HEARTLAND

BANK

Disclosure Statement

For the three months ended 30 September 2016

CONTENTS

GENERAL INFORMATION

This Disclosure Statement has been issued by Heartland Bank Limited (the bank) and its subsidiaries (the banking group) for the three months ended 30 September 2016 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order).

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

The bank's address for service is Level 3, Heartland House, 35 Teed Street, Newmarket, Auckland.

GUARANTEE ARRANGEMENTS

As at 30 September 2016 no material obligations of the bank were guaranteed.

DIRECTORS

As at the date this Disclosure Statement was signed, the Directors of Heartland Bank Limited are:

Jeffrey K Greenslade

Edward J Harvey

Bruce R Irvine

Graham R Kennedy

Christopher R Mace

Geoffrey T Ricketts

Vanessa C M Stoddart

Gregory R Tomlinson

Since 30 June 2016, Nicola Greer has retired from the Board effective 25 July 2016. Vanessa Stoddart has been appointed to the Board effective 3 October 2016.

CONDITIONS OF REGISTRATION

These conditions apply on and after 1 November 2015.

The registration of Heartland Bank Limited ("the bank") as a registered bank is subject to the following conditions:

1. That—

    (a) the Total capital ratio of the banking group is not less than 8%;

    (b) the Tier 1 capital ratio of the banking group is not less than 6%;

    (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;

    (d) the Total capital of the banking group is not less than $30 million;

    (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and

    (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

    For the purposes of this condition of registration, -

    the Total capital ratio, the Tier 1 capital ratio, the Common Equity Tier 1 capital ratio and Total capital must be calculated in accordance with the Reserve Bank of New Zealand document: “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated November 2015.

    an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 8(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

    a Tier 2 capital instrument is an instrument that meets the requirements of subsection 9(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

1A. That—

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

    (b) under its ICAAP the bank identifies and measures its “other material risks” defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated November 2015; and

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

1B. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

    (a) according to the following table, limit the aggregate distributions of the bank’s earnings to the percentage limit to distributions that corresponds to the banking groups buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the banks' earnings
0% - 0.625%	0%
>0.625% -1.25%	20%
>1.25% - 1.875%	40%
>1.875% - 2.5%	60%

    (b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

    (c) have the capital plan approved by the Reserve Bank.

    For the purposes of this condition of registration, -

    “buffer ratio”, “distributions”, and “earnings” have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated November 2015.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

    In this condition of registration, the meaning of “material” is based on generally accepted accounting practice.

CONDITIONS OF REGISTRATION (CONTINUED)

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

   For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

   (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

   (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

   In determining the total amount of the banking group's insurance business—

   (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

   (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

   For the purposes of this condition of registration,—

   "insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:

   "insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit rating of the bank [1]	**Connected exposure limit (% of the banking group's Tier 1 capital)**
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

   Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the banking group's Tier 1 capital.

   For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected exposures policy" (BS8) dated November 2015.

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

6. That the bank complies with the following corporate governance requirements:

   (a) the board of the bank must have at least five directors;

   (b) the majority of the board members must be non-executive directors;

   (c) at least half of the board members must be independent directors;

   (d) an alternate director,—

      (i) for a non-executive director must be non-executive; and

      (ii) for an independent director must be independent;

   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;

   (f) the chairperson of the board of the bank must be independent; and

   (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

[1] This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investor Service (Fitch Ratings' scale is identical to Standard & Poor's).

CONDITIONS OF REGISTRATION (CONTINUED)

For the purposes of this condition of registration,—

"independent,"—

(a) in relation to a person other than a person to whom paragraph (b) applies, has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014; and

(b) in relation to a person who is the chairperson of the board of the bank, means a person who—

(i) meets the criteria for independence set out in section 10 except for those in paragraph 10(1)(a) in BS14; and

(ii) does not raise any grounds of concern in relation to the person's independence that are communicated in writing to the bank by the Reserve Bank of New Zealand:

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

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

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

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

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

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

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

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

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

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

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

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

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

For the purposes of this condition of registration, "independent" and "non-executive" have the same meanings as in condition of registration 6.

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

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

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

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

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

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

12. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:

(a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

(b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

(c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and

(d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

CONDITIONS OF REGISTRATION (CONTINUED)

13. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition,—

    "total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:

    "SPV" means a person—

    (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;

    (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and

    (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

    "covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

14. That—

    (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:

        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

    (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

        (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

    For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

15. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—

    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—

        (i) all liabilities are frozen in full; and

        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;

    (b) apply a *de minimis* to relevant customer liability accounts;

    (c) apply a partial freeze to the customer liability account balances;

    (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;

    (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and

    (f) reinstate customers' access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, "*de minimis*", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

16. That the bank has an Implementation Plan that—

    (a) is up-to-date; and

    (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS 17).

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

CONDITIONS OF REGISTRATION (CONTINUED)

17. That the bank has a compendium of liabilities that—

    (a) at the product-class level lists all liabilities, indicating which are—

        (i) pre-positioned for Open Bank Resolution; and

        (ii) not pre-positioned for Open Bank Resolution;

    (b) is agreed to by the Reserve Bank; and

    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

18. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

19. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of APIL with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of APIL arising in the loan-to-valuation measurement period.

20. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of ANPIL with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of ANPIL arising in the loan-to-valuation measurement period.

21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non-Auckland loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non-Auckland loans arising in the loan-to-valuation measurement period.

22. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,—

"banking group"—

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

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 19 to 22,—

"ANPIL", APIL", "loan-to-valuation ratio", "non-Auckland loan", "qualifying new mortgage lending amount in respect of [...]" and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated November 2015.

"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of April 2016.

PENDING PROCEEDINGS OR ARBITRATION

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

CREDIT RATINGS

As at the date of signing this Disclosure Statement, the bank's credit rating issued by Fitch Australia Pty Ltd (Fitch Ratings) was BBB stable. This BBB credit rating was issued on 11 October 2016 and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars.

OTHER MATERIAL MATTERS

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

DIRECTORS' STATEMENTS

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

1. As at the date on which this Disclosure Statement is signed:
   - (a) the Disclosure Statement contains all the information that is required by the Order; and
   - (b) the Disclosure Statement is not false or misleading.
2. During the three months ended 30 September 2016:
   - (a) the bank complied with all conditions of the registration;
   - (b) credit exposures to connected persons were not contrary to the interests of the banking group; and
   - (c) the bank had systems in place to monitor and control adequately the banking group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 17 November 2016 and has been signed by all Directors.

G. T. Ricketts (Chairman - Board of Directors)

G. R. Kennedy

J. K. Greenslade

C. R. Mace

E. J. Harvey

V. C. M. Stoddart

B. R. Irvine

G. R. Tomlinson

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 September 2016

	NOTE	Unaudited 3 mths to Sep 2016 $000	Unaudited 3 mths to Sep 2015 $000	Audited 12 mths to Jun 2016 $000
Interest income	2	66,979	68,113	265,475
Interest expense	2	28,144	32,485	118,815
Net interest income		**38,835**	**35,628**	**146,660**
Operating lease income		1,954	2,436	8,869
Operating lease expenses		1,417	1,673	6,230
Net operating lease income		**537**	**763**	**2,639**
Lending and credit fee income		808	1,043	3,339
Other income		985	1,271	4,923
Net operating income		**41,165**	**38,705**	**157,561**
Selling and administration expenses	3	17,912	19,007	69,872
Profit before impaired asset expense and income tax		**23,253**	**19,698**	**87,689**
Impaired asset expense	4	3,938	3,468	13,501
Profit before income tax		**19,315**	**16,230**	**74,188**
Income tax expense		5,026	4,384	20,024
Profit for the period		**14,289**	**11,846**	**54,164**
Other comprehensive income				
Items that are (or may be) reclassified subsequently to profit or loss:				
Effective portion of changes in fair value of cash flow hedges, net of income tax		(43)	(685)	(708)
Movement in available for sale reserve, net of income tax		256	208	(208)
Movement in foreign currency translation reserve, net of income tax		914	(943)	(4,047)
Items that will not be reclassified to profit or loss:				
Movement in defined benefit reserve, net of income tax		-	-	(93)
Other comprehensive income/ (loss) for the period, net of income tax		**1,127**	**(1,420)**	**(5,056)**
Total comprehensive income for the period		**15,416**	**10,426**	**49,108**
Earnings per share from continuing operations				
Basic earnings per share	5	3c	3c	11c
Diluted earnings per share	5	3c	3c	11c

Total comprehensive income for the period is attributable to owners of the bank.

The notes on pages 14 to 24 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 September 2016

	NOTE	Share Capital $000	Treasury Shares Reserve $000	Employee Benefits Reserve $000	Foreign Currency Translation Reserve $000	Available For Sale Reserve $000	Defined Benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Unaudited - Sep 2016										
Balance at 1 July 2016		**421,377**	**(2,612)**	**3,878**	**(1,816)**	**962**	**1**	**(2,260)**	**78,811**	**498,341**
Total comprehensive income for the period										
Profit for the period		-	-	-	-	-	-	-	14,289	14,289
Total other comprehensive income / (loss)		-	-	-	914	256	-	(43)	-	1,127
Total comprehensive income / (loss) for the period		**-**	**-**	**-**	**914**	**256**	**-**	**(43)**	**14,289**	**15,416**
Contributions by and distributions to owners										
Dividends declared	8	-	-	-	-	-	-	-	(24,041)	(24,041)
Dividend reinvestment plan	8	5,276	-	-	-	-	-	-	-	5,276
Share based payments		-	-	212	-	-	-	-	-	212
Shares vested		1,419	-	(1,419)	-	-	-	-	-	-
Total transactions with owners		**6,695**	**-**	**(1,207)**	**-**	**-**	**-**	**-**	**(24,041)**	**(18,553)**
Balance at 30 September 2016		**428,072**	**(2,612)**	**2,671**	**(902)**	**1,218**	**1**	**(2,303)**	**69,059**	**495,204**
Unaudited - Sep 2015										
Balance at 1 July 2015		**413,917**	**(272)**	**2,200**	**2,231**	**1,170**	**94**	**(1,552)**	**62,337**	**480,125**
Total comprehensive income for the period										
Profit for the period		-	-	-	-	-	-	-	11,846	11,846
Total other comprehensive (loss) / income		-	-	-	(943)	208	-	(685)	-	(1,420)
Total comprehensive (loss) / income for the period		**-**	**-**	**-**	**(943)**	**208**	**-**	**(685)**	**11,846**	**10,426**
Contributions by and distributions to owners										
Dividends declared	8	-	-	-	-	-	-	-	(21,145)	(21,145)
Dividend reinvestment plan	8	4,119	-	-	-	-	-	-	-	4,119
Share based payments		-	-	176	-	-	-	-	-	176
Total transactions with owners		**4,119**	**-**	**176**	**-**	**-**	**-**	**-**	**(21,145)**	**(16,850)**
Balance at 30 September 2015		**418,036**	**(272)**	**2,376**	**1,288**	**1,378**	**94**	**(2,237)**	**53,038**	**473,701**
Audited - Jun 2016										
Balance at 1 July 2015		**413,917**	**(272)**	**2,200**	**2,231**	**1,170**	**94**	**(1,552)**	**62,337**	**480,125**
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	-	-	54,164	54,164
Total other comprehensive (loss)		-	-	-	(4,047)	(208)	(93)	(708)	-	(5,056)
Total comprehensive (loss) / income for the year		**-**	**-**	**-**	**(4,047)**	**(208)**	**(93)**	**(708)**	**54,164**	**49,108**
Contributions by and distributions to owners										
Dividends paid	8	-	-	-	-	-	-	-	(37,690)	(37,690)
Dividend reinvestment plan	8	7,300	-	-	-	-	-	-	-	7,300
Share based payments		-	-	1,888	-	-	-	-	-	1,888
Shares vested		160	50	(210)	-	-	-	-	-	-
Treasury shares acquired		-	(2,390)	-		-	-	-	-	(2,390)
Total transactions with owners		**7,460**	**(2,340)**	**1,678**	**-**	**-**	**-**	**-**	**(37,690)**	**(30,892)**
Balance at 30 June 2016		**421,377**	**(2,612)**	**3,878**	**(1,816)**	**962**	**1**	**(2,260)**	**78,811**	**498,341**

The notes on pages 14 to 24 are an integral part of these interim financial statements.

INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

	NOTE	Unaudited Sep 2016 $000	Unaudited Sep 2015 $000	Audited Jun 2016 $000
Assets				
Cash and cash equivalents		38,824	17,965	84,154
Investments		259,074	330,561	236,435
Investment properties		7,426	23,376	8,384
Finance receivables	6	3,244,753	2,886,897	3,113,957
Operating lease vehicles		22,582	28,136	24,557
Other assets		14,757	14,979	14,871
Intangible assets		60,569	52,450	57,755
Deferred tax asset		7,128	6,432	7,068
Total assets		**3,655,113**	**3,360,796**	**3,547,181**
Liabilities				
Borrowings	7	3,093,054	2,821,219	2,999,987
Current tax liabilities		6,980	3,276	6,754
Dividend payable		17,881	16,339	-
Trade and other payables		41,994	46,261	42,099
Total liabilities		**3,159,909**	**2,887,095**	**3,048,840**
Equity				
Share capital		428,072	418,036	418,765
Retained earnings and reserves		67,132	55,665	79,576
Total equity		**495,204**	**473,701**	**498,341**
Total equity and liabilities		**3,655,113**	**3,360,796**	**3,547,181**

Total interest earning and discount bearing assets	3,535,114	3,222,762	3,427,117
Total interest and discount bearing liabilities	3,098,179	2,828,198	3,005,853

The notes on pages 14 to 24 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CASH FLOWS

For the three months ended 30 September 2016

	Unaudited 3 mths to Sep 2016 $000	Unaudited 3 mths to Sep 2015 $000	Audited 12 mths to Jun 2016 $000
Cash flows from operating activities			
Interest received	62,927	66,449	251,814
Operating lease income received	1,767	2,571	9,468
Lending, credit fees and other income received	1,489	2,482	7,940
Operating inflows	**66,183**	**71,502**	**269,222**
Payments to suppliers and employees	18,455	26,688	79,661
Interest paid	28,024	34,615	131,378
Taxation paid	4,629	6,984	20,297
Operating outflows	**51,108**	**68,287**	**231,336**
Net cash flows from operating activities before changes in operating assets and liabilities	**15,075**	**3,215**	**37,886**
Proceeds from sale of operating lease vehicles	2,805	2,500	7,933
Purchase of operating lease vehicles	(1,869)	(1,888)	(8,187)
Net movement in finance receivables	(130,427)	(26,848)	(251,734)
Net movement in deposits	111,981	24,068	186,120
Total cash provided (applied to) / from operating activities	**(2,435)**	**1,047**	**(27,982)**
Cash flows from investing activities			
Net proceeds from sale of investment properties	958	1,137	16,492
Proceeds from sale of office fit-out, equipment and intangibles	-	-	784
Net decrease in investments	-	4,085	98,480
Total cash provided from investing activities	**958**	**5,222**	**115,756**
Purchase of office fit-out, equipment and intangible assets	3,454	1,227	12,700
Capital expenditure on investment properties	-	-	24
Net increase in investments	22,383	-	-
Purchase of MARAC Insurance Limited	-	2,300	2,300
Total cash applied to investing activities	**25,837**	**3,527**	**15,024**
Net cash flows (applied to) / from investing activities	**(24,879)**	**1,695**	**100,732**
Cash flows applied to financing activities			
Net increase in wholesale funding	-	-	1,637
Total cash provided from financing activities	**-**	**-**	**1,637**
Dividends paid	-	-	30,390
Net decrease in wholesale funding	18,016	24,934	-
Total cash applied to financing activities	**18,016**	**24,934**	**30,390**
Net cash flows applied to financing activities	**(18,016)**	**(24,934)**	**(28,753)**
Net (decrease) / increase in cash held	**(45,330)**	**(22,192)**	**43,997**
Opening cash and cash equivalents	84,154	37,012	37,012
Cash impact of business acquisition (MARAC Insurance Limited)	-	3,145	3,145
Closing cash and cash equivalents	**38,824**	**17,965**	**84,154**

The notes on pages 14 to 24 are an integral part of these interim financial statements.

INTERIM STATEMENT OF CASH FLOWS
For the three months ended 30 September 2016

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

		Unaudited 3 mths to Sep 2016 $000	Unaudited 3 mths to Sep 2015 $000	Audited 12 mths to Jun 2016 $000
Profit for the period		**14,289**	**11,846**	**54,164**
Add / (less) non-cash items:				
Depreciation and amortisation expense	3	516	525	2,153
Depreciation on lease vehicles		1,249	1,519	5,695
Impaired asset expense	4	3,938	3,468	13,501
Total non-cash items		**5,703**	**5,512**	**21,349**
Add / (less) movements in operating assets and liabilities:				
Finance receivables		(134,583)	(28,848)	(264,969)
Operating lease vehicles		726	343	(254)
Other assets		1,218	(4,280)	(2,446)
Disposal of property, plant and equipment and intangibles		-	(142)	(322)
Current tax		539	(4,270)	(1,125)
Derivative financial instruments revaluation		(636)	406	(1,338)
Deferred tax (benefit) / expense		(60)	1,322	686
Deposits		111,167	20,062	173,807
Other liabilities		(798)	(904)	(7,534)
Total movements in operating assets and liabilities		**(22,427)**	**(16,311)**	**(103,495)**
Net cash flows (applied to) / from operating activities		**(2,435)**	**1,047**	**(27,982)**

The notes on pages 14 to 24 are an integral part of these interim financial statements.

Basis of reporting

Reporting entity

The interim financial statements presented are the consolidated financial statements for Heartland Bank Limited (the bank) and its subsidiaries (the banking group). On 31 December 2015, Heartland New Zealand Limited changed its name to Heartland Bank Limited. Comparatives presented for the 3 month period ended 30 September 2015 are for the consolidated group of the company previously known as Heartland New Zealand Limited.

As at 30 September 2016, Heartland Bank Limited is a listed public company incorporated in New Zealand under the Companies Act 1993, a registered bank under the Reserve Bank of New Zealand Act 1989 and a FMC reporting entity for the purposes of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013.

Basis of preparation

The interim financial statements presented here are for the following periods:
- 3 month period ended 30 September 2016 - Unaudited
- 3 month period ended 30 September 2015 - Unaudited
- 12 month period ended 30 June 2016 - Audited

The interim financial statements of the banking group incorporated in this Disclosure Statement have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with Heartland Bank Limited's Annual Report for the year ended 30 June 2016.

These interim financial statements have been prepared on a going concern basis in accordance with historical cost unless stated otherwise. The accounting policies applied by the banking group in these interim financial statements are the same as those applied by the banking group in its Annual Report for the year ended 30 June 2016.

Performance

1 Segmental analysis

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

All income received is from external sources. Certain selling and administration expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Administration and Support (Admin & Support).

Operating segments

The banking group operates predominantly within New Zealand and comprises the following operating segments:

Household	Providing a comprehensive range of financial services to New Zealand families (including term, transactional and savings based deposit accounts together with mortgage lending (residential and reverse mortgage), motor vehicle finance and consumer finance) and some specific financial services to Australian seniors (reverse mortgage lending).
Business	Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized New Zealand businesses.
Rural	Providing specialist financial services to the farming sector primarily offering livestock finance, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers.

1 Segmental analysis (continued)

The banking group's operating segments are different from the industry categories detailed in Note 13 - Asset quality. The operating segments are primarily categorised by sales channel, whereas Note 13 - Asset quality is based on credit risk concentrations.

	Household	Business	Rural	Admin & Support	Total
	$000	$000	$000	$000	$000
Unaudited - 3 months ended 30 September 2016					
Net interest income	20,988	10,982	6,764	101	38,835
Net other income	1,240	295	55	740	2,330
Net operating income	**22,228**	**11,277**	**6,819**	**841**	**41,165**
Selling and administration expenses	3,712	2,130	1,062	11,008	17,912
Profit / (loss) before impaired asset expense and income tax	**18,516**	**9,147**	**5,757**	**(10,167)**	**23,253**
Impaired asset expense	2,440	1,213	285	-	3,938
Profit / (loss) before income tax	**16,076**	**7,934**	**5,472**	**(10,167)**	**19,315**
Income tax expense	-	-	-	5,026	5,026
Profit / (loss) for the period	**16,076**	**7,934**	**5,472**	**(15,193)**	**14,289**
Total assets	1,729,544	939,822	605,395	380,352	**3,655,113**
Total liabilities	-	-	-	3,159,909	**3,159,909**
Unaudited - 3 months ended 30 September 2015					
Net interest income	18,684	10,503	6,657	(216)	35,628
Net other income	1,856	539	30	652	3,077
Net operating income	**20,540**	**11,042**	**6,687**	**436**	**38,705**
Selling and administration expenses	5,041	2,097	1,195	10,674	19,007
Profit / (loss) before impaired asset expense and income tax	**15,499**	**8,945**	**5,492**	**(10,238)**	**19,698**
Impaired asset expense	1,548	1,521	399	-	3,468
Profit / (loss) before income tax	**13,951**	**7,424**	**5,093**	**(10,238)**	**16,230**
Income tax expense	-	-	-	4,384	4,384
Profit / (loss) for the period	**13,951**	**7,424**	**5,093**	**(14,622)**	**11,846**
Total assets	1,604,854	832,471	501,084	422,387	**3,360,796**
Total liabilities	-	-	-	2,887,095	**2,887,095**
Audited - 12 months ended 30 June 2016					
Net interest income	79,320	41,061	26,111	168	146,660
Net other income	6,752	1,921	152	2,076	10,901
Net operating income	**86,072**	**42,982**	**26,263**	**2,244**	**157,561**
Selling and administration expenses	17,995	9,015	4,351	38,511	69,872
Profit / (loss) before impaired asset expense and income tax	**68,077**	**33,967**	**21,912**	**(36,267)**	**87,689**
Impaired asset expense	7,161	3,381	2,959	-	13,501
Profit / (loss) before income tax	**60,916**	**30,586**	**18,953**	**(36,267)**	**74,188**
Income tax expense	-	-	-	20,024	20,024
Profit / (loss) for the year	**60,916**	**30,586**	**18,953**	**(56,291)**	**54,164**
Total assets	1,687,232	907,205	552,461	400,283	**3,547,181**
Total liabilities	-	-	-	3,048,840	**3,048,840**

2 Net interest income

	Unaudited 3 mths to Sep 2016 $000	Unaudited 3 mths to Sep 2015 $000	Audited 12 mths to Jun 2016 $000
Interest income			
Cash and cash equivalents	150	308	771
Investments	2,054	3,143	10,203
Finance receivables	64,775	64,662	254,501
Total interest income	**66,979**	**68,113**	**265,475**
Interest expense			
Retail deposits	21,045	23,120	85,955
Bank and securitised borrowings	6,577	9,110	31,232
Net interest expense on derivative financial instruments	522	255	1,628
Total interest expense	**28,144**	**32,485**	**118,815**
Net interest income	**38,835**	**35,628**	**146,660**

3 Selling and administration expenses

	Unaudited 3 mths to Sep 2016 $000	Unaudited 3 mths to Sep 2015 $000	Audited 12 mths to Jun 2016 $000
Personnel expenses	9,928	10,685	39,051
Directors' fees	152	230	743
Superannuation	166	170	748
Audit and review of financial statements[1]	114	123	436
Other assurance services paid to auditor[2]	11	6	43
Other fees paid to auditor[3]	2	42	107
Depreciation - property, plant and equipment	366	205	1,081
Amortisation - intangible assets	150	320	1,072
Operating lease expense as a lessee	525	572	2,281
Legal and professional fees	506	929	2,352
Other operating expenses	5,992	5,725	21,958
Total selling and administration expenses	**17,912**	**19,007**	**69,872**

[1] Audit and review of financial statements includes fees paid for both the audit of annual financial statements and review of interim financial statements.

[2] Other assurance services paid to the auditor comprises the review of regulatory returns, trust deed reporting, and other agreed upon procedure engagements.

[3] Other fees paid to the auditor includes professional fees in connection with regulatory advisory services, project quality assurance, accounting advice and an internal audit quality assurance review.

4 Impaired asset expense

	NOTE	Unaudited 3 mths to Sep 2016 $000	Unaudited 3 mths to Sep 2015 $000	Audited 12 mths to Jun 2016 $000
Non-securitised				
Individually impaired expense		1,030	163	1,072
Collectively impaired expense		2,358	2,983	11,186
Total non-securitised impaired asset expense		**3,388**	**3,146**	**12,258**
Securitised				
Individually impaired (benefit) / expense		-	(10)	(9)
Collectively impaired expense		550	332	1,252
Total securitised impaired asset expense		**550**	**322**	**1,243**
Total				
Individually impaired expense		1,030	153	1,063
Collectively impaired expense		2,908	3,315	12,438
Total impaired asset expense	13(b)	**3,938**	**3,468**	**13,501**

5 Earnings per share

The calculation of both basic and diluted earnings of 3c per share for the 3 months to 30 September 2016 (3 months to 30 September 2015: 3c per share; 12 months to 30 June 2016: 11c per share) is based on the profit for the 3 months to 30 September 2016 of $14,289,000 (3 months to 30 September 2015: $11,846,000; 12 months to 30 June 2016: $54,164,000), and a weighted average number of shares on issue of 477,327,776 (30 September 2015: 469,890,280; 30 June 2016: 473,359,905).

Financial Position

6 Finance receivables

	Unaudited Sep 2016 $000	Unaudited Sep 2015 $000	Audited Jun 2016 $000
Non-securitised			
Neither at least 90 days past due nor impaired	2,933,802	2,583,890	2,785,927
At least 90 days past due	27,940	27,748	20,070
Individually impaired	17,655	18,962	33,751
Restructured assets	3,460	3,567	3,281
Gross finance receivables	**2,982,857**	**2,634,167**	**2,843,029**
Less provision for impairment	20,235	19,174	19,936
Less fair value adjustment for present value of future losses	4,692	5,917	4,987
Total non-securitised finance receivables	**2,957,930**	**2,609,076**	**2,818,106**
Securitised			
Neither at least 90 days past due nor impaired	285,259	277,215	295,166
At least 90 days past due	2,658	1,643	1,897
Individually impaired	13	55	13
Gross finance receivables	**287,930**	**278,913**	**297,076**
Less provision for impairment	1,107	1,092	1,225
Total securitised finance receivables	**286,823**	**277,821**	**295,851**
Total			
Neither at least 90 days past due nor impaired	3,219,061	2,861,105	3,081,093
At least 90 days past due	30,598	29,391	21,967
Individually impaired	17,668	19,017	33,764
Restructured assets	3,460	3,567	3,281
Gross finance receivables	**3,270,787**	**2,913,080**	**3,140,105**
Less provision for impairment	21,342	20,266	21,161
Less fair value adjustment for present value of future losses	4,692	5,917	4,987
Total finance receivables	**3,244,753**	**2,886,897**	**3,113,957**

7 Borrowings

	Unaudited Sep 2016 $000	Unaudited Sep 2015 $000	Audited Jun 2016 $000
Deposits	2,394,773	2,122,372	2,282,876
Subordinated bond	3,378	3,378	3,378
Bank borrowings	424,470	436,638	429,304
Securitised borrowings	270,433	258,831	284,429
Total borrowings	**3,093,054**	**2,821,219**	**2,999,987**

Deposits rank equally and are unsecured. The subordinated bonds rank below all other general liabilities of the banking group.

Securitised borrowings held by investors in Heartland ABCP Trust 1 (ABCP Trust) rank equally with each other and are secured over the securitised assets of that trust. Securitised borrowings comprise notes issued by ABCP Trust and drawings under the ABCP Trust's bank facilities. The ABCP Trust has bank facilities of $350 million (September 2015: $350 million; June 2016: $350 million) in relation to the ABCP Trust, which matures on 3 August 2017.

The banking group has an Australian bank facility provided by Commonwealth Bank of Australia (CBA bank facility) totalling $399 million (September 2015: $372 million; June 2016: $379 million). The CBA bank facility is secured over the shares in Australian Seniors Finance Pty Limited (ASF) and the assets of the ASF group (comprising ASF, the ASF Settlement Trust and the Seniors Warehouse Trust). The CBA bank facility has a maturity date of 30 September 2019.

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

8 Share capital and dividends

	Unaudited Sep 2016 000	Unaudited Sep 2015 000	Audited Jun 2016 000
Issued shares			
Opening balance	476,469	469,890	469,890
Shares issued during the period	4,797	-	213
Dividend reinvestment plan	-	-	6,366
Closing balance	**481,266**	**469,890**	**476,469**

Under the dividend reinvestment plan, a commitment was in place between the bank and its shareholders to issue 3,573,104 new shares at $1.4766 per share on 7 October 2016 (September 2015: committed 3,711,076 new shares at $1.1100 per share on 2 October 2015; June 2016: authorised and issued 3,711,076 new shares at $1.1100 per share on 2 October 2015 and 2,655,142 new shares at $1.1980 per share on 5 April 2016).

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

(i) Dividends

The banking group paid total dividends of $nil (September 2015: $nil; June 2016: $37.7 million (8 cents per share)).

The banking group declared a dividend of $24.0 million (5 cents per share) (September 2015: $21.1 million (4.5 cents per share); June 2016: $nil).

9 Related party transactions and balances

Heartland Cash and Term PIE Fund and some key management personnel invested in the bank's deposits. The investments of Heartland Cash and Term PIE Fund are detailed in Note 17 - Structured entities.

Transactions with key management personnel

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

	Unaudited 3 mths to Sep 2016 $000	Unaudited 3 mths to Sep 2015 $000	Audited 12 mths to Jun 2016 $000
Finance receivables	87	1,375	1,428
Borrowings - deposits	(25,421)	(12,460)	(26,526)
Interest income	2	25	104
Interest expense	(189)	(131)	(460)

10 Fair value

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

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

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

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

(a) Financial instruments measured at fair value

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

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

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

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

Finance receivables
Fixed rate reverse mortgage loans classified as finance receivables are stated at fair value with the fair value being based on present value of future cash flows discounted using observable market interest rates (Level 2 under the fair value hierarchy).

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

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

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Unaudited - Sept 16				
Assets				
Investments	251,783	-	7,291	259,074
Finance receivables	-	20,607	-	20,607
Derivative assets held for risk management	-	237	-	237
Total Assets	**251,783**	**20,844**	**7,291**	**279,918**
Liabilities				
Derivative liabilities held for risk management	-	5,362	-	5,362
Total Liabilities	**-**	**5,362**	**-**	**5,362**
Unaudited - Sept 15				
Assets				
Investments	323,842	-	6,719	330,561
Finance receivables	-	23,508	-	23,508
Derivative assets held for risk management	-	225	-	225
Total Assets	**323,842**	**23,733**	**6,719**	**354,294**
Liabilities				
Derivative liabilities held for risk management	-	6,979	-	6,979
Total Liabilities	**-**	**6,979**	**-**	**6,979**

10 Fair value (continued)

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

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Audited - Jun 16				
Assets				
Investments	229,144	-	7,291	236,435
Finance receivables	-	21,884	-	21,884
Derivative assets held for risk management	-	148	-	148
Total Assets	**229,144**	**22,032**	**7,291**	**258,467**
Liabilities				
Derivative liabilities held for risk management	-	5,866	-	5,866
Total Liabilities	**-**	**5,866**	**-**	**5,866**

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

(b) Financial instruments not measured at fair value

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

	Unaudited Total Fair Value Sep 2016 $000	Unaudited Total Carrying Value Sep 2016 $000	Unaudited Total Fair Value Sep 2015 $000	Unaudited Total Carrying Value Sep 2015 $000	Audited Total Fair Value Jun 2016 $000	Audited Total Carrying Value Jun 2016 $000
Financial Assets						
Cash and cash equivalents	38,824	38,824	17,965	17,965	84,154	84,154
Finance receivables	2,929,321	2,937,323	2,582,667	2,585,568	2,792,936	2,796,222
Finance receivables - securitised	287,933	286,823	278,749	277,821	297,371	295,851
Other financial assets	4,469	4,469	7,725	7,725	5,452	5,452
Total financial assets	**3,260,547**	**3,267,439**	**2,887,106**	**2,889,079**	**3,179,913**	**3,181,679**
Financial Liabilities						
Borrowings	2,834,541	2,822,621	2,576,078	2,562,388	2,727,417	2,715,558
Borrowings - securitised	270,433	270,433	258,831	258,831	284,429	284,429
Other financial liabilities	35,021	35,021	36,074	36,074	21,995	21,995
Total financial liabilities	**3,139,995**	**3,128,075**	**2,870,983**	**2,857,293**	**3,033,841**	**3,021,982**

Further information on valuation techniques and assumptions used for determining fair value is included in Note 16 of Heartland Bank's Annual Report for the year ended 30 June 2016.

Risk Management

11 Risk management policies

There have been no material changes in the banking group's policies for managing risk, or material exposures to any new types of risk since the reporting date of the previous disclosure statement.

12 Concentrations of credit risk to individual counterparties

At 30 September 2016 the banking group did not have any period end or peak end-of-day credit exposures over 10% of equity to individual counterparties (not being members of groups of closely related counterparties) or groups of closely related counterparties (excluding central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or any bank with a long-term credit rating of A- or A3 or above, or its equivalent, and connected persons).

Peak aggregate end-of-day credit exposures are determined by taking the maximum end-of-day aggregate amount of credit exposure over the period. The amount is then divided by the banking group's equity as at the end of the period. Credit exposures disclosed are based on actual exposures. The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

13 Asset quality

Asset quality of finance receivables

The disclosures below are categorised by the following credit risk concentrations:

Corporate

Rural	Lending to the farming sector primarily livestock, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers. Includes lending to individuals and small to medium enterprises.
Property	Property asset lending including non-core property.
Other	All other lending that does not fall into another category.
Residential	Lending secured by a first ranking mortgage over a residential property used primarily for residential purposes either by the mortgagor or a tenant of the mortgagor.
All Other	Consumer lending to individuals.

		Corporate					
		Rural	Property	Other	Residential	All Other	Total
		$000	$000	$000	$000	$000	$000
(a)	**End of period balances**						
	Unaudited - Sept 2016						
	Gross impaired assets						
	Individually impaired	902	3,634	13,132	-	-	17,668
	Restructured	54	-	731	-	2,675	3,460
	Total impaired assets	**956**	**3,634**	**13,863**	**-**	**2,675**	**21,128**
	Provision for individually impaired assets	913	532	3,057	-	-	4,502
	Net impaired assets	**43**	**3,102**	**10,806**	**-**	**2,675**	**16,626**
	Provision for collectively impaired assets	**3,774**	**1,125**	**5,182**	**3,351**	**3,408**	**16,840**
	At least 90 days past due but not impaired	**8,738**	**-**	**15,874**	**-**	**5,986**	**30,598**
(b)	**Charges to Interim Statement of Comprehensive Income**						
	Unaudited - 3 months ended 30 Sept 2016						
	Individually impaired assets expense	25	-	1,005	-	-	1,030
	Collectively impaired assets expense	141	-	530	298	1,939	2,908
	Total impaired asset expense	**166**	**-**	**1,535**	**298**	**1,939**	**3,938**

14 Liquidity risk

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

	Unaudited Sep 2016 $000
Cash and cash equivalents	38,824
Investments	251,783
Undrawn committed bank facilities	80,000
Total liquidity	**370,607**

The banking group has securitised bank facilities totalling $350 million in relation to the ABCP Trust maturing on 3 August 2017.

Other Disclosures

15 Capital adequacy

(a) Capital Ratios

	Unaudited Sep 2016 %
Capital ratios compared to minimum ratio requirements	
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	12.69%
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	4.50%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	12.69%
Minimum Tier 1 Capital as per Conditions of Registration	6.00%
Total Capital expressed as a percentage of total risk weighted exposures	12.71%
Minimum Total Capital as per Conditions of Registration	8.00%
Buffer ratio	4.71%
Buffer ratio requirement	2.50%

(b) Capital

	Unaudited Sep 2016 $000
Tier 1 Capital	
Common Equity Tier 1 Capital	496,106
Less deductions from Common Equity Tier 1 Capital	(65,966)
Total Common Equity Tier 1 Capital	**430,140**
Additional Tier 1 Capital	-
Total Tier 1 Capital	**430,140**
Tier 2 Capital	
Subordinated Bond	1,455
Foreign Currency Translation Reserve	(902)
Less deductions from Tier 2 Capital	-
Total Capital	**430,693**

15 Capital adequacy (continued)

(c) Pillar 1 capital requirements

	Pillar 1 capital requirement $000
Unaudited - Sept 2016	
On balance sheet exposures	
Residential mortgages (including past due)	35,471
Non property investment mortgage loan	1,946
Property investment mortgage loan	927
Corporate	466
Public sector entities	519
Multilateral development banks and other international organisations	1,278
Claims on banks	2,788
Other	192,390
Total on balance sheet exposures	**235,785**
Other capital requirements	
Off balance sheet credit exposures	12,312
Operational risk	15,581
Market risk	7,424
Total other capital requirements	**35,317**
Total Pillar 1 capital requirement	**271,102**

(d) Additional mortgage information

	On balance sheet exposures $000	Off balance sheet exposures $000	Total exposures $000
Unaudited - Sept 2016			
Residential mortgages by loan to value ratio (LVR):			
Does not exceed 80%	854,058	1,193	855,251
Exceeds 80% and not 90%	10,621	-	10,621
Exceeds 90% [1]	15,008	84	15,092
Total exposures	**879,687**	**1,277**	**880,964**

[1] Of the balance of "Exceeds 90%" above, $1.9 million relates to Welcome Home loans, whose credit risk is mitigated by the Crown.

(e) Other material risks

In addition to the material risks included in the calculation of the capital ratios, the banking group has identified other material risks to be included in the capital allocation (being concentration risk, strategic / business risk, reputational risk, regulatory and model risk). As at 30 September 2016, the banking group has made an internal capital allocation of $94.7 million (September 2015: $64.0 million; June 2016: $85.8 million) to cover these risks.

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

Insurance business

The banking group conducts insurance business through its subsidiary MARAC Insurance.

The banking group's aggregate amount of insurance business comprises the total consolidated assets of MARAC Insurance of $10.9 million, which is 0.30% of the total consolidated assets of the banking group.

Marketing and distribution of insurance products

The banking group markets and distributes term life insurance and general insurance covering risks such as redundancy, bankruptcy or suspension of employment. These insurance products are either underwritten by MARAC Insurance, a subsidiary of the bank, or sold by MARAC Insurance on behalf of other parties who underwrite those products themselves. There have been no material changes in the banking group's marketing and distribution of insurance products since the reporting date of the previous disclosure statement.

Securitisation, funds management and other fiduciary activities

In July 2016, the Trust Manager of Heartland ABCP Trust 1 (the Trust) changed from Heartland Bank to an external third party, AMAL New Zealand Limited. The residual beneficiary of the Trust also changed from Heartland Bank to Heartland Trust. There have been no other material changes to the bank's involvement in securitisation activities, and no material changes to the bank's involvement in funds management and other fiduciary activities, in either case since the reporting date of the previous disclosure statement.

17 Structured entities

(a) *Heartland Cash and Term PIE Fund*

Heartland Cash and Term PIE Fund is a portfolio investment entity that invests in the bank's deposits. Investments of Heartland Cash and Term PIE Fund are represented as follows:

	Unaudited Sep 2016 $000	Unaudited Sep 2015 $000	Audited Jun 2016 $000
Deposits	85,576	43,348	80,527

(b) *Heartland ABCP Trust 1*

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

The banking group continues to recognise securitised assets and associated borrowings in the Interim Statement of Financial Position through the holding of subordinated debt of the Trust and the receipt of deferred purchase consideration from the Trust. Whilst the Bank has those interests in the Trust, the loans sold to the Trust are set aside for the benefit of investors in the Trust and bank depositors have no recourse to these assets. The Trust's material assets and liabilities are represented as follows:

	Unaudited Sep 2016 $000	Unaudited Sep 2015 $000	Audited Jun 2016 $000
Cash and cash equivalents - securitised	10,245	6,916	15,208
Finance receivables - securitised	286,823	277,821	295,851
Borrowings - securitised	(270,433)	(258,831)	(284,429)
Derivative financial liabilities - securitised	(2,789)	(2,790)	(2,833)

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

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

	Unaudited Sep 2016 $000	Unaudited Sep 2015 $000	Audited Jun 2016 $000
Cash and cash equivalents	4,669	2,124	2,503
Finance receivables - Reverse mortgage loans	456,201	423,696	434,688
Borrowings - CBA	(399,468)	(372,276)	(379,299)
Derivative financial liabilities	(1,748)	(3,310)	(2,083)

18 Contingent liabilities and commitments

	Unaudited Sep 2016 $000	Unaudited Sep 2015 $000	Audited Jun 2016 $000
Letters of credit, guarantee commitments and performance bonds	11,949	13,859	12,873
Total contingent liabilities	**11,949**	**13,859**	**12,873**
Undrawn facilities available to customers	133,519	123,468	147,903
Conditional commitments to fund at future dates	112,754	119,319	114,855
Total commitments	**246,273**	**242,787**	**262,758**

As at 30 September 2016 there are no undrawn lending commitments to counterparties for whom drawn balances are classified as individually impaired (September 2015: nil, June 2016: nil).

19 Events after the reporting date

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