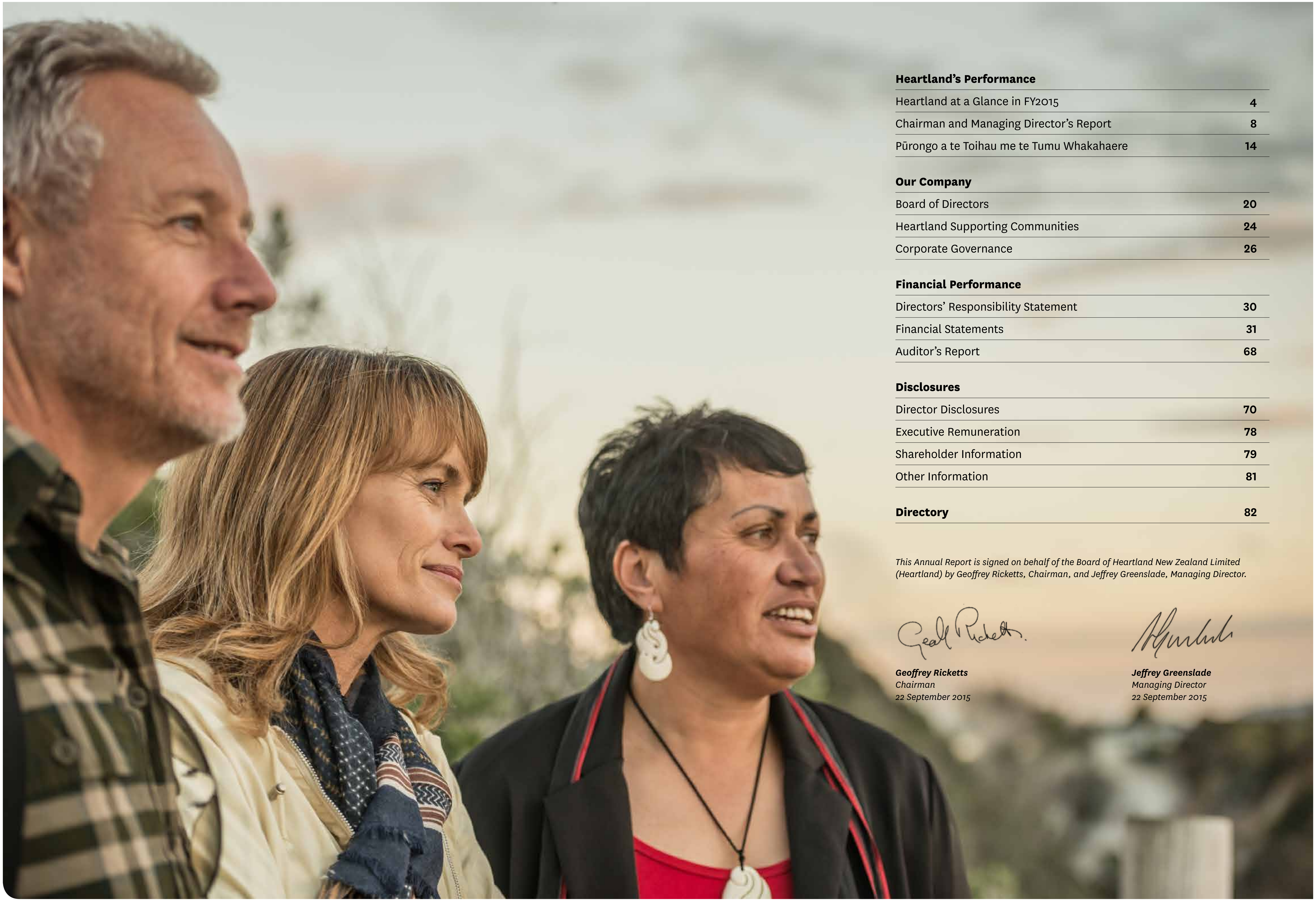
Heartland

HEARTLAND
New Zealand Limited

Annual Report 2015



This Annual Report is signed on behalf of the Board of Heartland New Zealand Limited (Heartland) by Geoffrey Ricketts, Chairman, and Jeffrey Greenslade, Managing Director.

Geoffrey Ricketts
Chairman
22 September 2015

Jeffrey Greenslade
Managing Director
22 September 2015

Heartland at a Glance in FY2015

Members of the Heartland Team.

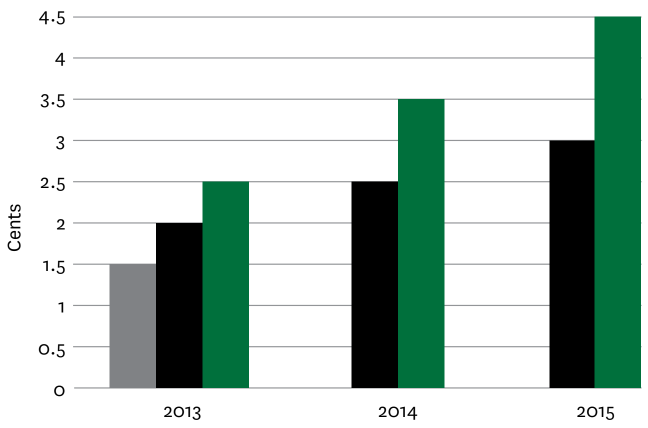
CANSTAR outstanding value
Business Deposits

Heartland Business Call Account **awarded**
FIVE STARS
by independent financial research company Canstar

Return on equity of
10.4%
9.0% for FY2014

We employ
372 staff
in New Zealand and Australia

Dividends



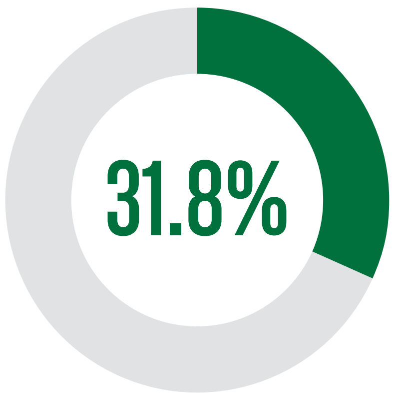
Total dividend of 7.5c
⇧25%
on FY2014

Net profit after tax
$48.2M
+34% on FY2014

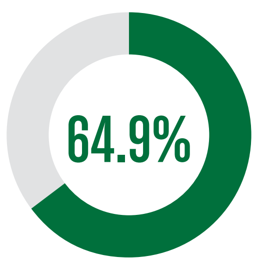
Earnings per share of 10c
9c for FY2014

Heartland Bank Credit Rating
BBB
(outlook stable)

Total Shareholder Return



For FY2015



Since listing to 30 June 2015

Open for Business

We are transforming the way small businesses can access much needed capital

Small businesses are the lifeblood of the New Zealand economy, but their ability to access finance to grow their business can often be a complex and time-consuming process.

We thought this wasn't good enough, so we've launched an online application process for small business loans. It's fast, easy and convenient, and you get a decision in days, not weeks or months.

openforbusiness.co.nz

Chairman & Managing Director's Report

Geoffrey Ricketts
Chairman

Jeffrey Greenslade
Managing Director

It is a pleasure to report that this financial year has been one of strong asset growth, increased profitability and achievement of key milestones for Heartland New Zealand Limited (**Heartland**).

Our three core business divisions, Households, Business and Rural all performed well, resulting in a net profit after tax (**NPAT**) of $48.2m, an increase of 34% on the previous financial year. A return on equity (**ROE**) of 10.4%, up from 9.0% for the previous financial year, was achieved.

In addition to Heartland's strong financial performance, endorsement of its strategy and business position was received through an upgrade to the credit rating for Heartland Bank Limited (**Heartland Bank**) to BBB (Outlook Stable) from Fitch Ratings.

In Heartland's view, the Reserve Bank of New Zealand's decision to reduce Heartland Bank's regulatory capital requirements during the financial year was a further endorsement. This reduction brought Heartland Bank's regulatory capital requirements into line with those of the other New Zealand banks.

Heartland's net tangible assets (**NTA**) increased by $20.4m over the year ending 30 June 2015 (from $399.9m at 30 June 2014 to $420.3m at 30 June 2015). On a per share basis NTA was $0.89 at 30 June 2015 compared to $0.86 at 30 June 2014.

Strong Business Performance

Strong performance was achieved across all of our core business units, with net finance receivables increasing by 10% in the financial year. Our focus remains on offering market-leading, specialist products to areas of the market that are under-serviced by the major banks and leveraging our intermediated distribution channels where possible to achieve greater scale.

Households

The Households division comprises the core Consumer and Reverse Mortgage books (together with the non-core residential mortgage book). Net receivables in the Households division increased by 4.5% to $1.58bn during the financial year. The Consumer book continued to perform strongly through our intermediated motor vehicle finance product. We also launched a new personal loan product in the second half of the financial year under the 'i-finance' brand. There has been a steady uptake of the product, with an advertising campaign targeting customers who have an existing personal loan with another lender but are moving from an interest-free period to an interest-bearing period (which is typical with consumer finance deals at the major retailers).

Growth also came through in the Reverse Mortgage book in the second half of the financial year, with product awareness continuing to increase through advertising and heightened media interest in reverse mortgages, particularly in New Zealand. In Australia, growth in the Reverse Mortgage book was driven through targeted expansion of the broker distribution network. The Reverse Mortgage book in Australia and New Zealand grew $6.1m (excluding foreign exchange movements) in the second half of the financial year.

Business

The Business division performed well during the period, with strong asset growth driving an increase in Net Operating Income, up $5.1m from the previous financial year and net receivables increasing by 18% to $792.0m. The Business banking team has retained its focus on providing multiple products to customers (for example, working capital finance and asset finance) through a single relationship manager, improving our responsiveness to customer needs. Our intermediated strategy continues to ensure we are positioned at the point of sale for asset purchases by small-to-medium enterprises (**SMEs**). Growth in the Business division was also driven by Heartland Bank lending through Harmoney's peer-to-peer platform.

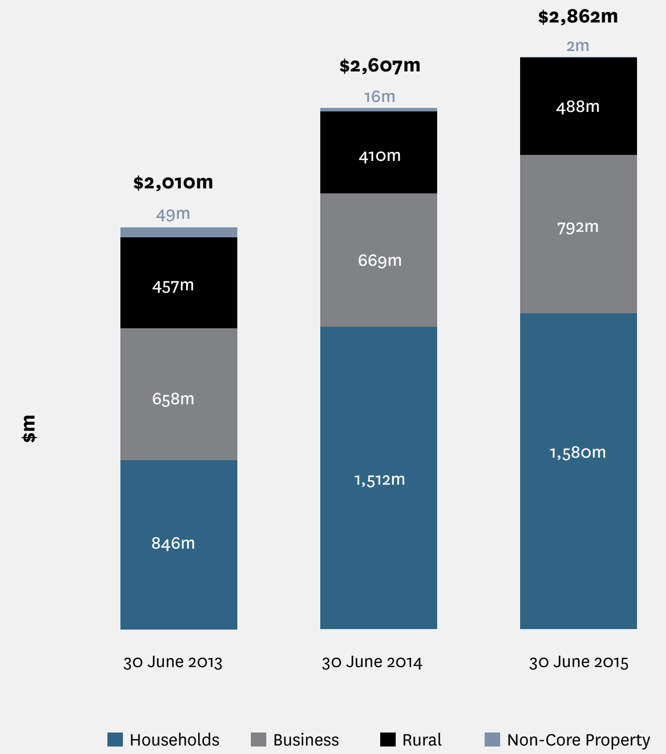
Financial Performance at a Glance

	12 months to June 2015 (NZ $m)	12 months to June 2014 (NZ $m)	Change %
Net interest income	134.4	109.1	23%
Net other income	10.5	13.5	-22%
Net operating income*	**144.9**	**122.6**	**18%**
Expenses	68.4	64.7	6%
Profit before impairments and tax	**76.5**	**57.9**	**32%**
Impaired asset expense	12.1	5.9	105%
Decrease in fair value of investment properties	-	1.2	-100%
Net profit before tax	**64.4**	**50.8**	**27%**
Tax	16.2	14.8	9%
Net profit after tax (reported)	**48.2**	**36.0**	**34%**

* Net operating income includes share of MARAC Insurance profit

Net Finance Receivables

As at 30 June 2015



Rural

Rural net receivables grew strongly during the financial year, increasing by 19% to $487.7m. Early settlements were significantly lower during the financial year as the Rural division completed the exit of loans that were either higher risk or were in areas that overlapped with the major banks.

Given heightened market interest in the dairy sector in New Zealand, Heartland advised the market that its exposure to dairy is $218.0m which equates to 7.6% of its total lending book. The average loan to value ratio (**LVR**) for Heartland's dairy exposures is 61%. However, it is important to note that LVRs are only one of the indicators of loan quality.

Heartland expects a continuation of lower than historical higher milk pay-out levels, followed by a slow recovery. This will lead to an increase in farmers making operating losses. Heartland is well positioned to provide support for its dairy customers in the forthcoming year.

Non-core assets

The non-core residential mortgage book continued to be wound down during the financial year as part of Heartland's strategy to realign its product mix towards products where it can achieve market leadership and a better risk/return.

The reduction of Heartland's legacy non-core property assets also continued during the financial year, reducing by 34% to $27.0m. Heartland does not expect future earnings to be impacted by the future realisation of these assets.

Deposit Funding

Deposits continue to be Heartland's primary source of funding, with excellent performance being achieved in the financial year to support our asset growth. Deposits grew by $361m or 21% during the financial year and a similar level of growth is expected in the coming financial year with a balance of call and term funding.

Capital

Heartland Bank's capital ratios reduced over the financial year, largely due to asset growth. Heartland has previously announced its intention for Heartland Bank to complete an issue of Tier 2 capital issue in the coming year, provided that market conditions remain favourable. An issue of Tier 2 capital could (in the absence of any other use) allow Heartland to return capital by way of a share buy back which would have a positive impact on ROE and earnings per share (EPS).

A Focus on Technology

The global banking sector has been described as an industry that is ripe for disruption. This is being demonstrated through the significant recent developments in financial technology, most notably in the United States and United Kingdom. It is only a matter of time before this technology race will play out in a significant way in New Zealand.

During the financial year, Heartland acquired a strategic 10% shareholding in New Zealand's first peer-to-peer lender, Harmoney Corp Limited (**Harmoney**). Harmoney is operating in the Consumer lending market, providing an alternative personal loan offering to the major banks and finance companies. Licences have recently been granted to a number of other peer-to-peer platforms by the Financial Markets Authority and we anticipate that online loan origination will become a target for other lenders, particularly for Consumer lending.

The focus for Heartland moving forward will be on opportunities that enhance distribution or processing capability in both the Consumer and SME markets. Based on the recent off-shore developments in new financial technology and strong growth in online lending platforms, we believe the development of innovative, low cost technology will allow greater reach into these markets and enable lower servicing costs. Our strategy is to be a part of this wave of new technology in niche areas that are under-serviced by the major banks in New Zealand.

Final Dividend

The Board resolved to pay a fully imputed final dividend of 4.5 cents per share on 2 October 2015 to shareholders on Heartland's register as at 5.00pm on 18 September 2015. This brings the total dividend pay out in relation to the 2015 financial year to 7.5 cents per share.

The Dividend Reinvestment Plan (**DRP**) was available and a discount of 1% was applied. The last date of receipt for a participation election from a shareholder who wished to participate in the DRP was 18 September 2015. For further information on the DRP, please refer to the Dividend Reinvestment Plan Offer Document dated 12 December 2014.

Looking Ahead

Heartland expects underlying asset growth to continue, particularly in the Households division with the execution of our Consumer strategy and maintenance of the growth momentum in the Reverse Mortgage book. SMEs will also be a key growth area, including through the application of an online strategy to enhance our distribution and processing capability.

Acquisitions will remain a part of Heartland's growth strategy, provided that the opportunity meets Heartland's financial criteria and includes a compelling distribution capability or offers innovative technology.

Heartland has previously announced its NPAT guidance for the next financial year of $51m to $55m. This guidance range does not allow for the impact of any capital management initiatives.

We are confident that Heartland is well placed to meet this guidance based on our strategy to both maximise existing strengths and efficiencies in our core business as well as exploring new growth opportunities.

Geoffrey Ricketts
Chairman

Jeffrey Greenslade
Managing Director

Net profit after tax
12 months to 30 June 2015

$48.2m

▲ 34% from FY2014

Net operating income
12 months to 30 June 2015

$144.7m

▲ 18% from FY2014

Net finance receivables
As at 30 June 2015

$2.9bn

▲ 10% from FY2014

Growth in deposits
12 months to 30 June 2015

$361m

▲ 21% from FY2014

Being where the customer is

The way people access their bank is changing rapidly

On average we visit a branch only once or twice a year, but interact with our bank more than 200 times – mainly online or by phone.

The days of expecting customers to come to us are long gone. Now it's all about going out to them – at a time and place that suits them.

We will harness the scaling power of technology and build on our strong intermediated relationships (including dealers, brokers and partners) to give us market reach well beyond our size.

Pūrongo a te Toihau me te Tumu Whakahaere

(Chairman & Managing Director's Report)


Geoffrey Ricketts
Chairman / Toihau


Jeffrey Greenslade
Managing Director / Tumu Whakahaere

Harikoa ana a Heartland New Zealand Limited (**Heartland**) i te kaha piki o ngā rawa, o te pūtea, tae atu ki te whakatutukitanga o ngā whāinga matua i roto i tēnei tau pūtea.

I whai hua ā mātou rāngai matua e toru, arā, ngā whare, ngā pakihi me te ahuwhenua, ā, ko te toopuranga pūtea i muri i te tāke (**NPAT**) ko te $48.2m, 34% te pikinga i tērā tau pūtea. Ko tētahi atu whāinga i tutuki, ko te pikinga o te uara o te haupū rawa ki te 10.4%, he pikinga 9.0% i tērā tau pūtea.

Tāpiri atu ki tō Heartland angitū-a-pūtea, i whai tautoko tā mātou rautaki me tō mātou tūranga pakihi, i te whakapikinga a Fitch Ratings i te mana pūtea toitū o Heartland Bank Limited (**Heartland Bank**) ki te taumata BBB (E pūmau ana). Hei tā Heartland anō hoki, ko te whakatau a te Pūtea Matua o Aotearoa kia whakamāmāhia ngā whakaritenga haupū rawa a Heartland Bank i tēnei tau pūtea, tētahi atu tohu tautoko. Nā tērā whakamāmātanga, i hāngai pū ai ngā whakaritenga haupū rawa a Heartland Bank ki ngā whakaritenga haupū rawa a ērā atu whare tahua o Aotearoa.

$20.4m te pikinga o te uara o ngā rawa papatupu (**NTA**) a Heartland i te tau i mutu ai i te 30 Pipiri 2015 (arā I te $399.9m i te 30 Pipiri 2014 ki te $420.3m i te 30 Pipiri 2015). Ā-hea nei, ko te NTA i te 30 Pipiri 2015, ko te $0.89, i te 30 Pipiri 2014 e $0.86 kē te uara.

Pakihi Whai Hua

I tino whai hua ā mātou rāngai matua, arā, 10% te pikinga o te pūtea toopu i te tau pūtea nei. Ko te aronga nui tonu, he kōkiri ratonga hōu, ratonga arahi mākete hoki ki ngā wāhi o te mākete kāore e tino torohia ana e ngā whare tahua nui, otirā, he whakaū i ngā ara tohatoha ki ngā wāhi e tika ana, kia whanake ake ai te toopuranga pūtea.

Rāngai Whare

Kei te Rāngai Whare te puka kaihoko me te puka takahuri mōkete, he puka iho matua ērā (tae atu hoki ki te puka mātāmuri mō te mōkete whare noho). E 4.5% te pikinga o te pūtea toopu a te Rāngai Whare, arā, ki te $1.58bn i te tau pūtea nei. I whai hua tonu te puka kaihoko mā roto mai i te angitū o tā mātou kaupapa tuku pūtea mō te hoko waka. I whakarewahia hoki he kaupapa pūtea taurewa-a-tangata i te wāhanga tuarua o te tau pūtea i raro i te kaupapa 'i-finance'. E pai ana te honohono haere a te tangata ki taua kaupapa, he hua pea o te whakatairanga i te kaupapa ki te hunga, he pūtea taurewa kē tā rātou ki tētahi atu whare tahua, engari, kei te paheko i te whakaritenga hua moni kore ki te whakaritenga utu hua moni (he āhuatanga motuhake tonu tēnei i roto i te nuinga o ngā umanga hokohoko nui)

I kitea hoki he whanaketanga i roto i te puka takahuri mōkete i te wāhanga tuarua o te tau pūtea nei, nā te whakatairanga kaupapa me te aro nui o te hunga pāpāho ki te takahuri mōkete i pēnei ai, inā rā hoki, i Aotearoa nei. I Ahitereiria, nā te whakapau kaha ki te whakawhānui i ngā āhuatanga o te puka takahuri mōkete ki waenganui i te pūnaha kaihokohoko i whanake ai. E $6.1m (hāunga ngā whitinga pūtea o tāwāhi) te whanaketanga o te puka takahuri mōkete i Ahitereiria me Aotearoa i te wāhanga tuarua o tēnei tau pūtea.

Rāngai Pakihi

Pai ana te mahi a te Rāngai Pakihi i tēnei tau pūtea. Nā te kaha o te tipu o ngā rawa, i piki ai te nui o tana pūtea whakahaere, arā, e $5.1m te pikinga i tērā tau pūtea, e 18% hoki te pikinga o tana pūtea toopu ki te $792.0m. E pūmau tonu ana te kapa Rāngai Pakihi ki te hāpai i āna ratonga maha (pēnei i te pūtea taurewa, rawa taurewa, utu taurewa) ki ngā kiritaki, mā roto mai i te whakatū kaiawhina motuhake ki tēnā, ki tēnā, ki tēnā, ā, mā reira ka pai ake tā mātou whakatutuki i ngā hiahia o te kiritaki. Ko tā mātou whāinga mātāwaenga te kaiarahi i a mātou kia tutuki tonu i a mātou he tūranga, ka hoko rawa ana ngā SMEs. I tipu hoki te wāhanga Rāngai Pakihi i te tuku pūtea a Heartland Bank mā roto mai i te tūāpapa hoa rite a Harmoney.

Rāngai Ahuwhenua

I tipu hoki te toopuranga pūtea o te Rāngai Ahuwhenua i tēnei tau pūtea, 19% te pikinga, arā, ki te $487.7m. I tino heke te whakataunga wawe o ngā pūtea taurewa i tēnei tau pūtea, i te mea, i te aro te Rāngai Ahuwhenua ki te whakatutuki i ngā pūtea taurewa mōrea nui, pūtea taurewa rānei i inaki atu rā ki ngā Whare Tahua matua.

Kua piki te aronui o te mākete ki te rāngai ahuwhenua ki roto o Aotearoa nei, nā konā anō hoki te whakamārama a Heartland ki te mākete, e $218.0m te uara o tā mātou whai wāhi ki taua rāngai, ara, 7.6% o te katoa o tā mātou puka pūtea taurewa. Ko te toharite o te uara pūtea taurewa (LVR) a Heartland ki roto i te rāngai ahuwhenua, ko te 61%. Hēoi, kia maumahara rā, ko ngā LVR nei, he tohu noa iho o te kounga o te pūtea taurewa.

E whakapae ana a Heartland, ka paku heke tonu te uara o te miraka, kātahi ka āta piki anō ai. Mā reira, ka kirihaunga te toopuranga pūtea-a-tau a ētahi kaiahuwhenua, engari, ko Heartland te taumata okiokinga mō ana kiritaki ahuwhenua, hei te tau e tū mai nei.

Rawa Mātāmuri

I te tau pūtea nei, i haere tonu ai tā matou whakawhāiti iho i te puka mōkete mātāmuri mō ngā whare ehara i te whare noho. He wāhanga tēnei o te rautaki a Heartland hei āta whakatikatika i ana ratonga kia hāngai pū ai ki te hiahia kia tū mātou hei kaiarahi mākete, otirā, kia nui ake ai ngā hua ka puta i tā mātou mahi.

I tēnei tau pūtea anō hoki, i haere tonu ai tā Heartland whakawhāiti i ana rawa whare mātāmuri, arā, e 34% te whakawhāititanga iho, ki te $27.0m. Ko te whakapae a Heartland, e kore tā mātou whakatoopu pūtea a ngā tau e tū mai nei, e pīoioi i te whakapūmautanga o aua rawa.

Pūtea Tāpui

Ko ngā pūtea tāpui tonu te tūāpapa moni a Heartland, me te aha, inā te pai o te tipuranga mai o tērā momo pūtea hei taunaki ake i te tipuranga mai o ā mātou rawa. E $357m, arā 20%, te tipuranga mai o ngā pūtea tāpui i tēnei tau pūtea, ā, ko te whakapae ia kia pērā anō hoki te kaha o te tipu mai hei tēnei tau pūtea, ko te moni penaroa hei kauhanganuitanga.

Haupū Rawa

I heke iho ngā tatauranga toharite haupū rawa a Heartland i te tau pūtea nei, ko te take mātuatua i pērā ai, nā te kaha tipu mai o ngā rawa. Kua puta kē mai te whakatau a Heartland kia tutuki i te Whare Tahua o Heartland Bank he taumata tuarua mō te toha haupū rawa hei te tau pūtea e tū mai nei, mēnā ka tau tonu ngā mākete. Ki te eke ki te taumata tuarua haupū rawa (i te tamōnga o ētahi atu hua) ka wātea a Heartland ki te hoko hea hei whakaū i te mana o ngā rawa, ā, ko ngā ROE me ngā EPS ka whai hua i tērā.

Te aro ki te Hangarau

E kiia ana te rāngai whare tahua o te ao, he rāngai e rite ana mō ngā pokenga o anamata. Kei te kitea te tūturutanga o tēnei kōrero i roto i te whanaketanga o ngā hangarau whakahaere pūtea, matua rā i Amerika me Uropi. Taro ake nei ka tau mai te whakataetae whakawhanake hangarau me tērā mana nui ki roto o Aotearoa nei.

I te tau pūtea nei, i riro ai i a Heartland ngā hea 10% o te umanga tūāpapa hoa rite tuatahi o tēnei whenua, arā, o Harmoney Corp Limited (**Harmoney**). Kei te mākete pūtea taurewa ki ngā kaihoko a Harmoney e mahi ana, ā, he ratonga anō rātou i tua atu i ngā whare tahua matua me ngā pakihi taurewa, e tuku pūtea taurewa ana ki ngā kaihoko. Kātahi anō ētahi tūāpapa hoa rite ka whakawhiwhia ki wā rātou raihana e te Mana Mākete Hokohoko, ā, hei tā mātou, ko te ipurangi te huarahi ka aruaruhia e ētahi atu ratonga tuku pūtea taurewa, inā rā hoki, ngā ratonga e tuku pūtea taurewa ana ki nga kaihoko.

Ko te aronga o Heartland i roto i tana kauneke whakamua, kia aruaru i ngā ara e whānui ake ai te torotoro, e pakari ake ai rānei ngā āheinga i roto i ngā mākete kaihoko, SME hoki. Mēnā ka mātaitia ngā hangarau tuku pūtea hōu kua hua ake i tāwāhi me te tino tipuranga mai o ngā tūāpapa tuku pūtea taurewa i runga ipurangi, ka kitea te pūtake o tō mātou whakapono, mā te hanga hangarau auaha, māmā hoki te utu ka whānui ake tā tatou torotoro haere ki aua mākete, engari, ka māmā ake te utu mō ā tātou ratonga. Ko te rāutaki ia, kia whai wāhi nui tātou ki te ao hangarau e whati mai nei ki tēnei whenua, mā te aronui ki ngā momo rāngai motuhake, kāore nei i te tino aronuihia e ngā whare tahua matua o Aotearoa nei.

Pūtea Toha

Ko te whakatau a te Poari, kia utua te 4.5 hēneti mō ia hea, i te 2 October 2015 ki ngā kaipupuri i runga i te rārangi ingoa a Heartland i te 5.00pm i te 18 Māhuru 2015. Heipuhia ake, ko te katoa o te utu ka utua i tēnei tau pūtea 2015, ko te 7.5 mō ia hea.

I reira te Mahere Whakangao Utu Hea (**DRP**) hei whirinakihanga, ā, 1% te rahi o te uara i poroa hei oranga. Ko te 18 Māhuru 2015 te rā whakamutunga i taea ai e tētahi kaipupuri hea te whirinaki ki te DRP. Mō ētahi atu taipitopito e pā ana ki te DRP, tirohia te pūrongo mō te Mahere Whakangao Utu Hea, 12 Hakihea 2014.

Tirohanga Whakamua

E whakapae ana a Heartland, ka tipu tonu ngā rawa, inā rā hoki, i roto i te Rāngai Whare mā runga i te tuarā o tā mātou rautaki kaihoko me te penapena tonu i ngā kākano e pihi ake ana i te pārekereke o te Puka Takahuri Mōkete. Ko te tipuranga mai o ngā SMEs tētahi pou angitū, arā, ko te rautaki-a-ipurangi tērā hei whakawhānui i te torotoro haere o ā mātou ratonga me ngā āheinga o aua ratonga rā.

Ko te hoko rawa hoki tētahi pou o te rautaki whakatipu a Heartland, engari, me hāngai pū taua rawa ki ngā whakaritenga pūtea a Heartland, me whai ara tohatoha, me whai hangarau auaha hoki rānei.

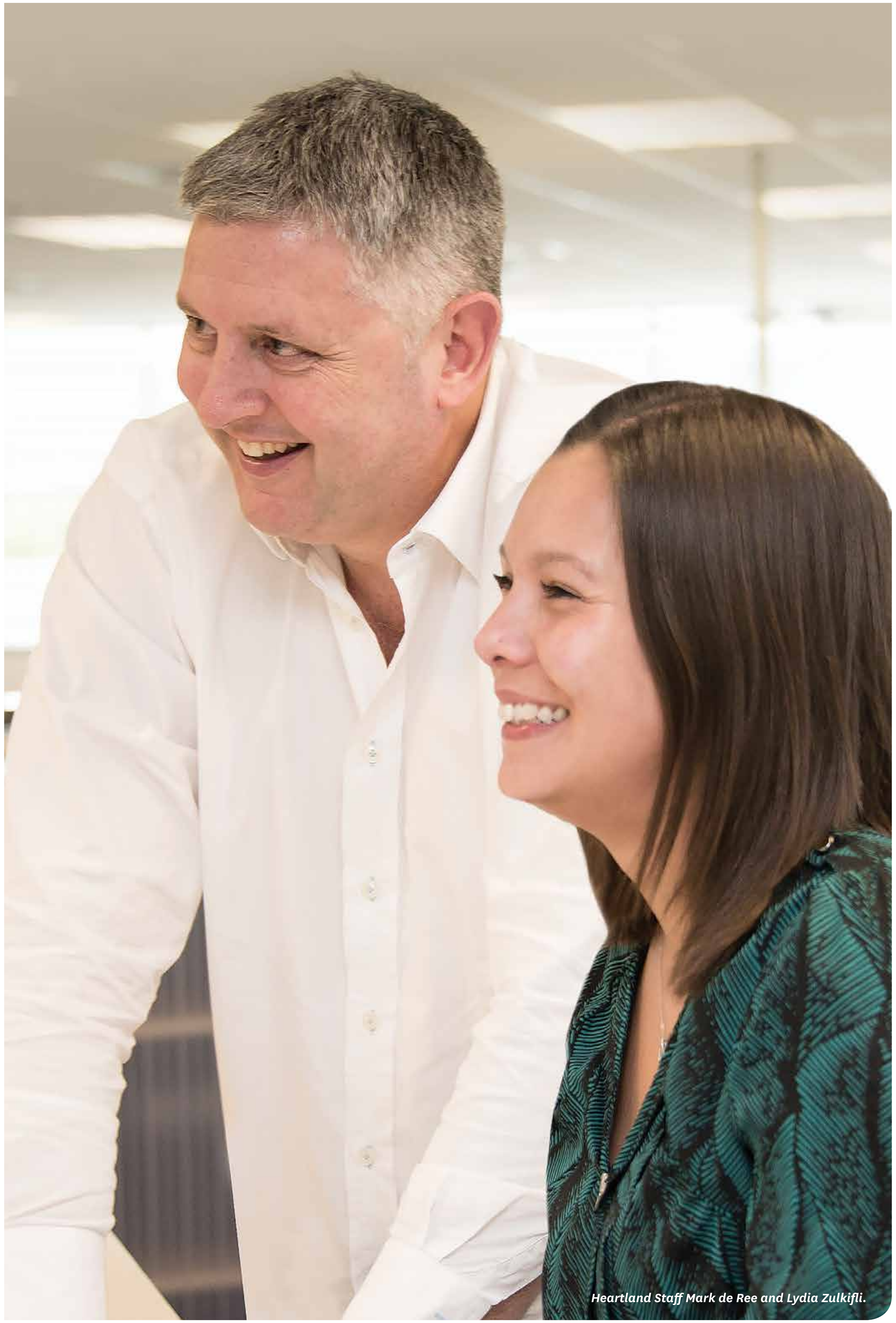
Kua puta kē i a Heartland tana heitara NPAT mō te tau pūtea e tū nei, arā, mai i te $51m ki te $55m. Kāore tēnei heitara i te tauawhi i ngā kaupapa whakatoopu rawa.

E whakapono pū ana mātou, kei te wāhi tika a Heartland e tutuki ai taua heitara, mā te ū ki te rautaki whakapūmau kaupapa mahi whai kaha i roto i ā mātou rāngai matua, tae atu rā hoki ki te taunahatanga o ētahi kaupapa whakatipu rawa hōu.

Geoffrey Ricketts
Chairman / Toihau

Jeffrey Greenslade
Managing Director / Tumu Whakahaere

We wish to thank Scotty Morrison for providing this Māori translation of the Chairman and Managing Director's Report.



Heartland Staff Mark de Ree and Lydia Zulkifli.

Fresh thinking

Our market-leading products are designed for changing New Zealand lifestyles

Traditional banking products haven't really changed for decades.

But lifestyles certainly have, and customers today are looking for something different: innovative products that genuinely serve their needs, not the bank's.

Take retirement for example, once considered the 'twilight' years, but now for many a time of exploration, travel and adventure.

Heartland's Home Equity Loan is the market leader in seniors finance, enabling retired New Zealanders to unlock wealth tied up in their homes to fund the lifestyle they really want.

Setting the standard

As at the date of this Annual Report, the directors of Heartland New Zealand Limited are as follows:

Jeffrey Greenslade

LLB

Managing Director
– Appointed 30 September 2010

Jeff has over 20 years' experience as a senior banking executive, including with the ANZ National Banking Group, where he last held the position of Managing Director of Corporate and Commercial Banking for ANZ National Bank. From February 2006 until February 2008 he spent time on the board of UDC Finance Limited. Jeff has also held a number of senior positions in the Institutional and Capital Markets areas of The National Bank of New Zealand and its subsidiary, Southpac.

Jeff is responsible for the strategy and operational management of Heartland. He is also CEO of Heartland Bank. He joined the Heartland Group as Chief Executive Officer of MARAC Finance Limited in 2009.

Jane Taylor

LLB (Hons), LLM, Dip Acc, CA, CF Inst D

Director
– Appointed 10 December 2014

Jane is a professional director, following a 30 year career in law, accountancy and finance. Her current governance appointments include Silver Fern Farms Limited (where she chairs the Audit Risk and Mitigation Committee), Landcare Research New Zealand Limited (Chair), Radio New Zealand Limited, Hirepool Group Limited and OTPP New Zealand Forest Investments Limited. She is also a board member of the XRB (External Reporting Board) and chairs the Queenstown Airport Noise Liaison Committee.

Christopher Mace

CNZM, CM Inst D

Director
– Appointed 30 September 2010

Chris is an Auckland based businessman and company director with experience in the New Zealand and Australian business environments. He is Chairman of the Crown Research Institute, the National Institute of Water and Atmospheric Research (NIWA), a Commissioner of the Tertiary Education Commission and a director of a number of companies. Chris was a director of Southern Cross Building Society leading up to the merger to form Heartland Bank.

Chris is a lifetime member of the Sir Peter Blake Trust and was instrumental in establishing the Trust in 2004. He is a passionate supporter of education, science and research as well as a keen supporter of the Arts. He received a CNZM for services to Antarctica and the community and was named 2012 Maori Business Leader of the Year.

Graham Kennedy

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

Director
– Appointed 30 September 2010

Graham has over 40 years' experience as a chartered accountant and business advisor and is now an independent professional director and Chairman of a number of private companies providing him with governance experience across a diverse range of business sectors including property, tourism, agribusiness, transport, construction and professional services.

Graham is also actively involved, at a governance level, in a variety of community-based charitable organisations.

Gregory Tomlinson

AME

Director
– Appointed 18 March 2013

Greg is a Christchurch based businessman and investor with 40 years' experience owning, managing and building businesses. An early pioneer of the mussel industry of Marlborough he has established Impact Capital with active investments in the aged care, animal pharmaceutical, finance and wine sectors. Greg and his wife Jill support a variety of charities in New Zealand and abroad.

Geoffrey Ricketts

CNZM, LLB (Hons), F Inst D

Chairman
– Appointed 30 September 2010

Geoff is a commercial lawyer, company director and investor with wide experience in the New Zealand and Australian business environments. He holds a number of directorships, including Chairman of Todd Corporation, Chairman of Vero New Zealand Limited, and a director of ASX listed company Suncorp Group Limited. Geoff was Chairman of Southern Cross Building Society leading up to the merger to form Heartland Bank.

Geoff chairs The University of Auckland Foundation and is a strong supporter of community and philanthropic activities, particularly in relation to the arts and education in New Zealand.

As at the date of this Annual Report, the Heartland Bank Board includes J K Greenslade, G T Ricketts and G R Kennedy, plus the following directors who are independent directors:

Bruce Irvine

BCom, LLB, FCA, CF Inst D, FNZIM

Chairman – Appointed 31 January 2013

Bruce is a chartered accountant and was admitted into the Christchurch partnership of Deloitte in 1988. He was Managing Partner from 1995 to 2007 before his retirement from Deloitte in May 2008 to pursue his career as an independent director. Bruce is also Chairman of Christchurch City Holdings Limited, and a director of several public and private companies, including House of Travel Holdings Limited, Market Gardeners Limited, PGG Wrightson Limited, Scenic Hotels Limited and Skope Industries Limited.

Bruce is involved in a voluntary capacity as a trustee of the Christchurch Symphony Orchestra.

Nicola Greer

MCom

Director – Appointed 26 July 2013

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

John Harvey

BCom, CA

Director – Appointed 31 January 2013

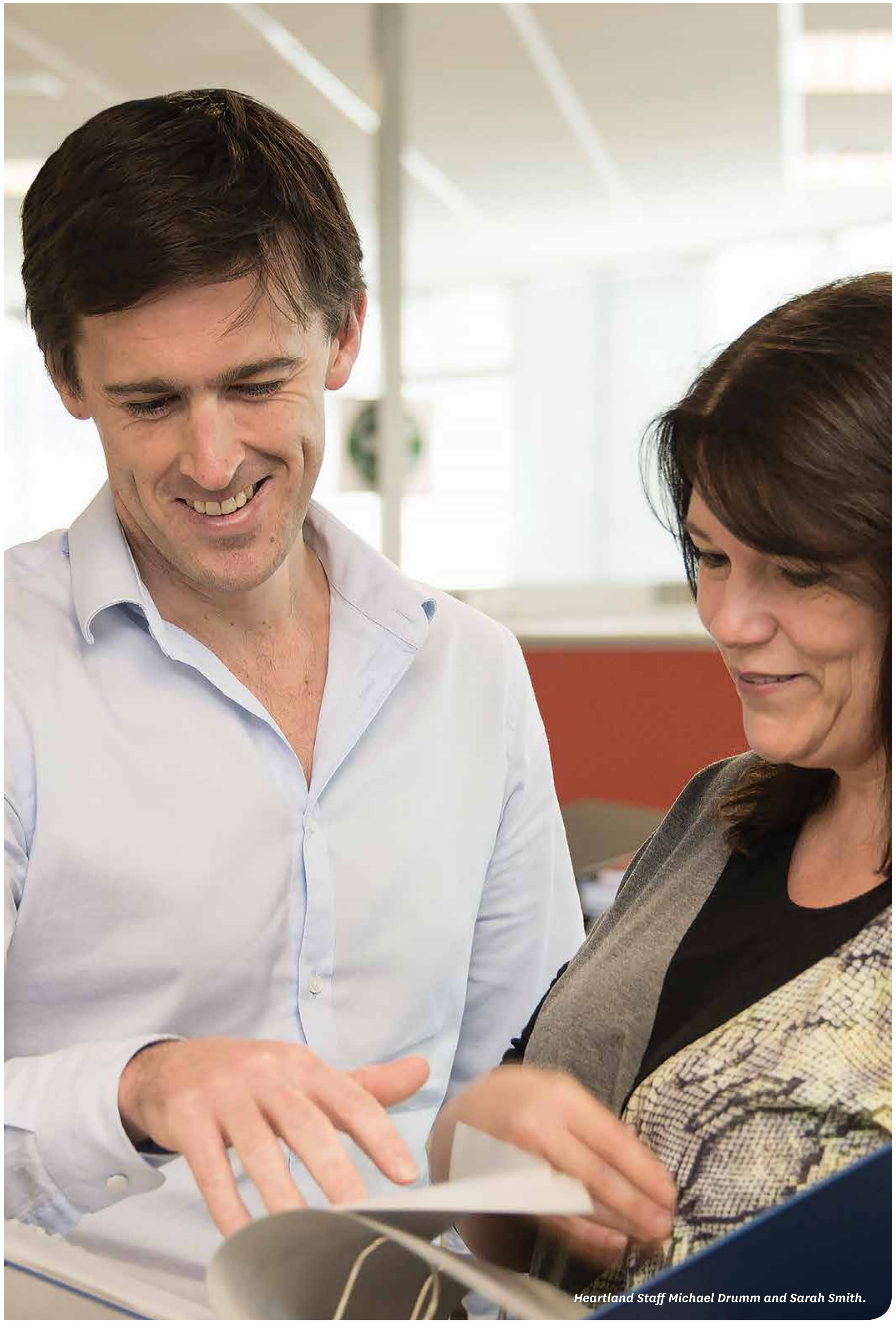
John has considerable financial services experience and 36 years in the professional services industry, including 23 years as a partner of PricewaterhouseCoopers. Since his retirement from PricewaterhouseCoopers in 2009, John has pursued a career as an independent director of a number of companies, including Port Otago Limited, Ballance Agri-Nutrients Limited, NZX listed DNZ Property Fund Limited and NZX/ASX listed Kathmandu Holdings Limited. He is also chairman of NZ Opera Limited.

Richard Wilks

BCom, CA

Director – Appointed 1 February 2013

Richard has extensive experience across a range of industries including the banking and finance sector. He recently retired from a career as a senior corporate banking professional, which included Chief Credit Officer and Chief Risk Officer with ANZ National Bank and executive roles with Standard Chartered Bank, Citibank Australia, Westpac Trust Australia and Citibank New Zealand. Richard is currently a director of a number of companies including Rainbow's End Theme Park Limited, Rangatira Limited and the Maxwell Farms group of companies.



Heartland Staff Michael Drumm and Sarah Smith.

Heartland Supporting Communities

We offer help and support to a wide variety of groups and organisations across New Zealand. Whether making a difference at an individual, local, regional or national level, we know how important our support is to our communities and we are incredibly proud of the difference we make.

Special Children's Christmas Party

Heartland has always been committed to supporting and investing in Kiwis, helping them grasp opportunities and realise their dreams, but Christmas always adds an extra incentive to make a difference.

Every year over 7,000 children suffering from life-threatening illnesses, physical or intellectual impairment, domestic violence or living in underprivileged circumstances, are given the chance to experience Christmas at a number of Special Children's Christmas Parties that take place in several cities across the country.

"Supporting an event like this is a great opportunity to give something back to the community."

Heartland staff member

For Heartland, support for this cause goes a lot deeper than simply a financial donation as many of our staff get involved too. Handing out gifts, painting faces or blowing up balloons, Heartland staff roll up their sleeves and see first-hand how these simple, fun things can make such a huge difference, building memories that will stay with the children and their families for years to come.

"I never really thought I would have the chance to properly showcase my photos but I always imagined it would be a special thing to do."

Tauranga resident and photographic historian, Alf Rendell

Alf Rendell

Community is very important to Heartland. Where the majority of our support is provided to groups and organisations, sometimes we meet very special individuals who have made a real difference but could do with a bit of assistance themselves.

97-year-old Alf Rendell from Tauranga has been photographing the local area for over 80 years and, despite building up an enviable collection of photographs cataloguing how the region has changed over the years, he had never fulfilled his life-long ambition of hosting his own exhibition. For a man that has given the community so much – he's also a volunteer involved in transforming a disused quarry into a world class park – local Heartland Bank branch manager Deborah Lee thought it was his turn to get something back.

Early in 2015 and running for a total of five weeks, Heartland helped Alf to host a dedicated exhibition showing over 40 of his original prints.

Young Auctioneers

Heartland is honoured to sponsor the Young Auctioneers Competition at the prestigious Canterbury A&P Show.

A vocation that many people are familiar with – but few would consider – demands a unique skill set that includes a keen eye, quick thinking and sharp wit. However, the training grounds and opportunities for the young up-and-coming auctioneers are limited.

The Young Auctioneers competition runs over two days and puts competitors – who must be aged under 30 – through their paces on all aspects of auctioneering including knowledge, style and personal presentation. In return they are provided with guidance and feedback from an experienced judging panel and given tips on how to polish their performance. After three years, the competition is going from strength to strength with both the number and standards of entrants steadily rising, showing this important component of New Zealand's livestock industry is still very much in demand.

"It was a huge thrill to win this competition. It's so valuable to the industry, giving young auctioneers the chance to stand up and be counted amongst their peers."

Heartland Young Auctioneer winner 2014, Cam Bray

Scholarships

The ability to open up opportunities and change lives for the better is never more apparent than during the school years.

Heartland is involved with a number of organisations, clubs and schools who are dedicated to helping children unlock and deliver their true potential. Whether it is on a rugby field, performing arts or through gaining entry to a level of education that would otherwise not be available, Heartland's support has helped a number of children access and remain in a range of activities and educational scholarships. For three high-achieving year 9 boys, this was an education at King's College Auckland.

"It's not just about the opportunity of getting into a top school. Scholarships also give these kids a sense of value, focus and responsibility."

King's College Head of Admissions, Graeme Syms

King's College matches outstanding educational opportunities with a dedication to promoting excellence in the arts, culture and sports. It is the only private school represented in division one of the national kapa haka competition as well as being the only private school to offer Te Reo Māori from year 9 through to year 13. Heartland hopes to extend support to include a female student in the coming school year.

Corporate Governance

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

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

This governance statement outlines the main corporate governance practices applied by the Company as at 30 June 2015. During the year the Board reviewed and assessed the Company's governance structure to confirm that its governance practices are consistent with best practice. The Board considers it has complied with the NZX Corporate Governance Best Practice Code for the year ended 30 June 2015.

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

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

Principle 1 – Ethical Standards

Directors set high standards of ethical behaviour, model this behaviour, and hold management accountable for delivering these standards throughout the organisation.

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

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

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

Codes of Conduct

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

Securities Trading Policy

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

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

Principle 2 – Board Composition and Performance

There is a balance of independence, skills, knowledge, experience and perspectives among directors to ensure an effective Board.

Role of the Board

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

The Board schedules monthly meetings at which it receives regular briefings on key strategic and operational issues from management.

Board Processes

The Board held 11 meetings during the year ended 30 June 2015. The table shows attendance by the director at the Board and committee meetings.

At the Company's Annual Meeting held on 31 October 2014, all of the then-serving directors attended the meeting.

	Board		Audit and Risk Committee		Governance and Remuneration Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
J K Greenslade	11	11	-	-	-	-
G R Kennedy	11	11	5	5	-	-
C R Mace	11	11	-	-	-	-
G T Ricketts	11	11	5	5	2	2
D J Taylor	6	6	2	2	-	-
G R Tomlinson	11	11	-	-	2	2

Board Membership, Size and Composition

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

As at 30 June 2015, the Board comprised six directors, being an independent Chairman, the Managing Director and four non-executive directors. The Board encourages rigorous discussion and analysis when making decisions. The current Board comprises directors with a mix of qualifications and skills who hold diverse business, governance and industry experience.

Nomination and Appointment of Directors

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

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

Independence of Directors

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

As at 30 June 2015, the Board determined that G R Kennedy, C R Mace, G T Ricketts and D J Taylor were the independent directors.

Board Performance Assessment

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

Principle 3 – Board Committees

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

Board Committees

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

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

Audit and Risk Committee

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

As at 30 June 2015, the members of the Audit and Risk Committee were G R Kennedy (Chairman), G T Ricketts and D J Taylor.

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

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

As at 30 June 2015, the Board determined that all committee members had a recognised form of financial expertise in accordance with the Audit and Risk Committee's charter.

Governance and Remuneration Committee

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

As at 30 June 2015, the members of the Governance and Remuneration Committee were G T Ricketts (Chairman) and G R Tomlinson and B R Irvine (in an ex-officio capacity).

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

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

The gender composition of Directors and Officers was as follows:

	As at 30 June 2015		As at 30 June 2014	
Positions	Female	Male	Female	Male
Heartland New Zealand Limited Directors	1 (16.6%)	5 (83.3%)	0 (0%)	6 (100%)
Heartland Bank Limited Directors	1 (12.5%)	7 (87.5%)	1 (12.5%)	7 (87.5%)
Officers	3 (33.3%)	6 (66.7%)	2 (22%)	7 (78%)

"Officers" include J K Greenslade and all persons who report directly to him in an executive capacity.

Principle 4 – Reporting and Disclosures

The Board demands integrity in both financial reporting and in the timeliness and balance of corporate disclosures.

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

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

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

Principle 5 – Remuneration

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

Non-Executive Directors' Remuneration

Total remuneration available to non-executive directors of the Company and its subsidiaries is determined by shareholders. The current aggregate approved amount by shareholders is $1,000,000 per annum.

The Company's policy is to pay directors' fees in cash. There is no requirement for directors to take a portion of their remuneration in shares and there is no requirement for directors to hold shares in the Company. However, as at 30 June 2015 all directors held shares in the Company (see the "Directors' Disclosures" section of this Report for further details).

Senior Executive Remuneration

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

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

Principle 6 – Risk Management

The Board has a sound understanding of the key risks faced by the business. The Board regularly verifies that the Company has appropriate processes that identify and manage potential and relevant risks.

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

Principle 7 – Auditors

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

The Audit and Risk Committee is responsible for overseeing the external, independent audit of the Company's financial statements. The Audit and Risk Committee ensures that the level of non-audit work undertaken by the auditors does not jeopardise their independence.

The Company's External Auditor Independence Policy provides guidelines to ensure that non-audit related services do not conflict with the independent role of the external auditor, and the Audit and Risk Committee ensures that non-audit work undertaken by the auditors is in accordance with that Policy. That Policy also sets out guidelines in relation to the tenure and re-appointment of the external auditor, which the Audit and Risk Committee ensures are complied with. Refer to Heartland's website for a copy of the External Auditor Independence Policy.

The external auditor monitors its independence and reports to the Audit and Risk Committee bi-annually to confirm that it has remained independent in the previous six months, in accordance with the Company's External Auditor Independence Policy and the external auditor's policies and professional requirements. There have been no threats to auditor independence identified during the year ended 30 June 2015.

The Company also has an internal audit function which is independent of the external auditors. The Audit and Risk Committee approves the annual internal audit programme, which is developed in consultation with management of the Company.

Principle 8 – Shareholder Relations

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

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

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

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

Principle 9 – Stakeholder Interests

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

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

DIRECTORS' RESPONSIBILITY STATEMENT

For the year ended 30 June 2015

The directors are responsible for presenting financial statements for each financial year that give a true and fair view of the financial position of Heartland New Zealand Limited (Company), its subsidiaries (Group) and of the financial performance and cash flows for that period.

The directors consider the financial statements of the Group have been prepared using appropriate accounting policies that have been consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 2013.

The directors consider that they have taken adequate steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Board of Directors (Board) of Heartland New Zealand Limited approved and authorised the financial statements for the year ended 30 June 2015 set out on pages 31 to 67 for issue on 18 August 2015.

For and on behalf of the Board

Director

Director

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2015

	NOTE	Jun 15 $000	Jun 14 $000
Interest income	2	260,468	210,297
Interest expense	2	126,041	101,221
Net interest income		**134,427**	**109,076**
Operating lease income	3	10,350	13,348
Operating lease expenses	3	7,087	7,709
Net operating lease income		**3,263**	**5,639**
Lending and credit fee income		3,077	2,469
Other income	4	3,940	4,971
Net operating income		**144,707**	**122,155**
Selling and administration expenses	5	68,403	64,739
Profit before impaired asset expense and income tax		**76,304**	**57,416**
Impaired asset expense	6	12,105	5,895
Decrease in fair value of investment properties	10	-	1,203
Operating profit		**64,199**	**50,318**
Share of joint arrangement profit	25	137	486
Profit before income tax		**64,336**	**50,804**
Income tax expense	7	16,173	14,765
Profit for the year		**48,163**	**36,039**
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		(2,709)	1,111
Movement in available for sale reserve, net of income tax		898	(12)
Movement in foreign currency translation reserve, net of income tax		2,136	95
Items that will not be reclassified to profit or loss:			
Movement in defined benefit reserve, net of income tax		50	3
Other comprehensive income for the year, net of income tax		**375**	**1,197**
Total comprehensive income for the year		**48,538**	**37,236**
Earnings per share from continuing operations			
Basic earnings per share	8	10c	9c
Diluted earnings per share	8	10c	9c

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

The notes on pages 36 to 67 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

	NOTE	Share Capital $000	Treasury Shares Reserve $000	Employee Benefits Reserve $000	Foreign Currency Translation Reserve $000	Available for sale Reserve $000	Defined benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Balance at 1 July 2014		**406,142**	**(926)**	**1,476**	**95**	**272**	**44**	**1,157**	**44,362**	**452,622**
Total comprehensive income/(loss) for the year										
Profit for the year		-	-	-	-	-	-	-	48,163	48,163
Other comprehensive income / (loss), net of income tax		-	-	-	2,136	898	50	(2,709)	-	375
Total comprehensive income/(loss) for the year		**-**	**-**	**-**	**2,136**	**898**	**50**	**(2,709)**	**48,163**	**48,538**
Contributions by and distributions to owners										
Dividends paid	14	-	-	-	-	-	-	-	(30,188)	(30,188)
Dividend reinvestment plan	14	7,621	-	-	-	-	-	-	-	7,621
Share based payments	26	-	-	1,491	-	-	-	-	-	1,491
Shares vested		138	629	(767)	-	-	-	-	-	-
Treasury shares sold		16	25	-	-	-	-	-	-	41
Total transactions with owners		**7,775**	**654**	**724**	**-**	**-**	**-**	**-**	**(30,188)**	**(21,035)**
Balance at 30 June 2015		**413,917**	**(272)**	**2,200**	**2,231**	**1,170**	**94**	**(1,552)**	**62,337**	**480,125**
Balance at 1 July 2013		**193,020**	**(1,000)**	**629**	**-**	**284**	**41**	**46**	**177,522**	**370,542**
Total comprehensive income/(loss) for the year										
Profit for the year		-	-	-	-	-	-	-	36,039	36,039
Other comprehensive income / (loss), net of income tax		-	-	-	95	(12)	3	1,111	-	1,197
Total comprehensive income/(loss) for the year		**-**	**-**	**-**	**95**	**(12)**	**3**	**1,111**	**36,039**	**37,236**
Contributions by and distributions to owners										
Effect of amalgamation		149,269	-	-	-	-	-	-	(149,269)	-
Dividends paid	14	-	-	-	-	-	-	-	(19,930)	(19,930)
Dividend reinvestment plan	14	7,321	-	-	-	-	-	-	-	7,321
Issue of share capital		57,840	-	-	-	-	-	-	-	57,840
Transaction costs associated with capital raising		(1,322)	-	-	-	-	-	-	-	(1,322)
Shares vested		14	74	(88)	-	-	-	-	-	-
Share based payments	26	-	-	935	-	-	-	-	-	935
Total transactions with owners		**213,122**	**74**	**847**	**-**	**-**	**-**	**-**	**(169,199)**	**44,844**
Balance at 30 June 2014		**406,142**	**(926)**	**1,476**	**95**	**272**	**44**	**1,157**	**44,362**	**452,622**

The notes on pages 36 to 67 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	NOTE	Jun 15 $000	Jun 14 $000
Assets			
Cash and cash equivalents		37,012	37,344
Investments	9	329,338	238,859
Investment properties	10	24,513	24,888
Finance receivables	11	2,862,070	2,607,393
Operating lease vehicles	12	29,998	31,295
Current tax assets	7(b)	-	1,558
Other assets	15(a)	12,119	18,597
Investment in joint arrangement	25	4,383	4,246
Intangible assets	15(b)	51,119	47,421
Deferred tax assets	7(c)	8,707	5,287
Total assets		**3,359,259**	**3,016,888**
Liabilities			
Borrowings	13	2,825,245	2,524,460
Current tax liabilities	7(b)	7,869	431
Trade and other payables	15(c)	46,020	39,375
Total liabilities		**2,879,134**	**2,564,266**
Equity			
Share capital	14	413,645	405,216
Retained earnings and reserves		66,480	47,406
Total equity		**480,125**	**452,622**
Total equity and liabilities		**3,359,259**	**3,016,888**

The notes on pages 36 to 67 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 30 June 2015

	Jun 15 $000	Jun 14 $000
Cash flows from operating activities		
Interest received	243,729	193,519
Operating lease income received	8,951	12,086
Lending, credit fees and other income received	7,017	7,440
Operating inflows	**259,697**	**213,045**
Payments to suppliers and employees	60,346	59,687
Interest paid	126,179	101,675
Taxation paid	9,956	8,033
Operating outflows	**196,481**	**169,395**
Net cash flows from operating activities before changes in operating assets and liabilities	**63,216**	**43,650**
Proceeds from sale of operating lease vehicles	7,386	9,086
Purchase of operating lease vehicles	(11,544)	(12,954)
Net movement in finance receivables	(259,871)	113,630
Net movement in deposits	362,590	(97,646)
Net cash flows from operating activities	**161,777**	**55,766**
Cash flows from investing activities		
Net proceeds from sale of investment properties	9,375	42,244
Proceeds from sale of office fit-out, equipment and intangible assets	4,885	19
Dividend received from joint venture	-	560
Total cash provided from investing activities	**14,260**	**42,823**
Purchase of office fit-out, equipment and intangible assets	6,344	432
Net increase in investments	89,581	73,648
Purchase of subsidiaries	-	48,300
Total cash applied to investing activities	**95,925**	**122,380**
Net cash flows applied to investing activities	**(81,665)**	**(79,557)**
Cash flows from financing activities		
Increase in share capital	-	20,000
Total cash provided from financing activities	**-**	**20,000**
Dividends paid	22,567	12,609
Transaction costs associated with capital raising	-	1,322
Net decrease in wholesale funding	57,877	123,023
Total cash applied to financing activities	**80,444**	**136,954**
Net cash flows applied to financing activities	**(80,444)**	**(116,954)**
Net decrease in cash held	**(332)**	**(140,745)**
Opening cash and cash equivalents	37,344	174,262
Cash impact of business combinations	-	3,827
Closing cash and cash equivalents	**37,012**	**37,344**

The notes on pages 36 to 67 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS CONTINUED
For the year ended 30 June 2015

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

	Jun 15 $000	Jun 14 $000
Profit for the year	**48,163**	**36,039**
Add / (less) non-cash items included in net profit before taxation:		
Depreciation and amortisation expense	2,010	2,142
Depreciation on lease vehicles	6,375	7,060
Change in fair value of investment properties	-	1,203
Capitalised interest	(2,045)	-
Impaired asset expense	12,105	5,895
Total non-cash items	**18,445**	**16,300**
Add / (less) movements in operating assets and liabilities:		
Finance receivables	(275,274)	96,815
Operating lease vehicles	(5,078)	(5,960)
Other assets	2,997	804
(Gain) / loss on disposal of property, plant and equipment and intangibles	(98)	56
Current tax	8,996	(3,986)
Derivative financial instruments revaluation	1,326	91
Deferred tax (benefit) / expense	(3,420)	11,100
Deposits	362,590	(97,646)
Other liabilities	3,130	2,153
Total movements in operating assets and liabilities	**95,169**	**3,427**
Net cash flows from operating activities	**161,777**	**55,766**

The notes on pages 36 to 67 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

Notes

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

Basis of reporting

Reporting entity

Heartland New Zealand Limited is a listed public company incorporated in New Zealand under the Companies Act 1993 and is a FMC reporting entity for the purposes of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013.

The financial statements presented are the consolidated financial statements comprising Heartland New Zealand Limited (Heartland), its subsidiaries and joint arrangements. All entities within the Group offer financial services or are special purpose entities.

On 1 April 2014, the Company, through its subsidiary Heartland HER Holdings Limited, acquired New Sentinel Limited and Australian Seniors Finance Pty Limited (collectively the HHHL Group). Comparatives presented include the results of HHHL Group operations for only three months of the prior year.

Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and with the requirements of the Financial Reporting Act 2013. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements are presented in New Zealand dollars which is the Company's functional and the Group's presentation currency. Unless otherwise indicated, amounts are rounded to the nearest thousand.

The accounting policies adopted have been applied consistently throughout the periods presented in these financial statements. Certain comparative information has been restated to comply with the current year presentation.

The financial statements have been prepared on the basis of historical cost, except for financial instruments, land and buildings and investment properties, which are measured at their fair values as identified in the accounting policies set out in the accompanying notes.

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

Financial assets and liabilities

The Group initially recognises finance receivables, borrowings and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the Statement of Financial Position. Transfers of assets with the retention of all or substantially all risks and rewards include, for example, securitised assets and repurchase transactions.

Principles of consolidation

The consolidated financial statements of Heartland incorporate the assets, liabilities and results of all controlled entities. Controlled entities are all entities in which Heartland is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Intercompany transactions, balances and any unrealised income and expense (except for foreign currency transaction gains or losses) between controlled entities are eliminated.

The assets and liabilities of entities whose functional currency is not the New Zealand dollar, are translated at the exchange rates ruling at balance date. Revenue and expense items are translated at the spot rate at the transaction date or a rate approximating that rate. Exchange differences are taken to the foreign currency translation reserve.

Estimates and judgements

The preparation of the Group's financial statements requires the use of estimates and judgement. This note provides an overview of the areas that involved a higher degree of judgement or complexity. Detailed information about each of these estimates and judgements is included in the relevant notes together with the basis of calculation for each affected item in the financial statements.

- **Provisions for impairment** - The effect of credit risk is quantified based on management's best estimate of future cash repayments and proceeds from any security held or by reference to risk profile groupings and historical loss data. Refer to Note 19(e) for further details.
- **Goodwill** - Determining the fair value of assets and liabilities of acquired businesses requires the exercise of management judgement. The carrying value of goodwill is tested annually for impairment, refer to Note 15(b)(ii).

The estimates and judgements used in the preparation of the Groups financial statements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

Performance

1 Segmental analysis

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

All income received is from external sources, except those transactions with related parties. Refer to Note 15(d) - Related party transactions for further details. Certain selling and administration expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Administration and Support (Admin & Support).

Operating segments

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

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

The Group's operating segments are different than the industry categories detailed in Note 19 - Asset quality. The operating segments are primarily categorised by sales channel, whereas Note 19 - Asset quality categorises exposures based on credit risk concentrations.

During the year ended 30 June 2015, a business unit previously reported in the Households segment was moved to the Business segment. Comparative segment information has been restated to be consistent with the current reporting period.

	Households $000	Business $000	Rural $000	Non-core Property $000	Admin & Support $000	Total $000
Jun 15						
Interest income	134,193	70,258	41,380	779	13,858	260,468
Interest expense	64,299	29,931	17,496	1,569	12,746	126,041
Net interest income / (expense)	**69,894**	**40,327**	**23,884**	**(790)**	**1,112**	**134,427**
Net operating lease income	3,263	-	-	-	-	3,263
Net other income	2,560	1,639	135	1,478	1,205	7,017
Net operating income	**75,717**	**41,966**	**24,019**	**688**	**2,317**	**144,707**
Depreciation and amortisation expense	-	-	-	-	2,010	2,010
Other selling and administration expenses	20,071	6,207	4,878	1,273	33,964	66,393
Selling and administration expenses	**20,071**	**6,207**	**4,878**	**1,273**	**35,974**	**68,403**
Profit / (loss) before impaired asset expense and income tax	**55,646**	**35,759**	**19,141**	**(585)**	**(33,657)**	**76,304**
Impaired asset expense / (benefit)	5,465	6,467	510	(337)	-	12,105
Operating profit / (loss)	**50,181**	**29,292**	**18,631**	**(248)**	**(33,657)**	**64,199**
Share of joint arrangement profit	-	-	-	-	137	137
Profit / (loss) before income tax	**50,181**	**29,292**	**18,631**	**(248)**	**(33,520)**	**64,336**
Income tax expense	-	-	-	-	16,173	16,173
Profit / (loss) for the year	**50,181**	**29,292**	**18,631**	**(248)**	**(49,693)**	**48,163**
Total assets	1,609,887	791,984	487,673	27,038	442,677	**3,359,259**
Total liabilities	-	-	-	-	2,879,134	**2,879,134**
Total equity	-	-	-	-	480,125	**480,125**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

1 Segmental analysis (continued)

	Households $000	Business $000	Rural $000	Non-core Property $000	Admin & Support $000	Total $000
Jun 14						
Interest income	92,247	62,686	39,666	2,977	12,721	210,297
Interest expense	41,264	26,302	16,865	4,426	12,364	101,221
Net interest income / (expense)	**50,983**	**36,384**	**22,801**	**(1,449)**	**357**	**109,076**
Net operating lease income	5,639	-	-	-	-	5,639
Net other income	2,000	435	68	3,822	1,115	7,440
Net operating income	**58,622**	**36,819**	**22,869**	**2,373**	**1,472**	**122,155**
Depreciation and amortisation expense	-	-	-	-	2,142	2,142
Other selling and administration expenses	11,947	5,983	5,409	4,000	35,258	62,597
Selling and administration expenses	**11,947**	**5,983**	**5,409**	**4,000**	**37,400**	**64,739**
Profit / (loss) before impaired asset expense and income tax	**46,675**	**30,836**	**17,460**	**(1,627)**	**(35,928)**	**57,416**
Impaired asset expense / (benefit)	648	5,535	963	(1,251)	-	5,895
Decrease in fair value of investment properties	-	-	-	1,203	-	1,203
Operating profit / (loss)	**46,027**	**25,301**	**16,497**	**(1,579)**	**(35,928)**	**50,318**
Share of joint arrangement profit	-	-	-	-	486	486
Profit / (loss) before income tax	**46,027**	**25,301**	**16,497**	**(1,579)**	**(35,442)**	**50,804**
Income tax expense	-	-	-	-	14,765	14,765
Profit / (loss) for the year	**46,027**	**25,301**	**16,497**	**(1,579)**	**(50,207)**	**36,039**
Total assets	1,543,248	669,264	410,219	40,846	353,311	**3,016,888**
Total liabilities	-	-	-	-	2,564,266	**2,564,266**
Total equity	-	-	-	-	452,622	**452,622**

2 Net interest income

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

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

	Jun 15 $000	Jun 14 $000
Interest income		
Cash and cash equivalents	2,458	3,559
Investments	9,919	9,189
Finance receivables	248,091	197,549
Total interest income	**260,468**	**210,297**
Interest expense		
Retail deposits	82,526	79,430
Bank and securitised borrowings [1]	43,294	20,932
Net interest expense on derivative financial instruments	221	859
Total interest expense	**126,041**	**101,221**
Net interest income	**134,427**	**109,076**

Included within the Group's interest income on finance receivables is $1,157,000 (2014: $2,665,000) on individually impaired assets.

[1] Bank and securitised borrowings interest expense increased $22.4 million during the year ended 30 June 2015. This was due to comparatives only including HHHL Group results for three months of the prior year.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

3 Net operating lease income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. Profits on the sale of operating lease vehicles are included as part of operating lease income. Current year depreciation and losses on the sale of operating lease vehicles are included as part of operating lease expenses.

	Jun 15 $000	Jun 14 $000
Operating lease income		
Lease income	9,430	11,256
Gain on disposal of lease vehicles	920	2,092
Total operating lease income	**10,350**	**13,348**
Operating lease expense		
Depreciation on lease vehicles	6,375	7,060
Direct lease costs	712	649
Total operating lease expenses	**7,087**	**7,709**
Net operating lease income	**3,263**	**5,639**

4 Other income

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease. Other items of income are recognised at the fair value of the consideration received or receivable, net of the amount of goods and services tax levied.

	NOTE	Jun 15 $000	Jun 14 $000
Rental income from investment properties		1,478	4,027
Management fees	15(d)	500	374
Other income		1,962	570
Total other income		**3,940**	**4,971**

5 Selling and administration expenses

	Jun 15 $000	Jun 14 $000
Personnel expenses	39,619	35,180
Directors' fees	917	882
Superannuation	782	585
Audit and review of financial statements	431	430
Other assurance services paid to auditor [1]	23	18
Other fees paid to auditor [2]	125	193
Depreciation - property, plant and equipment	777	801
Amortisation - intangible assets	1,233	1,341
Operating lease expense as a lessee	2,001	1,654
Legal and professional fees	2,318	4,434
Other operating expenses	20,177	19,221
Total selling and administration expenses	**68,403**	**64,739**

[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, internal audit and review work completed.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

6 Impaired asset expense

	NOTE	Jun 15 $000	Jun 14 $000
Non-securitised			
Individually impaired expense		7,153	11,851
Collectively impaired expense / (recovery)		4,051	(6,536)
Total non-securitised impaired asset expense		**11,204**	**5,315**
Securitised			
Individually impaired expense		53	-
Collectively impaired expense		848	580
Total securitised impaired asset expense		**901**	**580**
Total			
Individually impaired expense	19(e)	7,206	11,851
Collectively impaired expense / (recovery)	19(e)	4,899	(5,956)
Total impaired asset expense		**12,105**	**5,895**

7 Taxation

(a) Income tax expense

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

	Jun 15 $000	Jun 14 $000
Income tax recognised in profit or loss		
Current tax		
Current year	18,755	3,746
Adjustments for prior year	(195)	351
Deferred tax		
Current year	(2,209)	10,989
Adjustments for prior year	(178)	(321)
Income tax expense recognised in profit or loss	**16,173**	**14,765**
Income tax recognised in other comprehensive income		
Current tax		
Fair value movements of available for sale investments	349	(5)
Deferred tax		
Defined benefit plan	19	1
Fair value movements of cash flow hedges	(1,052)	431
Income tax (benefit) / expense recognised in other comprehensive income	**(684)**	**427**
Reconciliation of effective tax rate		
Profit before income tax	64,336	50,804
Prima facie tax at 28%	18,014	14,225
Higher tax rate for overseas jurisdiction	92	21
Plus/ (minus) tax effect of items not taxable / deductible	(141)	489
Adjustments for prior year	(283)	30
Utilisation of unrecognised tax losses	(1,509)	-
Total income tax expense	**16,173**	**14,765**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

7 Taxation (continued)

(b) Current tax

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

(c) Deferred tax assets

The Group has recognised deferred tax assets, including those relating to the tax effects of income tax losses and credits available to be carried forward, to the extent that there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised.

	Jun 15 $000	Jun 14 $000
Deferred tax assets comprise of the following temporary differences:		
Employee entitlements	1,229	1,619
Provision for impairment	6,633	4,404
Investment properties	1,473	1,740
Intangibles and property, plant and equipment	(399)	(853)
Operating lease vehicles	(1,543)	(1,397)
Other temporary differences	1,314	(226)
Total deferred tax assets	**8,707**	**5,287**

Opening balance of deferred tax assets	**5,287**	**16,387**
Movement recognised in profit or loss	2,387	(10,668)
Movement recognised in other comprehensive income	1,033	(432)
Closing balance of deferred tax assets	**8,707**	**5,287**

(d) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST. As the Group is predominantly involved in providing financial services, only a proportion of GST paid on inputs is recoverable. The non-recoverable proportion of GST is treated as part of the cost of acquisition of the asset or is expensed.

(e) Imputation credit account

	Jun 15 $000	Jun 14 $000
Imputation credit account	3,484	(1,471)

8 Earnings per share

The calculation of basic and diluted earnings of 10c per share at 30 June 2015 (2014: 9c per share) is based on the profit for the year of $48,163,000 (2014: $36,039,000), and a weighted average number of shares on issue of 466,643,607 (2014: 411,753,442).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

Financial position

9 Investments

The Group holds investments in bank bonds and floating rate notes, local authority stock, public securities, corporate bonds and equity investments. Equity investments are classified as being fair valued through profit or loss and the fair value is based on unobservable inputs. All other investments held are classified as being available for sale and are stated at fair value less impairment, if any. The fair values are derived by reference to published price quotations in an active market or modelled using observable market inputs.

	Jun 15 $000	Jun 14 $000
Bank bonds and floating rate notes	244,505	143,063
Local authority stock	46,839	36,982
Public securities and corporate bonds	31,275	58,814
Equity investments	6,719	-
Total investments	**329,338**	**238,859**

During the year ended 30 June 2015 Heartland acquired an interest of 11% in Harmoney Corp Limited and an interest of 12% in Ora HQ Limited.

10 Investment properties

Investment properties have been acquired through the enforcement of security over finance receivables and are held to earn rental income or for capital appreciation (or both).

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

	Jun 15 $000	Jun 14 $000
Opening balance	24,888	58,287
Acquisitions	9,000	9,746
Additional capital expenditure	-	302
Sales	(9,375)	(42,244)
Decrease in fair value of investment properties	-	(1,203)
Closing balance	**24,513**	**24,888**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

11 Finance receivables

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

Past due but not impaired assets are any assets which have not been operated by the counterparty within their key terms but are not considered to be impaired by the Group.

Individually impaired assets are those loans for which the Group has evidence that it will incur a loss, and will be unable to collect all principal and interest due according to the contractual terms of the loan.

Restructured assets are impaired assets where the Group expects to recover all amounts owing, although the original terms have been changed due to the counterparty's difficulty in complying with the original terms of the contract and the amended terms are not comparable with similar new lending.

Credit impairment provisions are made where events have occurred leading to an expectation of reduced future cash flows from certain receivables. These provisions are made in some cases against an individual loan and in other cases on a collective basis. When all appropriate collection and legal action has been performed and the loan is known to be uncollectible, it is written off against the related provision for impairment.

	NOTE	Jun 15 $000	Jun 14 $000
Non-securitised			
Neither at least 90 days past due or impaired		2,552,302	2,321,630
At least 90 days past due		33,459	32,969
Individually impaired		25,567	27,617
Restructured assets		3,881	4,064
Gross finance receivables		**2,615,209**	**2,386,280**
Less provision for impairment		24,511	15,725
Less fair value adjustment for present value of future losses[1]		6,242	8,000
Total non-securitised finance receivables		**2,584,456**	**2,362,555**
Securitised			
Neither at least 90 days past due or impaired		276,944	244,409
At least 90 days past due		1,516	1,065
Individually impaired		55	-
Gross finance receivables		**278,515**	**245,474**
Less provision for impairment		901	636
Total securitised finance receivables		**277,614**	**244,838**
Total			
Neither at least 90 days past due or impaired		2,829,246	2,566,039
At least 90 days past due	19(b)	34,975	34,034
Individually impaired	19(c)	25,622	27,617
Restructured assets	19(a)	3,881	4,064
Gross finance receivables		**2,893,724**	**2,631,754**
Less provision for impairment	19(e)	25,412	16,361
Less fair value adjustment for present value of future losses[1]	19(a)	6,242	8,000
Total finance receivables		**2,862,070**	**2,607,393**

[1] A fair value adjustment of $8m for the present value of future losses was recognised on acquisition of HHHL Group. This fair value adjustment is amortised over the estimated lifetime of the finance receivables acquired.

Refer to Note 19 - Asset quality for further analysis of finance receivables by credit risk concentration.

Finance lease receivables

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Amounts due from finance leases are recognised as finance receivables at the amount of the Group's net investment in the leases. The table below provides an analysis of finance lease receivables for leases of certain property and equipment in which the Group is the lessor.

	Jun 15 $000	Jun 14 $000
Gross finance lease receivables		
Less than 1 year	32,484	36,420
Between 1 and 5 years	66,835	66,184
More than 5 years	68	66
Total gross finance lease receivables	**99,387**	**102,670**
Less unearned finance income	14,315	14,681
Less provision for impairment	170	87
Net finance lease receivables	**84,902**	**87,902**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

12 Operating lease vehicles

Operating lease vehicles are stated at cost less accumulated depreciation.

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

	Jun 15 $000	Jun 14 $000
Cost		
Opening balance	43,595	47,339
Additions	11,544	12,954
Disposals	(12,953)	(16,698)
Closing balance	**42,186**	**43,595**
Accumulated depreciation		
Opening balance	12,300	14,944
Depreciation charge for the year	6,375	7,060
Disposals	(6,487)	(9,704)
Closing balance	**12,188**	**12,300**
Opening net book value	31,295	32,395
Closing net book value	**29,998**	**31,295**

The future minimum lease payments receivable under non-cancellable operating leases not later than one year is $7,961,000 (2014: $8,610,000), within one to five years is $6,225,000 (2014: $7,816,000) and over five years is nil (2014: nil).

13 Borrowings

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

	Jun 15 $000	Jun 14 $000
Deposits	2,097,458	1,736,751
Subordinated bond	3,378	3,378
Bank borrowings	465,779	555,708
Securitised borrowings	258,630	228,623
Total borrowings	**2,825,245**	**2,524,460**

Deposits rank equally and are unsecured. The Subordinated bonds rank below all other general liabilities of the Group.

Securitised borrowings held by investors in Heartland ABCP Trust 1 (ABCP Trust) rank equally with each other and are secured over the securitised assets of that trust. The Group has securitised bank facilities of $350 million (2014: $400 million) in relation to the ABCP Trust, which matures on 3 February 2016.

The Group has a New Zealand and Australian bank facility provided by Commonwealth Bank of Australia (CBA) totalling $466 million in relation to HHHL Group (CBA bank facility). The CBA bank facility is secured over assets of HHHL Group and has a maturity date of 30 September 2019. Capacity for new Australian drawings is available for two years, based on scheduled repayments achieved by the Group. ASF Group (comprising ASF, ASF Settlement Trust and Seniors Warehouse Trust) has also provided a cross-guarantee to CBA for bank loans to other members of ASF Group.

The banking agreements include covenants for the provision of information, attainment of minimum financial ratios and equity, compliance with specified procedures and certification of due performance by ASF Group.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

14 Share capital and dividends paid

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

Number of shares issued and authorised

	Jun 15 Number of shares 000	Jun 14 Number of shares 000
Issued shares		
Opening balance	463,266	388,704
Shares issued during the year	-	65,900
Dividend reinvestment plan	6,624	8,662
Closing balance	**469,890**	**463,266**

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

Dividends paid

The Group paid total dividends of $30,222,744 ($0.06 per share) (2014: $19,958,000 ($0.05 per share)).

Under dividend reinvestment plans, the Group issued 3,680,052 new shares at $1.015 per share on 3 October 2014 and 2,943,636 new shares at $1.320 per share on 7 April 2015.

15 Other balance sheet items

(a) Other assets

Derivative financial assets consist of interest rate swaps and foreign exchange options. Interest rate swaps are held to manage the Group's exposure to interest rate repricing risk arising from deposits, commercial paper issuance, current and future floating rate bank debt and investments. Foreign exchange options are used to manage the Group's exposure to foreign exchange rate risk.

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

	Jun 15 $000	Jun 14 $000
Derivative financial assets	59	1,867
Trade receivables	5,546	6,134
Prepayments	1,092	1,023
Property, plant and equipment	5,422	9,573
Total other assets	**12,119**	**18,597**

(b) Intangible assets and goodwill

(i) Intangible assets with definite useful lives

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

	Jun 15 $000	Jun 14 $000
Computer Software Cost	5,976	2,278

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

(b) Intangible assets and goodwill (continued)

(ii) Goodwill

Goodwill arising on acquisition represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable net assets. Goodwill that has an indefinite useful life is not subject to amortisation and is tested for impairment annually. Goodwill is carried at cost less accumulated impairment losses.

	Jun 15 $000	Jun 14 $000
Goodwill	45,143	45,143

On 1 April 2014, as part of the acquisition of HHHL Group $25.0 million of goodwill was recognised.

Goodwill was tested for impairment as at 30 June 2015. In assessing impairment, an internal valuation model was developed to indicate the value of the business. This value was compared to the net assets of the Group. There was no indication of impairment and no impairment losses have been recognised against the carrying amount of goodwill for the year ended 30 June 2015 (30 June 2014: nil).

The Group's management and Board of Directors have assessed that goodwill should be allocated to the Group as a cash-generating unit, as this is the cash generating unit at which goodwill is assessed for impairment and to which any future economic benefit will arise.

(c) Trade and other payables

Derivative financial liabilities consist of interest rate swaps held to manage the Group's exposure to interest rate repricing risk arising from fixed rate mortgage loans.

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

	NOTE	Jun 15 $000	Jun 14 $000
Derivative financial liabilities		6,407	4,180
Trade payables		14,808	12,849
GST payable		16,571	15,749
Due to related parties	15(d)	2,448	500
Employee benefits		5,786	6,097
Total trade and other payables		**46,020**	**39,375**

(d) Related party transactions

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

MARAC Insurance, Heartland Cash and Term PIE Fund and some key management personnel invested in Heartland Bank Limited's deposits. The investments of Heartland Cash and Term PIE Fund are detailed in Note 24 - Structured entities.

	Jun 15 $000	Jun 14 $000
Transactions with related parties		
MARAC Insurance Limited		
Interest expense	(31)	(21)
Lending and credit fee income	625	300
Other income	500	374
Total transactions with other related parties	**1,094**	**653**
Due to related parties		
MARAC Insurance Limited	2,448	500
Total due to related parties	**2,448**	**500**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

(d) Related party transactions (continued)

Transactions with key management personnel

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

	Jun 15 $000	Jun 14 $000
Transactions with key management personnel		
Interest income	68	55
Interest expense	(573)	(281)
Key management personnel compensation:		
Short-term employee benefits	(6,690)	(7,304)
Share-based payment expense	(2,693)	(907)
Total transactions with key management personnel	**(9,888)**	**(8,437)**
Due (to) / from key management personnel		
Finance receivables	1,391	709
Borrowings - deposits	(14,386)	(5,998)
Total due to key management personnel	**(12,995)**	**(5,289)**

16 Fair value

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

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

(a) Financial instruments measured at fair value

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

Investments

Investments in public sector securities and corporate bonds are classified as being available for sale and are stated at fair value less impairment, with the fair value being based on quoted market prices (Level 1 under the fair value hierarchy) or modelled using observable market inputs (Level 2 under the fair value hierarchy). Refer to Note 9 - Investments for more details.

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

Investments in unlisted equity securities are classified as being fair valued through profit or loss and are valued under Level 3 of the fair value hierarchy, with the fair value being based on unobservable inputs.

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. (Level 2 under the fair value hierarchy).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

16 Fair value (continued)

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

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
June 15				
Assets				
Investments	311,815	10,804	6,719	329,338
Derivative assets held for risk management	-	59	-	59
Total	**311,815**	**10,863**	**6,719**	**329,397**
Liabilities				
Derivative liabilities held for risk management	-	6,407	-	6,407
Total	**-**	**6,407**	**-**	**6,407**
June 14				
Assets				
Investments	198,385	40,474	-	238,859
Derivative assets held for risk management	-	1,867	-	1,867
Total	**198,385**	**42,341**	**-**	**240,726**
Liabilities				
Derivative liabilities held for risk management	-	4,180	-	4,180
Total	**-**	**4,180**	**-**	**4,180**

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 methods and assumptions were used to estimate the fair value of each class of financial assets and liabilities not recognised at fair value but for which fair value is calculated for disclosure purposes under level 2 or 3 of the fair value hierarchy.

Cash and cash equivalents and other financial assets and liabilities

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

Finance receivables

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

The current weighted average lending rate used to fair value finance receivables with a fixed interest rate was 8.95% (2014: 8.99%). 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

16 Fair value (continued)

(b) Financial instruments not measured at fair value (continued)

Borrowings

The fair value of deposits, bank borrowings and other borrowings is the present value of future cash flows and is based on the current market interest rates payable by the Group for debt of similar maturities. The current market rate used to fair value borrowings for the Group is 4.32% (2014: 4.64%).

Other financial assets and financial liabilities

The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

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

	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Value
	$000	$000	$000	$000	$000
June 15					
Assets					
Cash and cash equivalents	37,012	-	-	37,012	37,012
Finance receivables	-	-	2,582,776	2,582,776	2,584,456
Finance receivables - securitised	-	-	279,491	279,491	277,614
Other financial assets	-	-	5,546	5,546	5,546
Total financial assets	**37,012**	**-**	**2,867,813**	**2,904,825**	**2,904,628**
Liabilities					
Borrowings	-	2,576,425	-	2,576,425	2,566,615
Borrowings - securitised	-	258,630	-	258,630	258,630
Other financial liabilities	-	2,448	20,594	23,042	23,042
Total financial liabilities	**-**	**2,837,503**	**20,594**	**2,858,097**	**2,848,287**
June 14					
Assets					
Cash and cash equivalents	37,344	-	-	37,344	37,344
Finance receivables	-	-	2,357,824	2,357,824	2,362,555
Finance receivables - securitised	-	-	246,674	246,674	244,838
Other financial assets	-	-	6,134	6,134	6,134
Total financial assets	**37,344**	**-**	**2,610,632**	**2,647,976**	**2,650,871**
Liabilities					
Borrowings	-	2,297,381	-	2,297,381	2,295,837
Borrowings - securitised	-	228,887	-	228,887	228,623
Other financial liabilities	-	5,420	14,026	19,446	19,446
Total financial liabilities	**-**	**2,531,688**	**14,026**	**2,545,714**	**2,543,906**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

16 Fair value (continued)

(c) Classification of financial instruments

The following tables summarise the categories of financial instruments and the carrying value and fair value of all financial instruments of the Group:

	Held for trading	Loans and receivables	Available for sale	Financial liabilities at amortised cost	Total Carrying Value	Total Fair Value
	$000	$000	$000	$000	$000	$000
June 2015						
Cash and cash equivalents	-	37,012	-	-	37,012	37,012
Investments	6,719	-	322,619	-	329,338	329,338
Finance receivables	-	2,584,456	-	-	2,584,456	2,582,776
Finance receivables - securitised	-	277,614	-	-	277,614	279,491
Derivative financial assets	59	-	-	-	59	59
Other financial assets	-	5,546	-	-	5,546	5,546
Total financial assets	**6,778**	**2,904,628**	**322,619**	**-**	**3,234,025**	**3,234,222**
Borrowings	-	-	-	2,566,615	2,566,615	2,576,425
Borrowings - securitised	-	-	-	258,630	258,630	258,630
Derivative financial liabilities	6,407	-	-	-	6,407	6,407
Other financial liabilities	-	-	-	23,042	23,042	23,042
Total financial liabilities	**6,407**	**-**	**-**	**2,848,287**	**2,854,694**	**2,864,504**
June 2014						
Cash and cash equivalents	-	37,344	-	-	37,344	37,344
Investments	-	-	238,859	-	238,859	238,859
Finance receivables	-	2,362,555	-	-	2,362,555	2,357,824
Finance receivables - securitised	-	244,838	-	-	244,838	246,674
Derivative financial assets	1,867	-	-	-	1,867	1,867
Other financial assets	-	6,134	-	-	6,134	6,134
Total financial assets	**1,867**	**2,650,871**	**238,859**	**-**	**2,891,597**	**2,888,702**
Borrowings	-	-	-	2,295,837	2,295,837	2,297,381
Borrowings - securitised	-	-	-	228,623	228,623	228,887
Derivative financial liabilities	4,180	-	-	-	4,180	4,180
Other financial liabilities	-	-	-	19,446	19,446	19,446
Total financial liabilities	**4,180**	**-**	**-**	**2,543,906**	**2,548,086**	**2,549,894**

NOTES TO THE FINANCIAL STATEMENTS
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Risk management

17 Risk management policies

The Group is committed to the management of risk and operates an Enterprise Risk Management Program (RMP) across four primary risk domains; credit, liquidity, market (including interest rate), and operational & compliance. The Group's risk management strategy is set by the Board of Directors (Board). The Group has put in place management structures and information systems to manage risks incorporated in the RMP. The Group has separate monitoring tasks where feasible and subjects all risk processes to hindsight and internal audit, and accounting systems to regular internal and external audits.

The Audit and Risk Committee has been appointed by the Board to advise and provide assurance to the Board in relation to the oversight of:

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

The Audit and Risk Committee are responsible for the risk management of the overall Group. Risks in Heartland Bank Limited (the Bank), the largest operating subsidiary are managed by the Bank's Board Risk Committee.

Role of the Board and the Board Risk Committee

The Bank's Board Risk Committee (BRC) is responsible for the overall risk management process and the development of the RMP. The role of the BRC is to assist the Board of Directors of the Bank (Bank's Board) to formulate its risk appetite, understand the risks the Bank faces and to ensure that all policy and decisions are made in accordance with the Bank's corporate values and guiding principles. The BRC has the following responsibilities:

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

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

Audit Committee and Internal Audit

The Group has an internal audit function, the objective of which is to provide independent, objective assurance over the internal control environment and additional services designed to add value and improve the Group's operations. It assists the Group to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal audit is granted full, free and unfettered access to any and all of the organisation's records, personnel and physical properties deemed necessary to accomplish its internal audit activities.

A regular cycle of testing has been implemented to cover all areas of the business. Its focus is on assessment, management and control of risks. The intention is to cycle through various business units and operational areas on a pre-set and agreed cycle relative to assessed risk, looking at the specific internal control issues pertinent to the area, with a requirement to meet or exceed the Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors.

Each audit has a separate audit programme tailored to the area of business that is being reviewed. The audit programmes are updated during each audit to reflect any process changes. Audit work papers are completed to evidence the testing performed in accordance with the audit programme.

All internal audit reports are addressed to the manager of the relevant area that is being audited. Management comments are obtained from the process owner(s) and are included in the report.

The internal audit function has direct reporting lines, and accountability to the Audit Committee of the Bank, the Audit and Risk Committee of Heartland (collectively the Audit Committees) and administratively to the CFO. A schedule of all outstanding internal control issues is maintained and presented to the Audit Committees to assist the Audit Committees to track the resolution of previously identified issues. Any issues raised that are categorised as high risk are specifically reviewed by internal audit during a follow-up review once the issue is considered closed by management. The follow-up review is performed with a view to formally close out the issue.

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17 Risk management policies (continued)

Audit Committee and Internal Audit (continued)

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

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

Bank's Asset and Liability Committee (ALCO)

The ALCO comprises the CEO (Chair), CFO, CRO, Treasurer, Head of Consumer & Retail, Head of Rural and Head of Business. The ALCO has responsibility for overseeing aspects of the Group's financial position risk management. The purpose of the ALCO is to support the BRC with specific responsibilities for decision making and oversight of risk matters in relation to:

- Market risk (including non-traded interest rate risk and the investment of capital)
- Liquidity risk (including funding)
- Foreign exchange rate risk
- Balance sheet structure
- Capital management

The ALCO usually meet monthly, and reports to the BRC.

Bank's Executive Risk Committee (ERC)

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

- Operational and compliance risk
- Credit risk
- Strategic risk
- Legal and governance risk
- Business risk

Operational & compliance risk

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

To ensure appropriate responsibility is allocated for the management, reporting and escalation of operational & compliance risk, the Group operates a "three lines of defence" model which outlines principles for the roles, responsibilities and accountabilities for operational & compliance risk management:

- The first line of defence is the business line management for the identification, management and mitigation of the risks associated with the products and processes of the business. This accountability includes regular testing and certification of the adequacy and effectiveness of controls and compliance with the Group's policies.
- The second line of defence is the Risk & Compliance function, responsible for the design and ownership of the operational & compliance Risk Policies. It incorporates key processes including Risk and Control Self-Assessment (RCSA), incident management, independent evaluation of the adequacy and effectiveness of the internal control framework, and the self-certification process.
- The third line of defence is audit. Internal Audit is responsible for assessing compliance with policy frameworks and for providing independent evaluation of the adequacy and effectiveness of the risk and control framework.

The Group's exposure to operational & compliance risk is governed by a policy approved by the Board and managed by the ERC. This policy sets out the nature of risk which may be taken and aggregate risk limits, and the ERC must conform to this. The objective of the ERC is to manage the identification of operational & compliance risk and maintenance of a suitable internal control environment so residual risk to the Group is consistent with the Groups risk appetite.

Foreign exchange rate risk

Foreign exchange risk is the risk that the Group's earnings and shareholder equity position are adversely impacted from changes in foreign exchange rates. The Group has exposure to foreign exchange translation risks through its wholly owned subsidiary, ASF (which has a functional currency of Australian dollars), in the forms of profit translation risk and balance sheet translation risk.

Profit translation risk is the risk that deviations in exchange rates have a significant impact on the reported profit. Balance sheet translation risk is the risk that whilst the foreign currency value of the net investment in a subsidiary may not have changed, when translated back to the New Zealand dollars (NZD), the NZD value has changed materially due to movements in the exchange rates. The foreign exchange revaluation gains and losses are booked to the Foreign currency translation reserve. Substantial foreign exchange rate movements in any given year may have a impact on other comprehensive income. The Group manages this risk by setting and approving the foreign exchange rate for the upcoming financial year and entering into hedging contracts to manage the foreign exchange translation risks.

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18 Credit risk exposure

Credit risk is the risk that a borrower will default on any type of debt by failing to make payments which it is obligated to do so. The risk is primarily that of the lender and includes loss of principal and interest, disruption to cash flows and increased collection costs.

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

To manage this risk the BRC has been delegated the task of overseeing a formal credit risk management strategy. The BRC reviews the Group's credit risk exposures to ensure consistency with the Group's credit policies to manage all aspects of credit risk. The credit risk management strategies ensure that:

- Credit origination meets agreed levels of credit quality at point of approval.
- Sector and geographical risks are actively managed.
- Industry concentrations are actively monitored.
- Maximum total exposure to any one debtor is actively managed.
- Changes to credit risk are actively monitored with regular credit reviews.

The Group has adopted a detailed Credit Policy Framework supported by Lending Standards providing criteria for finance products within each business sector. The combination of the Credit Policy Framework and Lending Standards guides credit assessment, credit risk grading, documentation standards, legal procedures and compliance with regulatory and statutory requirements.

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

In addition to regular internal audit activity in regards to credit standards, the Group employs a comprehensive process of hind sighting loans to ensure that credit policies and the quality of credit processes are maintained.

Home equity loans and negative equity risk

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

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

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

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

	Jun 15 $000	Jun 14 $000
Cash and cash equivalents	37,012	37,344
Investments	329,338	238,859
Finance receivables	2,862,070	2,607,393
Derivative financial assets	59	1,867
Other financial assets	5,546	6,134
Total on balance sheet credit exposures	**3,234,025**	**2,891,597**

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18 Credit risk exposure (continued)

(b) Concentration of credit risk by geographic region

	Jun 15 $000	Jun 14 $000
New Zealand:		
Auckland	830,027	725,318
Wellington	206,818	196,992
Rest of North Island	788,904	668,629
Canterbury	494,848	482,159
Rest of South Island	424,828	380,814
Australia:		
Queensland	117,867	115,936
New South Wales	182,032	171,765
Victoria	83,213	79,041
Western Australia	17,396	14,456
South Australia	18,169	16,951
Rest of Australia	11,048	10,311
Rest of the world [1]	75,318	44,224
	3,250,468	**2,906,596**
Provision for collectively impaired assets	(10,201)	(6,999)
Less acquisition fair value adjustment for present value of future losses	(6,242)	(8,000)
Total on balance sheet credit exposures	**3,234,025**	**2,891,597**

[1] These overseas assets are not Finance Receivables, they are Investments. These assets represent NZD-denominated investments in AA+ and higher rated securities issued by offshore supranational agencies ("Kauri Bonds").

(c) Concentration of credit risk by industry sector

	Jun 15 $000	Jun 14 $000
Agriculture	537,286	469,020
Forestry and Fishing	35,126	22,301
Mining	14,105	11,148
Manufacturing	93,779	77,321
Finance & Insurance	377,318	291,223
Wholesale trade	82,665	80,884
Retail trade	193,862	171,019
Households	1,397,003	1,313,877
Property and Business services	396,939	330,860
Transport and storage	20,068	15,873
Other Services	102,317	123,070
	3,250,468	**2,906,596**
Provision for collectively impaired assets	(10,201)	(6,999)
Less acquisition fair value adjustment for present value of future losses	(6,242)	(8,000)
Total on balance sheet credit exposures	**3,234,025**	**2,891,597**

(d) Commitments to extend credit

Undrawn facilities available to customers	116,217	114,004
Conditional commitments to fund at future dates	108,037	95,780

As at 30 June 2015 there are no undrawn lending commitments to counterparties for whom drawn balances are classified as individually impaired (2014: nil).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

19 Asset quality

The disclosures in this note are categorised by the following credit risk concentrations:

Corporate

Rural — Lending to the farming sector primarily livestock, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers. Includes lending to individuals and small to medium enterprises.

Property — Property asset lending including non-core property.

Other — All other lending that does not fall into another category.

Residential — Lending secured by a first ranking mortgage over a residential property used primarily for residential purposes either by the mortgagor or a tenant of the mortgagor.

All Other — Consumer lending to individuals.

(a) Finance receivables by credit risk concentration

	NOTE	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 15							
Neither at least 90 days past due nor impaired		553,739	-	884,942	837,063	553,502	2,829,246
At least 90 days past due	19(b)	17,904	286	13,384	655	2,746	34,975
Individually impaired	19(c)	1,562	6,854	16,982	224	-	25,622
Restructured assets		43	-	1,024	-	2,814	3,881
Fair value adjustment for present value of future losses	11	-	-	-	(6,242)	-	(6,242)
Provision for impairment	19(e)	(2,173)	(4,614)	(14,368)	(1,763)	(2,494)	(25,412)
Total net finance receivables		**571,075**	**2,526**	**901,964**	**829,937**	**556,568**	**2,862,070**
Jun 14							
Neither at least 90 days past due nor impaired		480,596	2,007	774,527	869,701	439,208	2,566,039
At least 90 days past due	19(b)	9,433	2,599	19,917	463	1,622	34,034
Individually impaired	19(c)	2,818	17,090	7,709	-	-	27,617
Restructured assets		5	-	1,175	-	2,884	4,064
Fair value adjustment for present value of future losses	11	-	-	-	(8,000)	-	(8,000)
Provision for impairment	19(e)	(2,114)	(5,744)	(7,275)	(57)	(1,171)	(16,361)
Total net finance receivables		**490,738**	**15,952**	**796,053**	**862,107**	**442,543**	**2,607,393**

(b) Past due but not impaired

	Rural	Property	Other	Residential	All Other	Total
Jun 15						
Less than 30 days past due	7,338	-	9,185	2,877	14,700	34,100
At least 30 and less than 60 days past due	3,752	-	3,434	491	3,984	11,661
At least 60 but less than 90 days past due	416	-	4,099	532	1,789	6,836
At least 90 days past due	17,904	286	13,384	655	2,746	34,975
Total past due but not impaired	**29,410**	**286**	**30,102**	**4,555**	**23,219**	**87,572**
Jun 14						
Less than 30 days past due	4,221	-	8,604	1,064	7,826	21,715
At least 30 and less than 60 days past due	5,509	-	3,047	313	2,362	11,231
At least 60 but less than 90 days past due	3,791	-	3,534	114	1,176	8,615
At least 90 days past due	9,433	2,599	19,917	463	1,622	34,034
Total past due but not impaired	**22,954**	**2,599**	**35,102**	**1,954**	**12,986**	**75,595**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

19 Asset quality (continued)

(c) Individually impaired assets

	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 15						
Opening	2,818	17,090	7,709	-	-	27,617
Additions	1,072	700	32,707	227	-	34,706
Deletions	(1,651)	(10,375)	(23,117)	(3)	-	(35,146)
Write offs	(677)	(561)	(317)	-	-	(1,555)
Closing gross individually impaired assets	**1,562**	**6,854**	**16,982**	**224**	**-**	**25,622**
Less: provision for individually impaired assets	817	3,258	11,136	-	-	15,211
Total net impaired assets	**745**	**3,596**	**5,846**	**224**	**-**	**10,411**
Jun 14						
Opening	2,979	61,634	4,688	-	-	69,301
Additions	4,150	18,122	8,160	-	-	30,432
Deletions	(3,027)	(30,361)	(3,470)	-	-	(36,858)
Write offs	(1,284)	(32,305)	(1,669)	-	-	(35,258)
Closing gross individually impaired assets	**2,818**	**17,090**	**7,709**	**-**	**-**	**27,617**
Less: provision for individually impaired assets	1,531	3,739	4,092	-	-	9,362
Total net impaired assets	**1,287**	**13,351**	**3,617**	**-**	**-**	**18,255**

(d) Credit risk grading

The Group's receivables are monitored either by account behaviour or a regular assessment of their credit risk grade based on an objective review of defined risk characteristics. The portfolio risk is regularly refreshed based on current information.

The Group classifies finance receivables as Behavioural or Judgement.

The Behavioural portfolio consists of consumer, retail and home equity release receivables and usually relates to financing of or the acquisition of a single asset.

Consumer loans are typically introduced by vendors of the asset financed and are smaller in value than Judgement loans. Consumer and Retail loans are risk graded based on arrears status.

Behavioural loans are classified as either not in arrears, active, arrangement, non-performing / repossession or recovery, as described below:

- Active – loans for which the arrears category has reached 5 days overdue.
- Arrangement – 5 to 34 days overdue accounts for which arrangements have or are in the process of being made for arrears to be repaid.
- Non-performing / Repossession – residential mortgage loans that are greater than 90 days past due / other loans for which security has or is in the process of being repossessed.
- Recovery loans – loans for which security has been sold and shortfalls are being sought from the customer or where other recovery action is being taken.

The Group also lends funds on it's home equity release product which is considered behavioural but has no arrears characteristics. These loans are assessed on origination against a pre-determined criteria supported by an actuarial assessment of future losses. The assumptions embedded in that assessment are reviewed annually against actual experience.

The Judgement portfolio consists mainly of Business and Rural lending. Judgement loans relate to loans where an on-going and detailed working relationship with the customer has been developed.

Judgement loans are individually risk graded based on loan status, financial information, security and debt servicing ability. Exposures in the Judgement portfolio are credit risk graded by an internal risk grading mechanism.

In the Judgement portfolio, grade 1 is the strongest risk grade for undoubted risk and grade 9 represents the weakest risk grade where a loss is probable. Grade 10 reflects loss accounts written off. Grades 2 to 8 represent ascending steps in management's assessment of risk of exposures. The Group typically finances new loans in risk grades 2 to 5 of the Judgement portfolio.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

19 Asset quality (continued)

(d) Credit risk grading (continued)

	Rural	Corporate Property	Other	Residential	All Other	Total
	$000	$000	$000	$000	$000	$000
Jun 15						
Judgement portfolio						
Grade 1 - Very Strong	533	-	-	-	-	533
Grade 2 - Strong	8,019	-	30,113	2,480	-	40,612
Grade 3 - Sound	17,363	-	52,022	463	-	69,848
Grade 4 - Adequate	101,029	-	160,527	3,791	-	265,347
Grade 5 - Acceptable	343,645	-	259,241	5,315	-	608,201
Grade 6 - Monitor	49,276	286	50,162	125	-	99,849
Grade 7 - Substandard	3,484	-	11,453	-	-	14,937
Grade 8 - Doubtful	761	3,596	157	-	-	4,514
Grade 9 - At risk of loss	-	-	7,082	-	-	7,082
Total Judgement portfolio	**524,110**	**3,882**	**570,757**	**12,174**	**-**	**1,110,923**
Behavioural portfolio						
Not in arrears	47,208	-	324,995	821,357	530,204	1,723,764
Active	415	-	4,526	2,721	13,535	21,197
Arrangement	443	-	2,776	1,690	10,946	15,855
Non-performing / Repossession	201	-	1,266	-	1,620	3,087
Recovery	54	-	876	-	2,757	3,687
Total Behavioural portfolio	**48,321**	**-**	**334,439**	**825,768**	**559,062**	**1,767,590**
Provision for collectively impaired assets	(1,356)	(1,356)	(3,232)	(1,763)	(2,494)	(10,201)
Fair value adjustment for present value of future losses	-	-	-	(6,242)	-	(6,242)
Total finance receivables	**571,075**	**2,526**	**901,964**	**829,937**	**556,568**	**2,862,070**
Jun 14						
Judgement portfolio						
Grade 1 - Very Strong	616	-	-	-	-	616
Grade 2 - Strong	3,303	-	25,331	865	-	29,499
Grade 3 - Sound	17,888	-	35,420	1,157	-	54,465
Grade 4 - Adequate	63,785	-	145,774	5,038	-	214,597
Grade 5 - Acceptable	305,781	3,837	209,825	13,193	-	532,636
Grade 6 - Monitor	54,757	440	59,071	1,508	-	115,776
Grade 7 - Substandard	3,897	-	10,936	-	-	14,833
Grade 8 - Doubtful	722	12,798	-	-	-	13,520
Grade 9 - At risk of loss	58	882	2,472	-	-	3,412
Total Judgement portfolio	**450,807**	**17,957**	**488,829**	**21,761**	**-**	**979,354**
Behavioural portfolio						
Not in arrears	40,142	-	305,736	844,967	427,279	1,618,124
Active	238	-	1,816	3,009	8,054	13,117
Arrangement	96	-	1,554	151	5,770	7,571
Non-performing / Repossession	38	-	556	-	1,519	2,113
Recovery	-	-	745	276	1,092	2,113
Total Behavioural portfolio	**40,514**	**-**	**310,407**	**848,403**	**443,714**	**1,643,038**
Provision for collectively impaired assets	(583)	(2,005)	(3,183)	(57)	(1,171)	(6,999)
Fair value adjustment for present value of future losses	-	-	-	(8,000)	-	(8,000)
Total finance receivables	**490,738**	**15,952**	**796,053**	**862,107**	**442,543**	**2,607,393**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

19 Asset quality (continued)

(e) Provision for impairment

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

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

Collective provisioning

The term collectively impaired asset refers to an asset where an event has occurred of which past history indicates that there is an increased possibility that the Group will not collect all its principal and interest as it falls due. No losses have yet been identified on these individual loans within the collectively impaired asset grouping, and history would indicate that only a small portion of these loans will eventually not be recovered. The Group provides fully for its expected losses on collectively impaired assets.

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

No provisions are applied to loans that are newly written and loans that remain within their contractual terms, except where the Group becomes aware of an event that might alter its view of the risk of a particular deal or group of deals.

Individual provisioning

Specific impairment provisions are made where events have occurred leading to an expectation of reduced future cash flows from certain receivables. For individually significant loans for which the assessed risk grade is considered a “potential loss”, an individual assessment is made of an appropriate provision for credit impairment.

Credit impairments are recognised as the difference between the carrying value of the loan and the discounted value of management’s best estimate of future cash repayments and proceeds from any security held (discounted at the loan’s original effective interest rate). All relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the likely realisable value of collateral, the Group’s position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgements are made in this process. Furthermore, judgement can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken. Changes in judgement could have a material impact on the financial statements.

Adequacy of the collective provision levels for each risk grouping is measured against historical loss experience at least annually. Adequacy of individual provisions is assessed in respect of each loan on a material development or at least quarterly.

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

19 Asset quality (continued)

(e) Provision for impairment (continued)

	Rural $000	Corporate Property $000	Other $000	Residential $000	All Other $000	Total $000
Jun 15						
Provision for individually impaired assets						
Opening provision for individually impaired assets	1,531	3,739	4,092	-	-	9,362
Impairment loss for the year						
- (credit) / charge for the year	(35)	349	6,892	-	-	7,206
- recoveries	-	-	669	-	-	669
- write offs	(677)	(561)	(317)	-	-	(1,555)
- effect of discounting	(2)	(269)	(200)	-	-	(471)
Closing provision for individually impaired assets	**817**	**3,258**	**11,136**	**-**	**-**	**15,211**
Provision for collectively impaired assets						
Opening provision for collectively impaired assets	583	2,005	3,183	57	1,171	6,999
Impairment loss for the year						
- charge / (credit) for the year	775	(691)	537	1,706	2,572	4,899
- recoveries	-	42	168	-	3	213
- write offs	(2)	-	(656)	-	(1,252)	(1,910)
Closing provision for collectively impaired assets	**1,356**	**1,356**	**3,232**	**1,763**	**2,494**	**10,201**
Total provision for impairment	**2,173**	**4,614**	**14,368**	**1,763**	**2,494**	**25,412**
Jun 14						
Provision for individually impaired assets						
Opening provision for individually impaired assets	1,125	31,252	2,153	-	-	34,530
Impairment loss for the year						
- charge for the year	1,714	6,247	3,890	-	-	11,851
- recoveries	-	4	2	-	-	6
- write offs	(1,284)	(32,305)	(1,669)	-	-	(35,258)
- effect of discounting	(24)	(1,459)	(284)	-	-	(1,767)
Closing provision for individually impaired assets	**1,531**	**3,739**	**4,092**	**-**	**-**	**9,362**
Provision for collectively impaired assets						
Opening provision for collectively impaired assets	581	10,260	3,479	134	1,507	15,961
Impairment loss for the year						
- charge / (credit) for the year	62	(7,497)	559	(77)	997	(5,956)
- recoveries	4	2	189	-	59	254
- write offs	(64)	(760)	(1,044)	-	(1,392)	(3,260)
Closing provision for collectively impaired assets	**583**	**2,005**	**3,183**	**57**	**1,171**	**6,999**
Total provision for impairment	**2,114**	**5,744**	**7,275**	**57**	**1,171**	**16,361**

20 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations as they fall due. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by the Group.

Management of liquidity risk is designed to ensure that the Group has the ability to generate or obtain sufficient cash in a timely manner and at a reasonable price to meet its financial commitments on a daily basis.

The Group's exposure to liquidity risk is governed by a policy approved by the Board and managed by the ALCO. This policy sets out the nature of risk which may be taken and aggregate risk limits, and the ALCO must conform to this. The objective of the ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of future cash flows, liquidity constraints and capital adequacy. The Group employs asset and liability cash flow modelling to determine appropriate liquidity and funding strategies.

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

	Jun 15 $000	Jun 14 $000
Cash and cash equivalents	37,012	37,344
Investments	322,619	238,859
Undrawn committed bank facilities	130,188	173,800
Total liquidity	**489,819**	**450,003**

The Group has securitised bank facilities of $350 million (2014: $400 million) in relation to the ABCP Trust, which matures on 3 February 2016 and CBA bank facilities of $507 million (2014: $560 million) in relation to the ASF Group maturing on 30 September 2019.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

20 Liquidity risk (continued)

Contractual liquidity profile of financial assets and liabilities

The following tables present the Group's financial assets and liabilities by relevant maturity groupings based upon contractual maturity date. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows. As a result, the amounts in the tables below may differ to the amounts reported on the balance sheet.

The contractual cash flows presented below may differ significantly from actual amounts as a result of future actions of the Group and its counterparties, such as early repayments or refinancing of term loans. Deposits and other public borrowings include customer savings deposits and transactional accounts, which are at call. History demonstrates that such accounts provide a stable source of long term funding for the Group.

It should be noted that the Group does not manage its liquidity risk on the basis of the information below.

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
Jun 15							
Cash and cash equivalents	37,012	-	-	-	-	-	37,012
Investments	-	27,039	47,376	35,801	237,409	19,852	367,477
Finance receivables	-	544,745	334,438	501,222	841,869	3,291,828	5,514,102
Finance receivables - securitised	-	87,168	68,824	92,675	66,949	-	315,616
Derivative financial assets	-	59	-	-	-	-	59
Other financial assets	-	5,546	-	-	-	-	5,546
Total financial assets	**37,012**	**664,557**	**450,638**	**629,698**	**1,146,227**	**3,311,680**	**6,239,812**
Borrowings	746,637	1,187,234	424,928	130,242	137,587	-	2,626,628
Borrowings - securitised	-	5,215	260,964	-	-	-	266,179
Derivative financial liabilities	-	6,407	-	-	-	-	6,407
Other financial liabilities	1,695	20,594	267	522	-	-	23,078
Total financial liabilities	**748,332**	**1,219,450**	**686,159**	**130,764**	**137,587**	**-**	**2,922,292**
Net financial (liabilities) / assets	**(711,320)**	**(554,893)**	**(235,521)**	**498,934**	**1,008,640**	**3,311,680**	**3,317,520**
Unrecognised loan commitments	116,217	-	-	-	-	-	116,217
Undrawn committed bank facilities	130,188	-	-	-	-	-	130,188

Undrawn committed bank facilities of $90.0 million (2014: $170.0 million) were available to be drawn down on demand. To the extent drawn, $90.0 million is contractually repayable in 6-12 months' time upon facility expiry. The remaining undrawn committed bank facilities of $40.2 million (2014: $3.8 million) were available to ASF Group to fund new home equity release finance receivables.

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
Jun 14							
Cash and cash equivalents	37,344	-	-	-	-	-	37,344
Investments	12,910	4,382	62,301	80,564	81,878	20,837	262,872
Finance receivables	-	403,974	250,028	374,431	726,524	2,938,811	4,693,768
Finance receivables - securitised	-	60,833	55,235	90,552	83,911	30	290,561
Derivative financial assets	-	1,867	-	-	-	-	1,867
Other financial assets	-	6,134	-	-	-	-	6,134
Total financial assets	**50,254**	**477,190**	**367,564**	**545,547**	**892,313**	**2,959,678**	**5,292,546**
Borrowings	615,862	737,055	306,974	101,548	148,395	567,509	2,477,343
Borrowings - securitised	-	4,765	230,984	-	-	-	235,749
Derivative financial liabilities	-	126	92	179	521	3,262	4,180
Other financial liabilities	13,263	6,183	-	-	-	-	19,446
Total financial liabilities	**629,125**	**748,129**	**538,050**	**101,727**	**148,916**	**570,771**	**2,736,718**
Net financial (liabilities) / assets	**(578,871)**	**(270,939)**	**(170,486)**	**443,820**	**743,397**	**2,388,907**	**2,555,828**
Unrecognised loan commitments	114,004	-	-	-	-	-	114,004
Undrawn committed bank facilities	173,800	-	-	-	-	-	173,800

The undrawn committed bank facilities totalling $170.0 million were available to be drawn down on demand. To the extent drawn, $170.0 million is contractually repayable in 6-12 months' time upon facility expiry. The remaining undrawn committed bank facilities of $3.8 million were available to ASF Group to fund new home equity release finance receivables.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

21 Interest rate risk

The Group's market risk arises primarily due to significant exposure to interest rate risk, predominantly from raising funds through the retail and wholesale deposit market, the debt capital markets and committed and uncommitted bank funding, securitisation of receivables, and offering loan finance products to the commercial and consumer market in New Zealand and Australia.

Interest rate risk is the risk that the value of assets or liabilities will change because of changes in interest rates or that market interest rates may change and thus alter the margin between interest-earning assets and interest-bearing liabilities. Interest rate risk for the Group refers to the risk of loss due to holding assets and liabilities that may mature or re-price in different periods.

The Group's exposure to market risk is governed by a policy approved by the Board and managed by the ALCO. This policy sets out the nature of risk which may be taken and aggregate risk limits, and the ALCO must conform to this. The objective of the ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints and capital adequacy.

To manage this market risk, the Group measures sensitivity to interest rate changes by frequently testing its position against various interest rate change scenarios to assess potential risk exposure. The Group also manages interest rate risk by:

- Monitoring maturity profiles and seeking to match the re-pricing of assets and liabilities (physical hedging);
- Monitoring interest rates daily and regularly (at least monthly) reviewing interest rate exposure; and
- Entering into forward rate agreements and interest rate swaps and options to hedge against movements in interest rates.

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 $000	3-6 Months $000	6-12 Months $000	1-2 Years $000	2+ Years $000	Non-interest bearing $000	Total $000
Jun 15							
Cash and cash equivalents	36,928	-	-	-	-	84	37,012
Investments	137,742	1,938	25,797	14,410	142,732	6,719	329,338
Finance receivables	1,962,329	87,889	149,239	204,142	180,427	430	2,584,456
Finance receivables - securitised	40,193	35,548	60,778	83,434	57,661	-	277,614
Other financial assets	59	-	-	-	-	5,546	5,605
Total financial assets	**2,177,251**	**125,375**	**235,814**	**301,986**	**380,820**	**12,779**	**3,234,025**
Borrowings	1,529,593	375,635	411,061	119,351	130,975	-	2,566,615
Borrowings - securitised	258,630	-	-	-	-	-	258,630
Other financial liabilities	8,102	-	250	503	-	20,594	29,449
Total financial liabilities	**1,796,325**	**375,635**	**411,311**	**119,854**	**130,975**	**20,594**	**2,854,694**
Effect of derivatives held for risk management	250,699	(25,355)	(46,365)	(88,039)	(90,940)	-	-
Net financial assets/(liabilities)	**631,625**	**(275,615)**	**(221,862)**	**94,093**	**158,905**	**(7,815)**	**379,331**
Jun 14							
Cash and cash equivalents	37,004	-	-	-	-	340	37,344
Investments	126,585	2,039	29,379	32,608	48,248	-	238,859
Finance receivables	1,781,120	83,718	137,484	182,307	175,355	2,571	2,362,555
Finance receivables - securitised	43,043	30,518	51,819	71,827	47,631	-	244,838
Other financial assets	1,867	-	-	-	-	6,134	8,001
Total financial assets	**1,989,619**	**116,275**	**218,682**	**286,742**	**271,234**	**9,045**	**2,891,597**
Borrowings	1,556,658	328,448	282,156	66,726	61,849	-	2,295,837
Borrowings - securitised	228,623	-	-	-	-	-	228,623
Other financial liabilities	4,680	-	-	-	-	18,946	23,626
Total financial liabilities	**1,789,961**	**328,448**	**282,156**	**66,726**	**61,849**	**18,946**	**2,548,086**
Effect of derivatives held for risk management	252,411	(22,550)	(40,925)	(64,025)	(124,911)	-	-
Net financial assets/(liabilities)	**452,069**	**(234,723)**	**(104,399)**	**155,991**	**84,474**	**(9,901)**	**343,511**

The tables above illustrate the periods in which the cash flows from interest rate swaps are expected to occur and affect profit or loss.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non standard interest rate scenarios. Standard scenarios which are considered on a monthly basis include a 100 basis point parallel fall or rise in the yield curve. There is no material impact on profit or loss in terms of a fair value change from movements in market interest rates. Furthermore there is no material cash flow impact on the Statement of Cash Flows from a 100 basis point change in interest rates.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

22 Concentrations of funding

	Jun 15 $000	Jun 14 $000
(a) Concentration of funding by industry		
Finance	790,137	818,543
Other	2,035,108	1,705,917
Total borrowings	**2,825,245**	**2,524,460**

(b) Concentration of funding by geographical area

	Jun 15 $000	Jun 14 $000
Auckland	441,921	453,168
Wellington	384,344	202,829
Rest of North Island	472,167	376,495
Canterbury	772,689	687,168
Rest of South Island	206,563	168,442
Overseas [1]	547,561	636,358
Total borrowings	**2,825,245**	**2,524,460**

[1] Included in Overseas funding is the CBA bank facility totalling $466 million, refer to Note 13 - Borrowings for more information.

Other Disclosures

23 Significant subsidiaries and interests in joint arrangements

As at 30 June 2015 the Group includes the following controlled entities.

Significant subsidiaries / Joint arrangements	Country of incorporation and place of business	Nature of business	Proportion of ownership interest and voting power held Jun 15	Jun 14
Heartland Bank Limited (Bank)	New Zealand	Financial services	100%	100%
VPS Properties Limited	New Zealand	Investment property holding company	100%	100%
Heartland HER Holdings Limited (HHHL) [1]	New Zealand	Holding company	100%	100%
New Sentinel Limited (NSL) [1]	New Zealand	Financial services	100%	100%
Australian Seniors Finance Pty Limited (ASF) [1]	Australia	Financial services	100%	100%
MARAC Insurance Limited [2]	New Zealand	Insurance services	50%	50%

[1] On 13 February 2014 Heartland HER Holdings Limited was incorporated. On 1 April 2014 Heartland acquired New Sentinel Limited and Australian Seniors Finance Pty Limited from Seniors Money International Limited.

[2] On 17 July 2015, MARAC Insurance Limited was acquired in full. Refer to Note 29 - Events after reporting date.

24 Structured entities

A structured entity is one which has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are created to accomplish a narrow and well-defined objective such as the securitisation or holding of particular assets, or the execution of a specific borrowing or lending transaction. Structured entities are consolidated where the substance of the relationship is that the Group controls the structured entity.

(a) Heartland Cash and Term PIE Fund

The Group controls the operations of Heartland Cash and Term PIE Fund (Heartland PIE Fund). Heartland PIE Fund is a portfolio investment entity that invests in the Bank's deposits. Investments of Heartland PIE Fund are represented as follows:

	Jun 15 $000	Jun 14 $000
Deposits	45,110	38,819

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

24 Structured entities (continued)

(b) ABCP Trust

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

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

	NOTE	Jun 15 $000	Jun 14 $000
Cash and cash equivalents - securitised		5,553	5,421
Finance receivables - securitised	11	277,614	244,838
Borrowings - securitised	13	(258,630)	(228,623)
Derivative financial asset - securitised		59	1,768
Derivative financial liabilities - securitised		(1,995)	-

(c) Seniors Warehouse Trust (SW Trust) and ASF Settlement Trust (ASF Trust)

SW Trust and ASF Trust form part of ASF's home equity release business. They were both set up by ASF, as asset holding entities. The Trustee for both Trusts is ASF Custodians Pty Limited and the Trust Manager is ASF. The balances of SW Trust and ASF Trust are represented as follows:

	Jun 15 $000	Jun 14 $000
Cash and cash equivalents	1,207	846
Finance receivables - Home equity release loans	424,445	405,523
Borrowings - CBA	(372,333)	(364,335)
Derivative financial liabilities	(3,608)	(4,147)

25 Joint arrangements

At 30 June 2015, the Group owned 50% of MARAC Insurance Limited through Marac JV Holdings Limited. The Group determined that this joint arrangement was a joint venture. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

Investments in joint ventures are accounted for by the Group using the equity method and are recognised initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

	Jun 15 $000	Jun 14 $000
Carrying amount at beginning of year	4,246	4,320
Dividends received from joint venture	-	(560)
Share of joint arrangement profit	137	486
Carrying amount at end of year	**4,383**	**4,246**
Total comprehensive income from joint venture	949	972

On 17 July 2015, the Group acquired the remaining 50% of MARAC Insurance Limited. During the year ended 30 June 2015 the Group has recognised a provision for the write down of the carrying value of MARAC Insurance Limited of $339,000. This write down is reflected in the share of joint arrangement profit above.

26 Staff share ownership arrangements

The Group operates share-based compensation plans that are cash settled and equity settled.

For the cash settled plans, the Group recognises a liability based on the estimated fair value of the obligation. The value of this liability is recognised in profit or loss over the relevant service period and is re-measured at each reporting date.

For equity settled plans, share based payments to employees providing services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

26 Staff share ownership arrangements (continued)

In relation to the staff share ownership arrangements, the Group has recognised the following:

	Jun 15 $000	Jun 14 $000
Equity settled		
Total amount recognised in equity	1,491	678
Cash settled		
Total amount recognised as an expense	1,555	326
Liability recognised	-	676

The following share-based compensation plans were in place during the year for selected senior employees of the Group:

(a) Equity settled

Heartland LTI Net Share Settled Plan (LNSSP)

The LNSSP has been allotted under three tranches. Under the LNSSP participants are granted an option to acquire shares in Heartland. The number of shares granted upon exercise of the options is based on the difference between the market price of the shares on the exercise date and the reference price. The options are subject to the option holders continued employment with the Group.

2015 tranche - Special Grant

Optionholders of the 2015 tranche - special grant will be able to exercise the options in the period beginning on the date the market price of Heartland ordinary shares is equal to $1.50 and ending on 1 July 2017. Market price is calculated based on the volume weighted average price of a Heartland share on the NZX Main Board for the 10 business days immediately before (but excluding) the exercise date for those options.

The reference price is the amount (if any) by which the market price of Heartland ordinary shares at the time of exercise exceeds $1.00 (based on a volume weighted average price of Heartland ordinary shares for the prior 20 business days), plus the aggregate amount of cash dividends (cents per Heartland ordinary share) paid by Heartland in the period from 1 April 2015 until and including the date the options are exercised. However, for the purpose of calculating the settlement amount, the market price of Heartland ordinary shares is capped at $1.50 and any increase above this amount shall be disregarded.

2013 and 2014 tranches

Optionholders of the 2013 and 2014 tranches will be able to exercise the options between September 2015 to 1 July 2017 and September 2016 to 1 July 2018 respectively.

The reference price is the amount (if any) by which the market price (based on a volume weighted average price of Heartland ordinary shares for the prior 20 business days) of Heartland ordinary shares at the time of exercise exceeds an opening price. This opening price is a 5% premium over the volume weighted average price of Heartland ordinary shares for the 20 business days following 26 August 2013 for the 2013 tranche and 25 August 2014 for the 2014 tranche, less cash dividends paid after issue of the options.

	2015 Tranche	2014 Tranche	2013 Tranche
Grant date	1/04/2015	28/08/2014	26/08/2013
Number of shares granted	5,208	8,954	5,136
Option valuation at grant date	0.09	0.20	0.21
Total value at grant date	467	1,755	1,099
June 2015			
Opening unvested options outstanding / exercisable 1 July 2014	-	-	5,005
Number of options granted:	5,208	8,954	-
Less: options forfeited	-	(383)	(125)
Closing unvested options outstanding / exercisable 30 June 2015	**5,208**	**8,571**	**4,880**
June 2014			
Opening unvested options outstanding / exercisable 1 July 2013	-	-	-
Number of options granted:	-	-	5,136
Less: options forfeited	-	-	(131)
Closing unvested options outstanding / exercisable 30 June 2014	**-**	**-**	**5,005**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

26 Staff share ownership arrangements (continued)

(a) Equity settled (continued)

The fair value at grant date of these options has been measured using the Black Scholes option pricing model. As the exercise price is reduced by dividends paid between the grant date and the exercise date, the model has been adjusted to reflect this. Information regarding the calculation of the fair value under the LNSSP is as follows:

	2015 Tranche	2014 Tranche	2013 Tranche
Volatility	20.1%	20.0%	25.0%
Risk free interest rate	3.1%	4.0%	3.4%
Estimated option life (years)	3.3	3.9	3.9
Expiry date	30/06/2018	30/06/2018	30/06/2017
Exercise price ($)	1.00	0.99	0.89
Market price at grant date($)	1.28	0.95	0.87

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

Heartland LTI Cash Entitlements Plan (LCEP)

Under the LCEP, participants were granted a cash entitlement. This cash entitlement is based on the amount by which the market price of Heartland shares at a future date exceeds an agreed reference price (no payment is made in the event that the market price of Heartland shares at that future date is lower than the reference price). Cash entitlements based on a reference pool of 5.65 million shares were issued in the year ending 30 June 2013 at a reference price of $0.72 per share. The cash entitlements plan was closed during the year at a share price of $1.20.

(b) *Cash settled*

Heartland Long Term Executive Share Plan (LTESP)

The LTESP was introduced in the year ended 30 June 2013 and concluded during the year ended 30 June 2015 with all of the shares under the LTESP vesting. Under the LTESP, the Group lent funds to the participants. These funds were used by the participants to acquire Heartland shares, which were held on the participants behalf. Participants that were still employed by the Group on 30 June 2015 were entitled to some or all of the Heartland shares held on their behalf. To the extent a participant was entitled to the shares held on their behalf, the participant was given a cash bonus which was applied toward repayment of the loan. To the extent a participant was not entitled to the shares held on their behalf, those shares were acquired by Heartland NZ Trustee Limited for a purchase price which was applied toward repayment of the loan.

27 Contingent liabilities and commitments

	Jun 15 $000	Jun 14 $000
Letters of credit, guarantees and performance bonds	14,844	6,329
Total contingent liabilities	**14,844**	**6,329**
Undrawn facilities available to customers	116,217	114,004
Conditional commitments to fund at future dates	108,037	95,780
Total commitments	**224,254**	**209,784**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

28 Application of new and revised accounting standards

(a) New standards and interpretations adopted

The following new standards and amendments to standards have been adopted from 1 July 2014 in the preparation of these financial statements:

NZ IAS 32 Financial Instruments: Presentation

Clarifies certain aspects of offsetting financial assets and liabilities because of diversity in the application of the requirements of offsetting. Its adoption did not have a material impact on the financial statements.

(b) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2015, and have not been applied in preparing these financial statements. The new standards identified which may have an effect on the financial statements of the Group are:

Standard and description	***Effective for annual years beginning on or after:***	***Expected to be initially applied in year ending:***
NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets and liabilities.	1 January 2018	30 June 2019
NZ IFRS 9 Financial Instruments (2013), which provides a principles-based approach to hedge accounting and aligns hedge accounting closely with risk management.	1 January 2018	30 June 2019

The full impact of NZ IFRS 9 is yet to be assessed.

29 Events after the reporting date

On 17 July 2015, the Group acquired the remaining 50% of MARAC Insurance Limited. During the year ended 30 June 2015 the Group has recognised a provision for the write down of the carrying value of MARAC Insurance Limited of $339,000. Going forward MARAC Insurance's results will be consolidated and will form part of the Group.

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

Independent auditor's report

To the shareholders of Heartland New Zealand Limited

We have audited the accompanying consolidated financial statements of Heartland New Zealand Limited and its subsidiaries ("the group") on pages 31 to 67 The consolidated financial statements comprise the statement of financial position as at 30 June 2015, the statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the consolidated financial statements on pages 31 to 67 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Heartland New Zealand Limited as at 30 June 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

18 August 2015
Auckland

Director Disclosures

Directors

The following persons were directors of the Company and the Company's subsidiaries during the year ended 30 June 2015.

Company	Directors	
Heartland New Zealand Limited	Jeffrey Kenneth Greenslade	Non-Independent Director
	Graham Russell Kennedy	Independent Director
	Gary Richard Leech	Independent Director (resigned 31 October 2014)
	Christopher Robert Mace	Independent Director
	Geoffrey Thomas Ricketts	Independent Director
	Deborah Jane Taylor	Independent Director (appointed 10 December 2014)
	Gregory Raymond Tomlinson	Non-Independent Director
ASF Custodians Pty Limited	Julie Marie Campbell-Bode (appointed 4 May 2015)	
	Christopher Patrick Francis Flood (appointed 15 December 2014, resigned 4 May 2015)	
	Richard Udovenya	
	Vaughan Keith Underwood (resigned 27 February 2015)	
Australian Seniors Finance Pty Limited	Julie Marie Campbell-Bode	
	Richard Udovenya	
	Vaughan Keith Underwood (resigned 27 February 2015)	
	Christopher Patrick Francis Flood (appointed 15 December 2014, resigned 4 May 2015)	
Canterbury Building Society Limited	Jeffrey Kenneth Greenslade	
	Bruce Robertson Irvine	
HBL Australian Investments Limited	Julie Marie Campbell-Bode	
	Christopher Patrick Francis Flood	
Heartland Bank Limited	Jeffrey Kenneth Greenslade	
	Nicola Jean Greer	
	Edward John Harvey	
	Bruce Robertson Irvine	
	Michael Danton Jonas	
	Graham Russell Kennedy	
	Geoffrey Thomas Ricketts	
	Richard Arthur Wilks	
Heartland Financial Services Limited	Jeffrey Kenneth Greenslade	

Company	Directors
Heartland HER Holdings Limited	Laura Anne Byrne (appointed 13 May 2015)
	Christopher David Andrew Cowell (appointed 13 May 2015)
	Christopher Patrick Francis Flood (resigned 13 May 2015)
	Jeffrey Kenneth Greenslade
	Michael Danton Jonas
	Geoffrey Thomas Ricketts (resigned 13 May 2015)
	Gregory Raymond Tomlinson (resigned 13 May 2015)
Heartland NZ Holdings Limited	Jeffrey Kenneth Greenslade
Heartland NZ Trustee Limited	Jeffrey Kenneth Greenslade
	Bruce Robertson Irvine
Heartland PIE Fund Limited	Jeffrey Kenneth Greenslade
	Bruce Robertson Irvine
Heartland Seniors Finance Pty Limited	Julie Marie Campbell-Bode
New Sentinel Limited	Christopher Patrick Francis Flood (appointed 31 October 2014)
	Brett Stephen Wilson (resigned 31 October 2014)
	Vaughan Keith Underwood (resigned 27 February 2015)
Sentinel Custodians Limited	Garry Dean Bishop
	Vaughan Keith Underwood (resigned on 27 February 2015)
	Christopher Patrick Francis Flood (appointed 27 February 2015)
Seniors Finance Custodians Pty Limited	Julie Marie Campbell-Bode (appointed 4 May 2015)
	Christopher Patrick Francis Flood (resigned 4 May 2015)
	Richard Udovenya
Seniors Finance Pty Limited	Julie Marie Campbell-Bode
	Richard Udovenya
	Christopher Patrick Francis Flood (resigned 4 May 2015)
VPS Parnell Limited[1]	Michael Danton Jonas
	Mark Stephen Mountcastle (resigned 28 November 2014)
VPS Properties Limited	Michael Danton Jonas
	Mark Stephen Mountcastle (resigned 28 November 2014)

[1] VPS Parnell Limited was amalgamated into VPS Properties Limited on 22 December 2014

Interests Register

The following are the entries in the Interests Register of the Company (and the Company's subsidiaries) made during the year ended 30 June 2015.

Indemnification and Insurance of Directors

The Company has given indemnities to, and has effected insurance for, directors of the Company and the Company's subsidiaries to indemnify and insure them in respect of any liability for, or costs incurred in relation to, any act or omission in their capacity as directors, to the extent permitted by the Companies Act 1993. The cost of the insurance premiums to the Company and the Company's subsidiaries for the year ended 30 June 2015 was $52,612.50.

Share Dealings by Directors

Details of individual directors' share dealings as entered in the Interests Register of the Company under Section 148(2) of the Companies Act 1993 during the year ended 30 June 2015 are as follows (all dealings are in ordinary shares unless otherwise specified):

J K Greenslade

No. of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition/ Disposal
145,903	Transfer of legal title under the Heartland New Zealand Limited 2012 Long Term Executive Share Plan	Acquisition	Nil	1 September 2014
15,277	Transfer of beneficial interest under the Heartland New Zealand Limited 2012 Long Term Executive Share Plan - shares forfeited back to Heartland NZ Trustee Limited	Disposal	Nil	2 September 2014
50,000	Transfer of shares as part of FY2014 employee remuneration	Acquisition	Nil	1 September 2014
145,903	Transfer of legal title under the Heartland New Zealand Limited 2012 Long Term Executive Share Plan	Acquisition	Nil	30 June 2015

G R Kennedy

No. of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition/ Disposal
82,470	Allotment of shares under dividend reinvestment plan as trustee of the Heartland Trust	Acquisition	$108,860	2 April 2015
16,838	Distribution of assets by the trustees of the Archford Trust to the beneficiaries of the Archford Trust	Disposal	Nil	30 June 2015

G R Leech (Resigned 31 October 2014)

No. of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition/ Disposal
176,740	Off market transfer of shares by GR & AM Leech (as trustees of the GR & AM Leech Family Trust) to Investment Custodial Services Ltd (as custodian for the GR & AM Leech Family Trust)	Disposal	Nil	24 March 2015
13,400	Off market transfer of shares by Robert Lindsay Aitken and Gary Richard Leech (as trustees of the RL & EJ Aitken Family Trust) to FNZ Custodians Ltd (as custodian for the RL & EJ Aitken Family Trust)	Disposal	Nil	26 March 2015

C R Mace

No. of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition/ Disposal
82,470	Allotment of shares under dividend reinvestment plan as trustee of the Heartland Trust	Acquisition	$108,860	2 April 2015

G T Ricketts

No. of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition/ Disposal
82,470	Allotment of shares under dividend reinvestment plan as trustee of the Heartland Trust	Acquisition	$108,860	2 April 2015

D J Taylor

No. of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition/ Disposal
50,000	On-market purchase of shares	Acquisition	$51,500	10 December 2014

G R Tomlinson

No. of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition/ Disposal
3,846,000	Off-market purchase by Harrogate Trustee Limited	Acquisition	$4,999,800	7 May 2015

General Notice of Disclosure of Interest in the Interests Register

Details of directors' general disclosures entered in the relevant interests register under Section 140 of the Companies Act 1993 during the year ended 30 June 2015 are as follows:

Heartland New Zealand Limited

G R Kennedy

Bradford Management 2013 Limited	Director (resigned on 28 October 2014)
Trevor Wilson Charities Limited	Director
Trevor Wilson Charities (No 2) Limited	Director
NZ Express Transport (2006) Limited	Director
Rural Transport Limited	Director

D J Taylor

Forestry Equities Management Limited	Director and Shareholder (resigned as a Director 27 January 2015)
HGL New Zealand Limited	Director
Hirepool Group Limited	Director
Landcare Research New Zealand Limited	Director
Petra Forestry Limited	Shareholder (resigned 28 January 2015)
Petra Securities Limited	Shareholder (resigned 28 January 2015)
Radio New Zealand Limited	Director
Silver Fern Farms Limited	Director
Silver Fern Farms Beef Limited	Director
Silver Fern Farms Venison Limited	Director
Tassenberg Limited	Director and Shareholder
Taylor Partners Limited	Shareholder (resigned 28 January 2015)

Details of directors' general disclosures entered in the relevant interest register under Section 140 of the Companies Act 1993 prior to 1 July 2014, can be found in earlier Annual Reports.

Specific Disclosures of Interest in the Interests Register

There were no specific disclosures of interests in transactions entered into by the Company or its subsidiaries during the period 1 July 2014 to 30 June 2015.

Information Used by Directors

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

Directors' Relevant Interests

Set out in the table below are the Heartland New Zealand Limited shares, and options which are convertible into shares, in which each director of the Company had a relevant interest as at 30 June 2015.

Director	Number of Ordinary Shares – Beneficial	Number of Ordinary Shares – Non-Beneficial	Number of Options
J K Greenslade	918,074	572,090	5,937,204
G R Kennedy	481,052	5,807,897	Nil
G R Leech (Resigned 31 October 2014)	176,740	240,054	Nil
C R Mace	12,289,728	5,797,897	Nil
G T Ricketts	12,289,728	5,797,897	Nil
D J Taylor	50,000	Nil	Nil
G R Tomlinson	48,224,352	Nil	Nil

Directors' Remuneration

The current total directors' fee pool for the non-executive directors of the Company and its subsidiaries approved by shareholders at the Annual Shareholder Meeting held on 31 October 2014 is $1,000,000 per annum.

The total remuneration received by each non-executive director who held office in the Company and the Company's subsidiaries during the year ended 30 June 2015 was as follows.

Heartland New Zealand Limited

Board/Committee[2]	Chairman	Member
Board	$125,000	$75,000
Audit and Risk Committee	$7,500	$7,500
Governance and Remuneration Committee	$10,000	$5,000

Heartland Bank Limited

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

The total remuneration and value of other benefits[3] received by each non-executive director who held office in the Company and its subsidiaries during the year ended 30 June 2015 was as follows:

Director	Remuneration
G T Ricketts	$142,500
N J Greer	$80,000
E J Harvey	$95,000
B R Irvine	$137,500
G R Kennedy	$92,500
G R Leech (Resigned 31 October 2014)	$27,500
C R Mace	$85,000
D J Taylor (Appointed 10 December 2014)	$46,222
G R Tomlinson	$80,000
R A Wilks	$90,000
Total	**$876,222**

Richard Udovenya received A$30,000 per annum in his capacity as an independent director of Australian Seniors Finance Pty Limited from 1 July 2014 to 30 June 2015.

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

[2] Where a director sits on both the Heartland New Zealand Limited and Heartland Bank Limited Boards, the director receives the single highest applicable fee.
[3] In addition to these amounts Heartland New Zealand Limited meets costs incurred by directors, which are incidental to the performance of their duties. This includes providing directors with telephone concessions and paying the cost of directors' travel. As these costs are incurred by Heartland New Zealand Limited to enable directors to perform their duties, no value is attributable to them as benefits to directors for the purposes of the above table.

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

The remuneration for the Executive Directors includes a fixed remuneration component and a variable remuneration component comprising short-term incentives (cash and/or shares) and/or long-term incentives (cash settled or share settled options). Long-term incentives are offered to selected employees (including the Executive Directors in their capacity as employees) in order to:

- Incentivise and motivate participants to continue in employment with the Heartland group for the applicable service period;
- Incentivise and motivate participants to exercise long-term thinking to contribute to the long-term success of the Heartland group; and
- Align the interests of participants with those of Heartland and its shareholders.

Further information on the long-term incentive plans is set out below.

LTI Cash Entitlements Plan

Under the LTI Cash Entitlements Plan (**Plan**) selected employees were granted an entitlement, being a right (which is contingent and dependent on certain factors, including continued employment by the Heartland group and the value of Heartland's shares) to receive in the future a lump sum cash payment as incentive based remuneration.

The key terms of the Plan are:

- The entitlements are linked to a service period beginning 1 July 2012 and ending 1 July 2015.
- The settlement date is 20 business days after Heartland's annual results announcement for the financial year ended 30 June 2015.
- The settlement amount is the amount by which (as multiplied by the number of shares in the participant's reference pool) the volume weighted average price (**VWAP**) of Heartland's shares over the 20 business days immediately preceding the settlement date exceeded the reference price (being $0.7205).

In January 2015, the Board determined to settle the Plan prior to the settlement date as the rise in Heartland's share price had materially exceeded performance of the NZX benchmark and the Plan would therefore materially exceed cost expectations if the appreciating trend in Heartland's share price continued. The entitlements were settled on 16 January 2015 based on a notional settlement share price of $1.20. It is not intended that further grants be made under the Plan.

Refer to Note 26 of the financial statements for further information in relation to the Plan.

Share Settled Options Plan

Under the Share Settled Options Plan (**Options Plan**) selected employees were granted net share settled options (**Options**), being a right (the exercise of which is contingent and dependent on certain factors, including continued employment by the Heartland group and the market value of Heartland's shares) to receive in the future Heartland shares as incentive based remuneration.

The key terms of the Options Plan are:

- The Options are linked to a three year service period beginning on the first day of the financial year in which the options are granted.
- The employee can exercise their Options at any time during a specified exercise period which generally commences 20 business days after Heartland's annual results announcement for the last financial year of the service period and ends two years later.
- The reference price of each Option is an amount equal to 5% over the VWAP of Heartland shares on the NZX over 20 business days immediately following the reference date (**Reference Price**).
- When Options are exercised, a settlement amount is calculated. The settlement amount is the amount by which (as multiplied by the number of Options):
  - The VWAP of Heartland shares on NZX over 20 business days immediately preceding the exercise date (**Market Price**),

  exceeds

  - the Reference Price, less the aggregate amount of cash dividends (cents per share) paid by Heartland in the period from the date those Options were granted until and including the exercise date for those Options.
- The employee receives Heartland shares having an aggregate Market Price equal to the settlement amount.

Refer to Note 26 of the financial statements for further information in relation to the Options Plan.

Share Settled Options Plan – Special Grant

A special grant under the Options Plan was made to selected employees. For the purposes of this special grant, the existing terms of the Options Plan applied subject to the following modifications:

- The exercise period for the Options begins on the date the market price of Heartland shares is equal to $1.50 and ends on 1 July 2017 (subject to continued employment by the Heartland group). For this purpose, the market price of Heartland shares on any day will be regarded as the VWAP for the prior 10 business days.
- The Reference Price is $1.00.
- For the purposes of calculating the settlement amount, the market price of Heartland shares is capped at $1.50 and any increase above this amount is disregarded.
- Participants are prohibited from disposing of any Heartland shares allotted on exercise of the Options until 1 July 2020, except with the prior approval of the Governance, Capital and Remuneration Committee of the Heartland board.

J K Greenslade (Chief Executive Officer)

The tables below detail the nature and amount of the remuneration and the value of other benefits received by J K Greenslade during FY15.

Fixed Remuneration and Short-Term Incentive (STI)		
Fixed	Variable STI*	Total
$887,254	$447,500	$1,334,754

*The short term incentive remuneration is comprised of a cash payment relating to the year ended 30 June 2015 (which is determined and paid in the first quarter of the next financial year) and the transfer of 50,000 shares on 1 September 2014 (share price $0.95) relating to the year ended 30 June 2014.

Long-Term Incentive (LTI)			
	Number of options issued during year	Value of options/ entitlements* issued and amortising during year ($)	Value of options/ entitlements* issued in past years and amortising during year ($)
LTI Cash Entitlements Plan	-	-	470,925
2013 Share Settled Options	-	-	106,800
2014 Share Settled Options	-	-	120,000
Special Grant – Share Settled Options	2,604,201	147,500	-

*The value of the options disclosed above is the portion of the fair value of options allocated to the reporting period. The fair value of the options is likely to be different from the market value of the options at the date when (and if) they vest. The value of the entitlements disclosed above under the LTI Cash Entitlements Plan represents the actual value received in the reporting period (as opposed to the fair value allocated) due to the entitlements being settled prior to the original settlement date (see the description of the LTI Cash Entitlements Plan for further details).

M D Jonas (Head of Strategic & Product Development)

The remuneration and value of other benefits received by M D Jonas during FY15 comprised of a fixed remuneration component of $600,000 and long-term incentives as specified in the table below. M D Jonas resigned as a director of Heartland Bank Limited on 5 August 2015.

Long-Term Incentive (LTI)			
	Number of options issued during year	Value of options/ entitlements* issued and amortising during year ($)	Value of options/ entitlements* issued in past years and amortising during year ($)
LTI Cash Entitlements Plan	-	-	348,834
2013 Share Settled Options	-	-	44,500
2014 Share Settled Options	-	-	70,000
Special Grant – Share Settled Options	1,302,101	73,750	-

*The value of the options disclosed above is the portion of the fair value of options allocated to the reporting period. The fair value of the options is likely to be different from the market value of the options at the date when (and if) they vest. The value of the entitlements disclosed above under the LTI Cash Entitlements Plan represents the actual value received in the reporting period (as opposed to the fair value allocated) due to the entitlements being settled prior to the original settlement date (see the description of the LTI Cash Entitlements Plan for further details).

Executive Remuneration

The number of employees of the Company and its subsidiaries (including former employees), other than directors, who received remuneration, including non-cash benefits, in excess of $100,000 during the year ended 30 June 2015 is set out in the remuneration bands detailed below.

Remuneration	Number of Staff
$100,000 to $109,999	17
$110,000 to $119,999	11
$120,000 to $129,999	15
$130,000 to $139,999	18
$140,000 to $149,999	9
$150,000 to $159,999	4
$160,000 to $169,999	2
$170,000 to $179,999	3
$180,000 to $189,999	3
$190,000 to $199,999	1
$200,000 to $209,999	4
$210,000 to $219,999	2
$220,000 to $229,999	1
$240,000 to $249,999	3
$260,000 to $269,999	3
$270,000 to $279,999	1
$280,000 to $289,999	1
$290,000 to $299,999	1
$300,000 to $309,999	2
$320,000 to $329,999	1
$360,000 to $369,999	1
$390,000 to $399,999	1
$490,000 to $499,999	1
$580,000 to $589,999	1
$630,000 to $639,999	1
$650,000 to $659,999	1
$1,240,000 to $1,249,999	1
Total	**109**

Shareholder Information

Spread of Shares

Set out below are details of the spread of shareholders of the Company as at 21 August 2015.

Size of Holding	Number of Shareholders	Total Number of Shares	% of Issued Shares
1–1,000 shares	1,009	616,925	0.13
1,001–5,000 shares	2,627	7,242,590	1.54
5,001–10,000 shares	1,769	13,498,032	2.87
10,001–50,000 shares	3,297	75,153,993	15.99
50,001–100,000 shares	599	42,146,529	8.97
100,001 shares and over	417	331,232,211	70.49
TOTAL	**9,718**	**469,890,280**	**100%**

Twenty Largest Shareholders[1]

Set out below are details of the 20 largest shareholders of the Company as at 21 August 2015.

Rank	Shareholder	Total Shares	% of Total Shareholders
1	Harrogate Trustee Limited	48,224,352	10.26
2	Accident Compensation Corporation	25,032,601	5.33
3	FNZ Custodians Limited	19,643,526	4.18
4	JPMorgan Chase Bank	14,382,406	3.06
5	Oceania & Eastern Limited	12,289,728	2.62
6	Philip Maurice Carter	9,500,000	2.02
7	Citibank Nominees (NZ) Ltd	9,393,743	2.00
8	Leveraged Equities Finance Limited	7,971,302	1.70
9	National Nominees New Zealand Limited	7,916,590	1.68
10	Investment Custodial Services Limited	7,290,726	1.55
11	Forsyth Barr Custodians Limited	7,218,516	1.54
12	New Zealand Permanent Trustees Limited	6,915,000	1.47
13	Heartland Trust	5,693,728	1.21
14	Investment Custodial Services Limited	4,550,955	0.97
15	Jarden Custodians Limited	4,500,000	0.96
16	HSBC Nominees (New Zealand) Limited	4,322,922	0.92
17	HSBC Nominees (New Zealand) Limited	3,729,077	0.79
18	Custodial Services Limited	3,459,523	0.74
19	GUY Perry & D A Thompson Trustee Limited	3,370,000	0.72
20	Cogent Nominees Limited	3,365,577	0.72
TOTAL FOR TOP 20 HOLDERS		**208,770,272**	**44.43**

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

Substantial Product Holders

At 30 June 2015, the following product holders had given notice in accordance with Sections 276 and 277 of the Financial Markets Conduct Act 2013 that they were substantial product holders in the Company. The number of shares shown below are as advised in the most recent substantial product holder notices to the Company and may not be their holding as at 30 June 2015.

Name	Number of Shares	Class of Shares	Total Number of Shares in Class
Harrogate Trustee Limited and Gregory Raymond Tomlinson	40,285,070	Ordinary	469,890,280
Accident Compensation Corporation, Nicholas Bagnall, Guy Elliffe, Paul Robertshawe, Blair Tallott, Blair Cooper and Jason Familton	27,035,156	Ordinary	469,890,280
Blair Cooper (includes ACC's relevant interest)	27,067,714	Ordinary	469,890,280
Blair Tallott (includes ACC's relevant interest)	27,083,180	Ordinary	469,890,280

The total number of Heartland New Zealand Limited ordinary shares on issue as at 30 June 2015 was 469,890,280.

Other Information

Auditors' Fees

KPMG has continued to act as auditors of the Company and its subsidiaries. The amount payable by the Company and its subsidiaries to KPMG as audit fees during the year ended 30 June 2015 was $454,000. The amount of fees payable to KPMG for non-audit work during the year ended 30 June 2015 was $125,000. These non-audit fees were primarily for regulatory compliance services and they complied with the Company's External Auditor Independence Policy.

Credit Rating

As at 1 September 2015, Heartland Bank Limited had a Fitch Australia Pty Limited long-term credit rating of BBB (outlook stable).

Exercise of NZX Disciplinary Powers

NZX Limited did not exercise any of its powers under Listing Rule 5.4.2 in relation to the Company during the year ended 30 June 2015.

NZX Waivers

The Company did not rely upon any waivers granted by NZX Limited during the year ended 30 June 2015.

Directory[1]

Heartland New Zealand Limited

Directors

Geoffrey Ricketts	Chairman
Jeffrey Greenslade	Managing Director
Graham Kennedy	Director
Chris Mace	Director
Jane Taylor	Director
Gregory Tomlinson	Director

Registered Office

35 Teed Street
Newmarket
Auckland 1023

PO Box 9919
Newmarket
Auckland, 1149

T 0508 432 785
E info@heartland.co.nz
W www.heartland.co.nz

Heartland Bank Limited

Directors

Bruce Irvine	Chairman
Jeffrey Greenslade	Managing Director
Nicola Greer	Director
John Harvey	Director
Graham Kennedy	Director
Geoff Ricketts	Director
Richard Wilks	Director

Auditors

KPMG
KPMG Centre, 18 Viaduct Harbour, Auckland 1010
T 09 367 5800

Share Registry

Link Market Services Limited
Level 7, Zurich House, 21 Queen Street, Auckland 1010
T 09 375 5998
F 09 375 5990
E enquiries@linkmarketservices.com
W www.linkmarketservices.com

Heartland Executives

Jeffrey Greenslade
Managing Director

Laura Byrne
Group General Counsel

Chris Flood
Head of Banking

Richard Lorraway
Chief Risk Officer

James Mitchell
Chief Operating Officer

Rochelle Moloney
Senior Manager –
Corporate Communications

Simon Owen
Chief Financial Officer

Sarah Selwood
Head of Human Resources

[1]Correct as at 1 September 2015.

HEARTLAND

New Zealand Limited