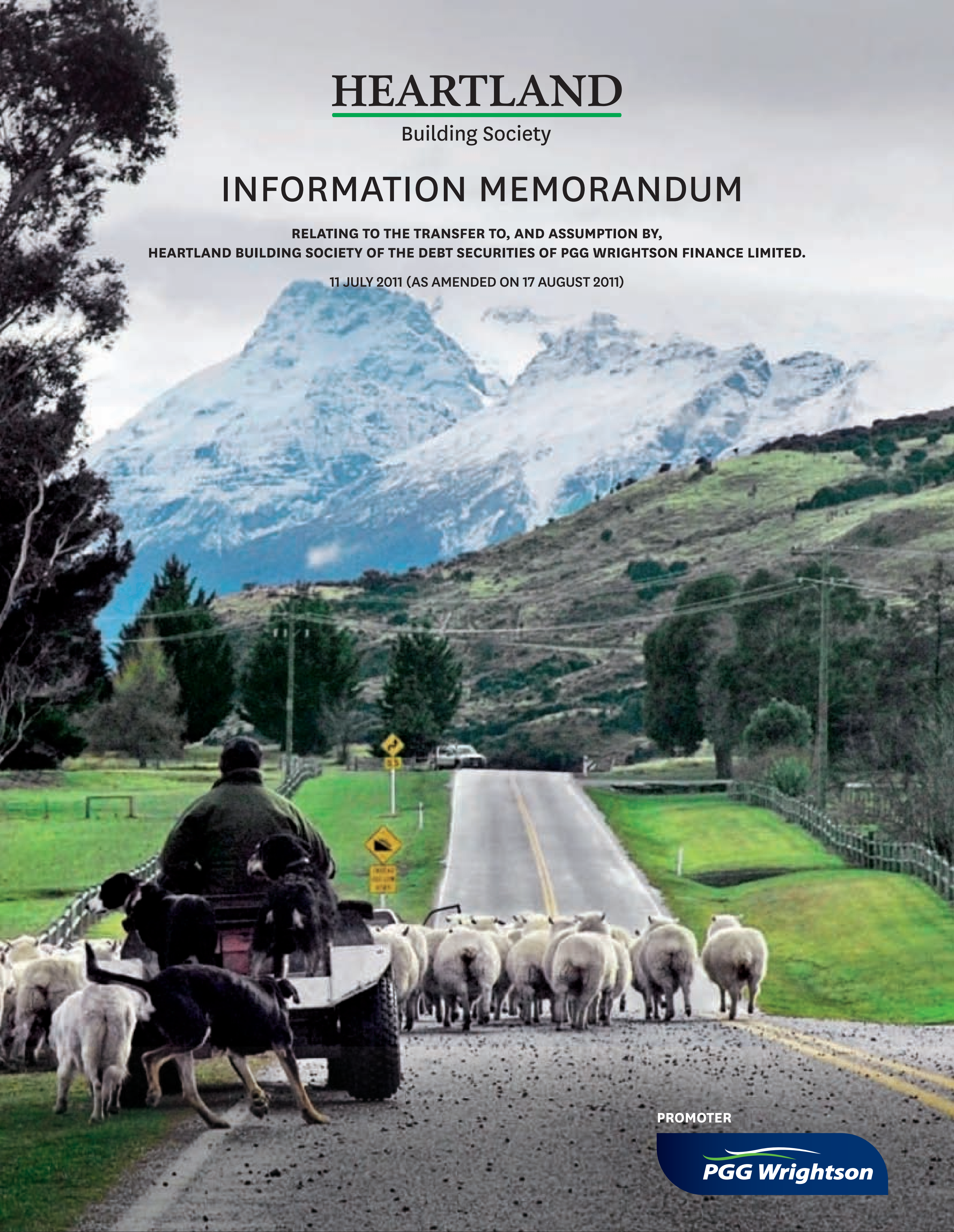
HEARTLAND

Building Society

INFORMATION MEMORANDUM

RELATING TO THE TRANSFER TO, AND ASSUMPTION BY, HEARTLAND BUILDING SOCIETY OF THE DEBT SECURITIES OF PGG WRIGHTSON FINANCE LIMITED.

11 JULY 2011 (AS AMENDED ON 17 AUGUST 2011)



PROMOTER

PGG Wrightson

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.

YOU SHOULD READ THE WHOLE DOCUMENT BEFORE DECIDING WHETHER AND HOW TO VOTE ON THE EXTRAORDINARY RESOLUTIONS TO APPROVE THE TRANSFER OF YOUR DEBT SECURITIES. IF YOU ARE IN ANY DOUBT AS TO ANY ASPECT OF THE TRANSFER OF YOUR DEBT SECURITIES, YOU SHOULD CONSULT YOUR FINANCIAL OR LEGAL ADVISER.

IMPORTANT INFORMATION

(The information in this section is required under the Securities Act 1978.)

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

Choosing an Investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

What sort of investment is this? (pages 45 to 47)

Who is involved in providing it for me? (pages 47 to 48)

How much do I pay? (page 48)

What are the charges? (page 48)

What returns will I get? (pages 48 to 49)

What are my risks? (pages 50 to 55)

Can the investment be altered? (page 55)

How do I cash in my investment? (pages 55 to 56)

Who do I contact with inquiries about my investment? (page 56)

Is there anyone to whom I can complain if I have problems with the investment? (page 57)

What other information can I obtain about this investment? (page 57)

In addition to the information in this document, important information can be found in the current registered prospectus for the investment[1]. You are entitled to a copy of that prospectus on request.

The Financial Markets Authority regulates conduct in financial markets

The Financial Markets Authority regulates conduct in New Zealand's financial markets. The Financial Markets Authority's main objective is to promote and facilitate the development of fair, efficient, and transparent financial markets.

For more information about investing, go to http://www.fma.govt.nz.

Financial advisers can help you make investment decisions

Using a financial adviser cannot prevent you from losing money, but it should be able to help you make better investment decisions.

Financial advisers are regulated by the Financial Markets Authority to varying levels, depending on the type of adviser and the nature of the services they provide. Some financial advisers are only allowed to provide advice on a limited range of products.

When seeking or receiving financial advice you should check—

- the type of adviser you are dealing with;
- the services the adviser can provide you with;
- the products the adviser can advise you on.

A financial adviser who provides you with personalised financial adviser services may be required to give you a disclosure statement covering these and other matters. You should ask your adviser about how he or she is paid and any conflicts of interest he or she may have.

Financial advisers must have a complaints process in place and they, or the financial services provider they work for, must belong to a dispute resolution scheme if they provide services to retail clients. So if there is a dispute over an investment, you can ask someone independent to resolve it.

Most financial advisers, or the financial services provider they work for, must also be registered on the financial service providers register. You can search for information about registered financial service providers at http://www.fspr.govt.nz.

You can also complain to the Financial Markets Authority if you have concerns about the behaviour of a financial adviser.

This is an Investment Statement for the purposes of the Securities Act 1978, prepared as at 11 July 2011 in accordance with the Securities Regulations 2009 as amended by the Securities Amendment Regulations 2011.

1 This wording is required by Schedule 13 of the Securities Regulations 2009 as amended by the Securities Amendment Regulations 2011, which contemplates a separate investment statement and prospectus. For this offer, the two documents are combined and accordingly the prospectus available on request is identical to this document.

This Information Memorandum is dated 11 July 2011, and has been amended in accordance with a Memorandum of Amendments to a registered prospectus dated 17 August 2011, and is a combined prospectus and investment statement in respect of the Offer of Heartland Deposits pursuant to the Transaction. You should read this Information Memorandum carefully.

PWF Depositors are entitled to vote on whether to approve certain arrangements relating to the transfer of the debt securities of PWF to be implemented as a part of the Transaction. The transfer of those debt securities will constitute an offer of debt securities for the purposes of the Securities Act, and this Information Memorandum is a prospectus and investment statement in respect of that offer for the purposes of the Securities Act.

Resolutions to approve the relevant arrangements will be sought from the PWF Depositors at the Special Meetings to be held on 8 August 2011.

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

Registration of Information Memorandum

A copy of this Information Memorandum duly signed by or on behalf of the Directors of Heartland and every Promoter 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.

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

- the signed reports of the auditors in respect of certain financial information included in this Information Memorandum, as set out in this Information Memorandum;
- the signed consent of the auditors to their audit report appearing in this Information Memorandum;
- the signed consent of the Independent Expert in respect of the Independent Report and the statements in this Information Memorandum attributed to it;
- the signed statement of the Trustee, as set out in this Information Memorandum;
- copies of the material contracts referred to in this Information Memorandum, which have not already been registered by, or filed with, the Registrar of Financial Service Providers[2]; and
- letters of authority authorising this Information Memorandum to be signed by an agent of any Director of Heartland and any Promoter (if and where required).

Listing

An application has been made to NZX for permission to quote the PWF Bonds on the NZDX market, and all the requirements of NZX relating thereto that can be complied with on or before the date of this Information Memorandum have been duly complied with. However, NZX accepts no responsibility for any statement in this Information Memorandum. The NZDX market is a registered market regulated under the Securities Markets Act.

Forward Looking Statements

This Information Memorandum 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 PWF 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 Information Memorandum have the specific meaning given to them in the Glossary or in the relevant section of this Information Memorandum.

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

TABLE OF CONTENTS

OVERVIEW

THE TRANSACTION

There is a proposal for Heartland Building Society ("**Heartland**") to acquire all of the outstanding ordinary shares in PGG Wrightson Finance Limited ("**PWF**") from PGG Wrightson Limited. A sale and purchase agreement as to the proposal has been entered into, dated as of 13 June 2011.

Whether the proposal goes ahead is dependent on a number of things. These include all necessary shareholder, depositor and bank approvals, as well as certain approvals being obtained from the Crown and the Reserve Bank.

If the proposal does proceed, then all debt securities issued by PWF will become Heartland Deposits. That is, Heartland will become the issuer of those debt securities (and so the entity legally liable to repay them and pay any return on them). Put simply, investors in PWF will become investors in Heartland.

Please refer to the sections of this Information Memorandum entitled Key Features of the Heartland Debt Securities and Key Differences for information in relation to the Heartland Deposits you will receive if the proposal proceeds.

WHO IS HEARTLAND?

Heartland is a building society and comprises the former businesses of CBS Canterbury, Southern Cross and a 100% shareholding in MARAC.

Heartland has brought together three complementary financial services businesses, each with an established heritage of providing financial services in New Zealand. It has a diversified asset portfolio, a widespread depositor base, and a balanced geographic footprint with strong market positions in its key incumbent markets of Auckland, Bay of Plenty, the wider Canterbury region, Waikato and Wellington. It has the benefits of scale and scope from combining the three complementary businesses.

Credit Rating

Heartland has a credit rating of BBB– from international credit rating agency Standard & Poor's. On the date of this Information Memorandum (being 11 July 2011) the outlook assessment for this credit rating was "stable". On 12 August 2011 Standard & Poor's revised this outlook to "negative". Heartland's rating is two levels better than PWF's current BB (Outlook Stable) rating from Standard & Poor's. Further detail on credit ratings is set out on pages 51 to 53 of this Information Memorandum.

Heartland Crown Guarantee

Heartland has a guarantee under a Crown retail deposit guarantee scheme. The Heartland Crown Guarantee expires on 31 December 2011. Once the Heartland Crown Guarantee expires, no Heartland Deposits will have the benefit of it. This means (for example) that even if a deposit currently has the benefit of the Heartland Crown Guarantee, payments in relation to it that do not fall due before 31 December 2011 will cease to have the benefit of the guarantee from that date.

The Transaction will not proceed unless the Crown consents to the Transaction, and the PWF Deposits which are currently subject to the PWF Crown Guarantee become subject to the Heartland Crown Guarantee on the Debt Transfer Date.

See the Summary of the Heartland Crown Guarantee section of this Information Memorandum for more details about the Heartland Crown Guarantee.

Products and Services

The products and services offered by Heartland include:

- consumer and commercial lending products across a broad range of sectors;
- finance solutions for small-to-medium size New Zealand businesses (including plant and equipment financing, working capital finance and property finance);
- finance solutions for the rural sector (including seasonal and working capital financing);
- home loans;
- term investments and savings accounts;
- a range of transactional banking-type services (including cheque account facilities, cash cards, internet-banking, telephone banking and foreign exchange services); and
- a select range of insurance products.

Diversified lending base

Lending by the Heartland Group is spread geographically and over a wide range of sectors.

Credit control and cash flow

The Heartland Group's focus is primarily on lending against assets that generate cash flow, assets that have essential uses, and assets that have sound realisable values or where payment arrears have been historically low.

No offshore lending

At the date of this Information Memorandum all lending by the Heartland Group is in relation to New Zealand based assets.

All investors rank equally

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

NZSX listed parent company

Heartland is a wholly-owned subsidiary building society of Heartland New Zealand, which is listed, and has its shares quoted, on the NZSX[3].

Banking registration objective[4]

One of the key objectives of the Heartland Group is ultimately to create a New Zealand controlled banking group, with a parent company listed on the NZSX. Heartland intends to commence an application for bank registration in the second half of 2011. The bank registration process after application is of indeterminate length and bank registration is subject to satisfaction of the Reserve Bank's requirements.

RATIONALE AND MERITS OF THE TRANSACTION

The Transaction is highly complementary with the existing Heartland business and will be an engine for growth in the rural sector for the Heartland Group. The Transaction will provide Heartland the foundation to achieve the Heartland Group's desired portfolio of a balanced share of assets across the business, household and rural sectors which comprise the backbone of the New Zealand economy. As a result of the Transaction, as a PWF Depositor, you will benefit from:

- Heartland has a credit rating of BBB– from international credit rating agency Standard & Poor's. On the date of this Information Memorandum (being 11 July 2011) the outlook assessment for this credit rating was "stable". On 12 August 2011 Standard & Poor's revised this outlook to "negative". Heartland's credit rating is a superior rating to PWF's current credit rating from Standard & Poor's of BB (Outlook Stable)[5];
- Heartland's Crown Guarantee if your existing PWF Deposit currently has the benefit of the PWF Crown Guarantee;
- Heartland's comparatively greater size, scale and diversity (in terms of products and services, and geographical spread over a wide range of sectors);
- Heartland's comparatively greater ability to access capital to fund growth or withstand external shocks through its listed parent, Heartland New Zealand;
- joining an already widespread depositor base with reinvestment rates which over the last six months to 30 June 2011 have been superior to that of PWF; and
- Heartland's business strategy to create New Zealand's only New Zealand controlled banking group with a parent listed on the NZSX.

WHAT DOES THE TRANSACTION MEAN FOR YOU?

If the Transaction proceeds, your new Heartland Deposits will have substantially the same key terms and conditions as your existing PWF Deposits, except to the extent described in the Key Differences section of this Information Memorandum. The applicable payment terms, interest rate and maturity will be the same and there will be no change in the way you operate or use your accounts.

Your Heartland Deposits will be senior unsecured unsubordinated debt obligations ranking equally with all other debt securities issued under the Heartland Trust Deed. This is consistent with market practice for building societies in New Zealand and with Heartland's aspiration to become a registered bank. Northington Partners concluded, in their Independent Report, that:

"Despite the fact that some investors will transfer from a "secured" position in PWF into an "unsecured" position in [Heartland], we believe that the practical impact of the change in security position will be limited."

PWF will be de-listed from the NZDX shortly before the Debt Transfer Date, and it is intended that Heartland will apply for quotation of the PWF Bonds which replace the PWF Secured Bonds on the NZDX to take effect as soon as practicable after the Debt Transfer Date. The PWF Bonds will be unsecured. The PWF Bonds will continue to be quoted under the code PWF040.

You do not need to apply, pay or send any further money for your new Heartland Deposits.

3 Heartland New Zealand does not guarantee the obligations of Heartland in relation to the Heartland Deposits. Heartland New Zealand shares are tradeable on the NZSX. However, NZX accepts no responsibility for any statement in this Information Memorandum. NZSX is a registered market regulated under the Securities Markets Act.

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

5 Further information on the S & P rating system is included on pages 51 to 53 of this Information Memorandum.

As a preliminary step to facilitate the remainder of the Transaction, PWF will be amending the PWF Trust Deeds. Full details on these amendments are set out in the Notice of Meeting which accompanies this Information Memorandum.

WHAT IS THE OPINION OF THE INDEPENDENT EXPERT IN RELATION TO THE TRANSACTION?

PGW and the independent directors of PWF have commissioned Northington Partners[6] to prepare an independent report on the fairness of the Transaction.

Northington Partners concluded, in their Independent Report, that “the Debt Transfer is fair for the Relevant PWF Debt Security Holders”. This conclusion should be read in the context of the full Independent Report. The Independent Report has been prepared for various stakeholders and should be read in that context. A copy of the Independent Report is attached to this Information Memorandum in Appendix 2.

WHAT WILL YOU GET?

If the Transaction proceeds, your existing PWF Deposit will become a Heartland Deposit. Your Heartland Deposit will:

- bear the same product name as your existing PWF Deposit (except in the case of PWF Secured Bonds which will be called PWF Bonds);
- among other things, have the same payment terms, interest rate and maturity date as your existing PWF Deposit;
- if your existing PWF Deposit has the benefit of the PWF Crown Guarantee, it will continue to have the benefit of a Crown guarantee under the Crown Retail Deposit Guarantee Scheme (subject to the terms of the Heartland Crown Guarantee) until the Heartland Crown Guarantee expires on 31 December 2011. Once the Heartland Crown Guarantee expires, no Heartland Deposits will have the benefit of it; and
- rank equally with all other debt securities issued by Heartland under the Heartland Trust Deed.

The key differences between the Heartland Deposit you will hold following the Debt Transfer Date and your existing PWF Deposit are set out in the Key Differences Section of this Information Memorandum.

WHEN WILL YOU GET YOUR HEARTLAND DEPOSITS?

If the Transaction proceeds, your existing PWF Deposits are expected to become Heartland Deposits on the Debt Transfer Date which is anticipated to be on or about 31 August 2011[7].

There will be no interruption to your interest return as a result of the transfer. There will also be no change to the amount and timing of your interest payments.

Following the Debt Transfer Date, the Registrar for the PWF Bonds will send to each holder of PWF Bonds a statement recording the number of PWF Bonds held by that holder.

OTHER AVAILABLE INFORMATION

If you would like more information about the Heartland Deposits or the Transaction, more information is available on request from Heartland or PWF, or on the websites of Heartland (www.heartland.co.nz), PWF (www.pggwrightsonfinance.co.nz) and the Companies Office (www.business.govt.nz/companies).

Available information includes the Heartland Trust Deed and the proposed amended trust deeds and existing trust deeds for PWF.

VOTES, DECISIONS AND CHOICES

Who votes to approve the Transaction?

For the Transaction to be completed PWF Bondholders, PWF Secured Depositors and PWF Unsecured Depositors must resolve at the Special Meetings to approve the transfer of the obligations in relation to the relevant existing PWF Deposits as part of the Transaction and the arrangements necessary so that the existing PWF Deposits become Heartland Deposits in the manner described in this Information Memorandum. Three separate meetings will be held: one for PWF Bondholders, one for PWF Secured Depositors and one for PWF Unsecured Depositors.

The resolutions are set out in the Notice of Meeting which accompanies this Information Memorandum. If passed by PWF Bondholders, PWF Secured Depositors and PWF Unsecured Depositors at the Special Meetings, the resolutions will approve, authorise and ratify, for all purposes in relation to the PWF Trust Deeds the transfer of PWF's obligations in relation to the PWF Deposits to Heartland as part of the Transaction, including, in particular:

6 Northington Partners provides an independent corporate advisory service. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies and state owned enterprises. Northington Partners has been responsible for the preparation of numerous independent advisor reports in relation to takeovers, mergers and a range of other transactions subject to the Takeovers Code and NZX Listing Rules.

7 This date is subject to change, by agreement between Heartland New Zealand and PGW.

The Variation Offer

- the amendment of the PWF Trust Deeds to permit approval of the assumption by Heartland of the rights and obligations in relation to the existing PWF Deposits by extraordinary resolution;
- the instruction to the trustee under the PWF Bond Trust Deed to vote in favour of the Transaction on behalf of the PWF Bondholders at the meeting of PWF Secured Depositors[8];
- the appointment of TEL (the trustee under the Heartland Trust Deed) as the trustee for the PWF Depositors and the release of the existing trustee under the PWF Trust Deeds from all its obligations under those PWF Trust Deeds;
- the amendment of the PWF Trust Deeds to the extent and in the respects necessary for the terms of the PWF Trust Deeds to be on substantially the same terms as the Heartland Trust Deed (as described in this Information Memorandum);

The Heartland Offer

- the assumption by Heartland of all of PWF's rights and obligations in relation to the PWF Deposits, as described in this Information Memorandum;
- the PWF Deposits becoming debt instruments under the Heartland Trust Deed and being governed by the Heartland Trust Deed;
- the release of PWF and TEL from all of their obligations under the PWF Trust Deeds and the release of all security interests granted to TEL or the existing trustee under the PWF Debenture Trust Deed;
- the other steps incidental to or necessary to give effect to the Transaction, and the Transaction itself; and
- the existing trustee under the PWF Trust Deeds and the Trustee be authorised and directed to consent to the transactions set out in the resolutions and to sign any documentation, take all action, give all consents and waivers and do all other acts, matters and things that the existing trustee under the PWF Trust Deeds and/or TEL and PWF agree may be necessary or desirable to give effect to the Transaction and those transactions and any such action (whether before or after the date of the resolution) is hereby notified, confirmed and approved.

Each of these steps facilitates the transfer to Heartland of PWF's obligations in respect of debt securities issued by PWF as part of the Transaction. Other than the first two steps set out above which will have immediate effect, none of these steps will occur if the Transaction is not approved by relevant stakeholders.

In order to be passed, PWF Bondholders, PWF Secured Depositors and PWF Unsecured Depositors who are present at the relevant Special Meeting in person or by proxy/representative holding three-quarters of votes which are voted at each Special Meeting must vote in favour of the resolutions. PWF Depositors are entitled to one vote for every $1.00 of Principal amount of PWF Deposits held by that PWF Depositor.

At each Special Meeting, voting will occur by way of a poll.

What do I need to do?

Having considered the materials circulated to you, you should decide whether you wish to approve the transfer of the obligations in relation to your PWF Deposits as part of the Transaction, and vote at the relevant Special Meeting accordingly.

Do I have to vote?

You do not have to vote, but have a right to do so. You are encouraged to read all of the documents carefully, to make a decision and to vote, either by proxy or by attending the relevant Special Meeting.

When will the Special Meetings be held?

PWF Bondholders

The Special Meeting for PWF Bondholders will be held at 1.00pm on 8 August 2011.

If a quorum is not achieved within 30 minutes of the start of the meeting, the Special Meeting for PWF Bondholders will be adjourned to 1.00pm on 15 August 2011.

PWF Secured Depositors

The Special Meeting for PWF Secured Depositors will be held at 2.00pm on 8 August 2011.

If a quorum is not achieved within 30 minutes of the start of the meeting, the Special Meeting for PWF Secured Depositors will be adjourned to 2.00pm on 15 August 2011.

PWF Unsecured Depositors

The Special Meeting for PWF Unsecured Depositors will be held at 3.00pm on 8 August 2011.

If a quorum is not achieved within 30 minutes of the start of the meeting, the Special Meeting for PWF Unsecured Depositors will be adjourned to 3.00pm on 15 August 2011.

8 Pursuant to clause 3.3 of the PWF Bond Trust Deed, the trustee holds PWF Stock on behalf of the PWF Bondholders. If the resolution of PWF Bondholders is passed the trustee under the PWF Bond Trust Deed will represent the PWF Bondholders and will vote on their behalf in accordance with their instructions at the meeting of PWF Secured Depositors.

What constitutes a quorum?

A quorum for a meeting constitutes two or more PWF Secured Depositors, PWF Unsecured Depositors or PWF Bondholders (as the case may be) present in person or by proxy/representative holding or representing a clear majority in nominal amount of the PWF Stock, PWF Unsecured Deposits or PWF Secured Bonds (as the case may be).

A quorum for an adjourned meeting is the PWF Secured Depositors, PWF Unsecured Depositors or PWF Bondholders (as the case may be) present in person or by representative and entitled to vote.

Who gets to vote?

PWF Bondholders

The persons eligible to vote at the Special Meeting of PWF Bondholders are:

- the persons registered as PWF Bondholders in the register of PWF Bondholders 48 hours prior to the time of the Special Meeting; or
- every legal personal representative or an assignee in bankruptcy of a deceased or bankrupt PWF Bondholder.

PWF Secured Depositors

The persons eligible to vote at the Special Meeting of PWF Secured Depositors are:

- the persons registered as PWF Secured Depositors in the register of PWF Secured Depositors 48 hours prior to the time of the Special Meeting; or
- every legal personal representative or an assignee in bankruptcy of a deceased or bankrupt PWF Secured Depositor.

PWF Unsecured Depositors

The persons eligible to vote at the Special Meeting of PWF Unsecured Depositors are:

- the persons registered as PWF Unsecured Depositors in the register of PWF Unsecured Depositors 48 hours prior to the time of the Special Meeting; or
- every legal personal representative or an assignee in bankruptcy of a deceased or bankrupt PWF Unsecured Depositor.

How do I vote?

Accompanying this Information Memorandum is a Voting/Proxy Form that you can use to vote on the Transaction either by:

- attending the Special Meeting for PWF Secured Depositors if you hold PWF Stock, attending the Special Meeting for PWF Unsecured Depositors if you hold PWF Unsecured Deposits, or attending the Special Meeting for PWF Bondholders if you hold PWF Secured Bonds; or
- appointing someone to vote for you at the relevant Special Meeting.

If you are not attending the relevant Special Meeting but wish to vote, your completed Voting/Proxy Form must be returned to PWF by the relevant time set out below (provided that PWF may, in its sole discretion, accept Voting/Proxy Forms up to the time of the relevant Special Meeting, or any adjourned meeting).

KEY DATES[9] FOR PWF DEPOSITORS	
6 August 2011[10]	Voting/Proxy Forms due to be returned by PWF Bondholders (1.00pm) Voting/Proxy Forms due to be returned by PWF Secured Depositors (2.00pm) Voting/Proxy Forms due to be returned by PWF Unsecured Depositors (3.00pm)
8 August 2011	Special Meeting for PWF Bondholders (1.00pm) Special Meeting for PWF Secured Depositors (2.00pm) Special Meeting for PWF Unsecured Depositors (3.00pm)
13 August 2011[11]	Voting/Proxy Forms for the adjourned Special Meeting due to be returned by PWF Bondholders (1.00pm) Voting/Proxy Forms for the adjourned Special Meeting due to be returned by PWF Secured Depositors (2.00pm) Voting/Proxy Forms for the adjourned Special Meeting due to be returned by PWF Unsecured Depositors (3.00pm)
15 August 2011	Adjourned Special Meeting for PWF Bondholders (if required)[12] (1.00pm) Adjourned Special Meeting for PWF Secured Depositors (if required)[13] (2.00pm) Adjourned Special Meeting for PWF Unsecured Depositors (if required)[14] (3.00pm)
25 August 2011	Trading halt applies to PWF Secured Bonds (before the market opens)[15]
30 August 2011	PWF de-listed
31 August 2011	**DEBT TRANSFER DATE**
31 August 2011	Expected Listing Date for PWF Bonds
30 September 2011	Record date for the first interest payment date for the PWF Bonds
8 October 2011	Repayment date and the first interest payment date after the Debt Transfer Date for the PWF Bonds

9 Dates are indicative only and may change.

10 Provided that PWF may, in its sole discretion, accept Voting/Proxy Forms up to the time of the relevant Special Meeting, or any adjourned meeting.

11 Provided that PWF may, in its sole discretion, accept Voting/Proxy Forms up to the time of the relevant adjourned Special Meeting. Unless you advise PWF otherwise, any person appointed as a proxy for an initial Special Meeting will be entitled to vote at the relevant adjourned Special Meeting.

12 The first Special Meeting of PWF Bondholders will need to be adjourned if a quorum (being two or more PWF Bondholders which represent a majority of Principal in respect of PWF Secured Bonds) is not achieved.

13 The first Special Meeting of PWF Secured Depositors will need to be adjourned if a quorum (being two or more PWF Secured Depositors which represent a majority of Principal in respect of PWF Stock) is not achieved.

14 The first Special Meeting of PWF Unsecured Depositors will need to be adjourned if a quorum (being two or more PWF Unsecured Depositors which represent a majority of Principal in respect of PWF Unsecured Deposits) is not achieved.

15 It is intended that a trading halt be implemented in respect of PWF Secured Bonds before the market opens on the date 3 Business Days prior to the date on which the PWF Secured Bonds will be de-listed.

SECTION 1: KEY FEATURES OF THE HEARTLAND DEBT SECURITIES

OVERVIEW

Existing PWF Deposits will become Heartland Deposits on the Debt Transfer Date. The Heartland Deposits will bear the same product name as the equivalent PWF Deposit had before the Transaction (other than the PWF Secured Bonds which will be called PWF Bonds). Below are details of the key terms of the Heartland Deposits.

PWF Depositors will not be required to apply, or pay or send any money, for the new Heartland Deposits to be issued under the Transaction.

SUMMARY OF KEY TERMS

		PWF Term Deposit[16]	• PWF Current Account • PWF Rural Saver • PWF On Call Deposit • PWF Savings Optimiser[17]	PWF Bonds[18]
1	**Issuer**	Heartland	Heartland	Heartland
2	**Wholesale or Retail**	Retail	Retail	Retail
3	**Listed or Unlisted**	Unlisted	Unlisted	Intended to be listed on the NZDX on the Listing Date
4	**Secured or Unsecured**	Unsecured	Unsecured	Unsecured
5	**Benefit of the Heartland Crown Guarantee (subject to the terms of the Crown Guarantee)**	Yes, but only if the equivalent PWF Deposit had the benefit of a Crown guarantee and the Depositor is a qualifying creditor for the purposes of the Heartland Crown Guarantee[19].	Yes, but only if the equivalent PWF Deposit had the benefit of a Crown guarantee and the Depositor is a qualifying creditor for the purposes of the Heartland Crown Guarantee.[19]	Yes, but only if the equivalent PWF Secured Bond had the benefit of a Crown Guarantee and the PWF Bondholder is a qualifying creditor for the purposes of the Heartland Crown Guarantee.[19]
6	**Ranking**	Unsecured, unsubordinated senior debt obligations ranking equally with all other Heartland Deposits.	Unsecured, unsubordinated senior debt obligations ranking equally with all other Heartland Deposits.	Unsecured, unsubordinated senior debt obligations ranking equally with all other Heartland Deposits.
7	**Creation and Issue**	An account is issued under the Supplemental Deed (Accounts) by Heartland establishing the relevant Account in its records.	An account is issued under the Supplemental Deed (Accounts) by Heartland establishing the relevant Account in its records.	The PWF Bonds are issued under the Supplemental Deed (PWF Bonds) by Heartland for an issue price of $1.00 per PWF Bond.
8	**Holder**	The person whose name is recorded in Heartland's records as the holder of that Account.	The person whose name is recorded in Heartland's records as the holder of that Account.	The person whose name is recorded in the register maintained by Computershare Investor Services Limited as Registrar as the holder of that PWF Bond.
9	**Payment**	Heartland will pay to the relevant PWF Depositor the relevant principal amount on the relevant maturity date and interest on each relevant interest payment date, calculated at the relevant interest rate.	Heartland will pay to the relevant PWF Depositor the relevant principal amount on the relevant maturity date and interest on each relevant interest payment date, calculated at the relevant interest rate.	Heartland will pay to the relevant PWF Bondholder the relevant principal amount on the relevant maturity date and interest on each relevant interest payment date, calculated at the interest rate.
10	**Debt Transfer Date**	The Debt Transfer Date.	The Debt Transfer Date.	The Debt Transfer Date.

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

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

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

19 Refer to the Summary of the Heartland Crown Guarantee section of this Information Memorandum for further detail about the Heartland Crown Guarantee.

SUMMARY OF KEY TERMS – continued

		PWF Term Deposit	• PWF Current Account • PWF Rural Saver • PWF On Call Deposit • PWF Savings Optimiser	PWF Bonds
11	**Principal**	On any date, the credit balance of the relevant Account on that date.	On any date, the credit balance of the relevant Account on that date.	On any date, the face value of the PWF Bonds held by the relevant PWF Bondholder on that date.
12	**Maturity Date**	Initially, the maturity date will be the same as for your existing PWF Term Deposit. New term Accounts will have the maturity date specified by Heartland at the time the Account is opened, or such earlier date as Heartland in its sole discretion may agree. Payment shall be made to the relevant PWF Depositor in cash, by direct credit to a bank account nominated by the relevant PWF Depositor or by such other method as accords with Heartland's standard payment procedures.	Heartland will pay all or part of the Principal of an Account to the relevant PWF Depositor on request being made by that Depositor provided such request is made in accordance with Heartland's standard procedures for withdrawals from Accounts and, in respect of PWF Savings Optimiser, 14 days prior notice is provided. Payment shall be made to the relevant PWF Depositor in cash, by direct credit to a bank account nominated by the relevant PWF Depositor or by such other method as accords with Heartland's standard payment procedures.	8 October 2011
13	**Interest Rate**	Initially, the interest rate will be the same as for your existing PWF Term Deposit. New term Accounts will have the interest rate specified by Heartland from time to time as being the interest rate applicable to Accounts. Heartland may change the interest rate applicable to Accounts at any time without giving notice provided that an interest rate in relation to an Account shall not be amended during any period if Heartland and the relevant PWF Depositor have agreed that the interest rate payable shall be fixed for that period.	The interest rate specified by Heartland from time to time as being the interest rate applicable to the relevant Account. Heartland will in respect of the PWF Savings Optimiser provide 14 days prior notice of any reduction of the rate and, may in respect of all other Accounts change the interest rate applicable to Accounts at any time without giving notice.	8.25% per annum

SUMMARY OF KEY TERMS – continued

		PWF Term Deposit	• PWF Current Account • PWF Rural Saver • PWF On Call Deposit • PWF Savings Optimiser	PWF Bonds
14	**Interest Payment Dates**	Initially, the interest payment dates will be the same as for your existing PWF Term Deposit. Interest on new term Accounts will be calculated daily on the Principal of that Account and paid to the Account on the dates agreed between the relevant PWF Depositor and Heartland from time to time.	Interest on an Account will be calculated daily on the Principal of that Account and paid to the Account on the dates agreed between the relevant PWF Depositor and Heartland from time to time.	In each year, 8 January, 8 April, 8 July and 8 October (if that day is not a Business Day, the next Business Day).
15	**Transfers**	Investments in PWF Term Deposits can be sold privately in minimum amounts of $1,000 using the standard form for security transfers, which must be executed and delivered to Heartland's registered office.	Investments in PWF Savings Optimiser can be sold privately in minimum amounts of $1,000 using the standard form for security transfers, which must be executed and delivered to Heartland's registered office. No other Account may be transferred or sold without the prior written consent of Heartland.	PWF Bonds can be sold on the NZDX (if and when listed on the NZDX) or via private transfer in compliance with securities law, provided that any transfer is in a multiple of $1,000 and will not result in the transferor or transferee holding less than $5,000 of PWF Bonds.
16	**Statements**	Heartland will provide to each PWF Depositor a statement detailing all transactions that have taken place in relation to the relevant Account during the relevant period, such statement to be provided at the times and in the manner agreed between the relevant PWF Depositor and Heartland from time to time.	Heartland will provide to each PWF Depositor a statement detailing all transactions that have taken place in relation to the relevant Account during the relevant period, such statement to be provided at the times and in the manner agreed between the relevant PWF Depositor and Heartland from time to time.	The Registrar for the PWF Bonds will send to each holder of PWF Bonds a statement after the Debt Transfer Date recording the number of PWF Bonds held by that holder.
17	**Certificates**	No certificate or notice of registration will be issued for any Account.	No certificate or notice of registration will be issued for any Account.	No certificate will be issued for any Bond.
18	**Registrar**	Heartland	Heartland	Computershare Investor Services Limited
19	**Register**	The Register for the Accounts will be the records maintained by Heartland in relation to the Accounts and those records shall be conclusive.	The Register for the Accounts will be the records maintained by Heartland in relation to the Accounts and those records shall be conclusive.	The records maintained by the Registrar in relation to the PWF Bonds.
20	**Minimum Principal Amount**	$1,000	$2,000 for the Savings Optimiser, but there is no Minimum Principal Amount for any other Call Accounts.	$5,000

SPECIAL FEATURES OF PARTICULAR PRODUCTS

These special features of PWF Deposits will continue to apply following the Debt Transfer Date.

	Product	Features
1	**PWF Current Account**	An on call transactional account with a variable interest rate. This account has internet access for viewing and making withdrawals and contributions. It also has a transactional bank account number.[20] Interest will be compounded monthly.
2	**PWF Rural Saver**	An on call savings account with a higher variable interest rate than the PWF Current Account. This account has internet access for viewing and making withdrawals and contributions. It also has a transactional bank account number[20]. Interest will be compounded monthly.
3	**PWF On Call Deposit**	An on call savings account with a variable interest rate. This account has internet access for viewing transactions. Interest is paid or compounded quarterly.
4	**PWF Savings Optimiser**	An enhanced savings account which requires 14 days notice for any withdrawals. The minimum investment is $2,000 and minimum withdrawals are $200. This account has internet access for viewing and making withdrawals and contributions[20]. Interest is paid or compounded monthly. Any interest rate reduction is subject to 14 days prior notice.
5	**PWF Term Deposit**	A fixed interest rate term investment ranging from 3 months to 5 years, as agreed at the time of investment. This account has internet access for viewing only. Interest is paid or compounded monthly, quarterly or annually, as agreed at the time of investment.
6	**PWF Bonds**	A fixed rate bond maturing on 8 October 2011 with interest paid quarterly which is intended to be listed on the NZDX.

20 A unique transactional bank account number provides investors with the ability to make contributions directly to their PWF account through the banking system.

SECTION 2: KEY DIFFERENCES

As a result of the Transaction, your existing PWF Deposits will become Heartland Deposits. This means that you will be an investor in Heartland rather than in PWF, and Heartland rather than PWF will be the entity legally liable to repay those debt securities and pay any return on them. In all other material respects, your new Heartland Deposit will have the same key terms and conditions as your existing PWF Deposit. The applicable payment terms, interest rate and maturity will be the same and there will be no change in the way you operate or use your account.

The key changes for you as an investor in Heartland rather than in PWF are:

- **New Guaranteeing Group**

  While Heartland is the issuer (and so principal debtor) Heartland's obligations in relation to the Heartland Deposits are supported by its Guaranteeing Subsidiaries[21]. As at the date of this Information Memorandum the Guaranteeing Subsidiaries are MARAC, VPS Properties and VPS Parnell. PWF will become a Guaranteeing Subsidiary on the Debt Transfer Date.

- **Banking licence[22]**

  Heartland intends to seek registered bank status under the Reserve Bank Act. The consent of Heartland Depositors will not be required to this change of status. As a bank, Heartland would be governed by different regulatory requirements which may include lower capital requirements than those that apply to non bank deposit takers.

- **Credit Rating**

  Heartland has a credit rating of BBB– from international credit rating agency Standard & Poor's. On the date of this Information Memorandum (being 11 July 2011) the outlook assessment for this credit rating was "stable". On 12 August 2011 Standard & Poor's revised this outlook to "negative". Heartland's rating is two levels better than PWF's current BB (Outlook Stable) rating from Standard & Poor's.

- **Security**

  The Heartland Deposits will be unsecured. Heartland has undertaken in the Heartland Trust Deed not to grant security over any of its assets except in certain limited circumstances. Further details on the securities Heartland may grant are contained on page 37 of this Information Memorandum.

- **Reinvestment Rate**

  Heartland has a loyal investor base evidenced by a strong reinvestment rate of 77% over the last six months to 30 June 2011. This rate is higher than that of PWF over the same period of 67%.

- **Types of Lending**

  Heartland has a significantly more diversified loan portfolio than PWF, whose lending portfolio is primarily concentrated on the rural sector. Following the Transaction, Heartland's loan portfolio will be further diversified, with the addition of PWF's rural sector lending providing Heartland the foundation to achieve the Heartland Group's desired portfolio of a balanced share of assets across the business, household and rural sectors.

- **New Trust Deed Terms**

  The PWF Deposits currently exist under two separate trust deeds that have been in existence for some time. These trust deeds were initially drafted in the context of a less regulated environment. Heartland is looking to prepare itself for an application to become a registered bank and the Heartland Trust Deed is consistent with Heartland's aspiration to become a registered bank. If the Transaction proceeds, the Heartland Deposits will be governed by the Heartland Trust Deed. The key differences between the terms of those documents and the terms of the PWF Trust Deeds are set out in detail in the Notice of Meeting which accompanies this Information Memorandum. A description of the terms of the Heartland Trust Deed is set out in the Summary of the Heartland Trust Deed section of this Information Memorandum. Copies of the trust deeds are available on request.

21 Heartland New Zealand does not guarantee the obligations of Heartland in relation to the Heartland Deposits.

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

SECTION 3: HISTORICAL FINANCIAL INFORMATION

This section contains summary historical financial information of PWF and the Heartland Group[23] for the last five financial years. This historical financial information has been prepared from the 5 January 2011 audited financial statements of Heartland, the 30 June 2010 audited financial statements of MARAC, Southern Cross and PWF, the audited financial statements of CBS Canterbury at 31 March 2010 and the unaudited financial statements of CBS Canterbury for the three months ending 30 June 2010.

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

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

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

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

23 The Heartland Group was formed as a result of the Merger.

Heartland: Summary Financial Statements

Heartland Building Society
Summary Financial Statements

	NZ IFRS					PREVIOUS NZ GAAP	
Income Statement							
Consolidated	**Audited 6 months and 5 days to 5 Jan 2011 $000**	**Audited 12 months to 30 June 2010 $000**	**Audited 12 months to 30 June 2009 $000**	**Audited 12 months to 30 June 2008 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2006 $000**
Interest income	67,820	148,337	168,933	173,438	134,849	121,226	108,501
Interest expense	40,488	89,271	109,318	108,637	80,371	81,059	69,963
Net interest income	**27,332**	**59,066**	**59,615**	**64,801**	**54,478**	**40,167**	**38,538**
Other net income	4,050	10,015	6,004	5,389	5,504	18,961	17,716
Total operating income before other gains	**31,382**	**69,081**	**65,619**	**70,190**	**59,982**	**59,128**	**56,254**
Employee benefits	7,417	13,049	13,377	14,411	12,454	12,080	11,309
Other operating expenses	9,984	11,976	11,671	11,404	9,697	9,477	8,509
Profit before impairment and tax	**13,981**	**44,056**	**40,571**	**44,375**	**37,831**	**37,571**	**36,436**
Impairment	6,094	23,765	13,318	5,726	955	356	1,787
Net profit before tax	**7,887**	**20,291**	**27,253**	**38,649**	**36,876**	**37,215**	**34,649**
Tax expense	2,764	5,992	8,199	12,785	12,199	12,311	11,461
Net profit after tax	**5,123**	**14,299**	**19,054**	**25,864**	**24,677**	**24,904**	**23,188**
Statement of Comprehensive Income							
Net profit after tax attributable to: owners of the entity	**5,123**	**14,299**	**19,054**	**25,864**	**24,677**	**24,904**	**23,188**
Other comprehensive income/(loss) for the period, net of tax							
Effective portion of changes in fair value of cash flow hedges, net of tax	460	4,208	(4,427)	(1,765)	-	-	-
Total comprehensive income for the period, net of tax	**5,583**	**18,507**	**14,627**	**24,099**	**24,677**	**24,904**	**23,188**
Total comprehensive income attributable to: owners of the entity	**5,583**	**18,507**	**14,627**	**24,099**	**24,677**	**24,904**	**23,188**
Statement Of Changes in Equity							
Opening balance	**206,468**	**152,961**	**139,989**	**120,890**	**107,463**	**110,790**	**100,602**
Total comprehensive income for the period attributable to: owners of the entity	5,583	18,507	14,627	24,099	24,677	24,904	23,188
Contributions from owners	79,574	35,000	11,345	-	-	-	-
Distributions to owners	-	-	(13,000)	(5,000)	(11,250)	(11,250)	(13,000)
Closing Balance	**291,625**	**206,468**	**152,961**	**139,989**	**120,890**	**124,444**	**110,790**
Components of equity:							
Share capital	134,574	55,000	20,000	20,000	20,000	20,000	20,000
Capital reserve	-	-	-	-	-	14	14
Retained earnings	158,575	153,452	139,153	121,754	100,890	104,430	90,776
Fair value through other comprehensive income reserve	(1,524)	(1,984)	(6,192)	(1,765)	-	-	-
Total Equity	**291,625**	**206,468**	**152,961**	**139,989**	**120,890**	**124,444**	**110,790**

From a legal perspective MARAC is a subsidiary of Heartland, however, under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) MARAC is treated as the acquirer of CBS Canterbury and Southern Cross. The effect of this is that the interim 5 January 2011 consolidated financial statements represent a continuation of the MARAC business.

Heartland's consolidated Income Statement and consolidated Statement of Cashflows for the period 1 July 2010 to 5 January 2011 reflects the operations of the MARAC Group prior to the transaction to bring together Heartland on 5 January 2011, whilst the consolidated Balance Sheet as at 5 January 2011 reflects Heartland and the MARAC Group.

The comparatives shown for the historic five year period, 30 June 2006, 2007, 2008, 2009 and 2010 represent the MARAC Group only given Heartland was not formed until 5 January 2011.

Heartland: Summary Financial Statements

Heartland Building Society
Summary Financial Statements

	NZ IFRS					PREVIOUS NZ GAAP	
Balance Sheet							
Consolidated	**Audited As at 5 Jan 2011 $000**	**Audited As at 30 June 2010 $000**	**Audited As at 30 June 2009 $000**	**Audited As at 30 June 2008 $000**	**Audited As at 30 June 2007 $000**	**Audited As at 30 June 2007 $000**	**Audited As at 30 June 2006 $000**
Assets							
Cash and cash equivalents	285,675	86,406	62,462	8,655	-	-	-
Finance receivables	1,562,492	941,328	1,136,646	1,011,954	1,197,815	1,204,210	1,039,256
Finance receivables - securitised	194,403	160,853	157,941	291,532	-	-	-
Operating lease vehicles	38,005	42,895	36,209	29,719	36,834	36,675	37,590
Other assets	102,205	63,074	19,537	10,404	7,261	5,129	4,047
Total Assets	**2,182,780**	**1,294,556**	**1,412,795**	**1,352,264**	**1,241,910**	**1,246,014**	**1,080,893**
Liabilities							
Bank overdraft	-	-	-	-	910	910	6,296
Deposits and interest accruals	1,676,713	834,381	1,066,231	901,091	1,088,450	1,089,200	941,153
Borrowings - Securitised	169,278	149,298	150,728	283,042	-	-	-
Other liabilites	45,164	104,409	42,875	28,142	31,660	31,460	22,654
Total Liabilities	**1,891,155**	**1,088,088**	**1,259,834**	**1,212,275**	**1,121,020**	**1,121,570**	**970,103**
Net Assets	**291,625**	**206,468**	**152,961**	**139,989**	**120,890**	**124,444**	**110,790**
Equity							
Share capital	134,574	55,000	20,000	20,000	20,000	20,000	20,000
Reserves	157,051	151,468	132,961	119,989	100,890	104,444	90,790
Total Equity	**291,625**	**206,468**	**152,961**	**139,989**	**120,890**	**124,444**	**110,790**
Statement Of Cash Flows							
Consolidated	**Audited 6 months and 5 days to 5 Jan 2011 $000**	**Audited 12 months to 30 June 2010 $000**	**Audited 12 months to 30 June 2009 $000**	**Audited 12 months to 30 June 2008 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2006 $000**
Net cash flows from/(used in) operating activities	15,022	30,373	5,915	5,115	29,374	38,066	36,359
Net cash flows from/(used in) investing activities	(44,078)	193,504	73,764	(77,612)	(168,415)	(177,107)	(136,344)
Net cash flows from/(used in) financing activities	21,199	(199,933)	(23,036)	82,062	144,427	144,427	94,776
Net increase/(decrease) in cash held	**(7,857)**	**23,944**	**56,643**	**9,565**	**5,386**	**5,386**	**(5,209)**
Add opening cash brought forward:							
Cash on hand and at bank	86,406	62,462	8,655	(910)	(6,296)	(6,296)	(1,087)
Acquired on amalagmation	207,126	-	(2,836)	-	-	-	-
Closing cash carried forward	**285,675**	**86,406**	**62,462**	**8,655**	**(910)**	**(910)**	**(6,296)**
Comprising:							
Cash on hand and at bank/ bank overdraft	**285,675**	**86,406**	**62,462**	**8,655**	**(910)**	**(910)**	**(6,296)**
Date of Authorisation of Financial Statements							
Authorised for issue by the Board	16-Mar-2011	26-Aug-2010	28-Aug-2009	26-Aug-2008	24-Aug-2007	24-Aug-2007	29-Aug-2006

From a legal perspective MARAC is a subsidiary of Heartland, however, under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) MARAC is treated as the acquirer of CBS Canterbury and Southern Cross. The effect of this is that the interim 5 January 2011 consolidated financial statements represent a continuation of the MARAC business.

Heartland's consolidated Income Statement and consolidated Statement of Cashflows for the period 1 July 2010 to 5 January 2011 reflects the operations of the MARAC Group prior to the transaction to bring together Heartland on 5 January 2011, whilst the consolidated Balance Sheet as at 5 January 2011 reflects Heartland and the MARAC Group.

The comparatives shown for the historic five year period, 30 June 2006, 2007, 2008, 2009 and 2010 represent the MARAC Group only given Heartland was not formed until 5 January 2011.

Heartland: Notes to Summary Financial Statements

Heartland is a profit-oriented entity, which for accounting purposes consolidates with the MARAC Group. The "MARAC Group" is a profit-oriented entity, which consists of MARAC, MARAC ABCP Trust 1 (Trust), MARAC Retirement Bonds Superannuation Fund (Fund) and MARAC PIE Fund (PIE).

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 Heartland have been prepared on the following basis:

- The values presented in the summary financial statements for the financial period ending 5 January 2011 were extracted from the full interim financial statements of Heartland. The values presented in the summary financial statements for the financial years ending 30 June 2010, 2009, 2008, 2007 and 2006 were extracted from the full financial statements of the MARAC Group.
- The full financial statements for the financial period ending 5 January 2011 and the financial years ended 30 June 2010, 2009, 2008, 2007 and 2006 have been prepared in accordance with NZ GAAP and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit oriented entities. The full financial statements for the financial period ending 5 January 2011 and the financial years ended 30 June 2010, 2009, and 2008 included an explicit and unreserved statement of compliance with IFRS. The full financial statements for the financial years ended 30 June 2007 and 2006 have been prepared in accordance with NZ GAAP and comply with New Zealand Financial Reporting Standards (NZ FRS) applicable prior to the implementation of NZ IFRS (previous NZ GAAP). Heartland full financial statements for the financial period ending 5 January 2011, and the MARAC Group full financial statements for the financial years ending 30 June 2010, 2009, 2008, 2007 and 2006 presented in the summary financial statements as the Heartland comparatives have been audited. KPMG's report in relation to the financial statements of the MARAC Group for the year ended 30 June 2009 made reference to those financial statements being prepared assuming the successful conclusion of matters relating to MARAC's bank financing arrangements. These matters were successfully concluded subsequent to the completion of KPMG's 2009 audit, and this was noted in their December 2009 report for inclusion in MARAC's prospectus. With the exception of this explanatory paragraph, none of these audit reports contain qualified opinions or any explanatory paragraphs highlighting matters regarded as relevant to proper understanding of the basis of the opinions given. Copies of the full financial statements for Heartland and MARAC may be obtained from the Heartland registered office. Copies of the full financial statements for MARAC may be downloaded from the public register for companies maintained by the Companies Office at www.business.govt.nz/companies. Copies of the latest financial statements for Heartland and MARAC can be downloaded from www.heartland.co.nz.
- The accounting policies that have been applied in preparing Heartland's full financial statements for the period ended 5 January 2011 are consistent with the accounting policies applied in the MARAC Group full financial statements for the year ended 30 June 2010.
- The summary financial statements cannot be expected to provide a complete understanding as provided by the full financial statements from which they are extracted.
- The summary financial statements comply with the Financial Reporting Standard 43 (FRS 43) "Summary Financial Statements" as required by the Securities Regulations.
- The summary financial statements reflect the current presentation requirements of FRS 43 "Summary Financial Statements" (as amended by the consequential amendments of NZ IAS 1 Presentation of Financial Statements (revised 2007)) for all periods presented, including the presentation of other comprehensive income and total comprehensive income.
- The summary financial statements are presented in New Zealand dollars which is the functional currency of Heartland. Unless otherwise indicated, amounts are rounded to the nearest thousand.

The summary financial statements were authorised for issue by the Directors of Heartland on 16 March 2011.

MARAC: Summary Financial Statements

MARAC Finance Limited
Summary Financial Statements

	NZ IFRS				PREVIOUS NZ GAAP	
Income Statement						
Parent and Consolidated	**Audited 12 months to 30 June 2010 $000**	**Audited 12 months to 30 June 2009 $000**	**Audited 12 months to 30 June 2008 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2006 $000**
Interest income	148,337	168,933	173,438	134,849	121,226	108,501
Interest expense	89,271	109,318	108,637	80,371	81,059	69,963
Net interest income	**59,066**	**59,615**	**64,801**	**54,478**	**40,167**	**38,538**
Other net income	10,015	6,004	5,389	5,504	18,961	17,716
Total operating income before other gains	**69,081**	**65,619**	**70,190**	**59,982**	**59,128**	**56,254**
Employee benefits	13,049	13,377	14,411	12,454	12,080	11,309
Other operating expenses	11,976	11,671	11,404	9,697	9,477	8,509
Profit before impairment and tax	**44,056**	**40,571**	**44,375**	**37,831**	**37,571**	**36,436**
Impairment	23,765	13,318	5,726	955	356	1,787
Net profit before tax	**20,291**	**27,253**	**38,649**	**36,876**	**37,215**	**34,649**
Tax expense	5,992	8,199	12,785	12,199	12,311	11,461
Net profit after tax	**14,299**	**19,054**	**25,864**	**24,677**	**24,904**	**23,188**
Statement of Comprehensive Income						
Net profit after tax attributable to: owners of the entity	**14,299**	**19,054**	**25,864**	**24,677**	**24,904**	**23,188**
Other comprehensive income/(loss) for the period, net of tax						
Effective portion of changes in fair value of cash flow hedges, net of tax	4,208	(4,427)	(1,765)	-	-	-
Total comprehensive income for the period, net of tax	**18,507**	**14,627**	**24,099**	**24,677**	**24,904**	**23,188**
Total comprehensive income attributable to: owners of the entity	**18,507**	**14,627**	**24,099**	**24,677**	**24,904**	**23,188**
Statement Of Changes in Equity						
Opening balance	**152,961**	**139,989**	**120,890**	**107,463**	**110,790**	**100,602**
Total comprehensive income for the period attributable to: owners of the entity	18,507	14,627	24,099	24,677	24,904	23,188
Contributions from owners	35,000	11,345	-	-	-	-
Distributions to owners	-	(13,000)	(5,000)	(11,250)	(11,250)	(13,000)
Closing Balance	**206,468**	**152,961**	**139,989**	**120,890**	**124,444**	**110,790**
Components of equity:						
Share capital	55,000	20,000	20,000	20,000	20,000	20,000
Capital reserve	-	-	-	-	14	14
Retained earnings	153,452	139,153	121,754	100,890	104,430	90,776
Fair value through other comprehensive income reserve	(1,984)	(6,192)	(1,765)	-	-	-
Total Equity	**206,468**	**152,961**	**139,989**	**120,890**	**124,444**	**110,790**

MARAC: Summary Financial Statements

MARAC Finance Limited
Summary Financial Statements

	NZ IFRS				PREVIOUS NZ GAAP	
Balance Sheet						
Parent and Consolidated	**Audited As at 30 June 2010 $000**	**Audited As at 30 June 2009 $000**	**Audited As at 30 June 2008 $000**	**Audited As at 30 June 2007 $000**	**Audited As at 30 June 2007 $000**	**Audited As at 30 June 2006 $000**
Assets						
Cash and cash equivalents	86,406	62,462	8,655	-	-	-
Finance receivables	941,328	1,136,646	1,011,954	1,197,815	1,204,210	1,039,256
Finance receivables - securitised	160,853	157,941	291,532	-	-	-
Operating lease vehicles	42,895	36,209	29,719	36,834	36,675	37,590
Other assets	63,074	19,537	10,404	7,261	5,129	4,047
Total Assets	**1,294,556**	**1,412,795**	**1,352,264**	**1,241,910**	**1,246,014**	**1,080,893**
Liabilities						
Bank overdraft	-	-	-	910	910	6,296
Deposits and interest accruals	834,381	1,066,231	901,091	1,088,450	1,089,200	941,153
Borrowings - Securitised	149,298	150,728	283,042	-	-	-
Other liabilites	104,409	42,875	28,142	31,660	31,460	22,654
Total Liabilities	**1,088,088**	**1,259,834**	**1,212,275**	**1,121,020**	**1,121,570**	**970,103**
Net Assets	**206,468**	**152,961**	**139,989**	**120,890**	**124,444**	**110,790**
Equity						
Share capital	55,000	20,000	20,000	20,000	20,000	20,000
Reserves	151,468	132,961	119,989	100,890	104,444	90,790
Total Equity	**206,468**	**152,961**	**139,989**	**120,890**	**124,444**	**110,790**
Statement Of Cash Flows						
Parent and Consolidated	**Audited 12 months to 30 June 2010 $000**	**Audited 12 months to 30 June 2009 $000**	**Audited 12 months to 30 June 2008 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2006 $000**
Net cash flows from/(used in) operating activities	30,373	5,915	5,115	29,374	38,066	36,359
Net cash flows from/(used in) investing activities	193,504	73,764	(77,612)	(168,415)	(177,107)	(136,344)
Net cash flows from/(used in) financing activities	(199,933)	(23,036)	82,062	144,427	144,427	94,776
Net increase/(decrease) in cash held	**23,944**	**56,643**	**9,565**	**5,386**	**5,386**	**(5,209)**
Add opening cash brought forward:						
Cash on hand and at bank	62,462	8,655	(910)	(6,296)	(6,296)	(1,087)
Acquired on amalagmation	-	(2,836)	-	-	-	-
Closing cash carried forward	**86,406**	**62,462**	**8,655**	**(910)**	**(910)**	**(6,296)**
Comprising:						
Cash on hand and at bank/ bank overdraft	**86,406**	**62,462**	**8,655**	**(910)**	**(910)**	**(6,296)**
Date of Authorisation of Financial Statements						
Authorised for issue by the Board	26-Aug-2010	28-Aug-2009	26-Aug-2008	24-Aug-2007	24-Aug-2007	29-Aug-2006

MARAC: Notes to Summary Financial Statements

The "MARAC Group" is a profit-oriented entity, which consists of MARAC, MARAC ABCP Trust 1 ("Trust"), MARAC Retirement Bonds Superannuation Fund ("Fund") and MARAC PIE Fund ("PIE").

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

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

- The values presented in the summary financial statements were extracted from the full financial statements of the MARAC Group for the financial years ending 30 June 2010, 2009, 2008, 2007 and 2006.
- The full financial statements for the financial years ended 30 June 2010, 2009, 2008 and 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit oriented entities. The full financial statements for each of these years included an explicit and unreserved statement of compliance with IFRS. The full financial statements for the financial years ended 30 June 2007 and 2006 have been prepared in accordance with NZ GAAP and comply with New Zealand Financial Reporting Standards (NZ FRS) applicable prior to the implementation of NZ IFRS ("previous NZ GAAP").
- The full financial statements for each year presented in the summary financial statements have been audited. KPMG's report in relation to the financial statements of MARAC for the year ended 30 June 2009 made reference to those financial statements being prepared assuming the successful conclusion of matters relating to MARAC's bank financing arrangements. These matters were successfully concluded subsequent to the completion of KPMG's 2009 audit, and this was noted in their December 2009 report for inclusion in MARAC's prospectus. With the exception of this explanatory paragraph, none of the audit reports for the audited financial statements of MARAC on which these historical summaries are based contain qualified opinions or any explanatory paragraphs highlighting matters regarded as relevant to a proper understanding of the basis of the opinions given. These financial statements may be obtained from the Heartland registered office, or downloaded from the public register for companies maintained by the Companies Office at www.business.govt.nz/companies.
- The accounting policies that have been applied in preparing the full financial statements for the year ended 30 June 2010 are consistent with the accounting policies applied in the previous year.
- The summary financial statements cannot be expected to provide a complete understanding as provided by the full financial statements from which they are extracted.
- The summary financial statements comply with the Financial Reporting Standard 43 "Summary Financial Statements" as required by the Securities Regulations.
- The summary financial statements reflect the current presentation requirements of FRS 43 Summary Financial Statements (as amended by the consequential amendments of NZ IAS 1 Presentation of Financial Statements (revised 2007)) for all periods presented, including the presentation of other comprehensive income and total comprehensive income.
- The summary financial statements are presented in New Zealand dollars which is the functional currency of the MARAC Group. Unless otherwise indicated, amounts are rounded to the nearest thousand.

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

CBS Canterbury: Summary Financial Statements

Canterbury Building Society
Summary Financial Statements

	NZ IFRS					PREVIOUS NZ GAAP	
Income Statement							
Parent and Consolidated	**Unaudited 3 months to 30 June 2010 $000**	**Audited 12 months to 31 March 2010 $000**	**Audited 12 months to 31 March 2009 $000**	**Audited 12 months to 31 March 2008 $000**	**Audited 12 months to 31 March 2007 $000**	**Audited 12 months to 31 March 2007 $000**	**Audited 12 months to 31 March 2006 $000**
Interest income	7,928	30,406	50,993	35,650	28,657	28,675	22,095
Interest expense	5,789	22,372	39,794	27,455	21,984	21,744	16,521
Net interest income	**2,139**	**8,034**	**11,199**	**8,195**	**6,673**	**6,931**	**5,574**
Other net income	363	2,362	696	827	982	1,065	682
Total operating income before other net gains	**2,502**	**10,396**	**11,895**	**9,022**	**7,655**	**7,996**	**6,256**
Employee benefits	1,153	4,141	3,801	2,531	2,139	2,133	1,420
Other operating expenses	1,158	4,469	4,935	3,273	3,059	3,106	2,268
Profit before impairment and tax	**191**	**1,786**	**3,159**	**3,218**	**2,457**	**2,757**	**2,568**
Impairment	75	589	2,410	15	-	1	5
Net profit before tax	**116**	**1,197**	**749**	**3,203**	**2,457**	**2,756**	**2,563**
Impairment of goodwill	-	-	(4,148)	-	-	-	-
Restructuring costs	(165)	-	-	-	-	-	-
Special finance charge	-	-	-	(1,110)	-	-	-
Total non-recurring items	**(165)**	**-**	**(4,148)**	**(1,110)**	**-**	**-**	**-**
Net profit/(loss) before tax	**(49)**	**1,197**	**(3,399)**	**2,093**	**2,457**	**2,756**	**2,563**
Tax expense/(benefit)	332	(711)	82	1,209	845	904	870
Net profit/(loss) after tax	**(381)**	**1,908**	**(3,481)**	**884**	**1,612**	**1,852**	**1,693**
Statement of Comprehensive Income							
Net profit/(loss) after tax attributable to: owners of the Society	**(381)**	**1,908**	**(3,481)**	**884**	**1,612**	**1,852**	**1,693**
Other comprehensive income/(loss) for the period, net of tax							
Net change in asset revaluation reserve, net of tax	-	101	(127)	68	628	765	290
Net change in available-for-sale reserve, net of tax	120	412	(349)	(211)	12	-	-
Net change in capital gains reserve, net of tax	-	-	-	241	-	-	-
Total comprehensive income/(loss) for the period, net of tax	**(261)**	**2,421**	**(3,957)**	**982**	**2,252**	**2,617**	**1,983**
Total comprehensive income/(loss) attributable to: owners of the Society	**(261)**	**2,421**	**(3,957)**	**982**	**2,252**	**2,617**	**1,983**
Statement Of Changes in Equity							
Opening balance	**51,552**	**48,594**	**53,490**	**24,920**	**19,399**	**22,116**	**21,197**
Total comprehensive income/(loss) for the period attributable to: owners of the Society	(261)	2,421	(3,957)	982	2,252	2,617	1,983
Contributions from owners	-	537	1,175	28,176	4,251	4,251	-
Distributions to owners	-	-	(2,114)	(588)	(982)	(1,223)	(1,064)
Closing Balance	**51,291**	**51,552**	**48,594**	**53,490**	**24,920**	**27,761**	**22,116**
Components of equity:							
Share capital	44,288	44,288	43,752	42,577	14,401	17,401	13,150
Retained earnings	5,203	5,583	3,674	9,270	8,974	8,544	7,914
Available for sale reserve	(40)	(135)	(547)	(199)	12	-	-
Asset revaluation reserve	1,553	1,529	1,428	1,555	1,487	1,770	1,006
Realised capital gains reserve	287	287	287	287	46	46	46
Total Equity	**51,291**	**51,552**	**48,594**	**53,490**	**24,920**	**27,761**	**22,116**

CBS Canterbury: Summary Financial Statements

Canterbury Building Society
Summary Financial Statements

	NZ IFRS					PREVIOUS NZ GAAP	
Balance Sheet							
Parent and Consolidated	**Unaudited As at 30 June 2010 $000**	**Audited As at 31 March 2010 $000**	**Audited As at 31 March 2009 $000**	**Audited As at 31 March 2008 $000**	**Audited As at 31 March 2007 $000**	**Audited As at 31 March 2007 $000**	**Audited As at 31 March 2006 $000**
Assets							
Cash and cash equivalents	33,460	44,309	93,615	75,334	65,906	825	70
Short term deposits	31,500	27,000	5,300	10,300	-	65,133	59,593
Investment securities	8,025	7,918	17,131	8,166	4,876	4,824	4,806
Loans and advances	450,499	445,262	417,424	449,071	270,616	270,405	227,072
Intangibles	9,824	9,897	10,122	13,479	530	443	246
Other assets	5,950	6,459	6,058	5,377	7,347	7,440	4,012
Total Assets	**539,258**	**540,845**	**549,650**	**561,727**	**349,275**	**349,070**	**295,799**
Liabilities							
Deposits and interest accruals	484,675	486,262	493,151	506,156	319,952	319,952	272,819
Preference Shares	-	-	-	-	3,000	-	-
Other liabilites	3,292	3,031	7,905	2,081	1,403	1,357	864
Total Liabilities	**487,967**	**489,293**	**501,056**	**508,237**	**324,355**	**321,309**	**273,683**
Net Assets	**51,291**	**51,552**	**48,594**	**53,490**	**24,920**	**27,761**	**22,116**
Equity							
Share capital	44,288	44,288	43,752	42,577	14,401	17,401	13,150
Reserves	7,003	7,264	4,842	10,913	10,519	10,360	8,966
Total Equity	**51,291**	**51,552**	**48,594**	**53,490**	**24,920**	**27,761**	**22,116**

Statement Of Cash Flows							
Parent and Consolidated	**Unaudited 3 months to 30 June 2010 $000**	**Audited 12 months to 31 March 2010 $000**	**Audited 12 months to 31 March 2009 $000**	**Audited 12 months to 31 March 2008 $000**	**Audited 12 months to 31 March 2007 $000**	**Audited 12 months to 31 March 2007 $000**	**Audited 12 months to 31 March 2006 $000**
Net cash flows from/(used in) operating activities	(6,263)	(37,754)	24,697	(6,936)	(1,602)	2,653	2,104
Net cash flows from/(used in) investing activities	(4,586)	(12,088)	(5,476)	4,639	(328)	(9,883)	(49,062)
Net cash flows from/(used in) financing activities	-	536	(940)	11,724	8,225	7,985	45,982
Net increase/(decrease) in cash held	**(10,849)**	**(49,306)**	**18,281**	**9,427**	**6,295**	**755**	**(976)**
Add opening cash brought forward:							
Cash on hand and at bank	44,309	93,615	75,334	65,907	59,611	70	1,046
Closing cash carried forward	**33,460**	**44,309**	**93,615**	**75,334**	**65,906**	**825**	**70**
Comprising:							
Cash on hand and at bank	**33,460**	**44,309**	**93,615**	**75,334**	**65,906**	**825**	**70**

Date of Authorisation of Financial Statements							
Authorised for issue by the Board	30-Sep-2010	11-Jun-2010	12-Jun-2009	27-Jun-2008	14-Jun-2007	14-Jun-2007	19-Jun-2006

CBS Canterbury: Notes to Summary Financial Statements

At the date these Summary Financial Statements were prepared, CBS Canterbury was a profit-orientated building society registered in New Zealand under the Building Societies Act. For the purposes of these Financial Statements, CBS Canterbury consists of Canterbury Building Society and its subsidiary, Loan Properties Limited. Loan Properties Limited was acquired on 1 February 2008, through the business combination with Loan and Building Society, and was subsequently struck off on 3 March 2009. For the 2006 and 2007 financial years the parent and group financial statements are the same due to no group existing at these reporting dates.

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

- The values presented in the summary financial statements were extracted from the full financial statements of CBS Canterbury for the three months ending 30 June 2010 and the financial years ending 31 March 2010, 2009, 2008, 2007 and 2006.
- The full financial statements for the three months ended 30 June 2010 and the financial years ended 31 March 2010, 2009, 2008 and 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit oriented entities. The full financial statements for the three months ended 30 June 2010 and for the financial years ended 31 March 2010, 2009, 2008 and 2007 included an explicit and unreserved statement of compliance with IFRS. The full financial statements for the financial years ended 31 March 2007 and 2006 have been prepared in accordance with NZ GAAP and comply with New Zealand Financial Reporting Standards (NZ FRS) applicable prior to the implementation of NZ IFRS ("previous NZ GAAP").
- The full financial statements for the financial years ending 31 March 2010, 2009, 2008, 2007 and 2006 presented in the summary financial statements have been audited. None of these audit reports contain qualified opinions or any explanatory paragraphs highlighting matters regarded as relevant to proper understanding of the basis of the opinions given. These financial statements may be obtained from the Heartland registered office, or downloaded from the public register for building societies maintained by the Companies Office at www.business.govt.nz/companies.
- The accounting policies that have been applied in preparing the full financial statements for the three months ended 30 June 2010 and for the year ended 31 March 2010 are consistent with the accounting policies applied in the previous year.
- The summary financial statements cannot be expected to provide a complete understanding as provided by the full financial statements from which they are extracted.
- The summary financial statements comply with the Financial Reporting Standard 43 "Summary Financial Statements" as required by the Securities Regulations.
- The summary financial statements reflect the current presentation requirements of FRS 43 Summary Financial Statements (as amended by the consequential amendments of NZ IAS 1 Presentation of Financial Statements (revised 2007)) for all periods presented, including the presentation of other comprehensive income and total comprehensive income.
- The summary financial statements are presented in New Zealand dollars which is the functional currency of CBS Canterbury. Unless otherwise indicated, amounts are rounded to the nearest thousand.

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

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

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

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

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

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

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

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

Southern Cross: Summary Financial Statements

Southern Cross Building Society
Summary Financial Statements

	NZ IFRS				PREVIOUS NZ GAAP	
Income Statement						
Parent and Consolidated	**Audited 12 months to 30 June 2010 $000**	**Audited 12 months to 30 June 2009 $000**	**Audited 12 months to 30 June 2008 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2006 $000**
Interest income	27,372	38,125	44,451	39,706	38,908	39,297
Interest expense	17,675	27,545	33,304	30,708	30,403	28,474
Net interest income	**9,697**	**10,580**	**11,147**	**8,998**	**8,505**	**10,823**
Other net income	39	428	1,824	2,154	2,665	3,228
Total operating income before other net gains	**9,736**	**11,008**	**12,971**	**11,152**	**11,170**	**14,051**
Employee benefits	3,313	3,352	3,108	2,806	2,806	2,524
Other operating expenses	4,196	4,437	4,229	4,344	4,344	4,310
Profit before impairment, other net gains, restructuring costs and tax	**2,227**	**3,219**	**5,634**	**4,002**	**4,020**	**7,217**
Impairment	5,765	14,625	593	1,222	1,180	433
Profit/(loss) before non-recurring items and tax	**(3,538)**	**(11,406)**	**5,041**	**2,780**	**2,840**	**6,784**
Other net gains/(losses)	(1,183)	-	2,668	2,871	-	1,185
Restructuring costs	(458)	47	(1,905)	(1,600)	(1,600)	-
Total non-recurring items	**(1,641)**	**47**	**763**	**1,271**	**(1,600)**	**1,185**
Net profit/(loss) before tax	**(5,179)**	**(11,359)**	**5,804**	**4,051**	**1,240**	**7,969**
Tax expense/(benefit)	(477)	(2,614)	636	1,386	531	2,405
Net profit/(loss) after tax	**(4,702)**	**(8,745)**	**5,168**	**2,665**	**709**	**5,564**
Statement of Comprehensive Income						
Net profit/(loss) after tax attributable to: owners of the Society	**(4,702)**	**(8,745)**	**5,168**	**2,665**	**709**	**5,564**
Other comprehensive income/(loss) for the period, net of tax						
Net change in asset revaluation reserve, net of tax	(174)	-	-	690	2,484	1,139
Net change in available-for-sale reserve, net of tax	-	1,015	(1,504)	(391)	-	-
Net change in defined benefit plan reserve, net of tax	-	(502)	(286)	-	-	-
Net change in fair value through other comprehensive income reserve	(353)	-	-	-	-	-
Total comprehensive income/(loss) for the period, net of tax	**(5,229)**	**(8,232)**	**3,378**	**2,964**	**3,193**	**6,703**
Total comprehensive income/(loss) attributable to: owners of the Society	**(5,229)**	**(8,232)**	**3,378**	**2,964**	**3,193**	**6,703**
Statement Of Changes in Equity						
Opening balance	**52,198**	**60,405**	**57,140**	**43,676**	**44,163**	**37,460**
Change in accounting policy - early adoption of NZ IFRS 9	612	-	-	-	-	-
Opening balance restated	**52,810**	**60,405**	**57,140**	**43,676**	**44,163**	**37,460**
Total comprehensive income/(loss) for the period attributable to: owners of the Society	(5,229)	(8,232)	3,378	2,964	3,193	6,703
Contributions from owners	25	25	425	10,500	10,500	-
Distributions to owners	-	-	(538)	-	-	-
Closing Balance	**47,606**	**52,198**	**60,405**	**57,140**	**57,856**	**44,163**
Components of equity:						
Share capital	10,475	10,450	10,425	10,500	10,500	-
Capital reserve	40,000	40,000	40,000	40,000	40,000	-
Retained earnings	(3,676)	1,026	9,771	(729)	-	37,500
Available for sale reserve	-	(612)	(1,627)	(123)	-	-
Asset revaluation reserve	1,074	1,248	1,248	6,618	7,356	6,663
Defined benefit reserve	86	86	588	874	-	-
Fair value through other comprehensive income reserve	(353)	-	-	-	-	-
Total Equity	**47,606**	**52,198**	**60,405**	**57,140**	**57,856**	**44,163**

Southern Cross: Summary Financial Statements

Southern Cross Building Society
Summary Financial Statements

	NZ IFRS				PREVIOUS NZ GAAP	
Balance Sheet						
Parent and Consolidated	**Audited As at 30 June 2010 $000**	**Audited As at 30 June 2009 $000**	**Audited As at 30 June 2008 $000**	**Audited As at 30 June 2007 $000**	**Audited As at 30 June 2007 $000**	**Audited As at 30 June 2006 $000**
Assets						
Cash and cash equivalents	681	1,006	1,306	645	645	746
Short term deposits	122,013	95,368	55,392	29,835	29,834	34,537
Investment securities	19,123	25,477	49,488	57,848	57,147	56,414
Investment property	-	-	-	16,000	15,610	12,610
Loans and advances	249,822	275,621	338,498	371,787	374,848	366,724
Deferred tax asset	5,572	5,414	2,824	2,171	1,224	3,242
Other assets	5,785	9,126	8,408	15,081	14,775	6,463
Total Assets	**402,996**	**412,012**	**455,916**	**493,367**	**494,083**	**480,736**
Liabilities						
Deposits and interest accruals	353,737	358,162	384,791	423,653	423,543	420,809
Redeemable shares	-	-	7,845	10,097	10,097	14,396
Other liabilites	1,653	1,652	2,875	2,477	2,587	1,368
Total Liabilities	**355,390**	**359,814**	**395,511**	**436,227**	**436,227**	**436,573**
Net Assets	**47,606**	**52,198**	**60,405**	**57,140**	**57,856**	**44,163**
Equity						
Share capital	10,475	10,450	10,425	10,500	10,500	-
Reserves	37,131	41,748	49,980	46,640	47,356	44,163
Total Equity	**47,606**	**52,198**	**60,405**	**57,140**	**57,856**	**44,163**
Statement Of Cash Flows						
Parent and Consolidated	**Audited 12 months to 30 June 2010 $000**	**Audited 12 months to 30 June 2009 $000**	**Audited 12 months to 30 June 2008 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2006 $000**
Net cash flows from/(used in) operating activities	(282)	(1)	(22,039)	(5,208)	27,023	27,391
Net cash flows from/(used in) investing activities	(43)	(299)	17,987	(393)	(6,670)	(24,525)
Net cash flows from/(used in) financing activities	-	-	4,713	5,500	(20,454)	(2,638)
Net increase/(decrease) in cash held	**(325)**	**(300)**	**661**	**(101)**	**(101)**	**228**
Add opening cash brought forward:						
Cash on hand and at bank	1,006	1,306	645	746	746	518
Closing cash carried forward	**681**	**1,006**	**1,306**	**645**	**645**	**746**
Comprising:						
Cash on hand and at bank	**681**	**1,006**	**1,306**	**645**	**645**	**746**
Date of Authorisation of Financial Statements						
Authorised for issue by the Board	11-Aug-2010	12-Aug-2009	22-Aug-2008	23-Aug-2007	23-Aug-2007	24-Aug-2006

Southern Cross: Notes to Summary Financial Statements

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

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

- The values presented in the summary financial statements were extracted from the full financial statements of Southern Cross for the financial years ending 30 June 2010, 2009, 2008, 2007 and 2006 subject to certain reclassifications and adjustments of equity due to changes in the accounting policy for debt and equity classification as disclosed in the financial statements for the year ended 30 June 2006.
- The full financial statements for the financial years ended 30 June 2010, 2009, 2008 and 2007 have been prepared in accordance with NZ GAAP and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit oriented entities. The full financial statements for each of these years included an explicit and unreserved statement of compliance with IFRS. The full financial statements for the financial years ended 30 June 2007 and 2006 have been prepared in accordance with NZ GAAP and comply with New Zealand Financial Reporting Standards (NZ FRS) applicable prior to the implementation of NZ IFRS ("previous NZ GAAP").
- The full financial statements for each year presented in the summary financial statements have been audited. None of these audit reports contain qualified opinions or any explanatory paragraphs highlighting matters regarded as relevant to proper understanding of the basis of the opinions given. These financial statements may be obtained from the Heartland registered office, or downloaded from the public register for building societies maintained by the Companies Office at www.business.govt.nz/companies.
- The accounting policies that have been applied in preparing the full financial statements for the year ended 30 June 2010 are consistent with the accounting policies applied in the previous year.
- The summary financial statements cannot be expected to provide a complete understanding as provided by the full financial statements from which they are extracted.
- The summary financial statements comply with the Financial Reporting Standard 43 "Summary Financial Statements" as required by the Securities Regulations.
- The summary financial statements are presented in New Zealand dollars which is the functional currency of the Southern Cross Group. Unless otherwise indicated, amounts are rounded to the nearest thousand.

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

PWF: Summary Financial Statements

PGG Wrightson Finance Limited
Summary Financial Statements

	NZ IFRS				PREVIOUS NZ GAAP	
Income Statement						
	Audited 12 months to 30 June 2010 $000	**Audited 12 months to 30 June 2009 $000**	**Audited 12 months to 30 June 2008 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2006 $000**
Interest income	58,730	56,685	49,678	37,877	37,779	10,401
Interest expense	30,357	37,758	34,322	25,064	24,755	6,917
Net interest income	**28,373**	**18,927**	**15,356**	**12,813**	**13,024**	**3,484**
Other net income	925	916	338	-	98	18
Total operating income before other gains	**29,298**	**19,843**	**15,694**	**12,813**	**13,122**	**3,502**
Employee benefits	4,385	4,542	3,786	3,443	3,443	896
Other operating expenses	3,207	1,312	2,790	1,611	1,713	609
Profit before impairment and tax	**21,706**	**13,989**	**9,118**	**7,759**	**7,966**	**1,997**
Impairment	8,949	2,877	460	(480)	(480)	382
Net profit before tax	**12,757**	**11,112**	**8,658**	**8,239**	**8,446**	**1,615**
Tax expense	3,824	3,334	2,839	2,787	2,787	533
Net profit after tax	**8,933**	**7,778**	**5,819**	**5,452**	**5,659**	**1,082**
Statement of Comprehensive Income						
Net profit after tax attributable to: owners of the entity	**8,933**	**7,778**	**5,819**	**5,452**	**5,659**	**1,082**
Other comprehensive income/(loss) for the period, net of tax						
Effective portion of changes in fair value of cash flow hedges, net of tax	(2,992)	5,146	(52)	(538)	-	-
Total comprehensive income for the period, net of tax	**5,941**	**12,924**	**5,767**	**4,914**	**5,659**	**1,082**
Total comprehensive income attributable to: owners of the entity	**5,941**	**12,924**	**5,767**	**4,914**	**5,659**	**1,082**
Statement Of Changes in Equity						
Opening balance	**66,816**	**53,892**	**40,625**	**31,211**	**31,623**	**14,250**
Total comprehensive income for the period attributable to: owners of the entity	5,941	12,924	5,767	4,914	5,659	1,082
Contributions from owners	33,850	-	7,500	10,000	10,000	16,291
Distributions to owners	(6,232)	-	-	(5,500)	(5,500)	-
Closing Balance	**100,375**	**66,816**	**53,892**	**40,625**	**41,782**	**31,623**
Components of equity:						
Share capital	31,500	31,500	31,500	24,000	24,000	14,000
Capital reserve	-	-	-	-	-	-
Retained earnings	33,743	31,042	23,394	17,575	17,782	17,623
Preference Shares	33,850	-	-	-	-	-
Fair value through other comprehensive income reserve	1,282	4,274	(1,002)	(950)	-	-
Total Equity	**100,375**	**66,816**	**53,892**	**40,625**	**41,782**	**31,623**

PWF: Summary Financial Statements

PGG Wrightson Finance Limited
Summary Financial Statements

	NZ IFRS				PREVIOUS NZ GAAP	
Balance Sheet						
	Audited As at 30 June 2010 $000	**Audited As at 30 June 2009 $000**	**Audited As at 30 June 2008 $000**	**Audited As at 30 June 2007 $000**	**Audited As at 30 June 2007 $000**	**Audited As at 30 June 2006 $000**
Assets						
Cash and cash equivalents	9,277	3,779	625	-	-	1,469
Loans and advances	530,119	559,659	502,591	394,443	394,443	330,240
Other assets	10,266	12,037	4,248	3,823	3,251	2,445
Total Assets	**549,662**	**575,475**	**507,464**	**398,266**	**397,694**	**334,154**
Liabilities						
Bank overdraft	-	-	-	475	475	-
Borrowings	439,057	499,146	449,483	351,631	352,405	251,261
Other liabilites	10,230	9,513	4,089	5,535	3,032	51,270
Total Liabilities	**449,287**	**508,659**	**453,572**	**357,641**	**355,912**	**302,531**
Net Assets	**100,375**	**66,816**	**53,892**	**40,625**	**41,782**	**31,623**
Equity						
Share capital	65,350	31,500	31,500	24,000	24,000	14,000
Reserves	35,025	35,316	22,392	16,625	17,782	17,623
Total Equity	**100,375**	**66,816**	**53,892**	**40,625**	**41,782**	**31,623**
Statement Of Cash Flows						
	Audited 12 months to 30 June 2010 $000	**Audited 12 months to 30 June 2009 $000**	**Audited 12 months to 30 June 2008 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2007 $000**	**Audited 12 months to 30 June 2006 $000**
Net cash flows from/(used in) operating activities	20,638	14,232	5,496	7,539	7,539	1,756
Net cash flows from/(used in) investing activities	20,373	(61,143)	(109,439)	(112,885)	(63,307)	(49,336)
Net cash flows from/(used in) financing activities	(35,513)	50,065	105,043	103,402	53,824	39,224
Net increase/(decrease) in cash held	**5,498**	**3,154**	**1,100**	**(1,944)**	**(1,944)**	**(8,356)**
Add opening cash brought forward:						
Cash on hand and at bank	3,779	625	(475)	1,469	1,469	8,540
Acquired on amalagmation	-	-	-	-	-	1,285
Closing cash carried forward	**9,277**	**3,779**	**625**	**(475)**	**(475)**	**1,469**
Comprising:						
Cash on hand and at bank/ bank overdraft	**9,277**	**3,779**	**625**	**(475)**	**(475)**	**1,469**
Date of Authorisation of Financial Statements						
Authorised for issue by the Board	12-Aug-2010	27-Aug-2009	19-Aug-2008	16-Aug-2007	16-Aug-2007	16-Aug-2006

PWF: Notes to Summary Financial Statements

The amounts stated above for the years 2006, 2007, 2008, 2009 and 2010 are taken from the audited financial statements of PWF. All years' financial statements have received an unqualified audit opinion with no matters highlighted by the auditor that would be regarded as relevant to a proper understanding of the basis of the opinion. The 2006 figures have been impacted by the amalgamation of PWF at 31 March 2006 and the transfer of financing assets and liabilities from PGW on 30 June 2006.

The Summary of Financial Statements for the years ending 30 June 2010, 30 June 2009 and 30 June 2008 were prepared on the basis of New Zealand equivalents to International Financial Reporting Standards as disclosed in the basis of preparation section of the notes to the full financial statements. The results for the year ending 30 June 2007 have also been amended for comparison purposes. Pre-NZ IFRS figures were prepared in accordance with previous GAAP. PWF is a single entity profit oriented company that does not qualify for differential reporting concessions.

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

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

- Year ended 30 June 2010, which were authorised by the PWF board on 12th August 2010 and audited by KPMG who issued an unqualified opinion on 12th August 2010;
- Year ended 30 June 2009, which were authorised by the PWF board on 27th August 2009 and audited by KPMG who issued an unqualified opinion on 27th August 2009;
- Year ended 30 June 2008, which were authorised by the PWF board on 19th August 2008 and audited by KPMG who issued an unqualified opinion on 19th August 2008;
- Year ended 30 June 2007, which were authorised by the PWF board on 16th August 2007 and audited by KPMG who issued an unqualified opinion on 16th August 2007; and
- Year ended 30 June 2006, which were authorised by the PWF board on 16th August 2006 and audited by PriceWaterhouseCoopers who issued an unqualified opinion on 25th September 2006.

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

The summary financial statements were authorised for issue by the directors of PWF on 7 December 2010.

AUDIT REPORT

KPMG

The Directors
Heartland Building Society
75 Riccarton Road
Christchurch 8011

11 July 2011

Independent Auditor's Report

To the readers of the information memorandum 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 Securities Act (Heartland Building Society) Exemption Notice 2011 for inclusion in the information memorandum dated 11 July 2011.

Report on the Society and Group financial statements

We have audited the accompanying financial statements of the Society and the Group attached as Appendix I. The financial statements comprise the interim statement of financial position of the Society and the interim consolidated statement of financial position of the Group as at 5 January 2011, the interim statements of comprehensive income, changes in equity and cash flows of the Society and the interim consolidated statements of comprehensive income, changes in equity and cash flows of the Group for the period then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the Society and Group financial statements

The Directors are responsible for the preparation of Society and Group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards and that give a true and fair view of the matters to which they relate, and for such internal control as the Directors determine is necessary to enable the preparation of Society and Group financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the Society and Group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Society and Group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Society and Group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Society and Group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society and Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the Society and Group in relation to assurance (including audit) service and accounting advice. 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. There are, however, certain restrictions on the business dealings which the partners and employees of the firm can have with 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.

Opinion

In our opinion the financial statements of Heartland Building Society and the Group ("the Society and Group") attached as Appendix I:

- subject to the Securities Regulations 2009, comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the Society and the consolidated financial position of the Group as at 5 January 2011 and of the financial performance and cash flows of the Society and the consolidated financial performance and consolidated cash flows of the Group for the period ended on that date.

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

The summary financial statements 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	5 January 2011	18 to 20
Acquired businesses and Subsidiary:		
MARAC Finance Limited	30 June 2010 30 June 2009 30 June 2008 30 June 2007 30 June 2006	21 to 23
Canterbury Building Society	31 March 2010 31 March 2009 31 March 2008 31 March 2007 31 March 2006	24 to 26
Southern Cross Building Society	30 June 2010 30 June 2009 30 June 2008 30 June 2007 30 June 2006	27 to 29
Business to be acquired		
PGG Wrightson Finance Limited	30 June 2010 30 June 2009 30 June 2008 30 June 2007 30 June 2006	30 to 32

KPMG

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

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

Directors' responsibility for the summary financial statements of Heartland Building Society, Canterbury Building Society, Southern Cross Building Society, MARAC Finance Limited and PGG Wrightson Finance Limited

The Directors are responsible for preparing a summary of the audited financial statements, as detailed in the table above, in accordance with clauses 8, 9(2) and 9(3) of Schedule 2 of the Securities Regulations 2009 (as applied under the Securities Act (Heartland Building Society) Exemption Notice 2011).

Auditor's responsibility for the summary financial statements of Heartland Building Society, Canterbury Building Society, Southern Cross Building Society, MARAC Finance Limited and PGG Wrightson Finance Limited

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted to confirm that the amounts set out in the historical summaries of financial statements on pages 18 to 32, pursuant to clauses 8, 9(2) and 9(3) of the Securities Regulations 2009 Schedule 2 (as applied under the Securities Act (Heartland Building Society) Exemption Notice 2011), have been correctly taken from the audited financial statements, as detailed in table above.

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

In our opinion, the amounts set out in the summary financial statements on pages 18 to 32 of this information memorandum, derived from the audited financial statements, as detailed in the table above, as required by clauses 8, 9(2) and 9(3) of Schedule 2 of the Securities Regulations 2009 (as applied under the Securities Act (Heartland Building Society) Exemption Notice 2011), 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 5 January 2011, in accordance with clause 13 of Schedule 2 of the Securities Regulations 2009.

Auditor's responsibility for the ranking of securities

Our responsibility is to express an opinion on whether the amounts set out in the ranking of securities have been correctly taken from the audited financial statements of the Society and the Group as at 5 January 2011.

Opinion on the ranking of securities

In our opinion, the amounts set out in the ranking of securities on page 62 of this information memorandum, have been correctly taken from the audited financial statements of Heartland Building Society and the Group as at 5 January 2011.

KPMG

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 (as applied under the Securities Act (Heartland Building Society) Exemption Notice 2011), we report that:

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

Other matters

Responsibility for updating

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

Restriction on use

This report has been prepared for inclusion in the information memorandum for the purpose of meeting the requirements of the Securities Act (Heartland Building Society) Exemption Notice 2011. We disclaim any assumption of responsibility for reliance on this report or the amounts included in the financial statements, 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 information memorandum 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 information memorandum in the form in which it appears. We also confirm that we have not, before delivery of this information memorandum, withdrawn our consent to the issue thereof.

KPMG

11 July 2011

Auckland

SECTION 4: SUMMARY OF THE HEARTLAND TRUST DEED

General

TEL has been appointed to act on behalf of the holders of Heartland Deposits. The Heartland Master Trust Deed, the Supplemental Deed (Accounts) and the Supplemental Deed (Bonds) were entered into by Heartland and the Trustee on 29 October 2010 and the Supplemental Deed (PWF Bonds) was entered into by Heartland and the Trustee on 11 July 2011 (together, the "**Heartland Trust Deed**"). The Heartland Trust Deed will govern the Heartland Deposits from the Debt Transfer Date. The Heartland Master Trust Deed contains the terms and conditions that apply to all Heartland Debt Instruments (as defined in the Heartland Trust Deed) and the supplemental deeds contain terms specific to different types of Heartland Deposits. MARAC was added as a guarantor under a Supplemental Trust Deed on 14 December 2010 and VPS Properties and VPS Parnell were added as guarantors under Supplemental Trust Deeds dated 24 March 2011.

Retail Holders and Wholesale Holders of Heartland Deposits are not entitled to enforce any of its rights or remedies under the Heartland 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 Heartland Trust Deed. The Trustee does not guarantee the payment of principal or interest on the Heartland Deposits.

In this summary of the Heartland Trust Deed, defined terms have the meanings given to them in the Heartland Trust Deed. If you require further information you should refer to the Heartland Trust Deed itself, which is available for inspection at the places referred to under the heading "What other information can I obtain about this investment?" in the Answers to Important Questions section of this Information Memorandum.

The Guaranteeing Group under the Trust Deed as at the date of this Information Memorandum is made up of Heartland (as issuer and principal debtor), MARAC, VPS Properties and VPS Parnell. On the Debt Transfer Date, PWF will join the Guaranteeing Group and the Heartland Group.

Status of Debt Instruments

The Debt Instruments are and will at all times be direct, unsecured, unsubordinated and unconditional indebtedness of Heartland 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.

Heartland does not believe the Transaction will have a material impact on its ability to comply with these financial covenants.

Negative Pledge

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

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

Guarantee

While Heartland is the issuer (and so principal debtor) Heartland's obligations are supported by its Guaranteeing Subsidiaries. As at the date of this Information Memorandum the Guaranteeing Subsidiaries are MARAC, VPS Properties and VPS Parnell. PWF will become a Guaranteeing Subsidiary on the Debt Transfer Date.

Each Guarantor, including PWF once it becomes a Guarantor, 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 Information Memorandum, it is not intended that any other party will be a Guarantor (other than PWF).

General Undertakings

Heartland and the Guarantors may not for so long as any Debt Instruments are outstanding enter into transactions other than in the ordinary course of business, for fair value or on normal commercial terms except in limited circumstances. Heartland may not make any distributions other than to a Guarantor while money is due and owing under any Debt Instrument and is unpaid.

Heartland and the Guarantors have further undertaken, among other things, that they will comply with and perform their obligations under all applicable laws and under each Transaction Document, ensure that a Register is maintained, maintain its corporate existence, not make any substantial change to the general nature of its 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 Heartland Deposits. The principal duties of the Trustee under the Heartland 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 Heartland Trust Deed including in relation to the meetings of Holders, the joining and releasing of Guarantors, 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 Heartland 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 Heartland Trust Deed or of the terms of the offer of the Debt Instruments and to do all it is empowered to do to cause any such breach to be remedied (except where satisfied that the breach will not materially prejudice the interests of the Holders);

(b) ascertain whether or not the assets of Heartland and the other Obligors 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 Heartland Trust Deed or otherwise for any action taken, or omitted to be taken in accordance with the provisions of the Heartland 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 Heartland Trust Deed or comply with any request or direction pursuant to the Heartland 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 Heartland 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 Heartland Trust Deed.

This includes a requirement for the directors of Heartland to certify to the Trustee, following the end of each quarter, stating that to the best of the directors' knowledge and belief no Event of Default has occurred and continues unremedied and to confirm compliance with the financial covenants set out in the Heartland 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 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;

(b) a failure by an Obligor to perform or comply with any of its other material undertakings under the Heartland Trust Deed and, in the case of a failure that is capable of remedy, that failure is not remedied within 30 days of the date that the Obligor first became aware of it and such default has, in the reasonable opinion of the Trustee, a material adverse effect;

(c) any representation, warranty or statement made or deemed to be repeated by an Obligor under the Heartland Trust Deed which is or was untrue or incorrect in a material respect and, in respect of any misrepresentation which is capable of being remedied, is not remedied within 30 days of Heartland becoming aware of that misrepresentation;

(d) an Obligor ceasing or threatening in writing to cease to carry on the whole or a substantial part of its business or an application or order is made for the dissolution of that Obligor;

(e) an Obligor being unable or admitting an inability to pay its debts as they fall due or suspending making payments on any of its debts, being declared or becoming insolvent or being deemed under any applicable law to be unable to pay its debts when they fall due; or

(f) a receiver, liquidator, provisional liquidator, administrator or statutory manager being appointed to an Obligor.

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

Meetings

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

Waivers

Heartland and the Guarantors give certain covenants and undertakings in the Heartland 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 Heartland Trust Deed and any Supplemental 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, is made to comply with any applicable law and Heartland is of the opinion that such amendment will not be materially prejudicial to the interests of Holders generally and the Trustee is of the opinion that such amendment will not be materially prejudicial to the interests of the Holders generally. Notice will be provided to the Holders within 30 days of the amendment being made.

In addition, the Heartland Trust Deed and any Supplemental 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 Heartland 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 Heartland Trust Deed, the new issuer being solvent and the new issuer having a credit rating no lower than that assigned to Heartland.

Banking Licence[24]

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

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

Trustee's Statement

The Trustee's statement appears on page 41 of this Information Memorandum.

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

Trustees Executors

Level 5, 10 Customhouse Quay, PO Box 3222, DX SP20011,
Wellington, New Zealand. Phone (04) 495-0999, Fax (04) 496-2952

11 July 2011

The Directors
Heartland Building Society
75 Riccarton Road
Riccarton
CHRISTCHURCH 8013

Dear Sirs

Re: Information Memorandum

Clause 14(3) of Schedule 2 to the Securities Regulations 2009 requires us to confirm that the offer of debt securities ("the Deposits") set out in this Information Memorandum complies with any relevant provisions of the Trust Deed dated 29 October 2010. 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 Information Memorandum;

(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 Information Memorandum.

The Auditor has reported on the financial information set out in the Information Memorandum and our statement does not refer to that information or to any other material in the Information Memorandum which does not relate to the Trust Deed.

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

(a) set out above; and

(b) that, subject to the duties imposed on the Trustee by Schedule 15 of the Securities Regulations 2009 and otherwise under the Trust Deed, the Trustee relies on the information supplied to it by Heartland Building Society pursuant to the Trust Deed and does not carry out an independent check of that information.

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

Signed for and on behalf of
Trustees Executors Limited

Luiza Moran
Manager
Corporate Trust

SECTION 5: SUMMARY OF THE HEARTLAND CROWN GUARANTEE

New Zealand Retail Deposit Guarantee Scheme

Heartland has a guarantee under the Crown Retail Deposit Guarantee Scheme (being a guarantee that expires on 31 December 2011). Heartland is currently in discussions with Treasury to obtain Crown consent to the Transaction and to put in place arrangements for the PWF Deposits which are currently subject to the PWF Crown Guarantee to become subject to the Heartland Crown Guarantee on the Debt Transfer Date. Treasury is considering the matter and has not yet indicated whether or not consent will be granted and what arrangements, if any, it will agree to.

The Transaction will not proceed unless the Crown gives its consent and arrangements satisfactory to Heartland and PGW are put in place.

The description of the Heartland Crown Guarantee below assumes that the Crown consents to the Transaction and that those PWF Deposits which are currently subject to the PWF Crown Guarantee will become subject to the Heartland Crown Guarantee on the Debt Transfer Date without any material amendment being made to the Heartland Crown Guarantee.

The Heartland Crown Guarantee will only apply to:

- PWF Deposits which currently are subject to the PWF Crown Guarantee. If you hold PWF Deposits that are not subject to the PWF Crown Guarantee then none of Heartland's obligations in respect of the applicable Heartland Deposits you will hold following the Debt Transfer Date will be covered by the Heartland Crown Guarantee.
- qualifying creditors, being Heartland Depositors who hold a Crown Guaranteed Deposit other than those who are or are controlled by related parties of Heartland (the "**Principal Debtor**"), CBS Canterbury, Southern Cross, MARAC or PWF (the "**Transaction Debtors**")[25], financial institutions (which is broadly defined and includes banks, building societies, insurers, persons carrying on business as a share broker or an investment adviser (or similar) and acting in such capacity), persons who are neither New Zealand tax residents nor New Zealand citizens, or any trustee or nominee for any of those persons (other than a person only acting as a bare trustee), or certain other excluded persons (including in situations where an otherwise qualifying creditor holds Crown Guaranteed Deposits jointly with certain persons in excluded categories), set out in the Heartland Crown Guarantee. If you are not a qualifying creditor you will not have the benefit of the Heartland Crown Guarantee.

The Heartland Crown Guarantee will expire on 31 December 2011. Once the Heartland Crown Guarantee expires, no Heartland Deposits will have the benefit of it. This means (for example) that even if a deposit currently has the benefit of the Heartland Crown Guarantee, payments in relation to it that do not fall due before 31 December 2011 will cease to have the benefit of the guarantee from that date.

The key provisions of the Heartland Crown Guarantee document are summarised below.

Under the Heartland Crown Guarantee and subject to its terms, the Crown absolutely and irrevocably guarantees to each Creditor the due and punctual payment by Heartland of all Indebtedness that becomes due and payable from 5 January 2011 up to and including 31 December 2011 (the "**Guarantee Period**"). The term "Creditor" is defined in the Heartland Crown Guarantee, and will include qualifying Heartland Depositors. The term "Indebtedness" is defined in the Heartland Crown Guarantee, and excludes certain categories of indebtedness including, without limitation, obligations under "Excluded Debt Securities" (which in the case of Heartland includes Heartland Deposits which are not Crown Guaranteed Deposits) and "Post-Default Interest" (being interest accrued following certain default events pursuant to the Heartland Crown Guarantee).

There are limits on Crown liability. Under the Heartland Crown Guarantee, the maximum liability of the Crown:

(a) to each qualifying Heartland Depositor in respect of new Heartland Deposits (i.e. debt securities that were PWF Deposits immediately prior to the Debt Transfer Date) is limited to $250,000, less any amounts repaid to Heartland Depositors in respect of the applicable Heartland Deposits after the Debt Transfer Date (the "**PWF Transferred Liability Cap**").

(b) is $250,000 in all other cases (subject to provisions which preserve certain rights for Creditors in relation to debt securities issued by MARAC, CBS Canterbury or Southern Cross before 5 January 2011 and transferred to Heartland on 5 January 2011) less any part of the PWF Transferred Liability Cap applicable to the relevant Heartland Depositor. However, there are special provisions which preserve certain rights for Creditors in relation to debt securities issued by Heartland before the Debt Transfer Date[26] (the "**General Liability Cap**").

25 A "Related Party" of the Principal Debtor or a Transaction Debtor means a person who is, or at any date after 12 October 2008 was, a person who would be a "related party" as that term is defined in section 157B of the Reserve Bank Act as if the Principal Debtor or a Transaction Debtor was a "deposit taker" and "related party" included any person who controls the Principal Debtor or a Transaction Debtor and any person who is controlled by any such person or by the Principal Debtor or a Transaction Debtor.

26 If on the Debt Transfer Date you hold new Heartland Deposits (i.e. debt securities that were PWF Deposits immediately prior to the Debt Transfer Date) and debt securities issued by Heartland, your General Liability Cap on the Debt Transfer Date will be the aggregate of the PWF Transferred Liability Cap and the amount of debt securities issued by Heartland to you up to a maximum of $250,000. This cap will reduce as any amount is repaid to you by Heartland until the cap is down to $250,000.

It is important to note that when your new Heartland Deposit matures or is otherwise repaid, the PWF Transferred Liability Cap will no longer apply to any reinvestment of that amount. Any reinvestment will become subject to the General Liability Cap.

If your Heartland Deposit is a call Account (ie a PWF Current Account, PWF Rural Saver, PWF On Call Deposit or PWF Savings Optimiser), for the purposes of the Heartland Crown Guarantee any money withdrawn from that Account will be treated as a repayment and any money deposited in that Account will be treated as a reinvestment. Therefore any reinvestment will be subject to the General Liability Cap.

If you hold debt securities issued by MARAC, CBS Canterbury or Southern Cross which currently have the benefit of the Heartland Crown Guarantee, you will continue to have the benefit of the Heartland Crown Guarantee in relation to those debt securities as set out in the information memorandum issued by Heartland and dated 29 October 2010.

By way of example:

Example 1 – depositor holds both PWF securities and Heartland securities immediately prior to the debt transfer.

Depositor A holds $250,000 new Heartland Deposits (i.e. debt securities that were PWF Deposits immediately prior to the Debt Transfer Date) and $200,000 in other debt securities issued by Heartland.

Until the new Heartland Deposits mature, the Crown's maximum liability to Depositor A is:

- $250,000 in respect of the new Heartland Deposits (the PWF Transferred Liability Cap applies to the new Heartland Deposits); and
- $200,000 in respect of the other debt securities issued by Heartland (the General Liability Cap applies to the other debt securities).

When the new Heartland Deposits mature, if they are reinvested by Depositor A in debt securities issued by Heartland, then even though $450,000 is invested the Crown's maximum liability to Depositor A will reduce to $250,000 (i.e. the General Liability Cap applies to the total amount invested).

Example 2 – depositor only holds PWF securities immediately prior to the debt transfer. It invests money in Heartland prior to the existing securities maturing.

Depositor B holds $100,000 new Heartland Deposits (i.e. debt securities that were PWF Deposits immediately prior to the Debt Transfer Date).

Depositor B later invests a further $200,000 in other debt securities issued by Heartland.

Until the new Heartland Deposits mature, the Crown's maximum liability to Depositor B is:

- $100,000 in respect of the new Heartland Deposits (the PWF Transferred Liability Cap applies to the new Heartland Deposits); and
- $150,000 in respect of the other debt securities issued by Heartland (the General Liability Cap applies to the other debt securities. That General Liability Cap is reduced from $250,000 to $150,000 because of the $100,000 of new Heartland Deposits).

Once the new Heartland Deposits mature and if they are not reinvested, the Crown's maximum liability to Depositor B is $250,000 in respect of the other debt securities issued by Heartland (the General Liability Cap applies and is now $250,000).

This is not an exhaustive list of scenarios in respect of the Crown's maximum liability under the Heartland Crown Guarantee but rather is intended to illustrate how the liability cap works in practice in some instances.

Each liability cap applies to all relevant interest accruing due to a Creditor. The Crown's obligations under the Heartland Crown Guarantee are not secured by a mortgage or other charge.

In the unlikely event that Heartland does not pay to any Creditor any Indebtedness guaranteed when due and payable, subject to the terms of the Heartland Crown Guarantee, the Crown will pay the amount of that Indebtedness to that Creditor, up to a maximum equal to the liability cap (as described above), no later than the day that is 14 days after the due date of that Indebtedness (or such earlier date as the Crown may specify) if that Indebtedness is not otherwise paid on or before that day.

The Crown will, on receiving a notice of claim from a Creditor for its Indebtedness and upon satisfying itself as to the amount of that Indebtedness, and such other matters as the Crown reasonably considers appropriate to ascertain the extent of its liability, make payment to the Creditor in the amount of the Indebtedness up to the relevant maximum liability amount (as described above). Claims will be required to be made (unless the Crown waives such requirement) by each Creditor and must in any event be made not later than 180 days from the date that Indebtedness becomes due and payable (unless the Crown agrees otherwise).

The Crown is entitled to withdraw the Heartland Crown Guarantee in certain circumstances, including if:

(a) Heartland fails to comply with any of its reporting obligations pursuant to the Heartland Crown Guarantee (including a request by the Crown for information relating to its financial position or affairs, or its business, management or operation), and Heartland fails to remedy such failure within 14 days' notice of such failure;

(b) Heartland fails to comply with any prudential supervision direction, notice or requirement under the Reserve Bank Act, the Building Societies Act or the terms of any trust deed for debt securities issued (including the Heartland Trust Deed), and Heartland fails to remedy such failure within 14 days' notice of such failure; or

(c) the Crown considers that the business or affairs of Heartland and/or any of its subsidiaries and/or certain other persons under common control are being, or are intended or likely to be, carried out in a manner which may or will extend the benefit of the Heartland Crown Guarantee to persons who are not intended to receive that benefit or is otherwise inconsistent with the Crown's intentions in entering into the Heartland Crown Guarantee.

In the unlikely event that the Heartland Crown Guarantee is withdrawn, the Indebtedness of each Creditor (unless such Heartland Depositor was concerned in (or knew or should have known of) any inappropriate activity) up to and including the date of withdrawal, together with interest accruing on the same (up to the date of that withdrawal), would remain guaranteed up to the maximum limit as described above. However, after the date of withdrawal, no Heartland Deposits issued or rolled over will have the benefit of the Heartland Crown Guarantee.

The Trustee has no duties in relation to the Heartland Crown Guarantee and will not monitor Heartland's compliance with its terms. In addition, the withdrawal of the Heartland Crown Guarantee does not constitute an event of default for the purposes of the Heartland Trust Deed.

The above is a summary of the Crown retail deposit guarantee scheme and the Heartland Crown Guarantee. You can access further information about the Crown retail deposit guarantee scheme, the most recent audited statement of financial position of the Crown, and a copy of the Heartland Crown Guarantee document, free of charge and at all reasonable times, from www.treasury.govt.nz.

SECTION 6: ANSWERS TO IMPORTANT QUESTIONS

WHAT SORT OF INVESTMENT IS THIS?

Under the Transaction, existing PWF Deposits will become Heartland Deposits on the Debt Transfer Date. This means that you will be an investor in Heartland rather than in PWF, and Heartland rather than PWF will be the entity legally liable to repay those debt securities and pay any return on them.

The key changes for you as an investor in Heartland rather than in PWF are set out in the Key Differences section of this Information Memorandum.

The Heartland Deposits will bear the same product name as the equivalent PWF Deposit had before the Transaction (other than the PWF Secured Bonds which will be called PWF Bonds). In all other material respects, your new Heartland Deposit will have substantially the same key terms, including rates of interest and maturity dates, as the applicable PWF Deposits.

The following table sets out a brief description of the Heartland Deposits which the PWF Deposits will become:

		Its Features
1	**PWF Term Deposit**	Interest-bearing, fixed term investments in New Zealand dollars in a deposit account with Heartland for a fixed term not exceeding five years. Heartland will repay the Principal sum on the maturity of the term investment and will pay interest on the dates agreed from time to time. Further details are set out on page 15. The payment terms, interest rate and maturity that apply to your PWF Deposits will continue to apply, and there will be no change in the way you operate or use your accounts. Heartland has a Crown Guarantee, being a guarantee that expires on 31 December 2011. The Heartland Crown Guarantee will cover PWF Deposits which currently have the benefit of the PWF Crown Guarantee. The Heartland Crown Guarantee applies in accordance with its terms and will expire on 31 December 2011, following which no deposits will be covered. Heartland Deposits which are not Crown Guaranteed Deposits will not be covered by the guarantee given under the Crown retail deposit guarantee scheme. MARAC, VPS Properties and VPS Parnell, which are subsidiaries of Heartland, guarantee the Heartland Deposits. With effect from the Debt Transfer Date, PWF will also guarantee the Heartland Deposits. None of Heartland New Zealand Limited, the Trustee or any Promoter will guarantee the Heartland Deposits. All Heartland Deposits will be senior unsecured, unsubordinated debt obligations ranking equally with all other debt securities issued under the Heartland Trust Deed.
2	• **PWF Current Account** • **PWF Rural Saver** • **PWF On Call Deposits** • **PWF Savings Optimiser**[27]	Interest-bearing investments in New Zealand dollars in a deposit account with Heartland on call. The Principal sum invested is repayable by Heartland when called (demanded/requested by you). Interest is generally paid on a regular basis (depending on your account). Further details are set out on page 15. The payment terms, interest rate and maturity that apply to your PWF Deposits will continue to apply, and there will be no change in the way you operate or use your accounts. Heartland has a Crown Guarantee, being a guarantee that expires on 31 December 2011. The Heartland Crown Guarantee will cover PWF Deposits which currently have the benefit of the PWF Crown Guarantee. The Heartland Crown Guarantee applies in accordance with its terms and will expire on 31 December 2011, following which no deposits will be covered. Heartland Deposits which are not Crown Guaranteed Deposits will not be covered by the guarantee given under the Crown retail deposit guarantee scheme. MARAC, VPS Properties and VPS Parnell which are subsidiaries of Heartland, will guarantee the Heartland Deposits. With effect from the Debt Transfer Date, PWF will also guarantee the Heartland Deposits. None of Heartland New Zealand Limited, the Trustee or any Promoter will guarantee the Heartland Deposits. All Heartland Deposits will be senior unsecured, unsubordinated debt obligations ranking equally with all other debt securities issued under the Heartland Trust Deed.

27 14 days notice is required for any withdrawal from a PWF Savings Optimiser.

WHAT SORT OF INVESTMENT IS THIS? – CONTINUED

		Its Features
3	**PWF Secured Bonds (the product name of which will be changed to PWF Bonds)**	Fixed rate, fixed term debt obligations of Heartland issued at a price of $1.00 per bond, with a minimum holding of $5,000. Interest is payable on certain interest payment dates each year. Heartland has a Crown Guarantee, being a guarantee that expires on 31 December 2011. The Heartland Crown Guarantee will cover PWF Bonds which currently have the benefit of the PWF Crown Guarantee. The Heartland Crown Guarantee applies in accordance with its terms and will expire on 31 December 2011, following which no deposits will be covered. Heartland Deposits which are not Crown Guaranteed Deposits will not be covered by the guarantee given under the Crown retail deposit guarantee scheme. Heartland will be the issuer of the PWF Bonds and MARAC, VPS Properties and VPS Parnell which are subsidiaries of Heartland, will guarantee the PWF Bonds. With effect from the Debt Transfer Date, PWF will also guarantee the Heartland Deposits. None of Heartland New Zealand Limited, the Trustee or any Promoter will guarantee the PWF Bonds. The PWF Bonds will be senior unsecured, unsubordinated debt obligations ranking equally with all other debt securities issued under the Heartland Trust Deed.

Listing on NZDX

Because Heartland will replace PWF as issuer, PWF will be de-listed from the NZDX market shortly before the Debt Transfer Date and it is anticipated that the PWF Bonds will be quoted as soon as practicable after the Debt Transfer Date. Application has been made to NZX for permission to quote the PWF Bonds, and all the requirements of NZX relating thereto that can be complied with on or before the date of this Information Memorandum have been duly complied with. However, NZX accepts no responsibility for any statement in this Information Memorandum.

Initial quotation and trading of the PWF Bonds on the NZDX market, is anticipated to occur on or about 31 August 2011. The NZDX market is a registered market regulated under the Securities Markets Act.

For so long as the PWF Bonds are quoted on the NZDX market, Heartland must comply with the Listing Rules as amended from time to time.

Transfer process

The transfer to Heartland of your investment will be effected pursuant to a deed between Heartland, PWF and the relevant trustees. In particular, existing PWF Deposits will become Heartland Deposits pursuant to the following steps, each of which will occur on the Debt Transfer Date (other than the first two steps set out below which will take effect immediately on the passing of the relevant resolutions), in the order specified and without any further act or formality:

- the PWF Trust Deeds will be amended to permit approval of the assumption by Heartland of the rights and obligations in relation to the existing PWF Deposits by extraordinary resolution;
- the existing trustee under the PWF Bond Trust Deed will be instructed to vote in favour of the Transaction on behalf of the PWF Bondholders at the meeting of PWF Secured Depositors;
- the existing trustee in respect of the existing PWF Deposits will resign and TEL will become the trustee in respect of the PWF Deposits;
- the PWF Trust Deeds will be amended to be on substantially the same terms as the Heartland Trust Deed;
- Heartland will become the issuer of (and assume all obligations for) the existing PWF Deposits (which will become Heartland Deposits);
- all security interest, charges and other encumbrances granted under the PWF Debenture Trust Deed will be released;
- the PWF Trust Deeds will be discharged and will be replaced by the Heartland Trust Deed and PWF and TEL will be released from their obligations under the PWF Trust Deeds.

The individual steps to implement the Transactions, including the transfer of your investment, have been sequenced to occur in a manner which means that, other than the first two steps set out above which will have immediate effect, the Transaction steps do not commence unless PWF and Heartland are satisfied that the whole Transaction can be completed.

Other terms of the Offer

The above is a simplified and general description of some of the terms of the Offer. Other terms of the Offer and information about the Heartland Deposits, Heartland, the Transaction and PWF are set out elsewhere in this Information Memorandum and in the documents referred to under the "What other information can I obtain about this investment?" heading below.

WHO IS INVOLVED IN PROVIDING IT FOR ME?

Issuer, Directors and Guaranteeing Group

Heartland Building Society (incorporation number 2541477) is the issuer of the Heartland Deposits. Heartland's registered office and principal place of business, as at the date of this Information Memorandum, is 75 Riccarton Road, Riccarton, Christchurch.

The Directors of Heartland as at the date of this Information Memorandum are Bruce Robertson Irvine (Christchurch, New Zealand), Jeffrey Kenneth Greenslade (Auckland, New Zealand), Graham Russell Kennedy (Ashburton, New Zealand), Gary Richard Leech (Ashburton, New Zealand), Christopher Robert Mace (Auckland, New Zealand), Bryan William Mogridge (Waiheke Island, New Zealand), Geoffrey Thomas Ricketts (Auckland, New Zealand), Edward John Harvey (Auckland, New Zealand) and Michelle Anne Smith (Christchurch, New Zealand). The Directors of Heartland may change after the date of this Information Memorandum. The names of Heartland's current directors may be obtained from www.heartland.co.nz. Each of the Directors of Heartland can be contacted at Heartland's registered office.

As at the date of this Information Memorandum, except for Jeffrey Greenslade, none of the directors of Heartland are employees of Heartland or of an associated person of Heartland. Jeffrey Greenslade is the CEO and Managing Director of Heartland New Zealand and Heartland.

Heartland was established under the Building Societies Act on 22 October 2010. Heartland carries out the financial services operations, deposit taking and funding for the Heartland Group.

MARAC, VPS Properties and VPS Parnell which are subsidiaries of Heartland, guarantee the Heartland Deposits pursuant to the Heartland Trust Deed so, together with Heartland, comprise the Guaranteeing Group as at the date of this Information Memorandum. On the Debt Transfer Date, PWF will become a Guarantor and join the Guaranteeing Group.

Promoters

For the purposes of the Securities Act and the Securities Regulations, the promoters of the Offer are PGW and each of its directors as at the date of this Information Memorandum (other than Bruce Robertson Irvine, who is also a director of Heartland).

The registered office and principal place of business of PGW, as at the date of this Information Memorandum, is 57 Waterloo Road, Hornby, Christchurch. The directors of PGW as at the date of this Information Memorandum are Sir John Anthony Anderson, Sir Selwyn John Cushing, George Arthur Churchill Gould, Bruce Robertson Irvine, Guanglin Lai, Keith Raymond Smith, Tao Xie and William David Thomas. The directors of PGW may change after the date of this Information Memorandum. The names of PGW's current directors may be obtained from www.pggwrightson.co.nz.

Trustee

Trustees Executors Limited is the trustee in respect of the Heartland Deposits. TEL's address, as at the date of this Information Memorandum, is level 5, 10 Customhouse Quay, Wellington 6011.

Change of Name/Address

The addresses of the entities, and the names of any of their directors, referred to in this section may change. You may obtain the current names and addresses from the Companies Office website at www.business.govt.nz/companies.

Description of Activities of the Heartland Group

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

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

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

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. Heartland has funded the acquisition by VPS Properties and VPS Parnell of these properties and holds a registered first mortgage over the properties.

The principal activities of PWF have been to raise funds from the public, banks and other entities and on-lend those funds to borrowers in the rural sector of New Zealand. PWF has been carrying on these activities since 2006. However, some of the businesses that now comprise PWF (including the finance divisions of the former stock and station companies Williams & Kettle, Wrightson, Pyne Gould Guinness and Reid Farmers) have been carrying on these activities for more than 75 years.

HOW MUCH DO I PAY?

Nothing. You are not required to pay any money for the Heartland Deposits that your PWF Deposits will become pursuant to this Offer and the Transaction.

WHAT ARE THE CHARGES?

You are not required to pay any charges to Heartland, any Promoter or any associated person of Heartland or any Promoter in relation to the Transaction or the Offer.

All costs associated with the Transaction will be payable by Heartland or PWF.

PWF Bonds purchased or sold on the NZDX are likely to attract normal brokerage fees and charges.

Early repayment

If you request early repayment of your investment, and if Heartland agrees to make an early repayment, the interest payable in respect of the Heartland Deposit may, at Heartland's discretion, be amended to reflect the reduced term of the investment or an early withdrawal fee may be charged. This may reduce the amount of returns that you would have otherwise received had your investment been continued until maturity. Refer also to the information under the heading "Early repayment – fixed term investments" on page 56.

Other charges

There will be no charges for making a deposit with Heartland. Certain fees may apply to transactions, services and other activity in relation to certain Heartland Deposits (including fees for dishonoured transactions and cheques, overdrawn accounts, and international transfers) and those fees are subject to change from time to time. Details of applicable fees are available from Heartland.

No other charges are payable by any investor that would affect the amount of your returns.

WHAT RETURNS WILL I GET?

The information set out in this section should be read in conjunction with the information set out under the heading "What are my risks?" below.

Nature of returns

The returns payable by Heartland will not change as a result of the assumption of your existing PWF Deposits by Heartland and will be either:

- the fixed interest rate at which you agreed to invest, plus the Principal invested; or
- the floating interest rate applicable to your investment, plus the Principal invested.

Key factors that will determine your return

The key factors that will determine the amount of return which Heartland is legally liable to pay you are:

- the amount of your investment in Heartland Deposits;
- the rate of interest payable on your Heartland Deposits;
- whether you hold Crown Guaranteed Deposits;
- the performance by Heartland of its obligations as the issuer of the Heartland Deposits and the performance of the Guaranteeing Group;
- any early termination of your investment in Heartland Deposits; and
- your individual circumstances for tax purposes.

As the investment amount, term, interest rate and tax circumstances are different for each individual investor, no specific amount of returns is quantifiable, or has been promised, as at the date of this Information Memorandum by any member of the Guaranteeing Group, PWF, or by any other person.

Interest will be calculated and paid to you or compounded at the rates, with the frequency and on the specific terms and dates agreed at the time of investing.

The current interest rates and (where applicable) maturity terms for existing PWF Deposits on offer are available on request or can be found at the website for PWF at www.pggwrightsonfinance.co.nz.

Interest will be paid or accrued net of any applicable taxes, including withholding tax, subject to any IRD exemption certificate provided.

Heartland is the entity legally liable to pay any returns on the Heartland Deposits.

Taxation Implications on Returns

New Zealand taxes may affect your return as the holder of a Heartland Deposit. The following taxation summary, which is based on tax legislation current as at the date of this Information Memorandum, addresses the tax implications for PWF Depositors who are New Zealand residents for New Zealand tax purposes and who will hold Heartland Deposits acquired under the Transaction on capital account. This summary is not intended to be an authoritative or complete statement of the laws applicable. PWF Depositors are advised to obtain independent professional advice relevant to their own particular circumstances before investing.

Tax effect of the Transaction

The Transaction results in the existing PWF Deposits becoming Heartland Deposits. As set out below, no tax will become payable by PWF Depositors as a direct result of the Transaction.

Financial arrangement rules

Each existing PWF Deposit is a financial arrangement, which means that holders of these securities that are resident in New Zealand or carry on business through a fixed place in New Zealand ("**NZ Holders**") must calculate their returns in accordance with the financial arrangements rules in the Tax Act.

No tax will become payable by NZ Holders under the financial arrangements rules on the issue of Heartland Deposits or as a result of the Transaction because the Transaction involves a "legal defeasance" of the PWF Deposit, which has the effect of treating each NZ Holder as continuing to hold the same financial arrangement. As a result, NZ Holders will be taxable under the financial arrangements rules on the combined return received on the PWF Deposit and the Heartland Deposits they become.

Withholding tax rules

Resident withholding tax applies to all payments of interest to NZ Holders, and non-resident withholding tax applies to all payments of interest to holders who are not resident in New Zealand and do not carry on business through a fixed place in New Zealand ("**Non NZ Holders**").

No interest is paid as a result of the existing PWF Deposits becoming the Heartland Deposits, and so no resident withholding tax or non-resident withholding tax will be deducted in respect of either NZ Holders or Non-NZ Holders as a result of the Transaction.

Tax effect of Heartland Deposits

Resident withholding tax

Heartland is required to deduct resident withholding tax in accordance with applicable law from the gross interest paid or credited to a NZ Holder unless the NZ Holder has provided Heartland with a valid certificate of exemption from Inland Revenue.

The resident withholding tax rates are 10.5%, 17.5%, 30% and 33%, depending on each NZ Holder's circumstances. The default rate for NZ Holders that are individuals who do not specify a particular rate will be 33%. Resident withholding tax will also be deducted at 33% where a tax file number is not supplied. The resident withholding tax rate for NZ Holders that are companies is generally 28%. However, for interest paid to a NZ Holder that is a company the resident withholding tax rate will be 30% where that NZ Holder has either elected for the 30% withholding tax rate to apply or has not supplied their tax file number to the payer.

For resident withholding tax purposes, Heartland will rely on any certificates of exemption or tax rate and IRD number information previously provided by PWF Depositors to PWF to determine the rate of withholding tax applying to the Heartland Deposits.

Non-resident withholding tax

For Non-NZ Holders, non-resident withholding tax is deducted (currently at a rate of 10% or 15% depending on country of residence) instead of resident withholding tax. However Heartland is registered and has made the elections necessary to deduct approved issuer levy (currently 2%) in lieu of any non-resident withholding tax. Approved issuer levy is imposed on Heartland, and will be deducted from the return paid or credited to a Non-NZ Holder in accordance with the terms of the Heartland Deposits.

GUARANTEE OF HEARTLAND DEPOSITS

As at the date of this Information Memorandum Heartland, MARAC, VPS Properties and VPS Parnell comprise the Guaranteeing Group. MARAC, VPS Properties and VPS Parnell have given unlimited, unconditional guarantees of the obligations of Heartland in respect of the Heartland Deposits pursuant to the Heartland Trust Deed. On the Debt Transfer Date, PWF will join the Guaranteeing Group. The guarantees are not secured by a mortgage or other charge. Heartland and the Guaranteeing Subsidiaries are associated persons, as the Guaranteeing Subsidiaries are subsidiaries of Heartland.

WHAT ARE MY RISKS?

A brief description of the principal risks of the money paid by an investor not being recovered in full by the investor, investors not receiving the returns described under the heading, "What returns will I get?", and any investor being required to pay more money in respect of Heartland Deposits are detailed in this section. These risk factors are not the only ones faced by the Heartland Group. There may be additional risk factors that the Heartland Group is currently unaware of, or that are beyond the control of the Heartland Group or that the Heartland Group currently deems immaterial but which may subsequently become key risk factors for Heartland specifically or for the Heartland Group as a whole. You should consider these risk factors in conjunction with other information in this Information Memorandum.

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

Summary of Principal Risks

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

General Risks related to the Heartland Group

Macro-economic risks

There are several factors which impact the activities of the Heartland Group over which management has little or no control, including the political and economic environment in New Zealand and legislation. New Zealand's markets are influenced by the overall economic conditions in New Zealand and in the world in general. A continued and/or prolonged deterioration in general market conditions may result in reduced demand for funding or other products and services provided by the Heartland Group and a reduced ability of borrowers to service loans and it may also make it more difficult for the Heartland Group to realise assets held as security.

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

Competition in the finance sector

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

Financial services sector confidence

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

Regulatory risks

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

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

Specific Risks related to the Heartland Group

Liquidity and reinvestment risk

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

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

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

The Heartland Group's sources of funding include:

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

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

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

As to retail funding, the Heartland Group seeks to maintain consistent reinvestment rates and new investment inflows for its retail funding in order to meet its financial obligations and continue to grow its business. If there was to be any significant reduction in reinvestment rates or new investment inflows, it could (depending on the extent of the reduction) adversely affect the Heartland Group's ability to source cost effective funding (and so adversely affect the financial performance and financial condition of the Heartland Group) and ultimately significantly increase the liquidity risk of the Heartland Group.

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

Heartland's credit rating

What is it and what does it mean?

Heartland holds a credit rating of BBB– from S&P. On the date of this Information Memorandum (being 11 July 2011) the outlook assessment for this credit rating was "stable". On 12 August 2011 S&P revised this outlook to "negative".

What is a credit rating?

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

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

What is the scale used for credit ratings?

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

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

Grade	Description
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.
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	Selective Default/Default: An obligor rated SD (selective default) or D (default) has failed to pay one or more of its financial obligations (rated or unrated) when it came due.

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

A S&P rating may also include an "Outlook" assessment. An Outlook assessment considers the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). An Outlook assessment is not necessarily a precursor of a rating change. The common rating outlook definitions are: Positive – means that a rating may be raised; Negative – means that a rating may be lowered; Stable – means that a rating is not likely to change; and Developing – means a rating may be raised or lowered.

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

Additional information about Heartland's rating

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

Where can I find more information?

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

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

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

Two final things to note

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

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

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

Crown Retail Deposit Guarantee Scheme

Heartland has a guarantee under a Crown retail deposit guarantee scheme in respect of certain debt securities issued by it, being a guarantee that expires on 31 December 2011. Once the Heartland Crown Guarantee expires, no Heartland Deposits will have the benefit of it. This means (for example) that even if a deposit currently has the benefit of the Heartland Crown Guarantee, payments in relation to it that do not fall due before 31 December 2011 will cease to have the benefit of the guarantee from that date.

The Heartland Crown Guarantee may be withdrawn before 31 December 2011 if (among other things) there is a change of control of Heartland or any of its subsidiaries without the Crown's prior written consent, there is any failure to comply with certain of its terms and conditions, or Heartland otherwise engages in inappropriate activity designed to circumvent the terms of the Heartland Crown Guarantee.

Heartland may elect to cease offering debt securities which have the benefit of the Heartland Crown Guarantee before the expiry date of 31 December 2011,

The expiry of the Heartland Crown Guarantee, or electing to no longer offer debt securities which have its benefit, could adversely affect the Heartland Group's ability to source cost effective funding (and so adversely affect the financial performance and financial condition of the Heartland Group) and ultimately significantly increase the liquidity and reinvestment risk of the Heartland Group, as described above.

Banking Licence[28]

It is a strategic goal of Heartland to become a registered bank under the Reserve Bank Act over the medium term. The registration process after application is of indeterminate length and registration is subject to satisfaction of the Reserve Bank's requirements. The Reserve Bank Act prescribes what factors the Reserve Bank must take into account when determining an application. These factors comprise a range of qualitative and quantitative factors and include the ability of an applicant to carry on its business in a prudent manner and in particular include:

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

These factors are not exhaustive. There is no certainty that Heartland will be able to meet all relevant criteria (which may change in the future) and become a registered bank. Heartland intends to commence an application for registration in the second half of 2011.

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

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

NBDT Regulations

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

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

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

Interest rate risk

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

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

Credit risk and realisation risk

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

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

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

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

Investment property

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

Impairment of assets

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

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

Failure to implement strategy

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

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

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

Integration risk

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

Operational and other risks

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

- potential failure of business continuity and disaster recovery processes, and data integrity risk;
- a breakdown in internal control systems or operating procedures;
- the possibility of key personnel leaving the businesses and the potential short-term disruption caused by seeking appropriate replacements;
- the risk that the Heartland Group or any of its businesses and customers is the victim of fraud;

- the possibility of a dispute that results in court or arbitration proceedings that could adversely affect the Heartland Group's financial position and reputation;
- the possibility of a competitor introducing new technology, products or services into the market or of a competitor following an aggressive pricing strategy, thereby undermining the competitiveness and/or profitability of any of the Heartland Group's business products or services; and
- a natural disaster disrupting the ability of the Heartland Group to operate its business.

Information technology risks

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

Consequences of Insolvency

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

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

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

CAN THE INVESTMENT BE ALTERED?

The terms of the Offer recorded in this Information Memorandum may be altered by Heartland by filing an amendment to the Information Memorandum with the Registrar of Financial Service Providers and sending a revised investment statement to PWF Depositors prior to the Special Meetings.

The rights attaching to Heartland Deposits will be governed by the issue terms for each Heartland Deposit, the Heartland Trust Deed and applicable supplemental deeds, the Building Societies Act, the Rules, the Listing Rules and by law.

Specific terms of your investment (being the principal amount, maturity date and interest payment dates) can only be altered before maturity if both Heartland and you agree.

You may request a change to your investment, such as a different interest payment option, and Heartland may agree to the requested change but is not obliged to do so. Please refer also to the information under the heading "Early repayment" on page 48.

The Heartland Trust Deed and any applicable supplemental deed may be altered either through an extraordinary resolution of Holders (as defined in the Heartland Trust Deed) or with the approval of the Trustee in certain circumstances, as long as the changes will not be, in the reasonable opinion of the Trustee, materially prejudicial to the interest of the Holders generally.

HOW DO I CASH IN MY INVESTMENT?

Upon Maturity

On the maturity date for your investment, Heartland will pay you the Principal amount of your investment and any interest due but not already paid to you, at the applicable interest rates, in respect of your Heartland Deposit.

For Heartland Deposits that are invested on call, in general, you may withdraw your investment on written notice or request to Heartland. Heartland will repay the balance of your account, on request, provided that such request is made in accordance with Heartland's standard procedures for withdrawals from accounts. While there is generally no charge for withdrawing on-call investments, normal transaction fees applicable to your account will apply.

Right to Sell

PWF Bonds

Holders of PWF Bonds may sell their PWF Bonds at any time prior to maturity, provided that a buyer can be found. No charges are payable to Heartland in respect of any sale of PWF Bonds. However, any sale of PWF Bonds on the NZDX will attract normal brokerage fees.

Application has been made to NZX for permission to quote the PWF Bonds on the NZDX and all the requirements of NZX relating thereto that can be complied with on or before the date of this Information Memorandum have been duly complied with. However, NZX accepts no responsibility for any statements in this Information Memorandum. NZDX is a registered market regulated under the Securities Markets Act.

If permission is granted by NZX to quote the PWF Bonds and on the basis that the PWF Bonds remain quoted, Heartland believes a market for the PWF Bonds may develop following completion of the Transaction.

PWF Bonds are expected to be quoted and become tradeable on the NZDX on or about 31 August 2011. If you wish to sell PWF Bonds, you should contact your usual NZX firm. Neither Heartland nor PWF, nor any of their respective directors, officers, employees, consultants, agents, partners or advisers, accepts any liability or responsibility should any applicant for PWF Bonds attempt to sell or otherwise deal with PWF Bonds before receiving a statement recording the number of PWF Bonds allotted to that applicant.

PWF Bonds may be transferred (subject to maintaining the applicable minimum holding of PWF Bonds) using a transfer document in the form prescribed, or otherwise approved, by Heartland or by any method to transfer securities which is not contrary to any law and which may be operated in accordance with the Listing Rules.

Heartland Deposits

Other types of Heartland Deposits will not be quoted. No Heartland Deposit may be transferred or sold without the prior written consent of Heartland, except that investments in a PWF Term Deposit or a PWF Savings Optimiser can be sold privately in minimum amounts of $1,000 using the standard form for security transfers, which must be executed and delivered to Heartland's registered office. However, as at the date of preparation of this Information Memorandum, there is no established market for the sale or transfer of Heartland Deposits.

Early Repayment – fixed term investments

Heartland's fixed rates of interest for a particular investment amount and term are based on the expectation that the funds will be invested by you for the full term. You do not have a right to withdraw your investment before maturity, but Heartland understands that people's circumstances do change. For Heartland Deposits other than the PWF Bonds, Heartland will consider, but is not obliged to accept, written requests for early repayment in certain circumstances such as (and without limitation) the death of an investor or unforeseen financial hardship.

In such cases Heartland will require a written application giving full details and confirmation of the situation and the reasons for requesting early repayment.

If Heartland agrees to make an early repayment, the interest payable in respect of the Heartland Deposit may, at Heartland's discretion, be amended to reflect the reduced term of the investment or an early withdrawal fee may be charged.

Fourteen days' notice must be given for any withdrawal from a PWF Savings Optimiser.

WHO DO I CONTACT WITH INQUIRIES ABOUT MY INVESTMENT?

Any inquiries about the Heartland Deposits should be directed to:

- Heartland at:

  Heartland
  75 Riccarton Road
  Riccarton
  Christchurch 8011
  PO Box 8623
  Christchurch 8140

  Phone: +64 0800 85 20 20
  Facsimile: +64 (9) 927 9310
  Attention: Head of Retail

- For PWF Bonds only, the Registrar for the PWF Bonds at:

  Computershare Investor Services Limited
  Level 2, 159 Hurstmere Road
  Takapuna
  Auckland 0622
  Private Bag 92-119
  Auckland 1142

  Phone: +64 (9) 488 8777
  Facsimile: +64 (9) 488 8787

IS THERE ANYONE TO WHOM I CAN COMPLAIN IF I HAVE PROBLEMS WITH THE INVESTMENT?

Complaints about the Heartland Deposits can, in the first instance, be directed to Heartland at:

Heartland
75 Riccarton Road
Riccarton
Christchurch 8011
PO Box 8623
Christchurch 8140

Phone: +64 (9) 927 9130
Facsimile: +64 (9) 927 9310
Attention: Secretary

Complaints can also be made to the Trustee at:

Trustees Executors Limited
Level 5, Maritime House,
10 Customhouse Quay
Wellington 6011

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

Complaints about the Heartland Deposits can also be made to the Banking Ombudsman (which is the current approved dispute resolution scheme for Heartland under the Financial Service Providers (Registration and Dispute Resolution) Act 2008) at:

The Office of the Banking Ombudsman
Level 11, BP House
20 Customhouse Quay
Wellington 6011

Email: help@bankomb.org.nz
Phone: 0800 805 950

WHAT OTHER INFORMATION CAN I OBTAIN ABOUT THIS INVESTMENT?

Information Memorandum and Financial Statements

The most recent financial statements of Heartland and each of the Merger Parties may be obtained, free of charge, at www.heartland.co.nz. The most recent financial statements of PWF may be obtained, free of charge, at www.pggwrightsonfinance.co.nz. The Independent Report attached to this Information Memorandum in Appendix 2 also contains summary financial statements of PWF and the Heartland Group.

The Information Memorandum, Rules and certain other documents of, or relating to, Heartland are also filed on a public register maintained by the Companies Office and are available for public inspection on the Companies Office website at www.business.govt.nz/companies.

Annual Information

Heartland Depositors who hold Heartland Deposits at the relevant record date will be entitled to receive certain information relating to the ongoing performance of Heartland in accordance with the Building Societies Act, the Financial Reporting Act 1993, and, in relation to the PWF Bonds, the Listing Rules. Heartland Depositors will either receive this information automatically, or will receive notification of their right to request this information.

Heartland will also be required to make half-yearly and annual announcements to NZX, and such other announcements as are required by the Listing Rules from time to time.

On Request Information

As a Heartland Depositor and as a prospective Heartland Depositor you are entitled to request copies of the following documents under section 54B of the Securities Act:

- The Heartland Trust Deed;
- The Information Memorandum; and
- Any other documents and information that may be requested under regulation 44 of the Securities Regulations.

This information will be made available to Heartland Depositors, free of charge, upon a request in writing being made to Heartland at its registered office as set out in the Directory.

SECTION 7: STATUTORY INFORMATION

This section of the Information Memorandum addresses all matters required by the Securities Regulations and the Exemption Notice that is not contained elsewhere in this Information Memorandum. The paragraph numbers below correspond with the clause numbers of schedule 2 to the Securities Regulations.

1 Main Terms of Offer

Under the Transaction, the existing PWF Deposits held by PWF Depositors will become Heartland Deposits. Heartland Building Society (registered office: 75 Riccarton Road, Christchurch) will be the issuer of the Heartland Deposits. The number of securities being offered is a number equal to the number of PWF Deposits on issue immediately prior to completion of the Transaction. You do not need to apply, pay or send any further money for your new Heartland Deposits. The other main terms of the Offer are set out on pages 6, 8 to 20 and 45 to 46 of this Information Memorandum.

2 Name and Address of Offeror

The offeror is the same as the issuer so this is not applicable.

3 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.

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.

4 Guarantors

MARAC, VPS Properties and VPS Parnell are subsidiaries of Heartland and are guarantors of the Heartland Deposits pursuant to the Heartland Trust Deed. PWF will become a Guarantor on the Debt Transfer Date.

Heartland has a guarantee under the Crown Retail Deposit Guarantee Scheme, being a guarantee that expires on 31 December 2011. Once the Heartland Crown Guarantee expires, no Heartland Deposits will have the benefit of the Heartland Crown Guarantee. This means (for example) that even if a deposit currently has the benefit of the Heartland Crown Guarantee, payments in relation to it that do not fall due before 31 December 2011 will cease to have the benefit of the guarantee from that date.

Heartland Deposits which are not Crown Guaranteed Deposits will not be covered by the Heartland Crown Guarantee.

The Heartland Crown Guarantee and the liability of the Crown under the Heartland Crown Guarantee are described in more detail in the Summary of the Heartland Crown Guarantee section of this Information Memorandum.

The Crown's liability under the Heartland Crown Guarantee is not secured by a mortgage or other charge.

Further information about the New Zealand Retail Deposit Guarantee Scheme, a copy of the Heartland Crown Guarantee, and the most recent audited statement of financial position of the Crown are available free of charge and at all reasonable times at www.treasury.govt.nz.

5 Names, Addresses, and Other Information

Issuer

The names and addresses of the directors of Heartland (as issuer) are set out on page 47 of this Information Memorandum.

Promoter

The address of PGW and its directors who are promoters are set out on page 47 of this Information Memorandum.

Registrar

The Registrar of the PWF Bonds is Computershare Investor Services Limited. The registered address of Computershare Investor Services Limited is set out in the Directory. Heartland is the Registrar for all other Heartland Deposits and can be contacted at its registered office as set out in the Directory.

Secretary

The Secretary of Heartland is Martin Dilly. 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.

Advisors

The name and address of the financial advisers to Heartland and PGW, the solicitors and other professional advisors who have been involved in the preparation of this Information Memorandum, are set out in the Directory.

Experts

Northington Partners have given their consent and have not withdrawn their consent before delivery of this Information Memorandum for registration under section 41 of the Securities Act to the distribution of this Information Memorandum and the accompanying Independent Report and the statements attributed to them in this Information Memorandum in the form and context in which they are included.

Northington Partners provides an independent corporate advisory service. Following a merger with Crighton Anderson Corporate Finance in 2007, Northington Partners has a team of 10 investment banking executives working from offices in Auckland and Christchurch.

Neither Northington Partners nor any director, officer or employee of Northington Partners is, or is intended to be, a director, officer or employee or professional advisor to Heartland.

The registered address of Northington Partners is 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.

6 Restrictions on Directors' Powers

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

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

7 Description of Activities of the Heartland Group

Set out on pages 47 to 48 is a description of the principal activities of Heartland and the Guaranteeing Subsidiaries.

Principal assets

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

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

The principal assets of PWF are cash and cash equivalents, derivative assets, loans and receivables, property, plant and equipment and other receivables, which are utilised by PWF to make loans and finance available to borrowers.

All present and future principal assets of PWF are charged to its trustee as security for the benefit of all present and future secured deposits issued by PWF in accordance with the PWF Trust Deeds. This security will be released as part of the Transaction.

The assets referred to above are (or, in the case of the assets of PWF, will on completion of the Transaction be) owned or held under lease by the Heartland Group and are subject to obligations in favour of other persons that modify or restrict the ability of the Heartland Group to deal with the assets. These obligations include the arrangements with Heartland's trustee and depositors and the arrangements with the Heartland Group's financiers described below under the heading "Material Contracts". In addition, the assets securitised into the MARAC ABCP Trust 1 continue to be recognised in MARAC's financial statements and Heartland's financial statements; however those assets are set aside for the benefit of the investors in that trust and are not available to repay holders of debt securities issued by Heartland.

8 Summary financial statements

Summary financial statements in respect of Heartland required to be included in this Information Memorandum by the Securities Regulations and the Exemption Notice are set out in the Historical Financial Information section of this Information Memorandum.

9 Acquisition of business or subsidiary

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

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

The summary financial statements and reference to the latest audited financial statements of CBS Canterbury, Southern Cross and MARAC are set out on pages 21 to 29 of this Information Memorandum.

Pursuant to the Transaction, Heartland is proposing to acquire all of the shares in PWF such that PWF will become a subsidiary of Heartland.

The consideration payable for the shares in PWF is an amount equal to the net tangible assets of PWF adjusted to take account of certain agreed items. In addition, Heartland is agreeing to assume all of PWF's obligations in relation to the PWF Deposits.

Details of the business carried on by PWF is set out on page 48 of this Information Memorandum. The summary financial statements and reference to the latest audited financial statements of PWF are set out in the Historical Financial Information section of this Information Memorandum.

10 Material contracts

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

Contracts with ongoing day to day application following completion of the Transaction

Crown Deed of Guarantee (Building Society)

Heartland and Her Majesty the Queen in right of New Zealand are party to a Crown Deed of Guarantee (Building Society) dated 15 December 2010. The guarantee given under this Crown Deed of Guarantee will expire at 11.59pm 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) entered into a Deed of Indemnity and Postponement with Her Majesty the Queen in right of New Zealand on 14 December 2010, under which (among other things) MARAC indemnifies the Crown for amounts paid by the Crown pursuant to the Heartland Crown Guarantee. Two wholly-owned subsidiaries of Heartland, being VPS Properties and VPS Parnell, have joined into this Deed of Indemnity and Postponement as indemnifiers by deeds of accession dated 21 March 2011.

Standby Cash Advances Facility Agreement

Heartland and MARAC entered into a Standby Cash Advances Facility Agreement with Bank of New Zealand and Westpac Banking Corporation dated 15 December 2010, for facilities of up to $200 million, the purpose of which is to provide liquidity support and funding for the Heartland and MARAC loan portfolios. VPS Properties and VPS Parnell have joined into this Standby Cash Advances Facility Agreement as guarantors by guarantor deeds of accession dated 21 March 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.

Master Trust Deed

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

Supplemental Trust Deed (Accounts)

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

Supplemental Trust Deed (Bonds)

Heartland entered into a Supplemental Trust Deed (Bonds) dated 29 October 2010 with the Trustee which is supplemental to the Master Trust Deed and governs the terms of the NZDX quoted bonds issued by Heartland (other than the PWF Bonds).

Supplemental Trust Deed (PWF Bonds)

Heartland entered into a Supplemental Trust Deed (PWF Bonds) dated 11 July 2011 with the Trustee which is supplemental to the Master Trust Deed and governs the terms of the PWF Bonds.

Supplemental Trust Deed (MARAC as Guarantor)

MARAC entered into a Supplemental Trust Deed (MARAC as Guarantor) to the Master Trust Deed dated 14 December 2010 with the Trustee which is supplemental to the Master Trust Deed and whereby MARAC unconditionally guarantees all of Heartland's obligations under the Heartland Trust Deed.

RECL Management Agreement

MARAC and RECL are parties to a Management Agreement dated 5 January 2011 (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). RECL's payment obligations are "limited in recourse" to a pool of security provided by RECL. This pool of security includes a $11 million 5 year zero coupon bond, and an initial minimum $22 million in security value of other qualifying assets.

Service Amount Security Agreement

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

Support Provider Undertaking

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

Other Contracts (including contracts fully performed)

Merger Implementation Agreement

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

Deed of Defeasance (MARAC)

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

Deed of Defeasance (CBS Canterbury)

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

Deed of Defeasance (Southern Cross Building Society)

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

Agreement for Sale and Purchase of Ex-MARAC Loans

MARAC and MFSL entered into an Agreement for Sale and Purchase of Loan Assets dated 18 September 2009, relating to the sale by MARAC to MFSL of certain property loans (the "**Ex-MARAC Loans**"). The Ex-MARAC Loans were subsequently on-sold by MFSL to RECL.

Security Trust Deed

MARAC and MFSL entered into a Security Trust Deed dated 18 September 2009, relating to the administration by MARAC of the Ex-MARAC Loans while held by MFSL.

Transitional Services Agreement

MARAC and RECL entered into a Transitional Services Agreement dated 18 September 2009, relating to the administration by MARAC of the Ex-MARAC Loans while held by RECL. This arrangement has expired.

Loan Note Agreement

MARAC and MFSL entered into a Loan Note Agreement dated 18 September 2009 (as subsequently amended) under which MFSL issued Loan Notes to MARAC as part of the consideration for the sale by MARAC to MFSL of certain property loans. The Loan Notes have been repaid.

The Loan Notes were supported by a Deed of Guarantee and Indemnity from PGC dated 29 October 2009, and a General Security Deed from PGC dated 29 October 2009.

Deed of Undertaking

PGC, MARAC, MFSL and Torchlight Investment Group are parties to a Deed of Undertaking dated 18 September 2009 (in connection with the sale by MARAC to MFSL of certain property loans, and the resulting Loan Notes). In accordance with this deed, each of PGC, MFSL and Torchlight Investment Group agreed that certain proceeds would be (ultimately) applied to repayment of the Loan Notes.

Deed of Subordination

PGC, MARAC and MFSL are parties to a Deed of Subordination dated 18 September 2009 (in connection with the sale by MARAC to MFSL of certain property loans, and the resulting Loan Notes). In accordance with this deed PGC agreed that any indebtedness owed by MFSL to it (junior indebtedness) was subordinated to any indebtedness owed by MFSL to MARAC.

11 Pending proceedings

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

12 Issue Expenses

The estimated expenses for the offer of the Heartland Deposits pursuant to this Information Memorandum are approximately $200,000 including Trustee, legal and Auditor's fees and printing costs.

13 Ranking of Securities

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

At the date of this Information Memorandum, 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 Heartland Deposits subject to the Offer are the mortgages granted by VPS Properties and VPS Parnell to Heartland which rank ahead of the Heartland Deposits. As these are an intra-group transaction they should not affect the return to investors. The security interests granted to the trustee in respect of the PWF Deposits will be discharged at the time the Heartland Deposits are issued.

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

14 Provisions of trust deed and other restrictions on Heartland Group and PWF

Description of trust deed documents

The Heartland Deposits to be issued pursuant to the Offer will be governed by the Heartland Master Trust Deed and the Supplemental Deed (Accounts), each dated 29 October 2010 and the Supplemental Deed (PWF Bonds) dated 11 July 2011, in each case between Heartland and the Trustee.

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

Limitation on mortgages, charges, liabilities

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

The Heartland 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 Heartland Trust Deed), which is consistent with requirements of regulations applicable to NBDTs with a credit rating under the Reserve Bank Act.

Duties and powers of the Trustee

The Trustee is appointed to act as trustee of the Heartland Depositors. The principal duties of the Trustee under the Heartland Trust Deed are set out in the Summary of Heartland Trust Deed section of this Information Memorandum.

In addition, the Trustee has a statutory duty pursuant to the Securities Act and the Securities Regulations to exercise reasonable diligence to:

(a) ascertain whether or not there has been any breach of the terms of the Heartland 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); and

(b) ascertain whether or not the assets of Heartland and the other Obligors 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.

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 Heartland Trust Deed or otherwise for any action taken, or omitted to be taken, in accordance with the provisions of the Heartland 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 Heartland Trust Deed or comply with any request or direction pursuant to the Heartland 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.

Borrowing Restrictions

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

Heartland Trust Deed

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

Standby Cash Advances Facility Agreement

Pursuant to the Standby Cash Advances Facility Agreement entered into by Heartland and MARAC with Bank of New Zealand and Westpac Banking Corporation:

- 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.

Trustee's Statement

The statement required to be given by the Trustee under the Securities Regulations is set out on page 41.

15 Other terms of offer and securities

The rates of interest and maturity dates that will apply to the Heartland Deposits will be the rates of interest and maturity dates that apply to the existing PWF Deposits.

All of the terms of the Offer, and all the terms of the Heartland Deposits, are set out in this Information Memorandum, 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 Information Memorandum.

16 and 17 Financial statements

The latest financial statements of Heartland for the period ending 5 January 2011 are attached to this Information Memorandum in Appendix 1. Copies of the latest financial statements for MARAC, Southern Cross, CBS Canterbury and PWF may be downloaded from the public register for companies or building societies maintained by the Companies Office at www.business.govt.nz/companies. In the case of MARAC, Southern Cross and CBS Canterbury, copies of the latest financial statements may be obtained from the Heartland registered office, or by downloading these from www.heartland.co.nz. In the case of PWF, copies of the latest financial statements may be obtained from the PWF registered office, or by downloading these from www.pggwrightsonfinance.co.nz.

18 Additional interim financial statements

Not applicable.

19 Places of inspection of documents

The Rules of Heartland, the financial statements referred to under the heading "Financial Statements" above and copies of the material contracts referred to under the heading "Material Contracts" above, may be inspected (without charge) during normal business hours at the registered office of Heartland set out in the Directory. Copies of those documents (other than the latest financial statements for Heartland which are available at www.heartland.co.nz) are also available on the public register maintained by the Companies Office and are available (without charge) for public inspection on the Companies Office website at www.business.govt.nz/companies.

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 Registrar of Financial Service Providers and the copy available for inspection at Heartland's registered office shall exclude certain information in accordance with the Securities Act (Pyne Gould Corporation Limited and Building Society Holdings Limited) Exemption Notice 2011. Information has been redacted from Schedule 1 of the copy of the RECL Management Agreement delivered to the Registrar of Financial Service Providers 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 Information Memorandum misleading in any material particular by a failure to refer, or give proper emphasis, to any adverse circumstances.

20 Other material matters

Securities Act exemptions

Securities Act (Heartland Building Society) Exemption Notice 2011

The Financial Markets Authority (previously the Securities Commission) has granted Heartland an exemption from various provisions of the Securities Act and the Securities Regulations. These exemptions are contained in the Securities Act (Heartland Building Society) Exemption Notice 2011.

In summary, the effect of the Exemption Notice in respect of the Offer in this Information Memorandum is as follows:

- Heartland is permitted to include its audited interim financial statements for the period ending 5 January 2011 (rather than interim financial statements from the commencement of Heartland's business to a date not more than four months before the date of registration of this Information Memorandum, which is what the Securities Regulations would otherwise require);
- the Information Memorandum is only required to be sent to all PWF Depositors recorded in the applicable register on the record date for receiving a notice of meeting in respect of the Special Meetings, and any other person who is recorded in the applicable register after such date and requests a copy of the Information Memorandum;
- Heartland is not required to distribute the discrete financial statements of the Merger Parties or PWF referred to in the Information Memorandum, provided that such financial statements are instead sent to any PWF Depositors recorded in the applicable register who request a copy of such financial statements.

Securities Act (Building Societies) Exemption Amendment Notice 2010

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

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

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

The effect of the Exemption Notice (to the extent relevant to this Information Memorandum) 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 Information Memorandum (and any future prospectus registered by, among others, Heartland) and made available for inspection.

NZX waivers

NZX has granted Heartland waivers from Listing Rules 7.1.5(c), 7.1.8, 7.1.10, 7.1.12 and 7.1.13 to waive Heartland, as an applicant for listing, from the requirement to include certain information required by those Listing Rules in the Information Memorandum on the basis that that information is not relevant to the Offer.

The effect of the waivers is that Heartland is not required to include the following information in this Information Memorandum as it is not relevant to the Offer:

- a field for investors' CSN details;
- details of securities reserved for certain persons or otherwise not available to members of the public;
- details of third parties to whom applications may be sent;
- a statement regarding oversubscriptions; and
- details of the method of dealing with oversubscriptions and refunds of subscription moneys.

NZX has also granted Heartland a waiver from Listing Rule 11.1.1. The waiver permits Heartland to refuse a transfer of PWF Bonds if the amount of the transfer is not a multiple of $1,000 and/or if the transfer (together with any other transfers awaiting registration) would result in the transferor holding an aggregate principal amount of PWF Bonds of less than $5,000.

NZX has granted Heartland New Zealand a waiver from Listing Rule 9.2.1 so that Heartland New Zealand is not required to obtain shareholder approval to the Transaction.

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

21 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 5 January 2011 (being the date of Heartland's latest financial statements) and the date of registration of this Information Memorandum:

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

22 Auditors' reports

The audit report required by the Securities Regulations to be contained in this Information Memorandum is set out on pages 33 to 36 of this Information Memorandum.

Signatures required under the Securities Act

This Information Memorandum has been signed by each Director of Heartland (or his or her agent authorised in writing) as issuer, and by each Promoter, being PGW and each director of PGW other than Bruce Robertson Irvine who is also a director of Heartland (or his or her agent authorised in writing).

Directors of **Heartland Building Society**:

Bruce Robertson Irvine

Jeffrey Kenneth Greenslade

Edward John Harvey

Graham Russell Kennedy

Gary Richard Leech

Christopher Robert Mace

Bryan William Mogridge

Geoffrey Thomas Ricketts

Michelle Anne Smith

PGG Wrightson Limited, as a promoter by:

Julian Shane Daly,
General Counsel & Company Secretary,
as authorised signatory

Directors of **PGG Wrightson Limited** as promoters (other than Bruce Roberston Irvine):

Sir John Anthony Anderson

Sir Selwyn John Cushing

George Arthur Churchill Gould

Guanglin Lai

Keith Raymond Smith

Tao Xie

William David Thomas

GLOSSARY

$, NZD or **NZ$**
New Zealand dollars

Account
Any Deposit including the word "account" or "saver" or described as an "account" or "deposit"

Auditor
KPMG

Basis Point
1/100th of a percentage (100 basis points equals 1%)

Board
The board of directors of Heartland

Building Societies Act
The Building Societies Act 1965, as amended from time to time

CBS Canterbury
Canterbury Building Society

Crown Guaranteed Deposits
A Heartland Deposit which will have the benefit of the Heartland Crown Guarantee (subject to its terms), being those existing PWF Deposits which currently have the benefit of the PWF Crown Guarantee

Debt Transfer Date
The day on which the PWF Deposits become applicable Heartland Deposits, which is anticipated to be 31 August 2011

Director
A member of the Board

Directory
The directory set out in this Information Memorandum

Exemption Notice
The Securities Act (Heartland Building Society) Exemption Notice 2011

GAAP or **NZ GAAP**
Generally accepted accounting practice, as defined in the Financial Reporting Act 1993

Glossary
This glossary of terms

Guaranteeing Group
Heartland (as the issuer and principal debtor) and its Guaranteeing Subsidiaries. As at the date of this information Memorandum, the Guaranteeing Group comprises Heartland, MARAC, VPS Properties and VPS Parnell. PWF will join the Guaranteeing Group on the Debt Transfer Date

Guaranteeing Subsidiaries
Any subsidiary of Heartland which guarantees Heartland's obligations under the Heartland Trust Deed. As at the date of this Information Memorandum the Guaranteeing Subsidiaries are MARAC, VPS Properties and VPS Parnell. PWF will become a Guaranteeing Subsidiary on the Debt Transfer Date

Heartland
Heartland Building Society, which is the issuer of the Heartland Deposits, established under the Building Societies Act (previously known as Combined Building Society)

Heartland Crown Guarantee
The Crown retail deposit guarantee expiring at 11.59pm on 31 December 2011 granted to Heartland pursuant and subject to the Crown Retail Deposit Guarantee Scheme Act 2009 and the terms of the Crown Deed of Guarantee (Building Society) dated 15 December 2010, as more particularly described in the Summary of the Heartland Crown Guarantee section of this Information Memorandum

Heartland Depositor
Holders of Heartland Deposits

Heartland Deposits
Debt securities for which Heartland is liable under the Heartland Master Trust Deed, and which were PWF Deposits immediately prior to the Debt Transfer Date

Heartland Group
Heartland and its subsidiaries from time to time. As at the date of this Information Memorandum those subsidiaries include the Guaranteeing Subsidiaries. PWF will become a subsidiary of Heartland on the Debt Transfer Date

Heartland New Zealand
Heartland New Zealand Limited, which is the ultimate holding company of Heartland

Heartland Trust Deed
The Heartland Master Trust Deed and, as the context may require, the Supplemental Deed (Accounts), the Supplemental Deed (Bonds), the Supplemental Deed (PWF Bonds) and/or the supplemental deeds pursuant to which MARAC, VPS Properties and VPS Parnell became guarantors

Heartland Master Trust Deed
The trust deed entered into between Heartland and the Trustee on 29 October 2010 (a summary of which is set out in this Information Memorandum)

Independent Expert
Northington Partners

Independent Report
The independent report prepared by the Independent Expert on the merits of the Transaction attached to this Information Memorandum as Appendix 2

Information Memorandum
This information memorandum, which is a prospectus and investment statement in respect of the Offer for the purposes of the Securities Act

Listing Date and **Listing**
The date the PWF Bonds are to be quoted on the NZDX and trading in PWF Bonds can commence, expected to be on or about 31 August 2011

Listing Rules
Listing Rules of the NZX in relation to the NZDX (or any market in substitution for that market) in force from time to time

MARAC
MARAC Finance Limited

MARAC Group
A profit-oriented entity which consists of MARAC, MARAC ABCP Trust 1, MARAC Retirement Bonds Superannuation Fund and MARAC PIE Fund

Merger
The merger of the financial services businesses of MARAC, CBS Canterbury and Southern Cross which was completed on 7 January 2011

Merger Parties
CBS Canterbury, Southern Cross and MARAC

MFSL
MARAC Financial Services Limited

NBDT
Non Bank Deposit Takers as defined in the Reserve Bank Act

Northington Partners
Northington Partners Limited

Notices of Meeting
The notices in respect of the Special Meetings sent to each PWF Depositor

NZ IFRS or **IFRS**
New Zealand equivalent to International Financial Reporting Standards

NZDX
The market for debt securities, operated by NZX

NZSX
The main board equity security market, operated by NZX

NZX
NZX Limited

Obligors
Heartland and each Guaranteeing Subsidiary

Offer
The offer of Heartland Deposits to PWF Depositors to which this Information Memorandum relates

PGC
Pyne Gould Corporation Limited

PGW
PGG Wrightson Limited

Principal
In respect of any debt security, the amount (other than interest) payable on redemption or repayment of the relevant debt security inclusive of the premium (if any) of that debt security, payable in accordance with the conditions of issue thereof

Promoters
PGW and each of its directors (other than those directors who are also a Director of Heartland)

PWF
PGG Wrightson Finance Limited

PWF Bond Trust Deed
The trust deed relating to bonds dated 21 April 2005 (as amended from time to time) between PWF and New Zealand Permanent Trustees

PWF Bondholders
Holders of PWF Secured Bonds

PWF Bonds
Bonds for which Heartland is liable under the Heartland Trust Deed and subject to the Offer, being the PWF Secured Bonds which will become PWF Bonds from the Debt Transfer Date and which are intended to be listed on the NZDX

PWF Crown Guarantee
The Crown retail deposit guarantee expiring at 11.59pm on 31 December 2011 granted to PWF pursuant and subject to the Crown Retail Deposit Guarantee Scheme Act 2009 and the terms of the Crown Deed of Guarantee (Non-Bank Deposit Taker) dated 1 April 2010 supplemented by the Supplemental Deed to the Crown Bank Guarantee (Non-Bank Deposit Taker) dated 17 June 2010

PWF Debenture Trust Deed
The trust deed relating to deposits dated 7 October 2004 (as amended from time to time) between PWF and New Zealand Permanent Trustees Limited

PWF Deposits
All debt securities outstanding under the PWF Trust Deeds (whether or not covered by a Crown guarantee) including:

(a) PWF Secured Bonds;

(b) current accounts;

(c) rural saver accounts;

(d) on call deposits;

(e) savings optimiser; and

(f) term deposits

PWF Depositors
Holders of PWF Deposits

PWF Secured Bonds
The secured bonds issued by PWF pursuant to the PWF Bond Trust Deed

PWF Stock
The secured debenture stock issued by PWF under the PWF Debenture Trust Deed

PWF Secured Depositors
Holders of PWF Stock

PWF Trust Deeds
The PWF Bond Trust Deed and the PWF Debenture Trust Deed

PWF Unsecured Deposits
PWF Deposits which are not PWF Stock or PWF Secured Bonds

PWF Unsecured Depositors
Holders of PWF Unsecured Deposits

RECL
Real Estate Credit Limited

Registrar
Heartland in respect of all the Heartland Deposits other than the PWF Bonds, in respect of which the Registrar is Computershare Investor Services Limited

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

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

Rules
The rules of Heartland registered under the Building Societies Act

Securities Act
The Securities Act 1978, as amended from time to time

Securities Markets Act
The Securities Markets Act 1988, as amended from time to time

Securities Regulations
The Securities Regulations 2009, as amended from time to time

Southern Cross
Southern Cross Building Society

Special Meetings
Meetings of the PWF Depositors to approve arrangements relating to the Transaction, including any adjourned meetings

Standard & Poor's or **S & P**
Standard and Poor's (Australia) Pty Limited

Supplemental Deed (Accounts)
The supplemental trust deed (Accounts) entered into between Heartland and the Trustee on 29 October 2010, which is supplemental to the Heartland Master Trust Deed

Supplemental Deed (Bonds)
The supplemental trust deed (Bonds) entered into between Heartland and the Trustee on 29 October 2010, which is supplemental to the Heartland Master Trust Deed

Supplemental Deed (PWF Bonds)
The supplemental trust deed (PWF Bonds) entered into between Heartland and the Trustee on 11 July 2011 which is supplemental to the Heartland Master Trust Deed

Tax Act
Income Tax Act 2007

TEL
Trustees Executors Limited

Transaction
The acquisition by Heartland of all the shares in PWF as part of which Heartland will become the issuer of the PWF Deposits

Trustee
TEL as trustee in respect of the Heartland Deposits

Voting/Proxy Form
The forms on which the PWF Depositors will vote at the Special Meetings

VPS Parnell
VPS Parnell Limited, a subsidiary of Heartland

VPS Properties
VPS Properties Limited, a subsidiary of Heartland

Words and phrases that are capitalised in this Information Memorandum that are not defined in this Glossary or in the relevant section of this Information Memorandum have the same meaning as in the Heartland Trust Deed.

DIRECTORY

Issuer

HEARTLAND BUILDING SOCIETY

75 Riccarton Road
Riccarton
Christchurch 8011

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

Promoters

PGG WRIGHTSON LIMITED AND ITS DIRECTORS (OTHER THAN BRUCE ROBERTSON IRVINE)

57 Waterloo Road
Hornby
Christchurch 8042

Phone: +64 0800 102 276
Facsimile: +64 (3) 474 6610

Registrars

FOR PWF BONDS:

COMPUTERSHARE INVESTOR SERVICES LIMITED

Level 2, 159 Hurstmere Road
Takapuna
Auckland 0622
Private Bag 92-119
Auckland 1142

Phone: +64 (9) 488 8777
Facsimile: +64 (9) 488 8787

FOR ALL OTHER HEARTLAND DEPOSITS:

HEARTLAND BUILDING SOCIETY

75 Riccarton Road
Riccarton
Christchurch 8011

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

Legal Advisers to PGW

CHAPMAN TRIPP

Level 35, ANZ Centre
23-29 Albert Street
Auckland 1140

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

Legal Advisers to Heartland

CHAPMAN TRIPP

Level 35, ANZ Centre
23-29 Albert Street
Auckland 1140

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

Independent Expert

NORTHINGTON PARTNERS LIMITED

Level 8
108 Manchester Street
Christchurch 8011

Phone: +64 (3) 377 7307
Facsimile: +64 (3) 377 7308

Trustee for Heartland Depositors

TRUSTEES EXECUTORS LIMITED

Level 5, Maritime Tower,
10 Customhouse Quay
Wellington 6143

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

Legal Advisers to the Trustee

BUDDLE FINDLAY

State Insurance Tower
1 Willis Street
Wellington 6011

Phone: +64 (4) 499 4242
Facsimile: +64 (4) 499 4141

Auditor of the Issuer

KPMG

KPMG Centre
18 Viaduct Harbour Avenue
Auckland 1140

Phone: +64 (9) 367 5800
Facsimile: +64 (9) 367 5875

Tax Advisors to the Issuer

DELOITTE

Deloitte Centre
80 Queen St
Auckland 1010

Phone: +64 (9) 303 0700
Facsimile: +64 (9) 303 0701

APPENDIX 1:
HEARTLAND FINANCIAL STATEMENTS AS AT 5 JANUARY 2011

In the following Appendix 1 Heartland Building Society (Society) is called Combined Building Society. This was the Society's name as at 5 January 2011. The name of the Society was changed to Heartland Building Society on 1 June 2011.

INTERIM FINANCIAL STATEMENTS

For the period from 1 July 2010 to 5 January 2011

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for ensuring that the interim financial statements give a true and fair view of the financial position of the Group and the Society as at 5 January 2011 and the financial performance and cash flows for the period from 1 July 2010 to 5 January 2011.

The directors consider that the interim financial statements of the Group and the Society have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates and that all the relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and the Society and facilitate compliance of the interim financial statements with the Financial Reporting Act 1993.

The Board of Directors of Combined Building Society authorised the interim financial statements set out on pages 3 to 41 for issue on 16 March 2011.

For and on behalf of the Board

Director	Director

EXPLANATORY FOREWORD

The interim financial statements presented are those of Combined Building Society (Society) and its subsidiaries (Group).

On 5 January, the Group was formed through the business combination of CBS Canterbury (CBS), Southern Cross Building Society (SCBS) and MARAC Finance Limited (MARAC).

From a legal perspective MARAC is a subsidiary of the Society. Under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) MARAC is treated as the acquirer of CBS and SCBS. The effect of this is that the interim financial statements represent a continuation of the MARAC business.

As described in Note 1, the Group's current period and comparative results reflect the operations of MARAC prior to the transaction to bring together the Group on 5 January 2011, whilst the Statement of Financial Position as at 5 January 2011 reflects the new Group.

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the period from 1 July 2010 to 5 January 2011

		GROUP		SOCIETY	
	NOTE	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000
Interest income	5	67,820	148,337	-	-
Interest expense	5	40,488	89,271	-	-
Net interest income		**27,332**	**59,066**	**-**	**-**
Operating lease income	6	9,225	16,617	-	-
Operating lease expenses	6	5,755	10,037	-	-
Net operating lease income		**3,470**	**6,580**	**-**	**-**
Lending and credit fee income		541	1,071	-	-
Other income	7	39	2,364	-	-
Net operating income		**31,382**	**69,081**	**-**	**-**
Selling and administration expenses	8	17,401	25,025	-	-
Profit before impaired asset expense and income tax		**13,981**	**44,056**	**-**	**-**
Impaired asset expense	29 (a)(ii)	6,094	23,765	-	-
Profit before income tax		**7,887**	**20,291**	**-**	**-**
Income tax expense	9	2,764	5,992	-	-
Profit for the period		**5,123**	**14,299**	**-**	**-**
Other comprehensive income					
Cash flow hedges:					
Effective portion of changes in fair value, before income tax		657	6,011	-	-
Income tax expense on other comprehensive income		197	1,803	-	-
Other comprehensive income for the period, net of income tax		**460**	**4,208**	**-**	**-**
Total comprehensive income for the period		**5,583**	**18,507**	**-**	**-**

All comprehensive income for the period is attributable to owners of the Group.

The notes on pages 8 to 41 are an integral part of these interim financial statements.

The results of the Group for the period from 1 July 2010 to 5 January 2011 and the comparatives of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the period from 1 July 2010 to 5 January 2011

	NOTE	Share Capital $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
5 Jan 11 - GROUP					
Balance at 1 July 2010		**55,000**	**(1,984)**	**153,452**	**206,468**
Total comprehensive income for the period					
Profit for the period		-	-	5,123	5,123
Other comprehensive income, net of income tax					
Effective portion of changes in fair value of cash flow hedges, net of income tax		-	460	-	460
Total other comprehensive income		**-**	**460**	**-**	**460**
Total comprehensive income for the period		**-**	**460**	**5,123**	**5,583**
Contributions by and distributions to owners					
Issue of share capital		79,574	-	-	79,574
Total transactions with owners		**79,574**	**-**	**-**	**79,574**
Balance at 5 January 2011		**134,574**	**(1,524)**	**158,575**	**291,625**
30 Jun 10 - GROUP					
Balance at 1 July 2009		**20,000**	**(6,192)**	**139,153**	**152,961**
Total comprehensive income for the period					
Profit for the period		-	-	14,299	14,299
Other comprehensive income					
Effective portion of changes in fair value of cash flow hedges, net of income tax		-	4,208	-	4,208
Total other comprehensive income		**-**	**4,208**	**-**	**4,208**
Total comprehensive income for the period		**-**	**4,208**	**14,299**	**18,507**
Contributions by and distributions to owners					
Issue of share capital		35,000	-	-	35,000
Total transactions with owners		**35,000**	**-**	**-**	**35,000**
Balance at 30 June 2010		**55,000**	**(1,984)**	**153,452**	**206,468**
5 Jan 11 - SOCIETY					
Contributions by and distributions to owners					
Issue of share capital on formation of Society on 5 January 2011	24	283,843	-	-	283,843
Total transactions with owners		**283,843**	**-**	**-**	**283,843**
Balance at 5 January 2011		**283,843**	**-**	**-**	**283,843**

The notes on pages 8 to 41 are an integral part of these interim financial statements.

The results of the Group for the period from 1 July 2010 to 5 January 2011 and the comparatives of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

INTERIM STATEMENT OF FINANCIAL POSITION

As at 5 January 2011

		GROUP		SOCIETY	
	NOTE	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000
Assets					
Cash and cash equivalents	12	285,675	86,406	277,544	-
Investments	13	21,540	-	21,540	-
Due from related parties	26	27,525	43,664	787,576	-
Finance receivables	14	1,756,895	1,102,181	669,689	-
Operating lease vehicles	15	38,005	42,895	-	-
Other assets	16	31,411	18,509	18,979	-
Investment in subsidiary	17	-	-	204,269	-
Intangible assets	18	21,729	901	20,296	-
Total assets		**2,182,780**	**1,294,556**	**1,999,893**	**-**
Liabilities					
Borrowings	21	1,845,991	983,679	1,696,713	-
Other liabilities	22	45,164	104,409	19,337	-
Total liabilities		**1,891,155**	**1,088,088**	**1,716,050**	**-**
Equity					
Share capital	24	134,574	55,000	283,843	-
Retained earnings and reserves		157,051	151,468	-	-
Total equity		**291,625**	**206,468**	**283,843**	**-**
Total equity and liabilities		**2,182,780**	**1,294,556**	**1,999,893**	**-**

The notes on pages 8 to 41 are an integral part of these interim financial statements.

The comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to the Note 1 for further information.

INTERIM STATEMENT OF CASH FLOWS

For the period from 1 July 2010 to 5 January 2011

		GROUP		SOCIETY	
		5 Jan 11	30 Jun 10	5 Jan 11	30 Jun 10
	NOTE	$000	$000	$000	$000
Cash flows from operating activities					
Interest received		63,627	136,420	-	-
Operating lease income received		7,377	14,604	-	-
Proceeds from sale of operating lease vehicles		9,621	12,377	-	-
Lending, credit fees and other income received		2,814	1,146	-	-
Total cash provided from operating activities		**83,439**	**164,547**	**-**	**-**
Payments to suppliers and employees		13,743	21,041	-	-
Interest paid		39,805	90,319	-	-
Purchase of operating lease vehicles		14,869	20,014	-	-
Taxation paid		-	2,800	-	-
Total cash applied to operating activities		**68,417**	**134,174**	**-**	**-**
Net cash flows from operating activities	11	**15,022**	**30,373**	**-**	**-**
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		-	20	-	-
Proceeds from sale of investments		-	65	-	-
Proceeds from sale of finance receivables to related party	26	-	125,000	-	-
Net decrease in finance receivables		-	69,291	-	-
Total cash provided from investing activities		**-**	**194,376**	**-**	**-**
Net increase in finance receivables	7	40,800	-	-	-
Purchase of office fit-out, equipment and intangible assets		1,096	872	-	-
Purchase of investment property		2,182	-	-	-
Total cash applied to investing activities		**44,078**	**872**	**-**	**-**
Net cash flows (applied to) / from investing activities		**(44,078)**	**193,504**	**-**	**-**
Cash flows from financing activities					
Net increase in borrowings		21,199	-	-	-
Increase in share capital		-	35,000	-	-
Total cash provided from financing activities		**21,199**	**35,000**	**-**	**-**
Net decrease in borrowings		-	234,933	-	-
Total cash applied to financing activities		**-**	**234,933**	**-**	**-**
Net cash flows from / (applied to) financing activities		**21,199**	**(199,933)**	**-**	**-**
Net (decrease) / increase in cash held		**(7,857)**	**23,944**	**-**	**-**
Opening cash and cash equivalents		86,406	62,462	-	-
Cash balance on amalgamation	34	207,126	-	-	-
Closing cash and cash equivalents	12	**285,675**	**86,406**	**-**	**-**

The notes on pages 8 to 41 are an integral part of these interim financial statements.

The cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and the comparatives of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period from 1 July 2010 to 5 January 2011

1 Reporting entity

The interim financial statements presented are the consolidated interim financial statements comprising Combined Building Society (Society) and its subsidiaries (Group).

On 5 January 2011:

- All of the assets and liabilities of CBS Canterbury (CBS), Southern Cross Building Society (SCBS) (net of the shares held by SCBS in CBS), CBS Warehouse A Trust Securitisation and Southern Cross Building Society Charitable Trust were amalgamated to form the Society.
- The borrowings of MARAC Finance Limited were transferred to the Society.
- The shares in MARAC Finance Limited (MARAC) were transferred to Combined Building Society from MARAC Financial Services Limited to form the Group.

From a legal perspective MARAC is a subsidiary of the Society. Under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) the merger is treated as a reverse acquisition. The business combination is therefore accounted for as if MARAC acquired 72% of Combined Building Society. The effect of this treatment is that the interim financial statements represent a continuation of the business of MARAC.

The results of the Group include the total comprehensive income of MARAC Group for the period 1 July 2010 to 5 January 2011, Group comparatives presented for the year ended 30 June 2010 are those of MARAC Group. The MARAC Group comprises MARAC, MARAC ABCP Trust 1 (MARAC Trust), MARAC Retirement Bonds Superannuation Fund and MARAC PIE Fund.

As the Society was not formed until 5 January 2011, the Interim Statement of Comprehensive Income is presented for the Group only, and all 30 June 2010 comparatives represent the MARAC Group only.

The Group includes MARAC Trust and CBS Warehouse A Trust Securitisation, collectively known as the Trusts. The assets securitised into the Trusts continue to be recognised in the Group's interim financial statements.

All entities within the Group offer financial services. The Group operates and is domiciled in New Zealand. The registered office address is 75 Riccarton Road, Christchurch.

2 Basis of preparation

The financial statements presented here are for the following periods:

At 5 January 2011: 6 month, 5 day period - Audited
At 30 June 2010: 12 month period - Audited

(a) Statement of compliance

The interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and with NZ IAS 34 Interim Financial Statements. They comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate to profit-oriented entities. The interim financial statements comply with International Financial Reporting Standards (IFRS).

The Society and all entities within the Group are profit-oriented entities, except for the Southern Cross Building Society Charitable Trust. The Society is a reporting entity and an issuer for the purposes of the Financial Reporting Act 1993 and its interim financial statements comply with that Act. The interim financial statements have been prepared in accordance with the requirements of the Building Societies Act 1965 and the Securities Regulations 2009.

(b) Basis of measurement

The interim financial statements have been prepared on the basis of historical cost, unless stated otherwise.

(c) Functional and presentation currency

These interim financial statements are presented in New Zealand dollars which is the Group's functional currency. Unless otherwise indicated, amounts are rounded to the nearest thousand.

(d) Estimates and judgements

The preparation of interim financial statements requires the use of management judgement, estimates and assumptions that effect reported amounts. Actual results may differ from these judgements. For further information about significant areas of estimation, uncertainty and critical judgements that have the most significant effect on the interim financial statements, refer to Note 29 - Credit risk exposure.

2 Basis of preparation (continued)

(e) Going concern

The interim financial statements have been prepared on a going concern basis after considering the Society's and Group's funding and liquidity position.

The Society currently has a guarantee under the Crown Retail Deposit Guarantee Scheme, being a guarantee that expires on 31 December 2011. This helps provide it with a range of significant funding options to support further growth of the business.

3 Significant accounting policies

(a) Consolidation of subsidiaries

Subsidiaries are entities that are controlled by the Group. Investments in subsidiary companies are recorded at cost by the Society.

The consolidated financial statements are prepared by consolidating the financial statements of the Society and its subsidiaries. All intercompany transactions, balances and unrealised profits are eliminated on consolidation.

(b) Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. The financial statements of special purpose entities are included in the Group's financial statements where the substance of the relationship is that the Society controls the special purpose entity.

(c) Interest

Interest income and expense are recognised using the effective interest method in profit or loss. The effective interest rate is established on initial recognition of the financial assets and liabilities and is not revised subsequently. The calculation of the effective interest rate includes all yield related fees and commissions paid or received that are an integral part of the effective interest rate.

Interest on the effective portion of a derivative designated as a cash flow hedge is initially recognised in the hedging reserve. It is released to profit or loss at the same time as the hedged item or if the hedge relationship is subsequently deemed to be ineffective.

(d) Operating lease income and expense

Income from operating lease vehicles is apportioned over the term of the operating lease on a straight line basis.

Operating lease vehicles are depreciated on a straight line basis over their expected life after allowing for any residual values. The estimated lives of operating lease vehicles vary up to five years. Vehicles held for sale are not depreciated but are tested for impairment.

(e) Lending and credit fee income

Lending and credit fee income that is integral to the effective interest rate of a financial asset or liability is included in the measurement of the effective interest rate. Other lending and credit fee income is recognised as the related services are rendered.

(f) Tax

Income tax expense for the year comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the financial reporting carrying amount of assets and liabilities and the amounts used for tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

3 Significant accounting policies (continued)

(g) Management of capital

The Group's capital includes share capital, reserves and retained earnings.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group has minimum capital requirements which it is required to maintain in accordance with its Trust Deeds (detailed in Note 21), borrowing facilities and the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010. The Group maintains an appropriate buffer above these ratios and reports these to its Board of Directors monthly.

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash and liquid assets used in the day to day cash management of the Group. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

(i) Finance receivables

Finance receivables are initially recognised at fair value plus incremental direct transaction costs and are subsequently measured at amortised cost using the effective interest method, less any impairment loss.

(j) Operating lease vehicles

Operating lease vehicles are stated at cost less accumulated depreciation. Profits on the sale of operating lease vehicles are included as part of operating lease income. Current year depreciation and losses on the sale of operating lease vehicles are included as part of operating lease expenses.

(k) Derivative financial instruments

Derivative financial instruments are contracts entered into to reduce the exposure to fluctuations in interest rates on variable rate borrowings. The financial instruments are subject to the risk that market values may change subsequent to their acquisition; however such changes would be offset by corresponding, but opposite, effects on the variable rate borrowings being hedged. Derivatives are initially valued at fair value and subsequently remeasured at fair value. Fair value movements of derivatives that are not designated in a qualifying hedge relationship, are recognised in profit or loss.

Fair value movements of the effective portion of a qualifying hedge derivative, are recognised directly in other comprehensive income and held in the hedging reserve in equity. The amount recognised in equity is transferred to profit or loss in the same year as the hedged cash flow affects profit or loss, disclosed in the same line as the hedged item. Any ineffective portion of changes in fair value of the derivative are recognised immediately in profit or loss. Fair value movements of a derivative designated as a fair value hedge are recognised directly in profit or loss together with the hedged item.

(l) Property, plant, equipment and depreciation

Land and buildings are measured at fair value. Fair value is determined on the basis of independent valuations prepared by external valuation experts, based on discounted cash flows or capitalisation of net income.

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

Other items of property, plant and equipment are stated at cost less accumulated depreciation and impairment.
Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value.

The following annual rates are used in the calculation of depreciation:

Buildings	1.0% - 2.5%
Fixtures and fittings	5.5% - 36.0%
Office equipment and furniture	6.0% - 30.0%
Computer equipment	16.2% - 48.0%
Motor vehicles	21.0% - 25.2%

3 Significant accounting policies (continued)

(m) Investment properties

Investment properties have been acquired through the enforcement of security over finance receivables and are held to earn rental income or for capital appreciation (or both). Investment property is initially recognised at its fair value, with subsequent changes in fair value recognised in profit or loss.

Fair values are supported by independent valuations or other similar external evidence, adjusted for changes in market conditions and the time since the last valuation.

(n) Investments

The Society and Group holds investments in local authority stock, public securities and corporate bonds. Investments held are classified as being available for sale and are stated at fair value less impairment. The fair values are derived by reference to published price quotations in an active market.

(o) Financial assets and liabilities

Classification

Financial assets and liabilities are classified in the following accounting categories:

Financial assets/liabilities	Accounting category
Finance receivables	Loans and receivables
Investments	Available for sale
Other financial assets	Loans and receivables
Borrowings	Other liabilities at amortised cost
Other financial liabilities	Other liabilities at amortised cost
Derivatives	Held for trading (or qualifying hedges as described in Note 3(k))

Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the Statement of Financial Position. Transfers of assets with the retention of all or substantially all risks and rewards include, for example, securitised assets and repurchase transactions.

(p) Intangible assets

Goodwill

Goodwill arising on acquisition represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable net assets and contingent liabilities. When the fair value of the identifiable net assets and contingent liabilities exceeds the cost of an acquisition, the resulting discount is recognised immediately in profit for the year. Goodwill is tested for impairment at least annually, and is carried at cost less accumulated impairment losses.

Computer software

Software acquired by the Group is stated at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic value of that asset. Amortisation of software is on a straight line basis, at rates which will write off the cost over their estimated economic lives of 3 to 4 years.

(q) GST

As the Group is predominantly involved in providing financial services, only a proportion of GST paid on inputs is recoverable. The non-recoverable proportion of GST is treated as an expense.

3 Significant accounting policies (continued)

(r) Impaired assets and past due assets

Impaired assets are those loans for which the Group has evidence that it will incur a loss, and will be unable to collect all principal and interest due according to the contractual terms of the loan.

The term collectively impaired asset refers to an asset where an event has occurred which past history indicates that there is an increased possibility that the Group will not collect all its principal and interest as it falls due. No losses have yet been identified on these individual loans within the collectively impaired asset grouping, and history would indicate that only a small portion of these loans will eventually not be recovered. The Group provides fully for its expected losses.

Restructured assets are assets where the Group expects to recover all amounts owing although the original terms have been changed due to the counterparty's difficulty in complying with the original terms of the contract and the amended terms are not comparable with similar new lending. In order to be classified as a restructured asset, following restructuring, the return under the revised terms is expected to be equal to or greater than the Group's average cost of funds, or a loss is not otherwise expected to be incurred.

Past due but not impaired assets are any assets which have not been operated by the counterparty within their key terms but are not considered to be impaired by the Group.

Bad debts provided for are written off against individual or collective provisions. Amounts required to bring the provisions to their assessed levels are recognised in profit or loss. Any future recoveries of amounts provided for are taken to profit or loss.

For further information about credit impairment provisioning refer to Note 29 - Credit risk exposure.

(s) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(t) Employee benefits

Annual leave entitlements are accrued at amounts expected to be paid. Long service leave is accrued by calculating the probable future value of entitlements and discounting back to present value. Obligations to defined contribution superannuation schemes are recognised as an expense when the contribution is paid.

(u) Defined benefit plan

The cost of providing benefits for defined benefit superannuation plans is determined using the Projected Unit Credit Method. Actuarial gains and losses are recognised in full in the period in which they occur by way of a movement in the defined benefit plan reserve, and are presented in the Statement of Changes in Equity.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefit becomes vested. The defined benefit obligation is deducted from the fair value of the defined benefit plan asset to derive the defined benefit plan surplus recognised on the balance sheet.

(v) Borrowings

Bank borrowings, deposits and debenture stock are initially recognised at fair value including incremental direct transaction costs. They are subsequently measured at amortised cost using the effective interest method.

(w) Share schemes

The Group provides benefits to staff in the form of share based payments, whereby staff provide services in exchange for shares. Currently the following schemes are in place:

Discretionary share schemes

Under these schemes Pyne Gould Corporation Limited undertakes to transfer a specific number of its shares to various key staff at a specified future date on that staff member achieving certain criteria. The shares are issued at a price agreed by the directors and held in trust until all the conditions are satisfied. The expected benefit is expensed over the periods over which any conditions are required to be met.

(x) Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct method modified by the netting of certain cash flows, in order to provide more meaningful disclosure. Cash and cash equivalents consist of cash and liquid assets used in the day to day cash management of the Group.

3 Significant accounting policies (continued)

(y) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended 5 January 2011, and have not been applied in preparing these interim financial statements. The new standards identified which may have an effect on the interim financial statements of the Group are:

Standard and description	*Effective for annual periods beginning on or after:*	*Expected to be initially applied in year ending:*
NZ IAS 1 Presentation of Financial Statements, which clarifies that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is also required to be presented, either in the statement of changes in equity or in the notes.	1 January 2011	30 June 2012
NZ IAS 34 Interim Financial Reporting, which adds examples to the list of events or transactions that require disclosure under NZ IAS 34, and removes references to materiality.	1 January 2011	30 June 2012
NZ IFRS 7 Financial Instruments: Disclosures, which adds an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments.	1 January 2011	30 June 2012
NZ IFRS 7 Financial Instruments: Disclosures, which adds additional disclosures about the transfer of financial assets.	1 July 2011	30 June 2012
NZ IAS 12 Income Taxes, which introduces a presumption that an investment property is recovered entirely through sale.	1 January 2012	30 June 2013
NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets.	1 January 2013	30 June 2014

The impact of these standards on the interim financial statements of the Group has not yet been assessed.

(z) Changes in accounting policies

There have been no material changes in accounting policies in the current period. The accounting policies applied in these interim financial statements are consistent with those applied in the MARAC Finance Limited 30 June 2010 annual financial statements.

4 Segmental analysis

Segment information is presented in respect of the Group's operating segments which are those used for the Group's management and internal reporting structure.

All income received is from external sources, except those transactions with related parties, refer to Note 26.

The Group's operating segments are different than the industry categories detailed in Note 29. The operating segments are primarily categorised by security type, whereas Note 29 categorises exposures by the industry the borrowers operate in.

Operating segments

The Group operates predominantly within New Zealand and comprises the following main operating segments:

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

4 **Segmental analysis (continued)**

	GROUP					
	Rural $000	**Consumer $000**	**Retail * $000**	**Business $000**	**Other $000**	**Total $000**
5 Jan 11						
Net interest income	49	11,841	-	14,936	506	27,332
Net operating lease income	-	3,415	-	55	-	3,470
Lending, credit fee and other income	-	283	-	11	286	580
Net operating income	**49**	**15,539**	**-**	**15,002**	**792**	**31,382**
Depreciation and amortisation	-	-	-	-	527	527
Other selling and administration expenses	115	1,999	-	2,211	12,549	16,874
Selling and administration expenses	**115**	**1,999**	**-**	**2,211**	**13,076**	**17,401**
Profit before impaired asset expense and income tax	**(66)**	**13,540**	**-**	**12,791**	**(12,284)**	**13,981**
Impaired asset expense	-	(896)	-	6,990	-	6,094
Profit/(loss) before income tax	**(66)**	**14,436**	**-**	**5,801**	**(12,284)**	**7,887**
Income tax expense	-	-	-	-	2,764	2,764
Profit/(loss) for the period	**(66)**	**14,436**	**-**	**5,801**	**(15,048)**	**5,123**
Total assets	79,811	557,323	677,767	607,766	260,113	**2,182,780**
Total liabilities	-	-	-	-	1,891,155	**1,891,155**
Total equity	-	-	-	-	291,625	**291,625**
30 Jun 10						
Net interest income	-	19,871	-	38,206	989	59,066
Net operating lease income	-	6,351	-	229	-	6,580
Lending, credit fee and other income	-	2,808	-	13	614	3,435
Net operating income	**-**	**29,030**	**-**	**38,448**	**1,603**	**69,081**
Depreciation and amortisation	-	-	-	-	968	968
Other selling and administration expenses	-	3,810	-	5,357	14,890	24,057
Selling and administration expenses	**-**	**3,810**	**-**	**5,357**	**15,858**	**25,025**
Profit before impaired asset expense and income tax	**-**	**25,220**	**-**	**33,091**	**(14,255)**	**44,056**
Impaired asset expense	-	2,357	-	18,126	3,282	23,765
Profit/(loss) before income tax	**-**	**22,863**	**-**	**14,965**	**(17,537)**	**20,291**
Income tax expense	-	-	-	-	5,992	5,992
Profit/(loss) for the period	**-**	**22,863**	**-**	**14,965**	**(23,529)**	**14,299**
Total assets	-	560,700	-	628,040	105,816	**1,294,556**
Total liabilities	-	-	-	-	1,088,088	**1,088,088**
Total equity	-	-	-	-	206,468	**206,468**

** MARAC Group did not previously operate in the Retail segment, as a result there is no profit or loss items included in the Retail segment above.*

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

5 Net interest income

	GROUP	
	5 Jan 11	30 Jun 10
	$000	$000
Interest income		
Cash and cash equivalents	1,087	2,668
Finance receivables	66,654	145,669
Derivatives held for risk management:		
- Net interest income on cash flow hedges	79	-
Total interest income	**67,820**	**148,337**
Interest expense		
Retail debenture stock	29,977	66,640
Bank and securitised borrowings	10,511	18,411
Derivatives held for risk management:		
- Net interest expense on cash flow hedges	-	4,220
Total interest expense	**40,488**	**89,271**
Net interest income	**27,332**	**59,066**

Included within interest on finance receivables is $2,628,000 (June 2010: $1,363,000) on individually impaired assets.

6 Net operating lease income

	5 Jan 11	30 Jun 10
Operating lease income		
Lease income	7,610	14,545
Gain on disposal of lease vehicles	1,615	2,072
Total operating lease income	**9,225**	**16,617**
Operating lease expense		
Depreciation on lease vehicles	5,457	9,314
Direct lease costs	298	723
Total operating lease expenses	**5,755**	**10,037**
Net operating lease income	**3,470**	**6,580**

7 Other income

On 30 June 2010, MARAC purchased GMAC New Zealand Limited's (GMAC) retail motor vehicle financing book for $70.3 million. The acquisition date of the book was 31 May 2010, with settlement occurring on the 30 July 2010. The fair value of the identifiable assets and liabilities acquired was determined to be $2.2 million above the purchase price, taking into account comparative market interest rates and an allowance for impairment. The gain arising from the purchase of the GMAC book was included in other income for the year ended 30 June 2010.

The purchase of GMAC's retail motor vehicle financing book has been reflected in the Interim Statement of Cash flows in the period ended 5 January 2011.

8 Selling and administration expenses

		GROUP	
		5 Jan 11	30 Jun 10
	NOTE	$000	$000
Personnel expenses		7,298	12,790
Superannuation		119	259
Audit fees		118	265
Audit related fees		42	276
Depreciation - property, plant and equipment	19	177	400
Amortisation - intangible assets	18	350	568
Operating lease expense as a lessee		442	907
Legal and professional fees		3,321	1,206
Other operating expenses		5,534	8,354
Total selling and administration expenses		**17,401**	**25,025**

Audit related fees include professional fees in connection with trustee reporting, due diligence, review of prospectus documentation for various Group entities, ad hoc accounting advice and review work completed.

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

		GROUP		SOCIETY	
9	**Income tax expense**	**5 Jan 11 $000**	**30 Jun 10 $000**	**5 Jan 11 $000**	**30 Jun 10 $000**
	Current tax expense				
	Current period	3,176	3,396	-	-
	Deferred tax (expense) / benefit				
	Origination and reversal of temporary differences	(395)	2,691	-	-
	Impact of tax rate change	(17)	(95)	-	-
	Total income tax expense	**2,764**	**5,992**	**-**	**-**
	Reconciliation of effective tax rate				
	Profit before income tax	7,887	20,291	-	-
	Prima facie tax at 30%	2,366	6,087	-	-
	Plus / (less) tax effect of items not taxable / deductible	398	(95)	-	-
	Total income tax expense	**2,764**	**5,992**	**-**	**-**
10	**Imputation credit account**				
	Balance at beginning of period	33,515	30,715	-	-
	Tax paid net of refunds	-	2,800	-	-
	Balance at end of period	**33,515**	**33,515**	**-**	**-**
11	**Reconciliation of profit after tax to net cash flows from operating activities**				
	Profit for the period	**5,123**	**14,299**	**-**	**-**
	Add / (less) non-cash items:				
	Depreciation and amortisation expense	527	968	-	-
	Impaired asset expense	6,094	23,765	-	-
	Deferred tax	395	(2,691)	-	-
	Derivatives, capitalised interest and accruals	(178)	(3,141)	-	-
	Total non-cash items	**6,838**	**18,901**	**-**	**-**
	Add / (less) movements in working capital items:				
	Operating lease vehicles	4,885	(6,686)	-	-
	Other assets	981	1,358	-	-
	Current tax	(1,323)	1,474	-	-
	Other liabilities	(1,483)	1,102	-	-
	Total movements in working capital items	**3,060**	**(2,752)**	**-**	**-**
	Add / (less) items classified as investing activities:				
	Gain on sale of assets and investments	1	(75)	-	-
	Total items classified as investing activities	**1**	**(75)**	**-**	**-**
	Net cash flows from operating activities	**15,022**	**30,373**	**-**	**-**
12	**Cash and cash equivalents**				
	Cash and cash equivalents	279,547	82,798	275,903	-
	Cash and cash equivalents - securitised	6,128	3,608	1,641	-
	Total cash and cash equivalents	**285,675**	**86,406**	**277,544**	**-**

Cash and cash equivalents are short term funds held with New Zealand registered international banks.

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

13 Investments

	NOTE	GROUP 5 Jan 11 $000	GROUP 30 Jun 10 $000	SOCIETY 5 Jan 11 $000	SOCIETY 30 Jun 10 $000
Public securities and corporate bonds		19,540	-	19,540	-
Local authority stock		2,000	-	2,000	-
Total investments		**21,540**	**-**	**21,540**	**-**

14 Finance receivables

	NOTE	GROUP 5 Jan 11 $000	GROUP 30 Jun 10 $000	SOCIETY 5 Jan 11 $000	SOCIETY 30 Jun 10 $000
Non-securitised					
Gross finance receivables		1,612,704	970,558	659,517	-
Less allowance for impairment	29	50,212	29,230	22,976	-
Total non-securitised finance receivables		**1,562,492**	**941,328**	**636,541**	**-**
Securitised					
Gross finance receivables		195,337	161,971	33,148	-
Less allowance for impairment	29	934	1,118	-	-
Total securitised finance receivables		**194,403**	**160,853**	**33,148**	**-**
Total finance receivables		**1,756,895**	**1,102,181**	**669,689**	**-**

Gross finance receivables of $68.4 million were purchased from GMAC on 30 June 2010, refer Note 7 for more information.

15 Operating lease vehicles

	GROUP 5 Jan 11 $000	GROUP 30 Jun 10 $000
Cost		
Opening balance	60,264	57,383
Additions	8,578	26,305
Disposals	(15,490)	(23,424)
Closing balance	**53,352**	**60,264**
Accumulated depreciation		
Opening balance	17,369	21,174
Depreciation charge for the period	5,457	9,314
Disposals	(7,479)	(13,119)
Closing balance	**15,347**	**17,369**
Opening net book value	42,895	36,209
Closing net book value	**38,005**	**42,895**

Additions for the year to 30 June 2010 includes $6.3 million for the lease book purchased from GMAC, refer Note 7 for more information.

16 Other assets

	NOTE	GROUP 5 Jan 11 $000	GROUP 30 Jun 10 $000	SOCIETY 5 Jan 11 $000	SOCIETY 30 Jun 10 $000
Derivative financial assets	23	4,995	5,013	4,995	-
Trade receivables		3,187	2,007	1,022	-
Current tax		842	-	842	-
Prepayments		2,828	3,369	2,505	-
Investment property		2,182	-	-	-
Property, plant and equipment	19	10,172	520	9,615	-
Deferred tax asset	20	7,205	7,600	-	-
Total other assets		**31,411**	**18,509**	**18,979**	**-**

17 Investment in subsidiary

The Society holds an investment in MARAC of $204,269,000, refer to Note 1 - Reporting Entity and Note 24 - Share Capital for more details.

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

18 Intangible assets

	GROUP			SOCIETY		
	Computer Software $000	Goodwill $000	Total $000	Computer Software $000	Goodwill $000	Total $000
Cost						
Opening balance 1 July 2009	3,036	-	3,036	-	-	-
Additions	686	-	686	-	-	-
Closing balance 30 June 2010	**3,722**	**-**	**3,722**	**-**	**-**	**-**
Opening balance 1 July 2010	3,722	-	3,722	-	-	-
Additions	882	-	882	-	-	-
Acquired on amalgamation	1,083	20,141	21,224	1,083	20,141	21,224
Closing balance 5 January 2011	**5,687**	**20,141**	**25,828**	**1,083**	**20,141**	**21,224**
Accumulated amortisation						
Opening balance 1 July 2009	2,253	-	2,253	-	-	-
Amortisation charge for the period	568	-	568	-	-	-
Closing balance 30 June 2010	**2,821**	**-**	**2,821**	**-**	**-**	**-**
Opening balance 1 July 2010	2,821	-	2,821	-	-	-
Amortisation charge for the period	350	-	350	-	-	-
Acquired on amalgamation	928	-	928	928	-	928
Closing balance 5 January 2011	**4,099**	**-**	**4,099**	**928**	**-**	**928**
Opening net book value	901	-	901	-	-	-
Closing net book value	**1,588**	**20,141**	**21,729**	**155**	**20,141**	**20,296**

On 5 January 2011, 100% of each of SCBS and CBS amalgamated to form the Society. As part of this amalgamation $20.1 million of goodwill was recognised, refer to Note 34 - Business combination for more details.

Goodwill of $20.1 million has not been allocated to individual cash generating units as at 5 January 2011 as the adjustments in respect of the acquisition discussed in Note 34 have only been provisionally determined as at the balance sheet date. The Group expects to complete the allocation during the 2011 calendar year.

19 Property, plant and equipment

	GROUP		SOCIETY	
	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000
Cost				
Opening balance	4,284	4,115	-	-
Additions	214	209	-	-
Acquired on amalgamation	10,470	-	10,470	-
Disposals	(11)	(40)	-	-
Closing balance	**14,957**	**4,284**	**10,470**	**-**
Accumulated depreciation				
Opening balance	3,764	3,381	-	-
Depreciation charge for the period	177	400	-	-
Acquired on amalgamation	855	-	855	-
Disposals	(11)	(17)	-	-
Closing balance	**4,785**	**3,764**	**855**	**-**
Opening net book value	520	734	-	-
Closing net book value	**10,172**	**520**	**9,615**	**-**

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

20 Deferred tax

	GROUP		SOCIETY	
	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000
Property, plant and equipment	78	58	-	-
Employee entitlements	190	250	-	-
Finance receivables	8,170	8,771	-	-
Derivatives held for risk management	669	812	-	-
Tax assets	**9,107**	**9,891**	**-**	**-**
Intangible assets	64	50	-	-
Operating lease vehicles	1,838	2,241	-	-
Tax liabilities	**1,902**	**2,291**	**-**	**-**
Net tax assets	**7,205**	**7,600**	**-**	**-**

The corporate tax rate will change from 30% to 28% effective 1 July 2011. The tax effect on the temporary differences reported above, that will not reverse prior to this change in tax rate, is an increase in the Group's deferred tax asset of $112,000 (June 2010: $95,000).

All deferred tax movements are included in profit or loss except for those in respect of cash flow hedges which are recognised directly in equity.

21 Borrowings

	GROUP		SOCIETY	
	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000
Bank borrowings sourced from New Zealand	-	5,000	-	-
Deposits sourced from New Zealand	1,636,889	-	1,636,889	-
Debenture stock sourced from New Zealand	-	796,435	-	-
Deposits sourced from overseas	39,824	-	39,824	-
Debenture stock sourced from overseas	-	32,946	-	-
Securitised borrowings sourced from New Zealand	169,278	149,298	20,000	-
Total borrowings	**1,845,991**	**983,679**	**1,696,713**	**-**

The Group has bank facilities totalling $475.0 million (June 2010: $350.3 million) and the Society has bank facilities totalling $275.0 million. There is no significant concentration of deposits to any particular region within New Zealand.

Bank borrowings and deposits (which include NZDX bonds) rank equally and are unsecured. Deposits are issued in terms of a Master Trust Deed, Supplemental Trust Deed (Accounts) and Supplemental Trust Deed (Bonds) each dated 29 October 2010 and a Supplemental Trust Deed dated 14 December 2010 (collectively the Trust Deeds), all with Trustee Executors Limited as trustee in respect of deposits.

The Group has securitisation facilities in relation to the Trusts totalling $275.0 million.

Investors in MARAC ABCP Trust 1 rank equally with each other and are secured over the securitised assets of that Trust.

Investors in the CBS Warehouse A Trust Securitisation rank equally with each other and are secured over the securitised assets of that Trust.

22 Other liabilities

	NOTE	GROUP		SOCIETY	
		5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000
Derivative financial liabilities	23	2,405	1,484	1,188	-
Current tax		3,895	5,218	-	-
Trade payables		19,528	82,804	13,952	-
GST payable		13,444	9,937	-	-
Due to related parties	26	3,558	3,354	3,448	-
Employee benefits		2,334	1,612	749	-
Total other liabilities		**45,164**	**104,409**	**19,337**	**-**

As at 30 June 2010, the Group's trade payables includes $70.3m for the final settlement of the purchase of GMAC's retail motor vehicle financing book, refer Note 7 for more information.

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

23 Derivative financial instruments

	GROUP		SOCIETY	
	5 Jan 11 $000	**30 Jun 10 $000**	**5 Jan 11 $000**	**30 Jun 10 $000**
Assets				
Qualifying fair value hedges - non-securitised	4,995	5,013	4,995	
Total derivative financial assets	**4,995**	**5,013**	**4,995**	**-**
Liabilities				
Qualifying fair value hedges - non-securitised	1,044	-	1,044	-
Qualifying cash flow hedges - securitised	1,217	1,484	-	-
Qualifying cash flow hedges - non-securitised	144	-	144	-
Total derivative financial liabilities	**2,405**	**1,484**	**1,188**	**-**

Derivatives consist of interest rate swaps and options held to manage the Group's exposure to interest rate repricing risk on its interest bearing assets and liabilities.

The Group uses interest rate swaps to hedge the interest rate risk arising from both its current and future floating rate bank debt and designates those swaps as qualifying cash flow hedges. The Group uses interest rate swaps to hedge the interest rate risk arising from fixed rate debenture stock and fixed rate mortgage loans and designates these swaps as qualifying fair value hedges.

Securitised derivatives are held in the name of the Trust to hedge the interest rate risk arising in the Trust.

24 Share capital

The share capital reflected in the following note represents the share capital of Combined Building Society. This differs from the share capital reflected in the Group Statement of Financial Position as a result of the reverse acquisition accounting applied, refer Note 1 - Reporting Entity.

	SOCIETY	
	5 Jan 11 Number of shares 000	**30 Jun 10 Number of shares 000**
Issued shares		
Opening balance	-	-
Shares issued during the period	297,400	-
Closing balance	**297,400**	**-**

At the opening of business on 5 January 2011, the Society had on issue 20 fully paid ordinary shares, which were issued at a price of $10,000 each.

On 5 January 2011, the Society:

- Issued 214,030,283 fully paid ordinary shares to BSHL No 1 Limited in exchange for the transfer by BSHL No 1 Limited of all shares in MARAC Finance Limited.
- Issued 44,241,396 fully paid ordinary shares to CBS as part of the consideration due in exchange for the transfer of engagements from CBS. These shares were then transferred by CBS to BSHL No 1 Limited.
- Issued 39,128,321 fully paid ordinary shares to SCBS as part of the consideration due in exchange for transfer of engagements from SCBS. These shares were then transferred by SCBS to BSHL No 1 Limited.

The shares have equal voting rights, rights to dividends and distributions and do not have a par value.

25 Special purpose entities

MARAC PIE Fund and MARAC Retirement Bonds Superannuation Fund

The Group controls the operations of MARAC PIE Fund, a portfolio investment fund that invests in the Group. The Group controlled the operations of MARAC Retirement Bonds Superannuation Fund, a superannuation scheme that invested in the Group's debenture stock. The Group wound up the Retirement Bonds Superannuation Fund with effect from 31 October 2010.

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

25 Special purpose entities (continued)

Investments by these funds are represented in debenture stock borrowings as follows:

	GROUP	
	5 Jan 11 $000	30 Jun 10 $000
MARAC Retirement Bonds Superannuation Fund	-	5,922
MARAC PIE Fund	8,148	8,763

MARAC ABCP Trust 1 and CBS Warehouse A Trust Securitisation

The Group has securitised a pool of receivables comprising residential, commercial, motor vehicle and marine loans to the Trust. The Group substantially retains the credit risks and rewards associated with the securitised assets, and continues to recognise these assets and associated borrowings on the Statement of Financial Position. Despite this presentation in the interim financial statements, the loans sold to the Trust are set aside for the benefit of investors in the Trust.

	GROUP		SOCIETY	
	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000
Bank balance - Securitised	4,487	3,608	-	-
Finance receivables - Securitised	194,403	160,853	33,148	-
Borrowings - Securitised	(169,278)	(149,298)	(20,000)	-

Southern Cross Building Society Charitable Trust (Charitable Trust)

The directors of the Society are trustees of the Charitable Trust, therefore the Charitable Trust results have been included in the Society and the Group. Included in the Society and Group cash and cash equivalents balance is:

Deposits - legal / non beneficial basis	971	-	971	-

26 Related party transactions

The Society's immediate parent is BSHL No 1 Limited, a wholly owned subsidiary of Building Society Holdings Limited (BSHL). The Society's ultimate parent is Pyne Gould Corporation Limited (PGC).

The Society holds all shares in MARAC Finance Limited. For the year ended 30 June 2010, the immediate parent of MARAC Finance Limited was MARAC Financial Services Limited (MFSL).

(a) Transactions with related parties

Sale of non-performing loans

In September 2009 MARAC entered into a sale and purchase agreement to transfer and assign legal and beneficial title to $175 million of non performing loans to its parent company MFSL. The loans were subsequently transferred to Real Estate Credit Limited (RECL), a wholly owned subsidiary of Torchlight Investment Group Limited. The ultimate parent of all companies is currently PGC.

The loans were transferred from MARAC at book value. In October 2009 the transfer was completed with MFSL paying $125 million in cash, and issuing a loan note of $50 million for the balance. As at the 5 January 2011 the balance of the loan note is $26.8 million excluding accrued interest (June 2010: $42.6 million). PGC guarantees the obligations of MFSL under the loan note. Interest is accrued on the loan note on an arms length basis.

As a consequence of the loan transfer, MARAC entered an Underwrite Agreement under which PGC undertook to underwrite credit losses on certain impaired property loans. The Underwrite Agreement was terminated on the 5 January 2011.

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

26 Related party transactions (continued)

(a) Transactions with related parties (continued)

RECL Management agreement

On 5 January 2011, the Group entered into a management agreement with Real Estate Credit Limited (RECL). Under this arrangement, RECL will manage the remaining non-core real estate loans (not previously sold in September 2009) of MARAC for a 5 year period, and assume the risk of loss on those loans for that period. Any payment by RECL to MARAC in respect of that loss is due at the end of the 5 year period (with some limited right on the part of MARAC to earlier payment). The payment obligations of RECL are “limited in recourse” to a pool of security provided by RECL. This pool of security includes an $11 million 5 year zero coupon bond (issued by Westpac New Zealand Limited which is rated AA by Standard & Poor's (Australia) Pty Limited), and a minimum $22 million in security value of other assets (initially real estate or real estate loans). PGC will be obliged to top up the security pool to the extent there is a shortfall in the $22 million in security value of other assets.

RECL received an upfront fee of $11 million (which will be amortised over the 5 year period of the arrangement), and an ongoing management fee of $200,000 per annum.

The benefit of this management agreement is included in the determination of the charge and the analysis of risk gradings and the classification of individually impaired assets as at 5 January 2011 as noted in Note 29 - Credit risk exposure. Whilst the nominal loss is covered by the management agreement, the agreement does not cover the loss arising from the time value of money and therefore a provision is included in the Group's financial statements.

Other related party transactions

On 5 January 2011, all secured debenture stock issued by MARAC was transferred to become deposits in the Society. The net amount transferred of $787,576,000 is shown as a related party receivable due to the Society.

MARAC Finance Limited provides administration services to Real Estate Credit Limited. The Group also received underwriting, financial and administrative assistance, computer services and leased premises from PGC during the period.

MARAC provided administrative assistance to MARAC Insurance Limited, MARAC PIE Fund and MARAC Retirement Bonds Superannuation Fund and received insurance commission from MARAC Insurance Limited.

During the period MARAC Securities Limited, MARAC Insurance Limited, MARAC PIE Fund, MARAC Retirement Bonds Superannuation Fund and some key management personnel invested in MARAC's debenture stock. PIE and Fund investments at the 5 January 2011 are detailed in Note 25. Key management personnel investments are detailed in Note 26(b).

Included within finance receivables is a $673,000 (June 2010: $633,000) loan to a related party, PGG Wrightson Seeds Limited.

All transactions were conducted on normal commercial terms and conditions.

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

26 Related party transactions (continued)

(a) Transactions with related parties

	GROUP		SOCIETY	
	5 Jan 11 $000	**30 Jun 10 $000**	**5 Jan 11 $000**	**30 Jun 10 $000**
Material related party transactions				
MFSL - Parent				
Interest income	-	4,406	-	-
Due from parent	-	43,664	-	-
Due to parent	-	1	-	-
PGC - Ultimate parent				
Selling and administration expenses	(1,503)	(1,415)	-	-
Due to ultimate parent	109	-	-	-
MARAC - Subsidiary				
Due from subsidiary	-	-	787,576	-
Other related parties				
Interest income	2,059	-	-	-
Lending and credit fee income	262	524	-	-
Other income	39	75	-	-
Interest expense	-	(180)	-	-
Total transactions with other related parties	**2,360**	**419**	**-**	**-**
Due from other related parties	27,525	-	-	-
Due to other related parties	3,449	3,353	3,448	-
Total due from related entities	**27,525**	**43,664**	**787,576**	**-**
Total due to related entities	**3,558**	**3,354**	**3,448**	**-**

(b) Transactions with key management personnel

Key management personnel, being directors of the Society and those staff reporting directly to the Chief Executive Officer and their immediate relatives, have transacted with the Group during the period as follows:

	5 Jan 11 $000	**30 Jun 10 $000**	**5 Jan 11 $000**	**30 Jun 10 $000**
Debenture/deposit investments by key management personnel:				
Maximum balance	4,605	5,096	3,733	-
Closing balance	4,520	721	3,733	-
Loans to key management personnel:				
Closing balance	1,255	-	1,255	-
Key management personnel interest expense and compensation is as follows:				
Interest expense	21	73	-	-
Short-term employee benefits	570	1,184	-	-
Share-based payments	39	118	-	-
Total	**630**	**1,375**	-	-

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

27 Fair value

The following methods and assumptions were used to estimate the fair value of each class of financial asset and liability.

Finance receivables
The fair value of the Group's finance receivables is calculated using a valuation technique which assumes current market interest rates for loans of a similar nature and term.

The current market rate used to fair value finance receivables with a fixed interest rate is 11.03% (June 2010: 11.29%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses. Prepayment rates have not been factored into the fair value calculation as they are not deemed to be material.

Investments
Shares in listed companies, public securities and corporate bonds are classified as being available for sale and are stated at fair value less impairment, with the fair value being based on quoted market prices. (Level 1 under the fair value hierarchy).

Other financial assets and liabilities
The fair value of all other financial assets and liabilities is considered equivalent to their carrying value due to their short term nature.

Derivative items
The fair value of interest rate contracts is modelled using observable market inputs (Level 2 under the fair value hierarchy).

Borrowings
The fair value of debenture stock, deposits, bank borrowings and other borrowings is based on the current market interest rates payable by the Group for debt of similar maturities.

	5 Jan 11		30 Jun 10	
	Carrying Value $000	Fair Value $000	Carrying Value $000	Fair Value $000
GROUP				
Financial assets				
Cash and cash equivalents	285,675	285,675	86,406	86,406
Finance receivables	1,562,492	1,560,723	941,328	951,401
Finance receivables - securitised	194,403	200,387	160,853	166,696
Derivative financial assets	4,995	4,995	5,013	5,013
Investments	21,540	21,540	-	-
Other financial assets	30,712	30,712	45,671	45,671
Total financial assets	**2,099,817**	**2,104,032**	**1,239,271**	**1,255,187**
Financial liabilities				
Borrowings	1,676,713	1,690,938	834,381	854,292
Borrowings - securitised	169,278	169,278	149,298	149,298
Derivative financial liabilities	2,405	2,405	1,484	1,484
Other financial liabilities	38,864	38,864	97,707	97,707
Total financial liabilities	**1,887,260**	**1,901,485**	**1,082,870**	**1,102,781**

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

27 **Fair value (continued)**

	5 Jan 11 Carrying Value $000	5 Jan 11 Fair Value $000
SOCIETY		
Financial assets		
Cash and cash equivalents	277,544	277,544
Finance receivables	636,541	636,541
Finance receivables - securitised	33,148	33,148
Derivative financial assets	4,995	4,995
Investments	21,540	21,540
Other financial assets	788,598	788,598
Total financial assets	**1,762,366**	**1,762,366**
Financial liabilities		
Borrowings	1,676,713	1,676,713
Borrowings - securitised	20,000	20,000
Derivative financial liabilities	1,188	1,188
Other financial liabilities	18,149	18,149
Total financial liabilities	**1,716,050**	**1,716,050**

28 **Risk management policies**

The Group is committed to the management of risk. The primary risk categories are credit, liquidity, interest rate and operational. The Group's risk management strategy is set by the directors. The Group has put in place management structures and information systems to manage risks incorporated in the Group's Risk Management Programme (RMP). The Group has separated monitoring tasks where feasible and subjects all risk processes to internal audit and accounting systems to regular internal and external audits.

29 **Credit risk exposure**

Credit risk management framework
Credit risk is the risk of financial loss to the Group caused by the failure of a customer to meet their contractual obligations that arise from the Group's lending activities. Credit risk carries the greatest risk of resulting in a material adjustment to the carrying amounts of the Group's assets within the next financial period.

To manage this risk the Risk Committee, which is a committee of the Board of Directors (Board), has been delegated the task of overseeing a formal credit risk management strategy. The Risk Committee reviews the Group's credit risk exposures and has wide ranging credit policies to manage all aspects of credit risk.

Reviewing and assessing credit risk
The credit risk management strategies ensure that:
- Credit origination meets agreed levels of credit quality at point of approval.
- Sector and geographical risks are actively managed.
- Industry and product concentrations are actively monitored.
- Maximum total exposure to any one debtor is actively managed.
- Changes to credit risk are actively monitored with regular credit reviews.

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

29 Credit risk exposure (continued)

Lending standards and processes

The Group has adopted a detailed Credit Policy Framework supported by Lending Standards providing criteria for finance products within each business sector. The combination of the Credit Policy Framework and Lending Standards guides credit assessment, credit risk grading, documentation standards, legal procedures and compliance with regulatory and statutory requirements.

The Risk Committee has authority from the Board for approval of all credit exposures. Lending authority has been individually provided to the Chief Risk Officer, for delegation through the business units under a detailed Delegated Lending Authority framework. Application of credit discretions in the business operation are monitored through a defined review and hindsight structure. Delegated Lending Authorities are provided to individual officers with due cognisance of their experience and ability. Larger and higher risk exposures require approval of senior management, ultimately through to the Chief Risk Officer or the Risk Committee of the Board.

Collateral requirements

Although the Group relies primarily on the integrity of borrowers and their ability to make contracted repayments, the Group also requires appropriate collateral for loans. This collateral is usually by way of first charge over the asset financed and usually includes personal guarantees from borrowers and business owners.

Because of the wide nature of the collateral held against loans it is impracticable to provide an accurate estimate of their fair value.

Credit risk rating

The Group's receivables are monitored either by account behaviour or a regular assessment of their credit risk rating based on an objective review of defined risk characteristics. The portfolio risk is regularly refreshed based on current information.

Exposures to credit risk are graded by an internal risk rating mechanism. Grade 1 is the strongest risk grade for undoubted risk. Grade 7 represents the highest risk grade where a loss is probable. Grades 2 to 6 represent ascending steps in management's assessment of risk of exposures. The Group typically finances new loans in risk grades 2 and 3.

The Group classifies finance receivables as Transactional or Relationship. Transactional loans usually relate to financing the acquisition of a single asset. These loans are typically introduced by vendors of the asset financed and are smaller in value than Relationship loans. Transactional loans are risk graded based on arrears status.

Relationship loans relate to transactions where an ongoing and detailed working relationship with the customer has been developed. To manage relationship loans the Group maintains a comprehensive knowledge of the customer's business and performance. Relationship loans are individually risk rated based on loan status, financial information, security and debt servicing ability. Relationship loans in grade 7 are individually assessed for impairment.

(a) Credit impairment provisioning

Credit impairment provisions are made where events have occurred leading to an expectation of reduced future cash flows from certain receivables. These provisions are made in some cases against an individual loan and in other cases on a collective basis.

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

29 Credit risk exposure (continued)
(a) Credit impairment provisioning (continued)

Collective provisioning
Relationship loans in grades 4 to 6 and Transactional loans in grades 4 to 7 attract a collective provision. These provisions are made against an individual loan. Collective provisions are also maintained where considered appropriate against a class of loan or those with common risk characteristics. Relationship loans with a risk grade of 1 to 3 may be past due and not attract a provision if the Group has reviewed the risk position and it is deemed to remain sound. Under such circumstances normally an amended credit risk rating will be the consequence.

Collective provisions are assessed with reference to risk profile groupings and historical loss data. Other judgemental factors including economic and credit cycle considerations are also taken into account in determining appropriate loss propensities to be applied. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the wider economic environment, interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

In accordance with International Financial Reporting Standards, no provision is applied to loans that are newly written and loans that remain within their contractual terms, except where the Group becomes aware of an event that might alter its view of the risk of a particular deal or group of deals.

Individual provisioning
Specific impairment provisions are made where events have occurred leading to an expectation of reduced future cash flows from certain receivables. For individually significant loans for which the assessed risk grade is considered a “potential loss”, an individual assessment is made of an appropriate provision for credit impairment.

Credit impairments are recognised as the difference between the carrying value of the loan and the discounted value of management’s best estimate of future cash repayments and proceeds from any security held (discounted at the loan’s original effective interest rate). All relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the likely realisable value of collateral, the Group’s position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgements are made in this process. Furthermore, judgement can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken. Changes in judgement could have a material impact on the interim financial statements.

Individual provisioning in regards to property development lending creates the greatest amount of risk resulting in the possibility of a material adjustment to the carrying amounts of the Group's assets within the next period. Estimating the timing and amount of future cash repayments and proceeds from the realisation of collateral are management's most difficult and subjective judgements. Reduced demand in the current environment has meant that value is difficult to determine. Subjective judgements made by management comprise the time taken for new sales being achieved and the amount received, determining the timing and amount of future cash flows.

Because of the wide nature of the collateral held, and the subjective judgements in determining future cash flows on each individually impaired loan, it is impracticable to provide management's assumptions in regards to property receivables as a whole.

Bad debts
Bad debts provided for are written off against individual or collective provisions. Amounts required to bring the provisions to their assessed levels are recognised in profit or loss. Any future recoveries of amounts provided for are taken to profit or loss.

Verification
In addition to regular internal audit activity in regards to credit standards, the Group employs a comprehensive process of hindsighting loans to ensure that credit policies and the quality of credit processes are maintained.

Disclosures in this credit risk exposure note represent the Group's maximum exposure to credit risk.

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

29 Credit risk exposure (continued)
(a) Credit impairment provisioning (continued)

(i) Provision for impaired assets

	Non-securitised		Securitised		Total	
	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000
GROUP						
Provision for individually impaired assets						
Opening individual impairment	17,465	7,179	366	305	17,831	7,484
Impairment loss for the period						
- charge for the period	6,942	15,426	78	118	7,020	15,544
- write offs	(5,662)	(3,857)	(313)	(57)	(5,975)	(3,914)
- assumed on amalgamation	10,049	-	-	-	10,049	-
- effect of discounting	(418)	(1,283)	-	-	(418)	(1,283)
Closing individual impairment	**28,376**	**17,465**	**131**	**366**	**28,507**	**17,831**
Provision for collectively impaired assets						
Opening collective impairment	11,765	4,653	752	919	12,517	5,572
Impairment loss for the period						
- charge for the period	(1,202)	7,609	276	612	(926)	8,221
- recoveries	193	290	29	54	222	344
- assumed on acquisition of book	-	2,250	-	-	-	2,250
- assumed on amalgamation	12,927	-	-	-	12,927	-
- write offs	(1,847)	(3,037)	(254)	(833)	(2,101)	(3,870)
Closing collective impairment	**21,836**	**11,765**	**803**	**752**	**22,639**	**12,517**
Total provision for impairment	**50,212**	**29,230**	**934**	**1,118**	**51,146**	**30,348**
SOCIETY						
Provision for individually impaired assets						
Opening individual impairment	-	-	-	-	-	-
Impairment loss for the period						
- assumed on amalgamation	10,049	-	-	-	10,049	-
Closing individual impairment	**10,049**	**-**	**-**	**-**	**10,049**	**-**
Provision for collectively impaired assets						
Opening collective impairment	-	-	-	-	-	-
Impairment loss for the period						
- assumed on amalgamation	12,927	-	-	-	12,927	-
Closing collective impairment	**12,927**	**-**	**-**	**-**	**12,927**	**-**
Total provision for impairment	**22,976**	**-**	**-**	**-**	**22,976**	**-**

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

29 Credit risk exposure (continued)
(a) Credit impairment provisioning (continued)
(i) Provision for impaired assets (continued)

	Property	Consumer & personal	All other industries (SME)	Total
	$000	$000	$000	$000
GROUP - 5 Jan 11				
Provision for individually impaired assets				
Opening individual impairment	8,712	7	9,112	17,831
Impairment loss for the period				
- charge for the period	2,642	(7)	4,385	7,020
- write offs	(2,482)	-	(3,493)	(5,975)
- assumed on amalgamation	10,049	-	-	10,049
- effect of discounting	(214)	-	(204)	(418)
Closing individual impairment	**18,707**	**-**	**9,800**	**28,507**
Provision for collectively impaired assets				
Opening collective impairment	4,463	4,173	3,881	12,517
Impairment loss for the period				
- charge for the period *	(2,177)	(392)	1,643	(926)
- recoveries	-	82	140	222
- assumed on amalgamation	12,649	-	278	12,927
- write offs	-	(1,145)	(956)	(2,101)
Closing collective impairment	**14,935**	**2,718**	**4,986**	**22,639**
Total provision for impairment	**33,642**	**2,718**	**14,786**	**51,146**
GROUP - 30 Jun 10				
Provision for individually impaired assets				
Opening individual impairment	1,460	-	6,024	7,484
Impairment loss for the year				
- charge for the year	8,752	7	6,785	15,544
- write offs	(1,138)	-	(2,776)	(3,914)
- effect of discounting	(362)	-	(921)	(1,283)
Closing individual impairment	**8,712**	**7**	**9,112**	**17,831**
Provision for collectively impaired assets				
Opening collective impairment	-	2,349	3,223	5,572
Impairment loss for the year				
- charge for the year	4,532	1,686	2,003	8,221
- recoveries	-	165	179	344
- assumed on amalgamation	-	2,250	-	2,250
- write offs	(69)	(2,277)	(1,524)	(3,870)
Closing collective impairment	**4,463**	**4,173**	**3,881**	**12,517**
Total provision for impairment	**13,175**	**4,180**	**12,993**	**30,348**

* *In determining the charge for the period, the RECL management agreement has been taken into consideration, refer to Note 26 - Related party transactions for more details. In assessing the requirements for provisions, the Group has identified loans for which a loss is expected to be covered by the management agreement of $9.8 million as at 5 January 2011. Whilst the nominal loss is covered by the management agreement, the agreement does not cover the loss arising from the time value of money and therefore a provision of $2.2 million is included above. The agreement covers the MARAC property loans with a book value of $131 million as at 5 January 2011.*

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

29 Credit risk exposure (continued)
(a) Credit impairment provisioning (continued)
(i) Provision for impaired assets (continued)

	Property	Consumer & personal	All other industries (SME)	Total
	$000	$000	$000	$000
SOCIETY - 5 Jan 11				
Provision for individually impaired assets				
Opening individual impairment	-	-	-	-
Impairment loss for the period				
- assumed on amalgamation	10,049	-	-	10,049
Closing individual impairment	**10,049**	**-**	**-**	**10,049**
Provision for collectively impaired assets				
Opening collective impairment	-	-	-	-
Impairment loss for the period				
- assumed on amalgamation	12,649	-	278	12,927
Closing collective impairment	**12,649**	**-**	**278**	**12,927**
Total provision for impairment	**22,698**	**-**	**278**	**22,976**

(ii) Impaired asset expense

	Non-securitised		Securitised		Total	
	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000
GROUP						
Expense for individually impaired assets	6,942	15,426	78	118	7,020	15,544
Expense for collectively impaired assets	(1,202)	7,609	276	612	(926)	8,221
Total impaired asset expense	**5,740**	**23,035**	**354**	**730**	**6,094**	**23,765**

(iii) Individually impaired assets

GROUP						
Opening	42,102	22,778	545	687	42,647	23,465
Additions	13,284	33,048	30	224	13,314	33,272
Deletions	(9,549)	(13,724)	(404)	(366)	(9,953)	(14,090)
Assumed on amalgamation	29,914	-	-	-	29,914	-
Closing gross individually impaired assets	**75,751**	**42,102**	**171**	**545**	**75,922**	**42,647**
SOCIETY						
Opening	-	-	-	-	-	-
Assumed on amalgamation	29,914	-	-	-	29,914	-
Closing gross individually impaired assets	**29,914**	**-**	**-**	**-**	**29,914**	**-**

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

29 Credit risk exposure (continued)
(a) Credit impairment provisioning (continued)
(iii) Individually impaired assets (continued)

	Property	Consumer & personal	All other industries (SME)	Total
	$000	$000	$000	$000
GROUP - 5 Jan 11				
Opening	25,106	15	17,526	42,647
Additions	8,624	-	4,690	13,314
Deletions	(8,846)	(15)	(1,092)	(9,953)
Assumed on amalgamation	29,914	-	-	29,914
Closing gross individually impaired assets	**54,798**	**-**	**21,124**	**75,922**
GROUP - 30 Jun 10				
Opening	6,059	-	17,406	23,465
Additions	22,042	15	11,215	33,272
Deletions	(2,995)	-	(11,095)	(14,090)
Closing gross individually impaired assets	**25,106**	**15**	**17,526**	**42,647**
SOCIETY - 5 Jan 11				
Opening	-	-	-	-
Assumed on amalgamation	29,914	-	-	29,914
Closing gross individually impaired assets	**29,914**	**-**	**-**	**29,914**

(iv) Restructured assets

	Non-securitised		Securitised		Total	
	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000
GROUP - Restructured assets	3,885	3,234	-	-	3,885	3,234
SOCIETY - Restructured assets	569	-	-	-	569	-

	Property	Consumer & personal	All other industries (SME)	Total
	$000	$000	$000	$000
GROUP - 5 Jan 11				
Restructured assets	569	2,783	533	3,885
GROUP - 30 Jun 10				
Restructured assets	-	2,722	512	3,234
SOCIETY - 5 Jan 11				
Restructured assets	569	-	-	569

(v) Past due but not impaired

	Non-securitised		Securitised		Total	
	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000
GROUP						
Less than 30 days old	38,199	12,514	3,291	2,942	41,490	15,456
31 and less than 60 days old	14,788	31,552	1,372	1,326	16,160	32,878
61 but less than 90 days old	6,635	8,783	442	429	7,077	9,212
More than 90 days old	76,377	59,939	1,405	1,434	77,782	61,373
Total past due but not impaired	**135,999**	**112,788**	**6,510**	**6,131**	**142,509**	**118,919**

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

29 **Credit risk exposure (continued)**
(a) **Credit impairment provisioning (continued)**
(v) **Past due but not impaired (continued)**

	Non-securitised		Securitised		Total	
	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000
SOCIETY						
Less than 30 days old	8,815	-	-	-	8,815	-
31 and less than 60 days old	2,323	-	-	-	2,323	-
61 but less than 90 days old	392	-	-	-	392	-
More than 90 days old	13,307	-	-	-	13,307	-
Total past due but not impaired	**24,837**	**-**	**-**	**-**	**24,837**	**-**

	Property $000	Consumer & personal $000	All other industries (SME) $000	Total $000
GROUP - 5 Jan 11				
Less than 30 days old	15,073	12,758	13,659	41,490
31 and less than 60 days old	3,787	4,037	8,336	16,160
61 but less than 90 days old	2,739	1,934	2,404	7,077
More than 90 days old	51,791	6,335	19,656	77,782
Total past due but not impaired	**73,390**	**25,064**	**44,055**	**142,509**
GROUP - 30 Jun 10				
Less than 30 days old	1,229	6,450	7,777	15,456
31 and less than 60 days old	15,690	2,566	14,622	32,878
61 but less than 90 days old	2,702	847	5,663	9,212
More than 90 days old	48,067	3,271	10,035	61,373
Total past due but not impaired	**67,688**	**13,134**	**38,097**	**118,919**
SOCIETY - 5 Jan 11				
Less than 30 days old	4,041	2,874	1,900	8,815
31 and less than 60 days old	1,938	385	-	2,323
61 but less than 90 days old	103	289	-	392
More than 90 days old	3,886	2,723	6,698	13,307
Total past due but not impaired	**9,968**	**6,271**	**8,598**	**24,837**

(b) **Concentrations of credit risk**
(i) **By individual counterparties**

	Non-securitised		Securitised		Total	
	5 Jan 11	30 Jun 10	5 Jan 11	30 Jun 10	5 Jan 11	30 Jun 10
	Number of counterparties		Number of counterparties		Number of counterparties	
GROUP						
Individual credit exposures over 10% (as a % of equity):						
10% - 19% - cash and cash equivalents	3	1	-	-	3	1
20% - 29% - cash and cash equivalents	1	1	-	-	1	1
SOCIETY						
Individual credit exposures over 10% (as a % of equity):						
10% - 19% - cash and cash equivalents	2	-	-	-	2	-
20% - 29% - cash and cash equivalents	2	-	-	-	2	-

Short term funds held with New Zealand registered international banks.

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

29 Credit risk exposure (continued)
(b) Concentrations of credit risk (continued)

(ii) By industry

	Non-securitised		Securitised		Total	
	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000
GROUP						
Agricultural, forestry and fishing	182,531	88,483	2,661	4,815	185,192	93,298
Government and public authorities	18,922	19,434	752	1,496	19,674	20,930
Financial, investments and insurance	34,563	27,058	790	1,402	35,353	28,460
Construction	62,670	62,778	1,572	3,060	64,242	65,838
Transport and storage	70,944	85,295	2,079	3,259	73,023	88,554
Wholesale and retail trade	140,493	179,516	3,302	3,800	143,795	183,316
Hospitality and tourism	61,090	37,133	205	1,158	61,295	38,291
Manufacturing and printing	38,642	40,048	1,131	2,027	39,773	42,075
Property #	307,439	149,917	-	113	307,439	150,030
Consumer & personal	645,198	251,666	181,911	139,723	827,109	391,389
Total financial receivables	**1,562,492**	**941,328**	**194,403**	**160,853**	**1,756,895**	**1,102,181**
SOCIETY						
Agricultural, forestry and fishing	73,874	-	-	-	73,874	-
Government and public authorities	-	-	-	-	-	-
Financial, investments and insurance	4,163	-	-	-	4,163	-
Construction	2,531	-	-	-	2,531	-
Transport and storage	475	-	-	-	475	-
Wholesale and retail trade	5,634	-	-	-	5,634	-
Hospitality and tourism	19,641	-	-	-	19,641	-
Manufacturing and printing	1,188	-	-	-	1,188	-
Property	176,034	-	-	-	176,034	-
Consumer & personal	353,001	-	33,148	-	386,149	-
Total financial receivables	**636,541**	**-**	**33,148**	**-**	**669,689**	**-**

As at 5 January 2011, included in the balance of the Group's property industry above, is $131m of ex-MARAC property development and investment loans which are covered by the RECL management agreement, refer Note 26. A further $35m of property development loans acquired by the Group from CBS and SCBS in the merger are also included in this category, net of collective provisions notionally allocated to development and investment property. The remaining $141m is commercial property.

(iii) By geographic region

	Non-securitised 5 Jan 11	Non-securitised 30 Jun 10	Securitised 5 Jan 11	Securitised 30 Jun 10	Total 5 Jan 11	Total 30 Jun 10
GROUP						
Auckland	462,887	359,143	66,309	64,273	529,196	423,416
Wellington	103,801	91,795	13,305	11,567	117,106	103,362
Rest of North Island	403,325	291,413	45,915	44,138	449,240	335,551
Canterbury	405,476	95,753	55,352	25,928	460,828	121,681
Rest of South Island	184,318	103,224	13,522	14,947	197,840	118,171
Overseas	2,685	-	-	-	2,685	-
Total financial receivables	**1,562,492**	**941,328**	**194,403**	**160,853**	**1,756,895**	**1,102,181**
SOCIETY						
Auckland	108,488	-	260	-	108,748	-
Wellington	17,427	-	236	-	17,663	-
Rest of North Island	109,368	-	-	-	109,368	-
Canterbury	310,015	-	30,146	-	340,161	-
Rest of South Island	88,558	-	2,506	-	91,064	-
Overseas	2,685	-	-	-	2,685	-
Total financial receivables	**636,541**	**-**	**33,148**	**-**	**669,689**	**-**

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

29 **Credit risk exposure (continued)**
(c) **Maximum exposure to credit risk by internal risk grading (continued)**

	Non-securitised		Securitised		Total	
	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000
GROUP						
Grade 1 - Undoubted	34,606	78	-	36	34,606	114
Grade 2 - Strong	361,686	41,104	26,850	364	388,536	41,468
Grade 3 - Sound *	894,329	699,657	160,143	151,667	1,054,472	851,324
Grade 4 - Satisfactory	105,487	104,937	3,344	4,060	108,831	108,997
Grade 5 - Uncertain	52,450	51,107	2,638	2,638	55,088	53,745
Grade 6 - At risk	48,774	17,516	994	1,518	49,768	19,034
Grade 7 - Probable loss	65,160	26,929	434	570	65,594	27,499
Total maximum exposure to credit risk	**1,562,492**	**941,328**	**194,403**	**160,853**	**1,756,895**	**1,102,181**
SOCIETY						
Grade 1 - Undoubted	34,606	-	-	-	34,606	-
Grade 2 - Strong	340,070	-	26,850	-	366,920	-
Grade 3 - Sound	164,889	-	6,298	-	171,187	-
Grade 4 - Satisfactory	46,510	-	-	-	46,510	-
Grade 5 - Uncertain	10,108	-	-	-	10,108	-
Grade 6 - At risk	21,154	-	-	-	21,154	-
Grade 7 - Probable loss	19,204	-	-	-	19,204	-
Total maximum exposure to credit risk	**636,541**	**-**	**33,148**	**-**	**669,689**	**-**

	Property $000	Consumer & personal $000	All other industries (SME) $000	Total $000
GROUP - 5 Jan 11				
Grade 1 - Undoubted	17,239	7,708	9,659	34,606
Grade 2 - Strong	86,441	265,509	36,586	388,536
Grade 3 - Sound *	121,814	517,134	415,524	1,054,472
Grade 4 - Satisfactory	16,068	18,368	74,395	108,831
Grade 5 - Uncertain	4,357	8,639	42,092	55,088
Grade 6 - At risk	9,957	5,276	34,535	49,768
Grade 7 - Probable loss	51,565	1,236	12,793	65,594
Total maximum exposure to credit risk	**307,441**	**823,870**	**625,584**	**1,756,895**

* *In determining the charge for the period, the RECL management agreement has been taken into consideration, refer to Note 26 - Related party transactions for more details. In the risk grading table above, $48 million of loans have been transferred from risk grades 4 to 6, to risk grade 3 as they are covered by the RECL management agreement. In assessing the requirements for provisions, the Group has identified loans for which a loss is expected to be covered by the management agreement of $9.8 million as at 5 January 2011. Whilst the nominal loss is covered by the management agreement, the agreement does not cover the loss arising from the time value of money and therefore a provision of $2.2 million is included above. The agreement covers the MARAC property loans with a book value of $131 million as at 5 January 2011.*

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

29 **Credit risk exposure (continued)**

(c) **Maximum exposure to credit risk by internal risk grading (continued)**

	Property	Consumer & personal	All other industries (SME)	Total
	$000	$000	$000	$000
GROUP - 30 Jun 10				
Grade 1 - Undoubted	-	52	62	114
Grade 2 - Strong	25,200	892	15,376	41,468
Grade 3 - Sound	34,029	389,424	427,871	851,324
Grade 4 - Satisfactory	48,229	551	60,217	108,997
Grade 5 - Uncertain	17,268	384	36,093	53,745
Grade 6 - At risk	9,085	73	9,876	19,034
Grade 7 - Probable loss	16,219	13	11,267	27,499
Total maximum exposure to credit risk	**150,030**	**391,389**	**560,762**	**1,102,181**
SOCIETY - 5 Jan 11				
Grade 1 - Undoubted	17,239	7,708	9,659	34,606
Grade 2 - Strong	66,469	265,251	35,200	366,920
Grade 3 - Sound	43,899	94,532	32,756	171,187
Grade 4 - Satisfactory	16,058	9,145	21,307	46,510
Grade 5 - Uncertain	4,357	2,815	2,936	10,108
Grade 6 - At risk	9,909	3,117	8,128	21,154
Grade 7 - Probable loss	18,105	342	757	19,204
Total maximum exposure to credit risk	**176,036**	**382,910**	**110,743**	**669,689**

(d) **Commitments to extend credit**

	Non-securitised		Securitised		Total	
	5 Jan 11	30 Jun 10	5 Jan 11	30 Jun 10	5 Jan 11	30 Jun 10
	$000	$000	$000	$000	$000	$000
GROUP						
Undrawn facilities available to customers	105,849	70,495	57	-	105,906	70,495
Conditional commitments to fund at future dates	1,708	18,499	-	-	1,708	18,499
SOCIETY						
Undrawn facilities available to customers	54,275	-	57	-	54,332	-
Conditional commitments to fund at future dates	1,708	-	-	-	1,708	-

30 **Liquidity risk**

Liquidity risk is the risk that the Group may encounter difficulty in raising funds at short notice to meet its commitments and arises from any mismatch of the maturity of financial assets and liabilities. Responsibility for liquidity management is delegated to the Asset and Liability Committee (ALCO), with the Risk Committee providing oversight.

The Group manages liquidity and funding risk by:
- daily liquidity reporting and scenario analysis to quantify the Group's current and forecast position.
- maintaining a diverse and stable funding base.
- retaining borrowing facilities committed to the Group by registered banks.
- holding a portfolio of liquid assets.
- ensuring the liquidity management framework is compliant with local regulatory requirements.

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

30 Liquidity risk (continued)

The following tables show the cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity.

In the following tables, total financial assets do not include unrecognised loan commitments and total financial liabilities do not include undrawn committed bank facilities.

The tables include estimates as to the average interest rate applicable for each asset or liability class during the contractual term.

Contractual liquidity profile of financial assets and liabilities

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
GROUP - 5 Jan 11							
Financial assets							
Cash and cash equivalents	99,962	187,407	-	-	-	-	287,369
Investments	-	2,643	8,030	1,773	11,014	3,604	27,064
Finance receivables	-	435,940	271,472	353,472	512,584	669,946	2,243,414
Finance receivables - securitised	-	47,995	40,797	64,679	60,395	46,867	260,733
Derivative financial assets	4,995	-	-	-	-	-	4,995
Other financial assets	-	30,516	-	196	-	-	30,712
Total financial assets	**104,957**	**704,501**	**320,299**	**420,120**	**583,993**	**720,417**	**2,854,287**
Financial liabilities							
Borrowings	213,607	822,119	441,114	131,793	139,355	-	1,747,988
Borrowings - securitised	-	23,368	149,569	-	-	-	172,937
Derivative financial liabilities	1,217	130	272	602	184	-	2,405
Other financial liabilities	-	38,864	-	-	-	-	38,864
Total financial liabilities	**214,824**	**884,481**	**590,955**	**132,395**	**139,539**	**-**	**1,962,194**
Net financial assets	**(109,867)**	**(179,980)**	**(270,656)**	**287,725**	**444,454**	**720,417**	**892,093**
Unrecognised loan commitments	53,282	53,673	-	-	-	-	106,955
Undrawn committed bank facilities	305,000	-	-	-	-	-	305,000

The undrawn committed bank facilities totalling $305.0 million are available to be drawn down on demand. To the extent drawn, $50.0 million is contractually repayable in 6-12 months time, $155.0 million is contractually repayable in 1-2 years time and $100.0 million is contractually repayable in 2-5 years time upon facility expiry.

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
GROUP - 30 Jun 10							
Financial assets							
Cash and cash equivalents	67,822	18,584	-	-	-	-	86,406
Finance receivables	-	353,889	185,061	256,124	327,552	223	1,122,849
Finance receivables - securitised	-	47,104	40,001	58,225	47,011	-	192,341
Derivative financial assets	5,013	-	-	-	-	-	5,013
Other financial assets	-	15,671	30,000	-	-	-	45,671
Total financial assets	**72,835**	**435,248**	**255,062**	**314,349**	**374,563**	**223**	**1,452,280**
Financial liabilities							
Borrowings	62,899	337,640	206,076	152,395	143,151	-	902,161
Borrowings - securitised	-	3,120	149,628	-	-	-	152,748
Derivative financial liabilities	1,484	-	-	-	-	-	1,484
Other financial liabilities	1,342	96,365	-	-	-	-	97,707
Total financial liabilities	**65,725**	**437,125**	**355,704**	**152,395**	**143,151**	**-**	**1,154,100**
Net financial assets	**7,110**	**(1,877)**	**(100,642)**	**161,954**	**231,412**	**223**	**298,180**
Unrecognised loan commitments	70,495	-	-	-	-	-	70,495
Undrawn committed bank facilities	195,250	-	-	-	-	-	195,250

The undrawn committed bank facilities totalling $195.3 million are available to be drawn down on demand. To the extent drawn, $195.3 million is contractually repayable in 6-12 months time upon facility expiry.

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

30 Liquidity risk (continued)

Contractual liquidity profile of financial assets and liabilities

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
SOCIETY - 5 Jan 11							
Financial assets							
Cash and cash equivalents	91,830	187,407	-	-	-	-	279,237
Investments	-	2,643	8,030	1,773	11,014	3,604	27,064
Finance receivables	-	101,937	78,497	111,644	177,607	668,868	1,138,553
Finance receivables - securitised	-	2,315	1,951	3,224	12,838	46,867	67,195
Derivative financial assets	4,995	-	-	-	-	-	4,995
Other financial assets	-	827	842,706	196	-	-	843,729
Total financial assets	**96,825**	**295,129**	**931,184**	**116,837**	**201,459**	**719,339**	**2,360,773**
Financial liabilities							
Borrowings	213,607	822,119	441,114	131,793	139,355	-	1,747,988
Borrowings - securitised	-	20,062	-	-	-	-	20,062
Derivative financial liabilities	-	130	272	602	184	-	1,188
Other financial liabilities	-	18,149	-	-	-	-	18,149
Total financial liabilities	**213,607**	**860,460**	**441,386**	**132,395**	**139,539**	**-**	**1,787,387**
Net financial assets	**(116,782)**	**(565,331)**	**489,798**	**(15,558)**	**61,920**	**719,339**	**573,386**
Unrecognised loan commitments	1,708	53,673	-	-	-	-	55,381
Undrawn committed bank facilities	255,000	-	-	-	-	-	255,000

The undrawn committed bank facilities totalling $255.0 million are available to be drawn down on demand. To the extent drawn, $155.0 million is contractually repayable in 1-2 years time and $100.0 million is contractually repayable in 2-5 years time upon facility expiry.

Expected maturity profile of financial assets and liabilities

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
GROUP - 5 Jan 11							
Financial assets							
Cash and cash equivalents	99,962	187,407	-	-	-	-	287,369
Investments	-	2,643	8,030	1,773	11,014	3,604	27,064
Finance receivables	-	401,300	334,495	393,500	739,914	315	1,869,524
Finance receivables - securitised	-	59,101	45,423	61,703	68,306	-	234,533
Derivative financial asset	4,995	-	-	-	-	-	4,995
Other financial assets	-	30,517	-	196	-	-	30,713
Total financial assets	**104,957**	**680,968**	**387,948**	**457,172**	**819,234**	**3,919**	**2,454,198**
Financial liabilities							
Borrowings	76,315	256,941	320,980	445,798	365,857	374,790	1,840,681
Borrowings - securitised	-	23,368	149,569	-	-	-	172,937
Derivative financial liabilities	1,217	130	272	602	184	-	2,405
Other financial liabilities	-	38,864	-	-	-	-	38,864
Total financial liabilities	**77,532**	**319,303**	**470,821**	**446,400**	**366,041**	**374,790**	**2,054,887**
Net financial assets	**27,425**	**361,665**	**(82,873)**	**10,772**	**453,193**	**(370,871)**	**399,311**
Unrecognised loan commitments	53,282	53,673	-	-	-	-	**106,955**
Undrawn committed bank facilities	305,000	-	-	-	-	-	**305,000**

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

30 Liquidity risk (continued)
Expected maturity profile of financial assets and liabilities (continued)

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
GROUP - 30 Jun 10							
Financial assets							
Cash and cash equivalents	67,822	18,584	-	-	-	-	86,406
Finance receivables	-	320,448	246,655	310,265	262,075	-	1,139,443
Finance receivables - securitised	-	47,104	40,001	58,225	47,011	-	192,341
Derivative financial assets	5,013	-	-	-	-	-	5,013
Other financial assets	-	15,671	30,000	-	-	-	45,671
Total financial assets	**72,835**	**401,807**	**316,656**	**368,490**	**309,086**	**-**	**1,468,874**
Financial liabilities							
Borrowings	25,160	264,809	145,749	254,617	220,261	641	911,237
Borrowings - securitised	-	3,120	149,628	-	-	-	152,748
Derivative financial liabilities	1,484	-	-	-	-	-	1,484
Other financial liabilities	1,342	96,365	-	-	-	-	97,707
Total financial liabilities	**27,986**	**364,294**	**295,377**	**254,617**	**220,261**	**641**	**1,163,176**
Net financial assets	**44,849**	**37,513**	**21,279**	**113,873**	**88,825**	**(641)**	**305,698**
Unrecognised loan commitments	70,495	-	-	-	-	-	70,495
Undrawn committed bank facilities	195,250	-	-	-	-	-	195,250
SOCIETY - 5 Jan 11							
Financial assets							
Cash and cash equivalents	91,830	187,407	-	-	-	-	279,237
Investments	-	2,643	8,030	1,773	11,014	3,604	27,064
Finance receivables	-	101,937	78,497	111,644	446,398	315	738,791
Finance receivables - securitised	-	2,315	1,951	3,224	33,425	-	40,915
Derivative financial assets	4,995	-	-	-	-	-	4,995
Other financial assets	-	827	842,706	196	-	-	843,729
Total financial assets	**96,825**	**295,129**	**931,184**	**116,837**	**490,837**	**3,919**	**1,934,731**
Financial liabilities							
Borrowings	76,315	256,941	320,980	445,798	365,857	374,790	1,840,681
Borrowings - securitised	-	20,062	-	-	-	-	20,062
Derivative financial liabilities	-	130	272	602	184	-	1,188
Other financial liabilities	-	18,149	-	-	-	-	18,149
Total financial liabilities	**76,315**	**295,282**	**321,252**	**446,400**	**366,041**	**374,790**	**1,880,080**
Net financial assets	**20,510**	**(153)**	**609,932**	**(329,563)**	**124,796**	**(370,871)**	**54,651**
Unrecognised loan commitments	1,708	53,673	-	-	-	-	55,381
Undrawn committed bank facilities	255,000	-	-	-	-	-	255,000

The tables above show management's expected maturities of existing financial assets and financial liabilities.

Expected maturities of financial assets are based on management's best estimate having regard to current market conditions and past experience. Historical debenture reinvestment levels have been applied to debenture borrowings. Other financial liabilities reflect contractual maturities.

The above does not reflect a forward looking view of how the Group expects actual financial assets and liabilities to perform in the future, as it does not include new lending and borrowing.

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

31 Interest rate risk

Interest rate risk is the risk that market interest rates will change and impact on the Group's financial results by affecting the margin between interest earning assets and interest bearing liabilities. The Group monitors market interest rates on a daily basis and regularly reviews interest rate exposure. Interest rate risk is mitigated by management's frequent monitoring of the interest rate repricing profiles of borrowings and finance receivables, and where appropriate, the establishment of derivative instruments.

Contractual Repricing Analysis

The interest rate risk profile of financial assets and liabilities that follows has been prepared on the basis of maturity or next repricing date, whichever is earlier.

	Effective Int Rate %	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
GROUP - 5 Jan 11							
Financial assets							
Cash and cash equivalents	4.05%	285,676	-	-	-	-	285,676
Investments	4.93%	2,003	6,165	930	9,119	3,323	21,540
Due from related parties	12.97%	27,525	-	-	-	-	27,525
Finance receivables	9.44%	835,889	261,205	296,271	168,168	959	1,562,492
Finance receivables - securitised	10.79%	67,361	41,531	53,469	32,042	-	194,403
Other financial assets	-	2,991	-	196	-	-	3,187
Total financial assets		**1,221,445**	**308,901**	**350,866**	**209,329**	**4,282**	**2,094,823**
Financial liabilities							
Borrowings	6.07%	1,001,714	422,399	118,832	133,709	59	1,676,713
Borrowings - securitised	4.37%	169,278	-	-	-	-	169,278
Other financial liabilities	-	41,269	-	-	-	-	41,269
Total financial liabilities		**1,212,261**	**422,399**	**118,832**	**133,709**	**59**	**1,887,260**
Effect of derivatives held for risk management		135,655	(70,524)	(107,167)	42,036	-	-
Net financial assets		**144,839**	**(184,022)**	**124,867**	**117,656**	**4,223**	**207,563**
GROUP - 30 Jun 10							
Financial assets							
Cash and cash equivalents	3.01%	86,406	-	-	-	-	86,406
Due from related parties	13.55%	13,664	30,000	-	-	-	43,664
Finance receivables	10.85%	398,059	201,879	230,067	111,323	-	941,328
Finance receivables - securitised	11.66%	39,392	33,453	48,693	39,315	-	160,853
Other financial assets	-	2,007	-	-	-	-	2,007
Total financial assets		**539,528**	**265,332**	**278,760**	**150,638**	**-**	**1,234,258**
Financial liabilities							
Borrowings	7.79%	379,801	185,346	133,931	135,303	-	834,381
Borrowings - securitised	4.19%	149,298	-	-	-	-	149,298
Other financial liabilities	-	99,191	-	-	-	-	99,191
Total financial liabilities		**628,290**	**185,346**	**133,931**	**135,303**	**-**	**1,082,870**
Effect of derivatives held for risk management		46,020	(32,120)	(49,580)	35,680	-	-
Net financial assets		**(42,742)**	**47,866**	**95,249**	**51,015**	**-**	**151,388**

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

31 Interest rate risk

Contractual Repricing Analysis

	Effective Int Rate %	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
SOCIETY - 5 Jan 11							
Financial assets							
Cash and cash equivalents	4.07%	277,544	-	-	-	-	277,544
Investments	4.93%	2,003	6,165	930	9,119	3,323	21,540
Due from related parties	7.00%	-	787,576	-	-	-	787,576
Finance receivables	7.53%	443,134	62,996	106,097	23,355	959	636,541
Finance receivables - securitised	6.73%	20,068	5,325	4,764	2,991	-	33,148
Other financial assets		5,821	-	196	-	-	6,017
Total financial assets		**748,570**	**862,062**	**111,987**	**35,465**	**4,282**	**1,762,366**
Financial liabilities							
Borrowings	6.07%	1,001,714	422,399	118,832	133,709	59	1,676,713
Borrowings - securitised	3.80%	20,000	-	-	-	-	20,000
Other financial liabilities	-	19,337	-	-	-	-	19,337
Total financial liabilities		**1,041,051**	**422,399**	**118,832**	**133,709**	**59**	**1,716,050**
Effect of derivatives held for risk management		40,775	(42,874)	(63,717)	65,816	-	-
Net financial assets		**(251,706)**	**396,789**	**(70,562)**	**(32,428)**	**4,223**	**46,316**

The tables above illustrate the periods in which the cash flows from interest rate swaps are expected to occur and affect profit or loss.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non standard interest rate scenarios. Standard scenarios which are considered on a monthly basis include a 100 basis point parallel fall or rise in the yield curve. There is no material impact on profit or loss or on other comprehensive income in terms of a fair value change from movements in market interest rates. Further there is no material cash flow impact on the Statement of Cash Flows from a 100 basis point change in interest rates.

	GROUP		SOCIETY	
	5 Jan 11 $000	30 Jun 10 $000	5 Jan 11 $000	30 Jun 10 $000
32 Contingent liabilities and commitments				
Letters of credit, guarantees and performance bonds	2,340	2,767	-	-
Total contingent liabilities	**2,340**	**2,767**	**-**	**-**

33 Staff share ownership arrangements

In the period, key management personnel were allotted 2,160 shares by PGC, resulting from participation in the PGC Dividend reinvestment plan for the dividend paid in December 2010. No shares were transferred by the Trustees to staff at the end of the restrictive period (June 2010: nil).

The total expense recognised in the period was $44,262 (30 June 2010: $127,869).

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

34 Business Combination

On 5 January 2011, Combined Building Society acquired the assets and engagements of Southern Cross Building Society (SCBS) and CBS Canterbury (CBS) and all of the shares in MARAC Finance Limited. As part of this process:

- MARAC Financial Services Limited exchanged its shareholding in MARAC and its investment in MARAC JV Holdings Limited for shares in Building Society Holdings Limited (BSHL). The agreed consideration of $206,769,000 converted to the issue of 3.94 fully paid shares in BSHL in exchange for each MARAC share.
- Combined Building Society, a wholly owned subsidiary of BSHL, acquired all of the assets and engagements of SCBS and CBS for the total agreed consideration of $79,574,000.
- Combined Building Society acquired all of the shares in MARAC through BSHL transferring its shareholding in MARAC to Combined Building Society (through BSHL No. 1 Limited as intermediate holders).

Fair value of consideration transferred at acquisition date

	SOCIETY **5 Jan 11** **$000**
Shares issued, at fair value	79,574
Consideration transferred	**79,574**

Identifiable assets acquired and liabilities assumed	**Fair value** **05-Jan-11** **$000**
Assets	
Cash and cash equivalents	207,126
Investments	21,540
Finance receivables	669,689
Other assets	12,075
Intangible assets	155
Total assets	**910,585**
Liabilities	
Borrowings	841,335
Other liabilities	9,817
Contingent liabilities	-
Total liabilities	**851,152**
Total net identifiable assets	**59,433**
Total consideration transferred	79,574
Fair value of identifiable net assets	59,433
Goodwill	**20,141**

Goodwill on acquisition of $20.1 million has arisen due to expected benefits of the newly formed financial services group. Combined Building Society has the benefits of scale and scope and is expected to be value enhancing for all shareholders and offers a better outcome than could be expected as standalone entities.

Goodwill of $20.1 million has not been allocated to individual cash generating units as at 5 January 2011 as the adjustments in respect of the acquisition have only been provisionally determined as at the balance sheet date. The Group expects to complete the allocation during the 2011 calendar year.

35 Subsequent events

There have been no other material events subsequent to balance date that would affect the interpretation of the interim financial statements or the performance of the Group.

The results and cash flows of the Group for the period from 1 July 2010 to 5 January 2011 and comparative results and cash flows of the Group for the year ended 30 June 2010 reflect the MARAC Group only. Similarly, the comparative financial position of the Group at 30 June 2010 reflects the MARAC Group only. Refer to Note 1 for further information.

Independent Auditor's Report

To the Shareholder of Combined Building Society

Report on the Financial Statements

We have audited the accompanying interim financial statements of Combined Building Society ("the Company") and Group (collectively known as the "Group") on pages 4 to 41. The interim financial statements comprise the interim statement of financial position as at 5 January 2011 and the interim statements of comprehensive income, changes in equity and cash flows for the period 1 July 2010 to 5 January 2011, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of interim financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of interim financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these interim financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the Group in relation to general accounting services. Partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the Group. There are however, certain restrictions on borrowings which the partners and employees of our firm can have with the Group. These matters have not impaired our independence as auditors of the Group. The firm has no other relationship with, or interest in, the Group.

Opinion

In our opinion the interim financial statements of Combined Building Society on pages 4 to 41:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the Group as at 5 January 2011 and of its financial performance and cash flows for the period 1 July 2010 to 5 January 2011.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

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

KPMG

16 March 2011
Auckland

APPENDIX 2: INDEPENDENT REPORT

Proposed Acquisition of PGG Wrightson Finance by
Heartland Building Society

Appraisal Report

On the Fairness of the Proposed Transaction
for Investors in Debt Securities Issued
by PGG Wrightson Finance

July 2011

northingtonPARTNERS
investment banking • corporate finance

northingtonPARTNERS

Table of Contents

ABBREVIATIONS AND DEFINITIONS

Abbreviations used in this report are as follows:

Adjusted NTA or Purchase Price	The NTA of PWF adjusted to take account of various agreed items
Completion Date	The target date for the Proposed Transaction to take legal effect, being 31 August 2011
Crown Retail Guarantee	A guarantee given by the Crown pursuant to the Crown Retail Guarantee scheme established pursuant to the Crown Retail Deposit Guarantee Scheme Act 2009
Debt Transfer	The termination of PWF's rights and obligations in respect of the PWF Debt Securities and the assumption of those rights and obligations by HBS
Distribution Agreement	A distribution and services agreement entered into between PGW and HBS pursuant to which PGW will promote the financial products of HBS to PGW customers in exchange for commission payments
EBITDA	Earnings before interest, tax, depreciation and amortisation
Excluded Loans	Certain (mainly impaired) loans retained by PGW and not included as part of the Proposed Transaction
Excluded Loans Purchase Price	The book value of the Excluded Loans recorded three business days prior to the Completion Date
FY	Financial Year
HBS	Heartland Building Society
HBS Debt Securities	Bonds and Deposits issued by HBS
HNZ	Heartland New Zealand Limited
GFC	Global Financial Crisis
Master Trust Deed	A master trust deed dated 29 October 2010 pursuant to which the HBS Debt Securities are issued
NBDT	Non bank deposit taker, being a person, other than a registered bank, that offers debt securities to the public within the meaning of the Securities Act 1978, and is in the business of borrowing and lending money, or providing financial services or both
NBDT Regulations	Prudential regulations introduced by RBNZ relating to (among other things) the governance and capital adequacy requirements of NBDTs
Non-Guaranteed Investors	Investors holding PWF Debt Securities that are not covered by the Crown Retail Guarantee, as a result of having opted out of the scheme or otherwise being ineligible
NTA	Net Tangible Assets
NZDX	The debt security market operated by NZX
NZSX	The main board equity security market operated by NZX
NZX	NZX Limited
Northington Partners	Northington Partners Limited
PGC	Pyne Gould Corporation Limited
PGW or Company	PGG Wrightson Limited
Proposed Transaction	The potential sale by PGW of all the shares in PWF to HBS
PWF	PGG Wrightson Finance Limited

PWF Bonds	Secured bonds issued by PWF pursuant to a Trust Deed dated 21 April 2005
PWF Debentures	Secured deposits and debentures issued by PWF pursuant to a Trust Deed dated 7 October 2004
PWF Debt Securities	Collectively, the PWF Bonds, PWF Debentures and PWF Deposits
PWF Deposits	Unsecured deposits issued by PWF pursuant to a Trust Deed dated 7 October 2004
ROE	Return on equity
Sale and Purchase Agreement	An agreement dated 13 June 2011 relating to the sale of PGW's shares in PWF
SPV	A special purpose vehicle established by PGW for the purpose of purchasing the Excluded Loans
RBNZ	Reserve Bank of New Zealand
Recourse Loans	Certain loans which are covered by a Deed of Guarantee and Indemnity, providing HBS with recourse to recoup any losses on the prescribed loans from PGW

EXECUTIVE SUMMARY

BACKGROUND

PGG Wrightson Limited ("**PGW**" or "**Company**") is a New Zealand based company listed on the New Zealand Stock Exchange ("**NZSX**"). The Company is a specialist provider to the agricultural sector and offers a wide range of products, services and solutions to growers, farmers and processors in New Zealand and internationally. PGG Wrightson Finance Limited ("**PWF**") is a wholly-owned subsidiary of PGW and specialises in the provision of financial services to the rural sector.

PGW has commenced a process to sell all of its shares in PWF to Heartland Building Society ("**HBS**"), a wholly-owned subsidiary of NZSX listed Heartland New Zealand Limited ("**HNZ**") (the "**Proposed Transaction**"). HNZ is an entity that was formed in January 2011 following the merger of the financial services businesses of Canterbury Building Society, MARAC Finance Limited, and Southern Cross Building Society. Until recently, HNZ was majority owned by Pyne Gould Corporation Limited ("**PGC**")[1], which also currently owns approximately 9.5% of the ordinary shares in PGW[2].

On 13 June 2011, PGW and HBS formally committed to progress the Proposed Transaction by signing a binding agreement for the sale and purchase of shares in PWF ("**Sale and Purchase Agreement**"). Subject to receiving all relevant regulatory and stakeholder approvals and the satisfaction of other conditions set out in the Sale and Purchase Agreement, the target date for the Proposed Transaction to take legal effect is on or about 31 August 2011 ("**Completion Date**").

Key terms of the Proposed Transaction are as follows (more detailed terms are set out in Section 1.1):

- PGW will sell the PWF business to HBS for an amount equal to the net tangible assets ("**NTA**") of PWF, adjusted to take account of certain agreed items ("**Adjusted NTA**" or "**Purchase Price**"). Part of the consideration for the Purchase Price will be provided by PGW retaining certain (mainly impaired) loans ("**Excluded Loans**"). The difference between the Adjusted NTA and the book value of the Excluded Loans will be paid by HBS to PGW in cash;

- PGW has granted HBS full recourse for a period of three years in relation to a prescribed set of loans with a current book value of $30.0 million ("**Recourse Loans**"). This arrangement allows HBS to recover any future losses suffered on these loans from PGW[3];

- PWF's secured bonds ("**PWF Bonds**"), secured debenture stock ("**PWF Debentures**") and unsecured deposits ("**PWF Deposits**") (collectively, the "**PWF Debt Securities**") will become bonds and deposits issued by HBS ("**HBS Debt Securities**") pursuant to a process whereby PWF's rights and obligations in respect of the PWF Debt Securities will be terminated and assumed by HBS (the "**Debt Transfer**");

- HNZ will raise at least $55.0 million of new equity capital to fund the Proposed Transaction;

[1] PGC owned approximately 72% of the shares on issue in HNZ immediately following the merger. PGC's shares in HNZ have subsequently been distributed (in late May 2011) on an in-specie basis to PGC shareholders and PGC no longer has a direct shareholding in HNZ.

[2] Subsequent to the recent takeover offer for PGW by Agria (Singapore) Pte Ltd ("**Agria**") becoming unconditional, PGC's shareholding in PGW has reduced from 18.3% to the current level of 9.5%.

[3] The arrangement also allows HBS to avoid any losses on any Recourse Loans that become impaired by putting them back to PGW in return for payment of the face value of the loan.

- A distribution and services agreement will be entered into between PGW and HBS ("**Distribution Agreement**") pursuant to which PGW will promote the financial products of HBS to PGW customers in return for commission payments.

As discussed in more detail in Section 1.2, the Proposed Transaction:

- Is subject to the NZX Listing Rules and requires the approval of the Company's shareholders by ordinary resolution. That approval was given at a special meeting of the PGW shareholders on 28 June 2011.

- Must be separately approved by extraordinary resolution of the holders of each class of debt security comprising the PWF Debt Securities.

PGW and the independent directors of PWF have engaged Northington Partners to produce a report which examines the Proposed Transaction from the point of view of the holders of PWF Debt Securities. The purpose of the report is to provide the holders of PWF Debt Securities with relevant information to assist them in their determination of whether to approve or reject the Debt Transfer.

A full description of the scope of our report and the basis of the assessment is set out in Section 1.2. There is no regulatory requirement for a report to the holders of PWF Debt Securities. In considering whether the terms and conditions of the Debt Transfer are fair to the holders of PWF Debt Securities, we have therefore adopted an assessment framework similar to that prescribed by the Listing Rules in relation to the assessment of the Proposed Transaction from the point of view of PGW's shareholders.

SUMMARY OF OUR ASSESSMENT

If the Debt Transfer proceeds, all outstanding PWF Debt Securities will effectively become HBS Debt Securities with the same interest rate and maturity. We therefore suggest that the key issue that holders of the PWF Debt Securities should consider when deciding whether or not to approve the Debt Transfer is straight forward: what impact will the Debt Transfer have on the likelihood of receiving scheduled interest and principal repayments when they are due?

We note that the Proposed Transaction will only proceed if those holders of PWF Debt Securities who currently have the benefit of the Crown retail deposit guarantee ("**Crown Retail Guarantee**") will have the benefit of a Crown Retail Guarantee following completion of the Proposed Transaction. The guarantee scheme, which expires on 31 December 2011, currently provides the holders of PWF Debt Securities who are eligible (and who did not deliberately chose to opt out of the scheme) with a Crown guarantee of their interest and principal payments should PWF become unable to meet its obligations. If the Proposed Transaction (including the Debt Transfer) proceeds, eligible holders of HBS Debt Securities will have the benefit of the Crown Retail Guarantee given to HBS under HBS's own Crown guarantee.

In our view, the existence of the Crown Retail Guarantee significantly reduces the number of investors in PWF Debt Securities who will be potentially affected by the Proposed Transaction. Except for those investors who deliberately chose to opt out of the guarantee scheme or were otherwise ineligible to be covered (collectively, the "**Non-Guaranteed Investors**"), if an investor's holding in any of the PWF Debt Securities matures before 31 December 2011, their investment will be guaranteed under the Crown Retail Guarantee irrespective of whether the investment remains in PWF Debt Securities or is transferred to one of the HBS Debt Securities. If the Debt Transfer does proceed, each of these investors also has the opportunity to consider whether or not to reinvest in HBS Debt Securities at the maturity date of their investment. This decision is separate to determining whether or not to approve the Debt Transfer and should be based on a range of factors that are outside the scope of this report.

The investors in PWF Debt Securities who should be most interested in the Debt Transfer are therefore those investors who, as at the date of the meeting to vote on the Debt Transfer, are:

(i) Non-Guaranteed Investors; or

(ii) Holders of PWF Securities currently covered by the Crown Retail Guarantee but which mature after 31 December 2011.

Collectively, these two groups of investors are referred to as the "**Relevant PWF Debt Security Holders**". Our analysis suggests that the Relevant PWF Debt Security Holders own approximately 50% (by value) of the total PWF Debt Securities on issue at the end of May 2011.

On the basis of the analysis summarised in Section 5.0 of this report, we conclude that the Debt Transfer is fair for the Relevant PWF Debt Security Holders. Our conclusion is based on the following key elements:

- The PWF Debt Securities will become HBS Debt Securities with the same interest rate and maturity date.
- Despite the fact that some investors will transfer from a "secured" position in PWF into an "unsecured" position in HBS, we believe that the practical impact of the change in security position will be limited.
- Compared to PWF, HBS is a larger, more diverse entity with a higher credit rating and arguably greater access to capital. If the current HBS strategy to obtain a banking licence is successful, we expect that HBS will broaden its current funding base and further improve its financial position.
- On that basis, we believe that HBS is less likely than PWF to suffer a level of financial distress over the relevant future projection period which could potentially affect each entity's respective ability to meet its financial commitments.
- We therefore conclude that the interests of the current holders in PWF Debt Securities will be enhanced by the Debt Transfer.

1.0 SUMMARY OF THE PROPOSED TRANSACTION AND SCOPE OF THIS REPORT

1.1 SUMMARY OF PROPOSED TRANSACTION

On 13 June 2011, PGW and HBS formally committed to progress the Proposed Transaction by signing the Sale and Purchase Agreement[4]. Among other things, the Sale and Purchase Agreement sets out the terms of the Proposed Transaction and the steps and conditions required to implement it.

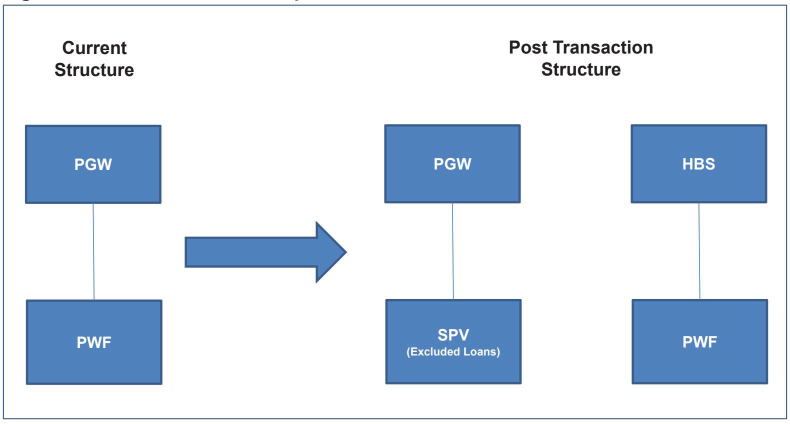
1.1.1 Transaction Steps and Structure

The Proposed Transaction involves the following principal steps:

- The establishment by PGW of a special purpose vehicle ("**SPV**");
- The transfer by PWF of the Excluded Loans to the SPV. This will result in a debt being owed by the SPV back to PWF, equal to the book value of the Excluded Loans recorded three business days prior to the Completion Date ("**Excluded Loans Purchase Price**");
- The sale by PGW of its shares in PWF to HBS[5], and the payment by HBS of the Purchase Price to PGW; and
- The payment of a portion of the Purchase Price received by PGW to the SPV sufficient to allow the SPV to pay the Excluded Loans Purchase Price to PWF.

Set out in Figure 1 below is a representation of the anticipated post transaction corporate structure. Indicative transaction values and cash flows are presented in Appendix I.

Figure 1: Post Transaction Corporate Structure



Source: PGW Management

[4] Technically, the Sale and Purchase Agreement was entered into between PGW and HNZ. However, upon satisfaction of a key condition relating to the Crown Retail Guarantee (see Section 1.1.5 below), HNZ has agreed to procure that HBS purchases the shares in PWF. Accordingly, we have treated HBS as the purchaser of PWF's shares for the purposes of this report.

[5] The shares sold by PGW will include those shares resulting from the automatic conversion of PWF's preference shares into PWF ordinary shares if the Proposed Transaction is approved and implemented.

Other key terms of the Proposed Transaction include:

- HBS and PGW will enter into a Deed of Guarantee and Indemnity in relation to the Recourse Loans, with current book value of approximately $30.0 million. This arrangement provides HBS with a guarantee from PGW in relation to the future payment of principal and interest on the Recourse Loans for a prescribed period of three years;

- As noted below in Section 1.1.4, the Proposed Transaction is conditional on HNZ raising at least $55.0 million in new equity capital. PGW has agreed to participate in the capital raising for $10.0 million of ordinary shares in HNZ, based on the same price and terms as those to be agreed by PGC (which is also investing $10.0 million). We understand that:

  - The subscription price of the shares to be allotted to PGW and PGC is 75 cents per share, determined using a mechanism linked to observed market prices for HNZ shares in the period leading up to the announcement of the Proposed Transaction on 13 June 2011; and

  - HNZ's current intention is that the remainder of the required capital will be raised via an underwritten Share Purchase Plan offer to existing HNZ shareholders and possible further placements to institutional investors.

- PGW and HBS will enter into the Distribution Agreement pursuant to which PGW will promote HBS's financial products to PGW customers. PGW will be paid commissions by HBS in respect of PGW customers who avail themselves of certain HBS financial products.

We also note that if the Proposed Transaction does not proceed, PWF has the option (subject to both parties receiving all necessary consents) of requiring HBS to purchase PWF loans with face value of up to $50.0 million. Because this has been negotiated to provide PWF with a fallback liquidity option outside of the terms of the Proposed Transaction itself, this part of the overall agreement between the parties is not addressed further in our report.

1.1.2 Debt Security Holders

If the Proposed Transaction is successful, PWF's rights and obligations in respect of the PWF Debt Securities will be terminated and assumed by HBS through the issue of the HBS Debt Securities. Pursuant to the Debt Transfer process:

- The PWF Bonds will be de-listed from the NZDX and will become unsecured bonds issued by HBS ("**HBS Bonds**"). Once issued, HBS will apply for the HBS Bonds to be listed on the NZDX;

- The PWF Debentures will become unsecured debentures issued by HBS ("**HBS Debentures**"); and

- The PWF Deposits will become unsecured deposits issued by HBS ("**HBS Deposits**").

As a result of the Debt Transfer, the Trust Deed relating to the PWF Bonds and the separate Trust Deed relating to the PWF Debentures and PWF Deposits will be discharged and will have no further effect. All PWF Debt Securities will become HBS Debt Securities issued pursuant to a Master Trust Deed dated 29 October 2010 between HBS and Trustees Executors Limited ("**Master Trust Deed**") and various supplemental deeds.

Pursuant to the Master Trust Deed:

- The HBS Debt Securities will be issued with substantially the same key terms and conditions as the PWF Debt Securities, with the only material difference relating to the security position of the HBS Debt Securities. In particular, the PWF Bonds and PWF Debentures that are currently "secured" claims on PWF will become "unsecured" HBS Bonds and HBS Debentures.

- The applicable payment terms, interest rate and maturity of the HBS Debt Securities will be the same as those existing for the PWF Debt Securities, and there will be no material change in the way customers use or operate their accounts.

- The HBS Debt Securities will be guaranteed by HBS, HBS's existing subsidiaries and, after the Debt Transfer, PWF.

1.1.3 Other Outcomes Resulting from the Proposed Transaction

If the Proposed Transaction is successful (this will require satisfaction of the various conditions noted in Section 1.1.4 below):

- Those debt securities comprising the PWF Debt Securities which immediately before the date of the Debt Transfer are covered by PWF's Crown Retail Guarantee will, from the Debt Transfer Date, be covered by the terms of HBS's Crown Retail Guarantee.

- A sale and purchase agreement between PWF and ASB Bank Limited ("**ASB**") dated 21 May 2008 ("**Risk Sharing Agreement**") will be terminated. The Risk Sharing Agreement established a facility under which PWF could sell, and ASB had to purchase, a proportion of the income stream of certain qualifying loans made by PWF to its customers. The sold portion of loans transferred pursuant to the facility (book value of $54.5 million as at 31 May 2011) must be re-purchased at book value by PWF from ASB upon termination of the Risk Sharing Agreement. With the exception of $15.3 million of the re-purchased loans that are impaired and will become Excluded Loans, the repurchased loans will form part of PWF's assets that are included in the Proposed Transaction. To assist PWF meet its repurchase obligations, HBS will provide PWF with a loan equal in amount to the book value of the repurchased loans.

- PWF's term bank facility with a facility limit of $100.0 million (undrawn as at 31 May 2011) and overdraft facility with a facility limit of $1.0 million (undrawn as at 31 May 2011) will be terminated.

1.1.4 Proposed Transaction Conditions

The Proposed Transaction is subject to a number of specific terms and general conditions, including (but not limited to):

- The receipt of all necessary approvals (see Section 1.1.5 below);

- HNZ raising new equity capital of at least $55.0 million; and

- PWF receiving signed employment agreements from a material percentage of certain classes of PGW employees.

1.1.5 Required Approvals for the Proposed Transaction

A number of key approvals are required to successfully complete the Proposed Transaction, including (but not limited to):

- **Crown Approvals**: The Treasury (on behalf of the Crown) approving the Proposed Transaction and agreeing that all PWF Debt Securities currently covered by the Crown Retail Guarantee and which will become HBS Debt Securities following the Debt Transfer will continue to be covered by the Crown Retail Guarantee scheme established pursuant to the Crown Retail Deposit Guarantee Scheme Act 2009 and extended in August 2009 until 31 December 2011.

- **Security Holder Approvals**: The PGW shareholders and the holders of PWF Debt Securities separately passing resolutions necessary to approve the Proposed Transaction and the necessary implementation steps.

- **NZX Waiver or Shareholder Approval**: HNZ obtaining a waiver from NZX in relation to compliance with certain Listing Rules or, failing such a waiver being granted, HNZ's shareholders passing an ordinary resolution to approve the Proposed Transaction.

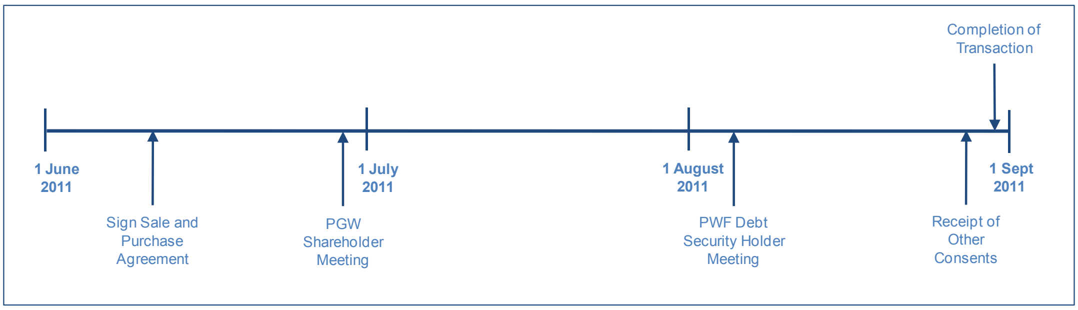
- **Bank Approvals**: Bank approvals in relation to the termination of PWF's banking arrangements, together with any approvals required in relation to the Proposed Transaction under HNZ's bank facilities.

- **Trustee Approvals**: Relevant approvals from the Trustee in respect of the two Trust Deeds governing the issue of the PWF Debt Securities, as well as from the HBS Trustee.

1.1.6 Indicative Timetable

The indicative high-level timeline and steps to complete the Proposed Transaction are presented in Figure 2 below.

Figure 2: Indicative Proposed Transaction Timetable



Source: PGW Management and Sale and Purchase Agreement

1.2 REGULATORY REQUIREMENTS AND SCOPE OF THIS REPORT

1.2.1 Requirements in Relation to the Holders of PWF Debt Securities

Pursuant to the Trust Deeds governing the issue of the PWF Debt Securities, each of PWF's bondholders, debenture holders and depositors must separately approve the Debt Transfer by Extraordinary Resolution, which requires not less than 75 per cent of the relevant persons voting at the meeting to vote in favour of the resolution.

The NZDX Listing Rules do not restrict the Debt Transfer and there is no other regulatory requirement for an Appraisal Report in relation to this aspect of the Proposed Transaction. However, notwithstanding this, the independent directors of PWF have requested that we prepare a report for the benefit of the investors in the PWF Debt Securities.

Section 5.0 of this report specifically addresses the issues we believe the holders of the PWF Debt Securities should consider when deciding whether or not to approve the Debt Transfer. Without any regulatory guidance, we have determined that this section of our report should naturally follow the general framework prescribed by the Listing Rules in relation to the preparation of the Appraisal Report that we prepared in assessing the Proposed Transaction from the point of view of PGW's shareholders.

On that basis, the main focus of our report from the point of view of the holders of PWF Debt Securities is an assessment of whether or not the terms and conditions of the Debt Transfer are fair to the holders of PWF Debt Securities. We believe the grounds for that opinion are clearly set out in Section 5.0 of this report.

We believe that the holders of PWF Debt Securities entitled to vote on the resolution in relation to the Debt Transfer will be provided with sufficient information on which to make an informed decision. The main sources of information are this report and the Information Memorandum accompanying the Notice of Meeting.

1.2.2 Basis of Assessment

Given that the applicable payment terms, interest rate and maturity of the HBS Debt Securities will be the same as those that currently exist in respect of the PWF Debt Securities, we suggest that the fairness of the Debt Transfer from the point of view of the holders of the PWF Debt Securities can be determined principally by examining the relative security position of each class of PWF Debt Security holder before and after the Debt Transfer.

Our analysis and conclusions on the fairness of the Debt Transfer is set out in Section 5.0 of this report.

1.2.3 Reliance on this Report

This report represents one source of information that the holders of PWF Debt Securities may wish to consider when forming their own view on the Debt Transfer. It is not possible to contemplate all stakeholders' personal circumstances or investment objectives and our assessment is therefore general in nature. The appropriate course of action for each stakeholder is dependent on their own unique situation.

1.2.4 Primary Sources of Information and Limitations

The sources of information that we have relied on in preparing this report are set out in Appendix II.

This report is subject to all of the limitations and restrictions set out in Section 6.4. In particular, in preparing this report, Northington Partners has relied on information supplied by PGW, PWF and HBS, and has assumed the honesty and accuracy of this information. Northington Partners accepts no responsibility for inaccurate information supplied by PGW, PWF or HBS.

Our assessment is reliant on a number of key assumptions that have been outlined in this report. Should any of these assumptions not be accurate, our assessment and our conclusions could be materially affected.

2.0 ANALYSIS AND OUTLOOK FOR THE BANK AND NON BANK DEPOSIT TAKER SECTORS

2.1 ECONOMIC OVERVIEW

The New Zealand economy returned to growth in the second half of 2009 after a period of stress following the onset of the global financial crisis ("**GFC**") in 2008. Although growth continued in 2010, the economic recovery has been slow and patchy. Following growth of 0.6% and 0.2% in the March and June quarters respectively, the economy recorded no growth in the second half of the year (a decline in economic activity of 0.2% in the September quarter was offset by growth of 0.2% in the December quarter).

From the financial services sector perspective, key features of the New Zealand economy during 2010 included:

- New Zealand's banking system remained relatively strong, with all locally incorporated banks comfortably meeting regulatory requirements for core funding. Non-performing loans appeared to plateau, and bank profitability continued to improve.

- There was strong demand for New Zealand commodities from Asia, particularly dairy products and logs, driving up the level of exports.

- Domestic demand remained subdued, business confidence softened, and households and businesses restrained spending in an effort to reduce debt levels.

- Government debt remained modest compared to other OECD economies, notwithstanding an increase in public debt levels as a result of the September 2010 earthquake in Canterbury, modest levels of fiscal stimulus introduced following the GFC, and lower levels of tax revenue collected through continuing softness in economic activity.

Most economic commentators expect activity levels to decline in the March 2011 quarter due to the disruptions caused from the 22 February 2011 earthquake in Canterbury, with consumer spending, business activity, and tourism likely to be materially affected. The impacts of the earthquake are expected to see growth remain relatively weak over much of 2011, but with an improved position in 2012 as the rebuild gets underway and unemployment levels decrease as a result.

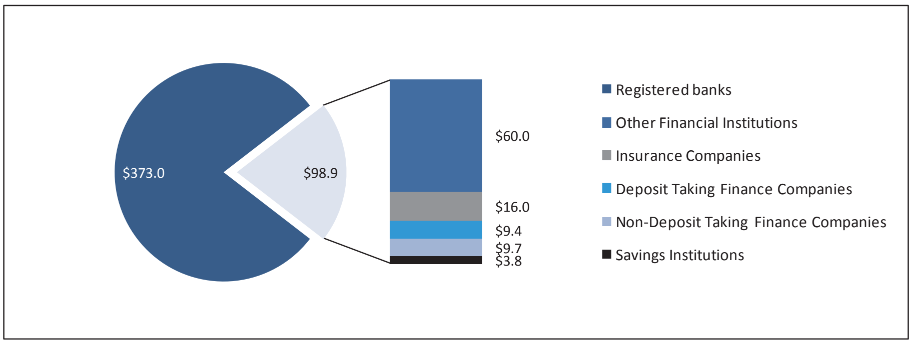
2.2 FINANCIAL SERVICES SECTOR

2.2.1 Overview

The Reserve Bank of New Zealand ("**RBNZ**") issues a *Financial Stability Report* in May and November of each year. In the Financial Stability Report issued in November 2010, New Zealand's financial system assets were valued at approximately $472 billion. Registered banks dominate the financial services sector, holding assets valued at approximately $373 billion, or 79% of total system assets. The non-bank deposit taker ("**NBDT**") sector (comprising deposit taking finance companies, building societies, credit unions and the PSIS) represented approximately 3% of total system assets, holding assets valued at approximately $13.2 billion.

A breakdown of New Zealand's financial system assets is set out in Figure 3 below.

Figure 3: New Zealand Financial System Assets



Source: RBNZ Financial Stability Report, November 2010

The focus in this section of this report is on the bank and NBDT sectors of the industry. Although currently PWF and HBS are both NBDTs, HBS has stated its intention to apply for a banking licence in 2011. Accordingly, a summary of the bank sector is included for completeness and to allow for a comparison with the NBDT sector.

2.2.2 Recent Market and Regulatory Changes

New Zealand has experienced significant changes in its market environment in the aftermath of the GFC. These changes include:

- The introduction by the New Zealand Government in October 2008 of the Crown Retail Guarantee scheme, designed to promote financial stability and maintain confidence in the financial system in line with the initiatives of most other developed economies. In August 2009, the scheme was extended until 31 December 2011.
- The collapse of more than 60 NBDTs (mainly finance companies) since May 2006, which has affected a substantial number of investors and resulted in asset losses of more than $5 billion.
- A greater understanding by investors, depositors and the public in general about the strength and relative risks of different financial institutions.
- A much sharper distinction drawn between banks and non-bank institutions, increasing the value of the bank “brand” relative to that of NBDTs.
- Greater competition for retail deposits as banks have looked to secure a greater share of funding from this source.
- Elevated funding costs arising from the higher cost of retail deposits and for long-term wholesale debt in offshore markets.
- The emergence of significant loan losses as a result of the weak economy.

In addition, there have been significant changes in the financial system’s regulatory landscape. A significant component of this stems from global efforts to strengthen financial regulation. The Basel Committee on Banking Supervision has recently announced updates to their guidelines for capital and banking regulations (known as “Basel III” guidelines), which include:

- Increasing the Tier 1 Capital ratio from 4.0% to 6.0% of risk-weighted assets. Of this 6.0%, banks are required to have a "core" Tier 1 ratio of 4.5%, comprising high quality capital including retained earnings and common equity capital.
- The addition of a "capital conservation buffer" of 2.5% of risk-weighted assets and a "countercyclical capital buffer" of up to an additional 2.5%, represented by common equity (or other full loss absorbing capital). The aim of this buffer is to force banks to start building up extra capital when supervisors see excessive credit in the system.

Although New Zealand is not compelled to incorporate the Basel III guidelines, the RBNZ has stated that it is generally supportive of the strengthening of international capital standards and believes there is a strong case to consider many of the proposed standards[6].

In addition to the RBNZ's recent efforts to enhance the resilience of the New Zealand financial system by developing a new liquidity regime for banks, the regulatory environment for NBDTs has also undergone a major change. A summary of recent changes ("**NBDT Regulatory Changes**") is as follows:

- In September 2008, the Reserve Bank of New Zealand Amendment Act 2008 introduced the RBNZ as prudential regulator of the NBDT sector.
- With effect from 1 September 2009, NBDTs were required to establish and maintain an appropriate risk management policy (the RBNZ issued guidelines in July 2009 to assist NBDTs meet this requirement).
- With effect from 1 March 2010, NBDTs with consolidated liabilities in excess of $20 million have been required to obtain a credit rating from a rating agency approved by the RBNZ.
- With effect from 1 December 2010, NBDTs must:
    - Include at least one quantitative liquidity requirement in their Trust Deed;
    - Meet minimum capital ratio requirements (8% for NBDTs holding a credit rating from an approved rating agency and 10% for NBDTs without a credit rating);
    - Adhere to minimum governance standards, including in relation to a requirement for an independent Chairman of the Board and two independent directors; and
    - Comply with new restrictions on the extent of related party exposures, which cannot exceed 15% of the NBDT's tier-one capital.

These changes in the market and regulatory environment, together with the expiry of the Crown Retail Guarantee scheme on 31 December 2011, imply a significant period of adjustment and consolidation for the financial system, concentrated in the NBDT sector.

[6] RBNZ Financial Stability Report, November 2010.

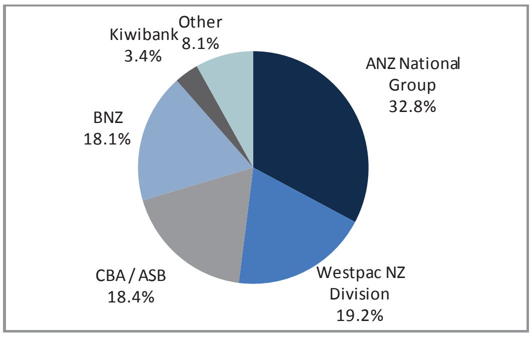
2.3 PROFILE OF THE BANK SECTOR

2.3.1 Key Players and Market Shares

There are currently 20 registered banks in New Zealand. The assets of the five major banks, ANZ National Bank Limited ("**ANZ National**"), Bank of New Zealand ("**BNZ**"), Commonwealth Bank of Australia/ASB Bank Limited ("**CBA/ASB**"), Westpac New Zealand Limited ("**Westpac NZ**") and Kiwibank Limited ("**Kiwibank**"), constitute approximately 92% of the total assets of all registered banks in New Zealand. With the exception of Kiwibank, the largest New Zealand banks are all subsidiaries of listed Australian banks.

Figure 4 below provides a breakdown of the market share of New Zealand's registered banks by total assets as at 31 December 2010.

Figure 4: New Zealand Registered Banks' Market Share by Total Assets (31 December 2010)

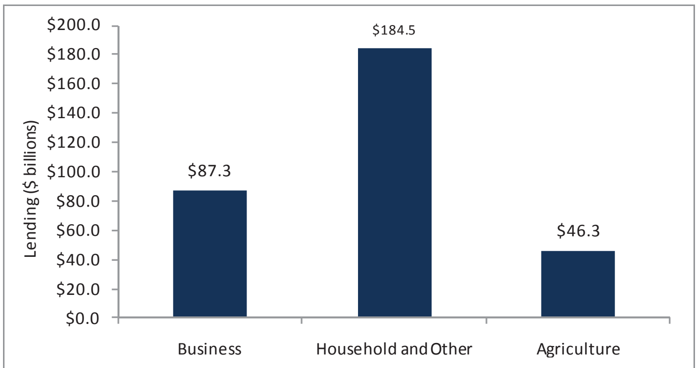


Source: RBNZ Financial Stability Report, May 2011

2.3.2 Lending by Sector

As illustrated in Figure 5 below, lending to the household sector dominates bank lending, followed by business lending and agricultural sector lending.

Figure 5: Bank Lending by Sector (31 March 2011)

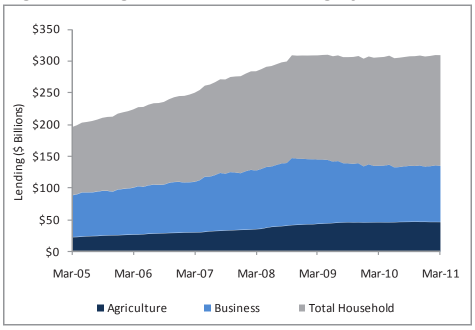


Source: RBNZ Statistical Table C7 (updated 29 April 2011)

Lending in the household sector is largely home loan mortgages, with many of these also supporting small businesses. Business lending is typically senior debt, as well as working capital facilities. Within the agricultural sector, lending is typically rural mortgages, with loans also to finance stock and seasonal working capital needs.

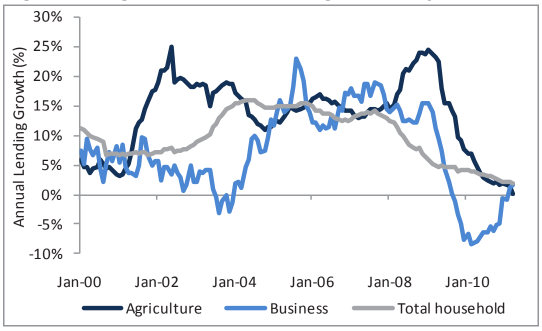
As illustrated in Figure 6 and Figure 7 below, the rate of growth in bank lending to the household, business and agricultural sectors has been in decline since late 2008 as a result of both declining credit demand and the tightening by banks of their lending standards. The decline in credit growth in the agricultural sector was particularly pronounced, falling from approximately 25% in 2009 to around 2% over 2010 and approximately 1% in the March quarter of 2011. Lending to the household sector grew at a modest 3.3% per annum over 2010 but slipped to around 2% in the March quarter of 2011. Although lending to the business sector remained in decline throughout 2010 (driven mainly be reduced lending for property and business services), small credit growth was recorded in February and March 2011.

Figure 6: Registered Bank Lending by Sector



Source: RBNZ Statistical Table C7 (updated 29 April 2011)

Figure 7: Registered Bank Lending Growth by Sector

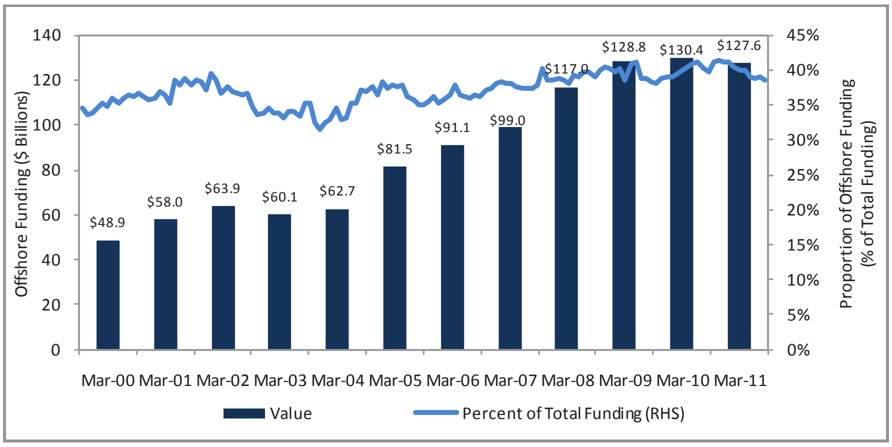


Source: RBNZ Financial Stability Report, May 2011

2.3.3 Funding

As set out in Figure 8 below, offshore funding constituted approximately 39% of total funding for New Zealand registered banks as at March 2011.

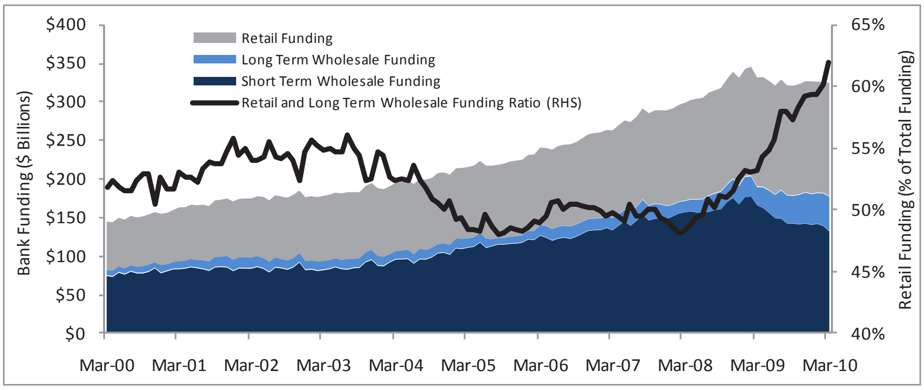
Figure 8: Offshore Bank Funding (March 2011)



Source: RBNZ Financial Stability Report, May 2011

Prior to the GFC, much of this offshore wholesale funding was sourced from short-term money markets as opposed to long-term bond markets. In response to the GFC, banks have looked to increase the proportion of offshore funding from long-term sources and to increase the share of retail deposits in their funding base (increasing their core funding ratio). Figure 9 below illustrates the composition of bank funding, which highlights the significant growth in retail and long term wholesale funding since early 2008, and the ratio of retail and long term wholesale funding to total loans and advances.

Figure 9: Composition of Bank Funding

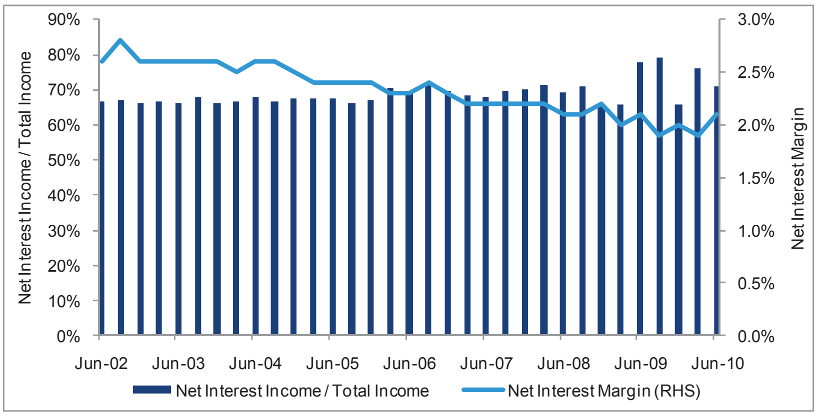


Source: RBNZ Financial Stability Report, May 2010

2.3.4 Sector Performance

As presented in Figure 10, net interest margins in the New Zealand banking sector have largely trended down from around 2003.

Figure 10: New Zealand Banks' Net Interest Margins



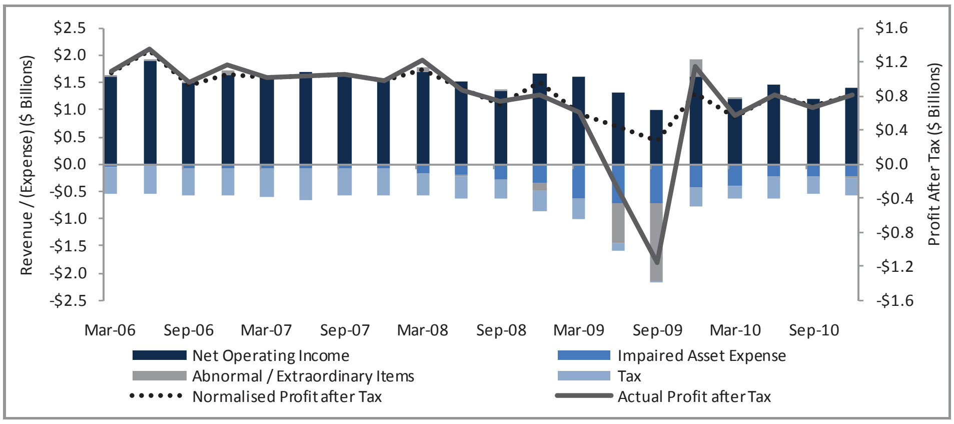
Source: RBNZ Financial Stability Report, November 2010

Initially, the decline reflected an environment of high credit growth and strong competition in which banks reduced margins but maintained profitability through increased volumes of business. Following the GFC, the declines reflect the increased funding costs faced by the banks as a result of strong domestic competition for retail deposits and the lengthening in the maturity of wholesale funding. The elevated funding costs which banks now face are likely to persist for some time. However, during 2010 the banks were able to pass through more of these costs to borrowers, resulting in a slight improvement in net interest margins. The extent to which net interest margins will continue to improve is likely to depend mainly on the strength of competition within the banking sector as lending growth resumes.

Profitability in the banking sector was eroded significantly in early-mid 2009 as a result of reduced income from slower credit growth, higher funding costs, increased impairment expenses, and for some banks provisioning for associated costs of litigation with Inland Revenue over structured finance transactions. Profits rebounded in the fourth quarter of 2009 reflecting mainly a decline in loan loss provisioning, a trend which continued through most of 2010 resulting in reasonably steady levels of profitability.

An illustration of New Zealand banks' aggregate quarterly income, expenses and profitability from March 2006 to December 2010 is set out in Figure 11 below.

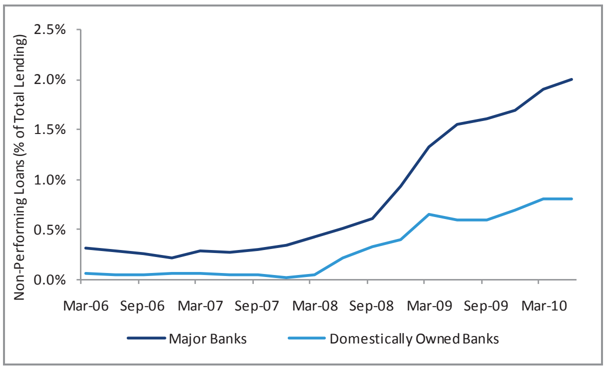
Figure 11: New Zealand Banks' Revenue, Expenses and Profitability



Source: RBNZ Financial Stability Report, May 2011

The recent increase in impairment expenses recorded by the banks reflects deterioration in asset quality as a result of the weak economic conditions. As indicated in Figure 12 below, non-performing loans for New Zealand's major banks increased from 0.3% of total lending in June 2007 to 2.0% in June 2010.

Figure 12: Registered Non-Performing Loans (% of Total Lending)



Source: RBNZ Financial Stability Report, November 2010

The four major Australian owned banks have been hit the hardest by non-performing loans, reflecting their different composition of earnings compared to the domestically owned retail banks that specialise in residential mortgages (and which showed lower impairment rates than corporate lending).

According to the RBNZ, most of the key drivers of the loan losses have abated since the middle of 2009 and the level of nonperforming loans may have peaked in some sectors, most notably the household sector. Support for this view can be seen in recent announcements by the major banks for the six months to 31 March 2011, which have continued to show a decrease in the level of impairment provisioning. However, the subdued and patchy nature of the economic recovery and the effects of the Christchurch earthquake suggest any improvement in non-performing loans is likely to be slow and will be sensitive to conditions within individual sectors.

2.3.5 Outlook and Trends

In the short-term, commentators expect the profitability of the banking system to improve as the economy recovers, credit growth picks up (albeit at more modest rates of growth compared to pre-GFC levels) and impairment expenses continue to decline.

Further out, we expect a decline in competitive intensity of the banking sector and further recovery of interest margins as a result of a number of factors, including:

- The high entry barriers posed by tighter regulation and increased prudential requirements;
- Significantly lower levels of domestic lending competition from the NBDT sector;
- Australian-owned banks looking to reduce their credit exposure to specific areas of the New Zealand economy;
- Some Australian-owned banks placing a greater priority on an expansion of their activities in Asian markets; and
- Most major banks looking to pass on their higher funding costs to customers.

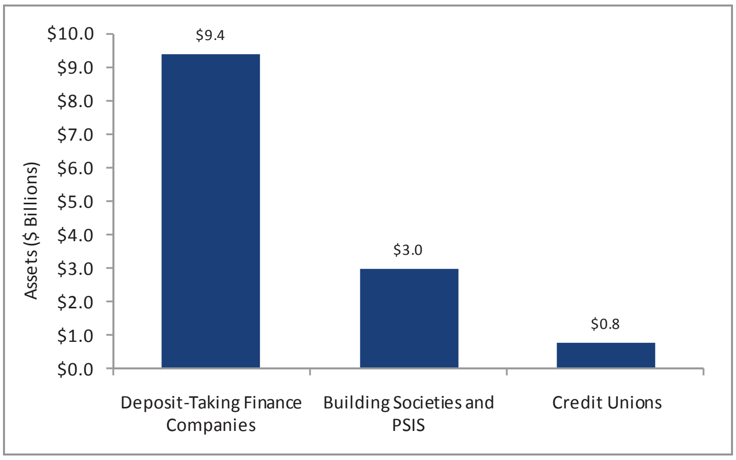
2.4 PROFILE OF THE NON BANK DEPOSIT TAKER SECTOR

New Zealand's NBDT sector is fragmented, with currently around 35 NBDTs operating with a registered prospectus[7]. Many of these NBDTs are focused on a particular geographical region and/or have specialist knowledge and expertise in specific industries.

As at June 2010, total assets in the NBDT sector totalled $13.2 billion, accounting for 2.8% of the combined assets of banks and non-bank lending institutions. Of this, the majority of assets were carried within deposit-taking finance companies which held $9.4 billion in total assets (including the now-failed Allied Nationwide Finance Limited, South Canterbury Finance Limited and Equitable Mortgages Limited). The remaining assets were held by credit unions and building societies. Figure 13 below provides a breakdown of the allocation of assets within the NBDT sector as at 30 June 2010.

[7] Source: www.interest.co.nz

Figure 13: NBDT Asset Allocation (as at 30 June 2010)

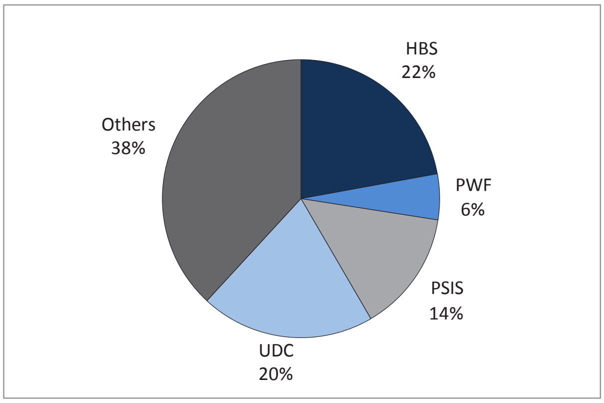


Source: RBNZ Financial Stability Report, November 2010

2.4.1 Key Players and Market Shares

As at 30 June 2010, the four largest NBDTs by total assets represented approximately 62% of the entire NBDT sector, as illustrated in Figure 14 below.

Figure 14: NBDTs' Market Share by Total Assets* as at 30 June 2010



Source: RBNZ Financial Stability Report, November 2010, company annual reports

* Excluding total assets of companies in receivership or statutory management as at 30 June 2010

Details on PWF and HBS are covered in Section 3.0 and Section 4.0 of this report, respectively. Summary details for UDC, PSIS and Fisher & Paykel Finance, being the other three significant NBDTs, are summarised in Table 1 below.

Table 1: Other Significant NBDTs

Name	Description
UDC	▸ Owned by ANZ National Bank. ▸ Total assets of approximately $2.1 billion as at 30 September 2010. ▸ Specialises in providing asset finance to businesses (vehicles and equipment) and individuals (vehicles). Further details can be obtained at: www.udc.co.nz

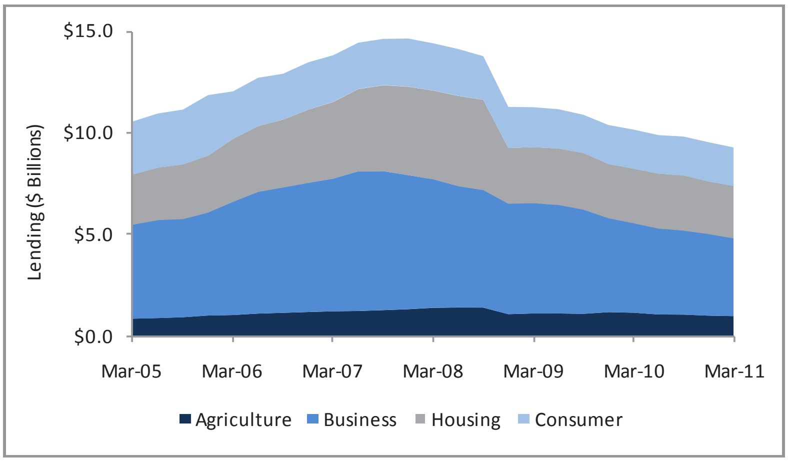
Name	Description
PSIS	▸ A co-operative that shares a similar structure to that of a building society. ▸ Total assets of approximately $1.4 billion as at 31 March 2010. ▸ Specialises in personal and residential property lending. Further details can be obtained at: www.psis.co.nz
Fisher & Paykel Finance	▸ A subsidiary of NZX listed entity Fisher and Paykel Appliance Holdings Limited. ▸ Net receivables of $601 million as at 31 March 2011. ▸ Provides specialist financial services to Fisher & Paykel merchants and other retailers. Further details can be obtained at: www.fpf.co.nz

Source: Annual Reports

2.4.2 Lending by Sector

As illustrated in Figure 15 below, during the period from 2005 to 2007, the NBDT sector exhibited a significant increase in lending to the housing and property development markets. As a result of the property market slow-down and the GFC, several finance companies collapsed. As at March 2011, total NBDT lending stood at approximately $9.3 billion. Lending to the business sector constituted the single biggest exposure (41.7% of total lending), followed by lending to the housing sector (27.6%), consumers (20.3%) and agriculture (10.5%).

Figure 15: NBDT Lending by Sector



Source: RBNZ Aggregate Statistical Returns (updated 29 April 2011)

Within the business and consumer segments, UDC and HBS dominate, with lending predominantly over plant and equipment and motor vehicles.

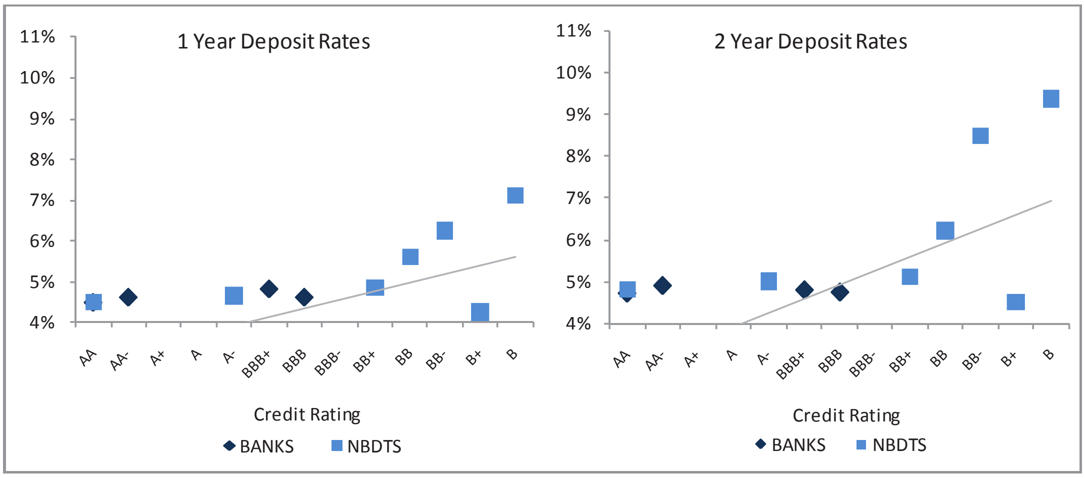
2.4.3 Funding Sources

Traditionally, NBDTs have relied heavily on retail funding. However, the recent failures in the finance company sector, together with the GFC, have negatively impacted investor confidence in the NBDT sector and resulted in a substantial fall in deposit re-investment rates and new issues of retail deposits.

Most surviving NBDTs are seeking to diversify their funding to maintain financial stability and to better manage liquidity. Those NBDTs of sufficient size and financial strength are seeking to achieve and maintain an investment grade credit rating to attract retail depositors as a core source of funding.

Retail funding represents a much higher proportion of NBDTs' total funding compared to the banks. As Figure 16 illustrates, as a general rule there is a clear cost advantage in having a higher credit rating for both registered banks and NBDTs, and banks typically enjoy a lower cost of funds than the NBDTs due to their higher ratings.

Figure 16: Average 1 Year and 2 Year Deposit Rates as at 4 May 2011 (Minimum $10,000 Deposit)



Source: www.interest.co.nz

2.4.4 Target Markets

As a result of higher funding costs compared to the banks, NBDTs have traditionally targeted segments of the lending market where borrowers may not fit the banks' lending criteria, which are generally higher risk and where they do not need to compete with the banks on price.

Table 2: Typical Target Markets for Banks and NBDTs

Lending Sector	Target Market NBDTs	Banks
Property	Residential, commercial and industrial properties with a focus towards second or third mortgages and loans that do not comply with bank lending criteria, e.g. development projects.	Residential, commercial and industrial properties with a focus towards first mortgages.
Agriculture	Focus towards loans to stock and seasonal working capital needs.	Focus towards rural mortgages, e.g. mortgages over farms.
Commercial Finance	Financing for working capital needs, purchase of new machinery or equipment, and seasonal lending to businesses.	Financing for purchase of major assets and long-term debt financing to businesses.
Consumer Finance	Personal loans for general consumption such as cars, holidays and household goods to individuals and households with no credit history or a low credit score rating.	Personal loans for general consumption such as cars, holidays and household goods to individuals and households.

Source: Northington Partners' analysis

Although some overlap and certain exceptions exist, Table 2 above sets out a typical categorisation of the NBDT target markets compared to the banks. In some instances, the comparison is more valid on a historical rather than current basis (e.g. property development financing, where few (if any) NBDTs of significant size are currently active).

2.4.5 Sector Performance

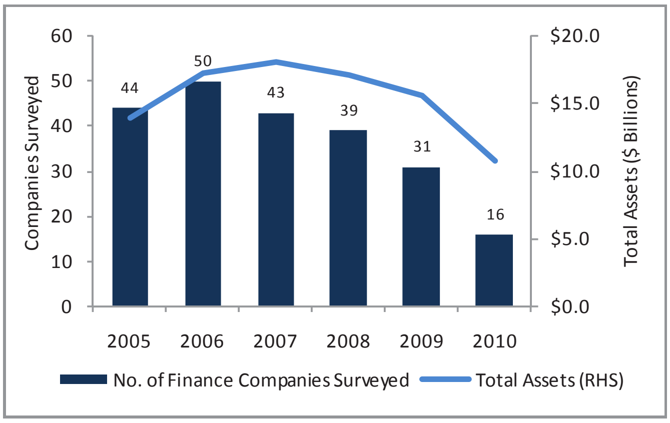
Profitability in the NBDT sector has declined significantly as a result of a deteriorating property market and generally weak economic conditions post the GFC. The economic downturn has resulted in higher impaired asset expenses, lower lending volumes and reduced interest margins. Non-performing loans have been particularly concentrated in deposit-taking finance companies, which is the largest part of the NBDT sector.

In 2009, finance companies and savings institutions surveyed by KPMG experienced a decline in net profit of 484% and 135%, respectively, relative to 2008 levels[8]. Impaired asset expenses increased 5.45% and 0.95%, respectively, over the same period. Although many NBDTs returned to profitability in 2010 as a result of improved net interest margins and a reduction in bad debt expenses, savings institutions showed the strongest performance. Some finance companies also returned to profit, but many continued to work through legacy issues with asset quality which impacted profitability (particularly those exposed to the property development market).

Beginning with the receivership of National Finance 2000 in May 2006, the NBDT sector has seen the collapse of more than 60 finance companies affecting over $6 billion in retail deposits. The most significant collapse was that of South Canterbury Finance, which was placed in receivership in August 2010 owing investors (most of whom were covered by the Deposit Guarantee Scheme) approximately $1.7 billion.

Figure 17 illustrates the reduction in the number and total assets of finance companies surveyed by KMPG over the last six years[9].

Figure 17: Finance Companies Surveyed and Total Assets



Source: KPMG Financial Institutions Performance Survey Review (2005 – 2010)

---

[8] Source: KPMG Financial Institutions Performance Survey (2009).

[9] Source: KPMG Financial Institutions Performance Survey (2005-2010) for companies with a minimum threshold of $50 million in total assets (2005 to 2009) and $100 million in total assets (2010).

2.4.6 Outlook and Trends

The outlook for the NBDT sector is for further adjustment and consolidation through the exit of a number of weaker players. The Crown Retail Guarantee scheme currently provides short-term certainty for investors in the limited number of NBDTs who have been accepted into the extended scheme. However, the expiry of the scheme on 31 December 2011 will expose a number of those remaining NBDTs to the impact of:

- New stringent prudential requirements;
- Higher funding costs; and
- Loss of investor confidence, particularly for firms that are heavily exposed to property lending.

The RBNZ May 2010 Financial Stability Report made the following observation:

"Inevitably, some of the weaker institutions within the current scheme may struggle to retain funding. In addition some institutions may find that the existing business models are no longer viable once the more stringent regulatory settings are taken to account."

3.0 PROFILE OF PWF

3.1 GENERAL OVERVIEW

PWF is a wholly-owned subsidiary of PGW and specialises in the provision of financial services to the rural sector. Although PWF as a legal entity was only formed recently following the 2006 merger of Wrightson Finance Limited and PGG Finance Limited, PGW can trace its origins to 1851 and its rural lending activities back more than a century. Further information on the history of PWF can be obtained from the company's website: www.pggwrightsonfinance.co.nz.

Table 3 below summarises key legal matters for PWF as at 31 March 2011.

Table 3: Key Legal Matters for PWF (as at 31 March 2011)

Item	Description
Commenced Trading	2006 (following the merger of Wrightson Finance Limited and PGG Finance Limited)
Legal Status	Limited Liability Company
Number of Shareholders	One, being PGW
Credit Rating (S&P)	BB (Stable)
Crown Retail Guarantee scheme	Yes

Source: PWF Website

3.2 LOAN BOOK OVERVIEW

A summary of PWF's loan book net receivables by lending category and sector concentration as at 31 December 2010 is set out below.

Table 4: PWF Net Receivables by Lending Category and Sector Concentration (as at 31 December 2010)

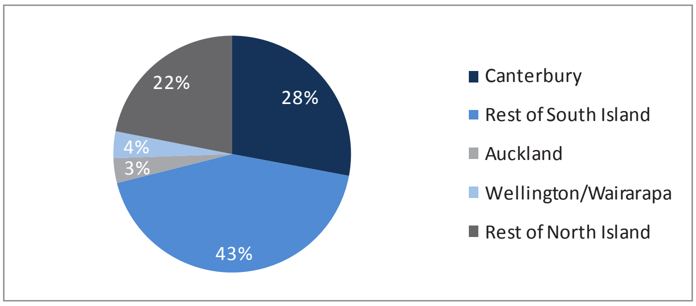
Lending Category	Value ($000s)	% of Total	Sector Concentration	Value ($000s)	% of Total
Residential/Commercial Mortgages	-	-	Sheep and Beef	275,225	56.0%
Business	-	-	Dairy	126,723	25.8%
Rural	463,771	94.3%	Arable	25,476	5.2%
Motor Vehicle	-	-	Horticulture/Viticulture	19,460	4.0%
Property Development	-	-	Deer	16,887	3.4%
Other	28,075	5.7%	Other	28,075	5.7%
Total	**491,846**	**100.0%**	**Total**	**491,846**	**100.0%**

Source: Audited Accounts from PWF Half Year Report December 2010

PWF's loan receivables are heavily focused in the South Island, which comprised approximately 71% of the loan book as at 31 December 2010. Consistent with PWF's focus on rural lending, the vast majority of the company's exposure to the North Island is concentrated outside of the two largest centres of Auckland and Wellington.

Figure 18 summarises the loan book receivables by geography for PWF as at 31 December 2010.

Figure 18: PWF Net Receivables by Geography (31 December 2010)



Source: Audited Accounts from PWF Half Year Report December 2010

Almost all of PWF's lending is done on a secured basis, with loans secured by first mortgage comprising the large majority of net receivables. Table 5 provides a summary of PWF's lending by security type as at 31 December 2010.

Table 5: PWF Net Receivables by Security Type (31 December 2010)

Security Type	Value ($000s)	% of Total
First Mortgage	425,757	86.6%
Second Mortgage	25,552	5.2%
First GSA or SSA	31,549	6.4%
Other Security	7,731	1.6%
Unsecured	1,257	0.2%
Total	**491,846**	**100.0%**

Source: PWF Management

3.3 FUNDING OVERVIEW

PWF Debentures are the main source of funding for PWF, comprising over half of total available funding. A summary of the sources of funds utilised and available to PWF as at 31 March 2011 is set out below.

Table 6: PWF Sources of Available Funding (31 March 2011)

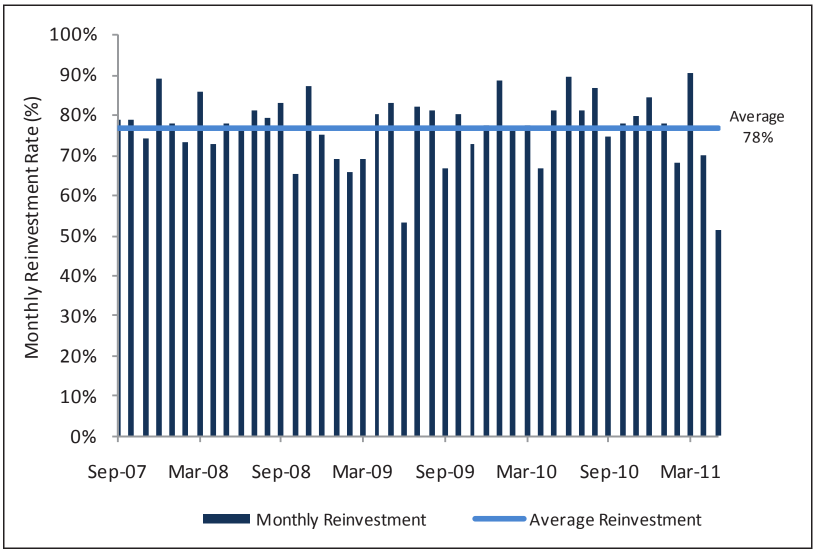
Funding Source	Value ($000s)	% of Total
Deposits	58,605	11.3%
Debentures	265,086	51.1%
Bonds	94,078	18.1%
Retail Funding	**417,769**	**80.5%**
Drawn Bank Facilities	0	0.0%
Undrawn Bank Facilities	101,000	19.5%
Wholesale Funding	**101,000**	**19.5%**
Total Available Funding	**518,769**	**100.0%**

Source: PWF Management

A principal focus of PWF's retail funding strategy over recent years has been retaining the existing depositor and debenture holder base. Figure 19 below sets out the monthly deposit and debenture reinvestment rates for PWF between September 2007 and May 2011. The key feature of the data is the relatively high reinvestment rates that have been maintained by PWF throughout this period, at a time when the reinvestment rates for many other NBDTs decreased dramatically in response to the high failure rate of entities operating in the finance company sector.

During a period in which many other NBDTs were unable to maintain reinvestment rates above 50%, depositors and debenture holders of PWF have rolled over their investments at an average rate of 78%. Reinvestment rates have however fallen over the last two months. Part of the fall reflects the withdrawal of deposits that were originally attracted at special premium interest rates that are no longer offered.

Figure 19: PWF Historical Reinvestment Rates



Source: PWF Management

3.4 FINANCIAL SUMMARY

3.4.1 Historical Financial Performance

Table 7 below summarises the historical financial performance of PWF for the period FY2007 to FY2010, together with the half year ending 31 December 2010.

Table 7: PWF Statement of Historical Financial Performance

Item	FY2007 ($000)	FY2008 ($000)	FY2009 ($000)	FY2010 ($000)	HY2011 ($000)
Interest Income	37,877	49,678	56,685	58,730	28,517
Interest Expense	(25,064)	(34,322)	(37,758)	(30,357)	(16,258)
Net Interest Income	**12,813**	**15,356**	**18,927**	**28,373**	**12,259**
Other Income	-	338	916	925	476
Net Impairment Losses	480	(266)	(2,877)	(8,949)	(5,685)
Operating Expenses	(4,745)	(6,852)	(6,708)	(7,056)	(4,436)
EBITDA	**8,548**	**8,576**	**10,258**	**13,293**	**2,614**
Depreciation and Amortisation	(102)	(163)	(148)	(198)	(99)

Item	FY2007 ($000)	FY2008 ($000)	FY2009 ($000)	FY2010 ($000)	HY2011 ($000)
Operating Profit	**8,446**	**8,413**	**10,110**	**13,095**	**2,515**
Non-Operating Items	-	-	-	-	(126)
Fair Value Adjustments	(207)	245	1,002	(338)	84
Profit Before Income Tax	**8,239**	**8,658**	**11,112**	**12,757**	**2,473**
Income Tax Expense	(2,787)	(2,839)	(3,334)	(3,824)	(1,144)
Profit After Income Tax	**5,452**	**5,819**	**7,778**	**8,933**	**1,329**
Change in Fair Value of Hedges	-	(52)	5,146	(2,992)	(165)
Comprehensive Income After Tax	**5,452**	**5,767**	**12,924**	**5,941**	**1,164**
Book Value of Shareholders' Equity	40,625	53,892	66,816	100,375	100,175
Return on Equity ("**ROE**")[1]	13.4%	10.8%	11.6%	8.9%	2.7%
Operating Expenses / Net Interest Income[2]	37.0%	44.6%	35.4%	24.9%	36.2%

Source: Audited Accounts from PWF Annual Reports and Half Year Report December 2010

(1) Calculated as Profit after Income Tax divided by Book Value of Shareholders' Equity

(2) Calculated as Operating Expenses divided by Net Interest Income

The main features of PWF's historical financial performance can be summarised as follows:

- Interest income increased over the historical period principally as a result of increases in the size of PWF's loan book (the timing of loan repayments accounted for the increase in interest income in FY2010 notwithstanding that the loan book decreased by approximately $30 million as at 30 June 2010 compared to the previous year end).

- Net interest income increased during the period FY2007 to FY2009 broadly in line with increases in the size of PWF's loan book as the ratio of interest bearing liabilities to loan receivables remained relatively constant. The significant increase in net interest income from $18.93 million in FY2009 to $28.37 million in FY2010 was attributed to a combination of:

  - An increase in average net interest margin (resulting from a decrease in funding costs on reinvested deposits and debentures compared to locked-in interest rates charged on existing loans and higher interest rates required for new lending to reflect the post-GFC credit environment); and

  - A decrease in the ratio of interest bearing liabilities to loan receivables following the approximate $34 million equity capital raising conducted in FY2010.

- Operating expenses increased from $4.7 million in FY2007 to $7.1 million in FY2010. However, the cost to income ratio fell from a peak of 44.6% in FY2008 to a low of 24.9% in FY2010 as income growth exceeded the growth in operating expenses. The cost to income ratio increased to 36.2% in HY2011, close to the 35.4% level experienced in FY2009, reflecting increased costs associated with compliance with the NBDT Regulations and a decrease in annualized net interest income.

- Impairment expenses rose significantly from modest levels in FY2008 to a peak of approximately $9 million in FY2010, reflecting the impact of the tougher operating conditions for PWF's customers in the post GFC environment. However, the significant increase in net interest income in FY2010 allowed PWF to absorb the impact of these higher impairment expenses and record a profit after income tax of $8.93 million, up from $7.78 million in FY2009.

- PWF's return on equity ("**ROE**") increased from 10.8% in FY2008 to 11.6% in FY2009 as profitability improved and the level of share capital remained constant. Profit after income tax increased further in FY2010, although ROE decreased to 8.9% primarily as a result of the approximate $34 million equity capital raising conducted during the financial year which increased PWF's share capital from $31.50 million to $65.35 million.

3.4.2 Historical Financial Position

Table 8 below summarises PWF's historical financial position as at 30 June for the period FY2007 to FY2010, together with the position as at 31 December 2010.

Table 8: PWF Statement of Historical Financial Position

Item	As at 30 Jun 07 ($000)	As at 30 Jun 08 ($000)	As at 30 Jun 09 ($000)	As at 30 Jun 10 ($000)	As at 31 Dec 10 ($000)
Assets					
Cash & Equivalents	-	625	3,779	9,277	21,188
Investments	-	-	-	-	-
Receivables	394,443	502,591	559,659	530,119	491,846
Other Assets	1,989	3,577	2,071	3,439	4,138
Derivative Assets	760	295	7,575	1,979	1,806
Intangible Assets	208	96	1,163	1,180	1,225
Deferred Tax Assets	866	280	1,228	3,668	5,612
Total Assets	**398,266**	**507,464**	**575,475**	**549,662**	**525,815**
Liabilities					
Deposits & Other Borrowings	96,810	91,804	83,032	70,819	65,027
Derivative Liabilities	2,486	1,259	2,488	222	129
Creditors	702	1,062	4,943	3,744	4,191
Tax Payable	2,347	1,768	2,082	6,264	1,736
Term Bank Facility	74,000	140,000	71,500	21,000	-
Securitisation	-	-	-	-	-
Bonds	44,442	44,751	123,564	99,658	94,097
Secured Debentures	136,854	172,928	221,050	247,580	260,460
Total Liabilities	**357,641**	**453,572**	**508,659**	**449,287**	**425,640**
Equity					
Share Capital	24,000	31,500	31,500	65,350	65,350
Cash Flow Hedge Reserve	(950)	(1,002)	4,274	1,282	1,117
Retained Earnings	17,575	23,394	31,042	33,743	33,708
Total Equity	**40,625**	**53,892**	**66,816**	**100,375**	**100,175**

Source: Audited Accounts from PWF Annual Reports and Half Year Report December 2010

3.4.3 Historical Cash Flows

Table 9 below summarises PWF's historical statement of cash flows for the period FY2007 to FY2010, together with the half year ending 31 December 2010.

Table 9: PWF Statement of Historical Cash Flows

Item	FY2007 ($000)	FY2008 ($000)	FY2009 ($000)	FY2010 ($000)	HY2011 ($000)
Cash Flows from Operating Activities					
Interest Received	37,195	49,115	56,685	**58,947**	28,302
Lease and Other Income	-	338	744	**654**	525
Payments to Suppliers & Employees	(4,427)	(7,112)	(6,049)	**(7,660)**	(4,301)
Interest Payments	(24,589)	(34,013)	(33,179)	**(29,222)**	(14,811)
Income Tax Paid	(640)	(2,832)	(3,969)	**(2,081)**	(7,616)
Net Cash Flow from Operating Activities	**7,539**	**5,496**	**14,232**	**20,638**	**2,099**
Cash Flows from Investing Activities					
Change in Finance Receivables	(63,307)	(108,148)	(59,848)	**20,583**	32,588
Purchase of Property, Plant and Equipment		-	(86)	**(20)**	2
Purchase of Intangible Assets		-	(1,209)	**(190)**	(131)
Net Cash Flow from Investing Activities	**(63,307)**	**(108,148)**	**(61,143)**	**20,373**	**32,459**
Cash Flow from Financing Activities					
Draw Down of Term Bank Facility	74,000	66,000	71,975	**21,000**	-
Increase / (Decrease) in Deposits[1]	24,902	31,543	116,756	**(10,916)**	1,105
Issue of Shares	10,000	7,500	-	**33,850**	-
Advance from / (to) Parent	(49,578)	(1,291)	1,809	**514**	(329)
Repayment of Term Bank Facility		-	(140,475)	**(71,500)**	(21,000)
Interest on Preference Shares		-	-	**(1,232)**	(1,364)
Finance Facility Fees		-	-	**(2,229)**	(1,059)
Dividends Paid	(5,500)	-	-	**(5,000)**	-
Net Cash Flow from Financing Activities	**53,824**	**103,752**	**50,065**	**(35,513)**	**(22,647)**
Net Change in Cash Held	(1,944)	1,100	3,154	**5,498**	11,911
Opening (Bank Overdraft / Cash)	1,469	(475)	625	**3,779**	9,277
Closing Cash and Equivalents	**(475)**	**625**	**3,779**	**9,277**	**21,188**

Source: Audited Accounts from PWF Annual Reports and Half Year Report December 2010

1 Deposits include cash deposits, debentures and bonds

3.5 OUTLOOK

We do not have access to a set of financial projections for the PWF business. We understand that while the PWF Directors and management have been actively considering a three year plan for PWF under the current ownership structure, that process has been delayed pending the Proposed Transaction.

However, based on our understanding of the PWF business model and discussions we have held with PWF senior management on business planning and the future operating conditions PWF is likely to face, we set out below our high-level observations regarding PWF's future prospects as a standalone entity assuming the Proposed Transaction does not proceed. In the short-medium term, we would expect:

- Increasing pressure on access to funding as bondholders, debenture holders and depositors adjust to structural changes in the NBDT sector. We consider there to be a reasonable degree of uncertainty about how investors in the PWF Debt Securities will behave when the Crown Retail Guarantee scheme expires on 31 December 2011; this uncertainty is amplified by PWF currently operating with a sub investment grade credit rating. To alleviate liquidity pressures that would likely result from any fall-off in reinvestment rates, we envisage PWF would seek to broaden its funding base, including the possible addition of a securitization facility.

- The PWF loan book to reduce in size to a level (likely below $400 million) that provides a greater degree of comfort around the ability of the business to be sustainably funded. Balance sheet resizing could either be achieved gradually by reducing the level of new lending, or more quickly by securitizing or selling existing loan assets.

- Impairment expenses to return to a normalised level as the impact of legacy lending on higher value/higher risk loans reduces, helping to stabilise overall business profitability. However, we would anticipate the level of profitability in absolute dollar terms to reduce commensurate with a reduction in the size of the PWF loan book and possibly also from competitive pressures as other market participants such as HBS consider moving into PWF's traditional lending space.

- Operating expenses to remain low compared to PWF's peers, but with an increase in the cost to income ratio over current levels reflecting higher costs associated with meeting ongoing NBDT Regulations and a reduction in economies of scale as the balance sheet is resized.

- ROE to improve from current levels as credit markets rebound, impairment expenses reduce and net interest margins improve on the back of a refocusing of PWF's product mix to higher yielding products.

- An improvement to PWF's current BB (Stable) S&P credit rating may be difficult to achieve without changes to the current structure and environment.

4.0 PROFILE OF HBS

4.1 GENERAL OVERVIEW

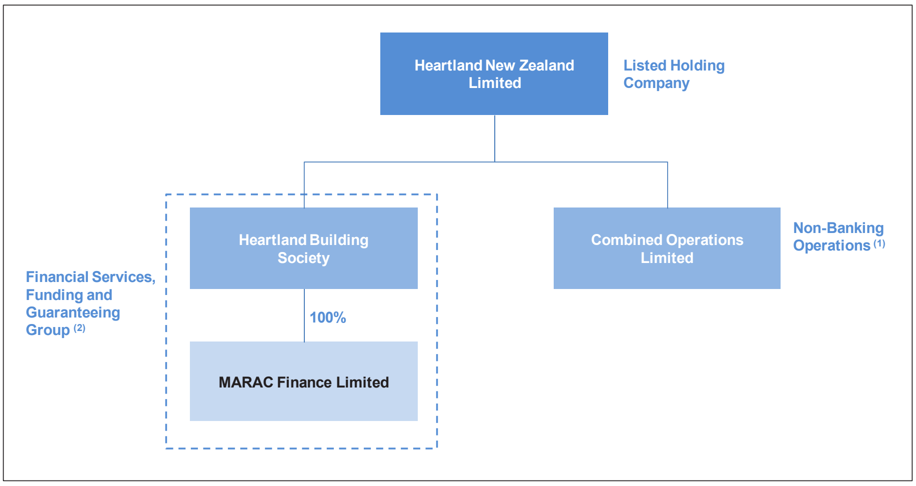
HBS is a building society established under the Building Societies Act 1965. HBS is the principal operating subsidiary of HNZ and comprises the former businesses of Canterbury Building Society and Southern Cross Building Society, and a 100% shareholding in MARAC Finance Limited[10]. The HNZ group was formed following a series of transactions during the period from 5 to 7 January 2011:

- On 5 January 2011, the assets and liabilities of Canterbury Building Society and Southern Cross Building Society were transferred to form HBS, and the shares of MARAC Finance Limited were then also transferred to HBS; and

- On 7 January 2011, Canterbury Building Society and Southern Cross Building Society were amalgamated into the HNZ group.

A simplified diagram showing the corporate structure of the HNZ group is set out below.

Figure 20: HNZ Group Structure



Source: HNZ Interim Financial Statements for the period 1 July 2010 to 7 January 2011

(1) Includes a 50% shareholding in MARAC JV holdings, which owns all of the shares in MARAC Insurance Limited

(2) The guaranteeing group includes VPS Properties Limited and VPS Parnell Limited

The key planks of HBS's stated competitive strategy revolve around leveraging existing local affinities, a targeted receivables strategy, and a "customer first" rather than a product focussed approach. Based on this strategy, and as part of the staged integration of the three entities that merged to form the HBS group, HBS intends to have a divisional structure comprising a retail/consumer unit, a business unit, and a rural unit. This structure reflects the customer base of HBS and its product offering, which includes:

- A variety of consumer and commercial lending products;

[10] The HBS group also includes two property companies wholly owned by HBS: VPS Properties Limited and VPS Parnell Limited.

- Home loans;
- Term investment and savings accounts;
- Finance solutions for small to medium businesses, including working capital finance;
- Finance solutions for the rural sector, including seasonal and working capital finance;
- A limited number of insurance products; and
- Transactional banking services (including cheque accounts, cash cards, internet-banking, telephone banking and foreign exchanges services).

Further information on HBS can be obtained from the website: www.heartland.co.nz.

Table 10 below summarises key legal matters for HBS as at 31 March 2011.

Table 10: Key Legal Matters for HBS (as at 31 March 2011)

Item	Description
Commenced Trading	5 January 2011
Legal Status	Registered Building Society
Number of Shareholders	One, being HNZ
Credit Rating (S&P)	BBB- (Stable)
Crown Retail Guarantee scheme	Yes

Source: HBS Website

4.2 LOAN BOOK OVERVIEW

A summary of HBS's loan book net receivables by lending category and sector concentration as at 5 January 2011 is set out below.

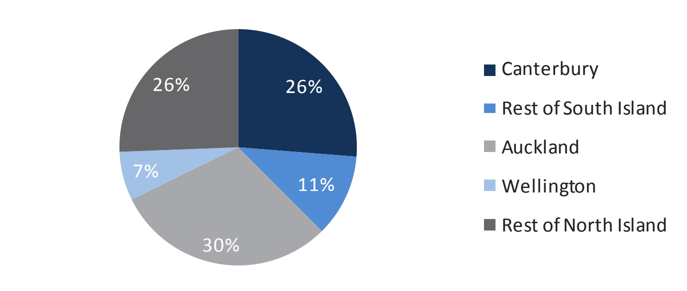
Table 11: HBS Net Receivables by Lending Category and Sector Concentration (as at 5 January 2011)

Lending Category	Value ($000s)	% of Total	Sector Concentration	Value ($000s)	% of Total
Residential/Commercial Mortgages	597,344	34.0%	Consumer and Personal	827,109	47.1%
Business	421,655	24.0%	Property	307,439	17.5%
Rural	70,276	4.0%	Agriculture, Forestry and Fishing	185,192	10.5%
Motor Vehicle	474,362	27.0%	Wholesale and retail trade	143,795	8.2%
Property Development	140,552	8.0%	Transport and Storage	73,023	4.2%
Other	52,707	3.0%	Other	220,337	12.5%
Total	**1,756,895**	**100.0%**	**Total**	**1,756,895**	**100.0%**

Source: Audited HBS Interim Financial Statements for the period 1 July 2010 to 5 January 2011

As indicated in Figure 21 below, a high level of geographical diversity exists within the HBS loan book.

Figure 21: HBS Net Receivables by Geography (as at 5 January 2011)



Source: Audited HBS Interim Financial Statements for the period 1 July 2010 to 5 January 2011

As set out in Table 12, virtually all of HBS's lending is done on a secured basis. The classification of the loan book by security type reflects that the majority of HBS property lending is secured by first mortgage, while over 40% of the total receivables book is subject to PPSR security relating to asset lending.

Table 12: HBS Net Receivables by Security Type (as at 5 January 2011)

Security Type	Value ($000s)	% of Total
First Mortgage	713,428	40.6%
Second Mortgage	90,282	5.1%
PPSR	761,802	43.4%
Other Security	186,929	10.6%
Unsecured	4,454	0.3%
Total	**1,756,895**	**100.0%**

Source: HBS Management

4.3 FUNDING OVERVIEW

Retail funding (comprising deposits and bonds) constitutes the vast majority of funding for HBS. A summary of the sources of funds utilised and available to HBS as at 5 January 2011 is set out below.

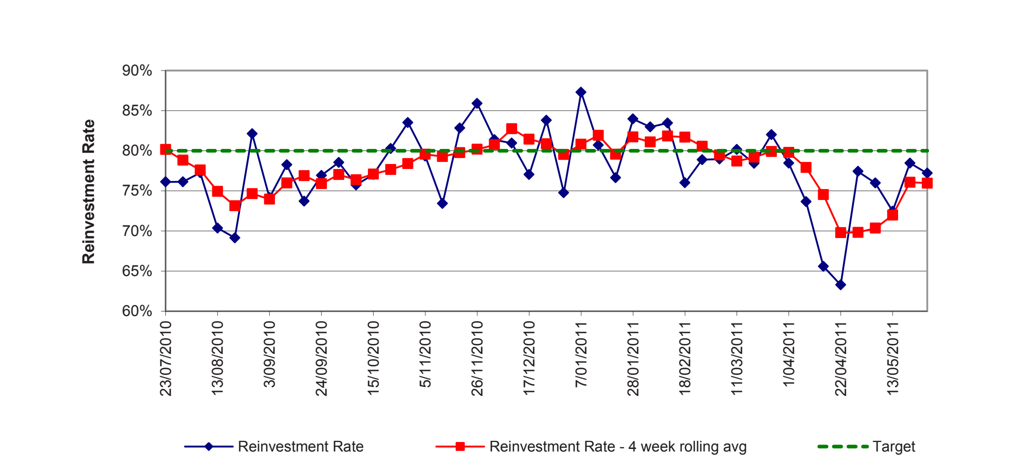
Table 13: HBS Sources of Funding (as at 5 January 2011)

Funding Source	Value ($000s)	% of Total
Deposits	1,572,528	73.1%
Bonds	104,185	4.8%
Retail Funding	**1,676,713**	**78.0%**
Securitisation - Drawn	169,278	7.9%
Securitisation - Undrawn	105,000	4.9%
Bank Facilities - Drawn	0	0.0%
Bank Facilities - Undrawn	200,000	9.3%
Wholesale Funding	**474,278**	**22.0%**
Total Funding - Drawn	**1,845,991**	**85.8%**
Total Funding - Available	**2,150,991**	**100.0%**

Source: Audited HBS Interim Financial Statements for the period 1 July 2010 to 5 January 2011

The reinvestment rates for HBS's retail funding have been relatively strong. Figure 22 shows the reinvestment rates for HBS (and prior to the merger, for the three entities that now make up HBS) on a weekly basis since July 2010. Rates have generally fluctuated around the target rate of 80% and have averaged approximately 78% over the observed period. Although weekly reinvestment rates in May 2011 have largely recovered from the decline experienced during April, we understand that the drop-off in April reflected a deliberate strategy by HBS to utilize liquid assets above management's required minimum as opposed to accepting investments from investors that did not suit HBS's desired profile.

Figure 22: HBS Reinvestment Rates



Source: HBS Management

4.4 FINANCIAL SUMMARY

Given HBS was only recently formed as a legal entity on 5 January 2011, no meaningful information currently exists on its historical financial performance[11]. Table 14 below summarises the interim consolidated statement of financial position for the HBS group as at 5 January 2011.

Table 14: HBS Group Statement of Financial Position

	As at 5 Jan 2011 ($000)
Assets	
Cash & Equivalents	285,675
Investments	21,540
Receivables	1,756,895
Other Assets	84,741
Derivative Assets	4,995
Intangible Assets	21,729
Deferred Tax Assets	7,205
Total Assets	**2,182,780**

[11] Although a Statement of Historical Financial Performance was published as part of HBS's Interim Financial Statements for the period 1 July 2010 to 5 January 2011, that Statement related to the past performance of the MARAC group only and did not include information on Canterbury Building Society and Southern Cross Building Society.

	As at 5 Jan 2011 ($000)
Liabilities	
Deposits & Other Borrowings	1,572,528
Derivative Liabilities	2,405
Creditors	38,864
Tax Payable	3,895
Term Bank Facility	-
Securitisation	169,278
Bonds	104,185
Secured Debentures	-
Total Liabilities	**1,891,155**
Equity	
Share Capital	134,574
Retained Earnings	157,051
Total Equity	**291,625**

Source: Audited HBS Interim Financial Statements for the period 1 July 2010 to 5 January 2011

4.5 OUTLOOK

A key determinant of HBS's future success will be its ability to implement its competitive strategy. That strategy is built around leveraging existing local affinities, a targeted receivables strategy, and a "customer first" rather than a product focussed approach. In addition, the future financial performance of HBS in the short-medium term will also be a function of success in other important areas, including:

- HBS being able to access retail and wholesale funding at levels sufficient to meet target asset growth and maintain an adequate liquidity buffer. Given retail funding is likely to remain the predominant funding source, this will require HBS to maintain the confidence of depositors both during and after the Crown Retail Guarantee scheme;

- Lowering HBS's overall cost of funds (which should lead to an improvement in net interest margin) by attaining registered bank status. In order to mitigate the risk of reduced access to sufficient funding at commercial levels, HBS will clearly be striving to achieve bank registration before or as close as possible to the expiration of the Crown Retail Guarantee scheme in December 2011;

- Achieving a reduction in the ratio of HBS's operating expenses to operating income as a result of improved economies of scale. This medium-term objective is important, notwithstanding that there is likely to be a temporary deterioration in the cost to income ratio following the merger that created HBS as operating costs increase to reflect additional resourcing required and integration expenses; and

- A normalisation of HBS's impairment expenses as economic conditions improve and the impact of legacy impairments reduce.

If HBS is able to improve future returns (a function of achieving success in the areas listed above, among others), then the level of HBS's total equity could improve significantly. Apart from improving levels of profitability, the extent of any increase in equity will also be dependent upon HNZ's future dividend policy and the proportion of net profit after tax that is retained in HBS for growth rather than distributed as dividends.

5.0 FAIRNESS OF THE DEBT TRANSFER FOR HOLDERS OF PWF DEBT SECURITIES

5.1 PROFILE OF POTENTIALLY AFFECTED INVESTORS

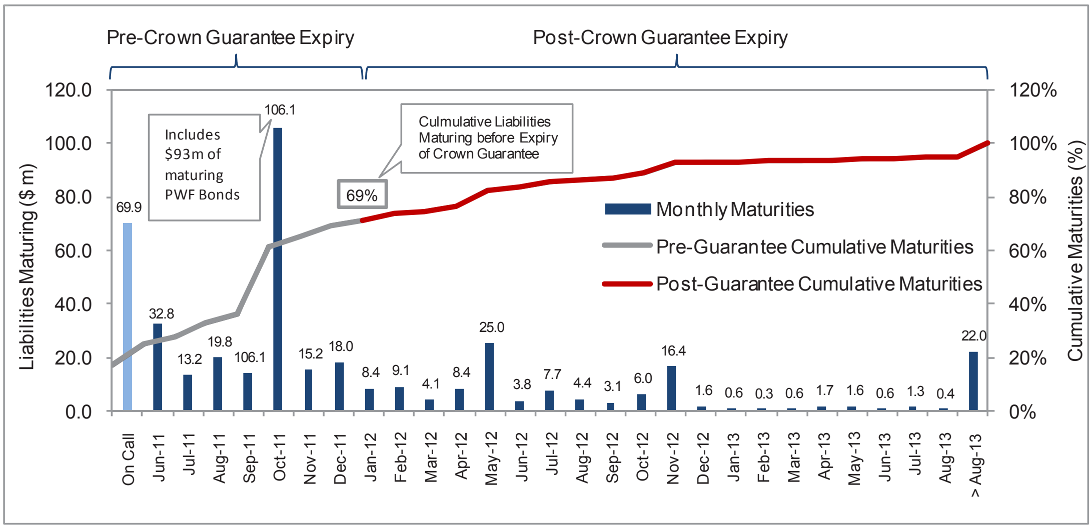
This section summarises our views in relation to the potential impact of the Debt Transfer on the holders of PWF Debt Securities. Our assessment is based on the approach set out in Section 1.2.2, and broadly considers the relative risks of an investment in PWF (assuming the Debt Transfer does not proceed) compared to those for an investment in HBS assuming that the Debt Transfer is successfully completed.

We suggest that the appropriate time horizon for the assessment should match the outstanding term to maturity of the PWF Debt Securities, and this is potentially different for each individual investor. However, prior to the expiry of the Crown Retail Guarantee scheme on 31 December 2011, the effective investment risk will be the same for many of the investors in PWF Debt Securities irrespective of whether they hold PWF Debt Securities or HBS Debt Securities.

As outlined in Section 1.1.5, a key condition of the Proposed Transaction is confirmation from Treasury (on behalf of the Crown) that all PWF Debt Securities currently covered by the Crown Retail Guarantee which become HBS Debt Securities will continue to be covered by the Crown Retail Guarantee scheme. Accordingly, with the exception of the Non-Guaranteed Investors, all debenture holders, depositors and bondholders will be covered by the Crown Retail Guarantee and receive a payout from the Crown in the event of an insolvency or liquidation event occurring for either PWF or HBS prior to 31 December 2011.

Figure 23 summarises the cumulative maturity profile of the PWF Debt Securities.

Figure 23: Maturity Profile of PWF Debt Securities (as at 31 May 2011)

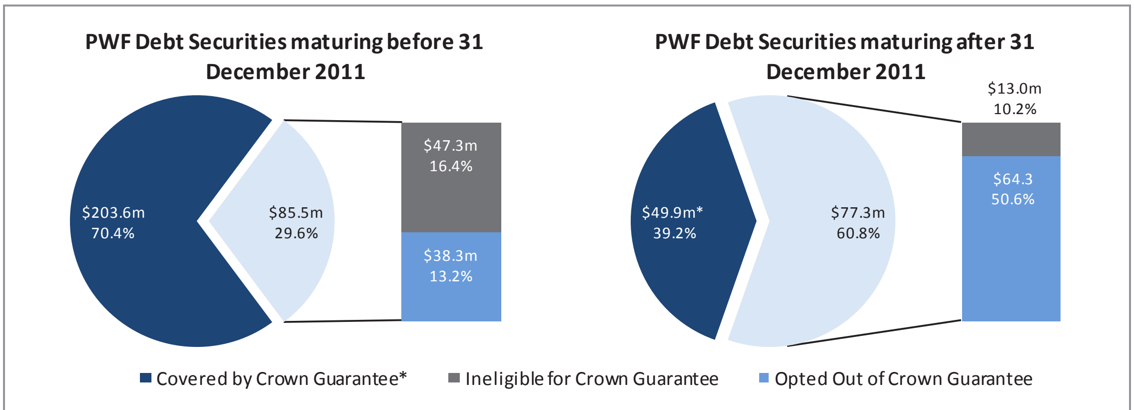


Source: PWF Management

As at 31 May 2011, about 50% of the PWF Debentures,100% of the PWF Bonds, and 100% of the on-call PWF Deposits (collectively representing just under 70% of the combined value of the PWF Debt Securities) were due to mature prior to the expiry of the Crown Retail Guarantee scheme. With the exception of the Non-Guaranteed Investors, the holders of these securities should therefore be largely indifferent to whether the Debt Transfer proceeds or not: the payment of their interest and principal is guaranteed by the Crown and they are free to choose how to reinvest their capital at the maturity date.

Set out in Figure 24 below is a profile of the PWF Debt Securities (by value) as at 31 May 2011 that mature before and after 31 December 2011, including a breakdown of those securities which were covered by the Crown Retail Guarantee scheme and those which were not covered (on the basis of the debt security holder having opted out of the scheme or otherwise being ineligible to participate in the scheme).

Figure 24: Crown Retail Guarantee Profile of PWF Debt Securities (as at 31 May 2011)



Source: PWF Management

* PWF Debt Securities maturing after 31 December 2011 are only covered by the Crown Retail Guarantee up until 31 December 2011

As indicated in Figure 24 above, as at 31 May 2011:

- The total value of issued PWF Debt Securities was $416.3 million, comprising $289.1 million of securities due to mature before 31 December 2011 and $127.2 million of securities due to mature after 31 December 2011;
- Of the $289.1 million of PWF Debt Securities maturing before 31 December 2011, 70.4% were covered by the Crown Retail Guarantee and 29.6% were not covered; and
- Of the $127.2 million of PWF Debt Securities due to mature after 31 December 2011, 39.2% were covered by the Crown Retail Guarantee (in the event of a PWF insolvency event occurring before 31 December 2011) and 60.8% were not covered by the guarantee scheme.

In the remainder of section 5.0 of this report, our focus is therefore on the Relevant PWF Debt Security Holders, being:

- **The investors in PWF Debt Securities who represent the Non-Guaranteed Investors.** As at 31 May 2011, this group of investors comprised (by value) $162.8 million (or 39.1%) of the total value of PWF Debt Securities on issue (i.e. the $85.5 million of Non-Guaranteed Investors with a maturity date before 31 December 2011 plus the $77.3 million of Non-Guaranteed Investors (all holders of PWF Debentures) with a maturity date after 31 December 2011); and
- **The holders of PWF Debt Securities currently covered by the Crown Retail Guarantee with a maturity date after 31 December 2011.** While these investors are covered by the Crown Retail Guarantee for any insolvency or liquidation event occurring before 31 December 2011, that protection is not available for the remainder of their investment term after the expiry of the scheme.

As at 31 May 2011, this group of investors all held PWF Debentures and comprised (by value) $49.9 million of the total value of PWF Debt Securities on issue.

As at 31 May 2011, the Relevant PWF Debt Security Holders collectively held $212.7 million (51.1%) of the total value of the PWF Debt Securities on issue. Only these investors are potentially affected by the implications of the Debt Transfer[12].

5.2 IMPACT OF PROPOSED TRANSACTION ON SECURITY POSITION

5.2.1 Current Security Position for Holders of PWF Debt Securities

Table 15 below provides a summary of the current security position for the holders of PWF Debt Securities.

Table 15: Current Security Position for Holders of PWF Debt Securities

Key Item	PWF Debentures	PWF Bonds	PWF Deposits
Security	A charge over all current and future assets of PWF.		No security.
Rank	First ranking, subject to prior interests (limited to 5% of PWF's total tangible assets and currently understood to be nil) and certain claims preferred by legislation. PWF Bonds, PWF Debentures and bank facilities rank equally with one another and ahead of unsecured PWF Deposits and other unsecured debt obligations of PWF.		Rank equally with all other unsecured debt obligations of PWF, and behind all claims preferred by legislation, prior interests, Bondholders, Secured Deposit/Debenture holders and bank facilities.
Crown Retail Guarantee	The Crown Retail Guarantee applies to eligible investors until 31 December 2011 unless holders of PWF Debt Securities (whether secured or unsecured) opted out of the Guarantee.		

Source: Notices of Meeting for Holders of PWF Debt Securities (drafts as at 6 July 2011)

5.2.2 Impact of Debt Transfer on Security Position

As a result of the Debt Transfer, the Trust Deed relating to the PWF Bonds and a separate Trust Deed relating to the PWF Debentures and PWF Deposits will be discharged and will be of no further effect. All PWF Debt Securities will become HBS Debt Securities issued pursuant to the Master Trust Deed.

Key features of the Debt Transfer in terms of its impact on the security position are as follows:

- Pursuant to the Master Trust Deed:
    - The PWF Bonds and PWF Debentures that are currently "secured" claims on PWF will become "unsecured" HBS Bonds and HBS Deposits;
    - The PWF Deposits will become "unsecured" HBS Deposits;
    - All HBS Debt Securities will be unsecured and will rank equally with each other and with existing HBS debt instruments (including HBS bank facilities); and
    - Subject to claims preferred by legislation and prior interests (the latter of which is limited to 5% of the total tangible assets of the HBS guaranteeing group), no other HBS debt instruments will rank ahead of the HBS Debt Securities (including those issued to the holders of the existing PWF Debt Securities).

[12] Relevant PWF Debt Security holders will obviously also include any investor who has invested after 31 May 2011, where that investment is non-guaranteed or matures after 31 December 2011.

- All PWF Debt Securities that were covered by the Crown Retail Guarantee will remain covered by a Crown Retail Guarantee upon being replaced by HBS Debt Securities.

- The HBS Debt Securities will be guaranteed by HBS, HBS's existing subsidiaries and, after the Debt Transfer, PWF (which becomes a subsidiary of HBS upon completion of the Proposed Transaction).

Apart from the changes to the security position of the HBS Debt Securities noted above, the HBS Debt Securities will be issued with substantially the same key terms and conditions as the PWF Debt Securities. Other changes to the terms and conditions of the HBS Debt Securities (which we consider to be less substantial and likely to be of more limited practical impact) are set out in the Information Memorandum sent separately to the holders of PWF Debt Securities together with the Notice of Meeting.

5.3 ASSESSMENT CRITERIA OF THE DEBT TRANSFER TO HBS

As noted in Section 1.2.2 above, the applicable payment terms, interest rate and maturity of the HBS Debt Securities will be the same as those that currently exist in respect of the PWF Debt Securities; the fairness of this aspect of the Debt Transfer from the point of view of the Relevant PWF Debt Security Holders can therefore be determined principally by examining the relative security position of each class of PWF Debt Security holder before and after the Debt Transfer.

Our assessment of the relative security positions focuses on two key elements:

- The financial position and likely prospects of PWF compared to HBS. In a pragmatic sense, this comparison involves a qualitative assessment of the likelihood of either entity becoming subject to an insolvency or liquidation event during the assessment period (see Section 5.4 below); and

- The legal and practical implications for Relevant PWF Debt Security Holders in the event of an insolvency or liquidation event for either PWF or HBS (see Section 5.5 below).

5.4 COMPARISON OF RELATIVE FINANCIAL STRENGTH OF PWF AND HBS

5.4.1 Introduction

Table 16: Comparison of PWF and HBS Key Financial Metrics

Attribute	PWF (As at 30 April 2011)	HBS (As at 30 April 2011)
Size of Loan Assets	$463 million	$1,720 million
Equity	$104 million	$293 million
Regulatory Capital Ratio	11.9%	9.7%
Rating (S&P)	BB (Stable)	BBB- (Stable)
Level of Asset Diversification	Low	Medium
Funding Mix	Debentures, Deposits, Bonds, Bank Facilities, Equity	Debentures, Deposits, Securitisation, Bank Facilities, Equity
Regulatory Regime	NBDT	NBDT, preparing for Bank Registration
Access to Capital	Wholly-owned subsidiary of listed PGW – parent can access public capital market	Public listed parent – can issue equity directly in public capital market

Source: PWF and HBS Management Accounts, and Public Releases

A high-level comparison of key financial and other metrics pertaining to PWF and HBS is set out in Table 16.

We note that the appropriate comparison for our assessment is not directly between PWF and HBS, but between PWF and the combined businesses of PWF and HBS following the completion of the Proposed Transaction. Naturally, there are many metrics that could be examined to compare the relative financial strength of PWF and HBS. However, for the purpose of our analysis, we have focused mainly on a comparison of the relative liquidity position, asset quality and capital position of the two entities.

5.4.2 Liquidity Position and Asset Quality

Set out in Table 17 below are details of the liquid assets and undrawn funding facilities of PWF and HBS (both as at 30 April 2011), together with details of their respective total liabilities. This data shows that both entities held a liquidity buffer near 30% of total liabilities.

Table 17: Liquidity Position of PWF and HBS

	PWF (at 30 April 2011) ($000s)	HBS (at 30 April 2011) ($000s)
Cash and Liquid Assets (excl. finance receivables)	36,392	228,649
Undrawn Funding Facilities	101,000	305,621
Available Liquidity	**137,392**	**534,270**
Total Liabilities	429,085	1,815,536
Liquidity as a % of Total Liabilities	**32.0%**	**29.4%**

Source: PWF and HBS Management Accounts

Under a business as usual scenario both PWF and HBS appear to have sufficient funding capacity to continue to repay liabilities as they fall due. Both entities have diversified funding structures which include a mixture of bonds, deposits, debentures, and wholesale bank facilities. If maturing deposits and debentures are re-invested at, or close to, historical reinvestment rates, our analysis suggests that both businesses should have sufficient liquidity headroom to conduct their on-going businesses and maintain a reasonable liquidity buffer as a partial safeguard against future funding uncertainties.

However, as noted previously in this report, all remaining NBDTs face a degree of uncertainty in relation to funding in the post GFC environment, particularly following the expiry of the Crown Retail Guarantee scheme. Given that PWF and HBS are heavily reliant on retail funding, both businesses are exposed to changes in general investor sentiment. If re-investment rates for deposits and debentures dropped substantially, the ability of both entities to conduct business as usual would be at risk. Depending on the extent of any drop in re-investment rates, both entities would be forced to draw on their existing liquidity headroom; in a worst case scenario, asset sales may be needed to meet funding repayment obligations.

On a comparative basis, we believe HBS is less likely than PWF to experience a reduction in available funding sources that would be sufficient to threaten its liquidity position. This view is based on the following:

- HBS has a higher S&P credit rating than PWF which, all things being equal, indicates it has a stronger financial profile. If HBS maintains this higher credit rating, it should be in a comparatively better position than PWF to maintain the confidence of key retail investors and their financial advisers.

- HBS is aiming to become a registered bank. If bank registration can be achieved, this should enable HBS better access to retail deposits, and also facilitate access to the inter-bank funding market.

- HBS conducts a larger, more diversified business than PWF. If required, this scale factor should make it easier for HNZ (as HBS's NZX listed parent company) to recapitalize HBS than is likely to be the case for PGW in respect of the smaller, less diversified business conducted by PWF. Given its recent history and shareholder changes, PGW is also arguably in a weaker position to support its finance subsidiary.

The quality of PWF's and HBS's assets is also an important factor in any assessment of the relative liquidity of both entities and the likelihood of an insolvency or liquidation event occurring. We note the following matters in relation to asset quality:

- Both PWF and HBS lend almost exclusively on a secured basis; loans secured by first ranking security constituted approximately 93% of PWF lending (as at 31 December 2010) and approximately 95% of HBS lending (as at 5 January 2011). Assuming appropriate loan to value ratios have been maintained by both PWF and HBS, a large portion of their respective receivables portfolios should benefit from enforcement of this first ranking security in the event that their respective customers are unable to meet their repayment obligations.

- Although PWF and HBS maintain liquidity buffers as outlined in Table 17 above, their respective business models are nonetheless predicated on the ability to collect loan payments from customers when they fall due. In the post GFC environment, both businesses have experienced and absorbed increased levels of impairment expenses over the last few years; the ability to continue to absorb such losses is limited based on their existing capital bases.

- For the purposes of this report, we have not conducted an analysis of the loan books of PWF and HBS but have assumed that all assets have been appropriately provisioned, as reflected in the recently audited financial statements prepared for each entity. On this basis, both PWF and HBS would appear to have sufficient funding capacity and equity capital to be able to conduct business as normal.

On a comparative basis, we therefore conclude that HBS is no more likely than PWF to experience an insolvency or liquidation event attributable to the quality of its assets.

5.4.3 Capital Position

In a liquidation event, to the extent that the realisable value of an entity's assets are insufficient to meet its obligations, the level of equity held by the entity is relevant in terms of the buffer it provides to external creditors before they may be exposed to a loss. Generally, the higher the level of equity held by an entity:

- The less likely it will become subject to an insolvency or liquidation event because equity reserves can be drawn down to absorb losses and meet payment obligations, thereby avoiding enforcement action by creditors; and

- In the event of an insolvency or liquidation event occurring, the bigger the equity buffer, the lower the potential size of any loss that may be suffered by a creditor.

Set out in Table 18 below is a pro-forma statement of financial position for HBS if the Proposed Transaction is successfully completed. The pro-forma statement is based on statements of financial position for PWF and HBS at 31 December 2010 and 5 January 2011, respectively, and assumes HBS raises $55 million of new equity capital (being the minimum required as a condition of the Proposed Transaction proceeding). The pro-forma statement shows the total equity of HBS following the Proposed Transaction will increase to approximately $332 million.

Table 18: Pro-forma Statement of Financial Position for Combined PWF and HBS

Item	PWF (at 31 December 2010)	HBS (at 5 January 2011)	Adjustment	Pro forma Combined
Assets				
Cash & Equivalents	21,188	285,675	8,300[1]	315,163
Investments	-	21,540	-	21,540
Receivables	491,846	1,756,895	(55,800)[2]	2,192,941
Other Assets	4,138	84,741	-	88,879
Derivative Assets	1,806	4,995	-	6,801
Intangible Assets	1,225	21,729	-	22,954
Deferred Tax Assets	5,612	7,205	-	12,817
Total Assets	**525,815**	**2,182,780**	**(47,500)**	**2,661,095**
Liabilities				
Deposits & Other Borrowings	65,027	1,572,528	-	1,637,555
Derivative Liabilities	129	2,405	-	2,534
Creditors	4,191	38,864	-	43,055
Tax Payable	1,736	3,895	-	5,631
Term Bank Facility	-	-	-	-
Securitisation	-	169,278	-	169,278
Bonds	94,097	104,185	-	198,282
Secured Debentures	260,460	-	-	260,460
Total Liabilities	**425,640**	**1,891,155**	**-**	**2,316,795**
Equity				
Share Capital	65,350	134,574	(47,500)[3]	152,424
Cash Flow Hedge Reserve	1,117	-	-	1,117
Retained Earnings	33,708	157,051	-	190,759
Total Equity	**100,175**	**291,625**	**(47,500)**	**344,300**
Regulatory Capital Ratio[4]	10.8%	9.6%		9.2%

Source: PWF management and HBS management (including the pro forma combined estimate post acquisition and capital raising)

[1] Reflects the addition of $55m of HNZ capital, less $7.5m HBS payment to PGW, less $39.2m ASB Risk Share Loans acquired by PWF.
[2] Reduction of the $95.0m in Excluded Loans, plus $39.2m ASB Risk Share Loans acquired by PWF.
[3] The $55m HNZ capital, less $7.5m HBS payment to PGW, less $95.0m in relation to Excluded Loans.
[4] Regulatory capital ratios provided by PWF and HBS (including pro forma combined estimate for HNZ post acquisition and capital raising). Subject to confirmation by RBNZ of the appropriate treatment of PWF's preference shares, PWF's ratio may in fact be lower than 10.8%.

As indicated in Table 18 above, the combined HBS/PWF business following the Proposed Transaction will have an estimated regulatory capital ratio of 9.2%, a level materially lower than the 10.8% for PWF on a standalone basis as at 31 December 2010. Prima facie, this suggests HBS has less ability to absorb losses from impaired assets than PWF, and that HBS's creditors are therefore exposed to a higher risk of an insolvency event than those of PWF. However, we believe it is simplistic to draw this conclusion based on a comparison of regulatory capital ratios alone. Indeed, when other important factors are taken into account, we believe HBS's capital position can be considered to be no less robust than that of PWF. The factors we think are important in reaching this conclusion include the following:

- If HBS is successful in its plans to achieve bank registration, it is likely that it will experience a general reduction in its cost of funding, accompanied by greater access to both retail and wholesale funding. This should in turn improve profitability through time and (depending on HBS's future dividend policy) increase the size of HBS's equity base and capital ratio.

- If and when HBS does achieve bank registration, its regulatory capital ratio will immediately increase due to the less onerous risk-weighting applied to assets of a registered bank, when compared to those same assets held by a NBDT. While this improvement in capital ratio would not be the result of any fundamental change in the nature of HBS's equity strength or exposure to asset risk, the reduction in risk-weighting treatments for specific loan categories under the regulatory regime reflects the Reserve Bank's explicit view that banks are better positioned to manage the risks associated with financial assets than NBDTs.

- The loan book of the combined HBS/PWF business will have greater diversification by loan asset type and geographic exposure than PWF on a standalone basis. HBS will therefore be better positioned to handle deterioration in sector-specific and region-specific performance of its loan book, particularly in the case of South Island rural sector loans to which PWF is heavily exposed. The calculation of regulatory capital ratios does not reflect concentration risk[13].

- HBS conducts a larger, more diversified business than PWF. This factor should make it easier for it to raise additional equity capital if needed (via its NZSX listed parent, HNZ) than would be the case for PWF (through PGW) on a standalone basis.

5.4.4 Conclusion

HBS is a larger, more diversified business than PWF; it has a stronger credit rating, more diverse funding lines, has a larger equity capital base (in absolute terms), and we believe would be more likely to be able to access additional equity capital through its listed parent than would be the case for PWF on a standalone basis. Thus, all other things being equal, and assuming HBS is successful in executing its business strategy in the short-medium plan (particularly around attaining bank registration), we assess the likelihood of HBS becoming subject to an insolvency or liquidation event as being lower than that for PWF.

5.5 LEGAL AND PRACTICAL IMPLICATIONS OF AN INSOLVENCY OR LIQUIDATION EVENT

Relevant PWF Debt Security Holders who have invested in PWF Debentures currently hold a secured position in PWF[14]. If the Debt Transfer proceeds, that secured position becomes an unsecured position in HBS which, on the face of it, provides a weaker security position in the event of insolvency or liquidation.

However, we believe that the change in security status is largely technical in nature and is unlikely to have a material practical impact on the position of the Relevant PWF Debt Security Holders. The move from a secured position in PWF to an unsecured position in HBS largely reflects the fact that the majority of funding for larger financial institutions (including banks) is held on an unsecured basis and ranks equally in priority in the event of liquidation.

---

[13] Under the RBNZ's regulatory capital requirements, the risk weighting attached to a particular asset class is typically higher for a NBDT than it is for a bank with exposure to the same asset class; one reason for the higher risk weighting is recognition that many NBDTs are regionally focussed and therefore exposed to greater concentration risk than banks. However, there is no specific measure of concentration risk for NBDTs.

[14] PWF Bonds are also secured but mature prior to the expiry of the Crown Retail Guarantee scheme and are therefore not relevant to this discussion.

For the Relevant PWF Debt Security holders with a secured position in PWF, the move to an unsecured position in HBS will only be detrimental if there are significant classes of securities in HBS with a higher ranking priority. This will not be the case for HBS:

- We understand that HBS currently has few secured creditors (other than trade creditors) that will rank ahead of the HBS Debt Securities; and
- Pursuant to the HBS Master Trust Deed, we note that the ability for HBS to grant prior security interests is limited to 5% of the HBS guaranteeing group's total tangible assets, a limitation that is substantially the same as that currently imposed on PWF.

The position of Relevant PWF Debt Security Holders who have PWF Deposits is arguably slightly improved by the Debt Transfer. PWF Deposits currently rank behind PWF Debentures and PWF Bonds in the event of liquidation, but HBS Deposits will have equal ranking with all other HBS Debt Securities following the Debt Transfer.

5.6 SUMMARY

We believe HBS's greater scale, stronger credit rating, diversity of funding lines and loan book, and ability to access equity capital to support growth and absorb external shocks is likely to reduce the risk to all debt security holders compared to the position that would exist for the holders of PWF Debt Securities if the Debt Transfer did not proceed. Although the security position for the holders of PWF Bonds and PWF Debentures will change, we conclude that the immediate practical impact of the change will be limited (particularly for the holders of PWF Bonds which are covered by the Crown Retail Guarantee and due to mature prior to the expiry of the Crown Retail Guarantee scheme). Even if permitted security interests are granted to other parties pursuant to HBS's Master Trust Deed, this should be offset, to an extent, by the benefits resulting from the enhanced financial strength of the HBS business, assuming HBS is successful in executing its business strategy in the short-medium term.

On this basis, our view is that the Debt Transfer is fair to the holders of PWF Debt Securities.

6.0 QUALIFICATIONS, DECLARATIONS AND CONSENTS

6.1 DECLARATIONS

This report is dated 8 July 2011 and has been prepared by Northington Partners at the request of the independent directors of PWF to assist the holders of PWF Debt Securities assess the terms and conditions of the Debt Transfer. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Prior drafts of this report were provided to PGW, PWF and HBS for review and discussion. Although minor factual changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

This report is provided for the benefit of all PWF Debt Security holders, and Northington Partners consents to the distribution of this report to those people. The engagement terms did not contain any term which materially restricted the scope of our work.

6.2 QUALIFICATIONS

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand. The company specialises in mergers and acquisitions, capital raising support, expert opinions, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and state owned enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D, Steven Grant B.Com, LLB (Hons) and Mark Cahill B.Sc, M.Com. Each individual has a wealth of experience in providing independent advice to clients relating to the value of business assets and equity instruments, as well as the choice of appropriate financial structures and governance issues.

Northington Partners has been responsible for the preparation of numerous Independent Adviser Reports in relation to takeovers, mergers, and a range of other transactions subject to the Takeovers Code and NZX Listing Rules.

6.3 INDEPENDENCE

Northington Partners has prepared an appraisal report on the fairness of the Proposed Transaction for PGW's shareholders ("**Shareholder Appraisal Report**"). None of the Directors or employees of Northington Partners have any other relationship with any of the Directors or substantial security holders of the parties involved in the Proposed Transaction.

Other than the Shareholder Appraisal Report, the preparation of this Appraisal Report will be Northington Partners' only involvement in relation to the Proposed Transaction. Northington Partners will be paid a fixed fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any conflict of interest that could affect its ability to provide an unbiased report.

6.4 DISCLAIMER AND RESTRICTIONS ON THE SCOPE OF OUR WORK

In preparing this report, Northington Partners has relied on information provided by PGW, PWF and HBS. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its Directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

We reserve the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

6.5 INDEMNITY

PGW and PWF have agreed to indemnify and hold harmless Northington Partners against any and all losses, claims, costs, expenses, actions, demands, damages, liabilities or any other proceedings, whatsoever incurred by Northington Partners in respect of any claim by a third party arising from or connected to any breach by PGW or PWF of their obligations under Northington Partners' engagement letter dated 1 May 2011.

Northington Partners shall not be liable for any losses, claims, expenses, actions, demands, damages, liabilities or any other proceedings arising out of reliance on any information provided by PGW or PWF or any of their respective representatives, which is false, misleading or incomplete. PGW and PWF have agreed to indemnify and hold harmless Northington Partners from any such liabilities which Northington Partners may have to PGW or PWF or any third party as a result of reliance by Northington Partners on any information provided by PGW or PWF or any of their representatives, which is false, misleading or incomplete.

Northington Partners Limited

Greg Anderson
Director

www.northington.co.nz

Appendix I – Indicative Transaction Values and Cash Flows

PGW is proposing to sell the PWF business to HBS for an amount equal to the NTA of PWF, adjusted to derive Adjusted NTA.

The NTA for PWF will be determined by reference to PWF's management accounts calculated as at the Completion Date, prepared on the same basis and pursuant to the same accounting policies as PWF's audited financial statements for the 12 month period ending 30 June 2011. Once NTA has been determined, the major adjustments that will be made to arrive at Adjusted NTA are itemised in Table 19 below, together with current broad estimates of the relevant values. The estimates used in the worked example are based on projected values supplied by PWF for 31 August 2011, the currently anticipated Completion Date.

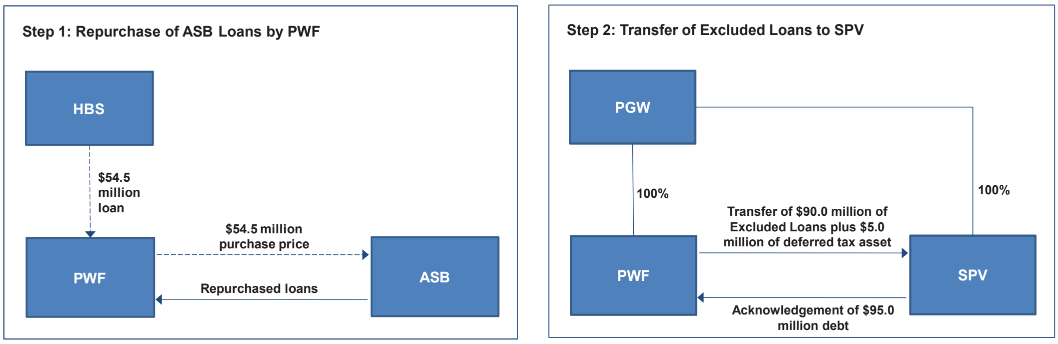
Table 19: Worked Example of Adjusted NTA Calculation

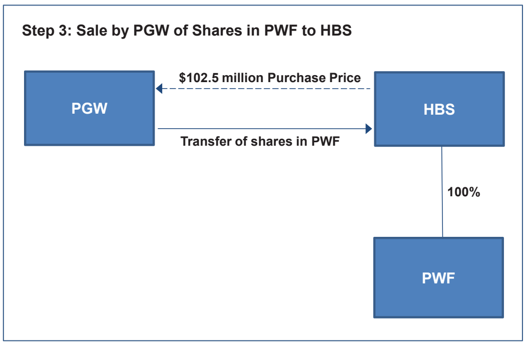
	Component	Value ($M)	Comment
	Recorded NTA	$105.0	Based on projected NTA for Completion Date.
less	Bank Facilities Costs	($1.6)	The current PWF bank facilities will be cancelled as part of the Proposed Transaction. Some unamortised costs currently recorded as an asset by PWF will be lost and minor break fees will be incurred.
less	Net Book Value of Software	($0.9)	Represents the book value of software with no value to HBS.
	Adjusted NTA	$102.5	

Source: Sale and Purchase Agreement and PGW Management estimates

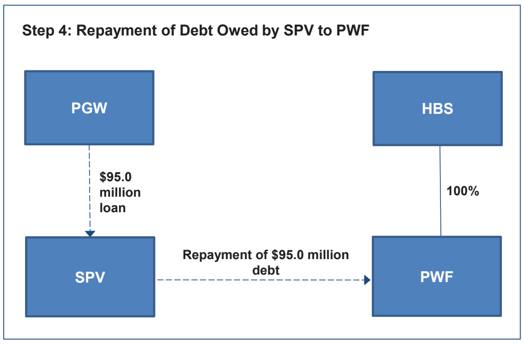
As set out in Section 1.1.1, the Proposed Transaction will be implemented in a number of steps. Further details on those steps, including the money flows between each of the counterparties, are set out below.

Figure 25: Proposed Transaction Steps





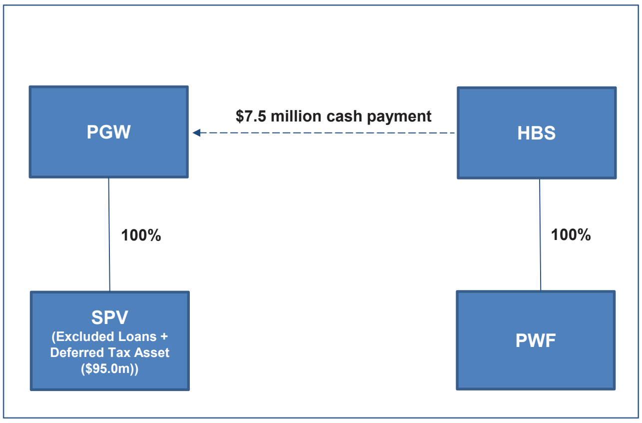
Step 3: Sale by PGW of Shares in PWF to HBS



Step 4: Repayment of Debt Owed by SPV to PWF

Upon the completion of the above steps, the net cash flows from the Proposed Transaction for each of the counterparties are as summarised in Figure 26.

Figure 26: Net Cash Flows from Proposed Transaction



The net effect of these transaction steps is that PGW will receive consideration for the Purchase Price in two components: by retention of the Excluded Loans (including the deferred tax asset associated with those loans) and a cash payment. Table 20 sets out the breakdown of the values of each component based on the current estimate of Adjusted NTA and the estimated book value of the Excluded Loans.

Table 20: Breakdown of the Purchase Price Consideration

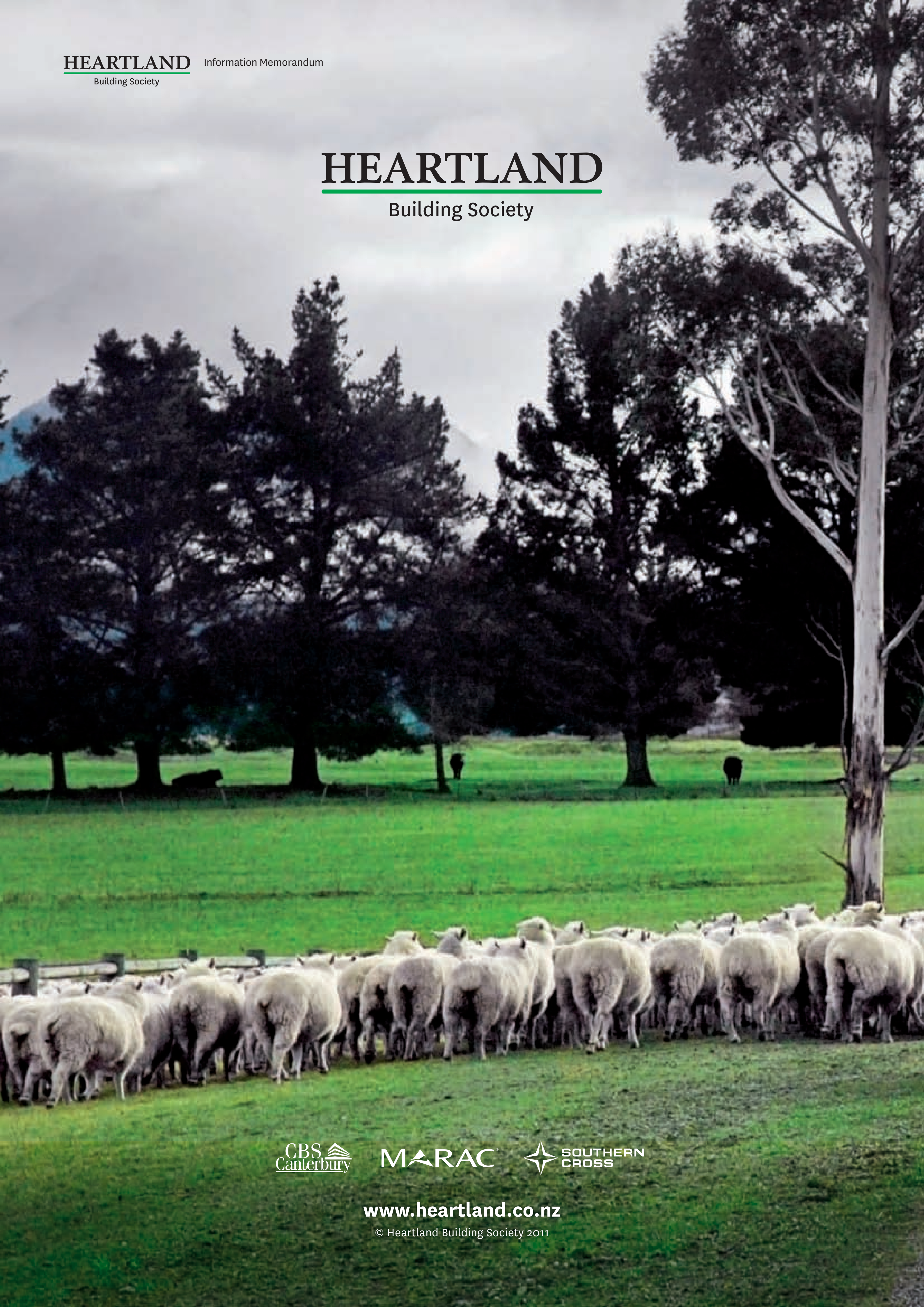
Component	Value ($M)
Excluded Loans (net book value)	$90.0
Deferred Tax on Excluded Loans	$5.0
Cash Payment	$7.5
Purchase Price	$102.5

Source: Sale and Purchase Agreement; values based on PWF estimates

Appendix II - Sources of Information Used in This Report

In preparing this report we have relied on the following sources of information:

1. The Reserve Bank of New Zealand's Financial Stability Report for May 2010, November 2010 and May 2011
2. Press searches relating to the major participants in the New Zealand bank and NBDT sectors
3. The individual websites of major participants in the New Zealand bank and NBDT sectors, including those of PWF and HNZ
4. Annual reports prepared by the major participants in the New Zealand bank and NBDT sectors, including those for PWF
5. Audited Interim Financial Statements for HBS for the period from 1 July 2010 to 5 January 2011
6. Audited Interim Financial Statements for HNZ for the period from 1 July 2010 to 7 January 2011
7. Draft PWF management forecasts
8. KPMG's Financial Institutions Performance Surveys (2006-2010)
9. Discussions with the senior management of PWF and PGW
10. The credit rating report prepared by S&P on PWF dated 28 February 2011
11. The signed version of the Sale and Purchase Agreement dated 13 June 2011
12. The final agreed forms of the Deed of Guarantee and Indemnity, Distribution and Services Agreement, and Excluded Loans Sale and Purchase Agreement
13. The Information Memorandum relating to the variation of and transfer to, and assumption by, HBS of the debt securities of PWF (draft dated 6 July 2011)
14. The agreed forms of the Deeds of Defeasance in relation to the PWF Bonds, PWF Debentures and PWF Deposits (drafts as at 6 July 2011)
15. The Notices of Meeting (and Notices of Adjourned Meeting) of PWF Bondholders, PWF Depositors and PWF Debenture Holders (drafts as at 6 July 2011)



HEARTLAND

Building Society

CBS Canterbury MARAC SOUTHERN CROSS

www.heartland.co.nz