HEARTLAND BANK

Disclosure Statement

For the nine months ended 31 March 2013

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GENERAL INFORMATION

This Disclosure Statement has been issued by Heartland Bank Limited for the nine months ended 31 March 2013 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2013 (Order).

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

Name and address for service

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

The Bank was formerly known as Heartland Building Society. Heartland Building Society was established in January 2011, as a result of the merger of Canterbury Building Society, MARAC Finance Limited and Southern Cross Building Society.

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

GUARANTEE ARRANGEMENTS

On 28 February 2013, the Standby Cash Advances Facility Agreement dated 15 December 2010 was terminated by the Bank given its strong liquidity position. As a result, at 31 March 2013 no material obligations of the Bank are guaranteed.

DIRECTORS

Michelle Anne Smith resigned as a Director with effect from 1 February 2013.

Richard Arthur Wilks was appointed as a Director with effect from 1 February 2013.

There have been no other changes to the Directors since the 30 June 2012 Disclosure Statement was signed.

AMENDMENTS TO CONDITIONS OF REGISTRATION

With effect from 31 March 2013, the Bank's conditions of registration were amended to remove any conditions that ceased to apply on or before 1 January 2013. The conditions were also updated for the Bank's conversion to a company on 15 February 2013 and the resulting name change of the Bank.

CONDITIONS OF REGISTRATION

These conditions apply on and after 31 March 2013, except as provided otherwise.

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

1. That—

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

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

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

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

   (e) the process in Subpart 2H of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated March 2013 is followed for the recognition and repayment of capital.

   For the purposes of this condition of registration, capital, the Total capital ratio, the Tier 1 capital ratio, and the Common Equity Tier 1 capital ratio must be calculated in accordance with the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated March 2013.

1A. That—

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

   (b) under its ICAAP, the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated March 2013; and

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

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

   In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

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

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

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

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

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

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

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

For the purposes of this condition of registration,—

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

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

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

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

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

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated March 2013.

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

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

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

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

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

(d) an alternate director,—

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

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

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

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

For the purposes of this condition of registration,—

"independent,"—

(a) in relation to a person who is not a director of both Heartland New Zealand Limited and the bank, has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011; and

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

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

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

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

[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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

    For the purposes of this condition,—

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

    "SPV" means a person—

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

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

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

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

14. That—

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

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

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

CONDITIONS OF REGISTRATION CONTINUED

(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.

In these conditions of registration, —

“banking group” means Heartland Bank Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993):

“generally accepted accounting practice” has the same meaning as in section 2 of the Financial Reporting Act 1993.

PENDING PROCEEDINGS OR ARBITRATION

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

CREDIT RATING

As at the date of signing this Disclosure Statement, the Bank's credit rating issued by Standard & Poor's (Australia) Pty Limited (S&P) was BBB-negative. This BBB- credit rating was issued on 6 December 2011 and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. The rating is not subject to any qualifications. On 16 May 2013 S&P affirmed the rating of BBB- but as a result of revising its assessment of the economic risks in New Zealand has changed the outlook to “negative” from “stable".

OTHER MATERIAL MATTERS

There are no other material matters relating to the business or affairs of the Bank or the Banking Group 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. From the date of registration to the date on which this Disclosure Statement is signed:
   - (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 28 May 2013 and has been signed by all of the Directors.

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

J. K. Greenslade

E. J. Harvey

G. T. Ricketts

G. R. Leech

C. R. Mace

G. R. Kennedy

R. A. Wilks

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 31 March 2013

	NOTE	Unaudited 9 mths to Mar 2013 $000	Unaudited 9 mths to Mar 2012 $000	Audited 12 mths to Jun 2012 $000
Interest income	5	154,076	153,398	205,131
Interest expense	5	83,559	92,490	121,502
Net interest income		**70,517**	**60,908**	**83,629**
Operating lease income		11,364	11,234	15,064
Operating lease expenses		7,454	7,348	9,954
Net operating lease income		**3,910**	**3,886**	**5,110**
Lending and credit fee income		1,253	1,329	1,889
Other income		2,988	3,258	4,330
Net operating income		**78,668**	**69,381**	**94,958**
Selling and administration expenses	6	46,622	49,296	64,181
Profit before impaired asset expense and income tax		**32,046**	**20,085**	**30,777**
Impaired asset expense	7	7,923	6,082	5,642
Decrease in fair value of investment properties		-	-	3,900
Profit before income tax		**24,123**	**14,003**	**21,235**
Income tax expense / (benefit)		6,857	(1,575)	(2,974)
Profit for the period		**17,266**	**15,578**	**24,209**
Other comprehensive income				
Cash flow hedges:				
Effective portion of changes in fair value, net of income tax		543	248	378
Reserves:				
Net change in available for sale reserve, net of income tax		218	(113)	(103)
Net change in defined benefit reserve, net of income tax		203	(236)	(435)
Other comprehensive income / (loss) for the period, net of income tax		**964**	**(101)**	**(160)**
Total comprehensive income for the period		**18,230**	**15,477**	**24,049**

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

The notes on pages 11 to 18 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 March 2013

	NOTE	Share Capital $000	Available for Sale Reserve $000	Defined Benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Unaudited - Mar 2013							
Balance at 1 July 2012		**189,774**	**8**	**(421)**	**(1,010)**	**182,942**	**371,293**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	17,266	17,266
Total other comprehensive income		-	218	203	543	-	964
Total comprehensive income for the period		**-**	**218**	**203**	**543**	**17,266**	**18,230**
Contributions by and distributions to owners							
Dividends to equity holders	8	-	-	-	-	(7,831)	(7,831)
Total transactions with owners		**-**	**-**	**-**	**-**	**(7,831)**	**(7,831)**
Balance at 31 March 2013		**189,774**	**226**	**(218)**	**(467)**	**192,377**	**381,692**
Unaudited - Mar 2012							
Balance at 1 July 2011		**134,774**	**111**	**14**	**(1,388)**	**160,330**	**293,841**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	15,578	15,578
Total other comprehensive loss, net of income tax		-	(113)	(236)	248	-	(101)
Total comprehensive (loss) / income for the period		**-**	**(113)**	**(236)**	**248**	**15,578**	**15,477**
Contributions by and distributions to owners							
Issue of share capital		55,000	-	-	-	-	55,000
Dividends to equity holders		-	-	-	-	(1,597)	(1,597)
Total transactions with owners		**55,000**	**-**	**-**	**-**	**(1,597)**	**53,403**
Balance at 31 March 2012		**189,774**	**(2)**	**(222)**	**(1,140)**	**174,311**	**362,721**
Audited - Jun 2012							
Balance at 1 July 2011		**134,774**	**111**	**14**	**(1,388)**	**160,330**	**293,841**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	24,209	24,209
Total other comprehensive (loss) / income, net of income tax		-	(103)	(435)	378	-	(160)
Total comprehensive (loss) / income for the year		**-**	**(103)**	**(435)**	**378**	**24,209**	**24,049**
Contributions by and distributions to owners							
Issue of share capital		55,000	-	-	-	-	55,000
Dividends to equity holders		-	-	-	-	(1,597)	(1,597)
Total transactions with owners		**55,000**	**-**	**-**	**-**	**(1,597)**	**53,403**
Balance at 30 June 2012		**189,774**	**8**	**(421)**	**(1,010)**	**182,942**	**371,293**

The notes on pages 11 to 18 are an integral part of these interim financial statements.

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 March 2013

	NOTE	Unaudited Mar 2013 $000	Unaudited Mar 2012 $000	Audited Jun 2012 $000
Assets				
Cash and cash equivalents		213,982	49,632	89,220
Investments		61,936	24,271	24,327
Due from related parties	8	308	272	276
Investment properties		53,246	58,084	55,504
Finance receivables	9	2,045,122	2,096,011	2,078,276
Operating lease vehicles		34,040	34,166	34,550
Current tax asset		1,048	3,492	5,272
Other assets		16,330	21,922	15,857
Intangible assets		22,966	22,840	22,997
Property, plant and equipment		10,320	9,955	10,067
Deferred tax asset		8,478	8,075	8,143
Total assets		**2,467,776**	**2,328,720**	**2,344,489**
Liabilities				
Borrowings	10	2,053,677	1,929,321	1,939,489
Due to related parties	8	-	-	193
Trade and other payables		32,407	36,678	33,514
Total liabilities		**2,086,084**	**1,965,999**	**1,973,196**
Equity				
Share capital		189,774	189,774	189,774
Retained earnings and reserves		191,918	172,947	181,519
Total equity		**381,692**	**362,721**	**371,293**
Total equity and liabilities		**2,467,776**	**2,328,720**	**2,344,489**
Total interest earning and discount bearing assets		2,320,942	2,171,566	2,193,238
Total interest and discount bearing liabilities		2,053,996	1,930,426	1,940,948

The notes on pages 11 to 18 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CASH FLOWS

For the nine months ended 31 March 2013

	NOTE	Unaudited 9 mths to Mar 2013 $000	Unaudited 9 mths to Mar 2012 $000	Audited 12 mths to Jun 2012 $000
Cash flows from operating activities				
Interest received		149,383	145,798	197,136
Operating lease income received		9,830	9,662	13,099
Proceeds from sale of operating lease vehicles		6,478	6,529	7,932
Lending, credit fees and other income received		4,241	4,587	6,219
Net decrease in finance receivables		30,350	-	-
Total cash provided from operating activities		**200,282**	**166,576**	**224,386**
Payments to suppliers and employees		48,215	43,844	66,940
Interest paid		83,053	97,375	121,742
Purchase of operating lease vehicles		11,438	13,150	16,905
Net increase in finance receivables		-	43,804	20,547
Taxation paid		3,264	-	23
Total cash applied to operating activities		**145,970**	**198,173**	**226,157**
Net cash flows from / (applied to) operating activities	11	**54,312**	**(31,597)**	**(1,771)**
Cash flows from investing activities				
Sale of investment properties		2,275	-	832
Total cash provided from investing activities		**2,275**	**-**	**832**
Purchase of office fit-out, equipment and intangible assets		1,566	2,474	3,191
Purchase of investments		37,609	6,440	6,496
Purchase of subsidiary		-	24,898	24,898
Purchase of investment properties		17	-	937
Total cash applied to investing activities		**39,192**	**33,812**	**35,522**
Net cash flows applied to investing activities		**(36,917)**	**(33,812)**	**(34,690)**
Cash flows from financing activities				
Issue of share capital		-	55,000	55,000
Net increase in borrowings		115,198	-	-
Total cash provided from financing activities		**115,198**	**55,000**	**55,000**
Dividends paid	8	7,831	1,597	1,597
Net decrease in borrowings		-	267,039	256,399
Total cash applied to financing activities		**7,831**	**268,636**	**257,996**
Net cash flows from / (applied to) financing activities		**107,367**	**(213,636)**	**(202,996)**
Net increase / (decrease) in cash held		**124,762**	**(279,045)**	**(239,457)**
Opening cash and cash equivalents		89,220	267,034	267,034
Cash impact of acquisition of subsidiary		-	61,643	61,643
Closing cash and cash equivalents		**213,982**	**49,632**	**89,220**

The notes on pages 11 to 18 are an integral part of these interim financial statements.

1 Reporting entity

The interim financial statements presented are the consolidated interim financial statements of the Banking Group comprising of the Bank and its subsidiaries.

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

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

2 Basis of preparation

The interim financial statements presented here are for the following periods:
- 9 month period ended 31 March 2013 - Unaudited
- 9 month period ended 31 March 2012 - Unaudited
- 12 month period ended 30 June 2012 - Audited

(a) Statement of compliance

The condensed interim financial statements of the Banking Group incorporated in this Disclosure Statement have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and NZ IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Disclosure Statement for the year ended 30 June 2012. The Banking Group is also in compliance with IAS 34 Interim Financial Statements.

The Bank and all of the 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 interim financial statements comply with that Act.

(b) Basis of measurement

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

(c) Comparative information

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

3 Significant accounting policies

The accounting policies applied by the Banking Group in these consolidated interim financial statements are the same as those applied by the Banking Group in its consolidated financial statements as at and for the year ended 30 June 2012.

4 Segmental analysis

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

All income received is from external sources, except those transactions with related parties, refer to Note 8 - Related party transactions and balances. Certain selling and administration expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other.

Operating segments

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

Retail and Consumer	Providing a comprehensive range of financial services to New Zealand businesses and families, including term, transactional and savings based deposit accounts together with residential mortgage lending, motor vehicle finance and asset finance.
Business	Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized New Zealand businesses.
Rural	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 15 - Asset quality. The operating segments are primarily categorised by sales channel, whereas Note 15 - Asset quality is based on credit risk concentrations.

NOTES TO THE INTERIM FINANCIAL STATEMENTS
For the nine months ended 31 March 2013

4 Segmental analysis (continued)

	Retail & Consumer $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Unaudited - 9 months ended 31 March 2013						
Net interest income	32,616	18,646	17,178	760	1,317	70,517
Net operating lease income	3,887	23	-	-	-	3,910
Net other income	415	131	28	2,527	1,140	4,241
Net operating income	**36,918**	**18,800**	**17,206**	**3,287**	**2,457**	**78,668**
Selling and administration expenses	8,682	4,293	4,629	4,976	24,042	46,622
Profit / (loss) before impaired asset expense and income	**28,236**	**14,507**	**12,577**	**(1,689)**	**(21,585)**	**32,046**
Impaired asset expense	2,033	1,658	(99)	4,331	-	7,923
Profit / (loss) before income tax	**26,203**	**12,849**	**12,676**	**(6,020)**	**(21,585)**	**24,123**
Income tax expense	-	-	-	-	6,857	6,857
Profit / (loss) for the period	**26,203**	**12,849**	**12,676**	**(6,020)**	**(28,442)**	**17,266**
Total assets	983,087	540,284	470,043	138,994	335,368	**2,467,776**
Total liabilities	-	-	-	-	2,086,084	**2,086,084**
Total equity	-	-	-	-	381,692	**381,692**
Unaudited - 9 months ended 31 March 2012						
Net interest income	28,535	16,020	13,277	1,992	1,084	60,908
Net operating lease income	3,875	11	-	-	-	3,886
Net other income	676	37	49	3,082	743	4,587
Net operating income	**33,086**	**16,068**	**13,326**	**5,074**	**1,827**	**69,381**
Selling and administration expenses	8,972	3,888	4,077	4,771	27,588	49,296
Profit / (loss) before impaired asset expense and income	**24,114**	**12,180**	**9,249**	**303**	**(25,761)**	**20,085**
Impaired asset expense	1,661	1,885	188	2,348	-	6,082
Profit / (loss) before income tax	**22,453**	**10,295**	**9,061**	**(2,045)**	**(25,761)**	**14,003**
Income tax benefit	-	-	-	-	(1,575)	(1,575)
Profit / (loss) for the period	**22,453**	**10,295**	**9,061**	**(2,045)**	**(24,186)**	**15,578**
Total assets	1,011,314	540,951	471,203	164,793	137,326	**2,325,587**
Total liabilities	-	-	-	-	1,960,866	**1,960,866**
Total equity	-	-	-	-	362,635	**362,635**
Audited - 12 months ended 30 June 2012						
Net interest income	39,034	20,956	19,051	2,260	2,328	83,629
Net operating lease income	5,097	13	-	-	-	5,110
Net other income	927	57	66	4,104	1,065	6,219
Net operating income	**45,058**	**21,026**	**19,117**	**6,364**	**3,393**	**94,958**
Selling and administration expenses	11,475	5,273	5,837	6,350	35,246	64,181
Profit / (loss) before impaired asset expense and income	**33,583**	**15,753**	**13,280**	**14**	**(31,853)**	**30,777**
Impaired asset expense	1,991	2,445	689	517	-	5,642
Decrease in fair value of investment properties	-	-	-	3,900	-	3,900
Profit / (loss) before income tax	**31,592**	**13,308**	**12,591**	**(4,403)**	**(31,853)**	**21,235**
Income tax benefit	-	-	-	-	(2,974)	(2,974)
Profit / (loss) for the year	**31,592**	**13,308**	**12,591**	**(4,403)**	**(28,879)**	**24,209**
Total assets	989,352	540,228	478,582	160,168	176,159	**2,344,489**
Total liabilities	-	-	-	-	1,973,196	**1,973,196**
Total equity	-	-	-	-	371,293	**371,293**

5 Net interest income

	Unaudited 9 mths to Mar 2013 $000	Unaudited 9 mths to Mar 2012 $000	Audited 12 mths to Jun 2012 $000
Interest income			
Cash and cash equivalents	3,171	4,463	5,132
Finance receivables	149,065	148,695	199,526
Net interest income on cash flow hedges	1,840	240	473
Total interest income	**154,076**	**153,398**	**205,131**
Interest expense			
Retail deposits	70,160	76,831	100,769
Bank and securitised borrowings	13,399	15,659	20,733
Total interest expense	**83,559**	**92,490**	**121,502**
Net interest income	**70,517**	**60,908**	**83,629**

6 Selling and administration expenses

	Unaudited 9 mths to Mar 2013 $000	Unaudited 9 mths to Mar 2012 $000	Audited 12 mths to Jun 2012 $000
Personnel expenses	24,971	26,098	34,186
Directors' fees	144	131	175
Superannuation	299	360	475
Audit fees	344	331	516
Audit related fees	19	43	35
Amortisation - intangible assets	817	816	1,075
Depreciation - property, plant and equipment	527	566	755
Operating lease expense as a lessee	1,229	1,242	1,648
Legal and professional fees	2,207	4,070	5,397
Other operating expenses	16,065	15,639	19,919
Total selling and administration expenses	**46,622**	**49,296**	**64,181**

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

Heartland New Zealand Limited has paid some Directors' fees on behalf of the Banking Group.

7 Impaired asset expense

	NOTE	Unaudited 9 mths to Mar 2013 $000	Unaudited 9 mths to Mar 2012 $000	Audited 12 mths to Jun 2012 $000
Individually impaired assets expense	15(b)	6,338	4,826	6,921
Collectively impaired assets expense / (benefit)	15(b)	1,585	1,256	(1,279)
Total impaired asset expense		**7,923**	**6,082**	**5,642**

8 Related party transactions and balances

The Bank's immediate parent is Heartland NZ Holdings Limited (previously known as BSHL No. 1 Limited), which is a wholly owned subsidiary of the Bank's ultimate parent Heartland New Zealand Limited (HNZ).

The following dividends were paid to Heartland NZ Holdings Limited:
- $2,000,000 on 4 October 2012; and
- $5,830,560 on 11 December 2012.

The Banking Group provided administrative assistance to MARAC Insurance Limited (a 50% joint venture interest between HNZ and the New Zealand Automobile Association) and Heartland Cash and Term PIE Fund, and received insurance commission from MARAC Insurance Limited.

Heartland Cash and Term PIE Fund's investments in the Bank are detailed in Note 12 - Special purpose entities.

All transactions were conducted on normal commercial terms and conditions, except that no interest is charged on intragroup balances.

8 Related party transactions and balances (continued)

	Unaudited 9 mths to Mar 2013 $000	Unaudited 9 mths to Mar 2012 $000	Audited 12 mths to Jun 2012 $000
Transactions with related parties			
Lending and credit fee income	251	310	368
Other income	241	257	328
Total transactions with other related parties	**492**	**567**	**696**
Due from related parties			
Heartland NZ Holdings Limited	200	200	200
Heartland New Zealand Limited	108	72	76
Total due from related parties	**308**	**272**	**276**
Due to related parties			
Heartland New Zealand Limited	-	-	193
Total due to related parties	**-**	**-**	**193**

9 Finance receivables

(a) Total finance receivables

	Unaudited Mar 2013 $000	Unaudited Mar 2012 $000	Audited Jun 2012 $000
Non-securitised			
Gross finance receivables	1,775,883	1,842,320	1,828,201
Less allowance for impairment	28,052	30,094	26,693
Total non-securitised finance receivables	**1,747,831**	**1,812,226**	**1,801,508**
Securitised			
Gross finance receivables	298,007	284,483	277,501
Less allowance for impairment	716	698	733
Total securitised finance receivables	**297,291**	**283,785**	**276,768**
Total gross finance receivables	2,073,890	2,126,803	2,105,702
Less total allowance for impairment	28,768	30,792	27,426
Total finance receivables	**2,045,122**	**2,096,011**	**2,078,276**

(b) Analysis of finance receivables

Neither at least 90 days past due or impaired	1,972,430	2,005,455	1,987,787
At least 90 days past due and not impaired	40,542	53,811	52,004
Individually impaired	51,923	56,641	56,825
Restructured assets	8,995	10,896	9,086
Provision for impairment	(28,768)	(30,792)	(27,426)
Total finance receivables	**2,045,122**	**2,096,011**	**2,078,276**

Refer to Note 15 - Asset quality for further analysis by credit risk concentration.

10 Borrowings

	Unaudited Mar 2013 $000	Unaudited Mar 2012 $000	Audited Jun 2012 $000
Bank borrowings	-	20,010	50,010
Deposits	1,764,472	1,644,972	1,625,120
Securitised borrowings	289,205	264,339	264,359
Total borrowings	**2,053,677**	**1,929,321**	**1,939,489**

Bank borrowings and deposits (which include NZDX bonds) rank equally and are unsecured. Investors in the CBS Warehouse A Trust rank equally with each other and are secured over the securitised assets of that Trust. Investors in Heartland ABCP Trust 1 rank equally with each other and are secured over the securitised assets of that Trust.

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

	Unaudited 9 mths to Mar 2013 $000	Unaudited 9 mths to Mar 2012 $000	Audited 12 mths to Jun 2012 $000
Profit for the period	**17,266**	**15,578**	**24,209**
Add / (less) non-cash items:			
Depreciation and amortisation expense	1,344	1,382	1,830
Change in fair value of investment properties	-	-	3,900
Impaired asset expense	7,923	6,082	5,642
Deferred tax benefit	(335)	(2,910)	(2,978)
Derivative financial instruments revaluation	1,010	(744)	(219)
Accruals	(198)	601	529
Total non-cash items	**9,744**	**4,411**	**8,704**
Add / (less) movements in working capital items:			
Other assets	(175)	(3,064)	2,695
Current tax	4,224	(4,895)	(6,675)
Other liabilities	(4,167)	5,153	212
Total movements in working capital items	**(118)**	**(2,806)**	**(3,768)**
Net cash flows from operating activities before movements in finance receivables and operating lease vehicles	**26,892**	**17,183**	**29,145**
Movements in operating lease vehicles	510	(1,440)	(1,823)
Movements in finance receivables	26,910	(47,340)	(29,093)
Net cash flows from / (applied to) operating activities	**54,312**	**(31,597)**	**(1,771)**

12 Special purpose entities

Heartland Cash and Term PIE Fund

The Banking Group controls the operations of Heartland Cash and Term PIE Fund, a portfolio investment entity that invests in the Bank's deposits. Investments of Heartland Cash and Term PIE Fund are represented as follows:

	Unaudited Mar 2013 $000	Unaudited Mar 2012 $000	Audited Jun 2012 $000
Deposits	27,389	10,134	12,347

Heartland ABCP Trust 1 and CBS Warehouse A Trust Securitisation

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

	Unaudited Mar 2013 $000	Unaudited Mar 2012 $000	Audited Jun 2012 $000
Cash and cash equivalents - Securitised	20,645	10,223	15,579
Finance receivables - Securitised	297,291	283,785	276,768
Borrowings - Securitised	(289,205)	(264,339)	(264,359)

13 Risk management policies

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

14 Concentrations of credit risk to individual counterparties

At 31 March 2013 the Banking Group did not have any period end or peak end-of-day credit exposures over 10% of equity to individual counterparties (not being members of groups of closely related counterparties) or groups of closely related counterparties (excluding central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or any bank with a long-term credit rating of A- or A3 or above, or its equivalent, and connected persons).

Peak aggregate end-of-day credit exposures are 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.

15 Asset quality

Asset quality of finance receivables

The disclosures below are categorised by the following credit risk concentrations:

Corporate

Rural Lending to the farming sector primarily offering livestock financing, 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.

	Corporate			Residential	All Other	Total
	Rural $000	Property $000	Other $000	$000	$000	$000
(a) End of period balances						
Unaudited - Mar 2013						
Gross impaired assets						
Individually impaired	815	48,819	2,289	-	-	51,923
Restructured	6	5,733	1,122	-	2,134	8,995
Total impaired assets	**821**	**54,552**	**3,411**	**-**	**2,134**	**60,918**
Provision for individually impaired assets	663	18,507	964	-	-	20,134
Net impaired assets	**158**	**36,045**	**2,447**	**-**	**2,134**	**40,784**
Provision for collectively impaired assets	**891**	**2,097**	**3,765**	**107**	**1,774**	**8,634**
At least 90 days past due but not impaired	**5,812**	**22,658**	**7,776**	**793**	**3,503**	**40,542**
(b) Charges to Interim Statement of Comprehensive Income						
Unaudited - 9 months ended 31 March 2013						
Individually impaired assets expense	244	4,481	1,350	263	-	6,338
Collectively impaired assets (benefit) / expense	(934)	1,144	733	35	607	1,585
Total impaired asset (benefit) / expense	**(690)**	**5,625**	**2,083**	**298**	**607**	**7,923**

(c) Real Estate Credit Limited Management Agreement (RECL Agreement)

On 5 January 2011, MARAC entered into the RECL Agreement with Real Estate Credit Limited (RECL) under which RECL assumed the risk of loss on certain non-core property loans for a 5 year period (ending 5 January 2016). The maximum amount payable by RECL in respect of loss (including interest accruing on loss payments until the due date for payment) is limited to $30 million and payment is due at the end of the 5 year period ($2.2 million received to date). The RECL Agreement covers MARAC non-core property loans with a net book value of $81 million as at 31 March 2013.

In determining the charge for the period, the RECL Agreement has been taken into consideration. Claims of $27.8 million are expected to be made under the RECL Agreement in relation to these loans, and to this extent, the RECL Agreement is fully utilised.

Further information about the RECL Agreement is included in the Bank's Disclosure Statement for the year ended 30 June 2012.

16 Liquidity risk

The Bank holds the following financial assets for the purpose of managing liquidity risk:	Unaudited Mar 2013 $000
Cash and cash equivalents	213,982
Investments	61,936
Undrawn committed bank facilities	209,800
Total liquidity	**485,718**

The Banking Group has bank facilities totalling $500 million, all in relation to the Trusts. Heartland ABCP Trust 1 has a securitisation facility of $400 million maturing 5 February 2014 and CBS Warehouse A Trust has a securitisation facility of $100 million maturing 22 January 2014.

17 Capital adequacy

(a) Capital Ratios

	Common Equity Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Unaudited - Mar 2013			
Ratio	14.80%	14.80%	14.80%
Minimum ratio requirement	10.00%	12.00%	12.00%

(b) Buffer ratio

	Unaudited Mar 2013 $000
Buffer ratio	4.80%
Buffer ratio requirement [1]	n/a

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

(c) Capital

	Unaudited Mar 2013 $000
Tier 1 Capital which consists of:	
Common Equity Tier 1 capital	350,166
Additional Tier 1 Capital	-
Tier 2 Capital	-
Total Capital	**350,166**
Deductions included in calculation of capital:	
Deductions from Common Equity Tier 1 Capital	31,767
Deductions from Additional Tier 1 Capital	-
Deductions from Tier 2 Capital	-
Total deductions included in the calculation of capital	**31,767**

(d) 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.

Retained earnings

The accumulated comprehensive income that has been retained in the Banking Group.

Accumulated other comprehensive income and other disclosed 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.

17 Capital adequacy (continued)

(e) Pillar 1 capital requirements

	Pillar 1 capital requirement under BS2A $000	Pillar 1 capital requirement under Conditions of Registration $000
Unaudited - Mar 2013		
On balance sheet exposures		
Residential mortgages (including past due)	12,520	12,520
Corporate	391	391
Claims on banks	6,450	6,450
Other	231,603	231,603
Total on balance sheet exposures	**250,964**	**250,964**
Other capital requirements		
Off balance sheet exposures	7,730	7,730
Operational risk [2]	11,945	17,918
Market risk [2]	4,909	7,364
Total other capital requirements	**24,584**	**33,012**
Total Pillar 1 capital requirement	**275,548**	**283,976**

[2] The capital requirement for Operational and Market risk under BS2A assumes a capital requirement of 8% however the Bank's Conditions of Registration require it to hold capital against these risks at 12%.

(f) Additional mortgage information

	On balance sheet exposures $000	Off balance sheet exposures $000	Total exposures $000
Unaudited - Mar 2013			
Loan to value ratio (LVR) range:			
Does not exceed 80%	169,309	7,663	176,972
Exceeds 80% and not 90%	22,780	6	22,786
Exceeds 90% [3]	57,647	794	58,441
Total exposures	**249,736**	**8,463**	**258,199**

[3] Of the balance of "Exceeds 90%" above, $41.3 million relates to Welcome Home loans, whose credit risk is mitigated by the Crown.

(g) 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, regulatory risk and model risk). The Board has determined that the regulatory minimum capital of 12% as per the Banks Conditions of Registration is sufficient to cover this risk. As a result there is no additional internal capital allocation for other material risks.

18 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. There have been no material changes in the Banking Group's marketing and distribution of insurance products since the reporting date of the previous disclosure statement.

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

19 Contingent liabilities and commitments

	Unaudited Mar 2013 $000	Unaudited Mar 2012 $000	Audited Jun 2012 $000
Letters of credit, guarantee commitments and performance bonds	7,640	7,377	13,404
Total contingent liabilities	**7,640**	**7,377**	**13,404**

20 Events after the reporting date

On 2 April 2013 the Bank paid a dividend of $7.8 million to Heartland NZ Holdings Limited.

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