Annual Report 2014

HEARTLAND
New Zealand Limited

Highlights and Financial Year Overview

- Acquisition of Australian and New Zealand home equity release mortgage businesses completed
- Lift in net profit after tax from $7m to $36m
- Consistent growth in earnings – net operating income up 14%
- Standard & Poor's credit rating on Heartland Bank Limited raised to BBB[1]
- Non-core property assets reduced by $67m
- Dividend pay-out of six cents per share
- Return on equity increased to 9%

30 June 2014
$50.8m
net profit before tax
30 June 2013
$9.4m

30 June 2014
$452.6m
total equity
30 June 2013
$370.5m

1 Outlook negative. The negative outlook reflects the negative economic risk trend assigned to the New Zealand banking system and Standard and Poor's concerns around economic imbalances, which are not specific to Heartland Bank Limited.

30 June 2014
$36.0m
net profit after tax

30 June 2013
$6.9m

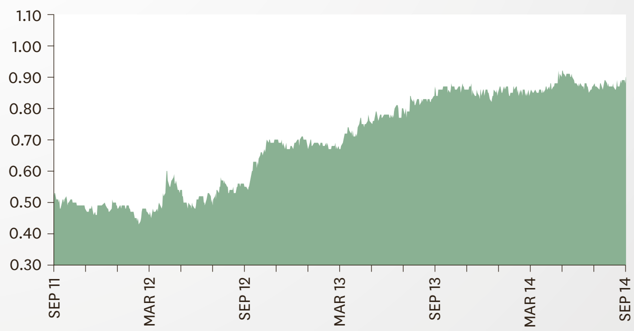
30 June 2014
$2,607.4m
net finance receivables

30 June 2013
$2,010.4m

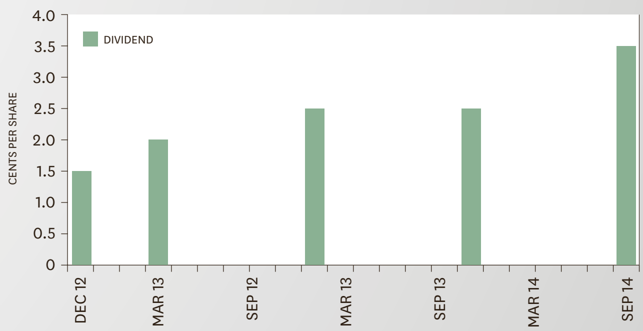
30 June 2014
$3,016.9m
total assets

30 June 2013
$2,504.6m

Heartland Share Price History ($ per share)



Heartland Dividend



SOURCE: Bloomberg

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Heartland New Zealand Limited (Heartland)

Since its foundation in January 2011, Heartland has successfully progressed through several strategic phases. Heartland Bank Limited (**Heartland Bank**) was granted bank registration in December 2012 and since then five separate businesses have successfully been merged into one.

Emphasis has been on changing the asset mix to align with a strategy of occupying leading positions in the less contested areas of the market. In the year ended 30 June 2011, around half of Heartland's net receivables derived from specialised and less contested activities. By 30 June 2014 this is estimated to have increased to around three quarters.

The strategy is delivering results. Growth is underway with net profit after tax of $36.0m for the year ended 30 June 2014.

Focus is now on sustainable asset growth and improving return on equity (**ROE**), which will be achieved through a combination of:

- Extending Heartland's reach in existing core markets
- Introducing new specialist products
- Pursuing acquisition opportunities that offer a good strategic fit and are value accretive.

In April 2014, Heartland acquired the New Zealand and Australian home equity release (**HER**) mortgage businesses (Sentinel and Australian Seniors Finance) of Seniors Money International Limited (the **Acquisition**). This gives Heartland a commanding position in a sector underserviced by traditional banks and one that will experience increasing demand as the population ages.

Heartland New Zealand's Business Divisions

Heartland Bank – New Zealand's specialist bank

Heartland Bank is a different bank. Operating in the Household, Business and Rural sectors, Heartland Bank offers specialist products, different to those offered by mainstream banks, and include:

- Heartland Bank's Home Equity Loan offering
- i-finance - a specialist car finance option in a market adjacent to one where Heartland Bank already has a strong presence through the 'MARAC' brand
- New livestock lending products.

While focusing on these higher-yielding products, Heartland Bank has reduced focus on lower-yielding products by:

- Reducing Non-core property assets to $40.8m (at 30 June 2014) from $107.4m (30 June 2013)
- Reducing the residential mortgage book by $112m.

Recognition of the 'specialist bank' strategy was noted by international credit rating agency Standard and Poor's (S&P) when it raised Heartland Bank's credit rating. Attributing a rating of BBB, Outlook Negative, S&P stated:

"In our view the improvement in Heartland's business position is evidenced by the deepening of the bank's position in specialist target market segments such as vehicle asset finance, invoice financing, livestock financing and reverse mortgage loans."

S&P Ratings update, 21 May 2014

The negative outlook reflects the negative economic risk trend assigned to the New Zealand banking system and S&P's concerns around economic imbalances, which are not specific to Heartland Bank.

Australian Seniors Finance (ASF)

ASF was part of the HER Aquisition. It provides access to the Australian HER market and offers several strategic opportunities:

- ASF is the largest non-bank lender in the Australian market
- ASF is an established business, operating successfully since 2004
- Access to a broader and deeper market than New Zealand.

Distribution networks have been re-established and an advertising campaign is underway. Growth is expected in the first half of financial year 2015– reversing a post GFC trend.

MARAC Insurance Limited

This is a joint venture with The New Zealand Automobile Association. MARAC Insurance delivered an increase of 15% in the value of premiums written which was driven by:

- 22% increase in Lifestyle Protection Insurance
- 10% increase in Guaranteed Asset Protection insurance.

Heartland - The future

Heartland is committed to driving increases in ROE with further asset mix improvements, growth through product development and strategic acquisitions.

We are Heartland, proud to be different.

CANSTAR outstanding value Business Deposits

CANSTAR outstanding value Savings Account

Heartland Bank's Business Call Account and Saver Account have been recognised for offering "Outstanding Value" and proudly display Canstar's maximum 'Five Star' endorsement. Independent research company CANSTAR rate financial products based on rates and features. The 'star ratings' are a consumer-friendly benchmark that can help customers compare financial products.

Heartland Communities

We offer help and support to school sports teams, local bowling, golf and tennis clubs, local theatre productions and youth groups, education scholarships and many more – over 100 groups throughout New Zealand. We know how important these organisations are to our local communities and we are incredibly proud of the difference our support makes.

"We cherish the relationship we have developed over the past two seasons and are sincerely grateful for the sponsorship from Heartland of our school. It is only through this level of support that we are able to provide the rugby programme which allows us to compete with the very best teams in the country. It also allows us to provide support for a large number of young men in the school who would otherwise struggle to be involved in school sport at this level."

Nigel Hotham, Deputy Headmaster and coach, Hamilton Boys High School,
First XV College Champions 2013, joint Champions 2014

"A huge thank you to Heartland for supporting us and the many community organisations around New Zealand. We pride ourselves on giving children in the community the opportunity to perform on stage. If it wasn't for the support of our community, this would not be possible."

The Big Little Theatre Company, Ashburton

"We are extremely appreciative of the support that Heartland gives to the sport of bowls. The contribution Heartland made to the National Championships enabled the event to be an outstanding success."

Kerry Clark OBE, Chief Executive, Bowls New Zealand

"Without Heartland's support I would not have been able to embark on such an amazing journey of learning and discovery."

Loren McCarthy, New Zealand representative at the Hague International Model United Nations

Image: sunlive.co.nz

Chairman and Managing Director's report

Over the last year, Heartland New Zealand Limited (Heartland) has made substantial progress with its strategy of occupying leading positions in less contested areas of the market. The process of changing the make-up of lending to align how capital and resources are allocated with the strategy has continued. This included:

- **The acquisition of home equity release (HER) mortgage businesses in Australia and New Zealand (the Acquisition)**
- **Increase in motor vehicle lending – up $55m**
- **Increase in rural new lending – up $88m**
- **Reduction of non-core property assets – down $67m (62%)**
- **Reduction in residential mortgages – down $112m.**

Better product mix, along with reduced cost of funds and lower impairments, has improved the margin and this has been the main driver of increased profitability to date.

Beyond 2014 the objective is to grow - expand in areas where Heartland is already strong, develop new specialist products, and explore acquisitions offering a strategic fit, value and a competitive advantage.

Breakdown of financial performance

Net profit after tax (**NPAT**) was $36.0m for the year ended 30 June 2014. This result is in the upper end of forecast guidance, and is up $29.1m from the $6.9m NPAT for the previous year ended 30 June 2013.

Net profit before tax (**NPBT**) was $50.8m for the year ended 30 June 2014 (up from $9.4m NPBT for the year ended 30 June 2013).

The $50.8m NPBT for the year ended 30 June 2014 represents an increase of $17.1m over the adjusted NPBT for the year ended 30 June 2013, illustrating the improvements in underlying business performance. Adjusted NPBT for the previous year has been calculated by excluding the one-off expenses of $24.3m (pre-tax) incurred as a result of the change in property strategy with respect to the non-core legacy property asset portfolio (which included termination of a management agreement announced 5 June 2013) (**Change in Property Strategy**)[1].

Return on equity

The earnings for 2014 equates to a return on equity (**ROE**) of approximately 9.0% for the full year. This compares to ROE of 1.8% and adjusted ROE of 6.4% for the previous year. Adjusted ROE has been calculated by excluding the one-off expenses of $24.3m (pre-tax) incurred as a result of the Change in Property Strategy.

Earnings per share was $0.09 based on weighted average shares on issue.

Balance Sheet

Heartland's total assets increased by $512.3m, or 20%, over the year ended 30 June 2014 (from $2.5bn at 30 June 2013 to $3.0bn at 30 June 2014).

- There was a $597.0m increase in net finance receivables (from $2.0bn at 30 June 2013 to $2.6bn at 30 June 2014). The increase was largely due to the acquisition of the HER mortgage business of $710.1m
- Cash and cash equivalents and investments decreased by $63.3m (from $339.5m at 30 June 2013 to $276.2m at 30 June 2014) as liquidity was used to fund growth in receivables
- Borrowings, being largely retail deposits and bank lines, increased by $426.9m (from $2.1bn at 30 June 2013 to $2.5bn at 30 June 2014) largely due to the acquisition of the HER mortgage business

Heartland's net tangible assets (**NTA**) increased by $68.7m over the year ending 30 June 2014 (from $331.2m at 30 June 2013 to $399.9m at 30 June 2014), primarily due to the Acquisition. On a per share basis NTA was $0.86 at 30 June 2014 compared to $0.85 at 30 June 2013.

1 The Change in Property Strategy included a one-off non-cash write down in property assets of $18m and $6.1m of pre-paid expenses written off (pre tax).

Net Operating Income

Net operating income (**NOI**) was $122.2m for the year ended 30 June 2014, an increase of $15.3m (or 14%) from the previous year ended 30 June 2013. The increase in NOI was attributable to lower cost of funds, improved product mix and the contribution from the Acquisition.

Costs

Operating costs were $64.7m for the year ended 30 June 2014, a decrease of $5.6m from the previous year ended 30 June 2013. However, operating costs for the previous year included $6.1m of prepaid expenses written off as a result of the Change in Property Strategy. Adjusted operating costs (calculated by excluding expenses related to the Change in Property Strategy) were up $0.5m from the previous year, due to costs associated with the Acquisition, but have reduced as a ratio to earnings.

The operating expense ratio was 53% for the year ended 30 June 2014, a reduction from 66% for the previous year ended 30 June 2013. The adjusted operating expense ratio (calculated by excluding the write-off of the expenses referred to above) was 60% for the previous year. It is expected that a further improvement to the operating expense ratio will be made over the coming year, and it is forecast to fall below 50% for the year ending 30 June 2015.

Impairments and revaluations of investment properties

Impaired asset expense was $5.9m for the year ended 30 June 2014, a decrease of $16.6m over the previous year ended 30 June 2013. This decrease was primarily in the non-core property division, which included an impairment expense of $12.9m made as part of the Change in Property Strategy in the previous year. Impairments remained low across the core areas of Rural, Business and Consumer lending.

A decrease in the fair value of investment properties of $1.2m was recognised, $3.9m less than the previous year.

Asset quality continues to improve with net impaired, restructured and past due loans over 90 days standing at 1.9% of net finance receivables (**Net Impairment Ratio**) as at 30 June 2014, down from 2.4% at 30 June 2013.

The Net Impairment Ratio on the core business (excluding the non-core property book) was 1.4% as at 30 June 2014, compared to 0.9% as at 30 June 2013. While this has increased compared to the previous year, this remains at an acceptable level.

Funding and liquidity

Borrowings increased from $2.1bn at 30 June 2013 to $2.5bn at 30 June 2014. The increase was in order to fund the Acquisition and the associated assumption of bank borrowings of $648.4m. Subsequently, these bank borrowings have reduced by $92.7m to $555.7m, as New Zealand HER mortgages have been transferred to Heartland Bank Limited (**Heartland Bank**).

Credit rating raised

On 22 May 2014 Standard & Poor's (**S&P**) raised Heartland Bank's long term issuer credit rating to BBB from BBB- and assigned a negative outlook. The negative outlook reflects the negative economic risk trend assigned to the New Zealand banking system and S&P's concerns around economic imbalances, which are not specific to Heartland Bank.

Business Performance – Heartland Bank's core business divisions

Across the core business divisions of Household, Business and Rural NOI increased by 15% in the year ended 30 June 2014 – primarily driven by lower cost of funds and better product mix.

(i) Household

NOI increased overall by $15.8m (32%) over the year, driven by an increase in core receivables, lower cost of funds and the inclusion of one quarter of earnings from the HER mortgage business.

- **Consumer**
  Core motor vehicle receivables grew $55.3m (8%), as the intermediated distribution strategy continued to perform strongly. Growth of 5-10% in the Consumer sector is expected in the year ahead, supported by both the current strategy and the launch of i-finance.
- **Retail**
  The residential mortgage book reduced by $111.6m (48%) as part of the strategy to improve product mix. More than $50.0m of residential receivables were placed through Heartland Bank's partnership with Kiwibank in the year ended 30 June 2014 earning fee revenue for Heartland Bank.
- **Home equity release**
  HER receivables totalled $734.9m at 30 June 2014. Following a TV, radio and press campaign in the final quarter of the financial year, the New Zealand book grew in June and July, reversing a declining trend which had existed prior to Heartland's acquisition. TV advertising began in July in Australia, and as a result of this, and through re-establishing a distribution partner network, growth is expected in this market in the first half of financial year 2015.

(ii) Business

NOI was $3.8m (15%) above the previous year ended 30 June 2013, driven primarily by lower cost of funds. The business receivables book was stable at $547.2m. It is expected the book will grow moderately in the year ahead.

(iii) Rural

NOI was flat at $22.9m compared to the previous year, as the benefit of lower cost of funds was offset by a reduction in receivables.

New lending on higher-yielding livestock and revolving credit business grew by $88m over the year 30 June 2014.

With focus on increasing lending in these areas, the levels of lower-yielding term mortgage business (bought from PGG Wrightson Finance) fell during the year as part of a strategy to reduce exposure in areas of either higher risk or overlapping competition with major banks. This resulted in an overall reduction in the rural receivables book of $46.4m (10%).

The rural book is expected to grow modestly over the year.

Non-core property

Total legacy non-core property assets reduced ahead of expectation[4] to $40.8m ($15.9m of net receivables, $24.9m of investment properties) at 30 June 2014. This represents a $66.6m (62%) reduction. Non-core property assets are expected to reduce by a further $15m in the six months ending 31 December 2014. Heartland does not expect future earnings to be materially impacted by the future realisation of the remaining assets.

Growth Strategy

The strategy is three-fold. Heartland will:

- Leverage its position and grow share in markets where there is already a strong presence – e.g. motor vehicle finance, etc
- Continue the development of specialist products – such as livestock rural lending
- Pursue acquisitions that establish a leading position in areas of strategic fit – for example HER mortgages.

As announced in the half-year report for the period ended 31 December 2013, a specialist team for strategic growth has been established to support this strategy. This provides the capability to evaluate and progress acquisition opportunities, alongside expertise in the design of new products.

Key criteria in assessing acquisition and product development opportunities include strategic fit, competitive advantage, the potential for growth and importantly, contributing positively to shareholder value (with particular reference to earnings per share and ROE).

Acquisition of home equity release businesses

In April 2014 Heartland acquired the New Zealand and Australian HER mortgage businesses of Seniors Money International Limited (**SMI**). The opportunity to purchase the HER businesses arose during Heartland's strategic evaluation of the product, providing a fast-track entry into strong and established market positions.

This acquisition gives Heartland the product capability to meet the needs of the 65 and over population, which is a growing demographic and is typified by those with the majority of their personal wealth tied up in their primary residential dwelling.

HER NPAT was $0.7m (including $1.2m of one-off acquisition costs), for the year ended 30 June 2014.

Dividend

The directors of Heartland resolved to pay a final dividend of 3.5 cents per share on 3 October 2014 to shareholders on Heartland's register as at 5.00pm on 19 September 2014 (**Record Date**). This dividend will be fully imputed.

The Dividend Reinvestment Plan announced on 23 April 2013 (**DRP**) was made available, and a discount of 1.0% will apply (that is, the strike price under the DRP will be 99.0% of the volume weighted average sale price of Heartland shares over the five trading days following the Record Date)[5].

Participation in the DRP is entirely optional, with shareholders wishing to participate making a participation election in one of the ways specified in the DRP offer document.

The last date of receipt for a participation election from a shareholder who wished to participate in the DRP was 19 September 2014.

The interim dividend of 2.5 cents plus the 3.5 cents final dividend will mean a fully imputed 6.0 cents per share dividend payment in relation to the 2014 financial year. This represents a 33% increase in interim and final dividend from 4.5 cents in the 2013 financial year.

	2014	2013
Special		1.5¢
Interim	2.5¢	2.0¢
Final	3.5¢	2.5¢
Total	6.0¢	6.0¢

Acknowledging Gary Leech

Gary Leech has announced that he intends to resign from Heartland's board following the 2014 Annual Meeting, in light of both recent appointments and other commitments.

Gary has made an outstanding contribution to Heartland, both at the time of the merger in 2011, and in subsequently chairing the Audit and Risk Committee. Gary has been a valued and respected member of the board, his broad experience contributing directly to the success of the merger, and where Heartland stands today is "mission accomplished" for Gary.

The board is undertaking a process to assess the skills and experience required for a successor to Gary and will conduct a thorough search to ensure the best candidate is identified and appointed.

4 For details of expectation, see Heartland's Change of Strategy market announcement of 5 June 2013.
5 For the full details of the DRP and the Strike Price calculation, refer to Heartland's DRP offer document prepared as at 5 April 2013.

The Future

For the next financial year, Heartland's objectives are to increase earnings through growth and improve ROE. The strategy to achieve this is underway and Heartland is well-positioned to meet the NPAT guidance for the next financial year of $42m to $45m.

Geoffrey Ricketts
Chairman

Jeffrey Greenslade
Managing Director

19 September 2014.

Board of Directors

The directors of Heartland New Zealand Limited are as follows:

Geoffrey Ricketts

CNZM, LLB (Hons), F Inst D

Chairman

Geoff is a commercial lawyer, company director and investor with wide experience in the New Zealand and Australian business environments. He holds a number of directorships and was Chairman of Southern Cross Building Society leading up to the merger with MARAC Finance Limited and CBS Canterbury.

Jeffrey Greenslade

LLB

Managing Director

Jeff has over 20 years' experience as a senior banking executive, and is responsible for the strategies and operational management of Heartland New Zealand Limited. He is also CEO of Heartland Bank Limited. He joined MARAC Finance Limited as Chief Executive Officer in 2009, and was appointed to its Board in December of that year.

Graham Kennedy

J.P., BCom, FCA, ACIS, ACIM, AF Inst D

Director

Graham has 40 years' experience as a chartered accountant and business advisor and is now an independent professional director and Chairman of a number of private companies providing him with governance experience across a diverse range of business sectors including property, tourism, agribusiness, transport, construction and professional services. Graham was a director of CBS Canterbury for 24 years, holding the position of Chairman from 2002 – 2008. Graham has also been actively involved in a number of community-based charitable organisations for many years.

Gary Leech

BCom, FCA, AF Inst D, FNZTA

Director

Gary has 40 years' experience as a chartered accountant and was the Chairman of the Board of CBS Canterbury leading up to the merger with MARAC Finance Limited and Southern Cross Building Society. Gary is a Fellow of The Institute of Chartered Accountants, an Accredited Fellow of the Institute of Directors and a Fellow of the New Zealand Trustees Association.

Christopher Mace

CNZM

Director

Chris is an Auckland based businessman and company director with experience in the New Zealand and Australian business environments. He holds a number of directorships and was a director of Southern Cross Building Society leading up to the merger with MARAC Finance Limited and CBS Canterbury.

Gregory Tomlinson

AME

Director

Greg is a Christchurch based businessman and investor with experience in a variety of New Zealand industries. One of the original pioneers of the mussel industry in Marlborough, he has also established, and held directorships on the boards of a number of New Zealand based businesses.

As at the date of this Annual Report, the Heartland Bank Limited Board includes J K Greenslade, G T Ricketts and G R Kennedy, plus the following directors who, other than M D Jonas (who is an executive director), are independent directors:

Bruce Irvine

BCom, LLB, FCA, AF Inst D, FNZIM

Chairman

Bruce is Chairman of Heartland Bank Limited. He is a chartered accountant and was admitted into the Christchurch partnership of Deloitte in 1988. He was Managing Partner from 1995 to 2007 before he retired from Deloitte in May 2008 to pursue his career as an independent director. Bruce is also Chairman of Christchurch City Holdings Limited, and a director of several public and private companies.

Nicola Greer

MCom

Director

Nicola has extensive experience in the banking and finance sector, both in New Zealand and overseas. Her career to date includes senior positions at ANZ Bank (New Zealand and Australia), Citibank and Goldman Sachs International, where she worked in financial markets and asset and liability management.

John Harvey

BCom, CA

Director

John has considerable financial services experience and 36 years in the professional services industry including 23 years as a partner of PricewaterhouseCoopers. Since his retirement from PricewaterhouseCoopers in 2009, John has pursued a career as an independent director of a number of companies.

Michael Jonas

LLB

Director

Michael has over 25 years' experience as a banking and finance lawyer, having been a partner in several of New Zealand's leading law firms (including Bell Gully and Chapman Tripp). He joined Heartland New Zealand Limited as Group General Counsel on its creation in 2011 (having held that position with predecessor entities since February 2010). He moved to the new role of Head of Strategic & Product Development in 2013.

Richard Wilks

BCom, CA

Director

Richard has extensive experience across a range of industries including the banking and finance sector. He recently retired from a career as a senior corporate banking professional, which included Chief Risk Officer with ANZ National Bank and executive roles with Standard Chartered Bank and Citibank. Since retiring Richard has taken up a number of directorships.

Corporate Governance

The Board and management of Heartland New Zealand Limited (the **Company**) are committed to ensuring that the Company maintains corporate governance practices in line with current best practice.

The Board has established policies and protocols which comply with the corporate governance requirements of the NZX Main Board Listing Rules and which are consistent with the principles contained in the NZX Corporate Governance Best Practice Code.

This governance statement outlines the main corporate governance practices applied by the Company as at 30 June 2014. During the year the Board reviewed and assessed the Company's governance structure to confirm that its governance practices are consistent with best practice. The Board considers it has complied with the NZX Corporate Governance Best Practice Code for the year ended 30 June 2014.

This section of the Annual Report reflects the Company's compliance with the requirements of the Financial Markets Authority Corporate Governance in New Zealand Principles and Guidelines.

The Company's Constitution and Board and Committee charters are available on the Company's website, www.heartland.co.nz.

Principle 1 – Ethical Standards

Directors observe and foster high ethical standards.

The Company expects its directors and staff to act honestly and in good faith, and in the best interests of the Company at all times. They must act with the care, diligence and skill expected of a director or staff member of a company that has shares that are publicly traded on the NZX Main Board and has subsidiaries that issue securities and accept funds from the general public.

Directors and staff are required to act honestly and fairly in all dealings with the Company's shareholders, customers, investors and service providers.

Each director and staff member has an obligation, at all times, to comply with the spirit as well as the letter of the law, to comply with the principles of the Company's Code of Conduct, the Directors' Code of Conduct and the Company's Constitution, and to exhibit a high standard of ethical behaviour.

Codes of Conduct

The Company's Code of Conduct and Directors' Code of Conduct set out the ethical and behavioural standards expected of the Company's directors and employees. The Codes of Conduct are available on the Company's website www.heartland.co.nz.

Securities Trading Policy

The Board continually considers whether any matters under consideration are likely to materially influence the Company's share price and therefore whether additional trading restrictions should be imposed on directors and senior employees of the Company.

All directors and senior employees of the Company are required to obtain consent before buying or selling shares in the Company and to certify that their decision to buy or sell shares has not been made on the basis of inside information.

Principle 2 – Board Composition and Performance

There is a balance of independence, skills, knowledge, experience and perspectives among directors so that the Board works effectively.

Role of the Board

The Board of Directors is responsible for corporate governance and setting the Company's overall strategic direction. The Board charter regulates Board procedure and describes the Board's role and responsibilities in detail. The Board establishes objectives, strategies and an overall policy framework within which the business is conducted. Day-to-day management is delegated to the Chief Executive Officer (and, in the case of risk management, to the Chief Risk Officer). The Board regularly monitors and reviews management's performance in carrying out their delegated duties.

The Board schedules monthly meetings at which it receives regular briefings on key strategic and operational issues from management. In the year ended 30 June 2014, the Board met nine times.

Board Membership, Size and Composition

The NZX Main Board Listing Rules provide that the number of directors must not be fewer than three. Subject to this limitation, the size of the Board is determined from time to time by the Board.

As at 30 June 2014, the Board comprised six directors, being an independent Chairman, the Managing Director and four non-executive directors. The Board encourages rigorous discussion and analysis when making decisions. The current Board comprises directors with a mix of qualifications and skills who hold diverse business, governance and industry experience.

Nomination and appointment of directors

Procedures for the appointment and removal of directors are governed by the Company's constitution.

A director is appointed by ordinary resolution of the shareholders, although the Board may fill a casual vacancy, in which case the appointed director retires at the next Annual Meeting but is eligible for re-election. Nominations for election as a director may be made by shareholders up until a closing date, which must not be more than two months before the date of the Annual Meeting.

Independence of Directors

A director is considered to be independent if that director is not an executive of the Company and if the director has no direct or indirect interest or relationship that could reasonably influence, in a material way, the director's decisions in relation to the Company.

As at 30 June 2014, the Board determined that G R Kennedy, G R Leech, C R Mace and G T Ricketts were the independent directors.

Board Performance Assessment

The Board undertakes a regular review of its own, its committees' and individual directors' performance. This is to ensure it has the right composition and appropriate skills, qualifications, experience and background to effectively govern the Company and monitor the Company's performance in the interests of shareholders.

Principle 3 – Board Committees

The Board uses committees where this enhances effectiveness in key areas while retaining Board responsibility.

Board Committees

The Board has two permanently constituted committees to assist the Board by working with management in specific areas of responsibility and then reporting their findings and recommendations back to the Board. Each of these committees has a charter which set out the committee's objectives, membership, procedures and responsibilities. A committee does not take action or make decisions on behalf of the Board unless specifically mandated. The committee charters are available on the Company's website, www.heartland.co.nz.

Other ad hoc Board committees are established for specific purposes from time to time.

Audit and Risk Committee

Membership is restricted to non-executive directors, with at least three members, the majority of whom must be independent.

As at 30 June 2014, the members of the Audit and Risk Committee were G R Kennedy (Chairman), G R Leech and G T Ricketts.

The role of the Audit and Risk Committee is to advise and provide assurance to the Board in order to enable the Board to discharge its responsibilities in relation to the oversight of:

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

As at 30 June 2014, the Board determined that all committee members had a recognised form of financial expertise in accordance with the Audit and Risk Committee's charter.

Governance and Remuneration Committee

The Committee is required to comprise of at least three directors, the majority of whom must be independent. It is also a requirement that one member be a director of Heartland Bank Limited (**Bank**) to ensure the flow of relevant information between the Company and the Bank.

As at 30 June 2014, the members of the Governance and Remuneration Committee were G T Ricketts (Chairman), G R Tomlinson and B R Irvine (in an ex-officio capacity).

The role of the Governance and Remuneration Committee is to advise and provide assurance to the Board in order to enable the Board to discharge its responsibilities in relation to:

- Corporate governance matters.
- Remuneration of the directors, Chief Executive Officer and senior executives and remuneration policies generally.
- Director and senior executive appointments, Board composition and succession planning.
- Capital management.

The gender composition of Directors and Officers was as follows:

	As at 30 June 2014		As at 30 June 2013	
Positions	Female	Male	Female	Male
Heartland New Zealand Limited Directors	0 (0%)	6 (100%)	0 (0%)	7 (100%)
Heartland Bank Limited Directors	1 (12.5%)	7 (87.5%)	0 (0%)	8 (100%)
Officers	2 (22%)	7 (78%)	1 (12.5%)	7 (87.5%)

Principle 4 – Reporting and Disclosures

The Board demands integrity in both financial reporting and in the timeliness and balance of disclosures on entity affairs.

The Board is committed to ensuring the highest standards are maintained in financial reporting and disclosure of all relevant information.

The Audit and Risk Committee oversees the quality and timeliness of all financial reports, including all disclosure documents issued by the Company or any of its subsidiaries.

The Chief Executive Officer and Chief Financial Officer are required to certify to the Audit and Risk Committee that the financial statements of the Company and its subsidiaries present a true and fair view of the Company and comply with all relevant accounting standards.

Principle 5 – Remuneration

The remuneration of directors and executives is transparent, fair and reasonable.

Non-Executive Directors' Remuneration

Total remuneration available to non-executive directors of the Company and its subsidiaries is determined by shareholders. The current aggregate approved amount by shareholders is $917,500.

The Company's policy is to pay directors' fees in cash. There is no requirement for directors to take a portion of their remuneration in shares and there is no requirement for directors to hold shares in the Company. However, as at 30 June 2014 all directors held shares in the Company (see section 9 of this Report for further details).

Senior Executive Remuneration

The objective is to provide competitive remuneration that aligns executives' remuneration with shareholder value and rewards the executives' achievement of the Company's strategies and business plans.

All senior executives receive a base salary and are also eligible to participate in short-term and long-term incentive plans under which they are rewarded for achieving key performance and operating results.

Principle 6 – Risk Management

The Board regularly verifies that the Company has appropriate processes that identify and manage potential and relevant risks.

The Board ensures that the Company has a Risk Management Programme in place which identifies, manages and communicates the key risks that may impact the Company's business. Specific risk management strategies have been developed for each of the key risks identified. The Audit and Risk Committee of the Board oversees the risk management programme and strategy. The Company also has in place insurance cover for insurable liability and general business risk.

Principle 7 – Auditors

The Board ensures the quality and independence of the external audit process.

The Audit and Risk Committee is responsible for overseeing the external, independent audit of the Company's financial statements. The Audit and Risk Committee ensures that the level of non-audit work undertaken by the auditors does not jeopardise their independence. The Company also has an internal audit function which is independent of the external auditors. The Audit and Risk Committee approves the annual audit programme, which is developed in consultation with management of the Company.

Principle 8 – Shareholder Relations

The Board fosters constructive relationships with shareholders that encourage them to engage with the Company.

The Board is committed to maintaining a full and open dialogue with all shareholders and keeps shareholders informed through:

- Periodic and continuous disclosure to NZX.
- Information provided to analysts and media during briefings.
- The annual shareholders' meeting at which shareholders' questions are responded to.
- Annual and half year reports.

The Board encourages full participation of shareholders at the annual meeting to ensure a high level of accountability. The Company's external auditor also attends the annual meeting and is available to answer questions relating to the external audit.

Principle 9 – Stakeholder Interests

The Board respects the interests of stakeholders within the context of the Company's ownership type and its fundamental purpose.

The Company has a wide range of stakeholders and aims to manage its business in a way which builds sustainable value and produces positive outcomes for stakeholders. As a listed entity with a subsidiary which is a registered bank, the Company is cognisant of its responsibility to respect and balance its stakeholder interests (including customers, staff, regulators and shareholders).

Directors' Responsibility Statement

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of Heartland New Zealand Limited (**Company**) and its subsidiaries (**Group**) as at 30 June 2014 and the financial performance and cash flows for the year ended 30 June 2014.

The directors consider that the financial statements of the Group and the Company 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 financial statements with the Financial Reporting Act 1993.

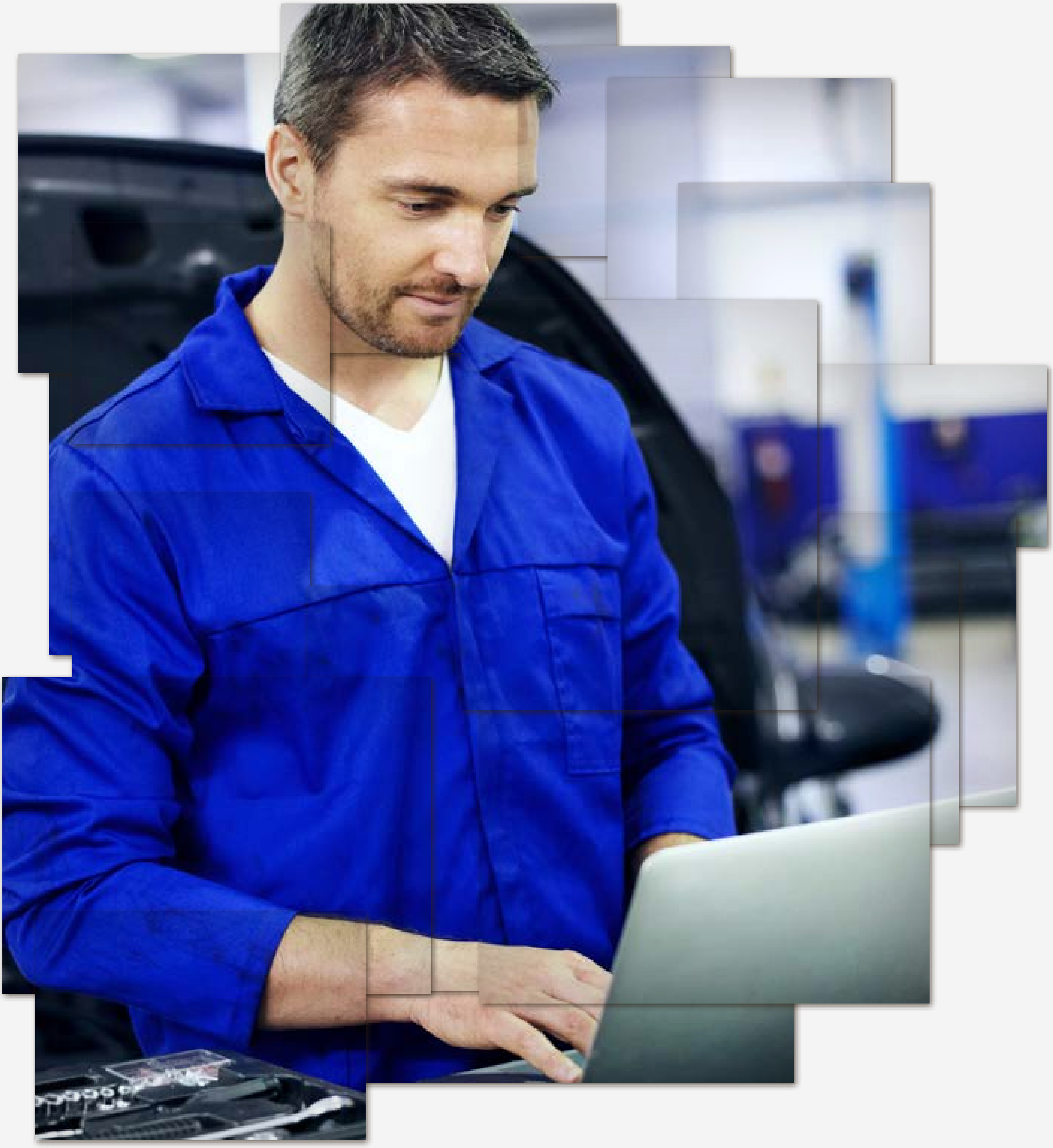
The Board of Directors (**Board**) of Heartland New Zealand Limited authorised the financial statements set out on pages 19 to 64 for issue on 25 August 2014.

For and on behalf of the Board

Geoffrey Ricketts
Chairman

Jeffrey Greenslade
Managing Director

Financial Statements



STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

		GROUP		COMPANY	
	NOTE	Jun 14 $000	Jun 13 $000	Jun 14 $000	Jun 13 $000
Interest income	8	210,297	206,349	137	36
Interest expense	8	101,221	110,895	38	-
Net interest income		**109,076**	**95,454**	**99**	**36**
Operating lease income	9	13,348	14,861	-	-
Operating lease expenses	9	7,709	9,687	-	-
Net operating lease income		**5,639**	**5,174**	**-**	**-**
Lending and credit fee income		2,469	1,760	-	-
Dividends received		-	-	39,221	15,605
Other income	10	4,971	4,499	-	170
Net operating income		**122,155**	**106,887**	**39,320**	**15,811**
Selling and administration expenses	11	64,739	70,347	2,298	1,284
Profit before impaired asset expense and income tax		**57,416**	**36,540**	**37,022**	**14,527**
Impaired asset expense	12	5,895	22,527	-	-
Decrease in fair value of investment properties	19	1,203	5,101	-	-
Operating profit		**50,318**	**8,912**	**37,022**	**14,527**
Share of equity accounted investee's profit	24	486	504	-	-
Profit before income tax		**50,804**	**9,416**	**37,022**	**14,527**
Income tax expense / (benefit)	13	14,765	2,504	(335)	(214)
Profit for the year		**36,039**	**6,912**	**37,357**	**14,741**
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Effective portion of changes in fair value of cash flow hedges, net of income tax		1,111	1,056	-	-
Net change in available for sale reserve, net of income tax		(12)	276	-	-
Movement in foreign currency translation reserve, net of income tax		95	-	-	-
Items that will not be reclassified to profit or loss:					
Net change in defined benefit reserve, net of income tax		3	462	-	-
Other comprehensive income for the year, net of income tax	13(b)	**1,197**	**1,794**	**-**	**-**
Total comprehensive income for the year		**37,236**	**8,706**	**37,357**	**14,741**
Earnings per share from continuing operations					
Basic earnings per share	15	9c	2c	n/a	n/a
Diluted earnings per share	15	9c	2c	n/a	n/a

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

The notes on pages 24 to 64 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2014

		GROUP							
	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
Balance at 1 July 2013		**192,020**	**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	4(h)	149,269	-	-	-	-	-	(149,269)	-
Dividends paid	16	-	-	-	-	-	-	(19,930)	(19,930)
Dividend reinvestment plan	30	7,321	-	-	-	-	-	-	7,321
Issue of share capital	30	57,840	-	-	-	-	-	-	57,840
Transaction costs associated with capital raising		(1,322)	-	-	-	-	-	-	(1,322)
Shares vested		88	(88)	-	-	-	-	-	-
Staff share ownership expense	34	-	935	-	-	-	-	-	935
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**
Balance at 1 July 2012		**192,020**	**-**	**-**	**8**	**(421)**	**(1,010)**	**184,201**	**374,798**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	6,912	6,912
Other comprehensive income, net of income tax		-	-	-	276	462	1,056	-	1,794
Total comprehensive income for the year		**-**	**-**	**-**	**276**	**462**	**1,056**	**6,912**	**8,706**
Contributions by and distributions to owners									
Dividends paid	16	-	-	-	-	-	-	(13,591)	(13,591)
Staff share ownership expense	34	-	629	-	-	-	-	-	629
Total transactions with owners		**-**	**629**	**-**	**-**	**-**	**-**	**(13,591)**	**(12,962)**
Balance at 30 June 2013		**192,020**	**629**	**-**	**284**	**41**	**46**	**177,522**	**370,542**

The notes on pages 24 to 64 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2014

		COMPANY							
	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
Balance at 1 July 2013		**342,288**	-	**-**	**-**	**-**	**-**	**1,962**	**344,250**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	37,357	37,357
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**37,357**	**37,357**
Contributions by and distributions to owners									
Dividends paid	16	-	-	-	-	-	-	(19,958)	(19,958)
Dividend reinvestment plan	30	7,321	-	-	-	-	-	-	7,321
Issue of share capital	30	57,840	-	-	-	-	-	-	57,840
Transaction costs associated with capital raising		(1,322)		-	-	-	-	-	(1,322)
Staff share ownership expense	34	-	714	-	-	-	-	-	714
Total transactions with owners		**63,839**	**714**	**-**	**-**	**-**	**-**	**(19,958)**	**44,595**
Balance at 30 June 2014		**406,127**	**714**	**-**	**-**	**-**	**-**	**19,361**	**426,202**
Balance at 1 July 2012		**342,288**	**-**	**-**	**-**	**-**	**-**	**826**	**343,114**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	14,741	14,741
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**14,741**	**14,741**
Contributions by and distributions to owners									
Dividends paid	16	-	-	-	-	-	-	(13,605)	(13,605)
Total transactions with owners		**-**	**-**	**-**	**-**	**-**	**-**	**(13,605)**	**(13,605)**
Balance at 30 June 2013		**342,288**	**-**	**-**	**-**	**-**	**-**	**1,962**	**344,250**

The notes on pages 24 to 64 are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2014

		GROUP		COMPANY	
	NOTE	Jun 14 $000	Jun 13 $000	Jun 14 $000	Jun 13 $000
Assets					
Cash and cash equivalents	17	37,344	174,262	95	1,485
Investments	18	238,859	165,223	-	-
Investment properties	19	24,888	58,287	-	-
Finance receivables	20	2,607,393	2,010,376	-	-
Operating lease vehicles	21	31,295	32,395	-	-
Current tax assets		1,558	-	560	707
Other assets	22	9,024	10,133	24,980	36
Investment in subsidiaries	23	-	-	400,988	342,234
Investment in joint venture	24	4,246	4,320	-	-
Property, plant and equipment	25	9,573	10,281	-	-
Intangible assets	26	47,421	22,963	-	-
Deferred tax assets	27	5,287	16,387	-	14
Total assets		**3,016,888**	**2,504,627**	**426,623**	**344,476**
Liabilities					
Borrowings	28	2,524,460	2,097,553	-	-
Current tax liabilities		431	2,859	-	-
Trade and other payables	29	39,375	33,673	421	226
Total liabilities		**2,564,266**	**2,134,085**	**421**	**226**
Equity					
Share capital	30	405,216	192,020	406,127	342,288
Retained earnings and reserves		47,406	178,522	20,075	1,962
Total equity		**452,622**	**370,542**	**426,202**	**344,250**
Total equity and liabilities		**3,016,888**	**2,504,627**	**426,623**	**344,476**

The notes on pages 24 to 64 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2014

		GROUP		COMPANY	
	NOTE	Jun 14 $000	Jun 13 $000	Jun 14 $000	Jun 13 $000
Cash flows from operating activities					
Interest received		193,519	199,279	116	36
Dividends received		-	-	39,221	15,605
Operating lease income received		12,086	11,958	-	-
Proceeds from sale of operating lease vehicles		9,086	10,710	-	-
Lending, credit fees and other income received		7,440	6,259	-	155
Net decrease in finance receivables		113,630	32,908	-	-
Total cash provided from operating activities		**335,761**	**261,114**	**39,337**	**15,796**
Payments to suppliers and employees		59,687	61,009	1,671	1,140
Interest paid		101,675	112,820	108	-
Purchase of operating lease vehicles		12,954	15,611	-	-
Taxation paid		8,033	2,946	209	144
Total cash applied to operating activities		**182,349**	**192,386**	**1,988**	**1,284**
Net cash flows from operating activities	33	**153,412**	**68,728**	**37,349**	**14,512**
Cash flows from investing activities					
Net proceeds from sale of investment properties		42,244	3,194	-	-
Proceeds from sale of office fit-out, equipment and intangible assets		19	-	-	-
Dividend received from joint venture		560	-	-	-
Decrease in investment in subsidiaries		-	-	-	809
Total cash provided from investing activities		**42,823**	**3,194**	**-**	**809**
Purchase of office fit-out, equipment and intangible assets		432	2,256	-	-
Net increase in investments		73,648	130,687	-	-
Purchase of subsidiaries		48,300	-	-	-
Net increase in funds on deposit with related parties		-	-	22,780	-
Net increase in working capital facility provided to subsidiaries		-	-	2,000	-
Increase in investment in subsidiaries		-	-	20,000	700
Increase in investment in joint venture		-	700	-	-
Total cash applied to investing activities		**122,380**	**133,643**	**44,780**	**700**
Net cash flows (applied to) / from investing activities		**(79,557)**	**(130,449)**	**(44,780)**	**109**
Cash flows from financing activities					
Net increase in borrowings		-	159,885	-	-
Increase in share capital		20,000	-	20,000	-
Total cash provided from financing activities		**20,000**	**159,885**	**20,000**	**-**
Dividends paid		12,609	13,591	12,637	13,605
Transaction costs associated with capital raising		1,322	-	1,322	-
Net decrease in borrowings		220,669	-	-	-
Total cash applied to financing activities		**234,600**	**13,591**	**13,959**	**13,605**
Net cash flows (applied to) / from financing activities		**(214,600)**	**146,294**	**6,041**	**(13,605)**
Net (decrease) / increase in cash held		**(140,745)**	**84,573**	**(1,390)**	**1,016**
Opening cash and cash equivalents		174,262	89,689	1,485	469
Effects of currency translation on cash and cash equivalents		-	-	-	-
Cash impact of business combinations	43	3,827	-	-	-
Closing cash and cash equivalents	17	**37,344**	**174,262**	**95**	**1,485**

The notes on pages 24 to 64 are an integral part of these financial statements.

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

1 Reporting entity

The financial statements presented are the consolidated financial statements comprising Heartland New Zealand Limited (Company), its subsidiaries and joint venture (Group). Refer to Note 5 - Significant subsidiaries and interests in jointly controlled entities and Note 6 - Structured entities for further details.

On 1 April 2014, the Company, through its subsidiary Heartland HER Holdings Limited, acquired 100% of New Sentinel Limited and Australian Seniors Finance Pty Limited (collectively the HER acquisition). Refer to Note 43 - Business combinations for more information.

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 special purpose entities.

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and with the requirements of the Financial Reporting Act 1993. 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 Company and all entities within the Group are profit-oriented entities. The Company is a reporting entity and an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Securities Regulations 2009.

(b) Basis of measurement

The financial statements have been prepared on the basis of historical cost, except the following items measured at fair value:

- Land and buildings, refer to Note 4(o).
- Investment property, refer to Note 19.
- Financial Instruments, refer to Notes 18, 31 and 35.

(c) Functional and presentation currency and rounding

These 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.

(d) Estimates and judgements

The preparation of financial statements requires the use of management judgement, estimates and assumptions that effect reported amounts. Actual results may differ from these judgements. For further information about significant areas of estimation, uncertainty and critical judgements that have the most significant effect on the financial statements, refer to Note 4(r) and 4(s).

(e) Going concern

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

(f) Comparative information

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

3 Application of new and revised accounting standards

(a) New standards and interpretations adopted

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

NZ IAS 19 Employee Benefits (Revised 2011)

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

Amendments to NZ IFRS 7 Financial Instruments: Disclosures

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

NZ IFRS 10 Consolidated Financial Statements

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

NZ IFRS 11 Joint Arrangements

NZ IFRS 11 requires joint arrangements to be classified as either joint operations or joint ventures. Joint operations are required to use the proportionate consolidation method and joint ventures, the equity method. The adoption of NZ IFRS 11 had no effect on the Group's joint arrangement, which continues to be treated as a joint venture.

NZ IFRS 12 Disclosure of Interests in Other Entities

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

NZ IFRS 13 Fair Value Measurement

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

(b) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2014, and have not been applied in preparing these financial statements. The new standards identified which may have an effect on the financial statements of the 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 2017	30 June 2018
NZ IFRS 9 Financial Instruments (2013), which provides a more principles-based approach to hedge accounting and aligns hedge accounting more closely with risk management.	1 January 2017	30 June 2018
NZ IAS 32 Financial Instruments: Presentation - clarifies certain aspects of offsetting financial assets and liabilities because of diversity in the application of the requirements of offsetting.	1 January 2014	30 June 2015

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

4 Significant accounting policies

(a) Consolidation of subsidiaries

Subsidiaries are entities (including structured entities) that are controlled by the Group. Investments in subsidiary companies are recorded at cost by the Company.

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

(b) Joint arrangements

The Group has determined that it's joint arrangement is 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.

(c) Structured entities

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

(d) Interest

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

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

(e) Lending and credit fee income

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

(f) Dividend income

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

(g) Tax

Income tax expense

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

Current tax

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

Deferred tax

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

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

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

4 Significant accounting policies (continued)

(g) Tax (continued)

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

(h) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

At 30 June 2013 the Group's share capital differs from the share capital of the Company as a result of the reverse acquisition accounting applied when the Company was formed. Under NZ IFRS, MARAC Finance Limited (MARAC) (a former subsidiary of the Company), was treated as the acquirer of the Company. As a result, the Group's result represented a continuation of the MARAC business, and the share capital of the Group reflects this. On the amalgamation of MARAC into the Bank (MARAC's immediate parent), the reverse acquisition accounting was eliminated.

(i) Cash and cash equivalents

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

(j) Investments

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

(k) Investment properties

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

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

(l) Finance receivables

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

(m) Leases

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

Finance leases

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

Operating leases

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

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

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

4 Significant accounting policies (continued)

(n) Derivative financial instruments

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

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

(o) Property, plant, equipment and depreciation

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

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

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

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

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

Buildings	1.0% - 4.0%
Fixtures and fittings	7.0% - 36.0%
Office equipment and furniture	6.0% - 30.0%
Computer equipment	20.0% - 48.0%

(p) Intangible assets and goodwill

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 and contingent liabilities. When the fair value of the identifiable net assets and contingent liabilities exceeds the cost of an acquisition, the resulting discount is recognised immediately in profit or loss for the year. Goodwill is tested for impairment at least annually, and is carried at cost less accumulated impairment losses.

Computer software

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

4 Significant accounting policies (continued)

(q) Financial assets and liabilities

Classification

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

Financial assets/liabilities	Accounting category
Cash and cash equivalents	Loans and receivables
Investments	Available for sale
Due from related parties	Loans and receivables
Finance receivables	Loans and receivables
Other financial assets	Loans and receivables
Borrowings	Other liabilities at amortised cost
Other financial liabilities	Other liabilities at amortised cost
Derivatives	Held for trading (or qualifying hedges as described in Note 4(n))

Recognition

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.

Derecognition

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

Offsetting financial instruments

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

(r) Impaired assets and past due assets

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.

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

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.

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.

4 Significant accounting policies (continued)

(s) Provision for impairment

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

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

Collective provisioning

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

No provisions are applied to loans that are newly written and loans that remain within their contractual terms, except where the 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.

(t) 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.

(u) Provisions

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

(v) Employee benefits

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

4 Significant accounting policies (continued)

(w) Defined benefit plan

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

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

(x) Share schemes

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. Details regarding the determination of the fair value of equity settled share-based transactions are set out in Note 34 - Staff share ownership arrangements.

The fair value determined at the grant date of the equity settled share-based payments is expensed on a straight line basis over the vesting period, based on the 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.

(y) Borrowings

Bank borrowings and deposits are initially recognised at fair value including incremental direct transaction costs. They are subsequently measured at amortised cost using the effective interest method.

(z) Foreign currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in New Zealand dollars ($), which is the Group’s presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign operations

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).
- all resulting exchange differences are recognised in other comprehensive income.

(aa) Statements of Cash Flows

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

5 Significant subsidiaries and interests in jointly controlled entities

Significant subsidiaries	Country of incorporation and place of business	Nature of business	Proportion of ownership interest and voting power held Jun 14	Jun 13
Heartland NZ Holdings Limited	New Zealand	Holding company	100%	100%
and its subsidiary:				
Heartland Bank Limited (Bank)	New Zealand	Financial services	100%	100%
and its subsidiaries:				
- MARAC Finance Limited (MARAC) [1]	New Zealand	Financial services	N/A	100%
- PGG Wrightson Finance Limited (PWF) [1]	New Zealand	Financial services	N/A	100%
- VPS Parnell Limited	New Zealand	Investment property holding company	100%	100%
- VPS Properties Limited	New Zealand	Investment property holding company	100%	100%
- Heartland PIE Fund Limited [2]	New Zealand	Manager of Heartland Cash and Term PIE Fund	100%	N/A
Heartland NZ Trustee Limited	New Zealand	Corporate Trustee	100%	100%
Heartland Financial Services Limited (HFSL)	New Zealand	Holding company	100%	100%
and its subsidiary:				
Heartland HER Holdings Limited (HHHL) [3]	New Zealand	Holding company	100%	N/A
and its subsidiaries (HHHL Group):				
- New Sentinel Limited (NSL) [3]	New Zealand	Financial services	100%	N/A
- Sentinel Custodians Limited (SCL) [4]	New Zealand	Nominee	100%	0%
- Australian Seniors Finance Pty Limited (ASF) [3]	Australia	Financial services	100%	0%
- Australian Seniors Finance Custodians Pty Limited [5]	Australia	Nominee	100%	0%
and its jointly controlled entity:				
- MARAC JV Holdings Limited (MJV)	New Zealand	Holding company	50%	50%
and its subsidiary:				
- MARAC Insurance Limited	New Zealand	Insurance services	50%	50%

[1] On 1 December 2013 MARAC and PWF were amalgamated into the Bank. As a result, the assets and liabilities of MARAC and PWF were transferred to the Bank at book value.

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

[3] On 13 February 2014 Heartland HER Holdings Limited was incorporated. On 1 April 2014 the Company acquired New Sentinel Limited and Australian Seniors Finance Pty Limited from Seniors Money International Limited. Refer to Note 43 - Business Combinations for more details.

[4] Sentinel Custodians Limited is the legal holder of home equity release loans for the benefit of NSL. The shares in SCL are held by Public Trust as trustee for NSL. The Company has determined it has control of SCL, as it has power to direct the relevant activities of SCL through its control over the directors of SCL.

[5] The Company acquired control of Australian Seniors Finance Custodians Pty Limited following the HER acquisition. Australian Seniors Finance Custodians Pty Limited is the legal holder of home equity release loans for the benefit of the Seniors Warehouse Trust and ASF Settlement Trust.

6 Structured entities

The Group controls the operations of Heartland Cash and Term PIE Fund, CBS Warehouse A Trust (CBS Trust), 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:

	GROUP		COMPANY	
	Jun 14 $000	Jun 13 $000	Jun 14 $000	Jun 13 $000
Deposits	38,819	33,226	-	-

6 Structured entities (continued)

(b) ABCP Trust and CBS Trust

The Group has securitised a pool of receivables comprising commercial and motor vehicle loans to the ABCP Trust. Prior to 15 August 2013, the Group had securitised a pool of receivables comprising residential mortgages to the CBS Trust.

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

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:

	GROUP		COMPANY	
	Jun 14 $000	Jun 13 $000	Jun 14 $000	Jun 13 $000
Cash and cash equivalents - securitised	5,421	11,586	-	-
Finance receivables - securitised	244,838	274,978	-	-
Borrowings - securitised	(228,623)	(258,934)	-	-
Derivative financial asset - securitised	1,768	567	-	-
Derivative financial liabilities - securitised	-	(30)	-	-

(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:

	GROUP		COMPANY	
	Jun 14 $000	Jun 13 $000	Jun 14 $000	Jun 13 $000
Cash and cash equivalents	846	-	-	-
Finance receivables - Home equity release loans	405,523	-	-	-
Borrowings - CBA	(364,335)	-	-	-
Derivative financial liabilities	(4,147)	-	-	-

7 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 32 - Related party transactions. Certain selling and administration expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other.

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

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

The Group's operating segments are different than the industry categories detailed in Note 38 - Asset quality. The operating segments are primarily categorised by sales channel, whereas Note 38 - Asset quality categorises exposures based on credit risk concentrations.

7 Segmental analysis (continued)

	GROUP					
	Retail & Consumer $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Jun 14						
Interest income	104,224	50,709	39,666	2,977	12,721	210,297
Interest expense	45,903	21,663	16,865	4,426	12,364	101,221
Net interest income / (expense)	**58,321**	**29,046**	**22,801**	**(1,449)**	**357**	**109,076**
Net operating lease income	5,639	-	-	-	-	5,639
Net other income	2,003	432	68	3,822	1,115	7,440
Net operating income	**65,963**	**29,478**	**22,869**	**2,373**	**1,472**	**122,155**
Depreciation and amortisation expense	-	-	-	-	2,142	2,142
Other selling and administration expenses	12,626	5,304	5,409	4,000	35,258	62,597
Selling and administration expenses	**12,626**	**5,304**	**5,409**	**4,000**	**37,400**	**64,739**
Profit before impaired asset expense and income tax	**53,337**	**24,174**	**17,460**	**(1,627)**	**(35,928)**	**57,416**
Impaired asset expense	1,028	5,155	963	(1,251)	-	5,895
Decrease in fair value of investment properties	-	-	-	1,203	-	1,203
Operating profit / (loss)	**52,309**	**19,019**	**16,497**	**(1,579)**	**(35,928)**	**50,318**
Share of equity accounted investee's profit	-	-	-	-	486	486
Profit / (loss) before income tax	**52,309**	**19,019**	**16,497**	**(1,579)**	**(35,442)**	**50,804**
Income tax expense	-	-	-	-	14,765	14,765
Profit / (loss) for the year	**52,309**	**19,019**	**16,497**	**(1,579)**	**(50,207)**	**36,039**
Total assets	1,665,343	547,168	410,219	40,846	353,312	**3,016,888**
Total liabilities	-	-	-	-	2,564,266	**2,564,266**
Total equity	-	-	-	-	452,622	**452,622**
Jun 13						
Interest income	90,991	51,679	45,762	8,734	9,183	206,349
Interest expense	46,611	26,261	22,952	7,767	7,304	110,895
Net interest income	**44,380**	**25,418**	**22,810**	**967**	**1,879**	**95,454**
Net operating lease income	5,151	23	-	-	-	5,174
Net other income	622	285	49	3,860	1,443	6,259
Net operating income	**50,153**	**25,726**	**22,859**	**4,827**	**3,322**	**106,887**
Depreciation and amortisation expense	-	-	-	-	1,940	1,940
Other selling and administration expenses	11,696	5,864	6,152	12,438	32,257	68,407
Selling and administration expenses	**11,696**	**5,864**	**6,152**	**12,438**	**34,197**	**70,347**
Profit / (loss) before impaired asset expense and income tax	**38,457**	**19,862**	**16,707**	**(7,611)**	**(30,875)**	**36,540**
Impaired asset expense	2,770	3,360	(195)	16,592	-	22,527
Decrease in fair value of investment properties	-	-	-	5,101	-	5,101
Operating profit / (loss)	**35,687**	**16,502**	**16,902**	**(29,304)**	**(30,875)**	**8,912**
Share of equity accounted investee's profit	-	-	-	-	504	504
Profit / (loss) before income tax	**35,687**	**16,502**	**16,902**	**(29,304)**	**(30,371)**	**9,416**
Income tax expense	-	-	-	-	2,504	2,504
Profit/(loss) for the year	**35,687**	**16,502**	**16,902**	**(29,304)**	**(32,875)**	**6,912**
Total assets	987,796	549,177	456,647	107,438	403,569	**2,504,627**
Total liabilities	-	-	-	-	2,134,085	**2,134,085**
Total equity	-	-	-	-	370,542	**370,542**

8 Net interest income

	GROUP		COMPANY	
	Jun 14	Jun 13	Jun 14	Jun 13
	$000	$000	$000	$000
Interest income				
Cash and cash equivalents	3,559	3,876	137	36
Investments	9,189	1,860	-	-
Finance receivables	197,549	197,999	-	-
Net interest income on derivative financial instruments	-	2,614	-	-
Total interest income	**210,297**	**206,349**	**137**	**36**
Interest expense				
Retail deposits	79,430	94,198	-	-
Bank and securitised borrowings	20,932	16,697	-	-
Net interest expense on derivative financial instruments	859	-	38	-
Total interest expense	**101,221**	**110,895**	**38**	**-**
Net interest income	**109,076**	**95,454**	**99**	**36**

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

9 Net operating lease income

	GROUP		COMPANY	
	Jun 14	Jun 13	Jun 14	Jun 13
	$000	$000	$000	$000
Operating lease income				
Lease income	11,256	12,898	-	-
Gain on disposal of lease vehicles	2,092	1,963	-	-
Total operating lease income	**13,348**	**14,861**	**-**	**-**
Operating lease expense				
Depreciation on lease vehicles	7,060	9,019	-	-
Direct lease costs	649	668	-	-
Total operating lease expenses	**7,709**	**9,687**	**-**	**-**
Net operating lease income	**5,639**	**5,174**	**-**	**-**

10 Other income

		GROUP		COMPANY	
		Jun 14	Jun 13	Jun 14	Jun 13
	NOTE	$000	$000	$000	$000
Rental income from investment properties		4,027	3,859	-	-
Management fees	32	374	335	-	-
Other income		570	305	-	170
Total other income		**4,971**	**4,499**	**-**	**170**

11 Selling and administration expenses

		GROUP		COMPANY	
		Jun 14	Jun 13	Jun 14	Jun 13
	NOTE	$000	$000	$000	$000
Personnel expenses		35,180	33,448	-	-
Directors' fees [1]		882	726	412	549
Superannuation		585	413	-	-
Audit and review of financial statements		430	419	140	60
Other assurance services paid to auditor [2]		18	20	-	-
Other fees paid to auditor [3]		193	84	-	-
Depreciation - property, plant and equipment	25	801	714	-	-
Amortisation - intangible assets	26	1,341	1,226	-	-
Operating lease expense as a lessee		1,654	1,651	-	-
RECL Agreement fees [4]		-	7,700	-	-
Legal and professional fees		4,434	3,631	1,510	246
Other operating expenses [5]		19,221	20,315	236	429
Total selling and administration expenses		**64,739**	**70,347**	**2,298**	**1,284**

[1] Included in Directors' fees are Directors' fees the Company has paid on behalf of the Bank and its subsidiaries.

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

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

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

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

	GROUP		COMPANY	
	Jun 14	Jun 13	Jun 14	Jun 13
	$000	$000	$000	$000
Operating expenses from investment properties that generated rental income	3,367	3,563	-	-
Operating expenses from investment properties that did not generate rental income	151	219	-	-
Total direct operating expenses on investment properties	**3,518**	**3,782**	**-**	**-**

12 Impaired asset expense

		GROUP		COMPANY	
		Jun 14	Jun 13	Jun 14	Jun 13
	NOTE	$000	$000	$000	$000
Non-securitised					
Individually impaired expense		11,851	13,098	-	-
Collectively impaired expense		(6,536)	9,108	-	-
Total non-securitised impaired asset expense		**5,315**	**22,206**	**-**	**-**
Securitised					
Individually impaired expense		-	3	-	-
Collectively impaired expense		580	318	-	-
Total securitised impaired asset expense		**580**	**321**	**-**	**-**
Total					
Individually impaired expense	38(e)	11,851	13,101	-	-
Collectively impaired expense	38(e)	(5,956)	9,426	-	-
Total impaired asset expense		**5,895**	**22,527**	**-**	**-**

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

13 Income tax expense

	GROUP		COMPANY	
	Jun 14	Jun 13	Jun 14	Jun 13
	$000	$000	$000	$000
(a) Current income tax expense / (benefit)				
Current year	3,725	11,699	(350)	(300)
Adjustments for prior year	30	(193)	1	63
Deferred tax (benefit) / expense				
Origination and reversal of temporary differences	11,010	(9,002)	14	23
Total income tax expense / (benefit)	**14,765**	**2,504**	**(335)**	**(214)**
Reconciliation of effective tax rate				
Profit before income tax	50,804	9,416	37,022	14,527
Prima facie tax at 28%	14,225	2,636	10,366	4,068
Higher tax rate for overseas jurisdiction	21	-	-	-
Plus tax effect of items not taxable / deductible	489	61	280	24
Adjustments for prior year	30	(193)	1	63
Dividends received	-	-	(10,982)	(4,369)
Total income tax expense / (benefit)	**14,765**	**2,504**	**(335)**	**(214)**

(b) Tax recognised in other comprehensive income

	GROUP				
	Foreign Currency Translation Reserve	Available for sale investments	Defined benefit plan	Cash flow hedges	Total
	$000	$000	$000	$000	$000
Jun 2014					
Other comprehensive income / (loss) before tax	95	(17)	4	1,542	1,624
less tax (benefit) / expense	-	(5)	1	431	427
Total other comprehensive income / (loss), net of income tax	**95**	**(12)**	**3**	**1,111**	**1,197**
Jun 2013					
Other comprehensive income before tax	-	383	478	1,467	2,328
less tax expense	-	107	16	411	534
Total other comprehensive income, net of income tax	-	**276**	**462**	**1,056**	**1,794**

14 Imputation credit account

As at 30 June 2014, the imputation credit account balance of the Group was a debit of $1,471,000 (2013: credit of $1,688,000) and the Australian franking credit account balance of ASF was $nil (2013: n/a).

15 Earnings per share

The calculation of basic and diluted earnings of 9c per share at 30 June 2014 (2013: 2c per share) is based on the profit for the year of $36,039,000 (2013: $6,912,000), and a weighted average number of shares on issue of 411,753,442 (2013: 388,703,975).

16 Dividends paid

The Company paid total dividends of $19,958,000 ($0.05 per share), consisting of $9,718,000 ($0.025 per share) on 4 October 2013 and $10,240,000 ($0.025 per share) on 4 April 2014. During the year ended 30 June 2013, the Company paid total dividends of $13,605,000 ($0.04 per share).

17 Cash and cash equivalents

	GROUP		COMPANY	
	Jun 14	**Jun 13**	**Jun 14**	**Jun 13**
	$000	**$000**	**$000**	**$000**
Cash on hand	340	279	-	-
Cash at banks	37,004	173,983	95	1,485
Total cash and cash equivalents	**37,344**	**174,262**	**95**	**1,485**

18 Investments

	GROUP		COMPANY	
	Jun 14	**Jun 13**	**Jun 14**	**Jun 13**
	$000	**$000**	**$000**	**$000**
Bank deposits	143,063	121,780	-	-
Public securities and corporate bonds	58,814	9,162	-	-
Local authority stock	36,982	34,281	-	-
Total investments	**238,859**	**165,223**	**-**	**-**

19 Investment properties

	GROUP		COMPANY	
	Jun 14	**Jun 13**	**Jun 14**	**Jun 13**
	$000	**$000**	**$000**	**$000**
Opening balance	58,287	55,504	-	-
Acquisitions	9,746	10,800	-	-
Additional capital expenditure	302	278	-	-
Sales	(42,244)	(3,194)	-	-
Decrease in fair value of investment properties	(1,203)	(5,101)	-	-
Closing balance	**24,888**	**58,287**	**-**	**-**

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

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

20 Finance receivables

		GROUP		COMPANY	
	NOTE	Jun 14	Jun 13	Jun 14	Jun 13
		$000	$000	$000	$000
Non-securitised					
Neither at least 90 days past due or impaired		2,321,630	1,687,480	-	-
At least 90 days past due		32,969	24,837	-	-
Individually impaired		27,617	69,301	-	-
Restructured assets		4,064	3,566	-	-
Gross finance receivables		**2,386,280**	**1,785,184**	**-**	**-**
Less allowance for impairment		15,725	49,786	-	-
Less fair value adjustment for present value of future losses [1]		8,000	-	-	-
Total non-securitised finance receivables		**2,362,555**	**1,735,398**	**-**	**-**
Securitised					
Neither at least 90 days past due or impaired		244,409	273,922	-	-
At least 90 days past due		1,065	1,761	-	-
Gross finance receivables		**245,474**	**275,683**	**-**	**-**
Less allowance for impairment		636	705	-	-
Total securitised finance receivables		**244,838**	**274,978**	**-**	**-**
Total					
Neither at least 90 days past due or impaired		2,566,039	1,961,402	-	-
At least 90 days past due	38(b)	34,034	26,598	-	-
Individually impaired	38(c)	27,617	69,301	-	-
Restructured assets		4,064	3,566	-	-
Gross finance receivables		**2,631,754**	**2,060,867**	**-**	**-**
Less allowance for impairment	38(e)	16,361	50,491	-	-
Less fair value adjustment for present value of future losses	43	8,000	-	-	-
Total finance receivables		**2,607,393**	**2,010,376**	**-**	**-**

[1] Of the $8.0m fair value adjustment, $0.5 million was raised as a result of the acquisition of $30.5 million home equity release loans in December 2013, and $7.5 million was raised pursuant to the HER acquisition (see Note 43 - Business combinations).

Refer to Note 38 - Asset quality for further analysis of finance receivables by credit risk concentration.

Finance lease receivables

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

	GROUP		COMPANY	
	Jun 14	Jun 13	Jun 14	Jun 13
	$000	$000	$000	$000
Gross finance lease receivables				
Less than 1 year	36,420	40,777	-	-
Between 1 and 5 years	66,184	69,665	-	-
More than 5 years	66	-	-	-
Total gross finance lease receivables	**102,670**	**110,442**	**-**	**-**
Less unearned finance income	14,681	15,616	-	-
Less provision for impairment	87	192	-	-
Net finance lease receivables	**87,902**	**94,634**	**-**	**-**

21 Operating lease vehicles

	GROUP		COMPANY	
	Jun 14	Jun 13	Jun 14	Jun 13
	$000	$000	$000	$000
Cost				
Opening balance	47,339	51,236	-	-
Additions	12,954	15,611	-	-
Disposals	(16,698)	(19,508)	-	-
Closing balance	**43,595**	**47,339**	**-**	**-**
Accumulated depreciation				
Opening balance	14,944	16,686	-	-
Depreciation charge for the year	7,060	9,019	-	-
Disposals	(9,704)	(10,761)	-	-
Closing balance	**12,300**	**14,944**	**-**	**-**
Opening net book value	32,395	34,550	-	-
Closing net book value	**31,295**	**32,395**	**-**	**-**

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

22 Other assets

		GROUP		COMPANY	
		Jun 14	Jun 13	Jun 14	Jun 13
	NOTE	$000	$000	$000	$000
Derivative financial assets	31	1,867	649	70	-
Trade receivables		6,134	7,286	23	16
Due from related parties	32	-	-	24,887	20
Prepayments		1,023	2,198	-	-
Total other assets		**9,024**	**10,133**	**24,980**	**36**

23 Investment in subsidiaries

	GROUP		COMPANY	
	Jun 14	Jun 13	Jun 14	Jun 13
	$000	$000	$000	$000
Heartland NZ Holdings Limited	-	-	339,757	338,843
Heartland Financial Services Limited	-	-	61,040	3,200
Heartland NZ Trustee Limited	-	-	191	191
Total investments in subsidiaries	**-**	**-**	**400,988**	**342,234**

On 1 April 2014, the Company increased its investment in HFSL, to fund HHHL's acquisition of NSL and ASF. Refer to Note 43 - Business Combinations for more details.

24 Investment in joint venture

	GROUP		COMPANY	
	Jun 14	Jun 13	Jun 14	Jun 13
	$000	$000	$000	$000
Carrying amount at beginning of year	4,320	3,116	-	-
Investment in joint venture	-	700	-	-
Dividends received from joint venture	(560)	-	-	-
Equity accounted earnings of joint venture	486	504	-	-
Carrying amount at end of year	**4,246**	**4,320**	**-**	**-**
Total comprehensive income from joint venture	972	1,010	-	-

HFSL owns 50% of MJV. MJV is jointly owned by HFSL and the New Zealand Automobile Association Limited.

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25 Property, plant and equipment

	GROUP		COMPANY	
	Jun 14	**Jun 13**	**Jun 14**	**Jun 13**
	$000	**$000**	**$000**	**$000**
Cost				
Opening balance	14,006	13,161	-	-
Additions	168	936	-	-
Disposals	(622)	(91)	-	-
Closing balance	**13,552**	**14,006**	**-**	**-**
Accumulated depreciation				
Opening balance	3,725	3,094	-	-
Depreciation charge for the year	801	714	-	-
Disposals	(547)	(83)	-	-
Closing balance	**3,979**	**3,725**	**-**	**-**
Opening net book value	10,281	10,067	-	-
Closing net book value	**9,573**	**10,281**	**-**	**-**

26 Intangible assets

Computer software - cost				
Opening balance	7,733	6,748	-	-
Additions	816	1,320	-	-
Disposals	(748)	(335)	-	-
Closing balance	**7,801**	**7,733**	**-**	**-**
Computer software - accumulated amortisation				
Opening balance	4,929	4,038	-	-
Amortisation charge for the year	1,341	1,226	-	-
Disposals	(747)	(335)	-	-
Closing balance	**5,523**	**4,929**	**-**	**-**
Computer software - opening net book value	2,804	2,710	-	-
Computer software - closing net book value	**2,278**	**2,804**	**-**	**-**
Goodwill				
Opening balance	20,159	20,287	-	-
Additions	24,984	-	-	-
Disposals	-	(128)	-	-
Closing balance	**45,143**	**20,159**	**-**	**-**
Total intangible assets - opening net book value	22,963	22,997	-	-
Total intangible assets - closing net book value	**47,421**	**22,963**	**-**	**-**

As part of the HER acquisition $25.0 million of goodwill was recognised, refer to Note 43 - Business Combinations for more details.

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

27 Deferred tax

	GROUP		COMPANY	
	Jun 14	Jun 13	Jun 14	Jun 13
	$000	$000	$000	$000
Employee entitlements	1,619	1,232	-	-
Provision for impairment	4,404	13,939	-	-
Trade and other payables	223	225	-	14
Investment properties	1,740	2,925	-	-
Intangible assets	-	27	-	-
Tax assets	**7,986**	**18,348**	**-**	**14**
Property, plant and equipment	826	834	-	-
Intangible assets	27	-	-	-
Derivatives held for risk management	449	18	-	-
Operating lease vehicles	1,397	1,109	-	-
Tax liabilities	**2,699**	**1,961**	**-**	**-**
Net tax assets	**5,287**	**16,387**	**-**	**14**

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

28 Borrowings

	GROUP		COMPANY	
	Jun 14	Jun 13	Jun 14	Jun 13
	$000	$000	$000	$000
Deposits	1,736,751	1,838,619	-	-
Subordinated bond	3,378	-	-	-
Bank borrowings	555,708	-	-	-
Securitised borrowings	228,623	258,934	-	-
Total borrowings	**2,524,460**	**2,097,553**	**-**	**-**

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 $400 million in relation to ABCP Trust which mature on 4 February 2015. The facilities are drawn by $229 million (2013: $259 million) as shown above.

The Group has a New Zealand and Australian bank facility provided by Commonwealth Bank of Australia (CBA) totalling $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. 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.

29 Trade and other payables

		GROUP		COMPANY	
		Jun 14	Jun 13	Jun 14	Jun 13
	NOTE	$000	$000	$000	$000
Derivative financial liabilities	31	4,180	30	-	-
Trade payables		12,849	12,360	421	226
GST payable		15,749	16,249	-	-
Due to related parties	32	500	500	-	-
Employee benefits		6,097	4,534	-	-
Total trade and other payables		**39,375**	**33,673**	**421**	**226**

30 Share capital

	COMPANY	
	Jun 14	Jun 13
	Number of shares	
	000	000
Issued shares		
Opening balance	388,704	388,704
Shares issued during the year	74,562	-
Closing balance	**463,266**	**388,704**

To fund the HER acquisition, the Company:

- Raised capital totalling $20 million. On 19 February 2014, $15 million was raised by issuing 17,045,455 HNZ shares at $0.88 per share to institutions. On 25 March 2014, $5 million was raised through a Heartland New Zealand Limited underwritten share purchase plan, by issuing 5,854,940 HNZ shares at $0.8541 per share.
- Issued $37.8m of shares. On 1 April 2014, the Company issued 43,000,000 HNZ shares at $0.88 per share to Seniors Money International Limited (subject to a minimum 12 month lock-up escrow arrangement).

Refer to Note 43 - Business Combinations for more details.

Under dividend reinvestment plans, the Company issued 3,850,604 new shares at $0.8260 per share on 3 October 2013 and 4,811,618 new shares at $0.8606 per share on 4 April 2014.

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

31 Derivative financial instruments

		GROUP		COMPANY	
		Jun 14	Jun 13	Jun 14	Jun 13
	NOTE	$000	$000	$000	$000
Interest rate swaps					
Qualifying cash flow hedges - securitised		1,768	567	-	-
Qualifying cash flow hedges - non-securitised		3	-	-	-
Qualifying fair value hedges - non-securitised		26	82	-	-
Forward exchange options held for risk management		70	-	70	-
Total derivative financial assets	22	**1,867**	**649**	**70**	**-**
Interest rate swaps					
Qualifying cash flow hedges - securitised		-	30	-	-
Qualifying fair value hedges - non-securitised		34	-	-	-
Held for risk management		4,146		-	
Total derivative financial liabilities	29	**4,180**	**30**	**-**	**-**

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

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

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

32 Related party transactions

The Company holds all shares in the Bank and HFSL, refer Note 5 - Significant subsidiaries and interests in jointly controlled entities.

(a) Transactions with related parties

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

The Company, MARAC Insurance, Heartland Cash and Term PIE Fund and some key management personnel invested in the Bank's deposits. The investments of Heartland Cash and Term PIE Fund are detailed in Note 6 - Structured entities. Key management personnel investments are detailed in Note 32(b).

The Company received dividends from the Bank and HFSL.

The Company provided a working capital facility to Heartland HER Holdings Limited and a banking facility to the Heartland NZ Trustee Limited as Heartland NZ Trustee Limited does not have a bank account. Both of these facilities are non-interest bearing.

	GROUP		COMPANY	
	Jun 14	Jun 13	Jun 14	Jun 13
	$000	$000	$000	$000
Transactions with related parties				
Subsidiaries				
Interest income	-	-	21	-
Dividend income	-	-	39,221	15,605
MARAC Insurance Limited				
Interest expense	(21)	(4)	-	-
Lending and credit fee income	300	312	-	-
Other income	374	335	-	-
Total transactions with other related parties	**653**	**643**	**39,242**	**15,605**
Due from related parties				
Subsidiaries	-	-	24,887	20
Total due from related parties	**-**	**-**	**24,887**	**20**
Due to related parties				
MARAC Insurance Limited	500	500	-	-
Total due to related parties	**500**	**500**	**-**	**-**

(b) Transactions with key management personnel

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

	GROUP		COMPANY	
	Jun 14	Jun 13	Jun 14	Jun 13
	$000	$000	$000	$000
Transactions with key management personnel				
Interest income	55	-	-	-
Interest expense	(281)	(28)	-	-
Key management personnel compensation:				
Short-term employee benefits	(7,304)	(5,933)	(412)	(549)
Share-based payment expense	(907)	(718)	-	-
Total transactions with key management personnel	**(8,437)**	**(6,679)**	**(412)**	**(549)**
Due to / (from) key management personnel				
Finance receivables	709	-	-	-
Borrowings - deposits	(5,998)	(825)	-	-
Total due from key management personnel	**(5,289)**	**(825)**	**-**	**-**

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

	GROUP		COMPANY	
	Jun 14 $000	**Jun 13 $000**	**Jun 14 $000**	**Jun 13 $000**
Profit for the year	**36,039**	**6,912**	**37,357**	**14,741**
Add / (less) non-cash items:				
Depreciation and amortisation expense	2,142	1,940	-	-
Change in fair value of investment properties	1,203	5,101	-	-
Impaired asset expense	5,895	22,527	-	-
Deferred tax benefit	11,100	(8,244)	14	(14)
Derivative financial instruments revaluation	91	1,100	(70)	-
Accruals	950	(836)	-	-
Total non-cash items	**21,381**	**21,588**	**(56)**	**(14)**
Add / (less) movements in working capital items:				
Other assets	804	6,022	(94)	267
Loss on disposal of property, plant and equipment and intangibles	56	-	-	-
Current tax	(3,986)	8,494	147	(344)
Other liabilities	1,203	(2,337)	(5)	(138)
Total movements in working capital items	**(1,923)**	**12,179**	**48**	**(215)**
Net cash flows from operating activities before movements in finance receivables and operating lease vehicles	**55,497**	**40,679**	**37,349**	**14,512**
Movement in operating lease vehicles	1,100	2,155	-	-
Movement in finance receivables	96,815	25,894	-	-
Net cash flows from operating activities	**153,412**	**68,728**	**37,349**	**14,512**

34 Staff share ownership arrangements

(a) Heartland Long Term Executive Share Plan

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

Information regarding the shares under the LTESP is as follows:

	GROUP		COMPANY	
	Jun 14 Shares 000	**Jun 13 Shares 000**	**Jun 14 Shares 000**	**Jun 13 Shares 000**
Opening unvested shares	1,572	-	-	-
Number of shares granted	-	1,607	-	-
Less: forfeited over life of scheme	(155)	(35)	-	-
Less: vested over life of scheme	(158)	-	-	-
Closing unvested shares	**1,259**	**1,572**	**-**	**-**

	GROUP		COMPANY	
	Jun 14 $000	**Jun 13 $000**	**Jun 14 $000**	**Jun 13 $000**
Total amount recognised as an expense	330	459	-	-

34 Staff share ownership arrangements (continued)

(b) Heartland LTI Cash Entitlements Plan

The Heartland LTI Cash Entitlements Plan (LCEP) was introduced for selected senior employees of the Bank. Under the LCEP, participants are granted a cash entitlement. This cash entitlement is based on the amount by which the market price of HNZ shares at a future date exceeds an agreed reference price (no payment is made in the event that the market price of HNZ shares at that future date is lower than the reference price). If a participant is still employed by the Group on 30 June 2015, that participant may be entitled to a cash entitlement. Cash entitlements based on a reference pool of 5.65 million shares were issued in the year ending 30 June 2013 at a reference price of $0.72 per share.

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

Compensation expense is recognised over the service period, being the period from the date the instrument is granted until the expiry date using the Black Scholes option pricing model. The grant date was 23 November 2012. Information regarding the entitlements under the LCEP is as follows:

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

	GROUP		COMPANY	
	Jun 14 $000	Jun 13 $000	Jun 14 $000	Jun 13 $000
Total amount recognised as an expense	326	350	-	-
Liability recognised for bonus payable	676	350	-	-

The assumptions utilised in the model are as follows:

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

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

34 Staff share ownership arrangements (continued)

(c) Heartland LTI Net Share Settled Plan

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

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

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

	GROUP		COMPANY	
	Jun 14 Shares 000	Jun 13 Shares 000	Jun 14 Shares 000	Jun 13 Shares 000
Opening options granted	-	-	-	-
Number of options granted	5,136	-	-	-
Less: options forfeited	(89)	-	-	-
Closing unvested options outstanding / exercisable	**5,047**	**-**	**-**	**-**

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:

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

The assumptions utilised in the model are as follows:

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

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

35 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 or modelled using observable market inputs. Refer to Note 18 - 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.

Derivative items

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

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

	GROUP			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
June 14				
Assets				
Investments	198,385	40,474	-	238,859
Derivative assets held for risk management	-	1,867	-	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**
June 13				
Assets				
Investments	125,223	40,000	-	165,223
Derivative assets held for risk management	-	649	-	649
Total	**125,223**	**40,649**	**-**	**165,872**
Liabilities				
Derivative liabilities held for risk management	-	30	-	30
Total	**-**	**30**	**-**	**30**

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

35 Fair value (continued)

(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 8.99% (2013: 8.58%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses. Prepayment rates have not been factored into the fair value calculation as they are not deemed to be material.

Borrowings

The fair value of deposits, bank borrowings and other borrowings is the present value of future cash flows and is based on the current market interest rates payable by the Group for debt of similar maturities. The current market rate used to fair value borrowings for the Group is 4.64% (2013: 4.83%),

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.

	GROUP				
	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Value
	$000	$000	$000	$000	$000
June 14					
Assets					
Cash and cash equivalents	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**

	COMPANY				
June 14					
Assets					
Cash and cash equivalents	95	-	-	95	95
Other financial assets	-	-	24,910	24,910	24,910
Total financial assets	**95**	**-**	**24,910**	**25,005**	**25,005**
Liabilities					
Other financial liabilities	-	-	421	421	421
Total financial liabilities	**-**	**-**	**421**	**421**	**421**

35 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 Company and the Group:

	GROUP					
	Held for trading	Loans and receivables	Available for sale	Financial liabilities at amortised cost	Total Carrying Value	Total Fair Value
	$000	$000	$000	$000	$000	$000
June 2014						
Cash and cash equivalents	-	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**
June 2013						
Cash and cash equivalents	-	174,262	-	-	174,262	174,262
Investments	-	-	165,223	-	165,223	165,223
Finance receivables	-	1,735,398	-	-	1,735,398	1,734,792
Finance receivables - securitised	-	274,978	-	-	274,978	278,540
Derivative financial assets	649	-	-	-	649	649
Other financial assets	-	7,286	-	-	7,286	7,286
Total financial assets	**649**	**2,191,924**	**165,223**	**-**	**2,357,796**	**2,360,752**
Borrowings	-	-	-	1,838,619	1,838,619	1,841,657
Borrowings - securitised	-	-	-	258,934	258,934	258,934
Derivative financial liabilities	30	-	-	-	30	30
Other financial liabilities	-	-	-	17,394	17,394	17,394
Total financial liabilities	**30**	**-**	**-**	**2,114,947**	**2,114,977**	**2,118,015**

	COMPANY					
June 2014						
Cash and cash equivalents	-	95	-	-	95	95
Other financial assets	-	24,910	-	-	24,910	24,910
Total financial assets	**-**	**25,005**	**-**	**-**	**25,005**	**25,005**
Other financial liabilities	-	-	-	421	421	421
Total financial liabilities	**-**	**-**	**-**	**421**	**421**	**421**
June 2013						
Cash and cash equivalents	-	1,485	-	-	1,485	1,485
Other financial assets	-	36	-	-	36	36
Total financial assets	**-**	**1,521**	**-**	**-**	**1,521**	**1,521**
Other financial liabilities	-	-	-	226	226	226
Total financial liabilities	**-**	**-**	**-**	**226**	**226**	**226**

36 Risk management policies

The Group is committed to the management of risk. The primary risk categories are strategic, credit, liquidity, market (including interest rate), legal & governance, financial & tax and operational & compliance. The 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 Group's Enterprise Risk Management Programme (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.

Role of the Board and the Risk Committee

The Board, through its Board Risk Committee (BRC) is responsible for the overall risk management process and the development of the RMP. The role of the BRC is to assist the Board to formulate its risk appetite, understand the risks the Group faces for each strategic, credit, liquidity, market (including interest rate), legal & governance, financial & tax, and operational & compliance risk to ensure that all policy and decisions are made in accordance with the Group's corporate values and guiding principles. The BRC has the following responsibilities:

- To oversee the Group's risk profile and review and approve the Group's RMP within the context of the risk-reward strategy determined by the Board at least annually.
- To make recommendations regarding high-level liquidity / capital / funding policies and strategy, including the use of securitisation and special investment vehicles.
- To agree and recommend for Board approval and annual review; a set of risk limits and conditions that apply to the taking of risk, as delegated to the Risk Committee by the Board, that are consistent with the Board's determined risk appetite. This includes the authorities delegated by the Board to the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Risk Officer (CRO) and any other officers of the Bank to whom the Board or the 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 Group's risks.
- To review significant correspondence with the Group's regulators, and receive reports from management on the Group's regulatory relations and report any significant issues to the Board.
- To monitor changes anticipated in the economic and business environment and other factors considered relevant to the Group's risk profile and capital adequacy.
- To review significant risk management issues that are raised in external or internal audits as well as the length of time and action taken to resolve such issues.
- To ensure an appropriate set of applicable corporate governance principles are developed, and reviewed on a regular basis.

The BRC consists of four directors, of which at least three are non-executive directors and two are independent directors. In addition the CEO, CRO and CFO are in attendance at meetings. The BRC meets at least bi-monthly to review identified risk issues, and reports directly to the Board. A member of the BRC sits on the Audit Committee and vice versa.

Audit Committee and Internal Audit

The 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 and administratively to the CFO. A schedule of all outstanding internal control issues is maintained and presented to the Audit Committee to assist the Audit Committee to track the resolution of previously identified issues. Any issues raised that are categorised as high risk are specifically reviewed by internal audit during a follow-up review once the issue is considered closed by management. The follow-up review is performed with a view to formally close out the issue.

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

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

36 Risk management policies (continued)

Asset and Liability Committee (ALCO)

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

Executive Risk Committee (ERC)

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

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

Specific categories of Risk Management

Credit risk

Credit risk is the risk of loss arising from the non-performance of a counterparty to an instrument or facility. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual arrangements, and encompasses both on and off balance sheet instruments.

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

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 Risk Committee has authority from the Board for approval of all credit exposures. Lending authority has been individually provided to the Chief Risk Officer, for delegation through the business units under a detailed Delegated Lending Authority framework. Application of credit discretions in the business operation are monitored through a defined review and hindsight structure. Delegated Lending Authorities are provided to individual officers with due cognisance of their experience and ability. Larger and higher risk exposures require approval of senior management, the credit risk committee and ultimately through to the CRO or the BRC.

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

The Group’s exposure to credit risk is governed by a policy approved by the Board and managed by the ERC. This policy sets out the nature of risk which may be taken and aggregate risk limits, and the ERC must conform to this. The objective of the ERC is to manage the best risk return result from lending activities and avoid risk at a transactional and portfolio level inconsistent with the Groups risk appetite.

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.

36 Risk management policies (continued)

Credit risk (continued)

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

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

Market risk

The 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.

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 translational 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.

Liquidity risk

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

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

The 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.

Operational & compliance risk

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

36 Risk management policies (continued)

Operational & compliance risk (continued)

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, 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.

37 Credit risk exposure

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

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

	GROUP		COMPANY	
	Jun 14	**Jun 13**	**Jun 14**	**Jun 13**
	$000	**$000**	**$000**	**$000**
Cash and cash equivalents	37,344	174,262	95	1,485
Investments	238,859	165,223	-	-
Finance receivables	2,607,393	2,010,376	-	-
Derivative financial assets	1,867	649	70	-
Other financial assets	6,134	7,286	24,910	36
Total on balance sheet credit exposures	**2,891,597**	**2,357,796**	**25,075**	**1,521**

(b) Concentration of credit risk by geographic region

New Zealand:				
Auckland	725,318	706,137	188	1,501
Wellington	196,992	217,928	-	-
Rest of North Island	668,629	548,046	-	-
Canterbury	482,159	531,871	-	-
Rest of South Island	380,814	369,775	-	-
Australia:				
Queensland	115,936	-	-	-
New South Wales	171,765	-	-	-
Victoria	79,041	-	-	-
Western Australia	14,456	-	-	-
South Australia	16,951	-	-	-
Rest of Australia	10,311	-	-	-
Rest of the world [1]	44,224	-	-	-
	2,906,596	**2,373,757**	**188**	**1,501**
Provision for collectively impaired assets	(6,999)	(15,961)	-	-
Less acquisition fair value adjustment for present value of future losses	(8,000)	-	-	-
Due from related parties	-	-	24,887	20
Total on balance sheet credit exposures	**2,891,597**	**2,357,796**	**25,075**	**1,521**

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

37 Credit risk exposure (continued)

(c) Concentration of credit risk by industry sector

	GROUP		COMPANY	
	Jun 14	**Jun 13**	**Jun 14**	**Jun 13**
	$000	**$000**	**$000**	**$000**
Agriculture	469,020	499,942	-	-
Forestry and Fishing	22,301	29,565	-	-
Mining	11,148	19,044	-	-
Manufacturing	77,321	79,915	-	-
Finance & Insurance	291,223	348,166	165	1,501
Wholesale trade	80,884	76,816	-	-
Retail trade	171,019	155,962	23	-
Households	1,313,877	629,854	-	-
Property and Business services	330,860	320,198	-	-
Transport and storage	15,873	25,267	-	-
Other Services	123,070	189,028	-	-
	2,906,596	**2,373,757**	**188**	**1,501**
Provision for collectively impaired assets	(6,999)	(15,961)	-	-
Less acquisition fair value adjustment for present value of future losses	(8,000)	-	-	-
Due from related parties	-	-	24,887	20
Total on balance sheet credit exposures	**2,891,597**	**2,357,796**	**25,075**	**1,521**

(d) Commitments to extend credit

	GROUP		COMPANY	
	Jun 14	**Jun 13**	**Jun 14**	**Jun 13**
	$000	**$000**	**$000**	**$000**
Undrawn facilities available to customers	114,004	106,702	-	-
Conditional commitments to fund at future dates	95,780	48,428	-	-

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

38 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.

38 Asset quality (continued)

(a) Finance receivables by credit risk concentration

		GROUP					
			Corporate				
		Rural	Property	Other	Residential	All Other	Total
	NOTE	$000	$000	$000	$000	$000	$000
Jun 14							
Neither at least 90 days past due or impaired		480,596	2,007	774,527	869,701	439,208	2,566,039
At least 90 days past due	38(b)	9,433	2,599	19,917	463	1,622	34,034
Individually impaired	38(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	43	-	-	-	(8,000)	-	(8,000)
Provision for impairment	38(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**
Jun 13							
Neither at least 90 days past due or impaired		522,815	17,866	797,195	230,283	393,243	1,961,402
At least 90 days past due	38(b)	3,975	11,045	7,584	814	3,180	26,598
Individually impaired	38(c)	2,979	61,634	4,688	-	-	69,301
Restructured assets		6	-	1,225	-	2,335	3,566
Provision for impairment	38(e)	(1,706)	(41,512)	(5,632)	(134)	(1,507)	(50,491)
Total net finance receivables		**528,069**	**49,033**	**805,060**	**230,963**	**397,251**	**2,010,376**

(b) Past due but not impaired

	Rural	Corporate Property	Other	Residential	All Other	Total
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**
Jun 13						
Less than 30 days past due	7,510	179	6,050	1,909	8,675	24,323
At least 30 and less than 60 days past due	1,390	-	3,457	690	2,371	7,908
At least 60 but less than 90 days past due	143	127	3,263	200	1,434	5,167
At least 90 days past due	3,975	11,045	7,584	814	3,180	26,598
Total past due but not impaired	**13,018**	**11,351**	**20,354**	**3,613**	**15,660**	**63,996**

(c) Individually impaired assets

	Rural	Corporate Property	Other	Residential	All Other	Total
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**
Jun 13						
Opening	1,060	50,860	2,275	2,630	-	56,825
Additions	2,980	30,938	5,631	133	-	39,682
Deletions	(795)	(16,740)	(1,160)	(1,832)	-	(20,527)
Write offs	(266)	(3,424)	(2,058)	(931)	-	(6,679)
Closing gross individually impaired assets	**2,979**	**61,634**	**4,688**	**-**	**-**	**69,301**
Less: provision for individually impaired assets	1,125	31,252	2,153	-	-	34,530
Total net impaired assets	**1,854**	**30,382**	**2,535**	**-**	**-**	**34,771**

38 Asset quality (continued)

(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 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.

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

38 Asset quality (continued)

(d) Credit risk grading (continued)

	GROUP					
	Rural	Corporate Property	Other	Residential	All Other	Total
	$000	$000	$000	$000	$000	$000
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**
Jun 13						
Judgement portfolio						
Grade 1 - Very Strong	575	-	-	-	-	575
Grade 2 - Strong	6,689	-	8,877	41	-	15,607
Grade 3 - Sound	17,050	-	64,242	2,320	-	83,612
Grade 4 - Adequate	106,467	-	153,848	4,671	-	264,986
Grade 5 - Acceptable	234,912	1,979	181,851	19,326	-	438,068
Grade 6 - Monitor	122,876	12,297	60,560	2,637	-	198,370
Grade 7 - Substandard	5,150	-	12,120	764	-	18,034
Grade 8 - Doubtful	269	20,924	325	-	-	21,518
Grade 9 - At risk of loss	1,850	24,093	1,818	-	-	27,761
Total Judgement portfolio	**495,838**	**59,293**	**483,641**	**29,759**	**-**	**1,068,531**
Behavioural portfolio						
Not in arrears	32,565	-	318,094	196,545	381,730	928,934
Active	197	-	3,346	4,517	8,444	16,504
Arrangement	45	-	1,985	-	6,116	8,146
Non-performing / Repossession	5	-	902	-	1,319	2,226
Recovery	-	-	571	276	1,149	1,996
Total Behavioural portfolio	**32,812**	**-**	**324,898**	**201,338**	**398,758**	**957,806**
Provision for collectively impaired assets	(581)	(10,260)	(3,479)	(134)	(1,507)	(15,961)
Total finance receivables	**528,069**	**49,033**	**805,060**	**230,963**	**397,251**	**2,010,376**

38 Asset quality (continued)

(e) Provision for impairment

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

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

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

	GROUP					
	Rural	Corporate Property	Other	Residential	All Other	Total
	$000	$000	$000	$000	$000	$000
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 collective 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 collective impaired assets	**583**	**2,005**	**3,183**	**57**	**1,171**	**6,999**
Total provision for impairment	**2,114**	**5,744**	**7,275**	**57**	**1,171**	**16,361**
Jun 13						
Provision for individually impaired assets						
Opening provision for individually impaired assets	696	16,917	1,086	695	-	19,394
Impairment loss for the year						
- charge for the year	687	9,115	3,036	263	-	13,101
- RECL recovery	-	9,809	-	-	-	9,809
- recoveries	26	1	135	-	-	162
- write offs	(266)	(3,424)	(2,058)	(931)	-	(6,679)
- effect of discounting	(18)	(1,166)	(46)	(27)	-	(1,257)
Closing provision for individually impaired assets	**1,125**	**31,252**	**2,153**	**-**	**-**	**34,530**
Provision for collectively impaired assets						
Opening provision for collective impaired assets	1,823	960	3,315	79	1,855	8,032
Impairment loss for the year						
- charge/(credit) for the year	(1,244)	9,090	980	62	538	9,426
- RECL recovery	-	216	-	-	-	216
- recoveries	6	1	114	-	147	268
- write offs	(4)	(7)	(930)	(7)	(1,033)	(1,981)
Closing provision for collective impaired assets	**581**	**10,260**	**3,479**	**134**	**1,507**	**15,961**
Total provision for impairment	**1,706**	**41,512**	**5,632**	**134**	**1,507**	**50,491**

39 Liquidity risk

Contractual liquidity profile of financial assets and liabilities

The following tables show the cash flows of the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity.

In the following tables, total financial assets do not include unrecognised loan commitments and total financial liabilities do not include undrawn committed bank facilities. The cash flows have been prepared using estimates of the average interest rate applicable for each asset or liability class during the contractual term.

				GROUP			
	On Demand $000	**0-6 Months $000**	**6-12 Months $000**	**1-2 Years $000**	**2-5 Years $000**	**5+ Years $000**	**Total $000**
Jun 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

Undrawn committed bank facilities of $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.

				GROUP			
	On Demand $000	**0-6 Months $000**	**6-12 Months $000**	**1-2 Years $000**	**2-5 Years $000**	**5+ Years $000**	**Total $000**
Jun 13							
Cash and cash equivalents	174,262	-	-	-	-	-	174,262
Investments	11,520	1,647	47,882	36,923	79,522	-	177,494
Finance receivables	-	562,696	283,239	415,549	496,023	448,422	2,205,929
Finance receivables - securitised	-	55,889	55,910	89,524	91,789	65,199	358,311
Derivative financial assets	-	649	-	-	-	-	649
Other financial assets	-	7,286	-	-	-	-	7,286
Total financial assets	**185,782**	**628,167**	**387,031**	**541,996**	**667,334**	**513,621**	**2,923,931**
Borrowings	452,201	859,386	387,733	119,944	63,501	-	1,882,765
Borrowings - securitised	-	4,496	260,834	-	-	-	265,330
Derivative financial liabilities	-	30	-	-	-	-	30
Other financial liabilities	-	17,394	-	-	-	-	17,394
Total financial liabilities	**452,201**	**881,306**	**648,567**	**119,944**	**63,501**	**-**	**2,165,519**
Net financial (liabilities) / assets	**(266,419)**	**(253,139)**	**(261,536)**	**422,052**	**603,833**	**513,621**	**758,412**
Unrecognised loan commitments	106,702	-	-	-	-	-	106,702
Undrawn committed bank facilities	240,000	-	-	-	-	-	240,000

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

39 Liquidity risk (continued)

Expected maturity profile of financial assets and liabilities

The tables below show management's expected maturities of existing financial assets and financial liabilities.

Expected maturities of financial assets are based on management's best estimate having regard to current market conditions and past experience. Historical deposit reinvestment levels have been applied to borrowings. Other financial liabilities reflect contractual maturities.

The below does not reflect a forward looking view of how the Group expects actual financial assets and liabilities to perform in the future, as it does not include new lending and borrowing.

	GROUP						
	On Demand $000	**0-6 Months $000**	**6-12 Months $000**	**1-2 Years $000**	**2-5 Years $000**	**5+ Years $000**	**Total $000**
Jun 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	-	538,883	358,181	511,890	673,696	1,318,444	3,401,094
Finance receivables - securitised	-	78,179	63,245	87,819	61,304	246	290,793
Derivative financial assets	-	1,867	-	-	-	-	1,867
Other financial assets	-	6,134	-	-	-	-	6,134
Total financial assets	**50,254**	**629,445**	**483,727**	**680,273**	**816,878**	**1,339,527**	**4,000,104**
Borrowings	6,159	231,357	190,902	317,046	709,956	1,110,787	2,566,207
Borrowings - securitised	-	4,765	4,688	9,479	28,359	230,000	277,291
Derivative financial liabilities	-	126	92	179	521	3,262	4,180
Other financial liabilities	12,763	6,183	-	-	-	500	19,446
Total financial liabilities	**18,922**	**242,431**	**195,682**	**326,704**	**738,836**	**1,344,549**	**2,867,124**
Net financial assets / (liabilities)	**31,332**	**387,014**	**288,045**	**353,569**	**78,042**	**(5,022)**	**1,132,980**
Unrecognised loan commitments	114,004	-	-	-	-	-	114,004
Undrawn committed bank facilities	173,800	-	-	-	-	-	173,800

	GROUP						
	On Demand $000	**0-6 Months $000**	**6-12 Months $000**	**1-2 Years $000**	**2-5 Years $000**	**5+ Years $000**	**Total $000**
Jun 13							
Cash and cash equivalents	174,262	-	-	-	-	-	174,262
Investments	11,520	1,647	47,882	36,923	79,522	-	177,494
Finance receivables	-	520,198	421,900	514,305	468,854	61,358	1,986,615
Finance receivables - securitised	-	81,562	72,570	97,603	64,991	776	317,502
Derivative financial assets	-	649	-	-	-	-	649
Other financial assets	-	7,286	-	-	-	-	7,286
Total financial assets	**185,782**	**611,342**	**542,352**	**648,831**	**613,367**	**62,134**	**2,663,808**
Borrowings	4,522	342,029	231,600	357,000	590,880	474,783	2,000,814
Borrowings - securitised	-	53,918	3,572	7,203	21,628	210,000	296,321
Derivative financial liabilities	-	30	-	-	-	-	30
Other financial liabilities	-	17,394	-	-	-	-	17,394
Total financial liabilities	**4,522**	**413,371**	**235,172**	**364,203**	**612,508**	**684,783**	**2,314,559**
Net financial assets / (liabilities)	**181,260**	**197,971**	**307,180**	**284,628**	**859**	**(622,649)**	**349,249**
Unrecognised loan commitments	106,702	-	-	-	-	-	106,702
Undrawn committed bank facilities	240,000	-	-	-	-	-	240,000

40 Interest rate risk

Contractual Repricing Analysis

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

	GROUP						
	0-3 Months $000	4-6 Months $000	6-12 Months $000	1-2 Years $000	2+ Years $000	Non-interest bearing $000	Total $000
Jun 14							
Financial assets							
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**
Financial liabilities							
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	**452,069**	**(234,723)**	**(104,399)**	**155,991**	**84,474**	**(9,901)**	**343,511**
Jun 13							
Financial assets							
Cash and cash equivalents	174,262	-	-	-	-	-	174,262
Investments	128,370	-	15,545	4,291	17,017	-	165,223
Finance receivables	1,206,054	95,833	147,126	155,208	128,155	3,022	1,735,398
Finance receivables - securitised	80,968	29,685	50,699	67,597	46,029	-	274,978
Other financial assets	649	-	-	-	-	7,286	7,935
Total financial assets	**1,590,303**	**125,518**	**213,370**	**227,096**	**191,201**	**10,308**	**2,357,796**
Financial liabilities							
Borrowings	961,916	339,250	373,581	111,129	52,743	-	1,838,619
Borrowings - securitised	258,934	-	-	-	-	-	258,934
Other financial liabilities	30	-	-	-	-	17,394	17,424
Total financial liabilities	**1,220,880**	**339,250**	**373,581**	**111,129**	**52,743**	**17,394**	**2,114,977**
Effect of derivatives held for risk management	179,350	(18,700)	(45,330)	(61,200)	(54,120)	-	-
Net financial assets	**548,773**	**(232,432)**	**(205,541)**	**54,767**	**84,338**	**(7,086)**	**242,819**

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

41 Concentrations of funding

	GROUP		COMPANY	
	Jun 14	Jun 13	Jun 14	Jun 13
	$000	$000	$000	$000
(a) Concentration of funding by industry				
Finance	818,543	283,421	-	-
Other	1,705,917	1,814,132	-	-
Total borrowings	**2,524,460**	**2,097,553**	**-**	**-**
(b) Concentration of funding by geographical area				
Auckland	453,168	409,923	-	-
Wellington	202,829	304,297	-	-
Rest of North Island	376,495	392,056	-	-
Canterbury	687,168	725,365	-	-
Rest of South Island	168,442	184,800	-	-
Overseas [1]	636,358	81,112	-	-
Total borrowings	**2,524,460**	**2,097,553**	**-**	**-**

[1] Included in Overseas funding is the CBA bank facility totalling $556 million, refer to Note 28 - Borrowings for more information.

42 Contingent liabilities and commitments

	GROUP		COMPANY	
	Jun 14	Jun 13	Jun 14	Jun 13
	$000	$000	$000	$000
Letters of credit, guarantees and performance bonds	6,329	5,033	-	-
Total contingent liabilities	**6,329**	**5,033**	**-**	**-**
Undrawn facilities available to customers	114,004	106,702	-	-
Conditional commitments to fund at future dates	95,780	48,428	-	-
Total commitments	**209,784**	**155,130**	**-**	**-**

43 Business combinations

On 1 April 2014, the Company, through Heartland HER Holdings Limited, acquired 100% of New Sentinel Limited (NSL) and Australian Seniors Finance Pty Limited (ASF) from Seniors Money International Limited. NSL and ASF offer home equity release mortgages, targeted to the seniors demographic.

The purchase price was $86.1 million, consisting of $48.3 million paid in cash and the issuance of 43 million ordinary shares in the Company.

Fair value of the group consideration transferred at acquisition date

	GROUP
	1 Apr 14
	$000's
Cash paid	48,300
Equity issued - 43 million ordinary shares at 88 cents on 1 April 2014	37,840
Consideration transferred	**86,140**

43 Business combinations (continued)

Identifiable assets acquired and liabilities assumed

		Fair value 1 Apr 14 $000's
Assets		
Cash and cash equivalents		3,827
Finance receivables		
- contractual amounts receivable	715,222	
- unamortised net acquisition costs	2,373	
- less acquisition fair value adjustment for present value of future losses [1]	(7,451)	
- finance receivables at fair value		710,144
Other assets		-
Total assets [2]		**713,971**
Liabilities		
Bank borrowings		648,420
Derivative financial liabilities		3,952
Other liabilities		443
Total liabilities [2]		**652,815**
Total net identifiable assets		**61,156**
Total consideration transferred		86,140
Fair value of identifiable net assets		61,156
Goodwill		**24,984**

[1] This amount is conservative relative to the actual loss history in the acquired businesses. Since inception of the acquired businesses in 2003, actual losses of $0.2 million have occurred. However, the Group has determined to take this amount as a fair value adjustment having considered actuarial modelling (based on conservative assumptions) as to portfolio performance in the future. While there is no material current loss history in the home equity release loan portfolio acquired, every home equity release loan portfolio (including the acquired businesses) will ultimately experience some loss across the life of the portfolio.

[2] The functional currency of ASF Group is Australian dollars (AUD). Included in the table above were total assets of AUD 384.4 million (including gross finance receivables of AUD 382.6 million) and total liabilities of AUD 369.3 million. These AUD balances were converted to New Zealand dollars at the exchange rate of 0.9367.

Transactions separate from the acquisition

The Group incurred acquisition-related costs of $1.2 million in the year to 30 June 2014 relating to external legal fees and due diligence costs. These costs are included in selling and administration expenses.

Goodwill

Goodwill on acquisition of $25.0 million has arisen due to expected benefits of the newly acquired business. NSL is the largest HER mortgage provider in New Zealand, with approximately 80% market share. ASF is the largest non-bank HER mortgage provider in Australia, with approximately 20% of that market. Both the NSL and ASF portfolios are seasoned and diversified. This acquisition has given the Group the opportunity to fast-track entry into strong and established market positions.

Revenue and profit of the acquiree

In the 3 months to 30 June 2014, NSL and ASF contributed net operating income of $2.5 million and estimated profit of $1.2 million.

44 Events after the reporting date

On 15 August 2014, the Bank reduced the ABCP Trust securitisation facilities by $50 million to $350 million. There have been no other material events after the reporting date that would affect the interpretation of the financial statements or the performance of the Group.

Independent auditor's report

To the shareholders of Heartland New Zealand Limited

Report on the company and group financial statements

We have audited the accompanying financial statements of Heartland New Zealand Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 19 to 64. The financial statements comprise the statements of financial position as at 30 June 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' responsibility for the company and group financial statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group 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 these company and group 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 company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and 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 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 company and 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 company and group on normal terms within the ordinary course of trading activities of the business of the company and group. These matters have not impaired our independence as auditor of the company and group. The firm has no other relationship with, or interest in, the company and group.

KPMG

Opinion

In our opinion the financial statements on pages 19 to 64:

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

Report on other legal and regulatory requirements

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

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Heartland New Zealand Limited as far as appears from our examination of those records.

KPMG

25 August 2014
Auckland

Director Disclosures and Executive Remuneration

Directors

The following persons were directors of the Company and the Company's subsidiaries during the year ended 30 June 2014.

Heartland New Zealand Limited

Jeffrey Kenneth Greenslade	Non-Independent Director
Graham Russell Kennedy	Independent Director
Gary Richard Leech	Independent Director
Christopher Robert Mace	Independent Director
Geoffrey Thomas Ricketts	Independent Director
Gregory Raymond Tomlinson	Non-Independent Director
Bruce Robertson Irvine	Independent Director (resigned on 27 August 2013)

Australian Seniors Finance Pty Limited

Julie Marie Campbell-Bode
Richard Udovenya
Vaughan Keith Underwood

Canterbury Building Society Limited[1]

Jeffrey Kenneth Greenslade
Bruce Robertson Irvine
Graham Russell Kennedy (resigned on 5 November 2013)

Heartland Bank Limited[2]

Jeffrey Kenneth Greenslade
Nicola Jean Greer
Edward John Harvey
Bruce Robertson Irvine
Michael Danton Jonas
Graham Russell Kennedy
Geoffrey Thomas Ricketts
Richard Arthur Wilks

Heartland Financial Services Limited

Jeffrey Kenneth Greenslade

Heartland HER Holdings Limited

Christopher Patrick Francis Flood
Jeffrey Kenneth Greenslade
Michael Danton Jonas
Geoffrey Thomas Ricketts
Gregory Raymond Tomlinson

Heartland NZ Holdings Limited

Jeffrey Kenneth Greenslade

Heartland NZ Trustee Limited

Jeffrey Kenneth Greenslade
Bruce Robertson Irvine

Heartland PIE Fund Limited

Jeffrey Kenneth Greenslade
Bruce Robertson Irvine

1 Southern Cross Nominees Limited, Southern Cross Building & Investments Limited and CBS Canterbury Limited amalgamated into Canterbury Building Society Limited on 5 November 2013
2 MARAC Finance Limited and PGG Wrightson Finance Limited amalgamated into Heartland Bank Limited on 1 December 2013

New Sentinel Limited

Brett Stephen Wilson
Vaughan Keith Underwood

Sentinel Custodians Limited

Garry Dean Bishop
Vaughan Keith Underwood

VPS Parnell Limited

Michael Danton Jonas
Mark Stephen Mountcastle
Bruce Robertson Irvine (resigned on 16 July 2013)

VPS Properties Limited

Michael Danton Jonas
Mark Stephen Mountcastle
Bruce Robertson Irvine (resigned on 16 July 2013)

Interests Register

The following are the entries in the Interests Register of the Company and the Company's subsidiaries made during the year ended 30 June 2014.

Indemnification and Insurance of Directors

The Company has given indemnities to, and has effected insurance for, directors of the Company and the Company's subsidiaries to indemnify and insure them in respect of any liability for, or costs incurred in relation to, any act or omission in their capacity as directors, to the extent permitted by the Companies Act 1993. The cost of the insurance premiums to the Company and the Company's subsidiaries for the year ended 30 June 2014 was $47,437.50.

Share Dealings by Directors

Details of individual directors' share dealings as entered in the Interests Register of the Company under Section 148(2) of the Companies Act 1993 during the year ended 30 June 2014 are as follows (all dealings are in ordinary shares unless otherwise specified):

J K Greenslade

No. of Shares	Nature of Relevant Interest	Acquisition/Disposal	Consideration	Date of Acquisition/Disposal
4,289	Acquisition of shares by J K & S O Greenslade under Heartland New Zealand Limited Share Purchase Plan	Acquisition	$3,663.00	25 March 2014

G R Kennedy

No. of Shares	Nature of Relevant Interest	Acquisition/Disposal	Consideration	Date of Acquisition/Disposal
4,289	Acquisition of shares as Trustee of Heartland Trust under Heartland New Zealand Limited Share Purchase Plan	Acquisition	$3,663.00	25 March 2014
4,289	Acquisition of shares by Clairvoyant Development Limited under Heartland New Zealand Limited Share Purchase Plan	Acquisition	$3,663.00	25 March 2014
66,171	Ceasing to have a relevant interest in shares as company wound up	Disposal	Nil	08 April 2014

G R Leech

No. of Shares	Nature of Relevant Interest	Acquisition/Disposal	Consideration	Date of Acquisition/Disposal
4,289	Acquisition of shares as Trustee of GR & AM Leech Family A/C under Heartland New Zealand Limited Share Purchase Plan	Acquisition	$3,663.00	25 March 2014
4,289	Acquisition of shares as Trustee of Hank Murney Family Trust under Heartland New Zealand Limited Share Purchase Plan	Acquisition	$3,663.00	25 March 2014

C R Mace

No. of Shares	Nature of Relevant Interest	Acquisition/Disposal	Consideration	Date of Acquisition/Disposal
4,289	Acquisition of shares as Trustee of Heartland Trust under Heartland New Zealand Limited Share Purchase Plan	Acquisition	$3,663.00	25 March 2014
4,289	Acquisition of shares by Oceania & Eastern Limited under the Heartland New Zealand Limited Share Purchase Plan	Acquisition	$3,663.00	25 March 2014

G T Ricketts

No. of Shares	Nature of Relevant Interest	Acquisition/Disposal	Consideration	Date of Acquisition/Disposal
4,289	Acquisition of shares as trustee of Heartland Trust under Heartland New Zealand Limited Share Purchase Plan	Acquisition	$3,663.00	25 March 2014
4,289	Acquisition of shares by Oceania & Eastern Limited under the Heartland New Zealand Limited Share Purchase Plan	Acquisition	$3,663.00	25 March 2014

G R Tomlinson

No. of Shares	Nature of Relevant Interest	Acquisition/Disposal	Consideration	Date of Acquisition/Disposal
540,838	On-market purchase by Harrogate Trustee Limited	Acquisition	$454,303.92	29 August 2013
1,048,743	Acquisition of shares by Harrogate Trustee Limited under Heartland New Zealand Limited Dividend Reinvestment Plan	Acquisition	$866,261.72	04 October 2013
2,000,000	Participation in private placement of shares by Harrogate Trustee Limited	Acquisition	$1,760,000.00	19 February 2014
4,289	Acquisition of shares by Harrogate Trustee Limited under Heartland New Zealand Limited Share Purchase Plan	Acquisition	$3,663.00	25 March 2014
1,088,993	Acquisition of shares by Harrogate Trustee Limited under Heartland New Zealand Limited Dividend Reinvestment Plan	Acquisition	$937,187.39	4 April 2014
3,000,000	On-market purchase by Harrogate Trustee Limited	Acquisition	$2,610,000.00	11 April 2014

General Notice of Disclosure of Interest in the Interests Register

Details of directors' general disclosures entered in the relevant interests register under Section 140 of the Companies Act 1993 during the year ended 30 June 2014 are as follows:

Heartland New Zealand Limited

G R Kennedy

Timaru Central Limited	Director

Heartland Bank Limited

N J Greer

26 Belfast Rd Limited	Director/Shareholder
Cucumelle Limited	Director/Shareholder
Longhurst Preschool No1 Limited	Director/Shareholder
Mike Greer Homes Pegasus Town Limited	Director/Shareholder
Mike Greer Commercial Limited	Director/Shareholder
Pegasus PreSchool Limited	Director/Shareholder
Birmingham Dr Developments Limited	Shareholder
Judsons Road Preschool Limited	Shareholder
Penny Lane Preschool Limited	Shareholder
Peter Street Preschool Limited	Shareholder
Waikare Avenue Preschool Limited	Shareholder
Greer Seeto Investment Trust	Beneficiary

R A Wilks

Lirich Limited	Director
Maxwell Farms (Developments) Limited	Director
Maxwell Farms Limited	Director
Maxwell Farms (Maroa) Limited	Director
Maxwell Farms (Poihipi) Limited	Director
Mamaku South Limited	Director
Maxwell Farms (Te Kopia) Limited	Director
Maxwell Farms (Tutukau) Limited	Director

Details of directors' general disclosures entered in the relevant interest register under Section 140 of the Companies Act 1993 prior to 1 July 2013, can be found in earlier Annual Reports.

Specific Disclosures of Interest in the Interests Register

Heartland New Zealand Limited

Specific disclosures of interests in transactions entered into by the Company or the Company's subsidiaries during the period 1 July 2013 to 30 June 2014 are as follows:

G R Tomlinson	Mr Tomlinson disclosed his interest in respect of the acquisition of the New Zealand and Australian businesses of Seniors Money International Limited (Acquisition) (as his investment vehicle Harrogate Trustee Limited would participate in the private placement associated with the Acquisition by purchasing $2m shares in Heartland New Zealand Limited). Harrogate Trustee Limited acquired 540,838 Heartland New Zealand Limited shares on-market sold by PGG Wrightson Limited.

Information Used by Directors

No director of the Company or the Company's subsidiaries disclosed use of information received in his or her capacity as a director that would not otherwise be available to that director.

Directors' Relevant Interests

Set out in the table below are the Heartland New Zealand Limited shares, and options which are convertible into shares, in which each director of the Company had a relevant interest as at 30 June 2014.

Director	Number of Ordinary Shares – Beneficial	Number of Ordinary Shares – Non-Beneficial	Number of Options
J K Greenslade	883,351	1,871,105	1,496,268
G R Kennedy	481,052	5,741,916	Nil
G R Leech	176,740	240,054	Nil
C R Mace	12,289,728	5,715,427	Nil
G T Ricketts	12,289,728	5,715,427	Nil
G R Tomlinson	44,378,352	Nil	Nil

Directors' Remuneration

The current total directors' fee pool for the Company and its subsidiaries approved by the sole shareholder in 2010 is $917,500 per annum.

In August 2013 the Board passed resolutions and signed accompanying certificates to confirm the distribution of fees amongst directors of the Company and its subsidiaries for the year ending 30 June 2014, as follows:

Heartland New Zealand Limited

Board/Committee[1]	Chairman	Member
Board	$125,000	$75,000
Audit and Risk Committee	$7,500	$7,500
Governance and Remuneration Committee	$10,000	$5,000

Heartland Bank Limited

Board/Committee	Chairman	Member
Board	$125,000	$70,000
Audit Committee	$15,000	$7,500
Risk Committee	$20,000	$10,000

The total remuneration and value of other benefits[2] received by each director who held office in the Company and the Company's subsidiaries during the year ended 30 June 2014 was as follows:[3]

Director	**Remuneration**
G T Ricketts	$132,916
N J Greer	$74,623
E J Harvey	$94,166
B R Irvine	$141,666
G R Kennedy	$92,500
G R Leech	$84,583
C R Mace	$86,250
G R Tomlinson	$79,166
R A Wilks	$81,666
Total	**$867,536**

As a result of the acquisition of Australian Seniors Finance Pty Limited (**ASF**) on 1 April 2014, Richard Udovenya received A$7,500, being a pro-rated portion of A$30,000 per annum in his capacity as an independent director of ASF from 1 April 2014 to 30 June 2014.

Directors' fees exclude GST where appropriate. In addition, directors are entitled to be reimbursed for costs associated with carrying out their duties.

1 Where a director sits on both the Heartland New Zealand Limited and Heartland Bank Limited Boards, the director receives the single highest applicable fee.

2 In addition to these amounts Heartland New Zealand Limited meets costs incurred by directors, which are incidental to the performance of their duties. This includes providing directors with telephone concessions and paying the cost of directors' travel. As these costs are incurred by Heartland New Zealand Limited to enable directors to perform their duties, no value is attributable to them as benefits to directors for the purposes of the above table.

3 Fees paid during the year ended 30 June 2014 were pro-rated following changes to Board and Committee membership which took place in August 2013.

Remuneration and/or Other Benefits from the Company and its subsidiaries to Executive Directors

J K Greenslade

Heartland New Zealand Limited made a grant to J K Greenslade under the Heartland LTI Net Share Settled Options Plan on 28 August 2013 of 1,496,268 options.

The total remuneration and value of other benefits (including the grant above) paid to J K Greenslade was $1,610,906.92.

M D Jonas

Heartland New Zealand Limited made a grant to M D Jonas under the Heartland LTI Net Share Settled Options Plan on 28 August 2013 of 623,445 options.

The total remuneration and value of other benefits (including the grant above) paid to M D Jonas was $1,078,057.50.

Executive directors and employees acting as directors do not receive directors fees.

Executive Remuneration

The number of employees of the Company and the Company's subsidiaries (including former employees), other than directors, who received remuneration, including non-cash benefits, in excess of $100,000 for the year ended 30 June 2014 is set out in the remuneration bands detailed below.

Remuneration	Number
$100,000 to $109,999	7
$110,000 to $119,999	5
$120,000 to $129,999	11
$130,000 to $139,999	11
$140,000 to $149,999	7
$150,000 to $159,999	2
$160,000 to $169,999	5
$170,000 to $179,999	3
$180,000 to $189,999	2
$190,000 to $199,999	1
$200,000 to $209,999	4
$220,000 to $229,999	2
$230,000 to $239,999	3
$240,000 to $249,999	1
$250,000 to $259,999	2
$290,000 to $299,999	2
$390,000 to $399,999	1
$490,000 to $499,999	1
$600,000 to $609,999	1
$610,000 to $619,999	1
$890,000 to $899,999	1

Auditors' Fees

KPMG has continued to act as auditors of the Company and its subsidiaries. The amount payable by the Company and its subsidiaries to KPMG as audit fees during the year ended 30 June 2014 was $448,000. The amount of fees payable to KPMG for non-audit work during the year ended 30 June 2014 was $193,000.

Shareholder Information

Spread of Shares

Set out below are details of the spread of shareholders of the Company as at 12 August 2014.

Size of Holding	Number of Shareholders	Total Number of Shares	% of Issued Shares
1–1,000 shares	929	567,893	0.12
1,001–5,000 shares	2,237	5,931,971	1.28
5,001–10,000 shares	1,417	10,573,272	2.28
10,001–50,000 shares	2,775	62,334,750	13.46
50,001–100,000 shares	561	39,066,560	8.43
100,001 shares and over	363	344,792,146	74.43
TOTAL	**8,282**	**463,266,592**	**100%**

20 Largest Shareholders[1]

Set out below are details of the 20 largest shareholders of the Company as at 12 August 2014.

Rank	Shareholder	Total Shares	% of Total Shareholders
1	Harrogate Trustee Limited	44,378,352	9.58
2	Brett Wilson & Stephen Gunning	43,000,000	9.28
3	Accident Compensation Corporation	34,106,452	7.36
4	Oceania & Eastern Limited	12,289,728	2.65
5	Cogent Nominees Limited	11,623,439	2.51
6	Philip Maurice Carter	9,500,000	2.05
7	FNZ Custodians Limited	8,604,368	1.86
8	HSBC Nominees (New Zealand) Limited	7,953,205	1.72
9	New Zealand Permanent Trustees Limited	7,100,000	1.53
10	Leveraged Equities Finance Limited	6,898,066	1.49
11	National Nominees New Zealand Limited	6,203,882	1.34
12	JPMORGAN Chase Bank	6,139,591	1.33
13	Investment Custodial Services Limited	5,912,329	1.28
14	New Zealand Superannuation Fund Nominees Limited	5,441,482	1.17
15	Citibank Nominees (NZ) Limited	5,364,331	1.16
16	Heartland Trust	5,108,707	1.1
17	Tea Custodians Limited	5,082,064	1.1
18	Investment Custodial Services Limited	4,982,396	1.08
19	Jarden Custodians Limited	4,500,000	0.97
20	Forsyth Barr Custodians Limited	3,827,915	0.83
TOTAL FOR TOP 20 HOLDERS		**238,016,307**	**51.38**

1 Any person wishing to acquire an interest in 10% or more of the Company's shares must obtain the consent of the Reserve Bank of New Zealand before they do so.

Substantial Security Holders

At 12 August 2014, the following security holders had given notice in accordance with the Securities Markets Act 1988 that they were substantial security holders in the Company. The number of shares shown below are as advised in the most recent substantial security holder notices to the Company and may not be their holding as at 12 August 2014.

Name	Number of Shares	Class of Shares
Accident Compensation Corporation, Nicholas Bagnall, Blair Tallott, Paul Robertshawe, Blair Cooper and Jason Familton	32,902,973	Ordinary
Blair Cooper (includes ACC's relevant interest)	25,602,740	Ordinary
Blair Tallott (includes ACC's relevant interest)	25,613,239	Ordinary
Brett Wilson and Stephen Gunning as trustees of the SMI Argentum Trust	43,000,000	Ordinary
Harrogate Trustee Limited and Gregory Raymond Tomlinson	40,285,070	Ordinary
Heartland HER Holdings Limited[2]	43,000,000	Ordinary

The total number of Heartland New Zealand Limited ordinary shares on issue as at 12 August 2014 was 463,266,592.

2 Heartland HER Holdings Limited has the power to control disposition of securities pursuant to a lock-up deed between Heartland HER Holdings Limited, Seniors Money International Limited and Sentinel Limited dated 1 April 2014.

Other Information

NZX Waivers

The Company did not rely upon any waivers granted by NZX Limited during the year ended 30 June 2014.

Credit Rating

As at 19 September 2014, Heartland Bank Limited had a Standard & Poor's long-term issuer credit rating of BBB (outlook negative) and a Fitch Australia Pty Limited long-term credit rating of BBB-, Outlook Stable, (F3 Short-Term).

Exercise of NZX Disciplinary Powers

NZX Limited did not exercise any of its powers under Listing Rule 5.4.2 in relation to the Company during the year ended 30 June 2014.

Executives and Directory[1]

Heartland New Zealand Limited

Directors

Geoffrey Ricketts	Chairman
Jeffrey Greenslade	Managing Director
Graham Kennedy	Director
Gary Leech	Director
Christopher Mace	Director
Gregory Tomlinson	Director

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 of Heartland New Zealand Limited and Heartland Bank Limited


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


Mark Mountcastle
Chief Risk 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 1010
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.com
W www.linkmarketservices.com

1 Correct as at 19 September 2014

HEARTLAND

New Zealand Limited