HEARTLAND BANK

Disclosure Statement

For the three months ended 30 September 2017

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 2017 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order). The financial statements of the bank for the three months ended 30 September 2017 form part of, and should be read in conjunction with, this Disclosure Statement.

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 the date this Disclosure Statement was signed, no material obligations of the bank were guaranteed.

DIRECTORS

There have been no changes to the Board of Directors since the signing of the 30 June 2017 Disclosure Statement.

CONDITIONS OF REGISTRATION

These conditions apply on and after 1 October 2016.

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 bank's 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 property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans 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 non property-investment residential mortgage loans 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 non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

21. 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 registered 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 21,—

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", 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 October 2016:

"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 March 2017.

PENDING PROCEEDINGS OR ARBITRATION

There are no pending legal proceedings or arbitrations concerning any member of the banking group as 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 14 October 2015 and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars. This BBB Stable credit rating was affirmed by Fitch Ratings on 3 October 2017.

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 month period ended 30 September 2017:
   (a) the bank complied with all Conditions of 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 material risks of the banking group, 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 9 November 2017 and has been signed by all Directors.

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

G. R. Kennedy

J. K. Greenslade

C. R. Mace

E. F. Comerford

V. C. M. Stoddart

E. J. Harvey

G. R. Tomlinson

B. R. Irvine

HEARTLAND BANK

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 September 2017

	NOTE	Unaudited 3 mths to Sep 2017 $000	Unaudited 3 mths to Sep 2016 $000	Audited 12 mths to Jun 2017 $000
Interest income	2	75,530	66,979	278,279
Interest expense	2	30,602	28,144	115,169
Net interest income		**44,928**	**38,835**	**163,110**
Operating lease income		1,589	1,954	6,989
Operating lease expenses		1,088	1,417	5,195
Net operating lease income		**501**	**537**	**1,794**
Lending and credit fee income		573	808	3,005
Other income		758	985	3,343
Net operating income		**46,760**	**41,165**	**171,252**
Selling and administration expenses	3	19,344	17,912	71,684
Profit before impaired asset expense and income tax		**27,416**	**23,253**	**99,568**
Impaired asset expense	4	5,099	3,938	15,015
Profit before income tax		**22,317**	**19,315**	**84,553**
Income tax expense		6,292	5,026	23,745
Profit for the period		**16,025**	**14,289**	**60,808**
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		(1,209)	(43)	1,108
Movement in available for sale reserve, net of income tax		789	256	(353)
Movement in foreign currency translation reserve, net of income tax		1,803	914	761
Items that will not be reclassified to profit or loss:				
Movement in defined benefit reserve, net of income tax		231	-	(84)
Other comprehensive income for the period, net of income tax		**1,614**	**1,127**	**1,432**
Total comprehensive income for the period		**17,639**	**15,416**	**62,240**
Earnings per share from continuing operations				
Basic earnings per share	5	3c	3c	12c
Diluted earnings per share	5	3c	3c	12c

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 2017

	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 2017										
Balance at 1 July 2017		**473,128**	**(2,612)**	**3,118**	**(1,055)**	**609**	**(83)**	**(1,152)**	**97,642**	**569,595**
Total comprehensive income for the period										
Profit for the period		-	-	-	-	-	-	-	16,025	16,025
Total other comprehensive income / (loss)		-	-	-	1,803	789	231	(1,209)	-	1,614
Total comprehensive income / (loss) for the period		**-**	**-**	**-**	**1,803**	**789**	**231**	**(1,209)**	**16,025**	**17,639**
Contributions by and distributions to owners										
Dividends paid	8	-	-	-	-	-	-	-	(28,393)	(28,393)
Dividend reinvestment plan	8	7,495	-	-	-	-	-	-	-	7,495
Share based payments		-	-	120	-	-	-	-	-	120
Shares vested		351	-	(523)	-	-	-	-	-	(172)
Total transactions with owners		**7,846**	**-**	**(403)**	**-**	**-**	**-**	**-**	**(28,393)**	**(20,950)**
Balance at 30 September 2017		**480,974**	**(2,612)**	**2,715**	**748**	**1,398**	**148**	**(2,361)**	**85,274**	**566,284**
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 year		**-**	**-**	**-**	**914**	**256**	**-**	**(43)**	**14,289**	**15,416**
Contributions by and distributions to owners										
Dividends paid	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**
Audited - Jun 2017										
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 year										
Profit for the year		-	-	-	-	-	-	-	60,808	60,808
Total other comprehensive income / (loss)		-	-	-	761	(353)	(84)	1,108	-	1,432
Total comprehensive income / (loss) for the year		**-**	**-**	**-**	**761**	**(353)**	**(84)**	**1,108**	**60,808**	**62,240**
Contributions by and distributions to owners										
Dividends paid	8	-	-	-	-	-	-	-	(41,977)	(41,977)
Dividend reinvestment plan	8	10,590	-	-	-	-	-	-	-	10,590
Issue of share capital		40,003	-	-	-	-	-	-	-	40,003
Transaction costs associated with capital raising		(655)	-	-	-	-	-	-	-	(655)
Share based payments		-	-	1,053	-	-	-	-	-	1,053
Shares vested		1,813	-	(1,813)	-	-	-	-	-	-
Total transactions with owners		**51,751**	**-**	**(760)**	**-**	**-**	**-**	**-**	**(41,977)**	**9,014**
Balance at 30 June 2017		**473,128**	**(2,612)**	**3,118**	**(1,055)**	**609**	**(83)**	**(1,152)**	**97,642**	**569,595**

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 2017

	NOTE	Unaudited Sep 2017 $000	Unaudited Sep 2016 $000	Audited Jun 2017 $000
Assets				
Cash and cash equivalents		129,240	38,824	57,040
Investments		298,792	259,074	318,698
Investment properties		3,760	7,426	4,909
Finance receivables	6	3,683,557	3,230,347	3,545,897
Operating lease vehicles		17,923	22,582	19,038
Other assets		11,557	14,757	10,000
Intangible assets		71,133	60,569	71,237
Deferred tax asset		6,477	7,128	7,852
Total assets		**4,222,439**	**3,640,707**	**4,034,671**
Liabilities				
Borrowings	7	3,621,663	3,093,054	3,429,741
Current tax liabilities		6,906	6,980	9,856
Dividend payable		-	17,881	-
Trade and other payables		27,586	27,588	25,479
Total liabilities		**3,656,155**	**3,145,503**	**3,465,076**
Equity				
Share capital		480,974	428,072	473,128
Treasury shares		(2,612)	(2,612)	(2,612)
Retained earnings and reserves		87,922	69,744	99,079
Total equity		**566,284**	**495,204**	**569,595**
Total equity and liabilities		**4,222,439**	**3,640,707**	**4,034,671**

Total interest earning and discount bearing assets		4,093,822	3,520,708	3,909,711
Total interest and discount bearing liabilities		3,615,150	3,098,179	3,425,685

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 2017

	NOTE	Unaudited 3 mths to Sep 2017 $000	Unaudited 3 mths to Sep 2016 $000	Audited 12 mths to Jun 2017 $000
Cash flows from operating activities				
Interest received		69,304	62,927	261,339
Operating lease income received		1,239	1,767	6,974
Lending, credit fees and other income received		1,789	1,489	6,325
Operating inflows		**72,332**	**66,183**	**274,638**
Payments to suppliers and employees		18,883	18,455	68,017
Interest paid		25,010	28,024	125,022
Taxation paid		7,885	4,629	21,695
Operating outflows		**51,778**	**51,108**	**214,734**
Net cash flows from operating activities before changes in operating assets and liabilities		**20,554**	**15,075**	**59,904**
Proceeds from sale of operating lease vehicles		1,384	2,805	7,678
Purchase of operating lease vehicles		(1,048)	(1,869)	(6,236)
Net movement in finance receivables		(137,665)	(130,427)	(441,400)
Net movement in deposits		52,187	111,981	285,551
Total cash provided (applied to) operating activities		**(64,588)**	**(2,435)**	**(94,503)**
Cash flows from investing activities				
Net proceeds from sale of investment properties		2,099	958	3,498
Net decrease in investments		20,695	-	-
Total cash provided from investing activities		**22,810**	**958**	**3,498**
Purchase of office fit-out, equipment and intangible assets		882	3,454	15,180
Net increase in investments		-	22,383	82,616
Total cash applied to investing activities		**882**	**25,837**	**97,796**
Net cash flows from / (applied to) investing activities		**21,928**	**(24,879)**	**(94,298)**
Cash flows applied to financing activities				
Increase in share capital	8	-	-	39,348
Proceeds from issue of unsubordinated notes		150,000	-	-
Net increase in wholesale funding		-	-	153,726
Total cash provided from financing activities		**150,000**	**-**	**193,074**
Dividends paid	8	19,527	-	31,387
Net decrease in wholesale funding		15,613	18,016	-
Total cash applied to financing activities		**35,140**	**18,016**	**31,387**
Net cash flows applied to / (from) financing activities		**114,860**	**(18,016)**	**161,687**
Net increase / (decrease) in cash held		**72,200**	**(45,330)**	**(27,114)**
Opening cash and cash equivalents		57,040	84,154	84,154
Closing cash and cash equivalents		**129,240**	**38,824**	**57,040**

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 2017

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

		Unaudited 3 mths to Sep 2017 $000	Unaudited 3 mths to Sep 2016 $000	Audited 12 mths to Jun 2017 $000
Profit for the period		**16,025**	**14,289**	**60,808**
Add / (less) non-cash items included in net profit before taxation:				
Depreciation and amortisation expense	3	1,147	516	2,376
Depreciation on lease vehicles		1,003	1,249	4,701
Capitalised net interest income		259	(4,970)	(32,221)
Impaired asset expense	4	5,099	3,938	15,015
Total non-cash items		**7,508**	**733**	**(10,129)**
Add / (less) movements in operating assets and liabilities:				
Finance receivables		(137,665)	(130,427)	(441,400)
Operating lease vehicles		112	726	818
Other assets		(755)	1,218	5,938
Current tax		(2,950)	539	3,102
Derivative financial instruments revaluation		(583)	(636)	(1,261)
Deferred tax expense / (benefit)		1,375	(60)	(784)
Deposits		52,187	111,981	285,551
Other liabilities		158	(798)	2,854
Total movements in operating assets and liabilities		**(88,121)**	**(17,457)**	**(145,182)**
Net cash flows applied to operating activities		**(64,588)**	**(2,435)**	**(94,503)**

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).

As at 30 September 2017, 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 Markets Conduct Act 2013 and the Financial Reporting Act 2013.

Basis of preparation

The interim financial statements presented here are for the following periods:
- 3 month period ended 30 September 2017 - Unaudited
- 3 month period ended 30 September 2016 - Unaudited
- 12 month period ended 30 June 2017 - 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 the bank's Annual Report for the year ended 30 June 2017.

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 consolidated interim financial statements are the same as those applied by the banking group in its consolidated financial statements as at, and for the year ended, 30 June 2017.

Certain comparative information has been restated to comply with the 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. 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 Australia and comprises the following main operating segments:

Households	Providing both a comprehensive range of financial services to New Zealand families – including term, transactional and savings based deposit accounts together with residential mortgage lending (including reverse mortgages), motor vehicle finance and consumer finance – as well as reverse mortgage lending and other financial services to Australian families.
Business	Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized 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 $000	Business $000	Rural $000	Admin & Support $000	Total $000
Unaudited - 3 months ended 30 September 2017					
Net interest income	23,319	13,057	8,451	101	44,928
Net other income	1,214	151	9	458	1,832
Net operating income	**24,533**	**13,208**	**8,460**	**559**	**46,760**
Selling and administration expenses	3,419	1,759	998	13,168	19,344
Profit / (loss) before impaired asset expense and income tax	**21,114**	**11,449**	**7,462**	**(12,609)**	**27,416**
Impaired asset expense	3,244	1,044	811	-	5,099
Profit / (loss) before income tax	**17,870**	**10,405**	**6,651**	**(12,609)**	**22,317**
Income tax expense	-	-	-	6,292	6,292
Profit / (loss) for the period	**17,870**	**10,405**	**6,651**	**(18,901)**	**16,025**
Total assets	1,978,449	1,041,529	685,262	517,199	**4,222,439**
Total liabilities	-	-	-	3,656,155	**3,656,155**
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	1,715,138	939,822	605,395	380,352	**3,640,707**
Total liabilities	-	-	-	3,145,503	**3,145,503**
Audited - 12 months ended 30 June 2017					
Net interest income	88,346	45,431	29,087	246	163,110
Net other income	4,514	1,629	139	1,860	8,142
Net operating income	**92,860**	**47,060**	**29,226**	**2,106**	**171,252**
Selling and administration expenses	13,980	8,195	4,356	45,153	71,684
Profit / (loss) before impaired asset expense and income tax	**78,880**	**38,865**	**24,870**	**(43,047)**	**99,568**
Impaired asset expense	10,321	4,377	317	-	15,015
Profit / (loss) before income tax	**68,559**	**34,488**	**24,553**	**(43,047)**	**84,553**
Income tax expense	-	-	-	23,745	23,745
Profit / (loss) for the year	**68,559**	**34,488**	**24,553**	**(66,792)**	**60,808**
Total assets	1,894,514	999,891	675,439	464,827	**4,034,671**
Total liabilities	-	-	-	3,465,076	**3,465,076**

2 Net interest income

	Unaudited 3 mths to Sep 2017 $000	Unaudited 3 mths to Sep 2016 $000	Audited 12 mths to Jun 2017 $000
Interest income			
Cash and cash equivalents	156	150	825
Investments	2,388	2,054	8,966
Finance receivables	72,986	64,775	268,488
Total interest income	**75,530**	**66,979**	**278,279**
Interest expense			
Retail deposits	22,716	21,045	87,018
Bank and securitised borrowings	7,165	6,577	25,714
Net interest expense on derivative financial instruments	721	522	2,437
Total interest expense	**30,602**	**28,144**	**115,169**
Net interest income	**44,928**	**38,835**	**163,110**

3 Selling and administration expenses

	Unaudited 3 mths to Sep 2017 $000	Unaudited 3 mths to Sep 2016 $000	Audited 12 mths to Jun 2017 $000
Personnel expenses	10,699	9,928	40,766
Directors' fees	253	152	769
Superannuation	234	166	781
Audit and review of financial statements[1]	120	114	454
Other assurance services paid to auditor[2]	11	11	44
Other fees paid to auditor[3]	24	2	143
Depreciation - property, plant and equipment	345	366	1,361
Amortisation - intangible assets	802	150	1,015
Operating lease expense as a lessee	518	525	2,102
Legal and professional fees	491	506	1,698
Other operating expenses	5,847	5,992	22,551
Total selling and administration expenses	**19,344**	**17,912**	**71,684**

4 Impaired asset expense

	NOTE	Unaudited 3 mths to Sep 2017 $000	Unaudited 3 mths to Sep 2016 $000	Audited 12 mths to Jun 2017 $000
Non-securitised				
Individually impaired expense		1,037	1,030	4,505
Collectively impaired expense		3,539	2,358	9,199
Total non-securitised impaired asset expense		**4,576**	**3,388**	**13,704**
Securitised				
Collectively impaired expense		523	550	1,311
Total securitised impaired asset expense		**523**	**550**	**1,311**
Total				
Individually impaired expense		1,037	1,030	4,505
Collectively impaired expense		4,062	2,908	10,510
Total impaired asset expense	13(b)	**5,099**	**3,938**	**15,015**

[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 and accounting advice.

5 Earnings per share

	Sep 2017			Sep 2016			Jun 2017		
	Earnings per share	Net profit after tax	Weighted average no. of shares	Earnings per share	Net profit after tax	Weighted average no. of shares	Earnings per share	Net profit after tax	Weighted average no. of shares
	cents	$000	000	cents	$000	000	cents	$000	000
Basic earnings	3	16,025	514,863	3	14,289	477,328	12	60,808	493,177
Diluted earnings	3	16,025	516,392	3	14,289	480,797	12	60,808	496,725

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of fully paid shares less treasury shares. Diluted earnings per share includes partly paid shares.

Financial Position

6 Finance receivables

	NOTE	Unaudited Sep 2017 $000	Unaudited Sep 2016 $000	Audited Jun 2017 $000
Non-securitised				
Neither at least 90 days past due nor impaired		3,410,731	2,924,891	3,285,911
At least 90 days past due		32,563	27,924	33,047
Individually impaired		36,109	17,655	28,578
Gross finance receivables		**3,479,403**	**2,970,470**	**3,347,536**
Less provision for impairment		25,947	20,235	24,762
Less fair value adjustment for present value of future losses		3,585	4,692	3,851
Total non-securitised finance receivables		**3,449,871**	**2,945,543**	**3,318,923**
Securitised				
Neither at least 90 days past due nor impaired		231,960	283,246	225,495
At least 90 days past due		2,922	2,652	2,582
Individually impaired		-	13	-
Gross finance receivables		**234,882**	**285,911**	**228,077**
Less provision for impairment		1,196	1,107	1,103
Total securitised finance receivables	17 (b)	**233,686**	**284,804**	**226,974**
Total				
Neither at least 90 days past due nor impaired		3,642,691	3,208,137	3,511,406
At least 90 days past due		35,485	30,576	35,629
Individually impaired		36,109	17,668	28,578
Gross finance receivables		**3,714,285**	**3,256,381**	**3,575,613**
Less provision for impairment		27,143	21,342	25,865
Less fair value adjustment for present value of future losses		3,585	4,692	3,851
Total finance receivables		**3,683,557**	**3,230,347**	**3,545,897**

7 Borrowings

	NOTE	Unaudited Sep 2017 $000	Unaudited Sep 2016 $000	Audited Jun 2017 $000
Deposits		2,626,543	2,394,773	2,573,980
Subordinated bonds		3,378	3,378	3,378
Subordinated notes		22,109	-	21,180
Unsubordinated notes		150,000	-	-
Bank borrowings		605,193	424,470	616,838
Securitised borrowings	17 (b)	214,440	270,433	214,365
Total borrowings		**3,621,663**	**3,093,054**	**3,429,741**

Deposits rank equally and are unsecured. The subordinated bonds and notes 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 $300 million (September 2016: $350 million; June 2017: $300 million) which mature on 2 February 2018.

7 Borrowings (continued)

The banking group has an Australian bank facility provided by Commonwealth Bank of Australia (CBA bank facility) totalling AUD $600 million, with AUD $459 million drawn (September 2016: AUD $399 million facility, with AUD $380 million drawn; June 2017: AUD $600 million facility, with AUD $440 million drawn). 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 CBA bank facility 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.

On 21 September 2017, the bank issued unsubordinated fixed rate notes (unsubordinated notes). These notes are paid a fixed rate of interest every 6 months and will mature on 21 September 2022.

8 Share capital and dividends

	Unaudited Sep 2017 000	Unaudited Sep 2016 000	Audited Jun 2017 000
Issued shares			
Opening balance	516,236	476,469	476,469
Shares issued during the period	987	4,797	32,860
Dividend reinvestment plan	4,163	-	6,907
Closing balance	**521,386**	**481,266**	**516,236**
Less treasury shares	(2,299)	(2,299)	(2,299)
Net closing balance	**519,087**	**478,967**	**513,937**

Under the dividend reinvestment plan the bank issued 4,163,008 new shares at $1.8004 per share on 21 September 2017 (September 2016: 3,573,104 new shares at $1.4766 per share on 7 October 2016; June 2017: 3,573,104 new shares at $1.4766 per share on 7 October 2016 and 3,334,049 new shares at $1.5939 per share on 7 April 2017).

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 $28.4 million (5.5 cents per share) (September 2016: $nil; June 2017: $42.0 million (8.5 cents per share)). As at 30 September 2016, the banking group had declared a dividend of $24.0 million (5 cents per share).

9 Related party transactions and balances

Heartland Cash and Term PIE Fund and some key management personnel of the bank 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 2017 $000	Unaudited 3 mths to Sep 2016 $000	Audited 12 mths to Jun 2017 $000
Finance receivables	67	87	71
Borrowings - deposits	(6,403)	(25,421)	(9,153)
Interest income	1	2	8
Interest expense	(21)	(189)	(691)

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 (Level 2 under the fair value hierarchy).

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 - Sep 2017				
Assets				
Investments	287,001	-	11,791	298,792
Finance receivables	-	8,169	-	8,169
Total Assets	**287,001**	**8,169**	**11,791**	**306,961**
Liabilities				
Derivative liabilities held for risk management	-	3,975	-	3,975
Total Liabilities	**-**	**3,975**	**-**	**3,975**
Unaudited - Sep 2016				
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**

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 2017				
Assets				
Investments	306,907	-	11,791	318,698
Finance receivables	-	11,211	-	11,211
Total Assets	**306,907**	**11,211**	**11,791**	**329,909**
Liabilities				
Derivative liabilities held for risk management	-	3,349	-	3,349
Total Liabilities	**-**	**3,349**	**-**	**3,349**

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 2017 $000	Unaudited Total Carrying Value Sep 2017 $000	Unaudited Total Fair Value Sep 2016 $000	Unaudited Total Carrying Value Sep 2016 $000	Audited Total Fair Value Jun 2017 $000	Audited Total Carrying Value Jun 2017 $000
Financial Assets						
Cash and cash equivalents	129,240	129,240	38,824	38,824	57,040	57,040
Finance receivables	3,433,762	3,441,702	2,916,934	2,924,936	3,300,325	3,307,712
Finance receivables - securitised	232,442	233,686	285,914	284,804	227,166	226,974
Other financial assets	1,411	1,411	4,469	4,469	101	101
Total financial assets	**3,796,855**	**3,806,039**	**3,246,141**	**3,253,033**	**3,584,632**	**3,591,827**
Financial Liabilities						
Borrowings	3,239,706	3,235,114	2,834,541	2,822,621	3,220,344	3,215,376
Borrowings - securitised	214,440	214,440	270,433	270,433	214,365	214,365
Other financial liabilities	17,335	17,335	35,021	35,021	22,130	22,130
Total financial liabilities	**3,471,481**	**3,466,889**	**3,139,995**	**3,128,075**	**3,456,839**	**3,451,871**

Further information on valuation techniques and assumptions used for determining fair value is included in Note 16 of the bank's Annual Report for the year ended 30 June 2017.

Risk Management

11 Enterprise risk management programme

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 2017 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

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

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.

Other Corporate — Business lending other than rural lending.

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 — Relating primarily to consumer lending to individuals.

		Rural	Other Corporate	Residential	All Other	Total
		$000	$000	$000	$000	$000
(a)	**End of period balances**					
	Unaudited - Sep 2017					
	Gross impaired assets					
	Individually impaired	9,198	24,716	1,889	306	36,109
	Total impaired assets	**9,198**	**24,716**	**1,889**	**306**	**36,109**
	Provision for individually impaired assets	815	7,551	225	106	8,697
	Net impaired assets	**8,383**	**17,165**	**1,664**	**200**	**27,412**
	Provision for collectively impaired assets	**3,740**	**5,379**	**2,544**	**6,783**	**18,446**
	At least 90 days past due but not impaired	**11,024**	**8,528**	**468**	**15,465**	**35,485**
(b)	**Charges to Interim Statement of Comprehensive Income**					
	Unaudited - 3 months ended 30 Sep 2017					
	Individually impaired assets expense	40	843	96	58	1,037
	Collectively impaired assets expense	632	138	174	3,118	4,062
	Total impaired asset expense	**672**	**981**	**270**	**3,176**	**5,099**

14 Liquidity risk

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

	Unaudited Sep 2017 $000
Cash and cash equivalents	129,240
Investments	287,001
Undrawn committed bank facilities	85,560
Total liquidity	**501,801**

Undrawn committed bank facilities relates to the securitised bank facility, refer to Note 7 - Borrowings for more information.

Other Disclosures

15 Capital adequacy

(a) Capital Ratios

	Unaudited Sep 2017 %
Capital ratios compared to minimum ratio requirements	
Common Equity Tier 1 Capital (CET1) expressed as a percentage of total risk weighted exposures	12.59%
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	12.59%
Minimum Tier 1 Capital as per Conditions of Registration	6.00%
Total Capital expressed as a percentage of total risk weighted exposures	13.04%
Minimum Total Capital as per Conditions of Registration	8.00%
Buffer ratio	5.04%
Buffer ratio requirement	2.50%

(b) Capital

	Unaudited Sep 2017 $000
Tier 1 Capital	
CET1 Capital	565,536
Less deductions from CET1 Capital	(75,908)
Total CET1 Capital	**489,628**
Additional Tier 1 Capital	-
Total Tier 1 Capital	**489,628**
Tier 2 Capital	
Subordinated bonds	970
Subordinated notes	15,708
Foreign currency translation reserve	748
Total Tier 2 Capital	**17,426**
Total Capital	**507,054**

15 Capital adequacy (continued)

(c) Pillar 1 capital requirements

	Pillar 1 capital requirement $000
Unaudited - Sep 2017	
On balance sheet exposures	
Residential mortgages (including past due)	42,173
Corporate	153
Public sector entities	933
Multilateral development banks and other international organisations	990
Claims on banks	5,245
Other	220,355
Total on balance sheet exposures	**269,849**
Other capital requirements	
Off balance sheet credit exposures	7,793
Operational risk	17,490
Market risk	16,056
Total other capital requirements	**41,339**
Total Pillar 1 capital requirement	**311,188**

(d) Additional mortgage information

	On balance sheet exposures $000	Off balance sheet exposures $000	Total exposures $000
Unaudited - Sep 2017			
Residential mortgages by loan to value ratio (LVR):			
Does not exceed 80%	1,022,848	16,118	1,038,966
Exceeds 80% and not 90%	9,129	-	9,129
Exceeds 90% [1]	8,028	-	8,028
Total exposures	**1,040,005**	**16,118**	**1,056,123**

(e) Capital for 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 2017, the banking group has made an internal capital allocation of $113.5 million (September 2016: $94.7 million; June 2017: $104.9 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 Limited (MIL) of $13.3 million, which is 0.31% 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 MIL, a subsidiary of the bank, or sold by MIL 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

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.

[1] Of the balance of "Exceeds 90%" above, $1.1 million relates to Welcome Home loans, whose credit risk is mitigated by the Crown.

17 Structured entities

(a) *Heartland Cash and Term PIE Fund (Heartland PIE Fund)*

The banking group controls the operations of Heartland PIE Fund which is a portfolio investment entity that invests in the bank's deposits. Investments of Heartland PIE Fund are represented as follows:

	Unaudited Sep 2017 $000	Unaudited Sep 2016 $000	Audited Jun 2017 $000
Deposits	97,463	85,576	93,998

(b) *Heartland ABCP Trust 1 (ABCP Trust)*

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

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

	Unaudited Sep 2017 $000	Unaudited Sep 2016 $000	Audited Jun 2017 $000
Cash and cash equivalents - securitised	11,861	10,245	9,272
Finance receivables - securitised	233,686	284,804	226,974
Borrowings - securitised	(214,440)	(270,433)	(214,365)
Derivative financial liabilities - securitised	(1,038)	(2,789)	(1,042)

(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 and both were set up by ASF as asset holding entities. The Trustee for both Trusts is ASF Custodians Pty Limited and the Trust Manager is ASF. The reverse mortgage loans held by the Trusts are set aside for the benefit of the funder and bank depositors have no recourse to these assets. The balances of SW Trust and ASF Trust are represented as follows:

	Unaudited Sep 2017 $000	Unaudited Sep 2016 $000	Audited Jun 2017 $000
Cash and cash equivalents	7,363	4,669	9,126
Finance receivables	565,779	456,201	520,572
Borrowings	(500,556)	(399,468)	(462,298)
Derivative financial liabilities	(407)	(1,748)	(547)

18 Contingent liabilities and commitments

	Unaudited Sep 2017 $000	Unaudited Sep 2016 $000	Audited Jun 2017 $000
Letters of credit, guarantee commitments and performance bonds	11,671	11,949	10,903
Total contingent liabilities	**11,671**	**11,949**	**10,903**
Undrawn facilities available to customers	150,281	133,519	120,948
Conditional commitments to fund at future dates	148,329	112,754	153,166
Total commitments	**298,610**	**246,273**	**274,114**

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.