

# HEARTLAND

Building Society

## INVESTMENT STATEMENT

RELATING TO THE OFFER OF DEPOSITS

19 JANUARY 2012



# 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:

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In addition to the information in this document, important information can be found in the current registered prospectus for the investment. 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 19 January 2012 in accordance with the Securities Regulations 2009 as amended by the Securities Amendment Regulations 2011.

# HEARTLAND

Building Society

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CAPITALISED TERMS USED IN THIS INVESTMENT STATEMENT HAVE THE SPECIFIC MEANINGS GIVEN TO THEM IN THE GLOSSARY AT THE BACK OF THIS DOCUMENT OR IN THE RELEVANT SECTION OF THIS INVESTMENT STATEMENT, OR IN THE TRUST DEED.



## 1.0 KEY FEATURES OF THE OFFER

This is an offer for Deposits issued by Heartland Building Society (incorporation number 2541477) (*Heartland*)<sup>1</sup>.

Heartland offers a wide range of investment products. Investors can choose the term of their Deposit from at call to five years and with varying features. Further details on the products available to investors are set out in section 3 of the Prospectus.

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

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

<sup>1</sup> Heartland Building Society changed its name from Combined Building Society on 1 June 2011.

## 2.0 INTRODUCING HEARTLAND

Heartland is a building society established under the Building Societies Act and comprises the former businesses of CBS Canterbury, Southern Cross and 100% shareholdings in MARAC and PGG Wrightson Finance Limited (*PWF*). Heartland is wholly-owned by Heartland New Zealand (through its subsidiaries)<sup>2</sup>, which listed on the NZSX on 1 February 2011<sup>3</sup>.

### Part of NZ Since 1875

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

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

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

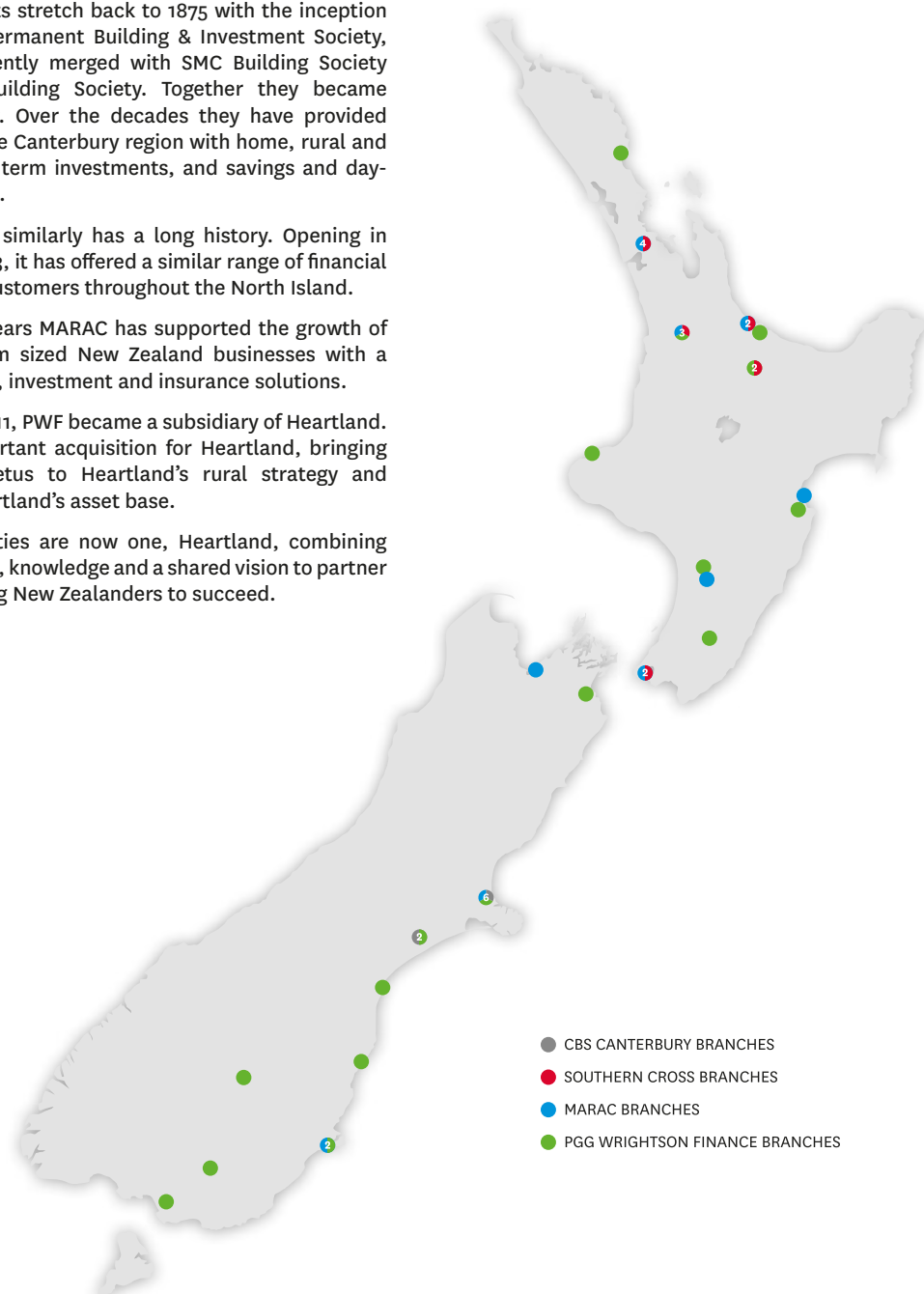
On 31 August 2011, PWF became a subsidiary of Heartland. PWF is an important acquisition for Heartland, bringing significant impetus to Heartland's rural strategy and diversity to Heartland's asset base.

These four entities are now one, Heartland, combining their experience, knowledge and a shared vision to partner with enterprising New Zealanders to succeed.

### Across New Zealand, in Heartland Communities

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

#### Branches of Heartland Group (as at 31 August 2011)



<sup>2</sup> Neither Heartland New Zealand nor any of its subsidiaries that hold shares in Heartland guarantee the obligations of Heartland in relation to the Deposits.

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

## 2.0 INTRODUCING HEARTLAND continued

### 100% FOR NEW ZEALAND | We like home-grown – and that goes for financial services too.

*We are New Zealand operated and managed, with a parent company listed on the NZSX<sup>4</sup>, and use our strong presence in communities across the country to meet the needs of small-to-medium sized businesses, farmers and families.*



### Service the Heartland Way

Heartland values its heritage, and works hard to earn and retain its customers' respect and loyalty every day. As a Heartland customer you will experience service with a personal touch.

### Investing in New Zealand

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

### Highlights of the Business

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

- Credit rating**  
 At the date of this Investment Statement, Heartland has a credit rating of BBB- from Standard & Poor's, which is considered an investment grade rating by market participants. For the most up to date Heartland credit rating information refer to [www.heartland.co.nz](http://www.heartland.co.nz)<sup>5</sup>. Further detail on credit ratings is set out on pages 15 to 17 of this Investment Statement.
- 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 Trust Deed not to grant security over any of its assets except in certain limited circumstances.

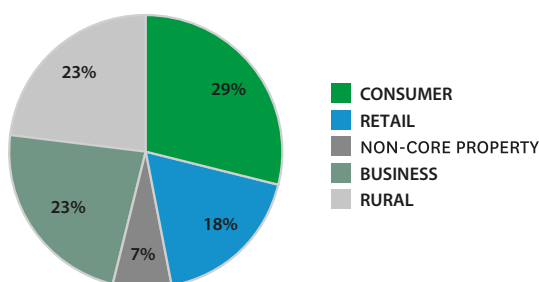
- Substantial balance sheet, sound cash flow**

Heartland is a substantial business. As at 30 June 2011 (before the acquisition of PWF), Heartland had \$294 million in shareholder funds, with \$2.1 billion in total assets and \$1.8 billion in total liabilities<sup>6</sup>. Heartland's focus is on lending against assets that generate cash flow, assets that have essential uses and assets that have sound realisable values. Through this Heartland maintains a sound cashflow.

- Lending diversity**

Looking after Depositors' money is something Heartland takes very seriously. Diversification of risk is coupled with robust governance, experienced management and a rigorous approach to credit. Heartland's lending is diversified across the small-to-medium sized business, rural and household sectors, and geographically across New Zealand.

Net Receivables of Heartland Group<sup>7</sup> and PWF by Division (as at 30 June 2011)<sup>8</sup>



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

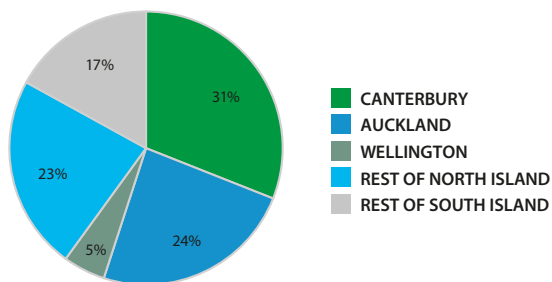
<sup>5</sup> For an explanation of Standard & Poor's credit rating system, please see <http://www.standardandpoors.com/ratings/definitions-and-faqs/en/us> under the Section "What do the letter ratings mean?".

<sup>6</sup> These amounts have been taken from the most recent annual statement of financial position of Heartland dated 30 June 2011. The amounts were calculated as at that date. The amounts and statement of financial position are included in Heartland's audited financial statements for the year ended 30 June 2011.

<sup>7</sup> Heartland consolidates two securitisation trusts – MARAC ABCP Trust 1 and CBS Warehouse A Trust (the Trusts). \$210 million of net securitised receivables continue to be recognised in Heartland's financial statements and in the graph above, however those \$210 million of assets are set aside for the benefit of the investors in the Trusts and no longer form part of Heartland's assets which are available to repay Depositors.

<sup>8</sup> The information contained in the graph has been taken and derived, from the most recent annual audited financial statements of Heartland Group dated 30 June 2011 and PWF dated 30 June 2011 (but excludes \$32.7 million operating lease vehicles, \$34.5 million investment properties and the loan assets that were sold by PWF on or about 31 August 2011). The 30 June 2011 financial statements precede the 31 August 2011 acquisition of PWF by Heartland. The categories have been reclassified and aggregated where necessary for consistency of presentation. The graph is provided for illustrative purposes only.

Net Receivables of Heartland Group<sup>9</sup> and PWF by Geography (as at 30 June 2011)<sup>10</sup>



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

The Heartland Group has limited exposure to any single customer or counterparty. Under the Trust Deed, the Heartland Group's exposure to its Largest Single Borrower may not exceed 15% of capital and the Board monitors the largest amounts owing by any individual borrower or group of related borrowers.

The Heartland Group operates across a broad New Zealand customer base. This helps to limit the risk of the Heartland Group being exposed to any one group of customers failing to meet their repayments.

- **Funding diversity**

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

- **Strong governance**

The Directors of Heartland and its executive management team are experienced in the financial services and banking industries. All of the Directors have extensive corporate governance experience. You can find out more about Heartland's Directors on pages 8 to 9.

- **NZSX-listed parent company**

Heartland's parent company, Heartland New Zealand, is listed on the NZSX and has approximately 8,000 shareholders as at the date of this Investment Statement<sup>11</sup>. Having an NZSX-listed parent provides the potential to access further capital.

- **Banking registration objective<sup>12</sup>**

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

<sup>9</sup> Heartland consolidates two securitisation trusts - MARAC ABCP Trust 1 and CBS Warehouse A Trust (the *Trusts*). \$210 million of net securitised receivables continue to be recognised in Heartland's financial statements and in the graph above, however those \$210 million of assets are set aside for the benefit of the investors in the Trusts and no longer form part of Heartland's assets which are available to repay depositors.

<sup>10</sup> The information contained in the graph has been taken and derived, from the most recent annual audited financial statements of Heartland Group dated 30 June 2011 and PWF dated 30 June 2011 (but excludes \$32.7 million operating lease vehicles, \$34.5 million investment properties and the loan assets that were sold by PWF on or about 31 August 2011). The 30 June 2011 financial statements precede the 31 August 2011 acquisition of PWF by Heartland. The categories have been reclassified and aggregated where necessary for consistency of presentation. The graph is provided for illustrative purposes only.

<sup>11</sup> Heartland New Zealand does not guarantee the obligations of Heartland in relation to the Deposits. Heartland New Zealand shares are tradeable on the NZSX. However, NZX accepts no responsibility for any statement in this Investment Statement. The NZSX is a registered market operated by NZX Limited, which is a registered exchange, regulated under the Securities Markets Act 1988.

<sup>12</sup> As at the date of this Investment Statement, neither Heartland New Zealand, Heartland, nor any Guaranteeing Subsidiary is a registered bank under the Reserve Bank Act. The bank registration process is of indeterminate length and bank registration is subject to satisfaction of the Reserve Bank's requirements.

## 3.0 BOARD OF DIRECTORS

Heartland believes that a strong governance framework is essential to ensure investors have confidence that their funds are being managed by people with the necessary knowledge, experience, integrity and qualities required.



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

### **Chairman**

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



**Jeffrey Greenslade** LLB  
**Chief Executive Officer**

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



**John Harvey** BCom, CA  
**Independent Director**

John has considerable financial services experience and 35 years in the professional services industry, including 23 years as a partner of PricewaterhouseCoopers. John was appointed to the MARAC Finance Limited Board in 2010.



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

### **Director**

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



**Gary Leech** BCom, FCA  
**Director**

Gary has 35 years' experience as a chartered accountant, and was the Chairman of the Board of CBS Canterbury leading up to the merger with MARAC Finance Limited and Southern Cross Building Society.



**Christopher Mace** CNZM  
**Director**

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



**Geoffrey Ricketts** LLB (Hons),  
F Inst D

**Director**

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



**Michelle Smith** MCom,  
CA – NZSA and ICAEW

**Independent Director**

Michelle is a professional director who has over 20 years' experience working within the financial services industry. Michelle was appointed to the MARAC Finance Limited Board in 2010.

The Directors of Heartland may change after the date of this Investment Statement. The names of Heartland's current directors may be obtained from [www.heartland.co.nz](http://www.heartland.co.nz). Each of the Directors of Heartland can be contacted at Heartland's registered office.

## 4.0 ANSWERS TO IMPORTANT QUESTIONS

The purpose of this section of the Investment Statement is to provide certain key information that is likely to assist a prudent but non-expert person to decide whether or not to invest with Heartland. Further important information about the Offer is set out in Heartland's current registered Prospectus.

At Heartland we take our obligations very seriously and want to ensure that all investors have everything they need to make an informed decision. If you would like to know more about any matter identified in this section or request a copy of Heartland's Prospectus or audited financial statements or a rate card showing our current interest rates, please feel free to call us on 0508 432 785 (for Heartland Deposits), 0800 26 27 22 (for MARAC Deposits), 0800 227 227 (for CBS Canterbury Deposits), 0800 657 935 (for Southern Cross Deposits), 0800 744 346 (for PWF Deposits) or visit [www.heartland.co.nz](http://www.heartland.co.nz).

### WHAT SORT OF INVESTMENT IS THIS?

#### The Offer

Heartland is offering investors the opportunity to invest in interest-bearing Deposits.

A Deposit is a debt security whereby money is invested by you with Heartland for a period of time (ranging from on call to five years) in return for the payment by Heartland of a rate of return (an interest rate).

The Deposits are offered subject to the terms and conditions of a Trust Deed dated 29 October 2010 between Heartland and the Trustee. The main terms of the Trust Deed are summarised in Heartland's current registered Prospectus.

### WHO IS INVOLVED IN PROVIDING IT FOR ME?

#### Issuer

Heartland Building Society (incorporation number 2541477) is the issuer of the Deposits. Heartland's registered office, as at the date of this Investment Statement, is 75 Riccarton Road, Riccarton, Christchurch. Its principal place of business as at the date of this Investment Statement is 35 Teed Street, Newmarket, Auckland.

The Directors of Heartland as at the date of this Investment Statement 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), 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 Investment Statement. The names of Heartland's current directors may be obtained from [www.heartland.co.nz](http://www.heartland.co.nz). Each of the Directors of Heartland can be contacted at Heartland's registered office.

As at the date of this Investment Statement, except for the Director named below, 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 and Heartland New Zealand.

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

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

#### Trustee

Trustees Executors Limited is the trustee in respect of the Deposits. TEL's address, as at the date of this Investment Statement, 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](http://www.business.govt.nz/companies).

#### Description of Activities

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

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

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

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

PWF became a wholly owned subsidiary of Heartland on 31 August 2011. 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 over a century.

#### HOW MUCH DO I PAY?

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

#### Minimum Investment

You can choose the amount you wish to invest, subject only to the current minimum starting amount of \$1,000 for Term Accounts (there is no minimum for Call Accounts apart from \$2,000 minimum investment for investments in PWF Savings Optimiser). However, a higher minimum amount may be required in order to be eligible for higher interest rates or for certain products.

The minimum amount that must be invested and the rate of interest payable on that investment are shown on the application form, rate card or rate advice issued by Heartland from time to time or as otherwise agreed between you and Heartland.

#### Making Payment

Your investment amount is payable in full to Heartland at the time the Deposit is made.

You can pay your investment amount in one of four ways:

- cheque – please make your cheque out to Heartland and cross it “Not Transferable”;
- direct credit – please credit to Heartland’s bank account, as shown in the relevant application form, with your investor name as reference;
- direct debit – please call Heartland to request a direct debit form and it will be posted to you. Post the completed direct debit form with your application form to Heartland at the address set out in the Directory; or
- cash – you may deposit cash at a CBS Canterbury or Southern Cross branch.

Other than as set out above, there are no other amounts payable by you to Heartland at the time you invest in your Deposit.

#### Choosing Your Investment Term

Heartland has a wide range of fixed and floating rate investment products. Investors can choose the term of their investment from at call to five years.

The Call Deposits are at call investments, and investors can request repayment from Heartland at their discretion.

You can choose the term of your Term Deposit. The standard terms offered range from 30 days to five years. However, if you need your investment to mature on a certain day you can select a specific maturity date to suit your situation. In this case, the interest rate paid will be that of the nearest standard term. If an investment term selected matures on a weekend or public holiday, the term will be shortened and the maturity date brought back to the preceding business day.

For MARAC Capital Drawdown Term Deposits, a minimum term of 12 months is recommended, and the maximum term of your investment will be determined by the amount you invest and the choice of repayment amount and frequency.

MARAC Rapid Saver is for a minimum term of 12 months.

#### WHAT ARE THE CHARGES?

You are not required to pay any fees or charges to invest in Deposits, except as detailed below.

#### Early Repayment

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

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 rate payable in respect of the Deposit may be reduced by 3% per annum (calculated across the term of the investment). Any tax that has already been paid on interest earned cannot be refunded back to you and tax must be claimed from the IRD directly.

## 4.0 ANSWERS TO IMPORTANT QUESTIONS continued

### Other Charges

Certain fees may apply to transactions, services and other activity in relation to certain Deposits (including fees for dishonoured transactions and cheques, overdrawn accounts, and international transfers) and those fees are subject to change from time to time.

Withdrawals from CBS Canterbury Living Style Accounts are subject to specific notice of withdrawal criteria or, in the absence of required notice, the interest rate payable on these accounts will be reduced by up to 3% (calculated across the term of the investment), unless that amounts to a reduction in interest payable of less than \$30, in which case a fee of \$30 will be payable by the Depositor.

Details of applicable fees are available from Heartland.

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

### Brokerage

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

Brokerage will be paid to brokers on the value of applications lodged by them. Brokerage will also be paid (at the rates prevailing at the time of renewal) on Deposits which are reinvested at the end of their fixed term, provided the renewal advice bears the broker name/stamp.

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

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

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

### 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 be either:

- the fixed interest rate at which you agree 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 Deposits;
- the rate of interest payable on your Deposits;
- the performance by Heartland of its obligations as the issuer of the Deposits and the performance of the Heartland Group;
- any early repayment of your investment in 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 Investment Statement by any member of the Heartland Group 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 are available on request or can be found by visiting Heartland's website at [www.heartland.co.nz](http://www.heartland.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 Deposits.

### Taxation Implications on Returns

New Zealand taxes may affect your return as the holder of a Deposit. The following taxation summary, which is based on tax legislation current as at the date of this Investment Statement, addresses the tax implications for Depositors. This summary is not intended to be an authoritative or complete statement of the laws applicable. You are advised to obtain independent professional advice relevant to your own particular circumstances before investing.

## Tax effect of Deposits

### Resident withholding tax

Under New Zealand tax law, Heartland must deduct resident withholding tax (*RWT*) from all interest paid or compounded before it is paid or credited to New Zealand resident investors.

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

The applicable *RWT* rates are set out below. Please note that the IRD may instruct interest payers, such as Heartland, to move the *RWT* rate where the IRD determines they are on a *RWT* rate inconsistent with their marginal tax rate.

### RWT for individuals and trustees

If an investor is an individual investor or trustee then *RWT* will be deducted at the rate indicated by that investor, as follows:

Investor's Income	RWT rate
\$0 - \$14,000	10.5%
\$14,001 - \$48,000	17.5%
\$48,001 - \$70,000	30.0%
\$70,001 and over	33.0%

The 10.5% *RWT* rate is only available to individuals and trustees of testamentary trusts.

If an investor is an individual investor or trustee and none of the above apply (for example, the investor has provided their IRD number but not elected a *RWT* rate), then *RWT* will be deducted at the default rate of 33.0%.

### RWT for companies

If an investor is a company then *RWT* will be deducted at the rate indicated by that investor, as follows:

Criteria	RWT rate
No IRD number	33.0%
Elected rate	33.0%
Default rate	28.0%

### Non-resident withholding tax

For investors who are not resident in New Zealand for tax purposes, Heartland will deduct non-resident withholding tax (*NRWT*). The rate of *NRWT* is currently 10.0% or 15.0% depending on the country of residence.

Heartland is also an approved issuer and is able to deduct an approved issuer levy (*AIL*), which is currently 2.0%, instead of *NRWT*.

All non-resident investors must provide Heartland with their current overseas residential address.

## Guarantee of Deposits

As at the date of this Investment Statement, Heartland, MARAC, VPS Properties, VPS Parnell and PWF comprise the Heartland Group. MARAC, VPS Properties, VPS Parnell and PWF are Guaranteeing Subsidiaries which have given unlimited, unconditional guarantees of the obligations of Heartland in respect of the Deposits pursuant to the Trust Deed. 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 a Depositor not being recovered in full by the Depositor, Depositors not receiving the returns described under the heading, "What returns will I get?", and any Depositor being required to pay more money in respect of Deposits are detailed in this section. These risk factors are not the only ones faced by the Heartland Group. There may be additional risk factors that the Heartland Group is currently unaware of, or that are beyond the control of the Heartland Group or that the Heartland Group currently deems immaterial but which may subsequently become key risk factors for Heartland specifically or for the Heartland Group as a whole. You should consider these risk factors in conjunction with other information in this Investment Statement.

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

## Summary of Principal Risks

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

## 4.0 ANSWERS TO IMPORTANT QUESTIONS continued

### General Risks Related to the Heartland Group

#### Macro-economic risks

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

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

#### Competition in the finance sector

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

#### Financial services sector confidence

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

#### Regulatory risks

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

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

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

### Specific Risks Related to the Heartland Group

#### Liquidity and reinvestment risk

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

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

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

The Heartland Group's sources of funding include:

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

As to shareholders' funds, Heartland may seek to raise funds from the shareholders of its parent Heartland New Zealand if it does not have sufficient liquid funds, or cannot raise sufficient funds, to meet its financial obligations as they fall due. 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. Heartland had a guarantee under the Crown retail deposit scheme which expired on 31 December 2011. The expiry of this guarantee could adversely affect retail funding reinvestment rates or new investment inflows, and so increase the liquidity and reinvestment risk of the Heartland Group.

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

**Heartland's credit rating**

*What is it and what does it mean?*

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

As credit ratings or outlooks may change from time to time, for the most up to date Heartland credit rating information refer to [www.heartland.co.nz](http://www.heartland.co.nz)<sup>13</sup>.

*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.

## 4.0 ANSWERS TO IMPORTANT QUESTIONS continued

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

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

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

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

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

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

“investment grade,” while those that receive a rating lower than ‘BBB-’ are generally considered to be “speculative grade.”

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

<sup>13</sup> For an explanation of Standard & Poor’s credit rating system, please see <http://www.standardandpoors.com/ratings/definitions-and-faqs/en/us> under the Section “What do the letter ratings mean?”.

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](http://www.rbnz.govt.nz).

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

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

*Two final things to note*

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

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

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

**Bank registration<sup>14</sup>**

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

- capital in relation to size and nature of the business;

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

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

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

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

**NBDT regulations**

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

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

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

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

**Interest rate risk**

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

## 4.0 ANSWERS TO IMPORTANT QUESTIONS continued

### **Credit risk and realisation risk**

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

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

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

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

### **Investment property**

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

### **Impairment of assets**

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

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

### **Failure to implement strategy**

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

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

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

### **Environmental risk**

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

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

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

**Currency risk**

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

**Integration risk**

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

**Operational and other risks**

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

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

**Information technology risks**

Information technology plays a critical role in the Heartland Group’s business, with the delivery of financial services to customers dependent on the availability and reliability of its information technology systems. The Heartland Group’s ability to compete effectively in the future will, in part, be driven by its ability to maintain an appropriate information technology platform for the

efficient delivery of the Heartland Group’s products and services. The Heartland Group’s business operations are likely to be significantly affected should its information technology systems fail or not operate in an efficient manner.

**Consequences of Insolvency**

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

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

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

**CAN THE INVESTMENT BE ALTERED?**

The terms of the Offer may be altered by Heartland by filing an instrument to amend a Prospectus with the Registrar of Financial Service Providers.

The rights attaching to Deposits are governed by the issue terms for the Deposits, the Trust Deed, the Building Societies Act, the 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 11.

The Trust Deed and any applicable supplemental deed may be altered either through an extraordinary resolution of Holders (as defined in the 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.

## 4.0 ANSWERS TO IMPORTANT QUESTIONS continued

### 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 Deposit.

For Call Accounts, 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 from Call Accounts, normal transaction fees applicable to your account will apply.

#### Upon Maturity of a Term Account

Prior to the maturity date of your Term Account, Heartland will send you a notice to tell you that your investment is about to mature. You can then elect to:

- withdraw your investment by cheque;
- withdraw your investment in cash at CBS Canterbury or Southern Cross branches;
- request Heartland to transfer your investment to a bank account nominated by you; or
- reinvest your money with Heartland, either in the same product or in a different product.

Unless you instruct Heartland otherwise, on maturity your Term Account will be automatically reinvested for the same investment term, except if your Deposit type is a MARAC or PWF product and Heartland does not receive a maturity instruction from you. In this circumstance, Heartland will place the matured investment on call at the then "past maturity account rate" detailed in its then current rate card (which investors can obtain by calling 0800 85 20 20, visiting a Heartland branch, or by visiting Heartland's website [www.heartland.co.nz](http://www.heartland.co.nz), or its registered office).

#### 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 Deposits, 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 rate payable in respect of the Deposit may be reduced by 3% per annum (calculated across the term of the investment). Any tax that has already been paid on interest earned cannot be refunded back to you and tax must be claimed from the IRD directly.

For PWF Savings Optimiser Deposits a 14 day notice of withdrawal period will apply. Notice may be provided in writing, by phone, email or in person at a PWF branch.

#### Right to Sell Deposits

No Deposit may be transferred or sold without the prior written consent of Heartland, except that investments in a MARAC Term Deposit, MARAC Call Deposit, PWF Term Deposit or a PWF Savings Optimiser can be sold privately in minimum amounts of \$1,000 using the standard form for security transfers, which must be executed and delivered to Heartland's registered office. However, as at the date of preparation of this Investment Statement, there is no established market for the sale or transfer of Deposits.

### WHO DO I CONTACT WITH INQUIRIES ABOUT MY INVESTMENT?

Any inquiries about the 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

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

Complaints about the 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 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](mailto:help@bankomb.org.nz)  
Phone: 0800 805 950

#### WHAT OTHER INFORMATION CAN I OBTAIN ABOUT THIS INVESTMENT?

#### Prospectus and Financial Statements

The most recent financial statements of Heartland, Southern Cross, MARAC, CBS Canterbury and PWF may be obtained, free of charge, at [www.heartland.co.nz](http://www.heartland.co.nz).

The Prospectus, 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](http://www.business.govt.nz/companies).

#### Annual Information

Depositors who hold 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 and the Financial Reporting Act 1993. 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<sup>15</sup>.

#### On Request Information

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

- the Trust Deed;
- the Prospectus;
- a copy of any financial statements referred to in the Prospectus; and
- any other documents and information that may be requested under regulation 44 of the Securities Regulations.

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

<sup>15</sup> The NZDX Bonds are listed on the NZDX. However, NZX accepts no responsibility for any statement in this Investment Statement. The NZDX is a registered market operated by NZX Limited, which is a registered exchange, regulated under the Securities Markets Act 1988.

## GLOSSARY

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

New Zealand dollars

### **Account**

Any Deposit including the word “account” or “saver” or described as an “account” or “deposit”

### **Board**

The board of directors of Heartland

### **Building Societies Act**

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

### **Call Account**

An Account, the principal amount of which is payable by Heartland to the relevant Depositor on request being made by that Depositor, subject to the terms and conditions of the Account

### **CBS Canterbury**

Canterbury Building Society

### **Depositor**

A holder of a Deposit

### **Deposits**

Debt securities issued by Heartland under the Trust Deed and which are the subject of this Offer

### **Director**

A member of the Board

### **Directory**

The directory set out in this Investment Statement

### **Glossary**

This glossary of terms

### **Guaranteeing Subsidiaries**

MARAC, VPS Properties, VPS Parnell, PWF and any other subsidiary of Heartland which becomes a guarantor under the Master Trust Deed

### **Heartland**

Heartland Building Society (incorporation number 2541477), which is the issuer of the Deposits, established under the Building Societies Act

### **Heartland Group**

Heartland, MARAC, VPS Properties, VPS Parnell, PWF and any other subsidiaries of Heartland from time to time

### **Heartland New Zealand**

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

### **Investment Statement**

This investment statement in respect of the Offer, which is an investment statement for the purposes of the Securities Act

### **IRD**

Inland Revenue Department

### **Listing Rules**

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

### **MARAC**

MARAC Finance Limited

### **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

### **NBDT**

Non-bank deposit taker

### **NZDX**

The market for debt securities, operated by NZX

### **NZDX Bonds**

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

### **NZSX**

The main board equity security market, operated by NZX

### **NZX**

NZX Limited

### **Offer**

The offer of Deposits pursuant to this Investment Statement

### **Prior Charge**

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

- (a) any netting or set-off arrangement entered into by Heartland or the Guaranteeing Subsidiaries in the ordinary course of its business;
- (b) any lien arising by operation of law and in the ordinary course of trading or securing taxes or other governmental or regulatory review, duties or imposts;
- (c) securities arising out of title retention provisions in a supplier’s standard conditions of supply of goods acquired by Heartland or the Guaranteeing Subsidiaries in the ordinary course of its business; or
- (d) any other securities, the aggregate secured by which does not exceed 1% of the total tangible assets of the Heartland Group

### **Prospectus**

The current Prospectus (including any amendments) which is a prospectus in respect of the Offer for the purposes of the Securities Act

### **PWF**

PGG Wrightson Finance Limited

### **Reserve Bank**

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

### **Reserve Bank Act**

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

### **Rules**

The rules of Heartland registered under the Building Societies Act, as amended from time to time

### **Securities Act**

The Securities Act 1978, as amended from time to time

**Securities Regulations**

The Securities Regulations 2009, as amended from time to time

**Southern Cross**

Southern Cross Building Society

**Standard & Poor's or S&P**

Standard & Poor's (Australia) Pty Limited

**TEL**

Trustees Executors Limited

**Term Account**

An Account which is not a Call Account and is generally for a fixed term

**Trust Deed**

The master trust deed, the supplemental trust deed (accounts), the supplemental trust deed (bonds) and the supplemental trust deed (PWF bonds) and/or the supplemental deeds pursuant to which the Guaranteeing Subsidiaries become guarantors

**Trustee**

TEL as trustee in respect of the Deposits

**VPS Parnell**

VPS Parnell Limited, a subsidiary of Heartland

**VPS Properties**

VPS Properties Limited, a subsidiary of Heartland

## DIRECTORY

### Issuer

#### Heartland Building Society (*Heartland*)

75 Riccarton Road  
Riccarton  
Christchurch 8011  
Phone: 0800 85 20 20  
Facsimile: +64 (9) 927 9310

### Directors of the Issuer

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

### Legal Advisers to the Issuer

#### Chapman Tripp

Level 35, ANZ Centre  
23-29 Albert Street  
Auckland 1140  
Phone: +64 (9) 357 9000  
Facsimile: +64 (9) 357 9099

### Trustee for Depositors

#### Trustees Executors Limited

Level 5, 10 Customhouse Quay  
Wellington 6011  
Phone: +64 (4) 495 0999  
Facsimile: +64 (4) 496 2952

### Legal Advisers to the Trustee

#### 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 Advisers to the Issuer

#### Deloitte

Deloitte Centre  
80 Queen St  
Auckland 1010  
Phone: +64 (9) 303 0700  
Facsimile: +64 (9) 303 0701







# HEARTLAND

Building Society

**BUSINESS | RURAL | FAMILIES**

INVESTMENTS – LENDING – WORKING CAPITAL – LIVESTOCK & SEASONAL FINANCE  
HOME & VEHICLE LOANS – DAY TO DAY ACCOUNTS – INSURANCE

[www.heartland.co.nz](http://www.heartland.co.nz)

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