HEARTLAND
BANK

Disclosure Statement

For the nine months ended 31 March 2015

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GENERAL INFORMATION

This Disclosure Statement has been issued by Heartland Bank Limited (the Bank) for the nine months ended 31 March 2015 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order).

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

Name and address for service

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

The Bank's address for service is Level 3, Heartland House, 35 Teed Street, Newmarket, Auckland.

GUARANTEE ARRANGEMENTS

As at 31 March 2015 no material obligations of the Bank are guaranteed.

DIRECTORS

There have been no changes to the Directors since the 30 June 2014 Disclosure Statement was signed.

AMENDMENTS TO CONDITIONS OF REGISTRATION

With effect from 31 January 2015, the Reserve Bank reduced the regulatory capital requirements for the Bank in its Conditions of Registration. The new regulatory capital ratios are:

- the Total capital ratio of the banking group is not less than 8%;
- the Tier 1 capital ratio of the banking group is not less than 6%;
- the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;
- Introduction of Buffer Ratio (refer 1B).

CONDITIONS OF REGISTRATION

These conditions apply on and after 31 January 2015.

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

1. That—

    (a) the Total capital ratio of the banking group is not less than 8%;

    (b) the Tier 1 capital ratio of the banking group is not less than 6%;

    (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;

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

    (e) the process in Subpart 2H of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated July 2014 is followed for the recognition and repayment of capital.

    For the purposes of this condition of registration, capital, the Total capital ratio, the Tier 1 capital ratio, and the Common Equity Tier 1 capital ratio must be calculated in accordance with the Reserve Bank of New Zealand document: “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated July 2014.

1A. That—

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

    (b) under its ICAAP, the bank identifies and measures its “other material risks” defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated July 2014; and

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

CONDITIONS OF REGISTRATION (CONTINUED)

1B. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

(a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking groups buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the banks' earnings
0% - 0.625%	0%
>0.625% -1.25%	20%
>1.25% - 1.875%	40%
>1.875% - 2.5%	60%

(b) prepare a capital plan to restore the banking groups buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

(c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration, -

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated July 2014.

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

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

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

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

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

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

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

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

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

For the purposes of this condition of registration,—

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

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

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

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

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

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated October 2014.

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

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

CONDITIONS OF REGISTRATION (CONTINUED)

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

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

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

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

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

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

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

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

For the purposes of this condition of registration,—

"independent,"—

(a) in relation to a person other than a person to whom paragraph (b) applies, has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014; and

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

"non-executive" has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2014 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

CONDITIONS OF REGISTRATION (CONTINUED)

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

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

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

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

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

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

    For the purposes of this condition,—

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

    "SPV" means a person—

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

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

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

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

14. That—

    (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

    (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
        (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

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

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

    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
        (i) all liabilities are frozen in full; and
        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;

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

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

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

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

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

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

CONDITIONS OF REGISTRATION (CONTINUED)

16. That the bank has an Implementation Plan that—

    (a) is up-to-date; and

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

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

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

    (a) at the product-class level lists all liabilities, indicating which are—
        (i) pre-positioned for Open Bank Resolution; and
        (ii) not pre-positioned for Open Bank Resolution;

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

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

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

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

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

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

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

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

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

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

In these conditions of registration,—

“banking group”—

(a) means Heartland Bank Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act (unless paragraph (b) applies); or

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

“generally accepted accounting practice”—

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

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

In conditions of registration 19 to 23,—

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

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

PENDING PROCEEDINGS OR ARBITRATIONS

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

CREDIT RATINGS

As at the date of signing this Disclosure Statement, the Bank's credit rating issued by Fitch Australia Pty Ltd (Fitch Ratings) was BBB stable. This BBB credit rating was issued on 28 October 2014, following an upgrade from BBB- stable and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars.

On 14 January 2015 the Bank discontinued using Standard & Poor's (Australia) Pty Limited (S&P) as a rating agency. The Bank's credit rating issued by S&P prior to discontinuation was BBB, negative outlook. This BBB credit rating was issued on 22 May 2014 and was applicable to long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The rating was not subject to any qualifications.

OTHER MATERIAL MATTERS

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

DIRECTORS' STATEMENTS

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

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

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

2. During the nine months ended 31 March 2015:

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

This Disclosure Statement is dated 21 May 2015 and has been signed by all the Directors.

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

J. K. Greenslade

N. J. Greer

E. J. Harvey

M. D. Jonas

G. R. Kennedy

G. T. Ricketts

R. A. Wilks

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 31 March 2015

	NOTE	Unaudited 9 mths to Mar 2015 $000	Unaudited 9 mths to Mar 2014 $000	Audited 12 mths to Jun 2014 $000
Interest income	5	162,279	149,197	200,141
Interest expense	5	72,084	71,067	93,719
Net interest income		**90,195**	**78,130**	**106,422**
Operating lease income		7,923	10,249	13,348
Operating lease expenses		5,353	5,829	7,709
Net operating lease income		**2,570**	**4,420**	**5,639**
Lending and credit fee income		2,164	1,775	2,475
Other income		2,451	4,260	5,065
Net operating income		**97,380**	**88,585**	**119,601**
Selling and administration expenses	6	46,853	46,758	61,641
Profit before impaired asset expense and income tax		**50,527**	**41,827**	**57,960**
Impaired asset expense	7	7,000	4,847	5,895
Decrease in fair value of investment properties		-	-	1,203
Profit before income tax		**43,527**	**36,980**	**50,862**
Income tax expense		12,639	10,568	14,616
Profit for the period		**30,888**	**26,412**	**36,246**
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		(1,849)	1,041	1,111
Net change in available for sale reserve, net of income tax		387	(85)	(12)
Items that will not be reclassified to profit or loss:				
Net change in defined benefit reserve, net of income tax		(16)	85	3
Other comprehensive (loss) / income for the period, net of income tax		**(1,478)**	**1,041**	**1,102**
Total comprehensive income for the period		**29,410**	**27,453**	**37,348**

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

The notes on pages 12 to 22 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 March 2015

	NOTE	Share Capital $000	Available for Sale Reserve $000	Defined Benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Unaudited - Mar 2015							
Balance at 1 July 2014		**339,757**	**272**	**44**	**1,157**	**23,096**	**364,326**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	30,888	30,888
Total other comprehensive income / (loss)		-	387	(16)	(1,849)	-	(1,478)
Total comprehensive income for the period		**-**	**387**	**(16)**	**(1,849)**	**30,888**	**29,410**
Contributions by and distributions to owners							
Share based payments		1,234	-	-	-	-	1,234
Dividends paid	8	-	-	-	-	(23,700)	(23,700)
Total transactions with owners		**1,234**	**-**	**-**	**-**	**(23,700)**	**(22,466)**
Balance at 31 March 2015		**340,991**	**659**	**28**	**(692)**	**30,284**	**371,270**
Unaudited - Mar 2014							
Balance at 1 July 2013		**189,774**	**284**	**41**	**46**	**174,780**	**364,925**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	26,412	26,412
Total other comprehensive (loss) / income		-	(85)	85	1,041	-	1,041
Total comprehensive income for the period		**-**	**(85)**	**85**	**1,041**	**26,412**	**27,453**
Contributions by and distributions to owners							
Effect of amalgamation of subsidiaries	2(c)	149,269	-	-	-	(149,269)	-
Share based payments		632	-	-	-	-	632
Dividends to paid	8	-	-	-	-	(20,061)	(20,061)
Total transactions with owners		**149,901**	**-**	**-**	**-**	**(169,330)**	**(19,429)**
Balance at 31 March 2014		**339,675**	**199**	**126**	**1,087**	**31,862**	**372,949**
Audited - Jun 2014							
Balance at 1 July 2013		**189,774**	**284**	**41**	**46**	**174,780**	**364,925**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	36,246	36,246
Total other comprehensive (loss) / income		-	(12)	3	1,111	-	1,102
Total comprehensive income for the year		**-**	**(12)**	**3**	**1,111**	**36,246**	**37,348**
Contributions by and distributions to owners							
Effect of amalgamation	2(c)	149,269	-	-	-	(149,269)	-
Share based payments		714	-	-	-	-	714
Dividends paid	8	-	-	-	-	(38,661)	(38,661)
Total transactions with owners		**149,983**	**-**	**-**	**-**	**(187,930)**	**(37,947)**
Balance at 30 June 2014		**339,757**	**272**	**44**	**1,157**	**23,096**	**364,326**

The notes on pages 12 to 22 are an integral part of these interim financial statements.

INTERIM STATEMENT OF FINANCIAL POSITION
As at 31 March 2015

	NOTE	Unaudited Mar 2015 $000	Unaudited Mar 2014 $000	Audited Jun 2014 $000
Assets				
Cash and cash equivalents		16,393	87,485	34,588
Investments		281,900	315,780	238,859
Due from related parties	9	29,533	111	29,461
Investment properties		25,063	61,028	24,888
Finance receivables	10	2,225,012	1,897,203	1,985,119
Operating lease vehicles		30,275	31,291	31,295
Current tax asset		-	-	1,051
Other assets		3,529	9,128	8,191
Intangible assets		25,634	22,658	22,437
Property, plant and equipment		5,038	9,697	9,573
Deferred tax asset		6,228	11,280	5,287
Total assets		**2,648,605**	**2,445,661**	**2,390,749**
Liabilities				
Borrowings	11	2,204,101	2,013,884	1,963,833
Current tax liabilities		2,313	1,572	-
Due to related parties	9	36,612	12,478	28,221
Trade and other payables		34,309	44,778	34,369
Total liabilities		**2,277,335**	**2,072,712**	**2,026,423**
Equity				
Share capital		340,991	339,675	339,757
Retained earnings and reserves		30,279	33,274	24,569
Total equity		**371,270**	**372,949**	**364,326**
Total equity and liabilities		**2,648,605**	**2,445,661**	**2,390,749**

Total interest earning and discount bearing assets		2,551,309	2,298,899	2,286,350
Total interest and discount bearing liabilities		2,242,398	2,026,375	1,992,088

The notes on pages 12 to 22 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CASH FLOWS

For the nine months ended 31 March 2015

	NOTE	Unaudited 9 mths to Mar 2015 $000	Unaudited 9 mths to Mar 2014 $000	Audited 12 mths to Jun 2014 $000
Cash flows from operating activities				
Interest received		159,109	145,969	192,951
Operating lease income received		9,823	9,652	12,086
Proceeds from sale of operating lease vehicles		5,455	7,385	9,086
Lending, credit fees and other income received		4,615	6,035	7,540
Net decrease in finance receivables		-	103,596	17,028
Total cash provided from operating activities		**179,002**	**272,637**	**238,691**
Payments to suppliers and employees		41,470	43,440	57,301
Interest paid		71,472	72,346	95,084
Purchase of operating lease vehicles		8,503	9,892	12,954
Net increase in finance receivables		252,753	-	-
Taxation paid		9,641	7,824	7,823
Total cash applied to operating activities		**383,839**	**133,502**	**173,162**
Net cash flows (applied to) / from operating activities	12	**(204,837)**	**139,135**	**65,529**
Cash flows from investing activities				
Sale of investment properties		4,600	7,391	42,244
Proceeds from sale of property, plant and equipment		4,885	19	19
Total cash provided from investing activities		**9,485**	**7,410**	**42,263**
Purchase of office fit-out, equipment and intangible assets		4,955	821	984
Net increase in investments		43,041	150,642	73,648
Increase in related party finance receivable		-	-	28,300
Total cash applied to investing activities		**47,996**	**151,463**	**102,932**
Net cash flows applied to investing activities		**(38,511)**	**(144,053)**	**(60,669)**
Cash flows from financing activities				
Net increase in borrowings		248,853	-	-
Total cash provided from financing activities		**248,853**	**-**	**-**
Dividends paid		23,700	9,821	38,661
Net decrease in borrowings		-	70,553	104,388
Total cash applied to financing activities		**23,700**	**80,374**	**143,049**
Net cash flows from / (applied to) financing activities		**225,153**	**(80,374)**	**(143,049)**
Net decrease in cash held		**(18,195)**	**(85,292)**	**(138,189)**
Opening cash and cash equivalents		34,588	172,777	172,777
Closing cash and cash equivalents		**16,393**	**87,485**	**34,588**

The notes on pages 12 to 22 are an integral part of these interim financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS
For the nine months ended 31 March 2015

1 Reporting entity

The interim financial statements presented are the consolidated interim financial statements comprising Heartland Bank Limited (the Bank) and its subsidiaries (the Banking Group).

The Banking Group includes VPS Properties Limited, VPS Parnell Limited (amalgamated into VPS Properties Limited on 22 December 2014), Heartland Cash and Term PIE Fund, a portfolio investment entity and Heartland ABCP Trust 1 (ABCP Trust), a special purpose vehicle holding securitised loans purchased from the Bank. Refer to Note 13 - Structured entities for further details.

2 Basis of preparation

The interim financial statements presented here are for the following periods:
- 9 month period ended 31 March 2015 - Unaudited
- 9 month period ended 31 March 2014 - Unaudited
- 12 month period ended 30 June 2014 - Audited

(a) Statement of compliance

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

The Bank and all the entities within the Banking Group are profit-oriented entities. The Bank is an FMC reporting entity under section 451 of the Financial Markets Conduct Act 2013 (the Act) which has financial reporting requirements under Part 7 of that Act.

(b) Basis of measurement

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

(c) Effect of amalgamation

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

(d) Comparative information

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

3 Significant accounting policies

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

4 Segmental analysis

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

All income received is from external sources, except those transactions with related parties, refer to Note 9 - Related party transactions and balances. Certain selling and administration expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other.

Operating segments

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

Households	Providing a comprehensive range of financial services to New Zealand families and businesses, 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.

During the period ended 31 March 2015, a business unit previously reported in the Households segment was moved to the Business segment. Comparative segment information has been restated to be consistent with the current reporting period.

4 Segmental analysis (continued)

The Banking Group's operating segments are different than the industry categories detailed in Note 16 - Asset quality. The operating segments are primarily categorised by sales channel, whereas Note 16 - Asset quality is based on credit risk concentrations.

	Households	Business	Rural	Non-core Property	Other	Total
	$000	$000	$000	$000	$000	$000
Unaudited - 9 months ended 31 March 2015						
Net interest income / (expense)	42,111	31,225	17,695	(524)	(312)	90,195
Net operating lease income	2,570	-	-	-	-	2,570
Net other income	1,637	422	105	1,024	1,427	4,615
Net operating income	**46,318**	**31,647**	**17,800**	**500**	**1,115**	**97,380**
Selling and administration expenses	11,774	4,567	3,827	992	25,693	46,853
Profit / (loss) before impaired asset expense and income tax	**34,544**	**27,080**	**13,973**	**(492)**	**(24,578)**	**50,527**
Impaired asset expense / (benefit)	2,682	4,598	57	(337)	-	7,000
Profit / (loss) before income tax	**31,862**	**22,482**	**13,916**	**(155)**	**(24,578)**	**43,527**
Income tax expense	-	-	-	-	12,639	12,639
Profit / (loss) for the period	**31,862**	**22,482**	**13,916**	**(155)**	**(37,217)**	**30,888**
Total assets	1,009,860	793,566	476,898	28,362	339,919	**2,648,605**
Total liabilities	-	-	-	-	2,277,335	**2,277,335**
Total equity	-	-	-	-	371,270	**371,270**
Unaudited - 9 months ended 31 March 2014						
Net interest income / (expense)	34,493	27,346	17,168	(1,206)	329	78,130
Net operating lease income	4,415	5	-	-	-	4,420
Net other income	1,418	315	44	3,524	734	6,035
Net operating income	**40,326**	**27,666**	**17,212**	**2,318**	**1,063**	**88,585**
Selling and administration expenses	7,918	4,322	4,081	3,951	26,486	46,758
Profit / (loss) before impaired asset expense and income tax	**32,408**	**23,344**	**13,131**	**(1,633)**	**(25,423)**	**41,827**
Impaired asset expense / (benefit)	388	3,854	661	(56)	-	4,847
Profit / (loss) before income tax	**32,020**	**19,490**	**12,470**	**(1,577)**	**(25,423)**	**36,980**
Income tax expense	-	-	-	-	10,568	10,568
Profit / (loss) for the period	**32,020**	**19,490**	**12,470**	**(1,577)**	**(35,991)**	**26,412**
Total assets	816,958	685,628	404,979	81,957	456,139	**2,445,661**
Total liabilities	-	-	-	-	2,072,712	**2,072,712**
Total equity	-	-	-	-	372,949	**372,949**
Audited - 12 months ended 30 June 2014						
Net interest income / (expense)	47,830	36,982	22,801	(1,449)	258	106,422
Net operating lease income	5,639	-	-	-	-	5,639
Net other income	1,984	435	68	3,822	1,231	7,540
Net operating income	**55,453**	**37,417**	**22,869**	**2,373**	**1,489**	**119,601**
Selling and administration expenses	11,145	5,983	5,409	4,000	35,104	61,641
Profit / (loss) before impaired asset expense and income tax	**44,308**	**31,434**	**17,460**	**(1,627)**	**(33,615)**	**57,960**
Impaired asset expense / (benefit)	648	5,535	963	(1,251)	-	5,895
Decrease in fair value of investment properties	-	-	-	1,203	-	1,203
Profit / (loss) before income tax	**43,660**	**25,899**	**16,497**	**(1,579)**	**(33,615)**	**50,862**
Income tax expense	-	-	-	-	14,616	14,616
Profit / (loss) for the year	**43,660**	**25,899**	**16,497**	**(1,579)**	**(48,231)**	**36,246**
Total assets	920,973	698,162	410,219	40,846	320,549	**2,390,749**
Total liabilities	-	-	-	-	2,026,423	**2,026,423**
Total equity	-	-	-	-	364,326	**364,326**

5 Net interest income

	Unaudited 9 mths to Mar 2015 $000	Unaudited 9 mths to Mar 2014 $000	Audited 12 mths to Jun 2014 $000
Interest income			
Cash and cash equivalents	2,038	2,564	3,422
Investments	6,954	6,742	9,189
Finance receivables	153,287	139,891	187,530
Total interest income	**162,279**	**149,197**	**200,141**
Interest expense			
Retail deposits	60,271	60,397	79,430
Bank and securitised borrowings	11,647	10,001	13,468
Net interest expense on derivative financial instruments	166	669	821
Total interest expense	**72,084**	**71,067**	**93,719**
Net interest income	**90,195**	**78,130**	**106,422**

6 Selling and administration expenses

	Unaudited 9 mths to Mar 2015 $000	Unaudited 9 mths to Mar 2014 $000	Audited 12 mths to Jun 2014 $000
Personnel expenses	28,022	26,314	34,972
Directors' fees	388	334	463
Superannuation	539	434	570
Audit and review of financial statements	208	210	304
Other assurance services paid to auditor[1]	13	13	18
Other fees paid to auditor[2]	70	98	193
Amortisation - intangible assets	932	997	1,341
Depreciation - property, plant and equipment	585	638	801
Operating lease expense as a lessee	1,198	1,186	1,551
Legal and professional fees	1,167	2,180	2,795
Other operating expenses	13,731	14,354	18,633
Total selling and administration expenses	**46,853**	**46,758**	**61,641**

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

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

7 Impaired asset expense

	NOTE	Unaudited 9 mths to Mar 2015 $000	Unaudited 9 mths to Mar 2014 $000	Audited 12 mths to Jun 2014 $000
Non-securitised				
Individually impaired expense		4,175	7,798	11,851
Collectively impaired expense / (recovery)		2,152	(3,416)	(6,536)
Total non-securitised impaired asset expense		**6,327**	**4,382**	**5,315**
Securitised				
Individually impaired expense		55	-	-
Collectively impaired expense		618	465	580
Total securitised impaired asset expense		**673**	**465**	**580**
Total				
Individually impaired expense		4,230	7,798	11,851
Collectively impaired expense / (recovery)		2,770	(2,951)	(5,956)
Total impaired asset expense	16(b)	**7,000**	**4,847**	**5,895**

8 Dividends paid

During the 9 months to March 2015, the Bank paid total dividends of $23.70 million to Heartland NZ Holdings Limited. (Mar 2014: $20.06 million, Jun 2014: $38.66 million).

9 Related party transactions and balances

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

(a) Balances with related parties

The Bank provided a commercial loan of $28.34 million to Heartland HER Holdings Limited (HHHL), a wholly owned subsidiary of Heartland (Mar 2014: nil, Jun 2014: $28.90 million). During the period ended 31 March 2015, the Bank acquired loans at fair value of $49.72 million from New Sentinel Limited, a wholly owned subsidiary of HHHL (Mar 2014: nil, Jun 2014: $111.27 million).

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

The Banking Group controls the operations of Heartland Cash and Term PIE Fund, a portfolio investment entity that invests in the Bank's deposits. The investments of Heartland Cash and Term PIE Fund are detailed in Note 13 - Structured entities.

	Unaudited Mar 2015 $000	Unaudited Mar 2014 $000	Audited Jun 2014 $000
Due from related parties			
Heartland HER Holdings Limited	28,336	-	28,899
Heartland New Zealand Limited	-	111	-
Other related parties	1,197	-	562
Total due from related parties	**29,533**	**111**	**29,461**
Due to related parties			
Heartland New Zealand Limited	22,750	-	22,801
MARAC Insurance Limited	500	500	500
Key management personnel of the ultimate parent	13,362	11,978	4,920
Total due to related parties	**36,612**	**12,478**	**28,221**

(b) Transactions with related parties

The Banking Group recognised interest income on the loan to HHHL and interest expense on the deposits held by Heartland, MARAC Insurance Limited and key management personnel of the ultimate parent.

The Banking Group received insurance commission from MARAC Insurance Limited.

The Bank provided administrative assistance and support to MARAC Insurance Limited, New Sentinel Limited and Australian Seniors Finance Pty Limited (a wholly owned subsidiary of HHHL).

	Unaudited 9 mths to Mar 2015 $000	Unaudited 9 mths to Mar 2014 $000	Audited 12 mths to Jun 2014 $000
Interest income	1,733	-	568
Interest expense	(985)	(174)	(280)
Lending and credit fee income	479	175	300
Other income	825	281	468
Total transactions with related parties	**2,052**	**282**	**1,056**

9 Related party transactions and balances (continued)

(c) Key management personnel transactions and balances

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

	Unaudited 9 mths to Mar 2015 $000	Unaudited 9 mths to Mar 2014 $000	Audited 12 mths to Jun 2014 $000
Finance receivables	1,404	729	709
Loans to key management personnel	-	640	640
Borrowings - deposits	(1,190)	(1,037)	(1,079)
Interest income	66	43	55
Interest expense	(40)	(41)	(43)

10 Finance receivables

	Unaudited Mar 2015 $000	Unaudited Mar 2014 $000	Audited Jun 2014 $000
Non-securitised			
Neither at least 90 days past due nor impaired	1,911,753	1,608,956	1,693,063
At least 90 days past due	28,715	25,859	32,969
Individually impaired	25,168	46,835	27,617
Restructured assets	4,085	4,015	4,064
Gross finance receivables	**1,969,721**	**1,685,665**	**1,757,713**
Less provision for impairment	20,244	32,567	15,725
Less fair value adjustment for present value of future losses	1,707	-	1,707
Total non-securitised finance receivables	**1,947,770**	**1,653,098**	**1,740,281**
Securitised			
Neither at least 90 days past due nor impaired	276,837	243,672	244,409
At least 90 days past due	1,090	1,136	1,065
Individually impaired	129	-	-
Gross finance receivables	**278,056**	**244,808**	**245,474**
Less provision for impairment	814	703	636
Total securitised finance receivables	**277,242**	**244,105**	**244,838**
Total			
Neither at least 90 days past due nor impaired	2,188,590	1,852,628	1,937,472
At least 90 days past due	29,805	26,995	34,034
Individually impaired	25,297	46,835	27,617
Restructured assets	4,085	4,015	4,064
Gross finance receivables	**2,247,777**	**1,930,473**	**2,003,187**
Less provision for impairment	21,058	33,270	16,361
Less fair value adjustment for present value of future losses	1,707	-	1,707
Total finance receivables	**2,225,012**	**1,897,203**	**1,985,119**

Refer to Note 16 - Asset quality for further analysis of finance receivables by credit risk concentration.

11 Borrowings

	Unaudited Mar 2015 $000	Unaudited Mar 2014 $000	Audited Jun 2014 $000
Deposits	1,907,171	1,781,724	1,731,832
Securitised borrowings	258,534	228,781	228,623
2018 Subordinated bond	3,379	3,379	3,378
Bank borrowings	35,017	-	-
Total borrowings	**2,204,101**	**2,013,884**	**1,963,833**

Deposits rank equally and are unsecured. The Subordinated Bonds rank below all other general liabilities of the Banking Group. Investors in ABCP Trust rank equally with each other and are secured over the securitised assets of that trust.

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

	Unaudited 9 mths to Mar 2015 $000	Unaudited 9 mths to Mar 2014 $000	Audited 12 mths to Jun 2014 $000
Profit for the period	**30,888**	**26,412**	**36,246**
Add / (less) non-cash items:			
Depreciation and amortisation expense	1,517	1,635	2,142
Change in fair value of investment properties	-	-	1,203
Impaired asset expense	7,000	4,847	5,895
Deferred tax (benefit) / expense	(941)	5,093	11,086
Derivative financial instruments revaluation	1,672	(137)	(33)
Accruals	6,266	1,278	(737)
Total non-cash items	**15,514**	**12,716**	**19,556**
Add / (less) movements in working capital items:			
Other assets	446	932	2,475
Loss / (Profit) on disposal of property, plant and equipment and intangibles	(100)	56	56
Current tax	3,364	(1,993)	(4,616)
Other liabilities	(71)	(172)	(118)
Total movements in working capital items	**3,639**	**(1,177)**	**(2,203)**
Net cash flows from operating activities before movements in finance receivables and operating lease vehicles	**50,041**	**37,951**	**53,599**
Movements in operating lease vehicles	1,020	1,104	1,100
Movements in finance receivables	(255,898)	100,080	10,830
Net cash flows (applied to) / from operating activities	**(204,837)**	**139,135**	**65,529**

13 Structured entities

Heartland Cash and Term PIE Fund

Investments of Heartland Cash and Term PIE Fund are represented as follows:

	Unaudited Mar 2015 $000	Unaudited Mar 2014 $000	Audited Jun 2014 $000
Deposits	45,085	41,351	38,819

Heartland ABCP Trust 1

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

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

	Unaudited Mar 2015 $000	Unaudited Mar 2014 $000	Audited Jun 2014 $000
Cash and cash equivalents - securitised	7,263	7,568	5,421
Finance receivables - securitised	277,242	244,105	244,838
Borrowings - securitised	(258,534)	(228,781)	(228,623)
Derivative financial assets - securitised	298	1,720	1,768
Derivative financial liabilities - securitised	(1,058)	-	-

14 Risk management policies

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

15 Concentrations of credit risk to individual counterparties

At 31 March 2015 the Banking Group did not have any period end or peak end-of-day credit exposures over 10% of equity to individual counterparties (not being members of groups of closely related counterparties) or groups of closely related counterparties (excluding central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or any bank with a long-term credit rating of A- or A3 or above, or its equivalent, and connected persons).

Peak aggregate end-of-day credit exposures are determined by taking the maximum end-of-day aggregate amount of credit exposure over the period. The amount is then divided by the Banking Group's equity as at the end of the period. Credit exposures disclosed are based on actual exposures. The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

16 Asset quality

Asset quality of finance receivables

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

Corporate

Rural	Lending to the farming sector primarily 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.

	Corporate			Residential	All Other	Total
	Rural $000	Property $000	Other $000	$000	$000	$000
(a) End of period balances						
Unaudited - Mar 2015						
Gross impaired assets						
Individually impaired	1,458	7,931	15,908	-	-	25,297
Restructured	42	-	1,120	-	2,923	4,085
Total impaired assets	**1,500**	**7,931**	**17,028**	**-**	**2,923**	**29,382**
Provision for individually impaired assets	774	3,490	8,324	-	-	12,588
Net impaired assets	**726**	**4,441**	**8,704**	**-**	**2,923**	**16,794**
Provision for collectively impaired assets	**806**	**1,654**	**3,290**	**717**	**2,003**	**8,470**
At least 90 days past due but not impaired	**16,043**	**428**	**10,950**	**326**	**2,058**	**29,805**
(b) Charges to Interim Statement of Comprehensive Income						
Unaudited - 9 months ended 31 Mar 2015						
Individually impaired assets (benefit) / expense	(80)	50	4,260	-	-	4,230
Collectively impaired assets expense / (benefit)	224	(351)	444	660	1,793	2,770
Total impaired asset expense / (benefit)	**144**	**(301)**	**4,704**	**660**	**1,793**	**7,000**

17 Fair value

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

The Banking Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.
- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

(a) Financial instruments measured at fair value

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

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 Interim Statement of Financial Position.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Unaudited - Mar 15				
Assets				
Investments	271,222	10,678	-	281,900
Derivative assets held for risk management	-	298	-	298
Total Assets	**271,222**	**10,976**	**-**	**282,198**
Liabilities				
Derivative liabilities held for risk management	-	1,685	-	1,685
Total Liabilities	**-**	**1,685**	**-**	**1,685**
Unaudited - Mar 14				
Assets				
Investments	275,448	40,332	-	315,780
Derivative assets held for risk management	-	1,810	-	1,810
Total Assets	**275,448**	**42,142**	**-**	**317,590**
Liabilities				
Derivative liabilities held for risk management	-	13	-	13
Total Liabilities	**-**	**13**	**-**	**13**

17 Fair value (continued)

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

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Audited - June 14				
Assets				
Investments	198,385	40,474	-	238,859
Derivative assets held for risk management	-	1,797	-	1,797
Total Assets	**198,385**	**42,271**	**-**	**240,656**
Liabilities				
Derivative liabilities held for risk management	-	34	-	34
Total Liabilities	**-**	**34**	**-**	**34**

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

(b) Financial instruments not measured at fair value

The following 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.

	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
	Total Fair Value	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value	Total Carrying Value
	Mar 2015 $000	Mar 2015 $000	Mar 2014 $000	Mar 2014 $000	Jun 2014 $000	Jun 2014 $000
Financial Assets						
Cash and cash equivalents	16,393	16,393	87,485	87,485	34,588	34,588
Due from related parties	29,497	29,533	-	-	28,863	29,461
Finance receivables	1,942,376	1,947,770	1,651,556	1,653,098	1,735,549	1,740,281
Finance receivables - securitised	278,648	277,242	246,096	244,105	246,674	244,838
Other financial assets	1,870	1,870	5,326	5,326	5,371	5,371
Total financial assets	**2,268,784**	**2,272,808**	**1,990,463**	**1,990,014**	**2,051,045**	**2,054,539**
Financial Liabilities						
Borrowings	1,954,594	1,945,567	1,789,188	1,785,103	1,736,753	1,735,210
Borrowings - securitised	258,534	258,534	228,781	228,781	228,887	228,623
Due to related parties	36,612	36,612	12,085	12,478	28,221	28,221
Other financial liabilities	16,671	16,671	40,752	40,752	18,563	18,563
Total financial liabilities	**2,266,411**	**2,257,384**	**2,070,806**	**2,067,114**	**2,012,424**	**2,010,617**

Further information on valuation techniques and assumptions used for determining fair value is included in Note 32 of the Bank's Disclosure Statement for the year ended 30 June 2014.

18 Liquidity risk

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

	Unaudited Mar 2015 $000
Cash and cash equivalents	16,393
Investments	281,900
Undrawn committed bank facilities	90,000
Total liquidity	**388,293**

The Banking Group has securitised bank facilities totalling $350 million in relation to the ABCP Trust maturing on 3 February 2016.

19 Capital adequacy

(a) Capital Ratios

	Unaudited Mar 2015 %
Capital ratios compared to minimum ratio requirements	
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.28%
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	4.50%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.28%
Minimum Tier 1 Capital as per Conditions of Registration	6.00%
Total Capital expressed as a percentage of total risk weighted exposures	13.36%
Minimum Total Capital as per Conditions of Registration	8.00%
Buffer ratio	5.36%
Buffer ratio requirement	2.50%

(b) Capital

	Unaudited Mar 2015 $000
Tier 1 Capital	
Common Equity Tier 1 Capital[1]	371,270
Less deductions from Common Equity Tier 1 Capital	(31,628)
Total Common Equity Tier 1 Capital	339,642
Additional Tier 1 Capital	-
Total Tier 1 Capital	**339,642**
Tier 2 Capital	
Subordinated Bond	1,941
Less deductions from Tier 2 Capital	-
Total Capital	**341,583**

[1] Common Equity Tier 1 Capital includes available for sale reserve of $0.66 million, defined benefit reserve of $0.03 million.

(c) Pillar 1 capital requirements

	Pillar 1 capital requirement $000
Unaudited - Mar 2015	
On balance sheet exposures	
Residential mortgages (including past due)	7,592
Corporate	590
Public sector entities	1,600
Multilateral development banks and other international organisations	310
Claims on banks	3,533
Other	166,189
Total on balance sheet exposures	**179,814**
Other capital requirements	
Off balance sheet credit exposures	7,289
Operational risk	12,581
Market risk	4,846
Total other capital requirements	**24,716**
Total Pillar 1 capital requirement	**204,530**

19 Capital adequacy (continued)

(d) Additional mortgage information

	On balance sheet exposures $000	Off balance sheet exposures $000	Total exposures $000
Unaudited - Mar 2015			
Loan to value ratio (LVR) range:			
Does not exceed 80%	241,964	3,572	245,536
Exceeds 80% and not 90%	7,907	-	7,907
Exceeds 90% [1]	11,238	3,299	14,537
Total exposures	**261,109**	**6,871**	**267,980**

[1] Of the balance of "Exceeds 90%" above, $6.8 million relates to Welcome Home loans, whose credit risk is mitigated by the Crown.

(e) Capital for other material risks

In addition to the material risks included in the calculation of the capital ratios, the Banking Group has identified other material risks to be included in the capital allocation (being concentration risk, strategic / business risk, reputational risk, regulatory and model risk). As at 31 March 2015, the Banking Group has made an internal capital allocation of $59.80 million to cover these risks.

20 Insurance business, securitisation, funds management, other fiduciary activities

Insurance business

The Banking Group does not conduct any insurance business.

Marketing and distribution of insurance products

The Banking Group markets and distributes term life insurance and general insurance covering risks such as redundancy, bankruptcy or suspension of employment. The insurance products are underwritten by MARAC Insurance Limited. There have been no material changes in the Banking Group's marketing and distribution of insurance products since the reporting date of the previous disclosure statement.

Securitisation, funds management and other fiduciary activities

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

Any assets purchased from such entities have been purchased on arm's length terms and conditions and at fair value.

21 Contingent liabilities and commitments

	Unaudited Mar 2015 $000	Unaudited Mar 2014 $000	Audited Jun 2014 $000
Letters of credit, guarantee commitments and performance bonds	12,152	5,695	6,329
Total contingent liabilities	**12,152**	**5,695**	**6,329**
Undrawn facilities available to customers	111,533	115,228	113,157
Conditional commitments to fund at future dates	109,413	59,763	95,780
Total commitments	**220,946**	**174,991**	**208,937**

As at 31 March 2015 there are no undrawn lending commitments to counterparties for whom drawn balances are classified as individually impaired.

22 Events after the reporting date

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