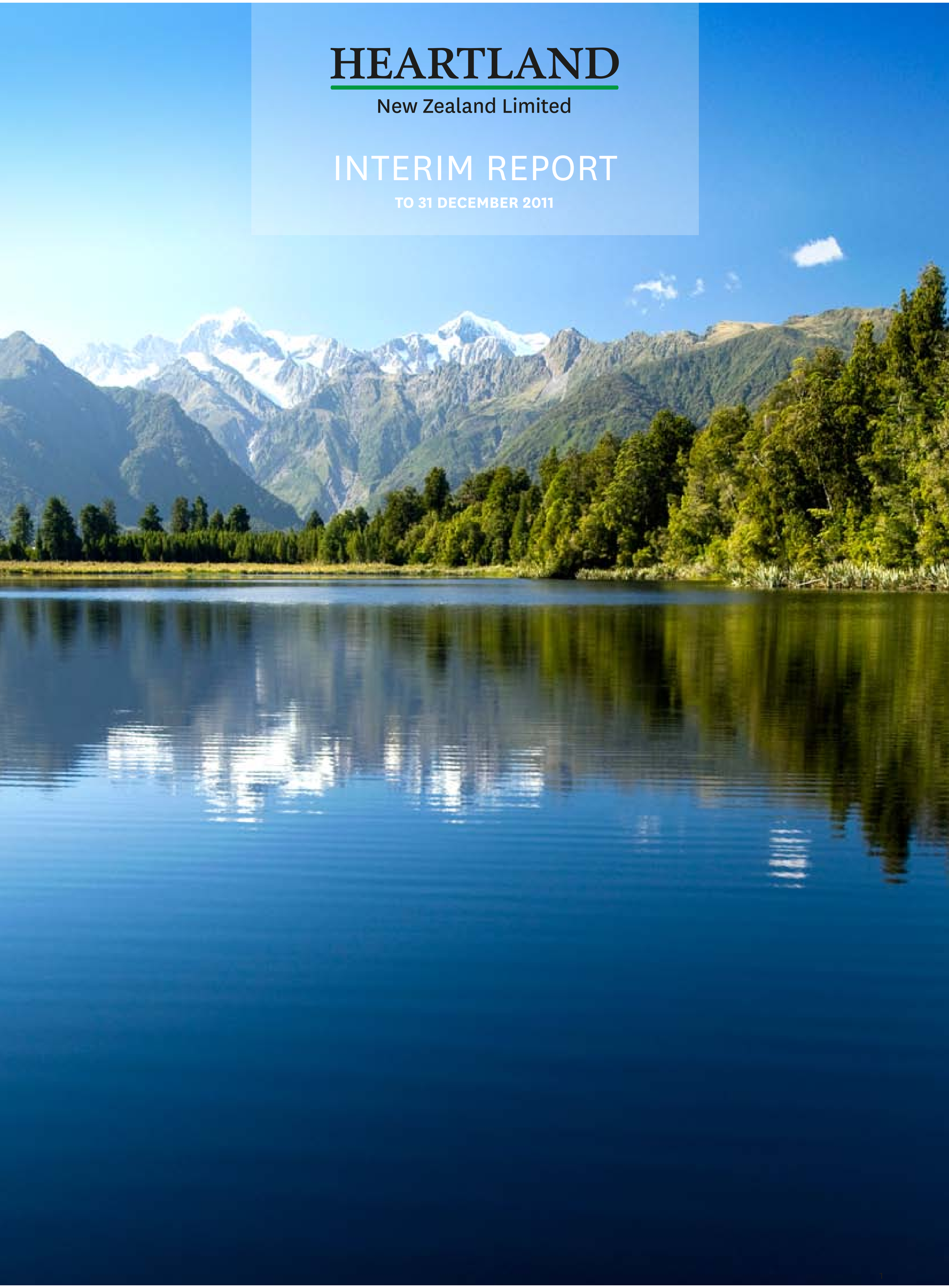
HEARTLAND

New Zealand Limited

INTERIM REPORT

TO 31 DECEMBER 2011



100% FOR NEW ZEALAND

Our vision is to drive prosperity in heartland communities across New Zealand for businesses, farmers and families. We are proudly New Zealand operated and managed, and listed on the NZSX.[1]

Heartland comprises the former businesses of CBS Canterbury, MARAC, PGG Wrightson Finance (PWF) and Southern Cross Building Society. These four entities are now one – Heartland – combining 135 years of experience, knowledge and a shared vision to partner with enterprising New Zealanders to succeed.

Keeping it local

Our intention is to become the only fully New Zealand operated, controlled and managed banking[2] group listed on the New Zealand Stock Exchange. All funding is derived locally and is also on-lent locally, providing support to New Zealand households, small-to-medium sized businesses and farms that form the backbone of the country's economy.

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. We have branches nationwide with Business and Rural Managers and finance specialists who know the demands of running a business or farm and providing for a growing family.

Heartland at a glance

Total assets	\$2.4 billion[3]
Total liabilities	\$2.0 billion[3]
Credit rating	Heartland Building Society has a BBB- (Outlook Stable) credit rating from international credit rating agency Standard & Poor's[4]
Diversified	Diversified asset portfolio, widespread depositor base and a balanced geographic footprint
Bank aspiration	A key objective is that Heartland Building Society becomes a registered bank[2]
Core business	Providing financial services to small-to-medium sized businesses, farmers and families
Offering	Investments, lending, working capital, livestock and seasonal finance, home and vehicle loans, day-to-day accounts, insurance
100% for New Zealand	Heartland is New Zealand operated and managed
Significant scale	Heartland has an extensive network of branches and offices nationwide

1. Heartland shares are tradeable on the NZSX. However, NZX Limited accepts no responsibility for any statement in this report. The NZSX is a registered market operated by NZX Limited, which is a registered exchange, regulated under the Securities Markets Act 1988.
2. Neither Heartland nor Heartland Building Society is a registered bank under the Reserve Bank of New Zealand Act 1989. The bank registration process after application is of indeterminate length and bank registration is subject to satisfaction of the Reserve Bank of New Zealand's requirements.
3. The statements of total assets and total liabilities have been taken from the most recent unaudited statement of financial position of Heartland dated 31 December 2011 and have been calculated as at that date. This statement of financial position (and the amounts taken from it) is included in Heartland's unaudited financial statements for the period ended 31 December 2011.
4. For further details about Heartland Building Society's credit rating visit www.heartland.co.nz.

HEARTLAND
New Zealand Limited

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CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Achievements for half year to 31 December 2011

- Acquisition of PGG Wrightson Finance supported by a successful capital raising
- Investment grade credit rating reaffirmed and outlook improved to 'stable'
- Successful transition through the expiry of the Crown guarantee

Next milestones

- Bank registration objective[2]
- Further expand and diversify funding base
- Organic growth of asset base
- Acceptable and sustainable earnings

Heartland New Zealand Limited (Heartland) achieved its forecasted financial performance for the six months ending 31 December 2011 as it continued to make progress towards its goal of evolving into a leading, home-grown banking[2] organisation – driving prosperity in heartland communities across New Zealand for small-to-medium sized businesses, farmers and families.

Heartland recorded a net profit after tax (NPAT) of $9.8 million for the half year, up $7.8 million from $2.0 million for the previous six months to 30 June 2011. The result was in line with guidance of $9 million to $10 million provided to the market for the half year period and, as previously advised, includes a one-off deferred tax benefit of $6.2 million and four months' results of PGG Wrightson Finance Limited (PWF).

Whilst the accounts show an improvement in profitability, the period under review remains one of transition, making like-for-like comparisons with prior periods difficult.

Overall, it has been a satisfactory performance for the half year with the PWF acquisition and associated capital raising, successful transition through the Crown guarantee expiry and reaffirmation of Heartland Building Society's investment grade rating. All of this has happened as the four organisations that make up Heartland are bedded in to the new enterprise.

Financial overview

Heartland's balance sheet strengthened during the period under review.

Highlights for the six months to 31 December 2011 include:

- Net finance receivables increased to $2.1 billion compared to $1.7 billion at 30 June 2011. The increase was largely due to the acquisition of PWF on 31 August 2011.
- Cash and cash equivalents reduced to $120 million from $267 million at 30 June 2011 as excess liquidity held in the lead up to the expiry of the Crown guarantee, was utilised as planned. We have indicated that we intend to continue to reduce surplus liquidity which will deliver further earnings.
- Borrowings increased to $2.0 billion from $1.8 billion at 30 June 2011 due to the acquisition of $409 million of deposits from PWF. This was offset by the reduction in liquidity and repayment of the $92 million PWF Bond.

Half year financial summary

	6 months to Dec 2011 (NZ$m)	6 months to Jun 2011 (NZ$m) [A minus B]	12 months to Jun 2011 (NZ$m) [A]	6 months to Dec 2010 (NZ$m) [B]
Net interest income	39.1	34.3	61.6	27.3
Net other income	6.0	4.9	9.0	4.1
Net operating income[5]	**45.1**	**39.2**	**70.6**	**31.4**
Expenses	35.7	28.3	45.7	17.4
Profit before impairments and tax	**9.4**	**10.9**	**24.9**	**14.0**
Impaired asset expense	3.8	7.2	13.3	6.1
Net profit before tax	**5.6**	**3.7**	**11.6**	**7.9**
Tax	(4.2)	1.7	4.5	2.8
Net profit after tax (reported)	**9.8**	**2.0**	**7.1**	**5.1**

5. Net Operating Income includes share of MARAC Insurance profit.

- Share capital increased by $55 million net of costs from the capital raising associated with the PWF acquisition in the period. Total equity was $360 million at 31 December 2011 compared to $296 million at 30 June 2011, which was an equity ratio of 15% to total assets (up from 14% at 30 June 2011).
- Heartland Building Society (Heartland's principal operating subsidiary) had a Non-Bank Deposit Taker regulatory capital ratio of 9.92% as at 31 December 2011, in excess of the minimum requirement of 8%.
- Following the capital raising and PWF acquisition, net tangible assets (NTA) increased from $270 million to $331 million. This equates to $0.85 per share at 31 December 2011 compared to $0.90 per share at 30 June 2011.

Net Operating Income

Net operating income (NOI) increased to $44.9 million in the six months to 31 December 2011 from $39.1 million in the preceding six months ending 30 June 2011. The increase in NOI is mostly attributable to:

- The acquisition of PWF on 31 August 2011.
- Lower cost of funds through lower funding margins and a reduction in surplus liquidity held.

The increase in NOI over the preceding period was not as high as expected due to constrained credit growth in some lending sectors.

Costs

Operating costs increased by $7.4 million to $35.7 million in the period under review compared to the preceding six months ended 30 June 2011.

As indicated at the June 2011 announcement, this increase was expected due to:

- The acquisition of PWF on 31 August 2011 (four months' costs).
- Full costs being incurred for the listed company.
- Gradual investment in Rural and Business origination team costs for first half, which are now fully loaded.

Comparisons with previous periods are difficult as Heartland has been in a period of transition, and some costs were not incurred in the previous accounts because they were being borne by its previous ultimate parent, Pyne Gould Corporation Limited. Heartland is now a standalone entity and does not share any resources with Pyne Gould Corporation.

Heartland is implementing various initiatives to gain efficiencies, which are expected to see underlying operating expenses reduce.

Impairments

Impaired asset expense was $3.8 million for the six months ended 31 December 2011, down from $7.2 million for the six months ended 30 June 2011, reflecting the continued benefit of the Real Estate Credit Limited (RECL)[6] management contract and improvement in the quality of the core book, in particular the Retail and Consumer books.

Net impaired and past due loans over 90 days were $88 million, which was 4.2% of net finance receivables as at 31 December 2011, down from $101 million or 5.9% as at 30 June 2011.

Investment properties held on balance sheet increased by $24 million to $58 million during the six month period as the Group sought to improve its security position.

The level of impaired and past dues are due to the legacy non-core property books of MARAC, CBS Canterbury and Southern Cross Building Society, and will continue to reduce as a percentage of total assets as lending in the core business grows, and the non-core book runs down.

The net impairment ratio on the core business continued to improve and was 1.1% as at 31 December 2011, down from 1.2% at 30 June 2011.

Funding and liquidity

Heartland continued to maintain surplus liquidity as it successfully transitioned through the expiry of the Crown guarantee on 31 December 2011. Heartland held $480 million of liquidity which consisted of cash, liquid assets and unutilised available funding lines. This was $177 million more than the minimum level of liquidity required under Heartland Building Society's Trust Deed.

Balance sheet summary

	31 Dec 2011 (NZ$m)	30 Jun 2011 (NZ$m)	7 Jan 2011 (NZ$m)
Total assets	2,380.5	2,118.0	2,185.3
Total liabilities	2,020.3	1,821.5	1,891.2
Total equity	360.2	296.4	294.1
Equity ratio	15.1%	14.0%	13.5%
Heartland Building Society regulatory capital - NBDT	9.92%	9.82%	9.58%
Net tangible assets (NTA)	330.6	270.1	265.2
NTA per share	$0.85	$0.90	$0.88

6. Real Estate Credit Limited (RECL) is a subsidiary of Pyne Gould Corporation Limited and manages the MARAC non-core property loan assets which have the benefit of the RECL management contract.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT
continued

The overall quality of the Heartland Retail deposit base also improved with the purging of guarantee chasers, the shift from debentures to term deposits and a more loyal and stable deposit base.

Investment grade rating reaffirmed

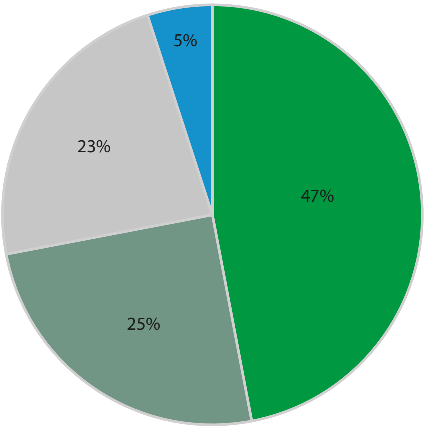
On 6 December 2011, Standard & Poor's (S&P) affirmed Heartland Building Society's investment grade credit rating of BBB- and lifted the ratings outlook to 'stable'. The investment grade rating underpins the strength and strategy of Heartland.

Heartland's core business divisions

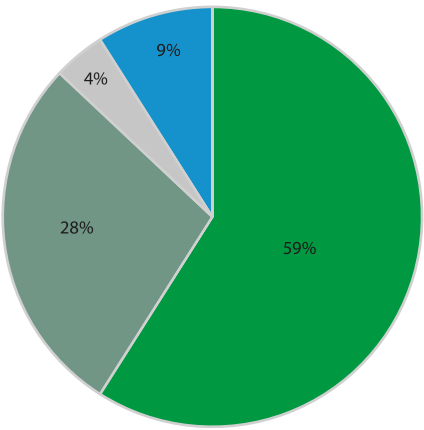
Net finance receivables by division[7]

RETAIL AND CONSUMER
BUSINESS
RURAL
NON-CORE PROPERTY

31 December 2011



30 June 2011



Business

The receivables book grew by $43 million to $519 million during the six months ending 31 December 2011. Momentum slowed in the latter part of the period under review, with activity around the Rugby World Cup and general election appearing to reduce lending opportunity and enquiry. However, pipeline and new business opportunities have since returned to pre-Rugby World Cup levels. NOI contribution increased to $10.0 million from $9.2 million in the preceding six months to 30 June 2011.

Rural

The PWF acquisition underpinned growth in net receivables to $466 million as at 31 December 2011 from $76 million at 30 June 2011. NOI contribution increased from $1.6 million in the preceding six months to $7.9 million in the six months ending 31 December 2011. Asset growth was impacted by seasonal influences, in particular livestock. However, a strong pipeline of new business and the introduction of new products will seek to contribute to the Rural division consolidating its position.

Retail and Consumer

Net receivables fell by $23 million to $979 million at 31 December 2011 from $1.002 billion at 30 June 2011. The mortgage book continued to be impacted by EQC repayments following the Canterbury earthquakes and the competitive environment. Growth in market share in the Consumer book occurred despite a soft market. NOI contribution decreased to $21.8 million in the first six months of the 2012 financial year from $23.2 million in the preceding six month period ended 30 June 2011.

Non-core business

Property

The property market remained difficult and Heartland will continue to manage down the level of its remaining property assets on a timely basis.

Total non-core property assets were reduced by $18 million to $169 million at 31 December 2011 compared to $187 million at 30 June 2011. Non-core property is made up of net receivables of $111 million and investment properties of $58 million. RECL[6] manages the ex-MARAC non-core property.

7. Excludes operating lease vehicles and investment properties.

Outlook

We are pleased with progress to date and we are appreciative of the ongoing support from our customers across New Zealand's heartland communities who have welcomed us as an old friend with a new name.

We have a proud heritage that goes back over 135 years and our intention is to continue to help build prosperity for everyday kiwis with financial services that are appealing to small-to-medium sized businesses, farmers and families.

Heartland has the strategies, resources, capabilities and committed team, who know their customers because they too live in the same communities, to become a strong and successful financial services institution that is 100% for New Zealand.

As previously advised we expect net profit after tax for the full year to 30 June 2012 to be in the range of $20 million to $22 million. The economic outlook remains challenging and lending volumes are lower than expected. Our forecast is dependent on the Rural division (which will have a full six months' contribution from PWF) and the Business division building on their first half performances. The forecast also assumes that costs will be controlled as planned and that impairments continue to remain stable.

While we will continue to strengthen our financial, operational and strategic platform to support our ambition to become a registered New Zealand bank[2], we are unable to provide a timeline at this point. Any formal application is subject to Heartland being satisfied that we can meet all requirements of the Reserve Bank. The process through to formal application is of indeterminate length. As discussions with the Reserve Bank are confidential, we cannot comment further as to timing or criteria.

We would like to thank our shareholders for the strong support we continue to receive as we take the business forward.

Bruce Irvine
Chairman

Jeffrey Greenslade
Managing Director

12 March 2012

Notes

Heartland was formed through a series of transactions from 5 to 7 January 2011 in relation to the merger of MARAC, CBS Canterbury and Southern Cross Building Society. PGG Wrightson Finance (PWF) was subsequently acquired on 31 August 2011.

International Financial Reporting Standards (IFRS) requires the merger to be treated as an acquisition by MARAC, despite the fact MARAC is a subsidiary of Heartland Building Society.

Therefore comparison of the 31 December 2011 Financial Results and Financial Position of Heartland to those at 31 December 2010 would be to the MARAC Group only and would not be meaningful. To better assist understanding of the 31 December 2011 Financial Result and Financial Position, comparisons to the previous six months' Financial Results and Financial Position (at 30 June 2011) post the merger have been made.

The published Financial Statements show:

- The results of the merged Heartland Group for the six months to 31 December 2011 (including PWF since its acquisition on 31 August 2011).
- The results for the merged Heartland Group for the 12 months to 30 June 2011 (being six months of MARAC plus six months of the new Group prior to the PWF acquisition).
- The results for the MARAC Group only for the six months to 31 December 2010.
- The Financial Position of the Heartland Group at 31 December 2011 (post the PWF acquisition on 31 August 2011).
- The Financial Position of the Heartland Group at 30 June 2011 (prior to the PWF acquisition).
- The Financial Position of the MARAC Group only at 31 December 2010 (not the opening balance sheet of Heartland at 7 January 2011).

INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 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 Heartland New Zealand Limited (Company) and its subsidaries and joint venture (Group) as at 31 December 2011 and the financial performance and cash flows for the period ended 31 December 2011.

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

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

The Board of Directors of Heartland New Zealand Limited authorised the interim financial statements set out on pages 10 to 27 for issue on 16 February 2012.

For and on behalf of the Board.

Bruce Irvine
Director

Gary Leech
Director

EXPLANATORY FOREWORD

The interim financial statements presented are those of Heartland New Zealand Limited (Company) and its subsidiaries.

On 7 January 2011, the Group was formed through the business combination of CBS Canterbury (CBS), Southern Cross Building Society (SCBS), MARAC Finance Limited (MARAC) and Heartland Financial Services Limited. On 31 August 2011, the Group acquired PGG Wrightson Finance Limited (PWF).

From a legal perspective MARAC is a subsidiary of the Company. 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 financial statements represent a continuation of the MARAC business.

As described in Note 1, the Group's comparative results for the period ended 31 December 2010 reflect the operations of the MARAC Group, and for the year ended 30 June 2011 reflect the results of the MARAC Group from 1 July 2010 to 6 January 2011 and the results of the new Group from 7 January 2011 to 30 June 2011. The six months ended 31 December 2011 include the new Group results from 1 July 2011 onwards and the PWF result from 31 August 2011.

As described in Note 1, the financial statements represent a continuation of the MARAC business and the 31 December 2010 comparative information is that of MARAC. As such, the financial position at 31 December 2011 is not directly comparable to the financial positions at 31 December 2010 and 30 June 2011.

To assist users of the interim financial statements, the financial position of the Group at 7 January 2011 (following the merger of MARAC, CBS and SCBS) is set out below alongside the financial positions of the Group at 31 December 2011, 30 June 2011 and 31 December 2010 for comparative purposes. For further detail of the 7 January 2011 financial position, refer to the Heartland New Zealand Limited 7 January 2011 interim financial statements available at www.heartland.co.nz or from the Heartland New Zealand registered office.

	GROUP			
	31 Dec 2011	30 Jun 2011	7 Jan 2011	31 Dec 2010
	$000's	$000's	$000's	$000's
Assets				
Cash and cash equivalents	119,741	267,187	285,675	78,549
Investments	24,309	17,831	21,540	-
Investment properties	58,083	34,499	2,182	2,182
Finance receivables	2,075,211	1,707,311	1,756,895	1,087,206
Operating lease vehicles	35,333	32,727	38,005	38,005
Other assets	43,303	34,211	56,754	46,111
Investment in joint venture	2,582	2,582	2,500	-
Intangible assets	21,981	21,602	21,729	-
Total assets	**2,380,543**	**2,117,950**	**2,185,280**	**1,252,053**
Liabilities				
Borrowings	1,985,551	1,787,524	1,845,991	1,004,656
Trade and other payables	34,808	34,020	45,164	35,346
Total liabilities	**2,020,359**	**1,821,544**	**1,891,155**	**1,040,002**
Equity				
Share capital	192,020	137,074	137,074	55,000
Retained earnings and reserves	168,164	159,332	157,051	157,051
Total equity	**360,184**	**296,406**	**294,125**	**212,051**
Total equity and liabilities	**2,380,543**	**2,117,950**	**2,185,280**	**1,252,053**

INTERIM STATEMENTS OF COMPREHENSIVE INCOME

For the six months ended 31 December 2011

	NOTE	Unaudited 6 mths to Dec 2011 $000's	Audited 6 mths to Dec 2010 $000's	Audited 12 mths to Jun 2011 $000's
Interest income		101,770	67,820	161,299
Interest expense		62,647	40,488	99,705
Net interest income		**39,123**	**27,332**	**61,594**
Operating lease income		7,463	9,225	18,073
Operating lease expenses		4,803	5,755	11,130
Net operating lease income		**2,660**	**3,470**	**6,943**
Lending and credit fee income		895	541	1,236
Other income		2,257	39	718
Net operating income		**44,935**	**31,382**	**70,491**
Selling and administration expenses	5	35,691	17,401	45,674
Profit before impaired asset expense and income tax		**9,244**	**13,981**	**24,817**
Impaired asset expense		3,788	6,094	13,298
Operating profit		**5,456**	**7,887**	**11,519**
Share of equity accounted investee's profit		167	-	82
Profit before income tax		**5,623**	**7,887**	**11,601**
Income tax (benefit) / expense	6	(4,144)	2,764	4,458
Profit for the period		**9,767**	**5,123**	**7,143**
Other comprehensive income				
Cash flow hedges:				
Effective portion of changes in fair value, before income tax		(826)	657	851
Reserves:				
Net change in available for sale reserve, before income tax		(145)	-	159
Net change in defined benefit reserve, before income tax		(328)	-	20
Income tax (benefit) / expense on other comprehensive (loss) / income		364	(197)	(309)
Other comprehensive (loss) / income for the period, net of income tax		**(935)**	**460**	**721**
Total comprehensive income for the period		**8,832**	**5,583**	**7,864**
Earnings per share from continuing operations				
Basic earnings per share	7	3c	N/A	5c
Diluted earnings per share	7	3c	N/A	5c

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

The notes on pages 14 to 27 are an integral part of these interim financial statements.

The comparative results for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

INTERIM STATEMENTS OF CHANGES IN EQUITY

For the six months ended 31 December 2011

	NOTE	Share Capital $000's	Available for sale Reserve $000's	Defined benefit Reserve $000's	Hedging Reserve $000's	Retained Earnings $000's	Total Equity $000's
December 2011 - Unaudited							
Balance at 1 July 2011		**137,074**	**111**	**14**	**(1,388)**	**160,595**	**296,406**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	9,767	9,767
Other comprehensive income, net of income tax		-	(104)	(236)	(595)	-	(935)
Total comprehensive income for the period		**-**	**(104)**	**(236)**	**(595)**	**9,767**	**8,832**
Contributions by and distributions to owners							
Capital raising proceeds	12	57,347	-	-	-	-	57,347
Transaction costs associated with capital raising		(1,402)	-	-	-	-	(1,402)
Own shares acquired		(999)	-	-	-	-	(999)
Total transactions with owners		**54,946**	**-**	**-**	**-**	**-**	**54,946**
Balance at 31 December 2011		**192,020**	**7**	**(222)**	**(1,983)**	**170,362**	**360,184**
December 2010 - Audited							
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		-	-	-	460	-	460
Total comprehensive income for the period		**-**	**-**	**-**	**460**	**5,123**	**5,583**
Balance at 31 December 2010		**55,000**	**-**	**-**	**(1,524)**	**158,575**	**212,051**
June 2011 - Audited							
Balance at 1 July 2010		**55,000**	**-**	**-**	**(1,984)**	**153,452**	**206,468**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	7,143	7,143
Other comprehensive income, net of income tax		-	111	14	596	-	721
Total comprehensive income for the year		**-**	**111**	**14**	**596**	**7,143**	**7,864**
Contributions by and distributions to owners							
Issue of share capital		82,074		-	-	-	82,074
Total transactions with owners		**82,074**	**-**	**-**	**-**	**-**	**82,074**
Balance at 30 June 2011		**137,074**	**111**	**14**	**(1,388)**	**160,595**	**296,406**

The notes on pages 14 to 27 are an integral part of these interim financial statements.

The comparative results for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

INTERIM STATEMENTS OF FINANCIAL POSITION

As at 31 December 2011

	NOTE	Unaudited Dec 2011 $000's	Audited Dec 2010 $000's	Audited Jun 2011 $000's
Assets				
Cash and cash equivalents		119,741	78,549	267,187
Investments		24,309	-	17,831
Investment properties		58,083	2,182	34,499
Finance receivables	10	2,075,211	1,087,206	1,707,311
Operating lease vehicles		35,333	38,005	32,727
Other assets		43,303	46,111	34,211
Investment in joint venture		2,582	-	2,582
Intangible assets		21,981	-	21,602
Total assets		**2,380,543**	**1,252,053**	**2,117,950**
Liabilities				
Borrowings	11	1,985,551	1,004,656	1,787,524
Trade and other payables		34,808	35,346	34,020
Total liabilities		**2,020,359**	**1,040,002**	**1,821,544**
Equity				
Share capital	12	192,020	55,000	137,074
Retained earnings and reserves		168,164	157,051	159,332
Total equity		**360,184**	**212,051**	**296,406**
Total equity and liabilities		**2,380,543**	**1,252,053**	**2,117,950**

The notes on pages 14 to 27 are an integral part of these interim financial statements.

The comparative financial position of the Group as at 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

INTERIM STATEMENTS OF CASH FLOWS

For the six months ended 31 December 2011

	NOTE	Unaudited 6 mths to Dec 2011 $000's	Audited 6 mths to Dec 2010 $000's	Audited 12 mths to Jun 2011 $000's
Cash flows from operating activities				
Interest received		97,876	63,627	152,013
Operating lease income received		6,392	7,377	14,367
Proceeds from sale of operating lease vehicles		4,952	9,621	15,384
Lending, credit fees and other income received		3,152	2,814	4,279
Total cash provided from operating activities		**112,372**	**83,439**	**186,043**
Payments to suppliers and employees		34,424	13,743	55,052
Interest paid		63,572	39,805	91,266
Purchase of operating lease vehicles		10,794	14,869	18,201
Net increase in finance receivables		24,376	40,800	19,417
Total cash applied to operating activities		**133,166**	**109,217**	**183,936**
Net cash flows (applied to) / from operating activities	8	**(20,794)**	**(25,778)**	**2,107**
Cash flows from investing activities				
Proceeds from sale of investments		-	-	3,709
Proceeds from sale of finance receivables to related party		-	-	39,764
Total cash provided from investing activities		**-**	**-**	**43,473**
Purchase of office fit-out, equipment and intangible assets		1,260	1,096	1,831
Purchase of investments		6,478	-	-
Purchase of subsidiary	17	24,898	-	-
Purchase of investment property		-	2,182	21,140
Total cash applied to investing activities		**32,636**	**3,278**	**22,971**
Net cash flows (applied to) / from investing activities		**(32,636)**	**(3,278)**	**20,502**
Cash flows from financing activities				
Net increase in borrowings		-	21,199	-
Increase in share capital		57,347	-	-
Total cash provided from financing activities		**57,347**	**21,199**	**-**
Repurchase of own shares		999	-	-
Transaction costs associated with capital raising		1,402	-	-
Net decrease in borrowings		210,605	-	48,954
Total cash applied to financing activities		**213,006**	**-**	**48,954**
Net cash flows (applied to) / from financing activities		**(155,659)**	**21,199**	**(48,954**
Net decrease in cash held		**(209,089)**	**(7,857)**	**(26,345**
Opening cash and cash equivalents		267,187	86,406	86,406
Cash impact on amalgamation	17	61,643	-	207,126
Closing cash and cash equivalents		**119,741**	**78,549**	**267,187**

The notes on pages 14 to 27 are an integral part of these interim financial statements.

The comparative cash flows for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2011

1 Reporting entity

The interim financial statements presented are the consolidated interim financial statements comprising Heartland New Zealand Limited and its subsidiaries and joint venture.

The Group was formed following a series of transactions during the period from 5 to 7 January 2011. The Company, through its subsidiaries, owns Heartland Building Society (Society) and Heartland Financial Services Limited. The Society owns MARAC Finance Limited (MARAC) and PGG Wrightson Finance Limited (PWF). Heartland Financial Services Limited holds a 50% joint venture interest in MARAC JV Holdings Limited (MJV) with the New Zealand Automobile Association. Refer to Note 9 - Significant subsidiaries.

On 5 January 2011:
- All of the assets and liabilities of CBS Canterbury (CBS), Southern Cross Building Society (SCBS) (net of the shares held by SCBS in CBS) and CBS Warehouse A Trust were amalgamated to form the Society.
- The borrowings of MARAC were transferred to the Society.
- The shares in MARAC were transferred to the Society from MARAC Financial Services Limited to form the Group.

On 7 January 2011:
- The Society and the assets and liabilities of Southern Cross Building Society Charitable Trust and CBS Canterbury Charitable Trust were amalgamated into the Group.

From a legal perspective MARAC is a subsidiary of the Company. Under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) the series of transactions described above is treated as a reverse acquisition and MARAC is treated as the acquirer of CBS and SCBS. As a result, the business combination is accounted for as if MARAC acquired 100% of the Company with the Company owning 72.21% of the Society through its subsidiaries.

As a result the interim financial statements represent a continuation of the MARAC business. Comparatives presented for the period ended 31 December 2010 are those of the MARAC Group only. Comparatives for the year ended 30 June 2011 reflect the total comprehensive income of the MARAC Group from 1 July 2010 to 4 January 2011 and the results of the new Group from 5 January 2011 to 30 June 2011. From 1 July 2011 onwards the result reflects the new Group.

On 31 August 2011, the Parent (Heartland New Zealand Limited) acquired 100% of PWF from PGG Wrightson Limited (PGW), refer to Note 17 - Business Combinations for more information.

The MARAC Group comprises MARAC, MARAC ABCP Trust 1 (MARAC Trust), MARAC Retirement Bonds Superannuation Fund and MARAC PIE Fund. The Group wound up MARAC Retirement Bonds Superannuation Fund with effect from 31 October 2010.

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

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

2 Basis of preparation

The financial statements presented here are for the following periods:
At 31 December 2011: 6 month period - Unaudited
At 31 December 2010: 6 month period - Audited
At 30 June 2011: 12 month period - Audited

Statement of compliance
The condensed interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and NZ IAS 34 Interim Financial Statements. They do not include all of the information required for full annual financial statements and should be read in conjunction with the annual report for the year ended 30 June 2011. By complying with NZ IAS 34 the Group is also in compliance with IAS 34.

The Company and all entities within the Group are profit-oriented entities, except for the Southern Cross Building Society Charitable Trust and the CBS Canterbury Charitable Trust. The Company 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 Companies Act 1993 and the Securities Regulations 2009.

3 Significant accounting policies

Except as described below, the accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2011.

New standards and interpretations not yet adopted
A number of new standards, amendments to standards and interpretations are not yet effective for the period ended 31 December 2011, and have not been applied in preparing these interim financial statements. The new standards identified which may have an effect on the interim financial statements of the Group are:

Standard and description	***Effective for annual periods beginning on or after:***	***Expected to be initially applied in year ending:***
NZ IAS 12 Income Taxes, which introduces a presumption that an investment property is recovered entirely through sale.	1 January 2012	30 June 2013
NZ IAS 1 Presentation of Financial Statements, which requires an entity to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met.	1 July 2012	30 June 2013
NZ IFRS 10 Consolidated Financial Statements, which introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees.	1 January 2013	30 June 2014
NZ IFRS 13 Fair Value Measurement, which defines fair value, and establishes a framework for measuring fair value including disclosure requirements.	1 January 2013	30 June 2014
NZ IFRS 12 Disclosure of Interests in Other Entities, which contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.	1 January 2013	30 June 2014
NZ IAS 19 Employee Benefits, which requires actuarial gains and losses to be recognised immediately in other comprehensive income and the expected return on plan assets recognised in profit or loss to be calculated based on the rate used to discount the defined benefit obligation.	1 January 2013	30 June 2014
NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets and liabilities.	1 January 2013	30 June 2014
NZ IFRS 11 Joint Arrangements which distinguishes joint arrangements between joint operations and joint ventures and requires the equity method for joint ventures.	1 January 2013	30 June 2014
NZ IAS 27 Consolidated and Separate Financial Statements, which carries forward existing accounting and disclosure requirements with minor clarifications.	1 January 2013	30 June 2014
NZ IAS 28 Investments in Associates and Joint Ventures, which amends IFRS 5 to apply to an investment, or a portion of investment in an associate or joint venture that meets the criteria to be classified as held for sale and on cessation of significant influence or joint control, the entity does not remeasure the retained interest.	1 January 2013	30 June 2014

Initial application of the above standards and interpretations relevant to the Group are not expected to have any material impact on the financial statements of the Group.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

4 Segmental analysis

Segment information is presented in respect of the Group's operating segments which are those used for the Group's management and internal reporting structure. During the six months ended 31 December 2011, the operating segments were restructured to amalgamate Retail and Consumer into one segment. The comparative periods have been restated to align with the new operating segments.

All income received is from external sources, except those transactions with related parties, refer to Note 14 - Related party transactions. Certain selling and administration expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other.

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

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

MARAC Group did not previously report on the Non-core Property segment, as a result there are no comparatives included in the Non-core Property segment for December 2010.

	Retail & Consumer $000's	Business $000's	Rural $000's	Non-core Property $000's	Other $000's	Total $000's
Dec 2011						
Interest income	47,920	24,788	17,703	7,217	4,142	101,770
Interest expense	29,377	14,858	9,850	5,664	2,898	62,647
Net interest income	**18,543**	**9,930**	**7,853**	**1,553**	**1,244**	**39,123**
Net operating lease income	2,651	9	-	-	-	2,660
Net other income	566	13	33	2,145	395	3,152
Net operating income	**21,760**	**9,952**	**7,886**	**3,698**	**1,639**	**44,935**
Depreciation and amortisation	-	-	-	-	952	952
Other selling and administration expenses	6,478	2,723	2,698	3,240	19,600	34,739
Selling and administration expenses	**6,478**	**2,723**	**2,698**	**3,240**	**20,552**	**35,691**
Profit / (loss) before impaired asset expense and income tax	**15,282**	**7,229**	**5,188**	**458**	**(18,913)**	**9,244**
Impaired asset expense	365	1,745	54	1,624	-	3,788
Operating profit / (loss)	**14,917**	**5,484**	**5,134**	**(1,166)**	**(18,913)**	**5,456**
Share of equity accounted investee's profit	-	-	-	-	167	167
Profit / (loss) before income tax	**14,917**	**5,484**	**5,134**	**(1,166)**	**(18,746)**	**5,623**
Income tax expense	-	-		-	(4,144)	(4,144)
Profit / (loss) for the period	**14,917**	**5,484**	**5,134**	**(1,166)**	**(14,602)**	**9,767**
Total assets	1,014,138	518,502	466,401	169,587	211,915	**2,380,543**
Total liabilities	-	-	-	-	2,020,359	**2,020,359**
Total equity	-	-	-	-	360,184	**360,184**

The comparative notes for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

4 **Segmental analysis (continued)**

	Retail & Consumer $000's	Business $000's	Rural $000's	Non-core Property $000's	Other $000's	Total $000's
Dec 2010						
Interest income	35,385	30,734	102	-	1,599	67,820
Interest expense	21,601	17,741	54	-	1,092	40,488
Net interest income	**13,784**	**12,993**	**48**	**-**	**507**	**27,332**
Net operating lease income	3,415	55	-	-	-	3,470
Net other income	292	2	-	-	286	580
Net operating income	**17,491**	**13,050**	**48**	**-**	**793**	**31,382**
Depreciation and amortisation	-	-	-	-	527	527
Other selling and administration expenses	2,371	1,839	115	-	12,549	16,874
Selling and administration expenses	**2,371**	**1,839**	**115**	**-**	**13,076**	**17,401**
Profit / (loss) before impaired asset expense and income tax	**15,120**	**11,211**	**(67)**	**-**	**(12,283)**	**13,981**
Impaired asset expense	17	6,077	-	-	-	6,094
Operating profit / (loss)	**15,103**	**5,134**	**(67)**	**-**	**(12,283)**	**7,887**
Share of equity accounted investee's profit	-	-	-	-	-	-
Profit / (loss) before income tax	**15,103**	**5,134**	**(67)**	**-**	**(12,283)**	**7,887**
Income tax expense	-	-	-	-	2,764	2,764
Profit / (loss) for the period	**15,103**	**5,134**	**(67)**	**-**	**(15,047)**	**5,123**
Total assets	653,238	490,682	8,816	-	99,317	**1,252,053**
Total liabilities	-	-	-	-	1,040,002	**1,040,002**
Total equity	-	-	-	-	212,051	**212,051**
Jun 2011						
Interest income	90,280	39,178	4,242	19,805	7,794	161,299
Interest expense	56,972	22,040	2,599	10,637	7,457	99,705
Net interest income	**33,308**	**17,138**	**1,643**	**9,168**	**337**	**61,594**
Net operating lease income	6,823	120	-	-	-	6,943
Net other income	543	21	-	542	848	1,954
Net operating income	**40,674**	**17,279**	**1,643**	**9,710**	**1,185**	**70,491**
Depreciation and amortisation	-	-	-	-	1,482	1,482
Other selling and administration expenses	8,996	3,983	1,048	1,986	28,179	44,192
Selling and administration expenses	**8,996**	**3,983**	**1,048**	**1,986**	**29,661**	**45,674**
Profit / (loss) before impaired asset expense and income tax	**31,678**	**13,296**	**595**	**7,724**	**(28,476)**	**24,817**
Impaired asset expense	2,829	7,195	510	2,764	-	13,298
Operating profit / (loss)	**28,849**	**6,101**	**85**	**4,960**	**(28,476)**	**11,519**
Share of equity accounted investee's profit	-	-	-	-	82	82
Profit / (loss) before income tax	**28,849**	**6,101**	**85**	**4,960**	**(28,394)**	**11,601**
Income tax expense	-	-	-	-	4,458	4,458
Profit / (loss) for the period	**28,849**	**6,101**	**85**	**4,960**	**(32,852)**	**7,143**
Total assets	1,035,118	476,367	75,961	187,091	343,413	**2,117,950**
Total liabilities	-	-	-	-	1,821,544	**1,821,544**
Total equity	-	-	-	-	296,406	**296,406**

The comparative notes for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

5 Selling and administration expenses

	Dec 2011 $000's	Dec 2010 $000's	Jun 2011 $000's
Personnel expenses	18,530	7,298	21,747
Directors' fees	459	-	497
Superannuation	240	119	302
Audit fees	206	118	416
Audit related fees	26	42	87
Amortisation - intangible assets	569	350	978
Depreciation - property, plant and equipment	383	177	504
Operating lease expense as a lessee	834	442	1,277
Legal and professional fees	3,239	3,321	6,781
Other operating expenses	11,205	5,534	13,085
Total selling and administration expenses	**35,691**	**17,401**	**45,674**

6 Income tax expense

	Dec 2011 $000's	Dec 2010 $000's	Jun 2011 $000's
Current income tax (benefit) /expense			
Current period	(1,854)	3,176	1,882
Adjustments for prior period	381	-	-
Deferred tax (benefit) / expense			
Origination and reversal of temporary differences	3,511	(395)	2,278
Tax effect of change in tax legislation	(6,182)	(17)	298
Total income tax (benefit) / expense	**(4,144)**	**2,764**	**4,458**
Reconciliation of effective tax rate			
Profit before income tax	5,623	7,887	11,601
Prima facie tax at 28% (Dec 2010, Jun 2011: 30%)	1,574	2,366	3,480
Plus / (less) tax effect of items not taxable / deductible	83	415	680
Adjustments for prior period	381	-	-
Tax effect of change in tax legislation	(6,182)	(17)	298
Total income tax (benefit) / expense	**(4,144)**	**2,764**	**4,458**

In May 2010, legislation was passed to reduce the New Zealand corporate tax rate from 30% to 28%, effective for the 2012 income tax year. The tax effect in prior periods (December 2010: $17,000 ; June 2011: $298,000) is the impact on the value of deferred tax assets and liabilities as a result of the reduction in the corporate tax rate for the financial year commencing 1 July 2011.

On 17 August 2011, Parliament enacted The Taxation (Tax Administration and Remedial Matters) Bill which contains a retrospective legislative change in relation to mergers of building societies. The result is that the $6,182,000 benefit of future tax deductions which were lost on the merger of MARAC, SCBS and CBS are now available to entities in the Heartland New Zealand Consolidated (Tax) Group, and cash that would otherwise have been required to pay tax will now be available to the Group.

The comparative notes for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

7 Earnings per share

The calculation of basic and diluted earnings of 3c per share at 31 December 2011 (30 June 2011: 5c per share) is based on the profit for the period of $9,767,000 (30 June 2011: $7,143,000), and a weighted average number of shares on issue of 359,136,000 (30 June 2011: 144,201,000).

The earnings per share calculated based on the closing number of shares rather than the weighted average number of shares, results in basic and diluted earnings per share of 3c at 31 December 2011 (30 June 2011: 2c).

8 Reconciliation of profit after tax to net cash flows from operating activities

	Dec 2011 $000's	Dec 2010 $000's	Jun 2011 $000's
Profit for the period	**9,767**	**5,123**	**7,143**
Add / (less) non-cash items:			
Depreciation and amortisation expense	952	527	1,482
Impaired asset expense	3,788	6,094	13,298
Deferred tax (benefit) / expense	(2,475)	395	2,897
Derivative financial instruments revaluation	(992)	192	5,419
Accruals	822	22	1,567
Total non-cash items	**2,095**	**7,230**	**24,663**
Add / (less) movements in working capital items:			
Other assets	(4,144)	981	(10,186)
Current tax	(3,380)	(1,323)	1,479
Other liabilities	1,941	(1,483)	(2,009)
Total movements in working capital items	**(5,583)**	**(1,825)**	**(10,716)**
Add / (less) items classified as investing activities:			
Gain on sale of assets and investments	-	1	-
Total items classified as investing activities	**-**	**1**	**-**
Net cash flows from operating activities before movements in finance receivables and operating lease vehicles	**6,279**	**10,529**	**21,090**
Operating lease vehicles	(2,606)	4,885	10,168
Finance receivables	(24,467)	(41,192)	(29,151)
Net cash flows (applied to) / from operating activities	**(20,794)**	**(25,778)**	**2,107**

9 Significant subsidiaries and interests in jointly controlled entities

Significant subsidiaries	**Nature of business**	**Dec 2011 % held**	**Dec 2010 % held**	**Jun 2011 % held**
Heartland Building Society	Financial services	100%	0%	100%
and its subsidiaries:				
MARAC Finance Limited	Financial services	100%	100%	100%
VPS Parnell Limited	Investment property holding company	100%	0%	100%
VPS Properties Limited	Investment property holding company	100%	0%	100%
PGG Wrightson Finance Limited	Financial services	100%	0%	0%
Heartland Financial Services Limited	Holding company	100%	0%	100%
and its jointly controlled entity:				
MARAC JV Holdings Limited	Holding company	50%	50%	50%
and its subsidiary:				
MARAC Insurance Limited	Insurance services	50%	50%	50%

On 16 March 2011, VPS Parnell Limited (VPS Parnell) and VPS Properties Limited (VPS Properties) were incorporated. VPS Parnell and VPS Properties are wholly owned subsidiaries of the Society, with the Society holding 100 shares in VPS Parnell and 100 shares in VPS Properties. VPS Parnell and VPS Properties are investment property holding companies.

On 31 August 2011 the Society acquired 100% of the shares in PWF, an entity specialising in the provision of financial services to the rural sector, refer to Note 17 - Business Combinations for more details.

The comparative notes for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

10 Finance receivables

	Dec 2011 $000's	Dec 2010 $000's	Jun 2011 $000's
Non-securitised			
Gross finance receivables	1,817,639	953,187	1,535,183
Less allowance for impairment	28,668	27,236	37,565
Total non-securitised finance receivables	**1,788,971**	**925,951**	**1,497,618**
Securitised			
Gross finance receivables	286,952	162,189	210,425
Less allowance for impairment	712	934	732
Total securitised finance receivables	**286,240**	**161,255**	**209,693**
Total finance receivables	**2,075,211**	**1,087,206**	**1,707,311**

Refer to Note 17 - Business Combinations for information about the acquisition of finance receivables.

11 Borrowings

	Dec 2011 $000's	Dec 2010 $000's	Jun 2011 $000's
Bank borrowings sourced from New Zealand	50,075	-	-
Deposits sourced from New Zealand	1,644,900	-	1,556,612
Debenture stock sourced from New Zealand	-	826,868	-
Deposits sourced from overseas	26,169	-	36,635
Debenture stock sourced from overseas	-	28,510	-
Securitised borrowings sourced from New Zealand	264,407	149,278	194,277
Total borrowings	**1,985,551**	**1,004,656**	**1,787,524**

The Group has bank facilities totalling $675.0 million (December 2010: $400.3 million, June 2011: $475.0 million). Prior to the amalgamation there was no significant concentration of deposits from any region. As at 31 December 2011, 41% (June 2011: 37%) of deposits are from the Canterbury region.

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

The Group has securitisation facilities in relation to the Trusts totalling $475.0 million. On 26 August 2011, the Group entered an agreement with its securitisation facility provider to increase the MARAC ABCP Trust 1 securitisation facility by $100m to $300m, and to extend its maturity date to 8 August 2012. On 19 December 2011, the Group entered into an agreement to increase the CBS Warehouse A Trust securitisation facility by $100 million to $175 million.

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

The comparative notes for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

12 Share capital

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

	COMPANY		
	Dec 2011	Dec 2010	Jun 2011
	Number of shares		
	000's	000's	000's
Issued shares			
Opening balance	300,000	-	-
Shares issued during the period	88,704	-	300,000
Closing balance	**388,704**	**-**	**300,000**

On 5 January 2011:

- MARAC Financial Services Limited (MFSL) exchanged its shareholding in MARAC and its investment in MARAC JV Holdings Limited for shares in the Company.
- The Company issued further shares to MFSL so that its total shares after that issue were 216,630,283 fully paid ordinary shares.

On 7 January 2011:

- The Company issued 39,128,321 fully paid ordinary shares to former CBS shareholders in exchange for all of the assets and engagements of CBS.
- The Company issued 44,241,396 fully paid ordinary shares to former SCBS shareholders in exchange for all of the assets and engagements of SCBS.

On 30 May 2011, the Company's ultimate parent, PGC distributed directly to PGC shareholders its 72.21% stake in the Company.

On 31 August 2011, the Company issued 23,257,528 new shares at $0.52 per share to existing shareholders under a share purchase plan, issued 34,164,396 new shares at $0.65 per share to underwriters of the share purchase plan, placed 4,615,385 new shares at $0.65 per share and placed 26,666,666 new shares at $0.75 per share to institutions and investors. The total new capital raised was $57,346,857.

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

13 Special purpose entities

MARAC PIE Fund

The Group controls the operations of MARAC PIE Fund, a portfolio investment fund that invests in the Parent's deposits.
Investments by MARAC PIE fund are represented in deposits as follows:

	Dec 2011	Dec 2010	Jun 2011
	$000's	$000's	$000's
MARAC PIE Fund	8,203	8,148	6,517

MARAC ABCP Trust 1 and CBS Warehouse A Trust Securitisation

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

	Dec 2011	Dec 2010	Jun 2011
	$000's	$000's	$000's
Cash and cash equivalents - Securitised	9,039	4,487	15,830
Finance receivables - Securitised	286,240	161,255	209,693
Borrowings - Securitised	(264,407)	(149,278)	(194,277)

Southern Cross Building Society Charitable Trust and CBS Canterbury Charitable Trust (Charitable Trusts)

The directors of the Company are trustees of the Charitable Trusts, therefore the results of the Charitable Trusts have been consolidated in accordance with NZ IFRS. Included in the Group's trade and other payables balance is:

	Dec 2011	Dec 2010	Jun 2011
	$000's	$000's	$000's
Beneficiary funds	731	-	746

The comparative notes for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

14 Related party transactions

The Company holds all shares in the Society, Heartland Financial Services Limited (HFSL), MARAC and PWF.

During the year ended 30 June 2011, the immediate parent of MARAC was MARAC Financial Services Limited (MFSL). MFSL's parent is Pyne Gould Corporation (PGC). On 30 May 2011, PGC distributed directly to PGC shareholders its 72.21% stake in the Company. As a result, PGC is no longer a related party of the Group.

(a) Transactions with related parties

Sale of non-performing loans

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

The loans were transferred from MARAC at book value. In October 2009 the transfer was completed with MFSL paying $125 million in cash, and issuing a loan note of $50 million for the balance. As at 31 December 2010 the balance of the loan note was $27.5 million excluding accrued interest. During the year ended 30 June 2011 the loan note was settled, with MARAC receiving $39.8 million in cash and the remaining $3.9 million in tax losses. PGC guaranteed the obligations of MFSL under the loan note. Interest was accrued on the loan note on an arm's length basis.

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

RECL management agreement

On 5 January 2011, MARAC entered into a management agreement with RECL. The agreement (as previously amended) was further amended on 19 October 2011. Under this arrangement, RECL manages certain non-core real estate loans (not previously sold in September 2009) of MARAC for a 5 year period (ending 5 January 2016), and assumes the risk of loss on those loans for that period. Any payment by RECL to MARAC in respect of that loss is due at the end of the 5 year period (with some limited right on the part of MARAC to earlier payment). The maximum amount payable by RECL in respect of loss (including interest accruing on loss payments until the due date for payment) is limited to $30 million. The payment obligations of RECL are “limited in recourse” to a pool of security provided by RECL. This pool of security includes an $11 million 5 year zero coupon bond (issued by Westpac New Zealand Limited which is rated AA- by Standard & Poor's (Australia) Pty Limited), and other assets (initially real estate or real estate loans) with a required minimum security value of (initially) $19 million. PGC will be obliged to top up the security pool to the extent that the security value of other assets is less than the minimum required.

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

The benefit of this management agreement is included in the determination of the charge and the analysis of risk gradings and the classification of individually impaired assets as at 31 December 2011. In September 2011, RECL paid $1.5 million cash for claims to MARAC. This payment reduced the required minimum security value of other assets to $17.5 million.

From 31 December 2010, the Group (through VPS Properties Limited and VPS Parnell Limited) began acquiring investment properties as a result of enforcement of security over finance receivables. The acquisitions by VPS Properties Limited and VPS Parnell Limited were funded by advances from the Society and MARAC to those acquiring entities. These advances are covered by the RECL management agreement.

As at 31 December 2011, RECL is not a related party of the Group.

Other related party transactions

The Group paid PGC a management fee for financial and administrative assistance, computer services and leased premises received during the year ended 30 June 2011. This management fee included some compensation paid to certain members of the Group's key management personnel, previously employed by PGC.

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

MARAC Insurance Limited and some key management personnel invested in MARAC's debenture stock and the Group's deposits. The investments of MARAC PIE Fund are detailed in Note 13. Key management personnel investments are detailed in Note 14(b).

Included within finance receivables at 31 December 2010 was a $673,000 loan to PGG Wrightson Seeds Limited. PGG Wrightson Seeds Limited is no longer a related party of the Group.

All transactions were conducted on normal commercial terms and conditions.

The comparative notes for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

14 Related party transactions (continued)

(a) Transactions with related parties (continued)

Material related party transactions	**Dec 2011 $000**	**Dec 2010 $000**	**Jun 2011 $000**
Previous parent - MFSL			
Interest income	-	2,059	2,976
Due from MFSL	-	27,525	-
Due to MFSL	-	1	-
Previous ultimate parent - PGC			
Selling and administration expenses	-	(1,503)	(2,494)
Due to PGC	-	109	-
Other related parties			
Lending and credit fee income	237	262	481
Other income	168	39	207
Interest expense	-	(94)	(130)
Selling and administration expenses	-	-	(1,000)
Total transactions with other related parties	**405**	**207**	**(442)**
Due to other related parties	104	3,448	104
Total due from related entities	**-**	**27,525**	**-**
Total due to related entities	**104**	**3,558**	**104**

(b) Transactions with key management personnel

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

	Dec 2011 $000	**Dec 2010 $000**	**Jun 2011 $000**
Debenture/deposit investments by key management personnel:			
Maximum balance	391	872	409
Closing balance	381	787	385
Loans to key management personnel:			
Closing balance	307	-	304
Key management personnel interest expense and compensation is as follows:			
Interest expense	21	20	20
Short-term employee benefits	2,845	570	2,353
Share-based payments	91	39	287
Total	**2,957**	**629**	**2,660**

Key management personnel interest expense and compensation presented above excludes amounts paid by SCBS and CBS prior to 7 January 2011 and excludes amounts in respect of former PGC employees paid by PGC which are included in the management fee.

The comparative notes for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

15 Credit risk exposure

Provision for impaired assets

	Non-securitised			Securitised			Total		
	Dec 2011 $000	**Dec 2010 $000**	**Jun 2011 $000**	**Dec 2011 $000**	**Dec 2010 $000**	**Jun 2011 $000**	**Dec 2011 $000**	**Dec 2010 $000**	**Jun 2011 $000**
GROUP									
Provision for individually impaired assets									
Opening individual impairment	26,149	17,465	17,465	8	366	366	26,157	17,831	17,831
Impairment loss for the period									
- charge for the period *	3,387	6,942	20,223	(2)	78	93	3,385	7,020	20,316
- recoveries	91	-	117	-	-	-	91	-	117
- write offs	(12,138)	(5,662)	(19,844)	-	(313)	(451)	(12,138)	(5,975)	(20,295)
- assumed on acquisition	1,284	-	-	-	-	-	1,284	-	-
- assumed on amalgamation	-	-	10,049	-	-	-	-	-	10,049
- effect of discounting	(463)	(418)	(1,861)	-	-	-	(463)	(418)	(1,861)
Closing individual impairment	**18,310**	**18,327**	**26,149**	**6**	**131**	**8**	**18,316**	**18,458**	**26,157**
Provision for collectively impaired assets									
Opening collective impairment	11,416	11,765	11,765	724	752	752	12,140	12,517	12,517
Impairment loss for the period									
- charge for the period *	137	(1,202)	(7,548)	266	276	530	403	(926)	(7,018)
- recoveries	182	193	264	24	29	36	206	222	300
- assumed on amalgamation	-	-	12,927	-		-	-	-	12,927
- write offs	(1,377)	(1,847)	(5,992)	(308)	(254)	(594)	(1,685)	(2,101)	(6,586)
Closing collective impairment	**10,358**	**8,909**	**11,416**	**706**	**803**	**724**	**11,064**	**9,712**	**12,140**
Total provision for impairment	**28,668**	**27,236**	**37,565**	**712**	**934**	**732**	**29,380**	**28,170**	**38,297**

** In determining the charge for the period, the RECL management agreement has been taken into consideration, refer to Note 14 - 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 $16.6 million as at 31 December 2011 (December 2010: $9.8 million; June 2011: $11.8 million). The agreement covers the MARAC non-core property loans with a book value of $88 million as at 31 December 2011 (December 2010: $131 million; June 2011: $121 million).*

	Dec 2011 $000	**Dec 2010 $000**	**Jun 2011 $000**
16 Contingent liabilities and commitments			
Letters of credit, guarantees and performance bonds	2,530	2,340	1,770
Total contingent liabilities	**2,530**	**2,340**	**1,770**

The comparative notes for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

17 Business Combinations

(a) Heartland Building Society merger

On 5 January 2011, the Society acquired the assets and engagements of SCBS and CBS and all of the shares in MARAC. As part of this process:

- MFSL exchanged its shareholding in MARAC and its investment in MJV for shares in the Company. The agreed consideration of $206,769,000 converted to the issue of 3.94 fully paid shares in the Company in exchange for each MARAC share.
- The Society, a wholly owned subsidiary of the Company (through its subsidiaries), acquired all of the assets and engagements of SCBS and CBS for the total agreed consideration of $79,574,000 converted to the issue of fully paid shares in the Society.
- The Society acquired all of the shares in MARAC through the Company transferring its shareholding in MARAC to the Society (through its subsidiaries as intermediate holders).

On 7 January 2011, the Company issued shares to former CBS and SCBS shareholders (refer Note 12 for more details) and CBS and SCBS were amalgamated into the Group.

Fair value of consideration transferred at acquisition date

	GROUP 7 Jan 11 $000
Shares issued, at fair value *	79,574
Consideration transferred	**79,574**

* Shares issued at fair value exclude the fair value of MFSL's investment in MJV of $2.5 million which was also exchanged for shares in the Company.

Identifiable assets acquired and liabilities assumed

	Fair value 7 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. The Society has the benefits of scale and scope and is expected to be value enhancing for all shareholders and offers a better outcome than could be expected as standalone entities.

Goodwill of $20.1 million has not been allocated to individual cash generating units, as the future economic benefit is attributable to all business units. The Group's management and board continue to monitor goodwill at a total level.

The comparative notes for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

17 Business Combinations (continued)

(b) Purchase of PGG Wrightson Finance Limited

On 31 August 2011, the Society acquired 100% of PWF from PGW. PWF offers a wide range of financial services, specialising in the rural sector.

The purchase price was $98.0 million being an amount equal to the net tangible assets of PWF, adjusted to take account of certain agreed items. In consideration:

- PGW retained certain loans, most of which were impaired (excluded loans). PWF transferred these excluded loans to a special purpose vehicle (SPV) established by PGW. This resulted in a debt being owed by the SPV back to PWF of $73.1 million.
- The Society paid PGW cash of $24.9 million.

Contemporaneously, the Company issued $10.0 million of Heartland New Zealand Limited (HNZ) shares to PGW.

On 31 August 2011, immediately prior to settlement, $52.7 million of loans not previously recorded in the accounts of PWF that were subject to a risk sharing agreement between PWF and ASB Bank were purchased by PWF for cash. Of these loans $37.3 million form part of the finance receivables purchased by Heartland and $15.4 million were excluded loans transferred to the SPV.

Fair value of consideration transferred at acquisition date

	GROUP 31-Aug-11 $000
Excluded loans and deferred tax	73,115
Cash paid	24,898
Consideration transferred	**98,013**

Identifiable assets acquired and liabilities assumed

	Fair value 31-Aug-11 $000
Assets	
Cash and cash equivalents	61,643
Finance receivables *	371,627
Other assets	1,346
Total assets	**434,616**
Liabilities	
Due to related parties **	335,703
Other liabilities	900
Contingent liabilities	-
Total liabilities	**336,603**
Total net identifiable assets	**98,013**
Total consideration transferred	98,013
Fair value of identifiable net assets	98,013
Goodwill	**-**

* Prior to the final settlement on 31 August 2011 the Group purchased a $29 million loan from PWF for cash, bringing the total receivables acquired to $401 million.

** Due to related parties consists of PWF's borrowings acquired of $408.8 million which was transferred to become deposits in the Parent on 31 August 2011, offset by $73.1 million excluded loans and deferred tax.

As part of the acquisition, the Society and PGW entered into a Deed of Guarantee and Indemnity in relation to the Recourse Loans, with book value on acquisition of $30.6 million. This arrangement provides the Society with a guarantee from PGW in relation to the future payment of principal and interest on the Recourse Loans for a prescribed period of three years. As at 31 December the recourse loans of $30.0 million are included in the Group's finance receivables. Subsequent to reporting date PGW will reacquire approximately $9.5 million of loans covered under this Deed.

Transactions separate from the acquisition

The Group incurred acquisition-related costs of $0.8 million in the year to 30 June 2011 and $0.2 million in the six months to 31 December 2011, relating to external legal fees and due diligence costs. These costs are included in selling and administration expenses.

The comparative notes for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

18 Staff share ownership arrangements

Discretionary share scheme

At 30 June 2010, the trustees held 60,009 shares in PGC on behalf of certain senior MARAC staff. The trustees participated in the PGC dividend reinvestment plan in December 2010, resulting in an allotment of a further 2,160 shares. No shares were transferred to staff in the period ended 31 December 2011 (June 2011: 9,661, December 2010: nil). In May 2011 38,436 PGC shares were cancelled in exchange for 14,072 HNZ shares. At 31 December 2011 the trustees held 14,072 shares in PGC and 14,072 shares in HNZ for these executives.

In August 2011, the Heartland New Zealand Limited employee share plan was established. The terms and conditions of the employee share plan have yet to be determined by the Board.

Executive share scheme

In January 2011, the PGC executive share plan was established, resulting in an allotment of 803,999 PGC shares to certain senior MARAC staff. A total of 107,736 PGC shares and 107,736 HNZ shares were transferred to executives during the six months ended 31 December 2011 (June 2011: 402,000). In May 2011 294,263 PGC shares were cancelled in exchange for 107,736 HNZ shares. At 31 December 2011 the trustees held no shares in PGC or HNZ for these executives.

The total expense recognised during the period in relation to these share schemes was $115,346 (December 2010: $44,262; June 2011: $464,072).

Additionally, in January 2011 certain key executives of the Group who were previously employed by PGC also participated in the PGC Executive Share scheme, resulting in an allotment of 3,574,999 PGC shares. A total of 479,050 PGC shares and 479,050 HNZ shares were transferred to executives during the six months ended 31 December 2011 (June 2011: 1,787,500). In May 2011 1,308,449 PGC shares were cancelled in exchange for 479,050 HNZ shares. At 31 December 2011 the trustees held no shares in PGC or HNZ for these executives. No expense is recognised in relation to these shares as the cost was borne by PGC.

19 Events after the reporting date

There have been no material events subsequent to reporting date that would affect the interpretation of the interim financial statements or the performance of the Group.

The comparative notes for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

AUDITOR'S REPORT

KPMG

Independent auditor's review report

To the shareholders of Heartland New Zealand Limited

Report on the interim financial statements

We have reviewed the accompanying interim financial statements of Heartland New Zealand Limited (the "company") and the group, comprising the company and its subsidiaries, in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. The interim financial statements provide information about the past financial performance of the group and its financial position as at 31 December 2011.

Directors' responsibilities

The directors are responsible for the preparation of interim financial statements in which give a true and fair view of the financial position of the group as at 31 December 2011 and the results of its operations and cash flows for the six month period ended on that date.

Reviewer's responsibilities

It is our responsibility to express an independent opinion on the interim financial statements presented by the directors and report our opinion to you.

Basis of opinion

A review is limited primarily to enquiries of company and group personnel and analytical review procedures applied to the financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an 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 business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the attached interim financial statements do not give a true and fair view of the financial position of Heartland New Zealand Limited as at 31 December 2011, the results of its operations and cash flows for the six month period ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting*.

Our review was completed on 16 February 2012 and our opinion is expressed as at that date.

KPMG

16 February 2012
Auckland

DIRECTORY

Heartland New Zealand Limited

Directors

Bruce Irvine	Chairman
Jeffrey Greenslade	Managing Director
Graham Kennedy	Director
Gary Leech	Director
Christopher Mace	Director
Geoffrey Ricketts	Director

Executives

Chris Flood	Head of Retail and Consumer
Michael Harris	Head of South Island
Michael Jonas	General Counsel
Sean Kam	Chief Financial Officer
James Mitchell	Head of Business
Mark Mountcastle	Chief Risk Officer
Will Purvis	Head of Rural
Sarah Selwood	Head of Human Resources
Craig Stephen	Group Treasurer

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John Harvey	Director
Graham Kennedy	Director
Gary Leech	Director
Christopher Mace	Director
Geoffrey Ricketts	Director
Michelle Smith	Director

Executives

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