HEARTLAND BANK

Disclosure Statement

For the six months ended 31 December 2013

CONTENTS

GENERAL INFORMATION

This Disclosure Statement has been issued by Heartland Bank Limited for the six months ended 31 December 2013 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2013 (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 December 2013 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 1 October 2013:

- Conditions 1, 1A and 4 were amended to refer to the updated versions of Reserve Bank of New Zealand (RBNZ) documents.
- Conditions 15 to 18 were amended to provide definitions to each condition and to refer to updated versions of RBNZ documents.
- Conditions 19 to 23 were added to introduce restrictions on new residential mortgage lending.

CONDITIONS OF REGISTRATION

These conditions apply on and after 1 October 2013, except as provided otherwise.

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.

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”.

CONDITIONS OF REGISTRATION (CONTINUED)

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.

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).

[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)

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.

This condition of registration applies on and after 30 September 2013.

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 per cent at the end of each business day;

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

   (c) the one-year core funding ratio of the banking group is not less than 75 per cent 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.

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.

CONDITIONS OF REGISTRATION (CONTINUED)

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.

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.

CONDITIONS OF REGISTRATION (CONTINUED)

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

“generally accepted accounting practice” has the same meaning as in section 2 of the Financial Reporting Act 1993.

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 September 2013:

“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.

AUDITOR

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland

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 RATINGS

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. On 29 October 2013 S&P affirmed the BBB- credit rating but amended the outlook from "negative" to "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.

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 six months ended 31 December 2013:
   (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 25 February 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

HEARTLAND BANK

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2013

	NOTE	Unaudited 6 mths to Dec 2013 $000	Unaudited 6 mths to Dec 2012 $000	Audited 12 mths to Jun 2013 $000
Interest income	5	100,469	103,264	206,313
Interest expense	5	48,114	56,520	110,895
Net interest income		**52,355**	**46,744**	**95,418**
Operating lease income		6,781	7,712	14,861
Operating lease expenses		3,937	5,029	9,687
Net operating lease income		**2,844**	**2,683**	**5,174**
Lending and credit fee income		1,231	795	1,760
Other income		2,528	1,611	4,499
Net operating income		**58,958**	**51,833**	**106,851**
Selling and administration expenses	6	31,544	31,300	69,062
Profit before impaired asset expense and income tax		**27,414**	**20,533**	**37,789**
Impaired asset expense	7	3,325	5,254	22,527
Decrease in fair value of investment properties		-	-	5,101
Profit before income tax		**24,089**	**15,279**	**10,161**
Income tax expense		6,847	4,361	2,718
Profit for the period		**17,242**	**10,918**	**7,443**
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		922	274	1,056
Net change in available for sale reserve, net of income tax		106	46	276
Items that will not be reclassified to 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		**1,113**	**523**	**1,794**
Total comprehensive income for the period		**18,355**	**11,441**	**9,237**

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

The notes on pages 12 to 30 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2013

	NOTE	Share capital $000	Available for sale reserve $000	Defined benefit reserve $000	Hedging reserve $000	Retained earnings $000	Total equity $000
Unaudited - Dec 2013							
Balance at 1 July 2013		**189,774**	**284**	**41**	**46**	**174,780**	**364,925**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	17,242	17,242
Total other comprehensive income		-	106	85	922	-	1,113
Total comprehensive income for the period		**-**	**106**	**85**	**922**	**17,242**	**18,355**
Contributions by and distributions to owners							
Effect of amalgamation of subsidiaries	1	149,269	-	-	-	(149,269)	-
Staff share ownership expense		549	-	-	-	-	549
Dividends to equity holders	8	-	-	-	-	(9,821)	(9,821)
Total transactions with owners		**149,818**	**-**	**-**	**-**	**(159,090)**	**(9,272)**
Balance at 31 December 2013		**339,592**	**390**	**126**	**968**	**32,932**	**374,008**
Unaudited - Dec 2012							
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		-	-	-	-	10,918	10,918
Total other comprehensive income		-	46	203	274	-	523
Total comprehensive income for the period		**-**	**46**	**203**	**274**	**10,918**	**11,441**
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 December 2012		**189,774**	**54**	**(218)**	**(736)**	**186,029**	**374,903**
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 30 are an integral part of these interim financial statements.

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	NOTE	Unaudited Dec 2013 $000	Unaudited Dec 2012 $000	Audited Jun 2013 $000
Assets				
Cash and cash equivalents		174,454	122,998	172,777
Investments		255,427	24,406	165,223
Due from related parties	9	77	286	200
Investment properties		61,481	55,316	58,287
Finance receivables	10	1,905,850	2,044,793	2,010,376
Operating lease vehicles		31,911	34,359	32,395
Current tax asset		-	1,598	-
Other assets		11,204	18,438	11,257
Intangible assets		22,891	22,986	22,963
Property, plant and equipment		9,775	10,071	10,281
Deferred tax asset		11,454	8,146	16,373
Total assets		**2,484,524**	**2,343,397**	**2,500,132**
Liabilities				
Borrowings	11	2,076,968	1,935,116	2,097,553
Current tax liabilities		710	-	3,565
Due to related parties	9	500	-	500
Trade and other payables		32,338	33,378	33,589
Total liabilities		**2,110,516**	**1,968,494**	**2,135,207**
Equity				
Share capital	1	339,592	189,774	189,774
Retained earnings and reserves		34,416	185,129	175,151
Total equity		**374,008**	**374,903**	**364,925**
Total equity and liabilities		**2,484,524**	**2,343,397**	**2,500,132**
Total interest earning and discount bearing assets		2,334,238	2,192,708	2,345,724
Total interest and discount bearing liabilities		2,077,468	1,935,880	2,098,083

The notes on pages 12 to 30 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 December 2013

	NOTE	Unaudited 6 mths to Dec 2013 $000	Unaudited 6 mths to Dec 2012 $000	Audited 12 mths to Jun 2013 $000
Cash flows from operating activities				
Interest received		98,753	99,194	199,243
Operating lease income received		6,645	6,529	11,958
Proceeds from sale of operating lease vehicles		5,157	4,683	10,710
Lending, credit fees and other income received		3,759	2,406	6,259
Net decrease in finance receivables		94,594	32,192	32,908
Total cash provided from operating activities		**208,908**	**145,004**	**261,078**
Payments to suppliers and employees		30,558	33,463	60,819
Interest paid		49,216	54,048	112,820
Purchase of operating lease vehicles		7,182	8,082	15,611
Taxation paid		5,171	815	2,802
Total cash applied to operating activities		**92,127**	**96,408**	**192,052**
Net cash flows from operating activities	12	**116,781**	**48,596**	**69,026**
Cash flows from investing activities				
Proceeds from sale of investment properties		5,067	188	3,194
Proceeds from sale of property, plant and equipment		25	-	-
Total cash provided from investing activities		**5,092**	**188**	**3,194**
Purchase of office fit-out, equipment and intangible assets		601	859	2,256
Net increase in investments		90,098	79	130,687
Total cash applied to investing activities		**90,699**	**938**	**132,943**
Net cash flows applied to investing activities		**(85,607)**	**(750)**	**(129,749)**
Cash flows from financing activities				
Net increase in borrowings		-	-	159,885
Total cash provided from financing activities		**-**	**-**	**159,885**
Dividends paid	8	9,821	7,831	15,605
Net decrease in borrowings		19,676	6,237	-
Total cash applied to financing activities		**29,497**	**14,068**	**15,605**
Net cash flows (applied to) / from financing activities		**(29,497)**	**(14,068)**	**144,280**
Net increase in cash held		**1,677**	**33,778**	**83,557**
Opening cash and cash equivalents		172,777	89,220	89,220
Closing cash and cash equivalents		**174,454**	**122,998**	**172,777**

The notes on pages 12 to 30 are an integral part of these interim financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2013

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 unwinding 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:
- 6 month period ended 31 December 2013 - Unaudited
- 6 month period ended 31 December 2012 - 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), 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 2013.

The Bank and all of the entities within the Banking Group are profit-oriented entities. The Bank is a reporting entity and an Issuer for the purposes of the Financial Reporting Act 1993, and its interim financial statements comply with 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) 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 - 6 months ended 31 December 2013						
Net interest income	26,446	14,527	12,083	(811)	110	52,355
Net operating lease income	2,844	-	-	-	-	2,844
Net other income	709	215	30	2,211	594	3,759
Net operating income	**29,999**	**14,742**	**12,113**	**1,400**	**704**	**58,958**
Selling and administration expenses	5,970	2,504	2,694	2,515	17,861	31,544
Profit / (loss) before impaired asset expense and income tax	**24,029**	**12,238**	**9,419**	**(1,115)**	**(17,157)**	**27,414**
Impaired asset expense	261	2,797	323	(56)	-	3,325
Profit / (loss) before income tax	**23,768**	**9,441**	**9,096**	**(1,059)**	**(17,157)**	**24,089**
Income tax expense	-	-	-	-	6,847	6,847
Profit / (loss) for the period	**23,768**	**9,441**	**9,096**	**(1,059)**	**(24,004)**	**17,242**
Total assets	938,105	558,127	415,890	87,120	485,282	**2,484,524**
Total liabilities	-	-	-	-	2,110,516	**2,110,516**
Total equity	-	-	-	-	374,008	**374,008**

4 Segmental analysis (continued)

	Retail & Consumer $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Unaudited - 6 months ended 31 December 2012						
Net interest income	21,143	12,493	11,461	449	1,198	46,744
Net operating lease income	2,664	19	-	-	-	2,683
Net other income	284	91	22	1,503	506	2,406
Net operating income	**24,091**	**12,603**	**11,483**	**1,952**	**1,704**	**51,833**
Selling and administration expenses	6,061	2,887	3,046	3,248	16,058	31,300
Profit / (loss) before impaired asset expense and income tax	**18,030**	**9,716**	**8,437**	**(1,296)**	**(14,354)**	**20,533**
Impaired asset expense	756	817	(299)	3,980	-	5,254
Profit / (loss) before income tax	**17,274**	**8,899**	**8,736**	**(5,276)**	**(14,354)**	**15,279**
Income tax expense	-	-	-	-	4,361	4,361
Profit / (loss) for the period	**17,274**	**8,899**	**8,736**	**(5,276)**	**(18,715)**	**10,918**
Total assets	980,183	530,496	480,572	143,217	208,929	**2,343,397**
Total liabilities	-	-	-	-	1,968,494	**1,968,494**
Total equity	-	-	-	-	374,903	**374,903**

	Retail & Consumer $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
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 year	**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

	NOTE	Unaudited 6 mths to Dec 2013 $000	Unaudited 6 mths to Dec 2012 $000	Audited 12 mths to Jun 2013 $000
Interest income				
Cash and cash equivalents and investments		5,540	1,582	5,700
Finance receivables		94,929	100,532	197,999
Net interest income on derivative financial instruments		-	1,150	2,614
Total interest income		**100,469**	**103,264**	**206,313**
Interest expense				
Retail deposits		41,127	46,689	94,198
Bank and securitised borrowings		6,599	9,831	16,697
Net interest expense on derivative financial instruments		388	-	-
Total interest expense		**48,114**	**56,520**	**110,895**
Net interest income		**52,355**	**46,744**	**95,418**

Included within the Banking Group's interest income on finance receivables is $1,720,000 (6 months to December 2012: $1,380,000; 12 months to June 2013: $2,591,000) on individually impaired assets.

6 Selling and administration expenses

Personnel expenses		17,670	16,673	33,448
Directors' fees		204	96	177
Superannuation		306	201	413
Audit fees		209	221	359
Audit related fees		90	30	104
Amortisation - intangible assets		641	512	1,226
Depreciation - property, plant and equipment		463	354	714
Operating lease expense as a lessee		819	822	1,651
RECL Agreement fees		-	1,100	7,700
Legal and professional fees		1,632	1,573	3,385
Other operating expenses		9,510	9,718	19,885
Total selling and administration expenses		**31,544**	**31,300**	**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 Director's fees on behalf of the Banking Group.

7 Impaired asset expense

Individually impaired assets expense	16(d)	5,131	3,611	13,101
Collectively impaired assets (benefit) / expense	16(d)	(1,806)	1,643	9,426
Total impaired asset expense		**3,325**	**5,254**	**22,527**

8 Dividends

On 1 October 2013 a dividend of $9,821,000 was paid to Heartland NZ Holdings Limited (6 months to December 2012: $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).

(a) Transactions with related parties

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 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 6 mths to Dec 2013 $000	Unaudited 6 mths to Dec 2012 $000	Audited 12 mths to Jun 2013 $000
Transactions with related parties			
Lending and credit fee income	105	176	312
Other income	189	180	335
Interest expense	(11)	-	(4)
Total transactions with other related parties	**283**	**356**	**643**

	Unaudited Dec 2013 $000	Unaudited Dec 2012 $000	Audited Jun 2013 $000
Due from related parties			
Heartland NZ Holdings Limited	-	200	200
Heartland New Zealand Limited	77	86	-
Total due from related parties	**77**	**286**	**200**
Due to related parties			
MARAC Insurance Limited	500	-	500
Total due to related parties	**500**	**-**	**500**

(b) Transactions with key management personnel

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

	Unaudited 6 mths to Dec 2013 $000	Unaudited 6 mths to Dec 2012 $000	Audited 12 mths to Jun 2013 $000
Interest income	26	-	-
Interest expense	(30)	(16)	(28)

	Unaudited Dec 2013 $000	Unaudited Dec 2012 $000	Audited Jun 2013 $000
Finance receivables	748	-	-
Loans to key management personnel	640	740	740
Borrowings - deposits	1,074	426	825

10 Finance receivables

	Unaudited Dec 2013 $000	Unaudited Dec 2012 $000	Audited Jun 2013 $000
Non-securitised			
Neither at least 90 days past due nor impaired	1,577,598	1,689,396	1,687,480
At least 90 days past due	18,397	47,685	24,837
Individually impaired	53,100	49,412	69,301
Restructured assets	3,994	9,069	3,566
Gross finance receivables	**1,653,089**	**1,795,562**	**1,785,184**
Less provision for impairment	33,579	26,801	49,786
Total non-securitised finance receivables	**1,619,510**	**1,768,761**	**1,735,398**
Securitised			
Neither at least 90 days past due nor impaired	285,854	275,214	273,922
At least 90 days past due	1,121	1,488	1,761
Individually impaired	-	6	-
Gross finance receivables	**286,975**	**276,708**	**275,683**
Less provision for impairment	635	676	705
Total securitised finance receivables	**286,340**	**276,032**	**274,978**
Total			
Neither at least 90 days past due nor impaired	1,863,452	1,964,610	1,961,402
At least 90 days past due	19,518	49,173	26,598
Individually impaired	53,100	49,418	69,301
Restructured assets	3,994	9,069	3,566
Gross finance receivables	**1,940,064**	**2,072,270**	**2,060,867**
Less provision for impairment	34,214	27,477	50,491
Total finance receivables	**1,905,850**	**2,044,793**	**2,010,376**

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

11 Borrowings

Deposits	1,805,954	1,670,756	1,838,619
2018 Subordinated Bond	3,369	-	-
Securitised borrowings	267,645	264,360	258,934
Total borrowings	**2,076,968**	**1,935,116**	**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.

The Banking Group has securitised bank facilities totalling $400 million, all in relation to ABCP Trust. This securitisation facility matures on 7 August 2014. The facilities are drawn by $268 million (December 2012: $264 million; June 2013: $259 million).

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

	Unaudited 6 mths to Dec 2013 $000	Unaudited 6 mths to Dec 2012 $000	Audited 12 mths to Jun 2013 $000
Profit for the period	**17,242**	**10,918**	**7,443**
Add / (less) non-cash items:			
Depreciation and amortisation expense	1,104	866	1,940
Change in fair value of investment properties	-	-	5,101
Impaired asset expense	3,325	5,254	22,527
Deferred tax expense / (benefit)	4,919	(3)	(8,230)
Derivative financial instruments revaluation	(229)	795	1,100
Accruals	1,066	(340)	(836)
Total non-cash items	**10,185**	**6,572**	**21,602**
Add / (less) movements in working capital items:			
Other assets	673	(1,699)	6,459
Current tax	(2,855)	3,674	8,837
Other liabilities	(2,130)	(1,086)	(3,364)
Total movements in working capital items	**(4,312)**	**889**	**11,932**
Net cash flows from operating activities before movements in finance receivables and operating lease vehicles	**23,115**	**18,379**	**40,977**
Movements in operating lease vehicles	484	191	2,155
Movements in finance receivables	93,182	30,026	25,894
Net cash flows from operating activities	**116,781**	**48,596**	**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 Dec 2013 $000	Unaudited Dec 2012 $000	Audited Jun 2013 $000
Deposits	41,594	21,136	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 Dec 2013 $000	Unaudited Dec 2012 $000	Audited Jun 2013 $000
Cash and cash equivalents - securitised	7,969	16,574	11,586
Finance receivables - securitised	286,340	276,032	274,978
Borrowings - securitised	(267,645)	(264,360)	(258,934)
Derivative financial assets - securitised	1,644	-	567
Derivative financial liabilities - securitised	-	(764)	(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 Credit risk

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

To manage this risk the Board through its Board Risk Committee (BRC), has been delegated the task of overseeing a formal credit risk management strategy. The BRC reviews the Banking Group's credit risk exposures to ensure consistency with the Banking Group's credit policies to manage all aspects of credit risk.

The tables below represent the maximum credit risk exposure, without taking account of any collateral held. The exposures set out below are based on net carrying amounts as reported in the Interim Statement of Financial Position.

(a) Maximum exposure to credit risk

	Unaudited Dec 2013 $000
Finance receivables	1,905,850
Cash and cash equivalents	174,454
Investments	255,427
Due from related parties	77
Derivative financial assets	1,770
Other financial assets	7,083
Total on balance sheet credit exposures	**2,344,661**

(b) Concentration of credit risk by geographic region

Auckland	768,809
Wellington	168,338
Rest of North Island	555,148
Canterbury	460,847
Rest of South Island	384,235
Overseas [1]	20,462
	2,357,839
Collective provisions	(13,255)
Due from related parties	77
Total on balance sheet credit exposures	**2,344,661**

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

15 Credit risk (continued)

(c) Concentration of credit risk by industry sector

	Unaudited Dec 2013 $000
Agriculture	462,564
Forestry and Fishing	24,474
Mining	11,891
Manufacturing	75,865
Finance & Insurance	440,002
Wholesale trade	79,156
Retail trade	153,246
Households	624,495
Property and Business services	297,623
Transport and storage	19,899
Other	168,624
	2,357,839
Collective provisions	(13,255)
Due from related parties	77
Total on balance sheet credit exposures	**2,344,661**

(d) Credit exposure to individual counterparties

At 31 December 2013 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 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.

(e) Other assets under administration

Other assets under administration are any loans, not being individually impaired or 90 days or more past due, where the customer is in any form of voluntary or involuntary administration, including receivership, liquidation, bankruptcy or statutory management. As at 31 December 2013, the Banking Group had $3.8m of assets under administration.

16 Asset quality

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.

16 Asset quality (continued)

(a) Finance Receivables by credit risk concentration

	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Unaudited - Dec 2013						
Neither at least 90 days past due or impaired	481,277	4,019	758,655	207,877	411,624	1,863,452
At least 90 days past due	4,126	2,590	10,533	416	1,853	19,518
Individually impaired	3,362	42,121	7,617	-	-	53,100
Restructured	6	-	1,263	-	2,725	3,994
Provision for impairment	(2,269)	(23,091)	(6,906)	(688)	(1,260)	(34,214)
Total finance receivables	**486,502**	**25,639**	**771,162**	**207,605**	**414,942**	**1,905,850**

(b) Past due but not impaired

	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Unaudited - Dec 2013						
Less than 30 days past due	8,977	-	6,802	2,266	8,337	26,382
At least 30 and less than 60 days past due	14,413	-	4,993	794	2,805	23,005
At least 60 and less than 90 days past due	1,435	-	1,336	-	1,180	3,951
At least 90 days past due	4,126	2,590	10,533	416	1,853	19,518
Total past due but not impaired	**28,951**	**2,590**	**23,664**	**3,476**	**14,175**	**72,856**

(c) Individually impaired assets

	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Unaudited - Dec 2013						
Opening	2,979	61,634	4,688	-	-	69,301
Additions	805	16,914	4,403	-	-	22,122
Deletions	(296)	(19,097)	(1,417)	-	-	(20,810)
Write offs	(126)	(17,330)	(57)	-	-	(17,513)
Closing gross individually impaired assets	**3,362**	**42,121**	**7,617**	**-**	**-**	**53,100**
Less: provision for individually impaired assets	1,732	15,912	3,315	-	-	20,959
Total net impaired assets	**1,630**	**26,209**	**4,302**	**-**	**-**	**32,141**

(d) Provision for impaired assets

	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Unaudited - Dec 2013						
Provision for individually impaired assets						
Opening individual impairment	1,125	31,252	2,153	-	-	34,530
Impairment loss for the period						
- charge for the period	747	3,026	1,358	-	-	5,131
- recoveries	-	3	2	-	-	5
- write offs	(126)	(17,330)	(57)	-	-	(17,513)
- effect of discounting	(14)	(1,039)	(141)	-	-	(1,194)
Closing individual impairment	**1,732**	**15,912**	**3,315**	**-**	**-**	**20,959**
Provision for collectively impaired assets						
Opening collective impairment	581	10,260	3,479	134	1,507	15,961
Impairment loss for the period						
- charge/(credit) for the period	15	(3,082)	806	5	450	(1,806)
- assumed on acquisition of loans	-	-	-	549	-	549
- recoveries	3	1	28	-	42	74
- write offs	(62)	-	(722)	-	(739)	(1,523)
Closing collective impairment	**537**	**7,179**	**3,591**	**688**	**1,260**	**13,255**
Total provision for impairment	**2,269**	**23,091**	**6,906**	**688**	**1,260**	**34,214**

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 9.46%. 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.

	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 - Dec 2013						
Cash and cash equivalents	-	174,454	-	-	174,454	174,454
Investments	-	-	255,427	-	255,427	255,427
Finance receivables	-	1,619,510	-	-	1,619,510	1,618,601
Finance receivables - securitised	-	286,340	-	-	286,340	289,540
Derivative financial assets	1,770	-	-	-	1,770	1,770
Other financial assets	-	7,160	-	-	7,160	7,160
Total financial assets	**1,770**	**2,087,464**	**255,427**	**-**	**2,344,661**	**2,346,952**
Borrowings	-	-	-	1,809,323	1,809,323	1,814,013
Borrowings - securitised	-	-	-	267,645	267,645	267,645
Other financial liabilities	-	-	-	17,102	17,102	17,102
Total financial liabilities	**-**	**-**	**-**	**2,094,070**	**2,094,070**	**2,098,760**

18 Liquidity risk

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

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

The Banking Group's exposure to liquidity risk is governed by a policy approved by the Board and managed by the Asset and Liability Committee (ALCO). This policy sets out the nature of risk which may be taken and aggregate risk limits, and the ALCO must conform to this. The objective of the ALCO is to derive the most appropriate strategy for the Banking Group in terms of the mix of assets and liabilities given its expectations of future cash flows, liquidity constraints and capital adequacy.

(a) Liquid assets

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

	Unaudited Dec 2013 $000
Cash and cash equivalents	174,454
Investments	255,427
Undrawn committed bank facilities	131,284
Total liquidity	**561,165**

(b) Contractual liquidity profile of financial assets and liabilities

The following tables show the cash flows of the Banking Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. In the following tables, total financial assets do not include unrecognised loan commitments and total financial liabilities do not include undrawn committed bank facilities.

The tables have been prepared using estimates of the average interest rate applicable for each asset or liability class during the contractual term.

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
Unaudited - Dec 2013							
Financial assets							
Cash and cash equivalents	174,454	-	-	-	-	-	174,454
Investments	4,445	19,489	25,162	110,332	115,766	-	275,194
Finance receivables	-	368,265	261,644	360,928	620,489	319,838	1,931,164
Finance receivables - securitised	-	68,215	62,875	103,719	107,695	33	342,537
Derivative financial assets	1,770	-	-	-	-	-	1,770
Other financial assets	-	7,160	-	-	-	-	7,160
Total financial assets	**180,669**	**463,129**	**349,681**	**574,979**	**843,950**	**319,871**	**2,732,279**
Financial liabilities							
Borrowings	599,442	691,267	417,579	75,386	64,107	-	1,847,781
Borrowings - securitised	-	43,438	230,152	-	-	-	273,590
Other financial liabilities	500	16,602	-	-	-	-	17,102
Total financial liabilities	**599,942**	**751,307**	**647,731**	**75,386**	**64,107**	**-**	**2,138,473**
Net financial (liabilities) / assets	**(419,273)**	**(288,178)**	**(298,050)**	**499,593**	**779,843**	**319,871**	**593,806**
Unrecognised loan commitments	121,760	-	-	-	-	-	121,760
Undrawn committed bank facilities	131,284	-	-	-	-	-	131,284

The undrawn committed bank facilities totalling $131.3 million are available to be drawn down on demand. To the extent drawn, $131.3 million is contractually repayable on 7 August 2014.

18 Liquidity risk (continued)

(c) Expected maturity profile of financial assets and liabilities

The following table shows management's expected maturities of existing financial assets and financial liabilities.

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

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
Unaudited - Dec 2013							
Financial assets							
Cash and cash equivalents	174,454	-	-	-	-	-	174,454
Investments	4,445	19,489	25,162	110,332	115,766	-	275,194
Finance receivables	-	489,423	333,318	515,380	390,354	12,582	1,741,057
Finance receivables - securitised	-	88,928	72,888	102,027	78,678	140	342,661
Derivative financial asset	1,770	-	-	-	-	-	1,770
Other financial assets	-	7,160	-	-	-	-	7,160
Total financial assets	**180,669**	**605,000**	**431,368**	**727,739**	**584,798**	**12,722**	**2,542,296**
Financial liabilities							
Borrowings	5,994	192,901	203,894	317,058	612,366	648,971	1,981,184
Borrowings - securitised	-	5,408	3,903	9,311	27,958	268,759	315,339
Other financial liabilities	-	16,602	-	-	-	500	17,102
Total financial liabilities	**5,994**	**214,911**	**207,797**	**326,369**	**640,324**	**918,230**	**2,313,625**
Net financial assets / (liabilities)	**174,675**	**390,089**	**223,571**	**401,370**	**(55,526)**	**(905,508)**	**228,671**
Unrecognised loan commitments	121,760	-	-	-	-	-	121,760
Undrawn committed bank facilities	131,284	-	-	-	-	-	131,284

19 Concentrations of funding

(a) Concentration of funding by industry

	Unaudited Dec 2013 $000
Finance	318,226
Households	1,758,742
Total borrowings	**2,076,968**

(b) Concentration of funding by geographical area

Auckland	405,817
Wellington	309,364
Rest of North Island	388,772
Canterbury	716,290
Rest of South Island	174,125
Overseas	82,600
Total borrowings	**2,076,968**

20 Interest rate risk

Interest rate risk is the risk that the value of assets or liabilities will change because of changes in interest rates or that market interest rates may change and thus alter the margin between interest-earning assets and interest-bearing liabilities. Interest rate risk for the Banking Group refers to the risk of loss due to holding assets and liabilities that may mature or re-price in different periods. Interest rate risk is mitigated by management's frequent monitoring of the interest rate repricing profiles of borrowings and finance receivables, and where appropriate, the use of derivative instruments.

Contractual repricing analysis

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

	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2+ Years	Non-interest bearing	Total
	$000	$000	$000	$000	$000	$000	$000
Unaudited - Dec 2013							
Financial assets							
Cash and cash equivalents	174,112	-	-	-	-	342	174,454
Investments	166,423	14,185	5,759	41,735	27,325	-	255,427
Due from related parties	-	-	-	-	-	77	77
Finance receivables	1,154,206	78,809	116,667	155,912	110,995	2,921	1,619,510
Finance receivables - securitised	49,316	34,462	58,919	82,376	61,267	-	286,340
Other financial assets	1,770	-	-	-	-	7,083	8,853
Total financial assets	**1,545,827**	**127,456**	**181,345**	**280,023**	**199,587**	**10,423**	**2,344,661**
Financial liabilities							
Borrowings	951,623	331,145	402,912	69,530	54,113	-	1,809,323
Borrowings - securitised	267,645	-	-	-	-	-	267,645
Other financial liabilities	500	-	-	-	-	16,602	17,102
Total financial liabilities	**1,219,768**	**331,145**	**402,912**	**69,530**	**54,113**	**16,602**	**2,094,070**
Effect of derivatives held for risk management	196,815	(20,335)	(38,850)	(66,325)	(71,305)	-	-
Net financial assets / (liabilities)	**522,874**	**(224,024)**	**(260,417)**	**144,168**	**74,169**	**(6,179)**	**250,591**

21 Capital adequacy

The Banking Group is subject to regulation by the RBNZ. The RBNZ has set minimum regulatory capital requirements for banks that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision. These requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by the Banking Group.

The Banking Group must comply with RBNZ minimum capital adequacy ratios as determined in its Conditions of Registration which require capital adequacy ratios to be calculated under the Basel III framework in accordance with the Capital Adequacy Framework (Standardised Approach) BS2A dated September 2013. Basel III consists of three pillars. Pillar 1 covers the capital requirements for credit, operational, and market (including interest rate) risks. Pillar 2 covers all other material risks not already included in Pillar 1 and the requirement for an internal capital adequacy assessment process. Pillar 3 relates to market disclosure.

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group for the six months ended 31 December 2013.

Internal Capital Adequacy Assessment Process ('ICAAP')

The Banking Group has an ICAAP which complies with the requirements set out in BS12 and is in accordance with its Conditions of Registration. The Board has overall responsibility for ensuring the Banking Group has adequate overall capital in relation to its risk profile and establishes minimum internal capital levels and limits above the regulatory minimum.

The documented process ensures that the Banking Group has sufficient available capital to meet minimum capital requirements, even in stressed events. It describes the risk profile of the Banking Group and the risk appetite and tolerances under which it operates, and assesses the level of capital held against the material risks of the bank (both Pillar 1 and Pillar 2).

The ICAAP identifies the additional capital required to be held against other material risks, being concentration risk, strategic / business risk, reputational risk, regulatory risk and model risk. See Note 21(j) for further details.

21 Capital adequacy (continued)

(a) Capital ratios

	Unaudited Dec 2013 %	Unaudited Dec 2012 %
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	14.63%	N/A
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	10.00%	N/A
Tier 1 Capital expressed as a percentage of total risk weighted exposures	14.63%	14.89%
Minimum Tier 1 Capital as per Conditions of Registration	12.00%	12.00%
Total Capital expressed as a percentage of total risk weighted exposures	14.73%	14.89%
Minimum Total Capital as per Conditions of Registration	12.00%	12.00%
Buffer ratio	2.63%	N/A
Buffer ratio requirement[1]	N/A	N/A
Solo capital adequacy[2]		
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	16.63%	N/A
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	10.00%	N/A
Tier 1 Capital expressed as a percentage of total risk weighted exposures	16.63%	16.52%
Minimum Tier 1 Capital as per Conditions of Registration	12.00%	12.00%
Total Capital expressed as a percentage of total risk weighted exposures	16.75%	16.52%
Minimum Total Capital as per Conditions of Registration	12.00%	12.00%

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

[2] For the purposes of calculating capital adequacy on a solo basis, subsidiaries which are both wholly owned and wholly funded by the Bank are consolidated into the Bank. Therefore, capital adequacy on a solo basis is calculated based on the Bank and its subsidiaries excluding the ABCP Trust and the CBS Trust.

	Unaudited Dec 2013 $000
Tier 1 Capital	
Common Equity Tier 1 (CET1) Capital	
Paid up ordinary shares issued by the Bank plus related share premium	339,592
Retained earnings (net of appropriations)	32,932
Accumulated other comprehensive income and other disclosed reserves	1,484
Less deductions from CET1 capital	
Intangible assets	(22,891)
Deferred tax assets	(11,454)
Hedging reserve	(968)
Defined benefit superannuation fund asset	(539)
Total CET1 Capital	**338,156**
Additional Tier 1 Capital	
Nil	-
Total Tier 1 capital	**338,156**
Tier 2 capital	
2018 Subordinated Bond	2,426
Total Tier 2 Capital	**2,426**
Total Capital	**340,582**

(b) Capital structure

Ordinary shares

In accordance with BS2A, ordinary share capital is classified as CET1 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.

21 Capital adequacy (continued)

(b) Capital structure (continued)

2018 Subordinated Bond

Heartland's 2018 Subordinated Bonds (the Bonds) constitute Tier 2 Capital of the Banking Group. The Bonds have an issue period from 12 July 2013 to 15 December 2013 and 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.

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.

(c) Credit risk

Calculation of on-balance-sheet exposures

	Total exposure	Risk weighting	Risk weighted exposure	Minimum Pillar 1 capital require-ment[1]
	$000	%	$000	$000
Unaudited - Dec 2013				
Cash	342	0%	-	-
Multilateral development banks and other international organisations	20,462	0%	-	-
Banks	344,568	20%	68,914	8,270
Public sector entities	33,957	20%	6,791	815
Public sector entities	9,606	50%	4,803	576
Corporate	9,260	20%	1,852	222
Corporate	6,072	50%	3,036	364
Corporate	5,614	100%	5,614	674
Welcome Home Loans - loan to value ratio (LVR) <= 90%[2]	17,120	35%	5,992	719
Welcome Home Loans - LVR 90% >= 100%[2]	23,522	50%	11,761	1,411
Welcome Home Loans - LVR > 100%[2]	991	100%	991	119
Residential mortgages < 80% LVR	151,059	35%	52,871	6,345
Residential mortgages 80 < 90% LVR	5,736	50%	2,868	344
Residential mortgages 90 < 100% LVR	1,064	75%	798	96
Residential mortgages 100%+ LVR	7,714	100%	7,714	926
Past due residential mortgages	399	100%	399	48
Other past due assets - provision 20%+	13,344	100%	13,344	1,601
Other past due assets - provision < 20%	41,441	150%	62,162	7,459
Other assets	1,756,401	100%	1,756,401	210,768
Non risk weighted assets	35,852	n/a	-	-
Total on balance sheet exposures	**2,484,524**		**2,006,311**	**240,757**

[1] Minimum Pillar 1 capital requirement has been calculated at 12% in accordance with the Bank's Conditions of Registration.

[2] The LVR classification above is calculated in line with the Bank's Pillar 1 Capital requirement which includes capital relief for Welcome Home loans that are guaranteed by the Crown.

21 Capital adequacy (continued)

(c) Credit risk (continued)

Calculation of off-balance sheet exposures

	Total exposure	Credit conversion Factor	Credit equivalent amount	Risk weighting	Risk weighted exposure	Minimum Pillar 1 capital requirement [1]
	$000	$000	$000	%	$000	$000
Unaudited - Dec 2013						
Off balance sheet exposures						
Direct credit substitute	1,711	100%	1,711	100%	1,711	205
Performance-related contingency	2,444	50%	1,222	100%	1,222	147
Other commitments where original maturity is more than one year	113,704	50%	56,852	100%	56,852	6,822
Other commitments where original maturity is less than or equal to one year	68,147	20%	13,629	100%	13,629	1,635
Market related contracts: [2]						
Interest rate contracts	227,190	n/a	1,134	20%	227	27
Total off balance sheet exposures	**413,196**		**74,548**		**73,641**	**8,836**

(d) Additional mortgage information

Residential mortgages by loan-to-valuation ratio

	On balance sheet exposures	Off balance sheet exposures [3]	Total exposures
	$000	$000	$000
Unaudited - Dec 2013			
Does not exceed 80%	154,312	4,444	158,756
Exceeds 80% and not 90%	19,603	14	19,617
Exceeds 90%	33,690	45	33,735
Total exposures	**207,605**	**4,503**	**212,108**

At 31 December 2013, of the balance of "Exceeds 90%" above, $24.5 million relates to Welcome Home loans, whose credit risk is mitigated by the Crown.

(e) Reconciliation of mortgage related amounts

	NOTE	Unaudited Dec 2013 $000
Loans and advances	16(a)	207,605
On balance sheet residential mortgage exposures subject to the standardised approach		**207,605**
Off balance sheet mortgage exposures subject to the standardised approach		4,503
Total residential exposures subject to the standardised approach		**212,108**

(f) Credit risk mitigation

As at 31 December 2013 the Banking Group has $41.7 million of Welcome Home Loans, whose credit risk is mitigated by the Crown. Other than this the Banking Group does not have any exposures covered by eligible collateral, guarantees and credit derivatives.

[1] Minimum Pillar 1 capital requirement has been calculated at 12% in accordance with the Bank's Conditions of Registration.
[2] The credit equivalent amount for market related contracts was calculated using the current exposure method.
[3] Off balance sheet exposures means unutilised limits.

21 Capital adequacy (continued)

(g) Operational Risk

	Implied risk weighted exposure $000	Total operational risk capital requirement $000
Unaudited - Dec 2013		
Operational risk	155,995	12,480

(h) Market risk

		Implied risk weighted exposure $000	Aggregate capital charge $000
Unaudited - Dec 2013			
Market risk end-period capital charge	Interest rate risk only	75,548	6,044
Market risk peak end-of-day capital charge	Interest rate risk only	75,548	6,044

Peak end of day aggregate capital charge at the end of the period is derived by following the risk methodology for measuring capital requirements within Part 10 of the Standardised Approach. Peak end of day aggregate capital charge is derived by determining the maximum end of month capital charge over the reporting period. Based on the portfolio of the Banking Group’s risk exposures, it is considered by management that the difference between end of month aggregate capital charge and end of day aggregate capital charge is insignificant.

(i) Total capital requirements

	Total exposure after credit risk mitigation $000	Risk weighted exposure or implied risk weighted exposure $000	Total capital requirement $000	Total capital requirement per Conditions of Registration $000
Unaudited - Dec 2013				
Total credit risk				
On balance sheet	2,484,524	2,006,311	240,757	240,757
Off balance sheet	413,196	73,641	8,836	8,836
Operational risk	n/a	155,995	12,480	18,719
Market risk	n/a	75,548	6,044	9,066
Total	**n/a**	**2,311,495**	**268,117**	**277,378**

The implied risk weighted exposure for Operational and Market risk calculated per BS2A assumes a capital requirement of 8%, however the Bank's Conditions of Registration requires it to hold capital against these risks at 12%.

(j) Other material risks

The ICAAP has identified the capital required to be held against other material risks (being concentration risk, strategic / business risk, reputational risk, regulatory risk and model risk). The Board has determined that the regulatory minimum capital of 12% as per the Conditions of Registration is sufficient to cover these other material risks. As a result, there is no additional internal capital allocation for other material risks (December 2012: nil).

22 Insurance business, securitisation, funds management and 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

On 15 August 2013, all of the receivables in the CBS Trust were sold back to the Bank, refer to Note 13 - Special Purpose entities.

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.

23 Contingent liabilities and commitments

	Unaudited Dec 2013 $000	Unaudited Dec 2012 $000	Audited Jun 2013 $000
Letters of credit, guarantee commitments and performance bonds	4,155	8,358	5,033
Total contingent liabilities	**4,155**	**8,358**	**5,033**
Undrawn facilities available to customers	121,760	106,242	106,702
Conditional commitments to fund at future dates	60,091	45,448	48,428
Total commitments	**181,851**	**151,690**	**155,130**

As at 31 December 2013 there are no undrawn lending commitments to counterparties for whom drawn balances are classified as individually impaired (31 December 2012: nil, 30 June 2013: nil).

The Banking Group also has contingent commitments to fund at future dates as set out in Note 18 - Liquidity risk.

24 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.

Independent auditor's review report

To the shareholder of Heartland Bank Limited

We have reviewed pages 8 to 30 of the half year disclosure statement of Heartland Bank Limited (the "Bank") and its controlled entities (the "Banking Group") which includes interim financial statements prepared and disclosed in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2013 (the "Order") and supplementary information prescribed in schedules 5, 7, 9, 13, 16 and 18 of the Order.

The interim financial statements and supplementary information provide information about the past financial performance and cash flows of the Banking Group for the six months ended 31 December 2013 and its financial position as at 31 December 2013.

Directors' responsibilities

The Directors are responsible for the preparation and presentation of the half year disclosure statement, which includes interim financial statements prepared in accordance with Clause 25 of the Order and which give a true and fair view of the financial position of the Banking Group as at 31 December 2013 and its financial performance and cash flows for the six month period ended on that date.

The Directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the half year disclosure statement that is free from material misstatement whether due to fraud or error.

They are also responsible for the preparation of supplementary information in the half year disclosure statement which fairly states the matters to which it relates in accordance with schedules 3, 5, 7, 9, 13, 16 and 18 of the Order.

Reviewer's responsibilities

Our responsibility is to express an independent review opinion on the half year disclosure statement, which includes interim financial statements disclosed in accordance with Clause 25 of the Order, and supplementary information disclosed in accordance with schedules 5, 7, 9, 13, 16 and 18 of the Order, as presented to us by the Directors, and report our opinion to you.

We are responsible for reviewing the interim financial statements (excluding the supplementary information) in order to report to you whether, in our opinion, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the interim financial statements have not been prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* and do not present a true and fair view of the financial position of the Banking Group as at 31 December 2013 and its financial performance and cash flows for the six month period ended on that date.

We are responsible for reviewing the supplementary information (excluding the supplementary information relating to capital adequacy) in order to report to you whether, in our opinion, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with schedules 5, 7, 13, 16 and 18 of the Order.

We are responsible for reviewing the supplementary information relating to capital adequacy in order to state whether, on the basis of the procedures described below, anything has come to our attention that cause us to believe that the information disclosed in accordance with schedule 9 is not in all material respects prepared in accordance with the Bank's conditions of registration and disclosed in accordance with schedule 9 of the Order.

We have performed our review in accordance with the review engagement standard RS-1 issued by the External Reporting Board and the review engagement guideline RG-1 issued by the New Zealand Institute of Chartered Accountants.

A review is limited primarily to enquiries of Banking Group personnel and analytical review procedures applied to the financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Our firm has also provided other services to the Banking Group in relation to general accounting services and advisory. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

Review opinion

We have examined the interim financial statements and supplementary information and based on our review nothing has come to our attention that causes us to believe that:

a) the interim financial statements on pages 8 to 30 (excluding the supplementary information disclosed in accordance with schedules 5, 7, 9, 13, 16 and 18 of the Order) have not been prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* and do not present a true and fair view of the financial position of the Banking Group as at 31 December 2013 and its financial performance and cash flows for the six month period ended on that date;

b) the supplementary information (excluding supplementary information relating to capital adequacy) disclosed in accordance with schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state the matters to which it relates in accordance with those schedules; and

c) the supplementary information relating to capital adequacy disclosed in accordance with schedule 9 of the Order, is not, in all material respects prepared in accordance with the Bank's conditions of registration and disclosed in accordance with schedule 9 of the Order.

Our review was completed on 25 February 2014 and our opinion is expressed as at that date.

KPMG

Auckland