial statements for the six months ending 31 December 2011 are available on Heartland's website at www.heartland.co.nz.

Other Terms-terms of the Offer and securities

All of the terms of the Offer and all the terms of the Deposits are set out in this Prospectus, other than any terms implied by law or any terms set out in a document that has been registered with a public official, is available for public inspection and is referred to in this Prospectus.

Places of ~~Inspection~~inspection of Documentsdocuments

The Rules of Heartland, the financial statements referred to in the Financial Information section of this Prospectus and copies of the material contracts referred to under the heading "~~Material Contracts~~contracts" above, may be inspected (without charge) during normal business hours at the registered office of Heartland set out in the Directory.

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A copy of the RECL Management Agreement may be inspected (without charge) during normal business hours at the registered office of Heartland set out in the Directory. The copy of the RECL Management Agreement delivered to the Companies Office and the copy available for inspection at Heartland's registered office shall exclude certain information in accordance with the Securities Act (Pyne Gould Corporation Limited and Building Society Holdings Limited) Exemption Notice 2011. Information has been redacted from Schedule 1 of the copy of the RECL Management Agreement delivered to the Companies Office and the copy available for inspection because it is commercially sensitive information. The excluded information is personal information relating to third parties that is included in the RECL Management Agreement for the purposes of identifying certain loan assets of MARAC which are to be managed by RECL pursuant to the RECL Management Agreement.

The directors of Heartland warrant that the exclusion of the redacted information in Schedule 1 of the RECL Management Agreement does not make this Prospectus misleading in any material particular by a failure to refer, or give proper emphasis, to any adverse circumstances.

Other Material Mattersmaterial matters

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Securities Act exemptions

~~Securities Act (Building Societies) Exemption Amendment Notice 2002~~2010

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The Financial Markets Authority (previously the Securities Commission) has extended to Heartland certain exemptions from Securities Act and Securities Regulations requirements granted to building societies under the Securities Act (Building Societies) Exemption Notice 2002. Under the Securities Act (Building Societies) Exemption Amendment Notice 2010, Heartland is included as a building society to which the exemption notice applies.

**Securities Act (Pyne Gould Corporation Limited and Building Society Holdings Limited)
Exemption Notice 2011**

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The Financial Markets Authority (previously the Securities Commission) has granted Heartland New Zealand and certain related entities (including Heartland) exemptions from section 37A(1)(a) of the Securities Act, regulation 18(1)(a) of the Securities Regulations, clause 25(c) of Schedule 1 and clause 19(c) of Schedule 2 of the Securities Regulations, and regulation 26 of the Securities Regulations. These exemptions are contained in the Securities Act (Pyne Gould Corporation Limited and Building Society Holdings Limited) Exemption Notice 2011.

The effect of this exemption notice (to the extent relevant to this Prospectus) is that certain commercially sensitive information may be omitted from the copy of the RECL Management Agreement which is required to be delivered to the Registrar of Financial Service Providers for registration with this Prospectus (and any future prospectus registered by, among others, Heartland) and made available for inspection.

There are no other material matters relating to the Offer, other than those set out in this Prospectus, the financial statements referred to in the Financial Information section of this Prospectus or in contracts entered into in the ordinary course of business of Heartland or the Guaranteeing Subsidiaries.

Directors' Statement

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The Directors of Heartland, after due inquiry by them, are of the opinion that none of the following has materially and adversely changed during the period between 30 June 2011 and the date of registration of this Prospectus:

- the trading or profitability of the Borrowing Group;
- the value of the assets of the Borrowing Group; or
- the ability of any of the Borrowing Group to pay their liabilities due within the next 12 months.

Signatures required under the Securities Act

A copy of this Prospectus has been signed by each Director of Heartland (or his or her agent authorised in writing), each an "issuer" for the purposes of the Securities Act.

Directors of Heartland:

Bruce Robertson Irvine

Jeffrey Kenneth Greenslade

Edward John Harvey

Graham Russell Kennedy

Gary Richard Leech

Christopher Robert Mace

Michelle Anne Smith

Geoffrey Thomas Ricketts

*Bryan William Mogridge - Resigned 28
October 2011*

STATUTORY INDEX

As required by regulation 16 of the Securities Regulations 2009

SCHEDULE 2, SECURITIES REGULATIONS 2009

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GLOSSARY

\$, NZD or NZ\$	New Zealand dollars
Account	Any Deposit including the word "account" or "saver" or described as an "account" or "deposit"
Auditor	KPMG
Board	The board of directors of Heartland
Borrowing Group	Heartland and the Guaranteeing Subsidiaries
Building Societies Act	The Building Societies Act 1965, as amended from time to time
Call Account	An Account, the principal amount of which is payable by Heartland to the relevant Depositor on request being made by that Depositor, subject to the terms and conditions of the Account
CBS Canterbury	Canterbury Building Society
Consolidated Group	Has the meaning given to it in the Trust Deed
Depositor	A holder of a Deposit
Deposits	Debt securities issued by Heartland under the Trust Deed and which are the subject of <u>this Offer to which this Prospectus relates</u>
Director	A member of the Board
Directory	The directory set out in this Prospectus
GAAP	Generally accepted accounting practice, as defined in the Financial Reporting Act 1993
Glossary	This glossary of terms
Guaranteeing Group	Has the meaning given to it in the Trust Deed

Guaranteeing Subsidiaries	MARAC, VPS Properties, VPS Parnell, PWF and any other subsidiary of Heartland which becomes a guarantor under the Master Trust Deed
Heartland	Heartland Building Society (Incorporation number 2541477) which is the issuer of the Deposits, established under the Building Societies Act
Heartland Group	Heartland Building Society, MARAC, VPS Properties, VPS Parnell, PWF and any other its subsidiaries of Heartland from time to time. As at 31 December 2011, these included MARAC, VPS Properties, VPS Parnell and PWF
Heartland New Zealand	Heartland New Zealand Limited, which is the ultimate holding company of Heartland
Investment Statement	The current investment statement in respect of the Offer in respect of the Deposits
IRD	Inland Revenue Department
IFRS	International Financial Reporting Standards
MARAC	MARAC Finance Limited
MARAC Group	A profit oriented entity which consists of MARAC, <u>Heartland (formerly MARAC) ABCP Trust 1</u> and <u>Heartland (previously MARAC) PIE Fund</u>
Master Trust Deed	The trust deed entered into between Heartland and the Trustee on 29 October 2010 (a summary of which is set out in this Prospectus)
Merger	The merger of the financial services businesses of MARAC, CBS Canterbury and Southern Cross, which was completed on 7 January 2011
Merger Parties	CBS Canterbury, Southern Cross and MARAC
MFSL	MARAC Financial Services Limited
NBDT	Non-bank deposit taker

NZ GAAP

Generally accepted accounting practice in New Zealand, as defined in the Financial Reporting Act 1993

NZ IFRS

New Zealand equivalents to International Financial Reporting Standards

NZDX

The market for debt securities, operated by NZX

NZDX Bonds

~~The NZDX listed bonds issued by MARAC that were transferred to Heartland on 5 January 2011~~

NZSX

The main board equity security market, operated by NZX

NZX

NZX Limited

Offer

The offer of Deposits pursuant to this Prospectus

PGC

Pyne Gould Corporation Limited

PGW

PGG Wrightson Limited

Prior Charge

Any security (as that term is defined in the Trust Deed), other than:

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- (a) any netting or set-off arrangement entered into by Heartland or the Guaranteeing Subsidiaries in the ordinary course of its business;
- (b) any lien arising by operation of law and in the ordinary course of trading or securing taxes or other governmental or regulatory review, duties or imposts;
- (c) securities arising out of title retention provisions in a supplier's standard conditions of supply of goods acquired by Heartland or the Guaranteeing Subsidiaries in the ordinary course of its business; or

any other securities, the aggregate secured by which does not exceed 1% of the total tangible assets of the Heartland Group

Prospectus

This document Prospectus, which is a prospectus in respect of the Offer for the purposes of the Securities Act

PWF

PGG Wrightson Finance Limited

PWF Bonds

NZDX quoted bonds originally issued by PWF, liability for which was assumed by Heartland as part of its acquisition of PWF is liable under the Trust Deed, being the PWF secured bonds which became PWF Bonds from 31 August 2011 and which are listed on the NZDX. These bonds have been fully repaid

RECL

Real Estate Credit Limited

Reserve Bank

The Reserve Bank of New Zealand constituted under the Reserve Bank Act

Reserve Bank Act

The Reserve Bank of New Zealand Act 1989, as amended from time to time

Rules	The rules of Heartland registered under the Building Societies Act, as amended from time to time
<u>Savings Account</u>	<u>A Deposit, the key features of which are more particularly described in Section 3 of this Prospectus under the heading "Savings Accounts"</u>
Securities Act	The Securities Act 1978, as amended from time to time
Securities Regulations	The Securities Regulations 2009, as amended from time to time
Southern Cross	Southern Cross Building Society
Standard & Poor's or S&P	Standard & Poor's (Australia) Pty Limited
Supplemental Trust Deed (Accounts)	The supplemental trust deed (accounts) entered into between Heartland and the Trustee on 29 October 2010, which is supplemental to the Master Trust Deed
Supplemental Trust Deed (Bonds)	The supplemental trust deed (bonds) entered into between Heartland and the Trustee on 29 October 2010, which is supplemental to the Master Trust Deed
Supplemental Deed (PWF Bonds)	The supplemental trust deed (PWF Bonds) entered into between Heartland and the Trustee on 11 July 2011 which is supplemental to the Master Trust Deed
TEL	Trustees Executors Limited
Term Account	<u>A Deposit, the key features of which are more particularly described in Section 3 of this Prospectus under the heading "Term Accounts"</u> <u>An Account which is not a Call Account and is generally for a fixed term</u>

Transactional Account

A Deposit, the key features of which are more particularly described in Section 3 of this Prospectus under the heading "Transactional Accounts"

Trust Deed

The Master Trust Deed, the Supplemental Trust Deed (Accounts), the Supplemental trust deeds governing bonds issued by Heartland Trust Deed (Bonds) and the Supplemental Trust Deed (PWF Bonds) and/or the supplemental trust deeds pursuant to which the Guaranteeing Subsidiaries become guarantors

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Trustee

TEL as trustee in respect of the Deposits

VPS Parnell

VPS Parnell Limited, a subsidiary of Heartland

VPS Properties

VPS Properties Limited, a subsidiary of Heartland

DIRECTORY

ISSUER

~~Heartland Building Society (Heartland)~~
~~75 Riccarton Road~~
~~Riccarton~~
~~Christchurch 8011~~

~~Phone: +64 0800 85 20 20~~
~~Facsimile: +64 (9) 927 9310~~

DIRECTORS OF THE ISSUER

~~B R Irvine — Christchurch (Chairman) —~~

~~J K Greenslade — Auckland~~

~~E J Harvey — Auckland~~

~~G R Kennedy — Ashburton~~

~~G R Leech — Ashburton~~

~~G R Mace — Auckland~~

~~G T Ricketts — Auckland~~

~~M A Smith — Christchurch~~

LEGAL ADVISERS TO THE ISSUER

~~Chapman Tripp~~
~~Level 25, ANZ Centre~~
~~23-29 Albert Street~~
~~Auckland 1140~~

~~Phone: +64 (9) 357 9000~~
~~Facsimile: +64 (9) 357 9099~~

TRUSTEE FOR DEPOSITORS

~~Trustees Executors Limited~~
~~Level 5, 10 Customhouse Quay~~
~~Wellington 6011~~

~~Phone: +64 (4) 495 0999~~
~~Facsimile: +64 (4) 496 2952~~

LEGAL ADVISERS TO THE TRUSTEE

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AUDITOR OF THE ISSUER

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SCHEDULE 1: EXPLANATION OF S&P CREDIT RATING SYSTEM

What is a credit rating?

A credit rating is a rating agency's opinion of an institution's ability to pay back in full and on time all the money they have promised an investor. In Heartland's case, this is the funds its investors have invested with it. In the case of the Deposits, this is the funds Depositors have invested with it in relation to the Deposits.

Credit ratings are based on research and analysis by a ratings agency, which takes into account the financial history and current financial position of the institution. Ratings are continuously reviewed, although most ratings are subject to annual review.

What is the scale used for credit ratings?

The S&P rating scale is shown below. The rating scale used by S&P represents the breadth of opinions about the creditworthiness of an issuer. Generally a lower credit rating indicates a higher risk that an institution will "default" and an investor will not get their money back in full and/or on time, as promised.

S&P's long term issuer rating categories, from strongest creditworthiness to most vulnerable, are outlined below.

	Grade	Description
Investment Grade	AAA	<u>Extremely strong: An obligor rated AAA has extremely strong capacity to meet its financial commitments. AAA is the highest issuer credit rating assigned by S&P.</u>
	AA	<u>Very strong: An obligor rated AA has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.</u>
	A	<u>Strong: An obligor rated A has strong capacity to meet its financial commitments, but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.</u>
	BBB	<u>Adequate capacity: An obligor rated BBB has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.</u>
	BB	<u>Less vulnerable: An obligor rated BB is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitments.</u>
Speculative Grade	B	<u>More vulnerable: An obligor rated B is more vulnerable than the obligors rated BB, but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.</u>
	CCC	<u>Currently vulnerable: An obligor rated CCC is currently vulnerable, and is dependent upon favourable business, financial, and economic conditions to meet its financial commitments.</u>
	CC	<u>Currently highly vulnerable: An obligor rated CC is currently highly vulnerable.</u>
	D/SD	<u>Default/Selective Default: An obligor rated D (Default) or SD (Selective Default) has failed to pay one or more of its financial obligations (rated or unrated) when it came due.</u>

Heartland's credit rating of BBB- sits in the lowest tier of this investment grade category

Ratings between AA and CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

"Investment grade" is broadly used to describe issuers and issues with relatively high levels of creditworthiness and credit quality. In contrast, the term "noninvestment grade," or "speculative grade," generally refers to debt securities where the issuer currently has the ability to repay but faces significant uncertainties, such as adverse business or financial circumstances that could affect credit risk.

In S&P's long-term rating scale, issuers and debt issues that receive a rating of 'BBB-' or above are generally considered by regulators and market participants to be "investment

grade," while those that receive a rating 'BB+' or lower are generally considered to be "speculative grade."

If S&P anticipates that a credit rating may change in the coming 6 to 24 months, it may issue an updated ratings "outlook" assessment. An outlook assessment considers the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). An outlook assessment is not necessarily a precursor of a rating change. The common rating outlook definitions are: Positive - means that a rating may be raised; Negative - means that a rating may be lowered; Stable - means that a rating is not likely to change; and Developing - means a rating may be raised or lowered.

S&P may also offer an opinion (termed a "CreditWatch") as to whether a credit rating is likely to be upgraded (positive), downgraded (negative) or uncertain (neutral). It focuses on identifiable events and short-term trends that cause ratings to be placed under special surveillance by S&P.

Additional information about Heartland's rating

Heartland's rating is a 'long term issuer' rating which reflects Heartland's creditworthiness over a time period of one year or more. The rating also assesses Heartland's capacity to repay in New Zealand dollars.

Where can I find more information?

The Reserve Bank has some useful information on credit ratings on its website www.rbnz.govt.nz.

Additional information can also be found on S&P's website www.standardandpoors.com.

Investors may also wish to engage an investment adviser for independent advice and Heartland encourages you to do so.

Two final things to note

Credit ratings are only one tool in assessing risk, and the Reserve Bank advises investors to seek more information on making wise investment decisions.

S&P's credit ratings are statements of opinion, not statements of fact or recommendations to buy, hold or sell any securities. Accordingly, any user of credit ratings should not rely on any such ratings or other opinion issued by S&P in making any investment decision. Ratings are based on information received by S&P.

DIRECTORY

ISSUER

Heartland Building Society (Heartland)

75 Riccarton Road
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T 0800 85 20 20
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DIRECTORS OF THE ISSUER

B R Irvine Christchurch (Chairman)

J K Greenslade Auckland

E J Harvey Auckland

G R Kennedy Ashburton

G R Leech Ashburton

C R Mace Auckland

G T Ricketts Auckland

M A Smith Christchurch

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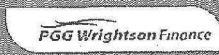
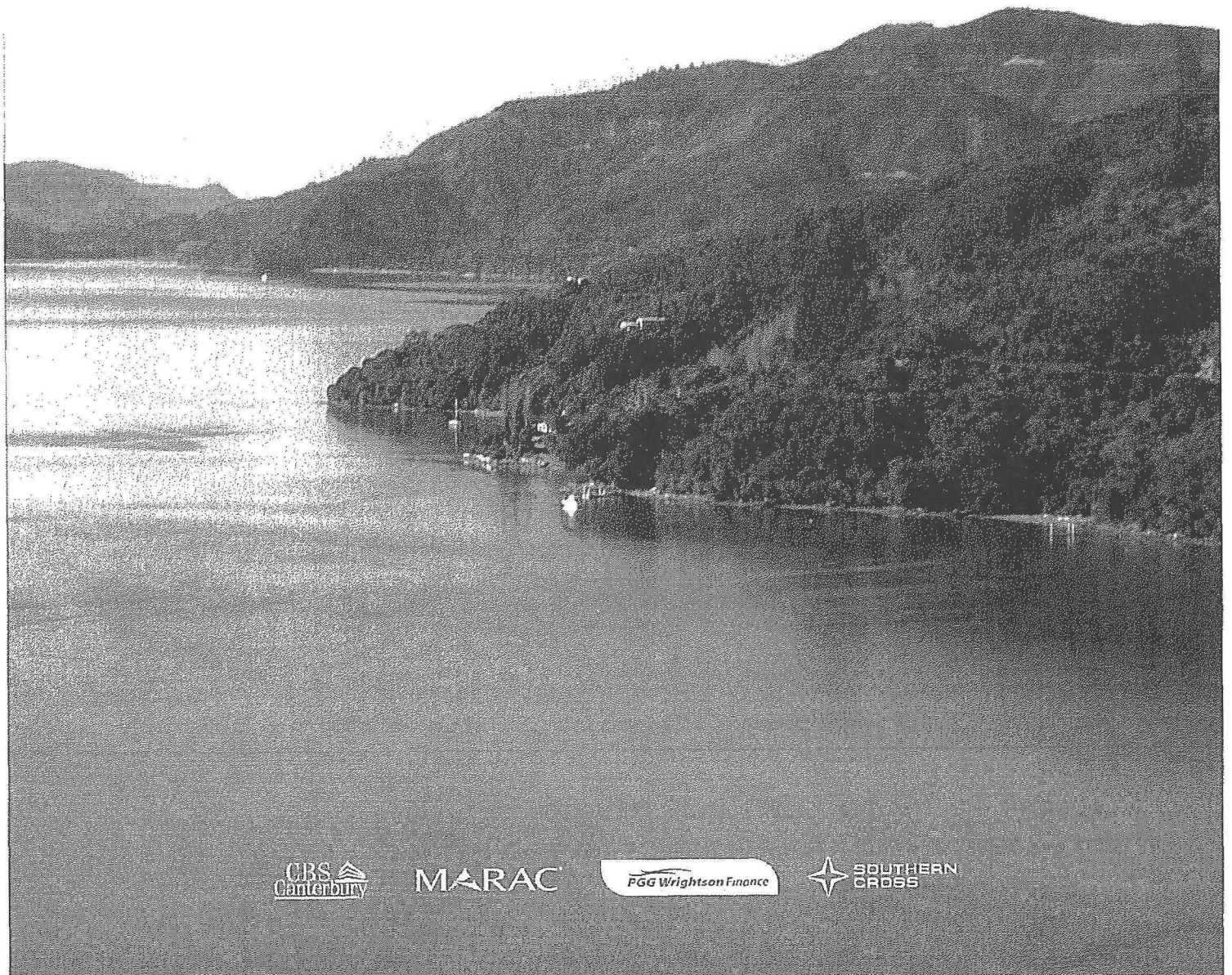
HEARTLAND

Building Society

PROSPECTUS NO.3

RELATING TO THE OFFER OF DEPOSITS

27 SEPTEMBER 2011 (AS AMENDED ON 19 JANUARY 2012, 3 APRIL 2012 AND 15 MAY 2012)



IMPORTANT NOTICE

This Prospectus is dated 27 September 2011 (as amended on 19 January 2012, 3 April 2012 and 15 May 2012) and is a prospectus in respect of the offer of Deposits to be issued by Heartland Building Society (*Heartland*). You should read the content of this Prospectus and the Investment Statement carefully.

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus or in other communications from the Directors of Heartland. Any information or representation not so contained may not be relied upon as having been authorised by Heartland.

Registration of Prospectus

A copy of this Prospectus duly signed by or on behalf of the Directors of Heartland and having attached to it copies of the documents and other materials required by section 41 of the Securities Act, has been delivered to the Registrar of Financial Service Providers for registration in accordance with section 42 of the Securities Act on 7 October 2011.

The documents required by section 41 of the Securities Act to be endorsed on or attached to the copy of this Prospectus delivered to the Registrar of Financial Service Providers for registration are:

- the signed report of the Auditor in respect of certain financial information included in this Prospectus, as set out in this Prospectus;
- the signed consent of the Auditor to its audit report appearing in this Prospectus;
- the signed statement from the Trustee as set out in this Prospectus;
- copies of the material contracts referred to in this Prospectus, which have not already been registered by, or filed with, the Registrar of Financial Service Providers; and
- letters of authority authorising this Prospectus to be signed by an agent of any Director of Heartland (if and where required).

Forward looking statements

This Prospectus contains certain statements that relate to the future. Such statements are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of Heartland and which may cause actual results, performance or achievements of the Heartland Group to differ materially from those expressed or implied by such statements.

Definitions

Capitalised terms used in this Prospectus have the specific meaning given to them in the Glossary, in the relevant section of this Prospectus or in the Trust Deed.

This Prospectus refers to various legislation in force in New Zealand from time to time. Copies of any such legislation may be viewed online at www.legislation.govt.nz free of charge.

¹ Subject to the Securities Act (Pyno Gould Corporation Limited and Building Society Holdings Limited) Exemption Notice 2011. See the information under the heading "Places of Inspection of Documents" for further details.

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1.0 HEARTLAND DEPOSITS

This is a Prospectus in respect of the offer of debt securities to be issued by Heartland Building Society (incorporation number 2541477) (*Heartland*) under its Trust Deed.

Heartland offers a wide range of debt securities for investors. Details of the types of debt securities offered to investors to which this Prospectus relates (*Deposits*) are set out in Section 3 of this Prospectus.

2.0 INTRODUCING HEARTLAND

Heartland Building Society is a building society established in New Zealand on 22 October 2010 under the Building Societies Act. Heartland Building Society commenced business as a financial services provider in January 2011, on completion of the merger of the financial services businesses of Canterbury Building Society (*CBS Canterbury*), MARAC Finance Limited (*MARAC*) and Southern Cross Building Society (*Southern Cross*), which was completed on 7 January 2011.

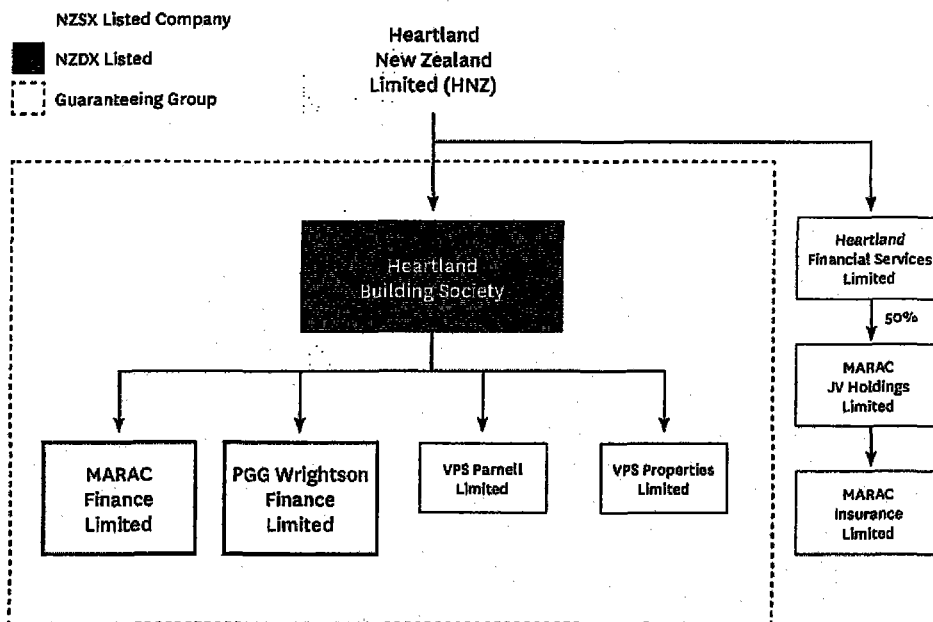
As at the date of this Prospectus, Heartland Building Society comprises the former businesses of CBS Canterbury and Southern Cross and 100% shareholdings in MARAC and PGG Wrightson Finance Limited (*PWF*). Heartland Building Society is New Zealand's largest non-bank deposit taker.

Heartland Building Society is wholly-owned by Heartland New Zealand Limited (through its subsidiaries)². Heartland New Zealand Limited (*Heartland New Zealand*) listed on the NZSX on 1 February 2011³.

Part of NZ since 1875

Heartland's roots stretch back to 1875 with the inception of Ashburton Permanent Building & Investment Society, which subsequently merged with SMC Building Society and Loan & Building Society. Together they became CBS Canterbury. Over the decades they have provided the people in the Canterbury region with home, rural and business loans, term investments, and savings and day-to-day accounts.

The Heartland New Zealand Group Structure Diagram (simplified)



² Neither Heartland New Zealand nor any of its subsidiaries that hold shares in Heartland guarantee the obligations of Heartland in relation to the Deposits. All payments to be made in respect of the Deposits will be made by Heartland and are guaranteed by the Guaranteeing Subsidiaries.

³ Heartland New Zealand shares are tradeable on the NZSX. However, NZX accepts no responsibility for any statement in this Prospectus. NZSX is a registered market operated by NZX, which is a registered exchange, regulated under the Securities Markets Act 1988.

Southern Cross similarly had a long history. Opening in Auckland in 1923, it offered a similar range of financial services to its customers throughout the North Island.

For nearly 60 years MARAC has supported the growth of small-to-medium sized New Zealand businesses with a range of finance, investment and insurance solutions.

On 31 August 2011, PWF became a subsidiary of Heartland. PWF was an important acquisition for Heartland, bringing significant impetus to Heartland's rural strategy and diversity to Heartland's asset base. The financial services activities of PWF were established over more than 75 years, by leading Stock and Station companies, Williams & Kettle, Wrightson, Pyne Gould Guinness, and Reid Farmers. Mergers brought the finance arms of these entities together creating what is now PWF.

CBS Canterbury, Southern Cross, MARAC and PWF now operate as one, Heartland, combining their experience, knowledge and a shared vision to partner with enterprising New Zealanders to succeed.

Heartland Building Society – principal activities

Heartland Building Society is the principal operating subsidiary of Heartland New Zealand Limited. Heartland Building Society carries out the financial services operations, deposit taking and funding functions for itself and its subsidiaries (the *Heartland Group*).

The Heartland Group operates in the following major sectors:

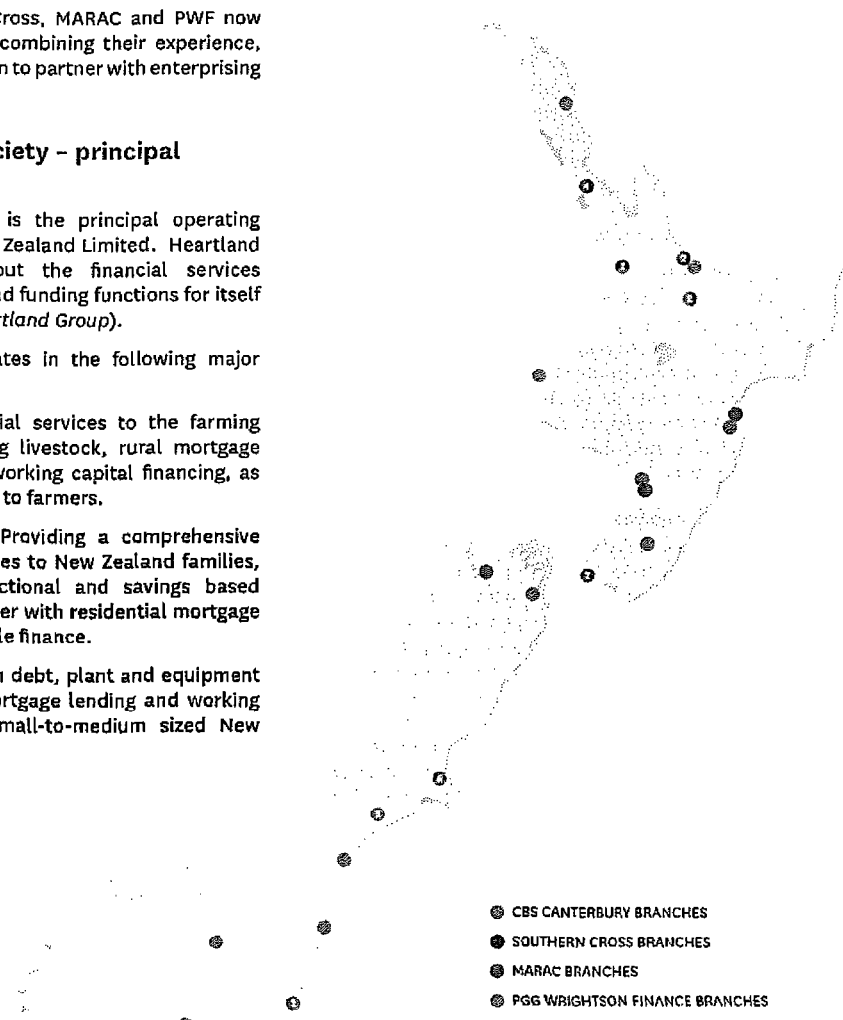
- Rural: Specialist financial services to the farming sector primarily offering livestock, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.
- Retail and Consumer: Providing a comprehensive range of financial services to New Zealand families, including term, transactional and savings based deposit accounts together with residential mortgage lending and motor vehicle finance.
- Business: Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized New Zealand businesses.

The Heartland Group is unlike the traditional model of building society, in that a large portion of its lending is based on security other than land.

Across New Zealand, in heartland communities

Heartland operates nationwide and has a network of branches and offices spread throughout New Zealand. The people at Heartland, who are experienced in banking and the finance sector, are part of the local communities and have established relationships with Depositors as well as with rural, business and individual customers.

Branches of the Heartland Group (as at 31 December 2011)



2.0 INTRODUCING HEARTLAND continued

100% FOR NEW ZEALAND

Our vision is to drive prosperity in heartland communities across New Zealand for businesses, farmers and families. We are proudly New Zealand operated and managed, with our parent company listed on the NZSX.



Service the Heartland way

Heartland values its heritage, and puts a strong emphasis on customer relationships and enhancing and extending its product and service offerings. As a Heartland customer you will experience service with a personal touch.

Investing in New Zealand

Heartland funds households, small-to-medium sized businesses and farms that form the backbone of the country's economy. When you invest in Heartland, your deposit helps to drive prosperity in your local community and throughout New Zealand. As at the date of this Prospectus, all of Heartland's lending is in relation to New Zealand based assets.

Highlights of the business

- **Credit rating**

As at the most recent update to this Prospectus, Heartland has a credit rating of BBB- (Outlook Stable)⁴ from Standard & Poor's, which is considered an investment grade rating by market participants. For the most up to date Heartland credit rating information refer to www.heartland.co.nz⁵. Further detail on credit ratings is set out in Schedule 1 of this Prospectus.

- **Banking registration objective**

A key objective of the Heartland Group is ultimately to create a New Zealand operated, controlled and managed banking group, with a parent company listed on the NZSX. Heartland has engaged with the Reserve Bank regarding its application for bank registration. The making of any formal application is subject to Heartland being satisfied that it has met all requirements of the Reserve Bank. The process through to formal application is of indeterminate length. As at the most recent update to this Prospectus, neither Heartland New Zealand, Heartland nor any Guaranteeing Subsidiary is a registered bank under the Reserve Bank Act.

- **All investors rank equally**

All Depositors in Heartland rank equally with each other, and equally with Heartland's bank funding. Heartland has undertaken in the Trust Deed not to grant security over any of its assets except in certain limited circumstances.

- **Balance sheet and cash flow**

As at 31 December 2011, the Heartland Group had approximately \$357 million in shareholder funds, with approximately \$2.38 billion in total assets and approximately \$2.02 billion in total liabilities⁶. Heartland's focus is on lending against assets that generate cash flow, assets that have essential uses and assets that have sound realisable values to ensure a sound cashflow to Heartland.

The Heartland Group has two securitisation trusts - Heartland (formerly MARAC) ABCP Trust 1 and CBS Warehouse A Trust (the *Trusts*), the purpose of which is to provide liquidity support for the Heartland Group. IFRS requires that the Trusts are consolidated in the Heartland Group's financial statements. As at 31 December 2011, approximately \$295 million of net securitised receivables and cash continue to be recognised in the Heartland Group's financial statements, however those \$295 million of assets are set aside for the benefit of the investors in the Trusts and no longer form part of the Heartland Group's assets which are available to repay Depositors. However, any surplus income arising in each of these Trusts is distributed back to the Heartland Group.

- **Lending diversity**

The Heartland Group's lending is diversified across the small-to-medium sized business, rural and household sectors, and geographically across New Zealand. Heartland Group's policy is to lend on the basis of first ranking security. The exceptions to this policy are limited to:

- everyday or overdraft facilities provided to customers, which represent less than 0.25% of the total lending book; and
- certain old loans, which are being exited over time.

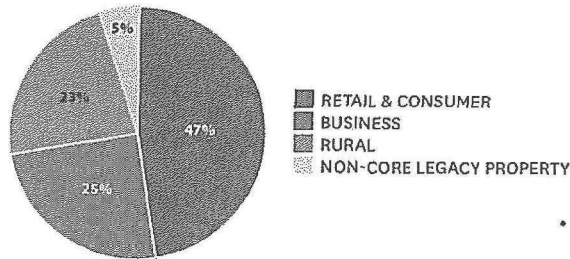
Of the Heartland Group's total lending book, well over 97% was secured by first ranking security as at 31 December 2011. As the overwhelming majority of the balance (i.e. the 3%) relates to the old loans which are being exited over time, the percentage of first ranking secured will improve even further over time.

⁴ On 7 December 2011, S&P updated Heartland's credit rating outlook from "negative" to "stable".

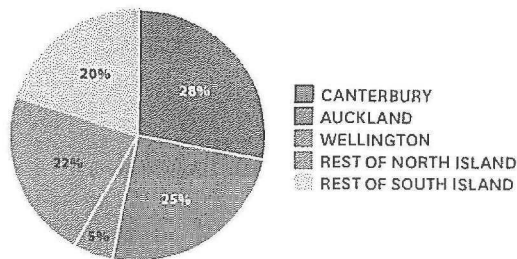
⁵ For an explanation of Standard & Poor's credit rating system, please see Schedule 1 of this Prospectus and also <http://www.standardandpoors.com/ratings/definitions-and-faq/en/us> under the Section "What do the letter ratings mean?"

⁶ These amounts have been taken from the statement of financial position of the Heartland Group dated 31 December 2011. The amounts were calculated as at that date. The amounts and statement of financial position are included in the Heartland Group's audited interim financial statements for the six months ended 31 December 2011.

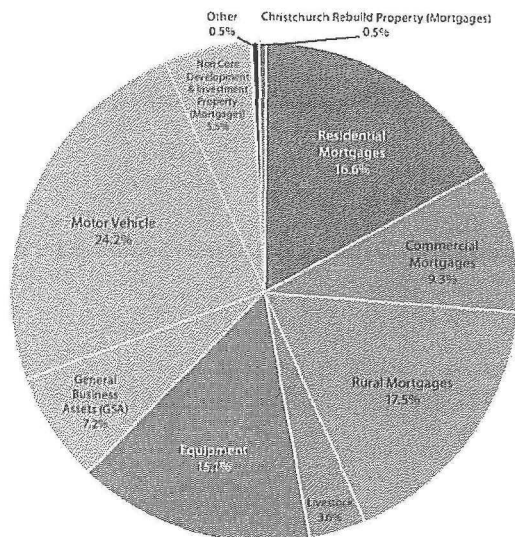
Net Receivables of the Heartland Group⁷ by Division (as at 31 December 2011)⁸



Net Receivables of the Heartland Group⁷ by Geography (as at 31 December 2011)⁹



Lending Book of the Heartland Group⁷ by Secured Asset Type (as at 31 December 2011)¹⁰



Lending exposure to a single borrower

Under the Trust Deed, the Heartland Group's exposure to its largest single borrower may not exceed 15% of capital, and the Board regularly monitors the largest amounts owing by any individual borrower or group of related borrowers to ensure compliance with this ratio. The Heartland Group operates across a broad New Zealand customer base. This helps to limit the risk of the Heartland Group being exposed to any one group of customers failing to meet their repayments.

Funding mix

Heartland relies on its retail deposit base (including call deposit balances, and reinvestment or new investment in retail term deposits) as its primary source of balance sheet funding. In the context of retail term deposits, Heartland relies on substantial levels of reinvestment, the actual and targeted levels of which will vary from time to time. For the calendar year 2011, Heartland's average year to date retail deposit reinvestment rate was always in excess of 70%. This included a period during which a number of Depositors who were attracted by the Crown guarantee did not reinvest due to the impending expiry of the Crown guarantee on 31 December 2011. For the calendar year 2012 to the end of April (being the period from the expiry of the Crown guarantee through to the last full month as at the most recent update to this Prospectus), Heartland's average year to date retail deposit reinvestment rate has remained in excess of 70%. Heartland also has other sources of funding. As at the most recent update to this Prospectus, this includes:

- NZDX-quoted bonds with a principal amount of \$104.2 million. These NZDX-quoted bonds mature on 15 July 2013.
- Committed bank facilities with a maximum principal amount of \$200 million. These facilities are comprised of two \$100 million tranches. The first tranche matures on 30 September 2012. The second tranche matures on 30 June 2013, if Heartland obtains bank registration by 30 June 2012, or otherwise on 30 September 2013.
- The Heartland (formerly MARAC) securitisation programme with a maximum principal amount of \$300 million. The Heartland Group can access funding through this securitisation programme by selling motor vehicle and other equipment receivables provided those receivables satisfy certain specified criteria.

7 The Heartland Group consolidates two securitisation trusts – Heartland (formerly MARAC) ABCP Trust 1 and CBS Warehouse A Trust (the Trusts). Net securitised receivables continue to be recognised in the Heartland Group's financial statements and these graphs, however those assets are set aside for the benefit of the Investors in the Trusts and no longer form part of the Heartland Group's assets which are available to repay Depositors. Any surplus income arising in each of these Trusts is, however, distributed back to the Heartland Group.

8 The information contained in the graph has been taken and derived from the Heartland Group's unaudited management information as at 31 December 2011. Net receivables of the Heartland Group exclude operating lease vehicles and investment properties. The graph is provided for illustrative purposes only.

9 The information contained in the graph has been taken and derived from the Heartland Group's audited financial statements for the six months ending on 31 December 2011. Net receivables of the Heartland Group exclude operating lease vehicles and investment properties. The graph is provided for illustrative purposes only.

10 The information contained in the graph has been taken and derived from Heartland Group's unaudited management information as at 31 December 2011. The graph is provided for illustrative purposes only.

2.0 INTRODUCING HEARTLAND continued

- The CBS Canterbury securitisation programme with a maximum principal amount of \$150 million. The Heartland Group can access funding through this securitisation programme by selling residential property receivables provided those receivables satisfy certain specified criteria.

The types and amounts of these other sources of funding, and their availability, may change from time to time, perhaps significantly. However, access to both retail and wholesale funding reduces Heartland's reliance on a single funding source, and together with the staggering of maturity dates assists in managing liquidity risk.

- **Management of capital**

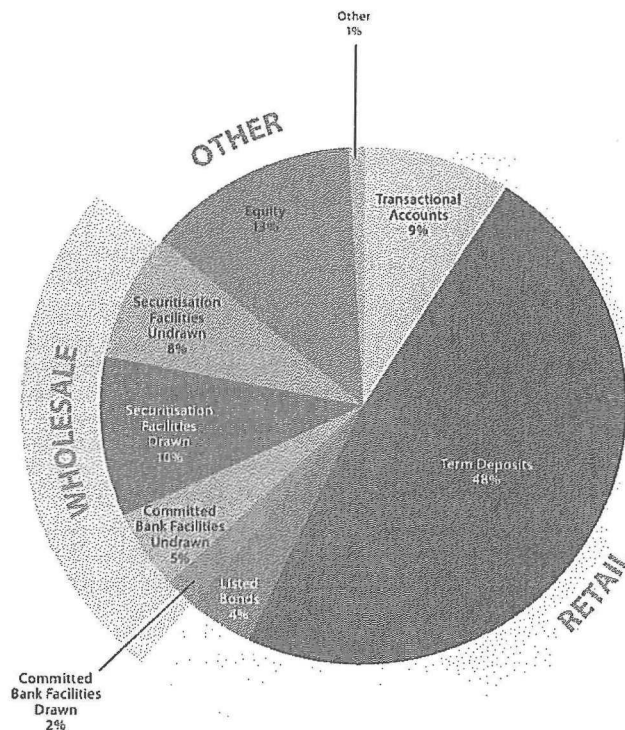
Heartland's policy is to maintain its capital base to insulate against risk so as to maintain investor,

creditor and market confidence and to support future growth of the business. Heartland has minimum capital requirements which it is required to maintain in accordance with its Trust Deed, borrowing facilities and the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010.

- **NZSX-listed parent company**

Heartland's parent company, Heartland New Zealand, is listed on the NZSX and has approximately 8,000 shareholders as at the most recent update to this Prospectus¹¹. Having an NZSX-listed parent provides the potential to access further capital.

Funding Mix of the Heartland Group
 (as at 31 December 2011)¹¹



¹¹ The information contained in the graph has been taken and derived from the Heartland Group's unaudited management information as at 31 December 2011. The graph is provided for illustrative purposes only.

¹² Neither Heartland New Zealand nor any of its shareholders guarantee the obligations of Heartland in relation to the Deposits.

Heartland's Board of Directors

The Board and management of Heartland are committed to ensuring that it maintains corporate governance practices in line with current best practice. The Board has established policies and protocols which comply with the corporate governance requirements of the NZSX/NZDX Listing Rules. The Directors of Heartland and its executive management team have extensive experience in the financial services and banking industries. All of the Directors have extensive corporate governance experience.

Of Heartland's eight current Directors:

- five of those current Directors (Bruce Irvine, Geoffrey Ricketts, Christopher Mace, Graham Kennedy and Gary Leech) are independent directors of Heartland New Zealand for the purposes of the NZSX Listing Rules; and
- two of those current Directors (Michelle Smith and John Harvey) do not sit on the board of Heartland New Zealand, and are independent directors of Heartland Building Society.



Bruce Irvine BCom, LLB, FCA,
AF Inst D, FNZIM

Chairman

Bruce is Chairman of Heartland Building Society and Heartland New Zealand Limited. He is a chartered accountant and was admitted into the Christchurch partnership of Deloitte in 1988. He was Managing Partner from 1995 to 2007 before his retirement from Deloitte in May 2008 to pursue his career as a professional director.



Jeffrey Greenslade LLB
Managing Director

Jeff has over 20 years' experience as a senior banking executive, and is responsible for the strategy and operational management of Heartland Building Society. He joined MARAC Finance Limited as Chief Executive Officer in 2009, and was appointed to its board in December of that year.



John Harvey BCom, CA
Director

John has considerable financial services experience and 35 years in the professional services industry, including 23 years as a partner of PricewaterhouseCoopers before his retirement in 2009 to pursue a career as a professional director. John was appointed to the MARAC Finance Limited board in 2010 and subsequently joined the Heartland Building Society Board upon its creation.



Graham Kennedy J.P., BCom,
FCA, ACIS, ACIM, AF Inst D

Director

Graham has 37 years' experience as a chartered accountant and was a director of CBS Canterbury for 24 years, holding the position of Chairman from 2002 - 2008.



Gary Leech BCom, FCA,
AF Inst D, FNZTA

Director

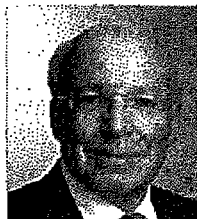
Gary has 38 years' experience as a chartered accountant, and was the Chairman of the board of CBS Canterbury leading up to the merger with MARAC Finance Limited and Southern Cross Building Society.



Christopher Mace CNZM
Director

Chris is an Auckland based businessman, company director and investor with experience in the New Zealand and Australian business environment. He holds a number of directorships and was a director of Southern Cross Building Society leading up to the merger with MARAC Finance Limited and CBS Canterbury.

2.0 INTRODUCING HEARTLAND continued



Geoffrey Ricketts LLB (Hons),

F Inst D

Director

Geoff is a commercial lawyer, company director and investor with wide experience in the New Zealand and Australian business environment. He was Chairman of Southern Cross Building Society leading up to the merger with MARAC Finance Limited and CBS Canterbury.



Michelle Smith MCom,

CA - NZICA and ICAEW

Director

Michelle is a professional director who has over 20 years' experience working within the financial services industry. Michelle was appointed to the MARAC Finance Limited board in 2010 and subsequently joined the Heartland Building Society Board upon its creation.

The Directors of Heartland may change after the date of this Prospectus. The names of Heartland's current Directors may be obtained from www.heartland.co.nz. Each of the Directors of Heartland can be contacted at Heartland's registered office.

3.0 DETAILS OF DEPOSITS OFFERED

The following is a brief description of the types of Deposits being offered. The Deposits are direct, unsecured, unsubordinated debt obligations of Heartland ranking equally with all other debt securities issued by Heartland under the Trust Deed. The Deposits are issued subject to the terms and conditions contained in the Trust Deed.

Investors can call 0800 85 20 20 for further information in relation to Deposits, including to request a copy of the Investment Statement or any specific Deposit terms and conditions. The Investment Statement can also be obtained by downloading a copy from Heartland's website, www.heartland.co.nz or visiting a Heartland branch.

The names and features of Deposits set out below are subject to change, including following the completion of a formal rebranding and product rationalisation exercise which Heartland is currently undertaking.

Deposits offered fall into three broad classes being Term Accounts, Savings Accounts and Transactional Accounts¹³.

Term Accounts	Savings Accounts	Transactional Accounts
<p>These are Deposits for a fixed term.</p> <p>Usually a fixed interest rate, except for Heartland Flexi Rate Term Deposit and CBS Canterbury Top Rate Term Deposit for which the interest rate may change throughout the term.</p> <p>No fees are payable, except for international transfers, same day cleared payments and passing on charges incurred on behalf of an investor.</p> <p>Term Accounts include, but are not limited to, the following:</p> <ul style="list-style-type: none"> • Heartland Term Deposit • Heartland Flexi Rate Term Deposit • Heartland Heart of Gold Term Deposit • CBS Canterbury Top Rate Term Deposit • CBS Canterbury Fixed Rate Term Deposit • CBS Canterbury Monthly Income Term Deposit • CBS Canterbury Heart of Gold Term Deposit • MARAC Term Deposit • PWF Term Deposit • Southern Cross Term Investment 	<p>These are accounts with features designed to assist saving – offering higher interest rates than Transactional Accounts, but with less transactional capability.</p> <p>Funds may be deposited from time to time. In some cases, withdrawals outside of specified criteria may be subject to fees.</p> <p>Savings Accounts include, but are not limited to, the following:</p> <ul style="list-style-type: none"> • Heartland Saver • Heartland Savings Optimiser • Heartland Call Deposit • CBS Canterbury Special Purpose Account • CBS Canterbury Living Style Savings Account • MARAC Call Deposit • MARAC Business Call Deposit • MARAC Rapid Saver • PWF Rural Saver • PWF Savings Optimiser • Southern Cross Net Saver 	<p>These are everyday transactional accounts.</p> <p>Funds may be deposited from time to time, and are available at call. An extensive range of access options are available including in-branch transactions, debit cards, telephone and internet banking. Overdraft and revolving credit options are also available¹⁴.</p> <p>Fees may apply to transactions, services and other activity.</p> <p>Transactional Accounts include, but are not limited to, the following:</p> <ul style="list-style-type: none"> • Heartland Everyday Account • CBS Canterbury Everyday Ultimate Account • CBS Canterbury Optimum Club Account • CBS Canterbury Kids Cash & Everyday @ Max Account • PWF Current Account • Southern Cross Current Account Saver

¹³ Constituted pursuant to the Supplemental Trust Deed (Accounts) which is supplemental to the Master Trust Deed. Copies of these documents are filed on a public register monitored by the Registrar of Financial Service Providers and are available on request.

¹⁴ Heartland's credit and lending criteria will apply. Fees and charges may apply.

3.0 DETAILS OF DEPOSITS OFFERED continued

Term Accounts	
Interest Rate	Usually a fixed interest rate (the rate as set out on your application form, or as otherwise agreed between you and Heartland), except for Heartland Flexi Rate Term Deposit and CBS Canterbury Top Rate Term Deposit for which the interest rate may change throughout the term.
Payment of Interest	Interest is paid to you, or added to the balance, on the basis set out on your application form, or as otherwise agreed between you and Heartland (usually monthly, quarterly, six-monthly, annually or at maturity).
Term	Fixed term (the term as set out on your application form, or as otherwise agreed between you and Heartland).
Withdrawal Restrictions	You do not have a right to withdraw your investment before maturity, but Heartland understands that people's circumstances do change. Heartland will consider, but is not obliged to accept, written requests for early repayment in certain circumstances such as (and without limitation) the death of an investor or unforeseen financial hardship. If Heartland agrees to make an early repayment the interest rate payable in respect of the Deposit may be reduced by up to 3% per annum (calculated across the term of the investment). Any tax that has already been paid on interest earned cannot be refunded back to you and tax must be claimed from the IRD directly.
Upon Maturity	<p>Prior to the maturity date, Heartland will send you a notice to tell you that your investment is about to mature. You can then elect to:</p> <ul style="list-style-type: none"> (a) withdraw your investment by cheque; (b) withdraw your investment in cash at Heartland branches; (c) request that Heartland transfer your investment to a bank account nominated by you; or (d) reinvest your money with Heartland, either in the same account or in a different account. <p>Unless you instruct Heartland otherwise, on maturity your balance will be automatically reinvested for the same investment term. Alternatively Heartland may advise you that your matured investment will, in the absence of maturity instructions, be placed on call at the then "past maturity account rate" detailed in its then current rate card, which investors can obtain by calling 0800 85 20 20, or by visiting Heartland's website www.heartland.co.nz.</p>
Fees	<p>No fees are payable on Term Accounts, except for international transfers, same day cleared payments and passing on charges incurred on behalf of an investor and the charge referred to above if the investment is withdrawn before maturity.</p> <p>Details of applicable fees are available from Heartland on request or can be found by visiting Heartland's website at www.heartland.co.nz.</p>
Minimum Amount of Investment	As at the most recent update to this Prospectus, the minimum investment is \$1,000. Heartland may alter minimum investment amounts from time to time. Details of the current minimum investment amounts are available from Heartland on request or can be found by visiting Heartland's website at www.heartland.co.nz .

Savings Accounts	
Interest Rate	Floating Rate. Heartland may vary interest rates at any time without notice (except for PWF Savings Optimiser, for which a specific notice period will apply before interest rate changes take effect).
Payment of Interest	Interest is paid to you, or added to the account balance, on a monthly or quarterly basis (depending on your account type).
Term	On call, although restrictions may apply to withdrawals from certain Savings Accounts (see below).
Withdrawal Restrictions	Withdrawals from Heartland Savings Optimiser, CBS Canterbury Living Style Savings Account and PWF Savings Optimiser are subject to minimum notice periods. For withdrawals without the required notice, a fee will be payable of 3% of the total funds withdrawn subject to a minimum fee of \$30 and maximum fee of \$150.
Fees	No fees are payable on Savings Accounts, except for the charge referred to above for withdrawals without the required notice.
Minimum Amount of Investment	As at the most recent update to this Prospectus, there is no minimum investment amount (apart from a \$2,000 minimum investment for investments in PWF Savings Optimiser). However, Heartland may alter minimum investment amounts from time to time. Details of the current minimum investment amounts are available from Heartland on request or can be found by visiting Heartland's website at www.heartland.co.nz .
Transactional Accounts	
Interest Rate	Floating Rate. Heartland may vary interest rates at any time without notice.
Payment of Interest	Interest is paid to you, or added to the account balance, on a monthly or quarterly basis (depending on your account type).
Term	On call.
Withdrawal Restrictions	None.
Fees	Fees may apply to transactions, services and other activity on Transactional Accounts, and those fees are subject to change from time to time. Details of applicable fees are available from Heartland on request or can be found by visiting Heartland's website at www.heartland.co.nz .
Minimum Amount of Investment	As at the most recent update to this Prospectus, there is no minimum investment amount. However, Heartland may alter minimum investment amounts from time to time. Details of the current minimum investment amounts are available from Heartland on request or can be found by visiting Heartland's website at www.heartland.co.nz .

3.0 DETAILS OF DEPOSITS OFFERED continued

Terms applicable to all Deposits

Interest Rate and Accrual Interest accrues on balances on a daily basis from the date a valid application is received and the application moneys are deposited into a Heartland bank account.

Heartland's current interest rates and maturity terms are set out in its current rate card which investors can obtain by calling 0800 85 20 20, visiting a Heartland branch or by visiting Heartland's website www.heartland.co.nz.

Taxation Under current New Zealand tax legislation, Heartland must deduct resident withholding tax (*RWT*) from all interest paid or compounded before it is paid or credited to New Zealand resident investors, and investors who hold deposits through a fixed establishment in New Zealand.

If an investor holds a current certificate of exemption and has given Heartland a copy of that certificate, then Heartland will not deduct RWT.

Non-resident withholding tax (*NRWT*) or approved issuer levy (*AIL*) deductions will arise in respect of non-resident investors.

Heartland will advise investors (unless interest paid is less than \$50) of the amount of interest paid or credited and any RWT, NRWT or AIL deducted for the year ending 31 March by 20 May in the same year.

Transfers Investments in a MARAC Term Deposit, MARAC Call Deposit, PWF Term Deposit or a PWF Savings Optimiser can be sold privately in minimum amounts of \$1,000 using the standard form for security transfers, which must be executed and delivered to Heartland.

No other type of Deposit may be transferred or sold without the prior written consent of Heartland. Heartland will consider, but is not obliged to accept, written requests for transfer.

Statements/Certificates Heartland will provide to you at the times, and in the manner, agreed between you and Heartland a certificate detailing your Deposit or a statement detailing all transactions that have taken place in relation to your Deposit during the relevant period.

You can invest in a Deposit by visiting any Heartland branch, or by completing the application form distributed with the Investment Statement and returning it, with a cheque for the amount of your investment, to Heartland. Cheques should be made payable to Heartland and be crossed "not transferrable". Heartland will also accept investments by way of electronic funds transfer or cash presented in person at a branch.

Heartland may refuse all or any part of an application without giving a reason.

4.0 SUMMARY OF THE TRUST DEED

General

TEL has been appointed to act as trustee on behalf of the holders of Deposits.

The Master Trust Deed (which contains the terms and conditions that apply to all Heartland Debt Instruments, as defined in the Master Trust Deed) was entered into by Heartland and the Trustee on 29 October 2010. The Supplemental Trust Deed (Accounts) (which contains terms specific to different types of Deposits) was also entered into by Heartland and the Trustee on 29 October 2010. Other supplemental trust deeds have also been entered into by Heartland and the Trustee to specify the terms applicable to bonds issued by Heartland.

MARAC was added as a guarantor under a supplemental trust deed on 14 December 2010, VPS Properties and VPS Parnell were added as guarantors under supplemental trust deeds dated 24 March 2011 and PWF was added as a guarantor under a supplemental trust deed dated 31 August 2011.

The Master Trust Deed and all supplemental trust deeds are together referred to as the "Trust Deed". The Trust Deed governs the Deposits.

Depositors are not entitled to enforce any of their rights or remedies under the Trust Deed directly against Heartland or the Guaranteeing Subsidiaries unless the Trustee fails to enforce such rights or remedies within a reasonable period after having become bound to do so in accordance with the Trust Deed. The Trustee does not guarantee the payment of principal or interest on the Deposits.

In this summary of the Trust Deed, defined terms have the meanings given to them in the Trust Deed. If you require further information you should refer to the Trust Deed itself, which is available for inspection at the places referred to under the heading "Places of inspection of documents" in the Statutory Information section of this Prospectus.

The Guaranteeing Group under the Trust Deed as at the date of this Prospectus is made up of Heartland (as issuer and principal debtor), MARAC, VPS Properties, VPS Parnell and PWF.

Status of Debt Instruments

The Debt Instruments are and will at all times be direct, unsecured, unsubordinated and unconditional indebtedness of Heartland and the Guaranteeing Subsidiaries and will at all times rank equally without any preference or priority among themselves and at least equally with all other present and future Debt Instruments issued by Heartland (subject to laws affecting creditors' rights generally and general equitable principles).

Financial covenants

Heartland has undertaken that it will ensure that, at all times:

- (a) the Capital Ratio of the Consolidated Group is not less than 8%;
- (b) the Capital Ratio of the Guaranteeing Group is not less than 8%;
- (c) the Liquid Assets of the Consolidated Group are at least 15% of the Total Liabilities of the Consolidated Group;
- (d) the Liquid Assets of the Guaranteeing Group are at least 15% of the Total Liabilities of the Guaranteeing Group;
- (e) the Related Party Exposures of the Consolidated Group do not exceed 15% of the Consolidated Group's Capital;
- (f) the Related Party Exposures of the Guaranteeing Group do not exceed 15% of the Guaranteeing Group's Capital; and
- (g) the indebtedness of the Largest Single Borrower does not exceed an amount equal to 15% of the Consolidated Group's Capital or the Guaranteeing Group's Capital.

Negative pledge

Although the Deposits will be unsecured, Heartland and each Guaranteeing Subsidiary has undertaken that it will not create or permit any security over any of its assets other than a Permitted Security.

"Permitted Security" is defined in the Trust Deed and includes (but is not limited to) netting or set-off arrangements in the ordinary course of business, liens arising by operation of law in the ordinary course of trading, securities arising out of suppliers' retention of title provisions where goods are acquired in the ordinary course of business, and any other security, provided that the total amount secured by such other securities may not exceed 5% of the Total Tangible Assets of the Guaranteeing Group.

Guarantee

While Heartland is the issuer (and so principal debtor) Heartland's obligations are supported by its Guaranteeing Subsidiaries. As at the date of this Prospectus the Guaranteeing Subsidiaries are MARAC, VPS Properties, VPS Parnell and PWF.

Each Guaranteeing Subsidiary absolutely, unconditionally and irrevocably guarantees to the Trustee the due and punctual payment by Heartland of the Debt Instrument Moneys. The guarantees are not secured by a mortgage or other charge.

Other parties may become guarantors at the discretion of Heartland. As at the date of this Prospectus, it is not intended that any other party will be a Guaranteeing Subsidiary.

4.0 SUMMARY OF THE TRUST DEED continued

General undertakings

For so long as any Debt Instruments are outstanding, Heartland and the Guaranteeing Subsidiaries may not (except in limited circumstances) enter into transactions to sell, lease, transfer or otherwise dispose of any asset other than in the ordinary course of business or for fair value on normal commercial terms. Heartland may not make any distributions other than to a Guaranteeing Subsidiary while money is due and owing under any Debt Instrument and is unpaid.

Heartland and the Guaranteeing Subsidiaries have further undertaken, among other things, that they will comply with and perform their obligations under all applicable laws and under each Transaction Document, ensure that a Register is maintained, maintain their corporate existence, not make any substantial change to the general nature of their core business, notify the Trustee of the occurrence of an Event of Default, and will provide various notices to the Trustee.

Duties of the Trustee

The Trustee is appointed to act as trustee in respect of the Deposits. The principal duties of the Trustee under the Trust Deed are summarised as follows:

- (a) upon the occurrence of an Event of Default the Trustee may in its discretion, and must immediately upon being directed to do so by an Extraordinary Resolution, declare the relevant Debt Instruments to be immediately due and payable and then distribute all moneys received in respect of the Debt Instruments from Heartland in accordance with the provisions of the Trust Deed;
- (b) to receive the regular financial and other reports and certificates furnished to it by Heartland and the wider Guaranteeing Group;
- (c) to perform functions relating to the ongoing administration of the Trust Deed including in relation to the meetings of Holders, the joining and releasing of Guaranteeing Subsidiaries, and the exercise of discretions or the giving or withholding of consents (as appropriate) relating to such administration; and
- (d) on being satisfied that all Debt Instruments have been repaid, at the request of Heartland, to execute a deed of release of the Trust Deed.

In addition, the Trustee has a statutory duty to exercise reasonable diligence to:

- (a) ascertain whether or not there has been any breach of the terms of the Trust Deed or of the terms of the offer of the Debt Instruments and to do all it is empowered to do to cause any such breach to be remedied (except where satisfied that the breach will not materially prejudice the interests of the Holders);

- (b) ascertain whether or not the assets of Heartland and the Guaranteeing Subsidiaries that are or may be available, whether by way of security or otherwise, are sufficient or likely to be sufficient to discharge the amounts of the Debt Instruments as they become due; and

- (c) discharge its statutory obligations as a trustee to report and otherwise provide information in relation to a non bank deposit taker.

The Trustee has the right to be indemnified for all expenses, losses and liabilities sustained or incurred by it in carrying out the trusts, powers, authorities or discretions vested in the Trustee by the Trust Deed or otherwise for any action taken, or omitted to be taken in accordance with the provisions of the Trust Deed, other than a claim arising out of a wilful default, gross negligence or wilful breach of trust.

The Trustee is not required to take any action or exercise any trusts, powers, authorities or discretions vested in the Trustee by the Trust Deed or comply with any request or direction pursuant to the Trust Deed unless it has first been indemnified to its satisfaction against all expenses, losses and liabilities it may sustain or incur by so doing.

Except to the limited extent provided in the Trust Deed, the Trustee owes no duties to Wholesale Holders.

Reporting

Heartland has undertaken to supply to the Trustee a range of regular reports, certificates, accounts and other information as to its and the Guaranteeing Group's financial condition and as to compliance with the Trust Deed.

This includes a requirement for the Directors of Heartland to certify to the Trustee, following the end of each quarter, stating that to the best of the Directors' knowledge and belief no Event of Default has occurred and continues unremedied and to confirm compliance with the financial covenants set out in the Trust Deed as at the end of the period. Annual and semi-annual statements and quarterly reports will also be provided to the Trustee.

Events of Default and enforcement

Upon the occurrence of an Event of Default that is continuing unremedied, the Trustee may in its discretion, and must immediately if directed to do so by an Extraordinary Resolution, declare the Debt Instruments to be immediately due and payable.

The Events of Default include:

- (a) a failure by any member of the Guaranteeing Group to pay any principal or interest amount within three business days of its due date for payment, or a failure to pay any other amount in respect of any Debt Instruments within ten business days of its due date;

- (b) a failure by any member of the Guaranteeing Group to perform or comply with any of its other material undertakings under the Trust Deed and, in the case of a failure that is capable of remedy, that failure is not remedied within 30 days of the date that Heartland first became aware of it, and in any case, such default has or is likely to have, in the reasonable opinion of the Trustee, a material adverse effect;
- (c) any representation, warranty or statement made or deemed to be repeated by a member of the Guaranteeing Group under the Trust Deed is or was untrue or incorrect in a material respect and, in respect of any misrepresentation which is capable of being remedied, is not remedied within 30 days of Heartland becoming aware of that misrepresentation;
- (d) a member of the Guaranteeing Group ceasing or threatening to cease to carry on the whole or substantially all of its business or an application or order is made (or resolution passed or proposed) for the dissolution of that member of the Guaranteeing Group (with some exceptions);
- (e) a member of the Guaranteeing Group being unable or admitting an inability to pay its debts as they fall due or suspending making payments on any of its debts, being declared or becoming insolvent or being deemed under any applicable law to be unable to pay its debts when they fall due; or
- (f) a receiver, liquidator, provisional liquidator, administrator or statutory manager being appointed to a member of the Guaranteeing Group, or a recommendation is made by any governmental authority to the Financial Markets Authority supporting the appointment of a statutory manager.

Heartland has undertaken to notify the Trustee promptly of the occurrence of any Event of Default.

Meetings

The Trust Deed contains provisions for meetings of Holders. Each Holder is bound by any resolutions that are passed, whether or not that Holder voted or was present at the meeting and whether or not that Holder supported the resolution. An Extraordinary Resolution is a resolution where not less than 75% of the votes cast are in favour of the resolution.

Waivers

Heartland and the Guaranteeing Subsidiaries give certain covenants and undertakings in the Trust Deed for the benefit of Holders. However, the Trustee may waive any breach or prospective breach of those covenants and undertakings if it is satisfied such waiver would not materially prejudice the Holders or the Holders approve the waiver by way of an Extraordinary Resolution (on terms and conditions approved by the Extraordinary Resolution).

Amendments to the Trust Deed

The Trust Deed may be amended without the consent of Holders if the amendment is (among other things) of a minor, formal, administrative or technical nature, is to correct a manifest error or is made to comply with any applicable law and, in any such case, Heartland is of the opinion that such amendment will not be materially prejudicial to the interests of Holders generally and the Trustee is of the opinion that such amendment will not be materially prejudicial to the interests of the Holders generally. Notice will be provided to the Holders within 30 days of the amendment being made.

In addition, the Trust Deed may be amended if the amendment has been approved by an Extraordinary Resolution.

Substitution

Heartland may, with the consent of the Trustee but without the consent of the Holders, substitute any person incorporated in New Zealand in place of Heartland as the principal debtor under the Trust Deed in relation to any one or more series of Debt Instruments. This is subject to certain conditions being fulfilled, including the new issuer becoming bound by the Trust Deed, the new issuer being solvent and the new issuer having a credit rating no lower than that assigned to Heartland.

Bank registration¹⁵

Heartland intends to apply to become a registered bank under the Reserve Bank Act and may convert to a company. Under the Trust Deed, Heartland is entitled to take all steps that may be necessary to do this and no consent will be required from the Trustee or the Holders in relation to such registration or conversion provided that no such step may be taken without the prior written consent of the Trustee if such step, in the reasonable opinion of Heartland and the Trustee, would be materially prejudicial to the interest of the Holders. The Trustee is authorised to give any consents or waivers or to enter into any document or agreement that the Trustee considers necessary or desirable to enable Heartland to become a registered bank or convert to a company. Immediately upon Heartland becoming a registered bank, the Trust Deed will be released and the terms of each Debt Instrument will be converted into direct, unsecured, unsubordinated and unconditional indebtedness of Heartland on the terms set out in the deed poll annexed to the Trust Deed, or, in each case, such other terms as Heartland and the Trustee may agree.

The terms of the deed poll are similar to the terms of the Trust Deed but excluding a number of representations, warranties, covenants and events of default. There are no financial covenants in the deed poll and no person will guarantee the Debt Instruments. In addition, a breach of a representation or warranty will not constitute an event of default.

¹⁵ Neither Heartland nor any member of the Heartland Group is a registered bank, and Heartland will not be a registered bank until it is registered as such under the Reserve Bank Act. As part of any application for bank registration Heartland may convert into a company.

TRUSTEE'S STATEMENT



Trustees Executors

Level 5, 10 Customhouse Quay, PO Box 3222, DX SP20011,
Wellington, New Zealand. Phone (04) 495-9999, Fax (04) 496-2952

27 September 2011

The Directors
Heartland Building Society
75 Riccarton Road
CHRISTCHURCH 8011

Dear Sirs

Re: Prospectus No. 3

Clause 14(3) of the Schedule 2 to the Securities Regulations 2009 requires us to confirm that the offer of securities ("the Deposits") set out in this Prospectus complies with any relevant provisions of the Trust Deed. These provisions are those which:

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

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 Deposits 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 Schedule 15 of the Securities Regulations 2009 and otherwise under the Trust Deed, the Trustee relies on the information supplied to it by Heartland 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 the Deposits or the payment of interest thereon.

Signed for and on behalf of
Trustees Executors Limited


Luiza Moran
Manager
Corporate Trust

5.0 WHAT ARE MY RISKS?

The principal risk to Depositors is that they do not recover their investment in full (or at all), and/or do not receive the full amount of (or any) return on that investment.

Ultimately, Depositors are taking a risk on the ability of the Heartland Group to meet its payment obligations under the Deposits. The ability of the Heartland Group to meet its payment obligations will be dependent on the financial performance and condition of the Heartland Group. The financial performance and condition of the Heartland Group may be affected by a number of factors.

Set out in this section is a brief description of the principal factors which may affect the financial performance or condition of the Heartland Group. This is not an exhaustive description of risk factors. There may be additional risk factors that the Heartland Group is currently unaware of, or that the Heartland Group currently deems immaterial (but which may subsequently become key risk factors). You should consider the risk factors described below in conjunction with other information in this Prospectus and the Investment Statement.

The risk factors described below necessarily include forward-looking statements. Actual events may be materially different to those described below and may therefore affect the Heartland Group in a different way.

General risks related to the New Zealand financial services sector

Macro-economic conditions

The financial performance and condition of participants in the New Zealand financial services sector (such as the Heartland Group) may be affected by overall economic conditions in New Zealand, which may in turn be affected by economic conditions in the world in general. A deterioration in economic conditions in New Zealand may, for example, result in reduced demand for credit or other services provided by the Heartland Group, adversely affect the ability of borrowers from the Heartland Group to repay loans or make it more difficult for the Heartland Group to realise assets held as security.

Other macro-events

The financial performance and condition of participants in the New Zealand financial services sector (such as the Heartland Group) may be affected by other events in New Zealand (or elsewhere in the world) which result in non-functioning financial markets, or decreased investor or borrower confidence. These other events could include natural disasters, wars, acts of terrorism, or the failure of a financial market or a finance market participant. Such events may, for example, make it difficult for the Heartland Group to source funding, or adversely affect the Heartland Group's interest margins or overall cost of funds.

Confidence in the financial services sector

As a result of the "Global Financial Crisis", the New Zealand financial services sector has been adversely affected by a number of NBDT (predominantly finance companies)

failures. Further failures could occur, which could impact the confidence of investors. This may, for example, make it more difficult for the Heartland Group to source funding, or adversely affect the Heartland Group's interest margins or overall cost of funds.

Regulation

The financial performance and condition of participants in the New Zealand financial services sector (such as the Heartland Group) may be affected by policies and decisions of the Government and other regulatory bodies in New Zealand. These policies and decisions (which may be reflected in changes to existing law or regulation, or the introduction of new law or regulation) may make it more difficult for participants in the New Zealand financial services sector (such as the Heartland Group) to source retail funding, may impact the demand for credit or other financial services, may impact the performance and debt servicing abilities of borrowers or may result in increased costs being incurred by participants in the New Zealand financial services sector.

Specific risks related to the Heartland Group

Liquidity risk

Liquidity risk is the risk that the Heartland Group may be unable to raise funds at short notice to meet its commitments. Liquidity risk will arise where:

- there is a mismatch in the maturity profile of the Heartland Group's financial assets and liabilities; and
- the resulting funding gap cannot be satisfied from the Heartland Group's liquid assets (which may include back-up liquidity available under committed bank facilities or securitisation facilities).

The Heartland Group manages this mismatch by regularly forecasting its future cash flows. The forecasts take into account the assessed maturity profile of its assets and liabilities, and are used to identify the scale of any projected funding gaps that may need to be filled. The assessed maturity profile of its assets and liabilities is based on then current market conditions, and on past experience. The assessment will include assumptions as to (among other things) movement in call deposits, retail reinvestment rates, new retail investment inflows, and net lending growth. The validity of these assumptions is tested, and subject to hindsight review on a regular basis. The Heartland Group manages projected funding gaps by adjusting retail investment offerings and lending activity to minimise any mismatch.

Liquidity risk may be increased if Heartland incorrectly forecasts its future cash flows and accordingly the scale of any funding gaps. This may arise because:

- there is an unanticipated reduction in call deposit balances held by Heartland (discussed below under "Rate of retail investment inflows");

5.0 WHAT ARE MY RISKS? continued

- retail reinvestment rates or new retail investment inflows are lower than assumed by Heartland (discussed below under "Rate of retail investment inflows");
- there is an unanticipated delay or failure on the part of borrowers from the Heartland Group to make interest or principal payments on time (discussed below under "Credit risk and realisation risk"); or
- there is an unanticipated demand for credit from borrowers, which the Heartland Group is contractually obliged to fund.

The Heartland Group is contractually obliged (under its Trust Deed) to hold a minimum ratio of liquid assets to liabilities (in order to enhance the Heartland Group's ability to bridge any funding gaps which may arise). Liquid assets may include back-up liquidity available under committed bank facilities or securitisation facilities. If there is any material change in the availability of this back-up liquidity, then the ability of the Heartland Group to bridge any funding gaps may be significantly decreased (and accordingly the liquidity risk of the Heartland Group may be significantly increased). The availability of back-up liquidity may be affected (for example) by:

- existing committed bank facilities expiring in accordance with their terms, and not being replaced with sufficient alternative liquid assets;
- existing committed bank facilities ceasing to be available or being terminated as a result of any failure to comply with relevant terms and conditions, or an event of default. For example, Heartland has a number of financial covenants under its committed bank facilities that it is required to comply with (although these may be waived or varied without notice to or consent of investors);
- an existing securitisation programme ceasing to be available as a result of the committed debt facilities provided to that programme expiring in accordance with their terms, and not being replaced; or
- an existing securitisation programme ceasing to be available or being terminated as a result of any failure to comply with relevant terms and conditions. For example, the relevant pool of receivables may fail to meet agreed performance parameters. Heartland may choose to purchase non-performing loans out of a pool of receivables, to avoid the relevant securitisation programme ceasing to be available. This would be adverse to the overall quality of assets which are available to repay Depositors.

Further detail on Heartland's bank facilities and securitisation programmes is on pages 7 to 8 of this Prospectus.

Rate of retail investment inflows

Heartland relies on its retail deposit base (including call deposit balances, and reinvestment or new investment in

retail term deposits) as its primary source of balance sheet funding. In the context of retail term deposits, Heartland relies on substantial levels of reinvestment, the actual and targeted levels of which will vary from time to time.

Call deposit balances, retail reinvestment rates or new retail investment inflows may be lower than assumed by Heartland in forecasting its future cash flows from time to time. As noted above, this could increase the liquidity risk of the Heartland Group. Whether it has that effect will depend on the extent of the reduction and the availability (or otherwise) of alternative funding. In addition this could also adversely affect the financial performance and condition of the Heartland Group (as the Heartland Group may, for example, offer higher rates to attract investment or may adjust its lending activity).

Call deposit balances, reinvestment rates and new investment inflows are at times affected by the level of investor confidence in the New Zealand financial services sector generally. In addition there are a number of other matters relevant to the level of investor confidence in the Heartland Group specifically. These include:

- the expiry of the Crown retail deposit guarantee scheme;
- the credit rating of Heartland; and
- Heartland ultimately achieving its key objective of bank registration.

The expiry of the Crown retail deposit guarantee scheme

Heartland had a guarantee under the Crown retail deposit guarantee scheme which expired on 31 December 2011. In the context of the existing investor base, the absence of this guarantee could adversely affect call deposit balances or retail funding reinvestment rates, and so increase the liquidity risk of the Heartland Group.

The credit rating of Heartland

Heartland has a credit rating of BBB- (Outlook Stable) from S&P which is considered an investment grade rating by market participants. Heartland's credit rating is in the lowest tier of the investment grade category⁶.

Ratings may be changed, withdrawn or suspended by S&P at any time. Any reduction, withdrawal or suspension in Heartland's credit rating could adversely affect the Heartland Group's ability to source cost effective funding and (in addition to adversely affecting the financial performance and condition of the Heartland Group) increase the liquidity risk of the Heartland Group, as described above. Any such reduction, withdrawal or suspension could also adversely affect the bank registration process described below.

As credit ratings or outlooks may change from time to time, for the most up to date Heartland credit rating information refer to www.heartland.co.nz.

¹⁶ For an explanation of the Standard & Poor's credit rating system, please see Schedule 1 of this Prospectus and also <http://www.standardandpoors.com/ratings/definitions-and-faq/en/us> under the Section "What do the letter ratings mean?".

Bank registration¹⁷

A key objective of the Heartland Group is ultimately to create a New Zealand operated, controlled and managed banking group, with a parent company listed on the NZSX. Heartland has engaged with the Reserve Bank regarding its application for bank registration. The making of any formal application is subject to Heartland being satisfied that it has met all requirements of the Reserve Bank. The process through to formal application is of indeterminate length. The Reserve Bank Act prescribes what factors the Reserve Bank must take into account when determining an application. These factors comprise a range of qualitative and quantitative factors and include the ability of an applicant to carry on its business in a prudent manner and in particular include:

- capital in relation to size and nature of the business;
- loan concentration and risk exposures;
- liquidity;
- separation of the business from other interests of the owner;
- internal controls and accounting systems;
- risk management systems and policies; and
- outsourcing arrangements.

These factors are not exhaustive.

There is no certainty that Heartland will be able to meet all relevant criteria (which may change in the future) and become a registered bank. In the event Heartland is unable to obtain bank registration, or there is a significant delay in obtaining such registration, the profitability or liquidity of the Heartland Group may be adversely affected¹⁸.

Credit risk and realisation risk

Borrowers from the Heartland Group may fail to make interest or principal payments on time, or may fail to pay at all.

As noted above, any such delay or failure on the part of borrowers in making payments could increase the liquidity risk of the Heartland Group. Whether it has that effect will depend on the extent of these defaults.

In addition, any such delay or failure would result in the Heartland Group suffering financial loss if the Heartland Group was ultimately unable to recover the full amount owed (and so would adversely affect the financial performance and condition of the Heartland Group). This failure to recover in full may occur because the full amount owed cannot be recovered from assets held as security (because of lack of demand for those assets, for example).

In terms of property lending, the Heartland Group does lend to borrowers based on mortgage security over residential, commercial and rural real estate and (in addition) has a number of non-core legacy property development loans which it is seeking to exit through realisation of the real estate held as security for those loans¹⁹. The Heartland Group has the benefit of the RECL Management Agreement²⁰ to compensate it for loss on certain of these non-core legacy property loans to a limit of \$30 million. As at 31 December 2011, the net book value of loans remaining subject to the RECL Management Agreement was approximately \$150 million. To the extent that the aggregate value of claims made by the Heartland Group under the RECL Management Agreement (plus interest to the due date for payment) reaches the \$30 million limit, the Heartland Group will not be able to make any further claims under the RECL Management Agreement. As at 31 December 2011, \$18.1 million of claims had been made by the Heartland Group under the RECL Management Agreement (of which \$1.5 million of claims was paid) and there is a reasonable expectation that the Heartland Group will fully utilise the \$30 million limit.

Current economic conditions make it difficult to recover the full amount owed in respect of certain property lending, because of a reduced demand for the relevant real estate assets at the present time. While the Heartland Group does have the benefit of the RECL Management Agreement to compensate it for loss up to the stated limit on certain of that property lending, there is a risk that the full amount due from RECL under the RECL Management Agreement may not be recovered.

Where borrower default occurs and the Heartland Group determines it will be unable to recover the full amount owed from assets held as security, impairment provisions may be required to be made by the Heartland Group²¹.

As at 31 December 2011:

- The balance of provisions held on the Heartland Group's balance sheet for impairments was approximately 1.4% of the Heartland Group's gross finance receivables. If securitised receivables are excluded from the Heartland Group's gross finance receivables, the ratio becomes approximately 1.6%;
- The aggregate of net non-performing loans taken together with investment property (being property taken onto the balance sheet on enforcement of security) represented approximately 6.8% of the Heartland Group's net finance receivables plus investment property. If net securitised receivables are excluded from the Heartland Group's net finance receivables, the ratio becomes approximately 7.9%. Net non-performing loans include specifically impaired, past due over 90 days, and restructured assets less provision for impairment.

¹⁷ Neither Heartland nor any member of the Heartland Group is a registered bank, and Heartland will not be a registered bank until it is registered as such under the Reserve Bank Act. As part of any application for bank registration Heartland may convert into a company.

¹⁸ If Heartland does obtain bank registration, the Trust Deed will be discharged and Heartland will be subject to supervision by the Reserve Bank. The Deposits will then be governed by the terms set out in the deed poll annexed to the Trust Deed. Further detail on this is set out in the Summary of the Trust Deed section of this Prospectus.

¹⁹ Further information on the proportion which these loans represent of the net receivables of the Heartland Group (as at 31 December 2011) is included in the first graph on page 7.

²⁰ Further information on the RECL Management Agreement is contained in the "Material contracts" section of this Prospectus on page 45.

²¹ Further information on impairment provisions is included in note 29 to Heartland's audited financial statements for the six months ending on 31 December 2011.

5.0 WHAT ARE MY RISKS? continued

For fuller information refer to note 29 to Heartland's audited financial statements for the 6 months ending on 31 December 2011.

Concentration risk

Concentrations of credit risk exist if there is a large exposure to a single counterparty, a number of counterparties are in a similar geographic location or a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

As all of Heartland's lending is in relation to New Zealand based assets, the Heartland Group is exposed to economic conditions within New Zealand.

While the Heartland Group does lend to a variety of borrowers in different geographic and industry sectors in New Zealand, each sector has particular risks associated with it. The rural sector is subject to environmental changes (for example, drought and disease), and all industry sectors are subject to economic changes (for example, price movements) or political changes (for example, New Zealand Government and foreign government actions affecting factors such as tariffs), which could disrupt the business and competitiveness of borrowers from the Heartland Group, or otherwise affect the ability of borrowers to make payments.

Currency risk

While Heartland has no direct exposure to currency risk, fluctuations in the value of the New Zealand dollar relative to other currencies may impact on export sales and returns on those sales to the rural and business sectors in particular. In turn this may affect the ability of the borrowers from the Heartland Group to repay loans.

Interest rate risk

The Heartland Group holds interest earning assets (funds lent) and interest bearing liabilities (funds borrowed) which will mature or re-price in different periods. Since market interest rates fluctuate, this may impact on the Heartland Group's financial performance by affecting the interest margin between these interest earning assets and interest bearing liabilities.

Investment property

The Heartland Group may enforce security over property loans and hold the underlying security as investment property. The carrying value of investment property will be based on fair value as determined by independent valuers or similar evidence (adjusted where necessary to take into account market movements since the date of valuation). If property values decline, this may have an adverse effect on the financial performance and condition of the Heartland Group.

NBDT regulations

Heartland as an NBDT is required to comply with a set of prudential requirements as prescribed in Part 5D of the Reserve Bank Act, and relevant regulations. The prudential requirements are broadly categorised into the following six areas:

- credit rating;
- risk management;
- capital;
- related party exposures;
- liquidity; and
- governance.

Any material failure to comply with these requirements could result in damage to the reputation of the Heartland Group, and expose the Heartland Group to financial or other penalties.

Any change to existing law or regulation, or the introduction of new law or regulation, could result in additional requirements being imposed on the Heartland Group and result in increased costs being incurred by the Heartland Group. As at the most recent update to this Prospectus, there is an NBDT Bill in select committee which, if enacted, will require licensing, approval of directors and restrictions on changes in ownership for NBDTs.

Competition in the financial services sector

The financial performance and condition of the Heartland Group may be affected by competition from both incumbent financial services sector participants (including banks, savings institutions and finance companies) and new entrants to the market. The Heartland Group may not be able to retain existing investors or borrowers, or attract new investors or borrowers, if it is unable to maintain the competitiveness of its products and services as compared to those offered by other financial services sector participants.

Failure to implement strategy

If the Heartland Group's strategy is not achieved as anticipated, or is significantly delayed, the financial performance of the Heartland Group could be adversely affected.

As part of the Heartland Group's strategic initiatives, the Heartland Group may seek to grow its existing business organically or through acquisitions of new businesses or assets that fit with its lending criteria. This strategy involves a number of risks, including:

- failure to identify material risks or liabilities associated with the acquired business or assets prior to acquisition;

- the Heartland Group failing to achieve the anticipated benefits of acquired businesses or assets due to unexpected difficulties in successfully integrating the operations of acquired businesses or assets with existing operations;
- the acquired businesses or assets proving not to be as profitable as expected, or resulting in the Heartland Group incurring unforeseen liabilities; and
- Heartland not being able to raise the additional capital required in order to increase its asset base.

Operational risks

If operational risks are not identified and properly managed, the Heartland Group may be exposed to financial loss and damage to its reputation. These risks include:

- potential failure of business continuity and disaster recovery processes, and data integrity risk;
- a breakdown in internal control systems or operating procedures;
- the possibility of key personnel leaving the businesses and the potential short-term disruption caused by seeking appropriate replacements;
- the risk that the Heartland Group or any of its businesses and customers is the victim of fraud;
- the possibility of a dispute that results in court or arbitration proceedings that could adversely affect the Heartland Group's financial position and reputation;
- the possibility of a competitor introducing new technology, products or services into the market or of a competitor following an aggressive pricing strategy, thereby undermining the competitiveness or profitability of any of the Heartland Group's products or services; and
- a natural disaster disrupting the ability of the Heartland Group to operate its business.

Information technology risks

Information technology plays a critical role in the Heartland Group's business, with the delivery of financial services to customers dependent on the availability and reliability of its information technology systems. The Heartland Group's ability to compete effectively in the future will, in part, be driven by its ability to maintain an appropriate information technology platform for the efficient delivery of the Heartland Group's products and services. The Heartland Group's business operations are likely to be significantly affected should its information technology systems fail or not operate in an efficient manner.

Consequences of insolvency

Depositors will not be liable to pay any money to any person as a result of the insolvency of Heartland or any Guaranteeing Subsidiary.

In the event of Heartland or any Guaranteeing Subsidiary becoming insolvent, certain claims or payments must be met before investments can be repaid to the Depositors. These include payments to secured creditors and certain claims set out in legislation including taxes, certain payments to employees and any liquidator's costs.

After the payment of these preferred creditors, the Deposits will rank equally in all respects with all existing and future debt securities issued by Heartland pursuant to the Trust Deed, as well as Heartland's bank funding and all other unsecured and unsubordinated obligations of Heartland, and without priority or preference amongst themselves.

6.0 FINANCIAL INFORMATION

This section contains financial information required by clauses 8 and 9 of Schedule 2 to the Securities Regulations.

Audited Financial Statements

This section contains summary historical financial information of the Heartland Group for the last five financial years. This historical financial information has been prepared from the 30 June 2011 audited financial statements of Heartland and PWF, the 30 June 2010 audited financial statements of MARAC and Southern Cross, the audited financial statements of CBS Canterbury at 31 March 2010 and the unaudited financial statements of CBS Canterbury for the three months ending 30 June 2010.

KPMG's report in relation to the financial statements of MARAC for the year ended 30 June 2009 made reference to those financial statements being prepared assuming the successful conclusion of matters relating to MARAC's bank financing arrangements. These matters were successfully concluded subsequent to the completion of KPMG's 2009 audit, and this was noted in their December 2009 report for inclusion in MARAC's prospectus. With the exception of this explanatory paragraph, none of the audit reports for the audited financial statements on which these historical summaries are based contain qualified opinions or any explanatory paragraphs highlighting matters regarded as relevant to a proper understanding of the basis of the opinions given.

The full financial statements for each entity were prepared in accordance with NZ GAAP. Each of Heartland, PWF, MARAC, Southern Cross and CBS Canterbury is a profit-oriented entity and has made an explicit and unreserved statement of compliance with IFRS in its full financial statements.

The summary financial statements have been prepared in accordance with FRS43 ("Summary Financial Statements"). However, these cannot be expected to provide as complete an understanding as provided by the full financial statements of each entity.

Copies of the full latest financial statements for Heartland, PWF, MARAC, Southern Cross, and CBS Canterbury may be obtained from the Heartland registered office or by downloading these from www.heartland.co.nz. Copies of the full annual financial statements for each entity may also be downloaded from the public register for companies or building societies maintained by the Companies Office at www.business.govt.nz/companies.

6.0 FINANCIAL INFORMATION continued

Heartland: Summary Financial Statements

	NZ IFRS					PREVIOUS NZ GAAP
	Audited 12 months to 30 June 2011 \$000	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000	Audited 12 months to 30 June 2007 \$000	Audited 12 months to 30 June 2007 \$000
Statements of Comprehensive Income						
Consolidated	\$000	\$000	\$000	\$000	\$000	\$000
Interest income	161,297	148,337	168,933	173,438	134,849	121,226
Interest expense	99,705	89,271	109,318	108,637	80,371	81,059
Net interest income	61,592	59,066	59,615	64,801	54,478	40,167
Other net income	8,988	10,015	6,004	5,389	5,504	18,961
Total operating income before other gains	70,580	69,081	65,619	70,190	59,982	59,128
Employee benefits	22,049	13,049	13,377	14,411	12,454	12,080
Other operating expenses	22,777	11,976	11,671	11,404	9,697	9,477
Profit before impairment and tax	25,754	44,056	40,571	44,375	37,831	37,571
Impairment	13,298	23,765	13,318	5,726	955	356
Net profit before tax	12,456	20,291	27,253	38,649	36,876	37,215
Tax expense	4,712	5,992	8,199	12,785	12,199	12,311
Net profit after tax	7,744	14,299	19,054	25,864	24,677	24,904
Statements of Comprehensive Income						
Net profit after tax attributable to owners of the society	7,744	14,299	19,054	25,864	24,677	24,904
Other comprehensive income/(loss) for the period, net of tax						
Net change in available-for-sale reserve, net of tax	111	-	-	-	-	-
Net change in defined benefit plan reserve, net of tax	14	-	-	-	-	-
Effective portion of changes in fair value of cash flow hedges, net of tax	596	4,208	(4,427)	(1,765)	-	-
Total comprehensive income for the period, net of tax	8,465	18,507	14,627	24,099	24,677	24,904
Total comprehensive income attributable to owners of the society	8,465	18,507	14,627	24,099	24,677	24,904
Statements Of Changes in Equity						
Opening balance	206,468	152,961	139,989	120,890	107,463	110,790
Total comprehensive income for the period attributable to owners of the society	8,465	18,507	14,627	24,099	24,677	24,904
Contributions from owners	79,774	35,000	11,345	-	-	-
Distributions to owners	(866)	-	(13,000)	(5,000)	(11,250)	(11,250)
Closing Balance	293,841	206,468	152,961	139,989	120,890	124,444
Components of equity:						
Share capital	134,774	55,000	20,000	20,000	20,000	20,000
Capital reserve	-	-	-	-	-	14
Retained earnings	160,330	153,452	139,153	121,754	100,890	104,430
Available for sale reserve	111	-	-	-	-	-
Defined benefit reserve	14	-	-	-	-	-
Fair value through other comprehensive income reserve	(1,388)	(1,984)	(6,192)	(1,765)	-	-
Total Equity	293,841	206,468	152,961	139,989	120,890	124,444

From a legal perspective MARAC is a subsidiary of Heartland, however, under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) MARAC is treated as the acquirer of CBS Canterbury and Southern Cross. The effect of this is that the comparative consolidated financial statements for the years ending 30 June 2010, 2009, 2008 and 2007 represent a continuation of the MARAC Group only, given Heartland was not formed until 5 January 2011.

Heartland's consolidated Statements of Comprehensive Income and consolidated Statements of Cash Flows reflect the operations of the MARAC Group from 1 July 2010 to 5 January 2011 and the Heartland Group from 6 January to 30 June 2011, whilst the consolidated Statement of Financial Position as at 30 June 2011 reflects that of the Heartland Group.

6.0 FINANCIAL INFORMATION continued

Heartland: Summary Financial Statements

Statements of Financial Position	NZ IFRS					PREVIOUS NZ GAAP
	Audited As at 30 June 2011 \$000	Audited As at 30 June 2010 \$000	Audited As at 30 June 2009 \$000	Audited As at 30 June 2008 \$000	Audited As at 30 June 2007 \$000	Audited As at 30 June 2007 \$000
Consolidated						
Assets						
Cash and cash equivalents	267,034	86,406	62,462	8,655	-	-
Investments	17,831	-	-	-	-	-
Investment Properties	34,499	-	-	-	-	-
Finance receivables	1,497,618	941,328	1,136,646	1,011,954	1,197,815	1,204,210
Finance receivables - securitised	209,693	160,853	157,941	291,532	-	-
Operating lease vehicles	32,727	42,895	36,209	29,719	36,834	36,675
Intangible assets	21,602	901	-	-	-	-
Other assets	34,481	62,173	19,537	10,404	7,261	5,129
Total Assets	2,115,485	1,294,556	1,412,795	1,352,264	1,241,910	1,246,014
Liabilities						
Bank overdraft	-	-	-	-	910	910
Deposits and interest accruals	1,593,247	834,381	1,066,231	901,091	1,088,450	1,089,200
Borrowings - Securitised	194,277	149,298	150,728	283,042	-	-
Other liabilities	34,120	104,409	42,875	28,142	31,660	31,460
Total Liabilities	1,821,644	1,088,088	1,259,834	1,212,275	1,121,020	1,121,570
Net Assets	293,841	206,468	152,961	139,989	120,890	124,444
Equity						
Share capital	134,774	55,000	20,000	20,000	20,000	20,000
Reserves	159,067	151,468	132,961	119,989	100,890	104,444
Total Equity	293,841	206,468	152,961	139,989	120,890	124,444
Statements Of Cash Flows						
	Audited 12 months to 30 June 2011 \$000	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000	Audited 12 months to 30 June 2007 \$000	Audited 12 months to 30 June 2007 \$000
Consolidated						
Net cash flows from/(used in) operating activities	2,820	99,664	5,915	5,115	29,374	38,066
Net cash flows from/(used in) investing activities	20,502	124,213	73,764	(77,612)	(168,415)	(177,107)
Net cash flows from/(used in) financing activities	(49,820)	(199,933)	(23,036)	82,062	144,427	144,427
Net increase/(decrease) in cash held	(26,498)	23,944	56,643	9,565	5,386	5,386
Add opening cash brought forward:						
Cash on hand and at bank	86,406	62,462	8,655	(910)	(6,296)	(6,296)
Acquired on amalgamation	207,126	-	(2,836)	-	-	-
Closing cash carried forward	267,034	86,406	62,462	8,655	(910)	(910)
Comprising:						
Cash on hand and at bank/ bank overdraft	267,034	86,406	62,462	8,655	(910)	(910)
Date of Authorisation of Financial Statements						
Authorised for issue by the Board	19-Aug-2011	26-Aug-2010	28-Aug-2009	26-Aug-2008	24-Aug-2007	24-Aug-2007

From a legal perspective MARAC is a subsidiary of Heartland, however, under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) MARAC is treated as the acquirer of CBS Canterbury and Southern Cross. The effect of this is that the comparative consolidated financial statements for the years ending 30 June 2010, 2009, 2008 and 2007 represent a continuation of the MARAC Group only, given Heartland was not formed until 5 January 2011.

Heartland's consolidated Statements of Comprehensive Income and consolidated Statements of Cash Flows reflect the operations of the MARAC Group from 1 July 2010 to 5 January 2011 and the Heartland Group from 6 January to 30 June 2011, whilst the consolidated Statement of Financial Position as at 30 June 2011 reflects that of the Heartland Group.

Heartland: Notes to Summary Financial Statements

Heartland is a profit-oriented entity, which for accounting purposes consolidates the MARAC Group. The "MARAC Group" is a profit-oriented entity, which consists of MARAC, Heartland (formerly MARAC) ABCP Trust 1 (*Trust*), MARAC Retirement Bonds Superannuation Fund (*Fund*) and Heartland (formerly MARAC) PIE Fund (*PIE*). The Fund was wound up with effect from 31 October 2010.

Heartland consolidates two securitisation trusts - Heartland (formerly MARAC) ABCP Trust 1 (as above) and CBS Warehouse A Trust (*Trusts*). The assets securitised into the Trusts continue to be recognised in Heartland's financial statements, however those assets are set aside for the benefit of the investors in the Trusts and do not form part of Heartland's assets which are available to repay holders of Heartland debt securities.

The summary financial statements of Heartland have been prepared on the following basis:

- The values presented in the summary financial statements for the financial year ending 30 June 2011 were extracted from the full financial statements of Heartland Building Society. The values presented in the summary financial statements for the financial years ending 30 June 2010, 2009, 2008 and 2007 were extracted from the full financial statements of the MARAC Group.
- The full financial statements for the financial years ending 30 June 2011, 2010, 2009, 2008 and 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. The full financial statements for the financial years ending 30 June 2011, 2010, 2009, 2008 and 2007 included an explicit and unreserved statement of compliance with IFRS. The full financial statements for the financial year ended 30 June 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Financial Reporting Standards (NZ FRS) applicable prior to the implementation of NZ IFRS (*previous NZ GAAP*).
- Heartland Building Society full financial statements for the financial year ending 30 June 2011, and the MARAC Group full financial statements for the financial years ending 30 June 2010, 2009, 2008 and 2007 presented in the summary financial statements as the Heartland Building Society comparatives have been audited. KPMG's report in relation to the financial statements of the MARAC Group for the year ended 30 June 2009 made reference to those financial statements being prepared assuming the successful conclusion of matters relating to MARAC's bank financing arrangements. These matters were successfully concluded subsequent to the completion of KPMG's 2009 audit, and this was noted in their December 2009 report for inclusion in MARAC's prospectus. With the exception of this

explanatory paragraph, none of these audit reports contain qualified opinions or any explanatory paragraphs highlighting matters regarded as relevant to proper understanding of the basis of the opinions given. These financial statements may be obtained from the Heartland registered office, or downloaded from the public register for building societies maintained by the Companies Office at www.business.govt.nz/companies.

- The accounting policies that have been applied in preparing Heartland Building Society's full financial statements for the year ended 30 June 2011 are consistent with the accounting policies applied in the MARAC Group full financial statements for the year ended 30 June 2010.
- The cash impact of the movement in finance receivables and operating lease assets are reflected as operating cash flows, from 30 June 2010 and 30 June 2009, respectively. The impact of these adjustments on historical periods, previously recorded as investing cash flows, can be calculated from the audited financial statements from which those summary financial statements are extracted.
- The summary financial statements cannot be expected to provide a complete understanding as provided by the full financial statements from which they are extracted.
- The summary financial statements comply with the Financial Reporting Standard 43 (*FRS 43*) "Summary Financial Statements" as required by the Securities Regulations.
- The summary financial statements reflect the current presentation requirements of FRS 43 "Summary Financial Statements" (as amended by the consequential amendments of NZ IAS 1 Presentation of Financial Statements (revised 2007)) for all periods presented, including the presentation of other comprehensive income and total comprehensive income.
- The summary financial statements are presented in New Zealand dollars which is the functional currency of Heartland. Unless otherwise indicated, amounts are rounded to the nearest thousand.

The summary financial statements were authorised for issue by the Directors of Heartland on 19 August 2011.

6.0 FINANCIAL INFORMATION continued

PWF: Summary Financial Statements

	NZ IFRS					PREVIOUS NZ GAAP
Statements of Comprehensive Income						
	Audited 12 months to 30 June 2011 \$000	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000	Audited 12 months to 30 June 2007 \$000	Audited 12 months to 30 June 2007 \$000
Interest income	54,183	58,730	56,685	49,678	37,877	37,779
Interest expense	32,609	30,357	37,758	34,322	25,064	24,755
Net interest income	21,574	28,373	18,927	15,356	12,813	13,024
Other net income	946	925	916	338	-	98
Total operating income before other gains	22,520	29,298	19,843	15,694	12,813	13,122
Employee benefits	4,703	4,385	4,542	3,786	3,443	3,443
Other operating expenses	3,761	2,869	2,314	3,035	1,611	1,713
Profit before impairment and tax	14,056	22,044	12,987	8,873	7,759	7,966
Impairment	8,812	8,949	2,877	460	(480)	(480)
Net profit before non-recurring items and tax	5,244	13,095	10,110	8,413	8,239	8,446
Non-operating items	(136)	-	-	-	-	-
Fair value adjustments	2,172	(338)	1,002	245	-	-
Total non-recurring items	2,036	(338)	1,002	245	-	-
Net profit before tax	7,280	12,757	11,112	8,658	8,239	8,446
Tax expense	2,747	3,824	3,334	2,839	2,787	2,787
Net profit after tax	4,533	8,933	7,778	5,819	5,452	5,659
Statements of Comprehensive Income						
Net profit after tax attributable to: owners of the entity	4,533	8,933	7,778	5,819	5,452	5,659
Other comprehensive income/(loss) for the period, net of tax Effective portion of changes in fair value of cash flow hedges, net of tax	(1,282)	(2,992)	5,146	(52)	(538)	-
Total comprehensive income for the period, net of tax	3,251	5,941	12,924	5,767	4,914	5,659
Total comprehensive income attributable to: owners of the entity	3,251	5,941	12,924	5,767	4,914	5,659
Statements Of Changes in Equity						
Opening balance	100,375	66,816	53,892	40,625	31,211	31,623
Total comprehensive income for the period attributable to: owners of the entity	3,251	5,941	12,924	5,767	4,914	5,659
Contributions from owners	-	33,850	-	7,500	10,000	10,000
Distributions to owners	(2,707)	(6,232)	-	-	(5,500)	(5,500)
Closing Balance	100,919	100,375	66,816	53,892	40,625	41,782
Components of equity:						
Share capital	31,500	31,500	31,500	31,500	24,000	24,000
Capital reserve	-	-	-	-	-	-
Retained earnings	35,569	33,743	31,042	23,394	17,575	17,782
Preference Shares	33,850	33,850	-	-	-	-
Fair value through other comprehensive income reserve	-	1,282	4,274	(1,002)	(950)	-
Total Equity	100,919	100,375	66,816	53,892	40,625	41,782

PWF: Summary Financial Statements

	NZ IFRS					PREVIOUS NZ GAAP
Statements of Financial Position						
	Audited As at 30 June 2011 \$000	Audited As at 30 June 2010 \$000	Audited As at 30 June 2009 \$000	Audited As at 30 June 2008 \$000	Audited As at 30 June 2007 \$000	Audited As at 30 June 2007 \$000
Assets						
Cash and cash equivalents	71,617	9,277	3,779	625	-	-
Loans and advances	381,778	530,119	559,659	502,591	394,443	394,443
Assets classified as held for sale	50,522	-	-	-	-	-
Other assets	14,815	10,266	12,037	4,248	3,823	3,251
Total Assets	518,732	549,662	575,475	507,464	398,266	397,694
Liabilities						
Bank overdraft	-	-	-	-	475	475
Borrowings	412,293	439,057	499,146	449,483	351,631	352,405
Other liabilities	5,520	10,230	9,513	4,089	5,535	3,032
Total Liabilities	417,813	449,287	508,659	453,572	357,641	355,912
Net Assets	100,919	100,375	66,816	53,892	40,625	41,782
Equity						
Share capital	65,350	65,350	31,500	31,500	24,000	24,000
Reserves	35,569	35,025	35,316	22,392	16,625	17,782
Total Equity	100,919	100,375	66,816	53,892	40,625	41,782
Statements Of Cash Flows						
	Audited 12 months to 30 June 2011 \$000	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000	Audited 12 months to 30 June 2007 \$000	Audited 12 months to 30 June 2007 \$000
Net cash flows from/(used in) operating activities	4,814	20,638	14,232	5,496	7,539	7,539
Net cash flows from/(used in) investing activities	88,897	20,373	(61,143)	(109,439)	(112,885)	(63,307)
Net cash flows from/(used in) financing activities	(31,371)	(35,513)	50,065	105,043	103,402	53,824
Net increase/(decrease) in cash held	62,340	5,498	3,154	1,100	(1,944)	(1,944)
Add opening cash brought forward:						
Cash on hand and at bank	9,277	3,779	625	(475)	1,469	1,469
Closing cash carried forward	71,617	9,277	3,779	625	(475)	(475)
Comprising:						
Cash on hand and at bank/ bank overdraft	71,617	9,277	3,779	625	(475)	(475)
Date of Authorisation of Financial Statements						
Authorised for issue by the Board	29-Aug-2011	12-Aug-2010	27-Aug-2009	19-Aug-2008	16-Aug-2007	16-Aug-2007

6.0 FINANCIAL INFORMATION continued

PWF: Notes to Summary Financial Statements

The amounts stated above for the financial years ending 30 June 2011, 2010, 2009, 2008 and 2007 are taken from the audited financial statements of PWF. All years' financial statements have received an unqualified audit opinion with no matters highlighted by the auditor that would be regarded as relevant to a proper understanding of the basis of the opinion. The summary financial statements for the years ending 30 June 2011, 2010, 2009, 2008 and 2007 were prepared on the basis of New Zealand equivalents to International Financial Reporting Standards as disclosed in the basis of preparation section of the notes to the full financial statements. The results for the year ending 30 June 2007 have also been amended for comparison purposes. Pre-NZ IFRS figures for the year ending 30 June 2007 were prepared in accordance with previous GAAP. At the date of preparing the summary financial statements, PWF was a single entity profit-oriented company that did not qualify for differential reporting concessions.

The summary financial statements cannot provide as complete an understanding as provided by full financial statements. These financial statements may be obtained from the Heartland registered office, or downloaded from the public register for companies maintained by the Companies Office at www.business.govt.nz/companies.

The summary financial statements have been extracted from the following audited full Financial Statements:

- Year ended 30 June 2011, which were authorised by the PWF board on 29 August 2011 and audited by KPMG who issued an unqualified opinion on 29 August 2011;
- Year ended 30 June 2010, which were authorised by the PWF board on 12 August 2010 and audited by KPMG who issued an unqualified opinion on 12 August 2010;
- Year ended 30 June 2009, which were authorised by the PWF board on 27 August 2009 and audited by KPMG who issued an unqualified opinion on 27 August 2009;

- Year ended 30 June 2008, which were authorised by the PWF board on 19 August 2008 and audited by KPMG who issued an unqualified opinion on 19 August 2008;

- Year ended 30 June 2007, which were authorised by the PWF board on 16 August 2007 and audited by KPMG who issued an unqualified opinion on 16 August 2007.

Each of the full financial statements are presented in New Zealand dollars which was PWF's functional and presentation currency at the date of preparing the summary financial statements. All values are rounded to the nearest thousand dollars. The summary financial statements have been prepared in accordance with FRS 43 subject to the Securities Regulations 2009.

The summary financial statements were authorised for issue by the directors of PWF on 29 August 2011.

MARAC: Summary Financial Statements

	NZ IFRS				PREVIOUS NZ GAAP
Statements of Comprehensive Income					
	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000	Audited 12 months to 30 June 2007 \$000	Audited 12 months to 30 June 2007 \$000
Parent and Consolidated					
Interest income	148,337	168,933	173,438	134,849	121,226
Interest expense	89,271	109,318	108,637	80,371	81,059
Net interest income	59,066	59,615	64,801	54,478	40,167
Other net income	10,015	6,004	5,389	5,504	18,961
Total operating income before other gains	69,081	65,619	70,190	59,982	59,128
Employee benefits	13,049	13,377	14,411	12,454	12,080
Other operating expenses	11,976	11,671	11,404	9,697	9,477
Profit before impairment and tax	44,056	40,571	44,375	37,831	37,571
Impairment	23,765	13,318	5,726	955	356
Net profit before tax	20,291	27,253	38,649	36,876	37,215
Tax expense	5,992	8,199	12,785	12,199	12,311
Net profit after tax	14,299	19,054	25,864	24,677	24,904
Statements of Comprehensive Income					
Net profit after tax attributable to: owners of the entity	14,299	19,054	25,864	24,677	24,904
Other comprehensive income/(loss) for the period, net of tax					
Effective portion of changes in fair value of cash flow hedges, net of tax	4,208	(4,427)	(1,765)	-	-
Total comprehensive income for the period, net of tax	18,507	14,627	24,099	24,677	24,904
Total comprehensive income attributable to: owners of the entity	18,507	14,627	24,099	24,677	24,904
Statements Of Changes in Equity					
Opening balance	152,961	139,989	120,890	107,463	110,790
Total comprehensive income for the period attributable to: owners of the entity	18,507	14,627	24,099	24,677	24,904
Contributions from owners	35,000	11,345	-	-	-
Distributions to owners	-	(13,000)	(5,000)	(11,250)	(11,250)
Closing Balance	206,468	152,961	139,989	120,890	124,444
Components of equity:					
Share capital	55,000	20,000	20,000	20,000	20,000
Capital reserve	-	-	-	-	14
Retained earnings	153,452	139,153	121,754	100,890	104,430
Fair value through other comprehensive income reserve	(1,984)	(6,192)	(1,765)	-	-
Total Equity	206,468	152,961	139,989	120,890	124,444

6.0 FINANCIAL INFORMATION continued

MARAC: Summary Financial Statements

	NZ IFRS				PREVIOUS NZ GAAP
Statements of Financial Position					
	Audited As at 30 June 2010 \$000	Audited As at 30 June 2009 \$000	Audited As at 30 June 2008 \$000	Audited As at 30 June 2007 \$000	Audited As at 30 June 2007 \$000
Parent and Consolidated					
Assets					
Cash and cash equivalents	86,406	62,462	8,655	-	-
Finance receivables	941,328	1,136,646	1,011,954	1,197,815	1,204,210
Finance receivables - securitised	160,853	157,941	291,532	-	-
Operating lease vehicles	42,895	36,209	29,719	36,834	36,675
Other assets	83,074	19,537	10,404	7,281	5,129
Total Assets	1,294,556	1,412,795	1,352,264	1,241,910	1,246,014
Liabilities					
Bank overdraft	-	-	-	910	910
Deposits and interest accruals	834,381	1,066,231	901,091	1,088,450	1,089,200
Borrowings - Securitised	149,298	150,728	283,042	-	-
Other liabilities	104,409	42,875	28,142	31,660	31,460
Total Liabilities	1,088,088	1,259,834	1,212,275	1,121,020	1,121,570
Net Assets	206,468	152,961	139,989	120,890	124,444
Equity					
Share capital	55,000	20,000	20,000	20,000	20,000
Reserves	151,468	132,961	119,989	100,890	104,444
Total Equity	206,468	152,961	139,989	120,890	124,444
Statements Of Cash Flows					
	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000	Audited 12 months to 30 June 2007 \$000	Audited 12 months to 30 June 2007 \$000
Parent and Consolidated					
Net cash flows from/(used in) operating activities	30,373	5,915	5,115	29,374	38,066
Net cash flows from/(used in) investing activities	193,504	73,764	(77,612)	(168,415)	(177,107)
Net cash flows from/(used in) financing activities	(199,933)	(23,036)	82,062	144,427	144,427
Net increase/(decrease) in cash held	23,944	56,643	9,565	5,386	5,386
Add opening cash brought forward:					
Cash on hand and at bank	62,462	8,655	(910)	(6,296)	(6,296)
Acquired on amalgamation	-	(2,836)	-	-	-
Closing cash carried forward	86,406	62,462	8,655	(910)	(910)
Comprising:					
Cash on hand and at bank/ bank overdraft	86,406	62,462	8,655	(910)	(910)
Date of Authorisation of Financial Statements					
Authorised for issue by the Board	26-Aug-2010	28-Aug-2009	26-Aug-2008	24-Aug-2007	24-Aug-2007

MARAC: Notes to Summary Financial Statements

The "MARAC Group" is a profit-oriented entity, which consists of MARAC, Heartland (formerly MARAC) ABCP Trust 1 ("Trust"), MARAC Retirement Bonds Superannuation Fund ("Fund") and Heartland (formerly MARAC) PIE Fund ("PIE"). The Fund was wound up with effect from 31 October 2010.

The assets securitised into the Trust continue to be recognised in MARAC's financial statements, however those assets are set aside for the benefit of the investors in the Trust and do not form part of MARAC's assets which are available to repay holders of Heartland debt securities. Accordingly, as MARAC's and the MARAC Group's financial performance and position are the same in all material respects, a single set of numbers is presented.

The summary financial statements of the MARAC Group have been prepared on the following basis:

- The values presented in the summary financial statements were extracted from the full financial statements of the MARAC Group for the financial years ending 30 June 2010, 2009, 2008 and 2007.
- The full financial statements for the financial years ended 30 June 2010, 2009, 2008 and 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. The full financial statements for each of these years included an explicit and unreserved statement of compliance with IFRS. The full financial statements for the financial year ended 30 June 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Financial Reporting Standards (NZ FRS) applicable prior to the implementation of NZ IFRS ("previous NZ GAAP").
- The full financial statements for each year presented in the summary financial statements have been audited. KPMG's report in relation to the financial statements of MARAC for the year ended 30 June 2009 made reference to those financial statements being prepared assuming the successful conclusion of matters relating to MARAC's bank financing arrangements. These matters were successfully concluded subsequent to the completion of KPMG's 2009 audit, and this was noted in their December 2009 report for inclusion in MARAC's prospectus. With the exception of this explanatory paragraph, none of the audit reports for the audited financial statements of MARAC on which these historical summaries are based contain qualified opinions or any explanatory paragraphs highlighting matters regarded as relevant to a proper understanding of the basis of the opinions given. These financial statements may be obtained from the Heartland registered office, or downloaded from the public register for companies maintained by the Companies Office at www.business.govt.nz/companies.

- The accounting policies that have been applied in preparing the full financial statements for the year ended 30 June 2010 are consistent with the accounting policies applied in the previous year.
- The summary financial statements cannot be expected to provide a complete understanding as provided by the full financial statements from which they are extracted.
- The summary financial statements comply with the Financial Reporting Standard 43 "Summary Financial Statements" as required by the Securities Regulations.
- The summary financial statements reflect the current presentation requirements of FRS 43 Summary Financial Statements (as amended by the consequential amendments of NZ IAS 1 Presentation of Financial Statements (revised 2007)) for all periods presented, including the presentation of other comprehensive income and total comprehensive income.
- The summary financial statements are presented in New Zealand dollars which is the functional currency of the MARAC Group. Unless otherwise indicated, amounts are rounded to the nearest thousand.

The summary financial statements were authorised for issue by the directors of MARAC on 24 September 2010.

6.0 FINANCIAL INFORMATION continued

SOUTHERN CROSS: Summary Financial Statements

	NZ IFRS				PREVIOUS NZ GAAP
	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000	Audited 12 months to 30 June 2007 \$000	Audited 12 months to 30 June 2007 \$000
Statements of Comprehensive Income					
Parent and Consolidated					
Interest income	27,372	38,125	44,451	39,706	38,908
Interest expense	17,675	27,545	33,304	30,708	30,403
Net interest income	9,697	10,580	11,147	8,998	8,505
Other net income	39	428	1,824	2,154	2,655
Total operating income before other net gains	9,736	11,008	12,971	11,152	11,170
Employee benefits	3,313	3,352	3,108	2,806	2,806
Other operating expenses	4,196	4,437	4,229	4,344	4,344
Profit before impairment, other net gains, restructuring costs and tax impairment	2,227	3,219	5,634	4,002	4,020
Impairment	5,765	14,625	593	1,222	1,180
Profit/(loss) before non-recurring items and tax	(3,538)	(11,406)	5,041	2,780	2,840
Other net gains/(losses)	(1,183)	-	2,668	2,871	-
Restructuring costs	(458)	47	(1,905)	(1,600)	(1,600)
Total non-recurring items	(1,641)	47	763	1,271	(1,600)
Net profit/(loss) before tax	(5,179)	(11,359)	5,804	4,051	1,240
Tax expense/(benefit)	(477)	(2,614)	636	1,386	531
Net profit/(loss) after tax	(4,702)	(8,745)	5,168	2,665	709
Statements of Comprehensive Income					
Net profit/(loss) after tax attributable to: owners of the Society	(4,702)	(8,745)	5,168	2,665	709
Other comprehensive income/(loss) for the period, net of tax					
Net change in asset revaluation reserve, net of tax	(174)	-	-	690	2,484
Net change in available-for-sale reserve, net of tax	-	1,015	(1,504)	(391)	-
Net change in defined benefit plan reserve, net of tax	-	(502)	(286)	-	-
Net change in fair value through other comprehensive income reserve	(353)	-	-	-	-
Total comprehensive income/(loss) for the period, net of tax	(5,229)	(8,232)	3,378	2,964	3,193
Total comprehensive income/(loss) attributable to: owners of the Society	(5,229)	(8,232)	3,378	2,964	3,193
Statements Of Changes In Equity					
Opening balance	52,198	60,405	57,140	43,676	44,163
Change in accounting policy - early adoption of NZ IFRS 9	612	-	-	-	-
Opening balance restated	52,810	60,405	57,140	43,676	44,163
Total comprehensive income/(loss) for the period attributable to: owners of the Society	(5,229)	(8,232)	3,378	2,964	3,193
Contributions from owners	25	25	425	10,500	10,500
Distributions to owners	-	-	(538)	-	-
Closing Balance	47,606	52,198	60,405	57,140	57,856
Components of equity:					
Share capital	10,475	10,450	10,425	10,500	10,500
Capital reserve	40,000	40,000	40,000	40,000	40,000
Retained earnings	(3,676)	1,026	9,771	(729)	-
Available for sale reserve	-	(612)	(1,627)	(123)	-
Asset revaluation reserve	1,074	1,248	1,248	6,618	7,356
Defined benefit reserve	86	86	588	874	-
Fair value through other comprehensive income reserve	(353)	-	-	-	-
Total Equity	47,606	52,198	60,405	57,140	57,856

SOUTHERN CROSS: Summary Financial Statements

	NZ IFRS				PREVIOUS NZ GAAP
Statements of Financial Position					
	Audited As at 30 June 2010 \$000	Audited As at 30 June 2009 \$000	Audited As at 30 June 2008 \$000	Audited As at 30 June 2007 \$000	Audited As at 30 June 2007 \$000
Parent and Consolidated					
Assets					
Cash and cash equivalents	681	1,006	1,306	645	645
Short term deposits	122,013	95,368	55,392	29,835	29,834
Investment securities	19,123	25,477	49,488	57,848	57,147
Investment property	-	-	-	16,000	15,610
Loans and advances	249,822	275,621	338,498	371,787	374,848
Deferred tax asset	5,572	5,414	2,824	2,171	1,224
Other assets	5,785	9,126	8,408	15,081	14,775
Total Assets	402,996	412,012	455,916	493,367	494,083
Liabilities					
Deposits and interest accruals	353,737	358,162	384,791	423,653	423,543
Redeemable shares	-	-	7,845	10,097	10,097
Other liabilities	1,653	1,652	2,875	2,477	2,587
Total Liabilities	355,390	359,814	395,511	436,227	436,227
Net Assets	47,606	52,198	60,405	57,140	57,856
Equity					
Share capital	10,475	10,450	10,425	10,500	10,500
Reserves	37,131	41,748	49,980	46,640	47,356
Total Equity	47,606	52,198	60,405	57,140	57,856
Statements Of Cash Flows					
	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000	Audited 12 months to 30 June 2007 \$000	Audited 12 months to 30 June 2007 \$000
Parent and Consolidated					
Net cash flows from/(used in) operating activities	(282)	(1)	(22,039)	(5,208)	27,023
Net cash flows from/(used in) investing activities	(43)	(299)	17,987	(393)	(6,670)
Net cash flows from/(used in) financing activities	-	-	4,713	5,500	(20,454)
Net increase/(decrease) in cash held	(325)	(300)	661	(101)	(101)
Add opening cash brought forward:					
Cash on hand and at bank	1,005	1,306	645	746	746
Closing cash carried forward	681	1,006	1,306	645	645
Comprising:					
Cash on hand and at bank	681	1,006	1,306	645	645
Date of Authorisation of Financial Statements					
Authorised for issue by the Board	11-Aug-2010	12-Aug-2009	22-Aug-2008	23-Aug-2007	23-Aug-2007

6.0 FINANCIAL INFORMATION continued

Southern Cross: Notes to Summary Financial Statements

At the date these Summary Financial Statements were prepared, Southern Cross was a profit-oriented building society registered in New Zealand under the Building Societies Act. For the purposes of these Financial Statements the "Southern Cross Group" consists of Southern Cross and its wholly owned subsidiaries, Southern Cross Building and Investments Limited and Southern Cross Nominees Limited.

The summary financial statements of Southern Cross have been prepared on the following basis:

- The values presented in the summary financial statements were extracted from the full financial statements of Southern Cross for the financial years ending 30 June 2010, 2009, 2008 and 2007.
- The full financial statements for the financial years ended 30 June 2010, 2009, 2008 and 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. The full financial statements for each of these years included an explicit and unreserved statement of compliance with IFRS. The full financial statements for the financial year ended 30 June 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Financial Reporting Standards (NZ FRS) applicable prior to the implementation of NZ IFRS ("previous NZ GAAP").
- The full financial statements for each year presented in the summary financial statements have been audited. None of these audit reports contain qualified opinions or any explanatory paragraphs highlighting matters regarded as relevant to proper understanding of the basis of the opinions given. These financial statements may be obtained from the Heartland registered office, or downloaded from the public register for building societies maintained by the Companies Office at www.business.govt.nz/companies.
- The accounting policies that have been applied in preparing the full financial statements for the year ended 30 June 2010 are consistent with the accounting policies applied in the previous year.
- The summary financial statements cannot be expected to provide a complete understanding as provided by the full financial statements from which they are extracted.

The summary financial statements comply with the Financial Reporting Standard 43 "Summary Financial Statements" as required by the Securities Regulations.

The summary financial statements are presented in New Zealand dollars which was the functional currency of the Southern Cross Group at date of preparing the summary financial statements. Unless otherwise indicated, amounts are rounded to the nearest thousand.

The summary financial statements were authorised for issue by the directors of Southern Cross on 22 September 2010.

CBS Canterbury: Summary Financial Statements

	NZ IFRS					PREVIOUS NZ GAAP
Statements of Comprehensive Income						
	Unaudited 3 months to 30 June 2010 \$000	Audited 12 months to 31 March 2010 \$000	Audited 12 months to 31 March 2009 \$000	Audited 12 months to 31 March 2008 \$000	Audited 12 months to 31 March 2007 \$000	Audited 12 months to 31 March 2007 \$000
Parent and Consolidated						
Interest income	7,928	30,406	50,993	35,650	28,657	28,675
Interest expense	5,789	22,372	39,794	27,455	21,984	21,744
Net interest income	2,139	8,034	11,199	8,195	6,673	6,931
Other net income	363	2,362	696	827	982	1,065
Total operating income before other net gains	2,502	10,396	11,895	9,022	7,655	7,996
Employee benefits	1,153	4,141	3,801	2,531	2,139	2,133
Other operating expenses	1,158	4,469	4,935	3,273	3,059	3,106
Profit before impairment and tax	191	1,786	3,159	3,218	2,457	2,757
Impairment	75	589	2,410	15	-	1
Net profit before tax	116	1,197	749	3,203	2,457	2,756
Impairment of goodwill	-	-	(4,148)	-	-	-
Restructuring costs	(165)	-	-	-	-	-
Special finance charge	-	-	-	(1,110)	-	-
Total non-recurring items	(165)	-	(4,148)	(1,110)	-	-
Net profit/(loss) before tax	(49)	1,197	(3,399)	2,093	2,457	2,756
Tax expense/(benefit)	332	(711)	82	1,209	845	904
Net profit/(loss) after tax	(381)	1,908	(3,481)	884	1,612	1,852
Statements of Comprehensive Income						
Net profit/(loss) after tax attributable to: owners of the Society	(381)	1,908	(3,481)	884	1,612	1,852
Other comprehensive income/(loss) for the period, net of tax						
Net change in asset revaluation reserve, net of tax	-	101	(127)	68	628	765
Net change in available-for-sale reserve, net of tax	120	412	(349)	(211)	12	-
Net change in capital gains reserve, net of tax	-	-	-	241	-	-
Total comprehensive income/(loss) for the period, net of tax	(261)	2,421	(3,957)	982	2,252	2,617
Total comprehensive income/(loss) attributable to: owners of the Society	(261)	2,421	(3,957)	982	2,252	2,617
Statements Of Changes in Equity						
Opening balance	51,552	48,594	53,490	24,920	19,399	22,116
Total comprehensive income/(loss) for the period attributable to: owners of the Society	(261)	2,421	(3,957)	982	2,252	2,617
Contributions from owners	-	537	1,175	28,176	4,251	4,251
Distributions to owners	-	-	(2,114)	(588)	(982)	(1,223)
Closing Balance	51,291	51,552	48,594	53,490	24,920	27,761
Components of equity:						
Share capital	44,288	44,288	43,752	42,577	14,401	17,401
Retained earnings	5,203	5,583	3,674	3,674	8,974	8,544
Available for sale reserve	(40)	(135)	(547)	(199)	12	-
Asset revaluation reserve	1,553	1,529	1,428	1,555	1,487	1,770
Realised capital gains reserve	287	287	287	287	46	46
Total Equity	51,291	51,552	48,594	53,490	24,920	27,761

6.0 FINANCIAL INFORMATION continued

CBS Canterbury: Summary Financial Statements

	NZ IFRS					PREVIOUS
						NZ GAAP
Statements of Financial Position						
	Unaudited	Audited	Audited	Audited	Audited	Audited
	As at	As at	As at	As at	As at	As at
	30 June	31 March	31 March	31 March	31 March	31 March
	2010	2010	2009	2008	2007	2007
	\$000	\$000	\$000	\$000	\$000	\$000
Parent and Consolidated						
Assets						
Cash and cash equivalents	33,460	44,309	93,615	75,334	65,906	825
Short term deposits	31,500	27,000	5,300	10,300	-	65,133
Investment securities	8,025	7,918	17,131	8,166	4,876	4,824
Loans and advances	450,499	445,262	417,424	449,071	270,616	270,405
Intangibles	9,824	9,897	10,122	13,479	530	443
Other assets	5,950	6,459	6,058	5,377	7,347	7,440
Total Assets	539,258	540,845	549,650	561,727	349,275	349,070
Liabilities						
Deposits and interest accruals	484,675	486,262	493,151	506,156	319,952	319,952
Preference Shares	-	-	-	-	3,000	-
Other liabilities	3,292	3,031	7,905	2,081	1,403	1,357
Total Liabilities	487,967	489,293	501,056	508,237	324,355	321,309
Net Assets	51,291	51,552	48,594	53,490	24,920	27,761
Equity						
Share capital	44,288	44,288	43,752	42,577	14,401	17,401
Reserves	7,003	7,264	4,842	10,913	10,519	10,360
Total Equity	51,291	51,552	48,594	53,490	24,920	27,761
Statements Of Cash Flows						
	Unaudited	Audited	Audited	Audited	Audited	Audited
	3 months to	12 months to	12 months to	12 months to	12 months to	12 months to
	30 June	31 March	31 March	31 March	31 March	31 March
	2010	2010	2009	2008	2007	2007
	\$000	\$000	\$000	\$000	\$000	\$000
Parent and Consolidated						
Net cash flows from/(used in) operating activities	(6,263)	(37,754)	24,697	(6,936)	(1,602)	2,653
Net cash flows from/(used in) Investing activities	(4,586)	(12,088)	(5,476)	4,639	(328)	(9,883)
Net cash flows from/(used in) financing activities	-	536	(940)	11,724	8,225	7,985
Net increase/(decrease) in cash held	(10,849)	(49,306)	18,281	9,427	6,295	755
Add opening cash brought forward:						
Cash on hand and at bank	44,309	93,615	75,334	65,907	59,611	70
Closing cash carried forward	33,460	44,309	93,615	75,334	65,906	825
Comprising:						
Cash on hand and at bank	33,460	44,309	93,615	75,334	65,906	825
Date of Authorisation of Financial Statements						
Authorised for issue by the Board	30-Sep-2010	11-Jun-2010	12-Jun-2009	27-Jun-2008	14-Jun-2007	14-Jun-2007

CBS Canterbury: Notes to Summary Financial Statements

At the date these Summary Financial Statements were prepared, CBS Canterbury was a profit-oriented building society registered in New Zealand under the Building Societies Act. For the purpose of these Financial Statements, CBS Canterbury consists of Canterbury Building Society and its subsidiary, Loan Properties Limited. Loan Properties Limited was acquired on 1 February 2008, through the business combination with Loan and Building Society, and was subsequently struck off on 3 March 2009. For the 2007 financial year the parent and group financial statements are the same due to no group existing at these reporting dates.

The summary financial statements of CBS Canterbury have been prepared on the following basis:

- The values presented in the summary financial statements were extracted from the unaudited financial statements of CBS Canterbury for the three months ending 30 June 2010 and from the full audited financial statements of CBS Canterbury for the financial years ending 31 March 2010, 2009, 2008 and 2007.
 - The full financial statements for the three months ended 30 June 2010 and the financial years ended 31 March 2010, 2009, 2008 and 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. The full financial statements for the financial years ended 31 March 2010, 2009, 2008 and 2007 included an explicit and unreserved statement of compliance with IFRS. The full financial statements for the financial year ended 31 March 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Financial Reporting Standards (NZ FRS) applicable prior to the implementation of NZ IFRS ("previous NZ GAAP").
 - The full financial statements for the financial years ending 31 March 2010, 2009, 2008 and 2007 presented in the summary financial statements have been audited. None of these audit reports contain qualified opinions or any explanatory paragraphs highlighting matters regarded as relevant to proper understanding of the basis of the opinions given. These financial statements may be obtained from the Heartland registered office, or downloaded from the public register for building societies maintained by the Companies Office at www.business.govt.nz/companies.
 - The accounting policies that have been applied in preparing the unaudited financial statements for the three months ended 30 June 2010 and the full financial statements for the year ended 31 March 2010 are consistent with the accounting policies applied in the previous year.
 - The summary financial statements cannot be expected to provide a complete understanding as provided by the full financial statements from which they are extracted.
 - The summary financial statements comply with the Financial Reporting Standard 43 "Summary Financial Statements" as required by the Securities Regulations.
 - The summary financial statements reflect the current presentation requirements of FRS 43 Summary Financial Statements (as amended by the consequential amendments of NZ IAS 1 Presentation of Financial Statements (revised 2007)) for all periods presented, including the presentation of other comprehensive income and total comprehensive income.
 - The summary financial statements are presented in New Zealand dollars which was the functional currency of CBS Canterbury at the date of preparing the summary financial statements. Unless otherwise indicated, amounts are rounded to the nearest thousand.
- On 1 April 2006 the assets, liabilities and engagements of SMC Building Society were transferred to CBS Canterbury at fair value, including goodwill of \$0.5 million.
- On 16 August 2007 a non-renounceable issue to both ordinary and preference shareholders was made in the ratio of 1 for 10 at an issue price of \$4.50 per new ordinary share. The offer resulted in CBS Canterbury allotting 801,578 new ordinary shares fully paid.
- Also on 16 August 2007 CBS Canterbury redeemed the 3,000,000 preference shares that were on issue. Shareholders received an aggregate redemption amount of \$1.37 comprising a redemption dividend of 37 cents per share together with the \$1.00 originally subscribed per share. In accordance with NZ IFRS accounting requirements, these dividends are accounted for as a finance charge through the Statements of Comprehensive Income.
- On 30 November 2007 an interim dividend of 8 cents per share (fully imputed) was paid on the ordinary shares on issue.
- On 1 February 2008 the assets, liabilities and engagements of Loan and Building Society were transferred to CBS Canterbury at fair value as a business combination, including goodwill of \$13.2 million.
- On 25 July 2008 an interim dividend of 8 cents per share (fully imputed) was paid on the ordinary shares on issue.
- On 19 December 2008 a bonus issue of shares, in lieu of an interim dividend, equivalent to 10 cents per share (fully imputed) was paid on the ordinary shares on issue.
- The summary financial statements were authorised for issue by the directors of CBS Canterbury on 30 September 2010.

6.0 FINANCIAL INFORMATION continued

Audit report



Independent Auditor's Report

To the readers of the Prospectus No. 3 of Heartland Building Society

As auditor of Heartland Building Society ("the Society") and the group, comprising the Society and its subsidiaries ("the Group"), we have prepared this report pursuant to clause 22 of Schedule 2 of the Securities Regulations 2009 for inclusion in the prospectus dated 27 September 2011.

Report on the Society and Group financial statements

We have audited the financial statements of the Society and the Group, comprising the Society and its subsidiaries, for the year ending 30 June 2011. We expressed an unmodified audit opinion on those financial statements in our report dated 19 August 2011.

Report on the summary financial statements of Heartland Building Society, Canterbury Building Society, Southern Cross Building Society, MARAC Finance Limited and PGG Wrightson Finance Limited

The summary financial statements on pages 24 to 39 are derived from the audited financial statements of Heartland Building Society, Canterbury Building Society, Southern Cross Building Society, MARAC Finance Limited and PGG Wrightson Finance Limited for the years ended as follows:

Entity	Reporting Dates	Pages
Heartland Building Society	30 June 2011	25 to 27
<i>Acquired businesses and subsidiary</i>		
PGG Wrightson Finance Limited	30 June 2011 30 June 2010 30 June 2009 30 June 2008 30 June 2007	28 to 30
MARAC Finance Limited	30 June 2010 30 June 2009 30 June 2008 30 June 2007	31 to 33
Southern Cross Building Society	30 June 2010 30 June 2009 30 June 2008 30 June 2007	34 to 36
Canterbury Building Society	31 March 2010 31 March 2009 31 March 2008 31 March 2007	37 to 39



The summary financial statements do not reflect the effects of events that occurred subsequent to the date of the report on those financial statements.

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Heartland Building Society, Canterbury Building Society, Southern Cross Building Society, MARAC Finance Limited and PGG Wrightson Finance Limited.

Directors' responsibility for the summary financial statements of Heartland Building Society, Canterbury Building Society, Southern Cross Building Society, MARAC Finance Limited and PGG Wrightson Finance Limited

The Directors are responsible for preparing a summary of the audited financial statements as detailed in the table above, in accordance with clause 8, 9(2) and 9(3) of Schedule 2 of the Securities Regulations 2009.

Auditor's responsibility for the summary financial statements of Heartland Building Society, Canterbury Building Society, Southern Cross Building Society, MARAC Finance Limited and PGG Wrightson Finance Limited

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted to confirm that the amounts set out in the historical summaries of financial statements on pages 24 to 39 pursuant to clauses 8, 9(2) and 9(3) of the Securities Regulations 2009 Schedule 2, have been correctly taken from the audited financial statements, as detailed in the table above.

Opinion on the summary financial statements of Heartland Building Society, Canterbury Building Society, Southern Cross Building Society, MARAC Finance Limited and PGG Wrightson Finance Limited

In our opinion, the amounts set out in the summary financial statements on pages 24 to 39 of this prospectus, derived from the audited financial statements, as detailed above, as required by clauses 8, 9(2) and 9(3) of Schedule 2 of the Securities Regulations 2009, have been correctly taken from the audited financial statements detailed in the table above.

Report on the ranking of securities

Directors' responsibility for the ranking of securities

The Directors are responsible for the preparation and presentation of the details and amounts in respect of the ranking of securities of the Society and the Group as at 30 June 2011, in accordance with clause 13 of Schedule 2 of the Securities Regulations 2009.

Auditor's responsibility for the ranking of securities

Our responsibility is to express an opinion on whether the amounts set out in the ranking of securities have been correctly taken from the audited financial statements of the Society and the Group as at 30 June 2011.

6.0 FINANCIAL INFORMATION continued

Audit report continued



Opinion on the ranking of securities

In our opinion, the amounts set out in the ranking of securities on page 47 of this prospectus, have been correctly taken from the audited financial statements of Heartland Building Society and the Group as at 30 June 2011.

Report on other legal and regulatory requirements

In accordance with the requirements of clauses 22(d) and 22(e) of Schedule 2 of the Securities Regulations 2009, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Heartland Building Society and the Group as far as appears from our examination of those records.

Other matters

Responsibility for updating

We have no responsibility to update our opinion on any of the matters above for events and circumstances occurring after the date of this report.

Restriction on use

This report has been prepared for inclusion in the prospectus for the purpose of meeting the requirements of clause 22 of Schedule 2 of the Securities Regulations 2009. We disclaim any assumption of responsibility for reliance on this report or the amounts included in the summary financial statements, or the ranking of securities for any purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the prospectus not specifically mentioned in this report.

Auditor's consent

In accordance with regulation 18(1)(c)(ii) of the Securities Regulations 2009, we hereby give our consent to the inclusion of this report in the prospectus in the form in which it appears. We also confirm that we have not, before delivery of this prospectus, withdrawn our consent to the issue thereof.

KPMG

27 September 2011

Auckland

7.0 STATUTORY INFORMATION

This section contains information required by Schedule 2 of the Securities Regulations that is not set out elsewhere in this Prospectus.

Main terms of the Offer

The issuer of the Deposits is Heartland Building Society. Heartland's registered office is 75 Riccarton Road, Riccarton, Christchurch 8011.

The Deposits are direct, unsecured, unsubordinated debt obligations of Heartland ranking equally with all other debt securities issued by Heartland under the Trust Deed, as well as Heartland's bank funding. The Deposits are issued subject to the terms and conditions contained in the Trust Deed. Further information in relation to the Deposits is set out in Section 3 of this Prospectus.

The maximum amount of Deposits being offered is \$4.0 billion (excluding any amount that may result from the replacement of Deposits redeemed after the date of this Prospectus).

The Deposits will be issued at face value, being \$1.00 for each \$1.00 of Deposits.

Details of incorporation of Heartland

Heartland was established in New Zealand on 22 October 2010 under the Building Societies Act. Heartland's registration number is 2541477. Heartland's registered office is set out in the Directory.

The public file relating to the incorporation of Heartland is kept by the Companies Office and can be accessed on the Companies Office website at www.business.govt.nz/companies.

Guarantors

As at the most recent update to this Prospectus, MARAC, VPS Properties, VPS Parnell and PWF which are subsidiaries of Heartland are guarantors of the Deposits pursuant to the Trust Deed. The guarantees are unsecured. Further information in respect of the guarantees given by MARAC, VPS Properties, VPS Parnell and PWF is set out in the Summary of the Trust Deed section of this Prospectus.

Names, addresses, and other information

Directors

The Directors of Heartland (as issuer) as at the most recent update to this Prospectus are: Bruce Robertson Irvine (Christchurch, New Zealand), Jeffrey Kenneth Greenslade (Auckland, New Zealand), Edward John Harvey (Auckland, New Zealand), Graham Russell Kennedy (Ashburton, New Zealand), Gary Richard Leech (Ashburton, New Zealand), Christopher Robert Mace (Auckland, New Zealand), Geoffrey Thomas Ricketts (Auckland, New Zealand) and Michelle Anne Smith (Christchurch, New Zealand).

Each of the Directors named above can be contacted at the registered office of Heartland set out in the Directory.

As at the date of this Prospectus, except for the Director named below, none of the Directors named above are employees of Heartland, or of an associated person of Heartland.

Jeffrey Greenslade is the CEO and Managing Director of Heartland and Heartland New Zealand.

Secretary

The Secretary of Heartland is Anna-Lisa Strain. The Secretary can be contacted at the registered office of Heartland set out in the Directory.

Registrar

Heartland is the registrar for all Deposits. The registered address of Heartland is set out in the Directory.

Auditor

The Auditor of Heartland is KPMG. The registered address of the Auditor is set out in the Directory.

Advisors

The name and address of the solicitors and other professional advisors who have been involved in the preparation of this Prospectus are set out in the Directory.

Trustee

The Trustee of Heartland is Trustees Executors Limited. The registered address of the Trustee is set out in the Directory.

Restrictions on Directors' powers

The Rules provide that the Board of Heartland may only declare and make distributions to shareholders if it is satisfied on reasonable grounds that (a) such money is not immediately necessary for the performance of the functions of Heartland described in the Rules (including to meet the application or withdrawal of funds by depositors), (b) Heartland will hold and will continue to hold sufficient assets and funds to perform those functions and (c) Heartland will be and will continue to be solvent immediately after making such distributions.

The Building Societies Act contains provisions that could have the effect, in certain circumstances, of imposing restrictions on the powers of the Board. For example, a building society must have one or more of the specified functions set out in the Building Societies Act. These provisions apply to any building society under the Building Societies Act.

Description of activities

Set out below is a description of the principal activities of Heartland and the Guaranteeing Subsidiaries.

Heartland is the principal operating subsidiary of Heartland New Zealand, and commenced business as a financial services provider in January 2011, on completion of the Merger. Since it commenced business, Heartland's principal activities have been its lending and other financial services activities, and its fundraising activities.

MARAC became a wholly owned subsidiary of Heartland under the Merger. MARAC and its predecessors have serviced the consumer and small-to-medium business market for approximately 60 years, with its principal activities involving the provision of consumer and commercial lending across a broad range of sectors and providing a select range of insurance products.

7.0 STATUTORY INFORMATION continued

VPS Properties and VPS Parnell are both wholly owned subsidiaries of Heartland. These entities each currently own one or more properties that were originally mortgaged to MARAC to secure financial indebtedness owed to MARAC. MARAC has funded the acquisition by VPS Properties and VPS Parnell of these properties and holds a registered first mortgage over the properties.

PWF became a wholly owned subsidiary of Heartland on 31 August 2011. Prior to this date, the principal activities of PWF had been to raise funds from the public, banks and other entities and on-lend those funds to borrowers in the rural sector of New Zealand. Today, PWF continues to offer financial services to the rural sector of New Zealand.

Principal assets

The principal assets of the Heartland Group used in undertaking the Heartland Group's principal activities are:

- cash and cash equivalents (held for liquidity purposes, and to the extent not required for that purpose used to make loans and finance available to borrowers);
- finance receivables, securitised finance receivables, operating leases, and trade and other receivables (used to make loans and finance available to borrowers); and
- investment properties (held to earn rental income and/or for capital appreciation).

The assets referred to above are owned or held under lease by the Heartland Group and are subject to obligations in favour of other persons that modify or restrict the ability of the Heartland Group to deal with the assets. These obligations include the arrangements with Heartland's Trustee and Depositors and the arrangements with the Heartland Group's financiers described below under the heading "Material contracts". In addition, Heartland Group consolidates two securitisation trusts - Heartland (formerly MARAC) ABCP Trust¹ and CBS Warehouse A Trust (Trusts). The assets securitised into the Trusts continue to be recognised in Heartland's financial statements; however, those assets are set aside for the benefit of the investors in the Trusts and are not available to repay holders of debt securities issued by Heartland.

Acquisition of business or subsidiary

On 5 January 2011, pursuant to the Merger, Heartland acquired the businesses of CBS Canterbury and Southern Cross (by taking a transfer of engagements from each of CBS Canterbury and Southern Cross under the Building Societies Act) and all of the shares in MARAC.

Prior to the Merger, each of MARAC, CBS Canterbury and Southern Cross provided financial services involving making loans or otherwise providing financial services, and taking investments.

The summary financial statements and reference to the latest audited financial statements of CBS Canterbury, Southern Cross and MARAC are set out in the Financial Information section of this Prospectus.

In addition, on 31 August 2011, Heartland acquired all of the shares in PWF.

The consideration paid for the shares in PWF was an amount equal to the net tangible assets of PWF adjusted to take account of certain agreed items. Heartland also agreed to assume all of PWF's obligations in relation to the PWF deposits.

Details of the business carried on by PWF are set out earlier on this page of this Prospectus. The summary financial statements and reference to the latest audited financial statements of PWF are set out in the Financial Information section of this Prospectus.

Material contracts

The following material contracts have been entered into in the two years preceding the date of registration of this Prospectus by Heartland and/or the Guaranteeing Subsidiaries.

Contracts with ongoing day to day application

Crown Deed of Guarantee (Building Society)

Heartland and Her Majesty the Queen in right of New Zealand are party to a Crown Deed of Guarantee (Building Society) dated 15 December 2010 (as amended and restated by a Deed of Amendment and Restatement of Crown Deed of Guarantee (Building Society) dated 30 August 2011). The guarantee given under this Crown Deed of Guarantee expired on 31 December 2011.

Deed of Indemnity and Postponement

Heartland New Zealand, MARAC, Heartland and certain other group companies (being any subsidiary or holding company of Heartland New Zealand and/or Heartland) entered into a Deed of Indemnity and Postponement with Her Majesty the Queen in right of New Zealand on 14 December 2010, under which (among other things) MARAC indemnifies the Crown for amounts paid by the Crown pursuant to the Heartland Crown Guarantee. VPS Properties and VPS Parnell joined into this Deed of Indemnity and Postponement as indemnifiers by deeds of accession dated 21 March 2011. PWF joined into this Deed of indemnity and Postponement as an indemnifier by a deed of accession dated 30 August 2011.

Standby Cash Advances Facility Agreement

Heartland and MARAC entered into a Standby Cash Advances Facility Agreement with Bank of New Zealand and Westpac New Zealand Limited dated 15 December 2010 (as amended and restated on 7 February 2012), for facilities of up to \$200 million, the purpose of which is to provide liquidity support and funding for the Heartland Group. VPS Properties and VPS Parnell have joined into this Standby Cash Advances Facility Agreement as guarantors by guarantor accession deeds dated 21 March 2011. PWF has joined into this Standby Cash Advances Facility Agreement as a guarantor by a guarantor accession deed dated 31 August 2011.

All Obligations Cross Guarantee and Indemnity Deed Poll

MARAC and Heartland entered into an All Obligations Cross Guarantee and Indemnity Deed Poll dated 15 December 2010, under which each of MARAC and Heartland guarantee each other's obligations to Bank of New Zealand and Westpac Banking Corporation. VPS Properties and VPS Parnell have joined into this All Obligations Cross Guarantee and Indemnity Deed Poll as guarantors by supplemental deeds dated 21 March 2011. PWF has joined into this All Obligations Cross Guarantee and Indemnity Deed Poll as a guarantor by a supplemental deed dated 31 August 2011.

Master Trust Deed

Heartland entered into a Master Trust Deed dated 29 October 2010 with the Trustee, relating to the ongoing issue of unsecured debt instruments by Heartland (and for the benefit of the holders of those debt instruments). MARAC has joined into this Master Trust Deed as a guarantor by a supplemental trust deed dated 14 December 2010. VPS Properties and VPS Parnell have joined into this Master Trust Deed as guarantors by supplemental trust deeds dated 24 March 2011. PWF has joined into this Master Trust Deed as a guarantor by a supplemental trust deed dated 31 August 2011.

Supplemental Trust Deed (Accounts)

Heartland entered into a Supplemental Trust Deed (Accounts) dated 29 October 2010 with the Trustee which is supplemental to the Master Trust Deed and governs the terms of the Deposits issued by Heartland.

Supplemental Trust Deed (Bonds)

Heartland entered into a Supplemental Trust Deed (Bonds) dated 29 October 2010 with the Trustee which is supplemental to the Master Trust Deed and governs the terms of the NZDX quoted bonds originally issued by MARAC, liability for which was assumed by Heartland as part of its acquisition of MARAC.

Supplemental Trust Deed (PWF Bonds)

Heartland entered into a Supplemental Trust Deed (PWF Bonds) dated 11 July 2011 with the Trustee which is supplemental to the Master Trust Deed and governs the terms of the PWF Bonds. The PWF Bonds have now been fully repaid.

RECL Management Agreement

MARAC and RECL (which as at the most recent update to this Prospectus is a wholly owned subsidiary of PGC) are parties to a Management Agreement dated 5 January 2011 as subsequently amended (RECL Management Agreement), by which RECL agreed to manage certain non-core real estate loan assets of MARAC for a 5 year period, and assume the risk of loss on those loans for that period (with any payment by RECL to MARAC in respect of that loss at the end of that period, subject to limited rights on the part of MARAC to earlier payment). As at 31 December 2011, the net book value of loans subject to the RECL Management Agreement was approximately

\$150 million. The maximum amount payable by RECL in respect of loss (including interest accruing on loss payments until the due date for payment) is limited to \$30 million. RECL's payment obligations are "limited in recourse" to a pool of security provided by RECL. This pool of security includes an \$11 million 5 year zero coupon bond, and other qualifying assets with a minimum security value of (initially) \$19 million (reduced to \$17.5 million as at 31 December 2011 on account of claims of \$1.5 million already paid).

Service Amount Security Agreement

MARAC and RECL are parties to a Service Amount Security Agreement dated 5 January 2011 (in connection with the RECL Management Agreement). Under this agreement RECL grants to MARAC security over its assets to secure its obligations under the RECL Management Agreement.

Support Provider Undertaking

MARAC and PGC are parties to a Support Provider Undertaking dated 5 January 2011 (in connection with the RECL Management Agreement). Under this agreement PGC undertakes to procure that RECL complies with its obligations to ensure that the security value of other qualifying assets subject to a first priority security interest under the Service Amount Security Agreement is not less than the required minimum amount.

Transitional Services Agreement (PGW)

PGW and Heartland entered into a Transitional Services Agreement dated 31 August 2011 relating to the provision of services by each of Heartland and PGW to the other of them, following completion of the sale of all of the ordinary shares in PWF from PGW to Heartland.

Deed of Guarantee and Indemnity (PGW)

PGW and Heartland entered into a Deed of Guarantee and indemnity dated 31 August 2011 which relates to PGW providing a guarantee and indemnity to Heartland in respect of certain existing credit facilities provided by PWF.

Distribution and Services Agreement (PGW)

PGW and Heartland entered into a Distribution and Service Agreement dated 31 August 2011. This agreement relates to PGW distributing to its customers certain Heartland products and services.

Other contracts (including contracts fully performed)

Merger Implementation Agreement

CBS Canterbury, Southern Cross, PGC, MARAC and MARAC Financial Services Limited entered into a Merger Implementation Agreement dated 15 September 2010, pursuant to which the parties conditionally agreed to implement the Merger.

Deed of Defeasance (MARAC)

Heartland entered into a Deed of Defeasance with MARAC, The New Zealand Guardian Trust Company Limited and the Trustee dated 14 December 2010, which sets out the terms

7.0 STATUTORY INFORMATION *continued*

on which Heartland assumed liability for the stock issued by MARAC under its then existing Debenture Trust Deed.

Deed of Defeasance (CBS Canterbury)

Heartland entered into a Deed of Defeasance with CBS Canterbury and the Trustee dated 14 December 2010, which sets out the terms on which Heartland assumed liability for the deposits of CBS Canterbury outstanding under its then existing Debt Security Trust Deed.

Deed of Defeasance (Southern Cross)

Heartland entered into a Deed of Defeasance with Southern Cross and the Trustee dated 14 December 2010, which sets out the terms on which Heartland assumed liability for the deposits of Southern Cross outstanding under its then existing Debt Security Trust Deed.

Crown Deed of Guarantee

PWF and Her Majesty the Queen in right of New Zealand entered into a Crown Deed of Guarantee (Non-Bank Deposit Taker) dated 8 December 2009. The guarantee given under this Crown Deed of Guarantee expired at 12.01am on 12 October 2010.

Extended Crown Deed of Guarantee

PWF and Her Majesty the Queen in right of New Zealand entered into an Extended Crown Deed of Guarantee (Non-Bank Deposit Taker) dated 1 April 2010. The guarantee given under this Extended Crown Deed of Guarantee expires at 11.59pm on 31 December 2011.

Supplemental Deed to Crown Deed of Guarantee

PWF and Her Majesty the Queen in right of New Zealand entered into a Supplemental Deed to the Extended Crown Bank Guarantee (Non-Bank Deposit Taker) dated 17 June 2010. This deed amended the Extended Crown Deed of Guarantee above so as to clarify the status of excluded securities issued in accordance with the terms of the previous Crown guarantee.

Deed of Variation to PWF Bond Trust Deed

PWF entered into a Deed of Variation of PWF Bonds trust deed dated 7 July 2010 with New Zealand Permanent Trustees Limited (as trustee of the PWF Bonds). This deed clarified the status of overseas bondholders with reference to the PWF's Bonds.

Second Deed of Variation to PWF Bond Trust Deed

PWF entered into a Second Deed of Variation of PWF Bond trust deed dated 12 August 2010 with New Zealand Permanent Trustees Limited (as trustee of the PWF Bonds). This deed varied the conditions of the PWF's Bonds, so as to permit PWF to exercise its term extension option notwithstanding the variation of the Crown retail deposit guarantee scheme. This variation was authorised by an extraordinary resolution of the relevant bondholders.

Third Deed of Variation of PWF Bond Trust Deed

PWF and New Zealand Permanent Trustees Limited (as trustee of the PWF Bonds) entered into a Third Deed of Variation of PWF Bond trust deed dated 1 December

2010. This deed varied the PWF Bond trust deed, so as to meet the requirements of the NBDT regime, including the Deposit Takers Regulations, which came into force on 1 December 2010.

Fourth Deed of Variation of PWF Bond Trust Deed

PWF and New Zealand Permanent Trustees Limited (as trustee of the PWF Bonds) entered into a Fourth Deed of Variation of PWF Bond trust deed dated 9 February 2011. This deed varied the PWF Bond trust deed, so as to amend the definition of Treasury Stock.

Fifth Deed of Variation of PWF Bond Trust Deed

PWF and New Zealand Permanent Trustees Limited (as trustee of the PWF Bonds) entered into a Fifth Deed of Variation of PWF Bond trust deed dated 15 August 2011. This deed varied the PWF Bond trust deed, so as to effect certain amendments as a consequence of an extraordinary resolution of bondholders.

Second Deed of Modification of PWF Debenture Trust Deed

PWF and New Zealand Permanent Trustees Limited entered into a Second Deed of Modification of trust deed dated 1 December 2010. This deed varied the PWF Debenture Trust Deed, so as to meet the requirements of the NBDT regime, including the Deposit Takers Regulations, which came into force on 1 December 2010.

Third Deed of Modification of PWF Debenture Trust Deed

PWF and New Zealand Permanent Trustees Limited entered into a Third Deed of Modification of trust deed dated 15 August 2011. This deed varied the PWF Debenture Trust Deed, so as to effect certain amendments as a consequence of an extraordinary resolution of bondholders.

Agreement relating to Sale and Purchase of Shares in PWF

PGW and Heartland New Zealand entered into an agreement dated as of 13 June 2011 for the sale and purchase of all of the ordinary shares in PWF from PGW to Heartland New Zealand. Heartland acceded to this agreement as purchaser of the PWF shares by a deed of accession dated 30 August 2011. The sale was completed on 31 August 2011.

Agreement for Sale and Purchase of Loans No. 1

PWF, PGW Rural Capital Limited and PGW entered into an Agreement for Sale and Purchase of Loans No. 1 dated 30 August 2011. This agreement was in connection with the sale of all of the ordinary shares in PWF, from PGW to Heartland, where PWF agreed to sell certain finance contracts and receivables to PGW Rural Capital Limited, a wholly owned subsidiary of PGW.

Agreement for Sale and Purchase of Loans No. 2

PWF, PGW Rural Capital Limited and PGW entered into an Agreement for Sale and Purchase of Loans No. 2 dated 31 August 2011. This agreement was in connection with the sale of all of the ordinary shares in PWF, from PGW

to Heartland, where PWF agreed to sell certain finance contracts and receivables to PGW Rural Capital Limited, a wholly owned subsidiary of PGW.

Deed of Defeasance (PWF Deposits)

PWF, New Zealand Permanent Trustees Limited, Heartland and the Trustee entered into a Deed of Defeasance dated 30 August 2011 which sets out the terms on which Heartland assumed liability for the deposits of PWF outstanding under its then existing debt security trust deed.

Deed of Defeasance (PWF Bonds)

PWF, New Zealand Permanent Trustees Limited, Heartland and the Trustee entered into a Deed of Defeasance dated 30 August 2011 which sets out the terms on which Heartland assumed liability for the PWF Bonds outstanding under its then existing bond trust deed.

Pending proceedings

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

Issue expenses

The estimated expenses for the issue of the Deposits pursuant to this Prospectus are \$538,000 excluding brokerage and commission but including Trustee, legal and Auditor's fees and printing costs. Details of brokerage are set out below.

Brokerage

No brokerage or commission is payable by investors. Heartland will pay brokerage (up to 0.50% per annum) to NZX Primary Market Participants and other Heartland accredited brokers. Heartland will pay commission (up to 0.85% per annum) to accredited agents.

Brokerage will be paid to brokers on the value of applications lodged by them. Brokerage will also be paid (at the rates prevailing at the time of renewal) on Deposits which are reinvested at the end of their fixed term, provided the reinvestment advice bears the broker name/stamp.

Commission will be paid to agents based on growth in the total value of applications lodged by them.

Heartland reserves the right to adjust brokerage or commission on investments which are repaid early and any other charges applicable to the Deposits.

Brokers are the agents of investors whom they advise. Brokers are accredited by Heartland solely for the purpose of lodging applications on behalf of their client investors. Accordingly, Heartland is not responsible for the advice given by such brokers. Heartland agents operate in accordance with the Financial Advisers Act 2008, under Heartland's qualifying financial entity (QFE) status.

Ranking of securities

The Deposits offered under this Prospectus are debt securities which constitute direct, unsecured, unsubordinated debt obligations of Heartland and the Guaranteeing Subsidiaries and are not secured by a mortgage or charge. The Deposits will rank equally in all

respects with all existing and future debt securities issued by Heartland pursuant to the Trust Deed and without priority or preference amongst themselves and equally with all other unsecured and unsubordinated indebtedness of Heartland, except indebtedness preferred by law.

As at 30 June 2011, the only securities of Heartland Group that are secured by a mortgage or charge over any of the assets of the Heartland Group and that rank in point of security ahead of, or equally with, the Deposits subject to the Offer were:

- the mortgages granted by VPS Properties securing \$27,168,532 and VPS Parnell securing \$7,330,000 to Heartland which rank ahead of the Deposits²². As these are an intra-group transaction they should not affect the return to investors. Any amount paid by VPS Properties and VPS Parnell under these mortgages will be paid to MARAC so will be available to repay Depositors.
- a total of \$1,593,247,000 Deposits and NZDX Bonds on issue that rank equally with the Deposits being offered under this Prospectus.

Refer to the Summary of the Trust Deed section of this Prospectus for more detail about permitted security interests which can be granted by a Heartland Group member which may rank ahead of, or equally with, the Deposits.

Other restrictions on the Heartland Group

Description of Trust Deed documents

The Deposits to be issued pursuant to the Offer will be governed by the Master Trust Deed and the Supplemental Deed (Accounts), each dated 29 October 2010 between Heartland and the Trustee.

The Supplemental Deed referred to above and the Master Trust Deed (except to the extent it is modified by that Supplemental Deed) set out the terms and conditions of the Deposits. Depositors are bound by, and are deemed to have notice of, the provisions of the Trust Deed. A summary of the terms of the Trust Deed is set out in the Summary of Trust Deed section of this Prospectus. Copies of the Trust Deed are available at the places referred to under the heading "Places of inspection of documents" below.

Limitation on mortgages, charges, liabilities

The Deposits are unsecured indebtedness of Heartland. The Trust Deed imposes a limitation on the ability of Heartland and the Heartland Group to grant security over their assets (for further details refer to the Summary of the Trust Deed section of this Prospectus). However as the Deposits are and will in the future be unsecured, the Trust Deed does not contain any limitations on the creation of new mortgages or charges ranking in point of security ahead of, or equally with, any mortgage or charge securing the Deposits.

The Trust Deed also includes a covenant from Heartland that the Capital Ratio for each of the Consolidated Group and the Guaranteeing Group will be not less than 8% (as each of those terms is defined in the Trust Deed), which is consistent with requirements of regulations applicable to NBDTs with a credit rating under the Reserve Bank Act.

²² The mortgages and the loans were transferred from Heartland to MARAC by way of a deed of assignment of loans dated 19 September 2011

7.0 STATUTORY INFORMATION continued

Duties and powers of the Trustee

The Trustee is appointed to act as trustee of the Depositors. The principal duties of the Trustee under the Trust Deed and under the Securities Act and the Securities Regulations are set out in the Summary of Trust Deed section of this Prospectus.

Borrowing restrictions

The following restrictions on the ability of any member of the Heartland Group to borrow (as a result of any undertaking given, or contract or deed entered into by any of them) will apply:

Trust Deed

There are no restrictions in the Trust Deed on the ability of Heartland or the Heartland Group to borrow funds, other than the financial covenants described in the Summary of the Trust Deed section of this Prospectus.

Standby Cash Advances Facility Agreement

As at the most recent update to this Prospectus, Heartland has a committed bank facility, to provide liquidity support for the Heartland Group. Pursuant to the Standby Cash Advances Facility Agreement entered into by Heartland and MARAC with Bank of New Zealand and Westpac New Zealand Limited:

- Heartland undertakes to comply with certain financial covenants (such as a tangible net worth covenant) which may restrict levels of borrowing; and
- Heartland undertakes not to enter into any further borrowing facility with a registered bank, without first obtaining written consent.

Investors should be aware that Heartland's banking arrangements may change in the future or Heartland may enter into new financing arrangements, which require compliance with different covenants and ratios and have different events of review and events of default. The banks may grant waivers in relation to any event of review or event of default.

Financial statements

The Heartland Group's most recent annual audited financial statements (for the year ended 30 June 2011) may be obtained from Heartland's website at www.heartland.co.nz or from the Companies Office website at www.business.govt.nz/companies. The Heartland Group's most recent annual audited financial statements (for the year ended 30 June 2011) were registered with the Companies Office on 20 September 2011.

Interim financial statements

The Heartland Group's audited financial statements for the six months ending 31 December 2011 are available on Heartland's website at www.heartland.co.nz.

Other terms of the Offer and securities

All of the terms of the Offer and all the terms of the Deposits are set out in this Prospectus, other than any

terms implied by law or any terms set out in a document that has been registered with a public official, is available for public inspection and is referred to in this Prospectus.

Places of inspection of documents

The Rules of Heartland, the financial statements referred to in the Financial Information section of this Prospectus and copies of the material contracts referred to under the heading "Material contracts" above, may be inspected (without charge) during normal business hours at the registered office of Heartland set out in the Directory.

A copy of the RECL Management Agreement may be inspected (without charge) during normal business hours at the registered office of Heartland set out in the Directory. The copy of the RECL Management Agreement delivered to the Companies Office and the copy available for inspection at Heartland's registered office shall exclude certain information in accordance with the Securities Act (Pyne Gould Corporation Limited and Building Society Holdings Limited) Exemption Notice 2011. Information has been redacted from Schedule 1 of the copy of the RECL Management Agreement delivered to the Companies Office and the copy available for inspection because it is commercially sensitive information. The excluded information is personal information relating to third parties that is included in the RECL Management Agreement for the purposes of identifying certain loan assets of MARAC which are to be managed by RECL pursuant to the RECL Management Agreement.

The Directors of Heartland warrant that the exclusion of the redacted information in Schedule 1 of the RECL Management Agreement does not make this Prospectus misleading in any material particular by a failure to refer, or give proper emphasis, to any adverse circumstances.

Other material matters

Securities Act exemptions

Securities Act (Building Societies) Exemption Notice 2002

The Financial Markets Authority (previously the Securities Commission) has extended to Heartland certain exemptions from Securities Act and Securities Regulations requirements granted to building societies under the Securities Act (Building Societies) Exemption Notice 2002. Under the Securities Act (Building Societies) Exemption Amendment Notice 2010, Heartland is included as a building society to which the exemption notice applies.

Securities Act (Pyne Gould Corporation Limited and Building Society Holdings Limited) Exemption Notice 2011

The Financial Markets Authority (previously the Securities Commission) has granted Heartland New Zealand and certain related entities (including Heartland) exemptions from section 37A(1)(a) of the Securities Act, regulation 18(1)(a) of the Securities Regulations, clause 25(c) of Schedule 1 and clause 19(c) of Schedule 2 of the Securities Regulations, and regulation 26 of the Securities Regulations. These exemptions are contained in the

Securities Act (Pyne Gould Corporation Limited and Building Society Holdings Limited) Exemption Notice 2011.

The effect of this exemption notice (to the extent relevant to this Prospectus) is that certain commercially sensitive information may be omitted from the copy of the RECL Management Agreement which is required to be delivered to the Registrar of Financial Service Providers for registration with this Prospectus (and any future prospectus registered by, among others, Heartland) and made available for inspection.

There are no other material matters relating to the Offer, other than those set out in this Prospectus, the financial statements referred to in the Financial Information section of this Prospectus or in contracts entered into in the ordinary course of business of Heartland or the Guaranteeing Subsidiaries.

Directors' statement

The Directors of Heartland, after due inquiry by them, are of the opinion that none of the following has materially and adversely changed during the period between 30 June 2011 and the date of registration of this Prospectus:

- the trading or profitability of the Borrowing Group;
- the value of the assets of the Borrowing Group; or
- the ability of any of the Borrowing Group to pay their liabilities due within the next 12 months.

Signatures required under the Securities Act

A copy of this Prospectus has been signed by each Director of Heartland (or his or her agent authorised in writing).

Directors of Heartland:



Bruce Robertson Irvine



Jeffrey Kenneth Greenslade



Edward John Harvey



Graham Russell Kennedy



Gary Richard Leech



Christopher Robert Mace



Michelle Anne Smith



Geoffrey Thomas Ricketts



Bryan William Mogridge Resigned 28 October 2011

7.0 STATUTORY INFORMATION continued

Statutory index

As required by regulation 16 of the Securities Regulations 2009

SCHEDULE 2, SECURITIES REGULATIONS 2009

Clause	Page(s)
1 Main terms of offer	11-14 and 43
2 Name and address of offeror	N/A
3 Details of incorporation of issuer	43
4 Guarantors	43
5 Names, addresses, and other information	43
6 Restrictions on Directors' powers	43
7 Description of activities of borrowing group	43-44
8 Summary financial statements	24-39
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14 (a) Provisions of trust deed	15-17
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GLOSSARY

\$, NZD or NZ\$ New Zealand dollars	Guaranteeing Subsidiaries MARAC, VPS Properties, VPS Parnell, PWF and any other subsidiary of Heartland which becomes a guarantor under the Trust Deed	NBDT Non-bank deposit taker
Auditor KPMG	Heartland Heartland Building Society (incorporation number 2541477) which is the issuer of the Deposits, established under the Building Societies Act	NZ GAAP Generally accepted accounting practice in New Zealand, as defined in the Financial Reporting Act 1993
Board The board of directors of Heartland	Heartland Group Heartland and its subsidiaries from time to time. As at 31 December 2011, these included MARAC, VPS Properties, VPS Parnell and PWF	NZ IFRS New Zealand equivalents to International Financial Reporting Standards
Borrowing Group Heartland and the Guaranteeing Subsidiaries	Heartland New Zealand Heartland New Zealand Limited, which is the ultimate holding company of Heartland	NZDX The market for debt securities, operated by NZX
Building Societies Act The Building Societies Act 1965, as amended from time to time	Investment Statement The current investment statement in respect of the Deposits	NZSX The main board equity security market, operated by NZX
CBS Canterbury Canterbury Building Society	IRD Inland Revenue Department	NZX NZX Limited
Consolidated Group Has the meaning given to it in the Trust Deed	IFRS International Financial Reporting Standards	Offer The offer of Deposits pursuant to this Prospectus
Depositor A holder of a Deposit	MARAC MARAC Finance Limited	PGC Pyne Gould Corporation Limited
Deposits Debt securities issued by Heartland under the Trust Deed to which this Prospectus relates	MARAC Group A profit oriented entity which consists of MARAC, Heartland (formerly MARAC) ABCP Trust 1 and Heartland (formerly MARAC) PIE Fund	PGW PGG Wrightson Limited
Director A member of the Board	Master Trust Deed The trust deed entered into between Heartland and the Trustee on 29 October 2010 (a summary of which is set out in this Prospectus)	Prospectus This document
Directory The directory set out in this Prospectus	Merger The merger of the financial services businesses of MARAC, CBS Canterbury and Southern Cross, which was completed on 7 January 2011	PWF PGG Wrightson Finance Limited
GAAP Generally accepted accounting practice, as defined in the Financial Reporting Act 1993		PWF Bonds NZDX quoted bonds originally issued by PWF, liability for which was assumed by Heartland as part of its acquisition of PWF. These bonds have been fully repaid
Glossary This glossary of terms		RECL Real Estate Credit Limited
Guaranteeing Group Has the meaning given to it in the Trust Deed		

GLOSSARY continued

Reserve Bank

The Reserve Bank of New Zealand constituted under the Reserve Bank Act

Reserve Bank Act

The Reserve Bank of New Zealand Act 1989, as amended from time to time

Rules

The rules of Heartland registered under the Building Societies Act, as amended from time to time

Savings Account

A Deposit, the key features of which are more particularly described in Section 3 of this Prospectus under the heading "Savings Accounts"

Securities Act

The Securities Act 1978, as amended from time to time

Securities Regulations

The Securities Regulations 2009, as amended from time to time

Southern Cross

Southern Cross Building Society

Standard & Poor's or S&P

Standard & Poor's (Australia) Pty Limited

Supplemental Trust Deed (Accounts)

The supplemental trust deed (accounts) entered into between Heartland and the Trustee on 29 October 2010, which is supplemental to the Master Trust Deed

TEL

Trustees Executors Limited

Term Account

A Deposit, the key features of which are more particularly described in Section 3 of this Prospectus under the heading "Term Accounts"

Transactional Account

A Deposit, the key features of which are more particularly described in Section 3 of this Prospectus under the heading "Transactional Accounts"

Trust Deed

The Master Trust Deed, the Supplemental Trust Deed (Accounts), the supplemental trust deeds governing bonds issued by Heartland and/or the supplemental trust deeds pursuant to which the Guaranteeing Subsidiaries become guarantors

Trustee

TEL as trustee in respect of the Deposits

VPS Parnell

VPS Parnell Limited, a subsidiary of Heartland

VPS Properties

VPS Properties Limited, a subsidiary of Heartland

SCHEDULE 1

EXPLANATION OF S&P CREDIT RATING SYSTEM

What is a credit rating?

A credit rating is a rating agency's opinion of an institution's ability to pay back in full and on time all the money they have promised an investor. In Heartland's case, this is the funds its investors have invested with it. In the case of the Deposits, this is the funds Depositors have invested with it in relation to the Deposits.

Credit ratings are based on research and analysis by a ratings agency, which takes into account the financial history and current financial position of the institution. Ratings are continuously reviewed, although most ratings are subject to annual review.

What is the scale used for credit ratings?

The S&P rating scale is shown below. The rating scale used by S&P represents the breadth of opinions about the creditworthiness of an issuer. Generally a lower credit rating indicates a higher risk that an institution will "default" and an investor will not get their money back in full and/or on time, as promised.

S&P's long term issuer rating categories, from strongest creditworthiness to most vulnerable, are outlined below.

	Grade	Description
INVESTMENT GRADE	AAA	Extremely strong: An obligor rated AAA has extremely strong capacity to meet its financial commitments. AAA is the highest issuer credit rating assigned by S&P.
	AA	Very strong: An obligor rated AA has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.
	A	Strong: An obligor rated A has strong capacity to meet its financial commitments, but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
SPECULATIVE GRADE	BBB	Adequate capacity: An obligor rated BBB has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.
	BB	Less vulnerable: An obligor rated BB is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitments.
	B	More vulnerable: An obligor rated B is more vulnerable than the obligors rated BB, but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.
	CCC	Currently vulnerable: An obligor rated CCC is currently vulnerable, and is dependent upon favourable business, financial, and economic conditions to meet its financial commitments.
	CC	Currently highly vulnerable: An obligor rated CC is currently highly vulnerable.
	D/SD	Default/Selective Default: An obligor rated D (Default) or SD (Selective Default) has failed to pay one or more of its financial obligations (rated or unrated) when it came due.

Heartland's credit rating of BBB- sits in the lowest tier of this investment grade category

Ratings between AA and CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

"Investment grade" is broadly used to describe issuers and issues with relatively high levels of creditworthiness and credit quality. In contrast, the term "noninvestment grade," or "speculative grade," generally refers to debt securities where the issuer currently has the ability to repay but faces significant uncertainties, such as adverse business or financial circumstances that could affect credit risk.

In S&P's long-term rating scale, issuers and debt issues that receive a rating of 'BBB-' or above are generally considered by regulators and market participants to be "investment grade," while those that receive a rating 'BB+' or lower are generally considered to be "speculative grade."

If S&P anticipates that a credit rating may change in the coming 6 to 24 months, it may issue an updated ratings "outlook" assessment. An outlook assessment considers the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). An outlook assessment is not necessarily a precursor of a rating change. The common rating outlook definitions are: Positive - means that a rating may be raised; Negative - means that a rating may be lowered; Stable - means that a rating is not likely to change; and Developing - means a rating may be raised or lowered.

S&P may also offer an opinion (termed a "CreditWatch") as to whether a credit rating is likely to be upgraded (positive), downgraded (negative) or uncertain (neutral). It focuses on identifiable events and short-term trends that cause ratings to be placed under special surveillance by S&P.

Additional information about Heartland's rating

Heartland's rating is a 'long term issuer' rating which reflects Heartland's creditworthiness over a time period of one year or more. The rating also assesses Heartland's capacity to repay in New Zealand dollars.

Where can I find more information?

The Reserve Bank has some useful information on credit ratings on its website www.rbnz.govt.nz.

Additional information can also be found on S&P's website www.standardandpoors.com.

Investors may also wish to engage an investment adviser for independent advice and Heartland encourages you to do so.

Two final things to note

Credit ratings are only one tool in assessing risk, and the Reserve Bank advises investors to seek more information on making wise investment decisions.

S&P's credit ratings are statements of opinion, not statements of fact or recommendations to buy, hold or sell any securities. Accordingly, any user of credit ratings should not rely on any such ratings or other opinion issued by S&P in making any investment decision. Ratings are based on information received by S&P.

DIRECTORY

Issuer

Heartland Building Society (*Heartland*)

75 Riccarton Road
Riccanton
Christchurch 8011

T 0800 85 20 20
F +64 9 927 9310

Directors of the Issuer

B R Irvine	Christchurch (Chairman)
J K Greenslade	Auckland
E J Harvey	Auckland
G R Kennedy	Ashburton
G R Leech	Ashburton
C R Mace	Auckland
G T Ricketts	Auckland
M A Smith	Christchurch

Legal advisers to the Issuer

Chapman Tripp

Level 35, ANZ Centre
23-29 Albert Street
Auckland 1140

T +64 9 357 9000
F +64 9 357 9099

Trustee for Depositors

Trustees Executors Limited

Level 5, 10 Customhouse Quay
Wellington 6011

T +64 4 495 0999
F +64 4 496 2952

Legal advisers to the Trustee

Buddle Findlay

State Insurance Tower
1 Willis Street
Wellington 6011

T +64 4 499 4242
F +64 4 499 4141

Auditor of the Issuer

KPMG

KPMG Centre
18 Viaduct Harbour Avenue
Auckland 1140

T +64 9 367 5800
F +64 9 367 5875

Tax advisers to the Issuer

Deloitte

Deloitte Centre
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Auckland 1010

T +64 9 303 0700
F +64 9 303 0701

HEARTLAND

Building Society



BUSINESS | RURAL | FAMILIES

INVESTMENTS - LENDING - WORKING CAPITAL - LIVESTOCK & SEASONAL FINANCE
HOME & VEHICLE LOANS - DAY TO DAY ACCOUNTS - INSURANCE

www.heartland.co.nz

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HEARTLAND BUILDING SOCIETY
("Society")

Certificate pursuant to section 37A(1A) of the Securities Act 1978 in respect of the Society's registered Prospectus No.3 dated 27 September 2011 (as amended on 19 January 2012) (the "Registered Prospectus").

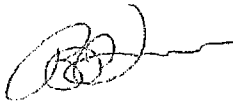
We, the undersigned Directors of the Society hereby certify that in the opinion of all Directors of the Society after due enquiry by them:

1. The financial position shown in the statement of financial position dated 30 June 2011 contained or referred to in the Registered Prospectus has not materially and adversely changed during the period from the date of that statement of financial position 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.

Accompanying this certificate are audited interim financial statements as at 31 December 2011 for the 6-month period from the date of the statement of financial position contained or referred to in the Registered Prospectus prepared in accordance with section 37A(1A)(d)(ii) of the Securities Act 1978.

DATED the 27th day of February 2012

This certificate is signed on behalf of all Directors of the Society by two Directors



Director



Director

HEARTLAND

Building Society

INTERIM FINANCIAL STATEMENTS

TO 31 DECEMBER 2011



INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2011

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DIRECTORS' RESPONSIBILITY STATEMENT

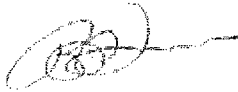
The directors are responsible for ensuring that the interim financial statements give a true and fair view of the financial position of Heartland Building Society (Parent) and its subsidiaries (Group) as at 31 December 2011 and the financial performance and cash flows for the period ended 31 December 2011.

The directors consider that the interim financial statements of the Group and the Parent have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates and that all the relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Board of Directors of Heartland Building Society authorised the financial statements set out on pages 4 to 44 for Issue on 16 February 2012.

For and on behalf of the Board



Director



Director

EXPLANATORY FOREWORD

The financial statements presented are those of Heartland Building Society (Parent) and its subsidiaries (Group).

On 5 January 2011, the Group was formed through the business combination of CBS Canterbury (CBS), Southern Cross Building Society (SCBS) and MARAC Finance Limited (MARAC). On 31 August 2011, the Group acquired PGG Wrightson Finance Limited (PWF).

From a legal perspective MARAC is a subsidiary of the Parent. Under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) MARAC was treated as the acquirer of CBS and SCBS. The effect of this is that the financial statements represent a continuation of the MARAC business.

As described in Note 1, the Group's comparative results for the period ended 31 December 2010 reflect the operations of MARAC Group, and for the year ended 30 June 2011 reflect the results of the MARAC Group from 1 July 2010 to 6 January 2011 and the results of the new Group from 7 January 2011 to 30 June 2011. The six months ended 31 December 2011 include the new Group results from 1 July 2011 onwards and the PWF result from 31 August 2011.

As described in Note 1, the financial statements represent a continuation of the MARAC business and the 31 December 2010 comparative information is that of MARAC. As such, the financial position at 31 December 2011 is not directly comparable to the financial positions at 31 December 2010 and 30 June 2011.

To assist users of the financial statements, the financial position of the Group at 5 January 2011 (following the merger of MARAC, CBS and SCBS) is set out below alongside the financial positions of the Group at 31 December 2011, 30 June 2011 and 31 December 2010 for comparative purposes. For further detail of the 5 January 2011 financial position, refer to the Heartland Building Society 5 January 2011 interim financial statements available at www.heartland.co.nz or from the Heartland Building Society registered office.

	GROUP			
	31 Dec 2011	30 Jun 2011	5 Jan 2011	31 Dec 2010
	\$000	\$000	\$000	\$000
Assets				
Cash and cash equivalents	118,564	267,034	285,675	78,549
Investments	24,309	17,831	21,540	-
Due from related parties	272	200	27,525	27,525
Investment properties	58,083	34,499	2,182	2,182
Finance receivables	2,075,211	1,707,311	1,756,895	1,087,206
Operating lease vehicles	35,333	32,727	38,005	38,005
Other assets	42,732	34,281	29,229	17,153
Intangible assets	21,981	21,602	21,729	1,433
Total assets	2,376,485	2,115,485	2,182,780	1,252,053
Liabilities				
Borrowings	1,985,551	1,787,524	1,845,991	1,004,656
Trade and other payables	34,403	34,120	45,164	35,346
Total liabilities	2,019,954	1,821,644	1,891,155	1,040,002
Equity				
Share capital	189,774	134,774	134,574	55,000
Retained earnings and reserves	166,757	159,067	157,051	157,051
Total equity	356,531	293,841	291,625	212,051
Total equity and liabilities	2,376,485	2,115,485	2,182,780	1,252,053

INTERIM STATEMENTS OF COMPREHENSIVE INCOME

For the six months ended 31 December 2011

	NOTE	GROUP			PARENT	
		6 mths to Dec 2011 \$000	6 mths to Dec 2010 \$000	12 mths to Jun 2011 \$000	6 mths to Dec 2011 \$000	12 mths to Jun 2011 \$000
Interest income	5	101,769	67,820	161,297	27,051	30,895
Interest expense	5	62,647	40,488	99,705	57,948	54,738
Net interest income / (expense)		39,122	27,332	61,592	(30,897)	(23,843)
Operating lease income	6	7,463	9,225	18,073	-	-
Operating lease expenses	6	4,803	5,755	11,130	-	-
Net operating lease income		2,660	3,470	6,943	-	-
Lending and credit fee income		958	541	1,327	295	370
Dividends received		-	-	-	55,708	-
Other income		2,257	39	718	144	179
Net operating income / (loss)		44,997	31,382	70,580	25,250	(23,294)
Selling and administration expenses	7	34,919	17,401	44,826	15,318	9,934
Profit / (loss) before impaired asset expense and income tax		10,078	13,981	25,754	9,932	(33,228)
Impaired asset expense	29(a)(ii)	3,788	6,094	13,298	1,398	2,074
Profit / (loss) before income tax		6,290	7,887	12,456	8,534	(35,302)
Income tax (benefit) / expense	8	(3,932)	2,764	4,712	(18,776)	(10,285)
Profit / (loss) for the period		10,222	5,123	7,744	27,310	(25,017)
Other comprehensive income						
Cash flow hedges:						
Effective portion of changes in fair value, before income tax		(826)	657	851	(124)	-
Reserves:						
Net change in available for sale reserve, before income tax		(145)	-	159	(145)	159
Net change in defined benefit reserve, before income tax		(328)	-	20	(328)	20
Income tax benefit / (expense) on other comprehensive income		364	(197)	(309)	167	(54)
Other comprehensive (loss) / income for the period, net of income tax		(935)	460	721	(430)	125
Total comprehensive income / (loss) for the period		9,287	5,583	8,465	26,880	(24,892)

All comprehensive income for the period is attributable to owners of the Group.

The notes on pages 9 to 44 are an integral part of these financial statements.

INTERIM STATEMENTS OF CHANGES IN EQUITY

For the six months ended 31 December 2011

	NOTE	Share Capital \$000	Available for sale Reserve \$000	Defined benefit Reserve \$000	Hedging Reserve \$000	Retained Earnings \$000	Total Equity \$000
Dec 2011 - GROUP							
Balance at 1 July 2011		134,774	111	14	(1,388)	160,330	293,841
Total comprehensive income for the period							
Profit for the period		-	-	-	-	10,222	10,222
Total other comprehensive income		-	(104)	(236)	(595)	-	(935)
Total comprehensive income for the period		-	(104)	(236)	(595)	10,222	9,287
Contributions by and distributions to owners							
Issue of share capital	24	55,000	-	-	-	-	55,000
Dividends to equity holders		-	-	-	-	(1,597)	(1,597)
Total transactions with owners		55,000	-	-	-	(1,597)	53,403
Balance at 31 December 2011		189,774	7	(222)	(1,983)	168,955	356,531
Dec 2010 - GROUP							
Balance at 1 July 2010		55,000	-	-	(1,984)	163,452	206,468
Total comprehensive income for the period							
Profit for the period		-	-	-	-	5,123	5,123
Total other comprehensive income		-	-	-	460	-	460
Total comprehensive income for the period		-	-	-	460	5,123	5,583
Balance at 31 December 2010		55,000	-	-	(1,524)	168,575	212,051
Jun 2011 - GROUP							
Balance at 1 July 2010		55,000	-	-	(1,984)	163,452	206,468
Total comprehensive income for the year							
Profit for the year		-	-	-	-	7,744	7,744
Total other comprehensive income		-	111	14	596	-	721
Total comprehensive income for the year		-	111	14	596	7,744	8,485
Contributions by and distributions to owners							
Issue of share capital		79,774	-	-	-	-	79,774
Dividends to equity holders		-	-	-	-	(866)	(866)
Total transactions with owners		79,774	-	-	-	(866)	78,908
Balance at 30 June 2011		134,774	111	14	(1,388)	160,330	293,841

The notes on pages 9 to 44 are an integral part of these financial statements.

The comparative results for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

INTERIM STATEMENTS OF CHANGES IN EQUITY

For the six months ended 31 December 2011

	NOTE	Share Capital \$000	Available for sale Reserve \$000	Defined benefit Reserve \$000	Hedging Reserve \$000	Retained Earnings \$000	Total Equity \$000
Dec 2011 - PARENT							
Balance at 1 July 2011		284,043	111	14	-	(25,883)	258,285
Total comprehensive income for the period							
Profit for the period		-	-	-	-	27,310	27,310
Total other comprehensive income		-	(104)	(236)	(90)	-	(430)
Total comprehensive income for the period		-	(104)	(236)	(90)	27,310	26,880
Contributions by and distributions to owners							
Issue of share capital	24	55,000	-	-	-	-	55,000
Dividends to equity holders		-	-	-	-	(1,597)	(1,597)
Total transactions with owners		55,000	-	-	-	(1,597)	53,403
Balance at 31 December 2011		339,043	7	(222)	(90)	(170)	338,568
Jun 2011 - PARENT							
Balance at 1 July 2010		-	-	-	-	-	-
Total comprehensive income for the year							
Loss for the year		-	-	-	-	(25,017)	(25,017)
Total other comprehensive income		-	111	14	-	-	125
Total comprehensive income for the year		-	111	14	-	(25,017)	(24,892)
Contributions by and distributions to owners							
Issue of share capital	24	284,043	-	-	-	-	284,043
Dividends to equity holders		-	-	-	-	(866)	(866)
Total transactions with owners		284,043	-	-	-	(866)	283,177
Balance at 30 June 2011		284,043	111	14	-	(25,883)	258,285

The notes on pages 9 to 44 are an integral part of these financial statements.

INTERIM STATEMENTS OF FINANCIAL POSITION

As at 31 December 2011

	NOTE	GROUP			PARENT	
		Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Assets						
Cash and cash equivalents	11	118,564	78,549	267,034	100,708	245,322
Investments	12	24,309	-	17,831	24,309	17,831
Due from related parties	26	272	27,525	200	1,072,843	740,817
Investment properties	13	58,083	2,182	34,499	-	-
Finance receivables	14	2,075,211	1,087,206	1,707,311	582,014	626,518
Operating lease vehicles	15	35,333	38,005	32,727	-	-
Other assets	16	42,732	17,153	34,281	46,604	27,977
Investment in subsidiaries	17	-	-	-	302,282	204,269
Intangible assets	18	21,981	1,433	21,802	20,784	20,216
Total assets		2,376,485	1,252,053	2,115,485	2,149,544	1,882,950
Liabilities						
Borrowings	21	1,985,551	1,004,656	1,787,524	1,796,583	1,613,731
Trade and other payables	22	34,403	35,346	34,120	14,393	10,934
Total liabilities		2,019,954	1,040,002	1,821,644	1,810,976	1,624,665
Equity						
Share capital	24	189,774	55,000	134,774	339,043	284,043
Retained earnings and reserves		166,757	157,051	159,087	(475)	(25,758)
Total equity		356,531	212,051	293,861	338,568	258,285
Total equity and liabilities		2,376,485	1,252,053	2,115,485	2,149,544	1,882,950

The notes on pages 9 to 44 are an integral part of these financial statements.

The comparative financial position of the Group as at 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

INTERIM STATEMENTS OF CASH FLOWS

For the six months ended 31 December 2011

	NOTE	GROUP			PARENT	
		Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Cash flows from operating activities						
Interest received		97,875	63,627	152,011	25,930	29,000
Operating lease income received		6,392	7,377	14,367	-	-
Proceeds from sale of operating lease vehicles		4,952	9,621	15,384	-	-
Lending, credit fees and other income received		3,215	2,814	4,279	439	549
Net decrease in finance receivables		-	-	-	44,720	42,404
Total cash provided from operating activities		112,434	83,439	186,041	71,089	71,953
Payments to suppliers and employees		33,978	13,743	54,336	11,546	6,448
Interest paid		63,483	39,805	91,267	59,902	48,858
Purchase of operating lease vehicles		10,794	14,869	18,201	-	-
Net increase in finance receivables		24,453	40,800	19,417	-	-
Total cash applied to operating activities		132,708	109,217	183,221	71,448	55,306
Net cash flows (applied to) / from operating activities	10	(20,274)	(25,778)	2,820	(359)	16,647
Cash flows from investing activities						
Proceeds from sale of investments		-	-	3,709	-	3,709
Proceeds from sale of finance receivables to related party	26	-	-	39,764	-	-
Total cash provided from investing activities		-	-	43,473	-	3,709
Purchase of office fit-out, equipment and intangible assets		1,261	1,096	1,831	972	111
Purchase of investments		6,478	-	-	6,478	-
Advance to subsidiaries		-	-	-	-	34,523
Purchase of subsidiary	34	24,898	-	-	24,898	-
Purchase of investment property		-	2,182	21,140	-	-
Total cash applied to investing activities		32,637	3,278	22,971	32,348	34,634
Net cash flows (applied to) / from investing activities		(32,637)	(3,278)	20,502	(32,348)	(30,925)
Cash flows from financing activities						
Net increase in borrowings		-	21,199	-	-	-
Net increase in share capital		55,000	-	-	55,000	-
Total cash provided from financing activities		55,000	21,199	-	55,000	-
Dividends paid		1,597	-	866	1,597	866
Net decrease in borrowings		210,605	-	48,954	165,310	17,078
Total cash applied to financing activities		212,202	-	49,820	166,907	17,944
Net cash flows (applied to) / from financing activities		(157,202)	21,199	(49,820)	(111,907)	(17,944)
Net decrease in cash held		(210,113)	(7,857)	(26,498)	(144,614)	(32,222)
Opening cash and cash equivalents		267,034	86,406	86,406	245,322	-
Cash impact of business combination	34	61,643	-	207,126	-	277,544
Closing cash and cash equivalents	11	118,564	78,549	267,034	100,708	245,322

The notes on pages 9 to 44 are an integral part of these financial statements.

The comparative cash flows for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2011

1 Reporting entity

The interim financial statements presented are the consolidated financial statements comprising Heartland Building Society (Parent) and its subsidiaries (Group).

On 5 January 2011:

- All of the assets and liabilities of CBS Canterbury (CBS), Southern Cross Building Society (SCBS) (net of the shares held by SCBS in CBS) and CBS Warehouse A Trust were amalgamated to form the Parent.
- The borrowings of MARAC Finance Limited (MARAC) were transferred to the Parent.
- The shares in MARAC Finance Limited were transferred to the Parent from MARAC Financial Services Limited to form the Group.
- All of the assets and liabilities of Southern Cross Building Society Charitable Trust and CBS Canterbury Charitable Trust were amalgamated into the Group.

From a legal perspective MARAC is a subsidiary of the Parent. Under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) the merger was treated as a reverse acquisition. The business combination was therefore accounted for as if MARAC acquired 72% of the Parent.

As a result the interim financial statements represent a continuation of the MARAC business. Comparatives presented for the period ended 31 December 2010 are those of the MARAC Group only. Comparatives for the year ended 30 June 2011 reflect the total comprehensive income of the MARAC Group from 1 July 2010 to 4 January 2011 and the results of the new Group from 5 January 2011 to 30 June 2011. From 1 July 2011 onwards the result reflects the new Group.

On 31 August 2011, the Parent acquired 100% of PGG Wrightson Finance Limited (PWF) from PGG Wrightson Limited (PGW), refer to Note 34 - Business Combinations for more information.

The MARAC Group comprises MARAC, MARAC ABCP Trust 1 (MARAC Trust), MARAC Retirement Bonds Superannuation Fund and MARAC PIE Fund. The Group wound up MARAC Retirement Bonds Superannuation Fund with effect from 31 October 2010.

As required by IFRS, the Group includes MARAC Trust and CBS Warehouse A Trust collectively known as the Trusts. The assets securitised into the Trusts continue to be recognised in the Group's interim financial statements.

As required by IFRS, the Group includes Southern Cross Building Society Charitable Trust and the CBS Canterbury Charitable Trust.

All entities within the Group offer financial services or are special purpose entities. The Group operates and is domiciled in New Zealand. The registered office address is 75 Riccarton Road, Christchurch.

2 Basis of preparation

The financial statements presented here are for the following periods:

- At 31 December 2011: 6 month period - Audited
- At 31 December 2010: 6 month period - Audited
- At 30 June 2011: 12 month period - Audited

(a) Statement of compliance

The interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and with the requirements of the Financial Reporting Act 1993. They comply with NZ IAS 34 Interim Financial Statements, New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The interim financial statements also comply with International Financial Reporting Standards (IFRS) including IAS 34 as issued by the International Accounting Standards Board.

The Parent and all entities within the Group are profit-oriented entities, except for the Southern Cross Building Society Charitable Trust and the CBS Canterbury Charitable Trust. The Parent is a reporting entity and an issuer for the purposes of the Financial Reporting Act 1993 and its interim financial statements comply with that Act. The interim financial statements have been prepared in accordance with the requirements of the Building Societies Act 1965 and the Securities Regulations 2009.

(b) Basis of measurement

The interim financial statements have been prepared on the basis of historical cost, unless stated otherwise.

(c) Functional and presentation currency and rounding

These interim financial statements are presented in New Zealand dollars which is the Group's functional currency. Unless otherwise indicated, amounts are rounded to the nearest thousand.

(d) Estimates and judgements

The preparation of interim financial statements requires the use of management judgement, estimates and assumptions that effect reported amounts. Actual results may differ from these judgements. For further information about significant areas of estimation, uncertainty and critical judgements that have the most significant effect on the interim financial statements, refer to Note 29 - Credit risk exposure.

(e) Going concern

The interim financial statements have been prepared on a going concern basis after considering the Parent's and Group's funding and liquidity position.

3 Significant accounting policies

(a) Consolidation of subsidiaries

Subsidiaries are entities that are controlled by the Group. Investments in subsidiary companies are recorded at cost by the Parent.

The consolidated interim financial statements are prepared by consolidating the interim financial statements of the Parent and its subsidiaries. All intercompany transactions, balances and unrealised profits are eliminated on consolidation.

(b) Special purpose entities

Special purpose entities are created to accomplish a narrow and well-defined objective such as the securitisation or holding of particular assets, or the execution of a specific borrowing or lending transaction. The interim financial statements of special purpose entities are included in the Group's interim financial statements where the substance of the relationship is that the Parent controls the special purpose entity.

(c) Interest

Interest income and expense are recognised using the effective interest method in profit or loss. The effective interest rate is established on initial recognition of the financial assets and liabilities and is not revised subsequently. The calculation of the effective interest rate includes all yield related fees and commissions paid or received that are an integral part of the effective interest rate.

Interest on the effective portion of a derivative designated as a cash flow hedge is initially recognised in the hedging reserve. It is released to profit or loss at the same time as the hedged item or if the hedge relationship is subsequently deemed to be ineffective.

(d) Operating lease income and expense

Income from operating lease vehicles is apportioned over the term of the operating lease on a straight line basis.

Operating lease vehicles are depreciated on a straight line basis over their expected life after allowing for any residual values. The estimated lives of operating lease vehicles vary up to five years. Vehicles held for sale are not depreciated but are tested for impairment.

(e) Lending and credit fee income

Lending and credit fee income that is integral to the effective interest rate of a financial asset or liability is included in the measurement of the effective interest rate. Other lending and credit fee income is recognised as the related services are rendered.

(f) Tax

Income tax expense

Income tax expense for the period comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or other comprehensive income.

Current tax

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is recognised in respect of temporary differences between the financial reporting carrying amount of assets and liabilities and the amounts used for tax purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset or liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

Deferred tax assets, including those related to the tax effects of income tax losses and credits 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 and credits can be utilised. 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.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority and there is a legal right and intention to settle on a net basis and it is allowed under tax law.

(g) Management of capital

The Group's capital includes share capital, reserves and retained earnings.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group has minimum capital requirements which it is required to maintain in accordance with its Trust Deeds, borrowing facilities and the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010. The Group maintains an appropriate buffer above these ratios and reports these to its Board of Directors monthly.

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash and liquid assets used in the day to day cash management of the Group. Cash and cash equivalents are carried at amortised cost in the Statements of Financial Position.

(i) Finance receivables

Finance receivables are initially recognised at fair value plus incremental direct transaction costs and are subsequently measured at amortised cost using the effective interest method, less any impairment loss.

NOTES TO THE INTERIM FINANCIAL STATEMENTS *continued*

For the six months ended 31 December 2011

3 Significant accounting policies (continued)

(l) Operating lease vehicles

Operating lease vehicles are stated at cost less accumulated depreciation. Profits on the sale of operating lease vehicles are included as part of operating lease income. Current period depreciation and losses on the sale of operating lease vehicles are included as part of operating lease expenses.

(k) Derivative financial instruments

Derivative financial instruments are contracts entered into to reduce the exposure to fluctuations in interest rates on variable rate borrowings. The financial instruments are subject to the risk that market values may change subsequent to their acquisition; however such changes would be offset by corresponding, but opposite, effects on the variable rate borrowings being hedged. Derivatives are initially valued at fair value and subsequently remeasured at fair value. Fair value movements of derivatives that are not designated in a qualifying hedge relationship, are recognised in profit or loss.

Fair value movements of the effective portion of a qualifying hedge derivative, are recognised directly in other comprehensive income and held in the hedging reserve in equity. The amount recognised in equity is transferred to profit or loss in the same year as the hedged cash flow affects profit or loss, disclosed in the same line as the hedged item. Any ineffective portion of changes in fair value of the derivative are recognised immediately in profit or loss. Fair value movements of a derivative designated as a fair value hedge are recognised directly in profit or loss together with the hedged item.

(l) Property, plant, equipment and depreciation

Land and buildings are measured at fair value. Fair value is determined on the basis of independent valuations prepared by external valuation experts, based on discounted cash flows or capitalisation of net income.

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

Other items of property, plant and equipment are stated at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value.

The following annual rates are used in the calculation of depreciation:

Buildings	1.0% - 4.0%
Fixtures and fittings	5.5% - 36.0%
Office equipment and furniture	6.0% - 30.0%
Computer equipment	16.2% - 48.0%
Motor vehicles	21.0% - 25.2%

(m) Investment properties

Investment properties have been acquired through the enforcement of security over finance receivables and are held to earn rental income or for capital appreciation (or both). Investment property is initially recognised at its fair value, with subsequent changes in fair value recognised in profit or loss.

Fair values are supported by independent valuations or other similar external evidence, adjusted for changes in market conditions and the time since the last valuation.

(n) Investments

The Parent and Group hold investments in local authority stock, public securities and corporate bonds. Investments held are classified as being available for sale and are stated at fair value less impairment. The fair values are derived by reference to published price quotations in an active market.

(o) Financial assets and liabilities

Classification

Financial assets and liabilities are classified in the following accounting categories:

<u>Financial assets/liabilities</u>	<u>Accounting category</u>
Cash and cash equivalents	Loans and receivables
Investments	Available for sale
Due from related parties	Loans and receivables
Finance receivables	Loans and receivables
Other financial assets	Loans and receivables
Borrowings	Other liabilities at amortised cost
Other financial liabilities	Other liabilities at amortised cost
Derivatives	Held for trading (or qualifying hedges as described in Note 3(k))

Recognition

The Group initially recognises finance receivables, borrowings and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

3 Significant accounting policies (continued)

(o) Financial assets and liabilities (continued)

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its Statements of Financial Position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the Statements of Financial Position. Transfers of assets with the retention of all or substantially all risks and rewards include, for example, securitised assets and repurchase transactions.

(p) Impaired assets and past due assets

Impaired assets are those loans for which the Group has evidence that it will incur a loss, and will be unable to collect all principal and interest due according to the contractual terms of the loan.

The term collectively impaired asset refers to an asset where an event has occurred which past history indicates that there is an increased possibility that the Group will not collect all its principal and interest as it falls due. No losses have yet been identified on these individual loans within the collectively impaired asset grouping, and history would indicate that only a small portion of these loans will eventually not be recovered. The Group provides fully for its expected losses.

Restructured assets are assets where the Group expects to recover all amounts owing although the original terms have been changed due to the counterparty's difficulty in complying with the original terms of the contract and the amended terms are not comparable with similar new lending. In order to be classified as a restructured asset, following restructuring, the return under the revised terms is expected to be equal to or greater than the Group's average cost of funds, or a loss is not otherwise expected to be incurred.

Past due but not impaired assets are any assets which have not been operated by the counterparty within their key terms but are not considered to be impaired by the Group.

Bad debts provided for are written off against individual or collective provisions. Amounts required to bring the provisions to their assessed levels are recognised in profit or loss. Any future recoveries of amounts provided for are taken to profit or loss.

For further information about credit impairment provisioning refer to Note 29 - Credit risk exposure.

(q) Intangible assets

Goodwill

Goodwill arising on acquisition represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable net assets and contingent liabilities. When the fair value of the identifiable net assets and contingent liabilities exceeds the cost of an acquisition, the resulting discount is recognised immediately in profit or loss for the year. Goodwill is tested for impairment at least annually, and is carried at cost less accumulated impairment losses.

Computer software

Software acquired or internally developed by the Group is stated at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic value of that asset. Amortisation of software is on a straight line basis, at rates which will write off the cost over their estimated economic lives of three to four years. All other expenditure is expensed as required.

(r) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST. As the Group is predominantly involved in providing financial services, only a proportion of GST paid on inputs is recoverable. The non-recoverable proportion of GST is treated as part of the cost of acquisition of the asset or is expensed.

(s) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(t) Employee benefits

Annual leave entitlements are accrued at amounts expected to be paid. Long service leave is accrued by calculating the probable future value of entitlements and discounting back to present value. Obligations to defined contribution superannuation schemes are recognised as an expense when the contribution is paid.

(u) Defined benefit plan

The cost of providing benefits for defined benefit superannuation plans is determined using the Projected Unit Credit Method. Actuarial gains and losses are recognised in full in the period in which they occur by way of a movement in the defined benefit plan reserve, and are presented in the Interim Statements of Changes in Equity.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefit becomes vested. The defined benefit obligation is deducted from the fair value of the defined benefit plan asset to derive the defined benefit plan surplus recognised in the Interim Statements of Financial Position.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

3 Significant accounting policies (continued)

(v) Borrowings

Bank borrowings, deposits and debenture stock are initially recognised at fair value including incremental direct transaction costs. They are subsequently measured at amortised cost using the effective interest method.

(w) Share schemes

The Group provides benefits to staff in the form of share based payments, whereby staff provide services in exchange for shares. Currently in place is a discretionary share scheme and an executive share scheme, refer to Note 33 - Staff share ownership arrangements.

Under both of these schemes Heartland New Zealand Limited and the previous ultimate parent, Pyne Gould Corporation Limited undertake to transfer a specific number of its shares to various key staff at a specified future date on that staff member achieving certain criteria. The shares are issued at a price agreed by the directors and held in trust until all the conditions are satisfied. The expected benefit is expensed over the periods over which any conditions are required to be met.

(x) Interim Statements of Cash Flows

The Statements of Cash Flows have been prepared using the direct method modified by the netting of certain cash flows, in order to provide more meaningful disclosure. Cash and cash equivalents consist of cash and liquid assets used in the day to day cash management of the Group.

(y) Changes in accounting policies

There have been no material changes in accounting policies in the current period.

(z) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended 31 December 2011, and have not been applied in preparing these interim financial statements. The new standards identified which may have an effect on the interim financial statements of the Group are:

<i>Standard and description</i>	<i>Effective for annual periods beginning on or after:</i>	<i>Expected to be initially applied in year ending:</i>
NZ IAS 12 Income Taxes, which introduces a presumption that an investment property is recovered entirely through sale.	1 January 2012	30 June 2013
NZ IAS 1 Presentation of Financial Statements, which requires an entity to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met.	1 July 2012	30 June 2013
NZ IFRS 10 Consolidated Financial Statements, which introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees.	1 January 2013	30 June 2014
NZ IFRS 13 Fair Value Measurement, which defines fair value, and establishes a framework for measuring fair value including disclosure requirements.	1 January 2013	30 June 2014
NZ IFRS 12 Disclosure of Interests in Other Entities, which contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.	1 January 2013	30 June 2014
NZ IAS 19 Employee Benefits, which requires actuarial gains and losses to be recognised immediately in other comprehensive income and the expected return on plan assets recognised in profit or loss to be calculated based on the rate used to discount the defined benefit obligation.	1 January 2013	30 June 2014
NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets and liabilities.	1 January 2013	30 June 2014
NZ IAS 27 Consolidated and Separate Financial Statements, which carries forward existing accounting and disclosure requirements with minor clarifications.	1 January 2013	30 June 2014

Initial application of the above standards and interpretations relevant to the Group are not expected to have any material impact on the financial statements of the Group.

4 Segmental analysis

Segment information is presented in respect of the Group's operating segments which are those used for the Group's management and internal reporting structure. During the six months ended 31 December 2011, the operating segments were restructured to amalgamate Retail and Consumer into one segment. The comparative periods have been restated to align with the new operating segments.

All income received is from external sources, except those transactions with related parties, refer to Note 26 - Related party transactions. Certain selling and administration expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other.

4 Segmental analysis (continued)

Operating segments

The Group operates predominantly within New Zealand and comprises the following main operating segments:

Retail and Consumer	Providing a comprehensive range of financial services to New Zealand families, including transactional and savings based deposit accounts together with residential mortgage lending and motor vehicle finance.
Business	Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized New Zealand businesses.
Rural	Specialist financial services to the farming sector primarily offering livestock, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.
Non-core Property	Funding non core property assets of MARAC, SCBS and CBS.

	Retail & Consumer \$000	Business \$000	Rural \$000	Non-core Property \$000	Other \$000	Total \$000
Dec 2011						
Interest income	47,920	24,788	17,703	7,217	4,141	101,769
Interest expense	29,377	14,858	9,850	5,664	2,898	62,647
Net interest income	18,543	9,930	7,853	1,553	1,243	39,122
Net operating lease income	2,651	9	-	-	-	2,660
Net other income	566	13	33	2,145	458	3,215
Net operating income	21,760	9,952	7,886	3,698	1,701	44,997
Depreciation and amortisation expense	-	-	-	-	952	952
Other selling and administration expenses	6,478	2,723	2,698	3,240	18,828	33,967
Selling and administration expenses	6,478	2,723	2,698	3,240	19,780	34,919
Profit / (loss) before impaired asset expense and income tax	15,282	7,229	5,188	458	(18,079)	10,078
Impaired asset expense	365	1,745	54	1,624	-	3,788
Profit / (loss) before income tax	14,917	5,484	5,134	(1,166)	(18,079)	6,290
Income tax benefit	-	-	-	-	(3,932)	(3,932)
Profit / (loss) for the period	14,917	5,484	5,134	(1,166)	(14,147)	10,222
Total assets	1,014,138	518,502	466,401	169,587	207,857	2,375,485
Total liabilities	-	-	-	-	2,019,954	2,019,954
Total equity	-	-	-	-	356,531	356,531
Dec 2010						
Interest income	35,385	30,734	102	-	1,599	67,820
Interest expense	21,601	17,741	54	-	1,092	40,488
Net interest income	13,784	12,993	48	-	507	27,332
Net operating lease income	3,415	55	-	-	-	3,470
Net other income	292	2	-	-	286	580
Net operating income	17,491	13,050	48	-	793	31,382
Depreciation and amortisation expense	-	-	-	-	527	527
Other selling and administration expenses	2,371	1,839	115	-	12,649	16,874
Selling and administration expenses	2,371	1,839	115	-	13,076	17,401
Profit / (loss) before impaired asset expense and income tax	15,120	11,211	(67)	-	(12,283)	13,981
Impaired asset expense	17	6,077	-	-	-	6,094
Profit / (loss) before income tax	15,103	5,134	(67)	-	(12,283)	7,887
Income tax expense	-	-	-	-	2,764	2,764
Profit / (loss) for the period	15,103	5,134	(67)	-	(15,047)	5,123
Total assets	653,238	490,682	8,816	-	99,317	1,252,053
Total liabilities	-	-	-	-	1,040,002	1,040,002
Total equity	-	-	-	-	212,051	212,051

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS *continued*

For the six months ended 31 December 2011

4 Segmental analysis (continued)

	Retail & Consumer \$000	Business \$000	Rural \$000	Non-core Property \$000	Other \$000	Total \$000
Jun 2011						
Interest income	90,280	39,178	4,242	19,805	7,792	161,297
Interest expense	56,972	22,040	2,599	10,637	7,457	99,705
Net interest income	33,308	17,138	1,643	9,168	335	61,592
Net operating lease income	6,823	120	-	-	-	6,943
Net other income	543	21	-	542	939	2,045
Net operating income	40,674	17,279	1,643	9,710	1,274	70,580
Depreciation and amortisation expense	-	-	-	-	1,482	1,482
Other selling and administration expenses	8,986	3,983	1,048	1,986	27,331	43,344
Selling and administration expenses	8,986	3,983	1,048	1,986	28,813	44,826
Profit / (loss) before impaired asset expense and income tax	31,678	13,296	595	7,724	(27,539)	25,754
Impaired asset expense	2,829	7,195	510	2,764	-	13,298
Profit / (loss) before income tax	28,849	6,101	85	4,960	(27,539)	12,456
Income tax expense	-	-	-	-	4,712	4,712
Profit / (loss) for the period	28,849	6,101	85	4,960	(32,251)	7,744
Total assets	1,035,118	476,367	75,961	187,091	340,948	2,115,485
Total liabilities	-	-	-	-	1,821,644	1,821,644
Total equity	-	-	-	-	293,841	293,841

MARAC Group did not previously report on the Non-core Property segment, as a result there are no comparatives included in the Non-core Property segment for December 2010.

5 Net interest income

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Interest income					
Cash and cash equivalents	3,641	1,087	6,770	3,359	5,708
Finance receivables	98,128	66,654	154,527	22,418	23,900
Derivatives held for risk management:					
- Net interest income on cash flow hedges	-	79	-	1,274	1,287
Total interest income	101,769	67,820	161,297	27,051	30,895
Interest expense					
Retail deposits and debenture stock	52,010	29,977	78,327	52,004	48,330
Bank and securitised borrowings	10,634	10,511	21,332	5,944	6,408
Derivatives held for risk management:					
- Net interest expense on cash flow hedges	3	-	46	-	-
Total interest expense	62,647	40,488	99,705	57,948	54,738
Net interest income	39,122	27,332	61,592	(30,897)	(23,843)

Included within the Group's interest income on finance receivables is \$1,594,000 (December 2010: \$2,628,000, June 2011: \$5,902,000) on individually impaired assets. Included within the Parent's interest income on finance receivables is \$1,109,000 (June 2011: 1,540,000) on individually impaired assets.

6 Net operating lease income

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Operating lease income					
Lease income	6,309	7,610	14,277	-	-
Gain on disposal of lease vehicles	1,154	1,615	3,796	-	-
Total operating lease income	7,463	9,225	18,073	-	-
Operating lease expense					
Depreciation on lease vehicles	4,390	5,457	10,490	-	-
Direct lease costs	413	298	640	-	-
Total operating lease expenses	4,803	5,755	11,130	-	-
Net operating lease income	2,660	3,470	6,943	-	-

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

7 Selling and administration expenses

	NOTE	GROUP			PARENT	
		Dec 2011	Dec 2010	Jun 2011	Dec 2011	Jun 2011
		\$000	\$000	\$000	\$000	\$000
Personnel expenses		18,530	7,298	21,747	7,423	4,061
Director's fees		87	-	-	87	-
Superannuation		240	119	302	58	30
Audit fees		176	118	386	149	247
Audit related fees		26	42	59	26	28
Amortisation - intangible assets	18	569	350	978	87	187
Depreciation - property, plant and equipment	19	383	177	504	270	186
Operating lease expense as a lessee		834	442	1,277	400	357
Legal and professional fees		2,939	3,321	6,632	1,060	1,669
Other operating expenses		11,135	5,534	12,941	5,768	3,169
Total selling and administration expenses		34,919	17,401	44,826	15,318	9,934

Audit related fees include professional fees in connection with trustee reporting, due diligence, review of prospectus documentation for various Group entities, accounting advice and review work completed.

Heartland New Zealand Limited has paid some Director's fees on behalf of the Parent.

8 Income tax expense

	GROUP			PARENT	
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Jun 2011
	\$000	\$000	\$000	\$000	\$000
Current income tax expense					
Current period	(1,642)	3,176	2,136	(15,322)	(9,914)
Adjustments for prior period	381	-	-	381	-
Deferred tax expense / (benefit)					
Origination and reversal of temporary differences	3,511	(395)	2,278	2,347	(397)
Tax legislation change	(6,182)	(17)	298	(6,182)	26
Total income tax expense / (benefit)	(3,932)	2,764	4,712	(18,776)	(10,285)
Reconciliation of effective tax rate					
Profit / (loss) before income tax	6,290	7,887	12,456	8,534	(35,302)
Prima facie tax at 28% (Dec 2010, Jun 2011: 30%)	1,761	2,366	3,737	2,390	(10,591)
Plus tax effect of items not taxable / deductible	108	415	677	233	280
Adjustments for prior period	381	-	-	381	-
Dividends received	-	-	-	(15,598)	-
Tax legislation change	(6,182)	(17)	298	(6,182)	26
Total income tax expense / (benefit)	(3,932)	2,764	4,712	(18,776)	(10,285)

In May 2010, legislation was passed to reduce the New Zealand corporate tax rate from 30% to 28%, effective for the 2012 income tax year. The tax effect in prior periods (December 2010: (\$17,000); June 2011: \$298,000) is the impact on the value of deferred tax assets and liabilities as a result of the reduction in the corporate tax rate for the financial year commencing 1 July 2011.

On 17 August 2011, Parliament enacted The Taxation (Tax Administration and Remedial Matters) Bill which contains a retrospective legislative change in relation to mergers of building societies. The result is that the \$6,182,000 benefit of future tax deductions which were lost on the merger of MARAC, SCBS and CBS are now available to entities in the Heartland New Zealand Consolidated (Tax) Group, and cash that would otherwise have been required to pay tax will now be available to the Group.

9 Imputation credit account

	GROUP			PARENT	
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Jun 2011
	\$000	\$000	\$000	\$000	\$000
Balance at beginning of period	-	33,515	33,515	-	-
Imputation credits forfeited on shareholding change	-	-	(33,507)	-	-
Tax paid net of refunds	-	-	(8)	-	-
Balance at end of period	-	33,515	-	-	-

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

10 Reconciliation of profit / (loss) after tax to net cash flows from operating activities

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Profit / (loss) for the period	10,222	5,123	7,744	27,310	(25,017)
Add / (less) non-cash items:					
Depreciation and amortisation expense	952	527	1,482	357	373
Impaired asset expense	3,788	6,094	13,298	1,398	2,074
Deferred tax (benefit) / expense	(2,475)	395	2,897	(4,119)	(371)
Derivative financial instruments revaluation	(992)	192	5,419	(751)	5,059
Accruals	822	22	1,567	563	138
Dividends received	-	-	-	(65,708)	-
Total non-cash items	2,095	7,230	24,663	(68,280)	7,273
Add / (less) movements in working capital items:					
Other assets	(4,041)	981	(10,183)	107	(890)
Current tax	(3,166)	(1,323)	1,733	(14,793)	(9,868)
Other liabilities	1,689	(1,483)	(2,174)	2,734	4,188
Total movements in working capital items	(5,518)	(1,825)	(10,624)	(11,952)	(6,568)
Add / (less) items classified as investing activities:					
Gain on sale of assets and investments	-	1	-	-	-
Total items classified as investing activities	-	1	-	-	-
Net cash flows from / (applied to) operating activities before movements in finance receivables and operating lease vehicles	6,799	10,529	21,803	(42,902)	(24,312)
Movements in operating lease vehicles	(2,606)	4,885	10,188	-	-
Movements in finance receivables	(24,467)	(41,192)	(29,151)	42,543	40,959
Net cash flows (applied to) / from operating activities	(20,274)	(25,778)	2,820	(359)	16,647

11 Cash and cash equivalents

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Cash and cash equivalents	109,525	74,062	251,204	97,646	243,955
Cash and cash equivalents - securitised	9,039	4,487	15,830	3,062	1,367
Total cash and cash equivalents	118,564	78,549	267,034	100,708	245,322

Cash and cash equivalents are short term funds held with New Zealand registered international banks.

12 Investments

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Public securities and corporate bonds	24,309	-	16,833	24,309	16,833
Local authority stock	-	-	998	-	998
Total Investments	24,309	-	17,831	24,309	17,831

13 Investment properties

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Opening balance	34,499	-	-	-	-
Acquisitions	23,584	2,182	34,499	-	-
Closing balance	58,083	2,182	34,499	-	-

From 31 December 2010, the Group (through VPS Properties Limited and VPS Pamell Limited) began acquiring investment properties as a result of enforcement of security over finance receivables. The acquisitions by VPS Properties Limited and VPS Pamell Limited were funded by advances from the Society and MARAC to those acquiring entities. These advances are covered by the RECL management agreement. The carrying amount of investment properties at 31 December 2011 is the fair value based on independent valuations and other similar external evidence, adjusted where necessary to take into account market movements since the date of valuation. Refer to Note 26 - Related party transactions for further detail.

During the period to 31 December 2011, the Group recognised rental income of \$2,135,000 (December 2010: nil; June 2011: \$542,000), direct operating expenses of \$1,516,000 (December 2010: nil; June 2011: \$198,000) arising from investment property that generated rental income and direct operating expenses of \$55,000 (December 2010: nil; June 2011: nil) arising from investment property that did not generate rental income.

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

14 Finance receivables

	GROUP			PARENT	
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Jun 2011
	\$000	\$000	\$000	\$000	\$000
Non-secured					
Gross finance receivables	1,817,639	953,187	1,535,183	515,800	615,149
Less allowance for impairment	28,668	27,236	37,565	15,470	20,762
Total non-secured finance receivables	1,788,971	925,951	1,497,618	500,330	594,387
Secured					
Gross finance receivables	286,952	162,189	210,425	81,884	32,131
Less allowance for impairment	712	934	732	-	-
Total secured finance receivables	286,240	161,255	209,693	81,884	32,131
Total finance receivables	2,075,211	1,087,206	1,707,311	582,214	626,518

Refer to Note 34 - Business Combinations for information about the acquisition of finance receivables.

15 Operating lease vehicles

	GROUP			PARENT	
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Jun 2011
	\$000	\$000	\$000	\$000	\$000
Cost					
Opening balance	47,230	60,264	60,264	-	-
Additions	10,794	8,578	11,910	-	-
Disposals	(7,876)	(15,490)	(24,944)	-	-
Closing balance	50,148	53,352	47,230	-	-
Accumulated depreciation					
Opening balance	14,503	17,369	17,369	-	-
Depreciation charge for the period	4,390	5,457	10,490	-	-
Disposals	(4,078)	(7,479)	(13,356)	-	-
Closing balance	14,815	15,347	14,503	-	-
Opening net book value	32,727	42,895	42,895	-	-
Closing net book value	35,333	38,005	32,727	-	-

16 Other assets

	NOTE	GROUP			PARENT	
		Dec 2011	Dec 2010	Jun 2011	Dec 2011	Jun 2011
		\$000	\$000	\$000	\$000	\$000
Derivative financial assets	23	2,823	4,995	3,048	2,823	3,048
Trade receivables		7,958	2,165	3,351	1,117	1,610
Current tax		1,763	-	-	25,501	10,708
Prepayments		12,517	2,231	13,100	3,193	2,807
Property, plant and equipment	19	10,031	557	10,079	9,480	9,433
Deferred tax asset	20	7,640	7,205	4,703	4,490	371
Total other assets		42,732	17,153	34,281	46,604	27,977

17 Investment in subsidiaries

	PARENT			
	Dec 2011	Dec 2011	Jun 2011	Jun 2011
	% held	\$000	% held	\$000
MARAC Finance Limited	100%	204,269	100%	204,269
VPS Pamell Limited	100%	-	100%	-
VPS Properties Limited	100%	-	100%	-
PGG Wrightson Finance Limited	100%	98,013	-	-
Total investment in subsidiaries		302,282		204,269

On 16 March 2011, VPS Pamell Limited (VPS Pamell) and VPS Properties Limited (VPS Properties) were incorporated. VPS Pamell and VPS Properties are wholly owned subsidiaries of the Parent, with the Parent holding 100 shares in VPS Pamell and 100 shares in VPS Properties. VPS Pamell and VPS Properties are investment property holding companies.

On 31 August 2011 the Parent acquired 100% of the shares in PWF, a entity specialising in the provision of financial services to the rural sector, refer to Note 34 - Business Combinations for more details.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

18 Intangible assets

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Computer software - cost					
Opening balance	6,142	3,722	3,722	1,144	-
Additions	950	882	1,337	655	61
Acquired on amalgamation	-	-	1,063	-	1,083
Disposals	(1,753)	-	-	-	-
Closing balance	5,339	4,604	6,142	1,799	1,144
Computer software - accumulated amortisation					
Opening balance	4,727	2,821	2,821	1,115	-
Amortisation charge for the period	569	350	978	87	187
Acquired on amalgamation	-	-	928	-	928
Disposals	(1,751)	-	-	-	-
Closing balance	3,545	3,171	4,727	1,202	1,115
Computer software - opening net book value	1,415	901	901	29	-
Computer software - closing net book value	1,794	1,433	1,415	597	29
Goodwill and trademark					
Opening balance	20,187	-	-	20,187	-
Additions	-	-	46	-	46
Acquired on amalgamation	-	-	20,141	-	20,141
Closing balance	20,187	-	20,187	20,187	20,187
Total intangibles - opening net book value	21,602	901	901	20,216	-
Total intangibles - closing net book value	21,981	1,433	21,602	20,784	20,216

On 5 January 2011, 100% of each of SCBS and CBS amalgamated to form the Parent, refer to Note 34 - Business Combinations. As part of this amalgamation \$20.1 million of goodwill was recognised.

Goodwill of \$20.1 million has not been allocated to individual cash generating units, as the future economic benefit is attributable to all business units. The Group's management and board continue to monitor goodwill at a total level.

19 Property, plant and equipment

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Cost					
Opening balance	15,191	4,284	4,284	10,474	-
Additions	317	214	448	317	4
Acquired on acquisition	22	-	-	-	-
Acquired on amalgamation	-	-	10,470	-	10,470
Disposals	(2,766)	(11)	(11)	-	-
Closing balance	12,764	4,487	15,191	10,791	10,474
Accumulated depreciation					
Opening balance	5,112	3,764	3,764	1,041	-
Depreciation charge for the period	383	177	504	270	188
Acquired on amalgamation	-	-	855	-	855
Disposals	(2,762)	(11)	(11)	-	-
Closing balance	2,733	3,930	5,112	1,311	1,041
Opening net book value	10,079	520	520	9,433	-
Closing net book value	10,031	557	10,079	9,480	9,433

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

20 Deferred tax

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Property, plant and equipment	-	78	67	-	-
Employee entitlements	1,430	190	584	970	1
Finance receivables	8,050	8,170	4,984	4,332	280
Trade and other payables	94	-	145	94	90
Intangible assets	-	-	-	34	-
Derivatives held for risk management	187	669	527	-	-
Tax assets	9,761	9,107	6,307	5,430	371
Property, plant and equipment	888	-	-	940	-
Intangible assets	2	64	67	-	-
Operating lease vehicles	1,231	1,838	1,537	-	-
Tax liabilities	2,121	1,902	1,604	940	-
Net tax assets	7,640	7,205	4,703	4,490	371

The corporate tax rate changed from 30% to 28% effective 1 July 2011. The tax effect on the temporary differences reported above, that did not reverse prior to this change in tax rate, was a decrease in the Group's deferred tax asset of \$336,000 in June 2011 and an increase of \$112,000 in December 2010.

All deferred tax movements are included in profit or loss except for those in respect of the available for sale and hedging reserves which are recognised in other comprehensive income.

21 Borrowings

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Bank borrowings sourced from New Zealand	50,075	-	-	50,075	-
Deposits sourced from New Zealand	1,644,900	-	1,556,612	1,645,339	1,557,096
Debenture stock sourced from New Zealand	-	826,868	-	-	-
Deposits sourced from overseas	26,169	-	36,635	26,169	36,635
Debenture stock sourced from overseas	-	28,510	-	-	-
Securitised borrowings sourced from New Zealand	264,407	149,278	194,277	75,000	20,000
Total borrowings	1,985,551	1,004,656	1,787,524	1,796,583	1,613,731

The Group has bank facilities totalling \$675.0 million (December 2010: \$400.3 million, June 2011: \$475.0 million). Prior to the amalgamation, there was no significant concentration of deposits from any region. As at 31 December 2011, 41% (June 2011: 37%) of deposits are from the Canterbury region.

Bank borrowings and deposits (which include NZDX bonds) rank equally and are unsecured. Deposits are issued in terms of a Master Trust Deed, Supplemental Trust Deed (Accounts) and Supplemental Trust Deed (Bonds) each dated 29 October 2010 and a Supplemental Trust Deed dated 14 December 2010 (collectively the Trust Deeds), all with Trustee Executors Limited as trustee in respect of deposits.

The Group has securitisation facilities in relation to the Trusts totalling \$475.0 million. On 26 August 2011, the Group entered into an agreement with its securitisation facility provider to increase the MARAC ABCP Trust 1 securitisation facility by \$100 million to \$300 million, and to extend its maturity date to 8 August 2012. On 19 December 2011, the Parent entered into an agreement to increase CBS Warehouse A Trust securitisation facility by \$100 million to \$175 million.

Investors in MARAC ABCP Trust 1 rank equally with each other and are secured over the securitised assets of that Trust. Investors in the CBS Warehouse A Trust rank equally with each other and are secured over the securitised assets of that Trust.

22 Trade and other payables

	NOTE	GROUP			PARENT	
		Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Derivative financial liabilities	23	2,162	1,216	2,444	806	1,127
Current tax		-	3,895	2,209	-	-
Trade payables		13,941	11,570	13,010	9,785	9,104
GST payable		13,782	13,522	13,790	-	183
Due to related parties	26	104	3,558	104	860	-
Employee benefits		4,414	1,585	2,563	2,942	520
Total trade and other payables		34,403	35,346	34,120	14,393	10,934

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

23 Derivative financial instruments

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Qualifying fair value hedges - non-securitised	2,823	4,995	3,048	2,823	3,048
Total derivative financial assets	2,823	4,995	3,048	2,823	3,048
Qualifying fair value hedges - non-securitised	620	-	979	620	979
Qualifying fair value hedges - securitised	186	-	148	186	148
Qualifying cash flow hedges - securitised	1,356	1,216	1,317	-	-
Total derivative financial liabilities	2,162	1,216	2,444	806	1,127

Derivatives consist of interest rate swaps held to manage the Group's exposure to interest rate repricing risk on its interest bearing assets and liabilities.

The Group uses interest rate swaps to hedge the interest rate risk arising from its commercial paper issuance and its current and future floating rate bank debt and designates those swaps as qualifying cash flow hedges. The Group uses interest rate swaps to hedge the interest rate risk arising from fixed rate debenture stock, deposits and fixed rate mortgage loans and designates these swaps as qualifying fair value hedges.

Securitized derivatives are held in the name of the Trusts to hedge the interest rate risk arising in the Trusts.

24 Share capital

The share capital reflected in the following note represents the share capital of the Parent. This differs from the share capital reflected in the Group Interim Statements of Financial Position as a result of the reverse acquisition accounting applied, refer Note 1 - Reporting Entity.

	PARENT	
	Dec 2011 Number of shares 000	Jun 2011 Number of shares 000
Issued shares		
Opening balance	297,400	-
Shares issued during the period	55,000	297,400
Closing balance	352,400	297,400

At the opening of business on 5 January 2011, the Parent had on issue 20 fully paid ordinary shares, which were issued at a price of \$10,000 each.

On 5 January 2011, the Parent:

- Issued 214,030,283 fully paid ordinary shares to BSHL No. 1 Limited in exchange for the transfer by BSHL No. 1 Limited of all shares in MARAC.
- Issued 44,241,396 fully paid ordinary shares to CBS as part of the consideration due in exchange for the transfer of engagements from CBS. These shares were then transferred by CBS to BSHL No. 1 Limited.
- Issued 39,128,321 fully paid ordinary shares to SCBS as part of the consideration due in exchange for transfer of engagements from SCBS. These shares were then transferred by SCBS to BSHL No. 1 Limited.

On 31 August 2011, BSHL No. 1 Limited subscribed to 55,000,000 fully paid ordinary shares issued at a price of \$1 each.

The shares have equal voting rights, rights to dividends and distributions and do not have a par value.

25 Special purpose entities

MARAC PIE Fund

The Group controls the operations of MARAC PIE Fund, a portfolio investment fund that invests in the Parent's deposits. Investments by MARAC PIE fund are represented in deposits as follows:

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
MARAC PIE Fund	8,203	8,148	6,517	8,203	6,517

MARAC ABCP Trust 1 and CBS Warehouse A Trust Securitisation

The Group has securitised a pool of receivables comprising residential, commercial and motor vehicle loans to the Trusts. The Group substantially retains the credit risks and rewards associated with the securitised assets, and continues to recognise these assets and associated borrowings on the Statements of Financial Position. Despite this presentation in the interim financial statements, the loans sold to the Trusts are set aside for the benefit of investors in the Trusts.

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Cash and cash equivalents - Securitized	8,039	4,487	15,830	3,082	1,367
Finance receivables - Securitized	286,240	161,255	209,693	81,884	32,131
Borrowings - Securitized	(264,407)	(149,278)	(194,277)	(75,000)	(20,000)

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

25 Special purpose entities (continued)

Southern Cross Building Society Charitable Trust and CBS Canterbury Charitable Trust (Charitable Trusts)

The directors of the Parent are trustees of the Charitable Trusts, therefore the results of the Charitable Trusts have been consolidated in accordance with NZ IFRS. Included in the Group's trade and other payables balance is:

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Beneficiary funds	731	-	746	-	-

26 Related party transactions

Heartland Building Society's immediate parent is BSHL No. 1 Limited, which is a wholly owned subsidiary of Heartland New Zealand Limited (HNZ).

The Parent holds all shares in MARAC and PWF. During the year ended 30 June 2011, the immediate parent of MARAC was MARAC Financial Services Limited (MFSL). MFSL's ultimate parent is Pyne Gould Corporation Limited (PGC). On 30 May 2011, PGC distributed directly to PGC shareholders its 72.21% stake in HNZ. As a result, PGC is no longer a related party of the Group.

(a) Transactions with related parties

Sale of non-performing loans

In September 2009 MARAC entered into a sale and purchase agreement to transfer and assign legal and beneficial title to \$175 million of non performing loans to its parent company MFSL. The loans were subsequently transferred to Real Estate Credit Limited (RECL), a wholly owned subsidiary of PGC.

The loans were transferred from MARAC at book value. In October 2009 the transfer was completed with MFSL paying \$125 million in cash, and issuing a loan note of \$50 million for the balance. As at 31 December 2010 the balance of the loan note was \$27.5 million excluding accrued interest. During the year ended 30 June 2011 the loan note was settled, with MARAC receiving \$39.8 million in cash and the remaining \$3.9 million in tax losses. PGC guaranteed the obligations of MFSL under the loan note. Interest was accrued on the loan note on an arms length basis.

As a consequence of the loan transfer, MARAC entered an Underwrite Agreement under which PGC undertook to underwrite credit losses on certain impaired property loans. The Underwrite Agreement was terminated on 5 January 2011.

RECL Management agreement

On 5 January 2011, MARAC entered into a management agreement with RECL. The agreement (as previously amended) was further amended on 19 October 2011. Under this arrangement, RECL manages certain non-core real estate loans (not previously sold in September 2009) of MARAC for a 5 year period (ending 5 January 2016), and assumes the risk of loss on those loans for that period. Any payment by RECL to MARAC in respect of that loss is due at the end of the 5 year period (with some limited right on the part of MARAC to earlier payment). The maximum amount payable by RECL in respect of loss (including interest accruing on loss payments until the due date for payment) is limited to \$30 million. The payment obligations of RECL are "limited in recourse" to a pool of security provided by RECL. This pool of security includes an \$11 million 5 year zero coupon bond (issued by Westpac New Zealand Limited which is rated AA- by Standard & Poor's (Australia) Pty Limited), and other assets (initially real estate or real estate loans) with a required minimum security value of (initially) \$19 million. PGC will be obliged to top up the security pool to the extent that the security value of other assets is less than the minimum required.

MARAC paid RECL an upfront fee of \$11 million (which will be amortised over the 5 year period of the arrangement), and will pay an ongoing management fee of \$200,000 per annum for the 5 year period.

The benefit of this management agreement is included in the determination of the charge and the analysis of risk gradings and the classification of individually impaired assets as at 31 December 2011. In September 2011, RECL paid \$1.5 million cash for claims to MARAC. This payments reduced the required minimum security value of other assets to \$17.5 million.

From 31 December 2010, the Group (through VPS Properties Limited and VPS Parnell Limited) began acquiring investment properties as a result of enforcement of security over finance receivables. The acquisitions by VPS Properties Limited and VPS Parnell Limited were funded by advances from the Society and MARAC to those acquiring entities. These advances are covered by the RECL management agreement.

As at 31 December 2011, RECL is not a related party of the Group.

Other related party transactions

On 5 January 2011, all secured debenture stock issued by MARAC were transferred to become deposits in the Parent. On 31 August 2011, all borrowings issued by PWF were also transferred to become deposits in the Parent, refer to Note 34 - Business Combinations.

Advances have been made by the Parent and MARAC to VPS Parnell Limited and VPS Properties Limited for the purchase of investment properties, refer Note 13 - Investment Properties. VPS Parnell Limited invests in the Parent's deposits.

Shares have been issued to the Parent's immediate parents, refer to Note 24 - Share Capital.

The Group paid PGC a management fee for financial and administrative assistance, computer services and leased premises received during the year ended 30 June 2011. This management fee included compensation paid to certain members of the Group's key management personnel, previously employed by PGC.

MARAC provided administrative assistance to RECL, MARAC Insurance Limited, MARAC PIE Fund and received insurance commission from MARAC Insurance Limited.

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

27 Fair value

The following methods and assumptions were used to estimate the fair value of each class of financial asset and liability.

Finance receivables

The fair value of the Group's finance receivables is calculated using a valuation technique which assumes current market interest rates for loans of a similar nature and term.

The current market rate used to fair value finance receivables with a fixed interest rate for the Group is 9.08% (December 2010: 11.03%; June 2011: 9.51%) and for the Parent is 7.83% (June 2011: 7.99%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses. Prepayment rates have not been factored into the fair value calculation as they are not deemed to be material.

Investments

Investments in public securities and corporate bonds are classified as being available for sale and are stated at fair value less impairment, with the fair value being based on quoted market prices. (Level 1 under the fair value hierarchy).

Other financial assets and liabilities

The fair value of all other financial assets and liabilities is considered equivalent to their carrying value due to their short term nature.

Derivative Items

The fair value of interest rate contracts is modelled using observable market inputs (Level 2 under the fair value hierarchy).

Borrowings

The fair value of debenture stock, deposits, bank borrowings and other borrowings is based on the current market interest rates payable by the Group for debt of similar maturities.

	Dec 2011		Dec 2010		Jun 2011	
	Carrying Value \$000	Fair Value \$000	Carrying Value \$000	Fair Value \$000	Carrying Value \$000	Fair Value \$000
GROUP						
Cash and cash equivalents	118,564	118,564	78,549	78,549	267,034	267,034
Investments	24,309	24,309	-	-	17,831	17,831
Finance receivables	1,788,971	1,793,956	925,951	924,182	1,497,618	1,511,777
Finance receivables - securitised	286,240	290,143	161,255	167,239	209,693	215,743
Derivative financial assets	2,823	2,823	4,995	4,995	3,048	3,048
Other financial assets	8,230	8,230	29,690	29,690	3,551	3,551
Total financial assets	2,229,137	2,238,025	1,200,440	1,204,655	1,998,775	2,018,984
Borrowings	1,721,144	1,726,700	855,378	869,603	1,593,247	1,598,815
Borrowings - securitised	264,407	264,407	149,278	149,278	194,277	194,277
Derivative financial liabilities	2,162	2,162	1,216	1,216	2,444	2,444
Other financial liabilities	18,459	18,459	16,713	16,713	15,677	15,677
Total financial liabilities	2,006,172	2,011,728	1,022,585	1,036,810	1,805,645	1,811,213
PARENT						
					Dec 2011	Jun 2011
					Carrying Value \$000	Fair Value \$000
Cash and cash equivalents			100,708	100,708	245,322	245,322
Investments			24,309	24,309	17,831	17,831
Finance receivables			500,130	499,903	594,387	595,189
Finance receivables - securitised			81,884	81,724	32,131	32,031
Due from related parties			1,072,843	1,072,843	740,817	740,817
Derivative financial assets			2,823	2,823	3,048	3,048
Other financial assets			1,117	1,117	1,610	1,610
Total financial assets			1,783,814	1,783,427	1,635,146	1,635,848
Borrowings			1,721,583	1,726,700	1,593,731	1,599,389
Borrowings - securitised			75,000	75,000	20,000	20,000
Derivative financial liabilities			806	806	1,127	1,127
Other financial liabilities			13,587	13,587	9,624	9,624
Total financial liabilities			1,810,976	1,816,093	1,624,482	1,630,140

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

28 Risk management policies

The Group is committed to the management of risk. The primary risk categories are credit, liquidity, interest rate and operational. The Group's risk management strategy is set by the directors. The Group has put in place management structures and information systems to manage risks incorporated in the Group's Risk Management Programme (RMP). The Group has separated monitoring tasks where feasible and subjects all risk processes to internal audit and accounting systems to regular internal and external audits.

29 Credit risk exposure

Credit risk management framework

Credit risk is the risk of financial loss to the Group caused by the failure of a customer to meet their contractual obligations that arise from the Group's lending activities. Credit risk carries the greatest risk of resulting in a material adjustment to the carrying amounts of the Group's assets within the next financial period.

To manage this risk the Risk Committee, which is a committee of the Board of Directors (Board), has been delegated the task of overseeing a formal credit risk management strategy. The Risk Committee reviews the Group's credit risk exposures and has wide ranging credit policies to manage all aspects of credit risk.

Reviewing and assessing credit risk

The credit risk management strategies ensure that:

- Credit origination meets agreed levels of credit quality at point of approval.
- Sector and geographical risks are actively managed.
- Industry and product concentrations are actively monitored.
- Maximum total exposure to any one debtor is actively managed.
- Changes to credit risk are actively monitored with regular credit reviews.

Lending standards and processes

The Group has adopted a detailed Credit Policy Framework supported by Lending Standards providing criteria for finance products within each business sector. The combination of the Credit Policy Framework and Lending Standards guides credit assessment, credit risk grading, documentation standards, legal procedures and compliance with regulatory and statutory requirements.

The Risk Committee has authority from the Board for approval of all credit exposures. Lending authority has been individually provided to the Chief Risk Officer, for delegation through the business units under a detailed Delegated Lending Authority framework. Application of credit discretions in the business operation are monitored through a defined review and hindsight structure. Delegated Lending Authorities are provided to individual officers with due cognisance of their experience and ability. Larger and higher risk exposures require approval of senior management, ultimately through to the Chief Risk Officer or the Risk Committee of the Board.

Collateral requirements

Although the Group relies primarily on the integrity of borrowers and their ability to make contracted repayments, the Group also requires appropriate collateral for loans. This collateral is usually by way of first charge over the asset financed and usually includes personal guarantees from borrowers and business owners.

Because of the wide nature of the collateral held against loans it is impracticable to provide an accurate estimate of their fair value.

Credit risk grading

The Group's receivables are monitored either by account behaviour or a regular assessment of their credit risk grade based on an objective review of defined risk characteristics. The portfolio risk is regularly refreshed based on current information.

The Group classifies finance receivables as Behavioural or Judgement.

The Behavioural portfolio consists mainly of consumer and retail receivables and usually relates to financing the acquisition of a single asset. These loans are typically introduced by vendors of the asset financed and are smaller in value than Judgement loans. Behavioural loans are risk graded based on arrears status.

The Judgement portfolio consists mainly of business and rural lending and includes non-core property. Judgement loans relate to loans where an ongoing and detailed working relationship with the customer has been developed. To manage these loans the Group maintains a comprehensive knowledge of the customer's business and performance.

Judgement loans are individually risk graded based on loan status, financial information, security and debt servicing ability. Exposures in the Judgement portfolio are credit risk graded by an internal risk grading mechanism. Previously, the risk grading mechanism used a credit risk grade scale of 1 to 7 and classified loans as Transactional or Relationship. From July 2011, the risk grades have been revised to a more comprehensive 10 point scale model which better represents the Group's risk profile.

In the Judgement portfolio, grade 1 is the strongest risk grade for undoubted risk and grade 9 represents the highest risk grade where a loss is probable. Grade 10 reflects loss accounts written off. Grades 2 to 8 represent ascending steps in management's assessment of risk of exposures. The Group typically finances new loans in risk grades 2 to 5 of the Judgement portfolio.

The Group raises provisions based on historical loss experience for loans risk graded in grades 6 to 8 (Prior to 1 July 2011: grades 4 to 6). Loans in grade 9 (Prior to 1 July 2011: grade 7) of the Judgement portfolio are individually assessed for impairment.

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

29 Credit risk exposure (continued)

(a) Credit impairment provisioning

Credit impairment provisions are made where events have occurred leading to an expectation of reduced future cash flows from certain receivables. These provisions are made in some cases against an individual loan and in other cases on a collective basis.

Collective provisioning

Collective provisions are assessed with reference to risk profile groupings and historical loss data. Other judgemental factors including economic and credit cycle considerations are also taken into account in determining appropriate loss propensities to be applied. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the wider economic environment, interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

For Behavioural loans, as arrears drive provision outcomes, the trend in arrears behaviour is an indicator of future provisioning impact. Behavioural loans are classified as either current, active, arrangement, repossession or recovery. Each arrears classification carries a provision for potential loss based on historical experience for that classification in the same portfolio. Retail mortgages currently carry no provision based on historical loss experience, however a general collective provision is held against this group of loans. The categories are described below:

- Active – loans for which the arrears category has reached 5 days overdue.
- Arrangement – 5 to 34 days overdue accounts for which arrangements have or are in the process of being made for arrears to be repaid.
- Repossession – loans for which security has or is in the process of being repossessed.
- Recovery loans – loans for which security has been sold and shortfalls are being sought from the customer or where other recovery action is being taken.

Judgement loans (except PWF rural loans) in grades 6 to 8 (prior to July 2011: Relationship loans in grades 4 to 6) attract a collective provision based on risk grading. PWF loans do not attract a collective provision based on risk grade however a general collective provision is held against this group of loans. Other collective provisions are also maintained where considered appropriate against a class of loans or those with common risk characteristics. Judgement loans with a risk grade of 1 to 5 (prior to July 2011: Relationship loans with a risk grade of 1 to 3) may be past due and not attract a provision if the Group has reviewed the risk position and it is deemed to remain sound. Under such circumstances normally an amended credit risk grade will result.

In accordance with International Financial Reporting Standards, no provision is applied to loans that are newly written and loans that remain within their contractual terms, except where the Group becomes aware of an event that might alter its view of the risk of a particular deal or group of deals.

Individual provisioning

Specific impairment provisions are made where events have occurred leading to an expectation of reduced future cash flows from certain receivables. For individually significant loans for which the assessed risk grade is considered a "potential loss", an individual assessment is made of an appropriate provision for credit impairment.

Credit impairments are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held (discounted at the loan's original effective interest rate). All relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the likely realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgements are made in this process. Furthermore, judgement can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken. Changes in judgement could have a material impact on the interim financial statements.

Individual provisioning in regards to property development lending creates the greatest amount of risk resulting in the possibility of a material adjustment to the carrying amounts of the Group's assets within the next period. Estimating the timing and amount of future cash repayments and proceeds from the realisation of collateral are management's most difficult and subjective judgements. Reduced demand in the current environment has meant that value is difficult to determine. Subjective judgements made by management comprise the time taken for new sales being achieved and the amount received, determining the timing and amount of future cash flows.

Because of the wide nature of the collateral held, and the subjective judgements in determining future cash flows on each individually impaired loan, it is impracticable to provide management's assumptions in regards to property receivables as a whole.

Bad debts

Bad debts provided for are written off against individual or collective provisions. Amounts required to bring the provisions to their assessed levels are recognised in profit or loss. Any future recoveries of amounts provided for are taken to profit or loss.

Verification

In addition to regular internal audit activity in regards to credit standards, the Group employs a comprehensive process of hind sighting loans to ensure that credit policies and the quality of credit processes are maintained.

Disclosures in this credit risk exposure note represent the Group's maximum exposure to credit risk.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

29 Credit risk exposure (continued)
(a) Credit impairment provisioning (continued)

(i) Provision for impaired assets

	Non-securitised			Securitized			Total		
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000
GROUP									
Provision for individually impaired assets									
Opening individual impairment	26,149	17,465	17,465	8	366	366	26,157	17,831	17,831
Impairment loss for the period									
- charge for the period *	3,387	6,942	20,223	(2)	78	93	3,385	7,020	20,316
- recoveries	91	-	117	-	-	-	91	-	117
- write offs	(12,138)	(5,662)	(19,844)	-	(313)	(451)	(12,138)	(5,975)	(20,295)
- assumed on acquisition	1,284	-	-	-	-	-	1,284	-	-
- assumed on amalgamation	-	-	10,049	-	-	-	-	-	10,049
- effect of discounting	(463)	(418)	(1,861)	-	-	-	(463)	(418)	(1,861)
Closing individual impairment	18,310	18,327	26,149	6	131	8	18,316	18,458	28,157
Provision for collectively impaired assets									
Opening collective impairment	11,416	11,765	11,765	724	752	752	12,140	12,517	12,517
Impairment loss for the period									
- charge for the period *	137	(1,202)	(7,548)	266	276	530	403	(926)	(7,018)
- recoveries	182	193	264	24	29	38	206	222	300
- assumed on amalgamation	-	-	12,927	-	-	-	-	-	12,927
- write offs	(1,377)	(1,847)	(5,992)	(308)	(264)	(594)	(1,665)	(2,101)	(6,586)
Closing collective impairment	10,358	8,909	11,416	706	803	724	11,064	9,712	12,140
Total provision for impairment	28,668	27,236	37,565	712	934	732	29,380	28,170	38,297
PARENT									
Provision for individually impaired assets									
Opening individual impairment	17,269	-	-	-	-	-	17,269	-	-
Impairment loss for the period									
- charge for the period	3,283	-	11,508	-	-	-	3,283	-	11,508
- recoveries	22	-	117	-	-	-	22	-	117
- write offs	(6,712)	-	(4,405)	-	-	-	(6,712)	-	(4,405)
- assumed on amalgamation	-	-	10,049	-	-	-	-	-	10,049
Closing individual impairment	13,662	-	17,269	-	-	-	13,662	-	17,269
Provision for collectively impaired assets									
Opening collective impairment	3,493	-	-	-	-	-	3,493	-	-
Impairment loss for the period									
- charge for the period	(1,885)	-	(9,434)	-	-	-	(1,885)	-	(9,434)
- assumed on amalgamation	-	-	12,927	-	-	-	-	-	12,927
Closing collective impairment	1,608	-	3,493	-	-	-	1,608	-	3,493
Total provision for impairment	15,470	-	20,762	-	-	-	15,470	-	20,762

* In determining the charge for the period, the RECL management agreement has been taken into consideration, refer to Note 26 - Related party transactions and Note 13 - Investment properties for more details. In assessing the requirements for provisions, the Group has identified loans for which a loss is expected to be covered by the management agreement of \$18.6 million as at 31 December 2011 (December 2010: \$9.8 million; June 2011: \$11.8 million). The agreement covers the MARAC non-core property loans with a net book value of \$88 million as at 31 December 2011 (December 2010: \$131 million; June 2011: \$121 million).

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

29 Credit risk exposure (continued)
(a) Credit impairment provisioning (continued)
(i) Provision for impaired assets (continued)

	Property	Consumer	All other	Total
	& Personal	Industries	(SME)	
	\$000	\$000	\$000	\$000
GROUP - Dec 2011				
Provision for individually impaired assets				
Opening individual impairment	18,617	1,429	6,111	26,157
Impairment loss for the period				
- charge for the period	2,875	(1,429)	1,939	3,385
- recoveries	22	-	69	91
- write offs	(6,737)	-	(5,401)	(12,138)
- assumed on acquisition	-	-	1,284	1,284
- effect of discounting	(103)	-	(360)	(463)
Closing individual impairment	14,674	-	3,642	18,316
Provision for collectively impaired assets				
Opening collective impairment	1,664	4,813	5,663	12,140
Impairment loss for the period				
- charge for the period	963	(100)	(460)	403
- recoveries	-	70	136	206
- write offs	272	(1,315)	(642)	(1,685)
Closing collective impairment	2,899	3,468	4,697	11,064
Total provision for impairment	17,573	3,468	8,339	29,380
GROUP - Dec 2010				
Provision for individually impaired assets				
Opening individual impairment	8,712	7	9,112	17,831
Impairment loss for the period				
- charge for the period	2,642	(7)	4,385	7,020
- write offs	(2,482)	-	(3,483)	(5,975)
- effect of discounting	(214)	-	(204)	(418)
Closing individual impairment	8,658	-	9,800	18,458
Provision for collectively impaired assets				
Opening collective impairment	4,463	4,173	3,881	12,517
Impairment loss for the period				
- charge for the period	(2,177)	(392)	1,643	(926)
- recoveries	-	82	140	222
- write offs	-	(1,145)	(956)	(2,101)
Closing collective impairment	2,286	2,718	4,708	9,712
Total provision for impairment	10,944	2,718	14,508	28,170
GROUP - Jun 2011				
Provision for individually impaired assets				
Opening individual impairment	8,712	7	9,112	17,831
Impairment loss for the period				
- charge for the period	11,752	1,422	7,142	20,316
- recoveries	117	-	-	117
- write offs	(11,404)	-	(8,891)	(20,295)
- assumed on amalgamation	10,049	-	-	10,049
- effect of discounting	(609)	-	(1,252)	(1,861)
Closing individual impairment	18,617	1,429	6,111	26,157
Provision for collectively impaired assets				
Opening collective impairment	4,463	4,173	3,881	12,517
Impairment loss for the period				
- charge for the period	(12,191)	2,363	2,810	(7,018)
- recoveries	3	248	49	300
- assumed on amalgamation	12,649	-	278	12,927
- write offs	(3,260)	(1,971)	(1,355)	(6,586)
Closing collective impairment	1,664	4,813	5,663	12,140
Total provision for impairment	20,281	6,242	11,774	38,297

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

- 29 Credit risk exposure (continued)
 (a) Credit impairment provisioning (continued)
 (i) Provision for impaired assets (continued)

	Property \$000	Consumer & Personal \$000	All other Industries (SME) \$000	Total \$000
PARENT - Dec 2011				
Provision for individually impaired assets				
Opening individual impairment	15,840	1,429	-	17,269
Impairment loss for the period				
- charge for the period	4,712	(1,429)	-	3,283
- recoveries	22	-	-	22
- write offs	(6,712)	-	-	(6,712)
Closing individual impairment	13,862	-	-	13,862
Provision for collectively impaired assets				
Opening collective impairment	609	1,987	897	3,493
Impairment loss for the period				
- charge for the period	(602)	(987)	(296)	(1,885)
Closing collective impairment	7	1,000	601	1,608
Total provision for impairment	13,869	1,000	601	15,470

PARENT - Jun 2011				
Provision for individually impaired assets				
Opening individual impairment	-	-	-	-
Impairment loss for the year				
- charge for the year	10,079	1,429	-	11,508
- recoveries	117	-	-	117
- write offs	(4,405)	-	-	(4,405)
- assumed on amalgamation	10,049	-	-	10,049
Closing individual impairment	15,840	1,429	-	17,269
Provision for collectively impaired assets				
Opening collective impairment	-	-	-	-
Impairment loss for the year				
- charge for the year	(12,040)	1,987	619	(9,434)
- assumed on amalgamation	12,649	-	278	12,927
Closing collective impairment	609	1,987	897	3,493
Total provision for impairment	16,449	3,416	897	20,762

- (ii) Impaired asset expense

	Non-secured			Secured			Total		
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Jun 2011	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
GROUP									
Individually impaired assets expense	3,387	6,942	20,223	(2)	78	93	3,385	7,020	20,316
Collectively impaired assets expense	137	(1,202)	(7,548)	286	276	530	403	(926)	(7,018)
Total impaired asset expense	3,524	5,740	12,675	284	354	623	3,788	6,094	13,298
PARENT									
Individually impaired assets expense	3,283		11,508	-		-	3,283		11,508
Collectively impaired assets expense	(1,885)		(9,434)	-		-	(1,885)		(9,434)
Total impaired asset expense	1,398		2,074	-		-	1,398		2,074

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

29 Credit risk exposure (continued)
(a) Credit impairment provisioning (continued)

(iv) Restructured assets

	Property \$000	Consumer & personal \$000	All other Industries \$000	Total \$000
GROUP - Dec 2011				
Restructured assets	5,805	2,911	713	9,429
GROUP - Dec 2010				
Restructured assets	-	2,783	533	3,316
GROUP - Jun 2011				
Restructured assets	569	2,725	524	3,818
PARENT - Dec 2011				
Restructured assets	-	-	-	-
PARENT - Jun 2011				
Restructured assets	569	-	-	569

(v) Past due but not impaired

	Non-secured			Secured			Total		
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000
GROUP									
Less than 30 days old	44,819	29,384	23,898	4,134	3,291	2,678	48,953	32,675	26,577
31 and less than 60 days old	19,019	12,465	27,763	1,382	1,372	1,614	20,401	13,837	29,377
61 but less than 90 days old	5,531	6,243	15,405	351	442	308	5,882	6,685	15,711
More than 90 days old	61,366	63,070	85,739	1,231	1,405	1,459	62,697	64,475	67,198
Total past due but not impaired	130,735	111,162	132,806	7,098	6,510	6,067	137,833	117,672	138,863

PARENT									
Less than 30 days old	15,881		9,706	96			16,977		9,706
31 and less than 60 days old	3,404		865			224	3,404		1,089
61 but less than 90 days old	281		2,474				281		2,474
More than 90 days old	1,321		5,831	84			1,405		5,831
Total past due but not impaired	20,887		18,876	180		224	21,067		19,100

	Property \$000	Consumer & personal \$000	All other Industries (SME) \$000	Total \$000
GROUP - Dec 2011				
Less than 30 days old	13,646	20,632	14,675	48,953
31 and less than 60 days old	3,329	3,940	13,132	20,401
61 but less than 90 days old	273	1,297	4,312	5,882
More than 90 days old	45,717	4,133	12,747	62,597
Total past due but not impaired	62,965	30,002	44,866	137,833
GROUP - Dec 2010				
Less than 30 days old	11,032	9,884	11,759	32,675
31 and less than 60 days old	1,849	3,652	8,336	13,837
61 but less than 90 days old	2,636	1,645	2,404	6,685
More than 90 days old	47,905	3,612	12,958	64,475
Total past due but not impaired	63,422	18,793	35,457	117,672
GROUP - Jun 2011				
Less than 30 days old	6,830	15,064	4,683	26,577
31 and less than 60 days old	19,482	2,763	7,132	29,377
61 but less than 90 days old	4,707	3,687	7,317	15,711
More than 90 days old	45,915	4,577	16,706	67,198
Total past due but not impaired	76,934	26,091	35,838	138,863
PARENT - Dec 2011				
Less than 30 days old	2,965	10,622	2,390	15,977
31 and less than 60 days old	2,855	549	-	3,404
61 but less than 90 days old	287	14	-	281
More than 90 days old	-	1,405	-	1,405
Total past due but not impaired	6,087	12,590	2,390	21,067

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

29 Credit risk exposure (continued)
(a) Credit impairment provisioning (continued)
(v) Past due but not impaired (continued)

	Property & personal	Consumer	All other Industries (SME)	Total
	\$000	\$000	\$000	\$000
PARENT - Jun 2011				
Less than 30 days old	1,360	7,780	566	9,706
31 and less than 60 days old	1,055	34	-	1,089
61 but less than 90 days old	355	2,119	-	2,474
More than 90 days old	2,665	675	2,491	5,831
Total past due but not impaired	5,435	10,608	3,057	19,100

(b) Concentrations of credit risk
(i) By individual counterparties

	Non-securitised			Securitised			Total		
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011
	Number of counterparties			Number of counterparties			Number of counterparties		
Cash and cash equivalents - Individual credit exposures over 10% (as a % of equity):									
GROUP									
10% - 19%	-	1	2	-	-	-	-	1	2
20% - 29%	1	1	2	-	-	-	1	1	2
PARENT									
10% - 19%	-	-	1	-	-	-	-	-	1
20% - 29%	1	-	3	-	-	-	1	-	3

Short term funds held with New Zealand registered international banks.

(ii) By industry

	Non-securitised			Securitised			Total		
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
GROUP									
Agricultural, forestry and fishing	566,854	108,657	186,010	3,641	2,661	2,926	570,495	111,318	188,936
Government & public authorities	20,964	18,922	16,739	659	752	400	21,623	19,674	17,139
Finance, investments & insurance	31,795	30,400	36,460	4,778	790	689	36,573	31,190	37,149
Construction	61,410	60,139	63,509	1,029	1,572	884	62,439	61,711	64,393
Transport and storage	84,806	70,469	72,975	933	2,079	1,744	85,739	72,548	74,719
Wholesale and retail trade	106,398	134,859	118,754	1,789	3,302	2,727	108,187	138,161	121,481
Hospitality and tourism	41,117	41,449	49,570	25	205	388	41,142	41,654	49,958
Manufacturing and printing	43,819	37,454	43,831	868	1,131	847	44,687	38,585	44,678
Property [#]	266,780	131,405	294,937	-	-	-	266,780	131,405	294,937
Consumer & personal	565,028	292,197	614,833	272,518	148,763	199,088	837,546	440,960	813,921
Total finance receivables	1,788,971	925,951	1,497,618	286,240	161,255	209,693	2,075,211	1,087,206	1,707,311
PARENT									
Agricultural, forestry and fishing	36,412	-	60,381	1,505	-	1,933	37,917	-	62,314
Government & public authorities	-	-	-	435	-	-	435	-	-
Finance, investments & insurance	421	-	1,084	4,475	-	211	4,896	-	1,295
Construction	623	-	3,472	919	-	338	1,542	-	3,810
Transport and storage	-	-	4,197	-	-	392	-	-	4,589
Wholesale and retail trade	-	-	3,598	1,339	-	138	1,339	-	3,736
Hospitality and tourism	1,482	-	14,629	-	-	310	1,482	-	14,939
Manufacturing and printing	-	-	2,267	549	-	-	549	-	2,267
Property	172,134	-	171,273	-	-	-	172,134	-	171,273
Consumer & personal	289,058	-	333,486	72,662	-	28,809	361,720	-	362,295
Total finance receivables	500,130	-	594,387	81,884	-	32,131	582,014	-	626,518

[#] Included in the Group's property industry above, is \$88 million of MARAC non-core property loans which are covered by the RECL management agreement as at 31 December 2011 (December 2010: \$131 million; June 2011: \$121 million), refer Note 26 - Related party transactions. A further \$23 million (December 2010: nil; June 2011: \$32 million) of non-core property loans acquired by the Group from CBS and SCBS in the merger are also included in this category, net of provisions. The remaining \$156 million (December 2010: nil; June 2011: \$142 million) is core property lending.

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

29 Credit risk exposure (continued)
 (b) Concentrations of credit risk
 (iii) By geographic region

	Non-secured			Securitized			Total		
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
GROUP									
Auckland	427,169	354,399	449,556	84,263	66,049	72,161	511,432	420,448	521,717
Wellington	83,046	86,374	88,016	18,070	13,069	18,212	101,116	99,443	104,228
Rest of North Island	403,712	293,957	347,630	58,814	45,915	49,463	462,526	339,872	396,993
Canterbury	477,332	95,461	471,567	104,443	25,206	56,613	591,775	120,667	528,160
Rest of South Island	397,712	95,760	140,949	20,650	11,016	15,244	418,362	106,775	156,193
Total finance receivables	1,788,971	925,951	1,497,616	286,240	161,255	209,693	2,075,211	1,087,206	1,707,311
PARENT									
Auckland	90,479		102,842	1,721		482	92,200		103,324
Wellington	15,932		17,316	372		53	16,304		17,369
Rest of North Island	74,642		75,885	804		431	75,446		76,316
Canterbury	292,747		375,112	73,348		29,080	366,095		404,172
Rest of South Island	26,330		23,232	5,639		2,105	31,969		25,337
Total finance receivables	500,130		694,387	81,884		32,131	582,014		626,518

(c) Maximum exposure to credit risk by internal risk grading

GROUP - Current period

Judgement portfolio								
Grade 1 - Very Strong	38,724			-			38,724	
Grade 2 - Strong	23,547			-			23,547	
Grade 3 - Sound	109,772			243			110,015	
Grade 4 - Adequate *	374,221			1,285			375,506	
Grade 5 - Acceptable	349,645			8,630			358,275	
Grade 6 - Monitor	95,080			74			95,134	
Grade 7 - Substandard	70,169			52			70,221	
Grade 8 - Doubtful	10,375			21			10,396	
Grade 9 - At risk of loss	24,248			-			24,248	
Total Judgement portfolio	1,085,761			10,306			1,106,066	
Behavioural portfolio								
Current	673,690			269,595			943,285	
Active	12,691			4,095			16,786	
Arrangement	4,427			1,631			6,058	
Repossessed	1,946			403			2,349	
Recovery	456			211			667	
Total Behavioural portfolio	693,210			275,935			969,145	
Total maximum exposure to credit risk	1,788,971			286,240			2,075,211	

GROUP - Comparative periods

Grade 1 - Undoubted			43,385			111			43,496
Grade 2 - Strong	21,616	333,872				20,946	21,616	354,818	
Grade 3 - Sound *	729,440	953,586		153,845	181,612		883,285	1,135,198	
Grade 4 - Satisfactory	58,977	68,440		3,344	3,901		62,321	72,341	
Grade 5 - Uncertain	42,342	37,466		2,638	2,248		44,980	39,714	
Grade 6 - At risk	27,620	20,822		994	656		28,614	21,478	
Grade 7 - Probable loss	45,956	40,047		434	219		46,390	40,266	
Total maximum exposure to credit risk		925,951	1,497,616		161,255	209,693		1,087,206	1,707,311

* In determining the Group's risk grading, the following arrangements have been taken into consideration:

The RECL management agreement, refer to Note 26 - Related party transactions and Note 13 - Investment properties for more details. In the risk grading table above, as at 31 December 2011 \$50 million of loans have been transferred from the Judgement risk grades 5 to 8, to risk grade 4 as they are covered by the RECL management agreement. As at 30 June 2011 \$51 million of loans have been transferred from risk grades 4 to 6, to risk grade 3 (December 2010: \$48 million). In assessing the requirements for provisions, the Group has identified loans for which a loss is expected to be covered by the management agreement of \$16.6 million as at 31 December 2011 (December 2010: \$9.8 million; June 2011: \$11.8 million). The agreement covers the MARAC non-core property loans with a net book value of \$88 million as at 31 December 2011 (December 2010: \$131 million; June 2011: \$121 million).

PGG Wrightson Finance Limited guaranteed loans, refer to Note 34 - Business Combinations. In the risk grading table above, as at 31 December 2011 \$30 million of loans have been transferred from the Judgement risk grades of 6 to 8, to risk grade 4 as they are covered by the Deed of Guarantee and Indemnity with PGG Wrightson Limited. Subsequent to reporting date PGG Wrightson Limited will reacquire approximately \$9.5 million of loans covered under this Deed.

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

29 Credit risk exposure (continued)

(c) Maximum exposure to credit risk by internal risk grading

	Non-securitised			Securitized			Total			
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
PARENT - Current period										
Judgement portfolio										
Grade 1 - Very Strong	4,647			-			4,647			
Grade 2 - Strong	17,232			-			17,232			
Grade 3 - Sound	35,994			243			36,237			
Grade 4 - Adequate	40,811			1,110			41,921			
Grade 5 - Acceptable	55,089			8,107			63,196			
Grade 6 - Monitor	33,811			-			33,811			
Grade 7 - Substandard	19,338			-			19,338			
Grade 9 - At risk of loss	20,756			-			20,756			
Total Judgement portfolio	227,678			9,460			237,138			
Behavioural portfolio										
Current	265,170			72,243			337,413			
Active	5,999			181			6,180			
Arrangement	549			-			549			
Repossessed	734			-			734			
Total Behavioural portfolio	272,452			72,424			344,876			
Total maximum exposure to credit risk	500,130			81,884			582,014			
PARENT - Comparative periods										
Grade 1 - Undoubted			32,015			98			32,113	
Grade 2 - Strong			303,703			19,676			323,379	
Grade 3 - Sound			195,853			11,689			207,542	
Grade 4 - Satisfactory			38,823			444			39,267	
Grade 5 - Uncertain			9,287			224			9,511	
Grade 6 - At risk			3,750			-			3,750	
Grade 7 - Probable loss			10,956			-			10,956	
Total maximum exposure to credit risk			594,387			32,131			626,518	
							Property	Consumer & personal	All other industries (SME)	Total
							\$000	\$000	\$000	\$000
GROUP - Dec 2011										
Judgement portfolio										
Grade 1 - Very Strong							4,154	17	34,553	38,724
Grade 2 - Strong							17,232	242	6,073	23,547
Grade 3 - Sound							36,568	1,411	72,036	110,015
Grade 4 - Adequate *							95,733	8,871	270,902	375,506
Grade 5 - Acceptable							64,856	10,217	283,202	358,275
Grade 6 - Monitor							12,533	5,025	77,576	95,134
Grade 7 - Substandard							9,849	4,580	55,792	70,221
Grade 8 - Doubtful							-	129	10,267	10,396
Grade 9 - At risk of loss							22,194	-	2,054	24,248
Total Judgement portfolio							263,119	30,492	812,455	1,106,066
Behavioural portfolio										
Not in arrears							3,648	784,398	155,239	943,285
Active							7	15,321	1,458	16,786
Arrangement							-	4,864	1,194	6,058
Repossessed							6	1,971	372	2,349
Recovery							-	500	167	667
Total Behavioural portfolio							3,661	807,054	158,430	969,145
Total maximum exposure to credit risk							266,780	837,546	970,885	2,075,211

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

29 Credit risk exposure (continued)

(c) Maximum exposure to credit risk by internal risk grading

	Property \$000	Consumer & personal \$000	All other industries (SME) \$000	Total \$000
GROUP - Dec 2010				
Grade 2 - Strong	19,972	258	1,388	21,618
Grade 3 - Sound *	77,915	422,602	382,768	883,285
Grade 4 - Satisfactory	10	9,223	53,088	62,321
Grade 5 - Uncertain	-	5,824	39,156	44,980
Grade 6 - At risk	48	2,159	26,407	28,614
Grade 7 - Probable loss	33,460	894	12,036	46,390
Total maximum exposure to credit risk	131,405	440,960	514,841	1,087,206
GROUP - Jun 2011				
Grade 1 - Undoubted	20,495	9,918	13,083	43,496
Grade 2 - Strong	88,988	252,808	33,022	354,818
Grade 3 - Sound *	160,297	515,875	459,026	1,135,198
Grade 4 - Satisfactory	14,995	22,598	34,748	72,341
Grade 5 - Uncertain	4,690	5,778	29,246	39,714
Grade 6 - At risk	561	2,904	18,013	21,478
Grade 7 - Probable loss	24,911	4,040	11,315	40,266
Total maximum exposure to credit risk	294,937	813,921	598,453	1,707,311
PARENT - Dec 2011				
Judgement portfolio				
Grade 1 - Very Strong	4,162	-	485	4,647
Grade 2 - Strong	17,232	-	-	17,232
Grade 3 - Sound	30,280	1,001	4,956	36,237
Grade 4 - Adequate	33,399	4,731	3,791	41,921
Grade 5 - Acceptable	42,675	5,974	14,547	63,196
Grade 6 - Monitor	10,701	4,813	18,297	33,811
Grade 7 - Substandard	9,710	4,267	5,361	19,338
Grade 9 - At risk of loss	20,756	-	-	20,756
Total Judgement portfolio	168,916	20,786	47,437	237,138
Behavioural portfolio				
Current	3,219	333,471	723	337,413
Active	-	6,180	-	6,180
Arrangement	-	549	-	549
Reposessed	-	734	-	734
Total Behavioural portfolio	3,219	340,934	723	344,876
Total maximum exposure to credit risk	172,134	361,720	48,160	582,014
PARENT - Jun 2011				
Grade 1 - Undoubted	20,495	9,808	1,810	32,113
Grade 2 - Strong	48,691	247,800	26,888	323,379
Grade 3 - Sound	75,387	86,271	45,884	207,542
Grade 4 - Satisfactory	14,296	14,988	9,883	39,267
Grade 5 - Uncertain	4,484	101	4,926	9,511
Grade 6 - At risk	84	502	3,184	3,750
Grade 7 - Probable loss	7,836	2,825	295	10,956
Total maximum exposure to credit risk	171,273	362,295	92,950	626,518

(d) Commitments to extend credit

	Non-secured			Secured			Total		
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000
GROUP									
Undrawn facilities available to customers	125,338	51,574	74,099	-	-	49	125,338	51,574	74,148
Conditional commitments to fund at future dates	31,201	28,988	19,199	-	-	-	31,201	28,988	19,199
PARENT									
Undrawn facilities available to customers	13,677	-	23,530	-	-	49	13,677	-	23,579
Conditional commitments to fund at future dates	5,379	-	-	-	-	-	5,379	-	-

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

30 Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds at short notice to meet its commitments and arises from any mismatch of the maturity of financial assets and liabilities. Responsibility for liquidity management is delegated to the Asset and Liability Committee (ALCO), with the Risk Committee providing oversight.

The Group manages liquidity and funding risk by:

- weekly liquidity reporting and scenario analysis to quantify the Group's current and forecast position.
- maintaining a diverse and stable funding base.
- retaining borrowing facilities committed to the Group by registered banks.
- holding a portfolio of liquid assets.
- ensuring the liquidity management framework is compliant with local regulatory requirements.

The following tables show the cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity.

In the following tables, total financial assets do not include unrecognised loan commitments and total financial liabilities do not include undrawn committed bank facilities.

The tables include estimates as to the average interest rate applicable for each asset or liability class during the contractual term.

Contractual liquidity profile of financial assets and liabilities

	On Demand \$000	0-6 Months \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	5+ Years \$000	Total \$000
GROUP - Dec 2011							
Financial assets							
Cash and cash equivalents	118,564	-	-	-	-	-	118,564
Investments	-	504	504	1,009	25,854	-	27,871
Finance receivables	-	550,648	402,478	353,956	532,770	597,329	2,437,181
Finance receivables - securitised	-	61,529	54,984	88,569	88,357	119,341	412,780
Derivative financial assets	2,823	-	-	-	-	-	2,823
Other financial assets	-	8,230	-	-	-	-	8,230
Total financial assets	121,387	620,911	457,966	443,534	646,981	716,670	3,007,449
Financial liabilities							
Borrowings	255,809	859,187	391,882	234,442	52,326	-	1,793,646
Borrowings - securitised	-	4,661	190,984	76,392	-	-	272,037
Derivative financial liabilities	2,162	-	-	-	-	-	2,162
Other financial liabilities	-	18,456	-	-	-	-	18,456
Total financial liabilities	257,971	882,304	582,866	310,834	52,326	-	2,086,301
Net financial assets	(136,584)	(261,393)	(124,900)	132,700	594,655	716,670	921,148
Unrecognised loan commitments	125,336	-	-	-	-	-	125,336
Undrawn committed bank facilities	360,000	-	-	-	-	-	360,000

The undrawn committed bank facilities totalling \$360.0 million are available to be drawn down on demand. To the extent drawn, \$50.0 million is contractually repayable in 0-6 months time, \$110.0 million is contractually repayable in 6-12 months time and \$200.0 million is contractually repayable in 1-2 years time upon facility expiry. Subsequent to reporting date, the syndicated bank facilities have been extended 6 months.

GROUP - Dec 2010

Financial assets							
Cash and cash equivalents	78,549	-	-	-	-	-	78,549
Finance receivables	-	334,003	192,975	241,828	334,977	1,078	1,104,861
Finance receivables - securitised	-	45,680	38,846	61,455	47,557	-	193,538
Derivative financial assets	4,995	-	-	-	-	-	4,995
Other financial assets	-	29,690	-	-	-	-	29,690
Total financial assets	83,544	409,373	231,821	303,283	382,534	1,078	1,411,633
Financial liabilities							
Borrowings	53,293	311,498	296,549	120,381	129,767	-	911,488
Borrowings - securitised	-	3,306	149,569	-	-	-	152,875
Derivative financial liabilities	1,216	-	-	-	-	-	1,216
Other financial liabilities	-	30,235	-	-	-	-	30,235
Total financial liabilities	54,509	345,039	446,118	120,381	129,767	-	1,095,814
Net financial assets	29,035	64,334	(214,297)	182,902	252,767	1,078	315,819
Unrecognised loan commitments	51,574	-	-	-	-	-	51,574
Undrawn committed bank facilities	250,250	-	-	-	-	-	250,250

The undrawn committed bank facilities totalling \$250.3 million were available to be drawn down on demand. To the extent drawn, \$200.3 million was contractually repayable in 0-6 months time and \$50.0 million in 6-12 months time upon the facilities expiring.

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

30 Liquidity risk (continued)

Contractual liquidity profile of financial assets and liabilities

	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
GROUP - Jun 2011							
Financial assets							
Cash and cash equivalents	77,773	189,679	-	-	-	-	267,452
Investments	-	7,036	1,327	821	10,556	1,038	20,578
Finance receivables	-	433,361	215,885	335,376	517,824	767,084	2,269,530
Finance receivables - securitised	-	49,601	44,479	72,866	64,806	49,456	281,008
Derivative financial assets	3,048	-	-	-	-	-	3,048
Other financial assets	-	3,551	-	-	-	-	3,551
Total financial assets	80,821	683,228	281,691	408,863	592,986	817,578	2,846,167
Financial liabilities							
Borrowings	166,292	948,698	319,267	79,118	135,550	1,990	1,650,875
Borrowings - securitised	-	3,632	174,847	682	20,056	-	199,217
Derivative financial liabilities	2,444	-	-	-	-	-	2,444
Other financial liabilities	-	15,677	-	-	-	-	15,677
Total financial liabilities	168,736	967,997	494,114	79,800	155,606	1,990	1,868,213
Net financial assets	(87,885)	(284,769)	(232,423)	329,063	437,380	815,588	976,954
Unrecognised loan commitments	74,148	-	-	-	-	-	74,148
Undrawn committed bank facilities	280,000	-	-	-	-	-	280,000

The undrawn committed bank facilities totalling \$280.0 million were available to be drawn down on demand. To the extent drawn, \$25.0 million was contractually repayable in 6-12 months time, \$155.0 million was contractually repayable in 1-2 years time and \$100.0 million was contractually repayable in 2-5 years time upon the facilities expiring.

	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
PARENT - Dec 2011							
Financial assets							
Cash and cash equivalents	100,708	-	-	-	-	-	100,708
Investments	-	504	504	1,009	25,854	-	27,871
Due from related parties	1,072,843	-	-	-	-	-	1,072,843
Finance receivables	-	108,094	68,368	55,901	121,962	597,329	951,654
Finance receivables - securitised	-	7,928	5,452	8,454	26,649	119,341	167,824
Derivative financial assets	2,823	-	-	-	-	-	2,823
Other financial assets	-	1,117	-	-	-	-	1,117
Total financial assets	1,176,374	117,643	74,324	65,364	174,465	716,670	2,324,840
Financial liabilities							
Borrowings	255,809	859,187	391,882	234,442	52,326	-	1,793,646
Borrowings - securitised	-	1,285	1,285	76,392	-	-	78,962
Derivative financial liabilities	806	-	-	-	-	-	806
Other financial liabilities	-	13,582	-	-	-	-	13,582
Total financial liabilities	256,615	874,054	393,167	310,834	52,326	-	1,886,996
Net financial assets	919,759	(766,411)	(318,843)	(245,470)	122,139	716,670	437,844
Unrecognised loan commitments	13,677	-	-	-	-	-	13,677
Undrawn committed bank facilities	250,000	-	-	-	-	-	250,000

The undrawn committed bank facilities totalling \$250.0 million were available to be drawn down on demand. To the extent drawn, \$50.0 million was contractually repayable in 0-6 months time and \$200.0 million was contractually repayable in 1-2 years time upon facility expiry.

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

30 Liquidity risk (continued)

	On Demand \$000	0-6 Months \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	5+ Years \$000	Total \$000
PARENT - Jun 2011							
Financial assets							
Cash and cash equivalents	56,449	189,679	-	-	-	-	246,128
Investments	-	7,036	1,327	621	10,556	1,038	20,578
Due from related parties	740,817	-	-	-	-	-	740,817
Finance receivables	-	115,948	56,410	103,095	165,490	764,633	1,205,576
Finance receivables - securitised	-	2,624	1,771	3,713	11,439	49,456	69,003
Derivative financial assets	3,048	-	-	-	-	-	3,048
Other financial assets	-	1,610	-	-	-	-	1,610
Total financial assets	800,314	316,897	59,508	107,429	187,485	815,127	2,286,760
Financial liabilities							
Borrowings	166,262	948,688	319,267	79,118	135,550	1,990	1,650,875
Borrowings - securitised	-	341	341	682	20,056	-	21,420
Derivative financial liabilities	1,127	-	-	-	-	-	1,127
Other financial liabilities	-	9,624	-	-	-	-	9,624
Total financial liabilities	167,389	958,653	319,608	79,800	155,606	1,990	1,683,046
Net financial assets	632,925	(641,756)	(260,100)	27,629	31,879	813,137	603,714
Unrecognised loan commitments	23,579	-	-	-	-	-	23,579
Undrawn committed bank facilities	255,000	-	-	-	-	-	255,000

The undrawn committed bank facilities totalling \$255.0 million are available to be drawn down on demand. To the extent drawn, \$155.0 million is contractually repayable in 1-2 years time and \$100.0 million is contractually repayable in 2-5 years time upon the facilities expiring.

Expected maturity profile of financial assets and liabilities

The tables below show management's expected maturities of existing financial assets and financial liabilities.

Expected maturities of financial assets are based on management's best estimate having regard to current market conditions and past experience. The expected maturities of securitised borrowings are based on the expected maturities of securitised receivables and historical deposit and debenture reinvestment levels have been applied to other borrowings. Other financial liabilities reflect contractual maturities.

The below does not reflect a forward looking view of how the Group expects actual financial assets and liabilities to perform in the future, as it does not include new lending and borrowing.

	On Demand \$000	0-6 Months \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	5+ Years \$000	Total \$000
GROUP - Dec 2011							
Financial assets							
Cash and cash equivalents	118,564	-	-	-	-	-	118,564
Investments	-	504	504	1,009	25,854	-	27,871
Finance receivables	-	546,828	458,031	391,696	680,974	174	2,077,703
Finance receivables - securitised	-	75,975	61,104	84,592	121,751	-	343,422
Derivative financial asset	2,823	-	-	-	-	-	2,823
Other financial assets	-	8,230	-	-	-	-	8,230
Total financial assets	121,387	631,537	519,639	477,297	828,579	174	2,578,613
Financial liabilities							
Borrowings	2,558	294,669	231,413	457,918	556,372	372,642	1,915,572
Borrowings - securitised	-	61,170	48,688	66,184	106,265	-	282,307
Derivative financial liabilities	2,162	-	-	-	-	-	2,162
Other financial liabilities	-	18,456	-	-	-	-	18,456
Total financial liabilities	4,720	374,295	280,101	524,102	662,637	372,642	2,218,497
Net financial assets	116,667	257,242	239,538	(46,805)	165,942	(372,468)	360,116
Unrecognised loan commitments	125,336	-	-	-	-	-	125,336
Undrawn committed bank facilities	360,000	-	-	-	-	-	360,000

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

30 Liquidity risk (continued)

Expected maturity profile of financial assets and liabilities

	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
GROUP - Dec 2010							
Financial assets							
Cash and cash equivalents	78,549	-	-	-	-	-	78,549
Finance receivables	-	299,363	255,998	281,856	293,516	-	1,130,733
Finance receivables - securitised	-	58,786	43,472	58,479	34,881	-	193,618
Derivative financial assets	4,995	-	-	-	-	-	4,995
Other financial assets	-	29,690	-	-	-	-	29,690
Total financial assets	83,544	388,839	299,470	340,335	328,397	-	1,437,585
Financial liabilities							
Borrowings	53,293	175,545	211,029	291,677	197,604	625	929,773
Borrowings - securitised	-	3,306	149,569	-	-	-	152,875
Derivative financial liabilities	1,216	-	-	-	-	-	1,216
Other financial liabilities	-	30,235	-	-	-	-	30,235
Total financial liabilities	54,509	209,086	360,598	291,677	197,604	625	1,114,099
Net financial assets	29,035	179,753	(61,128)	48,658	130,793	(625)	323,486
Unrecognised loan commitments	51,574	-	-	-	-	-	51,574
Undrawn committed bank facilities	250,250	-	-	-	-	-	250,250
GROUP - Jun 2011							
Financial assets							
Cash and cash equivalents	77,773	189,879	-	-	-	-	267,452
Investments	-	7,036	1,327	621	10,556	1,038	20,578
Finance receivables	-	398,687	303,218	383,950	716,916	-	1,800,771
Finance receivables - securitised	-	62,867	49,735	69,475	70,192	-	252,069
Derivative financial assets	3,048	-	-	-	-	-	3,048
Other financial assets	-	3,551	-	-	-	-	3,551
Total financial assets	80,821	659,920	354,280	454,046	797,664	1,038	2,347,469
Financial liabilities							
Borrowings	-	267,835	195,399	307,165	505,886	515,471	1,791,556
Borrowings - securitised	-	3,632	174,847	682	20,056	-	199,217
Derivative financial liabilities	2,444	-	-	-	-	-	2,444
Other financial liabilities	-	15,677	-	-	-	-	15,677
Total financial liabilities	2,444	286,944	370,246	307,847	525,942	515,471	2,008,894
Net financial assets	78,377	372,976	(15,966)	146,199	271,722	(514,433)	338,575
Unrecognised loan commitments	74,148	-	-	-	-	-	74,148
Undrawn committed bank facilities	280,000	-	-	-	-	-	280,000

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

30 Liquidity risk (continued)

Expected maturity profile of financial assets and liabilities

	On Demand \$000	0-6 Months \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	5+ Years \$000	Total \$000
PARENT - Dec 2011							
Financial assets							
Cash and cash equivalents	100,708	-	-	-	-	-	100,708
Investments	-	504	504	1,009	25,854	-	27,871
Due from related parties	1,072,843	-	-	-	-	-	1,072,843
Finance receivables	-	108,094	68,368	55,901	351,477	174	584,014
Finance receivables - securitised	-	7,928	5,452	6,454	76,874	-	98,508
Derivative financial assets	2,823	-	-	-	-	-	2,823
Other financial assets	-	1,117	-	-	-	-	1,117
Total financial assets	1,176,374	117,643	74,324	65,364	454,005	174	1,887,884
Financial liabilities							
Borrowings	2,558	294,669	231,413	457,918	556,372	372,642	1,915,572
Borrowings - securitised	-	5,807	3,736	5,282	70,745	-	85,570
Derivative financial liabilities	806	-	-	-	-	-	806
Other financial liabilities	-	13,582	-	-	-	-	13,582
Total financial liabilities	3,364	314,058	235,149	463,200	627,117	372,642	2,015,530
Net financial assets	1,173,010	(196,415)	(160,825)	(397,836)	(173,112)	(372,468)	(127,646)
Unrecognised loan commitments	13,677	-	-	-	-	-	13,677
Undrawn committed bank facilities	250,000	-	-	-	-	-	250,000
PARENT - Jun 2011							
Financial assets							
Cash and cash equivalents	56,449	189,679	-	-	-	-	246,128
Investments	-	7,036	1,327	621	10,556	1,038	20,578
Due from related parties	740,817	-	-	-	-	-	740,817
Finance receivables	-	115,948	56,410	103,095	441,869	-	717,322
Finance receivables - securitised	-	2,624	1,771	3,713	31,195	-	39,304
Derivative financial assets	3,048	-	-	-	-	-	3,048
Other financial assets	-	1,610	-	-	-	-	1,610
Total financial assets	800,314	316,897	59,508	107,429	483,621	1,038	1,768,807
Financial liabilities							
Borrowings	-	267,635	195,399	307,165	505,886	515,471	1,791,556
Borrowings - securitised	-	341	341	682	20,056	-	21,420
Derivative financial liabilities	1,127	-	-	-	-	-	1,127
Other financial liabilities	-	9,624	-	-	-	-	9,624
Total financial liabilities	1,127	277,600	195,740	307,847	525,942	515,471	1,823,727
Net financial assets	799,187	39,297	(136,232)	(200,418)	(42,321)	(514,433)	(54,920)
Unrecognised loan commitments	23,579	-	-	-	-	-	23,579
Undrawn committed bank facilities	255,000	-	-	-	-	-	255,000

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

31 Interest rate risk

Interest rate risk is the risk that market interest rates will change and impact on the Group's financial results by affecting the margin between interest earning assets and interest bearing liabilities. The Group monitors market interest rates on a daily basis and regularly reviews interest rate exposure. Interest rate risk is mitigated by management's frequent monitoring of the interest rate repricing profiles of borrowings and finance receivables, and where appropriate, the establishment of derivative instruments.

Contractual repricing analysis

The interest rate risk profile of financial assets and liabilities that follows has been prepared on the basis of maturity or next repricing date, whichever is earlier.

	Effective Int Rate %	0-6 Months \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	5+ Years \$000	Total \$000
GROUP - Dec 2011							
Financial assets							
Cash and cash equivalents	2.16%	118,564	-	-	-	-	118,564
Investments	4.15%	24,309	-	-	-	-	24,309
Due from related parties	-	272	-	-	-	-	272
Finance receivables	9.46%	1,245,541	161,600	173,388	208,442	-	1,788,971
Finance receivables - securitised	9.81%	109,088	47,921	74,094	55,137	-	286,240
Other financial assets	-	10,781	-	-	-	-	10,781
Total financial assets		1,508,666	209,521	247,482	263,579	-	2,229,137
Financial liabilities							
Borrowings	5.98%	1,098,853	366,819	213,837	41,835	-	1,721,144
Borrowings - securitised	3.53%	264,407	-	-	-	-	264,407
Other financial liabilities	-	20,621	-	-	-	-	20,621
Total financial liabilities		1,383,881	366,819	213,837	41,835	-	2,006,172
Effect of derivatives held for risk management		119,480	(65,209)	(7,784)	(46,507)	-	-
Net financial assets		244,154	(222,507)	26,081	175,237	-	222,965
GROUP - Dec 2010							
Financial assets							
Cash and cash equivalents	3.35%	78,549	-	-	-	-	78,549
Due from related parties	12.97%	27,525	-	-	-	-	27,525
Finance receivables	10.75%	392,755	198,209	190,174	144,813	-	925,951
Finance receivables - securitised	11.63%	47,293	38,206	48,705	29,051	-	161,255
Other financial assets	-	2,165	-	-	-	-	2,165
Total financial assets		548,287	234,415	238,879	173,864	-	1,195,445
Financial liabilities							
Borrowings	7.11%	337,908	283,595	109,234	124,641	-	855,378
Borrowings - securitised	4.45%	149,278	-	-	-	-	149,278
Other financial liabilities	-	31,451	-	-	-	-	31,451
Total financial liabilities		518,637	283,595	109,234	124,641	-	1,036,107
Effect of derivatives held for risk management		39,880	(35,650)	(55,450)	61,220	-	-
Net financial assets		69,530	(84,830)	74,195	100,443	-	159,338
GROUP - Jun 2011							
Financial assets							
Cash and cash equivalents	3.52%	267,034	-	-	-	-	267,034
Investments	6.15%	6,795	987	-	9,013	1,036	17,831
Finance receivables	9.20%	908,566	180,405	230,015	178,632	-	1,497,618
Finance receivables - securitised	10.65%	66,582	38,366	59,700	45,045	-	209,693
Other financial assets	-	6,599	-	-	-	-	6,599
Total financial assets		1,255,576	219,758	289,715	232,690	1,036	1,998,775
Financial liabilities							
Borrowings	5.89%	1,101,545	299,036	61,623	131,043	-	1,593,247
Borrowings - securitised	3.75%	194,277	-	-	-	-	194,277
Other financial liabilities	-	18,121	-	-	-	-	18,121
Total financial liabilities		1,313,943	299,036	61,623	131,043	-	1,806,645
Effect of derivatives held for risk management		150,984	(77,519)	(90,435)	16,970	-	-
Net financial assets		92,617	(156,797)	137,657	118,617	1,036	193,130

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

31 Interest rate risk (continued)

	Effective Int Rate %	0-6 Months \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	5+ Years \$000	Total \$000
PARENT - Dec 2011							
Financial assets							
Cash and cash equivalents	2.54%	100,708	-	-	-	-	100,708
Investments	4.15%	24,309	-	-	-	-	24,309
Due from related parties	-	1,072,843	-	-	-	-	1,072,843
Finance receivables	7.35%	424,313	41,663	27,397	6,757	-	500,130
Finance receivables - securitised	6.20%	64,577	6,581	7,156	3,570	-	81,884
Other financial assets	-	3,940	-	-	-	-	3,940
Total financial assets		1,690,690	48,244	34,553	10,327	-	1,783,814
Financial liabilities							
Borrowings	5.98%	1,099,292	366,819	213,637	41,835	-	1,721,583
Borrowings - securitised	3.43%	75,000	-	-	-	-	75,000
Other financial liabilities	-	14,393	-	-	-	-	14,393
Total financial liabilities		1,188,685	366,819	213,637	41,835	-	1,810,976
Effect of derivatives held for risk management		110	(33,499)	42,026	(8,637)	-	-
Net financial assets		502,115	(352,074)	(137,058)	(40,145)	-	(27,162)
PARENT - Jun 2011							
Financial assets							
Cash and cash equivalents	3.58%	245,322	-	-	-	-	245,322
Investments	6.15%	6,795	987	-	9,013	1,036	17,831
Due from related parties	-	740,817	-	-	-	-	740,817
Finance receivables	7.02%	460,739	52,382	69,794	11,469	-	594,384
Finance receivables - securitised	6.35%	26,743	2,724	1,989	675	-	32,131
Other financial assets	-	4,658	-	-	-	-	4,658
Total financial assets		1,485,074	56,093	71,783	21,157	1,036	1,635,143
Financial liabilities							
Borrowings	5.89%	1,102,029	299,036	61,623	131,043	-	1,593,731
Borrowings - securitised	3.41%	20,000	-	-	-	-	20,000
Other financial liabilities	-	10,751	-	-	-	-	10,751
Total financial liabilities		1,132,780	299,036	61,623	131,043	-	1,624,482
Effect of derivatives held for risk management		28,034	(37,429)	(33,315)	42,710	-	-
Net financial assets		380,328	(280,372)	(23,155)	(67,176)	1,036	10,661

The tables above illustrate the periods in which the cash flows from interest rate swaps are expected to occur and affect profit or loss.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non standard interest rate scenarios. Standard scenarios which are considered on a monthly basis include a 100 basis point parallel fall or rise in the yield curve. There is no material impact on profit or loss or on other comprehensive income in terms of a fair value change from movements in market interest rates. Furthermore there is no material cash flow impact on the Statements of Cash Flows from a 100 basis point change in interest rates.

32 Contingent liabilities and commitments

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Letters of credit, guarantees and performance bonds	2,530	2,340	1,770	-	-
Total contingent liabilities	2,530	2,340	1,770	-	-

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

33 Staff share ownership arrangements

Discretionary share scheme

At 30 June 2010, the trustees held 60,009 shares in PGC on behalf of certain senior MARAC staff. The trustees participated in the PGC dividend reinvestment plan in December 2010, resulting in an allotment of a further 2,160 shares. A total of 9,661 PGC shares were transferred to staff during the year ended 30 June 2011. In May 2011 38,436 PGC shares were exchanged for 14,072 HNZ shares. No PGC or HNZ shares were transferred to staff in the six months ended 31 December 2011. At 31 December 2011 the trustees held 14,072 PGC shares and 14,072 HNZ shares for these senior staff members.

In August 2011, the Heartland New Zealand Limited employee share plan was established. The terms and conditions of the employee share plan have yet to be determined by the Board.

Executive share scheme

In January 2011, the PGC executive share plan was established, resulting in an allotment of 803,999 PGC shares to certain senior MARAC staff. A total of 402,000 PGC shares were transferred to executives during the year ended June 2011. In May 2011 294,263 PGC shares were cancelled in exchange for 107,736 HNZ shares. A total of 107,736 PGC shares and 107,736 HNZ shares were transferred to executives during the six months ended 31 December 2011. At 31 December 2011 the trustees held no shares in PGC or HNZ for these executives.

The total expense recognised during the period in relation to these share schemes was \$115,346 (December 2010: \$44,262; June 2011: \$464,072).

Additionally, in January 2011 certain key executives of the Group who were previously employed by PGC also participated in the PGC Executive Share scheme, resulting in an allotment of 3,574,999 PGC shares. A total of 1,787,500 PGC shares were transferred to executives during the year ended 30 June 2011. In May 2011 1,308,449 PGC shares were cancelled in exchange for 479,050 HNZ shares. A total of 479,050 PGC shares and 479,050 HNZ shares were transferred to executives during the six months ended 31 December 2011. At 31 December 2011 the trustees held no shares in PGC or HNZ for these executives. No expense is recognised in relation to these shares as the cost was borne by PGC.

34 Business Combinations

(a) Heartland Building Society merger

On 6 January 2011, the Parent acquired the assets and engagements of SCBS and CBS and all of the shares in MARAC Finance Limited. As part of this process:

- MARAC Financial Services Limited exchanged its shareholding in MARAC and its investment in MARAC JV Holdings Limited for shares in HNZ. The agreed consideration of \$206,769,000 converted to the issue of 3.94 fully paid shares in HNZ in exchange for each MARAC share.
- The Parent, a wholly owned subsidiary of HNZ, acquired all of the assets and engagements of SCBS and CBS for the total agreed consideration of \$79,574,000.
- The Parent acquired all of the shares in MARAC through HNZ transferring its shareholding in MARAC to the Parent (through its subsidiaries as intermediate holders).

Fair value of consideration transferred at acquisition date

	<u>GROUP</u>
	05-Jan-11
	\$000
Shares issued, at fair value	79,574
Consideration transferred	<u>79,574</u>

Identifiable assets acquired and liabilities assumed

	Fair value
	05-Jan-11
	\$000
Assets	
Cash and cash equivalents	207,126
Investments	21,540
Finance receivables	669,689
Other assets	12,075
Intangible assets	165
Total assets	<u>910,585</u>
Liabilities	
Borrowings	841,335
Other liabilities	9,617
Contingent liabilities	-
Total liabilities	<u>851,152</u>
Total net identifiable assets	<u>59,433</u>
Total consideration transferred	79,574
Fair value of identifiable net assets	59,433
Goodwill	<u>20,141</u>

Goodwill on acquisition of \$20.1 million has arisen due to expected benefits of the newly formed financial services group. Heartland Building Society has the benefits of scale and scope and is expected to be value enhancing for all shareholders and offers a better outcome than could be expected as standalone entities.

Goodwill of \$20.1 million has not been allocated to individual cash generating units, as the future economic benefit is attributable to all business units. The Group's management and board continue to monitor goodwill at a total level.

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

34 Business Combinations (continued)

(b) Purchase of PGG Wrightson Finance Limited

On 31 August 2011, Heartland Building Society acquired 100% of PWF from PGW. PWF offers a wide range of financial services, specialising in the rural sector.

The purchase price was \$98.0 million being an amount equal to the net tangible assets of PWF, adjusted to take account of certain agreed items. In consideration:

- PGW retained certain loans, most of which were impaired (excluded loans). PWF transferred these excluded loans to a special purpose vehicle (SPV) established by PGW. This resulted in a debt being owed by the SPV back to PWF of \$73.1 million.
- The Parent paid PGW cash of \$24.9 million.

Contemporaneously, Heartland Building Society's parent, Heartland New Zealand issued \$10.0 million of shares to PGW.

On the 31st of August 2011 immediately prior to settlement \$52.7 million of loans not previously recorded in the accounts of PWF that were subject to a risk sharing agreement between PWF and ASB Bank and were purchased by PWF for cash. Of these loans \$37.3 million form part of the finance receivables purchased by Heartland and \$15.4 million were excluded loans transferred to the SPV.

<i>Fair value of consideration transferred at acquisition date</i>	<u>GROUP</u> 31-Aug-11 \$000
Excluded loans and deferred tax	73,115
Cash paid	24,898
Consideration transferred	98,013
<i>Identifiable assets acquired and liabilities assumed</i>	<u>Fair value</u> 31-Aug-11 \$000
Assets	
Cash and cash equivalents	61,643
Finance receivables *	371,627
Other assets	1,346
Total assets	434,616
Liabilities	
Due to related parties **	335,703
Other liabilities	900
Contingent liabilities	-
Total liabilities	336,603
Total net identifiable assets	98,013
Total consideration transferred	98,013
Fair value of identifiable net assets	98,013
Goodwill	-

* Prior to the final settlement on 31 August 2011 the Group purchased a \$29 million loan from PWF for cash, bringing the total receivables acquired to \$401 million.

** Due to related parties consists of PWF's borrowings acquired of \$408.8 million which was transferred to become deposits in the Parent on 31 August 2011, offset by \$73.1 million excluded loans and deferred tax.

As part of the acquisition, the Parent and PGW entered into a Deed of Guarantee and Indemnity in relation to the Recourse Loans, with book value on acquisition of \$30.6 million. This arrangement provides the Parent with a guarantee from PGW in relation to the future payment of principal and interest on the Recourse Loans for a prescribed period of three years. As at 31 December, total recourse loans of \$30.0 million are included in the Group's finance receivables.

Transactions separate from the acquisition

The Group incurred acquisition-related costs of \$0.8 million in the year to 30 June 2011 and \$0.2 million in the six months to 31 December 2011, relating to external legal fees and due diligence costs. These costs are included in selling and administration expenses.

35 Events after the reporting date

There have been no material events after the reporting date that would affect the interpretation of the financial statements or the performance of the Group.

AUDIT REPORT



Independent auditor's report

To the shareholder of Heartland Building Society

Report on the interim financial statements

We have audited the accompanying interim financial statements of Heartland Building Society (the "parent") and the group, comprising the parent and its subsidiaries, on pages 4 to 44. The interim financial statements comprise the statements of financial position as at 31 December 2011, the statements of comprehensive income, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory information, for both the parent and the group.

Directors' responsibility for the interim financial statements

The directors are responsible for the preparation of interim financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of interim financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these interim financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the interim financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the interim financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent and group's preparation of the interim financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent and group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the interim financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the parent and group in relation to general accounting services. Partners and employees of our firm may also deal with the parent and group on normal terms within the ordinary course of trading activities of the business of the parent and group. These matters have not impaired our independence as auditor of the parent and group. The firm has no other relationship with, or interest in, the parent and group.



Opinion

In our opinion the interim financial statements on pages 4 to 44:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the parent and the group as at 31 December 2011 and of the financial performance and cash flows of the parent and the group for the six month period then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

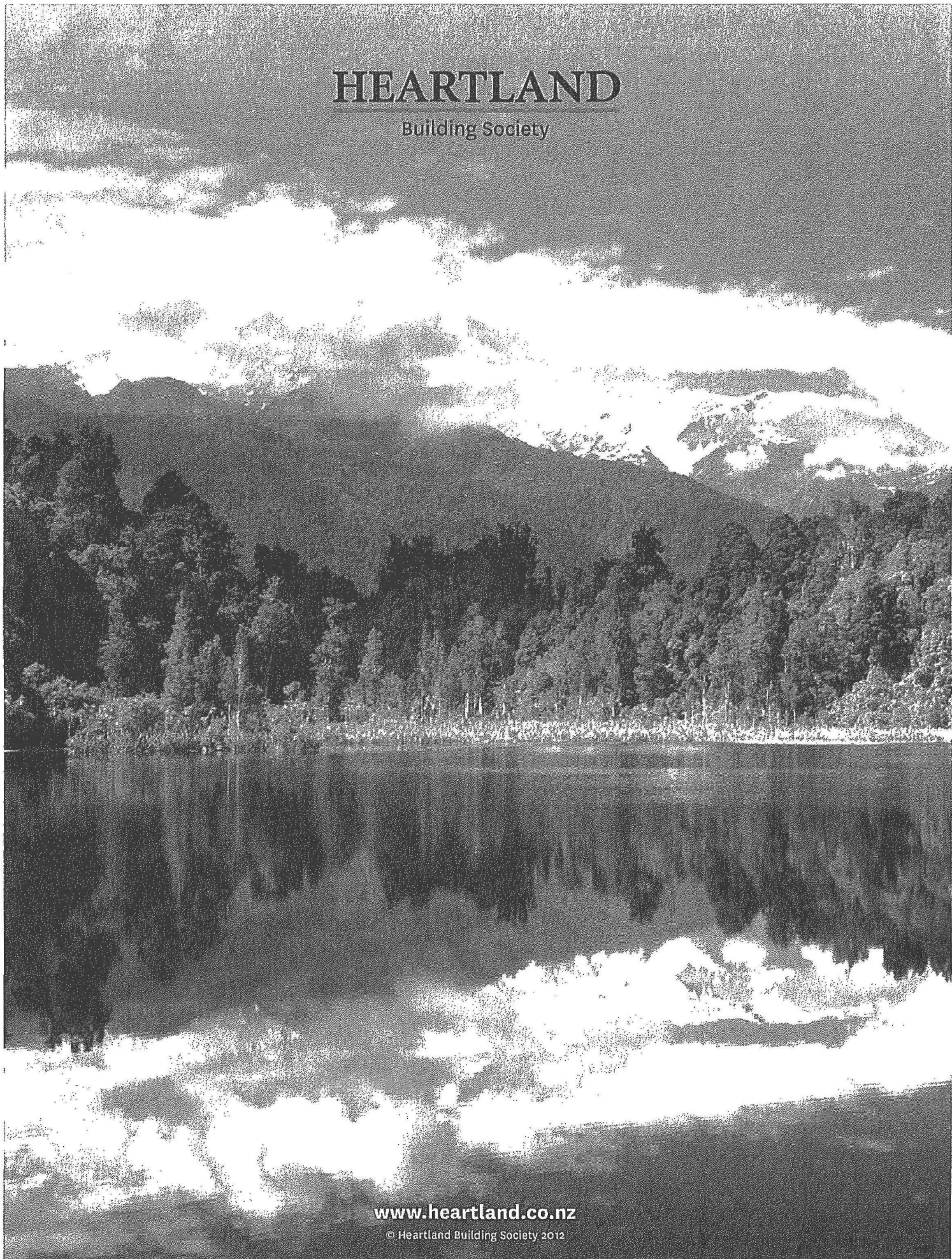
- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Heartland Building Society as far as appears from our examination of those records.

A handwritten signature in black ink, appearing to read 'KPMG'.

16 February 2012
Auckland

HEARTLAND

Building Society



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