HEARTLAND BANK

Disclosure Statement

For the nine months ended 31 March 2014

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GENERAL INFORMATION

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

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

Name and address for service

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

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

GUARANTEE ARRANGEMENTS

As at 31 March 2014 no material obligations of the Bank are guaranteed.

DIRECTORS

Nicola Jean Greer was appointed as a Director with effect from 26 July 2013.

Michael Danton Jonas was appointed as an Executive Director with effect from 27 August 2013.

Christopher Robert Mace and Gary Richard Leech resigned as Directors with effect from 27 August 2013.

There have been no other changes to the Directors since the 30 June 2013 Disclosure Statement was signed.

AMENDMENTS TO CONDITIONS OF REGISTRATION

With effect from 30 March 2014:

- Condition 6 was updated to remove the commencement date of 30 September 2013.
- The definition of loan-to-value ratio in respect of conditions 19 to 23 was changed to refer to the updated Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated March 2014.
- The definitions of "banking Group" and "generally accepted accounting practice" were expanded to refer to the Financial Reporting Act 2013 where applicable.

CONDITIONS OF REGISTRATION

These conditions apply on and after 30 March 2014.

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 12%;

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

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

    (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 September 2013 is followed for the recognition and repayment of capital.

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

CONDITIONS OF REGISTRATION (CONTINUED)

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 September 2013; and

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

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

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

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

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

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

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

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

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

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

For the purposes of this condition of registration,—

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

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

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

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

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% 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 September 2013.

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

[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 March 2011; 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 March 2011.

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 March 2011 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

    "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
        (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 5(1) of the Financial Reporting Act 2013 (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 March 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 ARBITRATION

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

CREDIT RATING

As at the date of signing this Disclosure Statement, the Bank's credit rating issued by Standard & Poor's (Australia) Pty Limited (S&P) was BBB- developing. This BBB- credit rating was issued on 6 December 2011 and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. The following amendments have been made to the credit rating or outlook during the nine months ended 31 March 2014:

- On 29 October 2013 S&P affirmed the BBB- credit rating and amended the outlook from "negative" to "developing".
- On 14 February 2014 S&P affirmed the BBB- credit rating and outlook of "developing".

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 4 November 2013 and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. On 17 February 2014, Fitch Ratings affirmed the BBB- stable credit rating.

OTHER MATERIAL MATTERS

There are no other material matters relating to the business or affairs of the Bank or the Banking Group which would, if disclosed in this Disclosure Statement, materially affect the decision of a person to subscribe for debt securities of which the Bank or any member of the Banking Group is the issuer.

DIRECTORS' STATEMENTS

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

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

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

2. During the nine months ended 31 March 2014:

   (a) the Bank complied with all Conditions of 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 6 May 2014 and has been signed by all of 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 2014

	NOTE	Unaudited 9 mths to Mar 2014 $000	Unaudited 9 mths to Mar 2013 $000	Audited 12 mths to Jun 2013 $000
Interest income	5	149,197	154,076	206,313
Interest expense	5	71,067	83,559	110,895
Net interest income		**78,130**	**70,517**	**95,418**
Operating lease income		10,249	11,364	14,861
Operating lease expenses		5,829	7,454	9,687
Net operating lease income		**4,420**	**3,910**	**5,174**
Lending and credit fee income		1,775	1,253	1,760
Other income		4,260	2,988	4,499
Net operating income		**88,585**	**78,668**	**106,851**
Selling and administration expenses	6	46,758	46,622	69,062
Profit before impaired asset expense and income tax		**41,827**	**32,046**	**37,789**
Impaired asset expense	7	4,847	7,923	22,527
Decrease in fair value of investment properties		-	-	5,101
Profit before income tax		**36,980**	**24,123**	**10,161**
Income tax expense		10,568	6,857	2,718
Profit for the period		**26,412**	**17,266**	**7,443**
Other comprehensive income				
Items that are or may be reclassified subsequently into profit or loss:				
Effective portion of changes in fair value of cash flow hedges, net of income tax		1,041	543	1,056
Net change in available for sale reserve, net of income tax		(85)	218	276
Items that will not be reclassified into profit or loss:				
Net change in defined benefit reserve, net of income tax		85	203	462
Other comprehensive income for the period, net of income tax		**1,041**	**964**	**1,794**
Total comprehensive income for the period		**27,453**	**18,230**	**9,237**

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

The notes on pages 12 to 23 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 March 2014

	NOTE	Share Capital $000	Available for Sale Reserve $000	Defined Benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
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 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	1	149,269	-	-	-	(149,269)	-
Staff share ownership expense		632	-	-	-	-	632
Dividends to equity holders	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**

	NOTE	Share Capital $000	Available for Sale Reserve $000	Defined Benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Unaudited - Mar 2013							
Balance at 1 July 2012		**189,774**	**8**	**(421)**	**(1,010)**	**182,942**	**371,293**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	17,266	17,266
Total other comprehensive income		-	218	203	543	-	964
Total comprehensive income for the period		**-**	**218**	**203**	**543**	**17,266**	**18,230**
Contributions by and distributions to owners							
Dividends to equity holders	8	-	-	-	-	(7,831)	(7,831)
Total transactions with owners		**-**	**-**	**-**	**-**	**(7,831)**	**(7,831)**
Balance at 31 March 2013		**189,774**	**226**	**(218)**	**(467)**	**192,377**	**381,692**

	NOTE	Share Capital $000	Available for Sale Reserve $000	Defined Benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Audited - Jun 2013							
Balance at 1 July 2012		**189,774**	**8**	**(421)**	**(1,010)**	**182,942**	**371,293**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	7,443	7,443
Total other comprehensive income		-	276	462	1,056	-	1,794
Total comprehensive income for the year		**-**	**276**	**462**	**1,056**	**7,443**	**9,237**
Contributions by and distributions to owners							
Dividends to equity holders	8	-	-	-	-	(15,605)	(15,605)
Total transactions with owners		**-**	**-**	**-**	**-**	**(15,605)**	**(15,605)**
Balance at 30 June 2013		**189,774**	**284**	**41**	**46**	**174,780**	**364,925**

The notes on pages 12 to 23 are an integral part of these interim financial statements.

INTERIM STATEMENT OF FINANCIAL POSITION
As at 31 March 2014

	NOTE	Unaudited Mar 2014 $000	Unaudited Mar 2013 $000	Audited Jun 2013 $000
Assets				
Cash and cash equivalents		87,485	213,982	172,777
Investments		315,780	61,936	165,223
Due from related parties	9	111	308	200
Investment properties		61,028	53,246	58,287
Finance receivables	10	1,897,203	2,045,122	2,010,376
Operating lease vehicles		31,291	34,040	32,395
Current tax asset		-	1,048	-
Other assets		9,128	16,330	11,257
Intangible assets		22,658	22,966	22,963
Property, plant and equipment		9,697	10,320	10,281
Deferred tax asset		11,280	8,478	16,373
Total assets		**2,445,661**	**2,467,776**	**2,500,132**
Liabilities				
Borrowings	11	2,013,884	2,053,677	2,097,553
Current tax liabilities		1,572	-	3,565
Due to related parties	9	12,478	-	500
Trade and other payables		44,778	32,407	33,589
Total liabilities		**2,072,712**	**2,086,084**	**2,135,207**
Equity				
Share capital		339,675	189,774	189,774
Retained earnings and reserves		33,274	191,918	175,151
Total equity		**372,949**	**381,692**	**364,925**
Total equity and liabilities		**2,445,661**	**2,467,776**	**2,500,132**

Total interest earning and discount bearing assets	2,298,899	2,320,942	2,345,724
Total interest and discount bearing liabilities	2,026,375	2,053,996	2,098,083

The notes on pages 12 to 23 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CASH FLOWS

For the nine months ended 31 March 2014

	NOTE	Unaudited 9 mths to Mar 2014 $000	Unaudited 9 mths to Mar 2013 $000	Audited 12 mths to Jun 2013 $000
Cash flows from operating activities				
Interest received		145,969	149,383	199,243
Operating lease income received		9,652	9,830	11,958
Proceeds from sale of operating lease vehicles		7,385	6,478	10,710
Lending, credit fees and other income received		6,035	4,241	6,259
Net decrease in finance receivables		103,596	30,350	32,908
Total cash provided from operating activities		**272,637**	**200,282**	**261,078**
Payments to suppliers and employees		43,440	48,232	60,819
Interest paid		72,346	83,053	112,820
Purchase of operating lease vehicles		9,892	11,438	15,611
Taxation paid		7,824	3,264	2,802
Total cash applied to operating activities		**133,502**	**145,987**	**192,052**
Net cash flows from operating activities	12	**139,135**	**54,295**	**69,026**
Cash flows from investing activities				
Proceeds from sale of investment properties		7,391	2,275	3,194
Proceeds from sale of office fit-out, equipment and intangible assets		19	-	-
Total cash provided from investing activities		**7,410**	**2,275**	**3,194**
Purchase of office fit-out, equipment and intangible assets		821	1,566	2,256
Net increase in investments		150,642	37,609	130,687
Total cash applied to investing activities		**151,463**	**39,175**	**132,943**
Net cash flows applied to investing activities		**(144,053)**	**(36,900)**	**(129,749)**
Cash flows from financing activities				
Net increase in borrowings		-	115,198	159,885
Total cash provided from financing activities		**-**	**115,198**	**159,885**
Dividends paid	8	9,821	7,831	15,605
Net decrease in borrowings		70,553	-	-
Total cash applied to financing activities		**80,374**	**7,831**	**15,605**
Net cash flows (applied to) / from financing activities		**(80,374)**	**107,367**	**144,280**
Net increase in cash held		**(85,292)**	**124,762**	**83,557**
Opening cash and cash equivalents		172,777	89,220	89,220
Closing cash and cash equivalents		**87,485**	**213,982**	**172,777**

The notes on pages 12 to 23 are an integral part of these interim financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the nine months ended 31 March 2014

1 Reporting entity

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

On 1 December 2013, MARAC Finance Limited (MARAC) and PGG Wrightson Finance Limited (previously subsidiaries of the Bank) were amalgamated into the Bank. The reverse acquisition accounting originally applied when the Bank was formed was unwound on amalgamation. The effect of this was that from 1 December 2013 the Banking Group's share capital represents that of the Bank.

The significant subsidiaries of the Bank included in the Banking Group are VPS Parnell Limited and VPS Properties Limited. The Banking Group also includes Heartland Cash and Term PIE Fund, a portfolio investment entity, and Heartland ABCP Trust 1 and CBS Warehouse A Trust (collectively the Trusts), which are special purpose vehicles holding securitised loans purchased from the Bank, refer to Note 13 - Special purpose entities.

2 Basis of preparation

The interim financial statements presented here are for the following periods:
- 9 month period ended 31 March 2014 - Unaudited
- 9 month period ended 31 March 2013 - Unaudited
- 12 month period ended 30 June 2013 - 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). They comply with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting. These condensed interim financial statements 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 2013.

The Bank and all of the entities within the Banking Group are profit-oriented entities.

(b) Basis of measurement

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

(c) Comparative information

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

3 Significant accounting policies

The accounting policies applied by the Banking Group in these consolidated interim financial statements are the same as those applied by the Banking Group in its consolidated financial statements as at, and for the year ended, 30 June 2013.

The amendments to the standards NZ IFRS 13 Fair Value Measurement and NZ IAS 34 Interim Financial Reporting (consequential amendments) have been adopted from 1 July 2013 and have been applied in the preparation of these interim financial statements. Amendments to NZ IAS 34 require the inclusion of certain fair value disclosures in interim financial statements, and accordingly a new note has been included, refer to Note 17 - Fair value.

Adoption of these standards has not resulted in any other changes to the Banking Group's interim financial statements.

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 main operating segments:

Retail & Consumer Providing a comprehensive range of financial services to New Zealand businesses and families, including term, transactional and savings based deposit accounts together with residential mortgage lending, motor vehicle finance and asset finance.

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

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

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

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.

	Retail & Consumer $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Unaudited - 9 months ended 31 March 2014						
Net interest income	39,881	21,958	17,168	(1,206)	329	78,130
Net operating lease income	4,420	-	-	-	-	4,420
Net other income	1,418	315	44	3,524	734	6,035
Net operating income	**45,719**	**22,273**	**17,212**	**2,318**	**1,063**	**88,585**
Selling and administration expenses	8,410	3,830	4,081	3,951	26,486	46,758
Profit / (loss) before impaired asset expense and income tax	**37,309**	**18,443**	**13,131**	**(1,633)**	**(25,423)**	**41,827**
Impaired asset expense	773	3,469	661	(56)	-	4,847
Profit / (loss) before income tax	**36,536**	**14,974**	**12,470**	**(1,577)**	**(25,423)**	**36,980**
Income tax expense	-	-	-	-	10,568	10,568
Profit / (loss) for the period	**36,536**	**14,974**	**12,470**	**(1,577)**	**(35,991)**	**26,412**
Total assets	935,001	567,585	404,979	81,957	456,139	**2,445,661**
Total liabilities	-	-	-	-	2,072,712	**2,072,712**
Total equity	-	-	-	-	372,949	**372,949**

4 Segmental analysis (continued)

	Retail & Consumer $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Unaudited - 9 months ended 31 March 2013						
Net interest income	32,616	18,646	17,178	760	1,317	70,517
Net operating lease income	3,887	23	-	-	-	3,910
Net other income	415	131	28	2,527	1,140	4,241
Net operating income	**36,918**	**18,800**	**17,206**	**3,287**	**2,457**	**78,668**
Selling and administration expenses	8,682	4,293	4,629	4,976	24,042	46,622
Profit / (loss) before impaired asset expense and income tax	**28,236**	**14,507**	**12,577**	**(1,689)**	**(21,585)**	**32,046**
Impaired asset expense	2,033	1,658	(99)	4,331	-	7,923
Profit / (loss) before income tax	**26,203**	**12,849**	**12,676**	**(6,020)**	**(21,585)**	**24,123**
Income tax benefit	-	-	-	-	6,857	6,857
Profit / (loss) for the period	**26,203**	**12,849**	**12,676**	**(6,020)**	**(28,442)**	**17,266**
Total assets	983,087	540,284	470,043	138,994	335,368	**2,467,776**
Total liabilities	-	-	-	-	2,086,084	**2,086,084**
Total equity	-	-	-	-	381,692	**381,692**
Audited - 12 months ended 30 June 2013						
Net interest income	44,380	25,418	22,810	967	1,843	95,418
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**	**3,286**	**106,851**
Selling and administration expenses	11,696	5,864	6,152	12,438	32,912	69,062
Profit / (loss) before impaired asset expense and income tax	**38,457**	**19,862**	**16,707**	**(7,611)**	**(29,626)**	**37,789**
Impaired asset expense	2,770	3,360	(195)	16,592	-	22,527
Decrease in fair value of investment properties	-	-	-	5,101	-	5,101
Profit / (loss) before income tax	**35,687**	**16,502**	**16,902**	**(29,304)**	**(29,626)**	**10,161**
Income tax expense	-	-	-	-	2,718	2,718
Profit / (loss) for the period	**35,687**	**16,502**	**16,902**	**(29,304)**	**(32,344)**	**7,443**
Total assets	987,796	549,177	456,647	107,438	399,074	**2,500,132**
Total liabilities	-	-	-	-	2,135,207	**2,135,207**
Total equity	-	-	-	-	364,925	**364,925**

5 Net interest income

	Unaudited 9 mths to Mar 2014 $000	Unaudited 9 mths to Mar 2013 $000	Audited 12 mths to Jun 2013 $000
Interest income			
Cash and cash equivalents	9,306	3,171	5,700
Finance receivables	139,891	149,065	197,999
Net interest income on derivative financial instruments	-	1,840	2,614
Total interest income	**149,197**	**154,076**	**206,313**
Interest expense			
Retail deposits	60,397	70,160	94,198
Bank and securitised borrowings	10,001	13,399	16,697
Net interest expense on derivative financial instruments	669	-	-
Total interest expense	**71,067**	**83,559**	**110,895**
Net interest income	**78,130**	**70,517**	**95,418**

6 Selling and administration expenses

	Unaudited 9 mths to Mar 2014 $000	Unaudited 9 mths to Mar 2013 $000	Audited 12 mths to Jun 2013 $000
Personnel expenses	26,314	24,971	33,448
Directors' fees	334	144	177
Superannuation	434	299	413
Audit fees	223	344	359
Audit related fees	98	19	104
Amortisation - intangible assets	997	817	1,226
Depreciation - property, plant and equipment	638	527	714
Operating lease expense as a lessee	1,186	1,229	1,651
RECL Agreement fees	-	1,650	7,700
Legal and professional fees	2,180	2,207	3,385
Other operating expenses	14,354	14,415	19,885
Total selling and administration expenses	**46,758**	**46,622**	**69,062**

Audit related fees include professional fees in connection with RBNZ reporting and other regulatory compliance, accounting advice and review work completed.

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

7 Impaired asset expense

	NOTE	Unaudited 9 mths to Mar 2014 $000	Unaudited 9 mths to Mar 2013 $000	Audited 12 mths to Jun 2013 $000
Individually impaired assets expense	16(b)	7,798	6,338	13,101
Collectively impaired assets (benefit) / expense	16(b)	(2,951)	1,585	9,426
Total impaired asset expense		**4,847**	**7,923**	**22,527**

8 Dividends paid

Total dividends of $20,061,000 were approved to be paid to Heartland NZ Holdings Limited during the 9 months ended 31 March 2014. On 1 April 2014 a dividend of $10,240,000 was paid and on 1 October 2013 a dividend of $9,821,000 was paid (9 months to March 2013: $7,831,000; 12 months to June 2013: $15,605,000).

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 (HNZ).

The Banking Group provided administrative assistance to MARAC Insurance Limited (a wholly owned subsidiary of MARAC JV Holdings Limited of which HNZ holds a 50% joint venture interest with the New Zealand Automobile Association) and received insurance commission from MARAC Insurance Limited.

MARAC Insurance Limited and key management personnel of the Bank's ultimate parent also 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 - Special purpose entities.

	Unaudited 9 mths to Mar 2014 $000	Unaudited 9 mths to Mar 2013 $000	Audited 12 mths to Jun 2013 $000
Transactions with related parties			
MARAC Insurance Limited			
Lending and credit fee income	175	251	312
Other income	281	241	335
Interest expense	(16)	-	(4)
Key management personnel of the ultimate parent			
Interest expense	(158)	-	-
Total transactions with other related parties	**282**	**492**	**643**

	Unaudited Mar 2014 $000	Unaudited Mar 2013 $000	Audited Jun 2013 $000
Due from related parties			
Heartland NZ Holdings Limited	-	200	200
Heartland New Zealand Limited	111	108	-
Total due from related parties	**111**	**308**	**200**
Due to related parties			
MARAC Insurance Limited	500	-	500
Key management personnel of the ultimate parent	11,978	-	-
Total due to related parties	**12,478**	**-**	**500**

(b) Transactions with key management personnel

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 2014 $000	Unaudited 9 mths to Mar 2013 $000	Audited 12 mths to Jun 2013 $000
Interest income	43	-	-
Interest expense	(41)	(32)	(28)

	Unaudited Mar 2014 $000	Unaudited Mar 2013 $000	Audited Jun 2013 $000
Finance receivables	729	-	-
Loans to key management personnel	640	740	740
Borrowings - deposits	(1,037)	(801)	(825)

10 Finance receivables

	Unaudited Mar 2014 $000	Unaudited Mar 2013 $000	Audited Jun 2013 $000
Non-securitised			
Neither at least 90 days past due nor impaired	1,608,956	1,676,131	1,687,480
At least 90 days past due	25,859	38,834	24,837
Individually impaired	46,835	51,923	69,301
Restructured assets	4,015	8,995	3,566
Gross finance receivables	**1,685,665**	**1,775,883**	**1,785,184**
Less provision for impairment	32,567	28,052	49,786
Total non-securitised finance receivables	**1,653,098**	**1,747,831**	**1,735,398**
Securitised			
Neither at least 90 days past due nor impaired	243,672	296,299	273,922
At least 90 days past due	1,136	1,708	1,761
Gross finance receivables	**244,808**	**298,007**	**275,683**
Less provision for impairment	703	716	705
Total securitised finance receivables	**244,105**	**297,291**	**274,978**
Total			
Neither at least 90 days past due nor impaired	1,852,628	1,972,430	1,961,402
At least 90 days past due	26,995	40,542	26,598
Individually impaired	46,835	51,923	69,301
Restructured assets	4,015	8,995	3,566
Gross finance receivables	**1,930,473**	**2,073,890**	**2,060,867**
Less provision for impairment	33,270	28,768	50,491
Total finance receivables	**1,897,203**	**2,045,122**	**2,010,376**

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

11 Borrowings

	NOTE	Unaudited Mar 2014 $000	Unaudited Mar 2013 $000	Audited Jun 2013 $000
Deposits		1,781,724	1,764,472	1,838,619
2018 Subordinated bond	19(c)	3,379	-	-
Securitised borrowings		228,781	289,205	258,934
Total borrowings		**2,013,884**	**2,053,677**	**2,097,553**

Bank borrowings and deposits rank equally and are unsecured. Investors in Heartland ABCP Trust 1 (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 2014 $000	Unaudited 9 mths to Mar 2013 $000	Audited 12 mths to Jun 2013 $000
Profit for the period	**26,412**	**17,266**	**7,443**
Add / (less) non-cash items:			
Depreciation and amortisation expense	1,635	1,344	1,940
Change in fair value of investment properties	-	-	5,101
Impaired asset expense	4,847	7,923	22,527
Deferred tax benefit	5,093	(335)	(8,230)
Derivative financial instruments revaluation	(137)	1,010	1,100
Accruals	1,278	(198)	(836)
Total non-cash items	**12,716**	**9,744**	**21,602**
Add / (less) movements in working capital items:			
Other assets	932	(192)	6,459
Current tax	(1,993)	4,224	8,837
Other liabilities	(172)	(4,167)	(3,364)
Total movements in working capital items	**(1,233)**	**(135)**	**11,932**
Net cash flows from operating activities before movements in finance receivables and operating lease vehicles	**37,895**	**26,875**	**40,977**
Loss on disposal of property, plant and equipment and intangibles	56	-	-
Movements in operating lease vehicles	1,104	510	2,155
Movements in finance receivables	100,080	26,910	25,894
Net cash flows from operating activities	**139,135**	**54,295**	**69,026**

13 Special purpose entities

Heartland Cash and Term PIE Fund

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

	Unaudited Mar 2014 $000	Unaudited Mar 2013 $000	Audited Jun 2013 $000
Deposits	41,351	27,389	33,226

Heartland ABCP Trust 1

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

CBS Warehouse A Trust (CBS Trust)

Prior to 15 August 2013, the Banking Group had securitised a pool of receivables comprising residential mortgages to the CBS Trust. On 31 July 2013, the Banking 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 CBS Trust were sold back to the Bank. The CBS Trust will remain dormant for the foreseeable future.

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 Trusts are set aside for the benefit of investors in the Trusts and are represented as follows:

	Unaudited Mar 2014 $000	Unaudited Mar 2013 $000	Audited Jun 2013 $000
Cash and cash equivalents - securitised	7,568	20,645	11,586
Finance receivables - securitised	244,105	297,291	274,978
Borrowings - securitised	(228,781)	(289,205)	(258,934)
Derivative financial assets - securitised	1,720	-	567
Derivative financial liabilities - securitised	-	(319)	(30)

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 2014 the Banking Group did not have any period end or peak end-of-day credit exposures over 10% of equity to individual counterparties (not being members of groups of closely related counterparties) or groups of closely related counterparties (excluding central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or any bank with a long-term credit rating of A- or A3 or above, or its equivalent, and connected persons).

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

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 sized 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					
	Rural	Property	Other	Residential	All Other	Total
	$000	$000	$000	$000	$000	$000
(a) End of period balances						
Unaudited - Mar 2014						
Gross impaired assets						
Individually impaired	4,069	35,421	7,345	-	-	46,835
Restructured	6	-	1,211	-	2,798	4,015
Total impaired assets	**4,075**	**35,421**	**8,556**	**-**	**2,798**	**50,850**
Provision for individually impaired assets	2,040	15,517	4,235	-	-	21,792
Net impaired assets	**2,035**	**19,904**	**4,321**	**-**	**2,798**	**29,058**
Provision for collectively impaired assets	**492**	**5,579**	**3,384**	**679**	**1,344**	**11,478**
At least 90 days past due but not impaired	**7,881**	**2,594**	**13,537**	**761**	**2,222**	**26,995**

(b) Charges to Interim Statement of Comprehensive Income

Unaudited - 9 months ended 31 March 2014						
Individually impaired assets expense	1,171	4,351	2,276	-	-	7,798
Collectively impaired assets expense	(30)	(4,407)	742	(4)	748	(2,951)
Total impaired asset expense	**1,141**	**(56)**	**3,018**	**(4)**	**748**	**4,847**

17 Fair value

The following methods and assumptions were used to estimate the fair value of each class of financial asset and liability.

Finance receivables

The fair value of the Banking Group's finance receivables is calculated using a valuation technique which assumes current market interest rates for loans of a similar nature and term.

The current average market rate used to fair value finance receivables with a fixed interest rate for the Banking Group is 9.57%. 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.

Investments

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

Other financial assets and liabilities

The fair value of all other financial assets and liabilities is considered equivalent to their carrying value due to their short term nature.

Derivative items

The fair value of interest rate contracts is modelled using observable market inputs (Level 2 under the fair value hierarchy).

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 Banking Group for debt of similar maturities.

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

	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
Unaudited - Mar 2014						
Cash and cash equivalents	-	87,485	-	-	87,485	87,485
Investments	-	-	315,780	-	315,780	315,780
Finance receivables	-	1,653,098	-	-	1,653,098	1,651,556
Finance receivables - securitised	-	244,105	-	-	244,105	246,096
Derivative financial assets	1,810	-	-	-	1,810	1,810
Other financial assets	-	5,326	-	-	5,326	5,326
Total financial assets	**1,810**	**1,990,014**	**315,780**	**-**	**2,307,604**	**2,308,053**
Borrowings	-	-	-	1,785,103	1,785,103	1,789,188
Borrowings - securitised	-	-	-	228,781	228,781	228,781
Due to related parties	-	-	-	12,478	12,478	12,085
Derivative financial liabilities	13	-	-	-	13	13
Other financial liabilities	-	-	-	40,752	40,752	40,752
Total financial liabilities	**13**	**-**	**-**	**2,067,114**	**2,067,127**	**2,070,819**

18 Liquidity risk

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

	Unaudited Mar 2014 $000
Cash and cash equivalents	87,485
Investments	315,780
Undrawn committed bank facilities	170,000
Total liquidity	**573,265**

The Banking Group has securitised bank facilities totalling $400 million in relation to the ABCP Trust maturing 2 February 2015.

19 Capital adequacy

(a) Capital Ratios

	Unaudited Mar 2014 %
Capital ratios compared to minimum ratio requirements	
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	14.60%
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	10.00%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	14.60%
Minimum Tier 1 Capital as per Conditions of Registration	12.00%
Total Capital expressed as a percentage of total risk weighted exposures	14.71%
Minimum Total Capital as per Conditions of Registration	12.00%
Buffer ratio	2.71%
Buffer ratio requirement[1]	N/A

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

(b) Capital

	Unaudited Mar 2014 $000
Tier 1 Capital which consists of:	
Common Equity Tier 1 capital	337,383
Additional Tier 1 Capital	-
Tier 2 Capital	
Subordinated Bond	2,426
Total Capital	**339,809**
Deductions included in calculation of capital:	
Deductions from Common Equity Tier 1 Capital	35,564
Deductions from Additional Tier 1 Capital	-
Deductions from Tier 2 Capital	-
Total deductions included in the calculation of capital	**35,564**

19 Capital adequacy (continued)

(c) Capital Structure (structure)

Ordinary shares

In accordance with BS2A, ordinary share capital is classified as Common Equity Tier 1 Capital and is not subject to phase-out from eligibility as capital under the Reserve Bank of New Zealand's Basel III transitional arrangements. The ordinary shares have no par value. Each ordinary share of the Bank carries the right to vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Bank in the event of liquidation.

Reserves

Available for sale reserve — The available-for-sale reserve comprises the changes in the fair value of available-for-sale securities, net of tax. These changes are recognised in profit or loss as other income when the asset is either derecognised or impaired.

Hedging reserve — The hedging reserve comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

Defined benefit reserve — The defined benefit plan reserve represents the excess of the fair value of the assets of the defined benefit superannuation plan over the net present value of the defined benefit obligations.

Retained earnings — Retained earnings is the accumulated profit or loss that has been retained in the Banking Group.

2018 Subordinated bond

Heartland's 2018 Subordinated Bonds (the Bonds) constitute Tier 2 Capital of the Banking Group. The Bonds had an issue period from 12 July 2013 to 15 December 2013 and have a maturity date of 15 December 2018. The Bonds pay quarterly interest in arrears at a rate of 6.5% per annum, provided the Bank will be solvent immediately after the payment is made. The Bank may elect to repay the Bonds prior to 15 December 2018 if a regulatory event or tax event occurs and provided it will be solvent immediately after the repayment and the Reserve Bank has consented to the repayment. The Bonds are subordinated to all other general liabilities of the Banking Group and are denominated in New Zealand dollars.

If the Reserve Bank or a Statutory Manager requires the Bank to write down the Principal Amount and/or the interest on the Subordinated Bonds, the Bonds will be written down and could be reduced to zero to comply with the Reserve Bank’s loss absorbency requirements. The Bank has not had any defaults of principal, interest or other breaches with respect to these Bonds.

(d) Pillar 1 capital requirements

	Pillar 1 capital requirement under BS2A $000	Pillar 1 capital requirement under Conditions of Registration $000
Unaudited - Mar 2014		
On balance sheet exposures		
Residential mortgages (including past due)	8,803	8,803
Corporate	2,062	2,062
Public sector entities	2,072	2,072
Multilateral development banks and other international organisations	211	211
Claims on banks	6,450	6,450
Other	221,119	221,119
Total on balance sheet exposures	**240,717**	**240,717**
Other capital requirements		
Off balance sheet credit exposures	8,747	8,747
Operational risk [2]	12,658	18,987
Market risk [2]	5,846	8,769
Total other capital requirements	**27,251**	**36,503**
Total Pillar 1 capital requirement	**267,968**	**277,220**

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

19 Capital adequacy (continued)

(e) Additional mortgage information

	On balance sheet exposures	Off balance sheet exposures	Total exposures
	$000	$000	$000
Unaudited - Mar 2014			
Loan to value ratio (LVR) range:			
Does not exceed 80%	142,383	3,424	145,807
Exceeds 80% and not 90%	16,838	18	16,856
Exceeds 90%[3]	25,757	175	25,932
Total exposures	**184,978**	**3,617**	**188,595**

[3] Of the balance of "Exceeds 90%" above, $18.4 million relates to Welcome Home loans, whose credit risk is mitigated by the Crown.

(f) Capital for other material risks

The ICAAP has identified the capital required to be held against other material risks (being concentration risk, strategic/business risk, regulatory risk and model risk). The Board has determined that the regulatory minimum capital of 12% as per the Bank's Conditions of Registration is sufficient to cover this risk. As a result there is no additional internal capital allocation for other material 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 material changes to the Bank's involvement in securitisation, funds management and other fiduciary activities since the reporting date of the previous disclosure statement.

21 Contingent liabilities and commitments

	Unaudited Mar 2014	Unaudited Mar 2013	Audited Jun 2013
	$000	$000	$000
Letters of credit, guarantee commitments and performance bonds	5,695	7,640	5,033
Total contingent liabilities	**5,695**	**7,640**	**5,033**
Undrawn facilities available to customers	115,228	109,208	106,702
Conditional commitments to fund at future dates	59,763	43,519	48,428
Total commitments	**174,991**	**152,727**	**155,130**

22 Events after the reporting date

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