HEARTLAND BANK

Disclosure Statement

For the year ended 30 June 2013

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GENERAL INFORMATION

This Disclosure Statement has been issued by Heartland Bank Limited for the year ended 30 June 2013 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2013 (the Order). The Financial Statements of the Bank for the year ended 30 June 2013 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 Bank). The Bank was formerly known as Heartland Building Society.

The Banking Group consists of the Bank and all of its subsidiaries. All subsidiaries are incorporated in New Zealand. The Banking Group was established in January 2011, as a result of the merger of Canterbury Building Society, MARAC Finance Limited and Southern Cross Building Society.

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

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 (HNZ), a company listed on the New Zealand Stock Exchange. HNZ's address for service is 75 Riccarton Road, Riccarton, Christchurch.

The Bank's immediate parent is Heartland NZ Holdings Limited which was formed on 8 February 2013 as a result of the amalgamation of the previous immediate parent BSHL No.1 Limited and the Bank's 19 other shareholders. HNZ wholly owns Heartland NZ Holdings Limited.

There are no regulations, legislation, or other restrictions of a legally enforceable nature that may materially inhibit the legal ability of HNZ 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 HNZ. Disclosed below are persons with shareholdings in HNZ of greater than 5% as at the 30 June 2013:

Name	Percentage held
Harrogate Trustee Limited	9.44%
Accident Compensation Corporation	5.45%
Philip Maurice Carter	5.40%

Other than HNZ (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) and CBS Warehouse A Trust Securitisation (CBS Trust) (collectively referred to as the Trusts) are set aside for the benefit of investors in the Trusts (See Note 29 - Special purpose entities for further details).

GUARANTEE ARRANGEMENTS

The Bank previously had in place a Standby Cash Advance Facility Agreement (CAF Agreement) under which certain guarantees were provided. Given the Bank's strong liquidity position the CAF Agreement was terminated on 28 February 2013 by the Bank. As at the date this Disclosure Statement was signed, no material obligations of the Bank were guaranteed. Neither Heartland NZ Holdings Limited nor HNZ 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, 75 Riccarton Road, Riccarton, Christchurch. The Directors of the Bank and their details at the time this Disclosure Statement was signed were:

Name: Bruce Robertson Irvine
Qualifications: BCom, LLB, FCA, AF Inst D, FNZIM
Chairman - Board of Directors
Occupation: Company Director
Type of director: Independent Non-Executive Director
External Directorships:
Arts Management Limited, Avon Pacific Holdings Limited, B R Irvine Limited, Blackbyre Horticulture Limited, Bowdens Mart Limited, Bray Frampton Limited, Britten Motorcycle Company Limited, Cambridge 141 Limited, Canterbury Business Recovery Group Limited, Canterbury Spinners Limited, CCHL (2) Limited, CCHL (4) Limited, CCHL (5) Limited, CCHL (6) Limited, Chambers at Hazeldean Limited, Christchurch City Holdings Limited, Christchurch City Networks Limited, Cockerill and Campbell (2007) Limited, Dogs Breakfast Trading Company Limited, Godfrey Hirst NZ Limited, Hansons Lane International Holdings Limited, Heartland New Zealand Limited, House of Travel ESP Trustee Limited, House of Travel Holdings Limited, Hukere Limited, Lake Angelus Holdings Limited, Lamanna Bananas (NZ) Limited, Lamanna Bananas Pty Limited, Lamanna Limited, Lorne Investments Limited, Limeloader Irrigation Limited, Mainland Tomatoes Limited, MARAC JV Holdings Limited, Market Fresh Wholesale Limited, Market Gardeners Limited, Market Gardeners Orders (Christchurch) Limited, Market Gardeners Orders Wellington Limited, MG Marketing Limited, MG New Zealand Limited, PGG Wrightson Limited, Phimai Holdings Limited, Queensland Variety Store 1 Pty Limited, Quitachi Limited, Rakon ESOP Trustee Limited, Rakon Limited, Rakon PPS Trustee Limited, Scenic Circle Hotels Limited, Skope Industries Limited, Southland Produce Markets Limited.

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

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

Name: Graham Russell Kennedy
Qualifications: J. P., BCom, FCA, ACIS, ACIM, AF Inst D
Type of director: Independent Non-Executive Director
Occupation: Company Director
External Directorships:
Ashburton Aquatic Park Limited, Ashburton Central Limited, Avon Properties Limited, Avon Properties (2008) Limited, BK&P Trustees Limited, BK Trustees (2005) Limited, BK Trustees (2009) Limited, BK Trustees (2010) Limited, BK Riversdale Trustees Limited, Black Gnat Properties Limited, Black Quill Investments Limited, Bradford Group Holdings Limited, Bradford Management (2013) Limited, Cates Grain & Seed Limited, Concurrent Properties Limited, Crescent Custodians Limited, Earth & Sky Limited, Germinal Seeds N.Z. Limited, GPGD Limited, Heartland New Zealand Limited, Hornby Consortium Limited, Lake Extension Trust Limited, Norman Spencer Nominees Limited, Penrose Nominees Limited, Shooting Star Properties Limited.

Name: Gary Richard Leech
Qualifications: BCom, FCA, AF Inst D, FNZTA
Type of director: Independent Non-Executive Director
Occupation(s): Company Director and Chartered Accountant in Public Practice
External Directorships:
Back Track Dairies Limited, Cariboo New Zealand (2011) Limited, Clock Trustees Limited, Electricity Ashburton Limited, Heartland New Zealand Limited, Hooked Trustee Company Limited, Leech & Partners Trustees (2004) Limited, Leech & Partners Trustees (2007) Limited, Leech & Partners Trustees (2009) Limited, Leech & Partners Trustees (2010) Limited, Leech & Partners Trustees (2011) Limited, Leech & Partners Trustees (2012) Limited, Leech & Partners Limited, Leech & Partners Trustees Limited, Londale Development Limited, Lye Properties Limited, McGoldrick Trustees Limited, Murney Investments Limited, Potlach Governance Limited, Radfield Trustees Limited, Sempiternal Custodians Limited, Sempiternal Trust Company Limited, South Beach Properties Limited, South Pacific Seeds (N.Z.) Limited, South Pacific Seeds Pty Limited, South Pacific Seed Sales (NZ) Limited, TCB Results Limited, Te Mahanga Trustee Company Limited, The New Zealand Sock Company Limited, W. H. Collins & Co. Limited, Webling & Stewart Limited, Windermere Trustees Limited.

Name: Christopher Robert Mace
Qualifications: CNZM
Type of director: Independent Non-Executive Director
Occupation: Company Director
External Directorships:
Akitu Capital Limited, Akitu Equities Limited, Akitu Investments Limited, Goldburn Resources Limited, Hazardous Investments Limited, Heartland New Zealand Limited, Helicopter Enterprises Limited, J N S Capital Limited, Janik Equities Limited, Janmac Capital Limited, Mace Capital Limited, Mace Construction Limited, Mace Developments Limited, Mace Enterprises Limited, Mace Investments Limited, Maisemore Enterprises Limited, MARAC Insurance Limited, Martinborough Vineyard Estates Limited, National Institute of Water and Atmospheric Research Limited, NIWA Vessel Management Limited, Nuffield Forestry Limited, O & E Group Services 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, Paroa Bay Station Limited, PPT Trustee (NZ) Limited, Pukeha Farms Limited, Quartet Equities Limited, Ryburn Lagoon Trust Limited, St. Just Enterprises Limited, The New Zealand Initiative Limited.

DIRECTORS (CONTINUED)

Name: Geoffrey Thomas Ricketts
Qualifications: LLB (Hons), F Inst D
Type of director: Independent Non-Executive Director
Occupation: Company Director
External Directorships:
AAI Limited, Asteron Life Limited, Australian Alliance Insurance Company Limited, Australian Associated Motor Insurers Limited, Great Northern Developments Limited, Gio General Limited, Heartland New Zealand Limited, Janmac Capital Limited, Macmine Group Limited, Macmine Investments Limited, Maisemore Enterprises Limited, MCF 1 Limited, MCF 2 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, Mercury Capital No.1 Fund Limited, Mercury Capital No. 1 Trustee 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 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 Insurance 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
Qualifications: Bcom, CA
Type of director: Independent Non-Executive Director
Occupation: Company Director
External Directorships:
Lirich Limited, Mamaku South Limited, Maxwell Farms Limited, Maxwell Farms (Developments) 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, The New Zealand Guardian Trust Company Limited.

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

Gary Leech (Chairperson)	Independent* Non-Executive Director
Bruce Irvine	Independent* Non-Executive Director
Graham Kennedy	Independent* Non-Executive Director
Christopher Mace	Independent* Non-Executive Director

* Refer to condition 6 of the Conditions of Registration for definition of Independent.

AUDITOR

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland

AMENDMENTS TO CONDITIONS OF REGISTRATION

With effect from 30 June 2013, the Bank's conditions of registration were amended to put in effect the Reserve Bank's finalised policy on Open Bank Resolution (OBR) pre-positioning requirements. The Reserve Bank's policy is contained in the "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) issued June 2013.

CONDITIONS OF REGISTRATION

These conditions apply on and after 30 June 2013, except as provided otherwise.

The registration of Heartland Bank Limited 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 percent;
   (b) the Tier 1 capital ratio of the banking group is not less than 12 percent;
   (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 10 percent;
   (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 March 2013 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 March 2013.

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 March 2013; 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.

   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 percent 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 March 2013.

[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)

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 who is not a director of both Heartland New Zealand Limited and the bank, has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011; and
(b) in relation to a person who is a director of both Heartland New Zealand Limited and the bank, means a person who meets the criteria for independence set out in section 10 except for those in paragraph 10(1)(a) and who meets the criteria in section 11 of the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011 but only if the consolidated total assets of Heartland New Zealand Limited and all of its subsidiaries other than the banking group and the intermediate holding companies of the bank is not greater than 1% of the consolidated total assets of Heartland New Zealand Limited and all of its subsidiaries:

"non-executive" has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011.

6A. That at least two of the independent directors of the bank must not be directors of Heartland New Zealand Limited.

For the purposes of this condition of registration, "independent" has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011.

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 per cent at the end of each business day;
(b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
(c) the one-year core funding ratio of the banking group is not less than 75 per cent 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 March 2011 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

CONDITIONS OF REGISTRATION (CONTINUED)

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.

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 registered bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the registered 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 frozen 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.

16. That the registered bank has an Implementation Plan that—
    (a) is up-to-date; and
    (b) demonstrates that the registered 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).

17. That the registered 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)

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

    For the purposes of this condition of registration, "*de minimis",* "partial freeze", "customer liability account", "frozen and unfrozen funds", "Implementation Plan", "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank document entitled "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2013.

In these conditions of registration, —
"banking group" means Heartland Bank Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993):
"generally accepted accounting practice" has the same meaning as in section 2 of the Financial Reporting Act 1993.

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 RATING

As at the date of signing this Disclosure Statement, the Bank's credit rating issued by Standard & Poor's (Australia) Pty Limited (S&P) was BBB-negative. This BBB- credit rating was issued on 6 December 2011 and is applicable to long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The rating is not subject to any qualifications. The following amendments have been made to the credit rating or outlook in the two years immediately before balance date:

- on 11 August 2011 S&P affirmed the BBB- credit rating and amended the outlook from stable to negative.
- on 6 December 2011 S&P affirmed the BBB- credit rating and amended the outlook from negative to stable.
- on 16 May 2013 S&P affirmed the rating of BBB- but as a result of revising its assessment of the economic risks in New Zealand has changed the outlook to "negative" from "stable".

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 other 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 2013:

   (a) the Bank complied with all conditions of the registration that applied during the year;
   (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 26 August 2013 and has been signed by all the Directors.

Bruce Robertson Irvine	Jeffrey Kenneth Greenslade
Edward John Harvey	Graham Russell Kennedy
Gary Richard Leech	Christopher Robert Mace
Richard Arthur Wilks	Geoffrey Thomas Ricketts
Nicola Jean Greer	

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 June 2013

		BANKING GROUP		BANK	
	NOTE	Jun 2013 $000	Jun 2012 $000	Jun 2013 $000	Jun 2012 $000
Interest income	5	206,313	205,131	44,907	49,674
Interest expense	5	110,895	121,502	100,785	111,971
Net interest income / (expense)		**95,418**	**83,629**	**(55,878)**	**(62,297)**
Operating lease income	6	14,861	15,064	-	-
Operating lease expenses	6	9,687	9,954	-	-
Net operating lease income		**5,174**	**5,110**	**-**	**-**
Lending and credit fee income		1,760	1,483	682	771
Dividends received		-	-	97,000	88,482
Other income	7	4,499	4,736	11,346	9,033
Net operating income		**106,851**	**94,958**	**53,150**	**35,989**
Selling and administration expenses	8	69,062	64,181	47,932	34,966
Profit before impaired asset expense and income tax		**37,789**	**30,777**	**5,218**	**1,023**
Impaired asset expense	9	22,527	5,642	3,818	3,473
Decrease in fair value of investment properties	16	5,101	3,900	-	-
Profit / (loss) before income tax		**10,161**	**21,235**	**1,400**	**(2,450)**
Income tax expense / (benefit)	10	2,718	(2,974)	(26,824)	(30,176)
Profit for the year		**7,443**	**24,209**	**28,224**	**27,726**
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		1,056	378	-	-
Net change in available for sale reserve, net of income tax		276	(103)	276	(103)
Items that will not be reclassified to profit or loss:					
Net change in defined benefit reserve, net of income tax		462	(435)	462	(435)
Total other comprehensive income / (loss) for the year, net of income tax		**1,794**	**(160)**	**738**	**(538)**
Total comprehensive income for the year		**9,237**	**24,049**	**28,962**	**27,188**

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

The notes on pages 15 to 60 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 June 2013

	NOTE	Share Capital $000	Available for sale Reserve $000	Defined benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
		BANKING GROUP					
Balance at 1 July 2012		**189,774**	**8**	**(421)**	**(1,010)**	**182,942**	**371,293**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	7,443	7,443
Total other comprehensive income		-	276	462	1,056	-	1,794
Total comprehensive income for the year		**-**	**276**	**462**	**1,056**	**7,443**	**9,237**
Contributions by and distributions to owners							
Dividends to equity holders	12	-	-	-	-	(15,605)	(15,605)
Total transactions with owners		**-**	**-**	**-**	**-**	**(15,605)**	**(15,605)**
Balance at 30 June 2013		**189,774**	**284**	**41**	**46**	**174,780**	**364,925**
Balance at 1 July 2011		**134,774**	**111**	**14**	**(1,388)**	**160,330**	**293,841**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	24,209	24,209
Total other comprehensive (loss) / income		-	(103)	(435)	378	-	(160)
Total comprehensive income for the year		**-**	**(103)**	**(435)**	**378**	**24,209**	**24,049**
Contributions by and distributions to owners							
Issue of share capital	26	55,000	-	-	-	-	55,000
Dividends to equity holders	12	-	-	-	-	(1,597)	(1,597)
Total transactions with owners		**55,000**	**-**	**-**	**-**	**(1,597)**	**53,403**
Balance at 30 June 2012		**189,774**	**8**	**(421)**	**(1,010)**	**182,942**	**371,293**

The notes on pages 15 to 60 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 June 2013

		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 2012		**339,043**	**8**	**(421)**	**-**	**246**	**338,876**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	28,224	28,224
Total other comprehensive income		-	276	462	-	-	738
Total comprehensive income for the year		**-**	**276**	**462**	**-**	**28,224**	**28,962**
Contributions by and distributions to owners							
Dividends to equity holders	12	-	-	-	-	(15,605)	(15,605)
Total transactions with owners		**-**	**-**	**-**	**-**	**(15,605)**	**(15,605)**
Balance at 30 June 2013		**339,043**	**284**	**41**	**-**	**12,865**	**352,233**
Balance at 1 July 2011		**284,043**	**111**	**14**	**-**	**(25,883)**	**258,285**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	27,726	27,726
Total other comprehensive loss		-	(103)	(435)	-	-	(538)
Total comprehensive income for the year		**-**	**(103)**	**(435)**	**-**	**27,726**	**27,188**
Contributions by and distributions to owners							
Issue of share capital	26	55,000	-	-	-	-	55,000
Dividends to equity holders	12	-	-	-	-	(1,597)	(1,597)
Total transactions with owners		**55,000**	**-**	**-**	**-**	**(1,597)**	**53,403**
Balance at 30 June 2012		**339,043**	**8**	**(421)**	**-**	**246**	**338,876**

The notes on pages 15 to 60 are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION
As at 30 June 2013

		BANKING GROUP		BANK	
		Jun 2013	Jun 2012	Jun 2013	Jun 2012
	NOTE	$000	$000	$000	$000
Assets					
Cash and cash equivalents	13	172,777	89,220	163,152	72,217
Investments	14	165,223	24,327	165,223	24,327
Due from related parties	15	200	276	1,113,954	1,107,857
Investment properties	16	58,287	55,504	-	-
Finance receivables	17	2,010,376	2,078,276	469,057	547,984
Operating lease vehicles	18	32,395	34,550	-	-
Current tax assets		-	5,272	-	6,369
Other assets	19	11,257	15,857	3,448	5,112
Investment in subsidiaries	20	-	-	302,282	302,282
Intangible assets	21	22,963	22,997	22,798	22,213
Property, plant and equipment	22	10,281	10,067	10,004	9,613
Deferred tax asset	23	16,373	8,143	4,734	5,083
Total assets		**2,500,132**	**2,344,489**	**2,254,652**	**2,103,057**
Liabilities					
Borrowings	24	2,097,553	1,939,489	1,888,619	1,750,579
Current tax liabilities		3,565	-	-	-
Due to related parties	15	500	193	1,950	770
Trade and other payables	25	33,589	33,514	11,850	12,832
Total liabilities		**2,135,207**	**1,973,196**	**1,902,419**	**1,764,181**
Equity					
Share capital	26	189,774	189,774	339,043	339,043
Retained earnings and reserves		175,151	181,519	13,190	(167)
Total equity		**364,925**	**371,293**	**352,233**	**338,876**
Total equity and liabilities		**2,500,132**	**2,344,489**	**2,254,652**	**2,103,057**

Total interest earning and discount bearing assets	2,348,491	2,193,238	779,963	645,943
Total interest and discount bearing liabilities	2,097,583	1,940,948	1,888,619	1,750,994

The notes on pages 15 to 60 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS
For the year ended 30 June 2013

		BANKING GROUP		BANK	
	NOTE	Jun 2013 $000	Jun 2012 $000	Jun 2013 $000	Jun 2012 $000
Cash flows from operating activities					
Interest received		199,243	197,136	43,523	47,859
Operating lease income received		11,958	13,099	-	-
Proceeds from sale of operating lease vehicles		10,710	7,932	-	-
Lending, credit fees and other income received		6,259	6,219	988	1,065
Net decrease in finance receivables		32,908	-	76,215	77,596
Total cash provided from operating activities		**261,078**	**224,386**	**120,726**	**126,520**
Payments to suppliers and employees		60,819	66,940	45,272	29,696
Interest paid		112,820	121,742	101,784	114,713
Purchase of operating lease vehicles		15,611	16,905	-	-
Net increase in finance receivables		-	20,547	-	-
Taxation paid		2,802	23	2,000	-
Total cash applied to operating activities		**192,052**	**226,157**	**149,056**	**144,409**
Net cash flows from / (applied to) operating activities	28	**69,026**	**(1,771)**	**(28,330)**	**(17,889)**
Cash flows from investing activities					
Sale of investment property		3,194	832	-	-
Total cash provided from investing activities		**3,194**	**832**	**-**	**-**
Purchase of office fit-out, equipment and intangible assets		2,256	3,191	2,256	2,886
Purchase of investments		130,687	6,496	130,687	6,496
Purchase of PGG Wrightson Finance Limited		-	24,898	-	24,898
Purchase of investment property		-	937	-	-
Total cash applied to investing activities		**132,943**	**35,522**	**132,943**	**34,280**
Net cash flows applied to investing activities		**(129,749)**	**(34,690)**	**(132,943)**	**(34,280)**
Cash flows from financing activities					
Net increase in borrowings		159,885	-	267,813	-
Issue of share capital		-	55,000	-	55,000
Total cash provided from financing activities		**159,885**	**55,000**	**267,813**	**55,000**
Dividends paid		15,605	1,597	15,605	1,597
Net decrease in borrowings		-	256,399	-	174,339
Total cash applied to financing activities		**15,605**	**257,996**	**15,605**	**175,936**
Net cash flows from / (applied to) financing activities		**144,280**	**(202,996)**	**252,208**	**(120,936)**
Net increase / (decrease) in cash held		**83,557**	**(239,457)**	**90,935**	**(173,105)**
Opening cash and cash equivalents		89,220	267,034	72,217	245,322
Cash impact of business acquisition		-	61,643	-	-
Closing cash and cash equivalents	13	**172,777**	**89,220**	**163,152**	**72,217**

The notes on pages 15 to 60 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2013

1 Reporting entity

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

The Bank was formerly known as Heartland Building Society. Heartland Building Society was established in January 2011, as a result of the merger of Canterbury Building Society (CBS) and Southern Cross Building Society (SCBS).

The significant subsidiaries of the Bank included in the Banking Group are MARAC Finance Limited (MARAC), PGG Wrightson Finance Limited (PWF), VPS Properties Limited and VPS Parnell Limited. The Banking Group also includes Heartland ABCP Trust 1 and CBS Warehouse A Trust (collectively the Trusts), which are special purpose vehicles holding securitised loans purchased from MARAC and the Bank.

The Bank acquired PWF on 31 August 2011, as a result comparatives for the year ended 30 June 2012 only include the PWF result from the date of acquisition.

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

2 Basis of preparation

(a) Statement of compliance

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 1993. 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 2013 (Order). The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The Bank and all entities within the Banking Group are profit-oriented entities. The Bank is a reporting entity and an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Securities Regulations 2009.

(b) Basis of measurement

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

(c) Functional and presentation currency and rounding

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

(d) Estimates and judgements

The preparation of financial statements requires the use of management judgement, estimates and assumptions that effect reported amounts. Actual results may differ from these judgements. For further information about significant areas of estimation, uncertainty and critical judgements that have the most significant effect on the financial statements, refer to Note 3(r) and 3(s).

(e) Going concern

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

(f) Comparative information

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

3 Significant accounting policies

(a) Consolidation of subsidiaries

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

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

(b) Special purpose entities

Special purpose 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. The financial statements of special purpose entities are included in the Banking Group's financial statements where the substance of the relationship is that the Bank controls the special purpose entity.

3 Significant accounting policies (continued)

(c) Interest

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

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

(d) Operating lease income and expense

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

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

(e) Lending and credit fee income

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

(f) Dividend income

Dividend income is recognised in profit or loss on the date that the Bank's right to receive payment is established.

(g) Tax

Income tax expense

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

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax 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).

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities and the amounts used for tax purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year(s) when the assets or liabilities giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Banking Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised. Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority and there is a legal right and intention to settle on a net basis and it is allowed under tax law.

(h) Share capital

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.

The Banking Group's share capital differs from the share capital of the Bank as a result of the reverse acquisition accounting applied when the Bank was formed. Under NZ IFRS MARAC (a subsidiary of the Bank) was treated as the acquirer of the bank. As a result, the Banking Group's result represents a continuation of the MARAC business, and the share capital of the Banking Group reflects this.

(i) Cash and cash equivalents

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

3 Significant accounting policies (continued)

(j) Investments

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

(k) Investment properties

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

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

(l) 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.

(m) Operating lease vehicles

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

(n) Derivative financial instruments

Derivative financial instruments are contracts entered into to reduce the exposure to the volatility of variable rate borrowings (cash flow hedges), or to convert fixed rate borrowings or assets to variable rates (fair value hedges), in order to mitigate the Banking Group's interest rate risk. The financial instruments are subject to the risk that market values may change subsequent to their acquisition; however such changes would be offset by corresponding, but opposite, effects on the variable rate borrowings or fixed rate borrowings or assets being hedged. Derivatives are initially valued at fair value and subsequently remeasured at fair value.

Fair value movements of derivatives that are not designated in a qualifying cash flow hedge relationship, are recognised in profit or loss. Fair value movements of the effective portion of a qualifying cash flow hedge derivative, are recognised directly in other comprehensive income and held in the hedging reserve in equity. The amount recognised in equity is transferred to profit or loss in the same year as the hedged cash flow affects profit or loss, disclosed in the same line as the hedged item. Any ineffective portion of changes in fair value of the derivative is recognised immediately in profit or loss. Fair value movements of a derivative designated as a fair value hedge are recognised directly in profit or loss together with the hedged item.

(o) Property, plant, equipment and depreciation

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

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

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

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

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

Buildings	1.0% - 4.0%
Fixtures and fittings	5.5% - 36.0%
Office equipment and furniture	6.0% - 30.0%
Computer equipment	16.2% - 48.0%
Motor vehicles	21.0% - 25.2%

3 Significant accounting policies (continued)

(p) Intangible assets and goodwill

Goodwill

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

Computer software

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 of three to four years. All other expenditure is expensed immediately as incurred.

(q) Financial assets and liabilities

Classification

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

Financial assets/liabilities	Accounting category
Cash and cash equivalents	Loans and receivables
Investments	Available for sale
Due from related parties	Loans and receivables
Finance receivables	Loans and receivables
Other financial assets	Loans and receivables
Borrowings	Other liabilities at amortised cost
Other financial liabilities	Other liabilities at amortised cost
Derivatives	Held for trading (or qualifying hedges as described in Note 3(n))

Recognition

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.

Derecognition

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 Banking Group 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.

3 Significant accounting policies (continued)

(r) Impaired assets and past due assets

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

The term collectively impaired asset refers to an asset where an event has occurred which past history indicates that there is an increased possibility that the 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.

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.

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.

(s) 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

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 Banking 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 Banking 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.

Individual provisioning in regards to property development lending carries the greatest risk of a material adjustment to the carrying amounts of the Banking Group's assets within the next year. Estimating the timing and amount of future cash repayments and proceeds from the realisation of collateral are management's most difficult and subjective judgements. Subjective judgements made by management comprise the time taken for new sales being achieved and the amount received, determining the timing and amount of future cash flows.

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.

(t) 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.

3 Significant accounting policies (continued)

(u) Provisions

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

(v) Employee benefits

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

(w) Defined benefit plan

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

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

(x) Share schemes

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

(y) 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.

(z) Statements of Cash Flows

The Statements of Cash Flows have been prepared using the direct method modified by the netting of certain cash flows associated with cash and cash equivalents, investments, related party balances, finance receivables and borrowings. Netting of cash flows provides more meaningful disclosure as many of the cash flows are received and paid on behalf of customers and reflect the activities of those customers rather than the Banking Group.

(aa) Changes in accounting policies

There have been no material changes in accounting policies in the current year.

3 Significant accounting policies (continued)

(ab) 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 2013, 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 Banking Group are:

Standard and description	*Effective for annual periods beginning on or after:*	*Expected to be initially applied in year ending:*
NZ IFRS 10 Consolidated Financial Statements, which introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees.	1 January 2013	30 June 2014
NZ IFRS 11 Joint Arrangements, which outlines the accounting by entities that jointly control an arrangement.	1 January 2013	30 June 2014
NZ IFRS 13 Fair Value Measurement, which defines fair value, and establishes a framework for measuring fair value including disclosure requirements.	1 January 2013	30 June 2014
NZ IFRS 12 Disclosure of Interests in Other Entities, which contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.	1 January 2013	30 June 2014
NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets and liabilities.	1 January 2013	30 June 2014
NZ IAS 27 Separate Financial Statements, which carries forward existing accounting and disclosure requirements with minor clarifications.	1 January 2013	30 June 2014
NZ IFRS 7 Financial Instruments: Disclosures, amendment to offsetting financial assets and financial liabilities.	1 January 2013	30 June 2014
NZ IAS 32 Financial Instruments: Presentation, amendment to offsetting financial assets and financial liabilities.	1 January 2014	30 June 2015
NZ IAS 19 Employee Benefits, which requires actuarial gains and losses to be recognised immediately in other comprehensive income and the expected return on plan assets recognised in comprehensive income to be calculated based on the rate used to discount the defined benefit obligation.	1 January 2013	30 June 2014

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

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

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

Retail and Consumer Providing a comprehensive range of financial services to New Zealand businesses and families, including term, transactional and savings based deposit accounts together with residential mortgage lending, 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.

4 Segmental analysis (continued)

The Banking Group's operating segments are different than the industry categories detailed in Note 34 - Asset quality. The operating segments are primarily categorised by sales channel, whereas Note 34 - Asset quality categorises exposures based on credit risk concentrations (see Note 34 - Asset quality for further details).

	BANKING GROUP					
	Retail & Consumer $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Jun 2013						
Interest income	90,991	51,679	45,762	8,734	9,147	206,313
Interest expense	46,611	26,261	22,952	7,767	7,304	110,895
Net interest income	**44,380**	**25,418**	**22,810**	**967**	**1,843**	**95,418**
Net operating lease income	5,151	23	-	-	-	5,174
Net other income	622	285	49	3,860	1,443	6,259
Net operating income	**50,153**	**25,726**	**22,859**	**4,827**	**3,286**	**106,851**
Depreciation and amortisation expense	-	-	-	-	1,940	1,940
Other selling and administration expenses	11,696	5,864	6,152	12,438	30,972	67,122
Selling and administration expenses	**11,696**	**5,864**	**6,152**	**12,438**	**32,912**	**69,062**
Profit / (loss) before impaired asset expense and income tax	**38,457**	**19,862**	**16,707**	**(7,611)**	**(29,626)**	**37,789**
Impaired asset expense	2,770	3,360	(195)	16,592	-	22,527
Decrease in fair value of investment properties	-	-	-	5,101	-	5,101
Profit / (loss) before income tax	**35,687**	**16,502**	**16,902**	**(29,304)**	**(29,626)**	**10,161**
Income tax expense	-	-	-	-	2,718	2,718
Profit / (loss) for the year	**35,687**	**16,502**	**16,902**	**(29,304)**	**(32,344)**	**7,443**
Total assets	987,796	549,177	456,647	107,438	399,074	**2,500,132**
Total liabilities	-	-	-	-	2,135,207	**2,135,207**
Total equity	-	-	-	-	364,925	**364,925**
Jun 2012						
Interest income	94,606	49,867	41,391	12,630	6,637	205,131
Interest expense	55,572	28,911	22,340	10,370	4,309	121,502
Net interest income	**39,034**	**20,956**	**19,051**	**2,260**	**2,328**	**83,629**
Net operating lease income	5,097	13	-	-	-	5,110
Net other income	927	57	66	4,104	1,065	6,219
Net operating income	**45,058**	**21,026**	**19,117**	**6,364**	**3,393**	**94,958**
Depreciation and amortisation expense	-	-	-	-	1,830	1,830
Other selling and administration expenses	11,475	5,273	5,837	6,350	33,416	62,351
Selling and administration expenses	**11,475**	**5,273**	**5,837**	**6,350**	**35,246**	**64,181**
Profit / (loss) before impaired asset expense and income tax	**33,583**	**15,753**	**13,280**	**14**	**(31,853)**	**30,777**
Impaired asset expense	1,991	2,445	689	517	-	5,642
Decrease in fair value of investment properties	-	-	-	3,900	-	3,900
Profit / (loss) before income tax	**31,592**	**13,308**	**12,591**	**(4,403)**	**(31,853)**	**21,235**
Income tax benefit	-	-	-	-	(2,974)	(2,974)
Profit / (loss) for the year	**31,592**	**13,308**	**12,591**	**(4,403)**	**(28,879)**	**24,209**
Total assets	989,352	540,228	478,582	160,168	176,159	**2,344,489**
Total liabilities	-	-	-	-	1,973,196	**1,973,196**
Total equity	-	-	-	-	371,293	**371,293**

5 Net interest income / (expense)

		BANKING GROUP		BANK	
		Jun 2013	Jun 2012	Jun 2013	Jun 2012
	NOTE	$000	$000	$000	$000
Interest income					
Cash and cash equivalents		5,700	5,132	5,471	4,690
Finance receivables		197,999	199,526	35,724	42,278
Derivatives held for risk management:					
- Net interest income on cash flow hedges		2,614	473	3,712	2,706
Total interest income		**206,313**	**205,131**	**44,907**	**49,674**
Interest expense					
Retail deposits		94,198	100,769	94,188	100,788
Bank and securitised borrowings		16,697	20,733	6,597	11,183
Total interest expense		**110,895**	**121,502**	**100,785**	**111,971**
Net interest income / (expense)		**95,418**	**83,629**	**(55,878)**	**(62,297)**

Included within the Banking Group's interest income on finance receivables is $2,591,000 (2012: $2,674,000) on individually impaired assets. Included within the Bank's interest income on finance receivables is $1,130,000 (2012: $2,081,000) on individually impaired assets.

6 Net operating lease income

Operating lease income					
Lease income		12,898	13,065	-	-
Gain on disposal of lease vehicles		1,963	1,999	-	-
Total operating lease income		**14,861**	**15,064**	**-**	**-**
Operating lease expense					
Depreciation on lease vehicles		9,019	9,149	-	-
Direct lease costs		668	805	-	-
Total operating lease expenses		**9,687**	**9,954**	**-**	**-**
Net operating lease income		**5,174**	**5,110**	**-**	**-**

7 Other income

Rental income from investment properties		3,859	4,094	-	-
Management fees	15	335	328	11,041	8,739
Other income		305	314	305	294
Total other income		**4,499**	**4,736**	**11,346**	**9,033**

8 Selling and administration expenses

Personnel expenses		33,448	34,186	32,550	20,580
Directors' fees		177	175	177	175
Superannuation		413	475	408	253
Audit fees		359	516	359	489
Audit related fees		104	35	104	32
Amortisation - intangible assets	21	1,226	1,075	607	178
Depreciation - property, plant and equipment	22	714	755	537	531
Operating lease expense as a lessee		1,651	1,648	854	810
RECL Agreement fees	33(g)	7,700	2,200	-	-
Legal and professional fees		3,385	3,197	2,302	1,492
Other operating expenses		19,885	19,919	10,034	10,426
Total selling and administration expenses		**69,062**	**64,181**	**47,932**	**34,966**

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

During the year ended 30 June 2013, the Banking Group recognised direct operating expenses of $3,563,000 (2012: $2,975,000) arising from investment property that generated rental income and direct operating expenses of $219,000 (2012: $107,000) arising from investment property that did not generate rental income.

Heartland New Zealand Limited (HNZ) has paid some Directors' fees on behalf of the Bank.

9 Impaired asset expense

	NOTE	BANKING GROUP Jun 2013 $000	BANKING GROUP Jun 2012 $000	BANK Jun 2013 $000	BANK Jun 2012 $000
Non-securitised					
Individually impaired expense		13,098	6,920	3,170	6,148
Collectively impaired expense / (recovery)		9,108	(1,897)	648	(2,675)
Total non-securitised impaired asset expense		**22,206**	**5,023**	**3,818**	**3,473**
Securitised					
Individually impaired expense		3	1	-	-
Collectively impaired expense		318	618	-	-
Total securitised impaired asset expense		**321**	**619**	**-**	**-**
Total					
Individually impaired expense	34(e)	13,101	6,921	3,170	6,148
Collectively impaired expense / (recovery)	34(e)	9,426	(1,279)	648	(2,675)
Total impaired asset expense		**22,527**	**5,642**	**3,818**	**3,473**

The Banking Group has changed its workout strategy with respect to non-core legacy property assets. This change has affected the periods over which assets are expected to be realised and the values expected to be realised for those assets. As a result of this change an additional provision of $12.9 million was raised against finance receivables in the year ended 30 June 2013.

10 Income tax expense / (benefit)

		BANKING GROUP Jun 2013 $000	BANKING GROUP Jun 2012 $000	BANK Jun 2013 $000	BANK Jun 2012 $000
(a)	**Current income tax expense**				
	Current year	12,000	4,942	(26,802)	(25,024)
	Adjustments for prior year	(256)	(3,218)	(175)	987
	Deferred tax expense / (benefit)				
	Origination and reversal of temporary differences	(9,026)	1,484	153	43
	Tax legislation change	-	(6,182)	-	(6,182)
	Total income tax expense / (benefit)	**2,718**	**(2,974)**	**(26,824)**	**(30,176)**
	Reconciliation of effective tax rate				
	Profit / (loss) before income tax	10,161	21,235	1,400	(2,450)
	Prima facie tax at 28%	2,845	5,946	392	(686)
	Plus tax effect of items not taxable / deductible	129	480	119	480
	Adjustments for prior year	(256)	(3,218)	(175)	987
	Dividends received	-	-	(27,160)	(24,775)
	Tax legislation changes	-	(6,182)	-	(6,182)
	Total income tax expense / (benefit)	**2,718**	**(2,974)**	**(26,824)**	**(30,176)**

On 29 August 2011, the Taxation (Tax Administration and Remedial Matters) Act 2011 received Royal Assent. This Act contains a retrospective legislative change in relation to mergers of building societies. The result was that $6.2 million benefit of future tax deductions which were lost on the merger of MARAC, SCBS and CBS were made available to entities in the Heartland New Zealand Consolidated (Tax) Group, and cash that would otherwise have been required to pay tax became available to the Banking Group.

During the year ended 30 June 2012 MARAC made a subvention payment to MARAC Financial Services Limited (its former parent) for the use of tax losses to 31 May 2011. The amount paid was less than the tax rate of 30%. As a result the Banking Group recognised a benefit of $3.4 million included in adjustments for prior year.

10 Income tax expense / (benefit) (continued)

(b) Tax recognised in other comprehensive income

	BANKING GROUP			
	Cash flow hedges	Available for sale investments	Defined benefit plan	Total
	$000	$000	$000	$000
Jun 2013				
Other comprehensive income before tax	1,467	383	478	2,328
less tax expense	411	107	16	534
Total other comprehensive income, net of income tax	**1,056**	**276**	**462**	**1,794**
Jun 2012				
Other comprehensive income / (loss) before tax	476	(147)	(463)	(134)
less tax expense / (benefit)	98	(44)	(28)	26
Total other comprehensive income / (loss), net of income tax	**378**	**(103)**	**(435)**	**(160)**

	BANK			
Jun 2013				
Other comprehensive income before tax	-	383	478	861
less tax expense	-	107	16	123
Total other comprehensive income, net of income tax	**-**	**276**	**462**	**738**
Jun 2012				
Other comprehensive loss before tax	-	(147)	(463)	(610)
less tax benefit	-	(44)	(28)	(72)
Total other comprehensive income / (loss), net of income tax	**-**	**(103)**	**(435)**	**(538)**

11 Imputation credit account

As at 30 June 2013, the imputation credit account of the Banking Group was a credit of $1,688,000 (2012: credit of $23,000).

12 Dividends paid

The Bank paid dividends to its immediate parent of $2,000,000 on 4 October 2012, $5,830,560 on 11 December 2012 and $7,774,079 on 2 April 2013 (2012: $1,597,102).

13 Cash and cash equivalents

	BANKING GROUP		BANK	
	Jun 2013	Jun 2012	Jun 2013	Jun 2012
	$000	$000	$000	$000
Cash and cash equivalents - not securitised	161,191	73,641	157,289	61,070
Cash and cash equivalents - securitised	11,586	15,579	5,863	11,147
Total cash and cash equivalents	**172,777**	**89,220**	**163,152**	**72,217**

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

14 Investments

Bank deposits	121,780	24,327	121,780	24,327
Public sector securities and corporate bonds	9,162	-	9,162	-
Local authority stock	34,281	-	34,281	-
Total investments	**165,223**	**24,327**	**165,223**	**24,327**

15 Related party transactions

The Bank's immediate parent is Heartland NZ Holdings Limited which was formed on 8 February 2013 as a result of the amalgamation of the previous immediate parent BSHL No.1 Limited and Heartland Building Society's 19 other members. The Bank's ultimate parent is HNZ.

The Bank holds all shares in MARAC and PWF, refer to Note 20 - Investment in subsidiaries.

(a) Transactions with related parties

MARAC provided administrative assistance to 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 received insurance commission from MARAC Insurance Limited.

MARAC Insurance Limited, VPS Parnell Limited and some key management personnel invested in the Bank's deposits. The investments of Heartland Cash and Term PIE Fund are detailed in Note 29 - Special purpose entities. Key management personnel investments are detailed in Note 15(b).

Advances have been made by the Bank to MARAC and PWF to fund their operations and to VPS Parnell Limited and VPS Properties Limited for the purchase of investment properties.

The Bank charged MARAC and PWF for personnel expenses incurred for centralised management and support services.

No interest was charged on intragroup balances.

	BANKING GROUP		BANK	
	Jun 2013	Jun 2012	Jun 2013	Jun 2012
	$000	$000	$000	$000
Transactions with related parties				
Dividend income from subsidiaries	-	-	97,000	88,482
Lending and credit fee income	312	368	-	-
Other income	335	328	11,041	8,739
Total transactions with other related parties	**647**	**696**	**108,041**	**97,221**
Due from related parties				
Heartland New Zealand Limited	-	76	-	76
Heartland NZ Holdings Limited	200	200	200	200
Subsidiaries	-	-	1,113,754	1,107,581
Total due from related parties	**200**	**276**	**1,113,954**	**1,107,857**
Due to related parties				
Heartland New Zealand Limited	-	193	-	-
MARAC Insurance Limited	500	-	500	-
Subsidiaries	-	-	1,450	770
Total due to related parties	**500**	**193**	**1,950**	**770**

(b) Transactions with key management personnel

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

Deposit investments by key management personnel:				
Closing balance	825	468	825	468
Loans to key management personnel:				
Closing balance	740	304	740	304
Key management personnel interest expense and compensation is as follows:				
Interest expense	28	21	28	21
Short-term employee benefits	5,384	4,570	5,384	4,570
Share-based payment expense	718	459	718	459
Total	**6,130**	**5,050**	**6,130**	**5,050**

16 Investment properties

	BANKING GROUP		BANK	
	Jun 2013	Jun 2012	Jun 2013	Jun 2012
	$000	$000	$000	$000
Opening balance	55,504	34,499	-	-
Acquisitions	10,800	23,584	-	-
Additional capital expenditure	278	2,153	-	-
Sales	(3,194)	(832)	-	-
Change in fair value	(5,101)	(3,900)	-	-
Closing balance	**58,287**	**55,504**	**-**	**-**

Following the unwind of the RECL Agreement (refer to Note 33(g) - Credit risk exposure for more details), the Banking Group has acquired net investment properties during the year ended 30 June 2013 of $11 million.

As a result of the change in the Banking Group's workout strategy with respect to non-core legacy property assets (see Note 9 - Impaired asset expense) a $5.1 million reduction in the fair value of investment properties has been recognised reflecting the Directors' view on the current market value of this portfolio.

17 Finance receivables

	BANKING GROUP		BANK	
	Jun 2013	Jun 2012	Jun 2013	Jun 2012
	$000	$000	$000	$000
Non-securitised				
Neither at least 90 days past due nor impaired	1,687,480	1,711,802	409,286	457,012
At least 90 days past due	24,837	50,508	2,823	407
Individually impaired	69,301	56,805	23,759	37,318
Restructured assets	3,566	9,086	-	-
Gross finance receivables	**1,785,184**	**1,828,201**	**435,868**	**494,737**
Less provision for impairment	49,786	26,693	15,391	17,404
Total non-securitised finance receivables	**1,735,398**	**1,801,508**	**420,477**	**477,333**
Securitised				
Neither at least 90 days past due nor impaired	273,922	275,985	48,580	70,651
At least 90 days past due	1,761	1,496	-	-
Individually impaired	-	20	-	-
Restructured assets	-	-	-	-
Gross finance receivables	**275,683**	**277,501**	**48,580**	**70,651**
Less provision for impairment	705	733	-	-
Total securitised finance receivables	**274,978**	**276,768**	**48,580**	**70,651**
Total				
Neither at least 90 days past due nor impaired	1,961,402	1,987,787	457,866	527,663
At least 90 days past due	26,598	52,004	2,823	407
Individually impaired	69,301	56,825	23,759	37,318
Restructured assets	3,566	9,086	-	-
Gross finance receivables	**2,060,867**	**2,105,702**	**484,448**	**565,388**
Less provision for impairment	50,491	27,426	15,391	17,404
Total finance receivables	**2,010,376**	**2,078,276**	**469,057**	**547,984**

Refer to Note 34 - Asset quality for further analysis of finance receivables by credit risk concentration.

18 Operating lease vehicles

		BANKING GROUP		BANK	
		Jun 2013	Jun 2012	Jun 2013	Jun 2012
	NOTE	$000	$000	$000	$000
Cost					
Opening balance		51,236	47,230	-	-
Additions		15,611	16,905	-	-
Disposals		(19,508)	(12,899)	-	-
Closing balance		**47,339**	**51,236**	**-**	**-**
Accumulated depreciation					
Opening balance		16,686	14,503	-	-
Depreciation charge for the year		9,019	9,149	-	-
Disposals		(10,761)	(6,966)	-	-
Closing balance		**14,944**	**16,686**	**-**	**-**
Opening net book value		34,550	32,727	-	-
Closing net book value		**32,395**	**34,550**	**-**	**-**

The future minimum lease payments receivable under non-cancellable operating leases not later than one year is $9,412,000 (2012: $11,123,000), within one to five years is $8,390,000 (2012: $7,635,000) and over five years is nil (2012: $7,000).

19 Other assets

	NOTE	Banking Group Jun 2013 $000	Banking Group Jun 2012 $000	Bank Jun 2013 $000	Bank Jun 2012 $000
Derivative financial assets	27	649	2,122	82	2,122
Trade receivables		8,410	3,261	2,474	890
GST receivable		-	-	60	288
Prepayments		2,198	10,474	832	1,812
Total other assets		**11,257**	**15,857**	**3,448**	**5,112**

20 Investment in subsidiaries

		BANK			
		Jun 2013	Jun 2013	Jun 2012	Jun 2012
Significant subsidiaries	**Nature of business**	**% held**	**$000**	**% held**	**$000**
MARAC Finance Limited	Financial services	100%	204,269	100%	204,269
PGG Wrightson Finance Limited	Financial services	100%	98,013	100%	98,013
VPS Parnell Limited	Investment property holding company	100%	-	100%	-
VPS Properties Limited	Investment property holding company	100%	-	100%	-
			302,282		**302,282**

Other controlled entities (refer to Note 29 - Special purpose entities)

Heartland Cash and Term PIE Fund	Portfolio investment entity that invests in deposits of the Bank
CBS Warehouse A Trust	Special purpose vehicle holding securitised loans purchased from the Bank
Heartland ABCP Trust 1	Special purpose vehicle holding securitised loans purchased from MARAC

All subsidiary companies were incorporated in New Zealand.

21 Intangible assets

	BANKING GROUP		BANK	
	Jun 2013 $000	Jun 2012 $000	Jun 2013 $000	Jun 2012 $000
Computer software - cost				
Opening balance	6,748	6,142	3,207	1,144
Additions	1,320	2,370	1,320	2,075
Disposals	(335)	(1,764)	(335)	(12)
Closing balance	**7,733**	**6,748**	**4,192**	**3,207**
Computer software - accumulated amortisation				
Opening balance	4,038	4,727	1,281	1,115
Amortisation charge for the year	1,226	1,075	607	178
Disposals	(335)	(1,764)	(335)	(12)
Closing balance	**4,929**	**4,038**	**1,553**	**1,281**
Computer software - opening net book value	2,710	1,415	1,926	29
Computer software - closing net book value	**2,804**	**2,710**	**2,639**	**1,926**
Goodwill				
Opening balance	20,287	20,187	20,287	20,187
Additions	-	100	-	100
Disposals	(128)	-	(128)	-
Closing balance	**20,159**	**20,287**	**20,159**	**20,287**
Total intangible assets - opening net book value	22,997	21,602	22,213	20,216
Total intangible assets - closing net book value	**22,963**	**22,997**	**22,798**	**22,213**

On 5 January 2011, 100% of each of SCBS and CBS amalgamated to form the Bank. As part of this amalgamation $20.1 million of goodwill was recognised.

Goodwill has not been allocated to individual cash generating units, as the future economic benefit is attributable to all business units. The Banking Group's management and Board of Directors continue to monitor goodwill at a group level.

22 Property, plant and equipment

	BANKING GROUP		BANK	
	Jun 2013 $000	Jun 2012 $000	Jun 2013 $000	Jun 2012 $000
Cost				
Opening balance	13,161	15,191	11,185	10,474
Additions	936	735	936	711
Additions acquired	-	22	-	-
Disposals	(91)	(2,787)	(87)	-
Closing balance	**14,006**	**13,161**	**12,034**	**11,185**
Accumulated depreciation				
Opening balance	3,094	5,112	1,572	1,041
Depreciation charge for the year	714	755	537	531
Disposals	(83)	(2,773)	(79)	-
Closing balance	**3,725**	**3,094**	**2,030**	**1,572**
Opening net book value	10,067	10,079	9,613	9,433
Closing net book value	**10,281**	**10,067**	**10,004**	**9,613**

23 Deferred tax

	NOTE	BANKING GROUP Jun 2013 $000	BANKING GROUP Jun 2012 $000	BANK Jun 2013 $000	BANK Jun 2012 $000
Employee entitlements		1,232	1,201	1,176	1,009
Provision for impairment		13,939	7,475	4,309	4,873
Trade and other payables		211	152	136	152
Investment properties		2,925	1,054	-	-
Intangible assets		27	-	-	-
Derivatives held for risk management		-	392	24	-
Tax assets		**18,334**	**10,274**	**5,645**	**6,034**
Property, plant and equipment		834	877	911	928
Intangible assets		-	52	-	23
Derivatives held for risk management		18	-	-	-
Operating lease vehicles		1,109	1,202	-	-
Tax liabilities		**1,961**	**2,131**	**911**	**951**
Net tax assets		**16,373**	**8,143**	**4,734**	**5,083**

All deferred tax movements are included in profit or loss except for those in respect of the available for sale, hedging and defined benefit reserves which are recognised in other comprehensive income.

24 Borrowings

Deposits		1,838,619	1,625,120	1,838,619	1,625,569
Bank borrowings		-	50,010	-	50,010
Securitised borrowings		258,934	264,359	50,000	75,000
Total borrowings		**2,097,553**	**1,939,489**	**1,888,619**	**1,750,579**

Bank borrowings and deposits (which include NZDX bonds) rank equally and are unsecured. Investors in Heartland ABCP Trust (ABCP Trust) rank equally with each other and are secured over the securitised assets of that trust. Investors in CBS Warehouse A Trust (CBS Trust) rank equally with each other and are secured over the securitised assets of that trust.

25 Trade and other payables

Derivative financial liabilities	27	30	1,459	-	415
Trade payables		12,132	13,432	6,886	8,447
GST payable		16,265	14,028	-	-
Employee benefits		5,162	4,595	4,964	3,970
Total trade and other payables		**33,589**	**33,514**	**11,850**	**12,832**

26 Share capital

	BANK Jun 2013 Number of shares 000	BANK Jun 2012 Number of shares 000
Issued shares		
Opening balance	352,400	297,400
Shares issued during the year	-	55,000
Closing balance	**352,400**	**352,400**

The share capital above represents the share capital of the Bank. This differs from the share capital reflected in the Banking Group's Statement of Financial Position as a result of the reverse acquisition accounting, refer to Note 3(h) for more details.

On 31 August 2011, Heartland NZ Holdings Limited subscribed for 55,000,000 fully paid ordinary shares in the Bank issued at a price of $1 each.

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

27 Derivative financial instruments

		BANKING GROUP		BANK	
		Jun 2013	Jun 2012	Jun 2013	Jun 2012
	NOTE	$000	$000	$000	$000
Qualifying cash flow hedges -securitised		567	-	-	-
Qualifying fair value hedges - non-securitised		82	2,122	82	2,122
Total derivative financial assets	19	**649**	**2,122**	**82**	**2,122**
Qualifying cash flow hedges - non-securitised		-	297	-	297
Qualifying fair value hedges - securitised		-	118	-	118
Qualifying cash flow hedges - securitised		30	1,044	-	-
Total derivative financial liabilities	25	**30**	**1,459**	**-**	**415**

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

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

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

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

	BANKING GROUP		BANK	
	Jun 2013	Jun 2012	Jun 2013	Jun 2012
	$000	$000	$000	$000
Profit for the year	**7,443**	**24,209**	**28,224**	**27,726**
Add / (less) non-cash items:				
Depreciation and amortisation expense	1,940	1,830	1,144	709
Change in fair value of investment properties	5,101	3,900	-	-
Impaired asset expense	22,527	5,642	3,818	3,473
Deferred tax (benefit) / expense	(8,230)	(2,978)	349	(4,712)
Derivative financial instruments revaluation	1,100	(219)	1,625	(1,250)
Accruals	(836)	529	(40)	446
Dividends received	-	-	(97,000)	(88,482)
Total non-cash items	**21,602**	**8,704**	**(90,104)**	**(89,816)**
Add / (less) movements in working capital items:				
Other assets	6,459	2,695	(11,046)	(7,024)
Current tax	8,837	(6,675)	(28,893)	(25,347)
Other liabilities	(3,364)	212	(1,660)	1,957
Total movements in working capital items	**11,932**	**(3,768)**	**(41,599)**	**(30,414)**
Net cash flows from / (applied to) operating activities before movements in finance receivables and operating lease vehicles	**40,977**	**29,145**	**(103,479)**	**(92,504)**
Movements in operating lease vehicles	2,155	(1,823)	-	-
Movements in finance receivables	25,894	(29,093)	75,149	74,615
Net cash flows from / (applied to) operating activities	**69,026**	**(1,771)**	**(28,330)**	**(17,889)**

29 Special purpose entities

Heartland Cash and Term PIE Fund

The Banking Group controls the operations of the Heartland Cash and Term PIE Fund, 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 2013	Jun 2012	Jun 2013	Jun 2012
	$000	$000	$000	$000
Deposits	33,226	12,347	33,226	12,347

ABCP Trust and CBS Trust

The Banking Group has securitised a pool of receivables comprising residential, commercial and motor vehicle loans to the Trusts. 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 Statements of Financial Position. Despite this presentation in the financial statements, the loans sold to the Trusts are set aside for the benefit of investors in the Trusts and are represented as follows:

	BANKING GROUP		BANK	
	Jun 2013	Jun 2012	Jun 2013	Jun 2012
	$000	$000	$000	$000
Cash and cash equivalents - securitised	11,586	15,579	5,863	11,147
Finance receivables - securitised	274,978	276,768	48,580	70,651
Borrowings - securitised	(258,934)	(264,359)	(50,000)	(75,000)
Derivative financial asset - securitised	567	-	-	-
Derivative financial liabilities - securitised	(30)	(1,162)	-	(118)

30 Staff share ownership arrangements

Heartland Long Term Executive Share Plan

The Heartland Long Term Executive Share Plan (the LTESP) was introduced in the year ended 30 June 2013 for selected executives and senior employees of the Bank. Under the LTESP, the Banking Group lent funds to the participants. These funds were used by the participants to acquire shares of HNZ. The HNZ shares acquired by participants are held on their behalf by Heartland NZ Trustee Limited, an HNZ subsidiary. If a participant is still employed by the Banking Group on 30 June 2014, that participant may be entitled to some or all of the HNZ shares held on their behalf. The number of HNZ shares to which a participant will be entitled is determined by performance hurdles relating to the period which commenced 1 July 2011 (which include corporate values targets and financial performance targets). To the extent a participant is entitled to HNZ shares held on their behalf, the participant is given a cash bonus which is applied toward repayment of the loan. To the extent a participant is not entitled to HNZ shares held on their behalf, those shares are acquired by Heartland NZ Trustee Limited for a purchase price which is applied toward repayment of the loan. The weighted average grant date fair value of the shares issued under the LTESP was $0.60 (based on the volume weighted average price of the shares for the 20 business days immediately preceding the grant date).

Information regarding the shares under the LTESP is as follows:

	BANKING GROUP		BANK	
	Jun 2013 Shares 000	Jun 2012 Shares 000	Jun 2013 Shares 000	Jun 2012 Shares 000
Opening unvested shares	-	-	-	-
Number of shares granted	1,607	-	1,607	-
Less: forfeited over life of scheme	(35)	-	(35)	-
Less: vested over life of scheme	-	-	-	-
Closing unvested shares	**1,572**	**-**	**1,572**	**-**

	BANKING GROUP		BANK	
	Jun 2013 $000	Jun 2012 $000	Jun 2013 $000	Jun 2012 $000
Total amount recognised as an expense	459	480	459	480
Liability recognised for bonus payable	939	480	939	480

Heartland LTI Cash Entitlements Plan

The Heartland LTI Cash Entitlements Plan (LTICEP) was introduced for selected executives of the Bank. Under the LTICEP, participants are granted a cash entitlement. This cash entitlement is based on the amount by which the market price of HNZ shares at a future date exceeds an agreed reference price (no payment is made in the event that the market price of HNZ 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.

Any cash entitlements are payable on the earlier of 20 business days after the release of the HNZ's financial results for the year ended 30 June 2015, or 2 November 2015. The market price of HNZ shares at this date will be based on the volume weighted average price for the 20 business days prior to this date.

Compensation expense is recognised over the service period, being the period from the date the instrument is granted until the expiry date. Grant date was 23 November 2012. Information regarding the entitlements under the LTICEP is as follows:

	BANKING GROUP		BANK	
	Jun 2013 $000	Jun 2012 $000	Jun 2013 $000	Jun 2012 $000
Total amount recognised as an expense	350	-	350	-
Liability recognised for bonus payable	350	-	350	-

The assumptions utilised in the model are as follows:

Volatility (%)	30%
Risk free interest rate (%)	3%
Annual dividends per share (cents)	4.1
Expiry date	30/06/2015
Reference price ($)	0.72
Market price ($)	0.83

31 Fair value

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

Finance receivables

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

The current average market rate used to fair value finance receivables with a fixed interest rate for the Banking Group is 8.58% (2012: 9.06%) and for the Bank is 5.68% (2012: 6.60%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses. Prepayment rates have not been factored into the fair value calculation as they are not deemed to be material.

Investments

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 (Level 1 under the fair value hierarchy) or modelled using observable market inputs (Level 2 under the fair value hierarchy).

Other financial assets and liabilities

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

Derivative items

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

Borrowings

The fair value of 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.

	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 2013						
Cash and cash equivalents	-	172,777	-	-	172,777	172,777
Investments	-	-	165,223	-	165,223	165,223
Finance receivables	-	1,735,398	-	-	1,735,398	1,734,792
Finance receivables - securitised	-	274,978	-	-	274,978	278,540
Derivative financial assets	649	-	-	-	649	649
Other financial assets	-	8,610	-	-	8,610	8,610
Total financial assets	**649**	**2,191,763**	**165,223**	**-**	**2,357,635**	**2,360,591**
Borrowings	-	-	-	1,838,619	1,838,619	1,841,657
Borrowings - securitised	-	-	-	258,934	258,934	258,934
Derivative financial liabilities	30	-	-	-	30	30
Other financial liabilities	-	-	-	17,794	17,794	17,794
Total financial liabilities	**30**	**-**	**-**	**2,115,347**	**2,115,377**	**2,118,415**
June 2012						
Cash and cash equivalents	-	89,220	-	-	89,220	89,220
Investments	-	-	24,327	-	24,327	24,327
Finance receivables	-	1,801,508	-	-	1,801,508	1,800,616
Finance receivables - securitised	-	276,768	-	-	276,768	281,104
Derivative financial assets	2,122	-	-	-	2,122	2,122
Other financial assets	-	3,537	-	-	3,537	3,537
Total financial assets	**2,122**	**2,171,033**	**24,327**	**-**	**2,197,482**	**2,200,926**
Borrowings	-	-	-	1,675,130	1,675,130	1,681,134
Borrowings - securitised	-	-	-	264,359	264,359	264,359
Derivative financial liabilities	1,459	-	-	-	1,459	1,459
Other financial liabilities	-	-	-	18,220	18,220	18,220
Total financial liabilities	**1,459**	**-**	**-**	**1,957,709**	**1,959,168**	**1,965,172**

31 Fair value (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 2013						
Cash and cash equivalents	-	163,152	-	-	163,152	163,152
Investments	-	-	165,223	-	165,223	165,223
Due from related parties	-	1,113,954	-	-	1,113,954	1,113,954
Finance receivables	-	420,477	-	-	420,477	420,884
Finance receivables - securitised	-	48,580	-	-	48,580	48,583
Derivative financial assets	82	-	-	-	82	82
Other financial assets	-	2,474	-	-	2,474	2,474
Total financial assets	**82**	**1,748,637**	**165,223**	**-**	**1,913,942**	**1,914,352**
Borrowings	-	-	-	1,838,619	1,838,619	1,841,657
Borrowings - securitised	-	-	-	50,000	50,000	50,000
Other financial liabilities	-	-	-	13,800	13,800	13,800
Total financial liabilities	**-**	**-**	**-**	**1,902,419**	**1,902,419**	**1,905,457**
June 2012						
Cash and cash equivalents	-	72,217	-	-	72,217	72,217
Investments	-	-	24,327	-	24,327	24,327
Due from related parties	-	1,107,857	-	-	1,107,857	1,107,857
Finance receivables	-	477,333	-	-	477,333	477,453
Finance receivables - securitised	-	70,651	-	-	70,651	70,471
Derivative financial assets	2,122	-	-	-	2,122	2,122
Other financial assets	-	890	-	-	890	890
Total financial assets	**2,122**	**1,728,948**	**24,327**	**-**	**1,755,397**	**1,755,337**
Borrowings	-	-	-	1,675,579	1,675,579	1,681,134
Borrowings - securitised	-	-	-	75,000	75,000	75,000
Derivative financial liabilities	415	-	-	-	415	415
Other financial liabilities	-	-	-	13,187	13,187	13,187
Total financial liabilities	**415**	**-**	**-**	**1,763,766**	**1,764,181**	**1,769,736**

32 Risk management policies

The Banking Group is committed to the management of risk. The primary risk categories are credit, liquidity, market (including interest rate), operational and compliance. The Banking 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 Banking Group's Risk Management Programme (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 for each strategic, credit, liquidity, market (including interest rate), legal and governance, financial and tax, operational and capital adequacy risk 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 Risk Management Framework 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 BRC 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 BRC have delegated authority, and to consider and accept risks beyond management's approval discretion where deemed appropriate.

32 Risk management policies (continued)

Role of the Board and the Risk Committee (continued)

- 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 in external or internal audits 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 are in attendance at 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.

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, Head of Treasury & Strategy, Treasurer, Head of Consumer & Retail and Head of Business & Rural. The ALCO has responsibility for overseeing aspects of the Bank'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:

- Balance sheet structure;
- Non-traded interest rate risk (including the investment of capital);
- Liquidity and funding; and
- Capital management.

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

32 Risk management policies (continued)

Executive Risk Committee (ERC)

The ERC comprises the CEO (Chair), CFO, CRO, Chief Operating Officer, Head of Treasury & Strategy, Head of Consumer & Retail and Head of Business & Rural, 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 risk matters in relation to:

- Operational and compliance risk
- Credit risk
- Strategic risk
- Legal and governance risk
- Financial and tax risk

Specific areas of risk management

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.

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 CRO, 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 CRO or the BRC.

Although the Banking Group relies primarily on the integrity of borrowers and their ability to make contracted repayments, the Banking Group also requires appropriate collateral for loans. This collateral is usually by way of first charge over the asset financed and usually includes personal guarantees from borrowers and business owners. Because of the wide nature of the collateral held against loans it is impractical to provide an accurate estimate of their fair value.

The Banking Group’s exposure to credit 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 best risk return result from lending activities and avoid risk at a transactional and portfolio level inconsistent with the Banking Groups risk appetite.

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.

32 Risk management policies (continued)

Market 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.

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.

Liquidity risk

Liquidity risk is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period. The Banking Group maintains sufficient liquid funds to meet its commitments based on historical and budgeted cash flow forecasts. Management of liquidity risk is achieved by maintaining a prudent level of liquid assets, utilisation of securitisation vehicles and management control of the growth of the business.

The Banking Group's liquidity risks are governed by a Board approved liquidity strategy that defines policy, systems and procedures for measuring, assessing, reporting and managing liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis.

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.

Operational risk

Operational risk is the risk arising from day to day operational activities which may result in direct or indirect loss. Operational 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 risk, the Banking Group operates a "three lines of defence" model which outlines principles for the roles, responsibilities and accountabilities for operational 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 Risk Policies. It incorporates key processes including risk and control assessment, scenario analysis, loss data collection, new product approval process, key risk indicators, notifiable events process, 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 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 risk and maintenance of a suitable control environment so residual risk to the Banking Group is consistent with the Banking Groups risk appetite.

33 Credit risk exposure

(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 2013	Jun 2012	Jun 2013	Jun 2012
	$000	$000	$000	$000
Cash and cash equivalents	172,777	89,220	163,152	72,217
Investments	165,223	24,327	165,223	24,327
Finance receivables	2,010,376	2,078,276	469,057	547,984
Derivative financial assets	649	2,122	82	2,122
Other financial assets	8,410	3,261	2,474	890
Due from related parties	200	276	1,113,954	1,107,857
Total on balance sheet credit exposures	**2,357,635**	**2,197,482**	**1,913,942**	**1,755,397**

(b) Concentration of credit risk by geographic region

Auckland	705,776	653,229	239,198	181,167
Wellington	217,928	120,469	117,996	23,225
Rest of North Island	548,046	482,342	87,825	70,129
Canterbury	531,871	584,086	292,278	338,317
Rest of South Island	369,775	365,112	64,146	35,520
	2,373,396	**2,205,238**	**801,443**	**648,358**
Collective provision	(15,961)	(8,032)	(1,455)	(818)
Due from related parties	200	276	1,113,954	1,107,857
Total on balance sheet credit exposures	**2,357,635**	**2,197,482**	**1,913,942**	**1,755,397**

(c) Concentration of credit risk by industry sector

	BANKING GROUP		BANK	
	Jun 2013	Jun 2012	Jun 2013	Jun 2012
	$000	$000	$000	$000
Agriculture	499,942	530,440	61,204	45,323
Forestry and Fishing	29,565	35,698	9,315	7,187
Mining	19,044	14,325	3	249
Manufacturing	79,915	56,304	21,116	2,166
Finance & Insurance	347,805	134,342	329,303	99,656
Wholesale trade	76,816	38,669	8,784	2,135
Retail trade	155,962	144,608	15,619	21,407
Households	629,854	678,508	231,097	324,193
Property and Business services	320,198	297,944	101,217	111,582
Transport and storage	25,267	57,709	6,191	5,803
Other Services	189,028	216,691	17,594	28,657
	2,373,396	**2,205,238**	**801,443**	**648,358**
Collective provision	(15,961)	(8,032)	(1,455)	(818)
Due from related parties	200	276	1,113,954	1,107,857
Total on balance sheet credit exposures	**2,357,635**	**2,197,482**	**1,913,942**	**1,755,397**

(d) Commitments to extend credit

Undrawn facilities available to customers	106,702	125,492	11,933	13,182
Conditional commitments to fund at future dates	48,428	38,796	-	16,029

As at 30 June 2013 there are no undrawn lending commitments to counterparties for whom drawn balances are classified as individually impaired (2012: nil).

33 Credit risk exposure (continued)

(e) Credit exposures to connected persons

	BANKING GROUP	
	Jun 2013	Jun 2012
Credit exposures to non-bank connected persons at year end ($000's)	384	276
Credit exposures to non-bank connected persons at year end (% of total Tier 1 Capital)	0.12%	0.08%
Peak credit exposures to non-bank connected persons during the year ($000's)	384	276
Peak credit exposures to non-bank connected persons during the year (% of total Tier 1 Capital)	0.12%	0.08%

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 2013.

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 2013 (2012: $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 2013 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) (2012: 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.

(g) Real Estate Credit Limited Management agreement (RECL Agreement)

MARAC entered into the RECL Agreement on 5 January 2011. Under this arrangement, Real Estate Credit Limited (RECL) managed certain non-core real estate loans of MARAC for a 5 year period ending 5 January 2016, and assumed the risk of loss on those loans for that period. The payment obligations of RECL were “limited in recourse” to a pool of security provided by RECL. This pool of security included an $11 million 5 year zero coupon bond (issued by Westpac New Zealand Limited which is rated AA- by Standard & Poor's (Australia) Pty Limited), and other assets (initially real estate or real estate loans) with a required minimum security value of (initially) $19 million.

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

On 4 June 2013 the RECL Agreement was terminated and RECL transferred to MARAC the assets charged to secure the compensation payment.

As a result of the RECL Agreement being terminated, the unamortised portion of the upfront fee paid to RECL has been written off. This write off is reflected in the Banking Group's result for the year ended 30 June 2013, refer to Note 8 - Selling and administration expenses. The amount written off was $6.1m.

For the year ended 30 June 2012, the benefit of the RECL Agreement was included in the determination of the charge and the analysis of risk gradings and the classification of individually impaired assets, refer to Note 34 - Asset quality.

(h) PGG Wrightson Finance Limited guaranteed loans

On 31 August 2011, Heartland acquired 100% of PGG Wrightson Finance Limited from PGG Wrightson Limited (PGW). As part of the acquisition, the Bank and PGW entered into a Deed of Guarantee and Indemnity in relation to certain loans (the Recourse Loans), with book value on acquisition of $30.6 million. This arrangement provides Heartland with a guarantee from PGW in relation to the future payment of principal and interest on the Recourse Loans for a prescribed period of three years. As at 30 June 2013, total recourse loans of $5.7 million were included in the Banking Group's finance receivables (2012: $28.9 million).

34 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.

Non-core 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.

(a) Finance receivables by credit risk concentration

		BANKING GROUP					
			Corporate				
		Rural	Property	Other	Residential	All Other	Total
	NOTE	$000	$000	$000	$000	$000	$000
Jun 2013							
Neither at least 90 days past due nor impaired		522,815	17,866	797,195	230,284	393,242	1,961,402
At least 90 days past due	34(b)	3,975	11,045	7,584	814	3,180	26,598
Individually impaired	34(c)	2,979	61,634	4,688	-	-	69,301
Restructured assets		6	-	1,225	-	2,335	3,566
Provision for impairment	34(e)	(1,706)	(41,512)	(5,632)	(134)	(1,507)	(50,491)
Total net finance receivables		**528,069**	**49,033**	**805,060**	**230,964**	**397,250**	**2,010,376**
Jun 2012							
Neither at least 90 days past due nor impaired		552,740	50,202	713,550	322,243	349,052	1,987,787
At least 90 days past due	34(b)	13,014	27,167	8,945	15	2,863	52,004
Individually impaired	34(c)	1,060	50,860	2,275	2,630	-	56,825
Restructured assets		19	5,522	1,145	-	2,400	9,086
Provision for impairment	34(e)	(2,519)	(17,877)	(4,401)	(774)	(1,855)	(27,426)
Total net finance receivables		**564,314**	**115,874**	**721,514**	**324,114**	**352,460**	**2,078,276**

		BANK					
			Corporate				
		Rural	Property	Other	Residential	All Other	Total
	NOTE	$000	$000	$000	$000	$000	$000
Jun 2013							
Neither at least 90 days past due nor impaired		70,513	1,831	155,238	230,284	-	457,866
At least 90 days past due	34(b)	-	1,990	19	814	-	2,823
Individually impaired	34(c)	-	22,922	837	-	-	23,759
Provision for impairment	34(e)	(46)	(14,873)	(338)	(134)	-	(15,391)
Total net finance receivables		**70,467**	**11,870**	**155,756**	**230,964**	**-**	**469,057**
Jun 2012							
Neither at least 90 days past due nor impaired		52,509	9,847	143,064	322,243	-	527,663
At least 90 days past due	34(b)	-	-	392	15	-	407
Individually impaired	34(c)	-	34,688	-	2,630	-	37,318
Provision for impairment	34(e)	(32)	(16,252)	(346)	(774)	-	(17,404)
Total net finance receivables		**52,477**	**28,283**	**143,110**	**324,114**	**-**	**547,984**

34 Asset quality (continued)

(b) Past due but not impaired

	BANKING GROUP					
	Rural	Corporate Property	Other	Residential	All Other	Total
	$000	$000	$000	$000	$000	$000
Jun 2013						
Less than 30 days past due	7,510	179	6,050	1,909	8,675	24,323
At least 30 and less than 60 days past due	1,390	-	3,457	690	2,371	7,908
At least 60 but less than 90 days past due	143	127	3,263	200	1,434	5,167
At least 90 days past due	3,975	11,045	7,584	814	3,180	26,598
Total past due but not impaired	**13,018**	**11,351**	**20,354**	**3,613**	**15,660**	**63,996**
Jun 2012						
Less than 30 days past due	5,295	365	9,724	1,658	6,696	23,738
At least 30 and less than 60 days past due	2,427	139	4,492	722	2,529	10,309
At least 60 but less than 90 days past due	2,544	3,455	1,401	251	1,208	8,859
At least 90 days past due	13,014	27,167	8,945	15	2,863	52,004
Total past due but not impaired	**23,280**	**31,126**	**24,562**	**2,646**	**13,296**	**94,910**

	BANK					
	Rural	Corporate Property	Other	Residential	All Other	Total
	$000	$000	$000	$000	$000	$000
Jun 2013						
Less than 30 days past due	3,042	-	237	1,909	-	5,188
At least 30 and less than 60 days past due	-	-	-	690	-	690
At least 60 but less than 90 days past due	-	-	218	200	-	418
At least 90 days past due	-	1,990	19	814	-	2,823
Total past due but not impaired	**3,042**	**1,990**	**474**	**3,613**	**-**	**9,119**
Jun 2012						
Less than 30 days past due	2,255	-	434	1,658	-	4,347
At least 30 and less than 60 days past due	-	-	1,206	722	-	1,928
At least 60 but less than 90 days past due	-	1,890	474	251	-	2,615
At least 90 days past due	-	-	392	15	-	407
Total past due but not impaired	**2,255**	**1,890**	**2,506**	**2,646**	**-**	**9,297**

34 Asset quality (continued)

(c) Individually impaired assets

BANKING GROUP	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 2013						
Opening	1,060	50,860	2,275	2,630	-	56,825
Additions	2,980	30,938	5,631	133	-	39,682
Deletions	(795)	(16,740)	(1,160)	(1,832)	-	(20,527)
Write offs	(266)	(3,424)	(2,058)	(931)	-	(6,679)
Closing gross individually impaired assets	**2,979**	**61,634**	**4,688**	**-**	**-**	**69,301**
Less: provision for individually impairment assets	1,125	31,252	2,153	-	-	34,530
Total net impaired assets	**1,854**	**30,382**	**2,535**	**-**	**-**	**34,771**
Jun 2012						
Opening	195	51,853	16,489	-	-	68,537
Additions	2,589	30,070	5,056	2,661	-	40,376
Deletions	(1,837)	(24,359)	(13,096)	(31)	-	(39,323)
Assumed on acquisition	1,871	-	-	-	-	1,871
Write offs	(1,758)	(6,704)	(6,174)	-	-	(14,636)
Closing gross individually impaired assets	**1,060**	**50,860**	**2,275**	**2,630**	**-**	**56,825**
Less: provision for individually impairment assets	696	16,917	1,086	695	-	19,394
Total net impaired assets	**364**	**33,943**	**1,189**	**1,935**	**-**	**37,431**

BANK	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 2013						
Opening	-	34,688	-	2,630	-	37,318
Additions	-	2,368	837	133	-	3,338
Deletions	-	(10,170)	-	(1,832)	-	(12,002)
Write offs	-	(3,964)	-	(931)	-	(4,895)
Closing gross individually impaired assets	**-**	**22,922**	**837**	**-**	**-**	**23,759**
Less: provision for individually impairment assets	-	13,936	-	-	-	13,936
Total net impaired assets	**-**	**8,986**	**837**	**-**	**-**	**9,823**
Jun 2012						
Opening	-	32,217	-	-	-	32,217
Additions	-	13,853	-	2,661	-	16,514
Deletions	-	(4,519)	-	(31)	-	(4,550)
Write offs	-	(6,863)	-	-	-	(6,863)
Closing gross individually impaired assets	**-**	**34,688**	**-**	**2,630**	**-**	**37,318**
Less: provision for individually impairment assets	-	15,891	-	695	-	16,586
Total net impaired assets	**-**	**18,797**	**-**	**1,935**	**-**	**20,732**

34 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 mainly of Consumer and Retail receivables and usually relates to financing 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. Behavioural loans are risk graded based on arrears status.

Behavioural 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 Judgement portfolio consists mainly of Business and Rural lending and includes Non-core Property. Judgement loans relate to loans where an ongoing 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 highest 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.

34 Asset quality (continued)

(d) Credit risk grading (continued)

	BANKING GROUP					
	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 2013						
Judgement portfolio						
Grade 1 - Very Strong	575	-	-	-	-	575
Grade 2 - Strong	6,689	-	8,877	41	-	15,607
Grade 3 - Sound	17,050	-	64,242	2,320	-	83,612
Grade 4 - Adequate *	106,467	-	153,848	4,671	-	264,986
Grade 5 - Acceptable	234,912	1,979	181,851	19,326	-	438,068
Grade 6 - Monitor	122,876	12,297	60,560	2,637	-	198,370
Grade 7 - Substandard	5,150	-	12,120	764	-	18,034
Grade 8 - Doubtful	269	20,924	325	-	-	21,518
Grade 9 - At risk of loss	1,850	24,093	1,818	-	-	27,761
Total Judgement portfolio	**495,838**	**59,293**	**483,641**	**29,759**	**-**	**1,068,531**
Behavioural portfolio						
Not in arrears	32,565	-	318,094	196,546	381,729	928,934
Active	197	-	3,346	4,517	8,444	16,504
Arrangement	45	-	1,985	-	6,116	8,146
Non-performing / Repossession	5	-	902	-	1,319	2,226
Recovery	-	-	571	276	1,149	1,996
Total Behavioural portfolio	**32,812**	**-**	**324,898**	**201,339**	**398,757**	**957,806**
Provision for collectively impaired assets	(581)	(10,260)	(3,479)	(134)	(1,507)	(15,961)
Total finance receivables	**528,069**	**49,033**	**805,060**	**230,964**	**397,250**	**2,010,376**
Jun 2012						
Judgement portfolio						
Grade 1 - Very Strong	1,280	-	-	-	-	1,280
Grade 2 - Strong	3,273	-	12,648	1,169	-	17,090
Grade 3 - Sound	20,137	6,018	52,240	4,564	-	82,959
Grade 4 - Adequate *	120,779	58,054	134,472	10,472	-	323,777
Grade 5 - Acceptable	220,508	23,388	181,421	17,704	-	443,021
Grade 6 - Monitor	121,666	565	61,249	1,835	-	185,315
Grade 7 - Substandard	32,410	7,397	12,984	569	-	53,360
Grade 8 - Doubtful	4,994	8,141	961	-	-	14,096
Grade 9 - At risk of loss	169	13,271	31	-	-	13,471
Total Judgement portfolio	**525,216**	**116,834**	**456,006**	**36,313**	**-**	**1,134,369**
Behavioural portfolio						
Not in arrears	39,887	-	259,493	283,301	338,438	921,119
Active	244	-	2,443	1,657	5,600	9,944
Arrangement	365	-	4,143	972	8,270	13,750
Non-performing / Repossession	81	-	1,972	1,950	383	4,386
Recovery	344	-	772	-	1,624	2,740
Total Behavioural portfolio	**40,921**	**-**	**268,823**	**287,880**	**354,315**	**951,939**
Provision for collectively impaired assets	(1,823)	(960)	(3,315)	(79)	(1,855)	(8,032)
Total finance receivables	**564,314**	**115,874**	**721,514**	**324,114**	**352,460**	**2,078,276**

* *In determining the Banking Group's risk grading, the following arrangements have been taken into consideration:*

- *PGG Wrightson Finance Limited guaranteed loans, refer to Note 33(h) - Credit risk exposure for more details. In the risk grading table above, as at 30 June 2013 $6 million (2012: $29 million) of Judgement loans have been transferred from risk grades below Acceptable to an Adequate risk grade as they are covered by the Deed of Guarantee and Indemnity with PGG Wrightson Limited.*
- *The RECL Agreement, refer to Note 33(g) - Credit risk exposure for more details. In the risk grading table above, as at 30 June 2012: $48 million of Judgement loans had been transferred from risk grades below Acceptable to an Adequate risk grade as they were covered by the RECL Agreement. The RECL Agreement was terminated on 4 June 2013.*

34 Asset quality (continued)

(d) Credit risk grading (continued)

	BANK					
	Rural	Corporate Property	Other	Residential	All Other	Total
	$000	$000	$000	$000	$000	$000
Jun 2013						
Judgement portfolio						
Grade 2 - Strong	-	-	3,068	41	-	3,109
Grade 3 - Sound	1,550	-	20,995	2,320	-	24,865
Grade 4 - Adequate	17,112	-	37,290	4,671	-	59,073
Grade 5 - Acceptable	18,333	-	59,494	19,326	-	97,153
Grade 6 - Monitor	28,624	1,832	4,024	2,637	-	37,117
Grade 7 - Substandard	-	-	2,736	764	-	3,500
Grade 8 - Doubtful	-	7,489	-	-	-	7,489
Grade 9 - At risk of loss	-	3,486	837	-	-	4,323
Total Judgement portfolio	**65,619**	**12,807**	**128,444**	**29,759**	**-**	**236,629**
Behavioural portfolio						
Not in arrears	4,894	-	27,381	196,546	-	228,821
Active	-	-	51	4,517	-	4,568
Recovery	-	-	218	276	-	494
Total Behavioural portfolio	**4,894**	**-**	**27,650**	**201,339**	**-**	**233,883**
Provision for collectively impaired assets	(46)	(937)	(338)	(134)	-	(1,455)
Total finance receivables	**70,467**	**11,870**	**155,756**	**230,964**	**-**	**469,057**
Jun 2012						
Judgement portfolio						
Grade 2 - Strong	-	-	7,864	1,169	-	9,033
Grade 3 - Sound	3,717	-	23,582	4,565	-	31,864
Grade 4 - Adequate	2,818	-	37,975	10,472	-	51,265
Grade 5 - Acceptable	15,995	1,481	37,537	17,704	-	72,717
Grade 6 - Monitor	22,832	627	9,570	1,834	-	34,863
Grade 7 - Substandard	3,791	7,397	401	569	-	12,158
Grade 8 - Doubtful	-	8,141	-	-	-	8,141
Grade 9 - At risk of loss	-	10,656	-	-	-	10,656
Total Judgement portfolio	**49,153**	**28,302**	**116,929**	**36,313**	**-**	**230,697**
Behavioural portfolio						
Not in arrears	3,356	-	25,724	283,294	-	312,374
Active	-	-	330	1,657	-	1,987
Arrangement	-	-	82	964	-	1,046
Non-performing / Repossession	-	-	382	1,950	-	2,332
Total Behavioural portfolio	**3,356**	**-**	**26,518**	**287,865**	**-**	**317,739**
Provision for collectively impaired assets	(32)	(361)	(346)	(79)	-	(818)
Total finance receivables	**52,477**	**27,941**	**143,101**	**324,099**	**-**	**547,618**

(e) Provision for impairment

For Behavioural loans, as arrears drive provision outcomes, the trend in arrears behaviour is an indicator of future provisioning impact. Each arrears classification carries a provision for potential loss based on historical experience for that classification in the same portfolio.

34 Asset quality (continued)

(e) Provision for impairment (continued)

Judgement loans in grades 6 to 8 ordinarily attract a collective provision based on risk grading overlaid with the strength of security position, except for risk grades 6 which have strong security and accordingly attract no collective provision (typically rural exposures). Other collective provisions are also maintained where considered appropriate against a class of loans or those with common risk characteristics. Judgement loans with a risk grade of 1 to 5 may be past due and not attract a provision if the Banking Group has reviewed the risk position and it is deemed to remain sound. Under such circumstances normally an amended credit risk grade will result.

The Banking Group raises provisions based on historical loss experience for loans risk graded in grades 6 to 8. Loans in grade 9 of the Judgement portfolio are individually assessed for impairment.

	BANKING GROUP					
	Rural	Corporate Property	Other	Residential	All Other	Total
	$000	$000	$000	$000	$000	$000
Jun 2013						
Provision for individually impaired assets						
Opening provision for individually impaired assets	696	16,917	1,086	695	-	19,394
Impairment loss for the year						
- charge for the year	687	9,115	3,036	263	-	13,101
- RECL recovery	-	9,809	-	-	-	9,809
- recoveries	26	1	135	-	-	162
- write offs	(266)	(3,424)	(2,058)	(931)	-	(6,679)
- effect of discounting	(18)	(1,166)	(46)	(27)	-	(1,257)
Closing provision for individually impaired assets	**1,125**	**31,252**	**2,153**	**-**	**-**	**34,530**
Provision for collectively impaired assets						
Opening provision for collectively impaired assets	1,823	960	3,315	79	1,855	8,032
Impairment loss for the year						
- (credit) / charge for the year	(1,244)	9,090	980	62	538	9,426
- RECL recovery	-	216	-	-	-	216
- recoveries	6	1	114	-	147	268
- write offs	(4)	(7)	(930)	(7)	(1,033)	(1,981)
Closing provision for collectively impaired assets	**581**	**10,260**	**3,479**	**134**	**1,507**	**15,961**
Total provision for impairment	**1,706**	**41,512**	**5,632**	**134**	**1,507**	**50,491**
Jun 2012						
Provision for individually impaired assets						
Opening provision for individually impaired assets	134	20,047	5,976	-	-	26,157
Impairment loss for the year						
- charge for the year *	1,001	3,697	1,528	695	-	6,921
- recoveries	35	32	160	-	-	227
- write offs	(1,758)	(6,704)	(6,174)	-	-	(14,636)
- assumed on acquisition	1,284	-	-	-	-	1,284
- effect of discounting	-	(155)	(404)	-	-	(559)
Closing provision for individually impaired assets	**696**	**16,917**	**1,086**	**695**	**-**	**19,394**
Provision for collectively impaired assets						
Opening provision for collectively impaired assets	2,501	1,595	5,079	2,037	928	12,140
Impairment loss for the year						
- (credit) / charge for the year *	(682)	(907)	(182)	(1,958)	2,450	(1,279)
- recoveries	4	-	231	-	116	351
- write offs	-	272	(1,813)	-	(1,639)	(3,180)
Closing provision for collectively impaired assets	**1,823**	**960**	**3,315**	**79**	**1,855**	**8,032**
Total provision for impairment	**2,519**	**17,877**	**4,401**	**774**	**1,855**	**27,426**

* *In determining the charge for the year ended 30 June 2012, the RECL Agreement was taken into consideration, refer to Note 33(g) - Credit risk exposure for more details. In assessing the requirements for provisions, the Banking Group identified loans for which a loss was expected to be covered by the RECL Agreement of $28.5 million as at 30 June 2012, and to this extent the RECL Agreement was fully utilised. The agreement covered the MARAC non-core property loans with a net book value of $94 million as at 30 June 2012.*

34 Asset quality (continued)

(e) Provision for impairment (continued)

	BANK					
	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 2013						
Provision for individually impaired assets						
Opening provision for individually impaired assets	-	15,891	-	695	-	16,586
Impairment loss for the year						
- charge for the year	-	2,907	-	263	-	3,170
- recoveries	-	1	-	-	-	1
- write offs	-	(3,964)	-	(931)	-	(4,895)
- effect of discounting	-	(899)	-	(27)	-	(926)
Closing provision for individually impaired assets	**-**	**13,936**	**-**	**-**	**-**	**13,936**
Provision for collectively impaired assets						
Opening provision for collectively impaired assets	32	361	346	79	-	818
Impairment loss for the year						
- charge / (credit) for the year	19	575	(8)	62	-	648
- recoveries	-	1	-	-	-	1
- write offs	(5)	-	-	(7)	-	(12)
Closing provision for collectively impaired assets	**46**	**937**	**338**	**134**	**-**	**1,455**
Total provision for impairment	**46**	**14,873**	**338**	**134**	**-**	**15,391**

	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 2012						
Provision for individually impaired assets						
Opening provision for individually impaired assets	-	17,269	-	-	-	17,269
Impairment loss for the year						
- charge for the year	-	5,453	-	695	-	6,148
- recoveries	-	32	-	-	-	32
- write offs	-	(6,863)	-	-	-	(6,863)
Closing provision for individually impaired assets	**-**	**15,891**	**-**	**695**	**-**	**16,586**
Provision for collectively impaired assets						
Opening provision for collectively impaired assets	500	540	416	2,037	-	3,493
Impairment loss for the year						
- credit for the year	(468)	(179)	(70)	(1,958)	-	(2,675)
Closing provision for collectively impaired assets	**32**	**361**	**346**	**79**	**-**	**818**
Total provision for impairment	**32**	**16,252**	**346**	**774**	**-**	**17,404**

(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 2013, the Banking Group had assets under administration of $859,000 (2012: nil).

35 Liquidity risk

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

	BANKING GROUP		BANK	
	Jun 2013 $000	Jun 2012 $000	Jun 2013 $000	Jun 2012 $000
Cash and cash equivalents	172,777	89,220	163,152	72,217
Investments	165,223	24,327	165,223	24,327
Undrawn committed bank facilities	240,000	335,000	50,000	225,000
Total liquidity	**578,000**	**448,547**	**378,375**	**321,544**

The Banking Group has securitised bank facilities of $500 million, all in relation to the Trusts. ABCP Trust has a securitisation facility of $400 million maturing 5 February 2014 and CBS Trust has a securitisation facility of $100 million maturing 22 January 2014.

35 Liquidity risk (continued)

Contractual liquidity profile of financial assets and liabilities

The following tables show 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 tables, total financial assets do not include unrecognised loan commitments and total financial liabilities do not include undrawn committed bank facilities.

The tables have been prepared using estimates of the average interest rate applicable for each asset or liability class during the contractual term.

	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 2013							
Financial assets							
Cash and cash equivalents	172,777	-	-	-	-	-	172,777
Investments	11,520	1,647	47,882	36,923	79,522	-	177,494
Finance receivables	-	562,696	283,239	415,549	496,023	448,422	2,205,929
Finance receivables - securitised	-	55,889	55,910	89,524	91,789	65,199	358,311
Derivative financial assets	649	-	-	-	-	-	649
Other financial assets	-	8,610	-	-	-	-	8,610
Total financial assets	**184,946**	**628,842**	**387,031**	**541,996**	**667,334**	**513,621**	**2,923,770**
Financial liabilities							
Borrowings	452,201	859,386	387,733	119,944	63,501	-	1,882,765
Borrowings - securitised	-	4,496	260,834	-	-	-	265,330
Derivative financial liabilities	30	-	-	-	-	-	30
Other financial liabilities	-	17,794	-	-	-	-	17,794
Total financial liabilities	**452,231**	**881,676**	**648,567**	**119,944**	**63,501**	**-**	**2,165,919**
Net financial (liabilities)/assets	**(267,285)**	**(252,834)**	**(261,536)**	**422,052**	**603,833**	**513,621**	**757,851**
Unrecognised loan commitments	106,702	-	-	-	-	-	106,702
Undrawn committed bank facilities	240,000	-	-	-	-	-	240,000

The undrawn committed bank facilities totalling $240.0 million were available to be drawn down on demand. To the extent drawn, 240.0 million is contractually repayable in 6-12 months' time upon facility expiry.

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
Jun 2012							
Financial assets							
Cash and cash equivalents	89,220	-	-	-	-	-	89,220
Investments	-	498	498	996	25,314	-	27,306
Finance receivables	-	572,857	336,063	342,005	509,685	638,107	2,398,717
Finance receivables - securitised	-	53,568	54,157	86,874	83,887	112,015	390,501
Derivative financial assets	2,122	-	-	-	-	-	2,122
Other financial assets	-	3,537	-	-	-	-	3,537
Total financial assets	**91,342**	**630,460**	**390,718**	**429,875**	**618,886**	**750,122**	**2,911,403**
Financial liabilities							
Borrowings	237,036	760,301	419,224	272,619	49,549	-	1,738,729
Borrowings - securitised	-	4,578	192,072	75,157	-	-	271,807
Derivative financial liabilities	1,459	-	-	-	-	-	1,459
Other financial liabilities	-	18,220	-	-	-	-	18,220
Total financial liabilities	**238,495**	**783,099**	**611,296**	**347,776**	**49,549**	**-**	**2,030,215**
Net financial (liabilities)/assets	**(147,153)**	**(152,639)**	**(220,578)**	**82,099**	**569,337**	**750,122**	**881,188**
Unrecognised loan commitments	125,492	-	-	-	-	-	125,492
Undrawn committed bank facilities	335,000	-	-	-	-	-	335,000

The undrawn committed bank facilities totalling $335.0 million are available to be drawn down on demand. To the extent drawn, $50.0 million is contractually repayable in 0-6 months' time, $110.0 million is contractually repayable in 6-12 months' time and $175.0 million is contractually repayable in 1-2 years' time upon facility expiry.

35 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 2013							
Financial assets							
Cash and cash equivalents	163,152	-	-	-	-	-	163,152
Investments	11,520	1,647	47,882	36,923	79,522	-	177,494
Due from related parties	1,113,954	-	-	-	-	-	1,113,954
Finance receivables	-	94,266	42,779	61,355	115,183	391,733	705,316
Finance receivables - securitised	-	3,876	3,025	6,107	15,957	65,152	94,117
Derivative financial assets	82	-	-	-	-	-	82
Other financial assets	-	2,474	-	-	-	-	2,474
Total financial assets	**1,288,708**	**102,263**	**93,686**	**104,385**	**210,662**	**456,885**	**2,256,589**
Financial liabilities							
Borrowings	452,201	859,386	387,733	119,944	63,501	-	1,882,765
Borrowings - securitised	-	865	50,103	-	-	-	50,968
Other financial liabilities	-	13,800	-	-	-	-	13,800
Total financial liabilities	**452,201**	**874,051**	**437,836**	**119,944**	**63,501**	**-**	**1,947,533**
Net financial assets/(liabilities)	**836,507**	**(771,788)**	**(344,150)**	**(15,559)**	**147,161**	**456,885**	**309,056**
Unrecognised loan commitments	11,933	-	-	-	-	-	11,933
Undrawn committed bank facilities	50,000	-	-	-	-	-	50,000

The undrawn committed bank facilities totalling $50.0 million were available to be drawn down on demand. To the extent drawn, 50.0 million is contractually repayable in 6-12 months' time upon facility expiry.

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
Jun 2012							
Financial assets							
Cash and cash equivalents	72,217	-	-	-	-	-	72,217
Investments	-	498	498	996	25,314	-	27,306
Due from related parties	1,107,857	-	-	-	-	-	1,107,857
Finance receivables	-	74,611	43,354	54,322	150,575	575,835	898,697
Finance receivables - securitised	-	3,224	3,878	6,682	23,540	112,015	149,339
Derivative financial assets	2,122	-	-	-	-	-	2,122
Other financial assets	-	890	-	-	-	-	890
Total financial assets	**1,182,196**	**79,223**	**47,730**	**62,000**	**199,429**	**687,850**	**2,258,428**
Financial liabilities							
Borrowings	237,036	760,301	419,224	272,619	49,549	-	1,738,729
Borrowings - securitised	-	1,312	1,291	75,157	-	-	77,760
Derivative financial liabilities	415	-	-	-	-	-	415
Other financial liabilities	-	13,187	-	-	-	-	13,187
Total financial liabilities	**237,451**	**774,800**	**420,515**	**347,776**	**49,549**	**-**	**1,830,091**
Net financial assets/(liabilities)	**944,745**	**(695,577)**	**(372,785)**	**(285,776)**	**149,880**	**687,850**	**428,337**
Unrecognised loan commitments	13,182	-	-	-	-	-	13,182
Undrawn committed bank facilities	225,000	-	-	-	-	-	225,000

The undrawn committed bank facilities totalling $225.0 million were available to be drawn down on demand. To the extent drawn, $50.0 million was contractually repayable in 0-6 months' time and $175.0 million was contractually repayable in 1-2 years' time upon facility expiry.

35 Liquidity risk (continued)

Expected maturity profile of financial assets and liabilities

The tables following show 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 and debenture reinvestment levels have been applied to other borrowings. Other financial liabilities reflect contractual maturities.

The tables do 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.

	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 2013							
Financial assets							
Cash and cash equivalents	172,777	-	-	-	-	-	172,777
Investments	11,520	1,647	47,882	36,923	79,522		177,494
Finance receivables	-	520,198	421,900	514,305	468,854	61,358	1,986,615
Finance receivables - securitised	-	81,562	72,570	97,603	64,991	776	317,502
Derivative financial asset	649	-	-	-	-	-	649
Other financial assets	-	8,610	-	-	-	-	8,610
Total financial assets	**184,946**	**612,017**	**542,352**	**648,831**	**613,367**	**62,134**	**2,663,647**
Financial liabilities							
Borrowings	4,522	342,029	231,600	357,000	590,880	474,783	2,000,814
Borrowings - securitised	-	53,918	3,572	7,203	21,628	210,000	296,321
Derivative financial liabilities	30	-	-	-	-	-	30
Other financial liabilities	-	17,794	-	-	-	-	17,794
Total financial liabilities	**4,552**	**413,741**	**235,172**	**364,203**	**612,508**	**684,783**	**2,314,959**
Net financial assets/(liabilities)	**180,394**	**198,276**	**307,180**	**284,628**	**859**	**(622,649)**	**348,688**
Unrecognised loan commitments	106,702	-	-	-	-	-	106,702
Undrawn committed bank facilities	240,000	-	-	-	-	-	240,000
Jun 2012							
Financial assets							
Cash and cash equivalents	89,220	-	-	-	-	-	89,220
Investments	-	498	498	996	25,314	-	27,306
Finance receivables	-	579,947	386,570	372,340	666,179	56,459	2,061,495
Finance receivables - securitised	-	67,976	60,171	82,716	115,136	-	325,999
Derivative financial assets	2,122	-	-	-	-	-	2,122
Other financial assets	-	3,537	-	-	-	-	3,537
Total financial assets	**91,342**	**651,958**	**447,239**	**456,052**	**806,629**	**56,459**	**2,509,679**
Financial liabilities							
Borrowings	2,370	267,212	226,095	456,293	546,244	359,443	1,857,657
Borrowings - securitised	-	4,578	4,503	9,082	27,269	265,746	311,178
Derivative financial liabilities	1,459	-	-	-	-	-	1,459
Other financial liabilities	-	18,220	-	-	-	-	18,220
Total financial liabilities	**3,829**	**290,010**	**230,598**	**465,375**	**573,513**	**625,189**	**2,188,514**
Net financial assets/(liabilities)	**87,513**	**361,948**	**216,641**	**(9,323)**	**233,116**	**(568,730)**	**321,165**
Unrecognised loan commitments	125,492	-	-	-	-	-	125,492
Undrawn committed bank facilities	335,000	-	-	-	-	-	335,000

35 Liquidity risk (continued)

Expected 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 2013							
Financial assets							
Cash and cash equivalents	163,152	-	-	-	-	-	163,152
Investments	11,520	1,647	47,882	36,923	79,522	-	177,494
Due from related parties	1,113,954	-	-	-	-	-	1,113,954
Finance receivables	-	139,636	97,884	124,063	88,676	4,954	455,213
Finance receivables - securitised	-	13,527	12,559	16,884	9,585	776	53,331
Derivative financial assets	82	-	-	-	-	-	82
Other financial assets	-	2,474	-	-	-	-	2,474
Total financial assets	**1,288,708**	**157,284**	**158,325**	**177,870**	**177,783**	**5,730**	**1,965,700**
Financial liabilities							
Borrowings	4,522	342,029	231,600	357,000	590,880	474,783	2,000,814
Borrowings - securitised	-	50,287	-	-	-	-	50,287
Other financial liabilities	-	13,800	-	-	-	-	13,800
Total financial liabilities	**4,522**	**406,116**	**231,600**	**357,000**	**590,880**	**474,783**	**2,064,901**
Net financial assets/(liabilities)	**1,284,186**	**(248,832)**	**(73,275)**	**(179,130)**	**(413,097)**	**(469,053)**	**(99,201)**
Unrecognised loan commitments	11,993	-	-	-	-	-	11,993
Undrawn committed bank facilities	50,000	-	-	-	-	-	50,000
Jun 2012							
Financial assets							
Cash and cash equivalents	72,217	-	-	-	-	-	72,217
Investments	-	498	498	996	25,314	-	27,306
Due from related parties	1,107,857	-	-	-	-	-	1,107,857
Finance receivables	-	74,611	43,354	54,322	384,789	123	557,199
Finance receivables - securitised		3,224	3,878	6,682	71,053	-	84,837
Derivative financial assets	2,122	-	-	-	-	-	2,122
Other financial assets	-	890	-	-	-	-	890
Total financial assets	**1,182,196**	**79,223**	**47,730**	**62,000**	**481,156**	**123**	**1,852,428**
Financial liabilities							
Borrowings	2,370	267,212	226,095	456,293	546,244	359,443	1,857,657
Borrowings - securitised	-	1,312	1,291	2,603	7,815	75,214	88,235
Derivative financial liabilities	415	-	-	-	-	-	415
Other financial liabilities	-	13,187	-	-	-	-	13,187
Total financial liabilities	**2,785**	**281,711**	**227,386**	**458,896**	**554,059**	**434,657**	**1,959,494**
Net financial assets/(liabilities)	**1,179,411**	**(202,488)**	**(179,656)**	**(396,896)**	**(72,903)**	**(434,534)**	**(107,066)**
Unrecognised loan commitments	13,182	-	-	-	-	-	13,182
Undrawn committed bank facilities	225,000	-	-	-	-	-	225,000

36 Concentrations of funding

(a) Concentration of funding by industry

	BANKING GROUP		BANK	
	Jun 2013 $000	Jun 2012 $000	Jun 2013 $000	Jun 2012 $000
Finance	258,934	314,369	50,000	125,010
Households	1,732,074	1,518,657	1,732,074	1,519,106
Listed bond	106,545	106,463	106,545	106,463
Total borrowings	**2,097,553**	**1,939,489**	**1,888,619**	**1,750,579**

36 Concentrations of funding (continued)

(b) Concentration of funding by geographical area

	BANKING GROUP		BANK	
	Jun 2013 $000	Jun 2012 $000	Jun 2013 $000	Jun 2012 $000
Auckland	409,923	442,727	370,126	379,139
Wellington	304,297	240,758	135,160	114,984
Rest of North Island	392,056	325,091	392,056	325,091
Canterbury	725,365	681,474	725,365	681,926
Rest of South Island	184,800	173,787	184,800	173,787
Overseas	81,112	75,652	81,112	75,652
Total borrowings	**2,097,553**	**1,939,489**	**1,888,619**	**1,750,579**

37 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.

	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 2013							
Financial assets							
Cash and cash equivalents	172,777	-	-	-	-	-	172,777
Investments	128,370	-	15,545	4,291	17,017	-	165,223
Finance receivables	1,206,542	95,833	147,126	157,208	128,155	534	1,735,398
Finance receivables - securitised	80,968	29,685	50,699	67,597	46,029	-	274,978
Other financial assets	649	-	-	-	-	8,610	9,259
Total financial assets	**1,589,306**	**125,518**	**213,370**	**229,096**	**191,201**	**9,144**	**2,357,635**
Financial liabilities							
Borrowings	961,916	339,250	373,581	111,129	52,743	-	1,838,619
Borrowings - securitised	258,934	-	-	-	-	-	258,934
Other financial liabilities	30	-	-	-	-	17,794	17,824
Total financial liabilities	**1,220,880**	**339,250**	**373,581**	**111,129**	**52,743**	**17,794**	**2,115,377**
Effect of derivatives held for risk management	179,350	(18,700)	(45,330)	(61,200)	(54,120)	-	-
Net financial assets / (liabilities)	**547,776**	**(232,432)**	**(205,541)**	**56,767**	**84,338**	**(8,650)**	**242,258**
Jun 2012							
Financial assets							
Cash and cash equivalents	89,220	-	-	-	-	-	89,220
Investments	22,149	-	-	-	2,178	-	24,327
Finance receivables	1,248,945	98,677	153,534	172,003	127,642	707	1,801,508
Finance receivables - securitised	89,285	30,031	49,895	69,868	37,689	-	276,768
Other financial assets	2,122	-	-	-	-	3,537	5,659
Total financial assets	**1,451,721**	**128,708**	**203,429**	**241,871**	**167,509**	**4,244**	**2,197,482**
Financial liabilities							
Borrowings	669,815	308,897	396,086	259,956	40,376	-	1,675,130
Borrowings - securitised	75,105	189,254	-	-	-	-	264,359
Other financial liabilities	1,459	-	-	-	-	18,220	19,679
Total financial liabilities	**746,379**	**498,151**	**396,086**	**259,956**	**40,376**	**18,220**	**1,959,168**
Effect of derivatives held for risk management	218,387	42,690	(43,869)	(175,718)	(41,490)	-	-
Net financial assets / (liabilities)	**923,729**	**(326,753)**	**(236,526)**	**(193,803)**	**85,643**	**(13,976)**	**238,314**

37 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 2013							
Financial assets							
Cash and cash equivalents	163,152	-	-	-	-	-	163,152
Investments	128,370	-	15,545	4,291	-	17,017	165,223
Due from related parties	-	-	-	-	-	1,113,954	1,113,954
Finance receivables	404,106	4,250	5,787	2,768	3,032	534	420,477
Finance receivables - securitised	48,580	-	-	-	-	-	48,580
Other financial assets	82	-	-	-	-	2,474	2,556
Total financial assets	**744,290**	**4,250**	**21,332**	**7,059**	**3,032**	**1,133,979**	**1,913,942**
Financial liabilities							
Borrowings	961,916	339,250	373,581	111,129	52,743	-	1,838,619
Borrowings - securitised	50,000	-	-	-	-	-	50,000
Other financial liabilities	-	-	-	-	-	13,800	13,800
Total financial liabilities	**1,011,916**	**339,250**	**373,581**	**111,129**	**52,743**	**13,800**	**1,902,419**
Effect of derivatives held for risk management	-	-	-	-	-	-	-
Net financial (liabilities) / assets	**(267,626)**	**(335,000)**	**(352,249)**	**(104,070)**	**(49,711)**	**1,120,179**	**11,523**
Jun 2012							
Financial assets							
Cash and cash equivalents	72,217	-	-	-	-	-	72,217
Investments	22,149	-	-	-	2,178	-	24,327
Due from related parties	-	-	-	-	-	1,107,857	1,107,857
Finance receivables	416,923	17,785	16,423	22,632	2,863	707	477,333
Finance receivables - securitised	58,205	2,450	2,545	6,397	1,054	-	70,651
Other financial assets	2,122	-	-	-	-	890	3,012
Total financial assets	**571,616**	**20,235**	**18,968**	**29,029**	**6,095**	**1,109,454**	**1,755,397**
Financial liabilities							
Borrowings	669,815	308,897	396,086	259,956	40,825	-	1,675,579
Borrowings - securitised	75,000	-	-	-	-	-	75,000
Other financial liabilities	415	-	-	-	-	13,187	13,602
Total financial liabilities	**745,230**	**308,897**	**396,086**	**259,956**	**40,825**	**13,187**	**1,764,181**
Effect of derivatives held for risk management	36,735	30,067	(4,389)	(61,453)	(960)	-	-
Net financial (liabilities)/assets	**(136,879)**	**(258,595)**	**(381,507)**	**(292,380)**	**(35,690)**	**1,096,267**	**(8,784)**

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.

38 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. These requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by the Banking Group.

The Banking Group must comply with RBNZ minimum capital adequacy ratios as determined in its Conditions of Registration which require capital adequacy ratios to be calculated under the Basel II framework in accordance with the Capital Adequacy Framework (Standardised Approach) BS2A. Basel II consists of three pillars. Pillar One covers the capital requirements for credit, operational, and market (including interest rate) risks. Pillar Two covers all other material risks not already included in Pillar One and the requirement for an internal capital adequacy process. Pillar Three relates to market disclosure.

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 for the year ended 30 June 2013.

Internal Capital Adequacy Assessment Process ('ICAAP')

The Banking Group has an ICAAP which complies with the requirements set out in BS12 and is in accordance with its Conditions of Registration. The Board has overall responsibility for ensuring the Banking Group has adequate overall capital in relation to its risk profile and establishes minimum internal capital levels and limits above the regulatory minimum.

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 38(l) for further details.

(a) Capital

	BANKING GROUP
	Jun 2013
	$000
Tier 1 Capital	
Common Equity Tier 1 ("CET1") capital	
Paid-up ordinary shares issued by the Bank plus related share premium	189,774
Retained earnings (net of appropriations)	174,780
Accumulated other comprehensive income and other disclosed reserves	371
Less deductions from CET1 capital	
Available for sale reserve	(284)
Intangible assets	(22,963)
Deferred tax assets	(16,373)
Hedging reserve	(46)
Defined benefit superannuation fund assets	(617)
Total CET1 capital	**324,642**
Additional Tier 1 Capital	
Nil	-
Total Tier 1 Capital	**324,642**
Tier 2 Capital	
Nil	**-**
Total Tier 2 Capital	**-**
Total Capital	**324,642**

(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 Heartland 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.

Retained earnings

The accumulated profit or loss that has been retained in the Banking Group.

38 Capital adequacy (continued)

(b) Capital structure (continued)

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.

(c) Credit risk

(i) On balance sheet exposures

	BANKING GROUP			
	Total exposure	Risk weighting	Risk weighted exposure	Minimum Pillar One capital require-ment [1]
	$000	%	$000	$000
Jun 2013				
Cash and gold bullion	279	0%	-	-
Public sector entities	34,281	20%	6,856	823
Banks	285,289	20%	57,058	6,847
Corporates	11,973	20%	2,395	287
Corporates	6,178	50%	3,089	371
Welcome Home Loans - loan to value ratio (LVR) <= 90%[2]	20,727	35%	7,254	870
Welcome Home Loans - LVR > 90%[2]	34,957	50%	17,479	2,097
Residential mortgages < 80% LVR	156,247	35%	54,686	6,562
Residential mortgages 80 < 90% LVR	8,358	50%	4,179	502
Residential mortgages 90 < 100% LVR	2,132	75%	1,599	192
Residential mortgages 100%+ LVR	7,750	100%	7,750	930
Past due residential mortgages	793	100%	793	95
Other past due assets - provision 20%+	30,180	100%	30,180	3,622
Other past due assets - provision < 20%	32,904	150%	49,356	5,923
Other assets	1,828,131	100%	1,828,131	219,376
Not risk weighted assets	39,953	0%	-	-
Total on balance sheet exposures	**2,500,132**		**2,070,805**	**248,497**

[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.

38 Capital adequacy (continued)

(c) Credit risk (continued)

(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 requirement [1]
	$000	$000	$000	%	$000	$000
Jun 2013						
Direct credit substitute	3,617	100%	3,617	100%	3,617	434
Performance-related contingency	1,416	50%	708	100%	708	85
Other commitments where original maturity is more than one year	119,883	50%	59,942	100%	59,942	7,193
Other commitments where original maturity is less than or equal to one year	35,247	20%	7,049	100%	7,049	846
Market related contracts [2]						
Interest rate contracts	253,010	n/a	1,012	20%	202	24
Total off balance sheet exposures	**413,173**		**72,328**		**71,518**	**8,582**

(d) Additional mortgage information

LVR range

	BANKING GROUP		
	On balance sheet exposures	Off balance sheet exposures [3]	Total exposures
	$000	$000	$000
Jun 2013			
Does not exceed 80%	161,180	3,843	165,023
Exceeds 80% and not 90%	24,939	2	24,941
Exceeds 90%	44,845	212	45,057
Total exposures	**230,964**	**4,057**	**235,021**

At 30 June 2013, $35.0 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 2013
	$000
Loans and advances - loans with residential mortgages (see Note 34(d))	230,964
Plus: Residential mortgages classified as Property in Note 34(d)	-
On balance sheet residential mortgage exposures subject to the standardised approach	**230,964**
Off balance sheet mortgage exposures subject to the standardised approach	4,057
Total residential exposures subject to the standardised approach	**235,021**

(f) Credit risk mitigation

As at 30 June 2013 the Banking Group had $55.7 million of Welcome Home Loans, whose credit risk was mitigated by the Crown. Other that 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.

38 Capital adequacy (continued)

(g) Operational Risk

	BANKING GROUP		
	Implied risk weighted exposure	Total capital requirement per BS2A	Total capital requirement per Conditions of Registration
	$000	$000	$000
Operational risk	151,044	12,084	18,125

Operational risk is calculated based on the previous 12 quarters of the Banking Group. As the Bank commenced operations on 5 January 2011, quarterly data prior to merger has been calculated as a combination of CBS, SCBS and MARAC.

(h) Market risk

		BANKING GROUP		
		Implied risk weighted exposure	Total capital requirement per BS2A	Total capital requirement per Conditions of Registration
		$000	$000	$000
Market risk end-period capital charge	Interest rate risk only	66,246	5,300	7,950
Market risk peak end-of-day capital charge	Interest rate risk only	66,246	5,300	7,950

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

	BANKING GROUP			
	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
Total credit risk and equity				
On balance sheet	2,500,132	2,070,805	248,497	248,497
Off balance sheet	413,173	71,518	8,582	8,582
Operational risk	n/a	151,044	12,084	18,125
Market risk	n/a	66,246	5,300	7,950
Total	**n/a**	**2,359,613**	**274,463**	**283,154**

The implied risk weighted exposure for Operational and Market risk calculated per BS2A assumes a capital requirement of 8%, however the Banks Conditions of Registration requires it to hold capital against these risks at 12%.

(j) Capital ratios

	BANKING GROUP	
	Jun 2013	Jun 2012
	%	%
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.76%	n/a
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	10.00%	n/a
Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.76%	14.54%
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%	14.54%
Minimum Total Capital as per Conditions of Registration	12.00%	12.00%
Buffer ratio	1.76%	n/a

38 Capital adequacy (continued)

(k) Solo capital adequacy

	BANKING GROUP	
	Jun 2013	Jun 2012
	%	%
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	15.32%	n/a
Tier 1 Capital expressed as a percentage of total risk weighted exposures	15.32%	16.26%
Total Capital expressed as a percentage of total risk weighted exposures	15.32%	16.26%

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 and CBS Trust.

(l) Capital for 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.

39 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. During the year ended 30 June 2013, there have been no material changes in the Banking Group's marketing and distribution of insurance products.

Securitisation

As at 30 June 2013, the Banking Group had securitised assets amounting to $275.0 million (2012: $276.8 million). These assets have been sold to CBS Trust (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) and 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 29 - Special purpose entities provides further information on the securitised assets. MARAC and 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 MARAC, controls, manages and administers the Heartland Cash and Term PIE Fund and its products (Heartland Call PIE and Heartland Term Deposit PIE). Note 29 - Special Purpose Entities has further details. The Heartland Cash and Term PIE Fund deals with MARAC in the normal course of business, in MARAC's capacity as manager 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 32 - 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.

39 Insurance business, securitisation, funds management, other fiduciary activities (continued)

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 (2012: $nil).

MARAC and 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 2013	**Jun 2012**
Peak end-of-day aggregate amount of funding provided ($000's)	29,844	57,571
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	9.2%	16.9%

	CBS TRUST		ABCP TRUST	
	Jun 2013	**Jun 2012**	**Jun 2013**	**Jun 2012**
Peak end-of-day aggregate amount of funding provided ($000's)	6,579	37,377	24,226	22,787
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	12.1%	45.7%	10.4%	10.8%

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.

40 Contingent liabilities and commitments

	BANKING GROUP		BANK	
	Jun 2013	**Jun 2012**	**Jun 2013**	**Jun 2012**
	$000	**$000**	**$000**	**$000**
Letters of credit, guarantee commitments and performance bonds	5,033	13,404	-	-
Total contingent liabilities	**5,033**	**13,404**	**-**	**-**

The Banking Group also has contingent commitments to fund at future dates as set out in Note 33(d) - Credit risk exposure.

41 Events after the reporting date

Maturity of NZDX listed bond
On 15 July 2013 the NZDX listed bond matured and was repaid in full from funds reported within Cash and Cash equivalents as at 30 June 2013.

CBS Trust securitisation facility
On 31 July 2013, the Banking Group cancelled $50 million of the CBS Trust securitisation facility. On 15 August 2013, the remaining $50 million CBS Trust securitisation facility was cancelled and all of the receivables in CBS Trust were sold back to the Bank.

Declaration of dividend
On 26 August 2013, the Directors resolved to pay a dividend of $9.7 million to Heartland NZ Holdings Limited.

There have been no other 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 13 $000	Audited 30 Jun 12 $000	Audited 30 Jun 11 $000	Audited 30 Jun 10 $000	Audited 30 Jun 09 $000
Interest income	206,313	205,131	161,297	148,337	168,933
Interest expense	110,895	121,502	99,705	89,271	109,318
Net interest income	**95,418**	**83,629**	**61,592**	**59,066**	**59,615**
Other net income	11,433	11,329	8,988	10,015	6,004
Total operating income before other gains	**106,851**	**94,958**	**70,580**	**69,081**	**65,619**
Employee benefits	33,861	34,661	22,049	13,049	13,377
Other operating expenses	35,201	29,520	22,777	11,976	11,671
Profit before impairment and tax	**37,789**	**30,777**	**25,754**	**44,056**	**40,571**
Impaired asset expense	22,527	5,642	13,298	23,765	13,318
Decrease in fair value of investment properties	5,101	3,900	-	-	-
Net profit before tax	**10,161**	**21,235**	**12,456**	**20,291**	**27,253**
Income tax expense / (benefit)	2,718	(2,974)	4,712	5,992	8,199
Net profit after tax attributable to owners of the entity	**7,443**	**24,209**	**7,744**	**14,299**	**19,054**
Other comprehensive income / (loss) for the year net of tax					
Effective portion of changes in fair value of cash flow hedges, net of tax	1,056	378	596	4,208	(4,427)
Net change in available-for-sale reserve, net of tax	276	(103)	111	-	-
Net change in defined benefit reserve, net of income tax	462	(435)	14	-	-
Total comprehensive income for the year, net of tax	**9,237**	**24,049**	**8,465**	**18,507**	**14,627**
Dividends paid to equity holders	15,605	1,597	866	-	13,000

Statements of Financial Position

	BANKING GROUP				
As at	Audited 30 Jun 13 $000	Audited 30 Jun 12 $000	Audited 30 Jun 11 $000	Audited 30 Jun 10 $000	Audited 30 Jun 09 $000
Total assets	2,500,132	2,344,489	2,115,485	1,294,556	1,412,795
Individually impaired assets	69,301	56,825	68,537	42,647	23,465
Total liabilities	2,135,207	1,973,196	1,821,644	1,088,088	1,259,834
Total equity	364,925	371,293	293,841	206,468	152,961

The information for the years ended 30 June 2013, 30 June 2012 and 30 June 2011 has been taken from the audited financial statements of the Banking Group.

The Banking Group was established in January 2011 as a result of a business combination. Under NZ IFRS MARAC (a subsidiary of the Bank) was treated as the acquirer of the Bank. As a result, the Banking Group represents a continuation of the MARAC business and the information for the years ended 30 June 2009 and 30 June 2010 have been taken from the audited financial statements of MARAC.

Where accounting classifications have changed or where changes in accounting policy are adopted retrospectively, comparatives have been revised and may differ from results previously reported.

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 capital adequacy information disclosed in Note 38) of Heartland Bank Limited ("the bank") and its related entities ("the banking group") on pages 10 to 60 of the disclosure statement. The financial statements comprise the statements of financial position as at 30 June 2013, 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 under the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2013 (the "Order").

Directors' responsibility for the disclosure statement

The directors are responsible for the preparation of bank and banking group disclosure statement, including financial statements prepared in accordance with Clause 24 of the Order and generally accepted accounting practice in New Zealand, and that give a true and fair view 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. 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 gives a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Our firm has provided other services to the bank and banking group in relation to taxation and general accounting 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 auditors of the bank and banking group. The firm has no other relationship with, or interest in, the bank and banking group.

Opinion on financial statements

In our opinion the financial statements of Heartland Bank Limited and its related entities ("the bank" and "banking group") on pages 10 to 60 (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 9, 13, 14, 15 and 17 of the Order):

- complies with generally accepted accounting practice in New Zealand; and
- gives a true and fair view of the financial position as at 30 June 2013 and of their financial performance and cash flows for the year ended on that date.

Opinion on supplementary information (excluding capital adequacy information)

In our opinion, the supplementary information 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; and
- fairly states the matters to which it relates in accordance with those Schedules.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, and clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the bank and banking group, as far as appears from our examination of those records.

KPMG

Report on capital adequacy information

We have reviewed the capital adequacy information, as disclosed in Note 38 of the disclosure statement for the year ended 30 June 2013.

Directors' responsibility for the capital adequacy information

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.

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 the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. Those standards require that we comply with ethical requirements 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 bank's conditions of registration; 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.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the capital adequacy information, disclosed in Note 38 of the disclosure statement, 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

26 August 2013

Auckland