FINANCIAL STATEMENTS

For the year ended 30 June 2012

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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 Building Society (Parent) 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 Parent 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 Building Society authorised the financial statements set out on pages 4 to 48 for issue on 28 August 2012.

For and on behalf of the Board

Director

Director

EXPLANATORY FOREWORD

The financial statements presented are those of Heartland Building Society (Parent) and its subsidiaries (Group).

On 5 January 2011, the Group was formed through the business combination of CBS Canterbury (CBS), Southern Cross Building Society (SCBS) and MARAC Finance Limited (MARAC). On 31 August 2011, the Group acquired PGG Wrightson Finance Limited (PWF).

From a legal perspective MARAC is a subsidiary of the Parent. Under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) MARAC was 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 results for the year ended 30 June 2011 reflect the results of the MARAC Group from 1 July 2010 to 5 January 2011 and the results of the Group from 6 January 2011 to 30 June 2011. The year ended 30 June 2012 includes the Group results from 1 July 2011 onwards and the PWF result from 31 August 2011.

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	NOTE	GROUP Jun 2012 $000	GROUP Jun 2011 $000	PARENT Jun 2012 $000	PARENT Jun 2011 $000
Interest income	5	205,131	161,297	49,674	30,895
Interest expense	5	121,502	99,705	111,971	54,738
Net interest income / (expense)		**83,629**	**61,592**	**(62,297)**	**(23,843)**
Operating lease income	6	15,064	18,073	-	-
Operating lease expenses	6	9,954	11,130	-	-
Net operating lease income		**5,110**	**6,943**	**-**	**-**
Lending and credit fee income		1,889	1,327	771	370
Dividend income		-	-	88,482	-
Other income	13	4,330	718	9,033	179
Net operating income / (loss)		**94,958**	**70,580**	**35,989**	**(23,294)**
Selling and administration expenses	7	64,181	44,826	34,966	9,934
Profit / (loss) before impaired asset expense and income tax		**30,777**	**25,754**	**1,023**	**(33,228)**
Impaired asset expense	29(a)(ii)	5,642	13,298	3,473	2,074
Decrease in fair value of investment properties	13	3,900	-	-	-
Profit / (loss) before income tax		**21,235**	**12,456**	**(2,450)**	**(35,302)**
Income tax (benefit) / expense	8	(2,974)	4,712	(30,176)	(10,285)
Profit / (loss) for the year		**24,209**	**7,744**	**27,726**	**(25,017)**
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	(103)	111
Net change in defined benefit reserve		(435)	14	(435)	14
Other comprehensive (loss) / income for the year, net of income tax		**(160)**	**721**	**(538)**	**125**
Total comprehensive income / (loss) for the year		**24,049**	**8,465**	**27,188**	**(24,892)**

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

The notes on pages 9 to 48 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 2012 - GROUP							
Balance at 1 July 2011		**134,774**	**111**	**14**	**(1,388)**	**160,330**	**293,841**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	24,209	24,209
Total other comprehensive income		-	(103)	(435)	378	-	(160)
Total comprehensive income for the year		**-**	**(103)**	**(435)**	**378**	**24,209**	**24,049**
Contributions by and distributions to owners							
Issue of share capital	24	55,000	-	-	-	-	55,000
Dividends to equity holders		-	-	-	-	(1,597)	(1,597)
Total transactions with owners		**55,000**	**-**	**-**	**-**	**(1,597)**	**53,403**
Balance at 30 June 2012		**189,774**	**8**	**(421)**	**(1,010)**	**182,942**	**371,293**
Jun 2011 - GROUP							
Balance at 1 July 2010		**55,000**	**-**	**-**	**(1,984)**	**153,452**	**206,468**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	7,744	7,744
Total other comprehensive income		-	111	14	596	-	721
Total comprehensive income for the year		**-**	**111**	**14**	**596**	**7,744**	**8,465**
Contributions by and distributions to owners							
Issue of share capital		79,774	-	-	-	-	79,774
Dividends to equity holders		-	-	-	-	(866)	(866)
Total transactions with owners		**79,774**	**-**	**-**	**-**	**(866)**	**78,908**
Balance at 30 June 2011		**134,774**	**111**	**14**	**(1,388)**	**160,330**	**293,841**

The notes on pages 9 to 48 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 2012 - PARENT							
Balance at 1 July 2011		**284,043**	**111**	**14**	**-**	**(25,883)**	**258,285**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	27,726	27,726
Total other comprehensive income		-	(103)	(435)	-	-	(538)
Total comprehensive income for the year		**-**	**(103)**	**(435)**	**-**	**27,726**	**27,188**
Contributions by and distributions to owners							
Issue of share capital	24	55,000	-	-	-	-	55,000
Dividends to equity holders		-	-	-	-	(1,597)	(1,597)
Total transactions with owners		**55,000**	**-**	**-**	**-**	**(1,597)**	**53,403**
Balance at 30 June 2012		**339,043**	**8**	**(421)**	**-**	**246**	**338,876**
Jun 2011 - PARENT							
Balance at 1 July 2010		**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year							
Loss for the year		-	-	-	-	(25,017)	(25,017)
Total other comprehensive income		-	111	14	-	-	125
Total comprehensive income for the year		**-**	**111**	**14**	**-**	**(25,017)**	**(24,892)**
Contributions by and distributions to owners							
Issue of share capital	24	284,043	-	-	-	-	284,043
Dividends to equity holders		-	-	-	-	(866)	(866)
Total transactions with owners		**284,043**	**-**	**-**	**-**	**(866)**	**283,177**
Balance at 30 June 2011		**284,043**	**111**	**14**	**-**	**(25,883)**	**258,285**

The notes on pages 9 to 48 are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2012

		GROUP		PARENT	
		Jun 2012	**Jun 2011**	**Jun 2012**	**Jun 2011**
	NOTE	**$000**	**$000**	**$000**	**$000**
Assets					
Cash and cash equivalents	11	89,220	267,034	72,217	245,322
Investments	12	24,327	17,831	24,327	17,831
Due from related parties	26	276	200	1,107,857	740,817
Investment properties	13	55,504	34,499	-	-
Finance receivables	14	2,078,276	1,707,311	547,984	626,518
Operating lease vehicles	15	34,550	32,727	-	-
Current tax assets		5,272	-	6,369	10,708
Other assets	16	15,857	19,499	5,112	7,465
Investment in subsidiaries	17	-	-	302,282	204,269
Intangible assets	18	22,997	21,602	22,213	20,216
Property, plant and equipment	19	10,067	10,079	9,613	9,433
Deferred tax assets	20	8,143	4,703	5,083	371
Total assets		**2,344,489**	**2,115,485**	**2,103,057**	**1,882,950**
Liabilities					
Borrowings	21	1,939,489	1,787,524	1,750,579	1,613,731
Current tax liabilities		-	2,209	-	-
Trade and other payables	22	33,707	31,911	13,602	10,934
Total liabilities		**1,973,196**	**1,821,644**	**1,764,181**	**1,624,665**
Equity					
Share capital	24	189,774	134,774	339,043	284,043
Retained earnings and reserves		181,519	159,067	(167)	(25,758)
Total equity		**371,293**	**293,841**	**338,876**	**258,285**
Total equity and liabilities		**2,344,489**	**2,115,485**	**2,103,057**	**1,882,950**

The notes on pages 9 to 48 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2012

		GROUP		PARENT	
		Jun 2012	Jun 2011	Jun 2012	Jun 2011
	NOTE	$000	$000	$000	$000
Cash flows from operating activities					
Interest received		197,136	152,011	47,859	29,000
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	9,804	549
Net decrease in finance receivables		-	-	77,596	42,404
Total cash provided from operating activities		**224,386**	**186,041**	**135,259**	**71,953**
Payments to suppliers and employees		66,940	54,336	29,696	6,448
Interest paid		121,742	91,267	114,713	48,858
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		**226,157**	**183,221**	**144,409**	**55,306**
Net cash flows (applied to) / from operating activities	10	**(1,771)**	**2,820**	**(9,150)**	**16,647**
Cash flows from investing activities					
Sale of investment property		832	-	-	-
Proceeds from sale of investments		-	3,709	-	3,709
Proceeds from sale of finance receivables to related party		-	39,764	-	-
Total cash provided from investing activities		**832**	**43,473**	**-**	**3,709**
Purchase of office fit-out, equipment and intangible assets		3,191	1,831	2,886	111
Purchase of investments		6,496	-	6,496	-
Advance to subsidiaries		-	-	-	34,523
Purchase of subsidiary	34	24,898	-	24,898	-
Purchase of investment property		937	21,140	-	-
Total cash applied to investing activities		**35,522**	**22,971**	**34,280**	**34,634**
Net cash flows (applied to) / from investing activities		**(34,690)**	**20,502**	**(34,280)**	**(30,925)**
Cash flows from financing activities					
Issue of share capital		55,000	-	55,000	-
Total cash provided from financing activities		**55,000**	**-**	**55,000**	**-**
Dividends paid		1,597	866	1,597	866
Net decrease in borrowings		256,399	48,954	183,078	17,078
Total cash applied to financing activities		**257,996**	**49,820**	**184,675**	**17,944**
Net cash flows applied to financing activities		**(202,996)**	**(49,820)**	**(129,675)**	**(17,944)**
Net decrease in cash held		**(239,457)**	**(26,498)**	**(173,105)**	**(32,222)**
Opening cash and cash equivalents		267,034	86,406	245,322	-
Cash impact of business combinations	34	61,643	207,126	-	277,544
Closing cash and cash equivalents	11	**89,220**	**267,034**	**72,217**	**245,322**

The notes on pages 9 to 48 are an integral part of these financial statements.

1 Reporting entity

The financial statements presented are the consolidated financial statements comprising Heartland Building Society (Parent) and its subsidiaries (Group).

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) and CBS Warehouse A Trust were amalgamated to form the Parent.
- The borrowings of MARAC Finance Limited (MARAC) were transferred to the Parent.
- The shares in MARAC Finance Limited were transferred to the Parent from MARAC Financial Services Limited to form the Group.

From a legal perspective MARAC is a subsidiary of the Parent. Under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) the merger was treated as a reverse acquisition. The business combination was therefore accounted for as if MARAC acquired 72% of the Parent.

As a result the financial statements represent a continuation of the MARAC business. Comparatives for the year ended 30 June 2011 reflect the total comprehensive income of the MARAC Group from 1 July 2010 to 5 January 2011 and the total comprehensive income of the Group from 6 January 2011 to 30 June 2011. From 1 July 2011 onwards the total comprehensive income reflects the Group.

On 31 August 2011, the Parent acquired 100% of PGG Wrightson Finance Limited (PWF) from PGG Wrightson Limited (PGW), refer to Note 34 - Business Combinations for more information.

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.

All entities within the Group offer financial services or are special purpose entities. The Group operates and is domiciled in New Zealand. The registered office address is 75 Riccarton Road, Riccarton, 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. The financial statements 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 Parent and all entities within the Group are profit-oriented entities. The Parent 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 Building Societies Act 1965 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 and rounding

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.

(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 29 - Credit risk exposure.

(e) Going concern

The financial statements have been prepared on a going concern basis after considering the Parent’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 Parent.

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

(b) 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 Parent controls the special purpose entity.

(c) 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.

(d) 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.

(e) 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.

(f) Dividend income

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

(g) 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 equity or other comprehensive income, in which case it is recognised in equity or 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.

(h) 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.

(i) 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.

3 Significant accounting policies (continued)

(j) Investments

The Parent and Group hold 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

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.

(o) 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%

(p) 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.

3 Significant accounting policies (continued)

(p) Intangible assets and goodwill (continued)

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.

(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(n))

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.

(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 financial 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 29 - 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.

3 Significant accounting policies (continued)

(t) 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.

(u) 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.

(v) 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 period 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.

(w) 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.

(x) 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 33 - 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.

(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) Changes in accounting policies

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

(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 periods 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

3 Significant accounting policies (continued)

(aa) New standards and interpretations not yet adopted (continued)

Standard and description	***Effective for annual periods beginning on or after:***	***Expected to be initially applied in year ending:***
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 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 2013	30 June 2014
NZ IAS 32 Financial Instruments: Presentation, amendment to offsetting financial assets and financial liabilities.	1 January 2014	30 June 2015

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.

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 26 - 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 Parent.

The Group's operating segments are different than the industry categories detailed in Note 29 - Credit risk exposure. The operating segments are primarily categorised by security type, whereas Note 29 - Credit risk exposure categorises exposures based on credit risk concentrations (see Note 29 for further details).

4 Segmental analysis (continued)

	GROUP					
	Retail & Consumer $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Jun 2012						
Interest income	94,606	49,867	41,391	12,630	6,637	205,131
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**	**2,328**	**83,629**
Net operating lease income	5,097	13	-	-	-	5,110
Net other income	927	57	66	4,104	1,065	6,219
Net operating income	**45,058**	**21,026**	**19,117**	**6,364**	**3,393**	**94,958**
Depreciation and amortisation expense	-	-	-	-	1,830	1,830
Other selling and administration expenses	11,475	5,273	5,837	6,350	33,416	62,351
Selling and administration expenses	**11,475**	**5,273**	**5,837**	**6,350**	**35,246**	**64,181**
Profit / (loss) before impaired asset expense and income tax	**33,583**	**15,753**	**13,280**	**14**	**(31,853)**	**30,777**
Impaired asset expense	1,991	2,445	689	517	-	5,642
Decrease in fair value of investment properties	-	-	-	3,900	-	3,900
Profit / (loss) before income tax	**31,592**	**13,308**	**12,591**	**(4,403)**	**(31,853)**	**21,235**
Income tax benefit	-	-	-	-	(2,974)	(2,974)
Profit / (loss) for the year	**31,592**	**13,308**	**12,591**	**(4,403)**	**(28,879)**	**24,209**
Total assets	989,352	540,228	478,582	160,168	176,159	**2,344,489**
Total liabilities	-	-	-	-	1,973,196	**1,973,196**
Total equity	-	-	-	-	371,293	**371,293**

	GROUP					
	Retail & Consumer $000	Business $000	Rural $000	Non-core Property $000	Other $000	Total $000
Jun 2011						
Interest income	90,280	39,178	4,242	19,805	7,792	161,297
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**	**335**	**61,592**
Net operating lease income	6,823	120	-	-	-	6,943
Net other income	543	21	-	542	939	2,045
Net operating income	**40,674**	**17,279**	**1,643**	**9,710**	**1,274**	**70,580**
Depreciation and amortisation expense	-	-	-	-	1,482	1,482
Other selling and administration expenses	8,996	3,983	1,048	1,986	27,331	43,344
Selling and administration expenses	**8,996**	**3,983**	**1,048**	**1,986**	**28,813**	**44,826**
Profit / (loss) before impaired asset expense and income tax	**31,678**	**13,296**	**595**	**7,724**	**(27,539)**	**25,754**
Impaired asset expense	2,829	7,195	510	2,764	-	13,298
Profit / (loss) before income tax	**28,849**	**6,101**	**85**	**4,960**	**(27,539)**	**12,456**
Income tax expense	-	-	-	-	4,712	4,712
Profit / (loss) for the year	**28,849**	**6,101**	**85**	**4,960**	**(32,251)**	**7,744**
Total assets	1,035,118	476,367	75,961	187,091	340,948	**2,115,485**
Total liabilities	-	-	-	-	1,821,644	**1,821,644**
Total equity	-	-	-	-	293,841	**293,841**

5 Net interest income / (expense)

	GROUP		PARENT	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
Interest income				
Cash and cash equivalents	5,132	6,770	4,690	5,708
Finance receivables	199,526	154,527	42,278	23,900
Derivatives held for risk management:				
- Net interest income on cash flow hedges	473	-	2,706	1,287
Total interest income	**205,131**	**161,297**	**49,674**	**30,895**
Interest expense				
Retail deposits and debenture stock	100,769	78,327	100,788	48,330
Bank and securitised borrowings	20,733	21,332	11,183	6,408
Derivatives held for risk management:				
- Net interest expense on cash flow hedges	-	46	-	-
Total interest expense	**121,502**	**99,705**	**111,971**	**54,738**
Net interest income / (expense)	**83,629**	**61,592**	**(62,297)**	**(23,843)**

Included within the Group's interest income on finance receivables is $2,674,000 (June 2011: $5,902,000) on individually impaired assets. Included within the Parent's interest income on finance receivables is $2,081,000 (June 2011: $1,540,000) on individually impaired assets.

6 Net operating lease income

	GROUP		PARENT	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $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**	**-**	**-**

7 Selling and administration expenses

		GROUP		PARENT	
	NOTE	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
Personnel expenses		34,186	21,747	20,580	4,061
Directors' fees		175	-	175	-
Superannuation		475	302	253	30
Audit fees		516	386	489	247
Audit related fees		35	59	32	28
Amortisation - intangible assets	18	1,075	978	178	187
Depreciation - property, plant and equipment	19	755	504	531	186
Operating lease expense as a lessee		1,648	1,277	810	357
Legal and professional fees		5,397	6,632	1,492	1,669
Other operating expenses		19,919	12,941	10,426	3,169
Total selling and administration expenses		**64,181**	**44,826**	**34,966**	**9,934**

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.

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

8 Income tax (benefit) / expense

	GROUP		PARENT	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
Current income tax expense				
Current year	4,942	2,136	(25,024)	(9,914)
Adjustments for prior year	(3,218)	-	987	-
Deferred tax (benefit) / expense				
Origination and reversal of temporary differences	1,484	2,278	43	(397)
Tax legislation changes	(6,182)	298	(6,182)	26
Total income tax (benefit) / expense	**(2,974)**	**4,712**	**(30,176)**	**(10,285)**
Reconciliation of effective tax rate				
Profit / (loss) before income tax	21,235	12,456	(2,450)	(35,302)
Prima facie tax at 28% (Jun 2011: 30%)	5,946	3,737	(686)	(10,591)
Plus tax effect of items not taxable / deductible	480	677	480	280
Adjustments for prior year	(3,218)	-	987	-
Dividends received	-	-	(24,775)	-
Tax legislation changes	(6,182)	298	(6,182)	26
Total income tax (benefit) / expense	**(2,974)**	**4,712**	**(30,176)**	**(10,285)**

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 2012			Jun 2011		
	Before tax $000	Tax expense / (benefit) $000	Net of tax $000	Before tax $000	Tax expense $000	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**

	PARENT					
	Jun 2012			Jun 2011		
	Before tax $000	Tax benefit $000	Net of tax $000	Before tax $000	Tax expense $000	Net of tax $000
Available for sale investments	(147)	(44)	(103)	159	48	111
Defined benefit plan	(463)	(28)	(435)	20	6	14
	(610)	**(72)**	**(538)**	**179**	**54**	**125**

9 Imputation credit account

	GROUP		PARENT	
	Jun 2012 $000	**Jun 2011 $000**	**Jun 2012 $000**	**Jun 2011 $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**	**-**	**-**	**-**

10 Reconciliation of profit / (loss) after tax to net cash flows from operating activities

	GROUP		PARENT	
	Jun 2012 $000	**Jun 2011 $000**	**Jun 2012 $000**	**Jun 2011 $000**
Profit / (loss) for the year	**24,209**	**7,744**	**27,726**	**(25,017)**
Add / (less) non-cash items:				
Depreciation and amortisation expense	1,830	1,482	709	373
Change in fair value of investment properties	3,900	-	-	-
Impaired asset expense	5,642	13,298	3,473	2,074
Deferred tax (benefit) / expense	(2,978)	2,897	(4,712)	(371)
Derivative financial instruments revaluation	(219)	5,419	(1,250)	5,059
Accruals	529	1,567	446	138
Dividends received	-	-	(88,482)	-
Total non-cash items	**8,704**	**24,663**	**(89,816)**	**7,273**
Add / (less) movements in working capital items:				
Other assets	2,695	(10,163)	1,715	(890)
Current tax	(6,675)	1,733	(25,347)	(9,866)
Other liabilities	212	(2,174)	1,957	4,188
Total movements in working capital items	**(3,768)**	**(10,604)**	**(21,675)**	**(6,568)**
Net cash flows from / (applied to) operating activities before movements in finance receivables and operating lease vehicles	**29,145**	**21,803**	**(83,765)**	**(24,312)**
Movements in operating lease vehicles	(1,823)	10,168	-	-
Movements in finance receivables	(29,093)	(29,151)	74,615	40,959
Net cash flows (applied to) / from operating activities	**(1,771)**	**2,820**	**(9,150)**	**16,647**

11 Cash and cash equivalents

	GROUP		PARENT	
	Jun 2012 $000	**Jun 2011 $000**	**Jun 2012 $000**	**Jun 2011 $000**
Cash and cash equivalents	73,641	251,204	61,070	243,955
Cash and cash equivalents - securitised	15,579	15,830	11,147	1,367
Total cash and cash equivalents	**89,220**	**267,034**	**72,217**	**245,322**

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

12 Investments

	GROUP		PARENT	
	Jun 2012 $000	**Jun 2011 $000**	**Jun 2012 $000**	**Jun 2011 $000**
Public securities and corporate bonds	24,327	16,833	24,327	16,833
Local authority stock	-	998	-	998
Total investments	**24,327**	**17,831**	**24,327**	**17,831**

13 Investment properties

	GROUP		PARENT	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $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**	**-**	**-**

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 Parent and MARAC to those acquiring entities. These advances are covered by the RECL management agreement. Refer to Note 26 - 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 (June 2011: $542,000) included in other income, direct operating expenses of $2,975,000 (June 2011: $198,000) arising from investment property that generated rental income and direct operating expenses of $107,000 (June 2011: nil) arising from investment property that did not generate rental income.

14 Finance receivables

	GROUP		PARENT	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
Non-securitised				
Gross finance receivables	1,828,201	1,535,183	494,737	615,149
Less allowance for impairment	26,693	37,565	17,404	20,762
Total non-securitised finance receivables	**1,801,508**	**1,497,618**	**477,333**	**594,387**
Securitised				
Gross finance receivables	277,501	210,425	70,651	32,131
Less allowance for impairment	733	732	-	-
Total securitised finance receivables	**276,768**	**209,693**	**70,651**	**32,131**
Total finance receivables	**2,078,276**	**1,707,311**	**547,984**	**626,518**

Refer to Note 34 - Business combinations for information about the acquisition of finance receivables.

15 Operating lease vehicles

	GROUP		PARENT	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $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).

16 Other assets

	NOTE	GROUP Jun 2012 $000	GROUP Jun 2011 $000	PARENT Jun 2012 $000	PARENT Jun 2011 $000
Derivative financial assets	23	2,122	3,048	2,122	3,048
Trade receivables		3,261	3,351	890	1,610
GST receivable		-	-	288	-
Prepayments		10,474	13,100	1,812	2,807
Total other assets		**15,857**	**19,499**	**5,112**	**7,465**

17 Investment in subsidiaries

	PARENT			
Subsidiaries	**Jun 2012 % held**	**Jun 2012 $000**	**Jun 2011 % held**	**Jun 2011 $000**
MARAC Finance Limited	100%	204,269	100%	204,269
VPS Parnell Limited	100%	-	100%	-
VPS Properties Limited	100%	-	100%	-
PGG Wrightson Finance Limited	100%	98,013	-	-
Total investment in subsidiaries		**302,282**		**204,269**

All subsidiary companies were incorporated in New Zealand.

On 31 August 2011 the Parent acquired 100% of the shares in PWF, an entity specialising in the provision of financial services to the rural sector, refer to Note 34 - Business combinations for more details.

18 Intangible assets and goodwill

	GROUP Jun 2012 $000	GROUP Jun 2011 $000	PARENT Jun 2012 $000	PARENT Jun 2011 $000
Computer software - cost				
Opening balance	6,142	3,722	1,144	-
Additions	2,370	1,337	2,075	61
Acquired on amalgamation	-	1,083	-	1,083
Disposals	(1,764)	-	(12)	-
Closing balance	**6,748**	**6,142**	**3,207**	**1,144**
Computer software - accumulated amortisation				
Opening balance	4,727	2,821	1,115	-
Amortisation charge for the year	1,075	978	178	187
Acquired on amalgamation	-	928	-	928
Disposals	(1,764)	-	(12)	-
Closing balance	**4,038**	**4,727**	**1,281**	**1,115**
Computer software - opening net book value	1,415	901	29	-
Computer software - closing net book value	**2,710**	**1,415**	**1,926**	**29**
Goodwill and trademark				
Opening balance	20,187	-	20,187	-
Additions	100	46	100	46
Acquired on amalgamation	-	20,141	-	20,141
Closing balance	**20,287**	**20,187**	**20,287**	**20,187**
Total intangible assets and goodwill - opening net book value	21,602	901	20,216	-
Total intangible assets and goodwill - closing net book value	**22,997**	**21,602**	**22,213**	**20,216**

On 5 January 2011, 100% of each of SCBS and CBS amalgamated to form the Parent, refer to Note 34 - 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.

19 Property, plant and equipment

	GROUP		PARENT	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
Cost				
Opening balance	15,191	4,284	10,474	-
Additions	735	448	711	4
Acquired on acquisition	22	-	-	-
Acquired on amalgamation	-	10,470	-	10,470
Disposals	(2,787)	(11)	-	-
Closing balance	**13,161**	**15,191**	**11,185**	**10,474**
Accumulated depreciation				
Opening balance	5,112	3,764	1,041	-
Depreciation charge for the year	755	504	531	186
Acquired on amalgamation	-	855	-	855
Disposals	(2,773)	(11)	-	-
Closing balance	**3,094**	**5,112**	**1,572**	**1,041**
Opening net book value	10,079	520	9,433	-
Closing net book value	**10,067**	**10,079**	**9,613**	**9,433**

20 Deferred tax

	GROUP		PARENT	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
Property, plant and equipment	-	67	-	-
Employee entitlements	1,201	584	1,009	1
Finance receivables	7,475	4,984	4,873	280
Trade and other payables	152	145	152	90
Investment properties	1,054	-	-	-
Derivatives held for risk management	392	527	-	-
Tax assets	**10,274**	**6,307**	**6,034**	**371**
Property, plant and equipment	877	-	928	-
Intangible assets	52	67	23	-
Operating lease vehicles	1,202	1,537	-	-
Tax liabilities	**2,131**	**1,604**	**951**	**-**
Net tax assets	**8,143**	**4,703**	**5,083**	**371**

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.

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.

21 Borrowings

	GROUP		PARENT	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
Bank borrowings sourced from New Zealand	50,010	-	50,010	-
Deposits sourced from New Zealand	1,549,468	1,532,468	1,549,917	1,532,952
Deposits sourced from overseas	75,652	60,779	75,652	60,779
Securitised borrowings sourced from New Zealand	264,359	194,277	75,000	20,000
Total borrowings	**1,939,489**	**1,787,524**	**1,750,579**	**1,613,731**

The Group has bank facilities totalling $650.0 million (June 2011: $475.0 million). Prior to the amalgamation, there was no significant concentration of deposits from any region. As at 30 June 2012, 42% (June 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 Parent 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 the 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 rank equally with each other and are secured over the securitised assets of that Trust.

22 Trade and other payables

		GROUP		PARENT	
	NOTE	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
Derivative financial liabilities	23	1,459	2,444	415	1,127
Trade payables		13,432	13,010	8,447	9,104
GST payable		14,028	13,790	-	183
Due to related parties	26	193	104	770	-
Employee benefits		4,595	2,563	3,970	520
Total trade and other payables		**33,707**	**31,911**	**13,602**	**10,934**

23 Derivative financial instruments

	GROUP		PARENT	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
Qualifying fair value hedges - non-securitised	2,122	3,048	2,122	3,048
Total derivative financial assets	**2,122**	**3,048**	**2,122**	**3,048**
Qualifying fair value hedges - non-securitised	297	979	297	979
Qualifying fair value hedges - securitised	118	148	118	148
Qualifying cash flow hedges - securitised	1,044	1,317	-	-
Total derivative financial liabilities	**1,459**	**2,444**	**415**	**1,127**

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.

24 Share capital

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

	PARENT	
	Jun 2012 Number of shares 000	Jun 2011 Number of shares 000
Issued shares		
Opening balance	297,400	-
Shares issued during the year	55,000	297,400
Closing balance	**352,400**	**297,400**

At the opening of business on 5 January 2011, the Parent had on issue 20 fully paid ordinary shares, which were issued at a price of $10,000 each.

On 5 January 2011, the Parent:

- Issued 214,030,283 fully paid ordinary shares to BSHL No. 1 Limited in exchange for the transfer by BSHL No. 1 Limited of all shares in MARAC.
- Issued 44,241,396 fully paid ordinary shares to CBS as part of the consideration due in exchange for the transfer of engagements from CBS. These shares were then transferred by CBS to BSHL No. 1 Limited.
- Issued 39,128,321 fully paid ordinary shares to SCBS as part of the consideration due in exchange for transfer of engagements from SCBS. These shares were then transferred by SCBS to BSHL No. 1 Limited.

On 31 August 2011, BSHL No. 1 Limited subscribed for 55,000,000 fully paid ordinary shares issued at a price of $1 each.

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

25 Special purpose entities

Heartland PIE Fund

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

	GROUP		PARENT	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
Deposits sourced from New Zealand	12,347	6,517	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		PARENT	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
Cash and cash equivalents - securitised	15,579	15,830	11,147	1,367
Finance receivables - securitised	276,768	209,693	70,651	32,131
Borrowings - securitised	(264,359)	(194,277)	(75,000)	(20,000)

26 Related party transactions

Heartland Building Society's immediate parent is BSHL No. 1 Limited, which is a wholly owned subsidiary of Heartland New Zealand Limited (HNZ). Heartland Building Society holds all shares in MARAC and PWF, refer to Note 17 - Investment in subsidiaries.

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.

26 Related party transactions (continued)

(b) Transactions with related parties

On 5 January 2011, all secured debenture stock issued by MARAC was transferred to become deposits in the Parent. On 31 August 2011, all borrowings issued by PWF were also transferred to become deposits in the Parent, refer to Note 34 - Business combinations.

Advances have been made by the Parent and MARAC to VPS Parnell Limited and VPS Properties Limited for the purchase of investment properties, refer Note 13 - Investment properties. VPS Parnell Limited invests in the Parent's deposits.

Shares have been issued to the Parent's immediate parent, refer to Note 24 - Share capital.

MARAC provided administrative assistance 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 Group's deposits. The investments of Heartland PIE Fund are detailed in Note 25. Key management personnel investments are detailed in Note 26(c).

The Parent charged MARAC and PWF for personnel expenses incurred for centralised management and support services.

All transactions were conducted on normal commercial terms and conditions, except that no interest is charged on intragroup balances.

Material related party transactions	GROUP		PARENT	
	Jun 2012 $000	**Jun 2011 $000**	**Jun 2012 $000**	**Jun 2011 $000**
Previous parent and previous ultimate parent				
Interest income - MFSL	-	2,976	-	-
Selling and administration expenses - PGC	-	(2,494)	-	-
Immediate parent				
Due from BSHL No. 1 Limited	200	200	200	200
Ultimate parent				
Due from Heartland New Zealand Limited	76	-	76	-
Due to Heartland New Zealand Limited	193	-	-	-
Subsidiaries				
Other income	-	-	8,739	-
Due from subsidiaries	-	-	1,107,581	740,617
Due to subsidiaries	-	-	770	-
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 to other related parties	-	104	-	-
Total due from related entities	**276**	**200**	**1,107,857**	**740,817**
Total due to related entities	**193**	**104**	**770**	**-**

26 Related party transactions (continued)

(c) Transactions with key management personnel

Key management personnel, being directors of the Parent 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		PARENT	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
Deposit investments by key management personnel:				
Maximum balance	777	409	777	409
Closing balance	468	385	468	385
Loans to key management personnel:				
Closing balance	304	304	304	304
Key management personnel interest expense and compensation is as follows:				
Interest expense	21	20	21	20
Short-term employee benefits	4,570	2,353	4,570	185
Share-based payments	91	287	91	-
Total	**4,682**	**2,660**	**4,682**	**205**

27 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 for the Group is 9.06% (June 2011: 9.51%) and for the Parent is 6.60% (June 2011: 7.99%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses. Prepayment rates have not been factored into the fair value calculation as they are not deemed to be material.

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.

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	-	89,220	-	-	89,220	89,220
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	-	3,537	-	-	3,537	3,537
Total financial assets	**2,122**	**2,171,033**	**24,327**	**-**	**2,197,482**	**2,200,926**
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	-	-	-	18,220	18,220	18,220
Total financial liabilities	**1,459**	**-**	**-**	**1,957,709**	**1,959,168**	**1,965,172**

27 Fair value (continued)

	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 11						
Cash and cash equivalents	-	267,034	-	-	267,034	267,034
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	-	3,551	-	-	3,551	3,551
Total financial assets	**3,048**	**1,977,896**	**17,831**	**-**	**1,998,775**	**2,018,984**
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	-	-	-	15,677	15,677	15,677
Total financial liabilities	**2,444**	**-**	**-**	**1,803,201**	**1,805,645**	**1,811,213**
PARENT - Jun 12						
Cash and cash equivalents	-	72,217	-	-	72,217	72,217
Investments	-	-	24,327	-	24,327	24,327
Finance receivables	-	477,333	-	-	477,333	477,453
Finance receivables - securitised	-	70,651	-	-	70,651	70,471
Due from related parties	-	1,107,857	-	-	1,107,857	1,107,857
Derivative financial assets	2,122	-	-	-	2,122	2,122
Other financial assets	-	890	-	-	890	890
Total financial assets	**2,122**	**1,728,948**	**24,327**	**-**	**1,755,397**	**1,755,337**
Borrowings	-	-	-	1,675,579	1,675,579	1,681,134
Borrowings - securitised	-	-	-	75,000	75,000	75,000
Derivative financial liabilities	415	-	-	-	415	415
Other financial liabilities	-	-	-	13,187	13,187	13,187
Total financial liabilities	**415**	**-**	**-**	**1,763,766**	**1,764,181**	**1,769,736**
PARENT - Jun 11						
Cash and cash equivalents	-	245,322	-	-	245,322	245,322
Investments	-	-	17,831	-	17,831	17,831
Finance receivables	-	594,387	-	-	594,387	595,189
Finance receivables - securitised	-	32,131	-	-	32,131	32,031
Due from related parties	-	740,817	-	-	740,817	740,817
Derivative financial assets	3,048	-	-	-	3,048	3,048
Other financial assets	-	1,610	-	-	1,610	1,610
Total financial assets	**3,048**	**1,614,267**	**17,831**	**-**	**1,635,146**	**1,635,848**
Borrowings	-	-	-	1,593,731	1,593,731	1,599,389
Borrowings - securitised	-	-	-	20,000	20,000	20,000
Derivative financial liabilities	1,127	-	-	-	1,127	1,127
Other financial liabilities	-	-	-	9,624	9,624	9,624
Total financial liabilities	**1,127**	**-**	**-**	**1,623,355**	**1,624,482**	**1,630,140**

28 Risk management policies

The Group is committed to the management of risk. The primary risk categories are credit, liquidity, market (including 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.

29 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 to ensure consistency with Heartland Building Society's 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 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, the credit risk committee and 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.

29 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. Consumer 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.

29 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.

29 Credit risk exposure (continued)
(a) Credit impairment provisioning (continued)
(i) Provision for 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						
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**
PARENT						
Provision for individually impaired assets						
Opening individual impairment	17,269	-	-	-	17,269	-
Impairment loss for the year						
- charge for the year	6,148	11,508	-	-	6,148	11,508
- recoveries	32	117	-	-	32	117
- write offs	(6,863)	(4,405)	-	-	(6,863)	(4,405)
- assumed on amalgamation	-	10,049	-	-	-	10,049
Closing individual impairment	**16,586**	**17,269**	**-**	**-**	**16,586**	**17,269**
Provision for collectively impaired assets						
Opening collective impairment	3,493	-	-	-	3,493	-
Impairment loss for the year						
- credit for the year	(2,675)	(9,434)	-	-	(2,675)	(9,434)
- assumed on amalgamation	-	12,927	-	-	-	12,927
Closing collective impairment	**818**	**3,493**	**-**	**-**	**818**	**3,493**
Total provision for impairment	**17,404**	**20,762**	**-**	**-**	**17,404**	**20,762**

* *In determining the charge for the year, the RECL management agreement has been taken into consideration, refer to Note 26 - Related party transactions and Note 13 - 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).*

29 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 2012						
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**
GROUP - Jun 2011						
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**

29 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
PARENT - Jun 2012						
Provision for individually impaired assets						
Opening individual impairment	-	17,269	-	-	-	17,269
Impairment loss for the year						
- charge for the year	-	5,453	-	695	-	6,148
- recoveries	-	32	-	-	-	32
- write offs	-	(6,863)	-	-	-	(6,863)
Closing individual impairment	**-**	**15,891**	**-**	**695**	**-**	**16,586**
Provision for collectively impaired assets						
Opening collective impairment	500	540	416	2,037	-	3,493
Impairment loss for the year						
- (charge) / credit for the year	(495)	(180)	(23)	(2,011)	34	(2,675)
Closing collective impairment	**5**	**360**	**393**	**26**	**34**	**818**
Total provision for impairment	**5**	**16,251**	**393**	**721**	**34**	**17,404**
PARENT - Jun 2011						
Provision for individually impaired assets						
Opening individual impairment	-	-	-	-	-	-
Impairment loss for the year						
- charge for the year	-	11,508	-	-	-	11,508
- recoveries	-	117	-	-	-	117
- write offs	-	(4,405)	-	-	-	(4,405)
- assumed on amalgamation	-	10,049	-	-	-	10,049
Closing individual impairment	**-**	**17,269**	**-**	**-**	**-**	**17,269**
Provision for collectively impaired assets						
Opening collective impairment	-	-	-	-	-	-
Impairment loss for the year						
- charge / (credit) for the year	500	(12,109)	138	2,037	-	(9,434)
- assumed on amalgamation	-	12,649	278	-	-	12,927
Closing collective impairment	**500**	**540**	**416**	**2,037**	**-**	**3,493**
Total provision for impairment	**500**	**17,809**	**416**	**2,037**	**-**	**20,762**

(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**
PARENT						
Individually impaired assets expense	6,148	11,508	-	-	6,148	11,508
Collectively impaired assets recovery	(2,675)	(9,434)	-	-	(2,675)	(9,434)
Total impaired asset expense	**3,473**	**2,074**	**-**	**-**	**3,473**	**2,074**

29 Credit risk exposure (continued)

(a) Credit impairment provisioning (continued)

(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**
PARENT						
Opening	32,217	-	-	-	32,217	-
Additions	16,514	7,794	-	-	16,514	7,794
Deletions	(11,413)	(5,491)	-	-	(11,413)	(5,491)
Assumed on amalgamation	-	29,914	-	-	-	29,914
Closing gross individually impaired assets	**37,318**	**32,217**	**-**	**-**	**37,318**	**32,217**

	Rural $000	Property $000	Corporate $000	Residential $000	Consumer $000	Total $000
GROUP - Jun 2012						
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 2011						
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**
PARENT - Jun 2012						
Opening	-	32,217	-	-	-	32,217
Additions	-	13,853	-	2,661	-	16,514
Deletions	-	(11,382)	-	(31)	-	(11,413)
Closing gross individually impaired assets	**-**	**34,688**	**-**	**2,630**	**-**	**37,318**
PARENT - Jun 2011						
Opening	-	-	-	-	-	-
Additions	-	7,794	-	-	-	7,794
Deletions	-	(5,491)	-	-	-	(5,491)
Assumed on amalgamation	-	29,914	-	-	-	29,914
Closing gross individually impaired assets	**-**	**32,217**	**-**	**-**	**-**	**32,217**

29 Credit risk exposure (continued)

(a) Credit impairment provisioning (continued)

(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
PARENT - Restructured assets	-	-	-	-	-	-

	Rural $000	Property $000	Corporate $000	Residential $000	Consumer $000	Total $000
GROUP - Jun 2012						
Restructured assets	-	5,522	1,127	-	2,437	9,086
GROUP - Jun 2011						
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**
PARENT						
Less than 30 days past due	4,347	9,706	-	-	4,347	9,706
At least 30 and less than 60 days past due	1,572	865	356	224	1,928	1,089
At least 60 but less than 90 days past due	2,615	2,474	-	-	2,615	2,474
At least 90 days past due	407	5,831	-	-	407	5,831
Total past due but not impaired	**8,941**	**18,876**	**356**	**224**	**9,297**	**19,100**

	Rural $000	Property $000	Corporate $000	Residential $000	Consumer $000	Total $000
GROUP - Jun 2012						
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 2011						
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**

29 Credit risk exposure (continued)
(a) Credit impairment provisioning (continued)
(v) Past due but not impaired (continued)

	Rural $000	Property $000	Corporate $000	Residential $000	Consumer $000	Total $000
PARENT - Jun 2012						
Less than 30 days past due	-	-	128	1,658	2,561	4,347
At least 30 and less than 60 days past due	-	-	1,206	722	-	1,928
At least 60 but less than 90 days past due	-	1,890	474	251	-	2,615
At least 90 days past due	-	-	392	15	-	407
Total past due but not impaired	**-**	**1,890**	**2,200**	**2,646**	**2,561**	**9,297**
PARENT - Jun 2011						
Less than 30 days past due	-	3,961	-	1,093	4,652	9,706
At least 30 and less than 60 days past due	-	83	407	599	-	1,089
At least 60 but less than 90 days past due	-	1,973	-	501	-	2,474
At least 90 days past due	-	4,763	-	1,068	-	5,831
Total past due but not impaired	**-**	**10,780**	**407**	**3,261**	**4,652**	**19,100**

(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		Number of		Number of	
Cash and cash equivalents - Individual credit exposures over 10% (as a % of equity):						
GROUP						
10% - 19%	1	2	-	-	1	2
20% - 29%	-	2	-	-	-	2
PARENT						
10% - 19%	1	1	-	-	1	1
20% - 29%	-	3	-	-	-	3

Short term funds held with New Zealand registered international banks.

(ii) By industry

	Non-securitised		Securitised		Total	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $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**

29 Credit risk exposure (continued)
(b) Concentrations of credit risk (continued)
(ii) By industry (continued)

	Non-securitised		Securitised		Total	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
PARENT						
Agriculture	44,674	37,646	200	209	44,874	37,855
Mining	529	329	-	-	529	329
Manufacturing	3,550	2,852	-	-	3,550	2,852
Electricity, Gas, Water and Waste Services	159	173	-	-	159	173
Construction	34,940	49,471	415	340	35,355	49,811
Wholesale Trade	2,376	316	336	-	2,712	316
Retail Trade	5,424	5,985	1,106	245	6,530	6,230
Accommodation & Food Services	17,725	13,439	92	-	17,817	13,439
Transport, Postal and Warehousing	6,838	1,291	418	130	7,256	1,421
Individuals	219,988	290,948	62,175	29,661	282,163	320,609
Financial and Insurance Services	501	21,048	146	365	647	21,413
Rental, Hiring and Real Estate Services	92,899	101,966	4,746	845	97,645	102,811
Professional, Scientific and Technical Services	869	940	498	-	1,367	940
Administrative and Support Services	260	254	-	-	260	254
Education and Training	397	263	-	-	397	263
Health Care and Social Assistance	2,633	9,767	-	87	2,633	9,854
Arts and Recreation Services	1,384	1,144	-	-	1,384	1,144
Information, Media and Telecommunications	508	-	-	-	508	-
Other Services	41,679	56,555	519	249	42,198	56,804
Total finance receivables	**477,333**	**594,387**	**70,651**	**32,131**	**547,984**	**626,518**

(iii) By geographic region

	Non-securitised		Securitised		Total	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $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**
PARENT						
Auckland	91,362	102,842	973	482	92,335	103,324
Wellington	10,577	17,316	559	53	11,136	17,369
Rest of North Island	69,610	75,885	907	431	70,517	76,316
Canterbury	272,250	375,112	64,344	29,060	336,594	404,172
Rest of South Island	33,534	23,232	3,868	2,105	37,402	25,337
Total finance receivables	**477,333**	**594,387**	**70,651**	**32,131**	**547,984**	**626,518**

29 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 26 - Related party transactions and Note 13 - 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 34 - 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.

	Non-securitised		Securitised		Total	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
PARENT						
Judgement portfolio						
Grade 1 - Very Strong	-	485	-	-	-	485
Grade 2 - Strong	9,033	23,681	-	-	9,033	23,681
Grade 3 - Sound	31,286	35,212	578	-	31,864	35,212
Grade 4 - Adequate	50,311	43,675	954	156	51,265	43,831
Grade 5 - Acceptable	67,901	63,910	4,816	2,101	72,717	66,011
Grade 6 - Monitor	34,514	56,278	-	-	34,514	56,278
Grade 7 - Substandard	12,057	20,827	-	-	12,057	20,827
Grade 8 - Doubtful	8,141	7,083	-	-	8,141	7,083
Grade 9 - At risk of loss	10,656	8,975	-	-	10,656	8,975
Total Judgement portfolio	**223,899**	**260,126**	**6,348**	**2,257**	**230,247**	**262,383**
Behavioural portfolio						
Not in arrears	248,425	330,836	63,947	29,650	312,372	360,486
Active	1,987	1,063	-	-	1,987	1,063
Arrangement	690	1,285	356	224	1,046	1,509
Non-performing / Repossession	2,332	1,077	-	-	2,332	1,077
Total Behavioural portfolio	**253,434**	**334,261**	**64,303**	**29,874**	**317,737**	**364,135**
Total maximum exposure to credit risk	**477,333**	**594,387**	**70,651**	**32,131**	**547,984**	**626,518**

29 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 2012						
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	283,294	365,376	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**	**287,865**	**381,200**	**949,047**
Total maximum exposure to credit risk	**300,510**	**115,872**	**754,220**	**324,112**	**583,562**	**2,078,276**
GROUP - Jun 2011						
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 maximum exposure to credit risk	**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**

29 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
PARENT - Jun 2012						
Judgement portfolio						
Grade 2 - Strong	-	-	7,864	1,169	-	9,033
Grade 3 - Sound	3,717	-	21,135	4,565	2,447	31,864
Grade 4 - Adequate	2,570	-	36,589	10,472	1,634	51,265
Grade 5 - Acceptable	8,953	1,481	34,708	17,704	9,871	72,717
Grade 6 - Monitor	16,267	627	9,235	1,820	6,565	34,514
Grade 7 - Substandard	2,096	7,379	399	517	1,666	12,057
Grade 8 - Doubtful	-	8,141	-	-	-	8,141
Grade 9 - At risk of loss	-	10,656	-	-	-	10,656
Total Judgement portfolio	**33,603**	**28,284**	**109,930**	**36,247**	**22,183**	**230,247**
Behavioural portfolio						
Not in arrears	-	-	22,480	283,294	6,598	312,372
Active	-	-	23	1,657	307	1,987
Arrangement	-	-	82	964	-	1,046
Non-performing / Repossession	-	-	382	1,950	-	2,332
Total Behavioural portfolio	**-**	**-**	**22,967**	**287,865**	**6,905**	**317,737**
Total maximum exposure to credit risk	**33,603**	**28,284**	**132,897**	**324,112**	**29,088**	**547,984**
PARENT - Jun 2011						
Judgement portfolio						
Grade 1 - Very Strong	485	-	-	-	-	485
Grade 2 - Strong	-	-	21,905	550	1,226	23,681
Grade 3 - Sound	3,103	-	23,467	5,432	3,210	35,212
Grade 4 - Adequate	2,437	1,498	34,171	4,958	767	43,831
Grade 5 - Acceptable	4,502	7,088	23,641	23,654	7,126	66,011
Grade 6 - Monitor	16,342	1,553	25,973	4,067	8,343	56,278
Grade 7 - Substandard	4,014	9,812	1,355	-	5,646	20,827
Grade 8 - Doubtful	-	7,083	-	-	-	7,083
Grade 9 - At risk of loss	-	8,975	-	-	-	8,975
Total Judgement portfolio	**30,883**	**36,009**	**130,512**	**38,661**	**26,318**	**262,383**
Behavioural portfolio						
Not in arrears	-	-	26,291	326,311	7,884	360,486
Active	-	-	-	1,063	-	1,063
Arrangement	-	-	407	1,102	-	1,509
Non-performing / Repossession	-	-	-	1,077	-	1,077
Total Behavioural portfolio	**-**	**-**	**26,698**	**329,553**	**7,884**	**364,135**
Total maximum exposure to credit risk	**30,883**	**36,009**	**157,210**	**368,214**	**34,202**	**626,518**

(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
PARENT						
Undrawn facilities available to customers	13,182	23,530	-	49	13,182	23,579
Conditional commitments to fund at future dates	16,029	-	-	-	16,029	-

30 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 2012							
Financial assets							
Cash and cash equivalents	89,220	-	-	-	-	-	89,220
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	-	3,537	-	-	-	-	3,537
Total financial assets	**91,342**	**630,460**	**390,718**	**429,875**	**618,886**	**750,122**	**2,911,403**
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	-	18,220	-	-	-	-	18,220
Total financial liabilities	**238,495**	**783,099**	**611,296**	**347,776**	**49,549**	**-**	**2,030,215**
Net financial (liabilities) / assets	**(147,153)**	**(152,639)**	**(220,578)**	**82,099**	**569,337**	**750,122**	**881,188**
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.

30 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 2011							
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	-	3,551	-	-	-	-	3,551
Total financial assets	**80,821**	**683,228**	**261,691**	**408,863**	**592,986**	**817,578**	**2,845,167**
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	-	15,677	-	-	-	-	15,677
Total financial liabilities	**168,706**	**967,997**	**494,114**	**79,800**	**155,606**	**1,990**	**1,868,213**
Net financial (liabilities) / assets	**(87,885)**	**(284,769)**	**(232,423)**	**329,063**	**437,380**	**815,588**	**976,954**
Unrecognised loan commitments	74,148	-	-	-	-	-	74,148
Undrawn committed bank facilities	280,000	-	-	-	-	-	280,000

The undrawn committed bank facilities totalling $280.0 million were available to be drawn down on demand. To the extent drawn, $25.0 million was contractually repayable in 6-12 months' time, $155.0 million was contractually repayable in 1-2 years' time and $100.0 million was contractually repayable in 2-5 years' time upon the facilities expiring.

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
PARENT - Jun 2012							
Financial assets							
Cash and cash equivalents	72,217	-	-	-	-	-	72,217
Investments	-	498	498	996	25,314	-	27,306
Due from related parties	1,107,857	-	-	-	-	-	1,107,857
Finance receivables	-	74,611	43,354	54,322	150,575	575,835	898,697
Finance receivables - securitised	-	3,224	3,878	6,682	23,540	112,015	149,339
Derivative financial assets	2,122	-	-	-	-	-	2,122
Other financial assets	-	890	-	-	-	-	890
Total financial assets	**1,182,196**	**79,223**	**47,730**	**62,000**	**199,429**	**687,850**	**2,258,428**
Financial liabilities							
Borrowings	237,036	760,301	419,224	272,619	49,549	-	1,738,729
Borrowings - securitised	-	1,312	1,291	75,157	-	-	77,760
Derivative financial liabilities	415	-	-	-	-	-	415
Other financial liabilities	-	13,187	-	-	-	-	13,187
Total financial liabilities	**237,451**	**774,800**	**420,515**	**347,776**	**49,549**	**-**	**1,830,091**
Net financial assets / (liabilities)	**944,745**	**(695,577)**	**(372,785)**	**(285,776)**	**149,880**	**687,850**	**428,337**
Unrecognised loan commitments	13,182	-	-	-	-	-	13,182
Undrawn committed bank facilities	225,000	-	-	-	-	-	225,000

The undrawn committed bank facilities totalling $225.0 million were available to be drawn down on demand. To the extent drawn, $50.0 million was contractually repayable in 0-6 months' time and $175.0 million was contractually repayable in 1-2 years' time upon facility expiry.

30 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
PARENT - Jun 2011							
Financial assets							
Cash and cash equivalents	56,449	189,679	-	-	-	-	246,128
Investments	-	7,036	1,327	621	10,556	1,038	20,578
Due from related parties	740,817	-	-	-	-	-	740,817
Finance receivables	-	115,948	56,410	103,095	165,490	764,633	1,205,576
Finance receivables - securitised	-	2,624	1,771	3,713	11,439	49,456	69,003
Derivative financial assets	3,048	-	-	-	-	-	3,048
Other financial assets	-	1,610	-	-	-	-	1,610
Total financial assets	**800,314**	**316,897**	**59,508**	**107,429**	**187,485**	**815,127**	**2,286,760**
Financial liabilities							
Borrowings	166,262	948,688	319,267	79,118	135,550	1,990	1,650,875
Borrowings - securitised	-	341	341	682	20,056	-	21,420
Derivative financial liabilities	1,127	-	-	-	-	-	1,127
Other financial liabilities	-	9,624	-	-	-	-	9,624
Total financial liabilities	**167,389**	**958,653**	**319,608**	**79,800**	**155,606**	**1,990**	**1,683,046**
Net financial assets / (liabilities)	**632,925**	**(641,756)**	**(260,100)**	**27,629**	**31,879**	**813,137**	**603,714**
Unrecognised loan commitments	23,579	-	-	-	-	-	23,579
Undrawn committed bank facilities	255,000	-	-	-	-	-	255,000

The undrawn committed bank facilities totalling $255.0 million are available to be drawn down on demand. To the extent drawn, $155.0 million is contractually repayable in 1-2 years' time and $100.0 million is contractually repayable in 2-5 years' time upon the facilities expiring.

Expected maturity profile of financial assets and liabilities

The tables following 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. The expected maturities of securitised borrowings are based on the expected maturities of securitised receivables and historical deposit and debenture reinvestment levels have been applied to other borrowings. Other financial liabilities reflect contractual maturities.

The tables do 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.

30 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 2012							
Financial assets							
Cash and cash equivalents	89,220	-	-	-	-	-	89,220
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	-	3,537	-	-	-	-	3,537
Total financial assets	**91,342**	**651,958**	**447,239**	**456,052**	**806,629**	**56,459**	**2,509,679**
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	-	18,220	-	-	-	-	18,220
Total financial liabilities	**3,829**	**290,010**	**230,598**	**465,375**	**573,513**	**625,189**	**2,188,514**
Net financial assets / (liabilities)	**87,513**	**361,948**	**216,641**	**(9,323)**	**233,116**	**(568,730)**	**321,165**
Unrecognised loan commitments	125,492	-	-	-	-	-	125,492
Undrawn committed bank facilities	335,000	-	-	-	-	-	335,000
GROUP - Jun 2011							
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	-	3,551	-	-	-	-	3,551
Total financial assets	**80,821**	**659,620**	**354,280**	**454,046**	**797,664**	**1,038**	**2,347,469**
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	-	15,677	-	-	-	-	15,677
Total financial liabilities	**2,444**	**286,944**	**370,246**	**307,847**	**525,942**	**515,471**	**2,008,894**
Net financial assets / (liabilities)	**78,377**	**372,676**	**(15,966)**	**146,199**	**271,722**	**(514,433)**	**338,575**
Unrecognised loan commitments	74,148	-	-	-	-	-	74,148
Undrawn committed bank facilities	280,000	-	-	-	-	-	280,000

30 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
PARENT - Jun 2012							
Financial assets							
Cash and cash equivalents	72,217	-	-	-	-	-	72,217
Investments	-	498	498	996	25,314	-	27,306
Due from related parties	1,107,857	-	-	-	-	-	1,107,857
Finance receivables	-	74,611	43,354	54,322	384,789	123	557,199
Finance receivables - securitised		3,224	3,878	6,682	71,053	-	84,837
Derivative financial assets	2,122	-	-	-	-	-	2,122
Other financial assets	-	890	-	-	-	-	890
Total financial assets	**1,182,196**	**79,223**	**47,730**	**62,000**	**481,156**	**123**	**1,852,428**
Financial liabilities							
Borrowings	2,370	267,212	226,095	456,293	546,244	359,443	1,857,657
Borrowings - securitised	-	1,312	1,291	2,603	7,815	75,214	88,235
Derivative financial liabilities	415	-	-	-	-	-	415
Other financial liabilities	-	13,187	-	-	-	-	13,187
Total financial liabilities	**2,785**	**281,711**	**227,386**	**458,896**	**554,059**	**434,657**	**1,959,494**
Net financial assets / (liabilities)	**1,179,411**	**(202,488)**	**(179,656)**	**(396,896)**	**(72,903)**	**(434,534)**	**(107,066)**
Unrecognised loan commitments	13,182	-	-	-	-	-	13,182
Undrawn committed bank facilities	225,000	-	-	-	-	-	225,000
PARENT - Jun 2011							
Financial assets							
Cash and cash equivalents	56,449	189,679	-	-	-	-	246,128
Investments	-	7,036	1,327	621	10,556	1,038	20,578
Due from related parties	740,817	-	-	-	-	-	740,817
Finance receivables	-	115,948	56,410	103,095	441,869	-	717,322
Finance receivables - securitised	-	2,624	1,771	3,713	31,196	-	39,304
Derivative financial assets	3,048	-	-	-	-	-	3,048
Other financial assets	-	1,610	-	-	-	-	1,610
Total financial assets	**800,314**	**316,897**	**59,508**	**107,429**	**483,621**	**1,038**	**1,768,807**
Financial liabilities							
Borrowings	-	267,635	195,399	307,165	505,886	515,471	1,791,556
Borrowings - securitised	-	341	341	682	20,056	-	21,420
Derivative financial liabilities	1,127	-	-	-	-	-	1,127
Other financial liabilities	-	9,624	-	-	-	-	9,624
Total financial liabilities	**1,127**	**277,600**	**195,740**	**307,847**	**525,942**	**515,471**	**1,823,727**
Net financial (liabilities) / assets	**799,187**	**39,297**	**(136,232)**	**(200,418)**	**(42,321)**	**(514,433)**	**(54,920)**
Unrecognised loan commitments	23,579	-	-	-	-	-	23,579
Undrawn committed bank facilities	255,000	-	-	-	-	-	255,000

31 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.

	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 2012							
Financial assets							
Cash and cash equivalents	2.71%	89,220	-	-	-	-	89,220
Investments	4.09%	22,149	-	-	2,178	-	24,327
Due from related parties	-	276	-	-	-	-	276
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	-	5,383	-	-	-	-	5,383
Total financial assets		**1,584,041**	**203,501**	**242,011**	**167,929**	**-**	**2,197,482**
Financial liabilities							
Borrowings	5.78%	978,712	396,086	259,956	40,376	-	1,675,130
Borrowings - securitised	3.43%	264,359	-	-	-	-	264,359
Other financial liabilities	-	19,679	-	-	-	-	19,679
Total financial liabilities		**1,262,750**	**396,086**	**259,956**	**40,376**	**-**	**1,959,168**
Effect of derivatives held for risk management		261,077	(43,869)	(175,718)	(41,490)	-	-
Net financial assets / (liabilities)		**582,368**	**(236,454)**	**(193,663)**	**86,063**	**-**	**238,314**
GROUP - Jun 2011							
Financial assets							
Cash and cash equivalents	3.52%	267,034	-	-	-	-	267,034
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	-	6,599	-	-	-	-	6,599
Total financial assets		**1,255,576**	**219,758**	**289,715**	**232,690**	**1,036**	**1,998,775**
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	-	18,121	-	-	-	-	18,121
Total financial liabilities		**1,313,943**	**299,036**	**61,623**	**131,043**	**-**	**1,805,645**
Effect of derivatives held for risk management		150,984	(77,519)	(90,435)	16,970	-	-
Net financial assets		**92,617**	**(156,797)**	**137,657**	**118,617**	**1,036**	**193,130**

31 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
PARENT - Jun 2012							
Financial assets							
Cash and cash equivalents	2.71%	72,217	-	-	-	-	72,217
Investments	4.09%	22,149	-	-	2,178	-	24,327
Due from related parties	-	1,107,857	-	-	-	-	1,107,857
Finance receivables	7.30%	434,782	16,495	22,772	3,284	-	477,333
Finance receivables - securitised	6.16%	60,655	2,545	6,397	1,054	-	70,651
Other financial assets	-	3,012	-	-	-	-	3,012
Total financial assets		**1,700,672**	**19,040**	**29,169**	**6,516**	**-**	**1,755,397**
Financial liabilities							
Borrowings	5.78%	978,712	396,086	259,956	40,825	-	1,675,579
Borrowings - securitised	3.47%	75,000	-	-	-	-	75,000
Other financial liabilities	-	13,602	-	-	-	-	13,602
Total financial liabilities		**1,067,314**	**396,086**	**259,956**	**40,825**	**-**	**1,764,181**
Effect of derivatives held for risk management		66,802	(4,389)	(61,453)	(960)	-	-
Net financial assets		**700,160**	**(381,435)**	**(292,240)**	**(35,269)**	**-**	**(8,784)**
PARENT - Jun 2011							
Financial assets							
Cash and cash equivalents	3.58%	245,322	-	-	-	-	245,322
Investments	6.15%	6,795	987	-	9,013	1,036	17,831
Due from related parties	-	740,817	-	-	-	-	740,817
Finance receivables	7.02%	460,739	52,382	69,794	11,469	-	594,384
Finance receivables - securitised	6.35%	26,743	2,724	1,989	675	-	32,131
Other financial assets	-	4,658	-	-	-	-	4,658
Total financial assets		**1,485,074**	**56,093**	**71,783**	**21,157**	**1,036**	**1,635,143**
Financial liabilities							
Borrowings	5.89%	1,102,029	299,036	61,623	131,043	-	1,593,731
Borrowings - securitised	3.41%	20,000	-	-	-	-	20,000
Other financial liabilities	-	10,751	-	-	-	-	10,751
Total financial liabilities		**1,132,780**	**299,036**	**61,623**	**131,043**	**-**	**1,624,482**
Effect of derivatives held for risk management		28,034	(37,429)	(33,315)	42,710	-	-
Net financial assets		**380,328**	**(280,372)**	**(23,155)**	**(67,176)**	**1,036**	**10,661**

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.

32 Contingent liabilities and commitments

	GROUP		PARENT	
	Jun 2012 $000	Jun 2011 $000	Jun 2012 $000	Jun 2011 $000
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 29(d) - Credit risk exposure.

33 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.

33 Staff share ownership arrangements (continued)

Discretionary share scheme (continued)

In August 2011, the Heartland New Zealand Limited employee share plan was established. 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 year ended 30 June 2012. At 30 June 2012 the trustees held no shares in PGC or HNZ for these executives.

The total expense recognised during the year in relation to these share schemes was $115,346 (June 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.

34 Business combinations

(a) Heartland Building Society merger

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

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

Fair value of consideration transferred at acquisition date	**GROUP** **05-Jan-11** **$000**
Shares issued, at fair value	79,574
Consideration transferred	**79,574**

Identifiable assets acquired and liabilities assumed	**Fair value** **05-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. Heartland Building 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.

34 Business combinations (continued)

(b) Purchase of PGG Wrightson Finance Limited

On 31 August 2011, Heartland Building 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 Parent paid PGW cash of $24.9 million.

Contemporaneously, Heartland Building Society's parent, Heartland New Zealand issued $10.0 million of 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 and 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**
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**
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 Parent 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 Parent 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.

35 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.

Independent auditor's report

To the shareholder of Heartland Building Society

Report on the parent and group financial statements

We have audited the accompanying financial statements of Heartland Building Society (the "parent") and the group, comprising the parent and its subsidiaries, on pages 4 to 48. 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 parent and the group.

Directors' responsibility for the parent and group financial statements

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

Opinion

In our opinion the financial statements on pages 4 to 48:

- 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 parent and the group as at 30 June 2012 and of the financial performance and cash flows of the parent 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 Building Society as far as appears from our examination of those records.

KPMG

28 August 2012

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