



10060933700

**HEARTLAND BUILDING SOCIETY
("Society")**

Certificate pursuant to section 37A(1A) of the Securities Act 1978 in respect of the Society's registered Prospectus No.3 dated 27 September 2011 (as amended on 19 January 2012) (the "Registered Prospectus").

We, the undersigned Directors of the Society hereby certify that in the opinion of all Directors of the Society after due enquiry by them:

1. The financial position shown in the statement of financial position dated 30 June 2011 contained or referred to in the Registered Prospectus has not materially and adversely changed during the period from the date of that statement of financial position to the date of this certificate; and
2. The Registered Prospectus is not, at the date of this certificate, false or misleading in a material particular by reason of failing to refer, or give proper emphasis, to adverse circumstances.

Accompanying this certificate are audited interim financial statements as at 31 December 2011 for the 6-month period from the date of the statement of financial position contained or referred to in the Registered Prospectus prepared in accordance with section 37A(1A)(d)(ii) of the Securities Act 1978.

DATED the 27th day of February 2012

This certificate is signed on behalf of all Directors of the Society by two Directors

Director

Director

HEARTLAND

Building Society

INTERIM FINANCIAL STATEMENTS

TO 31 DECEMBER 2011



INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2011

Directors' Responsibility Statement	2
Explanatory Foreword	3
Interim Statements of Comprehensive Income	4
Interim Statements of Changes in Equity	5
Interim Statements of Financial Position	7
Interim Statements of Cash Flows	8
Notes to the Interim Financial Statements	9 - 44
Audit Report	45 - 46

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for ensuring that the interim financial statements give a true and fair view of the financial position of Heartland Building Society (Parent) and its subsidiaries (Group) as at 31 December 2011 and the financial performance and cash flows for the period ended 31 December 2011.

The directors consider that the interim 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 of Heartland Building Society authorised the financial statements set out on pages 4 to 44 for issue on 16 February 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 period ended 31 December 2010 reflect the operations of MARAC Group, and for the year ended 30 June 2011 reflect the results of the MARAC Group from 1 July 2010 to 6 January 2011 and the results of the new Group from 7 January 2011 to 30 June 2011. The six months ended 31 December 2011 include the new Group results from 1 July 2011 onwards and the PWF result from 31 August 2011.

As described in Note 1, the financial statements represent a continuation of the MARAC business and the 31 December 2010 comparative information is that of MARAC. As such, the financial position at 31 December 2011 is not directly comparable to the financial positions at 31 December 2010 and 30 June 2011.

To assist users of the financial statements, the financial position of the Group at 5 January 2011 (following the merger of MARAC, CBS and SCBS) is set out below alongside the financial positions of the Group at 31 December 2011, 30 June 2011 and 31 December 2010 for comparative purposes. For further detail of the 5 January 2011 financial position, refer to the Heartland Building Society 5 January 2011 interim financial statements available at www.heartland.co.nz or from the Heartland Building Society registered office.

	GROUP			
	31 Dec 2011	30 Jun 2011	5 Jan 2011	31 Dec 2010
	\$000	\$000	\$000	\$000
Assets				
Cash and cash equivalents	118,564	267,034	285,675	78,549
Investments	24,309	17,831	21,540	-
Due from related parties	272	200	27,525	27,525
Investment properties	58,083	34,499	2,182	2,182
Finance receivables	2,075,211	1,707,311	1,756,895	1,087,206
Operating lease vehicles	35,333	32,727	38,005	38,005
Other assets	42,732	34,281	29,229	17,153
Intangible assets	21,981	21,602	21,729	1,433
Total assets	2,376,485	2,115,485	2,182,780	1,252,053
Liabilities				
Borrowings	1,985,551	1,787,524	1,845,991	1,004,656
Trade and other payables	34,403	34,120	45,164	35,346
Total liabilities	2,019,954	1,821,644	1,891,155	1,040,002
Equity				
Share capital	189,774	134,774	134,574	55,000
Retained earnings and reserves	166,757	159,067	157,051	157,051
Total equity	356,531	293,841	291,625	212,051
Total equity and liabilities	2,376,485	2,115,485	2,182,780	1,252,053

INTERIM STATEMENTS OF COMPREHENSIVE INCOME

For the six months ended 31 December 2011

	NOTE	GROUP			PARENT	
		6 mths to Dec 2011 \$000	6 mths to Dec 2010 \$000	12 mths to Jun 2011 \$000	6 mths to Dec 2011 \$000	12 mths to Jun 2011 \$000
Interest income	5	101,769	67,820	161,297	27,051	30,895
Interest expense	5	62,647	40,488	99,705	57,948	54,738
Net interest income / (expense)		39,122	27,332	61,592	(30,897)	(23,843)
Operating lease income	6	7,463	9,225	18,073	-	-
Operating lease expenses	6	4,803	5,755	11,130	-	-
Net operating lease income		2,660	3,470	6,943	-	-
Lending and credit fee income		958	541	1,327	295	370
Dividends received		-	-	-	55,708	-
Other income		2,257	39	718	144	179
Net operating income / (loss)		44,997	31,382	70,580	25,250	(23,294)
Selling and administration expenses	7	34,919	17,401	44,826	15,318	9,934
Profit / (loss) before impaired asset expense and income tax		10,078	13,981	25,754	9,932	(33,228)
Impaired asset expense	29(a)(ii)	3,788	6,094	13,298	1,398	2,074
Profit / (loss) before income tax		6,290	7,887	12,456	8,534	(35,302)
Income tax (benefit) / expense	8	(3,932)	2,764	4,712	(18,776)	(10,285)
Profit / (loss) for the period		10,222	5,123	7,744	27,310	(25,017)
Other comprehensive income						
Cash flow hedges:						
Effective portion of changes in fair value, before income tax		(826)	657	851	(124)	-
Reserves:						
Net change in available for sale reserve, before income tax		(145)	-	159	(145)	159
Net change in defined benefit reserve, before income tax		(328)	-	20	(328)	20
Income tax benefit / (expense) on other comprehensive income		364	(197)	(309)	167	(54)
Other comprehensive (loss) / income for the period, net of income tax		(935)	460	721	(430)	125
Total comprehensive income / (loss) for the period		9,287	5,583	8,465	26,880	(24,892)

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

The notes on pages 9 to 44 are an integral part of these financial statements.

INTERIM STATEMENTS OF CHANGES IN EQUITY

For the six months ended 31 December 2011

	NOTE	Share Capital \$000	Available for sale Reserve \$000	Defined benefit Reserve \$000	Hedging Reserve \$000	Retained Earnings \$000	Total Equity \$000
Dec 2011 - GROUP							
Balance at 1 July 2011		134,774	111	14	(1,388)	160,330	293,841
Total comprehensive income for the period							
Profit for the period		-	-	-	-	10,222	10,222
Total other comprehensive income		-	(104)	(236)	(595)	-	(935)
Total comprehensive income for the period		-	(104)	(236)	(595)	10,222	9,287
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 31 December 2011		189,774	7	(222)	(1,983)	168,955	356,531
Dec 2010 - GROUP							
Balance at 1 July 2010		55,000	-	-	(1,984)	153,452	206,468
Total comprehensive income for the period							
Profit for the period		-	-	-	-	5,123	5,123
Total other comprehensive income		-	-	-	460	-	460
Total comprehensive income for the period		-	-	-	460	5,123	5,583
Balance at 31 December 2010		55,000	-	-	(1,524)	158,575	212,051
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 44 are an integral part of these financial statements.

The comparative results for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

INTERIM STATEMENTS OF CHANGES IN EQUITY

For the six months ended 31 December 2011

	NOTE	Share Capital \$000	Available for sale Reserve \$000	Defined benefit Reserve \$000	Hedging Reserve \$000	Retained Earnings \$000	Total Equity \$000
Dec 2011 - PARENT							
Balance at 1 July 2011		284,043	111	14	-	(25,883)	258,285
Total comprehensive income for the period							
Profit for the period		-	-	-	-	27,310	27,310
Total other comprehensive income		-	(104)	(236)	(90)	-	(430)
Total comprehensive income for the period		-	(104)	(236)	(90)	27,310	26,880
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 31 December 2011		339,043	7	(222)	(90)	(170)	338,568
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 44 are an integral part of these financial statements.

INTERIM STATEMENTS OF FINANCIAL POSITION

As at 31 December 2011

	NOTE	GROUP			PARENT	
		Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Assets						
Cash and cash equivalents	11	118,564	78,549	267,034	100,708	245,322
Investments	12	24,309	-	17,831	24,309	17,831
Due from related parties	26	272	27,525	200	1,072,843	740,817
Investment properties	13	58,083	2,182	34,499	-	-
Finance receivables	14	2,075,211	1,087,206	1,707,311	582,014	626,518
Operating lease vehicles	15	35,333	38,005	32,727	-	-
Other assets	16	42,732	17,153	34,281	46,604	27,977
Investment in subsidiaries	17	-	-	-	302,282	204,269
Intangible assets	18	21,981	1,433	21,602	20,784	20,216
Total assets		2,376,485	1,252,053	2,115,485	2,149,544	1,882,950
Liabilities						
Borrowings	21	1,985,551	1,004,656	1,787,524	1,796,583	1,613,731
Trade and other payables	22	34,403	35,346	34,120	14,393	10,934
Total liabilities		2,019,954	1,040,002	1,821,644	1,810,976	1,624,665
Equity						
Share capital	24	189,774	55,000	134,774	339,043	284,043
Retained earnings and reserves		166,757	157,051	159,067	(475)	(25,758)
Total equity		356,531	212,051	293,841	338,568	258,285
Total equity and liabilities		2,376,485	1,252,053	2,115,485	2,149,544	1,882,950

The notes on pages 9 to 44 are an integral part of these financial statements.

INTERIM STATEMENTS OF CASH FLOWS

For the six months ended 31 December 2011

	NOTE	GROUP			PARENT	
		Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Cash flows from operating activities						
Interest received		97,875	63,627	152,011	25,930	29,000
Operating lease income received		6,392	7,377	14,367	-	-
Proceeds from sale of operating lease vehicles		4,952	9,621	15,384	-	-
Lending, credit fees and other income received		3,215	2,814	4,279	439	549
Net decrease in finance receivables		-	-	-	44,720	42,404
Total cash provided from operating activities		112,434	83,439	186,041	71,089	71,953
Payments to suppliers and employees		33,978	13,743	54,336	11,546	6,448
Interest paid		63,483	39,805	91,267	59,902	48,858
Purchase of operating lease vehicles		10,794	14,869	18,201	-	-
Net increase in finance receivables		24,453	40,800	19,417	-	-
Total cash applied to operating activities		132,708	109,217	183,221	71,448	55,306
Net cash flows (applied to) / from operating activities	10	(20,274)	(25,778)	2,820	(359)	16,647
Cash flows from investing activities						
Proceeds from sale of investments		-	-	3,709	-	3,709
Proceeds from sale of finance receivables to related party	26	-	-	39,764	-	-
Total cash provided from investing activities		-	-	43,473	-	3,709
Purchase of office fit-out, equipment and intangible assets		1,261	1,096	1,831	972	111
Purchase of investments		6,478	-	-	6,478	-
Advance to subsidiaries		-	-	-	-	34,523
Purchase of subsidiary	34	24,898	-	-	24,898	-
Purchase of investment property		-	2,182	21,140	-	-
Total cash applied to investing activities		32,637	3,278	22,971	32,348	34,634
Net cash flows (applied to) / from investing activities		(32,637)	(3,278)	20,502	(32,348)	(30,925)
Cash flows from financing activities						
Net increase in borrowings		-	21,199	-	-	-
Net increase in share capital		55,000	-	-	55,000	-
Total cash provided from financing activities		55,000	21,199	-	55,000	-
Dividends paid		1,597	-	866	1,597	866
Net decrease in borrowings		210,605	-	48,954	165,310	17,078
Total cash applied to financing activities		212,202	-	49,820	166,907	17,944
Net cash flows (applied to) / from financing activities		(157,202)	21,199	(49,820)	(111,907)	(17,944)
Net decrease in cash held		(210,113)	(7,857)	(26,498)	(144,614)	(32,222)
Opening cash and cash equivalents		267,034	86,406	86,406	245,322	-
Cash impact of business combination	34	61,643	-	207,126	-	277,544
Closing cash and cash equivalents	11	118,564	78,549	267,034	100,708	245,322

The notes on pages 9 to 44 are an integral part of these financial statements.

The comparative cash flows for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2011

1 Reporting entity

The interim 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.
- All of the assets and liabilities of Southern Cross Building Society Charitable Trust and CBS Canterbury Charitable Trust were amalgamated into 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 interim financial statements represent a continuation of the MARAC business. Comparatives presented for the period ended 31 December 2010 are those of the MARAC Group only. Comparatives for the year ended 30 June 2011 reflect the total comprehensive income of the MARAC Group from 1 July 2010 to 4 January 2011 and the results of the new Group from 5 January 2011 to 30 June 2011. From 1 July 2011 onwards the result reflects the new 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, MARAC ABCP Trust 1 (MARAC Trust), MARAC Retirement Bonds Superannuation Fund and MARAC PIE Fund. The Group wound up MARAC Retirement Bonds Superannuation Fund with effect from 31 October 2010.

As required by IFRS, the Group includes MARAC Trust and CBS Warehouse A Trust collectively known as the Trusts. The assets securitised into the Trusts continue to be recognised in the Group's interim financial statements.

As required by IFRS, the Group includes Southern Cross Building Society Charitable Trust and the CBS Canterbury Charitable Trust.

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, Christchurch.

2 Basis of preparation

The financial statements presented here are for the following periods:

- At 31 December 2011: 6 month period - Audited
- At 31 December 2010: 6 month period - Audited
- At 30 June 2011: 12 month period - Audited

(a) Statement of compliance

The interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and with the requirements of the Financial Reporting Act 1993. They comply with NZ IAS 34 Interim Financial Statements, New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The interim financial statements also comply with International Financial Reporting Standards (IFRS) including IAS 34 as issued by the International Accounting Standards Board.

The Parent and all entities within the Group are profit-oriented entities, except for the Southern Cross Building Society Charitable Trust and the CBS Canterbury Charitable Trust. The Parent is a reporting entity and an issuer for the purposes of the Financial Reporting Act 1993 and its interim financial statements comply with that Act. The interim 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 interim financial statements have been prepared on the basis of historical cost, unless stated otherwise.

(c) Functional and presentation currency and rounding

These interim 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 interim 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 interim financial statements, refer to Note 29 - Credit risk exposure.

(e) Going concern

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

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 interim financial statements are prepared by consolidating the interim 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 interim financial statements of special purpose entities are included in the Group's interim 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 profit or loss. 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 profit or loss 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) Tax

Income tax expense

Income tax expense for the period comprises current and deferred tax. Income tax expense is recognised in profit or loss 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 period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods. Current tax for current and prior periods 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 period(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.

(g) 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 of Directors monthly.

(h) 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.

(i) 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

3 Significant accounting policies (continued)

(j) 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 period depreciation and losses on the sale of operating lease vehicles are included as part of operating lease expenses.

(k) Derivative financial instruments

Derivative financial instruments are contracts entered into to reduce the exposure to fluctuations in interest rates on variable rate borrowings. 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 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 hedge relationship, are recognised in profit or loss.

Fair value movements of the effective portion of a qualifying 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 profit or loss in the same year as the hedged cash flow affects profit or loss, disclosed in the same line as the hedged item. Any ineffective portion of changes in fair value of the derivative are recognised immediately in profit or loss. Fair value movements of a derivative designated as a fair value hedge are recognised directly in profit or loss together with the hedged item.

(l) 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 profit or loss, in which case the increase is credited to profit or loss 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 profit or loss. 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 so as 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%

(m) 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 profit or loss.

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.

(n) 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. The fair values are derived by reference to published price quotations in an active market.

(o) 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(k))

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

3 Significant accounting policies (continued)

(o) Financial assets and liabilities (continued)

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.

(p) Impaired assets and past due assets

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

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

Restructured assets are assets where the Group expects to recover all amounts owing although the original terms have been changed due to the counterparty's difficulty in complying with the original terms of the contract and the amended terms are not comparable with similar new lending. In order to be classified as a restructured asset, following restructuring, the return under the revised terms is expected to be equal to or greater than the Group's average cost of funds, or a loss is not otherwise expected to be incurred.

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

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

For further information about credit impairment provisioning refer to Note 29 - Credit risk exposure.

(q) Intangible assets

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 profit or loss for the year. Goodwill is tested for impairment at least annually, and is carried at cost less accumulated impairment losses.

Computer software

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

(r) 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.

(s) 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.

(t) 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.

(u) 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 period in which they occur by way of a movement in the defined benefit plan reserve, and are presented in the Interim 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 the Interim Statements of Financial Position.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

3 Significant accounting policies (continued)

(v) Borrowings

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

(w) 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 periods over which any conditions are required to be met.

(x) Interim Statements of Cash Flows

The Statements of Cash Flows have been prepared using the direct method modified by the netting of certain cash flows, in order to provide more meaningful disclosure. Cash and cash equivalents consist of cash and liquid assets used in the day to day cash management of the Group.

(y) Changes in accounting policies

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

(z) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended 31 December 2011, and have not been applied in preparing these interim financial statements. The new standards identified which may have an effect on the interim financial statements of the Group are:

<i>Standard and description</i>	<i>Effective for annual periods beginning on or after:</i>	<i>Expected to be initially applied in year ending:</i>
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 profit or loss in the future if certain conditions are met.	1 July 2012	30 June 2013
NZ IFRS 10 Consolidated Financial Statements, which introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees.	1 January 2013	30 June 2014
NZ IFRS 13 Fair Value Measurement, which defines fair value, and establishes a framework for measuring fair value including disclosure requirements.	1 January 2013	30 June 2014
NZ IFRS 12 Disclosure of Interests in Other Entities, which contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.	1 January 2013	30 June 2014
NZ 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 profit or loss to be calculated based on the rate used to discount the defined benefit obligation.	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 Consolidated and Separate Financial Statements, which carries forward existing accounting and disclosure requirements with minor clarifications.	1 January 2013	30 June 2014

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 six months ended 31 December 2011, the operating segments were restructured to amalgamate Retail and Consumer into one segment. The comparative periods have 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.

4 Segmental analysis (continued)

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 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 non core property assets of MARAC, SCBS and CBS.

	Retail & Consumer	Business	Rural	Non-core Property	Other	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Dec 2011						
Interest income	47,920	24,788	17,703	7,217	4,141	101,769
Interest expense	29,377	14,858	9,850	5,664	2,898	62,647
Net interest income	18,543	9,930	7,853	1,553	1,243	39,122
Net operating lease income	2,651	9	-	-	-	2,660
Net other income	566	13	33	2,145	458	3,215
Net operating income	21,760	9,952	7,886	3,698	1,701	44,997
Depreciation and amortisation expense	-	-	-	-	952	952
Other selling and administration expenses	6,478	2,723	2,698	3,240	18,828	33,967
Selling and administration expenses	6,478	2,723	2,698	3,240	19,780	34,919
Profit / (loss) before impaired asset expense and income tax	15,282	7,229	5,188	458	(18,079)	10,078
Impaired asset expense	365	1,745	54	1,624	-	3,788
Profit / (loss) before income tax	14,917	5,484	5,134	(1,166)	(18,079)	6,290
Income tax benefit	-	-	-	-	(3,932)	(3,932)
Profit / (loss) for the period	14,917	5,484	5,134	(1,166)	(14,147)	10,222
Total assets	1,014,138	518,502	466,401	169,587	207,857	2,376,485
Total liabilities	-	-	-	-	2,019,954	2,019,954
Total equity	-	-	-	-	356,531	356,531
Dec 2010						
Interest income	35,385	30,734	102	-	1,599	67,820
Interest expense	21,601	17,741	54	-	1,092	40,488
Net interest income	13,784	12,993	48	-	507	27,332
Net operating lease income	3,415	55	-	-	-	3,470
Net other income	292	2	-	-	286	580
Net operating income	17,491	13,050	48	-	793	31,382
Depreciation and amortisation expense	-	-	-	-	527	527
Other selling and administration expenses	2,371	1,839	115	-	12,549	16,874
Selling and administration expenses	2,371	1,839	115	-	13,076	17,401
Profit / (loss) before impaired asset expense and income tax	15,120	11,211	(67)	-	(12,283)	13,981
Impaired asset expense	17	6,077	-	-	-	6,094
Profit / (loss) before income tax	15,103	5,134	(67)	-	(12,283)	7,887
Income tax expense	-	-	-	-	2,764	2,764
Profit / (loss) for the period	15,103	5,134	(67)	-	(15,047)	5,123
Total assets	653,238	490,682	8,816	-	99,317	1,252,053
Total liabilities	-	-	-	-	1,040,002	1,040,002
Total equity	-	-	-	-	212,051	212,051

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

4 Segmental analysis (continued)

	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 period	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

MARAC Group did not previously report on the Non-core Property segment, as a result there are no comparatives included in the Non-core Property segment for December 2010.

5 Net interest income

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Interest income					
Cash and cash equivalents	3,641	1,087	6,770	3,359	5,708
Finance receivables	98,128	66,654	154,527	22,418	23,900
Derivatives held for risk management: - Net interest income on cash flow hedges	-	79	-	1,274	1,287
Total interest income	101,769	67,820	161,297	27,051	30,895
Interest expense					
Retail deposits and debenture stock	52,010	29,977	78,327	52,004	48,330
Bank and securitised borrowings	10,634	10,511	21,332	5,944	6,408
Derivatives held for risk management: - Net interest expense on cash flow hedges	3	-	46	-	-
Total interest expense	62,647	40,488	99,705	57,948	54,738
Net interest income	39,122	27,332	61,592	(30,897)	(23,843)

Included within the Group's interest income on finance receivables is \$1,594,000 (December 2010: \$2,628,000, June 2011: \$5,902,000) on individually impaired assets. Included within the Parent's interest income on finance receivables is \$1,109,000 (June 2011: 1,540,000) on individually impaired assets.

6 Net operating lease income

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Operating lease income					
Lease income	6,309	7,610	14,277	-	-
Gain on disposal of lease vehicles	1,154	1,615	3,796	-	-
Total operating lease income	7,463	9,225	18,073	-	-
Operating lease expense					
Depreciation on lease vehicles	4,390	5,457	10,490	-	-
Direct lease costs	413	298	640	-	-
Total operating lease expenses	4,803	5,755	11,130	-	-
Net operating lease income	2,660	3,470	6,943	-	-

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

7 Selling and administration expenses

	NOTE	GROUP			PARENT	
		Dec 2011	Dec 2010	Jun 2011	Dec 2011	Jun 2011
		\$000	\$000	\$000	\$000	\$000
Personnel expenses		18,530	7,298	21,747	7,423	4,061
Director's fees		87	-	-	87	-
Superannuation		240	119	302	58	30
Audit fees		176	118	386	149	247
Audit related fees		26	42	59	26	28
Amortisation - intangible assets	18	569	350	978	87	187
Depreciation - property, plant and equipment	19	383	177	504	270	186
Operating lease expense as a lessee		834	442	1,277	400	357
Legal and professional fees		2,939	3,321	6,632	1,050	1,669
Other operating expenses		11,135	5,534	12,941	5,768	3,169
Total selling and administration expenses		34,919	17,401	44,826	15,318	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 Director's fees on behalf of the Parent.

8 Income tax expense

	GROUP			PARENT	
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Jun 2011
	\$000	\$000	\$000	\$000	\$000
Current income tax expense					
Current period	(1,642)	3,176	2,136	(15,322)	(9,914)
Adjustments for prior period	381	-	-	381	-
Deferred tax expense / (benefit)					
Origination and reversal of temporary differences	3,511	(395)	2,278	2,347	(397)
Tax legislation change	(6,182)	(17)	298	(6,182)	26
Total income tax expense / (benefit)	(3,932)	2,764	4,712	(18,776)	(10,285)
Reconciliation of effective tax rate					
Profit / (loss) before income tax	6,290	7,887	12,456	8,534	(35,302)
Prima facie tax at 28% (Dec 2010, Jun 2011: 30%)	1,761	2,366	3,737	2,390	(10,591)
Plus tax effect of items not taxable / deductible	108	415	677	233	280
Adjustments for prior period	381	-	-	381	-
Dividends received	-	-	-	(15,598)	-
Tax legislation change	(6,182)	(17)	298	(6,182)	26
Total income tax expense / (benefit)	(3,932)	2,764	4,712	(18,776)	(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 prior periods (December 2010: (\$17,000); June 2011: \$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 17 August 2011, Parliament enacted The Taxation (Tax Administration and Remedial Matters) Bill which contains a retrospective legislative change in relation to mergers of building societies. The result is that the \$6,182,000 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.

9 Imputation credit account

	GROUP			PARENT	
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Jun 2011
	\$000	\$000	\$000	\$000	\$000
Balance at beginning of period	-	33,515	33,515	-	-
Imputation credits forfeited on shareholding change	-	-	(33,507)	-	-
Tax paid net of refunds	-	-	(8)	-	-
Balance at end of period	-	33,515	-	-	-

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

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

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Profit / (loss) for the period	10,222	5,123	7,744	27,310	(25,017)
Add / (less) non-cash items:					
Depreciation and amortisation expense	952	527	1,482	357	373
Impaired asset expense	3,788	6,094	13,298	1,398	2,074
Deferred tax (benefit) / expense	(2,475)	395	2,897	(4,119)	(371)
Derivative financial instruments revaluation	(992)	192	5,419	(751)	5,059
Accruals	822	22	1,567	563	138
Dividends received	-	-	-	(55,708)	-
Total non-cash items	2,095	7,230	24,663	(58,260)	7,273
Add / (less) movements in working capital items:					
Other assets	(4,041)	981	(10,163)	107	(890)
Current tax	(3,166)	(1,323)	1,733	(14,793)	(9,866)
Other liabilities	1,689	(1,483)	(2,174)	2,734	4,188
Total movements in working capital items	(5,518)	(1,825)	(10,604)	(11,952)	(6,568)
Add / (less) items classified as investing activities:					
Gain on sale of assets and investments	-	1	-	-	-
Total items classified as investing activities	-	1	-	-	-
Net cash flows from / (applied to) operating activities before movements in finance receivables and operating lease vehicles	6,799	10,529	21,803	(42,902)	(24,312)
Movements in operating lease vehicles	(2,606)	4,885	10,168	-	-
Movements in finance receivables	(24,467)	(41,192)	(29,151)	42,543	40,959
Net cash flows (applied to) / from operating activities	(20,274)	(25,778)	2,820	(359)	16,647

11 Cash and cash equivalents

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Cash and cash equivalents	109,525	74,062	251,204	97,646	243,955
Cash and cash equivalents - securitised	9,039	4,487	15,830	3,062	1,367
Total cash and cash equivalents	118,564	78,549	267,034	100,708	245,322

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

12 Investments

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Public securities and corporate bonds	24,309	-	16,833	24,309	16,833
Local authority stock	-	-	998	-	998
Total investments	24,309	-	17,831	24,309	17,831

13 Investment properties

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Opening balance	34,499	-	-	-	-
Acquisitions	23,584	2,182	34,499	-	-
Closing balance	58,083	2,182	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 Society and MARAC to those acquiring entities. These advances are covered by the RECL management agreement. The carrying amount of investment properties at 31 December 2011 is the fair value based on independent valuations and other similar external evidence, adjusted where necessary to take into account market movements since the date of valuation. Refer to Note 26 - Related party transactions for further detail.

During the period to 31 December 2011, the Group recognised rental income of \$2,135,000 (December 2010: nil; June 2011: \$542,000), direct operating expenses of \$1,516,000 (December 2010: nil; June 2011: \$198,000) arising from investment property that generated rental income and direct operating expenses of \$55,000 (December 2010: nil; June 2011: nil) arising from investment property that did not generate rental income.

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

14 Finance receivables

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Non-securitised					
Gross finance receivables	1,817,639	953,187	1,535,183	515,600	615,149
Less allowance for impairment	28,668	27,236	37,565	15,470	20,762
Total non-securitised finance receivables	1,788,971	925,951	1,497,618	500,130	594,387
Securitised					
Gross finance receivables	286,952	162,189	210,425	81,884	32,131
Less allowance for impairment	712	934	732	-	-
Total securitised finance receivables	286,240	161,255	209,693	81,884	32,131
Total finance receivables	2,075,211	1,087,206	1,707,311	582,014	626,518

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

15 Operating lease vehicles

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Cost					
Opening balance	47,230	60,264	60,264	-	-
Additions	10,794	8,578	11,910	-	-
Disposals	(7,876)	(15,490)	(24,944)	-	-
Closing balance	50,148	53,352	47,230	-	-
Accumulated depreciation					
Opening balance	14,503	17,369	17,369	-	-
Depreciation charge for the period	4,390	5,457	10,490	-	-
Disposals	(4,078)	(7,479)	(13,356)	-	-
Closing balance	14,815	15,347	14,503	-	-
Opening net book value	32,727	42,895	42,895	-	-
Closing net book value	35,333	38,005	32,727	-	-

16 Other assets

	NOTE	GROUP			PARENT	
		Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Derivative financial assets	23	2,823	4,995	3,048	2,823	3,048
Trade receivables		7,958	2,165	3,351	1,117	1,610
Current tax		1,763	-	-	25,501	10,708
Prepayments		12,517	2,231	13,100	3,193	2,807
Property, plant and equipment	19	10,031	557	10,079	9,480	9,433
Deferred tax asset	20	7,640	7,205	4,703	4,490	371
Total other assets		42,732	17,153	34,281	46,604	27,977

17 Investment in subsidiaries

	PARENT			
	Dec 2011 % held	Dec 2011 \$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

On 16 March 2011, VPS Parnell Limited (VPS Parnell) and VPS Properties Limited (VPS Properties) were incorporated. VPS Parnell and VPS Properties are wholly owned subsidiaries of the Parent, with the Parent holding 100 shares in VPS Parnell and 100 shares in VPS Properties. VPS Parnell and VPS Properties are investment property holding companies.

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

18 Intangible assets

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Computer software - cost					
Opening balance	6,142	3,722	3,722	1,144	-
Additions	950	882	1,337	655	81
Acquired on amalgamation	-	-	1,083	-	1,083
Disposals	(1,753)	-	-	-	-
Closing balance	5,339	4,604	6,142	1,799	1,144
Computer software - accumulated amortisation					
Opening balance	4,727	2,821	2,821	1,115	-
Amortisation charge for the period	569	350	978	87	187
Acquired on amalgamation	-	-	928	-	928
Disposals	(1,751)	-	-	-	-
Closing balance	3,545	3,171	4,727	1,202	1,115
Computer software - opening net book value	1,415	901	901	29	-
Computer software - closing net book value	1,794	1,433	1,415	597	29
Goodwill and trademark					
Opening balance	20,187	-	-	20,187	-
Additions	-	-	46	-	46
Acquired on amalgamation	-	-	20,141	-	20,141
Closing balance	20,187	-	20,187	20,187	20,187
Total intangibles - opening net book value	21,602	901	901	20,216	-
Total intangibles - closing net book value	21,981	1,433	21,602	20,784	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 total level.

19 Property, plant and equipment

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Cost					
Opening balance	15,191	4,284	4,284	10,474	-
Additions	317	214	448	317	4
Acquired on acquisition	22	-	-	-	-
Acquired on amalgamation	-	-	10,470	-	10,470
Disposals	(2,766)	(11)	(11)	-	-
Closing balance	12,764	4,487	15,191	10,791	10,474
Accumulated depreciation					
Opening balance	5,112	3,764	3,764	1,041	-
Depreciation charge for the period	383	177	504	270	186
Acquired on amalgamation	-	-	855	-	855
Disposals	(2,762)	(11)	(11)	-	-
Closing balance	2,733	3,930	5,112	1,311	1,041
Opening net book value	10,079	520	520	9,433	-
Closing net book value	10,031	557	10,079	9,480	9,433

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

20 Deferred tax

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Property, plant and equipment	-	78	67	-	-
Employee entitlements	1,430	190	584	970	1
Finance receivables	8,050	8,170	4,984	4,332	280
Trade and other payables	94	-	145	94	90
Intangible assets	-	-	-	34	-
Derivatives held for risk management	187	669	527	-	-
Tax assets	9,761	9,107	6,307	5,430	371
Property, plant and equipment	888	-	-	940	-
Intangible assets	2	64	67	-	-
Operating lease vehicles	1,231	1,838	1,537	-	-
Tax liabilities	2,121	1,902	1,604	940	-
Net tax assets	7,640	7,205	4,703	4,490	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 and an increase of \$112,000 in December 2010.

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	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Bank borrowings sourced from New Zealand	50,075	-	-	50,075	-
Deposits sourced from New Zealand	1,644,900	-	1,556,612	1,645,339	1,557,096
Debenture stock sourced from New Zealand	-	826,868	-	-	-
Deposits sourced from overseas	26,169	-	36,635	26,169	36,635
Debenture stock sourced from overseas	-	28,510	-	-	-
Securitised borrowings sourced from New Zealand	264,407	149,278	194,277	75,000	20,000
Total borrowings	1,985,551	1,004,656	1,787,524	1,796,583	1,613,731

The Group has bank facilities totalling \$675.0 million (December 2010: \$400.3 million, June 2011: \$475.0 million). Prior to the amalgamation, there was no significant concentration of deposits from any region. As at 31 December 2011, 41% (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 \$475.0 million. On 26 August 2011, the Group entered into an agreement with its securitisation facility provider to increase the MARAC ABCP Trust 1 securitisation facility by \$100 million to \$300 million, and to extend its maturity date to 8 August 2012. On 19 December 2011, the Parent entered into an agreement to increase CBS Warehouse A Trust securitisation facility by \$100 million to \$175 million.

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

22 Trade and other payables

	NOTE	GROUP			PARENT	
		Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Derivative financial liabilities	23	2,162	1,216	2,444	806	1,127
Current tax		-	3,895	2,209	-	-
Trade payables		13,941	11,570	13,010	9,785	9,104
GST payable		13,782	13,522	13,790	-	183
Due to related parties	26	104	3,558	104	860	-
Employee benefits		4,414	1,585	2,563	2,942	520
Total trade and other payables		34,403	35,346	34,120	14,393	10,934

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

23 Derivative financial instruments

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Qualifying fair value hedges - non-securitised	2,823	4,995	3,048	2,823	3,048
Total derivative financial assets	2,823	4,995	3,048	2,823	3,048
Qualifying fair value hedges - non-securitised	620	-	979	620	979
Qualifying fair value hedges - securitised	186	-	148	186	148
Qualifying cash flow hedges - securitised	1,356	1,216	1,317	-	-
Total derivative financial liabilities	2,162	1,216	2,444	806	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 fixed rate debenture stock, 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 Interim Statements of Financial Position as a result of the reverse acquisition accounting applied, refer Note 1 - Reporting Entity.

	PARENT	
	Dec 2011 Number of shares 000	Jun 2011 Number of shares 000
Issued shares		
Opening balance	297,400	-
Shares issued during the period	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 to 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

MARAC PIE Fund

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

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
MARAC PIE Fund	8,203	8,148	6,517	8,203	6,517

MARAC 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 interim financial statements, the loans sold to the Trusts are set aside for the benefit of investors in the Trusts.

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Cash and cash equivalents - Securitised	9,039	4,487	15,830	3,062	1,367
Finance receivables - Securitised	286,240	161,255	209,693	81,884	32,131
Borrowings - Securitised	(264,407)	(149,278)	(194,277)	(75,000)	(20,000)

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

25 Special purpose entities (continued)

Southern Cross Building Society Charitable Trust and CBS Canterbury Charitable Trust (Charitable Trusts)

The directors of the Parent are trustees of the Charitable Trusts, therefore the results of the Charitable Trusts have been consolidated in accordance with NZ IFRS. Included in the Group's trade and other payables balance is:

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Beneficiary funds	731	-	746	-	-

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).

The Parent holds all shares in MARAC and PWF. During the year ended 30 June 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, PGC is no longer a related party of the Group.

(a) Transactions with related parties

Sale of non-performing loans

In September 2009 MARAC entered into a sale and purchase agreement to transfer and assign legal and beneficial title to \$175 million of non performing loans to its parent company MFSL. The loans were subsequently transferred to Real Estate Credit Limited (RECL), a wholly owned subsidiary of PGC.

The loans were transferred from MARAC at book value. In October 2009 the transfer was completed with MFSL paying \$125 million in cash, and issuing a loan note of \$50 million for the balance. As at 31 December 2010 the balance of the loan note was \$27.5 million excluding accrued interest. During the year ended 30 June 2011 the loan note was settled, with MARAC receiving \$39.8 million in cash and the remaining \$3.9 million in tax losses. PGC guaranteed the obligations of MFSL under the loan note. Interest was accrued on the loan note on an arms length basis.

As a consequence of the loan transfer, MARAC entered an Underwrite Agreement under which PGC undertook to underwrite credit losses on certain impaired property loans. The Underwrite Agreement was terminated on 5 January 2011.

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 31 December 2011. In September 2011, RECL paid \$1.5 million cash for claims to MARAC. This payments 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.

As at 31 December 2011, RECL is not a related party of the Group.

Other related party transactions

On 5 January 2011, all secured debenture stock issued by MARAC were 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 parents, refer to Note 24 - Share Capital.

The Group paid PGC a management fee for financial and administrative assistance, computer services and leased premises received during the year ended 30 June 2011. This management fee included compensation paid to certain members of the Group's key management personnel, previously employed by PGC.

MARAC provided administrative assistance to RECL, MARAC Insurance Limited, MARAC PIE Fund and received insurance commission from MARAC Insurance Limited.

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

26 Related party transactions (continued)

(a) Transactions with related parties (continued)

MARAC Insurance Limited and some key management personnel invested in MARAC's debenture stock and the Group's deposits. The investments of MARAC PIE Fund are detailed in Note 25. Key management personnel investments are detailed in Note 26(b).

Included within finance receivables at 31 December 2010 was a \$673,000 loan to PGG Wrightson Seeds Limited. PGG Wrightson Seeds Limited is no longer a related party of the Group.

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	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Previous parent and previous ultimate parent					
Interest income - MFSL	-	2,059	2,976	-	-
Selling and administration expenses - PGC	-	(1,503)	(2,494)	-	-
Due from MFSL	-	27,525	-	-	-
Due to PGC	-	109	-	-	-
Due to MFSL	-	1	-	-	-
Current parent and ultimate parent					
Due from Heartland New Zealand Limited	72	-	-	-	-
Due from BSHL No. 1 Limited	200	-	200	200	200
Subsidiaries					
Due from subsidiaries	-	-	-	1,072,643	740,617
Due to subsidiaries	-	-	-	860	-
Other related parties					
Lending and credit fee income	237	262	481	-	-
Other income	168	39	207	-	-
Interest expense	-	(94)	(130)	-	-
Selling and administration expenses	-	-	(1,000)	-	-
Total transactions with other related parties	405	207	(442)	-	-
Due from other related parties	-	-	-	-	-
Due to other related parties	104	3,448	104	-	-
Total due from related entities	272	27,525	200	1,072,843	740,817
Total due to related entities	104	3,558	104	860	-

(b) 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 period as follows:

	GROUP			PARENT	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Debenture/deposit investments by key management personnel:					
Maximum balance	391	872	409	391	409
Closing balance	381	787	385	381	385
Loans to key management personnel:					
Closing balance	307	-	304	307	304
Key management personnel interest expense and compensation is as follows:					
Interest expense	21	20	20	21	20
Short-term employee benefits	2,556	570	2,353	2,556	185
Share-based payments	91	39	287	91	-
Total	2,668	629	2,660	2,668	205

Key management personnel interest expense and compensation presented above excludes amounts paid by SCBS and CBS prior to 5 January 2011 and excludes any amounts in respect of former PGC employees paid by PGC which are included in the management fee.

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 9.08% (December 2010: 11.03%; June 2011: 9.51%) and for the Parent is 7.83% (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 debenture stock, deposits, bank borrowings and other borrowings is based on the current market interest rates payable by the Group for debt of similar maturities.

	Dec 2011		Dec 2010		Jun 2011	
	Carrying Value \$000	Fair Value \$000	Carrying Value \$000	Fair Value \$000	Carrying Value \$000	Fair Value \$000
GROUP						
Cash and cash equivalents	118,564	118,564	78,549	78,549	267,034	267,034
Investments	24,309	24,309	-	-	17,831	17,831
Finance receivables	1,788,971	1,793,956	925,951	924,182	1,497,618	1,511,777
Finance receivables - securitised	286,240	290,143	161,255	167,239	209,693	215,743
Derivative financial assets	2,823	2,823	4,995	4,995	3,048	3,048
Other financial assets	8,230	8,230	29,690	29,690	3,551	3,551
Total financial assets	2,229,137	2,238,025	1,200,440	1,204,655	1,998,775	2,018,984
Borrowings	1,721,144	1,726,700	855,378	869,603	1,593,247	1,598,815
Borrowings - securitised	264,407	264,407	149,278	149,278	194,277	194,277
Derivative financial liabilities	2,162	2,162	1,216	1,216	2,444	2,444
Other financial liabilities	18,459	18,459	16,713	16,713	15,677	15,677
Total financial liabilities	2,006,172	2,011,728	1,022,585	1,036,810	1,805,645	1,811,213
PARENT						
Cash and cash equivalents			100,708	100,708	245,322	245,322
Investments			24,309	24,309	17,831	17,831
Finance receivables			500,130	499,903	594,387	595,189
Finance receivables - securitised			81,884	81,724	32,131	32,031
Due from related parties			1,072,843	1,072,843	740,817	740,817
Derivative financial assets			2,823	2,823	3,048	3,048
Other financial assets			1,117	1,117	1,610	1,610
Total financial assets			1,783,814	1,783,427	1,635,146	1,635,848
Borrowings			1,721,583	1,726,700	1,593,731	1,599,389
Borrowings - securitised			75,000	75,000	20,000	20,000
Derivative financial liabilities			806	806	1,127	1,127
Other financial liabilities			13,587	13,587	9,624	9,624
Total financial liabilities			1,810,976	1,816,093	1,624,482	1,630,140

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

28 Risk management policies

The Group is committed to the management of risk. The primary risk categories are credit, liquidity, interest rate and operational. The Group's risk management strategy is set by the directors. 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 separated monitoring tasks where feasible and subjects all risk processes to internal audit and accounting systems to regular internal and external audits.

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 period.

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

Reviewing and assessing credit risk

The credit risk management strategies ensure that:

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

Lending standards and processes

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

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

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.

Credit risk grading

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

The Group classifies finance receivables as Behavioural or Judgement.

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

The Judgement portfolio consists mainly of business and rural lending and includes non-core property. Judgement loans relate to loans where an ongoing and detailed working relationship with the customer has been developed. To manage these loans the Group maintains a comprehensive knowledge of the customer's business and performance.

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. From July 2011, 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 (Prior to 1 July 2011: grades 4 to 6). Loans in grade 9 (Prior to 1 July 2011: grade 7) of the Judgement portfolio are individually assessed for impairment.

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

29 Credit risk exposure (continued)

(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 current, 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.
- Repossession – 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 (except PWF rural loans) in grades 6 to 8 (prior to July 2011: Relationship loans in grades 4 to 6) attract a collective provision based on risk grading. PWF loans do not attract a collective provision based on risk grade however a general collective provision is held against this group of loans. 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 (prior to July 2011: Relationship loans with a risk grade of 1 to 3) 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.

In accordance with International Financial Reporting Standards, 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.

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 interim 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 period. 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 profit or loss. Any future recoveries of amounts provided for are taken to profit or loss.

Verification

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

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

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

(i) Provision for impaired assets

	Non-secured			Secured			Total	
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Jun 2011
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
GROUP								
Provision for individually impaired assets								
Opening individual impairment	26,149	17,465	17,465	8	366	366	26,157	17,831
Impairment loss for the period								
- charge for the period *	3,387	6,942	20,223	(2)	78	93	3,385	20,316
- recoveries	91	-	117	-	-	-	91	117
- write offs	(12,138)	(5,662)	(19,844)	-	(313)	(451)	(12,138)	(20,295)
- assumed on acquisition	1,284	-	-	-	-	-	1,284	-
- assumed on amalgamation	-	-	10,049	-	-	-	-	10,049
- effect of discounting	(463)	(418)	(1,861)	-	-	-	(463)	(1,861)
Closing individual impairment	18,310	18,327	26,149	6	131	8	18,316	26,157
Provision for collectively impaired assets								
Opening collective impairment	11,416	11,765	11,765	724	752	752	12,140	12,517
Impairment loss for the period								
- charge for the period *	137	(1,202)	(7,548)	266	276	530	403	(926)
- recoveries	182	193	264	24	29	36	206	300
- assumed on amalgamation	-	-	12,927	-	-	-	-	12,927
- write offs	(1,377)	(1,847)	(5,992)	(308)	(254)	(594)	(1,685)	(6,586)
Closing collective impairment	10,358	8,909	11,416	706	803	724	11,064	12,140
Total provision for impairment	28,668	27,236	37,565	712	934	732	29,380	38,297
PARENT								
Provision for individually impaired assets								
Opening individual impairment	17,269	-	-	-	-	-	17,269	-
Impairment loss for the period								
- charge for the period	3,283	-	11,508	-	-	-	3,283	11,508
- recoveries	22	-	117	-	-	-	22	117
- write offs	(6,712)	-	(4,405)	-	-	-	(6,712)	(4,405)
- assumed on amalgamation	-	-	10,049	-	-	-	-	10,049
Closing individual impairment	13,862	-	17,269	-	-	-	13,862	17,269
Provision for collectively impaired assets								
Opening collective impairment	3,493	-	-	-	-	-	3,493	-
Impairment loss for the period								
- charge for the period	(1,885)	-	(9,434)	-	-	-	(1,885)	(9,434)
- assumed on amalgamation	-	-	12,927	-	-	-	-	12,927
Closing collective impairment	1,608	-	3,493	-	-	-	1,608	3,493
Total provision for impairment	15,470	-	20,762	-	-	-	15,470	20,762

* In determining the charge for the period, 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 \$16.6 million as at 31 December 2011 (December 2010: \$9.8 million; June 2011: \$11.8 million). The agreement covers the MARAC non-core property loans with a net book value of \$88 million as at 31 December 2011 (December 2010: \$131 million; June 2011: \$121 million).

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

	Property	Consumer	All other	Total
	Property	& Personal	industries	
	\$000	\$000	(SME)	\$000
GROUP - Dec 2011				
Provision for individually impaired assets				
Opening individual impairment	18,617	1,429	6,111	26,157
Impairment loss for the period				
- charge for the period	2,875	(1,429)	1,939	3,385
- recoveries	22	-	69	91
- write offs	(6,737)	-	(5,401)	(12,138)
- assumed on acquisition	-	-	1,284	1,284
- effect of discounting	(103)	-	(360)	(463)
Closing individual impairment	14,674	-	3,642	18,316
Provision for collectively impaired assets				
Opening collective impairment	1,664	4,813	5,663	12,140
Impairment loss for the period				
- charge for the period	963	(100)	(460)	403
- recoveries	-	70	136	206
- write offs	272	(1,315)	(642)	(1,685)
Closing collective impairment	2,899	3,468	4,697	11,064
Total provision for impairment	17,573	3,468	8,339	29,380
GROUP - Dec 2010				
Provision for individually impaired assets				
Opening individual impairment	8,712	7	9,112	17,831
Impairment loss for the period				
- charge for the period	2,642	(7)	4,385	7,020
- write offs	(2,482)	-	(3,493)	(5,975)
- effect of discounting	(214)	-	(204)	(418)
Closing individual impairment	8,658	-	9,800	18,458
Provision for collectively impaired assets				
Opening collective impairment	4,463	4,173	3,881	12,517
Impairment loss for the period				
- charge for the period	(2,177)	(392)	1,643	(926)
- recoveries	-	82	140	222
- write offs	-	(1,145)	(956)	(2,101)
Closing collective impairment	2,286	2,718	4,708	9,712
Total provision for impairment	10,944	2,718	14,508	28,170
GROUP - Jun 2011				
Provision for individually impaired assets				
Opening individual impairment	8,712	7	9,112	17,831
Impairment loss for the period				
- charge for the period	11,752	1,422	7,142	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	18,617	1,429	6,111	26,157
Provision for collectively impaired assets				
Opening collective impairment	4,463	4,173	3,881	12,517
Impairment loss for the period				
- charge for the period	(12,191)	2,363	2,810	(7,018)
- recoveries	3	248	49	300
- assumed on amalgamation	12,649	-	278	12,927
- write offs	(3,260)	(1,971)	(1,355)	(6,586)
Closing collective impairment	1,664	4,813	5,663	12,140
Total provision for impairment	20,281	6,242	11,774	38,297

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

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

	Property \$000	Consumer & Personal \$000	All other industries (SME) \$000	Total \$000
PARENT - Dec 2011				
Provision for individually impaired assets				
Opening individual impairment	15,840	1,429	-	17,269
Impairment loss for the period				
- charge for the period	4,712	(1,429)	-	3,283
- recoveries	22	-	-	22
- write offs	(6,712)	-	-	(6,712)
Closing individual impairment	13,862	-	-	13,862
Provision for collectively impaired assets				
Opening collective impairment	609	1,987	897	3,493
Impairment loss for the period				
- charge for the period	(602)	(987)	(296)	(1,885)
Closing collective impairment	7	1,000	601	1,608
Total provision for impairment	13,869	1,000	601	15,470
PARENT - Jun 2011				
Provision for individually impaired assets				
Opening individual impairment	-	-	-	-
Impairment loss for the year				
- charge for the year	10,079	1,429	-	11,508
- recoveries	117	-	-	117
- write offs	(4,405)	-	-	(4,405)
- assumed on amalgamation	10,049	-	-	10,049
Closing individual impairment	15,840	1,429	-	17,269
Provision for collectively impaired assets				
Opening collective impairment	-	-	-	-
Impairment loss for the year				
- charge for the year	(12,040)	1,987	619	(9,434)
- assumed on amalgamation	12,649	-	278	12,927
Closing collective impairment	609	1,987	897	3,493
Total provision for impairment	16,449	3,416	897	20,762

(ii) Impaired asset expense

	Non-secured			Secured			Total		
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000
GROUP									
Individually impaired assets expense	3,387	6,942	20,223	(2)	78	93	3,385	7,020	20,316
Collectively impaired assets expense	137	(1,202)	(7,548)	266	276	530	403	(926)	(7,018)
Total impaired asset expense	3,524	5,740	12,675	264	354	623	3,788	6,094	13,298
PARENT									
Individually impaired assets expense	3,283		11,508	-		-	3,283		11,508
Collectively impaired assets expense	(1,885)		(9,434)	-		-	(1,885)		(9,434)
Total impaired asset expense	1,398		2,074	-		-	1,398		2,074

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

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

(iii) Individually Impaired assets

	Non-securitised			Securitised			Total			
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
GROUP										
Opening	68,523	42,102	42,102	14	545	545	68,537	42,647	42,647	
Additions	18,651	13,284	49,434	-	30	51	18,651	13,314	49,485	
Deletions	(43,977)	(9,549)	(52,927)	-	(404)	(582)	(43,977)	(9,953)	(53,509)	
Assumed on acquisition	1,871	-	-	-	-	-	1,871	-	-	
Assumed on amalgamation	-	-	29,914	-	-	-	-	-	29,914	
Closing gross individually impaired assets	45,068	45,837	68,523	14	171	14	45,082	46,008	68,537	
PARENT										
Opening	32,217	-	-	-	-	-	32,217	-	-	
Additions	12,076	-	7,794	-	-	-	12,076	-	7,794	
Deletions	(9,674)	-	(5,491)	-	-	-	(9,674)	-	(5,491)	
Assumed on amalgamation	-	-	29,914	-	-	-	-	-	29,914	
Closing gross individually impaired assets	34,619	-	32,217	-	-	-	34,619	-	32,217	
							Property	Consumer & personal	All other industries	Total
							\$000	\$000	\$000	\$000
GROUP - Dec 2011										
Opening							55,899	-	12,638	68,537
Additions							15,273	-	3,378	18,651
Deletions							(32,311)	-	(11,666)	(43,977)
Assumed on acquisition							-	-	1,871	1,871
Closing gross individually impaired assets							38,861	-	6,221	45,082
GROUP - Dec 2010										
Opening							25,106	15	17,526	42,647
Additions							8,624	-	4,690	13,314
Deletions							(8,846)	(15)	(1,092)	(9,953)
Closing gross individually impaired assets							24,884	-	21,124	46,008
GROUP - Jun 2011										
Opening							25,106	15	17,526	42,647
Additions							40,705	-	8,780	49,485
Deletions							(39,826)	(15)	(13,668)	(53,509)
Assumed on amalgamation							29,914	-	-	29,914
Closing gross individually impaired assets							55,899	-	12,638	68,537
PARENT - Dec 2011										
Opening							32,217	-	-	32,217
Additions							12,076	-	-	12,076
Deletions							(9,674)	-	-	(9,674)
Closing gross individually impaired assets							34,619	-	-	34,619
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

(iv) Restructured assets

	Non-securitised			Securitised			Total		
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
GROUP - Restructured assets	9,429	3,316	3,818	-	-	-	9,429	3,316	3,818
PARENT - Restructured assets	-	-	569	-	-	-	-	-	569

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

29 Credit risk exposure (continued)

(a) Credit impairment provisioning (continued)

(iv) Restructured assets

	Property \$000	Consumer & personal \$000	All other industries \$000	Total \$000
GROUP - Dec 2011				
Restructured assets	5,805	2,911	713	9,429
GROUP - Dec 2010				
Restructured assets	-	2,783	533	3,316
GROUP - Jun 2011				
Restructured assets	569	2,725	524	3,818
PARENT - Dec 2011				
Restructured assets	-	-	-	-
PARENT - Jun 2011				
Restructured assets	569	-	-	569

(v) Past due but not impaired

	Non-secured			Secured			Total		
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000
GROUP									
Less than 30 days old	44,819	29,384	23,899	4,134	3,291	2,678	48,953	32,675	26,577
31 and less than 60 days old	19,019	12,465	27,763	1,382	1,372	1,614	20,401	13,837	29,377
61 but less than 90 days old	5,531	6,243	15,405	351	442	306	5,882	6,685	15,711
More than 90 days old	61,366	63,070	65,739	1,231	1,405	1,459	62,597	64,475	67,198
Total past due but not impaired	130,735	111,162	132,806	7,098	6,510	6,067	137,833	117,672	138,863
PARENT									
Less than 30 days old	15,881		9,706	96		-	15,977		9,706
31 and less than 60 days old	3,404		865	-		224	3,404		1,089
61 but less than 90 days old	281		2,474	-		-	281		2,474
More than 90 days old	1,321		5,831	84		-	1,405		5,831
Total past due but not impaired	20,887		18,876	180		224	21,067		19,100

	Property \$000	Consumer & personal \$000	All other industries (SME) \$000	Total \$000
GROUP - Dec 2011				
Less than 30 days old	13,646	20,632	14,675	48,953
31 and less than 60 days old	3,329	3,940	13,132	20,401
61 but less than 90 days old	273	1,297	4,312	5,882
More than 90 days old	45,717	4,133	12,747	62,597
Total past due but not impaired	62,965	30,002	44,866	137,833
GROUP - Dec 2010				
Less than 30 days old	11,032	9,884	11,759	32,675
31 and less than 60 days old	1,849	3,652	8,336	13,837
61 but less than 90 days old	2,636	1,645	2,404	6,685
More than 90 days old	47,905	3,612	12,958	64,475
Total past due but not impaired	63,422	18,793	35,457	117,672
GROUP - Jun 2011				
Less than 30 days old	6,830	15,064	4,683	26,577
31 and less than 60 days old	19,482	2,763	7,132	29,377
61 but less than 90 days old	4,707	3,687	7,317	15,711
More than 90 days old	45,915	4,577	16,706	67,198
Total past due but not impaired	76,934	26,091	35,838	138,863
PARENT - Dec 2011				
Less than 30 days old	2,965	10,622	2,390	15,977
31 and less than 60 days old	2,855	549	-	3,404
61 but less than 90 days old	267	14	-	281
More than 90 days old	-	1,405	-	1,405
Total past due but not impaired	6,087	12,590	2,390	21,067

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

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

	Property	Consumer & personal	All other industries (SME)	Total
	\$000	\$000	\$000	\$000
PARENT - Jun 2011				
Less than 30 days old	1,360	7,780	566	9,706
31 and less than 60 days old	1,055	34	-	1,089
61 but less than 90 days old	355	2,119	-	2,474
More than 90 days old	2,665	675	2,491	5,831
Total past due but not impaired	5,435	10,608	3,057	19,100

(b) Concentrations of credit risk
(i) By individual counterparties

	Non-secured			Secured			Total		
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011
	Number of counterparties			Number of counterparties			Number of counterparties		
Cash and cash equivalents - Individual credit exposures over 10% (as a % of equity):									
GROUP									
10% - 19%	-	1	2	-	-	-	-	1	2
20% - 29%	1	1	2	-	-	-	1	1	2
PARENT									
10% - 19%	-		1	-	-	-	-		1
20% - 29%	1		3	-	-	-	1		3

Short term funds held with New Zealand registered international banks.

(ii) By industry

	Non-secured			Secured			Total		
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
GROUP									
Agricultural, forestry and fishing	566,854	108,657	186,010	3,641	2,661	2,926	570,495	111,318	188,936
Government & public authorities	20,964	18,922	16,739	659	752	400	21,623	19,674	17,139
Finance, investments & insurance	31,795	30,400	36,460	4,778	790	689	36,573	31,190	37,149
Construction	61,410	60,139	63,509	1,029	1,572	884	62,439	61,711	64,393
Transport and storage	84,806	70,469	72,975	933	2,079	1,744	85,739	72,548	74,719
Wholesale and retail trade	106,398	134,859	118,754	1,789	3,302	2,727	108,187	138,161	121,481
Hospitality and tourism	41,117	41,449	49,570	25	205	388	41,142	41,654	49,958
Manufacturing and printing	43,819	37,454	43,831	868	1,131	847	44,687	38,585	44,678
Property*	266,780	131,405	294,937	-	-	-	266,780	131,405	294,937
Consumer & personal	565,028	292,197	614,833	272,518	148,763	199,088	837,546	440,960	813,921
Total finance receivables	1,788,971	925,951	1,497,618	286,240	161,255	209,693	2,075,211	1,087,206	1,707,311
PARENT									
Agricultural, forestry and fishing	36,412		60,381	1,505		1,933	37,917		62,314
Government & public authorities	-		-	435		-	435		-
Finance, investments & insurance	421		1,084	4,475		211	4,896		1,295
Construction	623		3,472	919		338	1,542		3,810
Transport and storage	-		4,197	-		392	-		4,589
Wholesale and retail trade	-		3,598	1,339		138	1,339		3,736
Hospitality and tourism	1,482		14,629	-		310	1,482		14,939
Manufacturing and printing	-		2,267	549		-	549		2,267
Property	172,134		171,273	-		-	172,134		171,273
Consumer & personal	289,058		333,486	72,662		28,809	361,720		362,295
Total finance receivables	500,130		594,387	81,884		32,131	582,014		626,518

* Included in the Group's property industry above, is \$88 million of MARAC non-core property loans which are covered by the RECL management agreement as at 31 December 2011 (December 2010: \$131 million; June 2011: \$121 million), refer Note 26 - Related party transactions. A further \$23 million (December 2010: nil; June 2011: \$32 million) of non-core property loans acquired by the Group from CBS and SCBS in the merger are also included in this category, net of provisions. The remaining \$156 million (December 2010: nil; June 2011: \$142 million) is core property lending.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

29 Credit risk exposure (continued)
 (b) Concentrations of credit risk
 (iii) By geographic region

	Non-securitized			Securitized			Total		
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
GROUP									
Auckland	427,169	354,399	449,556	84,263	66,049	72,161	511,432	420,448	521,717
Wellington	83,046	86,374	88,016	18,070	13,069	16,212	101,116	99,443	104,228
Rest of North Island	403,712	293,957	347,530	58,814	45,915	49,463	462,526	339,872	396,993
Canterbury	477,332	95,461	471,567	104,443	25,206	56,613	581,775	120,667	528,180
Rest of South Island	397,712	95,760	140,949	20,650	11,016	15,244	418,362	106,776	156,193
Total finance receivables	1,788,971	925,951	1,497,618	286,240	161,255	209,693	2,075,211	1,087,206	1,707,311
PARENT									
Auckland	90,479		102,842	1,721		482	92,200		103,324
Wellington	15,932		17,316	372		53	16,304		17,369
Rest of North Island	74,642		75,885	804		431	75,446		76,316
Canterbury	292,747		375,112	73,348		29,060	366,095		404,172
Rest of South Island	26,330		23,232	5,639		2,105	31,969		25,337
Total finance receivables	500,130		594,387	81,884		32,131	582,014		626,518

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

GROUP - Current period

Judgement portfolio

Grade 1 - Very Strong	38,724					38,724
Grade 2 - Strong	23,547					23,547
Grade 3 - Sound	109,772		243			110,015
Grade 4 - Adequate *	374,221		1,285			375,506
Grade 5 - Acceptable	349,645		8,630			358,275
Grade 6 - Monitor	95,060		74			95,134
Grade 7 - Substandard	70,169		52			70,221
Grade 8 - Doubtful	10,375		21			10,396
Grade 9 - At risk of loss	24,248					24,248
Total Judgement portfolio	1,095,761		10,305			1,106,066

Behavioural portfolio

Current	673,690		269,595			943,285
Active	12,691		4,095			16,786
Arrangement	4,427		1,631			6,058
Repossessed	1,946		403			2,349
Recovery	456		211			667
Total Behavioural portfolio	693,210		275,935			969,145

Total maximum exposure to credit risk	1,788,971		286,240			2,075,211
--	------------------	--	----------------	--	--	------------------

GROUP - Comparative periods

Grade 1 - Undoubted			43,385		111		43,496
Grade 2 - Strong	21,616		333,872		20,946	21,616	354,818
Grade 3 - Sound *	729,440		953,586	153,845	181,612	883,285	1,135,198
Grade 4 - Satisfactory	58,977		68,440	3,344	3,901	62,321	72,341
Grade 5 - Uncertain	42,342		37,466	2,638	2,248	44,980	39,714
Grade 6 - At risk	27,620		20,822	994	656	28,614	21,478
Grade 7 - Probable loss	45,956		40,047	434	219	46,390	40,266
Total maximum exposure to credit risk		925,951	1,497,618	161,255	209,693	1,087,206	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 31 December 2011 \$50 million of loans have been transferred from the Judgement risk grades 5 to 8, to risk grade 4 as they are covered by the RECL management agreement. As at 30 June 2011 \$51 million of loans have been transferred from risk grades 4 to 6, to risk grade 3 (December 2010: \$48 million). 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 \$16.6 million as at 31 December 2011 (December 2010: \$9.8 million; June 2011: \$11.8 million). The agreement covers the MARAC non-core property loans with a net book value of \$88 million as at 31 December 2011 (December 2010: \$131 million; June 2011: \$121 million).

PGG Wrightson Finance Limited guaranteed loans, refer to Note 34 - Business Combinations. In the risk grading table above, as at 31 December 2011 \$30 million of loans have been transferred from the Judgement risk grades of 6 to 8, to risk grade 4 as they are covered by the Deed of Guarantee and Indemnity with PGG Wrightson Limited. Subsequent to reporting date PGG Wrightson Limited will reacquire approximately \$9.5 million of loans covered under this Deed.

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

29 Credit risk exposure (continued)

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

	Non-securitised			Securitised			Total			
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	
PARENT - Current period										
Judgement portfolio										
Grade 1 - Very Strong	4,647			-			4,647			
Grade 2 - Strong	17,232			-			17,232			
Grade 3 - Sound	35,994			243			36,237			
Grade 4 - Adequate	40,811			1,110			41,921			
Grade 5 - Acceptable	55,089			8,107			63,196			
Grade 6 - Monitor	33,811			-			33,811			
Grade 7 - Substandard	19,338			-			19,338			
Grade 9 - At risk of loss	20,756			-			20,756			
Total Judgement portfolio	227,678			9,460			237,138			
Behavioural portfolio										
Current	265,170			72,243			337,413			
Active	5,999			181			6,180			
Arrangement	549			-			549			
Repossessed	734			-			734			
Total Behavioural portfolio	272,452			72,424			344,876			
Total maximum exposure to credit risk	500,130			81,884			582,014			
PARENT - Comparative periods										
Grade 1 - Undoubted			32,015			98			32,113	
Grade 2 - Strong			303,703			19,676			323,379	
Grade 3 - Sound			195,853			11,689			207,542	
Grade 4 - Satisfactory			38,823			444			39,267	
Grade 5 - Uncertain			9,287			224			9,511	
Grade 6 - At risk			3,750			-			3,750	
Grade 7 - Probable loss			10,956			-			10,956	
Total maximum exposure to credit risk			594,387			32,131			626,518	
							Property	Consumer & personal	All other industries (SME)	Total
							\$000	\$000	\$000	\$000
GROUP - Dec 2011										
Judgement portfolio										
Grade 1 - Very Strong							4,154	17	34,553	38,724
Grade 2 - Strong							17,232	242	6,073	23,547
Grade 3 - Sound							36,568	1,411	72,036	110,015
Grade 4 - Adequate *							95,733	8,871	270,902	375,506
Grade 5 - Acceptable							64,856	10,217	283,202	358,275
Grade 6 - Monitor							12,533	5,025	77,576	95,134
Grade 7 - Substandard							9,849	4,580	55,792	70,221
Grade 8 - Doubtful							-	129	10,267	10,396
Grade 9 - At risk of loss							22,194	-	2,054	24,248
Total Judgement portfolio							263,119	30,492	812,455	1,106,066
Behavioural portfolio										
Not in arrears							3,648	784,398	155,239	943,285
Active							7	15,321	1,458	16,786
Arrangement							-	4,864	1,194	6,058
Repossessed							6	1,971	372	2,349
Recovery							-	500	167	667
Total Behavioural portfolio							3,661	807,054	158,430	969,145
Total maximum exposure to credit risk							266,780	837,546	970,885	2,075,211

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

29 Credit risk exposure (continued)

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

	Property	Consumer	All other	Total
	& personal	& personal	industries	
			(SME)	
	\$000	\$000	\$000	\$000
GROUP - Dec 2010				
Grade 2 - Strong	19,972	258	1,386	21,616
Grade 3 - Sound *	77,915	422,602	382,768	883,285
Grade 4 - Satisfactory	10	9,223	53,088	62,321
Grade 5 - Uncertain	-	5,824	39,156	44,980
Grade 6 - At risk	48	2,159	26,407	28,614
Grade 7 - Probable loss	33,460	894	12,036	46,390
Total maximum exposure to credit risk	131,405	440,960	514,841	1,087,206
GROUP - Jun 2011				
Grade 1 - Undoubted	20,495	9,918	13,083	43,496
Grade 2 - Strong	68,988	252,808	33,022	354,818
Grade 3 - Sound *	160,297	515,875	459,026	1,135,198
Grade 4 - Satisfactory	14,995	22,598	34,748	72,341
Grade 5 - Uncertain	4,690	5,778	29,246	39,714
Grade 6 - At risk	561	2,904	18,013	21,478
Grade 7 - Probable loss	24,911	4,040	11,315	40,266
Total maximum exposure to credit risk	294,937	813,921	598,453	1,707,311
PARENT - Dec 2011				
Judgement portfolio				
Grade 1 - Very Strong	4,162	-	485	4,647
Grade 2 - Strong	17,232	-	-	17,232
Grade 3 - Sound	30,280	1,001	4,956	36,237
Grade 4 - Adequate	33,399	4,731	3,791	41,921
Grade 5 - Acceptable	42,675	5,974	14,547	63,196
Grade 6 - Monitor	10,701	4,813	18,297	33,811
Grade 7 - Substandard	9,710	4,267	5,361	19,338
Grade 9 - At risk of loss	20,756	-	-	20,756
Total Judgement portfolio	168,915	20,786	47,437	237,138
Behavioural portfolio				
Current	3,219	333,471	723	337,413
Active	-	6,180	-	6,180
Arrangement	-	549	-	549
Repossessed	-	734	-	734
Total Behavioural portfolio	3,219	340,934	723	344,876
Total maximum exposure to credit risk	172,134	361,720	48,160	582,014
PARENT - Jun 2011				
Grade 1 - Undoubted	20,495	9,808	1,810	32,113
Grade 2 - Strong	48,691	247,800	26,888	323,379
Grade 3 - Sound	75,387	86,271	45,884	207,542
Grade 4 - Satisfactory	14,296	14,988	9,983	39,267
Grade 5 - Uncertain	4,484	101	4,926	9,511
Grade 6 - At risk	84	502	3,164	3,750
Grade 7 - Probable loss	7,836	2,825	295	10,956
Total maximum exposure to credit risk	171,273	362,295	92,950	626,518

(d) Commitments to extend credit

	Non-secured			Secured			Total		
	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	Jun 2011	Dec 2011	Dec 2010	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
GROUP									
Undrawn facilities available to customers	125,336	51,574	74,099	-	-	49	125,336	51,574	74,148
Conditional commitments to fund at future dates	31,201	28,988	19,199	-	-	-	31,201	28,988	19,199
PARENT									
Undrawn facilities available to customers	13,677	-	23,530	-	-	49	13,677	-	23,579
Conditional commitments to fund at future dates	5,379	-	-	-	-	-	5,379	-	-

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

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 - Dec 2011							
Financial assets							
Cash and cash equivalents	118,564	-	-	-	-	-	118,564
Investments	-	504	504	1,009	25,854	-	27,871
Finance receivables	-	550,648	402,478	353,956	532,770	597,329	2,437,181
Finance receivables - securitised	-	61,529	54,984	88,569	88,357	119,341	412,780
Derivative financial assets	2,823	-	-	-	-	-	2,823
Other financial assets	-	8,230	-	-	-	-	8,230
Total financial assets	121,387	620,911	457,966	443,534	646,981	716,670	3,007,449
Financial liabilities							
Borrowings	255,809	859,187	391,882	234,442	52,326	-	1,793,646
Borrowings - securitised	-	4,661	190,984	76,392	-	-	272,037
Derivative financial liabilities	2,162	-	-	-	-	-	2,162
Other financial liabilities	-	18,456	-	-	-	-	18,456
Total financial liabilities	257,971	882,304	582,866	310,834	52,326	-	2,086,301
Net financial assets	(136,584)	(261,393)	(124,900)	132,700	594,655	716,670	921,148
Unrecognised loan commitments	125,336	-	-	-	-	-	125,336
Undrawn committed bank facilities	360,000	-	-	-	-	-	360,000

The undrawn committed bank facilities totalling \$360.0 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 \$200.0 million is contractually repayable in 1-2 years time upon facility expiry. Subsequent to reporting date, the syndicated bank facilities have been extended 6 months.

GROUP - Dec 2010

Financial assets							
Cash and cash equivalents	78,549	-	-	-	-	-	78,549
Finance receivables	-	334,003	192,975	241,828	334,977	1,078	1,104,861
Finance receivables - securitised	-	45,680	38,846	61,455	47,557	-	193,538
Derivative financial assets	4,995	-	-	-	-	-	4,995
Other financial assets	-	29,690	-	-	-	-	29,690
Total financial assets	83,544	409,373	231,821	303,283	382,534	1,078	1,411,633
Financial liabilities							
Borrowings	53,293	311,498	296,549	120,381	129,767	-	911,488
Borrowings - securitised	-	3,306	149,569	-	-	-	152,875
Derivative financial liabilities	1,216	-	-	-	-	-	1,216
Other financial liabilities	-	30,235	-	-	-	-	30,235
Total financial liabilities	54,509	345,039	446,118	120,381	129,767	-	1,095,814
Net financial assets	29,035	64,334	(214,297)	182,902	252,767	1,078	315,819
Unrecognised loan commitments	51,574	-	-	-	-	-	51,574
Undrawn committed bank facilities	250,250	-	-	-	-	-	250,250

The undrawn committed bank facilities totalling \$250.3 million were available to be drawn down on demand. To the extent drawn, \$200.3 million was contractually repayable in 0-6 months time and \$50.0 million in 6-12 months time upon the facilities expiring.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

30 Liquidity risk (continued)

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 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 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 - Dec 2011							
Financial assets							
Cash and cash equivalents	100,708	-	-	-	-	-	100,708
Investments	-	504	504	1,009	25,854	-	27,871
Due from related parties	1,072,843	-	-	-	-	-	1,072,843
Finance receivables	-	108,094	68,368	55,901	121,962	597,329	951,654
Finance receivables - securitised	-	7,928	5,452	8,454	26,649	119,341	167,824
Derivative financial assets	2,823	-	-	-	-	-	2,823
Other financial assets	-	1,117	-	-	-	-	1,117
Total financial assets	1,176,374	117,643	74,324	65,364	174,465	716,670	2,324,840
Financial liabilities							
Borrowings	255,809	859,187	391,882	234,442	52,326	-	1,793,646
Borrowings - securitised	-	1,285	1,285	76,392	-	-	78,962
Derivative financial liabilities	806	-	-	-	-	-	806
Other financial liabilities	-	13,582	-	-	-	-	13,582
Total financial liabilities	256,615	874,054	393,167	310,834	52,326	-	1,886,996
Net financial assets	919,759	(756,411)	(318,843)	(245,470)	122,139	716,670	437,844
Unrecognised loan commitments	13,677	-	-	-	-	-	13,677
Undrawn committed bank facilities	250,000	-	-	-	-	-	250,000

The undrawn committed bank facilities totalling \$250.0 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 \$200.0 million was contractually repayable in 1-2 years time upon facility expiry.

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

	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 - Dec 2011							
Financial assets							
Cash and cash equivalents	118,564	-	-	-	-	-	118,564
Investments	-	504	504	1,009	25,854	-	27,871
Finance receivables	-	546,828	458,031	391,696	680,974	174	2,077,703
Finance receivables - securitised	-	75,975	61,104	84,592	121,751	-	343,422
Derivative financial asset	2,823	-	-	-	-	-	2,823
Other financial assets	-	8,230	-	-	-	-	8,230
Total financial assets	121,387	631,537	519,639	477,297	828,579	174	2,578,613
Financial liabilities							
Borrowings	2,558	294,669	231,413	457,918	556,372	372,642	1,915,572
Borrowings - securitised	-	61,170	48,688	66,184	106,265	-	282,307
Derivative financial liabilities	2,162	-	-	-	-	-	2,162
Other financial liabilities	-	18,456	-	-	-	-	18,456
Total financial liabilities	4,720	374,295	280,101	524,102	662,637	372,642	2,218,497
Net financial assets	116,667	257,242	239,538	(46,805)	165,942	(372,468)	360,116
Unrecognised loan commitments	125,336	-	-	-	-	-	125,336
Undrawn committed bank facilities	360,000	-	-	-	-	-	360,000

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

30 Liquidity risk (continued)

Expected maturity profile of financial assets and liabilities

	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
GROUP - Dec 2010							
Financial assets							
Cash and cash equivalents	78,549	-	-	-	-	-	78,549
Finance receivables	-	299,363	255,998	281,856	293,516	-	1,130,733
Finance receivables - securitised	-	56,786	43,472	58,479	34,881	-	193,618
Derivative financial assets	4,995	-	-	-	-	-	4,995
Other financial assets	-	29,690	-	-	-	-	29,690
Total financial assets	83,544	385,839	299,470	340,335	328,397	-	1,437,585
Financial liabilities							
Borrowings	53,293	175,545	211,029	291,677	197,604	625	929,773
Borrowings - securitised	-	3,306	149,569	-	-	-	152,875
Derivative financial liabilities	1,216	-	-	-	-	-	1,216
Other financial liabilities	-	30,235	-	-	-	-	30,235
Total financial liabilities	54,509	209,086	360,598	291,677	197,604	625	1,114,099
Net financial assets	29,035	176,753	(61,128)	48,658	130,793	(625)	323,486
Unrecognised loan commitments	51,574	-	-	-	-	-	51,574
Undrawn committed bank facilities	250,250	-	-	-	-	-	250,250
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	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

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

30 Liquidity risk (continued)

Expected maturity profile of financial assets and liabilities

	On Demand	0-6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
PARENT - Dec 2011							
Financial assets							
Cash and cash equivalents	100,708	-	-	-	-	-	100,708
Investments	-	504	504	1,009	25,854	-	27,871
Due from related parties	1,072,843	-	-	-	-	-	1,072,843
Finance receivables	-	108,094	68,368	55,901	351,477	174	584,014
Finance receivables - securitised	-	7,928	5,452	8,454	76,674	-	98,508
Derivative financial assets	2,823	-	-	-	-	-	2,823
Other financial assets	-	1,117	-	-	-	-	1,117
Total financial assets	1,176,374	117,643	74,324	65,364	454,005	174	1,887,884
Financial liabilities							
Borrowings	2,558	294,669	231,413	457,918	556,372	372,642	1,915,572
Borrowings - securitised	-	5,807	3,736	5,282	70,745	-	85,570
Derivative financial liabilities	806	-	-	-	-	-	806
Other financial liabilities	-	13,582	-	-	-	-	13,582
Total financial liabilities	3,364	314,058	235,149	463,200	627,117	372,642	2,015,530
Net financial assets	1,173,010	(196,415)	(160,825)	(397,836)	(173,112)	(372,468)	(127,646)
Unrecognised loan commitments	13,677	-	-	-	-	-	13,677
Undrawn committed bank facilities	250,000	-	-	-	-	-	250,000
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 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

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

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 - Dec 2011							
Financial assets							
Cash and cash equivalents	2.16%	118,564	-	-	-	-	118,564
Investments	4.15%	24,309	-	-	-	-	24,309
Due from related parties	-	272	-	-	-	-	272
Finance receivables	9.46%	1,245,541	161,600	173,388	208,442	-	1,788,971
Finance receivables - securitised	9.81%	109,088	47,921	74,094	55,137	-	286,240
Other financial assets	-	10,781	-	-	-	-	10,781
Total financial assets		1,508,555	209,521	247,482	263,579	-	2,229,137
Financial liabilities							
Borrowings	5.98%	1,098,853	366,819	213,637	41,835	-	1,721,144
Borrowings - securitised	3.53%	264,407	-	-	-	-	264,407
Other financial liabilities	-	20,621	-	-	-	-	20,621
Total financial liabilities		1,383,881	366,819	213,637	41,835	-	2,006,172
Effect of derivatives held for risk management		119,480	(65,209)	(7,764)	(46,507)	-	-
Net financial assets		244,154	(222,507)	26,081	175,237	-	222,965
GROUP - Dec 2010							
Financial assets							
Cash and cash equivalents	3.35%	78,549	-	-	-	-	78,549
Due from related parties	12.97%	27,525	-	-	-	-	27,525
Finance receivables	10.75%	392,755	198,209	190,174	144,813	-	925,951
Finance receivables - securitised	11.63%	47,293	36,206	48,705	29,051	-	161,255
Other financial assets	-	2,165	-	-	-	-	2,165
Total financial assets		548,287	234,415	238,879	173,864	-	1,195,445
Financial liabilities							
Borrowings	7.11%	337,908	283,595	109,234	124,641	-	855,378
Borrowings - securitised	4.45%	149,278	-	-	-	-	149,278
Other financial liabilities	-	31,451	-	-	-	-	31,451
Total financial liabilities		518,637	283,595	109,234	124,641	-	1,036,107
Effect of derivatives held for risk management		39,880	(35,650)	(55,450)	51,220	-	-
Net financial assets		69,530	(84,830)	74,195	100,443	-	159,338
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		1,255,676	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

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

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 - Dec 2011							
Financial assets							
Cash and cash equivalents	2.54%	100,708	-	-	-	-	100,708
Investments	4.15%	24,309	-	-	-	-	24,309
Due from related parties	-	1,072,843	-	-	-	-	1,072,843
Finance receivables	7.35%	424,313	41,663	27,397	6,757	-	500,130
Finance receivables - securitised	6.20%	64,577	6,581	7,156	3,570	-	81,884
Other financial assets	-	3,940	-	-	-	-	3,940
Total financial assets		1,690,690	48,244	34,553	10,327	-	1,783,814
Financial liabilities							
Borrowings	5.98%	1,099,292	366,819	213,637	41,835	-	1,721,583
Borrowings - securitised	3.43%	75,000	-	-	-	-	75,000
Other financial liabilities	-	14,393	-	-	-	-	14,393
Total financial liabilities		1,188,685	366,819	213,637	41,835	-	1,810,976
Effect of derivatives held for risk management		110	(33,499)	42,026	(8,637)	-	-
Net financial assets		502,115	(352,074)	(137,058)	(40,145)	-	(27,162)
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		1,486,074	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 profit or loss.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non standard interest rate scenarios. Standard scenarios which are considered on a monthly basis include a 100 basis point parallel fall or rise in the yield curve. There is no material impact on profit or loss or on other 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	
	Dec 2011 \$000	Dec 2010 \$000	Jun 2011 \$000	Dec 2011 \$000	Jun 2011 \$000
Letters of credit, guarantees and performance bonds	2,530	2,340	1,770	-	-
Total contingent liabilities	2,530	2,340	1,770	-	-

NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

For the six months ended 31 December 2011

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. No PGC or HNZ shares were transferred to staff in the six months ended 31 December 2011. At 31 December 2011 the trustees held 14,072 PGC shares and 14,072 HNZ shares for these senior staff members.

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 six months ended 31 December 2011. At 31 December 2011 the trustees held no shares in PGC or HNZ for these executives.

The total expense recognised during the period in relation to these share schemes was \$115,346 (December 2010: \$44,262; 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 six months ended 31 December 2011. At 31 December 2011 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.

The comparative notes for the Group for the period ended 31 December 2010 reflect the MARAC Group only. Refer to Note 1 for further information.

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 the 31st of 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.

<i>Fair value of consideration transferred at acquisition date</i>	GROUP 31-Aug-11 \$000
Excluded loans and deferred tax	73,115
Cash paid	24,898
Consideration transferred	98,013
<i>Identifiable assets acquired and liabilities assumed</i>	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 was 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 31 December, total recourse loans of \$30.0 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 six months to 31 December 2011, 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.

AUDIT REPORT



Independent auditor's report

To the shareholder of Heartland Building Society

Report on the interim financial statements

We have audited the accompanying interim financial statements of Heartland Building Society (the "parent") and the group, comprising the parent and its subsidiaries, on pages 4 to 44. The interim financial statements comprise the statements of financial position as at 31 December 2011, the statements of comprehensive income, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory information, for both the parent and the group.

Directors' responsibility for the interim financial statements

The directors are responsible for the preparation of interim 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 interim 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 interim 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 interim financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the interim 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 interim 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 interim 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. 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 interim financial statements on pages 4 to 44:

- 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 31 December 2011 and of the financial performance and cash flows of the parent and the group for the six month period 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.

16 February 2012
Auckland

HEARTLAND

Building Society

www.heartland.co.nz

© Heartland Building Society 2012