HEARTLAND

BANK

Disclosure Statement

For the six months ended 31 December 2014

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GENERAL INFORMATION

This Disclosure Statement has been issued by Heartland Bank Limited (the Bank) for the six months ended 31 December 2014 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order).

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 Bank was incorporated under the Companies Act 1993 on 31 January 2013. The Banking Group consists of the Bank and all of its controlled entities. All controlled entities are incorporated in New Zealand.

The Bank's address for service is 75 Riccarton Road, Riccarton, Christchurch.

GUARANTEE ARRANGEMENTS

As at 31 December 2014 no material obligations of the Bank are guaranteed.

DIRECTORS

There have been no changes to the Directors since the 30 September 2014 Disclosure Statement was signed.

AMENDMENTS TO CONDITIONS OF REGISTRATION

With effect from 1 November 2014, conditions 4 and 23 were amended to refer to updated versions of Reserve Bank of New Zealand (RBNZ) documents.

CONDITIONS OF REGISTRATION

These conditions apply on and after 1 November 2014.

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 12%;

   (b) the Tier 1 capital ratio of the banking group is not less than 12%;

   (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 10%;

   (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”.

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.

CONDITIONS OF REGISTRATION (CONTINUED)

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.

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).

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)

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.

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:

CONDITIONS OF REGISTRATION (CONTINUED)

"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.

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.

CONDITIONS OF REGISTRATION (CONTINUED)

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.

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.

AMENDMENTS TO CONDITIONS OF REGISTRATION AFTER THE REPORTING DATE

With effect from 31 January 2015, the Reserve Bank has reduced the regulatory capital requirements for the Bank in it's Conditions of Registration. The new regulatory capital ratios will be:

- Total capital ratio not less than 8%
- Tier 1 capital ratio not less than 6%
- Common equity tier 1 capital ratio not less than 4.5%
- Buffer ratio 2.5%

AUDITOR

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland

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 Banking Group or the Bank.

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.

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 six months ended 31 December 2014:
   - (a) the Bank complied with all Conditions of 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 23 February 2015 and has been signed by all of the Directors.

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

J. K. Greenslade

N. J. Greer

E. J. Harvey

M. D. Jonas

G. R. Kennedy

G. T. Ricketts

R. A. Wilks

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2014

	NOTE	Unaudited 6 mths to Dec 2014 $000	Unaudited 6 mths to Dec 2013 $000	Audited 12 mths to Jun 2014 $000
Interest income	5	106,658	100,469	200,141
Interest expense	5	47,264	48,114	93,719
Net interest income		**59,394**	**52,355**	**106,422**
Operating lease income		5,431	6,781	13,348
Operating lease expenses		3,607	3,937	7,709
Net operating lease income		**1,824**	**2,844**	**5,639**
Lending and credit fee income		1,420	1,231	2,475
Other income		1,287	2,528	5,065
Net operating income		**63,925**	**58,958**	**119,601**
Selling and administration expenses	6	31,082	31,544	61,641
Profit before impaired asset expense and income tax		**32,843**	**27,414**	**57,960**
Impaired asset expense	7	4,561	3,325	5,895
Decrease in fair value of investment properties		-	-	1,203
Profit before income tax		**28,282**	**24,089**	**50,862**
Income tax expense		8,215	6,847	14,616
Profit for the period		**20,067**	**17,242**	**36,246**
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		(1,050)	922	1,111
Net change in available for sale reserve, net of income tax		97	106	(12)
Items that will not be reclassified to profit or loss:				
Net change in defined benefit reserve, net of income tax		(16)	85	3
Other comprehensive (loss) / income for the period, net of income tax		**(969)**	**1,113**	**1,102**
Total comprehensive income for the period		**19,098**	**18,355**	**37,348**

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

The notes on pages 12 to 30 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2014

	NOTE	Share capital $000	Available for sale reserve $000	Defined benefit reserve $000	Hedging reserve $000	Retained earnings $000	Total equity $000
Unaudited - Dec 2014							
Balance at 1 July 2014		**339,757**	**272**	**44**	**1,157**	**23,096**	**364,326**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	20,067	20,067
Total other comprehensive income / (loss)		-	97	(16)	(1,050)	-	(969)
Total comprehensive income for the period		**-**	**97**	**(16)**	**(1,050)**	**20,067**	**19,098**
Contributions by and distributions to owners							
Share based payments		1,019	-	-	-	-	1,019
Dividends paid	8	-	-	-	-	(13,300)	(13,300)
Total transactions with owners		**1,019**	**-**	**-**	**-**	**(13,300)**	**(12,281)**
Balance at 31 December 2014		**340,776**	**369**	**28**	**107**	**29,863**	**371,143**
Unaudited - Dec 2013							
Balance at 1 July 2013		**189,774**	**284**	**41**	**46**	**174,780**	**364,925**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	17,242	17,242
Total other comprehensive income		-	106	85	922	-	1,113
Total comprehensive income for the period		**-**	**106**	**85**	**922**	**17,242**	**18,355**
Contributions by and distributions to owners							
Effect of amalgamation of subsidiaries	2(c)	149,269	-	-	-	(149,269)	-
Share based payments		549	-	-	-	-	549
Dividends paid	8	-	-	-	-	(9,821)	(9,821)
Total transactions with owners		**149,818**	**-**	**-**	**-**	**(159,090)**	**(9,272)**
Balance at 31 December 2013		**339,592**	**390**	**126**	**968**	**32,932**	**374,008**
Audited - Jun 2014							
Balance at 1 July 2013		**189,774**	**284**	**41**	**46**	**174,780**	**364,925**
Total comprehensive 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 income for the year		**-**	**(12)**	**3**	**1,111**	**36,246**	**37,348**
Contributions by and distributions to owners							
Effect of amalgamation of subsidiaries	2(c)	149,269	-	-	-	(149,269)	-
Share based payments		714	-	-	-	-	714
Dividends paid	8	-	-	-	-	(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 12 to 30 are an integral part of these interim financial statements.

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	NOTE	Unaudited Dec 2014 $000	Unaudited Dec 2013 $000	Audited Jun 2014 $000
Assets				
Cash and cash equivalents		88,187	174,454	34,588
Investments		207,544	255,427	238,859
Due from related parties	9	29,405	77	29,461
Investment properties		25,831	61,481	24,888
Finance receivables	10	2,138,465	1,905,850	1,985,119
Operating lease vehicles		30,716	31,911	31,295
Current tax asset		-	-	1,051
Other assets		8,950	11,204	8,191
Property, plant and equipment		7,706	9,775	9,573
Intangible assets		24,949	22,891	22,437
Deferred tax asset		6,014	11,454	5,287
Total assets		**2,567,767**	**2,484,524**	**2,390,749**
Liabilities				
Borrowings	11	2,127,620	2,076,968	1,963,833
Current tax liabilities		4,214	710	-
Due to related parties	9	31,471	500	28,221
Trade and other payables		33,319	32,338	34,369
Total liabilities		**2,196,624**	**2,110,516**	**2,026,423**
Equity				
Share capital		340,776	339,592	339,757
Retained earnings and reserves		30,367	34,416	24,569
Total equity		**371,143**	**374,008**	**364,326**
Total equity and liabilities		**2,567,767**	**2,484,524**	**2,390,749**
Total interest earning and discount bearing assets		2,462,984	2,334,238	2,286,350
Total interest and discount bearing liabilities		2,159,833	2,077,468	1,992,088

The notes on pages 12 to 30 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 December 2014

	NOTE	Unaudited 6 mths to Dec 2014 $000	Unaudited 6 mths to Dec 2013 $000	Audited 12 mths to Jun 2014 $000
Cash flows from operating activities				
Interest received		99,128	98,753	192,951
Operating lease income received		5,805	6,645	12,086
Proceeds from sale of operating lease vehicles		3,607	5,157	9,086
Lending, credit fees and other income received		2,707	3,759	7,540
Net decrease in finance receivables		-	94,594	17,028
Total cash provided from operating activities		**111,247**	**208,908**	**238,691**
Payments to suppliers and employees		26,448	30,558	57,301
Interest paid		46,889	49,216	95,084
Purchase of operating lease vehicles		5,722	7,182	12,954
Net increase in finance receivables		159,393	-	-
Taxation paid		3,300	5,171	7,823
Total cash applied to operating activities		**241,752**	**92,127**	**173,162**
Net cash flows (applied to) / from operating activities	12	**(130,505)**	**116,781**	**65,529**
Cash flows from investing activities				
Proceeds from sale of investment properties		3,832	5,067	42,244
Proceeds from sale of property, plant and equipment		1,956	25	19
Net decrease in investments		31,412	-	-
Total cash provided from investing activities		**37,200**	**5,092**	**42,263**
Purchase of office fit-out, equipment and intangible assets		3,606	601	984
Net increase in investments		-	90,098	73,648
Net increase in relation party loan		-	-	28,300
Total cash applied to investing activities		**3,606**	**90,699**	**102,932**
Net cash flows from / (applied to) investing activities		**33,594**	**(85,607)**	**(60,669)**
Cash flows from financing activities				
Net increase in borrowings		163,810	-	-
Total cash provided from financing activities		**163,810**	**-**	**-**
Dividends paid	8	13,300	9,821	38,661
Net decrease in borrowings		-	19,676	104,388
Total cash applied to financing activities		**13,300**	**29,497**	**143,049**
Net cash flows from / (applied to) financing activities		**150,510**	**(29,497)**	**(143,049)**
Net increase / (decrease) in cash held		**53,599**	**1,677**	**(138,189)**
Opening cash and cash equivalents		34,588	172,777	172,777
Closing cash and cash equivalents		**88,187**	**174,454**	**34,588**

The notes on pages 12 to 30 are an integral part of these interim financial statements.

1 Reporting entity

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

The Banking Group includes VPS Properties Limited, VPS Parnell Limited (amalgamated into VPS Properties Limited on 22 December 2014), Heartland Cash and Term PIE Fund, a portfolio investment entity and Heartland ABCP Trust 1 (ABCP Trust), a special purpose vehicle holding securitised loans purchased from the Bank. Refer to Note 13 - Structured entities for further details.

2 Basis of preparation

The interim financial statements presented here are for the following periods:
- 6 month period ended 31 December 2014 - Unaudited
- 6 month period ended 31 December 2013 - Unaudited
- 12 month period ended 30 June 2014 - Audited

(a) Statement of compliance

The condensed interim financial statements of the Banking Group incorporated in this Disclosure Statement have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), NZ IAS 34 Interim Financial Reporting and also comply with IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Disclosure Statement for the year ended 30 June 2014.

The Bank and all the entities within the Banking Group are profit-oriented entities. The Bank is an FMC reporting entity under section 451 of the Financial Markets Conduct Act 2013 (the Act) which has financial reporting requirements under Part 7 of that Act.

(b) Basis of measurement

The interim financial statements have been prepared on a going concern basis in accordance with historical cost, unless stated otherwise.

(c) Effect of amalgamation

When the Bank was formed, under NZ IFRS, MARAC Finance Limited (MARAC) was treated as the acquirer of the Bank As a result, the Banking Group represented a continuation of the MARAC business, and the share capital of the Banking Group reflected this. On 1 December 2013, MARAC was amalgamated into the Bank and as a result of this, the reverse acquisition accounting originally applied when the Bank was formed was unwound.

(d) Comparative information

Certain comparatives have been restated to comply with current period presentation.

3 Significant accounting policies

The accounting policies applied by the Banking Group in these consolidated interim financial statements are the same as those applied by the Banking Group in its consolidated financial statements as at, and for the year ended, 30 June 2014.

4 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 9 - Related party transactions and balances. Certain selling and administration expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other.

Operating segments

The 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 term, transactional and savings based deposit 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 and realisation of assets of the non-core property division.

4 Segmental analysis (continued)

Operating segments (continued)

During the period ended 31 December 2014, 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.

The Banking Group's operating segments are different than the industry categories detailed in Note 15 (c) - Concentration of credit risk by industry sector and Note 16 - Asset quality. The operating segments are primarily categorised by sales channel, whereas Note 15 (c) - Concentration of credit risk by industry sector and Note 16 - Asset quality are based on credit risk concentrations.

	Households	Business	Rural	Non-core Property	Other	Total
	$000	$000	$000	$000	$000	$000
Unaudited - 6 months ended 31 December 2014						
Net interest income / (expense)	27,809	20,385	11,677	(339)	(138)	59,394
Net operating lease income	1,822	2	-	-	-	1,824
Net other income	1,071	270	78	377	911	2,707
Net operating income	**30,702**	**20,657**	**11,755**	**38**	**773**	**63,925**
Selling and administration expenses	7,330	3,134	2,630	549	17,439	31,082
Profit / (loss) before impaired asset expense and income tax	**23,372**	**17,523**	**9,125**	**(511)**	**(16,666)**	**32,843**
Impaired asset expense / (benefit)	1,720	3,085	72	(316)	-	4,561
Profit / (loss) before income tax	**21,652**	**14,438**	**9,053**	**(195)**	**(16,666)**	**28,282**
Income tax expense	-	-	-	-	8,215	8,215
Profit / (loss) for the period	**21,652**	**14,438**	**9,053**	**(195)**	**(24,881)**	**20,067**
Total assets	961,262	779,073	454,564	29,038	343,830	**2,567,767**
Total liabilities	-	-	-	-	2,196,624	**2,196,624**
Total equity	-	-	-	-	371,143	**371,143**

	Households	Business	Rural	Non-core Property	Other	Total
Unaudited - 6 months ended 31 December 2013						
Net interest income / (expense)	22,885	18,088	12,083	(811)	110	52,355
Net operating lease income	2,844	-	-	-	-	2,844
Net other income	709	215	30	2,211	594	3,759
Net operating income	**26,438**	**18,303**	**12,113**	**1,400**	**704**	**58,958**
Selling and administration expenses	5,637	2,837	2,694	2,515	17,861	31,544
Profit / (loss) before impaired asset expense and income tax	**20,801**	**15,466**	**9,419**	**(1,115)**	**(17,157)**	**27,414**
Impaired asset expense / (benefit)	65	2,993	323	(56)	-	3,325
Profit / (loss) before income tax	**20,736**	**12,473**	**9,096**	**(1,059)**	**(17,157)**	**24,089**
Income tax expense	-	-	-	-	6,847	6,847
Profit / (loss) for the period	**20,736**	**12,473**	**9,096**	**(1,059)**	**(24,004)**	**17,242**
Total assets	817,104	679,128	415,890	87,120	485,282	**2,484,524**
Total liabilities	-	-	-	-	2,110,516	**2,110,516**
Total equity	-	-	-	-	374,008	**374,008**

4 Segmental analysis (continued)

	Households $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Audited - 12 months ended 30 June 2014						
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**
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**

5 Net interest income

	Unaudited 6 mths to Dec 2014 $000	Unaudited 6 mths to Dec 2013 $000	Audited 12 mths to Jun 2014 $000
Interest income			
Cash and cash equivalents	1,538	1,663	3,422
Investments	4,451	3,877	9,189
Finance receivables	100,669	94,929	187,530
Total interest income	**106,658**	**100,469**	**200,141**
Interest expense			
Retail deposits	39,668	41,127	79,430
Bank and securitised borrowings	7,444	6,599	13,468
Net interest expense on derivative financial instruments	152	388	821
Total interest expense	**47,264**	**48,114**	**93,719**
Net interest income	**59,394**	**52,355**	**106,422**

Included within the Banking Group's interest income on finance receivables is $1.05 million on individually impaired assets (6 months to December 2013: $1.72 million; 12 months to June 2014: $2.67 million).

6 Selling and administration expenses

Personnel expenses	18,704	17,670	34,972
Directors' fees	259	204	463
Superannuation	373	306	570
Audit and review of financial statements	150	192	304
Other assurance fees paid to auditor [1]	66	9	18
Other fees paid to auditor [2]	10	90	193
Amortisation - intangible assets	623	641	1,341
Depreciation - property, plant and equipment	382	463	801
Operating lease expense as a lessee	738	819	1,551
Legal and professional fees	764	1,632	2,795
Other operating expenses	9,013	9,518	18,633
Total selling and administration expenses	**31,082**	**31,544**	**61,641**

[1] Other assurance fees paid to auditor include reporting on regulatory compliance and trust deed requirements.

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

7 Impaired asset expense

	NOTE	Unaudited 6 mths to Dec 2014 $000	Unaudited 6 mths to Dec 2013 $000	Audited 12 mths to Jun 2014 $000
Non-securitised				
Individually impaired expense		3,432	5,131	11,851
Collectively impaired expense / (recovery)		653	(2,089)	(6,536)
Total non-securitised impaired asset expense		**4,085**	**3,042**	**5,315**
Securitised				
Collectively impaired expense / (recovery)		476	283	580
Total securitised impaired asset expense		**476**	**283**	**580**
Total				
Individually impaired expense	16(d)	3,432	5,131	11,851
Collectively impaired expense / (recovery)	16(d)	1,129	(1,806)	(5,956)
Total impaired asset expense		**4,561**	**3,325**	**5,895**

8 Dividends paid

During the 6 months to December 2014, the Bank paid dividends of $13.30 million to Heartland NZ Holdings Limited (6 months to December 2013: $9.82 million; 12 months to June 2014: $38.66 million).

9 Related party transactions and balances

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 (HNZ).

(a) Balances with related parties

The Bank provided a commercial loan of $28.92 million to Heartland HER Holdings Limited (HHHL), a wholly owned subsidiary of HNZ (December 2013: nil, June 2014: $28.90 million). During the period ended 31 December 2014, the Bank acquired loans at fair value of $16.62 million from New Sentinel Limited, a wholly owned subsidiary of HHHL (December 2013: nil, June 2014: $111.27 million).

HNZ, MARAC Insurance Limited (a wholly owned subsidiary of MARAC JV Holdings Limited of which HNZ holds a 50% joint venture interest with the New Zealand Automobile Association), and key management personnel of HNZ invested in the Bank's deposits.

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 13 - Structured entities.

	Unaudited Dec 2014 $000	Unaudited Dec 2013 $000	Audited Jun 2014 $000
Due from related parties			
Heartland HER Holdings Limited	28,922	-	29,367
Heartland New Zealand Limited	-	77	-
Other related parties	483	-	94
Total due from related parties	**29,405**	**77**	**29,461**
Due to related parties			
Heartland New Zealand Limited	16,958	-	22,801
MARAC Insurance Limited	500	500	500
Key management personnel and directors of the ultimate parent	14,013	-	4,920
Total due to related parties	**31,471**	**500**	**28,221**

9 Related party transactions and balances (continued)

(b) Transactions with related parties

The Banking Group recognised interest income on the loan to HHHL and interest expense on the deposits held by HNZ, MARAC Insurance Limited and key management personnel of the ultimate parent.

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).

	Unaudited 6 mths to Dec 2014 $000	Unaudited 6 mths to Dec 2013 $000	Audited 12 mths to Jun 2014 $000
Transactions with related parties			
Interest income	1,160	-	568
Interest expense	(666)	(11)	(280)
Lending and credit fee income	309	105	300
Other income	550	189	468
Total transactions with other related parties	1,353	283	1,056

(c) Key management personnel transactions and balances

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

Finance receivables	887	748	709
Loans to key management personnel	-	640	640
Borrowings - deposits	(1,648)	(1,074)	(1,079)
Interest income	50	26	55
Interest expense	(25)	(30)	(43)

10 Finance receivables

	Unaudited Dec 2014 $000	Unaudited Dec 2013 $000	Audited Jun 2014 $000
Non-securitised			
Neither at least 90 days past due nor impaired	1,776,187	1,577,598	1,693,063
At least 90 days past due	29,748	18,397	32,969
Individually impaired	25,984	53,100	27,617
Restructured assets	4,012	3,994	4,064
Gross finance receivables	**1,835,931**	**1,653,089**	**1,757,713**
Less provision for impairment	18,573	33,030	15,725
Less fair value adjustment for present value of future losses	1,401	549	1,707
Total non-securitised finance receivables	**1,815,957**	**1,619,510**	**1,740,281**
Securitised			
Neither at least 90 days past due nor impaired	322,360	285,854	244,409
At least 90 days past due	904	1,121	1,065
Gross finance receivables	**323,264**	**286,975**	**245,474**
Less provision for impairment	756	635	636
Total securitised finance receivables	**322,508**	**286,340**	**244,838**
Total			
Neither at least 90 days past due nor impaired	2,098,547	1,863,452	1,937,472
At least 90 days past due	30,652	19,518	34,034
Individually impaired	25,984	53,100	27,617
Restructured assets	4,012	3,994	4,064
Gross finance receivables	**2,159,195**	**1,940,064**	**2,003,187**
Less provision for impairment	19,329	33,665	16,361
Less fair value adjustment for present value of future losses	1,401	549	1,707
Total finance receivables	**2,138,465**	**1,905,850**	**1,985,119**

Refer to Note 16 - Asset quality for further analysis of finance receivables by credit risk concentration.

11 Borrowings

	Unaudited 6 mths to Dec 2014 $000	Unaudited 6 mths to Dec 2013 $000	Audited 12 mths to Jun 2014 $000
Deposits	1,770,615	1,805,944	1,731,832
Subordinated Bond	3,379	3,379	3,378
Securitised borrowings	303,558	267,645	228,623
Bank borrowings	50,068	-	-
Total borrowings	**2,127,620**	**2,076,968**	**1,963,833**

Deposits rank equally and are unsecured. The Subordinated Bonds rank below all other general liabilities of the Banking Group. Investors in ABCP Trust rank equally with each other and are secured over the securitised assets of that trust.

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

Profit for the period	**20,067**	**17,242**	**36,246**
Add / (less) non-cash items:			
Depreciation and amortisation expense	1,005	1,104	2,142
Change in fair value of investment properties	-	-	1,203
Impaired asset expense	4,561	3,325	5,895
Deferred tax (benefit) / expense	(727)	4,919	11,086
Derivative financial instruments revaluation	776	(229)	(33)
Accruals	389	1,066	(737)
Total non-cash items	**6,004**	**10,185**	**19,556**
Add / (less) movements in working capital items:			
Other assets	1,476	673	2,475
Loss on disposal of property, plant and equipment and intangibles	-	-	56
Current tax	5,265	(2,855)	(4,616)
Other liabilities	2,488	(2,130)	(118)
Total movements in working capital items	**9,229**	**(4,312)**	**(2,203)**
Net cash flows from operating activities before movements in finance receivables and operating lease vehicles	**35,300**	**23,115**	**53,599**
Movements in operating lease vehicles	579	484	1,100
Movements in finance receivables	(166,384)	93,182	10,830
Net cash flows (applied to) / from operating activities	**(130,505)**	**116,781**	**65,529**

13 Structured entities

Heartland Cash and Term PIE Fund

Investments of Heartland Cash and Term PIE Fund are represented as follows:

	Unaudited Dec 2014 $000	Unaudited Dec 2013 $000	Audited Jun 2014 $000
Deposits	45,239	41,594	38,819

Heartland ABCP Trust 1

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

The Banking Group substantially retains the credit risks and rewards associated with the securitised assets, and continues to recognise these assets and associated borrowings on the Interim Statement of Financial Position. Despite this presentation in the interim financial statements, the loans sold to ABCP Trust are set aside for the benefit of investors in ABCP Trust and are represented as follows:

	Unaudited Dec 2014 $000	Unaudited Dec 2013 $000	Audited Jun 2014 $000
Cash and cash equivalents - securitised	11,472	7,969	5,421
Finance receivables - securitised	322,508	286,340	244,838
Borrowings - securitised	(303,558)	(267,645)	(228,623)
Derivative financial assets - securitised	679	1,670	1,768
Derivative financial liabilities - securitised	(365)	(26)	-

14 Risk management policies

There have been no material changes in the Banking Group's policies for managing risk, or material exposures to any new types of risk since the reporting date of the previous disclosure statement.

15 Credit risk

Credit risk is the risk of loss arising from the non-performance of a counterparty to an instrument or facility. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual arrangements, and encompasses both on and off balance sheet instruments.

To manage this risk the Board through its Board Risk Committee (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 tables below represent the maximum credit risk exposure, without taking account of any collateral held. The exposures set out below are based on net carrying amounts as reported in the Interim Statement of Financial Position.

(a) Maximum exposure to credit risk

	Unaudited Dec 2014 $000
Finance receivables	2,138,465
Cash and cash equivalents	88,187
Investments	207,544
Due from related parties	29,405
Derivative financial assets	679
Other financial assets	6,876
Total on balance sheet credit exposures	**2,471,156**

(b) Concentration of credit risk by geographic region

Auckland	712,797
Wellington	183,575
Rest of North Island	654,296
Canterbury	462,289
Rest of South Island	389,640
Overseas [1]	47,764
	2,450,361
Collective provisions	(7,209)
Fair value adjustment for present value of future losses	(1,401)
Due from related parties	29,405
Total on balance sheet credit exposures	**2,471,156**

[1] These overseas assets are Investments not Finance Receivables. These assets represent NZD-denominated investments in AAA- and AA+ 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.

15 Credit risk (continued)

(c) Concentration of credit risk by industry sector

	Unaudited Dec 2014 $000
Agriculture	508,655
Forestry and Fishing	30,287
Mining	15,204
Manufacturing	89,106
Finance & Insurance	310,072
Wholesale trade	88,887
Retail trade	184,779
Households	719,379
Property and Business services	370,252
Transport and storage	18,100
Other	115,640
	2,450,361
Collective provisions	(7,209)
Fair value adjustment for present value of future losses	(1,401)
Due from related parties	29,405
Total on balance sheet credit exposures	**2,471,156**

(d) Credit exposure to individual counterparties

At 31 December 2014 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).

Peak aggregate end-of-day credit exposures are determined by taking the maximum end-of-day aggregate amount of credit exposure over the period divided by the Banking Group's equity as at the end of the period. 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.

(e) 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 31 December 2014, the Banking Group had $1.9 million of assets under administration.

16 Asset quality

The disclosures below 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 sized 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.

16 Asset quality (continued)

(a) Finance Receivables by credit risk concentration

	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Unaudited - Dec 2014						
Neither at least 90 days past due or impaired	522,703	83	861,242	231,883	482,636	2,098,547
At least 90 days past due	15,540	427	12,829	328	1,528	30,652
Individually impaired	1,956	7,788	16,013	227	-	25,984
Restructured	38	-	1,197	-	2,777	4,012
Fair value adjustment for present value of future losses	-	-	-	(1,401)	-	(1,401)
Provision for impairment	(2,069)	(5,091)	(10,134)	(545)	(1,490)	(19,329)
Total finance receivables	**538,168**	**3,207**	**881,147**	**230,492**	**485,451**	**2,138,465**

(b) Past due but not impaired

	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Unaudited - Dec 2014						
Less than 30 days past due	8,452	-	8,166	2,062	12,788	31,468
At least 30 and less than 60 days past due	3,567	-	2,298	372	2,732	8,969
At least 60 and less than 90 days past due	1,212	-	1,019	6	971	3,208
At least 90 days past due	15,540	427	12,829	328	1,528	30,652
Total past due but not impaired	**28,771**	**427**	**24,312**	**2,768**	**18,019**	**74,297**

(c) Individually impaired assets

	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Unaudited - Dec 2014						
Opening	2,818	17,090	7,709	-	-	27,617
Additions	314	419	11,054	-	-	11,787
Deletions	(778)	(9,507)	(2,712)	-	-	(12,997)
Write offs	(398)	(214)	189	-	-	(423)
Closing gross individually impaired assets	**1,956**	**7,788**	**16,240**	**-**	**-**	**25,984**
Less: provision for individually impaired assets	1,297	3,437	7,386	-	-	12,120
Total net impaired assets	**659**	**4,351**	**8,854**	**-**	**-**	**13,864**

(d) Provision for impaired assets

	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Unaudited - Dec 2014						
Provision for individually impaired assets						
Opening individual impairment	1,531	3,739	4,092	-	-	9,362
Impairment loss for the period						
- charge for the period	166	51	3,215	-	-	3,432
- write offs	(398)	(214)	189	-	-	(423)
- effect of discounting	(2)	(139)	(110)	-	-	(251)
Closing individual impairment	**1,297**	**3,437**	**7,386**	**-**	**-**	**12,120**
Provision for collectively impaired assets						
Opening collective impairment	583	2,005	3,183	57	1,171	6,999
Impairment loss for the period						
- charge/(credit) for the period	190	(352)	(168)	488	971	1,129
- recoveries	-	1	83	-	-	84
- write offs	(1)	-	(350)	-	(652)	(1,003)
Closing collective impairment	**772**	**1,654**	**2,748**	**545**	**1,490**	**7,209**
Total provision for impairment	**2,069**	**5,091**	**10,134**	**545**	**1,490**	**19,329**

17 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 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 Interim Statement 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.

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 interim 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 Interim Statement of Financial Position.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Unaudited - Dec 14				
Assets				
Investments	196,993	10,551	-	207,544
Derivative assets held for risk management	-	679	-	679
Total	**196,993**	**11,230**	**-**	**208,223**
Liabilities				
Derivative liabilities held for risk management	-	742	-	742
Total	**-**	**742**	**-**	**742**
Unaudited - Dec 13				
Assets				
Investments	215,331	40,096	-	255,427
Derivative assets held for risk management	-	1,796	-	1,796
Total	**215,331**	**41,892**	**-**	**257,223**
Liabilities				
Derivative liabilities held for risk management	-	26	-	26
Total	**-**	**26**	**-**	**26**

17 Fair value (continued)

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

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Unaudited - Jun 14				
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**

(b) Financial instruments not measured at fair value

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.

	Unaudited Total Fair Value Dec 2014 $000	Unaudited Total Carrying Value Dec 2014 $000	Unaudited Total Fair Value Dec 2013 $000	Unaudited Total Carrying Value Dec 2013 $000	Audited Total Fair Value Jun 2014 $000	Audited Total Carrying Value Jun 2014 $000
Assets						
Cash and cash equivalents	88,187	88,187	174,454	174,454	34,588	34,588
Due from related parties	28,859	29,405	77	77	28,863	29,461
Finance receivables	1,812,332	1,815,957	1,618,601	1,619,510	1,735,549	1,740,281
Finance receivables - securitised	326,100	322,508	289,540	286,340	246,674	244,838
Other financial assets	6,876	6,876	7,083	7,083	5,371	5,371
Total financial assets	**2,262,354**	**2,262,933**	**2,089,755**	**2,087,464**	**2,051,045**	**2,054,539**
Liabilities						
Borrowings	1,829,925	1,824,062	1,814,013	1,809,323	1,736,753	1,735,210
Borrowings - securitised	303,558	303,558	267,645	267,645	228,887	228,623
Due to related parties	31,471	31,471	500	500	28,221	28,221
Other financial liabilities	16,393	16,393	17,102	17,102	18,563	18,563
Total financial liabilities	**2,181,347**	**2,175,484**	**2,099,260**	**2,094,570**	**2,012,424**	**2,010,617**

Further information on valuation techniques and assumptions used for determining fair value is included in Note 32 of the Bank's Disclosure Statement for the year ended 30 June 2014.

18 Concentrations of funding

(a) Concentration of funding by industry

	Unaudited Dec 2014 $000
Finance	412,988
Other	1,714,632
Total borrowings	**2,127,620**

(b) Concentration of funding by geographical area

Auckland	543,545
Wellington	225,456
Rest of North Island	381,494
Canterbury	709,656
Rest of South Island	186,787
Overseas	80,682
Total borrowings	**2,127,620**

19 Liquidity risk

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

	Unaudited Dec 2014 $000
Cash and cash equivalents	88,187
Investments	207,544
Undrawn committed bank facilities	45,000
Total liquidity	**340,731**

The Banking Group has securitised bank facilities of $350 million in relation to the ABCP Trust, which matures on 5 August 2015.

Contractual liquidity profile of financial assets and liabilities

The following table shows the cash flows of the Banking Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity.

In the following table, total financial assets do not include unrecognised loan commitments and total financial liabilities do not include undrawn committed bank facilities. The cash flows have been prepared using estimates of the average interest rate applicable for each asset or liability class during the contractual term.

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
Unaudited - Dec 2014							
Financial assets							
Cash and cash equivalents	88,187	-	-	-	-	-	88,187
Investments	-	39,739	27,387	42,324	108,314	9,599	227,363
Finance receivables	-	338,973	254,727	376,790	761,468	870,403	2,602,361
Finance receivables - securitised	-	74,445	70,439	116,132	122,675	51	383,742
Derivative financial assets	-	679	-	-	-	-	679
Other financial assets	-	8,061	1,185	2,369	7,108	26,747	45,470
Total financial assets	**88,187**	**461,897**	**353,738**	**537,615**	**999,565**	**906,800**	**3,347,802**
Financial liabilities							
Borrowings	509,136	682,009	341,925	211,490	129,263	-	1,873,823
Borrowings - securitised	-	51,879	260,153	-	-	-	312,032
Derivative financial liabilities	-	742	-	-	-	-	742
Other financial liabilities	31,471	16,393	-	-	-	-	47,864
Total financial liabilities	**540,607**	**751,023**	**602,078**	**211,490**	**129,263**	**-**	**2,234,461**
Net financial (liabilities) / assets	**(452,420)**	**(289,126)**	**(248,340)**	**326,125**	**870,302**	**906,800**	**1,113,341**
Unrecognised loan commitments	129,125	-	-	-	-	-	129,125
Undrawn committed bank facilities	45,000	-	-	-	-	-	45,000

The undrawn committed bank facilities totalling $45 million are available to be drawn down on demand. To the extent drawn, $45 million is contractually repayable on 5 August 2015.

19 Liquidity risk (continued)

Expected maturity profile of financial assets and liabilities

The following table shows the Banking Group's expected maturities of existing financial assets and financial liabilities.

Expected maturities of financial assets are based on the Banking Group's best estimate having regard to current market conditions and past experience. The expected maturities of securitised borrowings are based on the expected maturities of securitised receivables and historical deposit reinvestment levels have been applied to other borrowings. Other financial liabilities reflect contractual maturities.

The table does not reflect a forward looking view of how the Banking Group expects actual financial assets and liabilities to perform in the future, as it does not include new lending and borrowing.

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
Unaudited - Dec 2014							
Financial assets							
Cash and cash equivalents	88,187	-	-	-	-	-	88,187
Investments	-	39,739	27,387	42,324	108,314	9,599	227,363
Finance receivables	-	445,835	340,032	465,195	664,865	315,064	2,230,991
Finance receivables - securitised	-	74,415	70,405	116,066	122,634	217	383,737
Derivative financial assets	-	679	-	-	-	-	679
Other financial assets	-	8,061	1,185	2,369	7,108	26,747	45,470
Total financial assets	**88,187**	**568,729**	**439,009**	**625,954**	**902,921**	**351,627**	**2,976,427**
Financial liabilities							
Borrowings	5,132	227,959	162,527	291,303	617,538	686,942	1,991,401
Borrowings - securitised	-	51,879	4,676	11,185	33,462	260,000	361,202
Derivative financial liabilities	-	742	-	-	-	-	742
Other financial liabilities	-	30,406	16,958	-	-	500	47,864
Total financial liabilities	**5,132**	**310,986**	**184,161**	**302,488**	**651,000**	**947,442**	**2,401,209**
Net financial assets / (liabilities)	**83,055**	**257,743**	**254,848**	**323,466**	**251,921**	**(595,815)**	**575,218**
Unrecognised loan commitments	129,125	-	-	-	-	-	129,125
Undrawn committed bank facilities	45,000	-	-	-	-	-	45,000

20 Interest rate risk

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.

	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
Unaudited - Dec 2014							
Financial assets							
Cash and cash equivalents	87,789	-	-	-	-	398	88,187
Investments	92,430	6,611	14,594	23,485	70,424	-	207,544
Due from related parties	28,922	-	-	-	-	483	29,405
Finance receivables	1,298,944	80,297	129,361	175,967	130,973	415	1,815,957
Finance receivables - securitised	42,865	39,715	68,231	96,509	75,188	-	322,508
Other financial assets	679	-	-	-	-	6,876	7,555
Total financial assets	**1,551,629**	**126,623**	**212,186**	**295,961**	**276,585**	**8,172**	**2,471,156**
Financial liabilities							
Borrowings	906,466	277,066	329,670	197,353	113,507	-	1,824,062
Borrowings - securitised	303,558	-	-	-	-	-	303,558
Due to related parties	31,471	-	-	-	-	-	31,471
Other financial liabilities	742	-	-	-	-	16,393	17,135
Total financial liabilities	**1,242,237**	**277,066**	**329,670**	**197,353**	**113,507**	**16,393**	**2,176,226**
Effect of derivatives held for risk management	237,870	(25,855)	(47,660)	(76,515)	(87,840)	-	-
Net financial assets / (liabilities)	**547,262**	**(176,298)**	**(165,144)**	**22,093**	**75,238**	**(8,221)**	**294,930**

21 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 Bank'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 affected 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 31 December 2014.

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.

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

21 Capital adequacy (continued)

(a) Capital ratios[1]

	Unaudited Dec 2014 %	Unaudited Dec 2013 %
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.68%	14.63%
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	10.00%	10.00%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.68%	14.63%
Minimum Tier 1 Capital as per Conditions of Registration	12.00%	12.00%
Total Capital expressed as a percentage of total risk weighted exposures	13.76%	14.73%
Minimum Total Capital as per Conditions of Registration	12.00%	12.00%
Buffer ratio	1.68%	2.63%
Buffer ratio requirement[2]	N/A	N/A
Solo capital adequacy[3]		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	15.72%	16.63%
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	10.00%	10.00%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	15.72%	16.63%
Minimum Tier 1 Capital as per Conditions of Registration	12.00%	12.00%
Total Capital expressed as a percentage of total risk weighted exposures	15.81%	16.75%
Minimum Total Capital as per Conditions of Registration	12.00%	12.00%

1 From 31 January 2015, the Reserve Bank has reduced the regulatory capital requirements in the Bank's Conditions of Registration. See Note 24 - Events after the reporting date.

2 The Banking Group does not currently have a minimum buffer ratio requirement. From 31 January 2015, in addition to reduced regulatory capital requirements the Reserve Bank has introduced a buffer ratio requirement of 2.5%. See Note 24 - Events after the reporting date.

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

	Unaudited Dec 2014 $000
Tier 1 Capital	
Common Equity Tier 1 (CET1) Capital	
Paid up ordinary shares issued by the Bank plus related share premium	340,776
Retained earnings (net of appropriations)	29,863
Accumulated other comprehensive income and other disclosed reserves	504
Less deductions from CET1 capital	
Intangible assets	(24,949)
Deferred tax assets	(6,014)
Hedging reserve	(107)
Defined benefit superannuation fund asset	(458)
Total CET1 Capital	**339,615**
Additional Tier 1 Capital	
Nil	-
Total Tier 1 capital	**339,615**
Tier 2 capital	
2018 Subordinated Bond	1,941
Total Tier 2 Capital	**1,941**
Total Capital	**341,556**

(b) Capital structure

Ordinary shares

In accordance with BS2A, ordinary share capital is classified as CET1 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.

21 Capital adequacy (continued)

(b) Capital structure (continued)

2018 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.

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.

(c) Credit risk

(i) On-balance-sheet exposures

	Total exposure	Risk weighting	Risk weighted exposure	Minimum Pillar 1 capital requirement[1]
	$000	%	$000	$000
Unaudited - Dec 2014				
Cash	398	-	-	-
Multilateral development banks and other international organisations	22,105	-	-	-
Multilateral development banks and other international organisations	15,162	20%	3,032	364
Banks	150,823	20%	30,165	3,620
Banks	20,066	50%	10,033	1,204
Public sector entities	35,293	20%	7,059	847
Public sector entities	17,092	50%	8,546	1,026
Corporate	25,745	20%	5,149	618
Corporate	8,138	50%	4,069	488
Corporate	909	100%	909	109
Welcome Home Loans - loan to value ratio (LVR) <= 90%[2]	11,706	35%	4,097	492
Welcome Home Loans - LVR 90% >= 100%[2]	6,563	50%	3,282	394
Welcome Home Loans - LVR > 100%[2]	832	100%	832	100
Residential mortgages <= 80% LVR	204,998	35%	71,749	8,610
Residential mortgages 80 <= 90% LVR	1,779	50%	890	107
Residential mortgages 90 <= 100% LVR	1,356	75%	1,017	122
Residential mortgages 100%+ LVR	2,703	100%	2,703	324
Past due residential mortgages	555	100%	555	67
Other past due assets - provision 20%+	7,329	100%	7,329	879
Other past due assets - provision < 20%	39,347	150%	59,021	7,083
Other assets	1,963,340	100%	1,963,340	235,601
Non risk weighted assets	31,528	n/a	-	-
Total on balance sheet exposures	**2,567,767**		**2,183,777**	**262,055**

[1] Minimum Pillar 1 capital requirement has been calculated at 12% in accordance with the Bank's Conditions of Registration.

[2] 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.

21 Capital adequacy (continued)

(c) Credit risk (continued)

(ii) Off-balance sheet exposures

	Total exposure	Credit conversion Factor	Credit equivalent amount	Risk weighting	Risk weighted exposure	Minimum Pillar 1 capital requirement [1]
	$000	$000	$000	%	$000	$000
Unaudited - Dec 2014						
Off balance sheet exposures						
Direct credit substitute	6,011	100%	6,011	100%	6,011	721
Performance-related contingency	3,516	50%	1,758	100%	1,758	211
Other commitments where original maturity is more than one year	128,452	50%	64,226	100%	64,226	7,707
Other commitments where original maturity is less than or equal to one year	117,894	20%	23,579	100%	23,579	2,829
Market related contracts: [2]						
Interest rate contracts	265,840	n/a	1,309	20%	262	31
Total off balance sheet exposures	**521,713**		**96,883**		**95,836**	**11,499**

(d) Additional mortgage information - LVR range

	On balance sheet exposures	Off balance sheet exposures [3]	Total exposures
	$000	$000	$000
Unaudited - Dec 2014			
Does not exceed 80%	210,525	2,568	213,093
Exceeds 80% and not 90%	8,286	-	8,286
Exceeds 90%	11,681	99	11,780
Total exposures	**230,492**	**2,667**	**233,159**

At 31 December 2014, of the balance of "Exceeds 90%" above, $7.4 million relates to Welcome Home loans, whose credit risk is mitigated by the Crown.

(e) Reconciliation of mortgage related amounts

	NOTE	Unaudited Dec 2014 $000
Loans and advances - loans with residential mortgages	16(a)	230,492
On balance sheet residential mortgage exposures subject to the standardised approach		**230,492**
Off balance sheet mortgage exposures subject to the standardised approach		2,667
Total residential exposures subject to the standardised approach		**233,159**

(f) Credit risk mitigation

As at 31 December 2014 the Banking Group has $19.1 million of Welcome Home Loans, whose credit risk is mitigated by the Crown. Other than this the Banking Group does not have any exposures covered by eligible collateral, guarantees and credit derivatives.

[1] Minimum Pillar 1 capital requirement has been calculated at 12% in accordance with the Bank's Conditions of Registration.
[2] The credit equivalent amount for market related contracts was calculated using the current exposure method.
[3] Off balance sheet exposures means unutilised limits.

21 Capital adequacy (continued)

(g) Operational Risk

	Implied risk weighted exposure	Aggregate capital charge	Aggregate capital charge per Conditions of Registration
	$000	$000	$000
Operational risk	157,123	12,570	18,855

(h) Market risk

		Implied risk weighted exposure	Aggregate capital charge	Aggregate capital charge per Conditions of Registration
		$000	$000	$000
Market risk end-of-period capital charge	Interest rate risk only	45,864	3,669	5,504
Market risk peak end-of-day capital charge	Interest rate risk only	78,889	6,311	9,467

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.

(i) Total capital requirements

	Total exposure after credit risk mitigation	Risk weighted exposure or implied risk weighted exposure	Total capital requirement per BS2A	Total capital requirement per Conditions of Registration
	$000	$000	$000	$000
Unaudited - Dec 2014				
Total credit risk				
On balance sheet	2,567,767	2,183,777	262,055	262,055
Off balance sheet	521,713	95,836	11,499	11,499
Operational risk	n/a	157,123	12,570	18,855
Market risk	n/a	45,864	3,669	5,504
Total	**n/a**	**2,482,600**	**289,793**	**297,913**

The implied risk weighted exposure for Operational and Market risk calculated per BS2A assumes a capital requirement of 8%, however the Bank's Conditions of Registration requires it to hold capital against these risks at 12%. Note that from 31 January 2015, the Bank's Conditions of Registration has changed to reduce the minimum capital requirement to 8%. See Note 24 - Events after the reporting date.

(j) Other material risks

The ICAAP has identified the capital required to be held against other material risks (being concentration risk, strategic / business risk, reputational risk, regulatory risk and model risk). The Board has determined that the regulatory minimum capital of 12% as per the Conditions of Registration is sufficient to cover these other material risks. As a result, there is no additional internal capital allocation for other material risks (December 2013: nil, June 2014: nil).

22 Insurance business, securitisation, funds management and 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. There have been no material changes in the Banking Group's marketing and distribution of insurance products since the reporting date of the previous disclosure statement.

Securitisation, funds management and other fiduciary activities

There have been no other material changes to the Bank's involvement in securitisation, funds management and other fiduciary activities since the reporting date of the previous disclosure statement.

23 Contingent liabilities and commitments

	Unaudited Dec 2014 $000	Unaudited Dec 2013 $000	Audited Jun 2014 $000
Letters of credit, guarantee commitments and performance bonds	9,527	4,155	6,329
Total contingent liabilities	**9,527**	**4,155**	**6,329**
Undrawn facilities available to customers	120,153	121,760	113,157
Conditional commitments to fund at future dates	126,193	60,091	95,780
Total commitments	**246,346**	**181,851**	**208,937**

As at 31 December 2014 there are no undrawn lending commitments to counterparties for whom drawn balances are classified as individually impaired.

24 Events after the reporting date

From 31 January 2015, the Reserve Bank has reduced the regulatory capital requirements for the Bank in it's Conditions of Registration. The new regulatory capital ratios will be:

- Total capital ratio not less than 8%
- Tier 1 capital ratio not less than 6%
- Common equity tier 1 capital ratio not less than 4.5%
- Buffer ratio 2.5%

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

Independent auditor’s review report

To the shareholder of Heartland Bank Limited

We have completed a review of the half year disclosure statement of Heartland Bank Limited (“the bank”) and its controlled entities (“the banking group”) on pages 8 to 30 which comprise of interim financial statements prepared and disclosed in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the “Order”) and supplementary information prescribed in schedules 3, 5, 7, 9, 13, 16 and 18 of the Order.

The interim financial statements comprise the interim statement of financial position, and the interim statements of comprehensive income, changes in equity and cash flows for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information.

Directors’ responsibilities

The directors of the bank are responsible for the preparation and fair presentation of the half year disclosure statement, which includes interim financial statements prepared in accordance with clause 25 of the Order and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

They are also responsible for the preparation of supplementary information in the half year disclosure statement which fairly stated the matters to which it relates in accordance with Schedules 3, 5, 7, 9, 13, 16 and 18 of the Order.

Our responsibilities

Our responsibility is to express a conclusion on the half year disclosure statement, which includes interim financial statements disclosed in accordance with Clause 25 of the Order, and supplementary information disclosed in accordance with schedules 3, 5, 7, 9, 13, 16 and 18 of the Order, based on our review.

We are responsible for reviewing the interim financial statements (excluding the supplementary information) in order to report to you whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with the NZ IAS 34 *Interim Financial Reporting*.

We are responsible for reviewing the supplementary information (excluding the supplementary information relating to capital adequacy) in order to report to you whether, in our opinion, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with schedules 3, 5, 7, 13, 16 and 18 of the Order.

We are responsible for reviewing the supplementary information relating to capital adequacy in order to state whether, on the basis of the procedures described below, anything has come to our attention that cause us to believe that the information disclosed in accordance with schedule 9 is not in all material respects prepared in accordance with the bank's conditions of registration and disclosed in accordance with schedule 9 of the Order.

We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410"). A review of half year disclosure statement in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries 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 half year disclosure statement.

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

As the auditor of the bank, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Conclusion

We have examined the interim financial statements and supplementary information and based on our review nothing has come to our attention that causes us to believe that:

- the interim financial statements (excluding the supplementary information disclosed in accordance with schedules 3, 5, 7, 9, 13, 16 and 18 of the Order) of the banking group do not present fairly, in all material respects, the financial position of the banking group as at 31 December 2014, and of its financial performance and its cash flows for the six month period ended on that date, in accordance with NZ IAS 34.

- the supplementary information (excluding supplementary information relating to capital adequacy) disclosed in accordance with schedules 3, 5, 7, 13, 16 and 18 of the Order, does not fairly state the matters to which it relates in accordance with those schedules; and

- the supplementary information relating to capital adequacy disclosed in accordance with schedule 9 of the Order, is not, in all material respects prepared in accordance with the bank's conditions of registration and disclosed in accordance with schedule 9 of the Order.

KPMG

23 February 2015
Auckland