HEARTLAND NEW ZEALAND LIMITED

FINANCIAL STATEMENTS

For the year ended 30 June 2015

DIRECTORS' RESPONSIBILITY STATEMENT

For the year ended 30 June 2015

The directors are responsible for presenting financial statements for each financial year that give a true and fair view of the financial position of Heartland New Zealand Limited (Company), its subsidiaries (Group) and of the financial performance and cash flows for that period.

The directors consider the financial statements of the Group have been prepared using appropriate accounting policies that have been consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 2013.

The directors consider that they have taken adequate steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Board of Directors (Board) of Heartland New Zealand Limited approved and authorised the financial statements for the year ended 30 June 2015 set out on pages 3 to 39 for issue on 18 August 2015.

For and on behalf of the Board

Director

Director

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2015

	NOTE	Jun 15 $000	Jun 14 $000
Interest income	2	260,468	210,297
Interest expense	2	126,041	101,221
Net interest income		**134,427**	**109,076**
Operating lease income	3	10,350	13,348
Operating lease expenses	3	7,087	7,709
Net operating lease income		**3,263**	**5,639**
Lending and credit fee income		3,077	2,469
Other income	4	3,940	4,971
Net operating income		**144,707**	**122,155**
Selling and administration expenses	5	68,403	64,739
Profit before impaired asset expense and income tax		**76,304**	**57,416**
Impaired asset expense	6	12,105	5,895
Decrease in fair value of investment properties	10	-	1,203
Operating profit		**64,199**	**50,318**
Share of joint arrangement profit	25	137	486
Profit before income tax		**64,336**	**50,804**
Income tax expense	7	16,173	14,765
Profit for the year		**48,163**	**36,039**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges, net of income tax		(2,709)	1,111
Movement in available for sale reserve, net of income tax		898	(12)
Movement in foreign currency translation reserve, net of income tax		2,136	95
Items that will not be reclassified to profit or loss:			
Movement in defined benefit reserve, net of income tax		50	3
Other comprehensive income for the year, net of income tax		**375**	**1,197**
Total comprehensive income for the year		**48,538**	**37,236**
Earnings per share from continuing operations			
Basic earnings per share	8	10c	9c
Diluted earnings per share	8	10c	9c

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

The notes on pages 8 to 39 are an integral part of these financial statements.

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

	NOTE	Share Capital $000	Treasury Shares Reserve $000	Employee Benefits Reserve $000	Foreign Currency Translation Reserve $000	Available for sale Reserve $000	Defined benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Balance at 1 July 2014		**406,142**	**(926)**	**1,476**	**95**	**272**	**44**	**1,157**	**44,362**	**452,622**
Total comprehensive income/(loss) for the year										
Profit for the year		-	-	-	-	-	-	-	48,163	48,163
Other comprehensive income / (loss), net of income tax		-	-	-	2,136	898	50	(2,709)	-	375
Total comprehensive income/(loss) for the year		**-**	**-**	**-**	**2,136**	**898**	**50**	**(2,709)**	**48,163**	**48,538**
Contributions by and distributions to owners										
Dividends paid	14	-	-	-	-	-	-	-	(30,188)	(30,188)
Dividend reinvestment plan	14	7,621	-	-	-	-	-	-	-	7,621
Share based payments	26	-	-	1,491	-	-	-	-	-	1,491
Shares vested		138	629	(767)	-	-	-	-	-	-
Treasury shares sold		16	25	-	-	-	-	-	-	41
Total transactions with owners		**7,775**	**654**	**724**	**-**	**-**	**-**	**-**	**(30,188)**	**(21,035)**
Balance at 30 June 2015		**413,917**	**(272)**	**2,200**	**2,231**	**1,170**	**94**	**(1,552)**	**62,337**	**480,125**
Balance at 1 July 2013		**193,020**	**(1,000)**	**629**	**-**	**284**	**41**	**46**	**177,522**	**370,542**
Total comprehensive income/(loss) for the year										
Profit for the year		-	-	-	-	-	-	-	36,039	36,039
Other comprehensive income / (loss), net of income tax		-	-	-	95	(12)	3	1,111	-	1,197
Total comprehensive income/(loss) for the year		**-**	**-**	**-**	**95**	**(12)**	**3**	**1,111**	**36,039**	**37,236**
Contributions by and distributions to owners										
Effect of amalgamation		149,269	-	-	-	-	-	-	(149,269)	-
Dividends paid	14	-	-	-	-	-	-	-	(19,930)	(19,930)
Dividend reinvestment plan	14	7,321	-	-	-	-	-	-	-	7,321
Issue of share capital		57,840	-	-	-	-	-	-	-	57,840
Transaction costs associated with capital raising		(1,322)	-	-	-	-	-	-	-	(1,322)
Shares vested		14	74	(88)	-	-	-	-	-	-
Share based payments	26	-	-	935	-	-	-	-	-	935
Total transactions with owners		**213,122**	**74**	**847**	**-**	**-**	**-**	**-**	**(169,199)**	**44,844**
Balance at 30 June 2014		**406,142**	**(926)**	**1,476**	**95**	**272**	**44**	**1,157**	**44,362**	**452,622**

The notes on pages 8 to 39 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 30 June 2015

	NOTE	Jun 15 $000	Jun 14 $000
Assets			
Cash and cash equivalents		37,012	37,344
Investments	9	329,338	238,859
Investment properties	10	24,513	24,888
Finance receivables	11	2,862,070	2,607,393
Operating lease vehicles	12	29,998	31,295
Current tax assets	7(b)	-	1,558
Other assets	15(a)	12,119	18,597
Investment in joint arrangement	25	4,383	4,246
Intangible assets	15(b)	51,119	47,421
Deferred tax assets	7(c)	8,707	5,287
Total assets		**3,359,259**	**3,016,888**
Liabilities			
Borrowings	13	2,825,245	2,524,460
Current tax liabilities	7(b)	7,869	431
Trade and other payables	15(c)	46,020	39,375
Total liabilities		**2,879,134**	**2,564,266**
Equity			
Share capital	14	413,645	405,216
Retained earnings and reserves		66,480	47,406
Total equity		**480,125**	**452,622**
Total equity and liabilities		**3,359,259**	**3,016,888**

The notes on pages 8 to 39 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 30 June 2015

	Jun 15 $000	Jun 14 $000
Cash flows from operating activities		
Interest received	243,729	193,519
Operating lease income received	8,951	12,086
Lending, credit fees and other income received	7,017	7,440
Operating inflows	**259,697**	**213,045**
Payments to suppliers and employees	60,346	59,687
Interest paid	126,179	101,675
Taxation paid	9,956	8,033
Operating outflows	**196,481**	**169,395**
Net cash flows from operating activities before changes in operating assets and liabilities	**63,216**	**43,650**
Proceeds from sale of operating lease vehicles	7,386	9,086
Purchase of operating lease vehicles	(11,544)	(12,954)
Net movement in finance receivables	(259,871)	113,630
Net movement in deposits	362,590	(97,646)
Net cash flows from operating activities	**161,777**	**55,766**
Cash flows from investing activities		
Net proceeds from sale of investment properties	9,375	42,244
Proceeds from sale of office fit-out, equipment and intangible assets	4,885	19
Dividend received from joint venture	-	560
Total cash provided from investing activities	**14,260**	**42,823**
Purchase of office fit-out, equipment and intangible assets	6,344	432
Net increase in investments	89,581	73,648
Purchase of subsidiaries	-	48,300
Total cash applied to investing activities	**95,925**	**122,380**
Net cash flows applied to investing activities	**(81,665)**	**(79,557)**
Cash flows from financing activities		
Increase in share capital	-	20,000
Total cash provided from financing activities	**-**	**20,000**
Dividends paid	22,567	12,609
Transaction costs associated with capital raising	-	1,322
Net decrease in wholesale funding	57,877	123,023
Total cash applied to financing activities	**80,444**	**136,954**
Net cash flows applied to financing activities	**(80,444)**	**(116,954)**
Net decrease in cash held	**(332)**	**(140,745)**
Opening cash and cash equivalents	37,344	174,262
Cash impact of business combinations	-	3,827
Closing cash and cash equivalents	**37,012**	**37,344**

The notes on pages 8 to 39 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS CONTINUED
For the year ended 30 June 2015

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

	Jun 15 $000	Jun 14 $000
Profit for the year	**48,163**	**36,039**
Add / (less) non-cash items included in net profit before taxation:		
Depreciation and amortisation expense	2,010	2,142
Depreciation on lease vehicles	6,375	7,060
Change in fair value of investment properties	-	1,203
Capitalised interest	(2,045)	-
Impaired asset expense	12,105	5,895
Total non-cash items	**18,445**	**16,300**
Add / (less) movements in operating assets and liabilities:		
Finance receivables	(275,274)	96,815
Operating lease vehicles	(5,078)	(5,960)
Other assets	2,997	804
(Gain) / loss on disposal of property, plant and equipment and intangibles	(98)	56
Current tax	8,996	(3,986)
Derivative financial instruments revaluation	1,326	91
Deferred tax (benefit) / expense	(3,420)	11,100
Deposits	362,590	(97,646)
Other liabilities	3,130	2,153
Total movements in operating assets and liabilities	**95,169**	**3,427**
Net cash flows from operating activities	**161,777**	**55,766**

The notes on pages 8 to 39 are an integral part of these financial statements.

Notes

Basis of reporting

Reporting entity

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

The financial statements presented are the consolidated financial statements comprising Heartland New Zealand Limited (Heartland), its subsidiaries and joint arrangements. All entities within the Group offer financial services or are special purpose entities.

On 1 April 2014, the Company, through its subsidiary Heartland HER Holdings Limited, acquired New Sentinel Limited and Australian Seniors Finance Pty Limited (collectively the HHHL Group). Comparatives presented include the results of HHHL Group operations for only three months of the prior year.

Basis of preparation

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

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

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

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

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

Financial assets and liabilities

The Group initially recognises finance receivables, borrowings and subordinated liabilities 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 Group becomes a party to the contractual provisions of the instrument.

The 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 Group is recognised as a separate asset or liability.

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

The Group enters into transactions whereby it transfers assets recognised on its Statement 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 Statement of Financial Position. Transfers of assets with the retention of all or substantially all risks and rewards include, for example, securitised assets and repurchase transactions.

Principles of consolidation

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

The assets and liabilities of entities whose functional currency is not the New Zealand dollar, are translated at the exchange rates ruling at balance date. Revenue and expense items are translated at the spot rate at the transaction date or a rate approximating that rate. Exchange differences are taken to the foreign currency translation reserve.

Estimates and judgements

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

- **Provisions for impairment** - The effect of credit risk is quantified based on management's best estimate of future cash repayments and proceeds from any security held or by reference to risk profile groupings and historical loss data. Refer to Note 19(e) for further details.
- **Goodwill** - Determining the fair value of assets and liabilities of acquired businesses requires the exercise of management judgement. The carrying value of goodwill is tested annually for impairment, refer to Note 15(b)(ii).

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

Performance

1 Segmental analysis

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

All income received is from external sources, except those transactions with related parties. Refer to Note 15(d) - Related party transactions for further details. Certain selling and administration expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Administration and Support (Admin & Support).

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

Households — Providing a comprehensive range of financial services to New Zealand businesses and families, including transactional accounts together with mortgage lending (residential and home equity release), motor vehicle finance and asset finance.

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

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

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

The Group's operating segments are different than the industry categories detailed in Note 19 - Asset quality. The operating segments are primarily categorised by sales channel, whereas Note 19 - Asset quality categorises exposures based on credit risk concentrations.

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

	Households $000	Business $000	Rural $000	Non-core Property $000	Admin & Support $000	Total $000
Jun 15						
Interest income	134,193	70,258	41,380	779	13,858	260,468
Interest expense	64,299	29,931	17,496	1,569	12,746	126,041
Net interest income / (expense)	**69,894**	**40,327**	**23,884**	**(790)**	**1,112**	**134,427**
Net operating lease income	3,263	-	-	-	-	3,263
Net other income	2,560	1,639	135	1,478	1,205	7,017
Net operating income	**75,717**	**41,966**	**24,019**	**688**	**2,317**	**144,707**
Depreciation and amortisation expense	-	-	-	-	2,010	2,010
Other selling and administration expenses	20,071	6,207	4,878	1,273	33,964	66,393
Selling and administration expenses	**20,071**	**6,207**	**4,878**	**1,273**	**35,974**	**68,403**
Profit / (loss) before impaired asset expense and income tax	**55,646**	**35,759**	**19,141**	**(585)**	**(33,657)**	**76,304**
Impaired asset expense / (benefit)	5,465	6,467	510	(337)	-	12,105
Operating profit / (loss)	**50,181**	**29,292**	**18,631**	**(248)**	**(33,657)**	**64,199**
Share of joint arrangement profit	-	-	-	-	137	137
Profit / (loss) before income tax	**50,181**	**29,292**	**18,631**	**(248)**	**(33,520)**	**64,336**
Income tax expense	-	-	-	-	16,173	16,173
Profit / (loss) for the year	**50,181**	**29,292**	**18,631**	**(248)**	**(49,693)**	**48,163**
Total assets	1,609,887	791,984	487,673	27,038	442,677	**3,359,259**
Total liabilities	-	-	-	-	2,879,134	**2,879,134**
Total equity	-	-	-	-	480,125	**480,125**

1 Segmental analysis (continued)

	Households $000	Business $000	Rural $000	Non-core Property $000	Admin & Support $000	Total $000
Jun 14						
Interest income	92,247	62,686	39,666	2,977	12,721	210,297
Interest expense	41,264	26,302	16,865	4,426	12,364	101,221
Net interest income / (expense)	**50,983**	**36,384**	**22,801**	**(1,449)**	**357**	**109,076**
Net operating lease income	5,639	-	-	-	-	5,639
Net other income	2,000	435	68	3,822	1,115	7,440
Net operating income	**58,622**	**36,819**	**22,869**	**2,373**	**1,472**	**122,155**
Depreciation and amortisation expense	-	-	-	-	2,142	2,142
Other selling and administration expenses	11,947	5,983	5,409	4,000	35,258	62,597
Selling and administration expenses	**11,947**	**5,983**	**5,409**	**4,000**	**37,400**	**64,739**
Profit / (loss) before impaired asset expense and income tax	**46,675**	**30,836**	**17,460**	**(1,627)**	**(35,928)**	**57,416**
Impaired asset expense / (benefit)	648	5,535	963	(1,251)	-	5,895
Decrease in fair value of investment properties	-	-	-	1,203	-	1,203
Operating profit / (loss)	**46,027**	**25,301**	**16,497**	**(1,579)**	**(35,928)**	**50,318**
Share of joint arrangement profit	-	-	-	-	486	486
Profit / (loss) before income tax	**46,027**	**25,301**	**16,497**	**(1,579)**	**(35,442)**	**50,804**
Income tax expense	-	-	-	-	14,765	14,765
Profit / (loss) for the year	**46,027**	**25,301**	**16,497**	**(1,579)**	**(50,207)**	**36,039**
Total assets	1,543,248	669,264	410,219	40,846	353,311	**3,016,888**
Total liabilities	-	-	-	-	2,564,266	**2,564,266**
Total equity	-	-	-	-	452,622	**452,622**

2 Net interest income

Interest income and expense is recognised in the 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 the profit or loss at the same time as the hedged item or if the hedge relationship is subsequently deemed to be ineffective.

	Jun 15 $000	Jun 14 $000
Interest income		
Cash and cash equivalents	2,458	3,559
Investments	9,919	9,189
Finance receivables	248,091	197,549
Total interest income	**260,468**	**210,297**
Interest expense		
Retail deposits	82,526	79,430
Bank and securitised borrowings [1]	43,294	20,932
Net interest expense on derivative financial instruments	221	859
Total interest expense	**126,041**	**101,221**
Net interest income	**134,427**	**109,076**

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

[1] Bank and securitised borrowings interest expense increased $22.4 million during the year ended 30 June 2015. This was due to comparatives only including HHHL Group results for three months of the prior year.

3 Net operating lease income

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

	Jun 15 $000	Jun 14 $000
Operating lease income		
Lease income	9,430	11,256
Gain on disposal of lease vehicles	920	2,092
Total operating lease income	**10,350**	**13,348**
Operating lease expense		
Depreciation on lease vehicles	6,375	7,060
Direct lease costs	712	649
Total operating lease expenses	**7,087**	**7,709**
Net operating lease income	**3,263**	**5,639**

4 Other income

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

	NOTE	Jun 15 $000	Jun 14 $000
Rental income from investment properties		1,478	4,027
Management fees	15(d)	500	374
Other income		1,962	570
Total other income		**3,940**	**4,971**

5 Selling and administration expenses

	Jun 15 $000	Jun 14 $000
Personnel expenses	39,619	35,180
Directors' fees	917	882
Superannuation	782	585
Audit and review of financial statements	431	430
Other assurance services paid to auditor [1]	23	18
Other fees paid to auditor [2]	125	193
Depreciation - property, plant and equipment	777	801
Amortisation - intangible assets	1,233	1,341
Operating lease expense as a lessee	2,001	1,654
Legal and professional fees	2,318	4,434
Other operating expenses	20,177	19,221
Total selling and administration expenses	**68,403**	**64,739**

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

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

6 Impaired asset expense

	NOTE	Jun 15 $000	Jun 14 $000
Non-securitised			
Individually impaired expense		7,153	11,851
Collectively impaired expense / (recovery)		4,051	(6,536)
Total non-securitised impaired asset expense		**11,204**	**5,315**
Securitised			
Individually impaired expense		53	-
Collectively impaired expense		848	580
Total securitised impaired asset expense		**901**	**580**
Total			
Individually impaired expense	19(e)	7,206	11,851
Collectively impaired expense / (recovery)	19(e)	4,899	(5,956)
Total impaired asset expense		**12,105**	**5,895**

7 Taxation

(a) Income tax expense

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

	Jun 15 $000	Jun 14 $000
Income tax recognised in profit or loss		
Current tax		
Current year	18,755	3,746
Adjustments for prior year	(195)	351
Deferred tax		
Current year	(2,209)	10,989
Adjustments for prior year	(178)	(321)
Income tax expense recognised in profit or loss	**16,173**	**14,765**
Income tax recognised in other comprehensive income		
Current tax		
Fair value movements of available for sale investments	349	(5)
Deferred tax		
Defined benefit plan	19	1
Fair value movements of cash flow hedges	(1,052)	431
Income tax (benefit) / expense recognised in other comprehensive income	**(684)**	**427**
Reconciliation of effective tax rate		
Profit before income tax	64,336	50,804
Prima facie tax at 28%	18,014	14,225
Higher tax rate for overseas jurisdiction	92	21
Plus/ (minus) tax effect of items not taxable / deductible	(141)	489
Adjustments for prior year	(283)	30
Utilisation of unrecognised tax losses	(1,509)	-
Total income tax expense	**16,173**	**14,765**

7 Taxation (continued)

(b) Current tax

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

(c) Deferred tax assets

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

	Jun 15 $000	Jun 14 $000
Deferred tax assets comprise of the following temporary differences:		
Employee entitlements	1,229	1,619
Provision for impairment	6,633	4,404
Investment properties	1,473	1,740
Intangibles and property, plant and equipment	(399)	(853)
Operating lease vehicles	(1,543)	(1,397)
Other temporary differences	1,314	(226)
Total deferred tax assets	**8,707**	**5,287**
Opening balance of deferred tax assets	**5,287**	**16,387**
Movement recognised in profit or loss	2,387	(10,668)
Movement recognised in other comprehensive income	1,033	(432)
Closing balance of deferred tax assets	**8,707**	**5,287**

(d) Goods and services tax (GST)

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

(e) Imputation credit account

	Jun 15 $000	Jun 14 $000
Imputation credit account	3,484	(1,471)

8 Earnings per share

The calculation of basic and diluted earnings of 10c per share at 30 June 2015 (2014: 9c per share) is based on the profit for the year of $48,163,000 (2014: $36,039,000), and a weighted average number of shares on issue of 466,643,607 (2014: 411,753,442).

Financial position

9 Investments

The Group holds investments in bank bonds and floating rate notes, local authority stock, public securities, corporate bonds and equity investments. Equity investments are classified as being fair valued through profit or loss and the fair value is based on unobservable inputs. All other 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.

	Jun 15 $000	Jun 14 $000
Bank bonds and floating rate notes	244,505	143,063
Local authority stock	46,839	36,982
Public securities and corporate bonds	31,275	58,814
Equity investments	6,719	-
Total investments	**329,338**	**238,859**

During the year ended 30 June 2015 Heartland acquired an interest of 11% in Harmoney Corp Limited and an interest of 12% in Ora HQ Limited.

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

	Jun 15 $000	Jun 14 $000
Opening balance	24,888	58,287
Acquisitions	9,000	9,746
Additional capital expenditure	-	302
Sales	(9,375)	(42,244)
Decrease in fair value of investment properties	-	(1,203)
Closing balance	**24,513**	**24,888**

11 Finance receivables

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

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

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

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

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

	NOTE	Jun 15 $000	Jun 14 $000
Non-securitised			
Neither at least 90 days past due or impaired		2,552,302	2,321,630
At least 90 days past due		33,459	32,969
Individually impaired		25,567	27,617
Restructured assets		3,881	4,064
Gross finance receivables		**2,615,209**	**2,386,280**
Less provision for impairment		24,511	15,725
Less fair value adjustment for present value of future losses[1]		6,242	8,000
Total non-securitised finance receivables		**2,584,456**	**2,362,555**
Securitised			
Neither at least 90 days past due or impaired		276,944	244,409
At least 90 days past due		1,516	1,065
Individually impaired		55	-
Gross finance receivables		**278,515**	**245,474**
Less provision for impairment		901	636
Total securitised finance receivables		**277,614**	**244,838**
Total			
Neither at least 90 days past due or impaired		2,829,246	2,566,039
At least 90 days past due	19(b)	34,975	34,034
Individually impaired	19(c)	25,622	27,617
Restructured assets	19(a)	3,881	4,064
Gross finance receivables		**2,893,724**	**2,631,754**
Less provision for impairment	19(e)	25,412	16,361
Less fair value adjustment for present value of future losses[1]	19(a)	6,242	8,000
Total finance receivables		**2,862,070**	**2,607,393**

[1] A fair value adjustment of $8m for the present value of future losses was recognised on acquisition of HHHL Group. This fair value adjustment is amortised over the estimated lifetime of the finance receivables acquired.

Refer to Note 19 - Asset quality for further analysis of finance receivables by credit risk concentration.

Finance lease receivables

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

	Jun 15 $000	Jun 14 $000
Gross finance lease receivables		
Less than 1 year	32,484	36,420
Between 1 and 5 years	66,835	66,184
More than 5 years	68	66
Total gross finance lease receivables	**99,387**	**102,670**
Less unearned finance income	14,315	14,681
Less provision for impairment	170	87
Net finance lease receivables	**84,902**	**87,902**

12 Operating lease vehicles

Operating lease vehicles are stated at cost less accumulated depreciation.

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

	Jun 15 $000	Jun 14 $000
Cost		
Opening balance	43,595	47,339
Additions	11,544	12,954
Disposals	(12,953)	(16,698)
Closing balance	**42,186**	**43,595**
Accumulated depreciation		
Opening balance	12,300	14,944
Depreciation charge for the year	6,375	7,060
Disposals	(6,487)	(9,704)
Closing balance	**12,188**	**12,300**
Opening net book value	31,295	32,395
Closing net book value	**29,998**	**31,295**

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

13 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.

	Jun 15 $000	Jun 14 $000
Deposits	2,097,458	1,736,751
Subordinated bond	3,378	3,378
Bank borrowings	465,779	555,708
Securitised borrowings	258,630	228,623
Total borrowings	**2,825,245**	**2,524,460**

Deposits rank equally and are unsecured. The Subordinated bonds rank below all other general liabilities of the Group.

Securitised borrowings held by investors in Heartland ABCP Trust 1 (ABCP Trust) rank equally with each other and are secured over the securitised assets of that trust. The Group has securitised bank facilities of $350 million (2014: $400 million) in relation to the ABCP Trust, which matures on 3 February 2016.

The Group has a New Zealand and Australian bank facility provided by Commonwealth Bank of Australia (CBA) totalling $466 million in relation to HHHL Group (CBA bank facility). The CBA bank facility is secured over assets of HHHL Group and has a maturity date of 30 September 2019. Capacity for new Australian drawings is available for two years, based on scheduled repayments achieved by the Group. ASF Group (comprising ASF, ASF Settlement Trust and Seniors Warehouse Trust) has also provided a cross-guarantee to CBA for bank loans to other members of ASF Group.

The banking agreements include covenants for the provision of information, attainment of minimum financial ratios and equity, compliance with specified procedures and certification of due performance by ASF Group.

14 Share capital and dividends paid

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.

Number of shares issued and authorised

	Jun 15 Number of shares 000	Jun 14 Number of shares 000
Issued shares		
Opening balance	463,266	388,704
Shares issued during the year	-	65,900
Dividend reinvestment plan	6,624	8,662
Closing balance	**469,890**	**463,266**

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

Dividends paid

The Group paid total dividends of $30,222,744 ($0.06 per share) (2014: $19,958,000 ($0.05 per share)).

Under dividend reinvestment plans, the Group issued 3,680,052 new shares at $1.015 per share on 3 October 2014 and 2,943,636 new shares at $1.320 per share on 7 April 2015.

15 Other balance sheet items

(a) Other assets

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

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

	Jun 15 $000	Jun 14 $000
Derivative financial assets	59	1,867
Trade receivables	5,546	6,134
Prepayments	1,092	1,023
Property, plant and equipment	5,422	9,573
Total other assets	**12,119**	**18,597**

(b) Intangible assets and goodwill

(i) Intangible assets with definite useful lives

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

	Jun 15 $000	Jun 14 $000
Computer Software Cost	5,976	2,278

(b) Intangible assets and goodwill (continued)

(ii) Goodwill

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

	Jun 15 $000	Jun 14 $000
Goodwill	45,143	45,143

On 1 April 2014, as part of the acquisition of HHHL Group $25.0 million of goodwill was recognised.

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

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

(c) Trade and other payables

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

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

	NOTE	Jun 15 $000	Jun 14 $000
Derivative financial liabilities		6,407	4,180
Trade payables		14,808	12,849
GST payable		16,571	15,749
Due to related parties	15(d)	2,448	500
Employee benefits		5,786	6,097
Total trade and other payables		**46,020**	**39,375**

(d) Related party transactions

The Group provided administrative assistance to MARAC Insurance Limited (MARAC Insurance) and received insurance commission from MARAC Insurance.

MARAC Insurance, Heartland Cash and Term PIE Fund and some key management personnel invested in Heartland Bank Limited's deposits. The investments of Heartland Cash and Term PIE Fund are detailed in Note 24 - Structured entities.

	Jun 15 $000	Jun 14 $000
Transactions with related parties		
MARAC Insurance Limited		
Interest expense	(31)	(21)
Lending and credit fee income	625	300
Other income	500	374
Total transactions with other related parties	**1,094**	**653**
Due to related parties		
MARAC Insurance Limited	2,448	500
Total due to related parties	**2,448**	**500**

(d) Related party transactions (continued)

Transactions with key management personnel

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

	Jun 15 $000	Jun 14 $000
Transactions with key management personnel		
Interest income	68	55
Interest expense	(573)	(281)
Key management personnel compensation:		
Short-term employee benefits	(6,690)	(7,304)
Share-based payment expense	(2,693)	(907)
Total transactions with key management personnel	**(9,888)**	**(8,437)**
Due (to) / from key management personnel		
Finance receivables	1,391	709
Borrowings - deposits	(14,386)	(5,998)
Total due to key management personnel	**(12,995)**	**(5,289)**

16 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 Group determines fair value using other valuation techniques.

The 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 (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The 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 Statement of Financial Position.

Investments

Investments in public sector securities and corporate bonds are classified as being available for sale and are stated at fair value less impairment, with the fair value being based on quoted market prices (Level 1 under the fair value hierarchy) or modelled using observable market inputs (Level 2 under the fair value hierarchy). Refer to Note 9 - Investments for more 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.

Investments in unlisted equity securities are classified as being fair valued through profit or loss and are valued under Level 3 of the fair value hierarchy, with the fair value being based on unobservable inputs.

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. (Level 2 under the fair value hierarchy).

16 Fair value (continued)

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 Statement of Financial Position.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
June 15				
Assets				
Investments	311,815	10,804	6,719	329,338
Derivative assets held for risk management	-	59	-	59
Total	**311,815**	**10,863**	**6,719**	**329,397**
Liabilities				
Derivative liabilities held for risk management	-	6,407	-	6,407
Total	**-**	**6,407**	**-**	**6,407**
June 14				
Assets				
Investments	198,385	40,474	-	238,859
Derivative assets held for risk management	-	1,867	-	1,867
Total	**198,385**	**42,341**	**-**	**240,726**
Liabilities				
Derivative liabilities held for risk management	-	4,180	-	4,180
Total	**-**	**4,180**	**-**	**4,180**

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 Group's finance receivables is calculated using a valuation technique which assumes the 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 was 8.95% (2014: 8.99%). 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.

16 Fair value (continued)

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

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 Group for debt of similar maturities. The current market rate used to fair value borrowings for the Group is 4.32% (2014: 4.64%).

Other financial assets and financial liabilities

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

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

	Level 1 $000	Level 2 $000	Level 3 $000	Total Fair Value $000	Total Carrying Value $000
June 15					
Assets					
Cash and cash equivalents	37,012	-	-	37,012	37,012
Finance receivables	-	-	2,582,776	2,582,776	2,584,456
Finance receivables - securitised	-	-	279,491	279,491	277,614
Other financial assets	-	-	5,546	5,546	5,546
Total financial assets	**37,012**	**-**	**2,867,813**	**2,904,825**	**2,904,628**
Liabilities					
Borrowings	-	2,576,425	-	2,576,425	2,566,615
Borrowings - securitised	-	258,630	-	258,630	258,630
Other financial liabilities	-	2,448	20,594	23,042	23,042
Total financial liabilities	**-**	**2,837,503**	**20,594**	**2,858,097**	**2,848,287**
June 14					
Assets					
Cash and cash equivalents	37,344	-	-	37,344	37,344
Finance receivables	-	-	2,357,824	2,357,824	2,362,555
Finance receivables - securitised	-	-	246,674	246,674	244,838
Other financial assets	-	-	6,134	6,134	6,134
Total financial assets	**37,344**	**-**	**2,610,632**	**2,647,976**	**2,650,871**
Liabilities					
Borrowings	-	2,297,381	-	2,297,381	2,295,837
Borrowings - securitised	-	228,887	-	228,887	228,623
Other financial liabilities	-	5,420	14,026	19,446	19,446
Total financial liabilities	**-**	**2,531,688**	**14,026**	**2,545,714**	**2,543,906**

16 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 Group:

	Held for trading	Loans and receivables	Available for sale	Financial liabilities at amortised cost	Total Carrying Value	Total Fair Value
	$000	$000	$000	$000	$000	$000
June 2015						
Cash and cash equivalents	-	37,012	-	-	37,012	37,012
Investments	6,719	-	322,619	-	329,338	329,338
Finance receivables	-	2,584,456	-	-	2,584,456	2,582,776
Finance receivables - securitised	-	277,614	-	-	277,614	279,491
Derivative financial assets	59	-	-	-	59	59
Other financial assets	-	5,546	-	-	5,546	5,546
Total financial assets	**6,778**	**2,904,628**	**322,619**	**-**	**3,234,025**	**3,234,222**
Borrowings	-	-	-	2,566,615	2,566,615	2,576,425
Borrowings - securitised	-	-	-	258,630	258,630	258,630
Derivative financial liabilities	6,407	-	-	-	6,407	6,407
Other financial liabilities	-	-	-	23,042	23,042	23,042
Total financial liabilities	**6,407**	**-**	**-**	**2,848,287**	**2,854,694**	**2,864,504**
June 2014						
Cash and cash equivalents	-	37,344	-	-	37,344	37,344
Investments	-	-	238,859	-	238,859	238,859
Finance receivables	-	2,362,555	-	-	2,362,555	2,357,824
Finance receivables - securitised	-	244,838	-	-	244,838	246,674
Derivative financial assets	1,867	-	-	-	1,867	1,867
Other financial assets	-	6,134	-	-	6,134	6,134
Total financial assets	**1,867**	**2,650,871**	**238,859**	**-**	**2,891,597**	**2,888,702**
Borrowings	-	-	-	2,295,837	2,295,837	2,297,381
Borrowings - securitised	-	-	-	228,623	228,623	228,887
Derivative financial liabilities	4,180	-	-	-	4,180	4,180
Other financial liabilities	-	-	-	19,446	19,446	19,446
Total financial liabilities	**4,180**	**-**	**-**	**2,543,906**	**2,548,086**	**2,549,894**

Risk management

17 Risk management policies

The Group is committed to the management of risk and operates an Enterprise Risk Management Program (RMP) across four primary risk domains; credit, liquidity, market (including interest rate), and operational & compliance. The Group's risk management strategy is set by the Board of Directors (Board). The Group has put in place management structures and information systems to manage risks incorporated in the RMP. The 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.

The Audit and Risk Committee has been appointed by the Board to advise and provide assurance to the Board in relation to the oversight of:

- The integrity of financial control, financial management and external financial reporting of the Group.
- Risk management and internal control.
- The internal audit function and the internal audit process.

The Audit and Risk Committee are responsible for the risk management of the overall Group. Risks in Heartland Bank Limited (the Bank), the largest operating subsidiary are managed by the Bank's Board Risk Committee.

Role of the Board and the Board Risk Committee

The Bank's 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 of Directors of the Bank (Bank's Board) to formulate its risk appetite, understand the risks the Bank faces and to ensure that all policy and decisions are made in accordance with the Bank's corporate values and guiding principles. The BRC has the following responsibilities:

- To oversee the Bank's risk profile and review and approve the Bank's RMP within the context of the risk-reward strategy determined by the Bank's 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 the Bank Board's approval and annual review; a set of risk limits and conditions that apply to the taking of risk, as delegated to the Risk Committee by the Bank's Board, that are consistent with the Bank Board's determined risk appetite. This includes the authorities delegated by the Board to the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Risk Officer (CRO) and any other officers of the Bank to whom the Board or the Committee have delegated authority, and to consider and accept risks beyond management's approval discretion where deemed appropriate.
- To monitor the risk profile, performance, capital levels, exposures against limits and the management and control of the Bank's risks.
- To review significant correspondence with the Bank's regulators, and receive reports from management on the Bank's regulatory relations and report any significant issues to the Bank's Board.
- To monitor changes anticipated in the economic and business environment and other factors considered relevant to the Bank'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 Bank directors, of which at least three are non-executive directors and two are independent directors. In addition the CEO, CRO and CFO may attend meetings. The BRC meets at least bi-monthly to review identified risk issues, and reports directly to the Bank's Board. A member of the BRC sits on the Audit Committee and vice versa.

Audit Committee and Internal Audit

The 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 Group's operations. It assists the Group to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal audit is granted full, free and unfettered access to any and all of the organisation's records, personnel and physical properties deemed necessary to accomplish its internal audit activities.

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

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

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

The internal audit function has direct reporting lines, and accountability to the Audit Committee of the Bank, the Audit and Risk Committee of Heartland (collectively the Audit Committees) and administratively to the CFO. A schedule of all outstanding internal control issues is maintained and presented to the Audit Committees to assist the Audit Committees 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.

17 Risk management policies (continued)

Audit Committee and Internal Audit (continued)

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

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

Bank's Asset and Liability Committee (ALCO)

The ALCO comprises the CEO (Chair), CFO, CRO, Treasurer, Head of Consumer & Retail, Head of Rural and Head of Business. The ALCO has responsibility for overseeing aspects of the Group's financial position risk management. The purpose of the ALCO is to support the BRC with specific responsibilities for decision making and oversight of risk matters in relation to:

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

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

Bank's Executive Risk Committee (ERC)

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

- Operational and compliance risk
- Credit risk
- Strategic risk
- Legal and governance risk
- Business risk

Operational & compliance risk

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

To ensure appropriate responsibility is allocated for the management, reporting and escalation of operational & compliance risk, the 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 Group’s policies.
- The second line of defence is the Risk & Compliance function, responsible for the design and ownership of the operational & compliance Risk Policies. It incorporates key processes including Risk and Control Self-Assessment (RCSA), incident management, independent evaluation of the adequacy and effectiveness of the internal control framework, and the self-certification process.
- The third line of defence is audit. Internal Audit is responsible for assessing compliance with policy frameworks and for providing independent evaluation of the adequacy and effectiveness of the risk and control framework.

The 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 Group is consistent with the Groups risk appetite.

Foreign exchange rate risk

Foreign exchange risk is the risk that the Group’s earnings and shareholder equity position are adversely impacted from changes in foreign exchange rates. The Group has exposure to foreign exchange translation risks through its wholly owned subsidiary, ASF (which has a functional currency of Australian dollars), in the forms of profit translation risk and balance sheet translation risk.

Profit translation risk is the risk that deviations in exchange rates have a significant impact on the reported profit. Balance sheet translation risk is the risk that whilst the foreign currency value of the net investment in a subsidiary may not have changed, when translated back to the New Zealand dollars (NZD), the NZD value has changed materially due to movements in the exchange rates. The foreign exchange revaluation gains and losses are booked to the Foreign currency translation reserve. Substantial foreign exchange rate movements in any given year may have a impact on other comprehensive income. The Group manages this risk by setting and approving the foreign exchange rate for the upcoming financial year and entering into hedging contracts to manage the foreign exchange translation risks.

18 Credit risk exposure

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

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

To manage this risk the BRC has been delegated the task of overseeing a formal credit risk management strategy. The BRC reviews the Group's credit risk exposures to ensure consistency with the 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 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 Group's Credit Committee, for delegation through the business units under a detailed Delegated Lending Authority framework. Application of credit discretions in the business operation are monitored through a defined review and hindsight structure. Delegated Lending Authorities are provided to individual officers with due cognisance of their experience and ability. Larger and higher risk exposures require approval of senior management, the Credit Risk Committee and ultimately through to the BRC.

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

Home equity loans and negative equity risk

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

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

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

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

	Jun 15 $000	Jun 14 $000
Cash and cash equivalents	37,012	37,344
Investments	329,338	238,859
Finance receivables	2,862,070	2,607,393
Derivative financial assets	59	1,867
Other financial assets	5,546	6,134
Total on balance sheet credit exposures	**3,234,025**	**2,891,597**

18 Credit risk exposure (continued)

(b) Concentration of credit risk by geographic region

	Jun 15 $000	Jun 14 $000
New Zealand:		
Auckland	830,027	725,318
Wellington	206,818	196,992
Rest of North Island	788,904	668,629
Canterbury	494,848	482,159
Rest of South Island	424,828	380,814
Australia:		
Queensland	117,867	115,936
New South Wales	182,032	171,765
Victoria	83,213	79,041
Western Australia	17,396	14,456
South Australia	18,169	16,951
Rest of Australia	11,048	10,311
Rest of the world [1]	75,318	44,224
	3,250,468	**2,906,596**
Provision for collectively impaired assets	(10,201)	(6,999)
Less acquisition fair value adjustment for present value of future losses	(6,242)	(8,000)
Total on balance sheet credit exposures	**3,234,025**	**2,891,597**

[1] These overseas assets are not Finance Receivables, they are Investments. These assets represent NZD-denominated investments in AA+ and higher rated securities issued by offshore supranational agencies ("Kauri Bonds").

(c) Concentration of credit risk by industry sector

	Jun 15 $000	Jun 14 $000
Agriculture	537,286	469,020
Forestry and Fishing	35,126	22,301
Mining	14,105	11,148
Manufacturing	93,779	77,321
Finance & Insurance	377,318	291,223
Wholesale trade	82,665	80,884
Retail trade	193,862	171,019
Households	1,397,003	1,313,877
Property and Business services	396,939	330,860
Transport and storage	20,068	15,873
Other Services	102,317	123,070
	3,250,468	**2,906,596**
Provision for collectively impaired assets	(10,201)	(6,999)
Less acquisition fair value adjustment for present value of future losses	(6,242)	(8,000)
Total on balance sheet credit exposures	**3,234,025**	**2,891,597**

(d) Commitments to extend credit

Undrawn facilities available to customers	116,217	114,004
Conditional commitments to fund at future dates	108,037	95,780

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

19 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.

(a) Finance receivables by credit risk concentration

	NOTE	Corporate Rural $000	Corporate Property $000	Corporate Other $000	Residential $000	All Other $000	Total $000
Jun 15							
Neither at least 90 days past due nor impaired		553,739	-	884,942	837,063	553,502	2,829,246
At least 90 days past due	19(b)	17,904	286	13,384	655	2,746	34,975
Individually impaired	19(c)	1,562	6,854	16,982	224	-	25,622
Restructured assets		43	-	1,024	-	2,814	3,881
Fair value adjustment for present value of future losses	11	-	-	-	(6,242)	-	(6,242)
Provision for impairment	19(e)	(2,173)	(4,614)	(14,368)	(1,763)	(2,494)	(25,412)
Total net finance receivables		**571,075**	**2,526**	**901,964**	**829,937**	**556,568**	**2,862,070**
Jun 14							
Neither at least 90 days past due nor impaired		480,596	2,007	774,527	869,701	439,208	2,566,039
At least 90 days past due	19(b)	9,433	2,599	19,917	463	1,622	34,034
Individually impaired	19(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	11	-	-	-	(8,000)	-	(8,000)
Provision for impairment	19(e)	(2,114)	(5,744)	(7,275)	(57)	(1,171)	(16,361)
Total net finance receivables		**490,738**	**15,952**	**796,053**	**862,107**	**442,543**	**2,607,393**

(b) Past due but not impaired

	Corporate Rural $000	Corporate Property $000	Corporate Other $000	Residential $000	All Other $000	Total $000
Jun 15						
Less than 30 days past due	7,338	-	9,185	2,877	14,700	34,100
At least 30 and less than 60 days past due	3,752	-	3,434	491	3,984	11,661
At least 60 but less than 90 days past due	416	-	4,099	532	1,789	6,836
At least 90 days past due	17,904	286	13,384	655	2,746	34,975
Total past due but not impaired	**29,410**	**286**	**30,102**	**4,555**	**23,219**	**87,572**
Jun 14						
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**

19 Asset quality (continued)

(c) Individually impaired assets

	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 15						
Opening	2,818	17,090	7,709	-	-	27,617
Additions	1,072	700	32,707	227	-	34,706
Deletions	(1,651)	(10,375)	(23,117)	(3)	-	(35,146)
Write offs	(677)	(561)	(317)	-	-	(1,555)
Closing gross individually impaired assets	**1,562**	**6,854**	**16,982**	**224**	**-**	**25,622**
Less: provision for individually impaired assets	817	3,258	11,136	-	-	15,211
Total net impaired assets	**745**	**3,596**	**5,846**	**224**	**-**	**10,411**
Jun 14						
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**

(d) Credit risk grading

The 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 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.

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

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

The Group also lends funds on it's 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 Group typically finances new loans in risk grades 2 to 5 of the Judgement portfolio.

19 Asset quality (continued)

(d) Credit risk grading (continued)

	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 15						
Judgement portfolio						
Grade 1 - Very Strong	533	-	-	-	-	533
Grade 2 - Strong	8,019	-	30,113	2,480	-	40,612
Grade 3 - Sound	17,363	-	52,022	463	-	69,848
Grade 4 - Adequate	101,029	-	160,527	3,791	-	265,347
Grade 5 - Acceptable	343,645	-	259,241	5,315	-	608,201
Grade 6 - Monitor	49,276	286	50,162	125	-	99,849
Grade 7 - Substandard	3,484	-	11,453	-	-	14,937
Grade 8 - Doubtful	761	3,596	157	-	-	4,514
Grade 9 - At risk of loss	-	-	7,082	-	-	7,082
Total Judgement portfolio	**524,110**	**3,882**	**570,757**	**12,174**	**-**	**1,110,923**
Behavioural portfolio						
Not in arrears	47,208	-	324,995	821,357	530,204	1,723,764
Active	415	-	4,526	2,721	13,535	21,197
Arrangement	443	-	2,776	1,690	10,946	15,855
Non-performing / Repossession	201	-	1,266	-	1,620	3,087
Recovery	54	-	876	-	2,757	3,687
Total Behavioural portfolio	**48,321**	**-**	**334,439**	**825,768**	**559,062**	**1,767,590**
Provision for collectively impaired assets	(1,356)	(1,356)	(3,232)	(1,763)	(2,494)	(10,201)
Fair value adjustment for present value of future losses	-	-	-	(6,242)	-	(6,242)
Total finance receivables	**571,075**	**2,526**	**901,964**	**829,937**	**556,568**	**2,862,070**
Jun 14						
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	844,967	427,279	1,618,124
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**	**848,403**	**443,714**	**1,643,038**
Provision for collectively impaired assets	(583)	(2,005)	(3,183)	(57)	(1,171)	(6,999)
Fair value adjustment for present value of future losses	-	-	-	(8,000)	-	(8,000)
Total finance receivables	**490,738**	**15,952**	**796,053**	**862,107**	**442,543**	**2,607,393**

19 Asset quality (continued)

(e) Provision for impairment

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

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

Collective provisioning

The term collectively impaired asset refers to an asset where an event has occurred of which past history indicates that there is an increased possibility that the 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 Group provides fully for its expected losses on collectively impaired assets.

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

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

Individual provisioning

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

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

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

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

19 Asset quality (continued)

(e) Provision for impairment (continued)

	Rural	Corporate Property	Other	Residential	All Other	Total
	$000	$000	$000	$000	$000	$000
Jun 15						
Provision for individually impaired assets						
Opening provision for individually impaired assets	1,531	3,739	4,092	-	-	9,362
Impairment loss for the year						
- (credit) / charge for the year	(35)	349	6,892	-	-	7,206
- recoveries	-	-	669	-	-	669
- write offs	(677)	(561)	(317)	-	-	(1,555)
- effect of discounting	(2)	(269)	(200)	-	-	(471)
Closing provision for individually impaired assets	**817**	**3,258**	**11,136**	**-**	**-**	**15,211**
Provision for collectively impaired assets						
Opening provision for collectively impaired assets	583	2,005	3,183	57	1,171	6,999
Impairment loss for the year						
- charge / (credit) for the year	775	(691)	537	1,706	2,572	4,899
- recoveries	-	42	168	-	3	213
- write offs	(2)	-	(656)	-	(1,252)	(1,910)
Closing provision for collectively impaired assets	**1,356**	**1,356**	**3,232**	**1,763**	**2,494**	**10,201**
Total provision for impairment	**2,173**	**4,614**	**14,368**	**1,763**	**2,494**	**25,412**
Jun 14						
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**

20 Liquidity risk

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

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

The 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 Group in terms of the mix of assets and liabilities given its expectations of future cash flows, liquidity constraints and capital adequacy. The Group employs asset and liability cash flow modelling to determine appropriate liquidity and funding strategies.

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

	Jun 15	Jun 14
	$000	$000
Cash and cash equivalents	37,012	37,344
Investments	322,619	238,859
Undrawn committed bank facilities	130,188	173,800
Total liquidity	**489,819**	**450,003**

The Group has securitised bank facilities of $350 million (2014: $400 million) in relation to the ABCP Trust, which matures on 3 February 2016 and CBA bank facilities of $507 million (2014: $560 million) in relation to the ASF Group maturing on 30 September 2019.

20 Liquidity risk (continued)

Contractual liquidity profile of financial assets and liabilities

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

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

It should be noted that the Group does not manage its liquidity risk on the basis of the information below.

	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 15							
Cash and cash equivalents	37,012	-	-	-	-	-	37,012
Investments	-	27,039	47,376	35,801	237,409	19,852	367,477
Finance receivables	-	544,745	334,438	501,222	841,869	3,291,828	5,514,102
Finance receivables - securitised	-	87,168	68,824	92,675	66,949	-	315,616
Derivative financial assets	-	59	-	-	-	-	59
Other financial assets	-	5,546	-	-	-	-	5,546
Total financial assets	**37,012**	**664,557**	**450,638**	**629,698**	**1,146,227**	**3,311,680**	**6,239,812**
Borrowings	746,637	1,187,234	424,928	130,242	137,587	-	2,626,628
Borrowings - securitised	-	5,215	260,964	-	-	-	266,179
Derivative financial liabilities	-	6,407	-	-	-	-	6,407
Other financial liabilities	1,695	20,594	267	522	-	-	23,078
Total financial liabilities	**748,332**	**1,219,450**	**686,159**	**130,764**	**137,587**	**-**	**2,922,292**
Net financial (liabilities) / assets	**(711,320)**	**(554,893)**	**(235,521)**	**498,934**	**1,008,640**	**3,311,680**	**3,317,520**
Unrecognised loan commitments	116,217	-	-	-	-	-	116,217
Undrawn committed bank facilities	130,188	-	-	-	-	-	130,188

Undrawn committed bank facilities of $90.0 million (2014: $170.0 million) were available to be drawn down on demand. To the extent drawn, $90.0 million is contractually repayable in 6-12 months' time upon facility expiry. The remaining undrawn committed bank facilities of $40.2 million (2014: $3.8 million) were available to ASF Group to fund new home equity release finance receivables.

	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 14							
Cash and cash equivalents	37,344	-	-	-	-	-	37,344
Investments	12,910	4,382	62,301	80,564	81,878	20,837	262,872
Finance receivables	-	403,974	250,028	374,431	726,524	2,938,811	4,693,768
Finance receivables - securitised	-	60,833	55,235	90,552	83,911	30	290,561
Derivative financial assets	-	1,867	-	-	-	-	1,867
Other financial assets	-	6,134	-	-	-	-	6,134
Total financial assets	**50,254**	**477,190**	**367,564**	**545,547**	**892,313**	**2,959,678**	**5,292,546**
Borrowings	615,862	737,055	306,974	101,548	148,395	567,509	2,477,343
Borrowings - securitised	-	4,765	230,984	-	-	-	235,749
Derivative financial liabilities	-	126	92	179	521	3,262	4,180
Other financial liabilities	13,263	6,183	-	-	-	-	19,446
Total financial liabilities	**629,125**	**748,129**	**538,050**	**101,727**	**148,916**	**570,771**	**2,736,718**
Net financial (liabilities) / assets	**(578,871)**	**(270,939)**	**(170,486)**	**443,820**	**743,397**	**2,388,907**	**2,555,828**
Unrecognised loan commitments	114,004	-	-	-	-	-	114,004
Undrawn committed bank facilities	173,800	-	-	-	-	-	173,800

The undrawn committed bank facilities totalling $170.0 million were available to be drawn down on demand. To the extent drawn, $170.0 million is contractually repayable in 6-12 months' time upon facility expiry. The remaining undrawn committed bank facilities of $3.8 million were available to ASF Group to fund new home equity release finance receivables.

21 Interest rate risk

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

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

The 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 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 Group measures sensitivity to interest rate changes by frequently testing its position against various interest rate change scenarios to assess potential risk exposure. The 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.

Contractual Repricing Analysis

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

	0-3 Months $000	3-6 Months $000	6-12 Months $000	1-2 Years $000	2+ Years $000	Non-interest bearing $000	Total $000
Jun 15							
Cash and cash equivalents	36,928	-	-	-	-	84	37,012
Investments	137,742	1,938	25,797	14,410	142,732	6,719	329,338
Finance receivables	1,962,329	87,889	149,239	204,142	180,427	430	2,584,456
Finance receivables - securitised	40,193	35,548	60,778	83,434	57,661	-	277,614
Other financial assets	59	-	-	-	-	5,546	5,605
Total financial assets	**2,177,251**	**125,375**	**235,814**	**301,986**	**380,820**	**12,779**	**3,234,025**
Borrowings	1,529,593	375,635	411,061	119,351	130,975	-	2,566,615
Borrowings - securitised	258,630	-	-	-	-	-	258,630
Other financial liabilities	8,102	-	250	503	-	20,594	29,449
Total financial liabilities	**1,796,325**	**375,635**	**411,311**	**119,854**	**130,975**	**20,594**	**2,854,694**
Effect of derivatives held for risk management	250,699	(25,355)	(46,365)	(88,039)	(90,940)	-	-
Net financial assets/(liabilities)	**631,625**	**(275,615)**	**(221,862)**	**94,093**	**158,905**	**(7,815)**	**379,331**
Jun 14							
Cash and cash equivalents	37,004	-	-	-	-	340	37,344
Investments	126,585	2,039	29,379	32,608	48,248	-	238,859
Finance receivables	1,781,120	83,718	137,484	182,307	175,355	2,571	2,362,555
Finance receivables - securitised	43,043	30,518	51,819	71,827	47,631	-	244,838
Other financial assets	1,867	-	-	-	-	6,134	8,001
Total financial assets	**1,989,619**	**116,275**	**218,682**	**286,742**	**271,234**	**9,045**	**2,891,597**
Borrowings	1,556,658	328,448	282,156	66,726	61,849	-	2,295,837
Borrowings - securitised	228,623	-	-	-	-	-	228,623
Other financial liabilities	4,680	-	-	-	-	18,946	23,626
Total financial liabilities	**1,789,961**	**328,448**	**282,156**	**66,726**	**61,849**	**18,946**	**2,548,086**
Effect of derivatives held for risk management	252,411	(22,550)	(40,925)	(64,025)	(124,911)	-	-
Net financial assets/(liabilities)	**452,069**	**(234,723)**	**(104,399)**	**155,991**	**84,474**	**(9,901)**	**343,511**

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 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 Statement of Cash Flows from a 100 basis point change in interest rates.

22 Concentrations of funding

		Jun 15 $000	Jun 14 $000
(a)	**Concentration of funding by industry**		
	Finance	790,137	818,543
	Other	2,035,108	1,705,917
	Total borrowings	**2,825,245**	**2,524,460**

(b) Concentration of funding by geographical area

Auckland	441,921	453,168
Wellington	384,344	202,829
Rest of North Island	472,167	376,495
Canterbury	772,689	687,168
Rest of South Island	206,563	168,442
Overseas [1]	547,561	636,358
Total borrowings	**2,825,245**	**2,524,460**

[1] Included in Overseas funding is the CBA bank facility totalling $466 million, refer to Note 13 - Borrowings for more information.

Other Disclosures

23 Significant subsidiaries and interests in joint arrangements

As at 30 June 2015 the Group includes the following controlled entities.

Significant subsidiaries / Joint arrangements	Country of incorporation and place of business	Nature of business	Proportion of ownership interest and voting power held Jun 15	Jun 14
Heartland Bank Limited (Bank)	New Zealand	Financial services	100%	100%
VPS Properties Limited	New Zealand	Investment property holding company	100%	100%
Heartland HER Holdings Limited (HHHL) [1]	New Zealand	Holding company	100%	100%
New Sentinel Limited (NSL) [1]	New Zealand	Financial services	100%	100%
Australian Seniors Finance Pty Limited (ASF) [1]	Australia	Financial services	100%	100%
MARAC Insurance Limited [2]	New Zealand	Insurance services	50%	50%

[1] On 13 February 2014 Heartland HER Holdings Limited was incorporated. On 1 April 2014 Heartland acquired New Sentinel Limited and Australian Seniors Finance Pty Limited from Seniors Money International Limited.

[2] On 17 July 2015, MARAC Insurance Limited was acquired in full. Refer to Note 29 - Events after reporting date.

24 Structured entities

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

(a) Heartland Cash and Term PIE Fund

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

	Jun 15 $000	Jun 14 $000
Deposits	45,110	38,819

24 Structured entities (continued)

(b) ABCP Trust

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

The 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 financial statements, the loans sold to the Trusts are set aside for the benefit of investors in the Trusts. The securitised balances are represented as follows:

	NOTE	Jun 15 $000	Jun 14 $000
Cash and cash equivalents - securitised		5,553	5,421
Finance receivables - securitised	11	277,614	244,838
Borrowings - securitised	13	(258,630)	(228,623)
Derivative financial asset - securitised		59	1,768
Derivative financial liabilities - securitised		(1,995)	-

(c) Seniors Warehouse Trust (SW Trust) and ASF Settlement Trust (ASF Trust)

SW Trust and ASF Trust form part of ASF's home equity release business. They were both set up by ASF, as asset holding entities. The Trustee for both Trusts is ASF Custodians Pty Limited and the Trust Manager is ASF. The balances of SW Trust and ASF Trust are represented as follows:

	Jun 15 $000	Jun 14 $000
Cash and cash equivalents	1,207	846
Finance receivables - Home equity release loans	424,445	405,523
Borrowings - CBA	(372,333)	(364,335)
Derivative financial liabilities	(3,608)	(4,147)

25 Joint arrangements

At 30 June 2015, the Group owned 50% of MARAC Insurance Limited through Marac JV Holdings Limited. The Group determined that this joint arrangement was a joint venture. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

Investments in joint ventures are accounted for by the Group using the equity method and are recognised initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

	Jun 15 $000	Jun 14 $000
Carrying amount at beginning of year	4,246	4,320
Dividends received from joint venture	-	(560)
Share of joint arrangement profit	137	486
Carrying amount at end of year	**4,383**	**4,246**
Total comprehensive income from joint venture	949	972

On 17 July 2015, the Group acquired the remaining 50% of MARAC Insurance Limited. During the year ended 30 June 2015 the Group has recognised a provision for the write down of the carrying value of MARAC Insurance Limited of $339,000. This write down is reflected in the share of joint arrangement profit above.

26 Staff share ownership arrangements

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

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

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

The fair value determined at the grant date of the equity settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the 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.

26 Staff share ownership arrangements (continued)

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

	Jun 15 $000	Jun 14 $000
Equity settled		
Total amount recognised in equity	1,491	678
Cash settled		
Total amount recognised as an expense	1,555	326
Liability recognised	-	676

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

(a) Equity settled

Heartland LTI Net Share Settled Plan (LNSSP)

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

2015 tranche - Special Grant

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

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

2013 and 2014 tranches

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

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

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

26 Staff share ownership arrangements (continued)

(a) Equity settled (continued)

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

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

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

Heartland LTI Cash Entitlements Plan (LCEP)

Under the LCEP, participants were granted a cash entitlement. This cash entitlement is based on the amount by which the market price of Heartland shares at a future date exceeds an agreed reference price (no payment is made in the event that the market price of Heartland shares at that future date is lower than the reference price). Cash entitlements based on a reference pool of 5.65 million shares were issued in the year ending 30 June 2013 at a reference price of $0.72 per share. The cash entitlements plan was closed during the year at a share price of $1.20.

(b) *Cash settled*

Heartland Long Term Executive Share Plan (LTESP)

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

27 Contingent liabilities and commitments

	Jun 15 $000	Jun 14 $000
Letters of credit, guarantees and performance bonds	14,844	6,329
Total contingent liabilities	**14,844**	**6,329**
Undrawn facilities available to customers	116,217	114,004
Conditional commitments to fund at future dates	108,037	95,780
Total commitments	**224,254**	**209,784**

28 Application of new and revised accounting standards

(a) New standards and interpretations adopted

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

NZ IAS 32 Financial Instruments: Presentation
Clarifies certain aspects of offsetting financial assets and liabilities because of diversity in the application of the requirements of offsetting. Its adoption did not have a material impact on the financial statements.

(b) New standards and interpretations not yet adopted

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

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

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

29 Events after the reporting date

On 17 July 2015, the Group acquired the remaining 50% of MARAC Insurance Limited. During the year ended 30 June 2015 the Group has recognised a provision for the write down of the carrying value of MARAC Insurance Limited of $339,000. Going forward MARAC Insurance's results will be consolidated and will form part of the Group.

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 Group.

Independent auditor’s report

To the shareholders of Heartland New Zealand Limited

We have audited the accompanying consolidated financial statements of Heartland New Zealand Limited and its subsidiaries ("the group") on pages 3 to 39. The consolidated financial statements comprise the statement of financial position as at 30 June 2015, the statement 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.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group’s preparation and fair presentation of the consolidated financial statements 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 group's internal control. 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 consolidated 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 also provided other services to the group in relation to other assurance services, general accounting services and advisory services. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Opinion

In our opinion, the consolidated financial statements on pages 3 to 39 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Heartland New Zealand Limited as at 30 June 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

18 August 2015
Auckland