HEARTLAND BANK

Disclosure Statement

For the year ended 30 June 2015

CONTENTS

GENERAL INFORMATION

This Disclosure Statement has been issued by Heartland Bank Limited (the Bank) for the year ended 30 June 2015 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order). The Financial Statements of the Bank for the year ended 30 June 2015 form part of, and should be read in conjunction with, this Disclosure Statement.

Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

Name and address for service

The name of the Registered Bank is Heartland Bank Limited.

The Banking Group consists of the Bank and all of its subsidiaries. All trading subsidiaries are incorporated in New Zealand.

The Bank's address for service is Heartland House, 35 Teed Street, Newmarket, Auckland.

Details of incorporation

The Bank was incorporated under the Companies Act 1993 on 31 January 2013.

Ultimate holding company

The ultimate holding company of the Bank is Heartland New Zealand Limited (Heartland), a company listed on the New Zealand Stock Exchange. Heartland's address for service is Heartland House, 35 Teed Street, Newmarket, Auckland.

The Bank's immediate parent is Heartland NZ Holdings Limited, which Heartland wholly owns.

There are no regulations, legislation, or other restrictions of a legally enforceable nature that may materially inhibit the legal ability of Heartland to provide material financial support to the Bank.

Interests in 5% or more of voting securities of the Bank

100% of the voting securities (shares) in the Bank are directly owned by Heartland NZ Holdings Limited and are indirectly owned by Heartland. Disclosed below are persons with shareholdings in Heartland of greater than 5% as at the 30 June 2015:

Name	Percentage held
Harrogate Trustee Limited	10.26%
Accident Compensation Corporation	5.81%

Other than Heartland (that has the power to appoint 100% of the Board of Directors (Board) of the Bank), no person has the ability to directly or indirectly appoint 25% or more of the Board (or other persons exercising powers of management) of the Bank.

PRIORITY OF CREDITORS' CLAIMS

In the unlikely event of the Bank becoming insolvent or ceasing business, certain claims set out in legislation are paid in priority to others. These claims include secured creditors, taxes, certain payments to employees and any liquidator's costs. After payment of those creditors, the claims of all other creditors are unsecured and would rank equally with each other.

The loans sold to the Heartland ABCP Trust 1 (ABCP Trust) are set aside for the benefit of investors in the ABCP Trust (See Note 23 - Structured entities for further details).

GUARANTEE ARRANGEMENTS

As at the date this Disclosure Statement was signed, no material obligations of the Bank were guaranteed. Neither Heartland NZ Holdings Limited nor Heartland guarantees any of the obligations of the Bank or any member of the Banking Group.

DIRECTORS

All Directors of the Bank reside in New Zealand. Communications to the Directors can be sent to Heartland Bank Limited, 35 Teed Street Newmarket, Auckland. The Directors of the Bank and their details at the time this Disclosure Statement was signed were:

Name: Bruce Robertson Irvine
Chairman - Board of Directors
Type of director: Independent Non-Executive Director
Qualifications: BCom, LLB, FCA, CF Inst D, FNZIM
Occupation: Company Director
External Directorships:
Air Rarotonga Limited, Avon Pacific Holdings Limited, B R Irvine Limited, Blackbyre Horticulture Limited, Bowdens Mart Limited, Bray Frampton Limited, Britten Motorcycle Company Limited, Canterbury Business Recovery Group Limited, Canterbury Spinners Limited, CCHL (2) Limited, CCHL (4) Limited, CCHL (5) Limited, Chambers @151 Limited, Chambers at Hazeldean Limited, Christchurch City Holdings Limited, Christchurch City Networks Limited, Cockerill and Campbell (2007) Limited, Development Christchurch Limited, Godfrey Hirst NZ Limited, Godfrey Hirst Australia PTY Limited, Hansons Lane International Holdings Limited, House of Travel ESP Trustee Limited, House of Travel Holdings Limited, Lake Angelus Holdings Limited, Lamanna Bananas (NZ) Limited, Lamanna Bananas Pty Limited, Lamanna Limited, Limeloader Irrigation Limited, Market Fresh Wholesale Limited, Market Gardeners Limited, Market Gardeners Orders (Christchurch) Limited, Market Gardeners Orders Wellington Limited, MG Group Holdings Limited, MG Marketing Limited, MG New Zealand Limited, PGG Wrightson Limited, Phimai Holdings Limited, Quitachi Limited, Rakon ESOP Trustee Limited, Rakon Limited, Rakon PPS Trustee Limited, Scenic Circle Hotels Limited, Skope Industries Limited, Southland Produce Markets Limited, Wavell Resources Limited.

Name: Nicola Jean Greer
Type of director: Independent Non-Executive Director
Qualifications: MCom
Occupation: Company Director
External Directorships:
26 Belfast Rd Limited, Longhurst Commercial Limited, Longhurst Preschool No1 Limited, Mike Greer Homes Pegasus Town Limited, Mike Greer Commercial Limited, Pegasus Preschool Limited.

Name: Edward John Harvey
Type of director: Independent Non-Executive Director
Qualifications: BCom, CA
Occupation: Company Director
External Directorships:
Ballance Agri Nutrients Limited, Chalmers Properties Limited, DNZ Holdings Limited, DNZ Property Fund Limited, Fiordland Pilot Services Limited, Kathmandu Holdings Limited, New Zealand Opera Limited, Pomare Investments Limited, Port Otago Limited, South Freight Limited, Te Rapa Gateway Limited.

Name: Graham Russell Kennedy
Type of director: Non-Independent Non-Executive Director
Qualifications: J. P., BCom, FCA, ACIS, ACIM, CF Inst D
Occupation: Company Director
External Directorships:
Ashburton Aquatic Park Limited, Ashburton Central Limited, Avon Properties (2008) Limited, Avon Properties Limited, BK&P Trustees Limited, BK Riversdale Trustees Limited, Black Gnat Properties Limited, Black Quill Investments Limited, Bradford Group Holdings Limited, Cates Grain & Seed Limited, Concurrent Properties Limited, Crescent Custodians Limited, Earth & Sky Limited, Eastfield Investments Limited, Germinal Seeds N.Z. Limited, Heartland New Zealand Limited, Hornby Consortium Limited, Lake Extension Trust Limited, Norman Spencer Nominees Limited, NZ Express Transport (2006) Limited, Rural Transport Limited, Timaru Central Limited, Trevor Wilson Charities Limited, Trevor Wilson Charities (No. 2) Limited.

Name: Geoffrey Thomas Ricketts
Type of director: Non-Independent Non-Executive Director
Qualifications: LLB (Hons), F Inst D
Occupation: Company Director
External Directorships:
AAI Limited, Asteron Life Limited, Heartland New Zealand Limited, Highground Trust Limited, Janmac Capital Limited, Macmine Investments Limited, Maisemore Enterprises Limited, MCF 1 Limited, MCF 3 Limited, MCF 4 Limited, MCF 5 Limited, MCF 6 Limited, MCF 7 Limited, MCF 8 Limited, MCF 9 Limited, MCF 10 Limited, MCF2 (Fund 1) Limited, MCF2A General Partner Limited, MCF2 GP Limited, Mercury Capital No.1 Fund Limited, Mercury Capital No. 1 Trustee Limited, MTA Insurance Limited, New Zealand Catholic Education Office Limited, NZCEO Finance Limited, O & E Group Services Limited, Oceania and Eastern Australia Pty Limited, Oceania and Eastern Finance Limited, Oceania and Eastern Group Funds Limited, Oceania and Eastern Holdings Limited, Oceania and Eastern Limited, Oceania and Eastern Securities Limited, Oceania Capital Limited, Quartet Equities Limited, SBGH Limited, Shopping Centres Australasia Property Group Trustee NZ Limited, Suncorp Group Holdings (NZ) Limited, Suncorp Group New Zealand Limited, Suncorp Group Services NZ Limited, Suncorp Insurance Holdings Limited, Suncorp Life and Superannuation Limited, Suncorp Life Holdings Limited, Suncorp Metway Limited, The Centre for Independent Studies Limited, The Todd Corporation Limited, Todd Management Services Limited, Todd Offshore Limited, Vero Insurance New Zealand Limited, Vero Liability Insurance Limited.

Name: Richard Arthur Wilks
Type of director: Independent Non-Executive Director
Qualifications: BCom, CA
Occupation: Company Director
External Directorships:
Lirich Limited, Mamaku South Limited, Maxwell Farms (Developments) Limited, Maxwell Farms Limited, Maxwell Farms (Maroa) Limited, Maxwell Farms (Poihipi) Limited, Maxwell Farms (Te Kopia) Limited, Maxwell Farms (Tutukau) Limited, New Zealand Experience Limited, Rainbow's End Theme Park Limited, Rangatira Limited.

DIRECTORS (CONTINUED)

Name: Jeffrey Kenneth Greenslade
Qualifications: LLB
Type of director: Non-Independent Executive Director
Occupation: Chief Executive Officer of the Bank
External Directorships:
Brew Greenslade & Company Limited, Greenslade Investments Limited, Heartland Financial Services Limited, Heartland HER Holdings Limited, Heartland New Zealand Limited, Heartland NZ Holdings Limited, Heartland NZ Trustee Limited, MARAC Insurance Limited, MARAC JV Holdings Limited.

Conflicts of interest policy

All Directors are required to disclose to the Board any actual or potential conflict of interest which may exist or is thought to exist upon appointment and are required to keep these disclosures up to date. The details of each disclosure made by a Director to the Board must be entered in the Interests Register.

Directors are required to take any necessary and reasonable measures to try to resolve the conflict and comply with the Companies Act 1993 on disclosing interests and restrictions on voting. Any Director with a material personal, professional or business interest in a matter being considered by the Board must declare their interest and, unless the Board resolves otherwise, may not be present during the boardroom discussions or vote on the relevant matter.

Interested transactions

There have been no transactions between the Bank or any member of the Banking Group and any Director or immediate relative or close business associate of any Director which either, has been entered into on terms other than those which would in the ordinary course of business of the Bank or any member of the Banking Group be given to any other person of like circumstances or means, or could be reasonably likely to influence materially the exercise of the Directors' duties.

Audit committee composition

Members of the Bank's Audit Committee as at the date of this Disclosure Statement are as follows:

Edward John Harvey (Chairperson)	Independent Non-Executive Director
Bruce Irvine	Independent Non-Executive Director
Graham Kennedy	Non-Independent Non-Executive Director

AUDITOR

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland

CONDITIONS OF REGISTRATION

These conditions apply on and after 31 January 2015.

The registration of Heartland Bank Limited ("the bank") as a registered bank is subject to the following conditions:

1. That—

   (a) the Total capital ratio of the banking group is not less than 8%;

   (b) the Tier 1 capital ratio of the banking group is not less than 6%;

   (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;

   (d) the Total capital of the banking group is not less than $30 million; and

   (e) the process in Subpart 2H of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated July 2014 is followed for the recognition and repayment of capital.

   For the purposes of this condition of registration, capital, the Total capital ratio, the Tier 1 capital ratio, and the Common Equity Tier 1 capital ratio must be calculated in accordance with the Reserve Bank of New Zealand document: “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated July 2014.

1A. That—

   (a) the bank has an internal capital adequacy assessment process (“ICAAP”) that accords with the requirements set out in the document “Guidelines on a bank’s internal capital adequacy assessment process ('ICAAP')” (BS12) dated December 2007;

   (b) under its ICAAP, the bank identifies and measures its “other material risks” defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated July 2014; and

   (c) the bank determines an internal capital allocation for each identified and measured “other material risk”.

1B. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

   (a) according to the following table, limit the aggregate distributions of the bank’s earnings to the percentage limit to distributions that corresponds to the banking groups buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the banks' earnings
0% - 0.625%	0%
>0.625% -1.25%	20%
>1.25% - 1.875%	40%
>1.875% - 2.5%	60%

   (b) prepare a capital plan to restore the banking groups buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

   (c) have the capital plan approved by the Reserve Bank.

   For the purposes of this condition of registration, -

   “buffer ratio”, “distributions”, and “earnings” have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated July 2014.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities. In this condition of registration, the meaning of “material” is based on generally accepted accounting practice.

3. That the banking group’s insurance business is not greater than 1% of its total consolidated assets.

   For the purposes of this condition of registration, the banking group’s insurance business is the sum of the following amounts for entities in the banking group:

   (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

   (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity’s insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

   In determining the total amount of the banking group’s insurance business—

   (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

   (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

CONDITIONS OF REGISTRATION (CONTINUED)

For the purposes of this condition of registration,—

"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:

"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit rating of the bank [1]	**Connected exposure limit (% of the banking group's Tier 1 capital)**
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the banking group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated October 2014.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the bank complies with the following corporate governance requirements:

(a) the board of the bank must have at least five directors;

(b) the majority of the board members must be non-executive directors;

(c) at least half of the board members must be independent directors;

(d) an alternate director,—
    (i) for a non-executive director must be non-executive; and
    (ii) for an independent director must be independent;

(e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;

(f) the chairperson of the board of the bank must be independent; and

(g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

For the purposes of this condition of registration,—

"independent,"—

(a) in relation to a person other than a person to whom paragraph (b) applies, has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014; and

(b) in relation to a person who is the chairperson of the board of the bank, means a person who—
    (i) meets the criteria for independence set out in section 10 except for those in paragraph 10(1)(a) in BS14; and
    (ii) does not raise any grounds for concern in relation to the person's independence that are communicated in writing to the bank by the Reserve Bank of New Zealand:

"non-executive" has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:

(a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

(b) the Reserve Bank has advised that it has no objection to that appointment.

[1] This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investor Service (Fitch Ratings' scale is identical to Standard & Poor's).

CONDITIONS OF REGISTRATION (CONTINUED)

8. That a person must not be appointed as chairperson of the board of the bank unless:

   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;

   (b) the committee must have at least three members;

   (c) every member of the committee must be a non-executive director of the bank;

   (d) the majority of the members of the committee must be independent; and

   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "independent" and "non-executive" have the same meaning as in condition of registration 6.

10. That a substantial proportion of the bank's business is conducted in and from New Zealand.

11. That the banking group complies with the following quantitative requirements for liquidity-risk management:

   (a) the one-week mismatch ratio of the banking group is not less than zero percent at the end of each business day;

   (b) the one-month mismatch ratio of the banking group is not less than zero percent at the end of each business day; and

   (c) the one-year core funding ratio of the banking group is not less than 75 percent at the end of each business day.

   For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2014 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

12. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:

   (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

   (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

   (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and

   (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

13. That no more than 10% of total assets may be beneficially owned by a SPV.

   For the purposes of this condition,—

   "total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:

   "SPV" means a person—

   (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;

   (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and

   (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

   "covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

CONDITIONS OF REGISTRATION (CONTINUED)

14. That—

    (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:

        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011; and

    (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011; and
        (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

    For the purposes of this condition of registration, “qualifying acquisition or business combination”, “notification threshold” and “non-objection threshold” have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011.

15. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—

    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
        (i) all liabilities are frozen in full; and
        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;

    (b) apply a *de minimis* to relevant customer liability accounts;

    (c) apply a partial freeze to the customer liability account balances;

    (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;

    (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and

    (f) reinstate customers' access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, “*de minimis*”, “partial freeze”, “customer liability account”, and “ frozen and unfrozen funds” have the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated September 2013.

16. That the bank has an Implementation Plan that—

    (a) is up-to-date; and

    (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS 17).

    For the purposes of this condition of registration, “Implementation Plan” has the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated September 2013.

17. That the bank has a compendium of liabilities that—

    (a) at the product-class level lists all liabilities, indicating which are—
        (i) pre-positioned for Open Bank Resolution; and
        (ii) not pre-positioned for Open Bank Resolution;

    (b) is agreed to by the Reserve Bank; and

    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, “compendium of liabilities”, and “pre-positioned and non pre-positioned liabilities” have the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated September 2013.

18. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

    For the purposes of this condition of registration, “Implementation Plan” has the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated September 2013.

CONDITIONS OF REGISTRATION (CONTINUED)

19. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amounts must not for residential properties with a loan-to-valuation ratio of more than 80%, exceed 10% of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period.

20. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

21. That the bank must not permit a borrower to grant a charge in favour of another person over a residential property used as security for a residential mortgage loan unless the sum of the lending secured by the charge and the loan value for the residential mortgage loan would not exceed 80% of the property value of the residential property when the lending secured by the charge is drawn down.

22. That the bank must not provide a residential mortgage loan if the residential property to be mortgaged to the bank as security for the residential mortgage loan is subject to a charge in favour of another person unless the total amount of credit secured by the residential property would not exceed 80% of the property value when the residential mortgage loan is drawn down.

23. That the bank must not act as broker or arrange for a member of its banking group to provide a residential mortgage loan.

In these conditions of registration,—

"banking group"—

(a) means Heartland Bank Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act (unless paragraph (b) applies); or

(b) means Heartland Bank Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993) if the Financial Reporting Act 1993 applies to the bank:

"generally accepted accounting practice"—

(a) has the same meaning as in section 8 of the Financial Reporting Act 2013 (unless paragraph (b) applies); or

(b) means generally accepted accounting practice within the meaning of section 3 of the Financial Reporting Act 1993 if the bank is required to prepare financial statements in accordance with that practice.

In conditions of registration 19 to 23,—

"loan-to-valuation ratio", "loan value", "property value", "qualifying new mortgage lending amount" and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated October 2014:

"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of March 2014.

PENDING PROCEEDINGS OR ARBITRATION

There are no pending legal proceedings or arbitrations concerning any member of the Banking Group at the date of this Disclosure Statement that may have a material adverse effect on the Bank or the Banking Group.

CREDIT RATINGS

As at the date of signing this Disclosure Statement, the Bank's credit rating issued by Fitch Australia Pty Ltd (Fitch Ratings) was BBB stable. This BBB credit rating was issued on 28 October 2014, following an upgrade from BBB- stable and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars.

On 14 January 2015 the Bank discontinued using Standard & Poor's (Australia) Pty Limited (S&P) as a rating agency. The Bank's credit rating issued by S&P prior to discontinuation was BBB, negative outlook. This BBB credit rating was issued on 22 May 2014 and was applicable to long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The rating was not subject to any qualifications.

The following is a summary of the descriptions of the ratings categories for rating agencies for the rating of long-term senior unsecured obligations:

Fitch Ratings	Standard & Poor's	Moody's Investors Service	Description of Grade
AAA	AAA	Aaa	Ability to repay principal and interest is extremely strong. This is the highest investment category.
AA	AA	Aa	Very strong ability to repay principal and interest in a timely manner.
A	A	A	Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.
BBB	BBB	Baa	Adequate ability to repay principal and interest. More vulnerable to adverse changes.
BB	BB	Ba	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.
B	B	B	Greater vulnerability and therefore greater likelihood of default.
CCC	CCC	Caa	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.
CC - C	CC - C	Ca - C	Highest risk of default.
RD to D	D	-	Obligations currently in default.

Credit ratings from Fitch Ratings and Standard & Poor’s may be modified by the addition of a plus or minus sign to show relative status within the major rating categories. Moody’s Investors Service apply numerical modifiers 1, 2, and 3 to show relative standing within the major rating categories, with 1 indicating the higher end and 3 the lower end of the rating category.

OTHER MATERIAL MATTERS

There are no material matters relating to the business or affairs of the Bank or the Banking Group that are not contained elsewhere in this Disclosure Statement which would, if disclosed in this Disclosure Statement, materially affect the decision of a person to subscribe for debt securities of which the Bank or any member of the Banking Group is the issuer.

DIRECTORS' STATEMENTS

Each Director of the Bank states that he or she believes, after due enquiry, that:

1. As at the date on which the Disclosure Statement is signed:

   (a) the Disclosure Statement contains all the information that is required by the Order; and
   (b) the Disclosure Statement is not false or misleading.

2. During the year ended 30 June 2015:

   (a) the Bank complied with all conditions of the registration;
   (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
   (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 18 August 2015 and has been signed by all the Directors.

B. R. Irvine (Chair - Board of Directors)

J. K. Greenslade

N. J. Greer

E. J. Harvey

G. R. Kennedy

G. T. Ricketts

R. A. Wilks

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 June 2015

		BANKING GROUP		BANK	
		Jun 2015	**Jun 2014**	**Jun 2015**	**Jun 2014**
	NOTE	**$000**	**$000**	**$000**	**$000**
Interest income	2	220,607	200,141	220,607	135,148
Interest expense	2	98,705	93,719	98,705	88,428
Net interest income		**121,902**	**106,422**	**121,902**	**46,720**
Operating lease income	3	10,350	13,348	10,350	7,609
Operating lease expenses	3	7,087	7,709	7,087	4,403
Net operating lease income		**3,263**	**5,639**	**3,263**	**3,206**
Lending and credit fee income		2,942	2,475	2,942	2,023
Other income	4	3,410	5,065	2,514	1,322
Net operating income		**131,517**	**119,601**	**130,621**	**53,271**
Selling and administration expenses	5	63,392	61,641	62,880	56,317
Profit / (loss) before impaired asset expense and income tax		**68,125**	**57,960**	**67,741**	**(3,046)**
Impaired asset expense	6	11,226	5,895	4,916	9,813
Decrease in fair value of investment properties	9	-	1,203	-	1,789
Profit / (loss) before income tax		**56,899**	**50,862**	**62,825**	**(14,648)**
Income tax expense / (benefit)	7	15,944	14,616	15,836	(1,963)
Profit / (loss) for the year		**40,955**	**36,246**	**46,989**	**(12,685)**
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Effective portion of changes in fair value of cash flow hedges, net of income tax		(2,709)	1,111	(2,709)	433
Movement in available for sale reserve, net of income tax		898	(12)	898	(12)
Items that will not be reclassified to profit or loss:					
Movement in defined benefit reserve, net of income tax		50	3	50	3
Other comprehensive (loss) / income for the year, net of income tax		**(1,761)**	**1,102**	**(1,761)**	**424**
Total comprehensive income / (loss) for the year		**39,194**	**37,348**	**45,228**	**(12,261)**

Total comprehensive income for the year is attributable to owners of the Bank.

The notes on pages 18 to 62 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 June 2015

		BANKING GROUP					
	NOTE	Share Capital $000	Available for sale Reserve $000	Defined benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Balance at 1 July 2014		**339,757**	**272**	**44**	**1,157**	**23,096**	**364,326**
Total comprehensive income / (loss) for the year							
Profit for the year		-	-	-	-	40,955	40,955
Total other comprehensive income / (loss)		-	898	50	(2,709)	-	(1,761)
Total comprehensive income / (loss) for the year		**-**	**898**	**50**	**(2,709)**	**40,955**	**39,194**
Contributions by and distributions to owners							
Staff share ownership expense	24	1,487	-	-	-	-	1,487
Dividends to equity holders	13	-	-	-	-	(32,200)	(32,200)
Total transactions with owners		**1,487**	**-**	**-**	**-**	**(32,200)**	**(30,713)**
Balance at 30 June 2015		**341,244**	**1,170**	**94**	**(1,552)**	**31,851**	**372,807**
Balance at 1 July 2013		**189,774**	**284**	**41**	**46**	**174,780**	**364,925**
Total comprehensive (loss) / income for the year							
Profit for the year		-	-	-	-	36,246	36,246
Total other comprehensive (loss) / income		-	(12)	3	1,111	-	1,102
Total comprehensive (loss) / income for the year		**-**	**(12)**	**3**	**1,111**	**36,246**	**37,348**
Contributions by and distributions to owners							
Effect of amalgamation		149,269	-	-	-	(149,269)	-
Staff share ownership expense	24	714	-	-	-	-	714
Dividends to equity holders	13	-	-	-	-	(38,661)	(38,661)
Total transactions with owners		**149,983**	**-**	**-**	**-**	**(187,930)**	**(37,947)**
Balance at 30 June 2014		**339,757**	**272**	**44**	**1,157**	**23,096**	**364,326**

The notes on pages 18 to 62 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 June 2015

		BANK					
	NOTE	Share Capital $000	Available for sale Reserve $000	Defined benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Balance at 1 July 2014		**339,757**	**272**	**44**	**433**	**22,200**	**362,706**
Total comprehensive income / (loss) for the year							
Profit for the year		-	-	-	-	46,989	46,989
Total other comprehensive income / (loss)		-	898	50	(2,709)	-	(1,761)
Total comprehensive income / (loss) for the year		**-**	**898**	**50**	**(2,709)**	**46,989**	**45,228**
Contributions by and distributions to owners							
Staff share ownership expense	24	1,487	-	-	-	-	1,487
Dividends to equity holders	13	-	-	-	-	(32,200)	(32,200)
Total transactions with owners		**1,487**	**-**	**-**	**-**	**(32,200)**	**(30,713)**
Balance at 30 June 2015		**341,244**	**1,170**	**94**	**(2,276)**	**36,989**	**377,221**
Balance at 1 July 2013		**339,043**	**284**	**41**	**-**	**12,865**	**352,233**
Total comprehensive (loss) / income for the year							
Loss for the year		-	-	-	-	(12,685)	(12,685)
Total other comprehensive (loss) / income		-	(12)	3	433	-	424
Total comprehensive (loss) / income for the year		**-**	**(12)**	**3**	**433**	**(12,685)**	**(12,261)**
Contributions by and distributions to owners							
Effect of amalgamation		-	-	-	-	60,681	60,681
Staff share ownership expense	24	714	-	-	-	-	714
Dividends to equity holders	13	-	-	-	-	(38,661)	(38,661)
Total transactions with owners		**714**	**-**	**-**	**-**	**22,020**	**22,734**
Balance at 30 June 2014		**339,757**	**272**	**44**	**433**	**22,200**	**362,706**

The notes on pages 18 to 62 are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION
As at 30 June 2015

		BANKING GROUP		BANK	
		Jun 2015	Jun 2014	Jun 2015	Jun 2014
	NOTE	$000	$000	$000	$000
Assets					
Cash and cash equivalents		31,732	34,588	31,530	34,538
Investments	8	322,619	238,859	322,619	238,859
Due from related parties	14(d)	28,915	29,461	42,412	29,461
Investment properties	9	24,513	24,888	7,403	10,390
Finance receivables	10	2,313,658	1,985,119	2,313,658	1,985,119
Operating lease vehicles	11	29,998	31,295	29,998	31,295
Current tax assets		-	1,051	-	-
Other assets	14(a)	12,427	17,764	12,366	17,652
Investment in subsidiaries	22	-	-	9,000	16,719
Intangible assets	14(b)	26,135	22,437	26,135	22,437
Deferred tax asset	7(c)	8,559	5,287	7,867	4,359
Total assets		**2,798,556**	**2,390,749**	**2,802,988**	**2,390,829**
Liabilities					
Borrowings	12	2,346,977	1,963,833	2,346,977	1,963,833
Due to related parties	14(d)	32,178	28,221	32,178	29,381
Current tax liabilities		7,574	-	7,747	629
Trade and other payables	14(c)	39,020	34,369	38,865	34,280
Total liabilities		**2,425,749**	**2,026,423**	**2,425,767**	**2,028,123**
Equity					
Share capital	13	341,244	339,757	341,244	339,757
Retained earnings and reserves		31,563	24,569	35,977	22,949
Total equity		**372,807**	**364,326**	**377,221**	**362,706**
Total equity and liabilities		**2,798,556**	**2,390,749**	**2,802,988**	**2,390,829**

Total interest earning and discount bearing assets		2,696,469	2,286,350	2,696,267	2,286,300
Total interest and discount bearing liabilities		2,381,954	1,992,088	2,381,954	1,992,088

The notes on pages 18 to 62 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2015

	BANKING GROUP		BANK	
	Jun 2015	**Jun 2014**	**Jun 2015**	**Jun 2014**
	$000	**$000**	**$000**	**$000**
Cash flows from operating activities				
Interest received	203,403	192,951	203,403	129,604
Operating lease income received	8,951	12,086	8,951	5,906
Lending, credit fees and other income received	6,352	7,540	5,456	3,345
Operating inflows	**218,706**	**212,577**	**217,810**	**138,855**
Payments to suppliers and employees	58,632	57,301	58,102	49,677
Interest paid	96,319	95,084	96,319	89,700
Taxation paid	9,641	7,823	9,641	7,824
Operating outflows	**164,592**	**160,208**	**164,062**	**147,201**
Net cash flows from operating activities before changes in operating assets and liabilities	**54,114**	**52,369**	**53,748**	**(8,346)**
Proceeds from sale of operating lease vehicles	7,386	9,086	7,386	5,690
Purchase of operating lease vehicles	(11,544)	(12,954)	(11,544)	(6,756)
Net movement in finance receivables	(332,691)	17,028	(323,691)	(52,903)
Net movement in deposits	353,061	(105,176)	353,061	(105,176)
Total cash provided from / (applied to) operating activities	**70,326**	**(39,647)**	**78,960**	**(167,491)**
Cash flows from investing activities				
Sale of investment property	9,375	42,244	2,987	1,686
Net decrease in related party loan	-	-	6,602	-
Proceeds from sale of office fit-out, equipment and intangible assets	4,885	19	4,885	19
Total cash provided from investing activities	**14,260**	**42,263**	**14,474**	**1,705**
Purchase of office fit-out, equipment and intangible assets	6,344	984	6,344	984
Net increase in investments	82,862	73,648	82,862	73,648
Net increase in related party loan	-	28,300	-	28,300
Investment in subsidiary	-	-	9,000	-
Total cash applied to investing activities	**89,206**	**102,932**	**98,206**	**102,932**
Net cash flows applied to investing activities	**(74,946)**	**(60,669)**	**(83,732)**	**(101,227)**
Cash flows from financing activities				
Net increase in wholesale funding	33,964	788	33,964	166,467
Total cash provided from financing activities	**33,964**	**788**	**33,964**	**166,467**
Dividends paid	32,200	38,661	32,200	38,661
Total cash applied to financing activities	**32,200**	**38,661**	**32,200**	**38,661**
Net cash flows from / (applied to) financing activities	**1,764**	**(37,873)**	**1,764**	**127,806**
Net decrease in cash held	**(2,856)**	**(138,189)**	**(3,008)**	**(140,912)**
Opening cash and cash equivalents	34,588	172,777	34,538	163,152
Cash impact of amalgamation	-	-	-	12,298
Closing cash and cash equivalents	**31,732**	**34,588**	**31,530**	**34,538**

The notes on pages 18 to 62 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2015

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

	BANKING GROUP		BANK	
	Jun 2015 $000	**Jun 2014 $000**	**Jun 2015 $000**	**Jun 2014 $000**
Profit / (loss) for the year	**40,955**	**36,246**	**46,989**	**(12,685)**
Add / (less) non-cash items:				
Depreciation and amortisation expense	2,010	2,142	2,010	2,027
Depreciation on lease vehicles	6,375	7,060	6,375	7,060
Change in fair value of investment properties	-	1,203	-	1,789
Impaired asset expense	11,226	5,895	4,916	9,813
Total non-cash items	**19,611**	**16,300**	**13,301**	**20,689**
Add / (less) movements in operating assets and liabilities:				
Finance receivables	(348,240)	10,830	(339,240)	(57,454)
Operating lease vehicles	(5,078)	(5,960)	(5,078)	(6,208)
Other assets	(73)	2,475	4,927	3,138
(Gain) / loss on disposal of property, plant and equipment and intangibles	(98)	56	(98)	56
Current tax	8,625	(4,616)	7,118	(14,325)
Derivative financial instruments revaluation	1,794	(33)	1,794	64
Deferred tax expense / (benefit)	(3,272)	11,086	(3,508)	4,920
Deposits	353,061	(105,176)	353,061	(105,176)
Accruals	(458)	(737)	(1,043)	(966)
Other liabilities	3,499	(118)	737	456
Total movements in operating assets and liabilities	**9,760**	**(92,193)**	**18,670**	**(175,495)**
Net cash flows from / (applied to) operating activities	**70,326**	**(39,647)**	**78,960**	**(167,491)**

The notes on pages 18 to 62 are an integral part of these financial statements.

Basis of reporting

Reporting entity

Heartland Bank Limited is incorporated in New Zealand under the Companies Act 1993 and is a FMC reporting entity for the purposes of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013.

The financial statements presented are the consolidated financial statements comprising Heartland Bank Limited (the Bank) and its subsidiaries (the Banking Group).

On 1 December 2013, MARAC Finance Limited (MARAC) and PGG Wrightson Finance Limited (PWF) were amalgamated into the Bank. Prior to amalgamation, MARAC was the Trust Manager and sole beneficiary of Heartland ABCP Trust 1 (ABCP Trust). On 1 December 2013, the Bank became the Trust Manager and sole beneficiary of ABCP Trust. As a result of these changes, the comparatives for the bank include the results of MARAC, PWF and ABCP Trust operations for only 6 months of the prior year.

Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and with the requirements of the Financial Reporting Act 2013. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for profit-oriented entities, and the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order 2014 (as amended). The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

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

The accounting policies adopted have been applied consistently throughout the periods presented in these financial statements. Certain comparative information has been restated to comply with the current year presentation.

The financial statements have been prepared on the basis of historical cost, except for financial instruments, land and buildings and investment property, which are measured at their fair values as identified in the accounting policies set out in the accompanying notes.

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

Financial assets and liabilities

The Banking Group initially recognises finance receivables and borrowings on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Banking Group becomes a party to the contractual provisions of the instrument.

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

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

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

Principles of consolidation

The consolidated financial statements of Heartland Bank Limited incorporate the assets, liabilities and results of all controlled entities. Controlled entities are all entities in which Heartland Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Intercompany transactions, balances and any unrealised income and expense (except for foreign currency transaction gains or losses) between controlled entities are eliminated.

Estimates and judgements

The preparation of the Group's financial statements requires the use of estimates and judgement. This note provides an overview of the areas that involved a higher degree of judgement or complexity. Detailed information about each of these estimates and judgements is included in the relevant notes together with the basis of calculation for each affected item in the financial statements.

- **Provisions for impairment** - The effect of credit risk is quantified based on management's best estimate of future cash repayments and proceeds from any security held or by reference to risk profile groupings and historical loss data. Refer to Note 18(e) for further details.
- **Goodwill** - Determining the fair value of assets and liabilities of acquired businesses requires the exercise of management judgement. The carrying value of goodwill is tested annually for impairment, refer to Note 14(b)(ii).

The estimates and judgements used in the preparation of the Groups financial statements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity.

Performance

1 Segmental analysis

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

All income received is from external sources, except those transactions with related parties, refer to Note 14(d) - 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 Administration and Support (Admin & Support).

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

Households	Providing a comprehensive range of financial services to New Zealand businesses and families, including transactional accounts together with mortgage lending (residential and home equity release), motor vehicle finance and asset 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	Providing specialist financial services to the farming sector primarily offering livestock finance, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.
Non-core Property	Funding assets of the non-core property division.

The Banking Group's operating segments are different than the industry categories detailed in Note 18 - Asset quality. The operating segments are primarily categorised by sales channel, whereas Note 18 - Asset quality categorises exposures based on credit risk concentrations.

During the year ended 30 June 2015, a business unit previously reported in the Households segment was moved to the Business segment. Comparative segment information has been restated to be consistent with the current reporting period.

	BANKING GROUP					
	Households	Business	Rural	Non-core Property	Admin & Support	Total
	$000	$000	$000	$000	$000	$000
Jun 2015						
Interest income	93,609	72,711	41,380	779	12,128	220,607
Interest expense	36,887	29,931	17,496	1,569	12,822	98,705
Net interest income / (expense)	**56,722**	**42,780**	**23,884**	**(790)**	**(694)**	**121,902**
Net operating lease income	3,263	-	-	-	-	3,263
Net other income	2,167	494	135	1,478	2,078	6,352
Net operating income	**62,152**	**43,274**	**24,019**	**688**	**1,384**	**131,517**
Depreciation and amortisation expense	-	-	-	-	2,010	2,010
Other selling and administration expenses	16,478	6,207	4,878	1,273	32,546	61,382
Selling and administration expenses	**16,478**	**6,207**	**4,878**	**1,273**	**34,556**	**63,392**
Profit / (loss) before impaired asset expense and income tax	**45,674**	**37,067**	**19,141**	**(585)**	**(33,172)**	**68,125**
Impaired asset expense / (benefit)	4,586	6,467	510	(337)	-	11,226
Decrease in fair value of investment properties	-	-	-	-	-	-
Profit / (loss) before income tax	**41,088**	**30,600**	**18,631**	**(248)**	**(33,172)**	**56,899**
Income tax expense	-	-	-	-	15,944	15,944
Profit / (loss) for the year	**41,088**	**30,600**	**18,631**	**(248)**	**(49,116)**	**40,955**
Total assets	1,061,474	820,899	487,673	27,038	401,472	**2,798,556**
Total liabilities	-	-	-	-	2,425,749	**2,425,749**
Total equity	-	-	-	-	372,807	**372,807**

1 Segmental analysis (continued)

	BANKING GROUP					
	Households	Business	Rural	Non-core Property	Admin & Support	Total
	$000	$000	$000	$000	$000	$000
Jun 2014						
Interest income	81,629	63,284	39,666	2,977	12,585	200,141
Interest expense	33,799	26,302	16,865	4,426	12,327	93,719
Net interest income / (expense)	**47,830**	**36,982**	**22,801**	**(1,449)**	**258**	**106,422**
Net operating lease income	5,639	-	-	-	-	5,639
Net other income	1,984	435	68	3,822	1,231	7,540
Net operating income	**55,453**	**37,417**	**22,869**	**2,373**	**1,489**	**119,601**
Depreciation and amortisation expense	-	-	-	-	2,142	2,142
Other selling and administration expenses	11,145	5,983	5,409	4,000	32,962	59,499
Selling and administration expenses	**11,145**	**5,983**	**5,409**	**4,000**	**35,104**	**61,641**
Profit / (loss) before impaired asset expense and income tax	**44,308**	**31,434**	**17,460**	**(1,627)**	**(33,615)**	**57,960**
Impaired asset expense / (benefit)	648	5,535	963	(1,251)	-	5,895
Decrease in fair value of investment properties	-	-	-	1,203	-	1,203
Profit / (loss) before income tax	**43,660**	**25,899**	**16,497**	**(1,579)**	**(33,615)**	**50,862**
Income tax expense	-	-	-	-	14,616	14,616
Profit / (loss) for the year	**43,660**	**25,899**	**16,497**	**(1,579)**	**(48,231)**	**36,246**
Total assets	920,973	698,162	410,219	40,846	320,549	**2,390,749**
Total liabilities	-	-	-	-	2,026,423	**2,026,423**
Total equity	-	-	-	-	364,326	**364,326**

2 Net interest income

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

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

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Interest income				
Cash and cash equivalents	2,318	3,422	2,318	3,315
Investments	9,919	9,189	9,919	9,189
Finance receivables	208,370	187,530	208,370	122,644
Total interest income	**220,607**	**200,141**	**220,607**	**135,148**
Interest expense				
Retail deposits	83,232	79,430	83,232	79,420
Bank and securitised borrowings	15,250	13,468	15,250	8,689
Net interest expense on derivative financial instruments	223	821	223	319
Total interest expense	**98,705**	**93,719**	**98,705**	**88,428**
Net interest income	**121,902**	**106,422**	**121,902**	**46,720**

Included within the Banking Group's interest income on finance receivables is $1,157,000 (2014: $2,665,000) on individually impaired assets. Included within the Bank's interest income on finance receivables is $1,157,000 (2014: $1,404,000) on individually impaired assets.

3 Net operating lease income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. Profits on the sale of operating lease vehicles are included as part of operating lease income. Current year depreciation and losses on the sale of operating lease vehicles are included as part of operating lease expenses.

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Operating lease income				
Lease income	9,430	11,256	9,430	6,497
Gain on disposal of lease vehicles	920	2,092	920	1,112
Total operating lease income	**10,350**	**13,348**	**10,350**	**7,609**
Operating lease expense				
Depreciation on lease vehicles	6,375	7,060	6,375	4,010
Direct lease costs	712	649	712	393
Total operating lease expenses	**7,087**	**7,709**	**7,087**	**4,403**
Net operating lease income	**3,263**	**5,639**	**3,263**	**3,206**

4 Other income

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease. Other items of income are recognised at the fair value of the consideration received or receivable, net of the amount of goods and services tax (GST) levied.

		BANKING GROUP		BANK	
		Jun 2015	Jun 2014	Jun 2015	Jun 2014
	NOTE	$000	$000	$000	$000
Rental income from investment properties		1,478	4,027	582	455
Management fees	14(d)	975	468	975	310
Other income		957	570	957	557
Total other income		**3,410**	**5,065**	**2,514**	**1,322**

5 Selling and administration expenses

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Personnel expenses	38,483	34,972	38,405	34,769
Directors' fees	518	463	518	463
Superannuation	703	570	703	570
Audit and review of financial statements	283	304	283	304
Other assurance services paid to auditor [1]	18	18	18	18
Other fees paid to auditor [2]	125	193	125	193
Depreciation - property, plant and equipment	777	801	777	764
Amortisation - intangible assets	1,233	1,341	1,233	1,263
Operating lease expense as a lessee	1,675	1,551	1,670	1,333
Legal and professional fees	1,567	2,795	1,471	2,498
Other operating expenses	18,010	18,633	17,677	14,142
Total selling and administration expenses	**63,392**	**61,641**	**62,880**	**56,317**

[1] Other assurance services paid to auditor comprise of reporting on trust deed requirements.

[2] Other fees paid to auditor include professional fees in connection with RBNZ reporting and other regulatory compliance, accounting advice, internal audit and review work completed.

6 Impaired asset expense

		BANKING GROUP		BANK	
		Jun 2015	Jun 2014	Jun 2015	Jun 2014
	NOTE	$000	$000	$000	$000
Non-securitised					
Individually impaired expense		7,153	11,851	7,153	7,378
Collectively impaired expense / (recovery)		3,172	(6,536)	3,172	(4,159)
Impairment (recovery) / expense of subsidiary	22	-	-	(6,310)	6,310
Total non-securitised impaired asset expense		**10,325**	**5,315**	**4,015**	**9,529**
Securitised					
Individually impaired expense		53	-	53	-
Collectively impaired expense		848	580	848	284
Total securitised impaired asset expense		**901**	**580**	**901**	**284**
Total					
Individually impaired expense	18(e)	7,206	11,851	7,206	7,378
Collectively impaired expense / (recovery)	18(e)	4,020	(5,956)	4,020	(3,875)
Impairment (recovery) / expense of subsidiary	22	-	-	(6,310)	6,310
Total impaired asset expense		**11,226**	**5,895**	**4,916**	**9,813**

7 Taxation

(a) Income tax expense

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

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Income tax recognised in profit or loss				
Current tax				
Current year	18,145	3,613	18,318	(6,744)
Adjustments for prior year	38	349	(7)	29
Deferred tax				
Current year	(2,223)	10,974	(2,504)	4,752
Adjustments for prior year	(16)	(320)	29	-
Income tax expense / (benefit) recognised in profit or loss	**15,944**	**14,616**	**15,836**	**(1,963)**
Income tax recognised in other comprehensive income				
Current tax				
Fair value movements of available for sale investments	349	(5)	349	(5)
Deferred tax				
Defined benefit plan	19	1	19	1
Fair value movements of cash flow hedges	(1,052)	431	(1,052)	167
Income tax (benefit) / expense recognised in other comprehensive income	**(684)**	**427**	**(684)**	**163**
Reconciliation of effective tax rate				
Profit / (loss) before income tax	56,899	50,862	62,825	(14,648)
Prima facie tax at 28%	15,932	14,241	17,591	(4,101)
(Less) / plus tax effect of items not taxable / deductible	(10)	346	(1,777)	2,109
Adjustments for prior year	22	29	22	29
Dividends received	-	-	-	-
Total income tax expense / (benefit)	**15,944**	**14,616**	**15,836**	**(1,963)**

7 Taxation (continued)

(b) Current tax

Current tax is the expected tax receivable or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax receivable or payable in respect of previous years. Current tax for current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(c) Deferred tax

The Group has recognised deferred tax assets, including those relating to the tax effects of income tax losses and credits available to be carried forward, to the extent that there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised.

Deferred tax assets comprise the following temporary differences:

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Employee entitlements	1,229	1,619	1,229	1,619
Provision for impairment	6,633	4,404	6,633	4,404
Investment properties	1,473	1,740	809	812
Intangibles and property, plant and equipment	(399)	(853)	(399)	(853)
Operating lease vehicles	(1,543)	(1,397)	(1,543)	(1,397)
Other temporary differences	1,166	(226)	1,138	(226)
Total deferred tax assets	**8,559**	**5,287**	**7,867**	**4,359**
Opening balance of deferred tax assets	**5,287**	**16,373**	**4,359**	**4,734**
Movement recognised in profit or loss	2,239	(10,654)	2,475	(4,752)
Acquired on amalgamation	-	-	-	4,545
Movement recognised in other comprehensive income	1,033	(432)	1,033	(168)
Closing balance of deferred tax assets	**8,559**	**5,287**	**7,867**	**4,359**

(d) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST. As the Banking Group is predominantly involved in providing financial services, only a proportion of GST paid on inputs is recoverable. The non-recoverable proportion of GST is treated as part of the cost of acquisition of the asset or is expensed.

(e) Imputation credit account

As at 30 June 2015, the imputation credit account balance of the Banking Group was a credit of $3,484,000 (2014: debit of $1,471,000).

Financial Position

8 Investments

The Bank and the Banking Group hold investments in bank bonds and floating rate notes, local authority stock, public securities and corporate bonds. Investments held are classified as being available for sale and are stated at fair value less impairment (if any). The fair values are derived by reference to published price quotations in an active market or modelled using observable market inputs.

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Bank bonds and floating rate notes	244,505	143,063	244,505	143,063
Public sector securities and corporate bonds	31,275	58,814	31,275	58,814
Local authority stock	46,839	36,982	46,839	36,982
Total investments	**322,619**	**238,859**	**322,619**	**238,859**

9 Investment properties

Investment properties have been acquired through the enforcement of security over finance receivables and are held to earn rental income or for capital appreciation (or both).

Investment property are initially recorded at its fair value, with subsequent changes in fair value recognised in profit or loss. Fair values are determined by qualified independent valuers or other similar external evidence, adjusted for changes in market conditions and the time since the last valuation.

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Opening balance	24,888	58,287	10,390	-
Acquisitions	9,000	9,746	-	-
Acquired on amalgamation	-	-	-	13,865
Additional capital expenditure	-	302	-	-
Sales	(9,375)	(42,244)	(2,987)	(1,686)
Change in fair value	-	(1,203)	-	(1,789)
Closing balance	**24,513**	**24,888**	**7,403**	**10,390**

10 Finance receivables

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

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

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

Restructured assets are impaired assets where the Banking Group expects to recover all amounts owing although the original terms have been changed due to the counterparty's difficulty in complying with the original terms of the contract and the amended terms are not comparable with similar new lending.

Credit impairment provisions are made where events have occurred leading to an expectation of reduced future cash flows from certain receivables. These provisions are made in some cases against an individual loan and in other cases on a collective basis. When all appropriate collection and legal action has been performed and the loan is known to be uncollectible, it is written off against the related provision for impairment.

		BANKING GROUP		BANK	
		Jun 2015	Jun 2014	Jun 2015	Jun 2014
	NOTE	$000	$000	$000	$000
Non-securitised					
Neither at least 90 days past due nor impaired		1,998,702	1,693,063	1,998,702	1,693,063
At least 90 days past due		33,459	32,969	33,459	32,969
Individually impaired		25,567	27,617	25,567	27,617
Restructured assets		3,881	4,064	3,881	4,064
Gross finance receivables		**2,061,609**	**1,757,713**	**2,061,609**	**1,757,713**
Less provision for impairment		23,632	15,725	23,632	15,725
Less fair value adjustment for present value of future losses		1,933	1,707	1,933	1,707
Total non-securitised finance receivables		**2,036,044**	**1,740,281**	**2,036,044**	**1,740,281**
Securitised					
Neither at least 90 days past due nor impaired		276,944	244,409	276,944	244,409
At least 90 days past due		1,516	1,065	1,516	1,065
Individually impaired		55	-	55	-
Gross finance receivables		**278,515**	**245,474**	**278,515**	**245,474**
Less provision for impairment		901	636	901	636
Total securitised finance receivables		**277,614**	**244,838**	**277,614**	**244,838**
Total					
Neither at least 90 days past due nor impaired		2,275,646	1,937,472	2,275,646	1,937,472
At least 90 days past due	18(b)	34,975	34,034	34,975	34,034
Individually impaired	18(c)	25,622	27,617	25,622	27,617
Restructured assets	18(a)	3,881	4,064	3,881	4,064
Gross finance receivables		**2,340,124**	**2,003,187**	**2,340,124**	**2,003,187**
Less provision for impairment	18(e)	24,533	16,361	24,533	16,361
Less fair value adjustment for present value of future losses	18(a)	1,933	1,707	1,933	1,707
Total finance receivables		**2,313,658**	**1,985,119**	**2,313,658**	**1,985,119**

Refer to Note 18 - Asset quality for further analysis of finance receivables by credit risk concentration.

Finance lease receivables

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Amounts due from finance leases are recognised as finance receivables at the amount of the Group's net investment in the leases. The table below provides an analysis of finance lease receivables for leases of certain property and equipment in which the Group is the lessor.

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Gross finance lease receivables				
Less than 1 year	32,484	36,420	32,484	36,420
Between 1 and 5 years	66,835	66,184	66,835	66,184
More than 5 years	68	66	68	66
Total gross finance lease receivables	**99,387**	**102,670**	**99,387**	**102,670**
Less unearned finance income	14,315	14,681	14,315	14,681
Less provision for impairment	170	87	170	87
Net finance lease receivables	**84,902**	**87,902**	**84,902**	**87,902**

11 Operating lease vehicles

Operating lease vehicles are stated at cost less accumulated depreciation.

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

	BANKING GROUP		BANK	
	Jun 2015 $000	Jun 2014 $000	Jun 2015 $000	Jun 2014 $000
Cost				
Opening balance	43,595	47,339	43,595	-
Acquired on amalgamation	-	-	-	45,370
Additions	11,544	12,954	11,544	6,756
Disposals	(12,953)	(16,698)	(12,953)	(8,531)
Closing balance	**42,186**	**43,595**	**42,186**	**43,595**
Accumulated depreciation				
Opening balance	12,300	14,944	12,300	-
Acquired on amalgamation	-	-	-	13,223
Depreciation charge for the year	6,375	7,060	6,375	4,010
Disposals	(6,487)	(9,704)	(6,487)	(4,933)
Closing balance	**12,188**	**12,300**	**12,188**	**12,300**
Opening net book value	31,295	32,395	31,295	-
Closing net book value	**29,998**	**31,295**	**29,998**	**31,295**

The future minimum lease payments receivable under non-cancellable operating leases not later than one year is $7,961,000 (2014: $8,610,000), within one to five years is $6,225,000 (2014: $7,816,000) and over five years is nil (2014: nil).

12 Borrowings

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

	BANKING GROUP		BANK	
	Jun 2015 $000	Jun 2014 $000	Jun 2015 $000	Jun 2014 $000
Deposits	2,084,969	1,731,832	2,084,969	1,731,832
Subordinated bond	3,378	3,378	3,378	3,378
Securitised borrowings	258,630	228,623	258,630	228,623
Total borrowings	**2,346,977**	**1,963,833**	**2,346,977**	**1,963,833**

Deposits rank equally and are unsecured. Securitised borrowings held by investors in ABCP Trust rank equally with each other and are secured over the securitised assets of that trust. For more details on the subordinated bond, refer to Note 25(b) - Capital Adequacy.

13 Share capital and dividends

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

	BANK	
	Jun 2015 Number of shares 000	Jun 2014 Number of shares 000
Issued shares		
Opening balance	352,400	352,400
Shares issued during the year	-	-
Closing balance	**352,400**	**352,400**

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

(i) Dividends

The Bank paid total dividends to its immediate parent of $32,200,000 ($0.09 per share) (2014: $38,661,000 ($0.11 per share)).

14 Other balance sheet items

(a) Other assets

Derivative financial assets consist of interest rate swaps and foreign exchange options. Interest rate swaps are held to manage the Banking Group's exposure to interest rate repricing risk arising from deposits, commercial paper issurance, current and future floating rate bank debt and investments. Foreign exchange options are used to manage the Banking Group's exposure to foreign exchange rate risk.

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

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

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Derivative financial assets	59	1,797	59	1,797
Trade receivables	5,863	5,371	5,826	5,265
Prepayments	1,083	1,023	1,066	1,023
Property, plant and equipment	5,422	9,573	5,415	9,567
Total other assets	**12,427**	**17,764**	**12,366**	**17,652**

(b) Intangible assets

(i) Intangible assets with definite useful lives

Software acquired or internally developed by the Banking Group is stated at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic value of that asset. Amortisation of software is on a straight line basis, at rates which will write off the cost over their estimated economic lives. All other expenditure is expensed immediately as incurred.

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Computer Software Cost	5,976	2,278	5,976	2,278

(ii) Goodwill

Goodwill arising on acquisition represents the excess of the cost of the acquisition over the Group’s interest in the fair value of the identifiable net assets. Goodwill that has an indefinite useful life is not subject to amortisation and is tested for impairment annually. Goodwill is carried at cost less accumulated impairment losses.

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Goodwill	20,159	20,159	20,159	20,159

Goodwill was tested for impairment as at 30 June 2015. In assessing impairment, an internal valuation model was developed to indicate the value of the business. This value was compared to the net assets of the Group. There was no indication of impairment and no impairment losses have been recognised against the carrying amount of goodwill for the year ended 30 June 2015 (30 June 2014: nil).

The Group’s management and Board of Directors have assessed that goodwill should be allocated to the Banking Group as a cash-generating unit, as this is the cash generating unit at which goodwill is assessed for impairment and to which any future economic benefit will arise.

14 Other balance sheet items (continued)

(c) Trade and other payables

Derivative financial liabilities consist of interest rate swaps held to manage the Group's exposure to interest rate repricing risk arising from fixed rate mortgage loans.

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

	BANKING GROUP		BANK	
	Jun 2015 $000	Jun 2014 $000	Jun 2015 $000	Jun 2014 $000
Derivative financial liabilities	2,799	34	2,799	34
Trade payables	13,844	11,616	13,699	11,498
GST payable	16,591	15,772	16,581	15,801
Employee benefits	5,786	6,947	5,786	6,947
Total trade and other payables	**39,020**	**34,369**	**38,865**	**34,280**

(d) Related party transactions

The Bank's immediate parent is Heartland NZ Holdings Limited, which is a wholly owned subsidiary of the Bank's ultimate parent Heartland New Zealand Limited (Heartland).

(i) Transactions with related parties

Heartland, MARAC Insurance Limited (a wholly owned subsidiary of MARAC JV Holdings Limited of which Heartland holds a 50% joint venture interest. On 17 July 2015, Heartland acquired the remaining 50% of MARAC Insurance Limited) and key management personnel of Heartland invested in the Bank's deposits.

As at 30 June 2015, the Bank had provided a commercial loan of $28.9 million, to Heartland HER Holdings Limited (HHHL), a wholly owned subsidiary of Heartland (2014: $28.9 million). During the year ended 30 June 2015, the Bank acquired loans at fair value of $77.2 million from New Sentinel Limited, a wholly owned subsidiary of HHHL (2014: $111.3 million).

The Banking Group received insurance commission from MARAC Insurance Limited. The Bank provided administrative assistance and support to MARAC Insurance Limited, New Sentinel Limited and Australian Seniors Finance Pty Limited (a wholly owned subsidiary of HHHL), and charged a management fee for this assistance.

Advances have been made by the Bank to VPS Properties Limited and VPS Parnell Limited for the purchase of investment properties.

The Banking Group controls the operations of Heartland Cash and Term PIE Fund, a portfolio investment entity that invests in the Bank's deposits. The investments of Heartland Cash and Term PIE Fund are detailed in Note 23 - Structured entities.

No interest was charged on intragroup balances.

	BANKING GROUP		BANK	
	Jun 2015 $000	Jun 2014 $000	Jun 2015 $000	Jun 2014 $000
Transactions with related parties				
Heartland New Zealand Limited				
Interest expense	(706)	(21)	(706)	(21)
Subsidiaries				
Impairment recovery / (expense) of subsidiary	-	-	6,310	(6,310)
Other related parties				
Interest income	2,312	568	2,312	568
Interest expense	(31)	(21)	(31)	(21)
Lending and credit fee income	625	300	625	209
Other income	975	468	975	310
Key management personnel of the ultimate parent				
Interest expense	(519)	(238)	(519)	(238)
Total transactions with related parties	**2,656**	**1,056**	**8,966**	**(5,503)**

14 Other balance sheet items (continued)

(d) Related party transactions (continued)

(i) Transactions with related parties (continued)

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Due from related parties				
Subsidiaries	-	-	13,497	-
Heartland HER Holdings Limited	28,915	29,367	28,915	29,367
Other related parties	-	94	-	94
Total due from related parties	**28,915**	**29,461**	**42,412**	**29,461**
Due to related parties				
Heartland New Zealand Limited	16,914	22,801	16,914	22,801
Subsidiaries	-	-	-	1,160
Other related parties	2,775	500	2,775	500
Key management personnel of the ultimate parent	12,489	4,920	12,489	4,920
Total due to related parties	**32,178**	**28,221**	**32,178**	**29,381**

(ii) Transactions with key management personnel

Key management personnel, being directors of the Bank and those Executives reporting directly to the Chief Executive Officer and their immediate relatives, have transacted with the Banking Group during the year as follows:

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Transactions with key management personnel				
Interest income	68	55	68	55
Interest expense	(54)	(43)	(54)	(43)
Key management personnel compensation:				
Short-term employee benefits	(6,323)	(6,892)	(6,323)	(6,892)
Share-based payment expense	(2,693)	(907)	(2,693)	(907)
Total transactions with key management personnel	**(9,002)**	**(7,787)**	**(9,002)**	**(7,787)**
Due (to) / from key management personnel				
Finance receivables	1,391	709	1,391	709
Loans to key management personnel	-	640	-	640
Borrowings - deposits	(1,897)	(1,079)	(1,897)	(1,079)
Total due (to) / from key management personnel	**(506)**	**270**	**(506)**	**270**

15 Fair value

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Banking Group determines fair value using other valuation techniques.

The Banking Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Banking Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(a) Financial instruments measured at fair value

The following methods and assumptions were used to estimate the fair value of each class of financial asset and liability measured at fair value on a recurring basis in the Statements of Financial Position.

Investments

Investments in public sector securities and corporate bonds are classified as being available for sale and are stated at fair value less impairment, with the fair value being based on quoted market prices or modelled using observable market inputs. Refer to Note 8 - Investments for further details.

Investments valued under level 2 of the fair value hierarchy are valued either based on quoted market prices or dealer quotes for similar instruments, or discounted cash flows analysis.

Derivative items

Interest rate swaps are classified as held for trading and are recognised in the financial statements at fair value. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are determined on the basis of discounted cash flow analysis using observable market prices and adjustments for counterparty credit spreads.

The following table analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which each fair value measurement is categorised. The amounts are based on the values recognised in the Statements of Financial Position.

	BANKING GROUP			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
June 2015				
Assets				
Investments	311,815	10,804	-	322,619
Derivative assets held for risk management	-	59	-	59
Total	**311,815**	**10,863**	**-**	**322,678**
Liabilities				
Derivative liabilities held for risk management	-	2,799	-	2,799
Total	**-**	**2,799**	**-**	**2,799**
June 2014				
Assets				
Investments	198,385	40,474	-	238,859
Derivative assets held for risk management	-	1,797	-	1,797
Total	**198,385**	**42,271**	**-**	**240,656**
Liabilities				
Derivative liabilities held for risk management	-	34	-	34
Total	**-**	**34**	**-**	**34**

15 Fair value (continued)

(a) Financial instruments measured at fair value (continued)

	BANK			
	Level 1	**Level 2**	**Level 3**	**Total**
	$000	**$000**	**$000**	**$000**
June 2015				
Assets				
Investments	311,815	10,804	-	322,619
Derivative assets held for risk management	-	59	-	59
Total	**311,815**	**10,863**	**-**	**322,678**
Liabilities				
Derivative liabilities held for risk management	-	2,799	-	2,799
Total	**-**	**2,799**	**-**	**2,799**
June 2014				
Assets				
Investments	198,385	40,474	-	238,859
Derivative assets held for risk management	-	1,797	-	1,797
Total	**198,385**	**42,271**	**-**	**240,656**
Liabilities				
Derivative assets held for risk management	-	34	-	34
Total	**-**	**34**	**-**	**34**

There have been no transfers between Level 1 and Level 2 of the fair value hierarchy.

(b) Financial instruments not measured at fair value

The following methods and assumptions were used to estimate the fair value of each class of financial assets and liabilities not recognised at fair value but for which fair value is calculated for disclosure purposes under level 2 or 3 of the fair value hierarchy.

Cash and cash equivalents and other financial assets and liabilities

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

Finance receivables

The fair value of the Banking Group's finance receivables is calculated using a valuation technique which assumes the Banking Group's current weighted average lending rates for loans of a similar nature and term.

The current weighted average lending rate used to fair value finance receivables with a fixed interest rate for both the Banking Group and Bank is 9.44% (2014: 9.61%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses. Prepayment rates have not been factored into the fair value calculation as they are not deemed to be material.

Borrowings

The fair value of deposits, bank borrowings and other borrowings is the present value of future cash flows and is based on the current market interest rates payable by the Banking Group for debt of similar maturities. The current market rate used to fair value borrowings for both the Banking Group and Bank is 4.25% (2014: 4.23%).

Related party assets and liabilities

The fair value of related party receivables which are receivable by the Banking Group on demand, and related party payables which are payable by the Banking Group on demand, are considered equivalent to their carrying value due to their short term nature.

The fair value of the Banks and Banking Group's long term related party receivables are calculated using the same valuation technique applied to finance receivables.

Other financial assets and financial liabilities

The Banking Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

15 Fair value (continued)

(b) Financial instruments not measured at fair value (continued)

	BANKING GROUP				
	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Value
	$000	$000	$000	$000	$000
June 2015					
Assets					
Cash and cash equivalents	31,732	-	-	31,732	31,732
Due from related parties	-	-	28,995	28,995	28,915
Finance receivables	-	-	2,034,863	2,034,863	2,036,044
Finance receivables - securitised	-	-	279,491	279,491	277,614
Other financial assets	-	-	5,863	5,863	5,863
Total financial assets	**31,732**	**-**	**2,349,212**	**2,380,944**	**2,380,168**
Liabilities					
Borrowings	-	2,098,157	-	2,098,157	2,088,347
Borrowings - securitised	-	258,630	-	258,630	258,630
Due to related parties	-	30,351	1,827	32,178	32,178
Other financial liabilities	-	-	19,630	19,630	19,630
Total financial liabilities	**-**	**2,387,138**	**21,457**	**2,408,595**	**2,398,785**
June 14					
Assets					
Cash and cash equivalents	34,588	-	-	34,588	34,588
Due from related parties	-	-	28,863	28,863	29,461
Finance receivables	-	-	1,735,549	1,735,549	1,740,281
Finance receivables - securitised	-	-	246,674	246,674	244,838
Other financial assets	-	-	5,371	5,371	5,371
Total financial assets	**34,588**	**-**	**2,016,457**	**2,051,045**	**2,054,539**
Liabilities					
Borrowings	-	1,736,753	-	1,736,753	1,735,210
Borrowings - securitised	-	228,887	-	228,887	228,623
Due to related parties	-	28,221	-	28,221	28,221
Other financial liabilities	-	-	18,563	18,563	18,563
Total financial liabilities	**-**	**1,993,861**	**18,563**	**2,012,424**	**2,010,617**

15 Fair value (continued)

(b) Financial instruments not measured at fair value (continued)

	BANK				
	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Value
	$000	$000	$000	$000	$000
June 2015					
Assets					
Cash and cash equivalents	31,350	-	-	31,350	31,530
Due from related parties	-	-	42,492	42,492	42,412
Finance receivables	-	-	2,034,863	2,034,863	2,036,044
Finance receivables - securitised	-	-	279,491	279,491	277,614
Other financial assets	-	-	5,826	5,826	5,826
Total financial assets	**31,350**	**-**	**2,362,672**	**2,394,022**	**2,393,426**
Liabilities					
Borrowings	-	2,098,157	-	2,098,157	2,088,347
Borrowings - securitised	-	258,630	-	258,630	258,630
Due to related parties	-	30,351	327	30,678	32,178
Other financial liabilities	-	-	19,485	19,485	19,485
Total financial liabilities	**-**	**2,387,138**	**19,812**	**2,406,950**	**2,398,640**
June 14					
Assets					
Cash and cash equivalents	34,538	-	-	34,538	34,538
Due from related parties	-	-	29,461	29,461	29,461
Finance receivables	-	-	1,735,549	1,735,549	1,740,281
Finance receivables - securitised	-	-	246,674	246,674	244,838
Other financial assets	-	-	5,265	5,265	5,265
Total financial assets	**34,538**	**-**	**2,016,949**	**2,051,487**	**2,054,383**
Liabilities					
Borrowings	-	1,736,753	-	1,736,753	1,735,210
Borrowings - securitised	-	228,887	-	228,887	228,623
Due to related parties	-	28,221	1,160	29,381	29,381
Other financial liabilities	-	-	18,445	18,445	18,445
Total financial liabilities	**-**	**1,993,861**	**19,605**	**2,013,466**	**2,011,659**

15 Fair value (continued)

(c) Classification of financial instruments

The following tables summarise the categories of financial instruments and the carrying value and fair value of all financial instruments of the Bank and the Banking Group:

	BANKING GROUP					
	Held for trading	Loans and receivables	Available for sale	Financial liabilities at amortised cost	Total Carrying Value	Total Fair Value
	$000	$000	$000	$000	$000	$000
June 2015						
Cash and cash equivalents	-	31,732	-	-	31,732	31,732
Investments	-	-	322,619	-	322,619	322,619
Due from related parties	-	28,915	-	-	28,915	28,995
Finance receivables	-	2,036,044	-	-	2,036,044	2,034,863
Finance receivables - securitised	-	277,614	-	-	277,614	279,491
Derivative financial assets	59	-	-	-	59	59
Other financial assets	-	5,863	-	-	5,863	5,863
Total financial assets	**59**	**2,380,168**	**322,619**	**-**	**2,702,846**	**2,703,622**
Borrowings	-	-	-	2,088,347	2,088,347	2,098,157
Borrowings - securitised	-	-	-	258,630	258,630	258,630
Derivative financial liabilities	2,799	-	-	-	2,799	2,799
Due to related parties	-	-	-	32,178	32,178	32,178
Other financial liabilities	-	-	-	19,630	19,630	19,630
Total financial liabilities	**2,799**	**-**	**-**	**2,398,785**	**2,401,584**	**2,411,394**
June 2014						
Cash and cash equivalents	-	34,588	-	-	34,588	34,588
Investments	-	-	238,859	-	238,859	238,859
Due from related parties	-	29,461	-	-	29,461	28,863
Finance receivables	-	1,740,281	-	-	1,740,281	1,735,549
Finance receivables - securitised	-	244,838	-	-	244,838	246,674
Derivative financial assets	1,797	-	-	-	1,797	1,797
Other financial assets	-	5,371	-	-	5,371	5,371
Total financial assets	**1,797**	**2,054,539**	**238,859**	**-**	**2,295,195**	**2,291,701**
Borrowings	-	-	-	1,735,210	1,735,210	1,736,753
Borrowings - securitised	-	-	-	228,623	228,623	228,887
Derivative financial liabilities	34	-	-	-	34	34
Due to related parties	-	-	-	28,221	28,221	28,221
Other financial liabilities	-	-	-	18,563	18,563	18,563
Total financial liabilities	**34**	**-**	**-**	**2,010,617**	**2,010,651**	**2,012,458**

15 Fair value (continued)

(c) Classification of financial instruments (continued)

	BANK					
	Held for trading	Loans and receivables	Available for sale	Financial liabilities at amortised cost	Total Carrying Value	Total Fair Value
	$000	$000	$000	$000	$000	$000
June 2015						
Cash and cash equivalents	-	31,350	-	-	31,350	31,350
Investments	-	-	322,619	-	322,619	322,619
Due from related parties	-	42,412	-	-	42,412	42,492
Finance receivables	-	2,036,044	-	-	2,036,044	2,034,863
Finance receivables - securitised	-	277,614	-	-	277,614	279,491
Derivative financial assets	59	-	-	-	59	59
Other financial assets	-	5,826	-	-	5,826	5,826
Total financial assets	**59**	**2,393,246**	**322,619**	**-**	**2,715,924**	**2,716,700**
Borrowings	-	-	-	2,088,347	2,088,347	2,098,157
Borrowings - securitised	-	-	-	258,630	258,630	258,630
Derivative financial liabilities	2,799	-	-	-	2,799	2,799
Due to related parties	-	-	-	30,678	30,678	30,678
Other financial liabilities	-	-	-	19,485	19,485	19,485
Total financial liabilities	**2,799**	**-**	**-**	**2,397,140**	**2,399,939**	**2,409,749**

June 2014						
Cash and cash equivalents	-	34,538	-	-	34,538	34,538
Investments	-	-	238,859	-	238,859	238,859
Due from related parties	-	29,461	-	-	29,461	29,461
Finance receivables	-	1,740,281	-	-	1,740,281	1,735,549
Finance receivables - securitised	-	244,838	-	-	244,838	246,674
Derivative financial assets	1,797	-	-	-	1,797	1,797
Other financial assets	-	5,265	-	-	5,265	5,265
Total financial assets	**1,797**	**2,054,383**	**238,859**	**-**	**2,295,039**	**2,292,143**
Borrowings	-	-	-	1,735,210	1,735,210	1,736,753
Borrowings - securitised	-	-	-	228,623	228,623	228,887
Derivative financial liabilities	34	-	-	-	34	34
Due to related parties	-	-	-	29,381	29,381	29,381
Other financial liabilities	-	-	-	18,445	18,445	18,445
Total financial liabilities	**34**	**-**	**-**	**2,011,659**	**2,011,693**	**2,013,500**

Risk Management

16 Risk management policies

The Banking Group is committed to the management of risk and operates an Enterprise Risk Management Program (RMP) across four primary risk domains; credit, liquidity, market (including interest rate), and operational & compliance. The Group's risk management strategy is set by the Board of Directors (Board). The Banking Group has put in place management structures and information systems to manage risks incorporated in the RMP. The Banking Group has separate monitoring tasks where feasible and subjects all risk processes to hindsight and internal audit, and accounting systems to regular internal and external audits.

Role of the Board and the Risk Committee

The Board, through its Board Risk Committee (BRC) is responsible for the overall risk management process and the development of the RMP. The role of the BRC is to assist the Board to formulate its risk appetite, understand the risks the Banking Group faces and to ensure that all policy and decisions are made in accordance with the Banking Group's corporate values and guiding principles. The BRC has the following responsibilities:

- To oversee the Banking Group’s risk profile and review and approve the Banking Group’s RMP within the context of the risk-reward strategy determined by the Board at least annually.
- To make recommendations regarding high-level liquidity / capital / funding policies and strategy, including the use of securitisation and special investment vehicles.
- To agree and recommend for Board approval and annual review; a set of risk limits and conditions that apply to the taking of risk, as delegated to the Risk Committee by the Board, that are consistent with the Board's determined risk appetite. This includes the authorities delegated by the Board to the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Risk Officer (CRO) and any other officers of the Bank to whom the Board or the Committee have delegated authority, and to consider and accept risks beyond management’s approval discretion where deemed appropriate.
- To monitor the risk profile, performance, capital levels, exposures against limits and the management and control of the Banking Group’s risks.
- To review significant correspondence with the Banking Group’s regulators, and receive reports from management on the Banking Group’s regulatory relations and report any significant issues to the Board.
- To monitor changes anticipated in the economic and business environment and other factors considered relevant to the Banking Group’s risk profile and capital adequacy.
- To review significant risk management issues that are raised as well as the length of time and action taken to resolve such issues.
- To ensure an appropriate set of applicable corporate governance principles are developed, and reviewed on a regular basis.

The BRC consists of four directors, of which at least three are non-executive directors and two are independent directors. In addition the CEO, CRO and CFO may attend meetings. The BRC meets at least bi-monthly to review identified risk issues, and reports directly to the Board. A member of the BRC sits on the Audit Committee and vice versa.

Audit Committee and Internal Audit

The Banking Group has an internal audit function, the objective of which is to provide independent, objective assurance over the internal control environment and additional services designed to add value and improve the Banking Group’s operations. It assists the Banking Group to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal audit is granted full, free and unfettered access to any and all of the organisation’s records, personnel and physical properties deemed necessary to accomplish its internal audit activities.

A regular cycle of testing has been implemented to cover all areas of the business. Its focus is on assessment, management and control of risks. The intention is to cycle through various business units and operational areas on a pre-set and agreed cycle relative to assessed risk, looking at the specific internal control issues pertinent to the area, with a requirement to meet or exceed the Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors.

Each audit has a separate audit programme tailored to the area of business that is being reviewed. The audit programmes are updated during each audit to reflect any process changes. Audit work papers are completed to evidence the testing performed in accordance with the audit programme.

All internal audit reports are addressed to the manager of the relevant area that is being audited. Management comments are obtained from the process owner(s) and are included in the report.

The internal audit function has direct reporting lines, and accountability to the Audit Committee of the Bank and administratively to the CFO. A schedule of all outstanding internal control issues is maintained and presented to the Audit Committee to assist the Audit Committee to track the resolution of previously identified issues. Any issues raised that are categorised as high risk are specifically reviewed by internal audit during a follow-up review once the issue is considered closed by management. The follow-up review is performed with a view to formally close out the issue.

16 Risk management policies (continued)

Audit Committee and Internal Audit continued

The Audit Committee focuses on financial reporting and application of accounting policies as part of the internal control and risk assessment framework. The Audit Committee monitors the identification, evaluation and management of all significant risks through the Banking Group. This work is supported by internal audit, which provides an independent assessment of the design, adequacy and effectiveness of internal controls. The Audit Committee receives regular reports from internal audit.

Charters for the Risk and Audit Committee ensure suitable cross representation to allow effective communication pertaining to identified issues with oversight by the Board. The CRO has a direct reporting line to the Chairman of the Board. The Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee.

Asset and Liability Committee (ALCO)

The ALCO comprises the CEO (Chair), CFO, CRO, Treasurer, Head of Retail, Head of Rural and Head of Business. The ALCO has responsibility for overseeing aspects of the Banking Group's financial position risk management. The purpose of the ALCO is to support the BRC with specific responsibilities for decision making and oversight of risk matters in relation to:
- Market risk (including non-traded interest rate risk and the investment of capital)
- Liquidity risk (including funding)
- Foreign exchange rate risk
- Balance sheet structure
- Capital management

The ALCO usually meet monthly, and reports to the BRC.

Executive Risk Committee (ERC)

The ERC comprises the CEO (Chair), CFO, CRO, Chief Operating Officer, Head of Retail, Head of Rural, Head of Business, Head of Human Resources and Group General Counsel. The ERC has responsibility for overseeing all risk aspects not considered by ALCO. The purpose of ERC is to support the BRC with specific responsibilities for decision making and oversight of the following risk categories:
- Operational and compliance risk
- Credit risk
- Strategic risk
- Legal and governance risk
- Business risk

Operational & compliance risk

Operational & compliance risk is the risk arising from day to day operational activities in the execution of the Banking Group's strategy which may result in direct or indirect loss. Operational & compliance risk losses can occur as a result of fraud, human error, missing or inadequately designed processes, failed systems, damage to physical assets, improper behaviour or from external events. The losses range from direct financial losses, to reputational damage, unfavourable media attention, or loss of staff or clients. Examples include failure to comply with policy and legislation, human error, natural disasters, fraud and other malicious acts. Where appropriate, risks are mitigated by insurance.

To ensure appropriate responsibility is allocated for the management, reporting and escalation of operational & compliance risk, the Banking Group operates a “three lines of defence” model which outlines principles for the roles, responsibilities and accountabilities for operational & compliance risk management:

- The first line of defence is the business line management for the identification, management and mitigation of the risks associated with the products and processes of the business. This accountability includes regular testing and certification of the adequacy and effectiveness of controls and compliance with the Banking Group’s policies.
- The second line of defence is the Risk & Compliance function, responsible for the design and ownership of the Operational & Compliance Risk Policies. It incorporates key processes including Risk and Control Self-Assessment (RCSA), incident management, independent evaluation of the adequacy and effectiveness of the internal control framework, and the self-certification process.
- The third line of defence is audit. Internal Audit is responsible for assessing compliance with policy frameworks and for providing independent evaluation of the adequacy and effectiveness of the risk and control framework.

The Banking Group’s exposure to Operational & compliance risk is governed by a policy approved by the Board and managed by the ERC. This policy sets out the nature of risk which may be taken and aggregate risk limits, and the ERC must conform to this. The objective of the ERC is to manage the identification of operational & compliance risk and maintenance of a suitable internal control environment so residual risk to the Banking Group is consistent with the Banking Groups risk appetite.

17 Credit risk exposure

Credit risk is the risk that a borrower will default on any type of debt by failing to make payments which it is obligated to do so. The risk is primarily that of the lender and includes loss of principal and interest, disruption to cash flows and increased collection costs.

Credit risk is managed to achieve sustainable and superior risk-reward performance whilst maintaining exposures within acceptable risk “appetite” parameters. This is achieved through the combination of governance, policies, systems and controls, underpinned by sound commercial judgement as described below.

To manage this risk the BRC has been delegated the task of overseeing a formal credit risk management strategy. The BRC reviews the Banking Group's credit risk exposures to ensure consistency with the Banking Group's credit policies to manage all aspects of credit risk. The credit risk management strategies ensure that:

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

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

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

In addition to regular internal audit activity in regards to credit standards, the Banking Group employs a comprehensive process of hind sighting loans to ensure that credit policies and the quality of credit processes are maintained.

Home equity loans and negative equity risk

Home equity release loans are a form of mortgage lending targeted toward the seniors market. These loans differ to conventional mortgages in that they typically are not repaid until the borrower ceases to reside in the property. Further, interest is not required to be paid, it is capitalised with the loan balance and is repayable on termination of the loan. As such, there are no incoming cash flows and therefore no default risk to manage during the term of the loan. Credit risk becomes 'negative equity' risk through the promise to customers that they can reside in their property for 'as long as they wish' and repayment of their loan is limited to the net sale proceeds of their property.

The Banking Group's exposure to negative equity risk is managed by Credit Risk Policy in conjunction with associated lending standards specific for this product.

(a) Maximum exposure to credit risk at the relevant reporting dates

The following table represents the maximum credit risk exposure, without taking account of any collateral held. The exposures set out above are based on net carrying amounts as reported in the Statements of Financial Position.

	BANKING GROUP		**BANK**	
	Jun 2015	**Jun 2014**	**Jun 2015**	**Jun 2014**
	$000	**$000**	**$000**	**$000**
Cash and cash equivalents	31,732	34,588	31,530	34,538
Investments	322,619	238,859	322,619	238,859
Finance receivables	2,313,658	1,985,119	2,313,658	1,985,119
Derivative financial assets	59	1,797	59	1,797
Other financial assets	5,863	5,371	5,826	5,265
Due from related parties	28,915	29,461	42,412	29,461
Total on balance sheet credit exposures	**2,702,846**	**2,295,195**	**2,716,104**	**2,295,039**

17 Credit risk exposure (continued)

(b) Concentration of credit risk by geographic region

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Auckland	797,052	669,298	796,813	669,222
Wellington	195,110	175,751	195,110	175,744
Rest of North Island	731,489	575,081	731,489	575,052
Canterbury	477,440	453,324	477,440	453,300
Rest of South Island	408,778	356,762	408,778	356,742
Overseas [1]	75,318	44,224	75,318	44,224
	2,685,187	**2,274,440**	**2,684,948**	**2,274,284**
Collective provision	(9,323)	(6,999)	(9,323)	(6,999)
Less acquisition fair value adjustment for present value of future losses	(1,933)	(1,707)	(1,933)	(1,707)
Due from related parties	28,915	29,461	42,412	29,461
Total on balance sheet credit exposures	**2,702,846**	**2,295,195**	**2,716,104**	**2,295,039**

[1] These overseas assets are not Finance Receivables, they are Investments. These assets represent NZD-denominated investments in AA+ and higher rated securities issued by offshore supranational agencies ("Kauri Bonds"). These securities are part of the liquid asset portfolio the Banking Group holds for managing liquidity risk.

(c) Concentration of credit risk by industry sector

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Agriculture	537,286	469,020	536,572	469,020
Forestry and Fishing	35,126	22,301	35,126	22,301
Mining	14,105	11,148	14,105	11,148
Manufacturing	93,779	77,321	93,779	77,321
Finance & Insurance	367,519	288,401	367,280	288,352
Wholesale trade	82,665	80,884	82,665	80,884
Retail trade	194,179	170,251	195,179	170,144
Households	843,404	685,311	843,118	685,311
Property and Business services	394,739	330,860	394,739	330,860
Transport and storage	20,068	15,873	20,068	15,873
Other Services	102,317	123,070	102,317	123,070
	2,685,187	**2,274,440**	**2,684,948**	**2,274,284**
Collective provision	(9,323)	(6,999)	(9,323)	(6,999)
Less acquisition fair value adjustment for present value of future losses	(1,933)	(1,707)	(1,933)	(1,707)
Due from related parties	28,915	29,461	42,412	29,461
Total on balance sheet credit exposures	**2,702,846**	**2,295,195**	**2,716,104**	**2,295,039**

17 Credit risk exposure (continued)

(d) Commitments to extend credit

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Undrawn facilities available to customers	107,982	113,157	107,982	113,157
Conditional commitments to fund at future dates	108,037	95,780	108,037	95,780

As at 30 June 2015 there are no undrawn lending commitments to counterparties for whom drawn balances are classified as individually impaired (2014: nil).

(e) Credit exposures to connected persons

	BANKING GROUP	
	Jun 2015	Jun 2014
Credit exposures to non-bank connected persons at year end ($000's)	28,915	29,822
Credit exposures to non-bank connected persons at year end (% of total Tier 1 Capital)	8.53%	8.90%
Peak credit exposures to non-bank connected persons during the year ($000's)	31,304	30,216
Peak credit exposures to non-bank connected persons during the year (% of total Tier 1 Capital)	9.23%	9.02%

Credit exposure concentrations are derived in accordance with the Bank's conditions of registration, BS2A and BS8 and disclosed on the basis of actual credit exposures and calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature). The Banking Group does not have credit exposures to connected persons other than non-bank connected persons. Peak end-of-day credit exposures to non-bank connected persons have been calculated using the Banking Group’s Tier 1 capital at 30 June 2015.

The rating-contingent limit, which is applicable to the Banking Group, based on the Conditions of Registration imposed by the RBNZ is 15%. There have been no rating-contingent limit changes during the accounting period. Within the rating-contingent limit there is a sub-limit of 15% of Tier 1 capital, which applies to the aggregate credit exposure to non-bank connected persons.

There are no individual credit impairment allowances against credit exposures to non-bank connected persons as at 30 June 2015 (2014: $nil).

Exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessments, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

The Banking Group does not have any contingent exposures to connected persons arising from risk lay-off arrangements as at balance date.

(f) Credit exposure to individual counterparties

At 30 June 2015 the Banking Group did not have any period end or peak end-of-day credit exposures over 10% of equity to individual counterparties (not being members of groups of closely related counterparties) or groups of closely related counterparties (excluding central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or any bank with a long-term credit rating of A- or A3 or above, or its equivalent, and connected persons) (2014: nil).

The peak aggregate end-of-day credit exposure is determined by taking the maximum end-of-day aggregate amount of credit exposure over the period. The amount is then divided by the Banking Group's equity as at the end of the quarter. Credit exposures disclosed are based on actual exposures. The credit rating is applicable to an entity’s long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

18 Asset quality

The disclosures in this note are categorised by the following credit risk concentrations:

Corporate

Rural — Lending to the farming sector primarily livestock, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers. Includes lending to individuals and small to medium enterprises.

Property — Property asset lending including non-core property.

Other — All other lending that does not fall into another category.

Residential — Lending secured by a first ranking mortgage over a residential property used primarily for residential purposes either by the mortgagor or a tenant of the mortgagor.

All Other — Consumer lending to individuals.

As at 30 June 2014 and 30 June 2015, the Banking Group closing balances are identical to the Bank balances, so where only closing balances are disclosed, only one set of disclosures has been presented in this note.

(a) Finance receivables by credit risk concentration

		BANKING GROUP & BANK					
			Corporate				
		Rural	Property	Other	Residential	All Other	Total
	NOTE	$000	$000	$000	$000	$000	$000
Jun 2015							
Neither at least 90 days past due nor impaired		553,739	-	884,942	283,463	553,502	2,275,646
At least 90 days past due	18(b)	17,904	286	13,384	655	2,746	34,975
Individually impaired	18(c)	1,562	6,854	16,982	224	-	25,622
Restructured assets		43	-	1,024	-	2,814	3,881
Fair value adjustment for present value of future losses		-	-	-	(1,933)	-	(1,933)
Provision for impairment	18(e)	(2,173)	(4,614)	(14,368)	(884)	(2,494)	(24,533)
Total net finance receivables		**571,075**	**2,526**	**901,964**	**281,525**	**556,568**	**2,313,658**
Jun 2014							
Neither at least 90 days past due nor impaired		480,596	2,007	774,527	241,134	439,208	1,937,472
At least 90 days past due	18(b)	9,433	2,599	19,917	463	1,622	34,034
Individually impaired	18(c)	2,818	17,090	7,709	-	-	27,617
Restructured assets		5	-	1,175	-	2,884	4,064
Fair value adjustment for present value of future losses		-	-	-	(1,707)	-	(1,707)
Provision for impairment	18(e)	(2,114)	(5,744)	(7,275)	(57)	(1,171)	(16,361)
Total net finance receivables		**490,738**	**15,952**	**796,053**	**239,833**	**442,543**	**1,985,119**

(b) Past due but not impaired

	BANKING GROUP & BANK					
Jun 2015						
Less than 30 days past due	7,338	-	9,185	2,877	14,700	34,100
At least 30 and less than 60 days past due	3,752	-	3,434	491	3,984	11,661
At least 60 but less than 90 days past due	416	-	4,099	532	1,789	6,836
At least 90 days past due	17,904	286	13,384	655	2,746	34,975
Total past due but not impaired	**29,410**	**286**	**30,102**	**4,555**	**23,219**	**87,572**
Jun 2014						
Less than 30 days past due	4,221	-	8,604	1,064	7,826	21,715
At least 30 and less than 60 days past due	5,509	-	3,047	313	2,362	11,231
At least 60 but less than 90 days past due	3,791	-	3,534	114	1,176	8,615
At least 90 days past due	9,433	2,599	19,917	463	1,622	34,034
Total past due but not impaired	**22,954**	**2,599**	**35,102**	**1,954**	**12,986**	**75,595**

18 Asset quality (continued)

(c) Individually impaired assets

	BANKING GROUP					
	Rural	Corporate Property	Other	Residential	All Other	Total
	$000	$000	$000	$000	$000	$000
Jun 2015						
Opening	2,818	17,090	7,709	-	-	27,617
Additions	1,072	700	32,707	227	-	34,706
Deletions	(1,651)	(10,375)	(23,117)	(3)	-	(35,146)
Write offs	(677)	(561)	(317)	-	-	(1,555)
Closing gross individually impaired assets	**1,562**	**6,854**	**16,982**	**224**	**-**	**25,622**
Less: provision for individually impaired assets	817	3,258	11,136	-	-	15,211
Total net impaired assets	**745**	**3,596**	**5,846**	**224**	**-**	**10,411**
Jun 2014						
Opening	2,979	61,634	4,688	-	-	69,301
Additions	4,150	18,122	8,160	-	-	30,432
Deletions	(3,027)	(30,361)	(3,470)	-	-	(36,858)
Write offs	(1,284)	(32,305)	(1,669)	-	-	(35,258)
Closing gross individually impaired assets	**2,818**	**17,090**	**7,709**	**-**	**-**	**27,617**
Less: provision for individually impaired assets	1,531	3,739	4,092	-	-	9,362
Total net impaired assets	**1,287**	**13,351**	**3,617**	**-**	**-**	**18,255**

	BANK					
	Rural	Corporate Property	Other	Residential	All Other	Total
	$000	$000	$000	$000	$000	$000
Jun 2015						
Opening	2,818	17,090	7,709	-	-	27,617
Additions	1,072	700	32,707	227	-	34,706
Deletions	(1,651)	(10,375)	(23,117)	(3)	-	(35,146)
Write offs	(677)	(561)	(317)	-	-	(1,555)
Closing gross individually impaired assets	**1,562**	**6,854**	**16,982**	**224**	**-**	**25,622**
Less: provision for individually impaired assets	817	3,258	11,136	-	-	15,211
Total net impaired assets	**745**	**3,596**	**5,846**	**224**	**-**	**10,411**
Jun 2014						
Opening	-	22,922	837	-	-	23,759
Additions	3,373	4,410	4,126	-	-	11,909
Acquired on amalgamation	3,413	25,372	6,390	-	-	35,175
Deletions	(2,653)	(18,334)	(2,100)	-	-	(23,087)
Write offs	(1,315)	(17,280)	(1,544)	-	-	(20,139)
Closing gross individually impaired assets	**2,818**	**17,090**	**7,709**	**-**	**-**	**27,617**
Less: provision for individually impaired assets	1,531	3,739	4,092	-	-	9,362
Total net impaired assets	**1,287**	**13,351**	**3,617**	**-**	**-**	**18,255**

18 Asset quality (continued)

(d) Credit risk grading

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

The Banking Group classifies finance receivables as Behavioural or Judgement.

The Behavioural portfolio consists of consumer, retail and home equity release receivables and usually relates to financing of or the acquisition of a single asset.

Consumer loans are typically introduced by vendors of the asset financed and are smaller in value than Judgement loans. Consumer and retail loans are risk graded based on arrears status.

Consumer and retail loans are classified as either not in arrears, active, arrangement, non-performing / repossession or recovery, as described below:

- Active – loans for which the arrears category has reached 5 days overdue.
- Arrangement – 5 to 34 days overdue accounts for which arrangements have or are in the process of being made for arrears to be repaid.
- Non-performing / Repossession – residential mortgage loans that are greater than 90 days past due / other loans for which security has or is in the process of being repossessed.
- Recovery loans – loans for which security has been sold and shortfalls are being sought from the customer or where other recovery action is being taken.

The Banking Group also lends funds on its home equity release product which is considered behavioural but has no arrears characteristics. These loans are assessed on origination against a pre-determined criteria supported by an actuarial assessment of future losses. The assumptions embedded in that assessment are reviewed annually against actual experience.

The Judgement portfolio consists mainly of Business and Rural lending. Judgement loans relate to loans where an on-going and detailed working relationship with the customer has been developed.

Judgement loans are individually risk graded based on loan status, financial information, security and debt servicing ability. Exposures in the Judgement portfolio are credit risk graded by an internal risk grading mechanism.

In the Judgement portfolio, grade 1 is the strongest risk grade for undoubted risk and grade 9 represents the weakest risk grade where a loss is probable. Grade 10 reflects loss accounts written off. Grades 2 to 8 represent ascending steps in management's assessment of risk of exposures. The Banking Group typically finances new loans in risk grades 2 to 5 of the Judgement portfolio.

18 Asset quality (continued)

(d) Credit risk grading (continued)

	BANKING GROUP & BANK					
	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 2015						
Judgement portfolio						
Grade 1 - Very Strong	533	-	-	-	-	533
Grade 2 - Strong	8,019	-	30,113	2,480	-	40,612
Grade 3 - Sound	17,363	-	52,022	463	-	69,848
Grade 4 - Adequate	101,029	-	160,527	3,791	-	265,347
Grade 5 - Acceptable	343,645	-	259,241	5,315	-	608,201
Grade 6 - Monitor	49,276	286	50,162	125	-	99,849
Grade 7 - Substandard	3,484	-	11,453	-	-	14,937
Grade 8 - Doubtful	761	3,596	157	-	-	4,514
Grade 9 - At risk of loss	-	-	7,082	-	-	7,082
Total Judgement portfolio	**524,110**	**3,882**	**570,757**	**12,174**	**-**	**1,110,923**
Behavioural portfolio						
Not in arrears	47,208	-	324,995	267,757	530,204	1,170,164
Active	415	-	4,526	2,721	13,535	21,197
Arrangement	443	-	2,776	1,690	10,946	15,855
Non-performing / Repossession	201	-	1,266	-	1,620	3,087
Recovery	54	-	876	-	2,757	3,687
Total Behavioural portfolio	**48,321**	**-**	**334,439**	**272,168**	**559,062**	**1,213,990**
Provision for collectively impaired assets	(1,356)	(1,356)	(3,232)	(884)	(2,494)	(9,322)
Fair value adjustment for present value of future losses	-	-	-	(1,933)	-	(1,933)
Total finance receivables	**571,075**	**2,526**	**901,964**	**281,525**	**556,568**	**2,313,658**
Jun 2014						
Judgement portfolio						
Grade 1 - Very Strong	616	-	-	-	-	616
Grade 2 - Strong	3,303	-	25,331	865	-	29,499
Grade 3 - Sound	17,888	-	35,420	1,157	-	54,465
Grade 4 - Adequate	63,785	-	145,774	5,038	-	214,597
Grade 5 - Acceptable	305,781	3,837	209,825	13,193	-	532,636
Grade 6 - Monitor	54,757	440	59,071	1,508	-	115,776
Grade 7 - Substandard	3,897	-	10,936	-	-	14,833
Grade 8 - Doubtful	722	12,798	-	-	-	13,520
Grade 9 - At risk of loss	58	882	2,472	-	-	3,412
Total Judgement portfolio	**450,807**	**17,957**	**488,829**	**21,761**	**-**	**979,354**
Behavioural portfolio						
Not in arrears	40,142	-	305,736	216,400	427,279	989,557
Active	238	-	1,816	3,009	8,054	13,117
Arrangement	96	-	1,554	151	5,770	7,571
Non-performing / Repossession	38	-	556	-	1,519	2,113
Recovery	-	-	745	276	1,092	2,113
Total Behavioural portfolio	**40,514**	**-**	**310,407**	**219,836**	**443,714**	**1,014,471**
Provision for collectively impaired assets	(583)	(2,005)	(3,183)	(57)	(1,171)	(6,999)
Fair value adjustment for present value of future losses	-	-	-	(1,707)	-	(1,707)
Total finance receivables	**490,738**	**15,952**	**796,053**	**239,833**	**442,543**	**1,985,119**

18 Asset quality (continued)

(e) Provision for impairment

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

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

Collective provisioning

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

Collective provisions are assessed with reference to risk profile groupings and historical loss data. Other judgemental factors including economic and credit cycle considerations are also taken into account in determining appropriate loss propensities to be applied. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the wider economic environment, interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

No provisions are applied to loans that are newly written and loans that remain within their contractual terms, except where the Group becomes aware of an event that might alter its view of the risk of a particular deal or group of deals.

Individual provisioning

Specific impairment provisions are made where events have occurred leading to an expectation of reduced future cash flows from certain receivables. For individually significant loans for which the assessed risk grade is considered a “potential loss”, an individual assessment is made of an appropriate provision for credit impairment.

Credit impairments are recognised as the difference between the carrying value of the loan and the discounted value of management’s best estimate of future cash repayments and proceeds from any security held (discounted at the loan’s original effective interest rate). All relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the likely realisable value of collateral, the Group’s position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgements are made in this process. Furthermore, judgement can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken. Changes in judgement could have a material impact on the financial statements.

Adequacy of the collective provision levels for each risk grouping is measured against historical loss experience at least annually. Adequacy of individual provisions is assessed in respect of each loan on a material development or at least quarterly.

For Behavioural loans, excluding home equity release loans, arrears drive provision outcomes. Each arrears classification carries a provision for potential loss based on historical experience for that classification in the same portfolio.

18 Asset quality (continued)

(e) Provision for impairment (continued)

	BANKING GROUP					
	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 2015						
Provision for individually impaired assets						
Opening provision for individually impaired assets	1,531	3,739	4,092	-	-	9,362
Impairment loss for the year						
- charge for the year	(35)	349	6,892	-	-	7,206
- recoveries	-	-	669	-	-	669
- write offs	(677)	(561)	(317)	-	-	(1,555)
- effect of discounting	(2)	(269)	(200)	-	-	(471)
Closing provision for individually impaired assets	**817**	**3,258**	**11,136**	**-**	**-**	**15,211**
Provision for collectively impaired assets						
Opening provision for collectively impaired assets	583	2,005	3,183	57	1,171	6,999
Impairment loss for the year						
- charge / (credit) for the year	775	(691)	537	827	2,572	4,020
- recoveries	-	42	168	-	3	213
- write offs	(2)	-	(656)	-	(1,252)	(1,910)
Closing provision for collectively impaired assets	**1,356**	**1,356**	**3,232**	**884**	**2,494**	**9,322**
Total provision for impairment	**2,173**	**4,614**	**14,368**	**884**	**2,494**	**24,533**
Jun 2014						
Provision for individually impaired assets						
Opening provision for individually impaired assets	1,125	31,252	2,153	-	-	34,530
Impairment loss for the year						
- charge for the year	1,714	6,247	3,890	-	-	11,851
- recoveries	-	4	2	-	-	6
- write offs	(1,284)	(32,305)	(1,669)	-	-	(35,258)
- effect of discounting	(24)	(1,459)	(284)	-	-	(1,767)
Closing provision for individually impaired assets	**1,531**	**3,739**	**4,092**	**-**	**-**	**9,362**
Provision for collectively impaired assets						
Opening provision for collectively impaired assets	581	10,260	3,479	134	1,507	15,961
Impairment loss for the year						
- (credit) / charge for the year	62	(7,497)	559	(77)	997	(5,956)
- recoveries	4	2	189	-	59	254
- write offs	(64)	(760)	(1,044)	-	(1,392)	(3,260)
Closing provision for collectively impaired assets	**583**	**2,005**	**3,183**	**57**	**1,171**	**6,999**
Total provision for impairment	**2,114**	**5,744**	**7,275**	**57**	**1,171**	**16,361**

18 Asset quality (continued)

(e) Provision for impairment (continued)

	BANK					
	Rural	Corporate Property	Other	Residential	All Other	Total
	$000	$000	$000	$000	$000	$000
Jun 2015						
Provision for individually impaired assets						
Opening provision for individually impaired assets	1,531	3,739	4,092	-	-	9,362
Impairment loss for the year						
- charge for the year	(35)	349	6,892	-	-	7,206
- recoveries	-	-	669	-	-	669
- write offs	(677)	(561)	(317)	-	-	(1,555)
- effect of discounting	(2)	(269)	(200)	-	-	(471)
Closing provision for individually impaired assets	**817**	**3,258**	**11,136**	**-**	**-**	**15,211**
Provision for collectively impaired assets						
Opening provision for collectively impaired assets	583	2,005	3,183	57	1,171	6,999
Impairment loss for the year						
- charge / (credit) for the year	775	(691)	537	827	2,572	4,020
- recoveries	-	42	168	-	3	213
- write offs	(2)	-	(656)	-	(1,252)	(1,910)
Closing provision for collectively impaired assets	**1,356**	**1,356**	**3,232**	**884**	**2,494**	**9,322**
Total provision for impairment	**2,173**	**4,614**	**14,368**	**884**	**2,494**	**24,533**
Jun 2014						
Provision for individually impaired assets						
Opening provision for individually impaired assets	-	13,936	-	-	-	13,936
Impairment loss for the year						
- charge for the year	987	3,849	2,542	-	-	7,378
- assumed on acquisition of loans	1,872	3,991	3,306	-	-	9,169
- recoveries	-	1	-	-	-	1
- write offs	(1,315)	(17,280)	(1,544)	-	-	(20,139)
- effect of discounting	(13)	(758)	(212)	-	-	(983)
Closing provision for individually impaired assets	**1,531**	**3,739**	**4,092**	**-**	**-**	**9,362**
Provision for collectively impaired assets						
Opening provision for collectively impaired assets	46	937	338	134	-	1,455
Impairment loss for the year						
- charge / (credit) for the year	89	(5,110)	630	(77)	593	(3,875)
- acquired on amalgamation	448	6,936	2,471	-	1,298	11,153
- recoveries	2	2	164	-	26	194
- write offs	(2)	(760)	(420)	-	(746)	(1,928)
Closing provision for collectively impaired assets	**583**	**2,005**	**3,183**	**57**	**1,171**	**6,999**
Total provision for impairment	**2,114**	**5,744**	**7,275**	**57**	**1,171**	**16,361**

(f) Other assets under administration

Other assets under administration are any loans, not being individually impaired or 90 days or more past due, where the customer is in any form of voluntary or involuntary administration, including receivership, liquidation, bankruptcy or statutory management. As at 30 June 2015, the Banking Group had assets under administration of $2,476,000 (2014: $2,143,000).

19 Liquidity risk

Liquidity risk is the risk that the Banking Group is unable to meet its payment obligations as they fall due. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by the Banking Group.

Management of liquidity risk is designed to ensure that the Banking Group has the ability to generate or obtain sufficient cash in a timely manner and at a reasonable price to meet its financial commitments on a daily basis.

The Banking Group's exposure to liquidity risk is governed by a policy approved by the Board and managed by the ALCO. This policy sets out the nature of risk which may be taken and aggregate risk limits, and the ALCO must conform to this. The objective of the ALCO is to derive the most appropriate strategy for the Banking Group in terms of the mix of assets and liabilities given its expectations of future cash flows, liquidity constraints and capital adequacy. The Banking Group employs asset and liability cash flow modelling to determine appropriate liquidity and funding strategies.

The Bank holds the following financial assets for the purpose of managing liquidity risk:

	BANKING GROUP		BANK	
	Jun 2015 $000	Jun 2014 $000	Jun 2015 $000	Jun 2014 $000
Cash and cash equivalents	31,732	34,588	31,530	34,538
Investments	322,619	238,859	322,619	238,859
Undrawn committed bank facilities	90,000	170,000	90,000	170,000
Total liquidity	**444,351**	**443,447**	**444,149**	**443,397**

The Banking Group has securitised bank facilities of $350 million (2014: $400 million) in relation to the ABCP Trust, which matures on 3 February 2016.

Contractual liquidity profile of financial assets and liabilities

The following tables present the Banking Group's financial assets and liabilities by relevant maturity groupings based upon contractual maturity date. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows. As a result, the amounts in the tables below may differ to the amounts reported on the balance sheet.

The contractual cash flows presented below may differ significantly from actual cash flows. This occurs as a result of future actions by the Banking Group and its counterparties, such as early repayments or refinancing of term loans and borrowings. Deposits and other public borrowings include customer savings deposits and transactional accounts, which are at call. History demonstrates that such accounts provide a stable source of long term funding for the Banking Group.

The Banking Group does not manage its liquidity risk on a contractual liquidity basis.

	BANKING GROUP						
	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
Jun 2015							
Financial assets							
Cash and cash equivalents	31,732	-	-	-	-	-	31,732
Investments	-	27,039	47,376	35,801	237,409	13,133	360,758
Finance receivables	-	536,536	326,229	475,683	743,760	1,056,030	3,138,238
Finance receivables - securitised	-	87,168	68,824	92,675	66,949	-	315,616
Derivative financial assets	-	59	-	-	-	-	59
Other financial assets	-	6,661	1,181	2,369	34,825	-	45,036
Total financial assets	**31,732**	**657,463**	**443,610**	**606,528**	**1,082,943**	**1,069,163**	**3,891,439**
Financial liabilities							
Borrowings	734,148	721,455	424,928	130,242	137,587	-	2,148,360
Borrowings - securitised	-	5,215	260,964	-	-	-	266,179
Derivative financial liabilities	-	2,799	-	-	-	-	2,799
Other financial liabilities	31,211	19,953	267	522	-	-	51,953
Total financial liabilities	**765,359**	**749,422**	**686,159**	**130,764**	**137,587**	**-**	**2,469,291**
Net financial (liabilities)/assets	**(733,627)**	**(91,959)**	**(242,549)**	**475,764**	**945,356**	**1,069,163**	**1,422,148**
Unrecognised loan commitments	107,982	-	-	-	-	-	107,982
Undrawn committed bank facilities	90,000	-	-	-	-	-	90,000

The undrawn committed bank facilities totalling $90 million were available to be drawn down on demand. To the extent drawn, $90 million is contractually repayable in 6-12 months' time upon facility expiry.

19 Liquidity risk (continued)

Contractual liquidity profile of financial assets and liabilities (continued)

	BANKING GROUP						
	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
Jun 2014							
Financial assets							
Cash and cash equivalents	34,588	-	-	-	-	-	34,588
Investments	12,910	4,382	62,301	80,564	81,878	20,837	262,872
Finance receivables	-	391,868	239,125	348,087	632,420	654,638	2,266,138
Finance receivables - securitised	-	60,833	55,235	90,552	83,911	30	290,561
Derivative financial assets	-	1,785	-	-	-	-	1,785
Other financial assets	-	6,511	1,140	281	6,842	26,266	41,040
Total financial assets	**47,498**	**465,379**	**357,801**	**519,484**	**805,051**	**701,771**	**2,896,984**
Financial liabilities							
Borrowings	610,942	722,288	292,448	72,174	60,514	8,109	1,766,475
Borrowings - securitised	-	4,765	230,984	-	-	-	235,749
Derivative financial liabilities	-	34	-	-	-	-	34
Other financial liabilities	39,838	6,947	-	-	-	-	46,785
Total financial liabilities	**650,780**	**734,034**	**523,432**	**72,174**	**60,514**	**8,109**	**2,049,043**
Net financial (liabilities)/assets	**(603,282)**	**(268,655)**	**(165,631)**	**447,310**	**744,537**	**693,662**	**847,941**
Unrecognised loan commitments	113,157	-	-	-	-	-	113,157
Undrawn committed bank facilities	170,000	-	-	-	-	-	170,000

The undrawn committed bank facilities totalling $170 million are available to be drawn down on demand. To the extent drawn, $170 million is contractually repayable in 6-12 months' time upon facility expiry.

	BANK						
	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
Jun 2015							
Financial assets							
Cash and cash equivalents	31,530	-	-	-	-	-	31,530
Investments	-	27,039	47,376	35,801	237,409	13,133	360,758
Finance receivables	-	536,536	326,229	475,683	743,760	1,056,030	3,138,238
Finance receivables - securitised	-	87,168	68,824	92,675	66,949	-	315,616
Derivative financial assets	-	59	-	-	-	-	59
Other financial assets	-	20,121	1,181	2,369	34,825	-	58,496
Total financial assets	**31,530**	**670,923**	**443,610**	**606,528**	**1,082,943**	**1,069,163**	**3,904,697**
Financial liabilities							
Borrowings	734,148	721,455	424,928	130,242	137,587	-	2,148,360
Borrowings - securitised	-	5,215	260,964	-	-	-	266,179
Derivative financial liabilities	-	2,799	-	-	-	-	2,799
Other financial liabilities	31,211	19,816	267	522	-	-	51,816
Total financial liabilities	**765,359**	**749,285**	**686,159**	**130,764**	**137,587**	**-**	**2,469,154**
Net financial assets/(liabilities)	**(733,829)**	**(78,362)**	**(242,549)**	**475,764**	**945,356**	**1,069,163**	**1,435,543**
Unrecognised loan commitments	107,982	-	-	-	-	-	107,982
Undrawn committed bank facilities	90,000	-	-	-	-	-	90,000

The undrawn committed bank facilities totalling $90 million were available to be drawn down on demand. To the extent drawn, $90 million is contractually repayable in 6-12 months' time upon facility expiry.

19 Liquidity risk (continued)

Contractual liquidity profile of financial assets and liabilities (continued)

	BANK						
	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
Jun 2014							
Financial assets							
Cash and cash equivalents	34,538	-	-	-	-	-	34,538
Investments	12,910	4,382	62,301	80,564	81,878	20,837	262,872
Finance receivables	-	391,868	239,125	348,087	632,420	654,638	2,266,138
Finance receivables - securitised	-	60,833	55,235	90,552	83,911	30	290,561
Derivative financial assets	-	1,797	-	-	-	-	1,797
Other financial assets	562	6,405	1,140	281	6,842	26,266	41,496
Total financial assets	**48,010**	**465,285**	**357,801**	**519,484**	**805,051**	**701,771**	**2,897,402**
Financial liabilities							
Borrowings	610,942	722,288	292,448	72,174	60,514	8,109	1,766,475
Borrowings - securitised	-	4,765	230,984	-	-	-	235,749
Derivative financial liabilities	-	34	-	-	-	-	34
Other financial liabilities	40,879	6,947	-	-	-	-	47,826
Total financial liabilities	**651,821**	**734,034**	**523,432**	**72,174**	**60,514**	**8,109**	**2,050,084**
Net financial assets/(liabilities)	**(603,811)**	**(268,749)**	**(165,631)**	**447,310**	**744,537**	**693,662**	**847,318**
Unrecognised loan commitments	113,157	-	-	-	-	-	113,157
Undrawn committed bank facilities	170,000	-	-	-	-	-	170,000

The undrawn committed bank facilities totalling $170 million were available to be drawn down on demand. To the extent drawn, $170.0 million was contractually repayable in 6-12 months' time upon facility expiry.

20 Interest rate risk

The Banking Group's market risk arises primarily due to significant exposure to interest rate risk, predominantly from raising funds through the retail and wholesale deposit market, the debt capital markets and committed and uncommitted bank funding, securitisation of receivables, and offering loan finance products to the commercial and consumer market in New Zealand and Australia.

Interest rate risk is the risk that the value of assets or liabilities will change because of changes in interest rates or that market interest rates may change and thus alter the margin between interest-earning assets and interest-bearing liabilities. Interest rate risk for the Banking Group refers to the risk of loss due to holding assets and liabilities that may mature or re-price in different periods.

The Banking Group’s exposure to market risk is governed by a policy approved by the Board and managed by the ALCO. This policy sets out the nature of risk which may be taken and aggregate risk limits, and the ALCO must conform to this. The objective of the ALCO is to derive the most appropriate strategy for the Banking Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints and capital adequacy.

To manage this market risk, the Banking Group measures sensitivity to interest rate changes by frequently testing its position against various interest rate change scenarios to assess potential risk exposure. The Banking Group also manages interest rate risk by:

- Monitoring maturity profiles and seeking to match the re-pricing of assets and liabilities (physical hedging);
- Monitoring interest rates daily and regularly (at least monthly) reviewing interest rate exposure; and
- Entering into forward rate agreements and interest rate swaps and options to hedge against movements in interest rates.

20 Interest rate risk (continued)

Contractual repricing analysis

The interest rate risk profile of financial assets and liabilities that follows has been prepared on the basis of maturity or next repricing date, whichever is earlier.

	BANKING GROUP						
	0-3 Months $000	3-6 Months $000	6-12 Months $000	1-2 Years $000	2+ Years $000	Non-interest bearing $000	Total $000
Jun 2015							
Financial assets							
Cash and cash equivalents	31,648	-	-	-	-	84	31,732
Investments	137,742	1,938	25,797	14,410	142,732	-	322,619
Finance receivables	1,437,102	87,889	149,239	194,218	167,166	430	2,036,044
Finance receivables - securitised	40,193	35,548	60,778	83,434	57,661	-	277,614
Other financial assets	28,974	-	-	-	-	5,863	34,837
Total financial assets	**1,675,659**	**125,375**	**235,814**	**292,062**	**367,559**	**6,377**	**2,702,846**
Financial liabilities							
Borrowings	1,051,325	375,635	411,061	119,351	130,975	-	2,088,347
Borrowings - securitised	258,630	-	-	-	-	-	258,630
Other financial liabilities	34,224	-	250	503	-	19,630	54,607
Total financial liabilities	**1,344,179**	**375,635**	**411,311**	**119,854**	**130,975**	**19,630**	**2,401,584**
Effect of derivatives held for risk management	227,760	(25,355)	(46,365)	(74,340)	(81,700)	-	-
Net financial assets / (liabilities)	**559,240**	**(275,615)**	**(221,862)**	**97,868**	**154,884**	**(13,253)**	**301,262**
Jun 2014							
Financial assets							
Cash and cash equivalents	34,248	-	-	-	-	340	34,588
Investments	126,585	2,039	29,379	32,608	48,248	-	238,859
Finance receivables	1,174,931	83,752	137,558	182,572	158,897	2,571	1,740,281
Finance receivables - securitised	43,043	30,518	51,819	71,827	47,631	-	244,838
Other financial assets	1,797	28,898	-	-	-	5,934	36,629
Total financial assets	**1,380,604**	**145,207**	**218,756**	**287,007**	**254,776**	**8,845**	**2,295,195**
Financial liabilities							
Borrowings	996,032	328,448	282,156	66,726	61,848	-	1,735,210
Borrowings - securitised	228,623	-	-	-	-	-	228,623
Other financial liabilities	28,255	-	-	-	-	18,564	46,819
Total financial liabilities	**1,252,910**	**328,448**	**282,156**	**66,726**	**61,848**	**18,564**	**2,010,652**
Effect of derivatives held for risk management	224,840	(22,550)	(40,925)	(64,025)	(97,340)	-	-
Net financial assets / (liabilities)	**352,534**	**(205,791)**	**(104,325)**	**156,256**	**95,588**	**(9,719)**	**284,543**

20 Interest rate risk (continued)

Contractual repricing analysis (continued)

	BANK						
	0-3 Months $000	3-6 Months $000	6-12 Months $000	1-2 Years $000	2+ Years $000	Non-interest bearing $000	Total $000
Jun 2015							
Financial assets							
Cash and cash equivalents	31,446	-	-	-	-	84	31,530
Investments	137,742	1,938	25,797	14,410	142,732	-	322,619
Finance receivables	1,437,102	87,889	149,239	194,218	167,166	430	2,036,044
Finance receivables - securitised	40,193	35,548	60,778	83,434	57,661	-	277,614
Other financial assets	28,974	-	-	-	-	19,323	48,297
Total financial assets	**1,675,457**	**125,375**	**235,814**	**292,062**	**367,559**	**19,837**	**2,716,104**
Financial liabilities							
Borrowings	1,051,325	375,635	411,061	119,351	130,975	-	2,088,347
Borrowings - securitised	258,630	-	-	-	-	-	258,630
Other financial liabilities	34,224	-	250	503	-	19,485	54,462
Total financial liabilities	**1,344,179**	**375,635**	**411,311**	**119,854**	**130,975**	**19,485**	**2,401,439**
Effect of derivatives held for risk management	227,760	(25,355)	(46,365)	(74,340)	(81,700)	-	-
Net financial assets / (liabilities)	**559,038**	**(275,615)**	**(221,862)**	**97,868**	**154,884**	**352**	**314,665**
Jun 2014							
Financial assets							
Cash and cash equivalents	34,198	-	-	-	-	340	34,538
Investments	126,585	2,039	29,379	32,608	48,248	-	238,859
Finance receivables	1,174,931	83,752	137,558	182,572	158,897	2,571	1,740,281
Finance receivables - securitised	43,043	30,518	51,819	71,827	47,631	-	244,838
Other financial assets	1,797	28,898	-	-	-	5,828	36,523
Total financial assets	**1,380,554**	**145,207**	**218,756**	**287,007**	**254,776**	**8,739**	**2,295,039**
Financial liabilities							
Borrowings	996,032	328,448	282,156	66,726	61,848	-	1,735,210
Borrowings - securitised	228,623	-	-	-	-	-	228,623
Other financial liabilities	28,255	-	-	-	-	19,605	47,860
Total financial liabilities	**1,252,910**	**328,448**	**282,156**	**66,726**	**61,848**	**19,605**	**2,011,693**
Effect of derivatives held for risk management	224,840	(22,550)	(40,925)	(64,025)	(97,340)	-	-
Net financial assets / (liabilities)	**352,484**	**(205,791)**	**(104,325)**	**156,256**	**95,588**	**(10,866)**	**283,346**

The tables above illustrate the periods in which the cash flows from interest rate swaps are expected to occur and affect profit or loss.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Banking Group's financial assets and liabilities to various standard and non standard interest rate scenarios. Standard scenarios which are considered on a monthly basis include a 100 basis point parallel fall or rise in the yield curve. There is no material impact on profit or loss in terms of a fair value change from movements in market interest rates. Furthermore there is no material cash flow impact on the Statements of Cash Flows from a 100 basis point change in interest rates.

21 Concentrations of funding

(a) Concentration of funding by industry

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Finance	311,869	254,538	311,869	254,538
Other	2,035,108	1,709,295	2,035,108	1,709,295
Total borrowings	**2,346,977**	**1,963,833**	**2,346,977**	**1,963,833**

(b) Concentration of funding by geographical area

Auckland	441,921	453,168	441,921	453,168
Wellington	384,344	202,829	384,344	202,829
Rest of North Island	472,167	376,495	472,167	376,495
Canterbury	772,689	687,168	772,689	687,168
Rest of South Island	194,074	163,523	194,074	163,523
Overseas	81,782	80,650	81,782	80,650
Total borrowings	**2,346,977**	**1,963,833**	**2,346,977**	**1,963,833**

Other Disclosures

22 Significant subsidiaries and interests in joint arrangements

		BANK			
		Jun 2015	Jun 2015	Jun 2014	Jun 2014
Significant subsidiaries	**Nature of business**	% held	$000	% held	$000
VPS Parnell Limited	Investment property holding company	N/A	-	100%	-
VPS Properties Limited	Investment property holding company	100%	9,000	100%	16,719
Heartland PIE Fund Limited	Manager of Heartland Cash and Term PIE Fund	100%	-	100%	-
Total investment in subsidiaries			**9,000**		**16,719**

On 22 December 2014 VPS Parnell Limited was amalgamated into the Bank. As a result, the assets and liabilities of VPS Parnell Limited were transferred to the Bank at their carrying amounts.

During the year ended 30 June 2015:
- the Bank invested capital of $9.0 million in VPS Properties Limited
- the investment in subsidiary was no longer impaired, so the $6.3 million impairment previously recognised was reversed and the $23.0 million loan was reclassified back to due from related parties.

During the year ended 30 June 2014:
- The Bank provided a loan of $23.0 million to VPS Properties Limited. As this loan was repayable at the discretion of the Bank, the Bank recognised this loan as an investment in subsidiary.
- The Bank recognised a $6.3 million impairment in relation to the investment in subsidiary, bringing the carrying value of its investment in VPS Properties Limited down to $16.7 million.

23 Structured entities

A structured entity is one which has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are created to accomplish a narrow and well-defined objective such as the securitisation or holding of particular assets, or the execution of a specific borrowing or lending transaction. Structured entities are consolidated where the substance of the relationship is that the Banking Group controls the structured entity.

The Banking Group controls the operations of Heartland Cash and Term PIE Fund and Heartland ABCP Trust 1.

(a) *Heartland Cash and Term PIE Fund*

Heartland Cash and Term PIE Fund is a portfolio investment entity that invests in the Bank's deposits. Investments of Heartland Cash and Term PIE Fund are represented as follows:

	BANKING GROUP		BANK	
	Jun 2015	Jun 2014	Jun 2015	Jun 2014
	$000	$000	$000	$000
Deposits	45,110	38,819	45,110	38,819

23 Structured entities (continued)

(b) *Heartland ABCP Trust 1 (ABCP Trust)*

The Bank has securitised a pool of receivables comprising commercial and motor vehicle loans to ABCP Trust.

The Bank substantially retains the credit risks and rewards associated with these securitised assets, and continues to recognise these assets and associated borrowings in the Statements of Financial Position. Despite this presentation in the financial statements, the loans sold to Trusts are set aside for the benefit of investors in the Trusts. The securitised balances are represented as follows:

		BANKING GROUP		BANK	
		Jun 2015	Jun 2014	Jun 2015	Jun 2014
	NOTE	$000	$000	$000	$000
Cash and cash equivalents - securitised		5,553	5,421	5,553	5,421
Finance receivables - securitised	10	277,614	244,838	277,614	244,838
Borrowings - securitised	12	(258,630)	(228,623)	(258,630)	(228,623)
Derivative financial asset - securitised	14(a)	59	1,768	59	1,768
Derivative financial liabilities - securitised		(1,995)	-	(1,995)	-

24 Staff share ownership arrangements

The Banking Group operates share-based compensation plans that are cash settled and equity settled.

For cash settled plans, the Banking Group recognises a liability based on the estimated fair value of the obligation. The value of this liability is recognised in profit or loss over the relevant service period and is re-measured at each reporting date.

For equity-settled plans, share based payments to employees providing services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Banking Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Banking Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

In relation to the staff share ownership arrangements, the Banking Group has recognised the following:

	Jun 15	Jun 14
	$000	$000
Equity settled		
Total amount recognised in equity	1,487	714
Cash settled		
Total amount recognised as an expense	1,485	656
Liability recognised	-	1,945

The following share-based compensation plans were in place during the year for selected senior employees of the Banking Group:

(a) Equity settled

Heartland LTI Net Share Settled Plan (LNSSP)

The LNSSP has been allotted under three tranches. Under the LNSSP participants are granted an option to acquire shares in Heartland. The number of shares granted upon exercise of the options is based on the difference between the market price of the shares on the exercise date and the reference price. The options are subject to the option holders continued employment with the Banking Group.

2015 Tranche - Special Grant

Optionholders of the 2015 tranche - special grant will be able to exercise the options in the period beginning on the date the market price of Heartland ordinary shares is equal to $1.50 and ending on 1 July 2017. Market price is calculated based on the volume weighted average price of a Heartland share on the NZX Main Board for the 10 business days immediately before (but excluding) the exercise date for those options.

The reference price is the amount (if any) by which the market price of Heartland ordinary shares at the time of exercise exceeds $1.00 (based on a volume weighted average price of Heartland ordinary shares for the prior 20 business days), plus the aggregate amount of cash dividends (cents per Heartland ordinary share) paid by Heartland in the period from 1 April 2015 until and including the date the options are exercised. However, for the purpose of calculating the settlement amount, the market price of Heartland ordinary shares is capped at $1.50 and any increase above this amount shall be disregarded.

24 Staff share ownership arrangements (continued)

(a) Equity settled (continued)

2013 and 2014 Tranches

Optionholders of the 2013 and 2014 tranches will be able to exercise the options between September 2015 to 1 July 2017 and September 2016 to 1 July 2018 respectively.

The reference price is the amount (if any) by which the market price (based on a volume weighted average price of Heartland ordinary shares for the prior 20 business days) of Heartland ordinary shares at the time of exercise exceeds an opening price. This opening price is a 5% premium over the volume weighted average price of Heartland ordinary shares for the 20 business days following 26 August 2013 for the 2013 tranche and 25 August 2014 for the 2014 tranche, less cash dividends paid after issue of the options.

	2015 Tranche	2014 Tranche	2013 Tranche
Grant date	1/04/2015	28/08/2014	26/08/2013
Number of shares granted	5,208	8,954	5,136
Option valuation at grant date	0.09	0.20	0.21
Total value at grant date	467	1,755	1,099
June 2015			
Opening unvested options outstanding / exercisable 1 July 2014	-	-	5,005
Number of options granted:	5,208	8,954	-
Less: options forfeited	-	(383)	(125)
Closing unvested options outstanding / exercisable 30 June 2015	**5,208**	**8,571**	**4,880**
June 2014			
Opening unvested options outstanding / exercisable 1 July 2013	-	-	-
Number of options granted:	-	-	5,136
Less: options forfeited	-	-	(131)
Closing unvested options outstanding / exercisable 30 June 2014	**-**	**-**	**5,005**

The fair value at grant date of these options has been measured using the Black Scholes option pricing model. As the exercise price is reduced by dividends paid between the grant date and the exercise date, the model has been adjusted to reflect this. Information regarding the calculation of the fair value under the LNSSP is as follows:

	2015 Tranche	2014 Tranche	2013 Tranche
Volatility	20.1%	20.0%	25.0%
Risk free interest rate	3.1%	4.0%	3.4%
Estimated option life (years)	3.3	3.9	3.9
Expiry date	30/06/2018	30/06/2018	30/06/2017
Exercise price ($)	1.00	0.99	0.89
Market price at grant date($)	1.28	0.95	0.87

The volatility is calculated based on the historical movement in Heartland's ordinary shares.

(b) Cash settled

Heartland Long Term Executive Share Plan (LTESP)

The LTESP was introduced in the year ended 30 June 2013 and concluded during the year ended 30 June 2015 with all of the shares under the LTESP vesting. Under the LTESP, the Banking Group lent funds to the participants. These funds were used by the participants to acquire shares in the Company, which were held on the participants behalf. Participants that were still employed by the Banking Group on 30 June 2015 were entitled to some or all of the Heartland shares held on their behalf. To the extent a participant was entitled to the shares held on their behalf, the participant was given a cash bonus which was applied toward repayment of their loan. To the extent a participant was not entitled to Heartland shares held on their behalf, those shares were acquired by Heartland NZ Trustee Limited for a purchase price which was applied toward repayment of their loan.

Heartland LTI Cash Entitlements Plan (LCEP)

Under the LCEP, participants were granted a cash entitlement. This cash entitlement was based on the amount by which the market price of Heartland shares at a future date exceeded an agreed reference price (no payment is made in the event that the market price of Heartland shares at that future date is lower than the reference price). Cash entitlements based on a reference pool of 5.65 million shares were issued in the year ending 30 June 2013 at a reference price of $0.72 per share. The LCEP was closed during the year ended 30 June 2015 with 4.65 million shares vesting at a share price of $1.20. The total expense recognised in the period was $1.56 million (2014: $0.33 million).

25 Capital adequacy

The Banking Group is subject to regulation by the RBNZ. The RBNZ has set minimum regulatory capital requirements for banks that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision. The resulting Basel II and III requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by the Banking Group.

The Banking Group's Conditions of Registration prescribes minimum capital adequacy ratios calculated in accordance with the Capital Adequacy Framework (Standardised Approach) BS2A.

The Banking Group has adopted the Basel II standardised approach per RBNZ BS2A to calculate its regulatory requirements. Basel II is made up of the following three Pillars:

- Pillar 1 sets out the minimum capital requirements for credit, market and operational and compliance risks.
- Pillar 2 is designed to ensure that banks have adequate capital to support all risks (not just those set out under Pillar 1 above) and is enforced through the requirement for supervisory review.
- Pillar 3 outlines the requirements for adequate and transparent disclosure.

Basel III was developed in order to strengthen the regulation, supervision and risk management of the banking sector. The measures aim to improve the banking sector's ability to absorb shocks arising from financial and economic stress; improve risk management and governance; and strengthen banks' transparency and disclosures. The requirements that impact capital are as follows:

- The level of capital required to be held by banks increased through the introduction of new minimum capital requirements for Common Equity Tier 1 (CET1) capital, Additional Tier 1 (AT1) capital and Total capital as a percentage of risk-weighted-assets (RWA's).
- A capital conservation buffer held over and above the minimum capital ratio requirements used to absorb losses during periods of financial and economic stress.
- A counter-cyclical capital buffer be held and to be used at the RBNZ's discretion, to assist in attaining the macro-prudential goal of protecting the banking sector from periods of extraordinary excess aggregate credit growth.
- Strengthen the calculation of RWAs, particularly in respect of counterparty credit risk.

The Basel III requirements have not effected the Banking Group's minimum capital requirements as the Banking Group's Conditions of Registration prescribe minimum capital requirements higher than the Basel III requirements.

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group as at 30 June 2015.

Internal Capital Adequacy Assessment Process (ICAAP)

The Bank has an ICAAP which complies with the requirements in 'Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")' BS12 and is in accordance with its Conditions of Registration.

The Board has overall responsibility for ensuring the Banking Group has adequate capital in relation to its risk profile and establishes minimum internal capital levels and limits above the regulatory minimum. The Bank has established a Capital Management Policy (CMP) to determine minimum capital levels for tier one and total capital under Basel III and in accordance with its Conditions of Registration. The documented process ensures that the Banking Group has sufficient available capital to meet minimum capital requirements, even in stressed events. It describes the risk profile of the Banking Group and the risk appetite and tolerances under which it operates, and assesses the level of capital held against the material risks of the bank (both Pillar One and Pillar Two).

The ICAAP identifies the additional capital required to be held against other material risks, being concentration risk, strategic / business risk, reputational risk, regulatory risk and model risk. See Note 25(l) for further details.

Compliance with minimum capital levels is monitored by ALCO and reported to the Board monthly. The ICAAP and CMP is reviewed annually by the Board.

25 Capital adequacy (continued)

(a) Capital

	BANKING GROUP
	Jun 2015
	$000
Tier 1 Capital	
CET1 capital	
Paid-up ordinary shares issued by the Bank plus related share premium	341,244
Retained earnings (net of appropriations)	31,851
Accumulated other comprehensive income and other disclosed reserves	(288)
Less deductions from CET1 capital	
Intangible assets	(26,135)
Deferred tax assets	(8,559)
Hedging reserve	1,552
Defined benefit superannuation fund assets	(532)
Total CET1 capital	**339,133**
Additional Tier 1 Capital	
Nil	-
Total Tier 1 Capital	**339,133**
Tier 2 Capital	
Subordinated bond	1,941
Total Tier 2 Capital	**1,941**
Total Capital	**341,074**

(b) Capital structure

Ordinary shares

In accordance with BS2A, ordinary share capital is classified as Common Equity Tier 1 Capital and is not subject to phase-out from eligibility as capital under the Reserve Bank of New Zealand's Basel III transitional arrangements. The ordinary shares have no par value. Each ordinary share of the Bank carries the right to vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Bank in the event of liquidation.

Reserves

Available for sale reserve — The available-for-sale reserve comprises the changes in the fair value of available-for-sale securities, net of tax. These changes are recognised in profit or loss as other income when the asset is either derecognised or impaired.

Hedging reserve — The hedging reserve comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

Defined benefit reserve — The defined benefit plan reserve represents the excess of the fair value of the assets of the defined benefit superannuation plan over the net present value of the defined benefit obligations.

Retained earnings

Retained earnings is the accumulated profit or loss that has been retained in the Banking Group.

Subordinated bond

Heartland's 2018 Subordinated Bonds (the Bonds) constitute Tier 2 Capital of the Banking Group. The Bonds had an issue period from 12 July 2013 to 15 December 2013 and have a maturity date of 15 December 2018. The Bonds pay quarterly interest in arrears at a rate of 6.5% per annum, provided the Bank will be solvent immediately after the payment is made. The Bank may elect to repay the Bonds prior to 15 December 2018 if a regulatory event or tax event occurs and provided it will be solvent immediately after the repayment and the Reserve Bank has consented to the repayment. The Bonds are subordinated to all other general liabilities of the Banking Group and are denominated in New Zealand dollars.

If the Reserve Bank or a Statutory Manager requires the Bank to write down the Principal Amount and/or the interest on the Subordinated Bonds, the Bonds will be written down and could be reduced to zero to comply with the Reserve Bank's loss absorbency requirements. The Bank has not had any defaults of principal, interest or other breaches with respect to these Bonds.

25 Capital adequacy (continued)

(c) Credit risk

(i) On balance sheet exposures

	BANKING GROUP			
	Total exposure	Risk weighting	Risk weighted exposure	Minimum Pillar One capital require-ment
	$000	%	$000	$000
Jun 2015				
Cash and gold bullion	84	0%	-	-
Multilateral development banks	29,599	0%	-	-
Multilateral development banks	36,662	20%	7,332	587
Public sector entities	38,823	20%	7,765	621
Public sector entities	17,073	50%	8,537	683
Banks	175,227	20%	35,045	2,804
Banks	34,666	50%	17,333	1,387
Corporates	9,851	20%	1,970	158
Corporates	10,896	50%	5,448	436
Corporates	1,470	100%	1,470	118
Welcome Home Loans - loan to value ratio (LVR) <= 90%[1]	8,723	35%	3,053	244
Welcome Home Loans - LVR > 90%[1]	4,883	50%	2,442	195
Welcome Home Loans - LVR > 100%[1]	605	100%	605	48
Residential mortgages < 80% LVR	261,233	35%	91,432	7,315
Residential mortgages 80 < 90% LVR	1,312	50%	656	52
Residential mortgages 90 < 100% LVR	1,048	75%	786	63
Residential mortgages 100%+ LVR	2,842	100%	2,842	227
Past due residential mortgages	879	100%	879	70
Other past due assets - provision > 20%	9,224	100%	9,224	738
Other past due assets - provision < 20%	38,332	150%	57,498	4,600
Other assets	2,081,450	100%	2,081,450	166,516
Not risk weighted assets	33,674	0%	-	-
Total on balance sheet exposures	**2,798,556**		**2,335,767**	**186,862**

(ii) Off balance sheet exposures

	BANKING GROUP					
	Total exposure	Credit conversion Factor	Credit equivalent amount	Average risk weight	Risk weighted exposure	Minimum Pillar One capital require-ment[1]
	$000	$000	$000	%	$000	$000
Jun 2015						
Direct credit substitute	7,292	100%	7,292	100%	7,292	583
Performance-related contingency	7,552	50%	3,776	100%	3,776	302
Other commitments where original maturity is more than one year	107,982	50%	53,991	100%	53,991	4,319
Other commitments where original maturity is less than or equal to one year	108,037	20%	21,607	100%	21,607	1,729
Market related contracts [2]						
Interest rate contracts	254,285	n/a	1,264	20%	253	20
Total off balance sheet exposures	**485,148**		**87,930**		**86,919**	**6,953**

[1] The LVR classification above is calculated in line with the Bank's Pillar 1 Capital requirement which includes capital relief for Welcome Home loans that are guaranteed by the Crown.

[2] The credit equivalent amount for market related contracts was calculated using the current exposure method.

25 Capital adequacy (continued)

(d) Additional mortgage information - LVR range

	BANKING GROUP		
	On balance sheet exposures	Off balance sheet exposures [1]	Total exposures
	$000	$000	$000
Jun 2015			
Does not exceed 80%	265,538	3,017	268,555
Exceeds 80% and not 90%	6,386	-	6,386
Exceeds 90%	9,601	2,851	12,452
Total exposures	**281,525**	**5,868**	**287,393**

At 30 June 2015, $5.5 million relating to Welcome Home loans, whose credit risk is mitigated by the Crown is included in "Exceeds 90% residential mortgages".

(e) Reconciliation of mortgage related amounts

		BANKING GROUP
		Jun 2015
	NOTE	$000
Loans and advances - loans with residential mortgages	18(a)	281,525
On balance sheet residential mortgage exposures subject to the standardised approach		**281,525**
Off balance sheet mortgage exposures subject to the standardised approach		5,868
Total residential exposures subject to the standardised approach		**287,393**

(f) Credit risk mitigation

As at 30 June 2015 the Banking Group had $27.3 million of Welcome Home Loans, whose credit risk was mitigated by the Crown. Other than this the Banking Group does not have any exposures covered by eligible collateral, guarantees and credit derivatives.

(g) Operational Risk

	BANKING GROUP	
	Implied risk weighted exposure	Aggregate capital charge
	$000	$000
Operational risk	156,005	12,480

Operational risk is calculated based on the previous 12 quarters of the Banking Group.

(h) Market risk

		BANKING GROUP	
		Implied risk weighted exposure	Aggregate capital charge
		$000	$000
Market risk end-of-period capital charge	Interest rate risk only	72,877	5,830
Market risk peak end-of-day capital charge	Interest rate risk only	78,889	6,311

Peak end of day aggregate capital charge at the end of the period is derived by following the risk methodology for measuring capital requirements within Part 10 of the Standardised Approach. Peak end of day aggregate capital charge is derived by determining the maximum end of month capital charge over the reporting period. Based on the portfolio of the Banking Group's risk exposures, it is considered by management that the difference between end of month aggregate capital charge and end of day aggregate capital charge is insignificant.

[1] Off balance sheet exposures means unutilised limits.

25 Capital adequacy (continued)

(i) Total capital requirements

	BANKING GROUP		
	Total exposure after credit risk mitigation	Risk weighted exposure or implied risk weighted exposure	Total capital requirement per BS2A
	$000	$000	$000
Total credit risk and equity			
On balance sheet	2,798,556	2,335,767	186,862
Off balance sheet	485,148	86,919	6,953
Operational risk	n/a	156,005	12,480
Market risk	n/a	72,877	5,830
Total	**n/a**	**2,651,568**	**212,125**

The implied risk weighted exposure for Operational and Market risk calculated per BS2A assumes a capital requirement of 8%.

(j) Capital ratios

	BANKING GROUP	
	Jun 2015	Jun 2014
	%	%
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	12.79%	14.29%
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	4.50%	10.00%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	12.79%	14.29%
Minimum Tier 1 Capital as per Conditions of Registration	6.00%	12.00%
Total Capital expressed as a percentage of total risk weighted exposures	12.86%	14.39%
Minimum Total Capital as per Conditions of Registration	8.00%	12.00%
Buffer ratio		
Buffer ratio	4.86%	2.39%
Buffer ratio requirement[1]	2.50%	N/A

(k) Solo capital adequacy

	BANK	
	Jun 2015	Jun 2014
	%	%
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	14.45%	15.93%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	14.45%	15.93%
Total Capital expressed as a percentage of total risk weighted exposures	14.53%	16.04%

For the purposes of calculating capital adequacy on a solo basis, subsidiaries which are both wholly owned and wholly funded by the Bank are to be consolidated with the Bank. Therefore, capital adequacy on a solo basis is calculated based on the Bank and its subsidiaries excluding ABCP Trust.

(l) Capital for other material risks

In addition to the material risks included in the calculation of the capital ratios, the Banking Group has identified other material risks to be included in the capital allocation (being concentration risk, strategic / business risk, reputational risk, regulatory and model risk). As at 30 June 2015, the Banking Group has made an internal capital allocation of $68.7 million to cover these risks.

[1] The banking Group did not have a buffer ratio requirement at June 2014.

26 Insurance business, securitisation, funds management, other fiduciary activities

Insurance business

The Banking Group does not conduct any insurance business.

Marketing and distribution of insurance products

The Banking Group markets and distributes term life insurance and general insurance covering risks such as redundancy, bankruptcy or suspension of employment. The insurance products are underwritten by MARAC Insurance Limited, a fellow member of the Heartland Group. During the year ended 30 June 2015, there have been no material changes in the Banking Group's marketing and distribution of insurance products.

Securitisation

As at 30 June 2015, the Banking Group had securitised assets amounting to $278 million (2014: $245 million). These assets have been sold to ABCP Trust (a special purpose vehicle investing in motor vehicle, truck and trailer and commercial loans originated by the Banking Group and funded through the issuance of commercial paper and also through a Westpac liquidity facility). Note 23 - Structured entities provides further information on the securitised assets.

Prior to 15 August 2013, the Banking Group had securitised assets which had been sold to CBS Warehouse A Trust (CBS Trust). The CBS Trust was a special purpose vehicle established for the purpose of purchasing residential mortgages from the Banking Group and funded through a warehouse loan facility provided by Westpac).

The Bank received fees for various services provided to the securitisation vehicles on an arm's length basis, including servicing fees. These fees were recognised as earned. All securitisation vehicles form part of the Banking Group.

Funds management and other fiduciary activities

The Banking Group, through Heartland PIE Fund Limited, controls, manages and administers the Heartland Cash and Term PIE Fund and its products (Heartland Call PIE and Heartland Term Deposit PIE). Note 23 - Structured entities has further details. The Heartland Cash and Term PIE Fund deals with the Bank in the normal course of business, in the Bank's capacity as Registrar of the Fund and also invests in the Bank's deposits. The Banking Group provides investment advice to a number of clients, which includes the provision of other fiduciary activities. The Banking Group is considered to control the Heartland Cash and Term PIE Fund, and as such the Heartland Cash and Term PIE Fund is consolidated within the financial statements of the Banking Group.

Risk management

The Banking Group has in place policies and procedures to ensure that the fiduciary activities identified above are conducted in an appropriate manner. It is considered that these policies and procedures will ensure that any difficulties arising from these activities will not impact adversely on the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and internal and external auditors. Further information on the Banking Group's risk management policies and practices is included in Note 16 - Risk management policies.

Provision of financial services and asset purchases

Over the accounting period, financial services provided by the Banking Group to entities which were involved in the activities above (including trust, custodial, funds management and other fiduciary activities) were provided on arm's length terms and conditions and at fair value.

Any assets purchased from such entities have been purchased on arm's length terms and conditions and at fair value.

Peak aggregate funding to entities

The Banking Group did not provide any funding to entities conducting funds management and other fiduciary activities, or insurance product or marketing and distribution activities described in this note, during the year (2014: $nil).

The Bank provided funding to ABCP Trust and CBS Trust, which are members of the Banking Group involved in securitisation activities. This funding is provided to facilitate the purchase of asset backed securities from the Banking Group in order to support the securitisation facility.

	TOTAL TRUSTS	
	Jun 2015	**Jun 2014**
Peak end-of-day aggregate amount of funding provided ($000's)	30,613	27,188
Peak end-of-day aggregate amount of funding provided as a percentage of the Banking Group's Tier 1 Capital as at the end of the year	9.0%	8.1%

	CBS TRUST		ABCP TRUST	
	Jun 2015	**Jun 2014**	**Jun 2015**	**Jun 2014**
Peak end-of-day aggregate amount of funding provided ($000's)	-	377	30,613	26,698
Peak end-of-day aggregate amount of funding provided as a percentage of the total assets of the individual entity as at the end of the year	0.0%	0.7%	10.7%	10.5%

For this purpose, peak ratio information was derived by determining the maximum end-of-day aggregate amount of funding and then dividing that amount by the amount of the entity's assets or the Banking Group's Tier 1 Capital (as the case required) as at the end of the year. The CBS Trust is now dormant and no further funding is being advanced.

27 Contingent liabilities and commitments

	BANKING GROUP		BANK	
	Jun 2015 $000	Jun 2014 $000	Jun 2015 $000	Jun 2014 $000
Letters of credit, guarantee commitments and performance bonds	14,844	6,329	14,844	6,329
Total contingent liabilities	**14,844**	**6,329**	**14,844**	**6,329**
Undrawn facilities available to customers	107,982	113,157	107,982	113,157
Conditional commitments to fund at future dates	108,037	95,780	108,037	95,780
Total commitments	**216,019**	**208,937**	**216,019**	**208,937**

28 Application of new and revised accounting standards

(a) New standards and interpretations adopted

The following new standards and amendments to standards have been adopted from 1 July 2014 in the preparation of these financial statements:

NZ IAS 32 Financial Instruments: Presentation

Clarifies certain aspects of offsetting financial assets and liabilities because of diversity in the application of the requirements of offsetting. Its adoption did not have a material impact on the financial statements.

(b) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2015, and have not been applied in preparing these financial statements. The new standards identified which may have an effect on the financial statements of the Group are:

Standard and description	***Effective for annual years beginning on or after:***	***Expected to be initially applied in year ending:***
NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets and liabilities.	1 January 2018	30 June 2019
NZ IFRS 9 Financial Instruments (2013), which provides a principles-based approach to hedge accounting and aligns hedge accounting more closely with risk management.	1 January 2018	30 June 2019

The full impact of NZ IFRS 9 is yet to be assessed.

29 Events after the reporting date

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

HISTORICAL SUMMARY OF FINANCIAL STATEMENTS

Statements of Comprehensive Income

	BANKING GROUP				
For the year ended	Audited 30 Jun 15 $000	Audited 30 Jun 14 $000	Audited 30 Jun 13 $000	Audited 30 Jun 12 $000	Audited 30 Jun 11 $000
Interest income	220,607	200,141	206,313	205,131	161,297
Interest expense	98,705	93,719	110,895	121,502	99,705
Net interest income	**121,902**	**106,422**	**95,418**	**83,629**	**61,592**
Other net income	9,615	13,179	11,433	11,329	8,988
Total operating income before other gains	**131,517**	**119,601**	**106,851**	**94,958**	**70,580**
Employee benefits	39,186	35,542	33,861	34,661	22,049
Other operating expenses	24,206	26,099	35,201	29,520	22,777
Profit before impairment and tax	**68,125**	**57,960**	**37,789**	**30,777**	**25,754**
Impaired asset expense	11,226	5,895	22,527	5,642	13,298
Decrease in fair value of investment properties	-	1,203	5,101	3,900	-
Net profit before tax	**56,899**	**50,862**	**10,161**	**21,235**	**12,456**
Income tax expense / (benefit)	15,944	14,616	2,718	(2,974)	4,712
Net profit after tax attributable to owners of the entity	**40,955**	**36,246**	**7,443**	**24,209**	**7,744**
Other comprehensive income for the year net of tax					
Effective portion of changes in fair value of cash flow hedges, net of tax	(2,709)	1,111	1,056	378	596
Net change in available-for-sale reserve, net of tax	898	(12)	276	(103)	111
Net change in defined benefit reserve, net of income tax	50	3	462	(435)	14
Total comprehensive income for the year, net of tax	**39,194**	**37,348**	**9,237**	**24,049**	**8,465**
Dividends paid to equity holders	32,200	38,661	15,605	1,597	866

Statements of Financial Position

	BANKING GROUP				
As at	Audited 30 Jun 15 $000	Audited 30 Jun 14 $000	Audited 30 Jun 13 $000	Audited 30 Jun 12 $000	Audited 30 Jun 11 $000
Total assets	2,798,556	2,390,749	2,500,132	2,344,489	2,115,485
Individually impaired assets	25,622	27,617	69,301	56,825	68,537
Total liabilities	2,425,749	2,026,423	2,135,207	1,973,196	1,821,644
Total equity	372,807	364,326	364,925	371,293	293,841

Historical financial information has been taken from the audited financial statements of the Banking Group.

Independent auditor's report

To the shareholder of Heartland Bank Limited

Report on the bank and banking group disclosure statement

We have audited the accompanying financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy) of Heartland Bank Limited ("the bank") and its related entities ("the banking group") on pages 12 to 62 of the disclosure statement. The financial statements comprise the statements of financial position as at 30 June 2015, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information of the bank and banking group. The supplementary information comprises the information that is required to be disclosed in accordance with Schedules 2, 4, 7, 9, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (the "Order").

Directors' responsibility for the disclosure statement

The directors are responsible for the preparation of the disclosure statement, including financial statements prepared in accordance with Clause 24 of the Order and generally accepted accounting practice in New Zealand, and that is a fair presentation of the matters to which they relate. The directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the bank and banking group financial statements that are free from material misstatement whether due to fraud or error.

The directors are responsible for the preparation and fair presentation of supplementary information, in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order.

Auditor's responsibility

Our responsibility is to express an opinion on the disclosure statement, including the financial statements prepared in accordance with Clause 24 of the Order and the supplementary information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the bank and banking group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the bank and banking group financial statements (excluding the supplementary information relating to Capital Adequacy). The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the bank and banking group's preparation of the financial statements that present fairly the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank and banking group's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

Opinion on financial statements

In our opinion, the financial statements of the bank and banking group on pages 12 to 62 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of the bank and banking group as at 30 June 2015 and of the financial performance and cash flows of the bank and banking group for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Opinion on supplementary information (excluding supplementary information relating to Capital Adequacy)

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order:

- has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration;
- is in accordance with the books and records of the bank and banking group in all material respects; and
- fairly states the matters to which it relates in accordance with those Schedules.

Review report on the supplementary information relating to Capital Adequacy

We have reviewed the supplementary information relating to Capital Adequacy, as disclosed in note 25 to the disclosure statement for the year ended 30 June 2015.

Directors' responsibility for the supplementary information relating to Capital Adequacy

The directors are responsible for the preparation of supplementary information relating to Capital Adequacy that is required to be disclosed under Schedule 9 of the Order and prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) and described in note 25 to the disclosure statement.

Auditor's responsibility

Our responsibility is to express an opinion on the Capital Adequacy information based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* issued by the New Zealand External Board. As the auditor of Heartland Bank Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the Capital Adequacy information is, in all material respects:

- prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A); and
- disclosed in accordance with Schedule 9 of the Order.

A review is limited primarily to enquiries of bank and banking 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 in respect of the capital adequacy disclosures, and accordingly, we do not express an audit opinion on these disclosures.

A review of the Capital Adequacy information in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the supplementary information relating to Capital Adequacy.

Review opinion on the supplementary information relating to Capital Adequacy

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy, disclosed in note 25 to the disclosure statement, is not, in all material respects:

- prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A); and
- disclosed in accordance with Schedule 9 of the Order.

Independence

Our firm has provided other services to bank and banking group in relation to other assurance services, general accounting services and advisory services. Partners and employees of our firm may also deal with the bank and banking group on normal terms within the ordinary course of trading activities of the business of the bank and banking group. There are, however, certain restrictions on dealings which the partners and employees of our firm can have with the bank and banking group. These matters have not impaired our independence as auditor of the bank and banking group. The firm has no other relationship with, or interest in, the bank and banking group.

KPMG

18 August 2015
Auckland