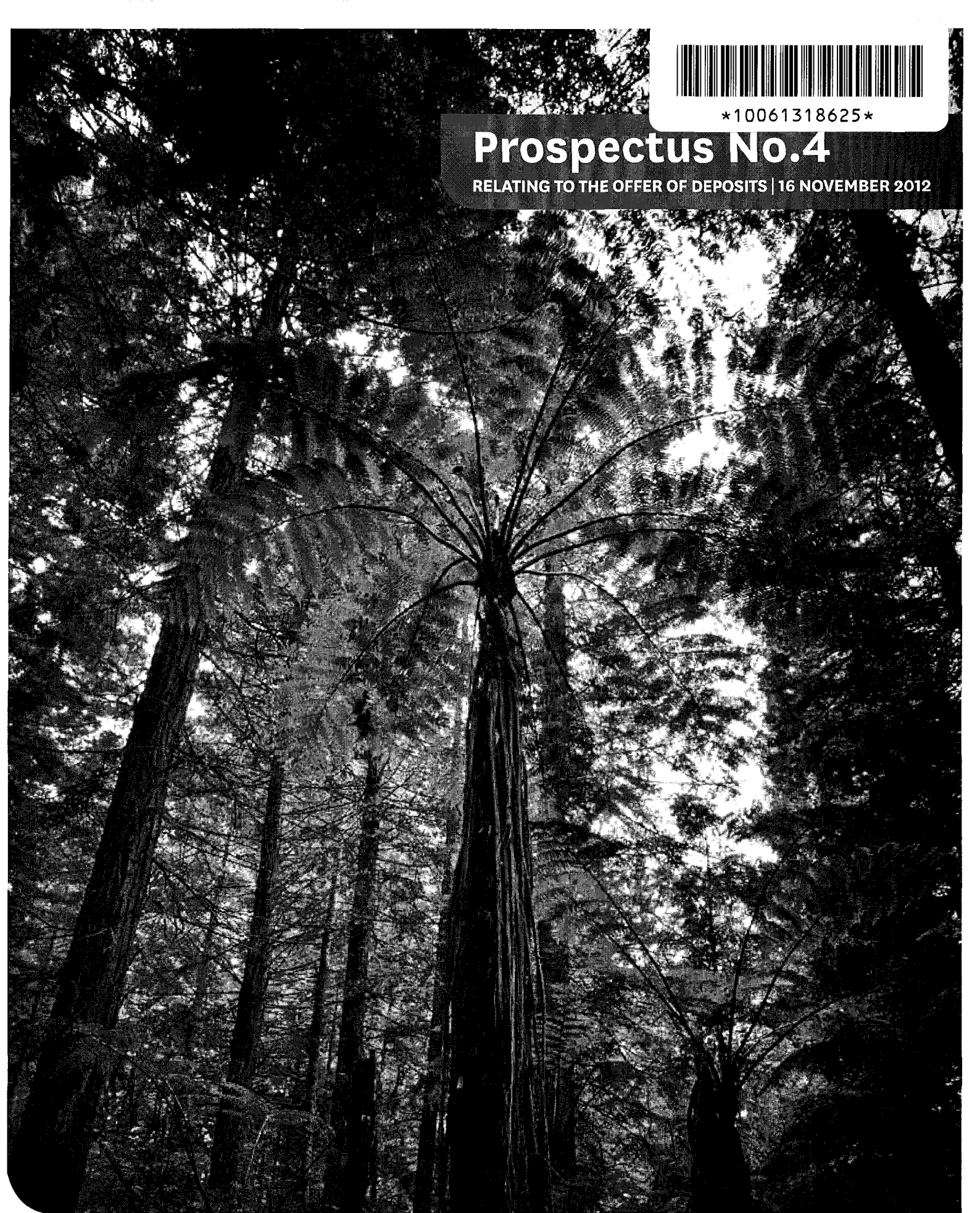




\*10061318625\*

# Prospectus No.4

RELATING TO THE OFFER OF DEPOSITS | 16 NOVEMBER 2012



## HEARTLAND

Building Society

# IMPORTANT NOTICE

This Prospectus is dated 16 November 2012 and is a prospectus in respect of the offer of Deposits to be issued by Heartland Building Society. 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 of Deposits 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 16 November 2012.

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;<sup>1</sup> 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

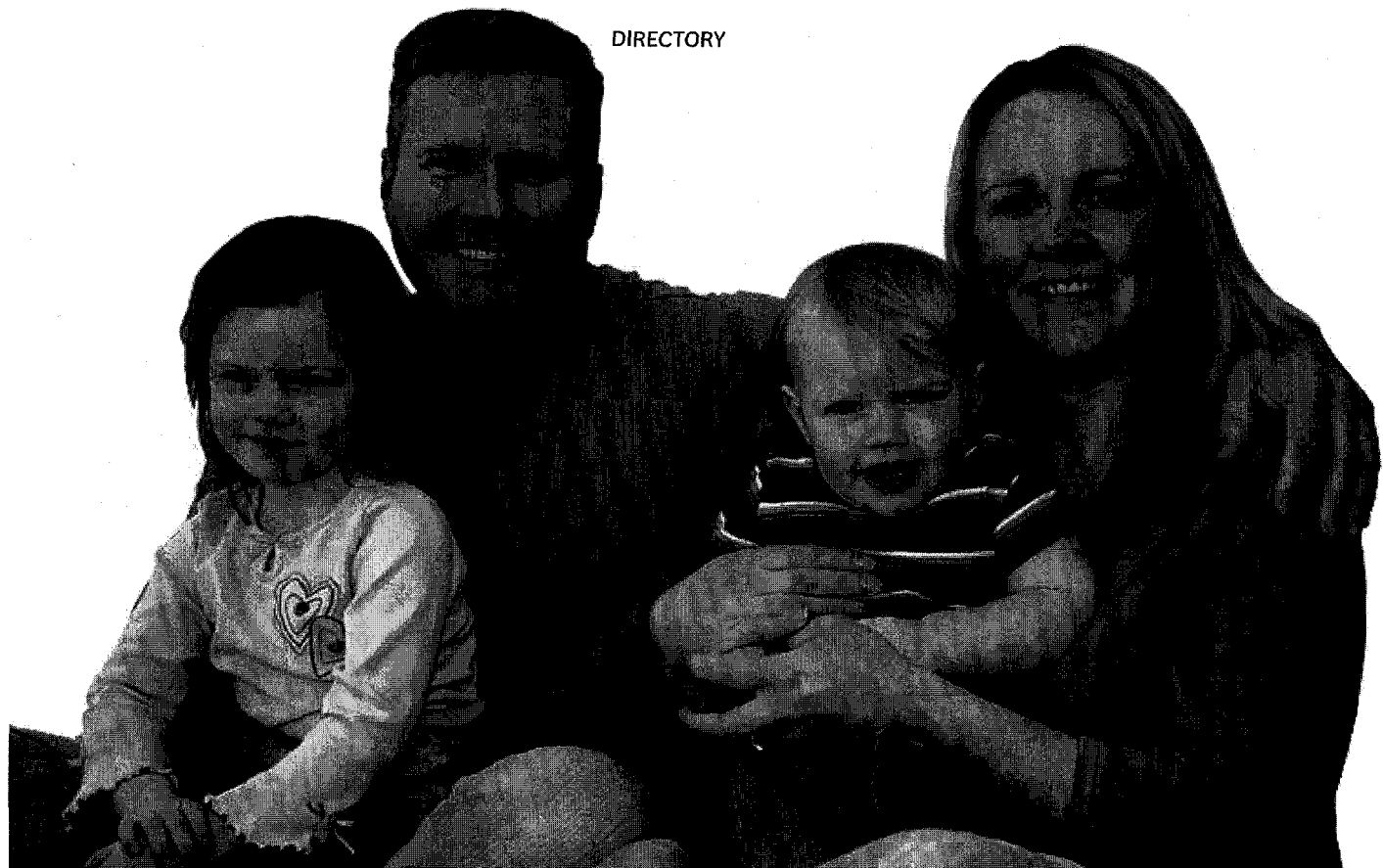
Capitalised terms used in this Prospectus have the specific meaning given to them in the Glossary, in the relevant section of this Prospectus or in the Trust Deed.

This Prospectus refers to certain legislation in force in New Zealand as at the date of this Prospectus. Copies of any such legislation may be viewed online at [www.legislation.govt.nz](http://www.legislation.govt.nz) free of charge.

<sup>1</sup> Subject to the RECL Exemption Notice. For further detail, see the information under the heading "Places of Inspection of Documents" in Section 7 of this Prospectus.

## TABLE OF CONTENTS

	PAGE
IMPORTANT NOTICE	2
<b>1.0</b> HEARTLAND DEPOSITS	4
<b>2.0</b> INTRODUCING HEARTLAND	4
<b>3.0</b> DETAILS OF DEPOSITS OFFERED	10
<b>4.0</b> SUMMARY OF THE TRUST DEED (INCLUDING TRUSTEE'S STATEMENT)	14
<b>5.0</b> WHAT ARE MY RISKS?	18
<b>6.0</b> FINANCIAL INFORMATION	21
<b>7.0</b> STATUTORY INFORMATION (INCLUDING DIRECTORS' STATEMENT)	40
GLOSSARY	47
SCHEDULE 1: CREDIT RATINGS AND AN EXPLANATION OF S&P CREDIT RATING SYSTEM	49
DIRECTORY	51



## 1.0 HEARTLAND DEPOSITS

This is a Prospectus in respect of the offer of debt securities to be issued by Heartland Building Society 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 are set out in Section 3 of this Prospectus.

## 2.0 INTRODUCING HEARTLAND

Heartland Building Society is a building society which was established in New Zealand on 22 October 2010 under the Building Societies Act, and commenced business as a financial services provider in January 2011.

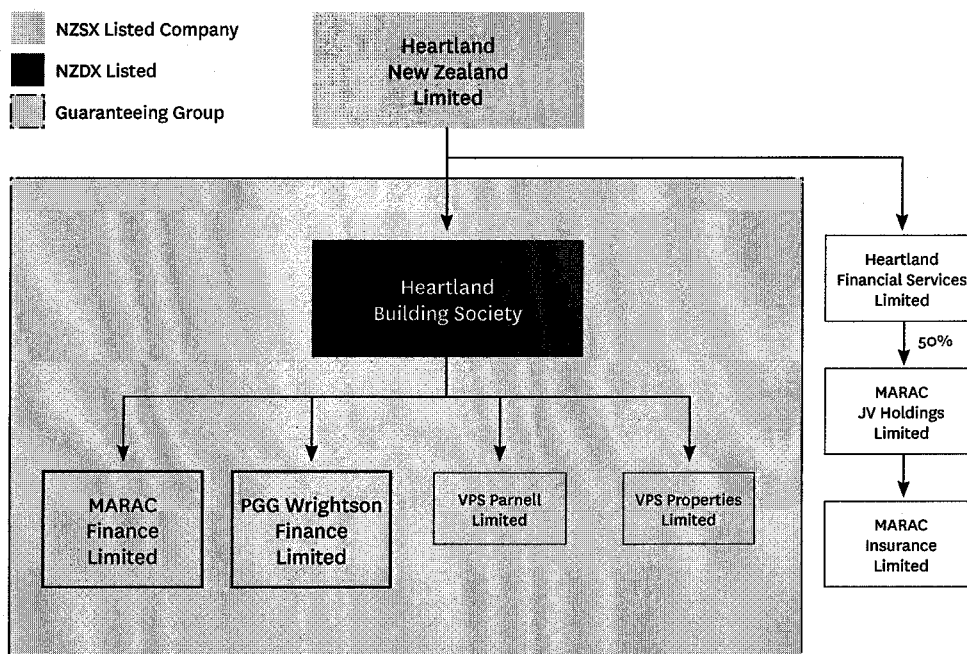
As at the date of this Prospectus Heartland Building Society is New Zealand's largest non-bank deposit taker, and:

- comprises the former businesses of Canterbury Building Society and Southern Cross Building Society; and

- wholly owns MARAC Finance Limited and PGG Wrightson Finance Limited.

Heartland Building Society is ultimately wholly owned by Heartland New Zealand Limited (*Heartland New Zealand*)<sup>2</sup> which is listed on the NZX Main Board<sup>3</sup>.

*The Heartland New Zealand Group Structure Diagram (simplified)*



<sup>2</sup> Heartland New Zealand does not guarantee the obligations of Heartland in relation to the Deposits.

<sup>3</sup> The NZX Main Board is a registered market operated by NZX Limited, a registered exchange, regulated under the Securities Markets Act 1988. The Deposits have not been approved for trading on a registered market. NZX Limited accepts no responsibility for any statement in this Prospectus.

## 100% FOR NEW ZEALAND

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



### Principal activities of Heartland Building Society

Heartland Building Society and its subsidiaries provide funding to the small-to-medium sized business, rural and household sectors in New Zealand.

Heartland Building Society sources funds for the Heartland Group. Its primary source of balance sheet funding is its retail deposit base.

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

### Highlights of the business

#### • Credit rating

As at the date of this Prospectus, Heartland has a credit rating of BBB- (Outlook Stable) 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](http://www.heartland.co.nz). You can find out more about credit ratings and Standard & Poor's credit rating system in Schedule 1 of this Prospectus.

#### • Bank 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 NZX Main Board.

As at the date of this Prospectus:

- Neither Heartland New Zealand, Heartland nor any member of the Heartland Group is a registered bank under the Reserve Bank Act.
- Heartland has engaged with the Reserve Bank regarding its application for registered bank status. As at the date of this Prospectus certain necessary intermediate steps in the process have been completed and the formal determination process is continuing, during which the Reserve Bank is examining Heartland in respect of each and every factor which must be taken into account in determining Heartland's suitability for registered bank status. The suitability of Heartland for registered bank status (taking into account all relevant factors as a whole) will only be considered by the Reserve Bank at the end of the process, and a decision then made.

- The timing through to a final decision remains uncertain. However, the Reserve Bank has advised that the formal determination process is proceeding at the pace customary for New Zealand incorporated applicants.
- The outcome remains unknown. If the Reserve Bank declines the application there is no appeal process available, although a further application may be considered in the future.

#### • All investors rank equally

All Depositors in Heartland rank equally with each other, and equally with Heartland's bank funding providers. 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 30 June 2012, the Heartland Group had approximately \$371 million in shareholder funds, with approximately \$2.34 billion in total assets and approximately \$1.97 billion in total liabilities. 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 reliable cash flow to Heartland.

The Heartland Group has two securitisation trusts – Heartland 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 30 June 2012, approximately \$292 million of net securitised receivables and cash continue to be recognised in the Heartland Group's financial statements, however, those \$292 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 and policy

As at the date of this Prospectus, all of the Heartland Group's lending is in relation to New Zealand based assets. That lending is spread across the country and diversified across the small-to-medium sized business, rural and household sectors.

## 2.0 INTRODUCING HEARTLAND continued

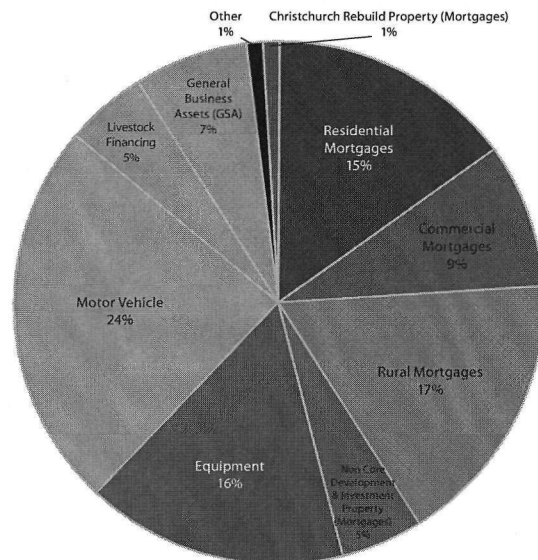
Under the Trust Deed, the Heartland Group's exposure to its largest single borrower may not exceed 15% of capital. The Board regularly monitors the largest amounts owing by any individual borrower or group of related borrowers to ensure compliance with this ratio.

Heartland Group's policy is to lend on the basis of first ranking security. The exceptions to this policy are limited to:

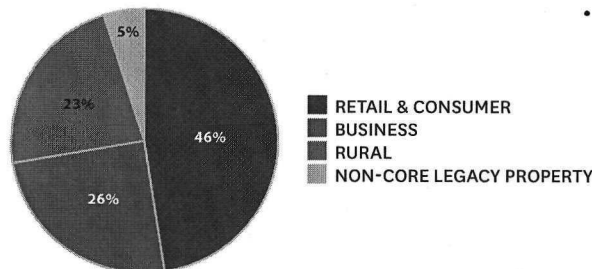
- everyday or overdraft facilities provided to customers, which represent less than 0.5% of the total lending book; and
- certain historical loans, which are being exited over time.

Of the Heartland Group's total lending, over 97% was secured by first ranking security as at 30 June 2012. As the majority of the balance (i.e. the other 3%) relates to the historical loans which are being exited over time, the percentage of first ranking secured loans will improve even further over time.

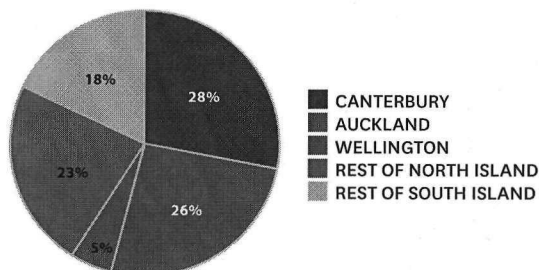
*Lending of the Heartland Group by Secured Asset Type (as at 30 June 2012)<sup>8</sup>*



*Net Receivables of the Heartland Group<sup>4</sup> by Division (as at 30 June 2012)<sup>5</sup>*



*Net Receivables of the Heartland Group<sup>6</sup> by Geography (as at 30 June 2012)<sup>7</sup>*



### 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. Historically, retail deposit reinvestment rates have been as follows:

- for the calendar year in which Heartland was established (2011), the average year to date retail deposit reinvestment rate was always in excess of 70%; and
- for the calendar year 2012 through to the end of October (October being the last full month ended as at the date of this Prospectus), the average year to date retail deposit reinvestment rate was in excess of 75%.

Heartland also has other sources of funding. As at the date of this Prospectus, this includes:

- NZX Debt Market quoted bonds with a principal amount of \$104.2 million. These bonds mature on 15 July 2013.

4 The Trusts' net securitised receivables continue to be recognised in the Heartland Group's financial statements and these graphs. However, as noted earlier, 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.  
 5 The information contained in the graph is derived from the Heartland Group's unaudited management information as at 30 June 2012. Net receivables of the Heartland Group exclude operating lease vehicles and investment properties. The graph is provided for illustrative purposes only.  
 6 The Trusts' net securitised receivables continue to be recognised in the Heartland Group's financial statements and these graphs. However, as noted earlier, 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.  
 7 The information contained in the graph is derived from the Heartland Group's audited financial statements for the financial year ended 30 June 2012. Net receivables of the Heartland Group exclude operating lease vehicles and investment properties. The graph is provided for illustrative purposes only.  
 8 The information contained in the graph is derived from the Heartland Group's unaudited management information as at 30 June 2012. The graph is provided for illustrative purposes only.

- 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 31 December 2012. The second tranche matures on 30 September 2013.
- The Heartland ABCP Trust 1 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 Warehouse A Trust 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.

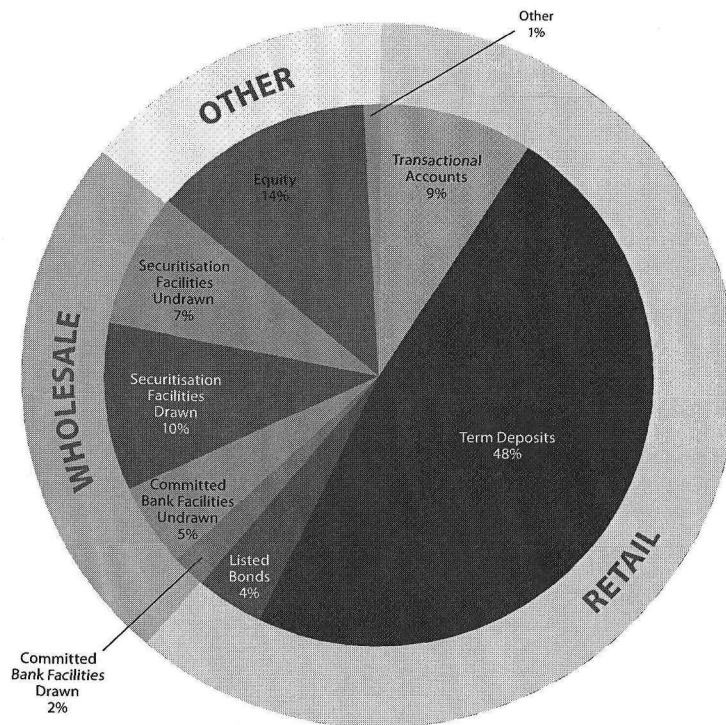
**Management of capital**

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.

**NZX-listed parent company**

Heartland's parent company, Heartland New Zealand, is listed on the NZX Main Board and has approximately 8,000 shareholders as at the date of this Prospectus<sup>10</sup>. Being NZX-listed provides Heartland New Zealand the potential to access further capital to invest in Heartland.

Funding Mix of the Heartland Group  
 (as at 30 June 2012)<sup>9</sup>



<sup>9</sup> The information contained in the graph is derived from the Heartland Group's unaudited management information as at 30 June 2012. The graph is provided for illustrative purposes only.

<sup>10</sup> Neither Heartland New Zealand nor any of its shareholders guarantee the obligations of Heartland in relation to the Deposits.

## 2.0 INTRODUCING HEARTLAND continued

### 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.

Of Heartland's eight current Directors:

- five (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 (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. Bruce is also Chairman of Christchurch City Holdings Limited, and a director of several public and private companies.



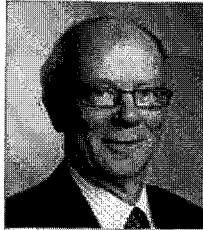
**Jeffrey Greenslade** LLB  
Managing Director

Jeff has over 20 years' experience as a senior banking executive, and is responsible for the strategy and operational delivery 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

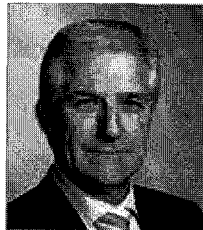
John is a chartered accountant and has considerable financial services experience. He has 35 years' experience in the professional services industry, including 23 years as a partner of PricewaterhouseCoopers. John was appointed to the MARAC Finance Limited board in 2010 and subsequently joined the Heartland Building Society Board upon its creation.



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

**Director**

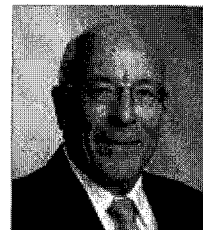
Graham has 39 years' experience as a chartered accountant and is an independent professional director and Chairman of a number of private companies. Graham was a director of CBS Canterbury for 24 years, holding the position of Chairman from 2002 to 2008.



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

**Director**

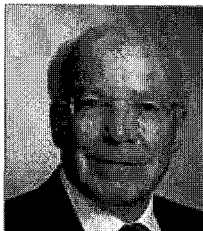
Gary has 38 years' experience as a chartered accountant, and was the Chairman of the board of CBS Canterbury leading up to the merger with MARAC Finance Limited and Southern Cross Building Society. Gary is a Fellow of the Institute of Chartered Accountants, an Accredited Fellow of the Institute of Directors and a Fellow of the New Zealand Trustees Association.



**Christopher Mace** CNZM

**Director**

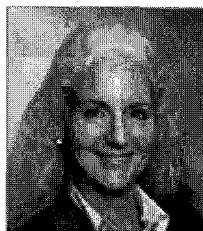
Chris is an Auckland based businessman, company director and investor with experience in the New Zealand and Australian business environment. He holds a number of directorships and was a director of Southern Cross Building Society leading up to the merger with MARAC Finance Limited and CBS Canterbury.



**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.

## 3.0 DETAILS OF DEPOSITS OFFERED

The following is a brief description of the types of Deposits offered by Heartland. 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.

You 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 from Heartland's website, [www.heartland.co.nz](http://www.heartland.co.nz) or a Heartland branch.

The names and features of Deposits set out below are subject to change.

**Deposits offered fall into three broad classes being Term Accounts, Savings Accounts and Transactional Accounts<sup>11</sup>.**

Term Accounts	Savings Accounts	Transactional Accounts
<p>These are Deposits for a fixed term at a fixed interest rate, except for the Heartland Flexi 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 of 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"> <li>• Heartland Term Deposit</li> <li>• Heartland Flexi Rate Term Deposit</li> <li>• Heartland Heart of Gold Term Deposit</li> <li>• PWF Term Deposit</li> </ul>	<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 at any 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"> <li>• Heartland Saver</li> <li>• Heartland Savings Optimiser</li> <li>• Heartland Rapid Saver</li> <li>• Heartland Business Call</li> <li>• Heartland Call Deposit</li> <li>• PWF Rural Saver</li> <li>• PWF Savings Optimiser</li> </ul>	<p>These are everyday transactional accounts.</p> <p>Funds may be deposited at any 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 available<sup>12</sup>.</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"> <li>• Heartland Everyday Account</li> <li>• PWF Current Account</li> </ul>

<sup>11</sup> Constituted pursuant to the Supplemental Trust Deed (Accounts) which is supplemental to the Master Trust Deed. You can find copies of these documents on Heartland's website [www.heartland.co.nz](http://www.heartland.co.nz).

<sup>12</sup> Heartland's credit and lending criteria will apply. Fees and charges may apply.

<b>Term Accounts</b>	
<b>Interest Rate</b>	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 for which the interest rate may change throughout the term.
<b>Payment of Interest</b>	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).
<b>Term</b>	Fixed term (the term as set out on your application form, or as otherwise agreed between you and Heartland).
<b>Withdrawal Restrictions</b>	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 the death of an investor or unforeseen financial hardship. If Heartland agrees to make an early repayment the interest rate payable in respect of your 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.
<b>Maturity</b>	<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) reinvest your money with Heartland, either in the same account or in a different product account; or</p> <p>(b) withdraw your investment by transfer to a bank account nominated by you or, if agreed between you and Heartland, by cheque or in cash at a Heartland branch.</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 "past maturity account rate" detailed in its rate card at the time, which you can obtain by calling 0800 85 20 20, or by visiting Heartland's website <a href="http://www.heartland.co.nz">www.heartland.co.nz</a>.</p>
<b>Fees</b>	<p>No fees are payable on Term Accounts, except for international transfers, same day cleared payments and passing on of 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 <a href="http://www.heartland.co.nz">www.heartland.co.nz</a>.</p>
<b>Minimum Amount of Investment</b>	As at the date of 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 <a href="http://www.heartland.co.nz">www.heartland.co.nz</a> .

## 3.0 DETAILS OF DEPOSITS OFFERED continued

<b>Savings Accounts</b>	
<b>Interest Rate</b>	Floating Rate. Heartland may vary interest rates at any time without notice.
<b>Payment of Interest</b>	Interest is added to the account balance, on a monthly basis.
<b>Term</b>	On call, although restrictions may apply to withdrawals from certain Savings Accounts (see below).
<b>Withdrawal Restrictions</b>	Withdrawals from Heartland Savings Optimiser and PWF Savings Optimiser are subject to minimum notice periods. Withdrawals without the required notice may be approved at Heartland's discretion, and if approved a fee will be payable of 3% of the total funds withdrawn (subject to a minimum fee of \$30 and maximum fee of \$150).
<b>Fees</b>	No fees are payable on Savings Accounts, with the exception of (in some cases) a fee for withdrawals outside specified criteria. Details of applicable fees are available from Heartland on request or can be found by visiting Heartland's website at <a href="http://www.heartland.co.nz">www.heartland.co.nz</a>
<b>Minimum Amount of Investment</b>	As at the date of 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 <a href="http://www.heartland.co.nz">www.heartland.co.nz</a> .

<b>Transactional Accounts</b>	
<b>Interest Rate</b>	Floating Rate. Heartland may vary interest rates at any time without notice.
<b>Payment of Interest</b>	Interest is added to the account balance, on a monthly basis.
<b>Term</b>	On call.
<b>Withdrawal Restrictions</b>	None.
<b>Fees</b>	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 <a href="http://www.heartland.co.nz">www.heartland.co.nz</a> .
<b>Minimum Amount of Investment</b>	As at the date of 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 <a href="http://www.heartland.co.nz">www.heartland.co.nz</a> .

<b>Terms applicable to all Deposits</b>	
<b>Interest Rate and Accrual</b>	<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 you can obtain by calling 0800 85 20 20, visiting a Heartland branch or visiting Heartland's website <a href="http://www.heartland.co.nz">www.heartland.co.nz</a>.</p>
<b>Taxation</b>	<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 you (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>
<b>Transfers</b>	<p>Investments can only be sold with the prior written consent of Heartland, and if consent is given then in minimum amounts of \$1,000 using the standard form for security transfers, which must be executed and delivered to Heartland.</p>
<b>Statements/Certificates</b>	<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.

## 4.0 SUMMARY OF THE TRUST DEED

### General

Trustees Executors Limited 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. Further supplemental trust deeds have also been entered into by Heartland and the Trustee to specify the terms applicable to bonds issued by Heartland.

MARAC became a guarantor pursuant to a supplemental deed on 14 December 2010, VPS Properties and VPS Parnell became guarantors pursuant to supplemental deeds dated 24 March 2011 and PWF became a guarantor pursuant to a supplemental deed dated 31 August 2011.

The Master Trust Deed, all supplemental trust deeds and all supplemental 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 on Heartland's website [www.heartland.co.nz](http://www.heartland.co.nz).

As at the date of this Prospectus, the Guaranteeing Group (pursuant to the Trust Deed) 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 the Borrowing Group 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):

- (a) netting or set-off arrangements in the ordinary course of business;
- (b) liens arising by operation of law in the ordinary course of trading;
- (c) securities arising out of suppliers' retention of title provisions where goods are acquired in the ordinary course of business; and
- (d) 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 become a Guaranteeing Subsidiary.

## General undertakings

For so long as any Debt Instruments are outstanding, the members of the Borrowing Group 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.

The members of the Borrowing Group 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 the Borrowing Group 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, that to the best of the Directors' knowledge and belief no Event of Default has occurred 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;

## 4.0 SUMMARY OF THE TRUST DEED continued

- (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 being 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

The members of the Borrowing Group 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 reasonable opinion that such amendment will not be materially prejudicial to the interests of the Retail 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<sup>13</sup>

Heartland has applied 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:

- (a) the Trust Deed will be released;
- (b) there will no longer be a trustee for holders of Deposits;
- (c) the Borrowing Group will be released from the covenants, guarantees, warranties and other provisions of the Trust Deed; and
- (d) each existing Deposit will continue as an unsecured, unsubordinated and unconditional obligation of Heartland on the terms set out in the appendix to the Supplemental Trust Deed (Accounts) or on such other terms as Heartland and the Trustee may agree. That appendix does not include any financial covenants, negative pledge, guarantee, general undertakings, reporting requirements, events of default or other arrangements.

<sup>13</sup> Heartland is not a registered bank. You can find out more about the bank registration process under the heading "Bank registration objective" in Section 2 of this Prospectus.

# TRUSTEE'S STATEMENT



**Trustees Executors**

Level 5, 10 Customhouse Quay, PO Box 3222, DX SP20011,  
Wellington, New Zealand. Phone (04) 495-0999, Fax (04) 495-2952

16 November 2012

The Directors  
Heartland Building Society  
75 Riccarton Road  
**CHRISTCHURCH 8011**

Dear Madam and Sirs

**Re: Prospectus No. 4**

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?

No investment is free from risk and the Deposits are no exception. You may not be able to get back some or all of the amount you invested, or you may not receive the returns you expect.

This could happen for a number of reasons, including that:

- the IRD may require Heartland to make a deduction from your credit balance, to recover amounts owed by you as a taxpayer;
- Heartland may exercise a right of set-off or combination of accounts (or a similar right) in relation to your credit balance, to recover amounts you owe to the Heartland Group;
- Heartland may become insolvent or otherwise unable to pay its debts as they fall due; or
- Heartland may have a liquidator, receiver or statutory manager appointed to it.

Set out in this section is a brief description of the principal risk factors which may have a material adverse affect on the financial performance or condition of the Heartland Group and so affect your ability to get back some or all of the amount you invested or to receive the returns you expect.

There may be additional risks which the Heartland Group is currently unaware of, or that the Heartland Group currently deems not material but which subsequently become key risks for the Heartland Group.

### Liquidity risk

Liquidity risk is the risk that the Heartland Group may be unable to raise funds when needed 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 potential 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 increase if Heartland incorrectly forecasts its future cash flows and, accordingly, the scale of any funding gaps. This could arise because:

- there is an unanticipated reduction in call deposit balances held;
- retail reinvestment rates or new retail investment inflows are lower than assumed;
- there is an unanticipated failure on the part of borrowers from the Heartland Group to pay on time; 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. Liquidity risk will increase if there is any material decrease in the availability of back-up liquidity under committed bank facilities or securitisation facilities. The availability of back-up liquidity may be affected by a number of factors, including:

- 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.

You can find out more about Heartland's bank facilities and securitisation programmes in Section 2 of this Prospectus.

### Level of Retail Investments

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. As noted above, this could increase liquidity risk. Whether it has that effect will depend on the extent of the reduction and the availability (or otherwise) of alternative funding. In addition, the financial performance and condition of the Heartland Group may be adversely affected (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 may be affected by the level of investor confidence in the New Zealand financial services sector generally. In addition there are a number of other matters specifically relevant to the level of investor confidence in the Heartland Group. These include:

- The credit rating of Heartland. Credit ratings may be changed, withdrawn or suspended by S&P at any time.
- Heartland ultimately achieving its key objective of bank registration. Heartland has engaged with the Reserve Bank regarding its application for bank registration, and the formal determination process is proceeding. However the timing through to a final decision remains uncertain, and the outcome remains unknown<sup>14</sup>.

#### **Credit Risk**

Credit risk is the risk that borrowers from the Heartland Group may fail to pay on time or at all, and the Heartland Group is ultimately unable to recover the full amount owed from assets held as security.

If borrowers fail to pay on time this may increase liquidity risk. Whether it has that effect will depend on the extent of these defaults.

In addition, if the Heartland Group is ultimately unable to recover the full amount owed from assets held as security this will result in the Heartland Group suffering financial loss. 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).

The risk of being unable to recover the full amount owed is particularly relevant in the context of the Heartland Group's existing non-core legacy property development loans, which it is seeking to exit through realisation of the real estate held as security for those loans<sup>15</sup>. Current economic conditions may make it difficult to recover the full amount owed, because of reduced demand for the relevant real estate assets at the present time. While the Heartland Group has the benefit of the RECL Management Agreement<sup>16</sup> to compensate it for loss on certain of these non-core legacy property loans<sup>17</sup> the maximum amount of compensation payable is \$30 million (and once that \$30 million limit is

reached, no further amount is payable by RECL).

As at 30 June 2012, approximately \$18 million of claims had been made by the Heartland Group under the RECL Management Agreement (payment by RECL to the Heartland Group in respect of claims being due in January 2016, subject to limited rights to earlier payment - pursuant to which \$1.5 million has already been paid). Once 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, no further compensation for loss is available under the RECL Management Agreement. The Heartland Group expects to fully utilise the \$30 million limit.

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 will be required to be made by the Heartland Group.

As at 30 June 2012:

- The balance of provisions held on the Heartland Group's balance sheet for impairments was approximately 1.3 % 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 1.5 %.
- 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 7.8%. Net non-performing loans include specifically impaired, past due over 90 days, and restructured assets less provision for impairment.

You can find out more about impairment provisions in note 29 to Heartland's audited financial statements for the financial year ended 30 June 2012.

#### **Operational Risk**

Operational risk is the risk of financial loss or reputational damage arising from human error, system failures, inadequate or ineffective internal procedures and controls, or external events.

If the Heartland Group fails to properly identify and manage operational risks, it may suffer financial loss and damage to its reputation.

Operational risks include:

- the risk of information technology systems failing to operate in an efficient and reliable manner, so disrupting the delivery of financial services to customers;

<sup>14</sup> Heartland is not a registered bank. You can find out more about the bank registration process under the heading "Bank registration objective" in Section 2 of this Prospectus.

<sup>15</sup> As at 30 June 2012 the net book value of these loans was approximately \$105 million, and represented approximately 5% of the net receivables of the Heartland Group.

<sup>16</sup> You can find out more about the RECL Management Agreement under the heading "Material contracts" in Section 7 of this Prospectus.

<sup>17</sup> As at 30 June 2012, the net book value of loans remaining subject to the RECL Management Agreement (including loans which have funded the acquisition of investment properties) was approximately \$150 million.

## 5.0 WHAT ARE MY RISKS? continued

- the risk of a failure of business continuity and disaster recovery processes, and data integrity risk;
- the risk of a breakdown in internal control systems or operating procedures;
- the risk of key personnel leaving the businesses, which may cause short term disruption as suitable replacements are found;
- the risk of fraud;
- the risk of a dispute that results in court or arbitration proceedings that could adversely affect the Heartland Group's financial position and reputation; and
- the risk of natural disaster, which may disrupt the ability of the Heartland Group to operate its business.

### Competition

The business position of the Heartland Group may come under stress should incumbent banks materially increase competition. 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.

### Economic Conditions in New Zealand

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 lends to a variety of borrowers in different industry sectors in New Zealand, each industry 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 currency movements) or political changes (for example, New Zealand Government and foreign government actions affecting factors such as tariffs).

A significant deterioration in economic conditions in New Zealand, or adverse changes in an industry sector, may adversely affect the ability of:

- Heartland to raise funds;
- borrowers from the Heartland Group to pay on time or at all; and
- the Heartland Group to realise assets held as security.

This would in turn affect liquidity risk and credit risk.

### 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

As an NBDT, Heartland is required to comply with the prudential requirements 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.

As at the date of this Prospectus there is legislation (expected to be enacted soon) which once enacted will introduce new measures requiring (among other things) NBDTs to be licensed, covering suitability assessments for directors and senior officers, imposing restrictions on change of ownership, and giving the Reserve Bank new powers to detect and manage instances of distress or failure of NBDTs.

Any material failure to comply with current or future requirements could result in damage to the reputation of the Heartland Group and expose the Heartland Group to financial penalties and the risk of cancellation of any required license.

### Consequences of insolvency

You will not be liable to pay any money to any person if Heartland is liquidated.

If Heartland is liquidated then:

- all secured creditors and certain claims set out in legislation (including taxes, certain payments to employees and any liquidator's costs) will rank ahead of you; and
- any remaining assets after those preferred creditors have been paid will be available for distribution between you, holders of all other debt securities issued by Heartland under the Trust Deed, Heartland's bank funding providers and all other unsecured and unsubordinated creditors of Heartland with whom you will rank equally. There may not be sufficient remaining assets to enable you to recover all or any of your investment.

## 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 2012 and 2011 audited financial statements of the Heartland Group, the 30 June 2011, 2010, 2009 and 2008 audited financial statements of PWF, the 30 June 2010, 2009 and 2008 audited financial statements of the MARAC Group and Southern Cross, the 31 March 2010, 2009 and 2008 audited financial statements of CBS Canterbury and the unaudited financial statements of CBS Canterbury for the three months ended 30 June 2010.

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 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 FRS 43 ("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 most recent full financial statements for the Heartland Group may be obtained from Heartland's registered office or from Heartland's website [www.heartland.co.nz](http://www.heartland.co.nz). Copies of the full annual financial statements for each entity may be downloaded from the public register maintained by the Companies Office at [www.business.govt.nz/companies](http://www.business.govt.nz/companies).

## 6.0 FINANCIAL INFORMATION continued

### Heartland: Summary Financial Statements

#### Statements of Comprehensive Income

	Audited 12 months to 30 June 2012	Audited 12 months to 30 June 2011	Audited 12 months to 30 June 2010	Audited 12 months to 30 June 2009	Audited 12 months to 30 June 2008
Consolidated	\$000	\$000	\$000	\$000	\$000
Interest income	205,131	161,297	148,337	168,933	173,438
Interest expense	121,502	99,705	89,271	109,318	108,637
<b>Net interest income</b>	<b>83,629</b>	<b>61,592</b>	<b>59,066</b>	<b>59,615</b>	<b>64,801</b>
Other net income	11,329	8,988	10,015	6,004	5,389
<b>Total operating income before other gains</b>	<b>94,958</b>	<b>70,580</b>	<b>69,081</b>	<b>65,619</b>	<b>70,190</b>
Employee benefits	34,661	22,049	13,049	13,377	14,411
Other operating expenses	29,520	22,777	11,976	11,671	11,404
<b>Profit before impairment and tax</b>	<b>30,777</b>	<b>25,754</b>	<b>44,056</b>	<b>40,571</b>	<b>44,375</b>
Impairment	5,642	13,298	23,765	13,318	5,726
Decrease in fair value of investment properties	3,900	-	-	-	-
<b>Net profit before tax</b>	<b>21,235</b>	<b>12,456</b>	<b>20,291</b>	<b>27,253</b>	<b>38,649</b>
Tax (benefit)/expense	(2,974)	4,712	5,992	8,199	12,785
<b>Net profit after tax</b>	<b>24,209</b>	<b>7,744</b>	<b>14,299</b>	<b>19,054</b>	<b>25,864</b>
<b>Other comprehensive income/(loss) for the period, net of tax</b>					
Effective portion of changes in fair value of cash flow hedges, net of tax	378	596	4,208	(4,427)	(1,765)
Net change in available-for-sale reserve, net of tax	(103)	111	-	-	-
Net change in defined benefit plan reserve, net of tax	(435)	14	-	-	-
<b>Total comprehensive income for the period, net of tax</b>	<b>24,049</b>	<b>8,465</b>	<b>18,507</b>	<b>14,627</b>	<b>24,099</b>

#### Statements Of Changes in Equity

	Audited 12 months to 30 June 2012	Audited 12 months to 30 June 2011	Audited 12 months to 30 June 2010	Audited 12 months to 30 June 2009	Audited 12 months to 30 June 2008
Consolidated	\$000	\$000	\$000	\$000	\$000
<b>Opening balance</b>	<b>293,841</b>	<b>206,468</b>	<b>152,961</b>	<b>139,989</b>	<b>120,890</b>
Total comprehensive income for the period, net of tax	24,049	8,465	18,507	14,627	24,099
Contributions from owners	55,000	79,774	35,000	11,345	-
Distributions to owners	(1,597)	(866)	-	(13,000)	(5,000)
<b>Closing Balance</b>	<b>371,293</b>	<b>293,841</b>	<b>206,468</b>	<b>152,961</b>	<b>139,989</b>
<b>Components of equity:</b>					
Share capital	189,774	134,774	55,000	20,000	20,000
Retained earnings	182,942	160,330	153,452	139,153	121,754
Available for sale reserve	8	111	-	-	-
Defined benefit reserve	(421)	14	-	-	-
Hedging reserve	(1,010)	(1,388)	(1,984)	(6,192)	(1,765)
<b>Total Equity</b>	<b>371,293</b>	<b>293,841</b>	<b>206,468</b>	<b>152,961</b>	<b>139,989</b>

## Heartland: Summary Financial Statements

### Statements of Financial Position

	Audited As at 30 June 2012	Audited As at 30 June 2011	Audited As at 30 June 2010	Audited As at 30 June 2009	Audited As at 30 June 2008
Consolidated	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>					
Cash and cash equivalents	89,220	267,034	86,406	62,462	8,655
Investments	24,327	17,831	-	-	-
Investment Properties	55,504	34,499	-	-	-
Finance receivables	1,801,508	1,497,618	941,328	1,136,646	1,011,954
Finance receivables - securitised	276,768	209,693	160,853	157,941	291,532
Operating lease vehicles	34,550	32,727	42,895	36,209	29,719
Intangible assets	22,997	21,602	901	-	-
Other assets	39,615	34,481	62,173	19,537	10,404
<b>Total Assets</b>	<b>2,344,489</b>	<b>2,115,485</b>	<b>1,294,556</b>	<b>1,412,795</b>	<b>1,352,264</b>
<b>Liabilities</b>					
Bank borrowings	50,010	-	-	-	-
Deposits and interest accruals	1,625,120	1,593,247	834,381	1,066,231	901,091
Borrowings - Securitised	264,359	194,277	149,298	150,728	283,042
Other liabilities	33,707	34,120	104,409	42,875	28,142
<b>Total Liabilities</b>	<b>1,973,196</b>	<b>1,821,644</b>	<b>1,088,088</b>	<b>1,259,834</b>	<b>1,212,275</b>
<b>Net Assets</b>	<b>371,293</b>	<b>293,841</b>	<b>206,468</b>	<b>152,961</b>	<b>139,989</b>
<b>Equity</b>					
Share capital	189,774	134,774	55,000	20,000	20,000
Reserves	181,519	159,067	151,468	132,961	119,989
<b>Total Equity</b>	<b>371,293</b>	<b>293,841</b>	<b>206,468</b>	<b>152,961</b>	<b>139,989</b>

### Statements Of Cash Flows

	Audited 12 months to 30 June 2012	Audited 12 months to 30 June 2011	Audited 12 months to 30 June 2010	Audited 12 months to 30 June 2009	Audited 12 months to 30 June 2008
Consolidated	\$000	\$000	\$000	\$000	\$000
Net cash flows (used in)/from operating activities	(1,771)	2,820	99,664	5,915	5,115
Net cash flows (used in)/from investing activities	(34,690)	20,502	124,213	73,764	(77,612)
Net cash flows (used in)/from financing activities	(202,996)	(49,820)	(199,933)	(23,036)	82,062
<b>Net (decrease)/increase in cash held</b>	<b>(239,457)</b>	<b>(26,498)</b>	<b>23,944</b>	<b>56,643</b>	<b>9,565</b>
Add opening cash brought forward:					
Cash on hand and at bank	267,034	86,406	62,462	8,655	(910)
Cash impact of business combination	61,643	-	-	-	-
Cash acquired on amalgamation	-	207,126	-	(2,836)	-
<b>Closing cash carried forward</b>	<b>89,220</b>	<b>267,034</b>	<b>86,406</b>	<b>62,462</b>	<b>8,655</b>
Comprising:					
<b>Cash on hand and at bank</b>	<b>89,220</b>	<b>267,034</b>	<b>86,406</b>	<b>62,462</b>	<b>8,655</b>

### Date Summary Financial Statements

authorised for issue by the Board	28-Aug-2012	11-Jan-2012	24-Sep-2010	28-Aug-2009	26-Aug-2008
-----------------------------------	-------------	-------------	-------------	-------------	-------------

### Date Full Financial Statements

authorised for issue by the Board	28-Aug-2012	19-Aug-2011	26-Aug-2010	28-Aug-2009	26-Aug-2008
-----------------------------------	-------------	-------------	-------------	-------------	-------------

## 6.0 FINANCIAL INFORMATION continued

### Heartland: Notes to Summary Financial Statements

The Heartland Group is a profit-oriented entity formed on 5 January 2011 through the business combination of Canterbury Building Society (*CBS Canterbury*), Southern Cross Building Society (*Southern Cross*) and MARAC Finance Limited (*MARAC*). On 31 August 2011, the Heartland Group acquired PGG Wrightson Finance Limited (*PWF*).

From a legal perspective MARAC is a subsidiary of Heartland, however, under 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 ended 30 June 2010, 2009 and 2008 represent a continuation of the MARAC Group only, given Heartland was not formed until 5 January 2011. The Heartland Group's consolidated Statements of Comprehensive Income and consolidated Statements of Cash Flows for the year ended 30 June 2011 reflect the operations of the MARAC Group from 1 July 2010 to 5 January 2011 and the Heartland Group from 6 January 2011 to 30 June 2011, whilst the consolidated Statements of Financial Position as at 30 June 2011 reflect that of the Heartland Group.

Heartland consolidates two securitisation trusts - Heartland 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 do not form part of Heartland's assets which are available to repay holders of Heartland debt securities.

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

- The values presented in the summary financial statements for the financial years ended 30 June 2012 and 2011 were extracted from the full financial statements of the Heartland Group. The values presented in the summary financial statements for the financial years ended 30 June 2010, 2009 and 2008 were extracted from the full financial statements of the MARAC Group.
- The full financial statements for the financial years ended 30 June 2012, 2011, 2010, 2009 and 2008 have been prepared in accordance with NZ GAAP and comply with NZ IFRS as appropriate for profit oriented entities. The full financial statements for the financial years ended 30 June 2012, 2011, 2010, 2009 and 2008 included an explicit and unreserved statement of compliance with IFRS.
- The Heartland Group full financial statements for the financial years ended 30 June 2012 and 2011, and the MARAC Group full financial statements for the financial years ended 30 June 2010, 2009 and 2008 from which the summary financial statements have been prepared 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 a proper understanding of the basis of the opinions given. These financial statements may be obtained from Heartland's registered office or from the public register for building societies maintained by the Companies Office at [www.business.govt.nz/companies](http://www.business.govt.nz/companies).
- The accounting policies that have been applied in preparing the Heartland Group's full financial statements for the year ended 30 June 2012 are consistent with the accounting policies applied in the previous year.
- 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 as complete an understanding as provided by the full financial statements from which they are extracted.
- The summary financial statements comply with 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 the Heartland Group. Unless otherwise indicated, amounts are rounded to the nearest thousand.

## PWF: Summary Financial Statements

### 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
Interest income	54,183	58,730	56,685	49,678
Interest expense	32,609	30,357	37,758	34,322
<b>Net interest income</b>	<b>21,574</b>	<b>28,373</b>	<b>18,927</b>	<b>15,356</b>
Other net income	946	925	916	338
<b>Total operating income before other gains</b>	<b>22,520</b>	<b>29,298</b>	<b>19,843</b>	<b>15,694</b>
Employee benefits	4,703	4,385	4,542	3,786
Other operating expenses	3,761	2,869	2,314	3,035
<b>Profit before impairment and tax</b>	<b>14,056</b>	<b>22,044</b>	<b>12,987</b>	<b>8,873</b>
Impairment	8,812	8,949	2,877	460
<b>Net profit before non-recurring items and tax</b>	<b>5,244</b>	<b>13,095</b>	<b>10,110</b>	<b>8,413</b>
Non-operating items	(136)	-	-	-
Fair value adjustments	2,172	(338)	1,002	245
<b>Total non-recurring items</b>	<b>2,036</b>	<b>(338)</b>	<b>1,002</b>	<b>245</b>
<b>Net profit before tax</b>	<b>7,280</b>	<b>12,757</b>	<b>11,112</b>	<b>8,658</b>
Tax expense	2,747	3,824	3,334	2,839
<b>Net profit after tax</b>	<b>4,533</b>	<b>8,933</b>	<b>7,778</b>	<b>5,819</b>
<b>Other comprehensive income/(loss) for the period, net of tax</b>				
Effective portion of changes in fair value of cash flow hedges, net of tax	(1,282)	(2,992)	5,146	(52)
<b>Total comprehensive income for the period, net of tax</b>	<b>3,251</b>	<b>5,941</b>	<b>12,924</b>	<b>5,767</b>

### Statements Of Changes in Equity

	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
<b>Opening balance</b>	<b>100,375</b>	<b>66,816</b>	<b>53,892</b>	<b>40,625</b>
Total comprehensive income for the period, net of tax	3,251	5,941	12,924	5,767
Contributions from owners	-	33,850	-	7,500
Distributions to owners	(2,707)	(6,232)	-	-
<b>Closing Balance</b>	<b>100,919</b>	<b>100,375</b>	<b>66,816</b>	<b>53,892</b>
<b>Components of equity:</b>				
Share capital	31,500	31,500	31,500	31,500
Retained earnings	35,569	33,743	31,042	23,394
Preference Shares	33,850	33,850	-	-
Fair value through other comprehensive income reserve	-	1,282	4,274	(1,002)
<b>Total Equity</b>	<b>100,919</b>	<b>100,375</b>	<b>66,816</b>	<b>53,892</b>

## 6.0 FINANCIAL INFORMATION continued

### PWF: Summary Financial Statements

#### 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
<b>Assets</b>				
Cash and cash equivalents	71,617	9,277	3,779	625
Loans and advances	381,778	530,119	559,659	502,591
Assets classified as held for sale	50,522	-	-	-
Other assets	14,815	10,266	12,037	4,248
<b>Total Assets</b>	<b>518,732</b>	<b>549,662</b>	<b>575,475</b>	<b>507,464</b>
<b>Liabilities</b>				
Borrowings	412,293	439,057	499,146	449,483
Other liabilities	5,520	10,230	9,513	4,089
<b>Total Liabilities</b>	<b>417,813</b>	<b>449,287</b>	<b>508,659</b>	<b>453,572</b>
<b>Net Assets</b>	<b>100,919</b>	<b>100,375</b>	<b>66,816</b>	<b>53,892</b>
<b>Equity</b>				
Share capital	65,350	65,350	31,500	31,500
Reserves	35,569	35,025	35,316	22,392
<b>Total Equity</b>	<b>100,919</b>	<b>100,375</b>	<b>66,816</b>	<b>53,892</b>

#### 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
Net cash flows from/(used in) operating activities	4,814	20,638	14,232	5,496
Net cash flows from/(used in) investing activities	88,897	20,373	(61,143)	(109,439)
Net cash flows from/(used in) financing activities	(31,371)	(35,513)	50,065	105,043
<b>Net increase/(decrease) in cash held</b>	<b>62,340</b>	<b>5,498</b>	<b>3,154</b>	<b>1,100</b>
Add opening cash brought forward:				
Cash on hand and at bank	9,277	3,779	625	(475)
<b>Closing cash carried forward</b>	<b>71,617</b>	<b>9,277</b>	<b>3,779</b>	<b>625</b>
Comprising:				
<b>Cash on hand and at bank/ bank overdraft</b>	<b>71,617</b>	<b>9,277</b>	<b>3,779</b>	<b>625</b>

#### Date Summary Financial Statements

authorised for issue by the Board	29-Aug-2011	12-Aug-2010	27-Aug-2009	19-Aug-2008
-----------------------------------	-------------	-------------	-------------	-------------

#### Date Full Financial Statements

authorised for issue by the Board	29-Aug-2011	12-Aug-2010	27-Aug-2009	19-Aug-2008
-----------------------------------	-------------	-------------	-------------	-------------

### **PWF: Notes to Summary Financial Statements**

At the date these Summary Financial Statements were prepared, PWF was a profit-oriented entity with no subsidiaries.

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

- The values presented in the summary financial statements were extracted from the full financial statements of PWF for the financial years ending 30 June 2011, 2010, 2009 and 2008.
- The full financial statements for the financial years ended 30 June 2011, 2010, 2009 and 2008 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 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](http://www.business.govt.nz/companies).
- The accounting policies that have been applied in preparing the full financial statements for the year ended 30 June 2011 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 PWF at that date of preparing the summary financial statements. Unless otherwise indicated, amounts are rounded to the nearest thousand.

## 6.0 FINANCIAL INFORMATION continued

### MARAC Group: Summary Financial Statements

#### 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
<b>Consolidated</b>			
Interest income	148,337	168,933	173,438
Interest expense	89,271	109,318	108,637
<b>Net Interest Income</b>	<b>59,066</b>	<b>59,615</b>	<b>64,801</b>
Other net income	10,015	6,004	5,389
<b>Total operating income before other gains</b>	<b>69,081</b>	<b>65,619</b>	<b>70,190</b>
Employee benefits	13,049	13,377	14,411
Other operating expenses	11,976	11,671	11,404
<b>Profit before impairment and tax</b>	<b>44,056</b>	<b>40,571</b>	<b>44,375</b>
Impairment	23,765	13,318	5,726
<b>Net profit before tax</b>	<b>20,291</b>	<b>27,253</b>	<b>38,649</b>
Tax expense	5,992	8,199	12,785
<b>Net profit after tax</b>	<b>14,299</b>	<b>19,054</b>	<b>25,864</b>
<b>Other comprehensive income/(loss) for the period, net of tax</b>			
Effective portion of changes in fair value of cash flow hedges, net of tax	4,208	(4,427)	(1,765)
<b>Total comprehensive income for the period, net of tax</b>	<b>18,507</b>	<b>14,627</b>	<b>24,099</b>

#### Statements Of Changes in Equity

	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000
<b>Consolidated</b>			
<b>Opening balance</b>	<b>152,961</b>	<b>139,989</b>	<b>120,890</b>
Other comprehensive income/(loss) for the period, net of tax	18,507	14,627	24,099
Contributions from owners	35,000	11,345	-
Distributions to owners	-	(13,000)	(5,000)
<b>Closing Balance</b>	<b>206,468</b>	<b>152,961</b>	<b>139,989</b>
<b>Components of equity:</b>			
Share capital	55,000	20,000	20,000
Retained earnings	153,452	139,153	121,754
Fair value through other comprehensive income reserve	(1,984)	(6,192)	(1,765)
<b>Total Equity</b>	<b>206,468</b>	<b>152,961</b>	<b>139,989</b>

## MARAC Group: Summary Financial Statements

### 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
<b>Consolidated</b>			
<b>Assets</b>			
Cash and cash equivalents	86,406	62,462	8,655
Finance receivables	941,328	1,136,646	1,011,954
Finance receivables - securitised	160,853	157,941	291,532
Operating lease vehicles	42,895	36,209	29,719
Other assets	63,074	19,537	10,404
<b>Total Assets</b>	<b>1,294,556</b>	<b>1,412,795</b>	<b>1,352,264</b>
<b>Liabilities</b>			
Deposits and interest accruals	834,381	1,066,231	901,091
Borrowings - Securitised	149,298	150,728	283,042
Other liabilities	104,409	42,875	28,142
<b>Total Liabilities</b>	<b>1,088,088</b>	<b>1,259,834</b>	<b>1,212,275</b>
<b>Net Assets</b>	<b>206,468</b>	<b>152,961</b>	<b>139,989</b>
<b>Equity</b>			
Share capital	55,000	20,000	20,000
Reserves	151,468	132,961	119,989
<b>Total Equity</b>	<b>206,468</b>	<b>152,961</b>	<b>139,989</b>

### 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
<b>Consolidated</b>			
Net cash flows from/(used in) operating activities	30,373	5,915	5,115
Net cash flows from/(used in) investing activities	193,504	73,764	(77,612)
Net cash flows from/(used in) financing activities	(199,933)	(23,036)	82,062
<b>Net increase/(decrease) in cash held</b>	<b>23,944</b>	<b>56,643</b>	<b>9,565</b>
Add opening cash brought forward:			
Cash on hand and at bank	62,462	8,655	(910)
Acquired on amalgamation	-	(2,836)	-
<b>Closing cash carried forward</b>	<b>86,406</b>	<b>62,462</b>	<b>8,655</b>
Comprising:			
<b>Cash on hand and at bank/ bank overdraft</b>	<b>86,406</b>	<b>62,462</b>	<b>8,655</b>

<b>Date Summary Financial Statements authorised for issue by the Board</b>	24-Sep-2010	28-Aug-2009	26-Aug-2008
<b>Date Full Financial Statements authorised for issue by the Board</b>	26-Aug-2010	28-Aug-2009	26-Aug-2008

## 6.0 FINANCIAL INFORMATION continued

### **MARAC Group: Notes to Summary Financial Statements**

The MARAC Group is a profit-oriented entity, which consists of MARAC, Heartland ABCP Trust<sup>1</sup> (*Trust*), MARAC Retirement Bonds Superannuation Fund (*Fund*) and Heartland 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 ended 30 June 2010, 2009 and 2008.
- The full financial statements for the financial years ended 30 June 2010, 2009 and 2008 have been prepared in accordance with NZ GAAP and comply with 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 each year presented in the summary financial statements 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 the audit reports for the audited financial statements of the MARAC Group 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 Heartland's registered office or from the public register for companies maintained by the Companies Office at [www.business.govt.nz/companies](http://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 as complete an understanding as provided by the full financial statements from which they are extracted.
- The summary financial statements comply with 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 the MARAC Group. Unless otherwise indicated, amounts are rounded to the nearest thousand.

## SOUTHERN CROSS: Summary Financial Statements

### 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
<b>Consolidated</b>			
Interest income	27,372	38,125	44,451
Interest expense	17,675	27,545	33,304
<b>Net interest income</b>	<b>9,697</b>	<b>10,580</b>	<b>11,147</b>
Other net income	39	428	1,824
<b>Total operating income before other net gains</b>	<b>9,736</b>	<b>11,008</b>	<b>12,971</b>
Employee benefits	3,313	3,352	3,108
Other operating expenses	4,196	4,437	4,229
<b>Profit before impairment, other net gains, restructuring costs and tax</b>	<b>2,227</b>	<b>3,219</b>	<b>5,634</b>
Impairment	5,765	14,625	593
<b>Profit/(loss) before non-recurring items and tax</b>	<b>(3,538)</b>	<b>(11,406)</b>	<b>5,041</b>
Other net gains/(losses)	(1,183)	-	2,668
Restructuring costs	(458)	47	(1,905)
<b>Total non-recurring items</b>	<b>(1,641)</b>	<b>47</b>	<b>763</b>
<b>Net profit/(loss) before tax</b>	<b>(5,179)</b>	<b>(11,359)</b>	<b>5,804</b>
Tax expense/(benefit)	(477)	(2,614)	636
<b>Net profit/(loss) after tax</b>	<b>(4,702)</b>	<b>(8,745)</b>	<b>5,168</b>
<b>Other comprehensive income/(loss) for the period, net of tax</b>			
Net change in asset revaluation reserve, net of tax	(174)	-	-
Net change in available-for-sale reserve, net of tax	-	1,015	(1,504)
Net change in defined benefit plan reserve, net of tax	-	(502)	(286)
Net change in fair value through other comprehensive income reserve	(353)	-	-
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>(5,229)</b>	<b>(8,232)</b>	<b>3,378</b>

### Statements Of Changes in Equity

	Audited 12 months to 30 June 2010 \$000	Audited 12 months to 30 June 2009 \$000	Audited 12 months to 30 June 2008 \$000
<b>Consolidated</b>			
<b>Opening balance</b>	<b>52,198</b>	<b>60,405</b>	<b>57,140</b>
Change in accounting policy - early adoption of NZ IFRS 9	612	-	-
<b>Opening balance restated</b>	<b>52,810</b>	<b>60,405</b>	<b>57,140</b>
Total comprehensive income/(loss) for the period, net of tax	(5,229)	(8,232)	3,378
Contributions from owners	25	25	425
Distributions to owners	-	-	(538)
<b>Closing Balance</b>	<b>47,606</b>	<b>52,198</b>	<b>60,405</b>
<b>Components of equity:</b>			
Share capital	10,475	10,450	10,425
Capital reserve	40,000	40,000	40,000
Retained earnings	(3,676)	1,026	9,771
Available for sale reserve	-	(612)	(1,627)
Asset revaluation reserve	1,074	1,248	1,248
Defined benefit reserve	86	86	588
Fair value through other comprehensive income reserve	(353)	-	-
<b>Total Equity</b>	<b>47,606</b>	<b>52,198</b>	<b>60,405</b>

## 6.0 FINANCIAL INFORMATION continued

### SOUTHERN CROSS: Summary Financial Statements

#### Statements of Financial Position

	Audited As at 30 June 2010	Audited As at 30 June 2009	Audited As at 30 June 2008
Consolidated	\$000	\$000	\$000
<b>Assets</b>			
Cash and cash equivalents	681	1,006	1,306
Short term deposits	122,013	95,368	55,392
Investment securities	19,123	25,477	49,488
Investment property	-	-	-
Loans and advances	249,822	275,621	338,498
Deferred tax asset	5,572	5,414	2,824
Other assets	5,785	9,126	8,408
<b>Total Assets</b>	<b>402,996</b>	<b>412,012</b>	<b>455,916</b>
<b>Liabilities</b>			
Deposits and interest accruals	353,737	358,162	384,791
Redeemable shares	-	-	7,845
Other liabilities	1,653	1,652	2,875
<b>Total Liabilities</b>	<b>355,390</b>	<b>359,814</b>	<b>395,511</b>
<b>Net Assets</b>	<b>47,606</b>	<b>52,198</b>	<b>60,405</b>
<b>Equity</b>			
Share capital	10,475	10,450	10,425
Reserves	37,131	41,748	49,980
<b>Total Equity</b>	<b>47,606</b>	<b>52,198</b>	<b>60,405</b>

#### Statements Of Cash Flows

	Audited 12 months to 30 June 2010	Audited 12 months to 30 June 2009	Audited 12 months to 30 June 2008
Consolidated	\$000	\$000	\$000
Net cash flows from/(used in) operating activities	(282)	(1)	(22,039)
Net cash flows from/(used in) investing activities	(43)	(299)	17,987
Net cash flows from/(used in) financing activities	-	-	4,713
<b>Net increase/(decrease) in cash held</b>	<b>(325)</b>	<b>(300)</b>	<b>661</b>
Add opening cash brought forward:			
Cash on hand and at bank	1,006	1,306	645
<b>Closing cash carried forward</b>	<b>681</b>	<b>1,006</b>	<b>1,306</b>
Comprising:			
Cash on hand and at bank	681	1,006	1,306

#### Date Summary Financial Statements

authorised for issue by the Board	22-Sep-2010	12-Aug-2009	22-Aug-2008
-----------------------------------	-------------	-------------	-------------

#### Date Full Financial Statements

authorised for issue by the Board	11-Aug-2010	12-Aug-2009	22-Aug-2008
-----------------------------------	-------------	-------------	-------------

### **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 Southern Cross 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 ended 30 June 2010, 2009 and 2008.
  - The full financial statements for the financial years ended 30 June 2010, 2009 and 2008 have been prepared in accordance with NZ GAAP and comply with 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 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 a proper understanding of the basis of the opinions given. These financial statements may be obtained from Heartland's registered office or from the public register for building societies maintained by the Companies Office at [www.business.govt.nz/companies](http://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 as complete an understanding as provided by the full financial statements from which they are extracted.
- The summary financial statements comply with FRS 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.

## 6.0 FINANCIAL INFORMATION continued

### CBS Canterbury: Summary Financial Statements

#### Statements of Comprehensive Income

	Unaudited	Audited	Audited	Audited
	3 months to 30 June 2010	12 months to 31 March 2010	12 months to 31 March 2009	12 months to 31 March 2008
Consolidated	\$000	\$000	\$000	\$000
Interest income	7,928	30,406	50,993	35,650
Interest expense	5,789	22,372	39,794	27,455
<b>Net interest income</b>	<b>2,139</b>	<b>8,034</b>	<b>11,199</b>	<b>8,195</b>
Other net income	363	2,362	696	827
<b>Total operating income before other net gains</b>	<b>2,502</b>	<b>10,396</b>	<b>11,895</b>	<b>9,022</b>
Employee benefits	1,153	4,141	3,801	2,531
Other operating expenses	1,158	4,469	4,935	3,273
<b>Profit before impairment and tax</b>	<b>191</b>	<b>1,786</b>	<b>3,159</b>	<b>3,218</b>
Impairment	75	589	2,410	15
<b>Net profit before tax</b>	<b>116</b>	<b>1,197</b>	<b>749</b>	<b>3,203</b>
Impairment of goodwill	-	-	(4,148)	-
Restructuring costs	(165)	-	-	-
Special finance charge	-	-	-	(1,110)
<b>Total non-recurring items</b>	<b>(165)</b>	<b>-</b>	<b>(4,148)</b>	<b>(1,110)</b>
<b>Net profit/(loss) before tax</b>	<b>(49)</b>	<b>1,197</b>	<b>(3,399)</b>	<b>2,093</b>
Tax expense/(benefit)	332	(711)	82	1,209
<b>Net profit/(loss) after tax</b>	<b>(381)</b>	<b>1,908</b>	<b>(3,481)</b>	<b>884</b>
<b>Other comprehensive income/(loss) for the period, net of tax</b>				
Net change in asset revaluation reserve, net of tax	-	101	(127)	68
Net change in available-for-sale reserve, net of tax	120	412	(349)	(211)
Net change in capital gains reserve, net of tax	-	-	-	241
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>(261)</b>	<b>2,421</b>	<b>(3,957)</b>	<b>982</b>

#### Statements Of Changes in Equity

	Unaudited	Audited	Audited	Audited
	3 months to 30 June 2010	12 months to 31 March 2010	12 months to 31 March 2009	12 months to 31 March 2008
Consolidated	\$000	\$000	\$000	\$000
Opening balance	51,552	48,594	53,490	24,920
Total comprehensive income/(loss) for the period attributable to: owners of the Society	(261)	2,421	(3,957)	982
Contributions from owners	-	537	1,175	28,176
Distributions to owners	-	-	(2,114)	(588)
<b>Closing Balance</b>	<b>51,291</b>	<b>51,552</b>	<b>48,594</b>	<b>53,490</b>
<b>Components of equity:</b>				
Share capital	44,288	44,288	43,752	42,577
Retained earnings	5,203	5,583	3,674	9,270
Available for sale reserve	(40)	(135)	(547)	(199)
Asset revaluation reserve	1,553	1,529	1,428	1,555
Realised capital gains reserve	287	287	287	287
<b>Total Equity</b>	<b>51,291</b>	<b>51,552</b>	<b>48,594</b>	<b>53,490</b>

## CBS Canterbury: Summary Financial Statements

### Statements of Financial Position

	Unaudited As at 30 June 2010	Audited As at 31 March 2010	Audited As at 31 March 2009	Audited As at 31 March 2008
Consolidated	\$000	\$000	\$000	\$000
<b>Assets</b>				
Cash and cash equivalents	33,460	44,309	93,615	75,334
Short term deposits	31,500	27,000	5,300	10,300
Investment securities	8,025	7,918	17,131	8,166
Loans and advances	450,499	445,262	417,424	449,071
Intangibles	9,824	9,897	10,122	13,479
Other assets	5,950	6,459	6,058	5,377
<b>Total Assets</b>	<b>539,258</b>	<b>540,845</b>	<b>549,650</b>	<b>561,727</b>
<b>Liabilities</b>				
Deposits and interest accruals	484,675	486,262	493,151	506,156
Other liabilities	3,292	3,031	7,905	2,081
<b>Total Liabilities</b>	<b>487,967</b>	<b>489,293</b>	<b>501,056</b>	<b>508,237</b>
<b>Net Assets</b>	<b>51,291</b>	<b>51,552</b>	<b>48,594</b>	<b>53,490</b>
<b>Equity</b>				
Share capital	44,288	44,288	43,752	42,577
Reserves	7,003	7,264	4,842	10,913
<b>Total Equity</b>	<b>51,291</b>	<b>51,552</b>	<b>48,594</b>	<b>53,490</b>

### Statements Of Cash Flows

	Unaudited 3 months to 30 June 2010	Audited 12 months to 31 March 2010	Audited 12 months to 31 March 2009	Audited 12 months to 31 March 2008
Consolidated	\$000	\$000	\$000	\$000
Net cash flows from/(used in) operating activities	(6,263)	(37,754)	24,697	(6,936)
Net cash flows from/(used in) investing activities	(4,586)	(12,088)	(5,476)	4,639
Net cash flows from/(used in) financing activities	-	536	(940)	11,724
<b>Net increase/(decrease) in cash held</b>	<b>(10,849)</b>	<b>(49,306)</b>	<b>18,281</b>	<b>9,427</b>
Add opening cash brought forward:				
Cash on hand and at bank	44,309	93,615	75,334	65,907
<b>Closing cash carried forward</b>	<b>33,460</b>	<b>44,309</b>	<b>93,615</b>	<b>75,334</b>
Comprising:				
<b>Cash on hand and at bank</b>	<b>33,460</b>	<b>44,309</b>	<b>93,615</b>	<b>75,334</b>

### Date Summary Financial Statements

authorised for issue by the Board	30-Sep-2010	11-Jun-2010	12-Jun-2009	27-Jun-2008
-----------------------------------	-------------	-------------	-------------	-------------

### Date Full Financial Statements

authorised for issue by the Board	30-Sep-2010	11-Jun-2010	12-Jun-2009	27-Jun-2008
-----------------------------------	-------------	-------------	-------------	-------------

## 6.0 FINANCIAL INFORMATION continued

### **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.

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 ended 30 June 2010 and from the full audited financial statements of CBS Canterbury for the financial years ended 31 March 2010, 2009 and 2008.
- The full financial statements for the three months ended 30 June 2010 and the financial years ended 31 March 2010, 2009 and 2008 have been prepared in accordance with NZ GAAP and comply with NZ IFRS as appropriate for profit oriented entities. The full financial statements for the financial years ended 31 March 2010, 2009 and 2008 included an explicit and unreserved statement of compliance with IFRS
- The full financial statements for the financial years ended 31 March 2010, 2009 and 2008 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 a proper understanding of the basis of the opinions given. These financial statements may be obtained from Heartland's registered office or from the public register for building societies maintained by the Companies Office at [www.business.govt.nz/companies](http://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 as complete an understanding as provided by the full financial statements from which they are extracted.
- The summary financial statements comply with 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 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.

**Audit report**



## Independent Auditor's Report

### To the readers of the Prospectus No. 4 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 16 November 2012.

#### Report on the Society and Group financial statements

We have audited the financial statements of the Society and the Group, for the year ended 30 June 2012. We expressed an unqualified and unmodified audit opinion on those financial statements and did not refer to any fundamental uncertainty in any respect in our report dated 28 August 2012.

#### Report on the summary financial statements

The summary financial statements on pages 21 to 36 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 2012 30 June 2011	22 to 24
<i>Acquired businesses and subsidiary</i>		
PGG Wrightson Finance Limited	30 June 2011 30 June 2010 30 June 2009 30 June 2008	25 to 27
MARAC Finance Limited	30 June 2010 30 June 2009 30 June 2008	28 to 30
Southern Cross Building Society	30 June 2010 30 June 2009 30 June 2008	31 to 33
Canterbury Building Society	31 March 2010 31 March 2009 31 March 2008	34 to 36

## 6.0 FINANCIAL INFORMATION continued

### Audit report



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*

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

#### *Auditor's responsibility for the summary financial statements*

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standards on Auditing (New Zealand) 810 *Engagements to Report on Summary Financial Statements*.

#### *Opinion on the summary financial statements*

In our opinion, the amounts set out in the summary financial statements on pages 21 to 36 of this prospectus, derived from the audited financial statements, as detailed above, as required by clauses 8 and 9(2) of Schedule 2 of the Securities Regulations 2009:

- are consistent, in all material respects, with those financial statements; and
- 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 2012, 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 2012.

#### *Opinion on the ranking of securities*

In our opinion, the amounts set out in the ranking of securities on page 43 of this prospectus, have been correctly taken from the audited financial statements of Heartland Building Society and the Group as at 30 June 2012.



### **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**

#### ***Independence***

Our firm has also provided other services to the Society and Group in relation to general accounting services. Subject to certain restrictions, partners and employees of our firm may also deal with the Society and Group on normal terms within the ordinary course of trading activities of the business of the Society and Group. These matters have not impaired our independence as auditor of the Society and Group. The firm has no other relationship with, or interest in, the Society and Group.

#### ***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**

16 November 2012

## 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. You can find out more about the Deposits 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.

The Deposits have not been approved for trading on a registered market.

### 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](http://www.business.govt.nz/companies).

### Guarantors

As at the date of 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. You can find out more about the guarantees given by MARAC, VPS Properties, VPS Parnell and PWF in Section 4 of this Prospectus.

### Names, addresses, and other information

#### Directors

The Directors of Heartland as at the date of 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)

- 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.

Of the Directors named above, as at the date of this Prospectus:

- Jeffrey Greenslade is the CEO and Managing Director of Heartland and Heartland New Zealand.
- None of the others are employees of Heartland, or of an associated person of Heartland.

#### 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.

#### Auditor

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

#### Advisers

The name and address of the solicitors and other professional advisers 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:

- 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);
- Heartland will hold, and will continue to hold, sufficient assets and funds to perform those functions; and
- 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 established under the Building Societies Act.

### Description of activities

Set out below is a description of the principal activities of the members of the Borrowing Group.

- 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, the principal activities of Heartland have been the raising of funds for the Heartland Group (primarily from a retail deposit base), and providing funding and other financial services.

- MARAC became a wholly owned subsidiary of Heartland under the Merger. Before the Merger, the principal activities of MARAC were the raising of funds (primarily from a retail investor base), and providing funding and other financial services to the household and small-to-medium sized business sectors of New Zealand. Since the Merger MARAC has continued to provide funding and other financial services to those sectors, as well as to the rural sector of New Zealand.
- PWF became a wholly owned subsidiary of Heartland on 31 August 2011. Before acquisition by Heartland, the principal activities of PWF were the raising of funds (primarily from a retail investor base), and providing funding and other financial services to the rural sector of New Zealand. Since its acquisition by Heartland PWF has continued to providing funding and other financial services to that sector.
- 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.

### 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 raised funds (primarily from a retail investor or depositor base), and provided funding and other financial services. The summary financial statements of CBS Canterbury, Southern Cross and MARAC are set out in Section 6 of this Prospectus.

On 31 August 2011, Heartland acquired all of the shares in PWF. Details of the business carried on by PWF are set out earlier on this page of this Prospectus. The summary financial statements of PWF are set out in Section 6 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 a member of the Heartland Group.

### Contracts with ongoing day to day application

#### 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, and as subsequently amended from time to time), 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.

#### RECL Management Agreement

MARAC and RECL (which as at the date of 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). 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 30 June 2012 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

## 7.0 STATUTORY INFORMATION continued

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 to each other, 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 Services 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)**

#### **Crown Deed of Guarantee (Building Society)**

Heartland and Her Majesty the Queen in right of New Zealand were 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 indemnified 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. The arrangements under this Deed of Indemnity and Postponement have now terminated.

#### **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 set 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 set 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 set out the terms on which Heartland assumed liability for the deposits of Southern Cross outstanding under its then existing Debt Security Trust Deed.

#### **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 set 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 set out the terms on which Heartland assumed liability for the PWF bonds outstanding under its then existing bond trust deed.

#### **Supplemental Trust Deed (PWF Bonds)**

Heartland entered into a Supplemental Trust Deed (PWF Bonds) dated 11 July 2011 with the Trustee which was supplemental to the Master Trust Deed and governed the terms of the PWF bonds. The PWF bonds have now been fully repaid.

#### **Agreement relating to Sale and Purchase of Shares in PWF**

PGW and Heartland New Zealand entered into an agreement dated 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 entered into in connection with the sale of all of the ordinary shares in PWF, from PGW to Heartland. Under this agreement, 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 entered into in

connection with the sale of all of the ordinary shares in PWF, from PGW to Heartland. Under this agreement, PWF agreed to sell certain finance contracts and receivables to PGW Rural Capital Limited, a wholly owned subsidiary of PGW.

### **Pending proceedings**

There are no legal proceedings or arbitrations pending as at the date 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 \$600,000 excluding brokerage and commission but including Trustee, legal and Auditor fees and printing costs. Details of brokerage are set out below.

#### **Brokerage and Commission**

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 1.70% 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 or 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 the Borrowing Group and are not secured by a mortgage or charge.

As at 30 June 2012, 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 were the mortgages granted by VPS Properties securing \$50,794,913 and VPS Parnell securing \$7,330,000 to Heartland which

rank ahead of the Deposits.<sup>18</sup> 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.

You can find out more about permitted security interests which can be granted by a Heartland Group member and which may rank ahead of, or equally with, the Deposits in Section 4 of this Prospectus.

### **Other restrictions on the Heartland Group**

#### **Description of Trust Deed documents**

The Deposits will be governed by the Master Trust Deed and the Supplemental Deed (Accounts), each dated 29 October 2010 between Heartland and the Trustee. A summary of the terms of the Trust Deed is set out in Section 4 of this Prospectus.

#### **Trust Deed limitation on mortgages, charges, liabilities**

The Trust Deed does not contain any limitations relating to the creation of new mortgages or charges ranking in point of security ahead of, or equally with, any mortgage or charge securing the Deposits, simply because (as noted above) there is no mortgage or charge which secures the Deposits. The Deposits are unsecured obligations of Heartland.

The Trust Deed imposes a limitation on the ability of Heartland and the Heartland Group to grant any security over their assets.

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). This is consistent with requirements of regulations applicable to NBDTs with a credit rating under the Reserve Bank Act. You can find out more about the restrictions contained in the Trust Deed in Section 4 of this Prospectus.

#### **Duties and powers of the Trustee**

The Trustee is appointed to act as trustee for Depositors. The principal duties of the Trustee under the Trust Deed, the Securities Act and the Securities Regulations are set out in Section 4 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) 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 Section 4 of this Prospectus.

<sup>18</sup> 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

### **Standby Cash Advances Facility Agreement**

As at the date of this Prospectus, under a Standby Cash Advances Facility Agreement entered into by Heartland (and its Guaranteeing Subsidiaries) 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.

You 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 2012) may be obtained from Heartland's website at [www.heartland.co.nz](http://www.heartland.co.nz) or from the Companies Office website at [www.business.govt.nz/companies](http://www.business.govt.nz/companies). The Heartland Group's most recent annual audited financial statements (for the year ended 30 June 2012) were registered with the Companies Office on 2 October 2012.

### **Other terms of the offer and securities**

All of the terms of the offer of Deposits 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 Section 6 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 Heartland's registered office 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 available for inspection at Heartland's registered office shall exclude certain information in accordance with the RECL Exemption Notice. 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 (Continuous Debt Issues) Exemption Notice 2012**

The Financial Markets Authority has extended certain exemptions from Securities Act requirements under the Securities Act (Continuous Debt Issues) Exemption Notice 2012 to issuers who, in the ordinary course of their business, continuously offer debt securities to the public. Heartland is a "continuous issuer" to which the exemption notice applies. The effect of this exemption notice is that, in respect of debt securities that Heartland continuously offers to the public (such as the Deposits), Heartland need not comply with:

- The requirement that, before the allotment of a security, the subscriber must have received an investment statement. This exemption is subject to the condition that Heartland has sent an investment statement relating to the debt security to the subscriber's postal address at least 3 working days before the subscriber subscribes for the debt security (or 2 working days in the case of sending to an electronic address).
- The requirement to issue a certificate or other document that properly evidences the nature, ownership, terms and conditions of a security (*Confirmation Document*). This exemption is subject to the condition that a *Confirmation Document* is sent upon request without charge and, at least once every 6 months, a *Confirmation Document* (or a statement as to how a *Confirmation Document* can be obtained) is sent to the security holder.
- Certain provisions of the Securities Act relating to the inspection of registers.

#### **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. The effect of this exemption is that (subject to certain conditions) Heartland need not comply with regulation 27(1) of the Securities Regulations (regulation 27(1) requires that in advertisements an issuer does not refer

to debt securities without also referring to their secured or unsecured status). The exemption otherwise has no material effect on the Deposits or the offer of Deposits.

**RECL Exemption Notice**

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 RECL Exemption Notice. 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 of Deposits, other than those set out in this Prospectus, the financial statements referred to in Section 6 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 2012 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 the Borrowing Group to pay its 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

## 7.0 STATUTORY INFORMATION continued

### Statutory index

As required by regulation 16 of the Securities Regulations

#### SCHEDULE 2, SECURITIES REGULATIONS

Clause	Page(s)
1 Main terms of offer	10-13 and 40
2 Name and address of offeror	N/A
3 Details of incorporation of issuer	40
4 Guarantors	40
5 Names, addresses, and other information	40
6 Restrictions on Directors' powers	40
7 Description of activities of borrowing group	40-41
8 Summary financial statements	21-36
9 Acquisition of business or subsidiary	41
10 Material contracts	41-43
11 Pending proceedings	43
12 Issue expenses	43
13 Ranking of securities	43
14 (a) Provisions of trust deed	14-16
(b) Other restrictions on borrowing group	43-44
(c) Trustee's statement	17
15 Other terms of offer and securities	44
16-18 Financial statements	44
19 Places of inspection of documents	44
20 Other material matters	44-45
21 Directors' statement	45
22 Auditor's report	37-39

## GLOSSARY

**\$, NZD or NZ\$**

New Zealand dollars

**Auditor**

KPMG

**Board**

The board of directors of Heartland

**Borrowing Group**

Heartland and the Guaranteeing Subsidiaries

**Building Societies Act**

The Building Societies Act 1965

**CBS Canterbury**

Canterbury Building Society

**Depositor**

A holder of a Deposit

**Deposits**

Debt securities issued by Heartland under the Trust Deed, to which this Prospectus relates

**Director**

A member of the Board

**GAAP**

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

**Guaranteeing Subsidiaries**

MARAC, VPS Properties, VPS Parnell, PWF and any other subsidiary of Heartland which becomes a guarantor under the 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 and its subsidiaries from time to time. As at 30 June 2012, 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 Deposits

**IRD**

Inland Revenue Department

**IFRS**

International Financial Reporting Standards

**MARAC**

MARAC Finance Limited

**MARAC Group**

A profit oriented entity which consists of MARAC, Heartland ABCP Trust 1 and Heartland PIE Fund

**Master Trust Deed**

The trust deed entered into between Heartland and the Trustee on 29 October 2010, as amended from time to time (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

**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

**NZX Debt Market**

The market for debt securities, operated by NZX

**NZX Main Board**

The main board equity security market, operated by NZX

**NZX**

NZX Limited

**PGC**

Pyne Gould Corporation Limited

**PGW**

PGG Wrightson Limited

**Prospectus**

This document

**PWF**

PGG Wrightson Finance Limited

**RECL**

Real Estate Credit Limited

**RECL Exemption Notice**

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

**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

**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

**Securities Regulations**

The Securities Regulations 2009

**Southern Cross**

Southern Cross Building Society

## GLOSSARY continued

**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

**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 the supplemental deeds pursuant to which the Guaranteeing Subsidiaries become guarantors

**Trustee**

Trustees Executors Limited 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

## CREDIT RATINGS AND AN EXPLANATION OF S&P CREDIT RATING SYSTEM

As at the date of this Prospectus, Heartland has a credit rating of BBB- (Outlook Stable) from Standard & Poor's.

Heartland's rating is a local currency (New Zealand dollar) long-term issuer rating which reflects Heartland's creditworthiness over a time period of one year or more. Heartland's credit rating is not given in respect of the Deposits or any other particular issue of securities made by Heartland.

Heartland's credit rating and outlook was affirmed on 17 October 2012.

### 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 or on time, as promised.

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

	Grade	Description
<b>INVESTMENT GRADE</b>	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.
	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.
<b>SPECULATIVE GRADE</b>	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 terms “noninvestment grade” or “speculative grade” generally refer 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. 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.

#### **Where can I find more information?**

The Reserve Bank has some useful information on credit ratings on its website [www.rbnz.govt.nz](http://www.rbnz.govt.nz).

Additional information can also be found on S&P’s website [www.standardandpoors.com](http://www.standardandpoors.com).

#### **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

75 Riccarton Road  
Riccarton  
Christchurch 8011

T 0800 85 20 20  
F +64 9 927 9310

## Directors of the Issuer

B R Irvine (Chairman)  
J K Greenslade  
E J Harvey  
G R Kennedy  
G R Leech  
C R Mace  
G T Ricketts  
M A Smith

## 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

Trustees Executors Limited is licensed to act as a trustee for securities offered to the public pursuant to the Securities Trustees and Statutory Supervisors Act 2011.

## 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

KPMG holds a transitional registration as an audit firm pursuant to the Auditor Regulation Act 2011.

## Tax advisers to the Issuer

### Deloitte

Deloitte Centre  
80 Queen St  
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](http://www.heartland.co.nz)**

© Heartland Building Society 2012