Interim Report

For the six months ended 31 December 2014

HEARTLAND
New Zealand Limited

Contents

	PG
Chairman and Managing Director's Report	4
Pūrongo Tīpoka a te Toihau me te Tumu Whakahaere	8
Directors' Responsibility Statement	11
Interim Financial Statements	12
Notes to the Interim Financial Statements	17
Auditor's Review Report	29
Directory	31

Chairman and Managing Director's Report

Heartland has delivered a strong first half performance, with core asset growth driving a net profit after tax (**NPAT**) of $23.5m for the half year ended 31 December 2014 (the **current reporting period**), up 41% from the previous corresponding half year ended 31 December 2013 (the **previous corresponding period**). It is encouraging to see the execution of our core business strategy successfully translate into increased earnings. This strategy is to operate in niche markets where we can be the leading provider of specialist products.

Geoffrey Ricketts
Chairman

Jeffrey Greenslade
Managing Director

We are well positioned to deliver on our objectives for this financial year to increase NPAT through asset growth and to improve return on equity. Earnings for the half year resulted in a return on equity of 10.2%. This is up from approximately 9.0% for the full year ended 30 June 2014.

In addition to our strong financial performance for the half year, we achieved a number of significant milestones. The credit rating for Heartland Bank Limited (**Heartland Bank**) was upgraded to BBB (outlook stable) during the half year with Fitch Ratings citing the bank's improved asset quality and improved earnings as key contributors to the upgrade.

Our continued focus on strategic additions to the Heartland group led to the acquisition of a 10% shareholding in Harmoney Corp Limited (**Harmoney**), New Zealand's first and only licensed peer to peer lender. Harmoney's online peer to peer platform matches investors with borrowers seeking personal loans, minimising the cost of financial intermediation and passing the benefit on to the customer. Peer to peer lending has experienced strong growth in the USA and the United Kingdom and has more recently been established in Australia.

The decision by the Reserve Bank of New Zealand to reduce the regulatory capital requirements of Heartland Bank as from 31 January 2015 signalled a positive start to the second half of the financial year. Heartland Bank's regulatory capital ratios are now aligned with the other New Zealand banks, representing a significant endorsement of our progress since achieving bank registration in December 2012.

Financial Performance at a Glance

	6 months to Dec 2014 (NZ$m)	6 months to Dec 2013 (NZ$m)	12 months to Jun 2014 (NZ$m)
Net interest income	65.7	52.4	109.1
Net other income	4.6	6.7	13.5
Net operating income *	**70.3**	**59.1**	**122.6**
Expenses	33.5	32.4	64.7
Profit before impairments and tax	**36.8**	**26.7**	**57.9**
Impaired asset expense	5.1	3.3	5.9
Decrease in fair value of investment properties	-	-	1.2
Net profit before tax	**31.7**	**23.4**	**50.8**
Tax	8.2	6.7	14.8
Net profit after tax (reported)	**23.5**	**16.7**	**36.0**

*Net operating income includes share of MARAC Insurance profit

Key Highlights

- Half year profit of $23.5m, an increase of 41% from the previous corresponding period
- Increase in profit forecast from $42.0m-$45.0m to $46.0m-$48.0m for the full year ending 30 June 2015
- Interim dividend of 3.0 cents per share to be paid on 2 April 2015
- Credit rating upgrade for Heartland Bank to BBB (outlook stable)
- Acquisition of a 10% shareholding in Harmoney, New Zealand's first and only licensed peer to peer lender
- Reduction of Heartland Bank's regulatory capital requirements by the Reserve Bank of New Zealand which brings us in line with the other New Zealand banks

Business Performance

The first half of the 2015 financial year saw us achieve excellent growth in the Business and Rural divisions. In the Business division, this growth was driven by providing the right product mix to serve our customers' long term capital investment requirements as well as their short term working capital needs. We are continuing to differentiate ourselves through superior relationship management, delivering multiple products through a single relationship manager and bringing a strong focus on our customers' business needs and growth aspirations.

In the Rural division, growth was achieved through the continued development of specialist products and building on the strength of our distribution channels. Livestock finance is just one example of our specialist product strategy, enabling farmers to purchase livestock by way of a loan secured against the livestock itself, rather than farm assets. Our livestock finance offering provides the customer with a fast and straightforward transaction, connection to our distribution partners and reduced reliance on the mainstream banks.

Excellent growth was also achieved in the Consumer business (motor vehicle loans), building on our strong intermediary network. The Consumer business is part of our Household division which also comprises the Seniors Finance (home equity release) business and the non-core residential mortgage book. The Seniors Finance business has now been fully integrated following completion of the acquisition in April 2014 and the business contributed well to our earnings in the half year. Our focus for the Seniors Finance business is now firmly on growth. This will be facilitated in part by the general repositioning of Heartland Bank's branch network as a sales focused channel. We are underway with development of a new look and feel for the branch network in order to drive sales activity.

We are continuing to reduce the residential mortgage book as we execute our strategy to shift our product mix to segments where we can provide a market leading product for customers whose requirements are not being met by the mainstream banks. We have also made significant progress in reducing our legacy non-core property assets and remain confident that future earnings will not be impacted by the realisation of these assets.

Growth Strategy

Our focus for the second half of the financial year will be to build on the growth momentum in our core business in the Household, Business and Rural divisions. The Household division will be a significant growth area for the business going forward as we continue to identify market segments where increasing customer demands for choice and flexibility are not currently being met. We will meet these demands with existing and new specialist products.

A key focus area within the Household division will be the consumer finance market. Our product offering will be expanded in this market to provide products to customers who are currently under-banked by the mainstream banks. New technology will play an increasingly significant role in our consumer finance strategy as we continue to see customers seeking more convenient and personalised alternatives.

In the Household division, we are also seeking to grow our Seniors Finance product offering in both New Zealand and Australia. Initiatives are currently being implemented to accelerate this growth. We are targeting increased awareness of the product through a new advertising campaign which will be launched in New Zealand in the final quarter of the financial year and in Australia later in the calendar year. The distribution strategies for both New Zealand and Australia are being strengthened in order to extend our reach to the target demographic.

In the Business and Rural divisions, we will continue to execute our strategy to provide innovative product solutions for our customers and identify further niche opportunities where we can develop a dominant market position. Specialist products such as livestock financing and invoice financing will continue to be promoted. The Rural division will also continue its focus on providing tailored solutions for Sharemilkers, helping young New Zealand farmers into the business of dairy farming. Our pipeline of new business opportunities in the Business and Rural divisions is strong and further growth is expected in the second half of the year.

Industry Observations

At a global level, the banking industry is paying increasing attention to the potential threat of disruptors entering the market, particularly those offering new digital delivery methods. Peer to peer lenders

Chairman and Managing Director's Report

Continued

such as Harmoney are an excellent example of using new technology to drive structural changes in the financial services industry. Although digital disruptors may not make a significant impact on New Zealand banks in the short term, they will force the industry incumbents to reconsider their business and digital strategies moving forward.

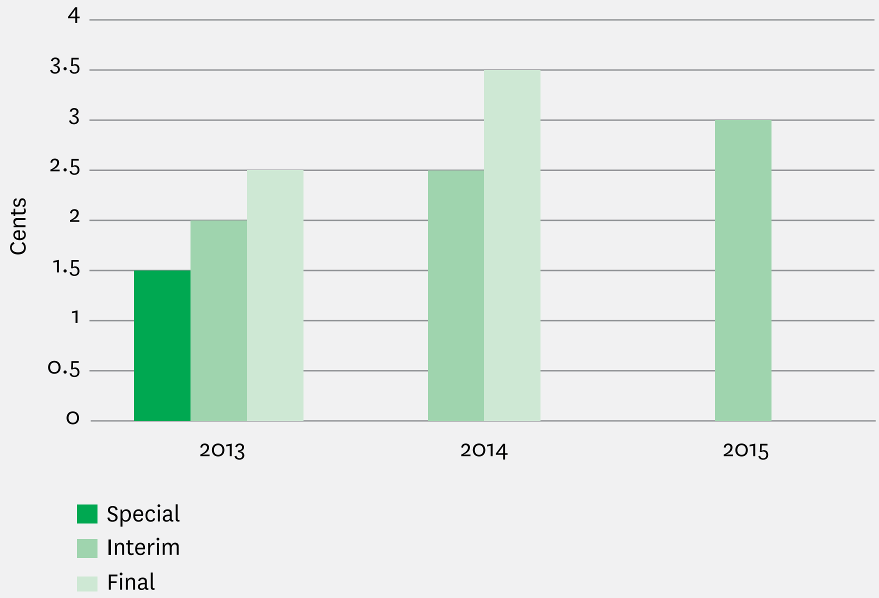
Our focus on the development of digital solutions has heightened and we believe we are well positioned to take advantage of the increasing opportunities, being a smaller and more agile financial services provider. We recently acquired a small shareholding in Ora HQ Limited, a New Zealand based company which assists SMEs to run and grow their business using innovative, cloud based software to deliver business insights. We are open to making further investments in areas which offer technology or distribution opportunities.

We have also commenced implementation of a new core banking system to rationalise our existing infrastructure and increase efficiencies. Oracle has been selected to roll out the new core banking system which will provide scalable and flexible solutions and reduce ongoing cost and complexity.

Increased regulation also remains a key issue for banks, both globally and in New Zealand. Capital adequacy is one such area that is likely to impact banks in New Zealand due to both regulatory review of capital adequacy generally and the potential for the Reserve Bank of New Zealand to require banks to hold greater levels of capital for particular types of lending. An example of this is the consultation currently taking place regarding separate capital requirements for loans to residential property investors.

The impact of increased regulation, together with the emergence of new technology, will drive the mainstream banks to clearly define their core market segments and align their strategy to those segments in order to remain competitive. These trends create a real opportunity for Heartland, enabling us to capture market share in segments that the mainstream

Dividends



banks are vacating. With investment in technology by the mainstream banks being strongly focused on their core products, an opportunity also exists for us to identify and meet the technology demands of market segments in which the mainstream banks are not operating.

Interim Dividend

The Board has resolved to pay a fully imputed interim dividend of 3.0 cents per share on 2 April 2015 to shareholders on the company's register as at 5.00pm on 19 March 2015.

The Dividend Reinvestment Plan (**DRP**) was available and a discount of 1% was applied. The last date of receipt for a participation election from a shareholder who wished to participate in the DRP was 19 March 2015. For further information, please refer to the Dividend Reinvestment Plan Offer Document dated 12 December 2014.

Outlook

Over the past four years, we have consolidated our business and achieved key strategic milestones. We have now reached a turning point. We are beginning the next phase of our evolution and our sights are set firmly on growth. We are currently reviewing our strategic direction and long term growth strategy which will lay the foundation for the next three years. We will be engaging with our stakeholders in the coming months following completion of this review.

For the current financial year, we are confident that we will achieve our forecast NPAT of $46.0m to $48.0m. Strong asset growth is expected to continue for the remainder of the financial year as we continue to develop new initiatives to achieve and maintain a leading position in our core markets. We will continue our focus on new product development, particularly in the Household division where we believe significant opportunities are available to leverage our existing customer base and grow market share with new customers whose requirements are not being met by the mainstream banks. Our aim is to strengthen our market position as a logical alternative for customers seeking flexible and personalised alternatives in under-serviced market segments in New Zealand and Australia.

Geoffrey Ricketts
Chairman

Jeffrey Greenslade
Managing Director

Pūrongo Tīpoka a te Toihau me te Tumu Whakahaere

Chairman and Managing Director's Report

Executive Summary

Geoffrey Ricketts
Chairman

Jeffrey Greenslade
Managing Director

As part of our commitment to the promotion of te reo Māori, one of New Zealand's official languages, we have provided a Māori translation for an Executive Summary of our Chairman and Managing Director's Report. We wish to thank Scotty Morrison for providing the translation.

Kua kaha te whai hua a Heartland i tēnei haurua tau nei, nā te pai o te tipu o ngā rawa taketake, e $23.5m te pūtea tōopu muri take mō te haurua tau i mutu mai rā i te 31 Hakihea 2014, he pikinga 41% tērā i te haurua tau i mutu mai rā i te 31 Hakihea 2013. He koanga ngākau te kite atu i te whakatinanatanga o tā tātou rautaki pakihi, arā, i te pikinga o te uara o te tahua pūtea. Ko te ngako o te rautaki, he whai mākete kokoru kia tū ai tātou hei mana mātāmua mō te hoko rawa ahurei.

Kei te wāhi tika tātou e tutuki ai ā tātou whāinga mō tēnei tau pūtea, arā, te whakapiki i te mā te whakatipu rawa kia ekea ai te tūtangatanga. Nā te pai o te kohi pūtea i tēnei haurua tau, i whai ai i te tūtangatanga 10.2% te uara. He pikinga tērā i te 9.0% mō katoa o te tau i mutu mai rā i te 30 Pipiri 2014.

Tāpiri atu ki tō tātou angitū-ā-pūtea i tēnei haurua tau, he whāinga anō i tutuki. I piki te mana tuku pūtea taurewa o Heartland Bank Limited ki te taumata BBB (tirohanga pakari) i tēnei haurua tau, ā, e ai ki a Fitch Ratings, nā te kaha o tō tātou whare tahua ki te whakatipu rawa me te whakatoopu pūtea i piki ai.

Nā te aronga nui kia hoko rawa hei painga mō Heartland group, i riro mai ai te 10% o Harmoney Corp Limited, te umanga tuatahi, kotahi anake hoki o Aotearoa kia whai raihana ki te tuku pūtea taurewa ki ngā mātanga pakihi. Kei a Harmoney's tētahi tūāpapa e whakahonohono ana i nga kaiwhakangao pūtea me ngā kaitono pūtea taurewa, ā, mā reira e māmā ake ai te utu mō ngā kaitakawaenga pūtea, me te aha, nō ngā kiritaki te whiwhi. Kua tino whanake ake te mahi tuku pūtea taurewa i waenganui i ngā mātanga pakihi i roto o Amerika me Uropi, ā, kātahi anō ka timata ki Ahitereiria.

Nā te whakatau a te Whare Tahua Whirinaki o Aotearoa kia whakaitia ngā whakaritenga haupū rawa a Heartland Bank, atu i te 31 Kohitātea 2015, kua pai te timatanga o te haurua tuarua o te tau pūtea. Ināianei, e rite ana ngā taupāpātanga haupū rawa a te Heartland Bank ki ērā atu whare tahua o Aotearoa, me te aha, he whakamiha nui tērā i tō tātou whanaketanga, mai i te wā i whai mana ai tātou hei whare tahua i te tau 2012.

Rautaki Whakatipu

Ko tō tātou aronganui tonu mō te haurua tuarua o tēnei tau pūtea, ko te tāuwhiuwhi tonu i te tipuranga mai o ā tātou mahinga taketake ake i roto i ngā rāngai Whare, Pakihi me te Ahuwhenua. Ka tino tipu te rāngai whare hei painga anamata mō tātou, hēoi anō tā tātou, he tohu tonu i ngā wāhanga o te mākete kāore e whakatutuki ana i te hiahia nui o ngā kiritaki kia whānui, kia maha hoki ngā kōwhiringa. Mā ā tātou rauemi o te wā me ā tātou rauemi hōu e tutuki ai taua hiahia.

Ko tētahi āhuatanga matua e aronuihia ana i roto i te rāngai whare, ko te tuku pūtea taurewa ki ngā kaihoko. Ka whakarewa kaupapa tātou ki tērā wāhanga o te mākete kia whai kōwhiringa anō ai ngā kiritaki kāore e tino tiakina ana e ngā whare tahua auraki. Ko ngā hangarau hōu o te wā hei whakapakari i tā tātou rautaki mō ngā pūtea taurewa kiritaki, i ngā kiritaki e hahau ake nei i ngā kōwhiringa māmā ake, hāngai ake.

I te rāngai whare, e ngana ana tātou ki te whakawhānui ake i tā tātou kaupapa taurewa mātāmua ki roto o Aotearoa me Ahitereiria. He rautaki kei te whakatūria i tēnei wā tonu nei, hei whakahohoro ake i te whanaketanga o tēnei kaupapa. Hei te hauwhā whakamutunga o tēnei tau pūtea ki Aotearoa, otirā, hei te mutunga o tēnei tau hoki ki Ahitereiria, whakaterehia ai he whakatairanga kia rongo ai te marea mō tēnei kaupapa. Kei te whakapakaringia ngā tikanga tītaritari ki Aotearoa me Ahitereiria kia tae atu ai te kaupapa ki te whakapaparanga e arohia ana.

Ko te aronga nui i roto i ngā rāngai Pakihi, Ahuwhenua hoki, ko te kōkiri tonu i tā tātou rautaki kia whangai tonu i ā tātou kiritaki ki ngā whakaaro, ngā rauemi me ngā rautaki auaha, otirā, ko te tohu kokoru hōu hoki kei roto i aua rāngai kia piki ai tō tātou mana ki roto i aua mākete. Ka kōkirihia tonutia ngā kaupapa me ngā rauemi ahurei, pērā i te pūtea taurewa hei hoko kararehe me te tuku puka taurewa. I roto i te rāngai ahuwhenua, ka haere tonu tā tātou whakatū kaupapa e hāngai pū ana ki ngā Ringa Miraka Kau, hei awhina i ngā kaiahuwhenua rangatahi o Aotearoa ki te whakarewa ake i ā rātou pakihi miraka kau. E kaha ana tā tātou whai pakihi angitū hōu i roto i te rāngai Pakihi me te rāngai Ahuwhenua, ā, ko te whakapae ia, ka tino kitea ngā hua hei te haurua tuarua o te tau.

Tirohanga Whakamua

I roto i ngā tau e whā nei, kua oti tā tātou pakihi te whakapakari me ā tātou whāinga matua te whakatutuki. Kua tae nei tātou ki tētahi poutama hōu. Kei te whakarewahia te wāhanga hōu o tā tātou whanaketanga, ana, ko te tipu matomato te whai. I tēnei wā, kei te arohaehaengia te rautaki whakamua me te rautaki tipu ki anamata ka noho nei hei tūāpapa mō tātou i ngā tau e toru e tū nei. Ka whakapā atu ki te hunga whai pānga mai hei ēnei marama nei, kia mutu rā te arohaehae.

Mō tēnei tau pūtea, e tino whakapono ana ka tutuki tā tātou whakapae kia $46.0m ki te $48.0m te pūtea toopu mō te tau ka mutu hei te 30 Pipiri 2015. E whakapono ana anō hoki, ka tūperepre tonu te tipu o ngā rawa, tae noa atu ki te mutunga o tēnei tau pūtea, i a tātou ka waihanga tonu nei i ētahi kaupapa hōu kia toitū tonu ai tō tātou mana ki roto i ā tātou mākete taketake. Ka aro nui tonu ki te waihanga kaupapa hōu, inā rā hoki, mā te rāngai whare, nā te meā, kei reira ngā pārekereke e tipu ai ā tātou kiritaki, otirā, e tipu ai hoki ā tātou hea mākete i te hononga mai o ngā kiritaki hōu e hōhā ana ki ngā whare tahua auraki. Ko te whāinga mātuatua, he whakapakari i tā tātou tū i roto i te mākete, hei kōwhiringa tūturu anō mā ngā kiritaki e kimi ana i ngā kaupapa ka taea te whakarīroi, otirā, e hāngai ana ki a rātou i ngā mākete ki Aotearoa me Ahitereiria.

Congratulations to our Heartland legal team who were awarded Banking and Finance In-House Team of the Year at the New Zealand Law Awards held in November 2014. From left to right, Laura Byrne, Rochelle Moloney, Kate Theilman and Anna-Lisa Strain.

Directors' Responsibility Statement

The directors are responsible for ensuring that the interim financial statements give a true and fair view of the financial position of Heartland New Zealand Limited (Company) and its subsidaries and joint venture (Group) as at 31 December 2014 and the financial performance and cash flows for the six months ended 31 December 2014.

The directors consider that the interim financial statements of the Group have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates and that all the 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 interim financial statements with the NZX Main Board Listing Rules.

The Board of Directors of Heartland New Zealand Limited authorised the interim financial statements set out on pages 13 to 28 for issue on 23 February 2015.

For and on behalf of the Board

Geoffrey Ricketts
Chairman

Jeffrey Greenslade
Managing Director

Interim Financial Statements

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2014

	NOTE	Unaudited 6 mths to Dec 2014 $000	Unaudited 6 mths to Dec 2013 $000	Audited 12 mths to Jun 2014 $000
Interest income	7	128,252	100,500	210,297
Interest expense	7	62,577	48,114	101,221
Net interest income		**65,675**	**52,386**	**109,076**
Operating lease income		5,431	6,781	13,348
Operating lease expenses		3,607	3,937	7,709
Net operating lease income		**1,824**	**2,844**	**5,639**
Lending and credit fee income		1,623	1,195	2,469
Other income		987	2,528	4,971
Net operating income		**70,109**	**58,953**	**122,155**
Selling and administration expenses	8	33,523	32,417	64,739
Profit before impaired asset expense and income tax		**36,586**	**26,536**	**57,416**
Impaired asset expense	9	5,102	3,325	5,895
Decrease in fair value of investment properties		-	-	1,203
Operating profit		**31,484**	**23,211**	**50,318**
Share of equity accounted investee's profit		205	195	486
Profit before income tax		**31,689**	**23,406**	**50,804**
Income tax expense		8,171	6,680	14,765
Profit for the period		**23,518**	**16,726**	**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		(1,050)	922	1,111
Net change in available for sale reserve, net of income tax		97	106	(12)
Movement in foreign currency translation reserve, net of income tax		(1,287)	-	95
Items that will not be reclassified to profit or loss:				
Net change in defined benefit reserve, net of income tax		(16)	85	3
Other comprehensive (loss) / income for the period, net of income tax		**(2,256)**	**1,113**	**1,197**
Total comprehensive income for the period		**21,262**	**17,839**	**37,236**
Earnings per share from continuing operations				
Basic earnings per share	10	5c	4c	9c
Diluted earnings per share	10	5c	4c	9c

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

The notes on pages 17 to 28 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2014

	NOTE	Share capital $000	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
Unaudited - December 2014									
Balance at 1 July 2014		**405,216**	**1,476**	**95**	**272**	**44**	**1,157**	**44,362**	**452,622**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	23,518	23,518
Total other comprehensive income		-	-	(1,287)	97	(16)	(1,050)	-	(2,256)
Total comprehensive income for the period		**-**	**-**	**(1,287)**	**97**	**(16)**	**(1,050)**	**23,518**	**21,262**
Contributions by and distributions to owners									
Dividends paid	11	-	-	-	-	-	-	(16,374)	(16,374)
Share based payments		-	1,023	-	-	-	-	-	1,023
Treasury shares sold		42	-	-	-	-	-	-	42
Shares vested		411	(411)	-	-	-	-	-	-
Dividends reinvested	15	3,735	-	-	-	-	-	-	3,735
Total transactions with owners		**4,188**	**612**	**-**	**-**	**-**	**-**	**(16,374)**	**(11,574)**
Balance at 31 December 2014		**409,404**	**2,088**	**(1,192)**	**369**	**28**	**107**	**51,506**	**462,310**
Unaudited - December 2013									
Balance at 1 July 2013		**192,020**	**629**	**-**	**284**	**41**	**46**	**177,522**	**370,542**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	16,726	16,726
Total other comprehensive income		-	-	-	106	85	922	-	1,113
Total comprehensive income for the period		**-**	**-**	**-**	**106**	**85**	**922**	**16,726**	**17,839**
Contributions by and distributions to owners									
Dividends paid	11	-	-	-	-	-	-	(9,703)	(9,703)
Share based payments		-	651	-	-	-	-	-	651
Shares vested		88	(88)	-	-	-	-	-	-
Effect of amalgamation of subsidiaries	2(c)	149,269	-	-	-	-	-	(149,269)	-
Dividends reinvested	15	3,181	-	-	-	-	-	-	3,181
Total transactions with owners		**152,538**	**563**	**-**	**-**	**-**	**-**	**(158,972)**	**(5,871)**
Balance at 31 December 2013		**344,558**	**1,192**	**-**	**390**	**126**	**968**	**35,276**	**382,510**
Audited - June 2014									
Balance at 1 July 2013		**192,020**	**629**	**-**	**284**	**41**	**46**	**177,522**	**370,542**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	36,039	36,039
Total other comprehensive income		-	-	95	(12)	3	1,111	-	1,197
Total comprehensive income for the year		**-**	**-**	**95**	**(12)**	**3**	**1,111**	**36,039**	**37,236**
Contributions by and distributions to owners									
Dividends paid	11	-	-	-	-	-	-	(19,930)	(19,930)
Share based payments		-	935	-	-	-	-	-	935
Shares vested		88	(88)	-	-	-	-	-	-
Effect of amalgamation	2(c)	149,269	-	-	-	-	-	(149,269)	-
Dividends reinvested	15	7,321	-	-	-	-	-	-	7,321
Issue of share capital	15	57,840	-	-	-	-	-	-	57,840
Transaction costs associted with capital raising		(1,322)	-	-	-	-	-	-	(1,322)
Total transactions with owners		**213,196**	**847**	**-**	**-**	**-**	**-**	**(169,199)**	**44,844**
Balance at 30 June 2014		**405,216**	**1,476**	**95**	**272**	**44**	**1,157**	**44,362**	**452,622**

The notes on pages 17 to 28 are an integral part of these interim financial statements.

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	NOTE	Unaudited Dec 2014 $000	Unaudited Dec 2013 $000	Audited Jun 2014 $000
Assets				
Cash and cash equivalents		95,228	178,533	37,344
Investments		209,544	255,427	238,859
Investment properties		25,831	61,481	24,888
Finance receivables	12	2,722,443	1,905,850	2,607,393
Operating lease vehicles		30,716	31,911	31,295
Current tax asset		-	267	1,558
Other assets		10,331	10,281	9,024
Investment in joint venture		4,451	4,205	4,246
Property, plant and equipment		7,706	9,775	9,573
Intangible assets		49,933	22,891	47,421
Deferred tax asset		5,986	11,469	5,287
Total assets		**3,162,169**	**2,492,090**	**3,016,888**
Liabilities				
Borrowings	14	2,657,084	2,076,968	2,524,460
Current tax liabilities		4,109	-	431
Trade and other payables		38,666	32,612	39,375
Total liabilities		**2,699,859**	**2,109,580**	**2,564,266**
Equity				
Share capital	15	409,404	344,558	405,216
Retained earnings and reserves		52,906	37,952	47,406
Total equity		**462,310**	**382,510**	**452,622**
Total equity and liabilities		**3,162,169**	**2,492,090**	**3,016,888**

The notes on pages 17 to 28 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 December 2014

	NOTE	Unaudited 6 mths to Dec 2014 $000	Unaudited 6 mths to Dec 2013 $000	Audited 12 mths to Jun 2014 $000
Cash flows from operating activities				
Interest received		98,667	98,784	193,519
Operating lease income received		5,805	6,645	12,086
Proceeds from sale of operating lease vehicles		3,607	5,157	9,086
Lending, credit fees and other income received		2,610	3,723	7,440
Net decrease in finance receivables		-	94,594	113,630
Total cash provided from operating activities		**110,689**	**208,903**	**335,761**
Payments to suppliers and employees		33,561	31,568	59,687
Interest paid		61,509	49,216	101,675
Purchase of operating lease vehicles		5,722	7,182	12,954
Net increase in finance receivables		99,319	-	-
Taxation paid		3,300	5,171	8,033
Total cash applied to operating activities		**203,411**	**93,137**	**182,349**
Net cash flows (applied to) / from operating activities	17	**(92,722)**	**115,766**	**153,412**
Cash flows from investing activities				
Proceeds from sale of investment properties		3,832	5,067	42,244
Dividends received from joint venture		-	310	560
Net decrease in investments		31,412	-	-
Proceeds from sale of property, plant and equipment		1,956	25	19
Total cash provided from investing activities		**37,200**	**5,402**	**42,823**
Purchase of office fit-out, equipment and intangible assets		3,606	601	432
Net increase in investments		-	90,098	73,648
Purchase of equity investment		2,000	-	-
Purchase of subsidiary		-	-	48,300
Total cash applied to investing activities		**5,606**	**90,699**	**122,380**
Net cash flows from / (applied to) from investing activities		**31,594**	**(85,297)**	**(79,557)**
Cash flows from financing activities				
Net increase in borrowings		131,651	-	-
Increase in share capital		-	-	20,000
Total cash provided from financing activities		**131,651**	**-**	**20,000**
Dividends paid		12,639	6,522	12,609
Transaction costs associated with capital raising		-	-	1,322
Net decrease in borrowings		-	19,676	220,669
Total cash applied to financing activities		**12,639**	**26,198**	**234,600**
Net cash flows from / (applied to) from financing activities		**119,012**	**(26,198)**	**(214,600)**
Net increase / (decrease) in cash held		**57,884**	**4,271**	**(140,745)**
Opening cash and cash equivalents		37,344	174,262	174,262
Effects of currency translation on cash and cash equivalents		-	-	-
Cash impact of business combinations		-	-	3,827
Closing cash and cash equivalents		**95,228**	**178,533**	**37,344**

The notes on pages 17 to 28 are an integral part ofthese interim financial statements.

1 Reporting entity

The interim financial statements presented are the consolidated financial statements comprising Heartland New Zealand Limited (Company) and its subsidiaries and joint venture (Group). Refer to Note 4 - Significant subsidiaries and interests in jointly controlled entities and Note 5 - Structured entities for further details.

The Company is a listed public company incorporated in New Zealand under the Companies Act 1993. The registered office is 75 Riccarton Road, Riccarton, Christchurch.

All entities within the Group offer financial services or are structured entities.

2 Basis of preparation

The financial statements presented here are for the following periods:

- 6 month period ended 31 December 2014 - Unaudited
- 6 month period ended 31 December 2013 - Unaudited
- 12 month period ended 30 June 2014 - Audited

(a) Statement of compliance

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

The Company and all the entities within the Group are profit-oriented entities. The Company is an FMC reporting entity under section 451 of the Financial Markets Conduct Act 2013 (the Act) which has financial reporting requirements under Part 7 of that Act. The interim financial statements have been prepared in accordance with the requirements of the NZX Main Board Listing Rules.

(b) Basis of measurement

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

(c) Effect of amalgamation

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

(d) Comparative information

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

3 Significant accounting policies

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

4 Significant subsidiaries and interests in jointly controlled entities

Significant subsidiaries	Nature business	Proportion of ownership interest and voting power held		
		Dec 2014	Dec 2013	Jun 2014
Heartland NZ Holdings Limited	Holding company	100%	100%	100%
and its subsidiary:				
Heartland Bank Limited (Bank)	Financial services	100%	100%	100%
and its subsidiaries:				
- VPS Parnell Limited [1]	Investment property holding company	N/A	100%	100%
- VPS Properties Limited	Investment property holding company	100%	100%	100%
- Heartland PIE Fund Limited	Manager of Heartland Cash and Term PIE Fund	100%	100%	100%
Heartland NZ Trustee Limited	Corporate Trustee	100%	100%	100%
Heartland Financial Services Limited (HFSL)	Holding company	100%	100%	100%
and its subsidiary:				
Heartland HER Holdings Limited (HHHL)	Holding company	100%	N/A	100%
and its subsidiaries (HHHL Group):				
- New Sentinel Limited (NSL)	Financial services	100%	N/A	100%
- Sentinel Custodians Limited (SCL)	Nominee	100%	0%	100%
- Australian Seniors Finance Pty Limited (ASF)	Financial services	100%	0%	100%
- Australian Seniors Finance Custodians Pty Limited	Nominee	100%	0%	100%
- Seniors Finance Pty Limited [2]	Financial services	100%	N/A	N/A
- Seniors Finance Custodians Pty Limited [2]	Nominee	100%	N/A	N/A
and its jointly controlled entity:				
MARAC JV Holdings Limited (MJV)	Holding company	50%	50%	50%
and its subsidiary:				
- MARAC Insurance Limited	Insurance services	50%	50%	50%

[1] On 22 December 2014, VPS Parnell Limited was amalgamated into VPS Properties Limited.

[2] On 1 December 2014, Seniors Finance Pty Limited and Seniors Finance Custodians Pty Limited were incorporated.

There have been no other changes in the Group structure since the year ended 30 June 2014.

5 Structured entities

The Group controls the operations of Heartland Cash and Term PIE Fund, Heartland ABCP Trust 1 (ABCP Trust), Seniors Warehouse Trust (SW Trust) and ASF Settlement Trust (ASF Trust).

(a) Heartland Cash and Term PIE Fund

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

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

5 Structured entities (continued)

(b) ABCP Trust

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

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

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

(c) SW Trust and ASF Trust

SW Trust and ASF Trust form part of ASF's home equity release business. They were both settled 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:

	Unaudited Dec 2014 $000	Unaudited Dec 2013 $000	Audited Jun 2014 $000
Cash and cash equivalents	2,557	-	846
Finance receivables - home equity release loans	391,485	-	405,523
Borrowings - CBA	(349,126)	-	(364,335)
Derivative financial liabilities	(3,857)	-	(4,147)

6 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 16 - Related party transactions and balances. Certain selling and administration expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other.

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

Households	Providing a comprehensive range of financial services to New Zealand businesses and families, including term, transactional and savings based deposit accounts together with mortgage lending (residential and home equity release), motor vehicle finance and asset finance.
Business	Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized New Zealand businesses.
Rural	Providing specialist financial services to the farming sector primarily offering livestock finance, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.
Non-core Property	Funding and realisation of assets of the non-core property division.

During the period ended 31 December 2014, a business unit previously reported in the Households segment was moved to the Business segment. Comparative segment information has been restated to be consistent with the current reporting period.

6 Segmental analysis (continued)

	Households $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Unaudited - 6 months ended Dec 2014						
Net interest income	34,372	19,215	11,677	(339)	750	65,675
Net operating lease income	1,822	2	-	-	-	1,824
Net other income	1,274	270	78	377	611	2,610
Net operating income	**37,468**	**19,487**	**11,755**	**38**	**1,361**	**70,109**
Selling and administration expenses	9,147	3,134	2,630	549	18,063	33,523
Profit / (loss) before impaired asset expense and income tax	**28,321**	**16,353**	**9,125**	**(511)**	**(16,702)**	**36,586**
Impaired asset expense	2,261	3,085	72	(316)	-	5,102
Operating profit / (loss)	**26,060**	**13,268**	**9,053**	**(195)**	**(16,702)**	**31,484**
Share of equity accounted investee's profit	-	-	-	-	205	205
Profit/ (loss) before income tax	**26,060**	**13,268**	**9,053**	**(195)**	**(16,497)**	**31,689**
Income tax expense	-	-	-	-	8,171	8,171
Profit / (loss) for the period	**26,060**	**13,268**	**9,053**	**(195)**	**(24,668)**	**23,518**
Total assets	1,545,246	750,142	454,564	29,038	383,179	**3,162,169**
Total liabilities	-	-	-	-	2,699,859	**2,699,859**
Total equity	-	-	-	-	462,310	**462,310**
Unaudited - 6 months ended Dec 2013						
Net interest income	22,885	18,088	12,083	(811)	141	52,386
Net operating lease income	2,844	-	-	-	-	2,844
Net other income	709	215	30	2,211	558	3,723
Net operating income	**26,438**	**18,303**	**12,113**	**1,400**	**699**	**58,953**
Selling and administration expenses	5,637	2,837	2,694	2,515	18,734	32,417
Profit / (loss) before impaired asset expense and income tax	**20,801**	**15,466**	**9,419**	**(1,115)**	**(18,035)**	**26,536**
Impaired asset expense	65	2,993	323	(56)	-	3,325
Operating profit / (loss)	**20,736**	**12,473**	**9,096**	**(1,059)**	**(18,035)**	**23,211**
Share of equity accounted investee's profit	-	-	-	-	195	195
Profit / (loss) before income tax	**20,736**	**12,473**	**9,096**	**(1,059)**	**(17,840)**	**23,406**
Income tax expense	-	-	-	-	6,680	6,680
Profit / (loss) for the period	**20,736**	**12,473**	**9,096**	**(1,059)**	**(24,520)**	**16,726**
Total assets	817,104	679,128	415,890	87,120	492,848	**2,492,090**
Total liabilities	-	-	-	-	2,109,580	**2,109,580**
Total equity	-	-	-	-	382,510	**382,510**

6 Segmental analysis (continued)

	Households	Business	Rural	Non-core Property	Other	Total
	$000	$000	$000	$000	$000	$000
Audited - 12 months ended Jun 2014						
Net interest income	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**
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	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 equity accounted investee's 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	1,543,247	669,264	410,219	40,846	353,312	**3,016,888**
Total liabilities	-	-	-	-	2,564,266	**2,564,266**
Total equity	-	-	-	-	452,622	**452,622**

7 Net interest income

	Unaudited 6 mths to Dec 2014	Unaudited 6 mths to Dec 2013	Audited 12 mths to Jun 2014
	$000	$000	$000
Interest income			
Cash and cash equivalents and investments	1,951	1,694	3,559
Investments	4,451	3,877	9,189
Finance receivables	121,850	94,929	197,549
Total interest income	**128,252**	**100,500**	**210,297**
Interest expense			
Retail deposits	39,668	41,127	79,430
Bank and securitised borrowings	22,777	6,599	20,932
Net interest expense on derivative financial instruments	132	388	859
Total interest expense	**62,577**	**48,114**	**101,221**
Net interest income	**65,675**	**52,386**	**109,076**

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

8 Selling and administration expenses

	Unaudited 6 mths to Dec 2014 $000	Unaudited 6 mths to Dec 2013 $000	Audited 12 mths to Jun 2014 $000
Personnel expenses	19,142	17,670	35,180
Directors' fees	459	432	882
Superannuation	403	306	585
Audit and review of financial statements	226	230	430
Other assurance fees paid to auditor [1]	66	9	18
Other fees paid to auditor [2]	10	90	193
Depreciation - property, plant and equipment	382	463	801
Amortisation - intangible assets	623	641	1,341
Operating lease expense as a lessee	903	819	1,654
Legal and professional fees	991	2,144	4,434
Other operating expenses	10,318	9,613	19,221
Total selling and administration expenses	**33,523**	**32,417**	**64,739**

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

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

9 Impaired asset expense

	NOTE	Unaudited 6 mths to Dec 2014 $000	Unaudited 6 mths to Dec 2013 $000	Audited 12 mths to Jun 2014 $000
Non-securitised				
Individually impaired expense		3,432	5,131	11,851
Collectively impaired expense		1,194	(2,089)	(6,536)
Total non-securitised impaired asset expense		**4,626**	**3,042**	**5,315**
Securitised				
Collectively impaired expense		476	283	580
Total securitised impaired asset expense		**476**	**283**	**580**
Total				
Individually impaired expense	13	3,432	5,131	11,851
Collectively impaired expense	13	1,670	(1,806)	(5,956)
Total impaired asset expense		**5,102**	**3,325**	**5,895**

10 Earnings per share

The calculation of basic and diluted earnings of 5c per share at 31 December 2014 (31 December 2013: 4c per share; 30 June 2014: 9c per share) is based on the profit for the period of $23,518,000 (31 December 2013: $16,726,000; 30 June 2014: $36,039,000), and a weighted average number of shares on issue of 456,056,344 (31 December 2013: 390,587,423 ; 30 June 2014: 411,753,442).

11 Dividends paid

On 3 October 2014, the Company paid a dividend of 3.5 cents per share, totalling $16.4 million (31 December 2013: $9.7 million; 30 June 2014: $19.9 million).

12 Finance receivables

	NOTE	Unaudited Dec 2014 $000	Unaudited Dec 2013 $000	Audited Jun 2014 $000
Non-securitised				
Neither at least 90 days past due nor impaired		2,366,224	1,577,598	2,321,630
At least 90 days past due		29,748	18,397	32,969
Individually impaired		25,984	53,100	27,617
Restructured assets		4,012	3,994	4,064
Gross finance receivables		**2,425,968**	**1,653,089**	**2,386,280**
Less allowance for impairment		19,114	33,030	15,725
Less fair value adjustment for present value of future losses		6,919	549	8,000
Total non-securitised finance receivables		**2,399,935**	**1,619,510**	**2,362,555**
Securitised				
Neither at least 90 days past due nor impaired		322,360	285,854	244,409
At least 90 days past due		904	1,121	1,065
Gross finance receivables		**323,264**	**286,975**	**245,474**
Less provision for impairment		756	635	636
Total securitised finance receivables		**322,508**	**286,340**	**244,838**
Total				
Neither at least 90 days past due nor impaired		2,688,584	1,863,452	2,566,039
At least 90 days past due		30,652	19,518	34,034
Individually impaired		25,984	53,100	27,617
Restructured assets		4,012	3,994	4,064
Gross finance receivables		**2,749,232**	**1,940,064**	**2,631,754**
Less allowance for impairment	13	19,870	33,665	16,361
Less fair value adjustment for present value of future losses		6,919	549	8,000
Total finance receivables		**2,722,443**	**1,905,850**	**2,607,393**

13 Provision for impairment

Provision for individually impaired assets			
Opening individual impairment	9,362	34,530	34,530
Impairment loss for the period			
- charge for the period	3,432	5,131	11,851
- recoveries	-	5	6
- write offs	(423)	(17,513)	(35,258)
- effect of discounting	(251)	(1,194)	(1,767)
Closing individual impairment	**12,120**	**20,959**	**9,362**
Provision for collectively impaired assets			
Opening collective impairment	6,999	15,961	15,961
Impairment loss for the period			
- charge / (credit) for the period	1,670	(1,806)	(5,956)
- recoveries	84	74	254
- write offs	(1,003)	(1,523)	(3,260)
Closing collective impairment	**7,750**	**12,706**	**6,999**
Total provision for impairment	**19,870**	**33,665**	**16,361**

14 Borrowings

	Unaudited Dec 2014 $000	Unaudited Dec 2013 $000	Audited Jun 2014 $000
Deposits	1,784,628	1,805,944	1,736,751
Subordinated bond	3,379	3,379	3,378
Bank borrowings	565,519	-	555,708
Securitised borrowings	303,558	267,645	228,623
Total borrowings	**2,657,084**	**2,076,968**	**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 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 in relation to ABCP Trust which mature on 4 August 2015. The facilities are drawn by $304 million (31 December 2013: $268 million; 30 June 2014: $229 million) as shown above.

The Group has a New Zealand and Australian bank facility provided by Commonwealth Bank of Australia (CBA) totalling $515 million (31 December 2013: n/a; 30 June 2014 $556 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. ASF Group (comprising ASF, ASF Trust and SW 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.

15 Share capital

	COMPANY Number of shares		
	Unaudited Dec 2014 000	Unaudited Dec 2013 000	Audited Jun 2014 000
Issued shares			
Opening balance	463,266	388,704	388,704
Shares issued during the period	-	-	65,900
Dividend reinvestment plan	3,680	3,851	8,662
Closing balance	**466,946**	**392,555**	**463,266**

On 3 October 2014, the Company issued 3,680,052 new shares at $1.015 per share under the Dividend reinvestment plan. The shares have equal voting rights, rights to dividends and distributions and do not have a par value.

16 Related party transactions and balances

The Company holds all shares in the Bank and HFSL, refer Note 4 - Significant subsidiaries and interests in jointly controlled entities.

(a) Balances with related parties

MARAC Insurance Limited (a wholly owned subsidiary of MARAC JV Holdings Limited of which the Company holds a 50% joint venture interest with the New Zealand Automobile Association) invested in the Group's deposits.

	Unaudited Dec 2014 $000	Unaudited Dec 2013 $000	Audited Jun 2014 $000
Due to related parties			
MARAC Insurance Limited	500	500	500
Total due to related parties	**500**	**500**	**500**

(b) Transactions with related parties

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

	Unaudited 6 mths to Dec 2014 $000	Unaudited 6 mths to Dec 2013 $000	Audited 12 mths to Jun 2014 $000
Lending and credit fee income	309	105	300
Other income	250	189	374
Interest expense	(11)	(11)	(21)
Total transactions with other related parties	**548**	**283**	**653**

(c) Transactions with key management personnel

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

	Unaudited 6 mths to Dec 2014 $000	Unaudited 6 mths to Dec 2013 $000	Audited 12 mths to Jun 2014 $000
Finance receivables	887	748	709
Borrowings - deposits	(15,661)	(15,071)	(5,998)
Interest income	50	26	55
Interest expense	(268)	(58)	(281)

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

	Unaudited 6 mths to Dec 2014 $000	Unaudited 6 mths to Dec 2013 $000	Audited 12 mths to Jun 2014 $000
Profit for the period	**23,518**	**16,726**	**36,039**
Add / (less) non-cash items:			
Depreciation and amortisation expense	1,005	1,104	2,142
Change in fair value of investment properties	-	-	1,203
Impaired asset expense	5,102	3,325	5,895
Deferred tax benefit	(699)	4,919	11,100
Derivative financial instruments revaluation	468	(229)	91
Accruals	422	1,066	950
Total non-cash items	**6,298**	**10,185**	**21,381**
Add / (less) movements in working capital items:			
Other assets	464	255	804
Loss on disposal of property, plant and equipment and intangibles	-	-	56
Current tax	5,236	(3,126)	(3,986)
Other liabilities	(155)	(1,940)	1,203
Total movements in working capital items	**5,545**	**(4,811)**	**(1,923)**
Net cash flows from operating activities before movements in finance receivables and operating lease vehicles	**35,361**	**22,100**	**55,497**
Movement in operating lease vehicles	579	484	1,100
Movement in finance receivables	(128,662)	93,182	96,815
Net cash flows (applied to) / from operating activities	**(92,722)**	**115,766**	**153,412**

18 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 (derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (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 Interim Statement of Financial Position.

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.

18 Fair value (continued)

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

Investments

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

Investments valued under Level 2 of the fair value hierarchyare classified as being available for sale and 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.

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

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Unaudited - Dec 14				
Assets				
Investments	196,993	10,551	2,000	209,544
Derivative assets held for risk management	-	768	-	768
Total	**196,993**	**11,319**	**2,000**	**210,312**
Liabilities				
Derivative liabilities held for risk management	-	4,599	-	4,599
Total	**-**	**4,599**	**-**	**4,599**
Unaudited - Dec 13				
Assets				
Investments	215,331	40,096	-	255,427
Derivative assets held for risk management	-	1,796	-	1,796
Total	**215,331**	**41,892**	**-**	**257,223**
Liabilities				
Derivative liabilities held for risk management	-	26	-	26
Total	**-**	**26**	**-**	**26**
Audited - 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.

18 Fair value (continued)

(b) Financial instruments not measured at fair value

The following table sets out the fair values and carrying values of financial instruments not measured at fair value:

	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
	Total Fair Value	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value	Total Carrying Value
	Dec 2014	Dec 2014	Dec 2013	Dec 2013	Jun 2014	Jun 2014
	$000	$000	$000	$000	$000	$000
Assets						
Cash and cash equivalents	95,228	95,228	178,533	178,533	37,344	37,344
Finance receivables	2,396,154	2,399,935	1,618,601	1,619,510	2,357,824	2,362,555
Finance receivables - securitised	326,100	322,508	289,540	286,340	246,674	244,838
Other financial assets	8,056	8,056	6,078	6,078	6,134	6,134
Total financial assets	**2,825,538**	**2,825,727**	**2,092,752**	**2,090,461**	**2,647,976**	**2,650,871**
Liabilities						
Borrowings	2,359,397	2,353,526	1,814,013	1,809,323	2,297,381	2,295,837
Borrowings - securitised	303,559	303,558	267,645	267,645	228,887	228,623
Other financial liabilities	17,895	17,895	16,894	16,894	19,446	19,446
Total financial liabilities	**2,680,851**	**2,674,979**	**2,098,552**	**2,093,862**	**2,545,714**	**2,543,906**

Further information on valuation techniques and assumptions used for determining fair value is included in Note 35 of the Group's Financial Statement for the year ended 30 June 2014.

19 Contingent liabilities and commitments

	Unaudited	Unaudited	Audited
	Dec 2014	Dec 2013	Jun 2014
	$000	$000	$000
Letters of credit, guarantees and performance bonds	9,527	4,155	6,329
Total contingent liabilities	**9,527**	**4,155**	**6,329**
Undrawn facilities available to customers	124,384	121,760	114,004
Conditional commitments to fund at future dates	126,193	60,091	95,780
Total commitments	**250,577**	**181,851**	**209,784**

20 Events after the reporting date

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

Independent auditor’s review report

To the shareholders of Heartland New Zealand Limited

We have completed a review of the interim financial statements of Heartland New Zealand Limited and its controlled entities (“the group”) on pages 13 to 28 which comprise the interim statement of financial position as at 31 December 2014, and the interim statements of comprehensive income, changes in equity and cash flows for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information.

Directors’ responsibilities

The directors of Heartland New Zealand Limited are responsible for the preparation and fair presentation of interim financial statements in accordance with NZ IAS 34 *Interim Financial Reporting* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibilities

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (“NZ SRE 2410”). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with the NZ IAS 34.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the interim financial statements.

Our firm has also provided other services to the group in relation to other assurance services, general accounting and other 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.

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the group do not present fairly, in all material respects, the financial position of the group as at 31 December 2014, and of its financial performance and its cash flows for the period ended on that date, in accordance with NZ IAS 34.

KPMG

23 February 2015
Auckland

Directory

Heartland New Zealand Limited

Directors

Geoffrey Ricketts	Chairman
Jeffrey Greenslade	Managing Director
Graham Kennedy	Director
Chris Mace	Director
Jane Taylor	Director
Gregory Tomlinson	Director

Executives

Laura Byrne	Group General Counsel
Chris Cowell	Head of Business
Chris Flood	Head of Retail & Consumer
Michael Jonas	Head of Strategic & Product Development
James Mitchell	Chief Operating Officer
Simon Owen	Chief Financial Officer
Will Purvis	Head of Rural
Sarah Selwood	Head of Human Resources

Registered Office

75 Riccarton Road
Riccarton
Christchurch 8011

PO Box 8623
Riccarton
Christchurch, 8440

T 0508 432 785
E info@heartland.co.nz
W www.heartland.co.nz

Heartland Bank Limited

Directors

Bruce Irvine	Chairman
Jeffrey Greenslade	Managing Director
Nicola Greer	Director
John Harvey	Director
Graham Kennedy	Director
Geoffrey Ricketts	Director
Richard Wilks	Director
Michael Jonas	Executive Director

Executives

Laura Byrne	Group General Counsel
Chris Cowell	Head of Business
Chris Flood	Head of Retail & Consumer
Michael Jonas	Head of Strategic & Product Development
James Mitchell	Chief Operating Officer
Simon Owen	Chief Financial Officer
Will Purvis	Head of Rural
Sarah Selwood	Head of Human Resources

Registered Office

75 Riccarton Road
Riccarton
Christchurch 8011

PO Box 8623
Riccarton
Christchurch 8440

T 0508 432 785
E info@heartland.co.nz
W www.heartland.co.nz

Auditors

KPMG
KPMG Centre, 18 Viaduct Harbour, Auckland 1140
T 09 367 5800

Share Registry

Link Market Services Limited
Level 7, Zurich House
21 Queen Street, Auckland 1010
T 09 375 5998
F 09 375 5990
E enquiries@linkmarketservices.co.nz
W www.linkmarketservices.co.nz

HEARTLAND
New Zealand Limited