HEARTLAND
BANK

Disclosure Statement

For the nine months ended 31 March 2016

CONTENTS

GENERAL INFORMATION

This Disclosure Statement has been issued by Heartland Bank Limited (the bank) and its subsidiaries (the banking group) for the nine months ended 31 March 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.

On 31 December 2015, there was a change to the composition of the banking group as a result of an amalgamation of companies.

Prior to 31 December 2015, the banking group comprised the company that was then known as “Heartland Bank Limited” (Former Heartland Bank) together with its subsidiaries. At that stage, Former Heartland Bank was wholly owned by a company then known as “Heartland New Zealand Limited” (Heartland New Zealand). On 31 December 2015, Former Heartland Bank amalgamated, by way of short form amalgamation, with Heartland New Zealand (the Amalgamation). Heartland New Zealand continued as the amalgamated company (with Former Heartland Bank being struck off the register of companies), but changed its name to “Heartland Bank Limited”.

As a result of the Amalgamation, Heartland Bank Limited became a registered bank under the Reserve Bank of New Zealand Act 1989 and the banking group expanded to include the company that is now known as Heartland Bank Limited. Refer to the Reporting entity note within the notes to the interim financial statements for further detail.

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

GUARANTEE ARRANGEMENTS

As at 31 March 2016 no material obligations of the bank are guaranteed.

DIRECTORS

The composition of the bank’s Board has changed as a result of the Amalgamation. As at 31 March 2016 and the date of signing, the Directors of Heartland Bank Limited are:

Jeffrey K Greenslade

Nicola J Greer

Edward J Harvey

Bruce R Irvine

Graham R Kennedy

Christopher R Mace

Geoffrey T Ricketts

Gregory R Tomlinson

The above Directors were Directors of Former Heartland Bank immediately prior to the Amalgamation (other than Richard Wilks who retired from the board of Former Heartland Bank with effect from 31 December 2015), with the addition of Christopher Mace and Gregory Tomlinson (both of whom were directors of Heartland New Zealand Limited immediately prior to the Amalgamation).

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.

[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)

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).

   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.

CONDITIONS OF REGISTRATION (CONTINUED)

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.

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.

CONDITIONS OF REGISTRATION (CONTINUED)

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.

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 28 October 2014, following an upgrade from BBB- stable 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 the 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 nine months ended 31 March 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 18 May 2016 and has been signed by all the Directors.

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

B. R. Irvine

J. K. Greenslade

N. J. Greer

E. J. Harvey

G. R. Kennedy

C. R. Mace

G. R. Tomlinson

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 31 March 2016

	NOTE	Unaudited 9 mths to Mar 2016 $000	Unaudited 9 mths to Mar 2015 $000	Audited 12 mths to Jun 2015 $000
Interest income	2	199,648	193,680	260,468
Interest expense	2	90,946	94,086	126,041
Net interest income		**108,702**	**99,594**	**134,427**
Operating lease income		6,806	7,923	10,350
Operating lease expenses		4,771	5,353	7,087
Net operating lease income		**2,035**	**2,570**	**3,263**
Lending and credit fee income		2,619	2,454	3,077
Other income		3,870	1,799	3,940
Net operating income		**117,226**	**106,417**	**144,707**
Selling and administration expenses	3	53,549	50,147	68,403
Profit before impaired asset expense and income tax		**63,677**	**56,270**	**76,304**
Impaired asset expense	4	8,652	7,712	12,105
Profit before income tax		**55,025**	**48,558**	**64,199**
Share of joint arrangement profit		-	300	137
Profit before income tax		**55,025**	**48,858**	**64,336**
Income tax expense		15,445	12,743	16,173
Profit for the period		**39,580**	**36,115**	**48,163**
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		(1,090)	(1,849)	(2,709)
Movement in available for sale reserve, net of income tax		61	387	898
Movement in foreign currency translation reserve, net of income tax		(461)	(2,485)	2,136
Items that will not be reclassified to profit or loss:				
Movement in defined benefit reserve, net of income tax		(31)	(16)	50
Other comprehensive (loss)/income for the period, net of income tax		**(1,521)**	**(3,963)**	**375**
Total comprehensive income for the period		**38,059**	**32,152**	**48,538**
Earnings per share from continuing operations				
Basic earnings per share	5	8c	8c	10c
Diluted earnings per share	5	8c	8c	10c

All 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 nine months ended 31 March 2016

	NOTE	Share Capital	Treasury Shares Reserve $000	Employee Benefits Reserve $000	Foreign Currency Translation Reserve $000	Available for sale Reserve $000	Defined benefit Reserve $000	Hedging Reserve	Retained Earnings	Total Equity $000
Unaudited - Mar 2016										
Balance at 1 July 2015		**413,917**	**(272)**	**2,200**	**2,231**	**1,170**	**94**	**(1,552)**	**62,337**	**480,125**
Total comprehensive (loss) / income for the period										
Profit for the period		-	-	-	-	-	-	-	39,580	39,580
Total other comprehensive (loss) / income		-	-	-	(461)	61	(31)	(1,090)	-	(1,521)
Total comprehensive (loss) / income for the period		**-**	**-**	**-**	**(461)**	**61**	**(31)**	**(1,090)**	**39,580**	**38,059**
Contributions by and distributions to owners										
Dividends paid and declared	8	-	-	-	-	-	-	-	(37,690)	(37,690)
Dividend reinvestment plan		4,119	-	-	-	-	-	-	-	4,119
Share based payments		-	-	1,391	-	-	-	-	-	1,391
Shares vested		160	50	(210)	-	-	-	-	-	-
Total transactions with owners		**4,279**	**50**	**1,181**	**-**	**-**	**-**	**-**	**(37,690)**	**(32,180)**
Balance at 31 March 2016		**418,196**	**(222)**	**3,381**	**1,770**	**1,231**	**63**	**(2,642)**	**64,227**	**486,004**
Unaudited - Mar 2015										
Balance at 1 July 2014		**406,142**	**(926)**	**1,476**	**95**	**272**	**44**	**1,157**	**44,362**	**452,622**
Total comprehensive (loss) / income for the period										
Profit for the period		-	-	-	-	-	-	-	36,115	36,115
Total other comprehensive (loss) / income		-	-	-	(2,485)	387	(16)	(1,849)	-	(3,963)
Total comprehensive (loss) / income for the period		**-**	**-**	**-**	**(2,485)**	**387**	**(16)**	**(1,849)**	**36,115**	**32,152**
Contributions by and distributions to owners										
Dividends paid and declared	8	-	-	-	-	-	-	-	(30,188)	(30,188)
Dividend reinvestment plan		3,736	-	-	-	-	-	-	-	3,736
Share based payments		-	-	1,239	-	-	-	-	-	1,239
Shares vested		81	330	(411)	-	-	-	-	-	-
Treasury shares sold		16	25	-	-	-	-	-	-	41
Total transactions with owners		**3,833**	**355**	**828**	**-**	**-**	**-**	**-**	**(30,188)**	**(25,172)**
Balance at 31 March 2015		**409,975**	**(571)**	**2,304**	**(2,390)**	**659**	**28**	**(692)**	**50,289**	**459,602**
Audited - Jun 2015										
Balance at 1 July 2014		**406,142**	**(926)**	**1,476**	**95**	**272**	**44**	**1,157**	**44,362**	**452,622**
Total comprehensive income / (loss) for the period										
Profit for the year		-	-	-	-	-	-	-	48,163	48,163
Total other comprehensive income / (loss)		-	-	-	2,136	898	50	(2,709)	-	375
Total comprehensive income / (loss) for the year		**-**	**-**	**-**	**2,136**	**898**	**50**	**(2,709)**	**48,163**	**48,538**
Contributions by and distributions to owners										
Dividends paid	8	-	-	-	-	-	-	-	(30,188)	(30,188)
Dividend reinvestment plan		7,621	-	-	-	-	-	-	-	7,621
Share based payments		-	-	1,491	-	-	-	-	-	1,491
Shares vested		138	629	(767)	-	-	-	-	-	-
Treasury shares sold		16	25	-	-	-	-	-	-	41
Total transactions with owners		**7,775**	**654**	**724**	**-**	**-**	**-**	**-**	**(30,188)**	**(21,035)**
Balance at 30 June 2015		**413,917**	**(272)**	**2,200**	**2,231**	**1,170**	**94**	**(1,552)**	**62,337**	**480,125**

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

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 March 2016

	NOTE	Unaudited Mar 2016 $000	Unaudited Mar 2015 $000	Audited Jun 2015 $000
Assets				
Cash and cash equivalents		26,845	21,127	37,012
Investments		231,179	287,414	329,338
Investment properties		11,044	25,072	24,513
Finance receivables	6	3,016,260	2,763,589	2,862,070
Operating lease vehicles		25,530	30,275	29,998
Other assets		16,419	9,482	12,119
Investment in joint arrangement		-	4,545	4,383
Intangible assets		55,351	50,617	51,119
Deferred tax asset		6,452	6,228	8,707
Total assets		**3,389,080**	**3,198,349**	**3,359,259**
Liabilities				
Borrowings	7	2,839,849	2,683,267	2,825,245
Current tax liabilities		1,326	2,384	7,869
Dividend payable		16,567	13,814	-
Due to related parties	9	-	500	2,448
Trade and other payables		45,334	38,782	43,572
Total liabilities		**2,903,076**	**2,738,747**	**2,879,134**
Equity				
Share capital		418,196	409,975	413,645
Retained earnings and reserves		67,808	49,627	66,480
Total equity		**486,004**	**459,602**	**480,125**
Total equity and liabilities		**3,389,080**	**3,198,349**	**3,359,259**

Total interest earning and discount bearing assets	3,274,044	3,066,352	3,221,246
Total interest and discount bearing liabilities	2,846,521	2,689,161	2,834,427

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

INTERIM STATEMENT OF CASH FLOWS

For the nine months ended 31 March 2016

	Unaudited 9 mths to Mar 2016 $000	Unaudited 9 mths to Mar 2015 $000	Audited 12 mths to Jun 2015 $000
Cash flows from operating activities			
Interest received	191,277	189,693	243,729
Operating lease income received	6,915	5,016	8,951
Lending, credit fees and other income received	7,422	4,253	7,017
Operating inflows	**205,614**	**198,962**	**259,697**
Payments to suppliers and employees	57,747	46,827	60,346
Interest paid	98,177	97,645	126,179
Taxation paid	20,240	9,605	9,956
Operating outflows	**176,164**	**154,077**	**196,481**
Net cash flows from operating activities before changes in operating assets and liabilities	**29,450**	**44,885**	**63,216**
Proceeds from sale of operating lease vehicles	7,002	5,455	7,386
Purchase of operating lease vehicles	(6,263)	(8,503)	(11,544)
Net movement in finance receivables	(154,469)	(169,207)	(259,871)
Net movement in deposits	80,390	183,964	362,590
Total cash provided (applied to) / from operating activities	**(43,890)**	**56,594**	**161,777**
Cash flows from investing activities			
Net proceeds from sale of investment properties	13,502	8,816	9,375
Proceeds from sale of office fit-out, equipment and intangibles	354	4,885	4,885
Net decrease in investments	106,992	-	-
Total cash provided from investing activities	**120,848**	**13,701**	**14,260**
Purchase of office fit-out, equipment and intangible assets	8,820	5,006	6,344
Net increase in investments	-	49,975	89,581
Purchase of equity investment	2,300	-	-
Total cash applied to investing activities	**11,120**	**54,981**	**95,925**
Net cash flows from / (applied to) investing activities	**109,728**	**(41,280)**	**(81,665)**
Cash flows applied to financing activities			
Dividends paid	17,004	12,638	22,567
Net decrease in wholesale funding	62,146	18,893	57,877
Total cash applied to financing activities	**79,150**	**31,531**	**80,444**
Net cash flows applied to financing activities	**(79,150)**	**(31,531)**	**(80,444)**
Net decrease in cash held	**(13,312)**	**(16,217)**	**(332)**
Opening cash and cash equivalents	37,012	37,344	37,344
Cash impact of business acquisition (MARAC Insurance Limited)	3,145	-	-
Closing cash and cash equivalents	**26,845**	**21,127**	**37,012**

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

INTERIM STATEMENT OF CASH FLOWS
For the nine months ended 31 March 2016

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

	Unaudited 9 mths to Mar 2016 $000	Unaudited 9 mths to Mar 2015 $000	Audited 12 mths to Jun 2015 $000
Profit for the period	**39,580**	**36,115**	**48,163**
Add / (less) non-cash items:			
Depreciation and amortisation expense	1,591	1,557	2,010
Depreciation on lease vehicles	4,360	4,813	6,375
Impaired asset expense	8,652	7,712	12,105
Total non-cash items	**14,603**	**14,082**	**20,490**
Add / (less) movements in operating assets and liabilities:			
Finance receivables	(162,942)	(172,352)	(275,274)
Operating lease vehicles	108	(3,793)	(5,078)
Other assets	(3,594)	2,162	2,997
Disposal of property, plant and equipment and intangibles	123	(98)	(98)
Current tax	(6,553)	3,511	8,996
Derivative financial instruments revaluation	(826)	2,713	1,326
Deferred tax expense / (benefit)	1,302	(941)	(3,420)
Deposits	74,307	177,881	360,545
Other liabilities	2	(2,686)	3,130
Total movements in operating assets and liabilities	**(98,073)**	**6,397**	**93,124**
Net cash flows (applied to) / from operating activities	**(43,890)**	**56,594**	**161,777**

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

Basis of reporting

Reporting entity

On 31 December 2015, Former Heartland Bank was amalgamated, by way of short form amalgamation, with its ultimate parent, Heartland New Zealand. Heartland New Zealand has continued as the amalgamated company but has changed its name to Heartland Bank Limited. Refer to General Information contained within the Disclosure Statement for further details.

As a result all of Heartland New Zealand's subsidiaries which were previously sitting outside Former Heartland Bank, were brought into the banking group. The most significant of these businesses was the Australian reverse mortgage business. Other strategic investments, such as shareholdings in Harmoney Corp Limited, Ora HQ Limited and MARAC Insurance Limited, were also brought into the banking group.

The interim financial statements presented are the consolidated financial statements comprising Heartland Bank Limited (the bank) and its subsidiaries (the banking group). Unless otherwise stated, comparatives presented are for the consolidated group of the company previously known as Heartland New Zealand Limited.

As at 31 March 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:
- 9 month period ended 31 March 2016 - Unaudited
- 9 month period ended 31 March 2015 - Unaudited
- 12 month period ended 30 June 2015 - Audited

The condensed 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, IAS 34 Interim Financial Reporting and the NZX Main Board Listing Rules. They do not include all of the information required for full annual financial statements and should be read in conjunction with Heartland New Zealand Limited's Annual Report for the year ended 30 June 2015.

The 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 consolidated interim financial statements are the same as those applied by the banking group in its Annual Report for the year ended 30 June 2015.

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

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, except those transactions with related parties, refer to Note 9 - Related party transactions and balances. 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 home equity release), motor vehicle finance and consumer finance) and some specific financial services to Australian seniors (home equity release 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.
Non-core Property	Funding assets of the non-core property division.

During the period ended 31 March 2016, a business unit previously reported in the Household division was moved to the Business division. In addition, lending through Harmoney, which was previously reported in the Business division, was moved to the Household division. The comparative information for the Business and Household divisions has been restated to be consistent with the current reporting period.

1 Segmental analysis (continued)

The banking group's operating segments are different than 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	Non-core Property	Admin & Support	Total
	$000	$000	$000	$000	$000	$000
Unaudited - 9 months ended 31 March 2016						
Net interest income / (expense)	58,521	31,065	19,454	(569)	231	108,702
Net operating lease income	2,035	-	-	-	-	2,035
Net other income	4,081	551	100	1,029	728	6,489
Net operating income	**64,637**	**31,616**	**19,554**	**460**	**959**	**117,226**
Selling and administration expenses	15,194	6,068	3,265	742	28,280	53,549
Profit / (loss) before impaired asset expense and income tax	**49,443**	**25,548**	**16,289**	**(282)**	**(27,321)**	**63,677**
Impaired asset expense / (benefit)	4,571	3,785	535	(239)	-	8,652
Profit / (loss) before income tax	**44,872**	**21,763**	**15,754**	**(43)**	**(27,321)**	**55,025**
Income tax expense	-	-	-	-	15,445	15,445
Profit / (loss) for the period	**44,872**	**21,763**	**15,754**	**(43)**	**(42,766)**	**39,580**
Total assets	1,671,473	860,065	507,635	13,661	336,246	**3,389,080**
Total liabilities	-	-	-	-	2,903,076	**2,903,076**
Unaudited - 9 months ended 31 March 2015						
Net interest income / (expense)	52,048	29,422	17,695	(524)	953	99,594
Net operating lease income	2,570	-	-	-	-	2,570
Net other income	1,928	422	105	1,024	774	4,253
Net operating income	**56,546**	**29,844**	**17,800**	**500**	**1,727**	**106,417**
Selling and administration expenses	14,373	4,567	3,827	992	26,388	50,147
Profit / (loss) before impaired asset expense and income tax	**42,173**	**25,277**	**13,973**	**(492)**	**(24,661)**	**56,270**
Impaired asset expense / (benefit)	3,682	4,310	57	(337)	-	7,712
Profit / (loss) before income tax	**38,491**	**20,967**	**13,916**	**(155)**	**(24,661)**	**48,558**
Share of joint arrangement profit	-	-	-	-	300	300
Profit / (loss) before income tax	**38,491**	**20,967**	**13,916**	**(155)**	**(24,361)**	**48,858**
Income tax expense	-	-	-	-	12,743	12,743
Profit / (loss) for the period	**38,491**	**20,967**	**13,916**	**(155)**	**(37,104)**	**36,115**
Total assets	1,534,192	779,475	476,898	28,371	379,413	**3,198,349**
Total liabilities	-	-	-	-	2,738,747	**2,738,747**
Audited - 12 months ended 30 June 2015						
Net interest income / (expense)	70,765	39,456	23,884	(790)	1,112	134,427
Net operating lease income	3,263	-	-	-	-	3,263
Net other income	2,560	1,639	135	1,478	1,205	7,017
Net operating income	**76,588**	**41,095**	**24,019**	**688**	**2,317**	**144,707**
Selling and administration expenses	20,071	6,207	4,878	1,273	35,974	68,403
Profit / (loss) before impaired asset expense and income tax	**56,517**	**34,888**	**19,141**	**(585)**	**(33,657)**	**76,304**
Impaired asset expense / (benefit)	5,879	6,053	510	(337)	-	12,105
Profit / (loss) before income tax	**50,638**	**28,835**	**18,631**	**(248)**	**(33,657)**	**64,199**
Share of joint arrangement profit	-	-	-	-	137	137
Profit / (loss) before income tax	**50,638**	**28,835**	**18,631**	**(248)**	**(33,520)**	**64,336**
Income tax expense	-	-	-	-	16,173	16,173
Profit / (loss) for the year	**50,638**	**28,835**	**18,631**	**(248)**	**(49,693)**	**48,163**
Total assets	1,600,547	801,324	487,673	27,038	442,677	**3,359,259**
Total liabilities	-	-	-	-	2,879,134	**2,879,134**

2 Net interest income

	Unaudited 9 mths to Mar 2016 $000	Unaudited 9 mths to Mar 2015 $000	Audited 12 mths to Jun 2015 $000
Interest income			
Cash and cash equivalents	629	2,617	2,458
Investments	8,303	6,954	9,919
Finance receivables	190,716	184,109	248,091
Total interest income	**199,648**	**193,680**	**260,468**
Interest expense			
Retail deposits	65,934	60,271	82,526
Bank and securitised borrowings	23,907	33,683	43,294
Net interest expense on derivative financial instruments	1,105	132	221
Total interest expense	**90,946**	**94,086**	**126,041**
Net interest income	**108,702**	**99,594**	**134,427**

3 Selling and administration expenses

	Unaudited 9 mths to Mar 2016 $000	Unaudited 9 mths to Mar 2015 $000	Audited 12 mths to Jun 2015 $000
Personnel expenses	29,875	28,761	39,619
Directors' fees	592	688	917
Superannuation	520	593	782
Audit and review of financial statements[1]	350	365	431
Other assurance services paid to auditor[2]	23	13	23
Other fees paid to auditor[3]	96	70	125
Depreciation - property, plant and equipment	725	625	777
Amortisation - intangible assets	866	932	1,233
Operating lease expense as a lessee	1,795	1,443	2,001
Legal and professional fees	1,862	1,532	2,318
Other operating expenses	16,845	15,125	20,177
Total selling and administration expenses	**53,549**	**50,147**	**68,403**

[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 9 mths to Mar 2016 $000	Unaudited 9 mths to Mar 2015 $000	Audited 12 mths to Jun 2015 $000
Non-securitised				
Individually impaired expense		707	4,175	7,153
Collectively impaired expense		7,197	2,780	4,051
Total non-securitised impaired asset expense		**7,904**	**6,955**	**11,204**
Securitised				
Individually impaired (recovery) / expense		(9)	55	53
Collectively impaired expense		757	702	848
Total securitised impaired asset expense		**748**	**757**	**901**
Total				
Individually impaired expense		698	4,230	7,206
Collectively impaired expense		7,954	3,482	4,899
Total impaired asset expense	13(b)	**8,652**	**7,712**	**12,105**

5 Earnings per share

The calculation of both basic and diluted earnings of 8c per share at 31 March 2016 (31 March 2015: 8c per share; 30 June 2015: 10c per share) is based on the profit for the period of $39,580,000 (31 March 2015: $36,115,000; 30 June 2015: $48,163,000), and a weighted average number of shares on issue of 472,366,780 (31 March 2015: 465,670,714; 30 June 2015: 466,643,607).

Financial Position

6 Finance receivables

	Unaudited Mar 2016 $000	Unaudited Mar 2015 $000	Audited Jun 2015 $000
Non-securitised			
Neither at least 90 days past due nor impaired	2,725,629	2,455,910	2,552,302
At least 90 days past due	18,878	28,715	33,459
Individually impaired	32,760	25,168	25,567
Restructured assets	3,302	4,085	3,881
Gross finance receivables	**2,780,569**	**2,513,878**	**2,615,209**
Less provision for impairment	17,414	20,955	24,511
Less fair value adjustment for present value of future losses	5,289	6,576	6,242
Total non-securitised finance receivables	**2,757,866**	**2,486,347**	**2,584,456**
Securitised			
Neither at least 90 days past due nor impaired	257,668	276,837	276,944
At least 90 days past due	1,803	1,090	1,516
Individually impaired	13	129	55
Gross finance receivables	**259,484**	**278,056**	**278,515**
Less provision for impairment	1,090	814	901
Total securitised finance receivables	**258,394**	**277,242**	**277,614**
Total			
Neither at least 90 days past due nor impaired	2,983,297	2,732,747	2,829,246
At least 90 days past due	20,681	29,805	34,975
Individually impaired	32,773	25,297	25,622
Restructured assets	3,302	4,085	3,881
Gross finance receivables	**3,040,053**	**2,791,934**	**2,893,724**
Less provision for impairment	18,504	21,769	25,412
Less fair value adjustment for present value of future losses	5,289	6,576	6,242
Total finance receivables	**3,016,260**	**2,763,589**	**2,862,070**

7 Borrowings

	Unaudited Mar 2016 $000	Unaudited Mar 2015 $000	Audited Jun 2015 $000
Deposits	2,177,843	1,920,534	2,097,458
Subordinated bond	3,378	3,379	3,378
Bank borrowings	408,705	500,820	465,779
Securitised borrowings	249,923	258,534	258,630
Total borrowings	**2,839,849**	**2,683,267**	**2,825,245**

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. The banking group has securitised bank facilities of $350 million (March 2015: $350 million; June 2015: $350 million) in relation to the ABCP Trust, which matures on 1 February 2017.

The banking group has an Australian bank facility provided by Commonwealth Bank of Australia (CBA bank facility) totalling $392 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), with each member also providing a cross-guarantee to CBA. 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 Mar 2016 000	Unaudited Mar 2015 000	Audited Jun 2015 000
Issued shares			
Opening balance	469,890	463,266	463,266
Shares issued during the period	212	-	-
Dividend reinvestment plan	3,711	3,680	6,624
Closing balance	**473,813**	**466,946**	**469,890**

Under dividend reinvestment plans, the banking group issued 3,711,076 new shares at $1.110 per share on 2 October 2015 (March 2015: 3,680,052 new shares at $1.015 per share; June 2015: 3,680,052 new shares at $1.015 per share and 2,943,636 new shares at $1.320 per share).

The shares issued during the period were in relation to the staff share ownership arrangements.

(i) Dividends

The banking group paid total dividends of $21.1 million (4.5 cents per share) (March 2015: $16.4 million (3.5 cents per share); June 2015: $30.2 million (6.5 cents per share)).

The banking group declared a dividend of $16.6 million (3.5 cents per share) (March 2015: $13.8 million (3.0 cents per share); June 2015: $nil).

9 Related party transactions and balances

MARAC Insurance Limited (MARAC Insurance) was previously held by the bank as a joint arrangement. On 17 July 2015, MARAC Insurance became a wholly owned subsidiary of the banking group. As a result, from 17 July 2015, related party transactions and balances with MARAC Insurance are eliminated on consolidation of the banking group.

MARAC Insurance, 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.

The banking group also provided administrative assistance and received insurance commission from MARAC Insurance.

	Unaudited 9 mths to Mar 2016 $000	Unaudited 9 mths to Mar 2015 $000	Audited 12 mths to Jun 2015 $000
MARAC Insurance Limited			
Interest expense	-	(8)	(31)
Lending and credit fee income	-	479	625
Other income	-	375	500
Total transactions with related parties	**-**	**846**	**1,094**
Due to related parties			
MARAC Insurance Limited	-	500	2,448
Total due to related parties	**-**	**500**	**2,448**

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 9 mths to Mar 2016 $000	Unaudited 9 mths to Mar 2015 $000	Audited 12 mths to Jun 2015 $000
Finance receivables	1,434	1,404	1,391
Borrowings - deposits	(4,669)	(14,652)	(14,386)
Interest income	79	66	68
Interest expense	(343)	(433)	(573)

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.

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 - Mar 16				
Assets				
Investments	223,888	-	7,291	231,179
Finance receivables	-	-	23,518	23,518
Derivative assets held for risk management	-	60	-	60
Total Assets	**223,888**	**60**	**30,809**	**254,757**
Liabilities				
Derivative liabilities held for risk management	-	6,672	-	6,672
Total Liabilities	**-**	**6,672**	**-**	**6,672**
Unaudited - Mar 15				
Assets				
Investments	271,222	10,678	5,514	287,414
Finance receivables	-	-	23,531	23,531
Derivative assets held for risk management	-	369	-	369
Total Assets	**271,222**	**11,047**	**29,045**	**311,314**
Liabilities				
Derivative liabilities held for risk management	-	5,395	-	5,395
Total Liabilities	**-**	**5,395**	**-**	**5,395**

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 15				
Assets				
Investments	311,815	10,804	6,719	329,338
Finance receivables	-	-	25,021	25,021
Derivative assets held for risk management	-	59	-	59
Total Assets	**311,815**	**10,863**	**31,740**	**354,418**
Liabilities				
Derivative liabilities held for risk management	-	6,407	-	6,407
Total Liabilities	**-**	**6,407**	**-**	**6,407**

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 Mar 2016 $000	Unaudited Total Carrying Value Mar 2016 $000	Unaudited Total Fair Value Mar 2015 $000	Unaudited Total Carrying Value Mar 2015 $000	Audited Total Fair Value Jun 2015 $000	Audited Total Carrying Value Jun 2015 $000
Financial Assets						
Cash and cash equivalents	26,845	26,845	21,127	21,127	37,012	37,012
Finance receivables	2,730,268	2,734,348	2,457,422	2,462,816	2,557,755	2,559,435
Finance receivables - securitised	259,959	258,394	278,648	277,242	279,491	277,614
Other financial assets	6,600	6,600	2,951	2,951	5,546	5,546
Total financial assets	**3,023,672**	**3,026,187**	**2,760,148**	**2,764,136**	**2,879,804**	**2,879,607**
Financial Liabilities						
Borrowings	2,604,776	2,589,926	2,432,664	2,424,733	2,576,425	2,566,615
Borrowings - securitised	249,923	249,923	258,534	258,534	258,630	258,630
Due to related parties	-	-	2,785	2,785	2,448	2,448
Other financial liabilities	19,493	19,493	17,742	17,742	23,042	23,042
Total financial liabilities	**2,874,192**	**2,859,342**	**2,711,725**	**2,703,794**	**2,860,545**	**2,850,735**

Further information on valuation techniques and assumptions used for determining fair value is included in Note 16 of Heartland New Zealand's Annual Report for the year ended 30 June 2015.

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 31 March 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 $000	**Property $000**	**Other $000**	**Residential $000**	**All Other $000**	**Total $000**
(a) End of period balances						
Unaudited - Mar 2016						
Gross impaired assets						
Individually impaired	23,489	4,191	5,093	-	-	32,773
Restructured	59	-	810	-	2,433	3,302
Total impaired assets	**23,548**	**4,191**	**5,903**	**-**	**2,433**	**36,075**
Provision for individually impaired assets	1,180	514	2,959	-	-	4,653
Net impaired assets	**22,368**	**3,677**	**2,944**	**-**	**2,433**	**31,422**
Provision for collectively impaired assets	**1,810**	**1,325**	**3,337**	**2,749**	**4,630**	**13,851**
At least 90 days past due but not impaired	**2,995**	**265**	**12,450**	**467**	**4,504**	**20,681**
(b) Charges to Interim Statement of Comprehensive Income						
Unaudited - 9 months ended 31 Mar 2016						
Individually impaired assets expense / (benefit)	1,021	(205)	(118)	-	-	698
Collectively impaired assets expense / (benefit)	494	(33)	3,043	986	3,464	7,954
Total impaired asset expense / (benefit)	**1,515**	**(238)**	**2,925**	**986**	**3,464**	**8,652**

14 Liquidity risk

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

	Unaudited Mar 2016 $000
Cash and cash equivalents	26,845
Investments	223,888
Undrawn committed bank facilities	100,000
Total liquidity	**350,733**

The banking group has securitised bank facilities totalling $350 million in relation to the ABCP Trust maturing on 1 February 2017.

Other Disclosures

15 Capital adequacy

(a) Capital Ratios

	Unaudited Mar 2016 %
Capital ratios compared to minimum ratio requirements	
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.96%
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	13.96%
Minimum Tier 1 Capital as per Conditions of Registration	6.00%
Total Capital expressed as a percentage of total risk weighted exposures	14.01%
Minimum Total Capital as per Conditions of Registration	8.00%
Buffer ratio	6.01%
Buffer ratio requirement	2.50%

(b) Capital

	Unaudited Mar 2016 $000
Tier 1 Capital	
Common Equity Tier 1 Capital	486,004
Less deductions from Common Equity Tier 1 Capital	(59,673)
Total Common Equity Tier 1 Capital	**426,331**
Additional Tier 1 Capital	-
Total Tier 1 Capital	**426,331**
Tier 2 Capital	
Subordinated Bond	1,455
Less deductions from Tier 2 Capital	-
Total Capital	**427,786**

15 Capital adequacy (continued)

(c) Pillar 1 capital requirements

	Pillar 1 capital requirement $000
Unaudited - Mar 2016	
On balance sheet exposures	
Residential mortgages (including past due)	24,217
Non property investment mortgage loan	662
Property investment mortgage loan	443
Corporate	253
Public sector entities	676
Multilateral development banks and other international organisations	718
Claims on banks	2,628
Other	179,688
Total on balance sheet exposures	**209,285**
Other capital requirements	
Off balance sheet credit exposures	12,689
Operational risk	14,137
Market risk	8,133
Total other capital requirements	**34,959**
Total Pillar 1 capital requirement	**244,244**

(d) Additional mortgage information

	On balance sheet exposures $000	Off balance sheet exposures $000	Total exposures $000
Unaudited - Mar 2016			
Residential mortgages by loan to value ratio (LVR):			
Does not exceed 80%	830,718	2,728	833,446
Exceeds 80% and not 90%	12,238	-	12,238
Exceeds 90% [1]	10,232	68	10,300
Total exposures	**853,188**	**2,796**	**855,984**

[1] Of the balance of "Exceeds 90%" above, $2.5 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 31 March 2016, the banking group has made an internal capital allocation of $64.0 million (March 2015: $59.8 million; June 2015: $68.7 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 $7.80 million, which is 0.23% 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. The insurance products are underwritten by MARAC Insurance, a subsidiary of the group. 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

There have been no material changes to the bank’s involvement in securitisation, funds management and other fiduciary activities 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 Mar 2016 $000	Unaudited Mar 2015 $000	Audited Jun 2015 $000
Deposits	72,298	45,085	45,110

(b) *Heartland ABCP Trust 1*

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

The banking group continues to recognise the securitised assets and associated borrowings in the Interim Statement of Financial Position as it is the residual beneficiary and subordinated debt holder of the Trust. Despite the bank being the residual beneficiary, the loans sold to ABCP Trust are set aside for the benefit of investors in ABCP Trust and bank depositors have no recourse to these assets. ABCP Trust's material assets and liabilities are represented as follows:

	Unaudited Mar 2016 $000	Unaudited Mar 2015 $000	Audited Jun 2015 $000
Cash and cash equivalents - securitised	15,672	7,263	5,553
Finance receivables - securitised	258,394	277,242	277,614
Borrowings - securitised	(249,923)	(258,534)	(258,630)
Derivative financial assets - securitised	-	298	59
Derivative financial liabilities - securitised	(3,329)	(1,058)	(1,995)

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

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

	Unaudited Mar 2016 $000	Unaudited Mar 2015 $000	Audited Jun 2015 $000
Cash and cash equivalents	4,681	1,070	1,207
Finance receivables - Home equity release loans	447,550	383,924	424,445
Borrowings - CBA	(392,423)	(338,212)	(372,333)
Derivative financial liabilities	(2,510)	(3,710)	(3,608)

18 Contingent liabilities and commitments

	Unaudited Mar 2016 $000	Unaudited Mar 2015 $000	Audited Jun 2015 $000
Letters of credit, guarantee commitments and performance bonds	12,156	12,152	14,844
Total contingent liabilities	**12,156**	**12,152**	**14,844**
Undrawn facilities available to customers	139,156	111,533	116,217
Conditional commitments to fund at future dates	126,500	109,413	108,037
Total commitments	**265,656**	**220,946**	**224,254**

As at 31 March 2016 there are no undrawn lending commitments to counterparties for whom drawn balances are classified as individually impaired (March 2015: nil, June 2015: 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.