HEARTLAND BANK

Disclosure Statement

For the year ended 30 June 2014

CONTENTS

GENERAL INFORMATION

This Disclosure Statement has been issued by Heartland Bank Limited (the Bank) for the year ended 30 June 2014 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order). The Financial Statements of the Bank for the year ended 30 June 2014 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 Banking Group consists of the Bank and all of its subsidiaries. All subsidiaries are incorporated in New Zealand.

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 HNZ wholly owns.

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 2014:

Name	Percentage held
Harrogate Trustee Limited	9.58%
Seniors Money International Limited	9.28%
Accident Compensation Corporation	7.64%

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) are set aside for the benefit of investors in the ABCP Trust (See Note 6 - Structured entities for further details).

GUARANTEE ARRANGEMENTS

As at the date this Disclosure Statement was signed, no material obligations of the Bank were guaranteed. Neither Heartland NZ Holdings Limited nor 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
Chairman - Board of Directors
Type of director: Independent Non-Executive Director
Qualifications: BCom, LLB, FCA, AF Inst D, FNZIM
Occupation: Company 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, 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, Godfrey Hirst NZ Limited, Hansons Lane International Holdings 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, Limeloader Irrigation Limited, Lorne Investments Limited, Mainland Tomatoes 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
Type of director: Independent Non-Executive Director
Qualifications: MCom
Occupation: Company Director
External Directorships:
26 Belfast Rd Limited, Longhurst Preschool No1 Limited, Mike Greer Homes Pegasus Town Limited, Mike Greer Commercial Limited, Pegasus Preschool Limited.

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

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

Name: Geoffrey Thomas Ricketts
Type of director: Non-Independent Non-Executive Director
Qualifications: LLB (Hons), F Inst D
Occupation: Company Director
External Directorships:
AAI Limited, Asteron Life Limited, Great Northern Developments Limited, Heartland HER Holdings Limited, Heartland New Zealand Limited, Janmac Capital 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, The Centre for Independent Studies Limited, The Todd Corporation Limited, Todd Management Services Limited, Todd Offshore Limited, Vero Insurance New Zealand Limited, Vero Liability Insurance Limited.

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

DIRECTORS (CONTINUED)

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

Name: Michael Danton Jonas
Type of director: Non-Independent Executive Director
Qualifications: LLB
Occupation: Head of Strategic & Product Development of the Bank
External Directorships:
Heartland HER Holdings Limited

Conflicts of interest policy

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

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

Interested transactions

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

Audit committee composition

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

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

AUDITOR

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland

CONDITIONS OF REGISTRATION

These conditions apply on and after 30 March 2014.

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

1. That—

   (a) the Total capital ratio of the banking group is not less than 12%;

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

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

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

   (e) the process in Subpart 2H of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated September 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 September 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 September 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% 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 September 2013.

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

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

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

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

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

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

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

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

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

For the purposes of this condition of registration,—

"independent,"—

(a) in relation to a person other than a person to whom paragraph (b) applies, has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011; and

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

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

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

CONDITIONS OF REGISTRATION (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

    For the purposes of this condition,—

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

    "SPV" means a person—

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

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

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

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

CONDITIONS OF REGISTRATION (CONTINUED)

14. That—

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

(i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

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

(i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

(iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

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

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

(a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—

(i) all liabilities are frozen in full; and

(ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;

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

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

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

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

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

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

16. That the bank has an Implementation Plan that—

(a) is up-to-date; and

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

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

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

(a) at the product-class level lists all liabilities, indicating which are—

(i) pre-positioned for Open Bank Resolution; and

(ii) not pre-positioned for Open Bank Resolution;

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

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

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

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

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

CONDITIONS OF REGISTRATION (CONTINUED)

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

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

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

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

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

In these conditions of registration,—

"banking group"—

(a) means Heartland Bank Limited (as reporting entity) and all other entities included in the group as defined in section 5(1) of the Financial Reporting Act 2013 (unless paragraph (b) applies); or

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

"generally accepted accounting practice"—

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

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

In conditions of registration 19 to 23,—

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

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

PENDING PROCEEDINGS OR ARBITRATION

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

CREDIT RATINGS

As at the date of signing this Disclosure Statement, the Bank's credit rating issued by Standard & Poor's (Australia) Pty Limited (S&P) was BBB, negative outlook. This BBB credit rating was issued on 22 May 2014 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 16 May 2013 S&P affirmed the previous 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".
- On 29 October 2013 S&P affirmed the previous BBB- credit rating and amended the outlook from "negative" to "developing".

As at the date of signing this Disclosure Statement, the Bank's credit rating issued by Fitch Australia Pty Ltd (Fitch Ratings) was BBB- stable. This BBB- credit rating was initially issued on 4 November 2013 and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. On 17 February 2014, Fitch Ratings affirmed the BBB- stable credit rating.

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

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

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

OTHER MATERIAL MATTERS

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

DIRECTORS' STATEMENTS

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

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

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

2. During the year ended 30 June 2014:

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

This Disclosure Statement is dated 25 August 2014 and has been signed by all the Directors.

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

J. K. Greenslade

N. J. Greer

E. J. Harvey

M. D. Jonas

G. R. Kennedy

G. T. Ricketts

R. A. Wilks

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

		BANKING GROUP		BANK	
	NOTE	Jun 2014 $000	Jun 2013 $000	Jun 2014 $000	Jun 2013 $000
Interest income	8	200,141	206,313	135,148	44,907
Interest expense	8	93,719	110,895	88,428	100,785
Net interest income / (expense)		**106,422**	**95,418**	**46,720**	**(55,878)**
Operating lease income	9	13,348	14,861	7,609	-
Operating lease expenses	9	7,709	9,687	4,403	-
Net operating lease income		**5,639**	**5,174**	**3,206**	**-**
Lending and credit fee income		2,475	1,760	2,023	682
Dividends received		-	-	-	97,000
Other income	10	5,065	4,499	1,322	11,346
Net operating income		**119,601**	**106,851**	**53,271**	**53,150**
Selling and administration expenses	11	61,641	69,062	56,317	47,932
Profit / (loss) before impaired asset expense and income tax		**57,960**	**37,789**	**(3,046)**	**5,218**
Impaired asset expense	12	5,895	22,527	9,813	3,818
Decrease in fair value of investment properties	19	1,203	5,101	1,789	-
Profit / (loss) before income tax		**50,862**	**10,161**	**(14,648)**	**1,400**
Income tax expense / (benefit)	13(a)	14,616	2,718	(1,963)	(26,824)
Profit / (loss) for the year		**36,246**	**7,443**	**(12,685)**	**28,224**
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		1,111	1,056	433	-
Net change in available for sale reserve, net of income tax		(12)	276	(12)	276
Items that will not be reclassified to profit or loss:					
Net change in defined benefit reserve, net of income tax		3	462	3	462
Other comprehensive income for the year, net of income tax	13(b)	**1,102**	**1,794**	**424**	**738**
Total comprehensive income / (loss) for the year		**37,348**	**9,237**	**(12,261)**	**28,962**

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

The notes on pages 17 to 69 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 June 2014

		BANKING GROUP					
	NOTE	Share Capital $000	Available for sale Reserve $000	Defined benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Balance at 1 July 2013		**189,774**	**284**	**41**	**46**	**174,780**	**364,925**
Total comprehensive (loss) / income for the year							
Profit for the year		-	-	-	-	36,246	36,246
Total other comprehensive (loss) / income		-	(12)	3	1,111	-	1,102
Total comprehensive (loss) / income for the year		**-**	**(12)**	**3**	**1,111**	**36,246**	**37,348**
Contributions by and distributions to owners							
Effect of amalgamation	4(g)	149,269	-	-	-	(149,269)	-
Staff share ownership expense	31(c)	714	-	-	-	-	714
Dividends to equity holders	15	-	-	-	-	(38,661)	(38,661)
Total transactions with owners		**149,983**	**-**	**-**	**-**	**(187,930)**	**(37,947)**
Balance at 30 June 2014		**339,757**	**272**	**44**	**1,157**	**23,096**	**364,326**
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	15	-	-	-	-	(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**

The notes on pages 17 to 69 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 June 2014

	NOTE	BANK 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 2013		**339,043**	**284**	**41**	**-**	**12,865**	**352,233**
Total comprehensive (loss) / income for the year							
Profit for the year		-	-	-	-	(12,685)	(12,685)
Total other comprehensive (loss) / income		-	(12)	3	433	-	424
Total comprehensive (loss) / income for the year		**-**	**(12)**	**3**	**433**	**(12,685)**	**(12,261)**
Contributions by and distributions to owners							
Staff share ownership expense	31(c)	714	-	-	-	-	714
Effect of amalgamation	1	-	-	-	-	60,681	60,681
Dividends to equity holders	15	-	-	-	-	(38,661)	(38,661)
Total transactions with owners		**714**	**-**	**-**	**-**	**22,020**	**22,734**
Balance at 30 June 2014		**339,757**	**272**	**44**	**433**	**22,200**	**362,706**
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	15	-	-	-	-	(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**

The notes on pages 17 to 69 are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2014

		BANKING GROUP		BANK	
		Jun 2014	Jun 2013	Jun 2014	Jun 2013
	NOTE	$000	$000	$000	$000
Assets					
Cash and cash equivalents	16	34,588	172,777	34,538	163,152
Investments	17	238,859	165,223	238,859	165,223
Due from related parties	18	29,461	200	29,461	1,113,954
Investment properties	19	24,888	58,287	10,390	-
Finance receivables	20	1,985,119	2,010,376	1,985,119	469,057
Operating lease vehicles	21	31,295	32,395	31,295	-
Current tax assets		1,051	-	-	-
Other assets	22	8,191	11,257	8,085	3,448
Investment in subsidiaries	5	-	-	16,719	302,282
Property, plant and equipment	23	9,573	10,281	9,567	10,004
Intangible assets	24	22,437	22,963	22,437	22,798
Deferred tax asset	25	5,287	16,373	4,359	4,734
Total assets		**2,390,749**	**2,500,132**	**2,390,829**	**2,254,652**
Liabilities					
Borrowings	26	1,963,833	2,097,553	1,963,833	1,888,619
Due to related parties	18	28,221	500	29,381	1,950
Current tax liabilities		-	3,565	629	-
Trade and other payables	27	34,369	33,589	34,280	11,850
Total liabilities		**2,026,423**	**2,135,207**	**2,028,123**	**1,902,419**
Equity					
Share capital	28	339,757	189,774	339,757	339,043
Retained earnings and reserves		24,569	175,151	22,949	13,190
Total equity		**364,326**	**364,925**	**362,706**	**352,233**
Total equity and liabilities		**2,390,749**	**2,500,132**	**2,390,829**	**2,254,652**

Total interest earning and discount bearing assets		2,286,350	2,345,724	2,286,300	796,213
Total interest and discount bearing liabilities		1,992,088	2,098,083	1,992,088	1,889,119

The notes on pages 17 to 69 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS
For the year ended 30 June 2014

		BANKING GROUP		BANK	
		Jun 2014	Jun 2013	Jun 2014	Jun 2013
	NOTE	$000	$000	$000	$000
Cash flows from operating activities					
Interest received		192,951	199,243	129,604	43,523
Operating lease income received		12,086	11,958	5,906	-
Proceeds from sale of operating lease vehicles		9,086	10,710	5,690	-
Lending, credit fees and other income received		7,540	6,259	3,345	988
Net decrease in finance receivables		17,028	32,908	-	76,215
Total cash provided from operating activities		**238,691**	**261,078**	**144,545**	**120,726**
Payments to suppliers and employees		57,301	60,819	49,677	45,272
Interest paid		95,084	112,820	89,700	101,784
Purchase of operating lease vehicles		12,954	15,611	6,756	-
Net increase in finance receivables		-	-	52,903	-
Taxation paid		7,823	2,802	7,824	2,000
Total cash applied to operating activities		**173,162**	**192,052**	**206,860**	**149,056**
Net cash flows from / (applied to) operating activities	30	**65,529**	**69,026**	**(62,315)**	**(28,330)**
Cash flows from investing activities					
Sale of investment property		42,244	3,194	1,686	-
Proceeds from sale of office fit-out, equipment and intangible assets		19	-	19	-
Total cash provided from investing activities		**42,263**	**3,194**	**1,705**	**-**
Purchase of office fit-out, equipment and intangible assets		984	2,256	984	2,256
Net increase in investments		73,648	130,687	73,648	130,687
Net increase in related party loan		28,300	-	28,300	-
Total cash applied to investing activities		**102,932**	**132,943**	**102,932**	**132,943**
Net cash flows applied to investing activities		**(60,669)**	**(129,749)**	**(101,227)**	**(132,943)**
Cash flows from financing activities					
Net increase in borrowings		-	159,885	61,291	267,813
Total cash provided from financing activities		**-**	**159,885**	**61,291**	**267,813**
Dividends paid		38,661	15,605	38,661	15,605
Net decrease in borrowings		104,388	-	-	-
Total cash applied to financing activities		**143,049**	**15,605**	**38,661**	**15,605**
Net cash flows (applied to) / from financing activities		**(143,049)**	**144,280**	**22,630**	**252,208**
Net (decrease) / increase in cash held		**(138,189)**	**83,557**	**(140,912)**	**90,935**
Opening cash and cash equivalents		172,777	89,220	163,152	72,217
Cash impact of amalgamation		-	-	12,298	-
Closing cash and cash equivalents	16	**34,588**	**172,777**	**34,538**	**163,152**

The notes on pages 17 to 69 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

1 Reporting entity

The financial statements presented are the consolidated financial statements comprising Heartland Bank Limited (the Bank) and its subsidiaries (the Banking Group). Refer to Note 5 - Investment in subsidiaries and Note 6 - Structured entities for further detail.

On 1 December 2013, MARAC Finance Limited (MARAC) and PGG Wrightson Finance Limited (PWF) were amalgamated into the Bank. Prior to amalgamation, MARAC was the Trust Manager and sole beneficiary of Heartland ABCP Trust 1 (ABCP Trust). On 1 December 2013, the Bank became the Trust Manager and sole beneficiary of ABCP Trust. As a result of these changes, the Bank result includes MARAC, PWF and ABCP Trust operations from 1 December 2013.

All entities within the Banking Group offer financial services or are special purpose vehicles. 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 2014 (as amended). 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, except the following items measured at fair value:

- Land and buildings, refer to Note 4(n).
- Investment property, refer to Note 19.
- Financial Instruments, refer to Notes 17, 29, and 32.

(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 4(q) and 4(r).

(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 Application of new and revised accounting standards

(a) New standards and interpretations adopted

The following new standards and amendments to standards have been adopted from 1 July 2013 in the preparation of these financial statements:

NZ IAS 19 Employee Benefits (Revised 2011)

Requires the return on plan assets for defined benefit plans recognised in profit or loss to be calculated based on the rate used to discount the defined benefit and also revises the definition of short term employee benefits. Adoption of these amendments has not resulted in any significant impact in the consolidated financial statements.

Amendments to NZ IFRS 7 Financial Instruments: Disclosures

The amendments require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. Adoption of this amendment has not resulted in any significant impact on the Banking Group's results or financial position.

NZ IFRS 10 Consolidated Financial Statements

NZ IFRS 10 changes the definition of control such that an investor controls an investee when a) it has power over an investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee, and c) has the ability to use its power to effect its returns. All three of these criteria must be met for an investor to have control over an investee. The adoption of NZ IFRS 10 has not resulted in the consolidated or deconsolidation of any entities.

NZ IFRS 12 Disclosure of Interests in Other Entities

NZ IFRS 12 sets out the disclosure requirements relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. As the new standard affects only disclosure, there is no effect on the Banking Group's financial position or performance.

NZ IFRS 13 Fair Value Measurement

NZ IFRS 13 sets out the framework for determining the measurement of fair value and expands the disclosure requirements for all assets and liabilities carried at fair value. Adoption of the new standard has not resulted in a significant impact on the Banking Group's result or financial position, but the Banking Group has included new disclosures in the financial statements. As the Banking Group has applied this standard prospectively, comparative information for these new disclosures are not included.

(b) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2014, 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 9 Financial Instruments, which specifies how an entity should classify and measure financial assets and liabilities.	1 January 2017	30 June 2018
NZ IFRS 9 Financial Instruments (2013), which provides a more principles-based approach to hedge accounting and aligns hedge accounting more closely with risk management.	1 January 2017	30 June 2018
NZ IAS 32 Financial Instruments: Presentation - clarifies certain aspects of offsetting financial assets and liabilities because of diversity in the application of the requirements of offsetting.	1 January 2014	30 June 2015

The amendments to NZ IAS 32 are not expected to have any material impact on the financial statements of the Banking Group. The impact of NZ IFRS 9 has not yet been fully assessed.

4 Significant accounting policies

(a) Consolidation of subsidiaries

Subsidiaries are entities (including structured entities) that are controlled by the Banking Group. Investments in subsidiary companies are recorded at the lower of cost or the recoverable amount by the Bank.

The consolidated financial statements are prepared by consolidating the financial statements of the Bank and its subsidiaries. Intra-group balances and transactions, and any unrealised income and expense (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

4 Significant accounting policies (continued)

(b) Structured entities

Structured entities are created to accomplish a narrow and well-defined objective such as the securitisation or holding of particular assets, or the execution of a specific borrowing or lending transaction. Structured entities are consolidated where the substance of the relationship is that the Bank controls the structured entity.

(c) Interest

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

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

(d) 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.

(e) Dividend income

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

(f) 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.

(g) 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.

At 30 June 2013 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 was treated as the acquirer of the Bank. As a result, the Banking Group's result represented a continuation of the MARAC business, and the share capital of the Banking Group reflected this. On the amalgamation of MARAC into the Bank, the reverse acquisition accounting was eliminated.

(h) 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.

4 Significant accounting policies (continued)

(i) 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.

(j) 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.

(k) 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.

(l) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases

Amounts due from finance leases are recognised as finance receivables at the amount of the Banking Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Banking Group's net investment outstanding in respect of the leases.

Operating leases

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

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.

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.

(m) 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.

(n) 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.

4 Significant accounting policies (continued)

(n) Property, plant, equipment and depreciation (continued)

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	7.0% - 36.0%
Office equipment and furniture	6.0% - 30.0%
Computer equipment	20.0% - 48.0%

(o) 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.

(p) 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 4(m))

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

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. The extent of this offsetting is minimal and immaterial.

4 Significant accounting policies (continued)

(q) 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.

(r) 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.

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.

(s) 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.

(t) 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.

(u) 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.

4 Significant accounting policies (continued)

(v) 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.

(w) Share schemes

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

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

For equity-settled plans, share based payments to employees providing services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 31 - Staff share ownership arrangements.

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

(x) 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.

(y) 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.

5 Investment in subsidiaries

		BANK			
Significant subsidiaries	**Nature of business**	**Jun 2014 % held**	**Jun 2014 $000**	**Jun 2013 % held**	**Jun 2013 $000**
MARAC Finance Limited	Financial services	N/A	-	100%	204,269
PGG Wrightson Finance Limited	Financial services	N/A	-	100%	98,013
VPS Parnell Limited	Investment property holding company	100%	-	100%	-
VPS Properties Limited	Investment property holding company	100%	16,719	100%	-
Heartland PIE Fund Limited	Manager of Heartland Cash and Term PIE Fund	100%	-	N/A	-
Total investment in subsidiaries			**16,719**		**302,282**

On 1 December 2013 MARAC and PWF were amalgamated into the Bank. As a result, the assets and liabilities of MARAC and PWF were transferred to the Bank at their carrying amounts.

On amalgamation of MARAC, the related party loan from MARAC to VPS Properties Limited was transferred to the Bank. As the loan is repayable at the discretion of the Bank, the Bank has recorded this as an investment in VPS Properties Limited. During the year ended 30 June 2014, the Bank recognised a $6.3 million impairment, reducing the carrying value of its investment to $16.7 million.

Heartland PIE Fund Limited was incorporated on 12 August 2013 to replace MARAC as manager of the Heartland Cash and Term PIE Fund.

6 Structured entities

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

(a) *Heartland Cash and Term PIE Fund*

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

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Deposits	38,819	33,226	38,819	33,226

(b) *Heartland ABCP Trust 1 (ABCP Trust) and CBS Warehouse A Trust (CBS Trust) (collectively the Trusts)*

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

Prior to 15 August 2013, the Bank had securitised a pool of receivables comprising residential mortgages to CBS Trust.

On 31 July 2013, the Bank cancelled $50 million of CBS Trust's $100 million securitisation facility. On 15 August 2013, the remaining $50 million CBS Trust facility was cancelled and all of the receivables in CBS Trust were sold back to the Bank. CBS Trust will remain dormant for the foreseeable future.

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

		BANKING GROUP		BANK	
		Jun 2014	Jun 2013	Jun 2014	Jun 2013
	NOTE	$000	$000	$000	$000
Cash and cash equivalents - securitised		5,421	11,586	5,421	5,863
Finance receivables - securitised	20	244,838	274,978	244,838	48,580
Borrowings - securitised	26	(228,623)	(258,934)	(228,623)	(50,000)
Derivative financial asset - securitised	29	1,768	567	1,768	-
Derivative financial liabilities - securitised	29	-	(30)	-	-

7 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 18 - 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 mortgage lending (residential and home equity release), motor vehicle finance and asset finance.

Business Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized New Zealand businesses.

Rural Providing specialist financial services to the farming sector primarily offering livestock finance, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.

Non-core Property Funding assets of the non-core property division.

The Banking Group's operating segments are different than the industry categories detailed in Note 35 - Asset quality. The operating segments are primarily categorised by sales channel, whereas Note 35 - Asset quality categorises exposures based on credit risk concentrations.

7 Segmental analysis (continued)

	BANKING GROUP					
	Retail & Consumer $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Jun 2014						
Interest income	93,606	51,307	39,666	2,977	12,585	200,141
Interest expense	38,438	21,663	16,865	4,426	12,327	93,719
Net interest income / (expense)	**55,168**	**29,644**	**22,801**	**(1,449)**	**258**	**106,422**
Net operating lease income	5,639	-	-	-	-	5,639
Net other income	1,987	432	68	3,822	1,231	7,540
Net operating income	**62,794**	**30,076**	**22,869**	**2,373**	**1,489**	**119,601**
Depreciation and amortisation expense	-	-	-	-	2,142	2,142
Other selling and administration expenses	11,824	5,304	5,409	4,000	32,962	59,499
Selling and administration expenses	**11,824**	**5,304**	**5,409**	**4,000**	**35,104**	**61,641**
Profit / (loss) before impaired asset expense and income tax	**50,970**	**24,772**	**17,460**	**(1,627)**	**(33,615)**	**57,960**
Impaired asset expense	1,028	5,155	963	(1,251)	-	5,895
Decrease in fair value of investment properties	-	-	-	1,203	-	1,203
Profit / (loss) before income tax	**49,942**	**19,617**	**16,497**	**(1,579)**	**(33,615)**	**50,862**
Income tax expense	-	-	-	-	14,616	14,616
Profit / (loss) for the year	**49,942**	**19,617**	**16,497**	**(1,579)**	**(48,231)**	**36,246**
Total assets	1,043,069	576,066	410,219	40,846	320,549	**2,390,749**
Total liabilities	-	-	-	-	2,026,423	**2,026,423**
Total equity	-	-	-	-	364,326	**364,326**
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**

8 Net interest income / (expense)

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Interest income				
Cash and cash equivalents	3,422	3,840	3,315	3,611
Investments	9,189	1,860	9,189	1,860
Finance receivables	187,530	197,999	122,644	35,724
Net interest income on derivative financial instruments	-	2,614	-	3,712
Total interest income	**200,141**	**206,313**	**135,148**	**44,907**
Interest expense				
Retail deposits	79,430	94,198	79,420	94,188
Bank and securitised borrowings	13,468	16,697	8,689	6,597
Net interest expense on derivative financial instruments	821	-	319	-
Total interest expense	**93,719**	**110,895**	**88,428**	**100,785**
Net interest income / (expense)	**106,422**	**95,418**	**46,720**	**(55,878)**

Included within the Banking Group's interest income on finance receivables is $2,665,000 (2013: $2,591,000) on individually impaired assets.
Included within the Bank's interest income on finance receivables is $1,404,000 (2013: $1,130,000) on individually impaired assets.

9 Net operating lease income

		BANKING GROUP		BANK	
		Jun 2014	Jun 2013	Jun 2014	Jun 2013
	NOTE	$000	$000	$000	$000
Operating lease income					
Lease income		11,256	12,898	6,497	-
Gain on disposal of lease vehicles		2,092	1,963	1,112	-
Total operating lease income		**13,348**	**14,861**	**7,609**	**-**
Operating lease expense					
Depreciation on lease vehicles		7,060	9,019	4,010	-
Direct lease costs		649	668	393	-
Total operating lease expenses		**7,709**	**9,687**	**4,403**	**-**
Net operating lease income		**5,639**	**5,174**	**3,206**	**-**

10 Other income

Rental income from investment properties		4,027	3,859	455	-
Management fees	18	468	335	310	11,041
Other income		570	305	557	305
Total other income		**5,065**	**4,499**	**1,322**	**11,346**

11 Selling and administration expenses

		BANKING GROUP		BANK	
		Jun 2014	Jun 2013	Jun 2014	Jun 2013
	NOTE	$000	$000	$000	$000
Personnel expenses		34,972	33,448	34,769	32,550
Directors' fees [1]		463	177	463	177
Superannuation		570	413	570	408
Audit and review of financial statements		304	359	304	359
Other assurance services paid to auditor [2]		18	20	18	20
Other fees paid to auditor [3]		193	84	193	84
Depreciation - property, plant and equipment	23	801	714	764	537
Amortisation - intangible assets	24	1,341	1,226	1,263	607
Operating lease expense as a lessee		1,551	1,651	1,333	854
RECL Agreement fees [4]		-	7,700	-	-
Legal and professional fees		2,795	3,385	2,498	2,302
Other operating expenses [5]		18,633	19,885	14,142	10,034
Total selling and administration expenses		**61,641**	**69,062**	**56,317**	**47,932**

[1] During the year ended 30 June 2013, HNZ paid some Directors' fees on behalf of the Bank.

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

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

[4] Prior to 4 June 2013, the Banking Group had an agreement with Real Estate Credit Limited (RECL) to manage certain non-core real estate loans. On 4 June 2013 this agreement was terminated. As a result, the unamortised portion of an $11 million upfront fee paid was written off during the year ended 30 June 2013.

[5] Other operating expenses above includes the following direct operating expenses on investment properties:

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Operating expenses from investment properties that generated rental income	3,367	3,563	508	-
Operating expenses from investment properties that did not generate rental income	151	219	136	-
Total direct operating expenses on investment properties	**3,518**	**3,782**	**644**	**-**

12 Impaired asset expense

		BANKING GROUP		BANK	
		Jun 2014	Jun 2013	Jun 2014	Jun 2013
	NOTE	$000	$000	$000	$000
Non-securitised					
Individually impaired expense		11,851	13,098	7,378	3,170
Collectively impaired (recovery) / expense		(6,536)	9,108	(4,159)	648
Impairment of subsidiary		-	-	6,310	-
Total non-securitised impaired asset expense		**5,315**	**22,206**	**9,529**	**3,818**
Securitised					
Individually impaired expense		-	3	-	-
Collectively impaired expense		580	318	284	-
Total securitised impaired asset expense		**580**	**321**	**284**	**-**
Total					
Individually impaired expense	35(e)	11,851	13,101	7,378	3,170
Collectively impaired (recovery) / expense	35(e)	(5,956)	9,426	(3,875)	648
Impairment of subsidiary	5	-	-	6,310	-
Total impaired asset expense		**5,895**	**22,527**	**9,813**	**3,818**

During the year ended 30 June 2013 the Banking Group 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.

13 Income tax expense / (benefit)

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
(a) Current income tax expense				
Current year	3,592	12,000	(6,728)	(26,802)
Adjustments for prior year	29	(256)	29	(175)
Deferred tax expense / (benefit)				
Origination and reversal of temporary differences	10,995	(9,026)	4,736	153
Total income tax expense / (benefit)	**14,616**	**2,718**	**(1,963)**	**(26,824)**

Reconciliation of effective tax rate				
Profit / (loss) before income tax	50,862	10,161	(14,648)	1,400
Prima facie tax at 28%	14,241	2,845	(4,101)	392
Plus tax effect of items not taxable / deductible	346	129	2,109	119
Adjustments for prior year	29	(256)	29	(175)
Dividends received	-	-	-	(27,160)
Total income tax expense / (benefit)	**14,616**	**2,718**	**(1,963)**	**(26,824)**

(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 2014				
Other comprehensive income / (loss) before tax	1,542	(17)	4	1,529
less tax expense / (benefit)	431	(5)	1	427
Total other comprehensive income / (loss), net of income tax	**1,111**	**(12)**	**3**	**1,102**
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**

	BANK			
Jun 2014				
Other comprehensive income / (loss) before tax	600	(17)	4	587
less tax expense / (benefit)	167	(5)	1	163
Total other comprehensive income / (loss), net of income tax	**433**	**(12)**	**3**	**424**
Jun 2013				
Other comprehensive loss before tax	-	383	478	861
less tax expense	-	107	16	123
Total other comprehensive income, net of income tax	**-**	**276**	**462**	**738**

14 Imputation credit account

As at 30 June 2014, the imputation credit account of the Banking Group was a debit of $1,471,000 (2013: credit of $1,688,000).

15 Dividends paid

The Bank paid total dividends to its immediate parent of $38,661,000 ($0.11 per share) (2013: $15,605,000 ($0.04 per share)).

16 Cash and cash equivalents

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Cash on hand	340	279	340	279
Cash at New Zealand registered banks	34,248	172,498	34,198	162,873
Total cash and cash equivalents	**34,588**	**172,777**	**34,538**	**163,152**

17 Investments

Bank deposits	143,063	121,780	143,063	121,780
Public sector securities and corporate bonds	58,814	9,162	58,814	9,162
Local authority stock	36,982	34,281	36,982	34,281
Total investments	**238,859**	**165,223**	**238,859**	**165,223**

18 Related party transactions

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

(a) Transactions with related parties

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

As at 30 June 2014, the Bank had provided a commercial loan of $28,899,000, to Heartland HER Holdings Limited (HHHL), a wholly owned subsidiary of HNZ. During the year ended 30 June 2014, the Bank acquired loans at fair value of $111.3 million from New Sentinel Limited, a wholly owned subsidiary of HHHL.

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

The Banking Group controls the operations of Heartland Cash and Term PIE Fund, a portfolio investment entity that invests in the Bank's deposits. The investments of Heartland Cash and Term PIE Fund are detailed in Note 6 - Structured entities.

No interest was charged on intragroup balances.

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Transactions with related parties				
Heartland New Zealand Limited				
Interest expense	(21)	-	(21)	-
Subsidiaries				
Dividend income	-	-	-	97,000
Other income	-	-	-	11,041
Impairment of subsidiary	-	-	(6,310)	-
Other related parties				
Interest income	568	-	568	-
Interest expense	(21)	(4)	(21)	(4)
Lending and credit fee income	300	312	209	-
Other income	468	335	310	-
Key management personnel of the ultimate parent				
Interest expense	(238)	-	(238)	-
Total transactions with related parties	**1,056**	**643**	**(5,503)**	**108,037**

18 Related party transactions (continued)

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Due from related parties				
Heartland NZ Holdings Limited	-	200	-	200
Subsidiaries	-	-	-	1,113,754
Heartland HER Holdings Limited	29,367	-	29,367	-
Other related parties	94	-	94	-
Total due from related parties	**29,461**	**200**	**29,461**	**1,113,954**
Due to related parties				
Heartland New Zealand Limited	22,801	-	22,801	-
Subsidiaries	-	-	1,160	1,450
Other related parties	500	500	500	500
Key management personnel of the ultimate parent	4,920	-	4,920	-
Total due to related parties	**28,221**	**500**	**29,381**	**1,950**

(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:

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Transactions with key management personnel				
Interest income	55	-	55	-
Interest expense	(43)	(28)	(43)	(28)
Key management personnel compensation:				
Short-term employee benefits	(6,892)	(5,384)	(6,454)	(5,384)
Share-based payment expense	(907)	(718)	(1,345)	(718)
Total transactions with key management personnel	**(7,787)**	**(6,130)**	**(7,787)**	**(6,130)**
Due to key management personnel				
Finance receivables	709	-	709	-
Loans to key management personnel	640	740	640	740
Borrowings - deposits	(1,079)	(825)	(1,079)	(825)
Total due to / (from) key management personnel	**270**	**(85)**	**270**	**(85)**

19 Investment properties

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Opening balance	58,287	55,504	-	-
Acquisitions	9,746	10,800	-	-
Acquired on amalgamation	-	-	13,865	-
Additional capital expenditure	302	278	-	-
Sales	(42,244)	(3,194)	(1,686)	-
Change in fair value	(1,203)	(5,101)	(1,789)	-
Closing balance	**24,888**	**58,287**	**10,390**	**-**

Investment properties are held at fair value, with fair values determined by qualified independent valuers or other similar external evidence, adjusted for changes in market conditions and the time since the last valuation.

In the year ended 30 June 2013 the Banking Group changed its workout strategy with respect to non-core legacy property assets. As a result of this change a $5.1 million reduction in the fair value of investment properties was recognised reflecting the Director's views on the market value of the properties.

20 Finance receivables

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Non-securitised				
Neither at least 90 days past due nor impaired	1,693,063	1,687,480	1,693,063	409,286
At least 90 days past due	32,969	24,837	32,969	2,823
Individually impaired	27,617	69,301	27,617	23,759
Restructured assets	4,064	3,566	4,064	-
Gross finance receivables	**1,757,713**	**1,785,184**	**1,757,713**	**435,868**
Less provision for impairment	15,725	49,786	15,725	15,391
Less fair value adjustment for present value of future losses	1,707	-	1,707	-
Total non-securitised finance receivables	**1,740,281**	**1,735,398**	**1,740,281**	**420,477**
Securitised				
Neither at least 90 days past due nor impaired	244,409	273,922	244,409	48,580
At least 90 days past due	1,065	1,761	1,065	-
Gross finance receivables	**245,474**	**275,683**	**245,474**	**48,580**
Less provision for impairment	636	705	636	-
Total securitised finance receivables	**244,838**	**274,978**	**244,838**	**48,580**
Total				
Neither at least 90 days past due nor impaired	1,937,472	1,961,402	1,937,472	457,866
At least 90 days past due	34,034	26,598	34,034	2,823
Individually impaired	27,617	69,301	27,617	23,759
Restructured assets	4,064	3,566	4,064	-
Gross finance receivables	**2,003,187**	**2,060,867**	**2,003,187**	**484,448**
Less provision for impairment	16,361	50,491	16,361	15,391
Less fair value adjustment for present value of future losses	1,707	-	1,707	-
Total finance receivables	**1,985,119**	**2,010,376**	**1,985,119**	**469,057**

Refer to Note 35 - Asset quality for further analysis of finance receivables by credit risk concentration.

Finance lease receivables

The Banking Group classifies finance leases as finance receivables. The table below provides an analysis of finance lease receivables for leases of certain property and equipment in which the Banking Group is the lessor.

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Gross finance lease receivables				
Less than 1 year	36,420	40,777	36,420	-
Between 1 and 5 years	66,184	69,665	66,184	-
More than 5 years	66	-	66	-
Total gross finance lease receivables	**102,670**	**110,442**	**102,670**	**-**
Less unearned finance income	14,681	15,616	14,681	-
Less provision for impairment	87	192	87	-
Net finance lease receivables	**87,902**	**94,634**	**87,902**	**-**

21 Operating lease vehicles

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Cost				
Opening balance	47,339	51,236	-	-
Acquired on amalgamation	-	-	45,370	-
Additions	12,954	15,611	6,756	-
Disposals	(16,698)	(19,508)	(8,531)	-
Closing balance	**43,595**	**47,339**	**43,595**	**-**
Accumulated depreciation				
Opening balance	14,944	16,686	-	-
Acquired on amalgamation	-	-	13,223	-
Depreciation charge for the year	7,060	9,019	4,010	-
Disposals	(9,704)	(10,761)	(4,933)	-
Closing balance	**12,300**	**14,944**	**12,300**	**-**
Opening net book value	32,395	34,550	-	-
Closing net book value	**31,295**	**32,395**	**31,295**	**-**

The future minimum lease payments receivable under non-cancellable operating leases not later than one year is $8,610,000 (2013: $9,412,000), within one to five years is $7,816,000 (2013: $8,390,000) and over five years is nil (2013: nil).

22 Other assets

		BANKING GROUP		BANK	
		Jun 2014	Jun 2013	Jun 2014	Jun 2013
	NOTE	$000	$000	$000	$000
Derivative financial assets	29	1,797	649	1,797	82
Trade receivables		5,371	8,410	5,265	2,474
GST receivable		-	-	-	60
Prepayments		1,023	2,198	1,023	832
Total other assets		**8,191**	**11,257**	**8,085**	**3,448**

23 Property, plant and equipment

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Cost				
Opening balance	14,006	13,161	12,034	11,185
Additions	168	936	168	936
Acquired on amalgamation	-	-	1,948	-
Disposals	(622)	(91)	(604)	(87)
Closing balance	**13,552**	**14,006**	**13,546**	**12,034**
Accumulated depreciation				
Opening balance	3,725	3,094	2,030	1,572
Acquired on amalgamation	-	-	1,719	-
Depreciation charge for the year	801	714	764	537
Disposals	(547)	(83)	(534)	(79)
Closing balance	**3,979**	**3,725**	**3,979**	**2,030**
Opening net book value	10,281	10,067	10,004	9,613
Closing net book value	**9,573**	**10,281**	**9,567**	**10,004**

24 Intangible assets

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Computer software - cost				
Opening balance	7,733	6,748	4,192	3,207
Acquired on amalgamation	-	-	3,541	-
Additions	816	1,320	816	1,320
Disposals	(748)	(335)	(748)	(335)
Closing balance	**7,801**	**7,733**	**7,801**	**4,192**
Computer software - accumulated amortisation				
Opening balance	4,929	4,038	1,553	1,281
Acquired on amalgamation	-	-	3,454	-
Amortisation charge for the year	1,341	1,226	1,263	607
Disposals	(747)	(335)	(747)	(335)
Closing balance	**5,523**	**4,929**	**5,523**	**1,553**
Computer software - opening net book value	2,804	2,710	2,639	1,926
Computer software - closing net book value	**2,278**	**2,804**	**2,278**	**2,639**
Goodwill				
Opening balance	20,159	20,287	20,159	20,287
Disposals	-	(128)	-	(128)
Closing balance	**20,159**	**20,159**	**20,159**	**20,159**
Total intangible assets - opening net book value	22,963	22,997	22,798	22,213
Total intangible assets - closing net book value	**22,437**	**22,963**	**22,437**	**22,798**

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.

25 Deferred tax

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Employee entitlements	1,619	1,232	1,619	1,176
Provision for impairment	4,404	13,939	4,404	4,309
Trade and other payables	223	211	223	136
Investment properties	1,740	2,925	812	-
Intangible assets	-	27	-	-
Derivatives held for risk management	-	-	-	24
Tax assets	**7,986**	**18,334**	**7,058**	**5,645**
Property, plant and equipment	826	834	826	911
Intangible assets	27	-	27	-
Derivatives held for risk management	449	18	449	-
Operating lease vehicles	1,397	1,109	1,397	-
Tax liabilities	**2,699**	**1,961**	**2,699**	**911**
Net tax assets	**5,287**	**16,373**	**4,359**	**4,734**

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.

26 Borrowings

	BANKING GROUP		BANK	
	Jun 2014 $000	Jun 2013 $000	Jun 2014 $000	Jun 2013 $000
Deposits	1,731,832	1,838,619	1,731,832	1,838,619
Subordinated bond	3,378	-	3,378	-
Securitised borrowings	228,623	258,934	228,623	50,000
Total borrowings	**1,963,833**	**2,097,553**	**1,963,833**	**1,888,619**

Deposits rank equally and are unsecured. Securitised borrowings held by investors in ABCP Trust rank equally with each other and are secured over the securitised assets of that trust. For more details on the subordinated bond, refer to Note 39(b) - Capital Adequacy.

27 Trade and other payables

		BANKING GROUP		BANK	
	NOTE	Jun 2014 $000	Jun 2013 $000	Jun 2014 $000	Jun 2013 $000
Derivative financial liabilities	29	34	30	34	-
Trade payables		11,616	12,132	11,498	6,886
GST payable		15,772	16,265	15,801	-
Employee benefits		6,947	5,162	6,947	4,964
Total trade and other payables		**34,369**	**33,589**	**34,280**	**11,850**

28 Share capital

	BANK	
	Jun 2014 Number of shares 000	Jun 2013 Number of shares 000
Issued shares		
Opening balance	352,400	352,400
Shares issued during the year	-	-
Closing balance	**352,400**	**352,400**

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

29 Derivative financial instruments

		BANKING GROUP		BANK	
	NOTE	Jun 2014 $000	Jun 2013 $000	Jun 2014 $000	Jun 2013 $000
Qualifying cash flow hedges -securitised		1,768	567	1,768	-
Qualifying cash flow hedges - non-securitised		3	-	3	-
Qualifying fair value hedges - non-securitised		26	82	26	82
Total derivative financial assets	22	**1,797**	**649**	**1,797**	**82**
Qualifying cash flow hedges - securitised		-	30	-	-
Qualifying fair value hedges - non-securitised		34	-	34	-
Total derivative financial liabilities	27	**34**	**30**	**34**	**-**

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.

ABCP Trust 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 investments and designates these swaps as qualifying fair value hedges and qualifying cash flow hedges.

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

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

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Profit for the year	**36,246**	**7,443**	**(12,685)**	**28,224**
Add / (less) non-cash items:				
Depreciation and amortisation expense	2,142	1,940	2,027	1,144
Change in fair value of investment properties	1,203	5,101	1,789	-
Impaired asset expense	5,895	22,527	9,813	3,818
Deferred tax expense / (benefit)	11,086	(8,230)	4,920	349
Derivative financial instruments revaluation	(33)	1,100	64	1,625
Accruals	(737)	(836)	(966)	(40)
Dividends received	-	-	-	(97,000)
Total non-cash items	**19,556**	**21,602**	**17,647**	**(90,104)**
Add / (less) movements in working capital items:				
Other assets	2,475	6,459	3,138	(11,046)
Loss on disposal of property, plant and equipment and intangibles	56	-	56	-
Current tax	(4,616)	8,837	(14,325)	(28,893)
Other liabilities	(118)	(3,364)	456	(1,660)
Total movements in working capital items	**(2,203)**	**11,932**	**(10,675)**	**(41,599)**
Net cash flows from / (applied to) operating activities before movements in finance receivables and operating lease vehicles	**53,599**	**40,977**	**(5,713)**	**(103,479)**
Movements in operating lease vehicles	1,100	2,155	852	-
Movements in finance receivables	10,830	25,894	(57,454)	75,149
Net cash flows from / (applied to) operating activities	**65,529**	**69,026**	**(62,315)**	**(28,330)**

31 Staff share ownership arrangements

(a) 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 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, a HNZ subsidiary. Participants still employed by the Banking Group on 30 June 2014 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 that a participant is entitled to HNZ shares held on their behalf, the participant will be given a cash bonus which is applied toward the repayment of their 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 fair value at grant date 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 2014	Jun 2013	Jun 2014	Jun 2013
	Shares	Shares	Shares	Shares
	000	000	000	000
Opening unvested shares	1,572	-	1,572	-
Number of shares granted	-	1,607	-	1,607
Less: forfeited over life of scheme	(155)	(35)	(155)	(35)
Less: vested over life of scheme	(158)	-	(158)	-
Closing unvested shares	**1,259**	**1,572**	**1,259**	**1,572**

	$000	$000	$000	$000
Total amount recognised as an expense	330	459	330	459
Liability recognised for bonus payable	1,269	939	1,269	939

31 Staff share ownership arrangements (continued)

(b) Heartland LTI Cash Entitlements Plan

The Heartland LTI Cash Entitlements Plan (LCEP) was introduced for selected senior employees of the Bank. Under the LCEP, 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 using the Black Scholes option pricing model. The grant date was 23 November 2012. Information regarding the entitlements under the LCEP is as follows:

	BANKING GROUP		BANK	
	Jun 14 Shares 000	Jun 13 Shares 000	Jun 14 Shares 000	Jun 13 Shares 000
Opening entitlements granted	5,650	-	5,650	-
Number of options granted	-	5,650		5,650
Less: entitlements forfeited	(1,000)	-	(1,000)	-
Closing unvested entitlements	**4,650**	**5,650**	**4,650**	**5,650**

	BANKING GROUP		BANK	
	Jun 2014 $000	Jun 2013 $000	Jun 2014 $000	Jun 2013 $000
Total amount recognised as an expense	326	350	297	350
Liability recognised for bonus payable	676	350	647	350

The assumptions utilised in the model are as follows:

Volatility	25%	30%	25%	30%
Risk free interest rate	3%	3%	3%	3%
Annual dividends per share (cents)	5.5	4.1	5.5	4.1
Expiry date	30/06/2015	30/06/2015	30/06/2015	30/06/2015
Reference price ($)	0.72	0.72	0.72	0.72
Market price ($)	0.95	0.83	0.92	0.83

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

31 Staff share ownership arrangements (continued)

(c) Heartland LTI Net Share Settled Plan

The Heartland LTI Net Share Settled Plan (LNSSP) was introduced for selected senior employees of the Bank. Under the LNSSP participants are granted an option to acquire shares in HNZ. The number of shares granted upon exercise of the options is based on the difference between the market price of the shares on the exercise date and the reference price.

The options are exercisable from the earlier of the first business day in November 2015, and the business day after HNZ announces its annual results for the year ended 30 June 2015, to the expiry date of 30 June 2017. The options generally lapse if the participant ceases employment with the Banking Group before 30 June 2015 or if the options are not exercised within the exercise period.

During the year ended 30 June 2014, 5,136,000 options were granted with a exercise price of $0.89. The exercise price is reduced by dividends paid between the grant date and the exercise date.

	BANKING GROUP		BANK	
	Jun 14 Shares 000	Jun 13 Shares 000	Jun 14 Shares 000	Jun 13 Shares 000
Opening options granted	-	-	-	-
Number of options granted	5,136	-	5,136	-
Less: options forfeited	(131)	-	(131)	-
Closing unvested options outstanding / exercisable	**5,005**	**-**	**5,005**	**-**

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

	BANKING GROUP		BANK	
	Jun 14 $000	Jun 13 $000	Jun 14 $000	Jun 13 $000
Total amount recognised as an expense	348	366	348	366

The assumptions utilised in the model are as follows:

Volatility	25%	n/a	25%	n/a
Risk free interest rate	3.4%	n/a	3.4%	n/a
Estimated option life (years)	3.9	n/a	3.9	n/a
Expiry date	30/06/2017	n/a	30/06/2017	n/a
Exercise price ($)	0.89	n/a	0.89	n/a
Market price at grant date($)	0.87	n/a	0.87	n/a

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

32 Fair value

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

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

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

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

(a) Financial instruments measured at fair value

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

Investments

Investments in public sector securities and corporate bonds are classified as being available for sale and are stated at fair value less impairment, with the fair value being based on quoted market prices or modelled using observable market inputs. Refer to Note 17 - Investments for further details.

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

Derivative items

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

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

	BANKING GROUP			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
June 14				
Assets				
Investments	198,385	40,474	-	238,859
Derivative assets held for risk management	-	1,797	-	1,797
Total	**198,385**	**42,271**	**-**	**240,656**
Liabilities				
Derivative liabilities held for risk management	-	34	-	34
Total	**-**	**34**	**-**	**34**
June 13				
Assets				
Investments	125,223	40,000	-	165,223
Derivative assets held for risk management	-	649	-	649
Total	**125,223**	**40,649**	**-**	**165,872**
Liabilities				
Derivative liabilities held for risk management	-	30	-	30
Total	**-**	**30**	**-**	**30**

32 Fair value (continued)

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

	BANK			
	Level 1 $000	**Level 2 $000**	**Level 3 $000**	**Total $000**
June 14				
Assets				
Investments	198,385	40,474	-	238,859
Derivative assets held for risk management	-	1,797	-	1,797
Total	**198,385**	**42,271**	**-**	**240,656**
Liabilities				
Derivative liabilities held for risk management	-	34	-	34
Total	**-**	**34**	**-**	**34**
June 13				
Assets				
Investments	125,223	40,000	-	165,223
Derivative assets held for risk management	-	82	-	82
Total	**125,223**	**40,082**	**-**	**165,305**

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

(b) Financial instruments not measured at fair value

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

Cash and cash equivalents and other financial assets and liabilities

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

Finance receivables

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

The current weighted average lending rate used to fair value finance receivables with a fixed interest rate for the Banking Group is 9.61% (2013: 8.58%) and for the Bank is 9.61% (2013: 5.68%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses. Prepayment rates have not been factored into the fair value calculation as they are not deemed to be material.

Borrowings

The fair value of deposits, bank borrowings and other borrowings is the present value of future cash flows and is based on the current market interest rates payable by the Banking Group for debt of similar maturities. The current market rate used to fair value borrowings for the Banking Group is 4.23% (2013: 4.83%) and for the Bank is 4.23% (2013: 4.99%).

Related party assets and liabilities

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

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

Other financial assets and financial liabilities

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

32 Fair value (continued)

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

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

	BANKING GROUP				
	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Value
	$000	$000	$000	$000	$000
June 14					
Assets					
Cash and cash equivalents	34,588	-	-	34,588	34,588
Due from related parties	-	-	28,863	28,863	29,461
Finance receivables	-	-	1,735,549	1,735,549	1,740,281
Finance receivables - securitised	-	-	246,674	246,674	244,838
Other financial assets	-	-	5,371	5,371	5,371
Total financial assets	**34,588**	**-**	**2,016,457**	**2,051,045**	**2,054,539**
Liabilities					
Borrowings	-	1,736,753	-	1,736,753	1,735,210
Borrowings - securitised	-	228,887	-	228,887	228,623
Due to related parties	-	28,221	-	28,221	28,221
Other financial liabilities	-	-	18,563	18,563	18,563
Total financial liabilities	**-**	**1,993,861**	**18,563**	**2,012,424**	**2,010,617**

	BANK				
	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Value
	$000	$000	$000	$000	$000
June 14					
Assets					
Cash and cash equivalents	34,538	-	-	34,538	34,538
Due from related parties	-	-	29,461	29,461	29,461
Finance receivables	-	-	1,735,549	1,735,549	1,740,281
Finance receivables - securitised	-	-	246,674	246,674	244,838
Other financial assets	-	-	5,265	5,265	5,265
Total financial assets	**34,538**	**-**	**2,016,949**	**2,051,487**	**2,054,383**
Liabilities					
Borrowings	-	1,736,753	-	1,736,753	1,735,210
Borrowings - securitised	-	228,887	-	228,887	228,623
Due to related parties	-	28,221	1,160	29,381	29,381
Other financial liabilities	-	-	18,445	18,445	18,445
Total financial liabilities	**-**	**1,993,861**	**19,605**	**2,013,466**	**2,011,659**

32 Fair value (continued)

(c) Classification of financial instruments

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

	BANKING GROUP					
	Held for trading	Loans and receivables	Available for sale	Financial liabilities at amortised cost	Total Carrying Value	Total Fair Value
	$000	$000	$000	$000	$000	$000
June 2014						
Cash and cash equivalents	-	34,588	-	-	34,588	34,588
Investments	-	-	238,859	-	238,859	238,859
Due from related parties	-	29,461	-	-	29,461	28,863
Finance receivables	-	1,740,281	-	-	1,740,281	1,735,549
Finance receivables - securitised	-	244,838	-	-	244,838	246,674
Derivative financial assets	1,797	-	-	-	1,797	1,797
Other financial assets	-	5,371	-	-	5,371	5,371
Total financial assets	**1,797**	**2,054,539**	**238,859**	**-**	**2,295,195**	**2,291,701**
Borrowings	-	-	-	1,735,210	1,735,210	1,736,753
Borrowings - securitised	-	-	-	228,623	228,623	228,887
Derivative financial liabilities	34	-	-	-	34	34
Due to related parties	-	-	-	28,221	28,221	28,221
Other financial liabilities	-	-	-	18,563	18,563	18,563
Total financial liabilities	**34**	**-**	**-**	**2,010,617**	**2,010,651**	**2,012,458**
June 2013						
Cash and cash equivalents	-	172,777	-	-	172,777	172,777
Investments	-	-	165,223	-	165,223	165,223
Due from related parties	-	200	-	-	200	200
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	-	8,410	-	-	8,410	8,610
Total financial assets	**649**	**2,191,763**	**165,223**	**-**	**2,357,635**	**2,360,791**
Borrowings	-	-	-	1,838,619	1,838,619	1,841,657
Borrowings - securitised	-	-	-	258,934	258,934	258,934
Derivative financial liabilities	30	-	-	-	30	30
Due to related parties	-	-	-	500	500	500
Other financial liabilities	-	-	-	17,294	17,294	17,294
Total financial liabilities	**30**	**-**	**-**	**2,115,347**	**2,115,377**	**2,118,415**

32 Fair value (continued)

(c) Classification of financial instruments (continued)

BANK	Held for trading	Loans and receivables	Available for sale	Financial liabilities at amortised cost	Total Carrying Value	Total Fair Value
	$000	$000	$000	$000	$000	$000
June 2014						
Cash and cash equivalents	-	34,538	-	-	34,538	34,538
Investments	-	-	238,859	-	238,859	238,859
Due from related parties	-	29,461	-	-	29,461	29,461
Finance receivables	-	1,740,281	-	-	1,740,281	1,735,549
Finance receivables - securitised	-	244,838	-	-	244,838	246,674
Derivative financial assets	1,797	-	-	-	1,797	1,797
Other financial assets	-	5,265	-	-	5,265	5,265
Total financial assets	**1,797**	**2,054,383**	**238,859**	**-**	**2,295,039**	**2,292,143**
Borrowings	-	-	-	1,735,210	1,735,210	1,736,753
Borrowings - securitised	-	-	-	228,623	228,623	228,887
Derivative financial liabilities	34	-	-	-	34	34
Due to related parties	-	-	-	29,381	29,381	29,381
Other financial liabilities	-	-	-	18,445	18,445	18,445
Total financial liabilities	**34**	**-**	**-**	**2,011,659**	**2,011,693**	**2,013,500**
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
Due to related parties	-	-	-	1,950	1,950	1,950
Other financial liabilities	-	-	-	11,850	11,850	11,850
Total financial liabilities	**-**	**-**	**-**	**1,902,419**	**1,902,419**	**1,905,457**

33 Risk management policies

The Banking Group is committed to the management of risk. The primary risk categories are strategic, credit, liquidity, market (including interest rate), legal & governance, financial & tax and operational & 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 Enterprise 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 & governance, financial & tax and operational & compliance risk to ensure that all policy and decisions are made in accordance with the Banking Group's corporate values and guiding principles. The BRC has the following responsibilities:

- To oversee the Banking Group’s risk profile and review and approve the Banking Group’s RMP within the context of the risk-reward strategy determined by the Board at least annually.
- To make recommendations regarding high-level liquidity / capital / funding policies and strategy, including the use of securitisation and special investment vehicles.
- To agree and recommend for Board approval and annual review; a set of risk limits and conditions that apply to the taking of risk, as delegated to the 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.
- 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.

33 Risk management policies (continued)

Audit Committee and Internal Audit (continued)

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 Committee 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 Risk Committee. The Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee.

Asset and Liability Committee (ALCO)

The ALCO comprises the CEO (Chair), CFO, CRO, Treasurer, Head of Retail, Head of Rural and Head of Business. The ALCO has responsibility for overseeing aspects of the 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:

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

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

Executive Risk Committee (ERC)

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

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

Specific categories 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.

33 Risk management policies (continued)

Specific areas of risk management (continued)

Credit risk (continued)

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 hindsighting loans to ensure that credit policies and the quality of credit processes are maintained.

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

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

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.

33 Risk management policies (continued)

Specific areas of risk management (continued)

Market risk (continued)

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 & compliance risk

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

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

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

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

34 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 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Cash and cash equivalents	34,588	172,777	34,538	163,152
Investments	238,859	165,223	238,859	165,223
Finance receivables	1,985,119	2,010,376	1,985,119	469,057
Derivative financial assets	1,797	649	1,797	82
Other financial assets	5,371	8,410	5,265	2,474
Due from related parties	29,461	200	29,461	1,113,954
Total on balance sheet credit exposures	**2,295,195**	**2,357,635**	**2,295,039**	**1,913,942**

(b) Concentration of credit risk by geographic region

Auckland	669,298	705,776	669,222	239,198
Wellington	175,751	217,928	175,744	117,996
Rest of North Island	575,081	548,046	575,052	87,825
Canterbury	453,324	531,871	453,300	292,278
Rest of South Island	356,762	369,775	356,742	64,146
Overseas [1]	44,224	-	44,224	-
	2,274,440	**2,373,396**	**2,274,284**	**801,443**
Collective provision	(6,999)	(15,961)	(6,999)	(1,455)
Less acquisition fair value adjustment for present value of future losses	(1,707)	-	(1,707)	-
Due from related parties	29,461	200	29,461	1,113,954
Total on balance sheet credit exposures	**2,295,195**	**2,357,635**	**2,295,039**	**1,913,942**

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

(c) Concentration of credit risk by industry sector

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Agriculture	469,020	499,942	469,020	61,204
Forestry and Fishing	22,301	29,565	22,301	9,315
Mining	11,148	19,044	11,148	3
Manufacturing	77,321	79,915	77,321	21,116
Finance & Insurance	288,401	347,805	288,352	329,303
Wholesale trade	80,884	76,816	80,884	8,784
Retail trade	170,251	155,962	170,144	15,619
Households	685,311	629,854	685,311	231,097
Property and Business services	330,860	320,198	330,860	101,217
Transport and storage	15,873	25,267	15,873	6,191
Other Services	123,070	189,028	123,070	17,594
	2,274,440	**2,373,396**	**2,274,284**	**801,443**
Collective provision	(6,999)	(15,961)	(6,999)	(1,455)
Less acquisition fair value adjustment for present value of future losses	(1,707)	-	(1,707)	-
Due from related parties	29,461	200	29,461	1,113,954
Total on balance sheet credit exposures	**2,295,195**	**2,357,635**	**2,295,039**	**1,913,942**

34 Credit risk exposure (continued)

(d) Commitments to extend credit

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Undrawn facilities available to customers	113,157	106,702	113,157	11,933
Conditional commitments to fund at future dates	95,780	48,428	95,780	13,177

As at 30 June 2014 there are no undrawn lending commitments to counterparties for whom drawn balances are classified as individually impaired (2013: nil).

(e) Credit exposures to connected persons

	BANKING GROUP	
	Jun 2014	Jun 2013
Credit exposures to non-bank connected persons at year end ($000's)	29,822	384
Credit exposures to non-bank connected persons at year end (% of total Tier 1 Capital)	8.90%	0.12%
Peak credit exposures to non-bank connected persons during the year ($000's)	30,216	384
Peak credit exposures to non-bank connected persons during the year (% of total Tier 1 Capital)	9.02%	0.12%

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 2014.

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 2014 (2013: $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 2014 the Banking Group did not have any period end or peak end-of-day credit exposures over 10% of equity to individual counterparties (not being members of groups of closely related counterparties) or groups of closely related counterparties (excluding central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or any bank with a long-term credit rating of A- or A3 or above, or its equivalent, and connected persons) (2013: 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.

35 Asset quality

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

Corporate

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

Property — Property asset lending including non-core property.

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

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

All Other — Consumer lending to individuals.

35 Asset quality (continued)

(a) Finance receivables by credit risk concentration

	NOTE	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
		BANKING GROUP					
Jun 2014							
Neither at least 90 days past due nor impaired		480,596	2,007	774,527	241,134	439,208	1,937,472
At least 90 days past due	35(b)	9,433	2,599	19,917	463	1,622	34,034
Individually impaired	35(c)	2,818	17,090	7,709	-	-	27,617
Restructured assets		5	-	1,175	-	2,884	4,064
Fair value adjustment for present value of future losses		-	-	-	(1,707)	-	(1,707)
Provision for impairment	35(e)	(2,114)	(5,744)	(7,275)	(57)	(1,171)	(16,361)
Total net finance receivables		**490,738**	**15,952**	**796,053**	**239,833**	**442,543**	**1,985,119**
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	35(b)	3,975	11,045	7,584	814	3,180	26,598
Individually impaired	35(c)	2,979	61,634	4,688	-	-	69,301
Restructured assets		6	-	1,225	-	2,335	3,566
Provision for impairment	35(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**

				BANK			
Jun 2014							
Neither at least 90 days past due nor impaired		480,596	2,007	774,527	241,134	439,208	1,937,472
At least 90 days past due	35(b)	9,433	2,599	19,917	463	1,622	34,034
Individually impaired	35(c)	2,818	17,090	7,709	-	-	27,617
Restructured assets		5	-	1,175	-	2,884	4,064
Fair value adjustment for present value of future losses		-	-	-	(1,707)	-	(1,707)
Provision for impairment	35(e)	(2,114)	(5,744)	(7,275)	(57)	(1,171)	(16,361)
Total net finance receivables		**490,738**	**15,952**	**796,053**	**239,833**	**442,543**	**1,985,119**
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	35(b)	-	1,990	19	814	-	2,823
Individually impaired	35(c)	-	22,922	837	-	-	23,759
Provision for impairment	35(e)	(46)	(14,873)	(338)	(134)	-	(15,391)
Total net finance receivables		**70,467**	**11,870**	**155,756**	**230,964**	**-**	**469,057**

(b) Past due but not impaired

			BANKING GROUP			
Jun 2014						
Less than 30 days past due	4,221	-	8,604	1,064	7,826	21,715
At least 30 and less than 60 days past due	5,509	-	3,047	313	2,362	11,231
At least 60 but less than 90 days past due	3,791	-	3,534	114	1,176	8,615
At least 90 days past due	9,433	2,599	19,917	463	1,622	34,034
Total past due but not impaired	**22,954**	**2,599**	**35,102**	**1,954**	**12,986**	**75,595**
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**

35 Asset quality (continued)

(b) Past due but not impaired (continued)

	BANK					
	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 2014						
Less than 30 days past due	4,221	-	8,604	1,064	7,826	21,715
At least 30 and less than 60 days past due	5,509	-	3,047	313	2,362	11,231
At least 60 but less than 90 days past due	3,791	-	3,534	114	1,176	8,615
At least 90 days past due	9,433	2,599	19,917	463	1,622	34,034
Total past due but not impaired	**22,954**	**2,599**	**35,102**	**1,954**	**12,986**	**75,595**
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**

(c) Individually impaired assets

	BANKING GROUP					
	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 2014						
Opening	2,979	61,634	4,688	-	-	69,301
Additions	4,150	18,122	8,160	-	-	30,432
Deletions	(3,027)	(30,361)	(3,470)	-	-	(36,858)
Write offs	(1,284)	(32,305)	(1,669)	-	-	(35,258)
Closing gross individually impaired assets	**2,818**	**17,090**	**7,709**	**-**	**-**	**27,617**
Less: provision for individually impaired assets	1,531	3,739	4,092	-	-	9,362
Total net impaired assets	**1,287**	**13,351**	**3,617**	**-**	**-**	**18,255**
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 impaired assets	1,125	31,252	2,153	-	-	34,530
Total net impaired assets	**1,854**	**30,382**	**2,535**	**-**	**-**	**34,771**

35 Asset quality (continued)

(c) Individually impaired assets (continued)

	BANK					
	Rural	Corporate Property	Other	Residential	All Other	Total
	$000	$000	$000	$000	$000	$000
Jun 2014						
Opening	-	22,922	837	-	-	23,759
Additions	3,373	4,410	4,126	-	-	11,909
Acquired on amalgamation	3,413	25,372	6,390	-	-	35,175
Deletions	(2,653)	(18,334)	(2,100)	-	-	(23,087)
Write offs	(1,315)	(17,280)	(1,544)	-	-	(20,139)
Closing gross individually impaired assets	**2,818**	**17,090**	**7,709**	**-**	**-**	**27,617**
Less: provision for individually impaired assets	1,531	3,739	4,092	-	-	9,362
Total net impaired assets	**1,287**	**13,351**	**3,617**	**-**	**-**	**18,255**
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 impaired assets	-	13,936	-	-	-	13,936
Total net impaired assets	**-**	**8,986**	**837**	**-**	**-**	**9,823**

(d) Credit risk grading

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

The Banking Group classifies finance receivables as Behavioural or Judgement.

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

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

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

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

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

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

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

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

35 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 2014						
Judgement portfolio						
Grade 1 - Very Strong	616	-	-	-	-	616
Grade 2 - Strong	3,303	-	25,331	865	-	29,499
Grade 3 - Sound	17,888	-	35,420	1,157	-	54,465
Grade 4 - Adequate	63,785	-	145,774	5,038	-	214,597
Grade 5 - Acceptable	305,781	3,837	209,825	13,193	-	532,636
Grade 6 - Monitor	54,757	440	59,071	1,508	-	115,776
Grade 7 - Substandard	3,897	-	10,936	-	-	14,833
Grade 8 - Doubtful	722	12,798	-	-	-	13,520
Grade 9 - At risk of loss	58	882	2,472	-	-	3,412
Total Judgement portfolio	**450,807**	**17,957**	**488,829**	**21,761**	**-**	**979,354**
Behavioural portfolio						
Not in arrears	40,142	-	305,736	216,400	427,279	989,557
Active	238	-	1,816	3,009	8,054	13,117
Arrangement	96	-	1,554	151	5,770	7,571
Non-performing / Repossession	38	-	556	-	1,519	2,113
Recovery	-	-	745	276	1,092	2,113
Total Behavioural portfolio	**40,514**	**-**	**310,407**	**219,836**	**443,714**	**1,014,471**
Provision for collectively impaired assets	(583)	(2,005)	(3,183)	(57)	(1,171)	(6,999)
Fair value adjustment for present value of future losses	-	-	-	(1,707)	-	(1,707)
Total finance receivables	**490,738**	**15,952**	**796,053**	**239,833**	**442,543**	**1,985,119**
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**

35 Asset quality (continued)

(d) Credit risk grading (continued)

	BANK					
	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 2014						
Judgement portfolio						
Grade 1 - Very Strong	616	-	-	-	-	616
Grade 2 - Strong	3,303	-	25,331	865	-	29,499
Grade 3 - Sound	17,888	-	35,420	1,157	-	54,465
Grade 4 - Adequate	63,785	-	145,774	5,038	-	214,597
Grade 5 - Acceptable	305,781	3,837	209,825	13,193	-	532,636
Grade 6 - Monitor	54,757	440	59,071	1,508	-	115,776
Grade 7 - Substandard	3,897	-	10,936	-	-	14,833
Grade 8 - Doubtful	722	12,798	-	-	-	13,520
Grade 9 - At risk of loss	58	882	2,472	-	-	3,412
Total Judgement portfolio	**450,807**	**17,957**	**488,829**	**21,761**	**-**	**979,354**
Behavioural portfolio						
Not in arrears	40,142	-	305,736	216,400	427,279	989,557
Active	238	-	1,816	3,009	8,054	13,117
Arrangement	96	-	1,554	151	5,770	7,571
Non-performing / Repossession	38	-	556	-	1,519	2,113
Recovery	-	-	745	276	1,092	2,113
Total Behavioural portfolio	**40,514**	**-**	**310,407**	**219,836**	**443,714**	**1,014,471**
Provision for collectively impaired assets	(583)	(2,005)	(3,183)	(57)	(1,171)	(6,999)
Fair value adjustment for present value of future losses	-	-	-	(1,707)	-	(1,707)
Total finance receivables	**490,738**	**15,952**	**796,053**	**239,833**	**442,543**	**1,985,119**
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**

35 Asset quality (continued)

(e) Provision for impairment

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

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 $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 2014						
Provision for individually impaired assets						
Opening provision for individually impaired assets	1,125	31,252	2,153	-	-	34,530
Impairment loss for the year						
- charge for the year	1,714	6,247	3,890	-	-	11,851
- recoveries	-	4	2	-	-	6
- write offs	(1,284)	(32,305)	(1,669)	-	-	(35,258)
- effect of discounting	(24)	(1,459)	(284)	-	-	(1,767)
Closing provision for individually impaired assets	**1,531**	**3,739**	**4,092**	**-**	**-**	**9,362**
Provision for collectively impaired assets						
Opening provision for collectively impaired assets	581	10,260	3,479	134	1,507	15,961
Impairment loss for the year						
- charge / (credit) for the year	62	(7,497)	559	(77)	997	(5,956)
- recoveries	4	2	189	-	59	254
- write offs	(64)	(760)	(1,044)	-	(1,392)	(3,260)
Closing provision for collectively impaired assets	**583**	**2,005**	**3,183**	**57**	**1,171**	**6,999**
Total provision for impairment	**2,114**	**5,744**	**7,275**	**57**	**1,171**	**16,361**
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**

35 Asset quality (continued)

(e) Provision for impairment (continued)

	BANK					
	Rural	Corporate Property	Other	Residential	All Other	Total
	$000	$000	$000	$000	$000	$000
Jun 2014						
Provision for individually impaired assets						
Opening provision for individually impaired assets	-	13,936	-	-	-	13,936
Impairment loss for the year						
- charge for the year	987	3,849	2,542	-	-	7,378
- assumed on acquisition of loans	1,872	3,991	3,306	-		9,169
- recoveries	-	1	-	-	-	1
- write offs	(1,315)	(17,280)	(1,544)	-	-	(20,139)
- effect of discounting	(13)	(758)	(212)	-	-	(983)
Closing provision for individually impaired assets	**1,531**	**3,739**	**4,092**	**-**	**-**	**9,362**
Provision for collectively impaired assets						
Opening provision for collectively impaired assets	46	937	338	134	-	1,455
Impairment loss for the year						
- charge / (credit) for the year	89	(5,110)	630	(77)	593	(3,875)
- acquired on amalgamation	448	6,936	2,471	-	1,298	11,153
- recoveries	2	2	164	-	26	194
- write offs	(2)	(760)	(420)	-	(746)	(1,928)
Closing provision for collectively impaired assets	**583**	**2,005**	**3,183**	**57**	**1,171**	**6,999**
Total provision for impairment	**2,114**	**5,744**	**7,275**	**57**	**1,171**	**16,361**
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**

(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 2014, the Banking Group had assets under administration of $2,143,000 (2013: $859,000).

36 Concentrations of funding

(a) Concentration of funding by industry

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Finance	254,538	283,421	254,538	50,000
Other	1,709,295	1,814,132	1,709,295	1,838,619
Total borrowings	**1,963,833**	**2,097,553**	**1,963,833**	**1,888,619**

(b) Concentration of funding by geographical area

Auckland	453,168	409,923	453,168	370,126
Wellington	202,829	304,297	202,829	135,160
Rest of North Island	376,495	392,056	376,495	392,056
Canterbury	687,168	725,365	687,168	725,365
Rest of South Island	163,523	184,800	163,523	184,800
Overseas	80,650	81,112	80,650	81,112
Total borrowings	**1,963,833**	**2,097,553**	**1,963,833**	**1,888,619**

37 Liquidity risk

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

	BANKING GROUP		BANK	
	Jun 2014	Jun 2013	Jun 2014	Jun 2013
	$000	$000	$000	$000
Cash and cash equivalents	34,588	172,777	34,538	163,152
Investments	238,859	165,223	238,859	165,223
Undrawn committed bank facilities	170,000	240,000	170,000	50,000
Total liquidity	**443,447**	**578,000**	**443,397**	**378,375**

The Banking Group has securitised bank facilities of $400 million in relation to the ABCP Trust, which matures on 4 February 2015.

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

37 Liquidity risk (continued)

Contractual liquidity profile of financial assets and liabilities (continued)

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

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

	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 million are available to be drawn down on demand. To the extent drawn, $240 million is contractually repayable in 6-12 months' time upon facility expiry.

37 Liquidity risk (continued)

Contractual liquidity profile of financial assets and liabilities (continued)

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

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

	BANK						
	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
Jun 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	**1,288,626**	**102,345**	**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)	**836,425**	**(771,706)**	**(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 million were available to be drawn down on demand. To the extent drawn, $50.0 million was contractually repayable in 6-12 months' time upon facility expiry.

37 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 2014							
Financial assets							
Cash and cash equivalents	34,588	-	-	-	-	-	34,588
Investments	12,910	4,382	62,301	80,564	81,878	20,837	262,872
Finance receivables	-	505,552	324,850	446,661	483,682	196,347	1,957,092
Finance receivables - securitised	-	78,179	63,245	87,819	61,304	246	290,793
Derivative financial assets	-	1,797	-	-	-	-	1,797
Other financial assets	-	6,511	1,140	281	6,842	26,266	41,040
Total financial assets	**47,498**	**596,421**	**451,536**	**615,325**	**633,706**	**243,696**	**2,588,182**
Financial liabilities							
Borrowings	6,110	204,349	164,515	264,972	560,338	672,006	1,872,290
Borrowings - securitised	-	4,765	4,688	9,479	28,359	230,000	277,291
Derivative financial liabilities	-	34	-	-	-	-	34
Other financial liabilities	11,899	8,845	1,524	2,785	6,598	15,134	46,785
Total financial liabilities	**18,009**	**217,993**	**170,727**	**277,236**	**595,295**	**917,140**	**2,196,400**
Net financial assets/(liabilities)	**29,489**	**378,428**	**280,809**	**338,089**	**38,411**	**(673,444)**	**391,782**
Unrecognised loan commitments	113,157	-	-	-	-	-	113,157
Undrawn committed bank facilities	170,000	-	-	-	-	-	170,000
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 assets	-	649	-	-	-	-	649
Other financial assets	-	8,610	-	-	-	-	8,610
Total financial assets	**184,297**	**612,666**	**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	**4,522**	**413,771**	**235,172**	**364,203**	**612,508**	**684,783**	**2,314,959**
Net financial assets/(liabilities)	**179,775**	**198,895**	**307,180**	**284,628**	**859**	**(622,649)**	**348,688**
Unrecognised loan commitments	106,702	-	-	-	-	-	106,702
Undrawn committed bank facilities	240,000	-	-	-	-	-	240,000

37 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 2014							
Financial assets							
Cash and cash equivalents	34,538	-	-	-	-	-	34,538
Investments	12,910	4,382	62,301	80,564	81,878	20,837	262,872
Finance receivables	-	505,552	324,850	446,661	483,682	196,347	1,957,092
Finance receivables - securitised	-	78,179	63,245	87,819	61,304	246	290,793
Derivative financial asset	-	1,797	-	-	-	-	1,797
Other financial assets	562	6,405	1,140	281	6,842	26,266	41,496
Total financial assets	**48,010**	**596,315**	**451,536**	**615,325**	**633,706**	**243,696**	**2,588,588**
Financial liabilities							
Borrowings	6,110	204,349	164,515	264,972	560,338	672,006	1,872,290
Borrowings - securitised	-	4,765	4,688	9,479	28,359	230,000	277,291
Derivative financial liabilities	-	34	-	-	-	-	34
Other financial liabilities	12,940	8,845	1,524	2,785	6,598	15,134	47,826
Total financial liabilities	**19,050**	**217,993**	**170,727**	**277,236**	**595,295**	**917,140**	**2,197,441**
Net financial assets/(liabilities)	**28,960**	**378,322**	**280,809**	**338,089**	**38,411**	**(673,444)**	**391,147**
Unrecognised loan commitments	113,157	-	-	-	-	-	113,157
Undrawn committed bank facilities	170,000	-	-	-	-	-	170,000
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	**1,288,626**	**157,366**	**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
Derivative financial liabilities	-	-	-	-	-	-	-
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)	**1,284,104**	**(248,750)**	**(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

38 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 2014							
Financial assets							
Cash and cash equivalents	34,248	-	-	-	-	340	34,588
Investments	126,585	2,039	29,379	32,608	48,248	-	238,859
Finance receivables	1,174,931	83,752	137,558	182,572	158,897	2,571	1,740,281
Finance receivables - securitised	43,043	30,518	51,819	71,827	47,631	-	244,838
Other financial assets	1,797	28,898	-	-	-	5,934	36,629
Total financial assets	**1,380,604**	**145,207**	**218,756**	**287,007**	**254,776**	**8,845**	**2,295,195**
Financial liabilities							
Borrowings	996,032	328,448	282,156	66,726	61,848	-	1,735,210
Borrowings - securitised	228,623	-	-	-	-	-	228,623
Other financial liabilities	28,255	-	-	-	-	18,564	46,819
Total financial liabilities	**1,252,910**	**328,448**	**282,156**	**66,726**	**61,848**	**18,564**	**2,010,652**
Effect of derivatives held for risk management	224,840	(22,550)	(40,925)	(64,025)	(97,340)	-	-
Net financial assets / (liabilities)	**352,534**	**(205,791)**	**(104,325)**	**156,256**	**95,588**	**(9,719)**	**284,543**
Jun 2013							
Financial assets							
Cash and cash equivalents	172,498	-	-	-	-	279	172,777
Investments	128,370	-	15,545	4,291	17,017	-	165,223
Finance receivables	1,206,054	95,833	147,126	155,208	128,155	3,022	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	**1,588,539**	**125,518**	**213,370**	**227,096**	**191,201**	**11,911**	**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	530	-	-	-	-	17,294	17,824
Total financial liabilities	**1,221,380**	**339,250**	**373,581**	**111,129**	**52,743**	**17,294**	**2,115,377**
Effect of derivatives held for risk management	179,350	(18,700)	(45,330)	(61,200)	(54,120)	-	-
Net financial assets / (liabilities)	**546,509**	**(232,432)**	**(205,541)**	**54,767**	**84,338**	**(5,383)**	**242,258**

38 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 2014							
Financial assets							
Cash and cash equivalents	34,198	-	-	-	-	340	34,538
Investments	126,585	2,039	29,379	32,608	48,248	-	238,859
Finance receivables	1,174,931	83,752	137,558	182,572	158,897	2,571	1,740,281
Finance receivables - securitised	43,043	30,518	51,819	71,827	47,631	-	244,838
Other financial assets	1,797	28,898	-	-	-	5,828	36,523
Total financial assets	**1,380,554**	**145,207**	**218,756**	**287,007**	**254,776**	**8,739**	**2,295,039**
Financial liabilities							
Borrowings	996,032	328,448	282,156	66,726	61,848	-	1,735,210
Borrowings - securitised	228,623	-	-	-	-	-	228,623
Other financial liabilities	28,255	-	-	-	-	19,605	47,860
Total financial liabilities	**1,252,910**	**328,448**	**282,156**	**66,726**	**61,848**	**19,605**	**2,011,693**
Effect of derivatives held for risk management	224,840	(22,550)	(40,925)	(64,025)	(97,340)	-	-
Net financial (liabilities) / assets	**352,484**	**(205,791)**	**(104,325)**	**156,256**	**95,588**	**(10,866)**	**283,346**
Jun 2013							
Financial assets							
Cash and cash equivalents	162,873	-	-	-	-	279	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	403,618	4,250	5,787	2,768	3,032	1,022	420,477
Finance receivables - securitised	48,580	-	-	-	-	-	48,580
Other financial assets	82	-	-	-	-	2,474	2,556
Total financial assets	**743,523**	**4,250**	**21,332**	**7,059**	**20,049**	**1,117,729**	**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	500	-	-	-	-	13,800	14,300
Total financial liabilities	**1,012,416**	**339,250**	**373,581**	**111,129**	**52,743**	**13,800**	**1,902,919**
Effect of derivatives held for risk management	-	-	-	-	-	-	-
Net financial (liabilities)/assets	**(268,893)**	**(335,000)**	**(352,249)**	**(104,070)**	**(32,694)**	**1,103,929**	**11,023**

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.

39 Capital adequacy

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

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

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

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

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

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

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

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group as at 30 June 2014.

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

The ICAAP identifies the additional capital required to be held against other material risks, being concentration risk, strategic / business risk, reputational risk, regulatory risk and model risk. See Note 39(l) for further details.

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

39 Capital adequacy (continued)

(a) Capital

	BANKING GROUP
	Jun 2014
	$000
Tier 1 Capital	
CET1 capital	
Paid-up ordinary shares issued by the Bank plus related share premium	339,757
Retained earnings (net of appropriations)	23,096
Accumulated other comprehensive income and other disclosed reserves	1,473
Less deductions from CET1 capital	
Intangible assets	(22,437)
Deferred tax assets	(5,287)
Hedging reserve	(1,157)
Defined benefit superannuation fund assets	(464)
Total CET1 capital	**334,981**
Additional Tier 1 Capital	
Nil	-
Total Tier 1 Capital	**334,981**
Tier 2 Capital	
Subordinated bond	2,426
Total Tier 2 Capital	**2,426**
Total Capital	**337,407**

(b) Capital structure

Ordinary shares

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

Reserves

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

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

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

Retained earnings

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

Subordinated bond

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

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

39 Capital adequacy (continued)

(c) Credit risk

(i) On balance sheet exposures

	BANKING GROUP			
	Total exposure	Risk weighting	Risk weighted exposure	Minimum Pillar One capital require-ment [1]
	$000	%	$000	$000
Jun 2014				
Cash and gold bullion	340	0%	-	-
Multilateral development banks	25,270	0%	-	-
Multilateral development banks	18,954	20%	3,791	455
Public sector entities	16,475	20%	3,295	395
Public sector entities	20,507	50%	10,254	1,230
Banks	177,311	20%	35,462	4,255
Corporates	2,466	20%	493	59
Corporates	11,205	50%	5,603	672
Corporates	919	100%	919	110
Welcome Home Loans - loan to value ratio (LVR) <= 90%[2]	13,017	35%	4,556	547
Welcome Home Loans - LVR > 90%[2]	13,343	50%	6,672	801
Welcome Home Loans - LVR > 100%[2]	954	100%	954	114
Residential mortgages < 80% LVR	202,852	35%	70,998	8,520
Residential mortgages 80 < 90% LVR	4,637	50%	2,319	278
Residential mortgages 90 < 100% LVR	532	75%	399	48
Residential mortgages 100%+ LVR	4,038	100%	4,038	485
Past due residential mortgages	460	100%	460	55
Other past due assets - provision > 20%	5,930	100%	5,930	712
Other past due assets - provision < 20%	48,598	150%	72,897	8,748
Other assets	1,793,596	100%	1,793,596	215,232
Not risk weighted assets	29,345	0%	-	-
Total on balance sheet exposures	**2,390,749**		**2,022,636**	**242,716**

(ii) Off balance sheet exposures

	BANKING GROUP					
	Total exposure	Credit conversion Factor	Credit equivalent amount	Average risk weight	Risk weighted exposure	Minimum Pillar One capital require-ment [1]
	$000	$000	$000	%	$000	$000
Jun 2014						
Direct credit substitute	4,126	100%	4,126	100%	4,126	495
Performance-related contingency	2,203	50%	1,102	100%	1,102	132
Other commitments where original maturity is more than one year	119,144	50%	59,572	100%	59,572	7,149
Other commitments where original maturity is less than or equal to one year	89,793	20%	17,959	100%	17,959	2,155
Market related contracts [3]						
Interest rate contracts	247,080	n/a	1,235	20%	247	30
Total off balance sheet exposures	**462,346**		**83,994**		**83,006**	**9,961**

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.

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

39 Capital adequacy (continued)

(d) Additional mortgage information - LVR range

	BANKING GROUP		
	On balance sheet exposures	Off balance sheet exposures [1]	Total exposures
	$000	$000	$000
Jun 2014			
Does not exceed 80%	208,076	4,372	212,448
Exceeds 80% and not 90%	12,890	22	12,912
Exceeds 90%	18,867	81	18,948
Total exposures	**239,833**	**4,475**	**244,308**

At 30 June 2014, $14.3 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 2014
	$000
Loans and advances - loans with residential mortgages (see Note 35(d))	239,833
On balance sheet residential mortgage exposures subject to the standardised approach	**239,833**
Off balance sheet mortgage exposures subject to the standardised approach	4,475
Total residential exposures subject to the standardised approach	**244,308**

(f) Credit risk mitigation

As at 30 June 2014 the Banking Group had $27.3 million of Welcome Home Loans, whose credit risk was mitigated by the Crown. Other than this the Banking Group does not have any exposures covered by eligible collateral, guarantees and credit derivatives.

(g) Operational Risk

	BANKING GROUP		
	Implied risk weighted exposure	Aggregate capital charge	Aggregate capital charge per Conditions of Registration
	$000	$000	$000
Operational risk	158,713	12,697	19,046

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

1 Off balance sheet exposures means unutilised limits.

39 Capital adequacy (continued)

(h) Market risk

		BANKING GROUP		
		Implied risk weighted exposure	Aggregate capital charge	Aggregate capital charge per Conditions of Registration
		$000	$000	$000
Market risk end-period capital charge	Interest rate risk only	80,419	6,434	9,650
Market risk peak end-of-day capital charge	Interest rate risk only	80,419	6,434	9,650

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	2,390,749	2,022,636	242,716	242,716
Off balance sheet	462,346	83,006	9,961	9,961
Operational risk	n/a	158,713	12,697	19,046
Market risk	n/a	80,419	6,434	9,650
Total	**n/a**	**2,344,774**	**271,808**	**281,373**

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 2014	Jun 2013
	%	%
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	14.29%	13.76%
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	10.00%	10.00%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	14.29%	13.76%
Minimum Tier 1 Capital as per Conditions of Registration	12.00%	12.00%
Total Capital expressed as a percentage of total risk weighted exposures	14.39%	13.76%
Minimum Total Capital as per Conditions of Registration	12.00%	12.00%
Buffer ratio		
Buffer ratio	2.39%	1.76%
Buffer ratio requirement [1]	N/A	N/A

[1] The Banking Group does not have a buffer ratio requirement.

39 Capital adequacy (continued)

(k) Solo capital adequacy

	BANK	
	Jun 2014	Jun 2013
	%	%
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	15.93%	15.32%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	15.93%	15.32%
Total Capital expressed as a percentage of total risk weighted exposures	16.04%	15.32%

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 (2013: nil).

40 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 2014, there have been no material changes in the Banking Group's marketing and distribution of insurance products.

Securitisation

As at 30 June 2014, the Banking Group had securitised assets amounting to $245.0 million (2013: $275.0 million). These assets have been sold to ABCP Trust (a special purpose vehicle investing in motor vehicle, truck and trailer and commercial loans originated by the Banking Group and funded through the issuance of commercial paper and also through a Westpac liquidity facility). Prior to 15 August 2013, the Banking Group had securitised assets which had 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). Note 6 - Structured entities provides further information on the securitised assets. MARAC, prior to amalgamation, 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 Heartland PIE Fund Limited, controls, manages and administers the Heartland Cash and Term PIE Fund and its products (Heartland Call PIE and Heartland Term Deposit PIE). Note 6 - Structured entities has further details. The Heartland Cash and Term PIE Fund deals with the Bank in the normal course of business, in the Bank's capacity as Registrar of the Fund and also invests in the Bank's deposits. The Banking Group provides investment advice to a number of clients, which includes the provision of other fiduciary activities. The Banking Group is considered to control the Heartland Cash and Term PIE Fund, and as such the Heartland Cash and Term PIE Fund is consolidated within the financial statements of the Banking Group.

Risk management

The Banking Group has in place policies and procedures to ensure that the fiduciary activities identified above are conducted in an appropriate manner. It is considered that these policies and procedures will ensure that any difficulties arising from these activities will not impact adversely on the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and internal and external auditors. Further information on the Banking Group's risk management policies and practices is included in Note 33 - 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.

40 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 (2013: $nil).

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

	TOTAL TRUSTS	
	Jun 2014	**Jun 2013**
Peak end-of-day aggregate amount of funding provided ($000's)	27,188	29,844
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	8.1%	9.2%

	CBS TRUST		ABCP TRUST	
	Jun 2014	**Jun 2013**	**Jun 2014**	**Jun 2013**
Peak end-of-day aggregate amount of funding provided ($000's)	377	6,579	26,698	24,226
Peak end-of-day aggregate amount of funding provided as a percentage of the total assets of the individual entity as at the end of the year	0.7%	12.1%	10.5%	10.4%

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. However, as the CBS Trust had no assets at the end of the year, the assets at the beginning of the year have been used.

41 Contingent liabilities and commitments

	BANKING GROUP		BANK	
	Jun 2014	**Jun 2013**	**Jun 2014**	**Jun 2013**
	$000	**$000**	**$000**	**$000**
Letters of credit, guarantee commitments and performance bonds	6,329	5,033	6,329	-
Total contingent liabilities	**6,329**	**5,033**	**6,329**	**-**
Undrawn facilities available to customers	113,157	106,702	113,157	11,933
Conditional commitments to fund at future dates	95,780	48,428	95,780	13,177
Total commitments	**208,937**	**155,130**	**208,937**	**25,110**

42 Events after the reporting date

On 15 August 2014, the Bank reduced the ABCP Trust securitisation facilities by $50 million to $350 million. 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 14 $000	Audited 30 Jun 13 $000	Audited 30 Jun 12 $000	Audited 30 Jun 11 $000	Audited 30 Jun 10 $000
Interest income	200,141	206,313	205,131	161,297	148,337
Interest expense	93,719	110,895	121,502	99,705	89,271
Net interest income	**106,422**	**95,418**	**83,629**	**61,592**	**59,066**
Other net income	13,179	11,433	11,329	8,988	10,015
Total operating income before other gains	**119,601**	**106,851**	**94,958**	**70,580**	**69,081**
Employee benefits	35,542	33,861	34,661	22,049	13,049
Other operating expenses	26,099	35,201	29,520	22,777	11,976
Profit before impairment and tax	**57,960**	**37,789**	**30,777**	**25,754**	**44,056**
Impaired asset expense	5,895	22,527	5,642	13,298	23,765
Decrease in fair value of investment properties	1,203	5,101	3,900	-	-
Net profit before tax	**50,862**	**10,161**	**21,235**	**12,456**	**20,291**
Income tax expense / (benefit)	14,616	2,718	(2,974)	4,712	5,992
Net profit after tax attributable to owners of the entity	**36,246**	**7,443**	**24,209**	**7,744**	**14,299**
Other comprehensive income for the year net of tax					
Effective portion of changes in fair value of cash flow hedges, net of tax	1,111	1,056	378	596	4,208
Net change in available-for-sale reserve, net of tax	(12)	276	(103)	111	-
Net change in defined benefit reserve, net of income tax	3	462	(435)	14	-
Total comprehensive income for the year, net of tax	**37,348**	**9,237**	**24,049**	**8,465**	**18,507**
Dividends paid to equity holders	38,661	15,605	1,597	866	-

Statements of Financial Position

	BANKING GROUP				
As at	Audited 30 Jun 14 $000	Audited 30 Jun 13 $000	Audited 30 Jun 12 $000	Audited 30 Jun 11 $000	Audited 30 Jun 10 $000
Total assets	2,390,749	2,500,132	2,344,489	2,115,485	1,294,556
Individually impaired assets	27,617	69,301	56,825	68,537	42,647
Total liabilities	2,026,423	2,135,207	1,973,196	1,821,644	1,088,088
Total equity	364,326	364,925	371,293	293,841	206,468

The information for the years ended 30 June 2014, 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 former 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 year ended 30 June 2010 has 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 supplementary information relating to capital adequacy) of Heartland Bank Limited (“the bank”) and its related entities (“the banking group”) on pages 12 to 69 of the disclosure statement. The financial statements comprise the statement of financial position as at 30 June 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information of the bank and banking group. The supplementary information comprises the information that is required to be disclosed in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (the “Order”).

Directors' responsibility for the disclosure statement

The directors are responsible for the preparation of bank and banking group disclosure statement, including financial statements prepared in accordance with Clause 24 of the Order, generally accepted accounting practice in New Zealand and International Financial Reporting Standards, 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 (excluding the supplementary information relating to capital adequacy). The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the bank and banking group’s preparation of the financial statements that 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 bank and banking group in relation to other assurance services, general accounting and other advisory services. Partners and employees of our firm may also deal with the bank and banking group on normal terms within the ordinary course of trading activities of the business of the bank and banking group. There are, however, certain restrictions on dealings which the partners and employees of our firm can have with the bank and banking group. These matters have not impaired our independence as 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 12 to 69:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the bank and banking group as at 30 June 2014 and of the financial performance and cash flows of the bank and banking group for the year ended on that date.

Opinion on supplementary information (excluding supplementary information relating to capital adequacy)

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

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

Review report on the supplementary information relating to capital adequacy

We have reviewed the capital adequacy information, as disclosed in Note 39 to the disclosure statement for the year ended 30 June 2014.

Directors' responsibility for the supplementary information relating to capital adequacy

The directors are responsible for the preparation of supplementary information relating to capital adequacy that is required to be disclosed under Schedule 9 of the Order and prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) and described in Note 39 to the disclosure statement.

Auditor's responsibility

Our responsibility is to express an opinion on the capital adequacy information based on our review. We conducted our review in accordance with the review engagement standard RS-1 Review Engagement Standards issued by the New Zealand External Board. 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 Capital Adequacy Framework (Standardised Approach) (BS2A); and

- disclosed in accordance with Schedule 9 of the Order.

A review is limited primarily to enquiries of bank and banking group personnel and analytical review procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit in respect of the capital adequacy disclosures, and accordingly, we do not express an audit opinion on these disclosures.

Review opinion on the supplementary information relating to capital adequacy

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy, disclosed in Note 39 to the disclosure statement, is not, in all material respects:

- prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A); and

- disclosed in accordance with Schedule 9 of the Order.

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

25 August 2014
Auckland