Annual Report
TO 30 JUNE 2012

Investing in New Zealand.
That's what we do.

HEARTLAND
New Zealand Limited

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1.0 INTRODUCING HEARTLAND

Heartland was formed in January 2011 through the merger of three trusted New Zealand brands, CBS Canterbury, MARAC and Southern Cross Building Society. In August 2011 we welcomed PGG Wrightson Finance (PWF) into the Heartland fold. Our Retail and Business divisions now display the fresh white and green of the Heartland brand, while we continue to use the familiar PWF and MARAC brands in some areas of the business.

HEARTLAND'S VISION

With roots stretching back to 1875, Heartland has a proud history of helping New Zealanders to succeed. Our vision is to drive prosperity for small-to-medium sized businesses, farms and families in heartland communities.

Heartland at a Glance

Heritage

Heartland's roots stretch back to 1875.

Investment Grade Rating

Heartland Building Society, the principal operating subsidiary of Heartland New Zealand Limited, has an investment grade credit rating of BBB- (Outlook Stable) from Standard & Poor's.

Banking on Heartland

Heartland Building Society's near-term goal is to become a bank[1] providing finance solutions to heartlanders.

Nationwide Footprint

Heartland has a wide network of branches and offices throughout New Zealand.

NZX Main Board Listed[2]

Heartland is an NZX50 listed company.

Lending Diversity

All of Heartland Building Society's lending is on New Zealand based assets, and is spread across the country and over many sectors.

Funding Diversity

Heartland Building Society is funded through retail deposits, committed bank facilities, securitisation programmes and an NZX Debt Market listed bond.

1 Neither Heartland New Zealand Limited nor Heartland Building Society is a registered bank.
2 Heartland New Zealand Limited is listed on the NZX Main Board. The NZX Main Board is a registered market operated by NZX Limited, a registered exchange, regulated under the Securities Markets Act 1988.

1.0 INTRODUCING HEARTLAND continued

Heartland Building Society's award-winning Hamilton branch team from left to right: *Stephanie Poynton, Branch Manager Melissa Rose, Diana Vaughan-Williams and Gayle Orr.*

Service the Heartland Way

We were extremely proud when our customer-first approach was recognised by the Hamilton Central Business Association. The association awarded Heartland Building Society's Hamilton branch the coveted Service Excellence Award 2012 and the Supreme Award – Business of the Year 2012.

Heartland is a people business, focused on providing exceptional service by locals who know and are part of the community. We strive to recognise and understand the needs of each of our customers and provide them with the best financial solution to suit their needs. Winning these awards is testament to Heartland's customer-first approach and the outstanding effort of our Hamilton team led by Branch Manager, Melissa Rose.

Supporting our Communities

Heartland supports a number of local events and initiatives in the communities in which we operate. We have always been committed to local communities and New Zealand as a whole and that commitment will continue and grow in the future. Below are a few examples.

MID CANTERBURY NETBALL CENTRE – ASHBURTON

Since the 1920s, the Mid Canterbury Netball Centre has been a hub of the Ashburton community. Responsible for the development of netball in the Mid Canterbury area, the Centre makes the sport accessible to more than 1,300 players of all ages and abilities.

Heartland has supported the Centre since 2004 (previously through CBS Canterbury). Our contribution helps provide and maintain the amenities the Centre offers. We are proud to be associated with such an integral part of Ashburton.

"Most of Mid Canterbury Netball is run on the goodwill of members and volunteers. The contribution Heartland makes goes a long way towards ensuring we can continue offering the same great facilities and coaching to players, umpires, and administrators at all levels, and makes what we do so rewarding." – Rosemary Adlam, President

THE CHAMPION CENTRE – CHRISTCHURCH

The Champion Centre is committed to providing high quality family-based early intervention services for children with developmental delays.

The Centre runs a 'Learning Through Music' programme, which encourages children to use music as a communication tool, building self-esteem and reinforcing the feeling of inclusion. Heartland is very pleased to have been able to support this great programme that helps many of the 200 children and families who use the Centre every year.

"The support that Heartland has given the Centre has been fantastic. They recognise that all children in New Zealand should experience the opportunity to learn their full potential – no matter what. Their belief in the Centre and their generosity are greatly appreciated." – Dr Susan Foster-Cohen, Director

1.0 INTRODUCING HEARTLAND continued

MULTIPLE SCLEROSIS SOCIETY – AUCKLAND

Multiple Sclerosis (MS) is a chronic disease of the central nervous system, and affects 1 in 1,000 New Zealanders.

The MS Society of Auckland wanted to launch a new neuro-physiotherapy assessment programme to help people manage their symptoms and be inspired to be more in control of their health, and Heartland was able to help.

Heartland's donation provided the funding for the programme and as a direct result, 24 people diagnosed with MS were able to develop firm plans to move forward and live their lives to their true potential.

"Your funding made a huge difference. Thank you for being so willing to help with this important programme, we are very grateful indeed and the feedback we've received has been fantastic." – Gary MacMahon, General Manager

BOWLS MATUA – TAURANGA

Bowls Matua has been part of the Tauranga community for nearly 50 years.

Providing a friendly atmosphere for members, visitors, local students and tourists, the Club prides itself on making bowls accessible to all, and provides additional support for members with its active social calendar. Heartland's involvement enables the running of two club greens and tournaments.

"The generosity of Heartland enables us to provide a top-class facility to everyone who visits the Club. Bowls is obviously very important to us, and without Heartland's support it would be a lot more difficult for us to offer this great, fun, sporting and leisure pursuit to the community." – Mike Boyce, Club President

Heartland is proud to sponsor community events throughout New Zealand

Ashburton Schools Music Festival Bowls Matua

Katikati Croquet Club **Heartland**

Rotary Club of Christchurch

Methven A&P Association

Christ's College Maadi Cup Rowing Programme

Zonta Club of Ashburton

Rangiora Golf Club

Cancer Society Relay for Life

proudly supporting

Ashburton Arts Society

Bowls Tauranga South Club

Hillary Institute

Bay of Plenty Hunting & Fishing Competition

St Heliers Bowling Club

Wellington Employers' Chamber of Commerce

Glendowie Bowling Club

Canterbury Education Services Annual Schools Breakfast

Kapiti Coast Bowling Centre

The Champion Centre 'Learning Through Music'

St Bathans Collie Club

Waiheke Island Bridge Club

Heartland Festival of Brass

Papakura Bowling Club

Multiple Sclerosis Society Auckland

Mid Canterbury Netball Centre

Mid Canterbury Tennis

Marlborough A&P Show

Takapuna Bowling Club Howick Bowling Club

Ashburton Community Pool

Wynrs New Zealand

NZ Sheep Dog Trial Association

Mission Bay Women's Bowling Club

Hereworth School

your local communities

Rotorua Friends of Hospice

Wanaka Collie Club

Mid Canterbury Bowling Umpires Tournament

Mayfield District Lions

Ashburton Charity Golf Classic

Ashburton County Veteran Golf Association

Ashburton Golf Club

throughout New Zealand

Combined Northern District Probus Golf Tournament Lowburn Collie Club

Milford Bowling Club Mid Canterbury Hockey

[THAT'S WHAT WE DO]

2.0 HIGHLIGHTS

The Annual Report for the year ended 30 June 2012 outlines the financial performance of Heartland New Zealand Limited (Heartland or the Company) for the 2012 financial year. It is intended to help investors and analysts to better understand the operations of the Company[3], and to assess its performance and prospects.

Heartland's achievements and positive financial result for the year ending 30 June 2012 were the culmination of careful planning and strategic positioning of the business, and provide an insight into Heartland's capabilities moving forward.

Key achievements for the year ending 30 June 2012 include:

- meeting our financial targets and posting a net profit after tax of $23.6m
- completing the integration of the merging entities
- successfully rebranding the Retail and Business divisions to Heartland
- acquiring PGG Wrightson Finance Limited (PWF) supported by a successful capital raising
- Heartland Building Society's investment grade credit rating being reaffirmed, and its outlook improved to 'stable'.

Financial year overview	30 June 2012	30 June 2011
Net Profit Before Tax	$20.3m	$11.6m
Net Profit After Tax	$23.6m	$7.1m
Total assets	$2,348.1m	$2,118.0m
Net finance receivables	$2,078.3m	$1,707.3m
Total equity	$374.8m	$296.4m
Equity ratio	16.0%	14.0%

3 The financial statements presented are the consolidated financial statements comprising Heartland and its subsidiaries.

3.0 CHAIRMAN AND MANAGING DIRECTOR'S REPORT

In our first full year as a merged entity, Heartland posted a Net Profit After Tax of $23.6m, including one-off tax benefits of $9.6m, up from $7.1m in the previous year to 30 June 2011.

Net Profit Before Tax (NPBT), which excludes the one-off tax benefits, was $20.3m for the full year ended 30 June 2012, up $8.7m from $11.6m for the previous year ended 30 June 2011. $14.7m of NPBT was delivered in the second half of the year, up from $5.6m in the first half, an increase of $9.1m or 163%. The improvement in the second half of the year was driven by improved margins and reduced costs, a trend we expect to continue. Earnings Per Share was $0.06 calculated on weighted average shares.

Heartland's **balance sheet** strengthened during the period. **Net finance receivables** were $2,078.3m at 30 June 2012 compared to $1,707.3m at 30 June 2011. The increase was largely due to the acquisition of PGG Wrightson Finance Limited (PWF) on 31 August 2011. Net finance receivables remained relatively unchanged from their 31 December 2011 level of $2,075.2m, as "core" asset growth in the Business, Rural and Consumer divisions was offset by reductions in Non-Core Property and Retail (where the mortgage book declined), in what remains a competitive environment.

Cash and cash equivalents reduced from $267.2m at 30 June 2011 to $89.7m at 30 June 2012, as excess liquidity held in the lead-up to the expiry of the Crown guarantee (31 December 2011) was utilised as planned.

Borrowings increased from $1,787.5m at 30 June 2011 to $1,939.5m at 30 June 2012, due to the acquisition of PWF and the assumption of $408.8m of deposit obligations by Heartland. This was offset by the reduction in liquidity and repayment of the $92.3m PWF Bond.

Total equity increased by $78.4m to $374.8m as at 30 June 2012 due largely to a capital raising associated with the PWF acquisition in the period that raised a net $55.9m, combined with the profitability noted above. The equity ratio was 16%, up from 14% at 30 June 2011.

Net Tangible Assets (NTA) increased from $270.1m to $343.7m (following the capital raising and PWF acquisition) – on a per share basis NTA was $0.88 at 30 June 2012 compared to $0.90 at 30 June 2011.

Net Operating Income (NOI) increased to $94.9m in the year ended 30 June 2012, up from $70.5m in the preceding year ended 30 June 2011. The increase in NOI was mostly attributable to the acquisition of PWF on 31 August 2011 and lower cost of funds, both through lower funding margins and a reduction in surplus liquidity held.

NOI increased by $5.1m to $50.0m in the last six months of the financial year compared to the first six months of the financial year.

Operating costs increased by $19.9m to $65.5m for the year ended 30 June 2012 compared to the prior year ended 30 June 2011. This is due to six months of MARAC costs and six months of Heartland costs being included for the year ended 30 June 2011, whereas 12 months of Heartland costs and 10 months of PWF costs are included for the year ended 30 June 2012.

Notwithstanding this, operational efficiency improved, with average operating expenses as a percentage of NOI reducing from 80% in the six months through to 31 December 2011, to 60% for the six months through to 30 June 2012. This was delivered both through cost reductions and improvements in NOI. We will continue our focus on minimising fixed costs as we enter the 2012-2013 financial year.

Impaired asset expense was $5.6m for the year ended 30 June 2012, down from $13.3m for the year ended 30 June 2011, due to the continued benefit of the Real Estate Credit Limited (RECL)[4] management contract and improvement in the quality of the core book, in particular the Business book. The RECL Agreement was regarded as fully utilised as at 30 June 2012 – the future value of expected claims has reached the $30.0m limit.

Investment properties held on balance sheet increased by $21.0m to $55.5m during the year as Heartland sought to improve its security position. A $3.9m decrease in the fair value of these investment properties occurred as at 30 June 2012.

Net impaired, restructured and past due loans over 90 days were $90.5m, which was 4.4% of net finance receivables as at 30 June 2012 – down from $100.7m or 5.9% as at 30 June 2011.

The level of impaired, restructured and past due loans is largely due to the legacy non-core property books and will continue to reduce as a percentage of total assets as lending in the core business grows and the non-core book runs down.

The **net impairment ratio** of the core business was relatively consistent with the prior year at 1.3% as at 30 June 2012, compared to 1.2% as at 30 June 2011.

Heartland benefited from one-off tax benefits of $9.6m in the 2012 financial year. A law change resulted in a one-off deferred tax benefit of $6.2m as previously advised, and a $3.4m gain resulting from utilising historic tax losses of MARAC Financial Services Limited. Heartland expects taxation to be normalised in the 2012-2013 financial year.

Heartland Building Society's (HBS – Heartland's principal operating subsidiary) liquidity was $448.5m as at 30 June 2012, which consisted of cash, liquid assets and unutilised available funding lines. This was $152.6m more than the minimum level of liquidity required under HBS's Trust Deed.

4 Real Estate Credit Limited (RECL) is a subsidiary of Pyne Gould Corporation Limited and manages the MARAC (a subsidiary of Heartland) non-core property loan assets which have the benefit of the RECL management contract. The security held for the obligations under the RECL management contract includes an AA- rated bond, specific security over five properties, and an undertaking that RECL complies with its obligation to maintain the pool of security to a required minimum value.

3.0 CHAIRMAN AND MANAGING DIRECTOR'S REPORT continued

On 6 December 2011, Standard & Poor's affirmed HBS's **investment grade credit rating** of BBB- and improved the ratings outlook to 'stable'. The investment grade rating underpins the strength and strategy of Heartland.

Business Performance – Heartland's Core Business Divisions

Heartland's core business is divided into three divisions – Business, Rural and Retail & Consumer, which reflect the major drivers of the New Zealand economy.

We aim to deliver a relationship-based service model to local communities, providing general lending but with an emphasis on products that either we specialise in or are 'best in category'. These products currently include motor vehicle finance, livestock finance, invoice finance, business overdrafts, asset finance, insurance and deposits.

Business

The Business division supports the working capital, plant and machinery, and general funding requirements of small-to-medium sized businesses with turnover between $1.0m and $20.0m.

During the year, we commissioned an independent research firm to have our customers rate our service. Pleasingly, our relationship-based service model rated very highly, with the division's Relationship Managers achieving an average customer service rating of 94% across a range of performance attributes.

The receivables book grew by $63.9m to $540.2m at 30 June 2012. NOI also increased by $3.7m to $21.0m from the prior year. Heartland's market share is less than 1% of the market, so there is good scope for customer growth by increasing the penetration of specialised, higher-yield products.

Rural

The Rural division provides farmers with livestock finance, working capital and farm lending. Distribution is both direct and through a relationship with PGG Wrightson (PGW), a leading provider to New Zealand's agricultural sector.

PWF, now a division of Heartland, was acquired from PGW in August 2011. PWF was an important acquisition for Heartland and brought significant impetus to our rural strategy and further diversity to our asset base.

The acquisition resulted in net receivables growth of $402.6m to $478.6m during the year ended 30 June 2012. However, underlying growth was flat outside of the acquisition due to debt reduction in the sector and favourable growing conditions limiting demand for livestock finance.

The Rural division is well positioned for future growth, with new livestock finance products and processes having been introduced towards the end of the financial year.

Retail & Consumer

Retail & Consumer is managed as one division due to the similarity of customer profile – middle New Zealand families. Retail focuses on providing deposit products and residential lending. Consumer offers vehicle and equipment finance and insurance through relationships with leading distributors such as The New Zealand Automobile Association (AA), Holden, Nissan, Suzuki and Case IH, and through authorised-dealer networks.

During the first half of the year, Heartland successfully transitioned through the expiry of the Crown guarantee and the Heartland brand was rolled out across the Retail network in the second half of the financial year.

Overall, this division's receivables book fell by $47.6m to $954.8m during the year ended 30 June 2012, however NOI increased by $4.4m from the year prior to $45.1m. The mortgage book (primarily residential) was impacted by a competitive market and reduced by $68.4m, but was offset by growth in Consumer lending of $20.8m.

A focus on motor vehicle finance and an expansion into new communities will underpin growth in Consumer lending and deposit products in the 2012-2013 financial year.

Non-Core Business – Property

The non-core property portfolio is segregated and under a managed plan to run off. Total non-core property assets were $160.2m at 30 June 2012, a reduction of $26.9m from 30 June 2011.

Some investment properties were acquired as a result of enforcement to improve our security position and the market remains difficult.

Non-core property was made up of net receivables of $104.7m and investment properties of $55.5m. RECL[4] manages the ex-MARAC non-core property. As noted earlier, the RECL Agreement was regarded as fully utilised as at 30 June 2012 – the future value of expected claims has reached the $30.0m limit.

Strategic Priorities

Our key objective is ultimately to create a New Zealand owned and controlled banking group with Heartland, the parent company, listed on the NZX Main Board. HBS has engaged with the Reserve Bank of New Zealand (RBNZ) regarding its application for registered bank status. Certain necessary intermediate steps have been completed and the formal determination process has now begun. The process is ongoing and the information exchanged, and discussions held, between the RBNZ and HBS in the course of the process are confidential. We expect that a decision will be available in November 2012. We emphasise that timing to the end of the process remains uncertain, and the outcome remains unknown.

Another key priority is for Heartland to deliver acceptable and sustainable earnings moving forward. Subject to meeting profit targets and regulatory capital requirements, we intend to become a regular dividend payer. Our Dividend Policy will be outlined at the Heartland Annual General Meeting (AGM) being held in Ashburton on 30 November 2012. No dividend was paid or is to be paid by Heartland in, or in respect of, the 30 June 2012 financial year.

Profit guidance for the year ending 30 June 2013 will also be provided at the Heartland AGM. Whilst trading conditions remain challenging given economic conditions generally, performance for the second half of the 2011-2012 financial year is perhaps the best guide (at present) for the 2012-2013 financial year.

Heartland Established on the New Zealand Landscape

We will continue to build on our heritage and reputation as being 100% for New Zealand and being a people-focused business that provides exceptional service.

Bruce Irvine
Chairman

Jeffrey Greenslade
Managing Director

24 September 2012

4.0 BOARD OF DIRECTORS

Jeffrey Greenslade LLB
Managing Director

Jeff has over 20 years' experience as a senior banking executive, and is responsible for the strategy and operational delivery of Heartland Building Society. He joined MARAC Finance Limited as Chief Executive Officer in 2009, and was appointed to its Board in December of that year.

Bruce Irvine BCom, LLB, FCA, AF Inst D, FNZIM
Chairman

Bruce is Chairman of Heartland New Zealand Limited. He 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.

Graham Kennedy J.P., BCom, FCA, ACIS, ACIM, AF Inst D
Director

Graham has 39 years' experience as a chartered accountant, and is an independent professional director and Chairman of a number of private companies. Graham was a director of CBS Canterbury for 24 years, holding the position of Chairman from 2002-2008.

Gary Leech BCom, FCA, AF Inst D, FNZTA
Director

Gary has 38 years' experience as a chartered accountant, and was the Chairman of the Board of CBS Canterbury leading up to the merger with MARAC Finance Limited and Southern Cross Building Society. Gary is a Fellow of The Institute of Chartered Accountants, an Accredited Fellow of the Institute of Directors and a Fellow of the New Zealand Trustees Association.

Christopher Mace CNZM
Director

Chris is an Auckland based businessman, company director and investor with experience in the New Zealand and Australian business environment. He holds a number of directorships and was a director of Southern Cross Building Society leading up to the merger with MARAC Finance Limited and CBS Canterbury.

Geoffrey Ricketts LLB (Hons), F Inst D
Director

Geoff is a commercial lawyer, company director and investor with wide experience in the New Zealand and Australian business environment. He was Chairman of Southern Cross Building Society leading up to the merger with MARAC Finance Limited and CBS Canterbury.

Resigned Directors

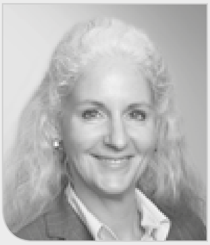
Bryan Mogridge
(resigned 28 October 2011)

The Heartland Building Society Board includes all of the directors of Heartland New Zealand Limited plus the following independent directors.

John Harvey BCom, CA

Independent Director

John has considerable financial services experience and 35 years' experience in the professional services industry, including 23 years as a partner of PricewaterhouseCoopers. John was appointed to the MARAC Finance Limited Board in 2010 and subsequently joined the Heartland Building Society Board upon its creation.



Michelle Smith MCom, CA – NZICA and ICAEW

Independent Director

Michelle is a professional director who has over 20 years' experience working within the financial services industry. Michelle was appointed to the MARAC Finance Limited Board in 2010 and subsequently joined the Heartland Building Society Board upon its creation.

5.0 CORPORATE GOVERNANCE

The Board and management of Heartland New Zealand Limited 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 NZSX 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 2012. 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 2012.

This section of the Annual Report reflects the requirements of the New Zealand Securities Commission's Governance 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

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.

The Company's Code of Conduct covers, among other things:

- receipt and use of Company assets and property
- receipt and use of Company information
- conflicts of interest.

All directors and officers 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. The Company's Code of Conduct and Directors' Code of Conduct are available on the Company's website www.heartland.co.nz.

Principle 2 – Board Composition and Performance

Role of the Board

The Board is responsible for corporate governance and the Company's overall direction. 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. The Board regularly monitors and reviews management's performance in carrying out their delegated duties.

The Board schedules monthly meetings. In the year ended 30 June 2012, the Board met 10 times.

Board Membership, Size and Composition

The NZSX 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.

The Board currently comprises six directors, being a non-executive Chairman, the Managing Director and four non-executive directors.

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 General 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 General 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.

The Board has determined that B R Irvine, G R Kennedy, G R Leech, C R Mace and G T Ricketts are independent directors.

Board Performance Assessment

The Board undertakes a regular review of its own, its committees' and individual directors' performance. This is to ensure that 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.

The last review was undertaken in April 2012.

Principle 3 – Board Committees

Board Committees

The Board has three 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 terms of reference which set out the committee's objectives, membership, procedures and responsibilities. Details 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 Committee

The members of the Audit Committee are G R Leech (Chairman), B R Irvine, G R Kennedy and C R Mace.

The role of the Audit Committee is to assist the Board in providing an objective, non-executive review of the effectiveness of the external reporting of financial information, and the internal control environment of the Group, including obtaining an understanding of the tax and financial risks which the Company faces.

To do this, the Audit Committee will provide oversight of:

- accounting policies and professional accounting requirements
- internal and external audit functions
- all statutory regulatory requirements
- the internal control environment.

The Board has determined that B R Irvine, G R Kennedy and G R Leech each meet the criteria for being a "financial expert" in accordance with the Audit Committee's charter.

Governance and Remuneration Committee

The members of the Governance and Remuneration Committee are G T Ricketts (Chairman), B R Irvine and G R Leech.

The role of the Governance and Remuneration Committee is to:

- oversee a formal and transparent method of recommending director remuneration to shareholders
- assist the Board in establishing remuneration policies and practices for the Company and in discharging its responsibilities for reviewing and setting the remuneration of the Managing Director and Chief Executive Officer of Heartland New Zealand Limited and senior executives
- assist the Board in reviewing the Board's composition and the competencies required of prospective directors, identifying prospective directors, developing succession plans for the Board and making recommendations to the Board accordingly
- oversee a formal and transparent method of nominating and appointing directors to the Board
- oversee capital management in the Company, including the optimal capital structures and levels
- ensure that the Company maintains best practice corporate governance.

Risk Committee

The members of the Risk Committee are E J Harvey (Chairman), G R Kennedy, C R Mace and M A Smith.

The Risk Committee is a committee of the Board of Heartland Building Society which also operates for the benefit of Heartland New Zealand Limited. The purpose of the Risk Committee is to assist the Board to:

- formulate its risk appetite, at least annually
- understand and monitor the risks faced for each of the following types of risks: credit, liquidity, market, insurance, operational, regulatory and reputational, excepting:
  - tax and financial risks, which are covered by the Audit Committee
  - strategic risks, which are governed by the full Board with input from all committees
- ensure that all policy and decisions are made in accordance with the Group's corporate values and guiding principles.

Principle 4 – Reporting and Disclosures

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

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

The Chief Executive Officer and Chief Financial Officer are required to certify to the Audit 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

Total remuneration available to non-executive directors is determined by shareholders. The current aggregate approved amount is $917,500.

Following the listing of the Company in January 2011, the directors' fees were set as follows.

Board	Chair	$150,000
	Directors	$75,000
Audit Committee	Chair	$15,000
	Members	$7,500

5.0 CORPORATE GOVERNANCE continued

Risk Committee	Chair	$20,000
	Members	$10,000
Governance and Remuneration Committee	Chair	$10,000
	Members	$5,000

In addition, the independent directors of Heartland Building Society, E J Harvey and M A Smith, each receive fees of $70,000 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.

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 on 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 ensures that the Company has processes in place to identify and manage risk in the business. The three main types of risk identified are operational, business and market risks. Specific risk management strategies have been developed for each of these areas. The Risk Committee of the Board oversees the risk management strategy. The Company also has in place insurance cover for insurable liability and general business risk.

Principle 7 – Auditors

The Audit Committee is responsible for overseeing the external, independent audit of the Company's financial statements. The Audit Committee ensures that the level of non-audit work undertaken by the auditors does not jeopardise their independence. The Company also has an internal audit function, which is independent of the external auditors. The Audit Committee approves the annual audit programme, which is developed in consultation with management of the Company.

Principle 8 – Shareholder Relations

The Board is committed to maintaining a full and open dialogue with all shareholders.

6.0 DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of Heartland New Zealand Limited (Company) and its subsidiaries (Group) as at 30 June 2012 and the financial performance and cash flows for the year ended 30 June 2012.

The directors consider that the financial statements of the Group and the Company have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates and that all the 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 1993.

The Board of Directors (Board) of Heartland New Zealand Limited authorised the financial statements set out on pages 17 to 56 for issue on 28 August 2012.

For and on behalf of the Board

Bruce Irvine

Jeffrey Greenslade

7.0 FINANCIAL STATEMENTS

For the year ended 30 June 2012

Explanatory Foreword

The financial statements presented are those of Heartland New Zealand Limited (Company) and its subsidiaries (Group).

On 7 January 2011, the Group was formed through the business combination of CBS Canterbury (CBS), Southern Cross Building Society (SCBS), MARAC Finance Limited (MARAC) and Heartland Financial Services Limited (previously Combined Operations Limited). On 31 August 2011, the Group acquired PGG Wrightson Finance Limited (PWF).

From a legal perspective MARAC is a subsidiary of the Company (through Heartland Building Society). Under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) MARAC is treated as the acquirer of CBS and SCBS. The effect of this is that the financial statements represent a continuation of the MARAC business.

As described in Note 1, the Group's comparative year results include the operations of MARAC from 1 July 2010 to 6 January 2011 and the results of the new Group from 7 January 2011 to 30 June 2011. The year ended 30 June 2012 includes the Group results from 1 July 2011 onwards and PWF's result from 31 August 2011.

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

		GROUP		COMPANY	
	NOTE	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Interest income	6	205,148	161,299	17	2
Interest expense	6	121,502	99,705	-	-
Net interest income		**83,646**	**61,594**	**17**	**2**
Operating lease income	7	15,064	18,073	-	-
Operating lease expenses	7	9,954	11,130	-	-
Net operating lease income		**5,110**	**6,943**	**-**	**-**
Lending and credit fee income		1,798	1,236	-	-
Dividends received		-	-	1,597	866
Other income	15	4,330	718	-	-
Net operating income		**94,884**	**70,491**	**1,614**	**868**
Selling and administration expenses	8	65,547	45,674	1,365	848
Profit before impaired asset expense and income tax		**29,337**	**24,817**	**249**	**20**
Impaired asset expense	32(a)(ii)	5,642	13,298	-	-
Decrease in fair value of investment properties	15	3,900	-	-	-
Operating profit		**19,795**	**11,519**	**249**	**20**
Share of equity accounted investee's profit	20	534	82	-	-
Profit before income tax		**20,329**	**11,601**	**249**	**20**
Income tax (benefit) / expense	9	(3,277)	4,458	(303)	(254)
Profit for the year		**23,606**	**7,143**	**552**	**274**
Other comprehensive income					
Cash flow hedges:					
Effective portion of changes in fair value, net of income tax		378	596	-	-
Reserves:					
Net change in available for sale reserve, net of income tax		(103)	111	-	-
Net change in defined benefit reserve, net of income tax		(435)	14	-	-
Other comprehensive (loss) / income for the year, net of income tax		**(160)**	**721**	**-**	**-**
Total comprehensive income for the year		**23,446**	**7,864**	**552**	**274**
Earnings per share from continuing operations					
Basic earnings per share	11	6c	5c	n/a	n/a
Diluted earnings per share	11	6c	5c	n/a	n/a

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

The notes on pages 22 to 56 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2012

	NOTE	Share Capital $000	Available for sale Reserve $000	Defined benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Jun 12 - GROUP							
Balance at 1 July 2011		**137,074**	**111**	**14**	**(1,388)**	**160,595**	**296,406**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	23,606	23,606
Other comprehensive income, net of income tax		-	(103)	(435)	378	-	(160)
Total comprehensive income for the year		**-**	**(103)**	**(435)**	**378**	**23,606**	**23,446**
Contributions by and distributions to owners							
Capital raising proceeds	27	57,347	-	-	-	-	57,347
Transaction costs associated with capital raising		(1,402)	-	-	-	-	(1,402)
Own shares acquired	37	(999)	-	-	-	-	(999)
Total transactions with owners		**54,946**	**-**	**-**	**-**	**-**	**54,946**
Balance at 30 June 2012		**192,020**	**8**	**(421)**	**(1,010)**	**184,201**	**374,798**
Jun 11 - GROUP							
Balance at 1 July 2010		**55,000**	**-**	**-**	**(1,984)**	**153,452**	**206,468**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	7,143	7,143
Other comprehensive income, net of income tax		-	111	14	596	-	721
Total comprehensive income for the year		**-**	**111**	**14**	**596**	**7,143**	**7,864**
Contributions by and distributions to owners							
Issue of share capital	27	82,074		-	-	-	82,074
Total transactions with owners		**82,074**	**-**	**-**	**-**	**-**	**82,074**
Balance at 30 June 2011		**137,074**	**111**	**14**	**(1,388)**	**160,595**	**296,406**

The notes on pages 22 to 56 are an integral part of these financial statements.

	NOTE	Share Capital $000	Available for sale Reserve $000	Defined benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Jun 12 - COMPANY							
Balance at 1 July 2011		**286,343**	**-**	**-**	**-**	**274**	**286,617**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	552	552
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**552**	**552**
Contributions by and distributions to owners							
Capital raising proceeds	27	57,347	-	-	-	-	57,347
Transaction costs associated with capital raising		(1,402)	-	-	-	-	(1,402)
Total transactions with owners		**55,945**	**-**	**-**	**-**	**-**	**55,945**
Balance at 30 June 2012		**342,288**	**-**	**-**	**-**	**826**	**343,114**
Jun 11 - COMPANY							
Balance at 1 July 2010		**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	274	274
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**274**	**274**
Contributions by and distributions to owners							
Issue of share capital	27	286,343	-	-	-	-	286,343
Total transactions with owners		**286,343**	**-**	**-**	**-**	**-**	**286,343**
Balance at 30 June 2011		**286,343**	**-**	**-**	**-**	**274**	**286,617**

The notes on pages 22 to 56 are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2012

	NOTE	GROUP Jun 12 $000	GROUP Jun 11 $000	COMPANY Jun 12 $000	COMPANY Jun 11 $000
Assets					
Cash and cash equivalents	13	89,689	267,187	469	153
Investments	14	24,327	17,831	-	-
Investment properties	15	55,504	34,499	-	-
Finance receivables	16	2,078,276	1,707,311	-	-
Operating lease vehicles	17	34,550	32,727	-	-
Current tax assets		5,635	-	363	254
Other assets	18	15,785	19,429	317	32
Investment in subsidiaries	19	-	-	342,343	286,343
Investment in joint venture	20	3,116	2,582	-	-
Intangible assets	21	22,997	21,602	-	-
Property, plant and equipment	22	10,067	10,079	-	-
Deferred tax assets	23	8,143	4,703	-	-
Total assets		**2,348,089**	**2,117,950**	**343,492**	**286,782**
Liabilities					
Borrowings	24	1,939,489	1,787,524	-	-
Current tax liabilities		-	1,956	-	-
Trade and other payables	25	33,802	32,064	378	165
Total liabilities		**1,973,291**	**1,821,544**	**378**	**165**
Equity					
Share capital	27	192,020	137,074	342,288	286,343
Retained earnings and reserves		182,778	159,332	826	274
Total equity		**374,798**	**296,406**	**343,114**	**286,617**
Total equity and liabilities		**2,348,089**	**2,117,950**	**343,492**	**286,782**

The notes on pages 22 to 56 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2012

		GROUP		COMPANY	
	NOTE	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Cash flows from operating activities					
Interest received		197,152	152,013	17	2
Dividends received		-	-	1,597	866
Operating lease income received		13,099	14,367	-	-
Proceeds from sale of operating lease vehicles		7,932	15,384	-	-
Lending, credit fees and other income received		6,219	4,279	-	-
Total cash provided from operating activities		**224,402**	**186,043**	**1,614**	**868**
Payments to suppliers and employees		68,183	55,052	1,243	715
Interest paid		121,742	91,266	-	-
Purchase of operating lease vehicles		16,905	18,201	-	-
Net increase in finance receivables		20,547	19,417	-	-
Taxation paid		23	-	-	-
Total cash applied to operating activities		**227,400**	**183,936**	**1,243**	**715**
Net cash flows (applied to) / from operating activities	12	**(2,998)**	**2,107**	**371**	**153**
Cash flows from investing activities					
Sale of investment property		832	-	-	-
Proceeds from sale of investments		-	3,709	-	-
Proceeds from sale of finance receivables to related party		-	39,764	-	-
Total cash provided from investing activities		**832**	**43,473**	**-**	**-**
Purchase of office fit-out, equipment and intangible assets		3,191	1,831	-	-
Purchase of subsidiary	36	24,898	-	-	-
Investment in subsidiaries		-	-	56,000	-
Purchase of investments		6,496	-	-	-
Purchase of investment property		937	21,140	-	-
Total cash applied to investing activities		**35,522**	**22,971**	**56,000**	**-**
Net cash flows (applied to) / from investing activities		**(34,690)**	**20,502**	**(56,000)**	**-**
Cash flows from financing activities					
Increase in share capital		57,347	-	57,347	-
Total cash provided from financing activities		**57,347**	**-**	**57,347**	**-**
Repurchase of own shares		999	-	-	-
Transaction costs associated with capital raising		1,402	-	1,402	-
Net decrease in borrowings		256,399	48,954	-	-
Total cash applied to financing activities		**258,800**	**48,954**	**1,402**	**-**
Net cash flows (applied to) / from financing activities		**(201,453)**	**(48,954)**	**55,945**	**-**
Net (decrease) / increase in cash held		**(239,141)**	**(26,345)**	**316**	**153**
Opening cash and cash equivalents		267,187	86,406	153	-
Cash impact of business combinations	36	61,643	207,126	-	-
Closing cash and cash equivalents	13	**89,689**	**267,187**	**469**	**153**

The notes on pages 22 to 56 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

1 Reporting entity

The financial statements presented are the consolidated financial statements comprising Heartland New Zealand Limited (Company) and its subsidiaries and joint venture (Group).

The Group was formed following a series of transactions during the period from 5 to 7 January 2011. The Company, through its subsidiaries, owns 100% of Heartland Building Society (Society) and 100% of Heartland Financial Services Limited (HFSL). The Society owns 100% of MARAC Finance Limited (MARAC) and PGG Wrightson Finance Limited (PWF). Heartland Financial Services Limited holds a 50% joint venture interest in MARAC JV Holdings Limited (MJV) with the New Zealand Automobile Association. Refer to Note 5 - Significant subsidiaries.

On 5 January 2011:

- All of the assets and liabilities of CBS Canterbury (CBS), Southern Cross Building Society (SCBS) (net of the shares held by SCBS in CBS), CBS Warehouse A Trust were amalgamated to form the Society.
- The borrowings of MARAC were transferred to the Society.
- The shares in MARAC were transferred to the Society from MARAC Financial Services Limited to form the Group.

On 7 January 2011:

- The Society and the assets and liabilities of Heartland Trust (previously known as Southern Cross Building Society Charitable Trust) and CBS Canterbury Charitable Trust were amalgamated into the Group.

On 31 August 2011:

- The Society acquired 100% of PGG Wrightson Finance Limited (PWF) from PGG Wrightson Limited (PGW), refer to Note 36 - Business combinations for more information.

From a legal perspective MARAC is a subsidiary of the Company. Under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) the series of transactions described above is treated as a reverse acquisition and MARAC is treated as the acquirer of CBS and SCBS. As a result, the business combination is accounted for as if MARAC acquired 100% of the Company with the Company owning 72.21% of the Society through its subsidiaries.

As a result the financial statements represent a continuation of the MARAC business. Comparatives presented for the year ended 30 June 2011 reflect the total comprehensive income of the MARAC Group from 1 July 2010 to 6 January 2011 and the results of the Group from 7 January 2011 to 30 June 2011. From 1 July 2011 onwards the result reflects the Group.

The MARAC Group comprises MARAC, Heartland ABCP Trust 1 (previously known as MARAC ABCP Trust 1), MARAC Retirement Bonds Superannuation Fund and Heartland PIE Fund (previously known as MARAC PIE Fund). The Group wound up MARAC Retirement Bonds Superannuation Fund with effect from 31 October 2010.

The Group includes Heartland ABCP Trust 1 and CBS Warehouse A Trust collectively known as the Trusts. The assets securitised into the Trusts continue to be recognised in the Group's financial statements. The Group includes Heartland Trust and the CBS Canterbury Charitable Trust.

All entities within the Group offer financial services. The Group operates and is domiciled in New Zealand. The registered office address is 75 Riccarton Road, Christchurch.

2 Basis of preparation

(a) Statement of compliance

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 1993. 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 Company and all entities within the Group are profit-oriented entities, except for the Heartland Trust and the CBS Canterbury Charitable Trust. The Company is a reporting entity and an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Securities Regulations 2009.

(b) Basis of measurement

The financial statements have been prepared on the basis of historical cost, unless stated otherwise.

(c) Functional and presentation currency

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

2 Basis of preparation (continued)

(d) Estimates and judgements

The preparation of financial statements requires the use of management judgement, estimates and assumptions that effect reported amounts. Actual results may differ from these judgements. For further information about significant areas of estimation, uncertainty and critical judgements that have the most significant effect on the financial statements, refer to Note 32 - Credit risk exposure.

(e) Going concern

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

(f) Comparative information

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

3 Significant accounting policies

(a) Consolidation of subsidiaries

Subsidiaries are entities that are controlled by the Group. Investments in subsidiary companies are recorded at cost by the Company.

The consolidated financial statements are prepared by consolidating the financial statements of the Company and its subsidiaries. All intercompany transactions, balances and unrealised profits are eliminated on consolidation.

(b) Jointly controlled entities

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in jointly controlled entities 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. Dividends received from associates and jointly controlled entities are recorded in comprehensive income.

(c) Special purpose entities

Special purpose 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. The financial statements of special purpose entities are included in the Group's financial statements where the substance of the relationship is that the Company controls the special purpose entity.

(d) Interest

Interest income and expense are recognised using the effective interest method in comprehensive income. 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 comprehensive income at the same time as the hedged item or if the hedge relationship is subsequently deemed to be ineffective.

(e) Operating lease income and expense

Income from operating lease vehicles is apportioned over the term of the operating lease on a straight line basis.

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.

(f) Lending and credit fee income

Lending and credit fee income that is integral to the effective interest rate of a financial asset or liability is included in the measurement of the effective interest rate. Other lending and credit fee income is recognised as the related services are rendered.

(g) Dividend income

Dividend income is recognised in comprehensive income on the date that the Company's right to receive payment is established.

3 Significant accounting policies (continued)

(h) Tax

Income tax expense

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

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax 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).

Deferred tax

Deferred tax is recognised in respect of temporary differences between the financial reporting carrying amount of assets and liabilities and the amounts used for tax purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year(s) when the asset or liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised. Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority and there is a legal right and intention to settle on a net basis and it is allowed under tax law.

(i) Share capital

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.

(j) Cash and cash equivalents

Cash and cash equivalents consist of cash and liquid assets used in the day to day cash management of the Group. Cash and cash equivalents are carried at amortised cost in the Statements of Financial Position.

(k) Investments

The Group holds investments in local authority stock, public securities and corporate bonds. 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.

(l) 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 property is initially recognised at its fair value, with subsequent changes in fair value recognised in comprehensive income.

Fair values are supported by independent valuations or other similar external evidence, adjusted for changes in market conditions and the time since the last valuation.

(m) 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.

(n) Operating lease vehicles

Operating lease vehicles are stated at cost less accumulated depreciation. 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.

(o) Derivative financial instruments

Derivative financial instruments are contracts entered into to reduce the exposure to the volatility of variable rate borrowings (cash flow hedges), or to convert fixed rate borrowings or assets to variable rates (fair value hedges), in order to mitigate the Group's interest rate risk. The financial instruments are subject to the risk that market values may change subsequent to their acquisition; however such changes would be offset by corresponding, but opposite, effects on the variable rate borrowings or fixed rate borrowings or assets being hedged. Derivatives are initially valued at fair value and subsequently remeasured at fair value.

3 Significant accounting policies (continued)

(o) Derivative financial instruments (continued)

Fair value movements of derivatives that are not designated in a qualifying cash flow hedge relationship, are recognised in comprehensive income. Fair value movements of the effective portion of a qualifying cash flow hedge derivative, are recognised directly in other comprehensive income and held in the hedging reserve in equity. The amount recognised in equity is transferred to comprehensive income in the same year as the hedged cash flow affects comprehensive income, disclosed in the same line as the hedged item. Any ineffective portion of changes in fair value of the derivative is recognised immediately in comprehensive income. Fair value movements of a derivative designated as a fair value hedge are recognised directly in comprehensive income together with the hedged item.

(p) Property, plant, equipment and depreciation

Land and buildings are measured at fair value. Fair value is determined on the basis of independent valuations prepared by external valuation experts, based on discounted cash flows or capitalisation of net income.

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in comprehensive income, in which case the increase is credited to comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to comprehensive income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

Other items of 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.

The following annual rates are used in the calculation of depreciation:

Buildings	1.0% - 4.0%
Fixtures and fittings	5.5% - 36.0%
Office equipment and furniture	6.0% - 30.0%
Computer equipment	16.2% - 48.0%
Motor vehicles	21.0% - 25.2%

(q) Financial assets and liabilities

Classification

Financial assets and liabilities are classified in the following accounting categories:

Financial assets/liabilities	Accounting category
Cash and cash equivalents	Loans and receivables
Investments	Available for sale
Due from related parties	Loans and receivables
Finance receivables	Loans and receivables
Other financial assets	Loans and receivables
Borrowings	Other liabilities at amortised cost
Other financial liabilities	Other liabilities at amortised cost
Derivatives	Held for trading (or qualifying hedges as described in Note 3(o))

Recognition

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 comprehensive income) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Derecognition

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 Statements 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 Statements 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.

3 Significant accounting policies (continued)

(r) Impaired assets and past due assets

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.

The term collectively impaired asset refers to an asset where an event has occurred 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.

Restructured assets are 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. In order to be classified as a restructured asset, following restructuring, the return under the revised terms is expected to be equal to or greater than the Group's average cost of funds, or a loss is not otherwise expected to be incurred.

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.

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 comprehensive income. Any future recoveries of amounts provided for are taken to comprehensive income.

For further information about credit impairment provisioning refer to Note 32 - Credit risk exposure.

(s) 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.

(t) Intangible assets and goodwill

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 and contingent liabilities. When the fair value of the identifiable net assets and contingent liabilities exceeds the cost of an acquisition, the resulting discount is recognised immediately in comprehensive income for the year. Goodwill is tested for impairment at least annually, and is carried at cost less accumulated impairment losses.

Computer software

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 of three to four years. All other expenditure is expensed immediately as required.

(u) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(v) Employee benefits

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.

(w) Defined benefit plan

The cost of providing benefits for defined benefit superannuation plans is determined using the Projected Unit Credit Method. Actuarial gains and losses are recognised in full in the year in which they occur by way of a movement in the defined benefit plan reserve, and are presented in the Statements of Changes in Equity.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average year until the benefit becomes vested. The defined benefit obligation is deducted from the fair value of the defined benefit plan asset to derive the defined benefit plan surplus recognised in trade receivables in the Statements of Financial Position.

(x) 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.

3 Significant accounting policies (continued)

(y) Statements of Cash Flows

The Statements of Cash Flows have been prepared using the direct method modified by the netting of certain cash flows associated with cash and cash equivalents, investments, related party balances, finance receivables and borrowings. Netting of cash flows provides more meaningful disclosure as many of the cash flows are received and paid on behalf of customers and reflect the activities of those customers rather than the Group.

(z) Share schemes

The Group provides benefits to staff in the form of share based payments, whereby staff provide services in exchange for shares. Currently in place is a discretionary share scheme and an executive share scheme, refer to Note 37 - Staff share ownership arrangements.

Under both of these schemes Heartland New Zealand Limited and the previous ultimate parent, Pyne Gould Corporation Limited undertake to transfer a specific number of its shares to various key staff at a specified future date on that staff member achieving certain criteria. The shares are issued at a price agreed by the directors and held in trust until all the conditions are satisfied. The expected benefit is expensed over the years over which any conditions are required to be met.

(aa) 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 2012, 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 IAS 12 Income Taxes, which introduces a presumption that an investment property is recovered entirely through sale.	1 January 2012	30 June 2013
NZ IAS 1 Presentation of Financial Statements, which requires an entity to present separately the items of other comprehensive income that would be reclassified to comprehensive income in the future if certain conditions are met.	1 July 2012	30 June 2013
NZ IFRS 10 Consolidated Financial Statements, which introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees.	1 January 2013	30 June 2014
NZ IFRS 13 Fair Value Measurement, which defines fair value, and establishes a framework for measuring fair value including disclosure requirements.	1 January 2013	30 June 2014
NZ IFRS 12 Disclosure of Interests in Other Entities, which contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.	1 January 2013	30 June 2014
NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets and liabilities.	1 January 2013	30 June 2014
NZ IAS 27 Separate Financial Statements, which carries forward existing accounting and disclosure requirements for separate financial statements with minor clarifications.	1 January 2013	30 June 2014
NZ IFRS 7 Financial Instruments: Disclosures, amendment to offsetting financial assets and financial liabilities.	1 January 2013	30 June 2014
NZ IAS 28 Investments in Associates and Joint Ventures, which amends IFRS 5 to apply to an investment, or a portion of investment in an associate or joint venture that meets the criteria to be classified as held for sale and on cessation of significant influence or joint control, the entity does not remeasure the retained interest.	1 January 2013	30 June 2014
NZ IAS 32 Financial Instruments: Presentation, amendment to offsetting financial assets and financial liabilities.	1 January 2014	30 June 2015
NZ IAS 19 Employee Benefits, which requires actuarial gains and losses to be recognised immediately in other comprehensive income and the expected return on plan assets recognised in comprehensive income to be calculated based on the rate used to discount the defined benefit obligation.	1 January 2015	30 June 2016

Initial application of the above standards and interpretations relevant to the Group are not expected to have any material impact on the financial statements of the Group.

(ab) Changes in accounting policies

There have been no material changes in accounting policies in the current year.

4 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. During the year ended 30 June 2012, the operating segments were restructured to amalgamate Retail and Consumer into one segment. The comparative year has been restated to align with the new operating segments.

All income received is from external sources, except those transactions with related parties, refer to Note 29 - Related party transactions. Certain selling and administration expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Other.

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

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

The Group's operating segments are different than the industry categories detailed in Note 32 - Credit risk exposure. The operating segments are primarily categorised by security type, whereas Note 32 - Credit risk exposure categorises exposures based on credit risk concentrations (refer to Note 32 for further details).

	GROUP					
	Retail & Consumer $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Jun 12						
Interest income	94,606	49,867	41,391	12,630	6,654	205,148
Interest expense	55,572	28,911	22,340	10,370	4,309	121,502
Net interest income	**39,034**	**20,956**	**19,051**	**2,260**	**2,345**	**83,646**
Net operating lease income	5,097	13	-	-	-	5,110
Net other income	927	57	66	4,104	974	6,128
Net operating income	**45,058**	**21,026**	**19,117**	**6,364**	**3,319**	**94,884**
Depreciation and amortisation expense	-	-	-	-	1,830	1,830
Other selling and administration expenses	11,475	5,273	5,837	6,350	34,782	63,717
Selling and administration expenses	**11,475**	**5,273**	**5,837**	**6,350**	**36,612**	**65,547**
Profit / (loss) before impaired asset expense and income tax	**33,583**	**15,753**	**13,280**	**14**	**(33,293)**	**29,337**
Impaired asset expense	1,991	2,445	689	517	-	5,642
Decrease in fair value of investment properties	-	-	-	3,900	-	3,900
Operating profit / (loss)	**31,592**	**13,308**	**12,591**	**(4,403)**	**(33,293)**	**19,795**
Share of equity accounted investee's profit	-	-	-	-	534	534
Profit / (loss) before income tax	**31,592**	**13,308**	**12,591**	**(4,403)**	**(32,759)**	**20,329**
Income tax expense	-	-	-	-	(3,277)	(3,277)
Profit / (loss) for the year	**31,592**	**13,308**	**12,591**	**(4,403)**	**(29,482)**	**23,606**
Total assets	989,352	540,228	478,582	160,168	179,759	**2,348,089**
Total liabilities	-	-	-	-	1,973,291	**1,973,291**
Total equity	-	-	-	-	374,798	**374,798**

4 Segmental analysis (continued)

	GROUP					
	Retail & Consumer $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Jun 11						
Interest income	90,280	39,178	4,242	19,805	7,794	161,299
Interest expense	56,972	22,040	2,599	10,637	7,457	99,705
Net interest income	**33,308**	**17,138**	**1,643**	**9,168**	**337**	**61,594**
Net operating lease income	6,823	120	-	-	-	6,943
Net other income	543	21	-	542	848	1,954
Net operating income	**40,674**	**17,279**	**1,643**	**9,710**	**1,185**	**70,491**
Depreciation and amortisation expense	-	-	-	-	1,482	1,482
Other selling and administration expenses	8,996	3,983	1,048	1,986	28,179	44,192
Selling and administration expenses	**8,996**	**3,983**	**1,048**	**1,986**	**29,661**	**45,674**
Profit before impaired asset expense and income tax	**31,678**	**13,296**	**595**	**7,724**	**(28,476)**	**24,817**
Impaired asset expense	2,829	7,195	510	2,764	-	13,298
Operating profit / (loss)	**28,849**	**6,101**	**85**	**4,960**	**(28,476)**	**11,519**
Share of equity accounted investee's profit	-	-	-	-	82	82
Profit / (loss) before income tax	**28,849**	**6,101**	**85**	**4,960**	**(28,394)**	**11,601**
Income tax expense	-	-	-	-	4,458	4,458
Profit/(loss) for the year	**28,849**	**6,101**	**85**	**4,960**	**(32,852)**	**7,143**
Total assets	1,035,118	476,367	75,961	187,091	343,413	**2,117,950**
Total liabilities	-	-	-	-	1,821,544	**1,821,544**
Total equity	-	-	-	-	296,406	**296,406**

5 Significant subsidiaries and interests in jointly controlled entities

Significant subsidiaries	**Nature of business**	**Jun 12 % held**	**Jun 11 % held**
Heartland Building Society	Financial services	100%	100%
and its subsidiaries:			
MARAC Finance Limited	Financial services	100%	100%
PGG Wrightson Finance Limited	Financial services	100%	0%
VPS Parnell Limited	Investment property holding company	100%	100%
VPS Properties Limited	Investment property holding company	100%	100%
Heartland Financial Services Limited	Holding company	100%	100%
and its jointly controlled entity:			
MARAC JV Holdings Limited	Holding company	50%	50%
and its subsidiary:			
MARAC Insurance Limited	Insurance services	50%	50%

On 31 August 2011 the Group acquired 100% of the shares in PWF, an entity specialising in the provision of financial services to the rural sector, refer to Note 36 - Business Combinations for more details.

The Group includes Heartland ABCP Trust 1, CBS Warehouse A Trust, Heartland PIE Fund, Heartland Trust and CBS Charitable Trust, refer to Note 28 - Special Purpose entities for more details.

6 Net interest income

	GROUP		COMPANY	
	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Interest income				
Cash and cash equivalents	5,149	6,772	17	2
Finance receivables	199,526	154,527	-	-
Derivatives held for risk management:				
- Net interest income on cash flow hedges	473	-	-	-
Total interest income	**205,148**	**161,299**	**17**	**2**
Interest expense				
Retail deposits and debenture stock	100,769	78,327	-	-
Bank and securitised borrowings	20,733	21,332	-	-
Derivatives held for risk management:				
- Net interest expense on cash flow hedges	-	46	-	-
Total interest expense	**121,502**	**99,705**	**-**	**-**
Net interest income	**83,646**	**61,594**	**17**	**2**

Included within the Group's interest income on finance receivables is $2,674,000 (June 2011: $5,902,000) on individually impaired assets.

7 Net operating lease income

	GROUP		COMPANY	
	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Operating lease income				
Lease income	13,065	14,277	-	-
Gain on disposal of lease vehicles	1,999	3,796	-	-
Total operating lease income	**15,064**	**18,073**	**-**	**-**
Operating lease expense				
Depreciation on lease vehicles	9,149	10,490	-	-
Direct lease costs	805	640	-	-
Total operating lease expenses	**9,954**	**11,130**	**-**	**-**
Net operating lease income	**5,110**	**6,943**	**-**	**-**

8 Selling and administration expenses

		GROUP		COMPANY	
	NOTE	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Personnel expenses		34,186	21,747	-	-
Directors' fees		804	497	628	497
Superannuation		475	302	-	-
Audit fees		576	416	60	77
Audit related fees		35	87	-	-
Amortisation - intangible assets	21	1,075	978	-	-
Depreciation - property, plant and equipment	22	755	504	-	-
Operating lease expense as a lessee		1,648	1,277	-	-
Legal and professional fees		5,914	6,781	499	130
Other operating expenses		20,079	13,085	178	144
Total selling and administration expenses		**65,547**	**45,674**	**1,365**	**848**

Audit related fees include professional fees in connection with trustee reporting, due diligence, review of prospectus documentation for various Group entities, accounting advice and review work completed.

Included in Directors' fees are Directors' fees the Company has paid on behalf of Heartland Building Society and its subsidiaries. Directors' fees for the Group were paid for by the previous ultimate parent, Pyne Gould Corporation up until 7 January 2011.

9 Income tax expense

	GROUP Jun 12 $000	GROUP Jun 11 $000	COMPANY Jun 12 $000	COMPANY Jun 11 $000
Current income tax expense / (benefit)				
Current year	4,639	1,882	(303)	(254)
Adjustments for prior year	(3,218)	-	-	-
Deferred tax (benefit) / expense				
Origination and reversal of temporary differences	1,484	2,278	-	-
Tax legislation changes	(6,182)	298	-	-
Total income tax (benefit) / expense	**(3,277)**	**4,458**	**(303)**	**(254)**
Reconciliation of effective tax rate				
Profit before income tax	20,329	11,601	249	20
Prima facie tax at 28% (2011: 30%)	5,692	3,480	70	6
Plus / (less) tax effect of items not taxable / deductible	431	680	74	(18)
Adjustments for prior year	(3,218)	-	-	-
Dividends received	-	-	(447)	(242)
Tax legislation changes	(6,182)	298	-	-
Total income tax (benefit) / expense	**(3,277)**	**4,458**	**(303)**	**(254)**

In May 2010, legislation was passed to reduce the New Zealand corporate tax rate from 30% to 28%, effective for the 2012 income tax year. The tax effect in the prior year of $298,000 is the impact on the value of deferred tax assets and liabilities as a result of the reduction in the corporate tax rate for the financial year commencing 1 July 2011.

On 29 August 2011, the Taxation (Tax Administration and Remedial Matters) Act 2011 received Royal Assent. This Act contains a retrospective legislative change in relation to mergers of building societies. The result is that the $6.2 million benefit of future tax deductions which were lost on the merger of MARAC, SCBS and CBS are now available to entities in the Heartland New Zealand Consolidated (Tax) Group, and cash that would otherwise have been required to pay tax will now be available to the Group.

During the year MARAC made a subvention payment to MARAC Financial Services Limited (its former parent) for the use of tax losses to 31 May 2011. The amount paid was less than the tax rate of 30%. As a result the Group recognised a benefit of $3.4 million included in adjustments for prior year.

Tax recognised in other comprehensive income

	GROUP Jun 12 Before tax $000	GROUP Jun 12 Tax expense / (benefit) $000	GROUP Jun 12 Net of tax $000	GROUP Jun 11 Before tax $000	GROUP Jun 11 Tax expense $000	GROUP Jun 11 Net of tax $000
Cash flow hedges	476	98	378	851	255	596
Available for sale investments	(147)	(44)	(103)	159	48	111
Defined benefit plan	(463)	(28)	(435)	20	6	14
	(134)	**26**	**(160)**	**1,030**	**309**	**721**

10 Imputation credit account

	GROUP Jun 12 $000	GROUP Jun 11 $000	COMPANY Jun 12 $000	COMPANY Jun 11 $000
Balance at beginning of year	-	33,515	-	-
Imputation credits forfeited on shareholding change	-	(33,507)	-	-
Tax paid net of refunds	23	(8)	-	-
Balance at end of year	**23**	**-**	**-**	**-**

11 Earnings per share

The calculation of basic and diluted earnings of 6c per share at 30 June 2012 (2011: 5c per share) is based on the profit for the year of $23,606,000 (2011: $7,143,000), and a weighted average number of shares on issue of 373,879,475 (2011: 144,201,000).

The earnings per share calculated based on the closing number of shares (refer Note 27 - Share capital) rather than the weighted average number of shares, results in basic and diluted earnings per share of 6c at 30 June 2012 (2011: 2c).

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

	GROUP		COMPANY	
	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Profit for the year	**23,606**	**7,143**	**552**	**274**
Add / (less) non-cash items:				
Depreciation and amortisation expense	1,830	1,482	-	-
Change in fair value of investment properties	3,900	-	-	-
Impaired asset expense	5,642	13,298	-	-
Deferred tax (benefit) / expense	(2,978)	2,897	-	-
Derivative financial instruments revaluation	(219)	5,419	-	-
Accruals	529	1,567	-	-
Total non-cash items	**8,704**	**24,663**	**-**	**-**
Add / (less) movements in working capital items:				
Other assets	2,239	(10,186)	(271)	(32)
Current tax	(6,785)	1,479	(109)	(254)
Other liabilities	154	(2,009)	199	165
Total movements in working capital items	**(4,392)**	**(10,716)**	**(181)**	**(121)**
Net cash flows from operating activities before movements in finance receivables and operating lease vehicles	**27,918**	**21,090**	**371**	**153**
Movement in operating lease vehicles	(1,823)	10,168	-	-
Movement in finance receivables	(29,093)	(29,151)	-	-
Net cash flows from operating activities	**(2,998)**	**2,107**	**371**	**153**

13 Cash and cash equivalents

	GROUP		COMPANY	
	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Cash and cash equivalents	74,110	251,357	469	153
Cash and cash equivalents - securitised	15,579	15,830	-	-
Total cash and cash equivalents	**89,689**	**267,187**	**469**	**153**

Cash and cash equivalents are short term funds held with New Zealand registered international banks.

14 Investments

	GROUP		COMPANY	
	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Public securities and corporate bonds	24,327	16,833	-	-
Local authority stock	-	998	-	-
Total investments	**24,327**	**17,831**	**-**	**-**

15 Investment properties

	GROUP		COMPANY	
	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Opening balance	34,499	-	-	-
Acquisitions	23,584	34,499	-	-
Additional capital expenditure	2,153	-	-	-
Sales	(832)	-	-	-
Decrease in fair value	(3,900)	-	-	-
Closing balance	**55,504**	**34,499**	**-**	**-**

15 Investment properties (continued)

From 31 December 2010, the Group (through VPS Properties Limited and VPS Parnell Limited) began acquiring investment properties as a result of enforcement of security over finance receivables. The acquisitions by VPS Properties Limited and VPS Parnell Limited were funded by advances from the Society and MARAC to those acquiring entities. These advances are covered by the RECL management agreement. Refer to Note 29 - Related party transactions for further detail.

The carrying amount of investment properties at 30 June 2012 is the fair value based on independent valuations and current sale and purchase agreements. Valuations have been obtained from the following independent valuers who hold recognised professional qualifications:

Name of valuer	Date of valuation
Bayleys Valuations Limited	01 Jun 12
Bayleys Valuations Limited	12 Jul 12
Sheldon & Partners Limited	19 Jun 12
Gribble Churchton Taylor Limited	21 Jun 12
Telfer Young (Hawkes Bay) Limited	29 Jun 12

During the year ended 30 June 2012, the Group recognised rental income of $4,094,000 (2011: $542,000) included in other income, direct operating expenses of $2,975,000 (2011: $198,000) arising from investment property that generated rental income and direct operating expenses of $107,000 (2011: nil) arising from investment property that did not generate rental income.

16 Finance receivables

	GROUP		COMPANY	
	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Non-securitised				
Gross finance receivables	1,828,201	1,535,183	-	-
Less allowance for impairment	26,693	37,565	-	-
Total non-securitised finance receivables	**1,801,508**	**1,497,618**	**-**	**-**
Securitised				
Gross finance receivables	277,501	210,425	-	-
Less allowance for impairment	733	732	-	-
Total securitised finance receivables	**276,768**	**209,693**	**-**	**-**
Total finance receivables	**2,078,276**	**1,707,311**	**-**	**-**

Refer to Note 36 - Business Combinations for information about the acquisition of finance receivables.

17 Operating lease vehicles

	GROUP		COMPANY	
	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Cost				
Opening balance	47,230	60,264	-	-
Additions	16,905	11,910	-	-
Disposals	(12,899)	(24,944)	-	-
Closing balance	**51,236**	**47,230**	**-**	**-**
Accumulated depreciation				
Opening balance	14,503	17,369	-	-
Depreciation charge for the year	9,149	10,490	-	-
Disposals	(6,966)	(13,356)	-	-
Closing balance	**16,686**	**14,503**	**-**	**-**
Opening net book value	32,727	42,895	-	-
Closing net book value	**34,550**	**32,727**	**-**	**-**

The future minimum lease payments under non-cancellable operating leases not later than one year is $11,123,000 (2011: $10,478,000), within one to five years is $7,635,000 (2011: $9,011,000) and over five years is $7,000 (2011: nil).

18 Other assets

	NOTE	GROUP Jun 12 $000	GROUP Jun 11 $000	COMPANY Jun 12 $000	COMPANY Jun 11 $000
Derivative financial assets	26	2,122	3,048	-	-
Trade receivables		3,080	3,260	-	-
Due from related parties	29	-	-	194	-
GST receivable		-	-	14	11
Prepayments		10,583	13,121	109	21
Total other assets		**15,785**	**19,429**	**317**	**32**

19 Investment in subsidiaries

	GROUP Jun 12 $000	GROUP Jun 11 $000	COMPANY Jun 12 $000	COMPANY Jun 11 $000
Heartland Building Society	-	-	339,843	283,843
Heartland Financial Services Limited	-	-	2,500	2,500
Total investments in subsidiaries	**-**	**-**	**342,343**	**286,343**

All subsidiary companies were incorporated in New Zealand.

Refer to Note 1 - Reporting entity and Note 27 - Share capital for more information.

20 Investment in joint venture

	GROUP Jun 12 $000	GROUP Jun 11 $000	COMPANY Jun 12 $000	COMPANY Jun 11 $000
Carrying amount at beginning of year	2,582	-	-	-
Investment in joint venture	-	2,500	-	-
Equity accounted earnings of joint venture	534	82	-	-
Carrying amount at end of year	**3,116**	**2,582**	**-**	**-**
Total assets of joint venture	6,927	5,934	-	-
Total liabilities of joint venture	3,453	3,538	-	-
Total income of joint venture	2,842	882	-	-
Total net profit after tax of joint venture	769	348	-	-

On 7 January 2011 Heartland Financial Services Limited (HFSL), a wholly owned subsidiary of the Company, acquired 50% of MJV for $2.5 million. MJV is jointly owned by HFSL and the New Zealand Automobile Association Limited.

Since 7 January 2011, the Group has equity accounted its investment in MJV to recognise a 50% share of the consolidated MJV profits or losses and reserve movements. MJV earnings prior to 7 January 2011 are attributable to the previous ultimate parent, Pyne Gould Corporation (PGC).

21 Intangible assets and goodwill

	GROUP Computer Software $000	GROUP Goodwill / Trademark $000	GROUP Total $000	COMPANY Computer Software $000	COMPANY Goodwill / Trademark $000	COMPANY Total $000
Cost						
Opening balance 1 July 2010	3,722	-	3,722	-	-	-
Additions	1,337	46	1,383	-	-	-
Acquired on amalgamation	1,083	20,141	21,224	-	-	-
Closing balance 30 June 2011	**6,142**	**20,187**	**26,329**	**-**	**-**	**-**
Opening balance 1 July 2011	6,142	20,187	26,329	-	-	-
Additions	2,370	100	2,470	-	-	-
Disposals	(1,764)	-	(1,764)	-	-	-
Closing balance 30 June 2012	**6,748**	**20,287**	**27,035**	**-**	**-**	**-**

21 Intangible assets and goodwill (continued)

	GROUP			COMPANY		
	Computer Software $000	Goodwill / Trademark $000	Total $000	Computer Software $000	Goodwill / Trademark $000	Total $000
Accumulated amortisation						
Opening balance 1 July 2010	2,821	-	2,821	-	-	-
Amortisation charge for the year	978	-	978	-	-	-
Acquired on amalgamation	928	-	928	-	-	-
Closing balance 30 June 2011	**4,727**	**-**	**4,727**	**-**	**-**	**-**
Opening balance 1 July 2011	4,727	-	4,727	-	-	-
Amortisation charge for the year	1,075	-	1,075	-	-	-
Disposals	(1,764)	-	(1,764)	-	-	-
Closing balance 30 June 2012	**4,038**	**-**	**4,038**	**-**	**-**	**-**
Opening net book value	1,415	20,187	21,602	-	-	-
Closing net book value	**2,710**	**20,287**	**22,997**	**-**	**-**	**-**

On 5 January 2011, 100% of each of SCBS and CBS amalgamated to form the Society, refer to Note 36 - Business Combinations. As part of this amalgamation $20.1 million of goodwill was recognised.

Goodwill of $20.1 million has not been allocated to individual cash generating units, as the future economic benefit is attributable to all business units. The Group's management and board continue to monitor goodwill at a group level.

22 Property, plant and equipment

	GROUP		COMPANY	
	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Cost				
Opening balance	15,191	4,284	-	-
Additions	735	448	-	-
Acquired on acquisition	22	-	-	-
Acquired on amalgamation	-	10,470	-	-
Disposals	(2,787)	(11)	-	-
Closing balance	**13,161**	**15,191**	**-**	**-**
Accumulated depreciation				
Opening balance	5,112	3,764	-	-
Depreciation charge for the year	755	504	-	-
Acquired on amalgamation	-	855	-	-
Disposals	(2,773)	(11)	-	-
Closing balance	**3,094**	**5,112**	**-**	**-**
Opening net book value	10,079	520	-	-
Closing net book value	**10,067**	**10,079**	**-**	**-**

23 Deferred tax

	GROUP		COMPANY	
	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Property, plant and equipment	-	67	-	-
Employee entitlements	1,201	584	-	-
Finance receivables	7,475	4,984	-	-
Trade and other payables	152	145	-	-
Investment properties	1,054	-	-	-
Derivatives held for risk management	392	527	-	-
Tax assets	**10,274**	**6,307**	**-**	**-**
Property, plant and equipment	877	-	-	-
Intangible assets	52	67	-	-
Operating lease vehicles	1,202	1,537	-	-
Tax liabilities	**2,131**	**1,604**	**-**	**-**
Net tax assets	**8,143**	**4,703**	**-**	**-**

The corporate tax rate changed from 30% to 28% effective 1 July 2011. The tax effect on the temporary differences reported above, that did not reverse prior to this change in tax rate, was a decrease in the Group's deferred tax asset of $336,000 in June 2011.

23 Deferred tax (continued)

All deferred tax movements are included in profit or loss except for those in respect of the available for sale and hedging reserves which are recognised in other comprehensive income.

24 Borrowings

	GROUP		COMPANY	
	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Bank borrowings sourced from New Zealand	50,010	-	-	-
Deposits sourced from New Zealand	1,549,468	1,532,468	-	-
Deposits sourced from overseas	75,652	60,779	-	-
Securitised borrowings sourced from New Zealand	264,359	194,277	-	-
Total borrowings	**1,939,489**	**1,787,524**	**-**	**-**

The Group has bank facilities totalling $650.0 million (2011: $475.0 million). Prior to the amalgamation, there was no significant concentration of deposits from any region. As at 30 June 2012, 42% (2011: 37%) of deposits are from the Canterbury region.

Bank borrowings and deposits (which include NZDX bonds) rank equally and are unsecured. Deposits are issued in terms of a Master Trust Deed, Supplemental Trust Deed (Accounts) and Supplemental Trust Deed (Bonds) each dated 29 October 2010 and a Supplemental Trust Deed dated 14 December 2010 (collectively the Trust Deeds), all with Trustee Executors Limited as trustee in respect of deposits.

The Group has securitisation facilities in relation to the Trusts totalling $450.0 million. On 27 February 2012, the Group entered into an agreement with its securitisation facility provider to extend the maturity date of Heartland ABCP Trust 1 $300 million securitisation facility to 6 February 2013. On 19 December 2011, the Group entered into an agreement to increase CBS Warehouse A Trust securitisation facility by $100 million to $175 million. $25 million of this increase matured on 1 April 2012. The maturity date of the remaining $150 million CBS Warehouse A Trust securitisation facility is 22 July 2013.

Investors in Heartland ABCP Trust 1 rank equally with each other and are secured over the securitised assets of that Trust. Investors in CBS Warehouse A Trust Securitisation rank equally with each other and are secured over the securitised assets of that Trust.

25 Trade and other payables

		GROUP		COMPANY	
	NOTE	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Derivative financial liabilities	26	1,459	2,444	-	-
Trade payables		13,734	13,173	300	165
GST payable		14,014	13,780	-	-
Due to related parties	29	-	104	78	-
Employee benefits		4,595	2,563	-	-
Total trade and other payables		**33,802**	**32,064**	**378**	**165**

26 Derivative financial instruments

	GROUP		COMPANY	
	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
Qualifying fair value hedges - non-securitised	2,122	3,048	-	-
Total derivative financial assets	**2,122**	**3,048**	**-**	**-**
Qualifying fair value hedges - non-securitised	297	979	-	-
Qualifying fair value hedges - securitised	118	148	-	-
Qualifying cash flow hedges - securitised	1,044	1,317	-	-
Total derivative financial liabilities	**1,459**	**2,444**	**-**	**-**

Derivatives consist of interest rate swaps held to manage the Group's exposure to interest rate repricing risk on its interest bearing assets and liabilities.

The Group uses interest rate swaps to hedge the interest rate risk arising from its commercial paper issuance and its current and future floating rate bank debt and designates those swaps as qualifying cash flow hedges. The Group uses interest rate swaps to hedge the interest rate risk arising from deposits and fixed rate mortgage loans and designates these swaps as qualifying fair value hedges.

Securitised derivatives are held in the name of the Trusts to hedge the interest rate risk arising in the Trusts.

27 Share capital

The share capital reflected in the following note represents the share capital of the Company. This differs from the share capital reflected in the Group Statement of Financial Position as a result of the reverse acquisition accounting applied, refer Note 1 - Reporting Entity.

	COMPANY	
	Jun 12	Jun 11
	Number of shares	
	000	000
Issued shares		
Opening balance	300,000	-
Shares issued during the year	88,704	300,000
Closing balance	**388,704**	**300,000**

On 5 January 2011:

- MARAC Financial Services Limited (MFSL) exchanged its shareholding in MARAC and its investment in MARAC JV Holdings Limited for shares in the Company.
- The Company issued further shares to MFSL so that its total shares after that issue were 216,630,283 fully paid ordinary shares.

On 7 January 2011:

- The Company issued 39,128,321 fully paid ordinary shares to former CBS shareholders in exchange for all of the assets and engagements of CBS.
- The Company issued 44,241,396 fully paid ordinary shares to former SCBS shareholders in exchange for all of the assets and engagements of SCBS.

On 30 May 2011, the Company's ultimate parent, PGC distributed directly to PGC shareholders its 72.21% stake in the Company.

On 31 August 2011, the Company issued 23,257,528 new shares at $0.52 per share to existing shareholders under a share purchase plan, issued 34,164,396 new shares at $0.65 per share to underwriters of the share purchase plan, placed 4,615,385 new shares at $0.65 per share and placed 26,666,666 new shares at $0.75 per share to institutions and investors. The total new capital raised was $57,346,857.

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

28 Special purpose entities

Heartland PIE Fund

The Group controls the operations of Heartland PIE Fund, a portfolio investment entity that invests in the Group's deposits. Investments of Heartland PIE Fund are represented as follows:

	GROUP		COMPANY	
	Jun 12	Jun 11	Jun 12	Jun 11
	$000	$000	$000	$000
Deposits sourced from New Zealand	12,347	6,517	-	-

Heartland ABCP Trust 1 and CBS Warehouse A Trust Securitisation

The Group has securitised a pool of receivables comprising residential, commercial, and motor vehicle loans to the Trusts. 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 Statements 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 and are represented as follows:

	GROUP		COMPANY	
	Jun 12	Jun 11	Jun 12	Jun 11
	$000	$000	$000	$000
Cash and cash equivalents - Securitised	15,579	15,830	-	-
Finance receivables - Securitised	276,768	209,693	-	-
Borrowings - Securitised	(264,359)	(194,277)	-	-

Heartland Trust and CBS Canterbury Charitable Trust (Charitable Trusts)

The directors of the Company are trustees of the Charitable Trusts, therefore the results of the Charitable Trusts have been included in the Group. The Trusts' beneficiary funds are represented as follows:

Trade and other payables	731	746	-	-

29 Related party transactions

The Company holds all shares in the Society, HFSL, MARAC and PWF, refer Note 5 - Significant subsidiaries and interests in jointly controlled entities.

Former related parties
Until 5 January 2011 the immediate parent of MARAC was MARAC Financial Services Limited (MFSL). MFSL's ultimate parent is Pyne Gould Corporation Limited (PGC). On 30 May 2011, PGC distributed directly to PGC shareholders its 72.21% stake in HNZ. As a result from 30 May 2011, PGC and its subsidiaries (including Real Estate Credit Limited) are no longer related parties of the Group, however material transactions in respect of these former related parties are disclosed below.

(a) Transactions with former related parties

Real Estate Credit Limited (RECL) Management agreement
On 5 January 2011, MARAC entered into a management agreement with RECL. The agreement (as previously amended) was further amended on 19 October 2011. Under this arrangement, RECL manages certain non-core real estate loans (not previously sold in September 2009) of MARAC for a 5 year period (ending 5 January 2016), and assumes the risk of loss on those loans for that period. Any payment by RECL to MARAC in respect of that loss is due at the end of the 5 year period (with some limited right on the part of MARAC to earlier payment). The maximum amount payable by RECL in respect of loss (including interest accruing on loss payments until the due date for payment) is limited to $30 million. The payment obligations of RECL are “limited in recourse” to a pool of security provided by RECL. This pool of security includes an $11 million 5 year zero coupon bond (issued by Westpac New Zealand Limited which is rated AA- by Standard & Poor's (Australia) Pty Limited), and other assets (initially real estate or real estate loans) with a required minimum security value of (initially) $19 million. PGC will be obliged to top up the security pool to the extent that the security value of other assets is less than the minimum required.

MARAC paid RECL an upfront fee of $11 million (which will be amortised over the 5 year period of the arrangement), and will pay an ongoing management fee of $200,000 per annum for the 5 year period.

The benefit of this management agreement is included in the determination of the charge and the analysis of risk gradings and the classification of individually impaired assets as at 30 June 2012. In September 2011, RECL paid $1.5 million cash for claims to MARAC. This payment reduced the required minimum security value of other assets to $17.5 million.

From 31 December 2010, the Group (through VPS Properties Limited and VPS Parnell Limited) began acquiring investment properties as a result of enforcement of security over finance receivables. The acquisitions by VPS Properties Limited and VPS Parnell Limited were funded by advances from the Society and MARAC to those acquiring entities. These advances are covered by the RECL management agreement.

(b) Transactions with related parties

MARAC provided administration services to RECL, MARAC Insurance Limited and Heartland PIE Fund and received insurance commission from MARAC Insurance Limited.

MARAC Insurance Limited and some key management personnel invested in the Society's deposits. The investment of Heartland PIE Fund is detailed in Note 28. Key management personnel investments are detailed in Note 29(c).

All transactions were conducted on normal commercial terms and conditions.

29 **Related party transactions (continued)**

(b) **Transactions with related parties (continued)**

	GROUP		COMPANY	
	Jun 12 $000	**Jun 11 $000**	**Jun 12 $000**	**Jun 11 $000**
Material related party transactions				
Previous parent - MFSL				
Interest income	-	2,976	-	-
Previous ultimate parent - PGC				
Selling and administration expenses	-	(2,494)	-	-
Other related parties				
Lending and credit fee income	368	481	-	-
Other income	328	207	-	-
Interest expense	-	(130)	-	-
Selling and administration expenses	-	(1,000)	-	-
Total transactions with other related parties	**696**	**(442)**	**-**	**-**
Due from other related parties	-	-	194	-
Due to other related parties	-	104	78	-
Total due from related entities	**-**	**-**	**194**	**-**
Total due to related entities	**-**	**104**	**78**	**-**

(c) **Transactions with key management personnel**

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

	GROUP		COMPANY	
	Jun 12 $000	**Jun 11 $000**	**Jun 12 $000**	**Jun 11 $000**
Deposit investments by key management personnel:				
Maximum balance	777	409	-	-
Closing balance	468	385	-	-
Loans to key management personnel:				
Closing balance	304	304	-	-
Key management personnel interest expense and compensation is as follows:				
Interest expense	21	20	-	-
Short-term employee benefits	5,118	2,353	548	322
Share-based payments	91	287	-	-
Total	**5,230**	**2,660**	**548**	**322**

30 **Fair value**

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

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

The current market rate used to fair value finance receivables with a fixed interest rate is 9.06% (2011: 9.51%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses. Prepayment rates have not been factored into the fair value calculation as they are not deemed to be material.

Investments
Investments in public 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).

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30 June 2012

30 Fair value (continued)

Derivative items

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

Borrowings

The fair value of deposits, bank borrowings and other borrowings is the present value of future cash flows and is based on the current market interest rates payable by the Group for debt of similar maturities.

	Held for trading	Loans and receivables	Available for sale	Financial liabilities at amortised cost	Total Carrying Value	Total Fair Value
	$000	$000	$000	$000	$000	$000
GROUP - Jun 12						
Cash and cash equivalents	-	89,689	-	-	89,689	89,689
Investments	-	-	24,327	-	24,327	24,327
Finance receivables	-	1,801,508	-	-	1,801,508	1,800,616
Finance receivables - securitised	-	276,768	-	-	276,768	281,104
Derivative financial assets	2,122	-	-	-	2,122	2,122
Other financial assets	-	3,080	-	-	3,080	3,080
Total financial assets	**2,122**	**2,171,045**	**24,327**	**-**	**2,197,494**	**2,200,938**
Borrowings	-	-	-	1,675,130	1,675,130	1,681,134
Borrowings - securitised	-	-	-	264,359	264,359	264,359
Derivative financial liabilities	1,459	-	-	-	1,459	1,459
Other financial liabilities	-	-	-	18,329	18,329	18,329
Total financial liabilities	**1,459**	**-**	**-**	**1,957,818**	**1,959,277**	**1,965,281**
GROUP - Jun 11						
Cash and cash equivalents	-	267,187	-	-	267,187	267,187
Investments	-	-	17,831	-	17,831	17,831
Finance receivables	-	1,497,618	-	-	1,497,618	1,511,777
Finance receivables - securitised	-	209,693	-	-	209,693	215,743
Derivative financial assets	3,048	-	-	-	3,048	3,048
Other financial assets	-	3,260	-	-	3,260	3,260
Total financial assets	**3,048**	**1,977,758**	**17,831**	**-**	**1,998,637**	**2,018,846**
Borrowings	-	-	-	1,593,247	1,593,247	1,598,815
Borrowings - securitised	-	-	-	194,277	194,277	194,277
Derivative financial liabilities	2,444	-	-	-	2,444	2,444
Other financial liabilities	-	-	-	15,840	15,840	15,840
Total financial liabilities	**2,444**	**-**	**-**	**1,803,364**	**1,805,808**	**1,811,376**
COMPANY - Jun 12						
Cash and cash equivalents	-	469	-	-	469	469
Other financial assets	-	194	-	-	194	194
Total financial assets	**-**	**663**	**-**	**-**	**663**	**663**
Other financial liabilities	-	-	-	300	300	300
Total financial liabilities	**-**	**-**	**-**	**300**	**300**	**300**
COMPANY - Jun 11						
Cash and cash equivalents	-	153	-	-	153	153
Other financial assets	-	11	-	-	11	11
Total financial assets	**-**	**164**	**-**	**-**	**164**	**164**
Other financial liabilities	-	-	-	165	165	165
Total financial liabilities	**-**	**-**	**-**	**165**	**165**	**165**

31 Risk management policies

The Group is committed to the management of risk. The primary risk categories are credit, liquidity, interest rate and operational. 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 Group's Risk Management Programme (RMP). The Group has separate monitoring tasks where feasible and subjects risk processes to hindsight and internal audit, and accounting systems to regular internal and external audits.

Management of capital
The Group's capital includes share capital, reserves and retained earnings.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group has minimum capital requirements which it is required to maintain in accordance with its Trust Deeds, borrowing facilities and the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010. The Group maintains an appropriate buffer above these ratios and reports these to its Board monthly. Throughout the year, the Group has complied with all of these externally imposed requirements.

32 Credit risk exposure

Credit risk management framework
Credit risk is the risk of financial loss to the Group caused by the failure of a customer to meet their contractual obligations that arise from the Group's lending activities. Credit risk carries the greatest risk of resulting in a material adjustment to the carrying amounts of the Group's assets within the next financial year.

To manage this risk the Risk Committee, a committee of the Board, has been delegated the task of overseeing a formal credit risk management strategy. The Risk Committee reviews the Group's credit risk exposures and has wide ranging credit policies to manage all aspects of credit risk.

Reviewing and assessing 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 and product 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.

Lending standards and processes
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 Risk Committee has authority from the Board for approval of all credit exposures. Lending authority has been individually provided to the Chief Risk Officer, 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, ultimately through to the Chief Risk Officer or the Risk Committee.

Collateral requirements
Although the Group relies primarily on the integrity of borrowers and their ability to make contracted repayments, the Group also requires appropriate collateral for loans. This collateral is usually by way of first charge over the asset financed and usually includes personal guarantees from borrowers and business owners.

Because of the wide nature of the collateral held against loans it is impracticable to provide an accurate estimate of their fair value.

32 Credit risk exposure (continued)

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 mainly of consumer and retail receivables and usually relates to financing the acquisition of a single asset. These loans are typically introduced by vendors of the asset financed and are smaller in value than Judgement loans. Behavioural loans are risk graded based on arrears status.

The Judgement portfolio consists mainly of business and rural lending and includes non-core property. Judgement loans relate to loans where an ongoing 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. Previously, the risk grading mechanism used a credit risk grade scale of 1 to 7 and classified loans as Transactional or Relationship. During the year, the risk grades have been revised to a more comprehensive 10 point scale model which better represents the Group's risk profile.

In the Judgement portfolio, grade 1 is the strongest risk grade for undoubted risk and grade 9 represents the highest 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.

The Group raises provisions based on historical loss experience for loans risk graded in grades 6 to 8. Loans in grade 9 of the Judgement portfolio are individually assessed for impairment.

(a) Credit impairment provisioning

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.

Collective provisioning

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.

For Behavioural loans, as arrears drive provision outcomes, the trend in arrears behaviour is an indicator of future provisioning impact. Behavioural loans are classified as either not in arrears, active, arrangement, repossession or recovery. Each arrears classification carries a provision for potential loss based on historical experience for that classification in the same portfolio. Retail mortgages currently carry no provision based on historical loss experience, however a general collective provision is held against this group of loans. The categories are 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.

Judgement loans in grades 6 to 8 ordinarily attract a collective provision based on risk grading overlaid with the strength of security position, except for risk grades 6 which have strong security and accordingly attract no collective provision (typically Rural exposures). Other collective provisions are also maintained where considered appropriate against a class of loans or those with common risk characteristics. Judgement loans with a risk grade of 1 to 5 may be past due and not attract a provision if the Group has reviewed the risk position and it is deemed to remain sound. Under such circumstances normally an amended credit risk grade will result.

No provision is 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.

32 Credit risk exposure (continued)
(a) Credit impairment provisioning (continued)

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.

Individual provisioning in regards to property development lending creates the greatest amount of risk resulting in the possibility of a material adjustment to the carrying amounts of the Group's assets within the next year. Estimating the timing and amount of future cash repayments and proceeds from the realisation of collateral are management's most difficult and subjective judgements. Reduced demand in the current environment has meant that value is difficult to determine. Subjective judgements made by management comprise the time taken for new sales being achieved and the amount received, determining the timing and amount of future cash flows.

Because of the wide nature of the collateral held, and the subjective judgements in determining future cash flows on each individually impaired loan, it is impracticable to provide management's assumptions in regards to property receivables as a whole.

Bad debts

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 comprehensive income. Any future recoveries of amounts provided for are taken to comprehensive income.

Concentration of credit risk

During the year ended 30 June 2012 the Group has amended disclosure in respect of credit risk concentrations to better reflect the risk characteristics of the Group. The Group has the following risk concentrations:

Rural	Lending to the farming sector primarily offering livestock, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.
Property	Non-core property assets of MARAC and the Parent.
Corporate	All other business lending.
Residential	A loan 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.
Consumer	All other loans to individuals.

Verification

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

Disclosures in this credit risk exposure note represent the Group's maximum exposure to credit risk.

32 Credit risk exposure (continued)

(a) Credit impairment provisioning (continued)

(i) Provision for impaired assets

	Non-securitised		Securitised		Total	
	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
GROUP						
Provision for individually impaired assets						
Opening individual impairment	26,149	17,465	8	366	26,157	17,831
Impairment loss for the year						
- charge for the year	6,920	20,223	1	93	6,921	20,316
- recoveries	227	117	-	-	227	117
- write offs	(14,636)	(19,844)	-	(451)	(14,636)	(20,295)
- assumed on acquisition	1,284	-	-	-	1,284	-
- assumed on amalgamation	-	10,049	-	-	-	10,049
- effect of discounting	(559)	(1,861)	-	-	(559)	(1,861)
Closing individual impairment	**19,385**	**26,149**	**9**	**8**	**19,394**	**26,157**
Provision for collectively impaired assets						
Opening collective impairment	11,416	11,765	724	752	12,140	12,517
Impairment loss for the year						
- (credit)/charge for the year *	(1,897)	(7,548)	618	530	(1,279)	(7,018)
- recoveries	322	264	29	36	351	300
- assumed on amalgamation	-	12,927	-	-	-	12,927
- write offs	(2,533)	(5,992)	(647)	(594)	(3,180)	(6,586)
Closing collective impairment	**7,308**	**11,416**	**724**	**724**	**8,032**	**12,140**
Total provision for impairment	**26,693**	**37,565**	**733**	**732**	**27,426**	**38,297**

	Rural $000	Property $000	Corporate $000	Residential $000	Consumer $000	Total $000
GROUP - Jun 12						
Provision for individually impaired assets						
Opening individual impairment	-	20,047	5,945	-	165	26,157
Impairment loss for the year						
- charge for the year	709	3,697	1,700	695	120	6,921
- recoveries	35	32	160	-	-	227
- write offs	(1,664)	(6,704)	(6,113)	-	(155)	(14,636)
- assumed on acquisition	1,284	-	-	-	-	1,284
- effect of discounting	-	(155)	(404)	-	-	(559)
Closing individual impairment	**364**	**16,917**	**1,288**	**695**	**130**	**19,394**
Provision for collectively impaired assets						
Opening collective impairment	500	1,595	6,081	2,037	1,927	12,140
Impairment loss for the year						
- charge/(credit) for the year *	78	(907)	(419)	(2,011)	1,980	(1,279)
- recoveries	-	-	177	-	174	351
- write offs	-	272	(1,767)	-	(1,685)	(3,180)
Closing collective impairment	**578**	**960**	**4,072**	**26**	**2,396**	**8,032**
Total provision for impairment	**942**	**17,877**	**5,360**	**721**	**2,526**	**27,426**

** In determining the charge for the year, the RECL management agreement has been taken into consideration, refer to Note 29 - Related party transactions and Note 15 - Investment properties for more details. In assessing the requirements for provisions, the Group has identified loans for which a loss is expected to be covered by the management agreement of $28.5 million as at 30 June 2012 (June 2011: $11.8 million). Claims of $28.5 million are expected to be made under the RECL Management Agreement in relation to these losses, and to this extent, the RECL Management Agreement would be fully utilised. The agreement covers the MARAC non-core property loans with a net book value of $94 million as at 30 June 2012 (June 2011: $121 million).*

32 **Credit risk exposure (continued)**
(a) **Credit impairment provisioning (continued)**
(i) **Provision for impaired assets (continued)**

	Rural $000	Property $000	Corporate $000	Residential $000	Consumer $000	Total $000
GROUP - Jun 11						
Provision for individually impaired assets						
Opening individual impairment	-	8,712	9,112	-	7	17,831
Impairment loss for the year						
- charge for the year	-	13,182	6,976	-	158	20,316
- recoveries	-	117	-	-	-	117
- write offs	-	(11,404)	(8,891)	-	-	(20,295)
- assumed on amalgamation	-	10,049	-	-	-	10,049
- effect of discounting	-	(609)	(1,252)	-	-	(1,861)
Closing individual impairment	**-**	**20,047**	**5,945**	**-**	**165**	**26,157**
Provision for collectively impaired assets						
Opening collective impairment	-	4,463	3,881	-	4,173	12,517
Impairment loss for the year						
- charge/(credit) for the year	500	(12,260)	3,039	2,037	(334)	(7,018)
- recoveries	-	3	297	-	-	300
- assumed on amalgamation	-	12,649	278	-	-	12,927
- write offs	-	(3,260)	(1,414)	-	(1,912)	(6,586)
Closing collective impairment	**500**	**1,595**	**6,081**	**2,037**	**1,927**	**12,140**
Total provision for impairment	**500**	**21,642**	**12,026**	**2,037**	**2,092**	**38,297**

(ii) **Impaired asset expense**

	Non-securitised		Securitised		Total	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
GROUP						
Individually impaired assets expense	6,920	20,223	1	93	6,921	20,316
Collectively impaired assets (recovery)/expense	(1,897)	(7,548)	618	530	(1,279)	(7,018)
Total impaired asset expense	**5,023**	**12,675**	**619**	**623**	**5,642**	**13,298**

(iii) **Individually impaired assets**

	Non-securitised		Securitised		Total	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
GROUP						
Opening	68,523	42,102	14	545	68,537	42,647
Additions	40,370	49,434	6	51	40,376	49,485
Deletions	(53,959)	(52,927)	-	(582)	(53,959)	(53,509)
Assumed on acquisition	1,871	-	-	-	1,871	-
Assumed on amalgamation	-	29,914	-	-	-	29,914
Closing gross individually impaired assets	**56,805**	**68,523**	**20**	**14**	**56,825**	**68,537**

32 **Credit risk exposure (continued)**
(a) **Credit impairment provisioning (continued)**
(iii) **Individually impaired assets (continued)**

	Rural $000	Property $000	Corporate $000	Residential $000	Consumer $000	Total $000
GROUP - Jun 12						
Opening	-	51,853	16,426	-	258	68,537
Additions	625	31,672	5,234	2,661	184	40,376
Deletions	(1,935)	(32,665)	(19,049)	(31)	(279)	(53,959)
Assumed on acquisition	1,871	-	-	-	-	1,871
Closing gross individually impaired assets	**561**	**50,860**	**2,611**	**2,630**	**163**	**56,825**
GROUP - Jun 11						
Opening	-	19,165	23,467	-	15	42,647
Additions	-	39,794	9,433	-	258	49,485
Deletions	-	(37,020)	(16,474)	-	(15)	(53,509)
Assumed on amalgamation	-	29,914	-	-	-	29,914
Closing gross individually impaired assets	**-**	**51,853**	**16,426**	**-**	**258**	**68,537**

(iv) **Restructured assets**

	Non-securitised		Securitised		Total	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
GROUP - Restructured assets	9,086	3,249	-	-	9,086	3,249

	Rural $000	Property $000	Corporate $000	Residential $000	Consumer $000	Total $000
GROUP - Jun 12						
Restructured assets	-	5,522	1,127	-	2,437	9,086
GROUP - Jun 11						
Restructured assets	-	-	769	-	2,480	3,249

(v) **Past due but not impaired**

	Non-securitised		Securitised		Total	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
GROUP						
Less than 30 days past due	20,258	23,899	3,480	2,678	23,738	26,577
At least 30 and less than 60 days past due	8,699	27,763	1,610	1,614	10,309	29,377
At least 60 but less than 90 days past due	8,342	15,405	517	306	8,859	15,711
At least 90 days past due	50,508	65,739	1,496	1,459	52,004	67,198
Total past due but not impaired	**87,807**	**132,806**	**7,103**	**6,057**	**94,910**	**138,863**

	Rural $000	Property $000	Corporate $000	Residential $000	Consumer $000	Total $000
GROUP - Jun 12						
Less than 30 days past due	1,132	365	8,696	1,658	11,887	23,738
At least 30 and less than 60 days past due	1,524	139	4,480	722	3,444	10,309
At least 60 but less than 90 days past due	2,300	3,455	1,559	251	1,294	8,859
At least 90 days past due	2,537	27,167	12,376	15	9,909	52,004
Total past due but not impaired	**7,493**	**31,126**	**27,111**	**2,646**	**26,534**	**94,910**
GROUP - Jun 11						
Less than 30 days past due	-	9,069	5,255	1,093	11,160	26,577
At least 30 and less than 60 days past due	-	18,515	7,592	599	2,671	29,377
At least 60 but less than 90 days past due	-	6,331	7,837	501	1,042	15,711
At least 90 days past due	-	48,242	14,515	1,068	3,373	67,198
Total past due but not impaired	**-**	**82,157**	**35,199**	**3,261**	**18,246**	**138,863**

32 **Credit risk exposure (continued)**

(b) **Concentrations of credit risk**

(i) **By individual counterparties**

	Non-securitised		Securitised		Total	
	Jun 2012	Jun 2011	Jun 2012	Jun 2011	Jun 2012	Jun 2011
	Number of counterparties		Number of counterparties		Number of counterparties	
Cash and cash equivalents - Individual credit exposures over 10% (as a % of equity):						
GROUP						
10% - 19%	1	2	-	-	1	2
20% - 29%	-	2	-	-	-	2

Short term funds held with New Zealand registered international banks.

(ii) **By industry**

	Non-securitised		Securitised		Total	
	Jun 2012	Jun 2011	Jun 2012	Jun 2011	Jun 2012	Jun 2011
	$000	$000	$000	$000	$000	$000
GROUP						
Agriculture	382,277	147,051	301	930	382,578	147,981
Mining	16,003	10,936	19	12	16,022	10,948
Manufacturing	71,199	58,836	233	1,002	71,432	59,838
Electricity, Gas, Water and Waste Services	4,463	3,644	16	84	4,479	3,728
Construction	153,990	196,348	445	860	154,435	197,208
Wholesale Trade	41,873	56,205	384	53	42,257	56,258
Retail Trade	115,801	110,028	1,299	945	117,100	110,973
Accommodation & Food Services	28,523	19,616	104	19	28,627	19,635
Transport, Postal and Warehousing	87,724	96,021	486	1,278	88,210	97,299
Individuals	571,815	500,023	266,677	202,188	838,492	702,211
Financial and Insurance Services	26,818	35,948	195	500	27,013	36,448
Rental, Hiring and Real Estate Services	189,754	140,956	5,389	842	195,143	141,798
Professional, Scientific and Technical Services	23,053	32,158	608	340	23,661	32,498
Administrative and Support Services	1,615	277	-	-	1,615	277
Public Administration and Safety	551	3,973	-	91	551	4,064
Education and Training	12,774	9,443	73	192	12,847	9,635
Health Care and Social Assistance	3,157	9,779	-	87	3,157	9,866
Arts and Recreation Services	16,253	9,950	20	22	16,273	9,972
Information, Media and Telecommunications	10,016	-	-	-	10,016	-
Other Services	43,849	56,426	519	248	44,368	56,674
Total finance receivables	**1,801,508**	**1,497,618**	**276,768**	**209,693**	**2,078,276**	**1,707,311**

(iii) **By geographic region**

	Non-securitised		Securitised		Total	
	Jun 2012	Jun 2011	Jun 2012	Jun 2011	Jun 2012	Jun 2011
	$000	$000	$000	$000	$000	$000
GROUP						
Auckland	461,766	449,556	86,685	72,161	548,451	521,717
Wellington	83,413	88,016	18,378	16,212	101,791	104,228
Rest of North Island	422,048	347,530	58,239	49,463	480,287	396,993
Canterbury	489,121	471,567	94,727	56,613	583,848	528,180
Rest of South Island	345,160	140,949	18,739	15,244	363,899	156,193
Total finance receivables	**1,801,508**	**1,497,618**	**276,768**	**209,693**	**2,078,276**	**1,707,311**

32 **Credit risk exposure (continued)**

(c) **Maximum exposure to credit risk by internal risk grading**

	Non-securitised		Securitised		Total	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
GROUP						
Judgement portfolio						
Grade 1 - Very Strong	1,280	2,985	-	-	1,280	2,985
Grade 2 - Strong	17,090	25,351	-	13	17,090	25,364
Grade 3 - Sound	82,381	95,350	578	-	82,959	95,350
Grade 4 - Adequate *	322,767	186,092	1,010	783	323,777	186,875
Grade 5 - Acceptable	436,570	238,665	5,483	2,899	442,053	241,564
Grade 6 - Monitor	183,756	92,420	58	849	183,814	93,269
Grade 7 - Substandard	50,874	45,410	-	144	50,874	45,554
Grade 8 - Doubtful	13,906	8,772	5	6	13,911	8,778
Grade 9 - At risk of loss	13,471	35,163	-	-	13,471	35,163
Total Judgement portfolio	**1,122,095**	**730,208**	**7,134**	**4,694**	**1,129,229**	**734,902**
Behavioural portfolio						
Not in arrears	658,686	750,476	262,095	199,476	920,781	949,952
Active	6,789	6,387	2,788	2,675	9,577	9,062
Arrangement	8,549	5,952	4,173	2,073	12,722	8,025
Non-performing / Repossession	3,499	3,165	435	563	3,934	3,728
Recovery	1,890	1,430	143	212	2,033	1,642
Total Behavioural portfolio	**679,413**	**767,410**	**269,634**	**204,999**	**949,047**	**972,409**
Total maximum exposure to credit risk	**1,801,508**	**1,497,618**	**276,768**	**209,693**	**2,078,276**	**1,707,311**

* *In determining the Group's risk grading, the following arrangements have been taken into consideration:*

The RECL management agreement, refer to Note 29 - Related party transactions and Note 15 - Investment properties for more details. In the risk grading table above, as at 30 June 2012 $48 million (June 2011: $51 million) of Judgement loans have been transferred from risk grades below Acceptable to an Adequate risk grade as they are covered by the RECL management agreement. In assessing the requirements for provisions, the Group has identified loans for which a loss is expected to be covered by the management agreement of $28.5 million as at 30 June 2012 (June 2011: $11.8 million). Claims of $28.5 million are expected to be made under the RECL Management Agreement in relation to these losses, and to this extent, the RECL Management Agreement would be fully utilised. The agreement covers the MARAC non-core property loans with a net book value of $94 million as at 30 June 2012 (June 2011: $121 million).

PGG Wrightson Finance Limited guaranteed loans, refer to Note 36 - Business Combinations. In the risk grading table above, as at 30 June 2012 $29 million of Judgement loans have been transferred from risk grades below Acceptable to an Adequate risk grade as they are covered by the Deed of Guarantee and Indemnity with PGG Wrightson Limited. Subsequent to balance date, $6.7 million of loans covered under this Deed were recovered and PGG Wrightson Limited was released from their guarantee in respect of those loans. At balance date, PGG Wrightson Limited had been put on notice that it will be required to reacquire approximately $3.5 million of loans covered under this Deed. Subsequent to balance date, Heartland advised PGG Wrightson Limited that it may require it to reacquire approximately a further $8.3 million of loans covered under this Deed.

32 **Credit risk exposure (continued)**

(c) **Maximum exposure to credit risk by internal risk grading (continued)**

	Rural $000	Property $000	Corporate $000	Residential $000	Consumer $000	Total $000
GROUP - Jun 12						
Judgement portfolio						
Grade 1 - Very Strong	1,277	-	-	-	3	1,280
Grade 2 - Strong	2,941	-	12,537	1,169	443	17,090
Grade 3 - Sound	15,578	6,018	51,348	4,564	5,451	82,959
Grade 4 - Adequate *	67,231	58,054	140,861	10,472	47,159	323,777
Grade 5 - Acceptable	126,011	22,445	192,300	17,704	83,593	442,053
Grade 6 - Monitor	62,315	564	61,868	1,821	57,246	183,814
Grade 7 - Substandard	22,201	7,379	13,920	517	6,857	50,874
Grade 8 - Doubtful	2,956	8,141	1,234	-	1,580	13,911
Grade 9 - At risk of loss	-	13,271	170	-	30	13,471
Total Judgement portfolio	**300,510**	**115,872**	**474,238**	**36,247**	**202,362**	**1,129,229**
Behavioural portfolio						
Not in arrears	-	-	272,111	282,952	365,718	920,781
Active	-	-	2,127	1,657	5,793	9,577
Arrangement	-	-	3,269	964	8,489	12,722
Non-performing / Repossession	-	-	737	1,950	1,247	3,934
Recovery	-	-	1,738	-	295	2,033
Total Behavioural portfolio	**-**	**-**	**279,982**	**287,523**	**381,542**	**949,047**
Total maximum exposure to credit risk	**300,510**	**115,872**	**754,220**	**323,770**	**583,904**	**2,078,276**
GROUP - Jun 11						
Judgement portfolio						
Grade 1 - Very Strong	2,985	-	-	-	-	2,985
Grade 2 - Strong	-	-	23,425	550	1,389	25,364
Grade 3 - Sound	5,317	19,862	60,370	5,432	4,369	95,350
Grade 4 - Adequate *	11,608	52,802	110,603	4,958	6,904	186,875
Grade 5 - Acceptable	11,936	40,569	151,111	23,654	14,294	241,564
Grade 6 - Monitor	16,884	2,830	60,138	4,067	9,350	93,269
Grade 7 - Substandard	4,014	9,812	25,220	-	6,508	45,554
Grade 8 - Doubtful	-	7,083	1,617	-	78	8,778
Grade 9 - At risk of loss	-	25,607	9,556	-	-	35,163
Total Judgement portfolio	**52,744**	**158,565**	**442,040**	**38,661**	**42,892**	**734,902**
Behavioural portfolio						
Not in arrears	-	-	266,375	326,311	357,266	949,952
Active	-	-	2,055	1,063	5,944	9,062
Arrangement	-	-	2,365	1,102	4,558	8,025
Non-performing / Repossession	-	-	1,050	1,077	1,601	3,728
Recovery	-	-	828	-	814	1,642
Total Behavioural portfolio	**-**	**-**	**272,673**	**329,553**	**370,183**	**972,409**
Total maximum exposure to credit risk	**52,744**	**158,565**	**714,713**	**368,214**	**413,075**	**1,707,311**

32 Credit risk exposure (continued)

(d) Commitments to extend credit

	Non-securitised		Securitised		Total	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
GROUP						
Undrawn facilities available to customers	125,492	74,099	-	49	125,492	74,148
Conditional commitments to fund at future dates	38,796	19,199	-	-	38,796	19,199

33 Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds at short notice to meet its commitments and arises from any mismatch of the maturity of financial assets and liabilities. Responsibility for liquidity management is delegated to the Asset and Liability Committee (ALCO), with the Risk Committee providing oversight.

The Group manages liquidity and funding risk by:
- weekly liquidity reporting and scenario analysis to quantify the Group's current and forecast position.
- maintaining a diverse and stable funding base.
- retaining borrowing facilities committed to the Group by registered banks.
- holding a portfolio of liquid assets.
- ensuring the liquidity management framework is compliant with local regulatory requirements.

The following tables show the cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity.

In the following tables, total financial assets do not include unrecognised loan commitments and total financial liabilities do not include undrawn committed bank facilities.

The tables include estimates as to the average interest rate applicable for each asset or liability class during the contractual term.

Contractual liquidity profile of financial assets and liabilities

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
GROUP - Jun 12							
Financial assets							
Cash and cash equivalents	89,689	-	-	-	-	-	89,689
Investments	-	498	498	996	25,314	-	27,306
Finance receivables	-	572,857	336,063	342,005	509,685	638,107	2,398,717
Finance receivables - securitised	-	53,568	54,157	86,874	83,887	112,015	390,501
Derivative financial assets	2,122	-	-	-	-	-	2,122
Other financial assets	-	3,080	-	-	-	-	3,080
Total financial assets	**91,811**	**630,003**	**390,718**	**429,875**	**618,886**	**750,122**	**2,911,415**
Financial liabilities							
Borrowings	237,036	760,301	419,224	272,619	49,549	-	1,738,729
Borrowings - securitised	-	4,578	192,072	75,157	-	-	271,807
Derivative financial liabilities	1,459	-	-	-	-	-	1,459
Other financial liabilities	-	18,329	-	-	-	-	18,329
Total financial liabilities	**238,495**	**783,208**	**611,296**	**347,776**	**49,549**	**-**	**2,030,324**
Net financial (liabilities) / assets	**(146,684)**	**(153,205)**	**(220,578)**	**82,099**	**569,337**	**750,122**	**881,091**
Unrecognised loan commitments	125,492	-	-	-	-	-	125,492
Undrawn committed bank facilities	335,000	-	-	-	-	-	335,000

The undrawn committed bank facilities totalling $335.0 million are available to be drawn down on demand. To the extent drawn, $50.0 million is contractually repayable in 0-6 months' time, $110.0 million is contractually repayable in 6-12 months' time and $175.0 million is contractually repayable in 1-2 years' time upon facility expiry.

33 **Liquidity risk (continued)**

Contractual liquidity profile of financial assets and liabilities (continued)

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
GROUP - Jun 11							
Financial assets							
Cash and cash equivalents	77,773	189,679	-	-	-	-	267,452
Investments	-	7,036	1,327	621	10,556	1,038	20,578
Finance receivables	-	433,361	215,885	335,376	517,824	767,084	2,269,530
Finance receivables - securitised	-	49,601	44,479	72,866	64,606	49,456	281,008
Derivative financial assets	3,048	-	-	-	-	-	3,048
Other financial assets	-	3,260	-	-	-	-	3,260
Total financial assets	**80,821**	**682,937**	**261,691**	**408,863**	**592,986**	**817,578**	**2,844,876**
Financial liabilities							
Borrowings	166,262	948,688	319,267	79,118	135,550	1,990	1,650,875
Borrowings - securitised	-	3,632	174,847	682	20,056	-	199,217
Derivative financial liabilities	2,444	-	-	-	-	-	2,444
Other financial liabilities	-	15,841	-	-	-	-	15,841
Total financial liabilities	**168,706**	**968,161**	**494,114**	**79,800**	**155,606**	**1,990**	**1,868,377**
Net financial (liabilities) / assets	**(87,885)**	**(285,224)**	**(232,423)**	**329,063**	**437,380**	**815,588**	**976,499**
Unrecognised loan commitments	74,148	-	-	-	-	-	74,148
Undrawn committed bank facilities	280,000	-	-	-	-	-	280,000

The undrawn committed bank facilities totalling $280 million are available to be drawn down on demand. To the extent drawn, $25.0 million is contractually repayable in 6-12 months' time, $155.0 million is contractually repayable in 1-2 years' time and $100.0 million is contractually repayable upon facility expiry.

Expected maturity profile of financial assets and liabilities

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
GROUP - Jun 12							
Financial assets							
Cash and cash equivalents	89,689	-	-	-	-	-	89,689
Investments	-	498	498	996	25,314	-	27,306
Finance receivables	-	579,947	386,570	372,340	666,179	56,459	2,061,495
Finance receivables - securitised	-	67,976	60,171	82,716	115,136	-	325,999
Derivative financial asset	2,122	-	-	-	-	-	2,122
Other financial assets	-	3,080	-	-	-	-	3,080
Total financial assets	**91,811**	**651,501**	**447,239**	**456,052**	**806,629**	**56,459**	**2,509,691**
Financial liabilities							
Borrowings	2,370	267,212	226,095	456,293	546,244	359,443	1,857,657
Borrowings - securitised	-	4,578	4,503	9,082	27,269	265,746	311,178
Derivative financial liabilities	1,459	-	-	-	-	-	1,459
Other financial liabilities	-	18,329	-	-	-	-	18,329
Total financial liabilities	**3,829**	**290,119**	**230,598**	**465,375**	**573,513**	**625,189**	**2,188,623**
Net financial assets / (liabilities)	**87,982**	**361,382**	**216,641**	**(9,323)**	**233,116**	**(568,730)**	**321,068**
Unrecognised loan commitments	125,492	-	-	-	-	-	125,492
Undrawn committed bank facilities	335,000	-	-	-	-	-	335,000

33 Liquidity risk (continued)

Expected maturity profile of financial assets and liabilities (continued)

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
GROUP - Jun 11							
Financial assets							
Cash and cash equivalents	77,773	189,679	-	-	-	-	267,452
Investments	-	7,036	1,327	621	10,556	1,038	20,578
Finance receivables	-	396,687	303,218	383,950	716,916	-	1,800,771
Finance receivables - securitised	-	62,667	49,735	69,475	70,192	-	252,069
Derivative financial assets	3,048	-	-	-	-	-	3,048
Other financial assets	-	3,260	-	-	-	-	3,260
Total financial assets	**80,821**	**659,329**	**354,280**	**454,046**	**797,664**	**1,038**	**2,347,178**
Financial liabilities							
Borrowings	-	267,635	195,399	307,165	505,886	515,471	1,791,556
Borrowings - securitised	-	3,632	174,847	682	20,056	-	199,217
Derivative financial liabilities	2,444	-	-	-	-	-	2,444
Other financial liabilities	-	15,841	-	-	-	-	15,841
Total financial liabilities	**2,444**	**287,108**	**370,246**	**307,847**	**525,942**	**515,471**	**2,009,058**
Net financial assets / (liabilities)	**78,377**	**372,221**	**(15,966)**	**146,199**	**271,722**	**(514,433)**	**338,120**
Unrecognised loan commitments	74,148	-	-	-	-	-	74,148
Undrawn committed bank facilities	280,000	-	-	-	-	-	280,000

The tables above show management's expected maturities of existing financial assets and financial liabilities.

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

The above does not reflect a forward looking view of how the Group expects actual financial assets and liabilities to perform in the future, as it does not include new lending and borrowing.

34 Interest rate risk

Interest rate risk is the risk that market interest rates will change and impact on the Group's financial results by affecting the margin between interest earning assets and interest bearing liabilities. The Group monitors market interest rates on a daily basis and regularly reviews interest rate exposure. Interest rate risk is mitigated by management's frequent monitoring of the interest rate repricing profiles of borrowings and finance receivables, and where appropriate, the establishment of derivative instruments.

Contractual Repricing Analysis

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

34 **Interest rate risk (continued)**

	Effective Int Rate %	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
GROUP - Jun 12							
Financial assets							
Cash and cash equivalents	2.71%	89,689	-	-	-	-	89,689
Investments	4.09%	22,149	-	-	2,178	-	24,327
Finance receivables	9.53%	1,347,697	153,606	172,143	128,062	-	1,801,508
Finance receivables - securitised	9.57%	119,316	49,895	69,868	37,689	-	276,768
Other financial assets	-	5,202	-	-	-	-	5,202
Total financial assets		**1,584,053**	**203,501**	**242,011**	**167,929**	**-**	**2,197,494**
Financial liabilities							
Borrowings	5.78%	978,712	396,086	259,956	40,376	-	1,675,130
Borrowings - securitised	3.47%	264,359	-	-	-	-	264,359
Other financial liabilities	-	19,788	-	-	-	-	19,788
Total financial liabilities		**1,262,859**	**396,086**	**259,956**	**40,376**	**-**	**1,959,277**
Effect of derivatives held for risk management		261,077	(43,869)	(175,718)	(41,490)	-	-
Net financial assets		**582,271**	**(236,454)**	**(193,663)**	**86,063**	**-**	**238,217**
GROUP - Jun 11							
Financial assets							
Cash and cash equivalents	3.52%	267,187	-	-	-	-	267,187
Investments	6.15%	6,795	987	-	9,013	1,036	17,831
Finance receivables	9.20%	908,566	180,405	230,015	178,632	-	1,497,618
Finance receivables - securitised	10.65%	66,582	38,366	59,700	45,045	-	209,693
Other financial assets	-	6,308	-	-	-	-	6,308
Total financial assets		**1,255,438**	**219,758**	**289,715**	**232,690**	**1,036**	**1,998,637**
Financial liabilities							
Borrowings	5.89%	1,101,545	299,036	61,623	131,043	-	1,593,247
Borrowings - securitised	3.75%	194,277	-	-	-	-	194,277
Other financial liabilities	-	18,284	-	-	-	-	18,284
Total financial liabilities		**1,314,106**	**299,036**	**61,623**	**131,043**	**-**	**1,805,808**
Effect of derivatives held for risk management		150,984	(77,519)	(90,435)	16,970	-	-
Net financial assets		**92,316**	**(156,797)**	**137,657**	**118,617**	**1,036**	**192,829**

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

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 comprehensive income in terms of a fair value change from movements in market interest rates. Furthermore there is no material cash flow impact on the Statements of Cash Flows from a 100 basis point change in interest rates.

	GROUP		COMPANY	
	Jun 12 $000	Jun 11 $000	Jun 12 $000	Jun 11 $000
35 Contingent liabilities and commitments				
Letters of credit, guarantees and performance bonds	13,404	6,968	-	-
Total contingent liabilities	**13,404**	**6,968**	**-**	**-**

The Group also has contingent commitments to fund at future dates as set out in Note 32(d) - Credit risk exposure.

36 Business Combinations

(a) Heartland Building Society merger

On 5 January 2011, the Society acquired the assets and engagements of SCBS and CBS and all of the shares in MARAC. As part of this process:

- MFSL exchanged its shareholding in MARAC and its investment in MJV for shares in the Company. The agreed consideration of $206,769,000 converted to the issue of 3.94 fully paid shares in the Company in exchange for each MARAC share.
- The Society, a wholly owned subsidiary of the Company (through its subsidiaries), acquired all of the assets and engagements of SCBS and CBS for the total agreed consideration of $79,574,000 converted to the issue of fully paid shares in the Society.
- The Society acquired all of the shares in MARAC through the Company transferring its shareholding in MARAC to the Society (through its subsidiaries as intermediate holders).

On 7 January 2011, the Company issued shares to former CBS and SCBS shareholders (refer Note 27 for more details) and CBS and SCBS were amalgamated into the Group.

Fair value of consideration transferred at acquisition date	**GROUP** **07-Jan-11** **$000**
Shares issued, at fair value *	79,574
Consideration transferred	**79,574**

* Shares issued at fair value exclude the fair value of MFSL's investment in MJV of $2.5 million which was also exchanged for shares in the Company.

Identifiable assets acquired and liabilities assumed	**Fair value** **07-Jan-11** **$000**
Assets	
Cash and cash equivalents	207,126
Investments	21,540
Finance receivables	669,689
Other assets	12,075
Intangible assets	155
Total assets	**910,585**
Liabilities	
Borrowings	841,335
Other liabilities	9,817
Contingent liabilities	-
Total liabilities	**851,152**
Total net identifiable assets	**59,433**
Total consideration transferred	79,574
Fair value of identifiable net assets	59,433
Goodwill	**20,141**

Goodwill on acquisition of $20.1 million has arisen due to expected benefits of the newly formed financial services group. The Society has the benefits of scale and scope and is expected to be value enhancing for all shareholders and offers a better outcome than could be expected as standalone entities.

Goodwill of $20.1 million has not been allocated to individual cash generating units, as the future economic benefit is attributable to all business units. The Group's management and board continue to monitor goodwill at a total level.

36 **Business Combinations (continued)**

(b) Purchase of PGG Wrightson Finance Limited

On 31 August 2011, the Society acquired 100% of PWF from PGW. PWF offers a wide range of financial services, specialising in the rural sector.

The purchase price was $98.0 million being an amount equal to the net tangible assets of PWF, adjusted to take account of certain agreed items. In consideration:

- PGW retained certain loans, most of which were impaired (excluded loans). PWF transferred these excluded loans to a special purpose vehicle (SPV) established by PGW. This resulted in a debt being owed by the SPV back to PWF of $73.1 million.
- The Society paid PGW cash of $24.9 million.

Contemporaneously, the Company issued $10.0 million of Heartland New Zealand Limited (HNZ) shares to PGW.

On 31 August 2011, immediately prior to settlement, $52.7 million of loans not previously recorded in the accounts of PWF that were subject to a risk sharing agreement between PWF and ASB Bank were purchased by PWF for cash. Of these loans $37.3 million form part of the finance receivables purchased by Heartland and $15.4 million were excluded loans transferred to the SPV.

Fair value of consideration transferred at acquisition date

	GROUP 31-Aug-11 $000's
Excluded loans and deferred tax	73,115
Cash paid	24,898
Consideration transferred	**98,013**

Identifiable assets acquired and liabilities assumed

	Fair value 31-Aug-11 $000's
Assets	
Cash and cash equivalents	61,643
Finance receivables *	371,627
Other assets	1,346
Total assets	**434,616**
Liabilities	
Due to related parties **	335,703
Other liabilities	900
Contingent liabilities	-
Total liabilities	**336,603**
Total net identifiable assets	**98,013**
Total consideration transferred	98,013
Fair value of identifiable net assets	98,013
Goodwill	**-**

* Prior to the final settlement on 31 August 2011 the Group purchased a $29 million loan from PWF for cash, bringing the total receivables acquired to $401 million.

** Due to related parties consists of PWF's borrowings acquired of $408.8 million which were transferred to become deposits in the Parent on 31 August 2011, offset by $73.1 million excluded loans and deferred tax.

As part of the acquisition, the Society and PGW entered into a Deed of Guarantee and Indemnity in relation to the Recourse Loans, with book value on acquisition of $30.6 million. This arrangement provides the Society with a guarantee from PGW in relation to the future payment of principal and interest on the Recourse Loans for a prescribed period of three years. As at 30 June 2012, total recourse loans of $28.9 million are included in the Group's finance receivables.

Transactions separate from the acquisition

The Group incurred acquisition-related costs of $0.8 million in the year to 30 June 2011 and $0.2 million in the year ended 30 June 2012, relating to external legal fees and due diligence costs. These costs are included in selling and administration expenses.

37 Staff share ownership arrangements

Discretionary share scheme

At 30 June 2010, the trustees held 60,009 shares in PGC on behalf of certain senior MARAC staff. The trustees participated in the PGC dividend reinvestment plan in December 2010, resulting in an allotment of a further 2,160 shares. A total of 9,661 PGC shares were transferred to staff during the year ended 30 June 2011. In May 2011 38,436 PGC shares were exchanged for 14,072 HNZ shares. A total of 14,072 PGC shares and 14,072 HNZ shares were transferred to staff in the year ended 30 June 2012. At 30 June 2012 the trustees held no shares in PGC or HNZ for these senior staff members.

In August 2011, the Heartland New Zealand Limited employee share plan was established and it acquired $1.0 million of HNZ shares. The terms and conditions of the employee share plan have yet to be determined by the Board.

Executive share scheme

In January 2011, the PGC executive share plan was established, resulting in an allotment of 803,999 PGC shares to certain senior MARAC staff. A total of 402,000 PGC shares were transferred to executives during the year ended June 2011. In May 2011 294,263 PGC shares were cancelled in exchange for 107,736 HNZ shares. A total of 107,736 PGC shares and 107,736 HNZ shares were transferred to executives during the six months ended 31 December 2011. At 30 June 2012 the trustees held no shares in PGC or HNZ for these executives.

The total expense recognised in the year was $115,346 (2011: $464,072).

Additionally, in January 2011 certain key executives of the Group who were previously employed by PGC also participated in the PGC Executive Share scheme, resulting in an allotment of 3,574,999 PGC shares. A total of 1,787,500 PGC shares were transferred to executives during the year ended 30 June 2011. In May 2011 1,308,449 PGC shares were cancelled in exchange for 479,050 HNZ shares. A total of 479,050 PGC shares and 479,050 HNZ shares were transferred to executives during the year ended 30 June 2012. At 30 June 2012 the trustees held no shares in PGC or HNZ for these executives. No expense is recognised in relation to these shares as the cost was borne by PGC.

38 Events after the reporting date

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

8.0 AUDIT REPORT

Independent auditor's report

To the shareholders of Heartland New Zealand Limited

Report on the company and group financial statements

We have audited the accompanying financial statements of Heartland New Zealand Limited (the "company") and the group, comprising the company and its subsidiaries, on pages 17 to 56. The financial statements comprise the statements of financial position as at 30 June 2012, the statements 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, for both the company and the group.

Directors' responsibility for the company and group financial statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group 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 these company and group 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 company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate 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 company and 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 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 company and group in relation to general accounting services. Subject to certain restrictions, partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. These matters have not impaired our independence as auditor of the company and group. The firm has no other relationship with, or interest in, the company and group.

KPMG

Opinion

In our opinion the financial statements on pages 17 to 56:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 30 June 2012 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Heartland New Zealand Limited as far as appears from our examination of those records.

KPMG

28 August 2012

Auckland

9.0 DIRECTOR DISCLOSURES AND EXECUTIVE REMUNERATION

Directors

The following persons were directors of the Company and the Company's subsidiaries during the year ended 30 June 2012.

Heartland New Zealand Limited

J K Greenslade	Non-Independent Director
B R Irvine	Independent Director
G R Kennedy	Independent Director
G R Leech	Independent Director
C R Mace	Independent Director
B W Mogridge (resigned 28 October 2011)	Non-Independent Director
G T Ricketts	Independent Director

Heartland Financial Services Limited

J K Greenslade

BSHL No. 1 Limited – BSHL No. 20 Limited

J K Greenslade

Heartland NZ Trustee Limited

J K Greenslade (appointed 26 July 2011)
B R Irvine (appointed 26 July 2011)

Heartland Building Society

J K Greenslade
E J Harvey
B R Irvine
G R Kennedy
G R Leech
C R Mace
B W Mogridge (resigned 28 October 2011)
G T Ricketts
M A Smith

MARAC Finance Limited

J K Greenslade
B R Irvine

VPS Parnell Limited

B R Irvine
J K Greenslade (resigned 12 July 2011)

VPS Properties Limited

B R Irvine
J K Greenslade (resigned 12 July 2011)

CBS Canterbury Limited

G R Kennedy

Canterbury Building Society Limited

G R Kennedy

Southern Cross Nominees Limited

G T Ricketts

Southern Cross Building and Investments Limited

G T Ricketts

PGG Wrightson Finance Limited

B R Irvine (appointed 31 August 2011)
J K Greenslade (appointed 31 August 2011)

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 2012.

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 was $63,480.80.

9.0 DIRECTOR DISCLOSURES AND EXECUTIVE REMUNERATION continued

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 2012 are as follows.

B R Irvine

No. of Shares	Class of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition/ Disposal
4,023,012	Ordinary	Non-beneficial	Acquisition	Nil	29 July 2011
1,677,444	Ordinary	Non-beneficial	Acquisition	Nil	August 2011
28,736	Ordinary	Beneficial	Acquisition	$15,000	31 August 2011
1,985,860	Ordinary	Non-beneficial	Acquisition	$999,872	October – December 2011
14,072	Ordinary	Non-beneficial	Acquisition	Nil	8 March 2012
1,460	Ordinary	Non-beneficial	Disposal	Nil	8 March 2012
5,707	Ordinary	Non-beneficial	Disposal	Nil	8 March 2012
5,633	Ordinary	Non-beneficial	Disposal	Nil	8 March 2012

C R Mace

No. of Shares	Class of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition/ Disposal
4,023,012	Ordinary	Non-beneficial	Acquisition	Nil	29 July 2011
1,677,444	Ordinary	Non-beneficial	Acquisition	Nil	August 2011
28,736	Ordinary	Beneficial	Acquisition	$15,000	31 August 2011

G R Kennedy

No. of Shares	Class of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition/ Disposal
4,023,012	Ordinary	Non-beneficial	Acquisition	Nil	29 July 2011
1,677,444	Ordinary	Non-beneficial	Acquisition	Nil	August 2011
28,736	Ordinary	Beneficial	Acquisition	$15,000	31 August 2011
28,736	Ordinary	Beneficial	Acquisition	$15,000	31 August 2011
100,000	Ordinary	Non-beneficial	Disposal	$50,000	22 November 2011
148,560	Ordinary	Non-beneficial	Disposal	$71,808	5 December 2011 – 4 January 2012
100,000	Ordinary	Non-beneficial	Disposal	$47,000	21 December 2011
59,242	Ordinary	Non-beneficial	Disposal	$29,810	9 February 2012
40,758	Ordinary	Non-beneficial	Disposal	$28,068	12 April 2012
50,000	Ordinary	Non-beneficial	Disposal	$25,605	27 June 2012

G R Leech

No. of Shares	Class of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition/ Disposal
28,736	Ordinary	Beneficial	Acquisition	$15,000	31 August 2011

G T Ricketts

No. of Shares	Class of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition/ Disposal
4,023,012	Ordinary	Non-beneficial	Acquisition	Nil	29 July 2011
1,677,444	Ordinary	Non-beneficial	Acquisition	Nil	August 2011
28,736	Ordinary	Beneficial	Acquisition	$15,000	31 August 2011

J K Greenslade

No. of Shares	Class of Shares	Nature of Relevant Interest	Acquisition/ Disposal	Consideration	Date of Acquisition/ Disposal
28,736	Ordinary	Beneficial	Acquisition	$15,000	31 August 2011
1,985,860	Ordinary	Non-beneficial	Acquisition	$999,872	October – December 2011
30,017	Ordinary	Non-beneficial	Disposal	Nil	7 February 2012

General Notice of Disclosure of Interest in the Interests Register

E J Harvey in his capacity as a director of Heartland Building Society (being a subsidiary of Heartland New Zealand Limited) made the following entry.

Appointment as a director of Ballance Agri-Nutrients Limited on 1 February 2012.

Directors' Relevant Interests

Set out in the table below are the Heartland New Zealand Limited shares in which each director of the Company had a relevant interest as at 30 June 2012.

At 30 June 2012	Beneficial	Non-Beneficial
J K Greenslade	571,979	2,017,003
B R Irvine	93,236	7,687,588
G R Kennedy	449,496	7,285,618
G R Leech	172,451	245,264
C R Mace	12,285,439	5,700,456
G T Ricketts	12,285,439	5,700,456

9.0 DIRECTOR DISCLOSURES AND EXECUTIVE REMUNERATION continued

Directors' Remuneration

The total remuneration received by each director who held office in the Company and the Company's subsidiaries during the year ended 30 June 2012 was as follows.

Director	Remuneration
B R Irvine	$162,500
B W Mogridge (retired on 28 October 2011)	$30,000
C R Mace	$88,125
E J Harvey	$90,000
G R Kennedy	$92,500
G R Leech	$95,000
G T Ricketts	$85,000
M A Smith	$80,000

The total remuneration paid was $723,125.

Executive directors and employees acting as directors do not receive directors' fees. The total remuneration of the executive director was as follows.

J K Greenslade	$1,158,739

Executive Remuneration

The number of employees of the Company and the Company's subsidiaries (including former employees), other than directors, who received remuneration, including non-cash benefits, in excess of $100,000 for the year ended 30 June 2012 is set out in the remuneration bands detailed below.

Remuneration	Number
$100,000 to $110,000	7
$110,000 to $120,000	14
$120,000 to $130,000	11
$130,000 to $140,000	9
$140,000 to $150,000	7
$150,000 to $160,000	3
$160,000 to $170,000	4
$170,000 to $180,000	3
$180,000 to $190,000	2
$190,000 to $200,000	3
$200,000 to $210,000	1
$210,000 to $220,000	3
$230,000 to $240,000	2
$240,000 to $250,000	1
$250,000 to $260,000	1
$270,000 to $280,000	1
$320,000 to $330,000	1
$340,000 to $350,000	1
$360,000 to $370,000	1
$390,000 to $400,000	1
$450,000 to $460,000	1
$490,000 to $500,000	1
$510,000 to $520,000	2
$600,000 to $610,000	1

10.0 SHAREHOLDER INFORMATION

Spread of Shares

Set out in the table below are details of the spread of shareholders of the Company as at 14 August 2012.

Size of Holding	Number of Shareholders	Total Number of Shares	% of Issued Shares
1–1,000 shares	1,077	645,278	0.166
1,001–5,000 shares	2,341	6,029,517	1.551
5,001–10,000 shares	1,329	9,810,590	2.524
10,001–50,000 shares	2,152	49,295,635	12.682
50,001–100,000 shares	475	33,348,064	8.579
100,001 shares and over	327	289,574,891	74.498
TOTAL	**7,701**	**388,703,975**	**100.000**

Twenty Largest Shareholders

Set out below are details of the 20 largest shareholders of the Company as at 14 August 2012.

Rank	Shareholder	Total Shares	% of Issued Shares
1	Harrogate Trustee Limited	36,360,011	9.354
2	Accident Compensation Corporation	28,563,832	7.348
3	Philip Maurice Carter	20,973,492	5.396
4	PGG Wrightson Limited	13,333,333	3.430
5	Oceania & Eastern Limited	12,285,439	3.161
6	HSBC Nominees (New Zealand) Limited	8,225,145	2.116
7	Gould Holdings Limited	7,417,427	1.908
8	AMP Investment Strategic Equity Growth Trust Fund	7,310,410	1.881
9	National Nominees New Zealand Limited	6,640,511	1.708
10	Citibank Nominees (NZ) Limited	6,328,545	1.628
11	Heartland Trust	5,365,007	1.380
12	FNZ Custodians Limited	4,687,715	1.206
13	Jarden Custodians Limited	4,500,000	1.158
14	New Zealand Superannuation Fund Nominees Limited	3,776,134	0.971
15	Leveraged Equities Finance Limited	3,094,818	0.796
16	NZGT Nominees Limited	3,093,345	0.796
17	Loris Equities Limited	2,946,535	0.758
18	Forsyth Barr Custodians Limited	2,892,089	0.744
19	ASB Nominees Limited	2,321,006	0.597
20	Maxima Investments Limited	2,066,118	0.532
TOTAL FOR TWENTY LARGEST SHAREHOLDERS		**182,180,912**	**46.869**

Substantial Security Holders

Set out below are the names and shareholdings of the Substantial Security Holders in the Company as at 14 August 2012.

Name	Number of Shares	Class of Shares
Accident Compensation Corporation, Nicholas Bagnall, Blair Tallott, Paul Robertshawe and Ian Graham	27,253,564	Ordinary
Blair Cooper (includes ACC's relevant interest)	28,998,690	Ordinary
Blair Tallott (includes ACC's relevant interest)	29,008,010	Ordinary
Harrogate Trustee Limited and Greg Raymond Tomlinson	34,510,011	Ordinary
Philip Maurice Carter	20,973,492	Ordinary

The total number of Heartland New Zealand Limited ordinary shares on issue as at 14 August 2012 was 388,703,975.

11.0 OTHER INFORMATION

NZX Waivers

Set out below is a summary of all waivers granted to the Company by NZX Limited, or relied on by the Company, within the 12 month period preceding the date two months before the publication of this Annual Report.

PWF Acquisition – June 2011

The Company was granted a waiver from the requirement in NZSX Listing Rule 9.2.1 to obtain shareholder approval to enter into certain transactions in connection with the proposed acquisition by Heartland Building Society (HBS) from PGG Wrightson Limited (PGW) of all of the shares in PGG Wrightson Finance Limited (PWF).

Capital Raising – July 2011

The Company was granted a waiver from NZSX Listing Rule 7.3.5(b) to enable it to proceed with a placement of shares to each of PGC ($10 million in value) and PGW ($10 million in value), in connection with the proposed acquisition by HBS from PGW of PWF.

Donations

Donations of $45,000 were made during the year ended 30 June 2012 by the Group via the Heartland Trust, from which donations were made to various organisations.

12.0 DIRECTORY

Heartland New Zealand Limited

Directors

Bruce Irvine	Chairman
Jeffrey Greenslade	Managing Director
Graham Kennedy	Director
Gary Leech	Director
Christopher Mace	Director
Geoffrey Ricketts	Director

Executives

Chris Flood	Head of Retail & Consumer
Michael Jonas	General Counsel
James Mitchell	Head of Business and Operations
Mark Mountcastle	Chief Risk Officer
Simon Owen	Chief Financial Officer
Will Purvis	Head of Rural
Sarah Selwood	Head of Human Resources
Craig Stephen	Head of Treasury and Strategy

Registered Office

75 Riccarton Road
Riccarton
Christchurch 8011

PO Box 8623
Riccarton
Christchurch 8440

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

Heartland Building Society

Directors

Bruce Irvine	Chairman
Jeffrey Greenslade	Managing Director
John Harvey	Director
Graham Kennedy	Director
Gary Leech	Director
Christopher Mace	Director
Geoffrey Ricketts	Director
Michelle Smith	Director

Executives

Chris Flood	Head of Retail & Consumer
Michael Jonas	General Counsel
James Mitchell	Head of Business and Operations
Mark Mountcastle	Chief Risk Officer
Simon Owen	Chief Financial Officer
Will Purvis	Head of Rural
Sarah Selwood	Head of Human Resources
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Auditors

KPMG

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T 09 367 5800

Share Registry

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Ashburton 7740

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HEARTLAND

New Zealand Limited

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