HEARTLAND BANK

Disclosure Statement

For the three months ended 30 September 2014

CONTENTS

GENERAL INFORMATION

This Disclosure Statement has been issued by Heartland Bank Limited (the Bank) for the three months ended 30 September 2014 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order).

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

Name and address for service

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

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

GUARANTEE ARRANGEMENTS

As at 30 September 2014 no material obligations of the Bank are guaranteed.

DIRECTORS

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

AMENDMENTS TO CONDITIONS OF REGISTRATION

With effect from 1 July 2014, the conditions were amended to:

- refer to a revised version of "Capital Adequacy Framework (Standardised Approach)" (BS2A), to update various defined terms relating to capital requirements for residential mortgage lending;
- refer to a revised version of "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19), to amend certain defined terms in the loan-to-valuation ratio (LVR) restrictions applying to the bank as a consequence of changes to BS2A, and to add additional clauses on anti-avoidance;
- refer to new versions of several handbook documents which need updating to take account of the coming into force of the Financial Reporting Act 2013;
- make a technical update to the definition of "banking group"; and
- update one cross-reference to a banking supervision handbook document.

CONDITIONS OF REGISTRATION

These conditions apply on and after 1 July 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 July 2014 is followed for the recognition and repayment of capital.

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

1A. That—

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

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

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

CONDITIONS OF REGISTRATION (CONTINUED)

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 July 2014.

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

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 July 2014; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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”—

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

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

“generally accepted accounting practice”—

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

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

In conditions of registration 19 to 23,—

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

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

PENDING PROCEEDINGS OR ARBITRATIONS

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

CREDIT RATINGS

As at the date of signing this Disclosure Statement, the Bank's credit rating issued by Standard & Poor's (Australia) Pty Limited (S&P) was BBB, negative outlook. This BBB credit rating was issued on 22 May 2014 and is applicable to long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The rating is not subject to any qualifications.

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

OTHER MATERIAL MATTERS

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

DIRECTORS' STATEMENTS

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

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

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

2. During the three months ended 30 September 2014:

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

This Disclosure Statement is dated 25 November 2014 and has been signed by all the Directors.

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

J. K. Greenslade

N. J. Greer

E. J. Harvey

M. D. Jonas

G. R. Kennedy

G. T. Ricketts

R. A. Wilks

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 September 2014

	NOTE	Unaudited 3 mths to Sep 2014 $000	Unaudited 3 mths to Sep 2013 $000	Audited 12 mths to Jun 2014 $000
Interest income	5	52,037	50,555	200,141
Interest expense	5	23,100	24,579	93,719
Net interest income		**28,937**	**25,976**	**106,422**
Operating lease income		2,721	3,520	13,348
Operating lease expenses		1,812	2,018	7,709
Net operating lease income		**909**	**1,502**	**5,639**
Lending and credit fee income		743	606	2,475
Other income		351	1,323	5,065
Net operating income		**30,940**	**29,407**	**119,601**
Selling and administration expenses	6	15,207	15,606	61,641
Profit before impaired asset expense and income tax		**15,733**	**13,801**	**57,960**
Impaired asset expense	7	1,838	1,691	5,895
Decrease in fair value of investment properties		-	-	1,203
Profit before income tax		**13,895**	**12,110**	**50,862**
Income tax expense		4,088	3,442	14,616
Profit for the period		**9,807**	**8,668**	**36,246**
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Effective portion of changes in fair value of cash flow hedges, net of income tax		(438)	289	1,111
Net change in available for sale reserve, net of income tax		172	154	(12)
Items that will not be reclassified to profit or loss:				
Net change in defined benefit reserve, net of income tax		-	-	3
Other comprehensive (loss) / income for the period, net of income tax		**(266)**	**443**	**1,102**
Total comprehensive income for the period		**9,541**	**9,111**	**37,348**

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

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

INTERIM STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 September 2014

	NOTE	Share Capital $000	Available for Sale Reserve $000	Defined Benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Unaudited - Sep 2014							
Balance at 1 July 2014		**339,757**	**272**	**44**	**1,157**	**23,096**	**364,326**
Total comprehensive income for the period							
Profit for the period		-	-	-	-	9,807	9,807
Total other comprehensive income / (loss)		-	172	-	(438)	-	(266)
Total comprehensive income for the period		**-**	**172**	**-**	**(438)**	**9,807**	**9,541**
Contributions by and distributions to owners							
Staff share ownership expense		821	-	-	-	-	821
Dividends paid	8	-	-	-	-	(9,800)	(9,800)
Total transactions with owners		**821**	**-**	**-**	**-**	**(9,800)**	**(8,979)**
Balance at 30 September 2014		**340,578**	**444**	**44**	**719**	**23,103**	**364,888**

	NOTE	Share Capital $000	Available for Sale Reserve $000	Defined Benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Unaudited - Sep 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		-	-	-	-	8,668	8,668
Total other comprehensive income		-	154	-	289	-	443
Total comprehensive income for the period		**-**	**154**	**-**	**289**	**8,668**	**9,111**
Balance at 30 September 2013		**189,774**	**438**	**41**	**335**	**183,448**	**374,036**

	NOTE	Share Capital $000	Available for Sale Reserve $000	Defined Benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Audited - Jun 2014							
Balance at 1 July 2013		**189,774**	**284**	**41**	**46**	**174,780**	**364,925**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	36,246	36,246
Total other comprehensive income / (loss)		-	(12)	3	1,111	-	1,102
Total comprehensive income for the year		**-**	**(12)**	**3**	**1,111**	**36,246**	**37,348**
Contributions by and distributions to owners							
Effect of amalgamation		149,269	-	-	-	(149,269)	-
Staff share ownership expense		714	-	-	-	-	714
Dividends paid	8	-	-	-	-	(38,661)	(38,661)
Total transactions with owners		**149,983**	**-**	**-**	**-**	**(187,930)**	**(37,947)**
Balance at 30 June 2014		**339,757**	**272**	**44**	**1,157**	**23,096**	**364,326**

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

INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 September 2014

	NOTE	Unaudited Sep 2014 $000	Unaudited Sep 2013 $000	Audited Jun 2014 $000
Assets				
Cash and cash equivalents		37,805	90,450	34,588
Investments		241,289	209,436	238,859
Due from related parties	9	29,391	210	29,461
Investment properties		23,150	61,552	24,888
Finance receivables	10	2,047,011	1,957,905	1,985,119
Operating lease vehicles		30,772	32,261	31,295
Current tax asset		-	-	1,051
Other assets		6,528	10,824	8,191
Intangible assets		22,236	22,949	22,437
Property, plant and equipment		9,472	10,099	9,573
Deferred tax asset		5,375	13,493	5,287
Total assets		**2,453,029**	**2,409,179**	**2,390,749**
Liabilities				
Borrowings	11	2,010,943	2,000,504	1,963,833
Current tax liabilities		3,022	2,142	-
Due to related parties	9	41,615	500	28,221
Trade and other payables		32,561	31,997	34,369
Total liabilities		**2,088,141**	**2,035,143**	**2,026,423**
Equity				
Share capital		340,578	189,774	339,757
Retained earnings and reserves		24,310	184,262	24,569
Total equity		**364,888**	**374,036**	**364,326**
Total equity and liabilities		**2,453,029**	**2,409,179**	**2,390,749**

Total interest earning and discount bearing assets	2,354,821	2,255,277	2,286,350
Total interest and discount bearing liabilities	2,052,816	2,001,093	1,992,088

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

INTERIM STATEMENT OF CASH FLOWS

For the three months ended 30 September 2014

	NOTE	Unaudited 3 mths to Sep 2014 $000	Unaudited 3 mths to Sep 2013 $000	Audited 12 mths to Jun 2014 $000
Cash flows from operating activities				
Interest received		50,611	48,779	192,951
Operating lease income received		2,396	3,737	12,086
Proceeds from sale of operating lease vehicles		1,936	2,337	9,086
Lending, credit fees and other income received		1,094	1,929	7,540
Net decrease in finance receivables		-	46,907	17,028
Total cash provided from operating activities		**56,037**	**103,689**	**238,691**
Payments to suppliers and employees		14,062	16,554	57,301
Interest paid		23,982	24,853	95,084
Purchase of operating lease vehicles		2,753	3,483	12,954
Net increase in finance receivables		62,003	-	-
Taxation paid		-	2,114	7,823
Total cash applied to operating activities		**102,800**	**47,004**	**173,162**
Net cash flows (applied to) / from operating activities	12	**(46,763)**	**56,685**	**65,529**
Cash flows from investing activities				
Sale of investment properties		1,738	2,507	42,244
Proceeds from sale of property, plant and equipment		-	19	19
Total cash provided from investing activities		**1,738**	**2,526**	**42,263**
Purchase of office fit-out, equipment and intangible assets		188	387	984
Net increase in investments		2,430	44,213	73,648
Increase in related party finance receivable		-	-	28,300
Capital expenditure on investment properties		-	156	-
Total cash applied to investing activities		**2,618**	**44,756**	**102,932**
Net cash flows applied to investing activities		**(880)**	**(42,230)**	**(60,669)**
Cash flows from financing activities				
Net increase in borrowings		60,660	-	-
Total cash provided from financing activities		**60,660**	**-**	**-**
Dividends paid		9,800	-	38,661
Net decrease in borrowings		-	96,782	104,388
Total cash applied to financing activities		**9,800**	**96,782**	**143,049**
Net cash flows from / (applied to) financing activities		**50,860**	**(96,782)**	**(143,049)**
Net increase / (decrease) in cash held		**3,217**	**(82,327)**	**(138,189)**
Opening cash and cash equivalents		34,588	172,777	172,777
Closing cash and cash equivalents		**37,805**	**90,450**	**34,588**

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

1 Reporting entity

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

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 (ABCP Trust), a special purpose vehicle holding securitised loans purchased from the Bank. Refer to Note 13 - Structured entities for further details.

2 Basis of preparation

The interim financial statements presented here are for the following periods:
- 3 month period ended 30 September 2014 - Unaudited
- 3 month period ended 30 September 2013 - Unaudited
- 12 month period ended 30 June 2014 - Audited

(a) Statement of compliance

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

The Bank and all of the entities within the Banking Group are profit-oriented entities. The Bank is an issuer and a FMC reporting entity for the purposes of the Financial Reporting Act 2013 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 2014.

4 Segmental analysis

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

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

Operating segments

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

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

During the period ended 30 September 2014, a business unit previously reported in the Households segment was moved to the Business segment. Comparative segment information has been restated to be consistent with the current reporting period.

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.

4 Segmental analysis (continued)

	Households $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Unaudited - 3 months ended 30 September 2014						
Net interest income / (expense)	13,530	9,791	5,750	(154)	20	28,937
Net operating lease income	909	-	-	-	-	909
Net other income	563	129	48	191	163	1,094
Net operating income	**15,002**	**9,920**	**5,798**	**37**	**183**	**30,940**
Selling and administration expenses	3,847	1,575	1,371	264	8,150	15,207
Profit / (loss) before impaired asset expense and income tax	**11,155**	**8,345**	**4,427**	**(227)**	**(7,967)**	**15,733**
Impaired asset expense / (benefit)	558	1,292	10	(22)	-	1,838
Profit / (loss) before income tax	**10,597**	**7,053**	**4,417**	**(205)**	**(7,967)**	**13,895**
Income tax expense	-	-	-	-	4,088	4,088
Profit / (loss) for the period	**10,597**	**7,053**	**4,417**	**(205)**	**(12,055)**	**9,807**
Total assets	933,157	722,198	436,718	37,196	323,760	**2,453,029**
Total liabilities	-	-	-	-	2,088,141	**2,088,141**
Total equity	-	-	-	-	364,888	**364,888**

	Households $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Unaudited - 3 months ended 30 September 2013						
Net interest income	11,158	8,967	5,683	(362)	530	25,976
Net operating lease income	1,502	-	-	-	-	1,502
Net other income	285	103	15	1,205	321	1,929
Net operating income	**12,945**	**9,070**	**5,698**	**843**	**851**	**29,407**
Selling and administration expenses	2,713	1,383	1,341	1,254	8,915	15,606
Profit / (loss) before impaired asset expense and income tax	**10,232**	**7,687**	**4,357**	**(411)**	**(8,064)**	**13,801**
Impaired asset expense	(25)	1,460	310	(54)	-	1,691
Profit / (loss) before income tax	**10,257**	**6,227**	**4,047**	**(357)**	**(8,064)**	**12,110**
Income tax expense	-	-	-	-	3,442	3,442
Profit / (loss) for the period	**10,257**	**6,227**	**4,047**	**(357)**	**(11,506)**	**8,668**
Total assets	853,441	655,672	449,173	93,432	357,461	**2,409,179**
Total liabilities	-	-	-	-	2,035,143	**2,035,143**
Total equity	-	-	-	-	374,036	**374,036**

	Households $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Audited - 12 months ended 30 June 2014						
Net interest income	47,830	36,982	22,801	(1,449)	258	106,422
Net operating lease income	5,639	-	-	-	-	5,639
Net other income	1,984	435	68	3,822	1,231	7,540
Net operating income	**55,453**	**37,417**	**22,869**	**2,373**	**1,489**	**119,601**
Selling and administration expenses	11,145	5,983	5,409	4,000	35,104	61,641
Profit / (loss) before impaired asset expense and income tax	**44,308**	**31,434**	**17,460**	**(1,627)**	**(33,615)**	**57,960**
Impaired asset expense / (benefit)	648	5,535	963	(1,251)	-	5,895
Decrease in fair value of investment properties	-	-	-	1,203	-	1,203
Profit / (loss) before income tax	**43,660**	**25,899**	**16,497**	**(1,579)**	**(33,615)**	**50,862**
Income tax expense	-	-	-	-	14,616	14,616
Profit / (loss) for the year	**43,660**	**25,899**	**16,497**	**(1,579)**	**(48,231)**	**36,246**
Total assets	920,973	698,162	410,219	40,846	320,549	**2,390,749**
Total liabilities	-	-	-	-	2,026,423	**2,026,423**
Total equity	-	-	-	-	364,326	**364,326**

5 Net interest income

	Unaudited 3 mths to Sep 2014 $000	Unaudited 3 mths to Sep 2013 $000	Audited 12 mths to Jun 2014 $000
Interest income			
Cash and cash equivalents	859	978	3,422
Investments	2,170	1,571	9,189
Finance receivables	48,977	48,006	187,530
Net interest income on derivative financial instruments	31	-	-
Total interest income	**52,037**	**50,555**	**200,141**
Interest expense			
Retail deposits	19,501	21,185	79,430
Bank and securitised borrowings	3,599	3,379	13,468
Net interest expense on derivative financial instruments	-	15	821
Total interest expense	**23,100**	**24,579**	**93,719**
Net interest income	**28,937**	**25,976**	**106,422**

6 Selling and administration expenses

	Unaudited 3 mths to Sep 2014 $000	Unaudited 3 mths to Sep 2013 $000	Audited 12 mths to Jun 2014 $000
Personnel expenses	9,309	8,866	34,972
Directors' fees	129	75	463
Superannuation	200	164	570
Audit and review of financial statements	76	105	304
Other assurance services paid to auditor[1]	-	-	18
Other fees paid to auditor[2]	8	42	193
Amortisation - intangible assets	315	368	1,341
Depreciation - property, plant and equipment	175	196	801
Operating lease expense as a lessee	368	433	1,551
Legal and professional fees	217	690	2,795
Other operating expenses	4,410	4,667	18,633
Total selling and administration expenses	**15,207**	**15,606**	**61,641**

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

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

7 Impaired asset expense

	NOTE	Unaudited 3 mths to Sep 2014 $000	Unaudited 3 mths to Sep 2013 $000	Audited 12 mths to Jun 2014 $000
Non-securitised				
Individually impaired expense		1,312	1,691	11,851
Collectively impaired expense		308	(184)	(6,536)
Total non-securitised impaired asset expense		**1,620**	**1,507**	**5,315**
Securitised				
Collectively impaired expense		218	184	580
Total securitised impaired asset expense		**218**	**184**	**580**
Total				
Individually impaired expense		1,312	1,691	11,851
Collectively impaired expense		526	-	(5,956)
Total impaired asset expense	16(b)	**1,838**	**1,691**	**5,895**

8 Dividends paid

The Bank paid total dividends to its immediate parent of $9,800,000 (Sep 2013: $0, Jun 2014: $38,661,000).

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) Balances with related parties

The Bank provided a commercial loan of $28,336,000 to Heartland HER Holdings Limited (HHHL), a wholly owned subsidiary of HNZ (Sep 2013: nil, Jun 2014: $28,899,000). During the period ended 30 September 2014, the Bank acquired loans at fair value of $9.1 million from New Sentinel Limited, a wholly owned subsidiary of HHHL (Sep 2013: nil, Jun 2014: $111.3m million).

HNZ, 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 key management personnel of HNZ invested in the Bank's deposits.

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

	Unaudited Sep 2014 $000	Unaudited Sep 2013 $000	Audited Jun 2014 $000
Due from related parties			
Heartland HER Holdings Limited	29,195	-	29,367
Heartland NZ Holdings Limited	-	200	-
Heartland New Zealand Limited	102	10	-
Other related parties	94	-	94
Total due from related parties	**29,391**	**210**	**29,461**
Due to related parties			
Heartland New Zealand Limited	27,600	-	22,801
MARAC Insurance Limited	500	500	500
Key management personnel of the ultimate parent	13,515	-	4,920
Total due to related parties	**41,615**	**500**	**28,221**

(b) Transactions with related parties

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

The Banking Group received insurance commission from MARAC Insurance Limited.

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

	Unaudited 3 mths to Sep 2014 $000	Unaudited 3 mths to Sep 2013 $000	Audited 12 mths to Jun 2014 $000
Interest income	575	-	568
Interest expense	(344)	(5)	(280)
Lending and credit fee income	137	63	300
Other income	64	97	468
Total transactions with related parties	**432**	**155**	**1,056**

9 Related party transactions and balances (continued)

(c) Key management personnel transactions and balances

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

	Unaudited 3 mths to Sep 2014 $000	Unaudited 3 mths to Sep 2013 $000	Audited 12 mths to Jun 2014 $000
Finance receivables	1,303	767	709
Loans to key management personnel	-	740	640
Borrowings - deposits	(1,639)	(1,680)	(1,079)
Interest income	23	18	55
Interest expense	(9)	(16)	(43)

10 Finance receivables

	Unaudited Sep 2014 $000	Unaudited Sep 2013 $000	Audited Jun 2014 $000
Non-securitised			
Neither at least 90 days past due nor impaired	1,744,437	1,651,852	1,693,063
At least 90 days past due	42,453	16,939	32,969
Individually impaired	19,532	64,830	27,617
Restructured assets	4,088	3,900	4,064
Gross finance receivables	**1,810,510**	**1,737,521**	**1,757,713**
Less provision for impairment	16,642	40,721	15,725
Less fair value adjustment for present value of future losses	1,833	-	1,707
Total non-securitised finance receivables	**1,792,035**	**1,696,800**	**1,740,281**
Securitised			
Neither at least 90 days past due nor impaired	254,587	260,385	244,409
At least 90 days past due	1,100	1,404	1,065
Gross finance receivables	**255,687**	**261,789**	**245,474**
Less provision for impairment	711	684	636
Total securitised finance receivables	**254,976**	**261,105**	**244,838**
Total			
Neither at least 90 days past due nor impaired	1,999,024	1,912,237	1,937,472
At least 90 days past due	43,553	18,343	34,034
Individually impaired	19,532	64,830	27,617
Restructured assets	4,088	3,900	4,064
Gross finance receivables	**2,066,197**	**1,999,310**	**2,003,187**
Less provision for impairment	17,353	41,405	16,361
Less fair value adjustment for present value of future losses	1,833	-	1,707
Total finance receivables	**2,047,011**	**1,957,905**	**1,985,119**

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

11 Borrowings

	Unaudited Sep 2014 $000	Unaudited Sep 2013 $000	Audited Jun 2014 $000
Deposits	1,744,034	1,758,716	1,731,832
Securitised borrowings	238,507	238,807	228,623
2018 Subordinated bond	3,378	2,981	3,378
Bank borrowings	25,024	-	-
Total borrowings	**2,010,943**	**2,000,504**	**1,963,833**

Deposits rank equally and are unsecured. Investors in ABCP Trust rank equally with each other and are secured over the securitised assets of that trust.

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

	Unaudited 3 mths to Sep 2014 $000	Unaudited 3 mths to Sep 2013 $000	Audited 12 mths to Jun 2014 $000
Profit for the period	**9,807**	**8,668**	**36,246**
Add / (less) non-cash items:			
Depreciation and amortisation expense	490	564	2,142
Change in fair value of investment properties	-	-	1,203
Impaired asset expense	1,838	1,691	5,895
Deferred tax (expense) / benefit	(88)	2,880	11,086
Derivative financial instruments revaluation	601	280	(33)
Accruals	267	858	(737)
Total non-cash items	**3,108**	**6,273**	**19,556**
Add / (less) movements in working capital items:			
Other assets	1,126	(138)	2,475
Loss on disposal of property, plant and equipment and intangibles	-	-	56
Current tax	4,073	(1,423)	(4,616)
Other liabilities	(1,367)	(1,918)	(118)
Total movements in working capital items	**3,832**	**(3,479)**	**(2,203)**
Net cash flows from operating activities before movements in finance receivables and operating lease vehicles	**16,747**	**11,462**	**53,599**
Movements in operating lease vehicles	523	134	1,100
Movements in finance receivables	(64,033)	45,089	10,830
Net cash flows from operating activities	**(46,763)**	**56,685**	**65,529**

13 Structured entities

Heartland Cash and Term PIE Fund

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

	Unaudited Sep 2014 $000	Unaudited Sep 2013 $000	Audited Jun 2014 $000
Deposits	38,993	36,192	38,819

Heartland ABCP Trust 1

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

The Banking Group substantially retains the interim 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 Trust are set aside for the benefit of investors in the Trust and are represented as follows:

	Unaudited Sep 2014 $000	Unaudited Sep 2013 $000	Audited Jun 2014 $000
Cash and cash equivalents - securitised	7,277	4,745	5,421
Finance receivables - securitised	254,976	261,105	244,838
Borrowings - securitised	(238,507)	(238,807)	(228,623)
Derivative financial assets - securitised	1,171	871	1,768
Derivative financial liabilities - securitised	(18)	(49)	-

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 30 September 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 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 - Sep 2014						
Gross impaired assets						
Individually impaired	2,363	7,606	9,563	-	-	19,532
Restructured	6	-	1,228	-	2,854	4,088
Total impaired assets	**2,369**	**7,606**	**10,791**	**-**	**2,854**	**23,620**
Provision for individually impaired assets	1,621	3,348	5,292	-	-	10,261
Net impaired assets	**748**	**4,258**	**5,499**	**-**	**2,854**	**13,359**
Provision for collectively impaired assets	**217**	**1,954**	**3,232**	**79**	**1,610**	**7,092**
At least 90 days past due but not impaired	**15,777**	**11,733**	**13,832**	**498**	**1,713**	**43,553**
(b) Charges to Interim Statement of Comprehensive Income						
Unaudited - 3 months ended 30 Sep 2014						
Individually impaired assets expense	63	48	1,201	-	-	1,312
Collectively impaired assets expense / (benefit)	81	(51)	123	(41)	414	526
Total impaired asset expense / (benefit)	**144**	**(3)**	**1,324**	**(41)**	**414**	**1,838**

17 Fair value

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

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

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

(a) Financial instruments measured at fair value

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

Investments

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

Investments valued under level 2 of the fair value hierarchy are valued either based on quoted market prices or dealer quotes for similar instruments, or discounted cash flows analysis.

Derivative items

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

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

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Unaudited - Sep 14				
Assets				
Investments	200,658	40,631	-	241,289
Derivative assets held for risk management	-	1,172	-	1,172
Total	**200,658**	**41,803**	**-**	**242,461**
Liabilities				
Derivative liabilities held for risk management	-	276	-	276
Total	**-**	**276**	**-**	**276**
Unaudited - Sep 13				
Assets				
Investments	169,347	40,089	-	209,436
Derivative assets held for risk management	-	871	-	871
Total	**169,347**	**40,960**	**-**	**210,307**
Liabilities				
Derivative liabilities held for risk management	-	89	-	89
Total	**-**	**89**	**-**	**89**

17 Fair value (continued)

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

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

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

(b) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

	Unaudited Total Fair Value Sep 2014 $000	Unaudited Total Carrying Value Sep 2014 $000	Unaudited Total Fair Value Sep 2013 $000	Unaudited Total Carrying Value Sep 2013 $000	Audited Total Fair Value Jun 2014 $000	Audited Total Carrying Value Jun 2014 $000
Assets						
Cash and cash equivalents	37,805	37,805	90,450	90,450	34,588	34,588
Due from related parties	29,425	29,391	210	210	28,863	29,461
Finance receivables	1,789,934	1,792,035	1,693,472	1,696,800	1,735,549	1,740,281
Finance receivables - securitised	257,067	254,976	264,122	261,105	246,674	244,838
Other financial assets	3,470	3,470	7,563	7,563	5,371	5,371
Total financial assets	**2,117,701**	**2,117,677**	**2,055,817**	**2,056,128**	**2,051,045**	**2,054,539**
Liabilities						
Borrowings	1,776,453	1,772,436	1,764,707	1,761,697	1,736,753	1,735,210
Borrowings - securitised	238,507	238,507	238,807	238,807	228,887	228,623
Due to related parties	41,615	41,615	500	500	28,221	28,221
Other financial liabilities	15,077	15,077	16,023	16,023	18,563	18,563
Total financial liabilities	**2,071,652**	**2,067,635**	**2,020,037**	**2,017,027**	**2,012,424**	**2,010,617**

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

18 Liquidity risk

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

	Unaudited Sep 2014 $000
Cash and cash equivalents	37,805
Investments	241,289
Undrawn committed bank facilities	110,000
Total liquidity	**389,094**

The Banking Group has securitised bank facilities totalling $350 million in relation to the ABCP Trust maturing 5 August 2015.

19 Capital adequacy

(a) Capital Ratios

	Unaudited Sep 2014 %
Capital ratios compared to minimum ratio requirements	
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.99%
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	13.99%
Minimum Tier 1 Capital as per Conditions of Registration	12.00%
Total Capital expressed as a percentage of total risk weighted exposures	14.09%
Minimum Total Capital as per Conditions of Registration	12.00%
Buffer ratio	1.99%
Buffer ratio requirement[1]	N/A

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

(b) Capital

	Unaudited Sep 2014 $000
Tier 1 Capital	
Common Equity Tier 1 capital[2]	364,888
Less deductions from Common Equity Tier 1 Capital	(28,794)
Total Common Equity Tier 1 capital	336,094
Additional Tier 1 Capital	-
Total Tier 1 Capital	**336,094**
Tier 2 Capital	
Subordinated Bond	2,426
Less deductions from Tier 2 Capital	-
Total Capital	**338,520**

[2] Common Equity Tier 1 Capital includes available for sale reserve of $0.44 million, defined benefit reserve of $0.04 million.

(c) Pillar 1 capital requirements

	Pillar 1 capital requirement under BS2A $000	Pillar 1 capital requirement under Conditions of Registration $000
Unaudited - Sep 2014		
On balance sheet exposures		
Residential mortgages (including past due)	10,504	10,504
Corporate	1,258	1,258
Public sector entities	1,569	1,569
Multilateral development banks and other international organisations	379	379
Claims on banks	4,224	4,224
Other	232,176	232,176
Total on balance sheet exposures	**250,110**	**250,110**
Other capital requirements		
Off balance sheet credit exposures	9,947	9,947
Operational risk [2]	12,616	18,924
Market risk [2]	6,268	9,402
Total other capital requirements	**28,831**	**38,273**
Total Pillar 1 capital requirement	**278,941**	**288,383**

[2] 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%. The Bank complies with this, and all of its, Conditions of Registration.

19 Capital adequacy (continued)

(d) Additional mortgage information

	On balance sheet exposures	Off balance sheet exposures	Total exposures
	$000	$000	$000
Unaudited - Sep 2014			
Loan to value ratio (LVR) range:			
Does not exceed 80%	210,427	2,859	213,286
Exceeds 80% and not 90%	7,913	24	7,937
Exceeds 90% [1]	15,648	15	15,663
Total exposures	**233,988**	**2,898**	**236,886**

[1] Of the balance of "Exceeds 90%" above, $10.8 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, 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.

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

Insurance business

The Banking Group does not conduct any insurance business.

Marketing and distribution of insurance products

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

Securitisation, funds management and other fiduciary activities

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

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

21 Contingent liabilities and commitments

	Unaudited Sep 2014	Unaudited Sep 2013	Audited Jun 2014
	$000	$000	$000
Letters of credit, guarantee commitments and performance bonds	10,944	6,216	6,329
Total contingent liabilities	**10,944**	**6,216**	**6,329**
Undrawn facilities available to customers	99,483	109,283	113,157
Conditional commitments to fund at future dates	101,044	53,880	95,780
Total commitments	**200,527**	**163,163**	**208,937**

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.