Heartland

HEARTLAND
BANK

Interim Report
for the six months ended 31 December 2015

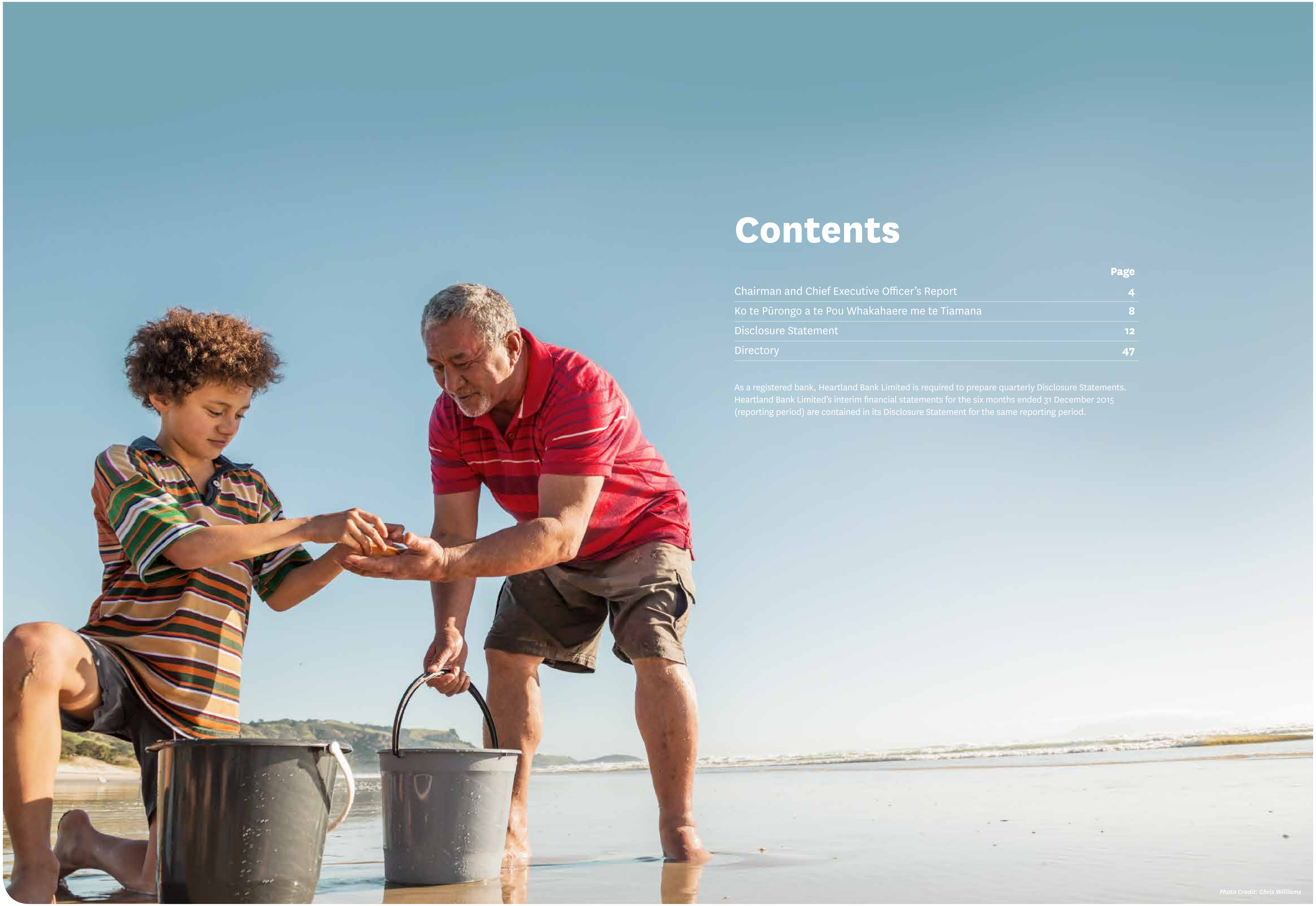

Photo Credit: Chris Williams

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As a registered bank, Heartland Bank Limited is required to prepare quarterly Disclosure Statements. Heartland Bank Limited's interim financial statements for the six months ended 31 December 2015 (reporting period) are contained in its Disclosure Statement for the same reporting period.

Chairman and Chief Executive Officer's Report


Geoffrey Ricketts
Chairman


Jeffrey Greenslade
Chief Executive Officer

Strong growth in receivables has driven a net profit after tax (**NPAT**) of $25.6m for the half year period ending 31 December 2015, an increase of 9% on the previous corresponding half year period ending 31 December 2014.

Growth in receivables was achieved in each of our core business divisions – Household, Business and Rural. Earnings for the half year resulted in a return on equity (**ROE**) of 10.6%, which has increased from 10.4% as at 30 June 2015.

Heartland's net tangible assets increased from $420.3m to $426.1m during the first half of the financial year, which, on a per share basis, equalled $0.90 (compared to $0.87 for the previous half year period ending 31 December 2014).

At the last Annual Shareholder Meeting in December 2015, we provided details of the then upcoming amalgamation of Heartland New Zealand Limited and Heartland Bank Limited. The amalgamation took effect on 31 December 2015 and we are already starting to benefit from the efficiencies gained from a more simplified group structure. Heartland is proud to be the only registered bank incorporated in New Zealand that is listed on the NZX Main Board.

We are also pleased to announce a 16% increase in interim dividend to 3.5 cents per share. This compares to last year's interim dividend of 3.0 cents per share and continues our strong dividend payment tradition. On 2 October 2015, Heartland paid a dividend of 4.5 cents per share, totalling $21.44m.

Business Performance

Each of our core business divisions experienced good growth during the first half of the financial year.

Household

The Household division comprises consumer, reverse mortgages and non-core residential mortgages. The consumer book performed strongly, with an increase in net receivables of $39.8m or 5%, which was led by continued growth in motor vehicle lending. This is positive reinforcement of our intermediated lending model, which directly connects us to the customer at the point of sale.

Continued development of our personal loan offering under the 'i-finance' brand also contributed to this strong performance. Lending through the Harmoney platform slowed during negotiations to extend the facility, but it has now been renewed with an extra $35m of lending capacity and, consequently, lending through Harmoney should increase during the second half of the financial year.

We are continuing to see steady growth in new reverse mortgage loans in both New Zealand and Australia. In New Zealand, this reflects our push to increase market awareness of the product and help customers better understand how their retirement lifestyle can benefit from a reverse mortgage. In Australia, where the distribution model is different from New Zealand, we are continuing to extend our market reach through building relationships with the mortgage broker network.

Business

Growth in the Business division was achieved through continued execution of our strategy of providing customers with a single simplified relationship for both their plant/equipment and working capital finance. Our strategy involves building closer relationships with brokers and other intermediaries to distribute this combined finance option. Net receivables increased by $23.6m or 3% during the first half of the financial year.

During the reporting period, we launched our online origination platform for small business loans called 'Open for Business'. This move is part of our strategy to reposition our business lending towards smaller loans to small-to-medium sized businesses (SMEs) and is key to our growth strategy of increasing distribution through digital channels. Although still in its early stages of development, we expect the number of applications through the platform to increase during the second half of the financial year.

Rural

In the Rural division, net receivables increased by $17.0m or 3%. We continue to focus on specialist areas such as livestock financing, farm transition loans, and financing younger farmers and those seeking a foothold in farming. We are also focused on increasing distribution through our alliance partners.

Heartland remains cautious of current market conditions and continues to monitor the dairy sector with close attention. As at 31 December 2015, our direct exposure to dairy farmers made up 8% of total lending and the average loan to value ratio (LVR) for our dairy exposures was 59%. Continued low milk pay-out levels dictate a cautious approach to new lending, but we remain open to new customers and supportive of existing customers during this challenging period.

Strategic focus

Heartland is firmly committed to growth in the short to medium term. We plan to grow organically, by expanding distribution of our products in our target markets, and by making acquisitions that deliver innovation or a compelling product or distribution capability.

We remain focused on providing innovative 'best or only' banking products in niche markets that are under-serviced by the major banks.

As part of our growth strategy, we aim to harness new technologies that are radically changing the way organisations like Heartland are able to engage with customers. Online origination is rapidly replacing more traditional ways for customers to obtain finance, particularly in the consumer and SME sectors, and we are building our capabilities to:

- Better identify and reach customers – through investment in digital marketing channels that enable us to reach larger pools of customers in a more targeted and cost effective way than traditional advertising.
- Make it easier for customers to apply for loans in their own time and place, through simple and convenient online application processes.
- Make faster credit decisions – based on advanced customer data analytics and operational efficiencies.
- Reach the right customers at the right time in their financial lifecycle and deliver a radically better customer experience.

Interim Dividend

The Board has resolved to pay an interim dividend of 3.5 cents per share on 5 April 2016 to shareholders on the company's register as at 5.00pm on 18 March 2016.

The Dividend Reinvestment Plan (**DRP**) was available and a discount of 1% was applied. The last date of receipt for a participation election from a shareholder who wished to participate in the DRP was 18 March 2016. For further information on the DRP, refer to Heartland's DRP offer document dated 1 January 2016, available on Heartland's Shareholder Centre at shareholders.heartland.co.nz.

Looking forward

Underlying asset growth is projected to continue during the second half of the financial year across all areas, but particularly in consumer and reverse mortgages.

Heartland believes that current market volatility is expected to give rise to acquisition opportunities that it may wish to exploit as part of its growth objective. In considering any acquisition, Heartland's criteria remain based on value accretion and access to innovation or a compelling product or distribution capability.

The Board will continue to monitor its capital position during this period and continues to support the position that, in the absence of a more appropriate use, Heartland's excess capital should be returned to shareholders.

We continue to expect that NPAT for the year ended 30 June 2016 will be in the range of $51.0m to $55.0m. This guidance range excludes the impact of any capital management initiatives.

We are confident that Heartland is well placed to meet this guidance and deliver on its growth strategy.

Geoffrey Ricketts
Chairman

Jeffrey Greenslade
Chief Executive Officer

Net profit after tax
6 months to 31 December 2015

$25.6m

▲ 9% increase on 6 months to 31 December 2014

Net finance receivables
As at 31 December 2015

$2.93bn

▲ $66.5m increase from 30 June 2015

Interim dividend
To be paid on 5 April 2016

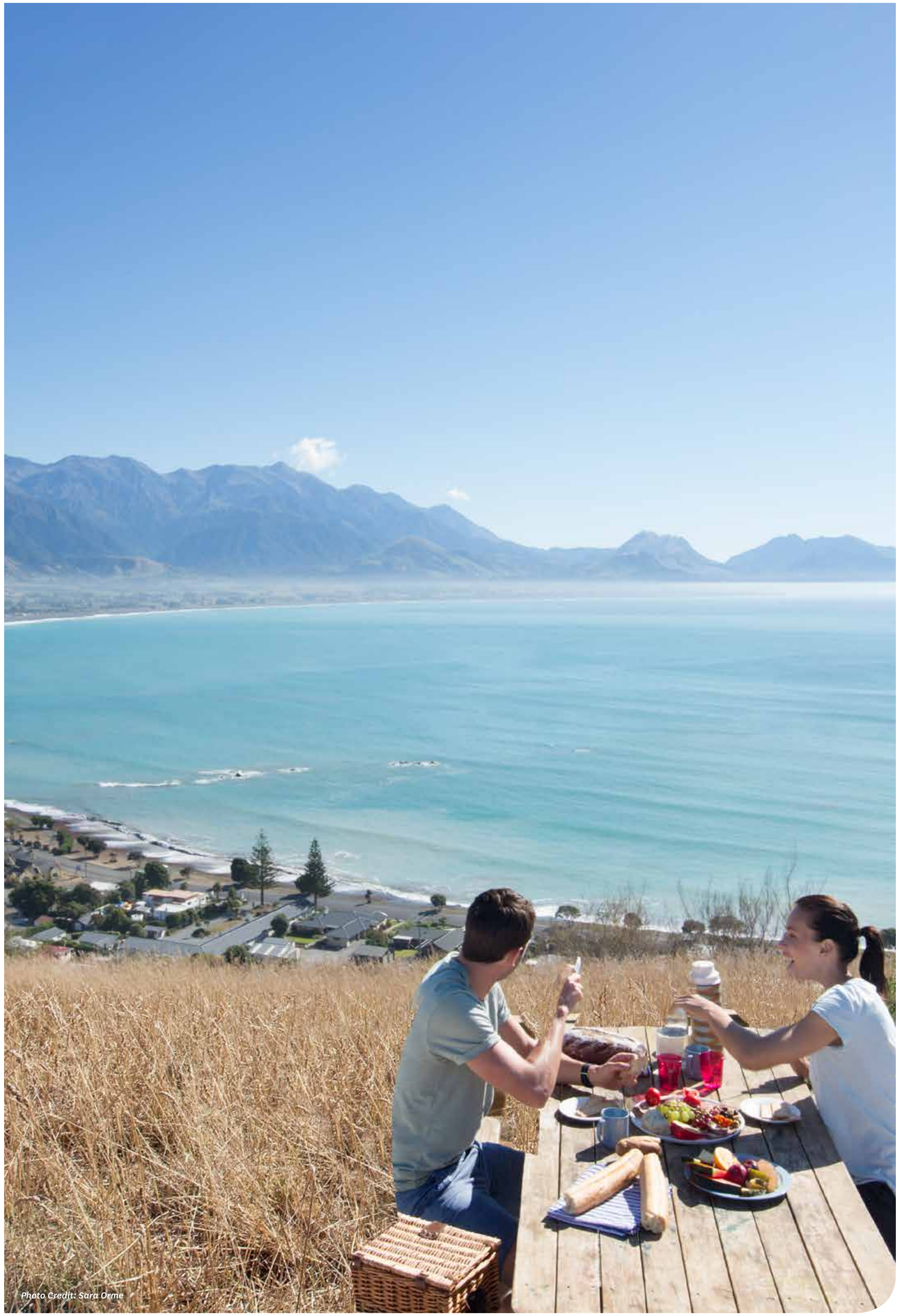
3.5¢ per share

▲ 16% increase on interim dividend for 2015

Return on equity
As at 31 December 2015

10.6%

▲ Increase from 10.4% for 12 months to 30 June 2015



Ko te Pūrongo a te Pou Whakahaere me te Tiamana

(Chairman and Chief Executive Officer's Report)

Geoffrey Ricketts
Tiamana/Chairman

Jeffrey Greenslade
Tumu Whakarea/Chief Executive Officer

Nā te kaha piki haere o ngā kaute nama i eke ai te whiwhinga pūtea kua tangoihia kētia te tāke (**NPAT**) ki te $25.6 miriona tāra i te haurua o te tau i mutu ai i te marama o Hakihea, 2015, e 9% te pikinga mai i te haurua o te tau o mua i mutu ai i te marama o Hakihea, 2014.

I tutuki ngā pikinga kaute nama i ngā wāhanga matua o te pakihi – Kāinga mai, Pakihi mai, Taiwhenua mai. Ko te 10.6% o te (**ROE**) te tukunga iho o te pūtea utunga i te haurua o te tau, he pikinga tēnei mai i te 10.4% i te 30 o Pipiri, 2015.

I muri i te tangohanga o te tāke i piki ngā hua tūturu a Heartland i te $420.3 miriona tāra ki te $426.1 miriona tāra i te haurua tuatahi o te tau pūtea, nā konā, ko ia wāhi i ōrite ai ki te $0.90 (ka whakatauritea tēnei ki te $0.87 i te haurua tau o mua i mutu i te 31 o Hakihea, 2014).

I te Hui Kaiwhaipānga ā-tau whakamutunga i te marama o Hakihea i te tau 2015, he mea tuku ngā mokamoka mō te whakakotahitanga o Heartland New Zealand Limited me Heartland Bank Limited. I mana tērā whakakotahitanga i te 31 o Hakihea i te tau 2015, ā, kua kitea kētia ngā hua nō roto atu i ngā painga o te whakaritenga kia whakangāwarihia ake te whakatakotoranga tāngata. Ko Heartland te whare tahua kotahi anake e noho nei hei whare tau manatoopuu noo Aotearoa ki te raarangi matua o te NZX.

Waingōhia ana mātau ki te whakamōhio atu kua 16% te pikinga o ngā pānga o te wā ki te 3.5 hēneti mō ia wāhi. Ka whakatauritea tēnei ki te 3.0 hēneti mō ia wāhi i tērā tau, ā, kua mau tonu mātau ki tā mātau tikanga utunga pānga kua roa nei te wā e whāia ana. Nō te 2 o Whiringa ā Nuku 2015, i tohatoha atu ai a Heartland i te 4.5 hēneti mō ia hea, eke rawa ki te hira tapeke $21.44m.

Ngā Whakatutukinga o te Pakihi

I whai hua katoa ngā wāhanga matua o te pakihi i te haurua tau tuatahi o te tau pūtea.

Whare

Ko te hokohoko, ko te mōkete hurikōaro me te mōkete tāone hauiti ngā tino o te wāhanga Whare. I eke ngā mahi hokohoko i te pikinga o ngā nama ki te $39.8 miriona tāra, he pikinga 5% rānei i eke tonu ai te pikinga o ngā taurewa waka. Me whakahīhī ka tika i tēnei o tā mātau tauira taurewa tau roto waenga e hono ai mātau ki te kaiutu i te wā hoko.

Nā te whanaketanga mai o te pūtea taurewa whaiaro i raro i te tohu 'i-finance' i tino whai hua ai ngā whakatutukitanga. I paku heke hoki te tukunga o ngā taurewa nō roto mai i te tūāpapa Harmoney i te wā o ngā whakaritenga kia whakaroahia ake te whakatakupenga, heoi nā te tāpirihanaga pūtea o te $35 miriona tāra i whakahouhia ai te wāhi rā, me te aha, ka piki haere ngā tukunga pūtea taurewa mā roto mai i a Harmony i i te haurua tau tuarua o te tau pūtea.

Kei te kite tonu mātau i te pikinga haeretanga o ngā pūtea taurewa mōkete hurikōaro hou i Aotearoa me Ahitereiria. I Aotearoa, kua whaiwhakaarohia ake tō mātau hiahia kia mōhiotia ake ai te uara o te hua, kia āwhinatia atu ai hoki te kaihoko e mārama ake ai ia ka pēhea ngā hua o te āhua noho o te whakatānga i tana mōkete hurikōaro. I Ahitereiria, kua rerekē te tauira o te whakaratonga tēnā i tā Aotearoa i te whakapau kaha ki te whai pānga ki te hononga kaitohutohu mōkete.

Pakihi

I pahawa ngā whakatutukitanga o te wāhanga Pakihi i tō mātau kaha ki te whai i tā mātau rautaki i ngāwari ake ai te hononga o ngā kaihoko ki ā rātau taputapu me te whakahaere i te pūtea matua. Ko tā te rautaki he whakawhāiti mai i ngā hononga ki ngā kaitohutohu me ētehi atu e horapa ai tēnei whiringa pūtea. I piki te kaute nama i muri i te tangohanga o te tāke ki te $23.6 miriona tāra, he 3% pikinga rānei i te haurua tuatahi o te tau pūtea.

I te wā i kohia ai ngā mokamoka mō te pūrongo, he mea whakarewa ake tā mātau tūāpapa taketake ipurangi mō ngā punua pakihi e kīia nei ko 'Open for Business'. He wāhanga tēnei o te rautaki e panoni ai i tā mātau tuku taurewa e iti ai ngā taurewa pūtea ki ngā pakihi āhua iti nei (SMEs), ka mutu, koinei te tino o te rautaki e whai hua ai te ratonga atu mā ngā huarahi matihiko. Ahakoa kei te whanake tonu tēnei kaupapa, e whakapae ana mātau ka nui ake ngā tononga mā roto mai i te tūāpapa ā te haurua tuarua o te tau pūtea.

Taiwhenua

He $17 miriona tāra, he 3% rānei te pikinga o te nama kaute i te wāhanga Taiwhenua. Ka aronui tonu mātau ki ngā wāhanga matua pērā i te pūtea kau, i te taurewa whakawhanake pāmu me te pūtea ka tukuna ki te hunga e hiahia ana ki te whai i ngā mahi pāmu. E aronui ana hoki mātau ki te whakapiki i ngā ratonga mā roto atu i ō mātau hoa haere kōtui.

E whakatonu ana a Heartland ki ngā here o te uara o te wā, ā, ka āta aroturuki i te wāhanga miraka. I te rangi 31 o Hakihea, 2015, e 8% o te taurewa pūtea mō te tūtakihanga ki ngā kaipāmu, ā, 59% te ōwehenga o te taurewa ki te uara (LVR) mō ngā tūtakihanga miraka. Nā te ngāwari o ngā taumata o te utu miraka i tukuna atu ai, i āta whakaarohia ake ai tētehi huarahi mō ngā nama hou, heoi ka whaiwhakaarohia tonutia ngā kaihoko hou, ā, ka tautokohia hoki ngā kaihoko o mohoa noa nei i tēnei momo taumahatanga o te wā.

Te aronga o te rautaki

E manawanui ana a Heartland ki te whakapikinga haeretanga o ngā wāhanga o te pakihi i te wā āhua poto noa nei. E mea ana mātau ki te whakatupu ā-whaiaro nei mā te nui o te whakaratonga o ā mātau whakaputanga i ngā wāhi hoko matua, mā te hoko i ngā mea tika e whai hua ai, e pai ai rānei te ratonga atu.

Ka aronui tonu mātau ki te whakarato i ngā whakaputanga tiaki pūtea auaha 'best or only' i ngā wāhi hoko pai ki te tangata kua kore i tika te ratonga e ngā whare pūtea matua.

Ko tētehi wāhanga o tā mātau rautaki whakatupu, ko ngā hangarau hou e panoni ana i ngā momo huarahi e taea ai e ngā pakihi pērā i a Heartland te nanao atu ki ngā kaihoko. Kua tere whakakapi te pūtakenga o te ipurangi i ngā tikanga tūturu i whāia ai e ngā kaihoko ki te whiwhi pūtea, inarā, i ngā wāhanga Kaihoko me te SME, ka mutu, e mea ana mātau ki te:

- tautohu, ki te nanao atu hoki ki ngā kaihoko - mā roto atu i te haupūranga pūtea i ngā huarahi whakatairanga matihiko e taea ai e mātau te whakakao mai i te tini o te kaihoko engari ka ngāwari ake te utu tēnā i ngā huarahi i whāia ai i mua.
- whakangāwari ake i te huarahi e taea ai e tēnā, e tēnā te tono mō te taurewa pūtea i te wā me te wāhi e tika ana mōna. Heoi anō tāna he tono mā te tononga ā-ipurangi.
- whakatere ake i ngā whakatau nama - e pā ana ki ngā raraunga kaihoko me te āheinga o te mahi
- toro atu ki ngā kaihoko tika i te wā tika i a rātau e whiwhi pūtea tonu ana e rawe hoki ai te wheako.

Pūtea Whiwhi Tārewa

Kua ea i te Poari kia utua tētehi pūtea whiwhi taurewa, inarā ko te 3.5 hēneti mō ia wāhi ā te 5 o Paenga-whāwhā, 2016 ki ngā kaiwhaipānga i rēhitatia i raro i te kamupene i te 5:00 i te ahiahi, i te 18 o Poutū-te-rangi, 2016.

I tukuna te Rautaki Haupūranga Pūtea Whiwhi (**DRP**), ā, he 1% hekenga utu i tāpirihia ai. Ko te 18 o Poutū-te-rangi, 2016 te rangi whakamutunga i aukatia ai te kōwhiringa whakaurunga a te kaiwhaipānga i hiahia ai ki te whai wāhi atu ki te Rautaki Haupūranga Pūtea Whiwhi. Ki te hiahiatia ētehi atu mokamoka e pā ana ki te DRP, me pānui te tuhinga e kīia nei ko te DRP a Heartland i puta i te 1 o Kohitātea, 2016. Tirohia te Pūtahi Kaiwhaipānga a Heartland kei te paetukutuku o shareholders.heartland.co.nz.

Te anga whakamua

Ka anga whakamua tonu te pūtaketanga o te whakatupu rawa ā te haurua tuarua o te tau pūtea i ngā whaitua katoa, inarā i te kaihoko me te mōkete huri kōaro.

E ai ki a Heartland, mā ngā kino o te uara o te wā e kitea ai pea ngā hua o roto i ana pikinga. Kia whaiwhakaarohia ake ngā ekenga, ko te nui o te uara me te urunga atu ki te ao auaha, ki ngā hua pai, ki te āheinga o te ratonga atu rānei ētehi mea nui o tā Heartland paerau.

Ka aroturuki tonu te Poari i te pūtea i tēnei wā, ka mutu, ka tautokohia tonutia te whakatau kia whakahokia e Heartland te toenga pūtea ki ngā kaiwhaipānga.

E mea ana mātau ka eke te pūtea a NPAT mai i te $51 miriona tāra ki te $55 miriona tāra ā te 30 o Pipiri, 2016. Kāore e whai wāhi mai ngā whakaaratanga pūtea a ngā kaiwhakahaere.

E mea ana mātau ka tutuki i a Heartland ēnei whāinga, ā, ka kitea hoki te angitū mā roto mai i tana rautaki.

Geoffrey Ricketts	***Jeffrey Greenslade***
Tiamana	***Tumu Whakarae***
(Chairman)	***(Chief Executive Officer)***

Our thanks to Scotty Morrison for providing this Māori translation.

Photo Credit: Chris Williams

Disclosure Statement

For the six months ended 31 December 2015

As a registered bank, Heartland Bank Limited is required to prepare quarterly Disclosure Statements. Heartland Bank Limited's interim financial statements for the six months ended 31 December 2015 (reporting period) are contained in this Disclosure Statement.

Photo Credit: Chris Williams

Contents

General Information

This Disclosure Statement has been issued by Heartland Bank Limited (the bank) and its subsidiaries (the banking group) for the six months ended 31 December 2015 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” (Pre-amalgamated Heartland Bank) together with its subsidiaries. At that stage, Pre-amalgamated Heartland Bank was wholly owned by a company then known as “Heartland New Zealand Limited” (Heartland New Zealand). On 31 December 2015, Pre-amalgamated Heartland Bank amalgamated, by way of short form amalgamation, with Heartland New Zealand (the Amalgamation). Heartland New Zealand continued as the amalgamated company (with Pre-amalgamated 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 December 2015 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 December 2015 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 Pre-amalgamated Heartland Bank immediately prior to the Amalgamation (other than Richard Wilks who retired from the board of Pre-amalgamated 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).

Amendments to Conditions of Registration

With effect from 1 November 2015, conditions 1,19, 20 and 21 were amended to refer to updated versions of Reserve Bank of New Zealand (RBNZ) documents.

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.

Auditor

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland

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 banking group or the bank.

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 six months ended 31 December 2015:
   - (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 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 23 February 2016 and has been signed by all of 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 six months ended 31 December 2015

	NOTE	Unaudited 6 mths to Dec 2015 $000	Unaudited 6 mths to Dec 2014 $000	Audited 12 mths to Jun 2015 $000
Interest income	2	134,340	128,252	260,468
Interest expense	2	62,869	62,577	126,041
Net interest income		**71,471**	**65,675**	**134,427**
Operating lease income		4,718	5,431	10,350
Operating lease expenses		3,271	3,607	7,087
Net operating lease income		**1,447**	**1,824**	**3,263**
Lending and credit fee income		1,767	1,623	3,077
Other income		3,076	987	3,940
Net operating income		**77,761**	**70,109**	**144,707**
Selling and administration expenses	3	37,039	33,523	68,403
Profit before impaired asset expense and income tax		**40,722**	**36,586**	**76,304**
Impaired asset expense	4	5,610	5,102	12,105
Profit before income tax		**35,112**	**31,484**	**64,199**
Share of joint arrangement profit		-	205	137
Profit before income tax		**35,112**	**31,689**	**64,336**
Income tax expense		9,514	8,171	16,173
Profit for the period		**25,598**	**23,518**	**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		14	(1,050)	(2,709)
Net change in available for sale reserve, net of income tax		(1,035)	97	898
Movement in foreign currency translation reserve, net of income tax		(2,682)	(1,287)	2,136
Items that will not be reclassified to profit or loss:				
Net change in defined benefit reserve, net of income tax		(31)	(16)	50
Other comprehensive (loss) / income for the period, net of income tax		**(3,734)**	**(2,256)**	**375**
Total comprehensive income for the period		**21,864**	**21,262**	**48,538**
Earnings per share from continuing operations				
Basic earnings per share	5	5c	5c	10c
Diluted earnings per share	5	5c	5c	10c

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

The notes on pages 26 to 44 are an integral part of these interim financial statements.

Interim Statement of Changes in Equity

For the six months ended 31 December 2015

	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 - Dec 2015										
Balance at 1 July 2015		**413,917**	**(272)**	**2,200**	**2,231**	**1,170**	**94**	**(1,552)**	**62,337**	**480,125**
Total comprehensive income for the period										
Profit for the period		-	-	-	-	-	-	-	25,598	25,598
Total other comprehensive (loss) / income		-	-	-	(2,682)	(1,035)	(31)	14	-	(3,734)
Total comprehensive income for the period		**-**	**-**	**-**	**(2,682)**	**(1,035)**	**(31)**	**14**	**25,598**	**21,864**
Contributions by and distributions to owners										
Dividends paid	8	-	-	-	-	-	-	-	(21,435)	(21,435)
Dividend reinvestment plan		4,119	-	-	-	-	-	-	-	4,119
Share based payments		-	-	1,015	-	-	-	-	-	1,015
Shares vested		105	50	(155)	-	-	-	-	-	-
Total transactions with owners		**4,224**	**50**	**860**	**-**	**-**	**-**	**-**	**(21,435)**	**(16,301)**
Balance at 31 December 2015		**418,141**	**(222)**	**3,060**	**(451)**	**135**	**63**	**(1,538)**	**66,500**	**485,688**
Unaudited - Dec 2014										
Balance at 1 July 2014		**406,142**	**(926)**	**1,476**	**95**	**272**	**44**	**1,157**	**44,362**	**452,622**
Total comprehensive income for the period										
Profit for the period		-	-	-	-	-	-	-	23,518	23,518
Total other comprehensive (loss) / income		-	-	-	(1,287)	97	(16)	(1,050)	-	(2,256)
Total comprehensive income for the period		**-**	**-**	**-**	**(1,287)**	**97**	**(16)**	**(1,050)**	**23,518**	**21,262**
Contributions by and distributions to owners										
Dividends paid	8	-	-	-	-	-	-	-	(16,374)	(16,374)
Dividend reinvestment plan		3,735	-	-	-	-	-	-	-	3,735
Share based payments		-	-	1,023	-	-	-	-	-	1,023
Shares vested		411	-	(411)	-	-	-	-	-	-
Treasury shares sold		42	-	-	-	-	-	-	-	42
Total transactions with owners		**4,188**	**-**	**612**	**-**	**-**	**-**	**-**	**(16,374)**	**(11,574)**
Balance at 31 December 2014		**410,330**	**(926)**	**2,088**	**(1,192)**	**369**	**28**	**107**	**51,506**	**462,310**
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 for the year										
Profit for the year		-	-	-	-	-	-	-	48,163	48,163
Total other comprehensive income / (loss)		-	-	-	2,136	898	50	(2,709)	-	375
Total comprehensive income 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 26 to 44 are an integral part of these interim financial statements.

Interim Statement of Financial Position

As at 31 December 2015

	NOTE	Unaudited Dec 2015 $000	Unaudited Dec 2014 $000	Audited Jun 2015 $000
Assets				
Cash and cash equivalents		31,879	95,228	37,012
Investments		269,769	209,544	329,338
Investment properties		12,439	25,831	24,513
Finance receivables	6	2,928,601	2,722,443	2,862,070
Operating lease vehicles		26,645	30,716	29,998
Other assets		15,536	18,037	12,119
Investment in joint arrangement		-	4,451	4,383
Intangible assets		54,314	49,933	51,119
Deferred tax asset		5,315	5,986	8,707
Total assets		**3,344,498**	**3,162,169**	**3,359,259**
Liabilities				
Borrowings	7	2,814,338	2,657,084	2,825,245
Current tax liabilities		1,095	4,109	7,869
Due to related parties	9	-	500	2,448
Trade and other payables		43,377	38,166	43,572
Total liabilities		**2,858,810**	**2,699,859**	**2,879,134**
Equity				
Share capital		418,141	409,404	413,645
Retained earnings and reserves		67,547	52,906	66,480
Total equity		**485,688**	**462,310**	**480,125**
Total equity and liabilities		**3,344,498**	**3,162,169**	**3,359,259**
Total interest earning and discount bearing assets		3,229,307	3,025,278	3,221,246
Total interest and discount bearing liabilities		2,838,082	2,662,547	2,834,427

The notes on pages 26 to 44 are an integral part of these interim financial statements.

Interim Statement of Cash Flows

For the six months ended 31 December 2015

	NOTE	Unaudited 6 mths to Dec 2015 $000	Unaudited 6 mths to Dec 2014 $000	Audited 12 mths to Jun 2015 $000
Cash flows from operating activities				
Interest received		130,935	98,667	243,729
Operating lease income received		4,965	5,805	8,951
Lending, credit fees and other income received		3,393	2,610	7,017
Operating inflows		**139,293**	**107,082**	**259,697**
Payments to suppliers and employees		44,871	33,561	60,346
Interest paid		74,653	61,509	126,179
Taxation paid		13,449	3,300	9,956
Operating outflows		**132,973**	**98,370**	**196,481**
Net cash flows from operating activities before changes in operating assets and liabilities		**6,320**	**8,712**	**63,216**
Proceeds from sale of operating lease vehicles		4,764	3,607	7,386
Purchase of operating lease vehicles		(3,892)	(5,722)	(11,544)
Net movement in finance receivables		(67,676)	(99,319)	(259,871)
Net movement in deposits		77,521	47,901	362,590
Net cash flows from / (applied to) operating activities		**17,037**	**(44,821)**	**161,777**
Cash flows from investing activities				
Net proceeds from sale of investment properties		12,089	3,832	9,375
Proceeds from sale of office fit-out, equipment and intangible assets		762	1,956	4,885
Net decrease in investments		67,088	31,412	-
Total cash provided from investing activities		**79,939**	**37,200**	**14,260**
Purchase of office fit-out, equipment and intangible assets		6,053	3,606	6,344
Net increase in investments		-	-	89,581
Purchase of equity investment		2,300	2,000	-
Total cash applied to investing activities		**8,353**	**5,606**	**95,925**
Net cash flows from / (applied to) investing activities		**71,586**	**31,594**	**(81,665)**
Cash flows from financing activities				
Net increase in wholesale funding		-	83,750	-
Total cash provided from financing activities		**-**	**83,750**	**-**
Dividends paid	8	17,316	12,639	22,567
Net decrease in wholesale funding		79,585	-	57,877
Total cash applied to financing activities		**96,901**	**12,639**	**80,444**
Net cash flows (applied to) / from financing activities		**(96,901)**	**71,111**	**(80,444)**
Net (decrease) / increase in cash held		**(8,278)**	**57,884**	**(332)**
Opening cash and cash equivalents		37,012	37,344	37,344
Cash impact of business acquisition (MARAC Insurance Limited)	17	3,145	-	-
Closing cash and cash equivalents		**31,879**	**95,228**	**37,012**

The notes on pages 26 to 44 are an integral part of these interim financial statements.

Interim Statement of Cash Flows (continued)

For the six months ended 31 December 2015

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

	Unaudited Dec 2015 $000	Unaudited Dec 2014 $000	Audited Jun 2015 $000
Profit for the period	**25,598**	**23,518**	**48,163**
Add non-cash items included in net profit before taxation:			
Depreciation and amortisation expense	1,029	1,005	2,010
Depreciation on lease vehicles	2,961	3,232	6,375
Impaired asset expense	5,610	5,102	12,105
Total non-cash items	**9,600**	**9,339**	**20,490**
Add / (less) movements in operating assets and liabilities:			
Finance receivables	(71,860)	(128,662)	(275,274)
Operating lease vehicles	392	(2,653)	(5,078)
Other assets	(5,531)	464	2,997
Disposal of property, plant and equipment and intangibles	-	-	(98)
Current tax	(6,784)	5,236	8,996
Derivative financial instruments revaluation	(1,422)	468	1,326
Deferred tax expense / (benefit)	2,439	(699)	(3,420)
Deposits	69,124	47,901	360,545
Other liabilities	(4,519)	267	3,130
Total movements in operating assets and liabilities	**(18,161)**	**(77,678)**	**93,124**
Net cash flows from operating activities	**17,037**	**(44,821)**	**161,777**

The notes on pages 26 to 44 are an integral part of these interim financial statements.

Basis of reporting

Reporting entity

On 31 December 2015, Pre-amalgamated 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 from Heartland New Zealand Limited to Heartland Bank Limited. Refer to General Information contained within the Disclosure Statement for further details.

As a result of the Amalgamation, all of Heartland New Zealand's subsidiaries which were previously sitting outside of Pre-amalgamated 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). Refer to Note 17 - Significant subsidiaries for further details. Unless otherwise stated, comparatives presented are for the consolidated group of the company previously known as Heartland New Zealand Limited.

As at 31 December 2015 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:
• 6 month period ended 31 December 2015 - Unaudited
• 6 month period ended 31 December 2014 - 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 consolidated financial statements as at and 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 main operating segments:

Household Providing a comprehensive range of financial services to predominantly New Zealand and Australian families, including term, transactional and savings based deposit accounts together with mortgage lending (residential and home equity release), motor vehicle finance and consumer finance.

Business Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized New Zealand businesses.

Rural 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 December 2015, one business unit previously reported in the Household segment was moved to the Business segment and another business unit previously reported in the Business segment was moved to the Household segment. This better aligned the business unit activities with the new operating segment. Comparative segment information has been restated to be consistent with the current reporting period.

Notes to the Interim Financial Statements

For the six months ended 31 December 2015

1 Segmental analysis (continued)

Operating segments (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 - 6 months ended 31 December 2015						
Net interest income / (expense)	38,411	20,558	12,965	(461)	(2)	71,471
Net operating lease income	1,447	-	-	-	-	1,447
Net other income	2,789	362	64	710	918	4,843
Net operating income	**42,647**	**20,920**	**13,029**	**249**	**916**	**77,761**
Selling and administration expenses	10,811	4,493	2,235	507	18,993	37,039
Profit / (loss) before impaired asset expense and income tax	**31,836**	**16,427**	**10,794**	**(258)**	**(18,077)**	**40,722**
Impaired asset expense / (benefit)	2,792	2,675	374	(231)	-	5,610
Profit / (loss) before income tax	**29,044**	**13,752**	**10,420**	**(27)**	**(18,077)**	**35,112**
Income tax expense	-	-	-	-	9,514	9,514
Profit / (loss) for the period	**29,044**	**13,752**	**10,420**	**(27)**	**(27,591)**	**25,598**
Total assets	1,623,154	824,916	504,614	15,001	376,813	**3,344,498**
Total liabilities	-	-	-	-	2,858,810	**2,858,810**

	Household	Business	Rural	Non-core Property	Admin & Support	Total
Unaudited - 6 months ended 31 December 2014						
Net interest income / (expense)	34,062	19,525	11,677	(339)	750	65,675
Net operating lease income	1,822	2	-	-	-	1,824
Net other income	1,274	270	78	377	611	2,610
Net operating income	**37,158**	**19,797**	**11,755**	**38**	**1,361**	**70,109**
Selling and administration expenses	9,147	3,134	2,630	549	18,063	33,523
Profit / (loss) before impaired asset expense and income tax	**28,011**	**16,663**	**9,125**	**(511)**	**(16,702)**	**36,586**
Impaired asset expense / (benefit)	2,371	2,975	72	(316)	-	5,102
Profit / (loss) before income tax	**25,640**	**13,688**	**9,053**	**(195)**	**(16,702)**	**31,484**
Share of joint arrangement profit	-	-	-	-	205	205
Profit / (loss) before income tax	**25,640**	**13,688**	**9,053**	**(195)**	**(16,497)**	**31,689**
Income tax expense	-	-	-	-	8,171	8,171
Profit / (loss) for the period	**25,640**	**13,688**	**9,053**	**(195)**	**(24,668)**	**23,518**
Total assets	1,516,593	778,795	454,564	29,038	383,179	**3,162,169**
Total liabilities	-	-	-	-	2,699,859	**2,699,859**

Notes to the Interim Financial Statements

For the six months ended 31 December 2015

1 Segmental analysis (continued)

	Household	Business	Rural	Non-core Property	Admin & Support	Total
	$000	$000	$000	$000	$000	$000
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 6 mths to Dec 2015 $000	Unaudited 6 mths to Dec 2014 $000	Audited 12 mths to Jun 2015 $000
Interest income			
Cash and cash equivalents	472	1,951	2,458
Investments	6,030	4,451	9,919
Finance receivables	127,838	121,850	248,091
Total interest income	**134,340**	**128,252**	**260,468**
Interest expense			
Retail deposits	45,298	39,668	82,526
Bank and securitised borrowings	16,904	22,777	43,294
Net interest expense on derivative financial instruments	667	132	221
Total interest expense	**62,869**	**62,577**	**126,041**
Net interest income	**71,471**	**65,675**	**134,427**

Included within the banking group's interest income on finance receivables is $0.25 million on individually impaired assets (6 months to December 2014: $1.05 million; 12 months to June 2015: $1.16 million).

3 Selling and administration expenses

Personnel expenses	20,333	19,142	39,619
Directors' fees	459	459	917
Superannuation	354	403	782
Audit and review of financial statements	218	226	431
Other assurance fees paid to auditor [1]	15	10	23
Other fees paid to auditor [2]	61	66	125
Depreciation - property, plant and equipment	429	382	777
Amortisation - intangible assets	600	623	1,233
Operating lease expense as a lessee	1,163	903	2,001
Legal and professional fees	1,517	991	2,318
Other operating expenses	11,890	10,318	20,177
Total selling and administration expenses	**37,039**	**33,523**	**68,403**

[1] Other assurance services paid to auditor comprise of reporting on trust deed requirements.

[2] Other fees paid to auditor include professional fees in connection with RBNZ reporting and other regulatory compliance, accounting advice internal audit and review work completed.

Notes to the Interim Financial Statements

For the six months ended 31 December 2015

4 Impaired asset expense

	NOTE	Unaudited 6 mths to Dec 2015 $000	Unaudited 6 mths to Dec 2014 $000	Audited 12 mths to Jun 2015 $000
Non-securitised				
Individually impaired expense		740	3,432	7,153
Collectively impaired expense		4,345	1,194	4,051
Total non-securitised impaired asset expense		**5,085**	**4,626**	**11,204**
Securitised				
Individually impaired (benefit) / expense		(9)	-	53
Collectively impaired expense		534	476	848
Total securitised impaired asset expense		**525**	**476**	**901**
Total				
Individually impaired expense	13(d)	731	3,432	7,206
Collectively impaired expense	13(d)	4,879	1,670	4,899
Total impaired asset expense		**5,610**	**5,102**	**12,105**

5 Earnings per share

The calculation of basic and diluted earnings of 5c per share at 31 December 2015 (31 December 2014: 5c per share; 30 June 2015: 10c per share) is based on the profit for the period of $25,598,000 (31 December 2014: $23,518,000; 30 June 2015: $48,163,000), and a weighted average number of shares on issue of 471,710,670 (31 December 2014: 456,056,344; 30 June 2015: 466,643,607).

Financial Position

6 Finance receivables

	Unaudited Dec 2015 $000	Unaudited Dec 2014 $000	Audited Jun 2015 $000
Non-securitised			
Neither at least 90 days past due nor impaired	2,625,684	2,366,224	2,552,302
At least 90 days past due	19,588	29,748	33,459
Individually impaired	27,167	25,984	25,567
Restructured assets	3,235	4,012	3,881
Gross finance receivables	**2,675,674**	**2,425,968**	**2,615,209**
Less provision for impairment	15,807	19,114	24,511
Less fair value adjustment for present value of future losses	5,599	6,919	6,242
Total non-securitised finance receivables	**2,654,268**	**2,399,935**	**2,584,456**
Securitised			
Neither at least 90 days past due nor impaired	273,770	322,360	276,944
At least 90 days past due	1,619	904	1,516
Individually impaired	12	-	55
Gross finance receivables	**275,401**	**323,264**	**278,515**
Less provision for impairment	1,068	756	901
Total securitised finance receivables	**274,333**	**322,508**	**277,614**
Total			
Neither at least 90 days past due nor impaired	2,899,454	2,688,584	2,829,246
At least 90 days past due	21,207	30,652	34,975
Individually impaired	27,179	25,984	25,622
Restructured assets	3,235	4,012	3,881
Gross finance receivables	**2,951,075**	**2,749,232**	**2,893,724**
Less provision for impairment	16,875	19,870	25,412
Less fair value adjustment for present value of future losses	5,599	6,919	6,242
Total finance receivables	**2,928,601**	**2,722,443**	**2,862,070**

Refer to Note 13 - Asset quality for further analysis of finance receivables by credit risk concentration.

7 Borrowings

	Unaudited 6 mths to Dec 2015 $000	Unaudited 6 mths to Dec 2014 $000	Audited 12 mths to Jun 2015 $000
Deposits	2,174,533	1,784,628	2,097,458
Subordinated Bond	3,381	3,379	3,378
Bank borrowings	377,605	565,519	465,779
Securitised borrowings	258,819	303,558	258,630
Total borrowings	**2,814,338**	**2,657,084**	**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 (December 2014: $350 million; June 2015: $350 million) in relation to the ABCP Trust, which matures on 3 August 2016.

The banking group has a New Zealand and Australian bank facility provided by Commonwealth Bank of Australia (CBA bank facility) totalling $373 million in relation to Heartland HER Holdings Limited (HHHL). The CBA bank facility is secured over assets of HHHL and has a maturity date of 30 September 2019. Capacity for new Australian drawings is available for two years, based on scheduled repayments achieved by the Group. Australian Seniors Finance Pty Limited group (comprising Australian Seniors Finance Pty Limited (ASF), ASF Settlement Trust and Seniors Warehouse Trust) has also provided a cross-guarantee to CBA for bank loans to other members of ASF Group.

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 Dec 2015 000	Unaudited Dec 2014 000	Audited Jun 2015 000
Issued shares			
Opening balance	469,890	463,266	463,266
Shares issued during the period	46	-	-
Dividend reinvestment plan	3,711	3,680	6,624
Closing balance	**473,647**	**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 (December 2014: 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).

(i) Dividends

The banking group paid total dividends of $21.44 million (4.5 cents per share) (31 December 2014: $16.39 million (3.5 cents per share); 30 June 2015: $30.22 million (6.5 cents per share)).

9 Related party transactions and balances

MARAC Insurance Limited (MARAC Insurance) is a wholly owned subsidiary of MARAC JV Holdings Limited which the bank previously held as a joint arrangement. On 17 July 2015, MARAC Insurance became a wholly owned subsidiary of the banking group - refer to Note 17 for more details. 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 18 - Structured entities.

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

Notes to the Interim Financial Statements

For the six months ended 31 December 2015

9 Related party transactions and balances (continued)

	Unaudited 6 mths to Dec 2015 $000	Unaudited 6 mths to Dec 2014 $000	Audited 12 mths to Jun 2015 $000
Transactions with related parties			
Interest expense	-	(11)	(31)
Lending and credit fee income	-	309	625
Other income	-	250	500
Total transactions with other related parties	**-**	**548**	**1,094**
Due to related parties			
MARAC Insurance	-	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:

Finance receivables	1,446	887	1,391
Borrowings - deposits	(21,833)	(15,661)	(14,386)
Interest income	51	50	68
Interest expense	(265)	(268)	(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 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.

Derivative items

Interest rate swaps are classified as held for trading and are recognised in the interim 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.

10 Fair value (continued)

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

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Unaudited - Dec 15				
Assets				
Investments	251,489	10,989	7,291	269,769
Finance receivables	-	-	22,477	22,477
Derivative assets held for risk management	-	365	-	365
Total	**251,489**	**11,354**	**29,768**	**292,611**
Liabilities				
Derivative liabilities held for risk management	-	5,277	-	5,277
Total	**-**	**5,277**	**-**	**5,277**
Unaudited - Dec 14				
Assets				
Investments	196,993	10,551	2,000	209,544
Finance receivables	-	-	23,902	23,902
Derivative assets held for risk management	-	768	-	768
Total	**196,993**	**11,319**	**25,902**	**234,214**
Liabilities				
Derivative liabilities held for risk management	-	4,599	-	4,599
Total	**-**	**4,599**	**-**	**4,599**
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	**311,815**	**10,863**	**31,740**	**354,418**
Liabilities				
Derivative liabilities held for risk management	-	6,407	-	6,407
Total	**-**	**6,407**	**-**	**6,407**

(b) Financial instruments not measured at fair value

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

	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
	Total Fair Value	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value	Total Carrying Value
	Dec 2015	Dec 2015	Dec 2014	Dec 2014	Jun 2015	Jun 2015
	$000	$000	$000	$000	$000	$000
Assets						
Cash and cash equivalents	31,879	31,879	95,228	95,228	37,012	37,012
Finance receivables	2,631,115	2,631,791	2,372,252	2,376,033	2,557,755	2,559,435
Finance receivables - securitised	276,092	274,333	326,100	322,508	279,491	277,614
Other financial assets	6,433	6,433	8,056	8,056	5,546	5,546
Total financial assets	**2,945,519**	**2,944,436**	**2,801,636**	**2,801,825**	**2,879,804**	**2,879,607**
Liabilities						
Borrowings	2,566,302	2,555,519	2,359,397	2,353,526	2,576,425	2,566,615
Borrowings - securitised	258,819	258,819	303,559	303,558	258,630	258,630
Other financial liabilities	18,467	18,467	17,895	17,895	23,042	23,042
Total financial liabilities	**2,843,588**	**2,832,805**	**2,680,851**	**2,674,979**	**2,858,097**	**2,848,287**

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 30 June 2015, refer to the annual report of Heartland.

From the date of Amalgamation, the banking group is exposed to foreign exchange translation risks through its wholly owned subsidiary, ASF (which has a functional currency of Australian dollars), in the forms of profit translation risk and balance sheet translation risk. Pre-amalgamated Heartland Bank was not exposed to foreign exchange translation risks.

Profit translation risk is the risk that deviations in exchange rates have a significant impact on the reported profit. Balance sheet translation risk is the risk that whilst the foreign currency value of the net investment in a subsidiary may not have changed, when translated back to the New Zealand dollars (NZD), the NZD value has changed materially due to movements in the exchange rates. The foreign exchange revaluation gains and losses are booked to the Foreign currency translation reserve. Substantial foreign exchange rate movements in any given year may have an impact on other comprehensive income.

The banking group manages profit translation risk by setting and approving the foreign exchange rate for the upcoming financial year and entering into hedging contracts to manage the foreign exchange translation risks. Balance sheet translation risk is managed by raising foreign currency denominated external debt in the same currency as the net investment, monitoring relative cross rates and obtaining advice from an independent expert on currency risk.

12 Credit risk

Credit risk is the risk of loss arising from the non-performance of a counterparty to an instrument or facility. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual arrangements, and encompasses both on and off balance sheet instruments.

To manage this risk, the Board through its Board Risk Committee (BRC), has been delegated the task of overseeing a formal credit risk management strategy. The BRC reviews the banking group's credit risk exposures to ensure consistency with the banking group's credit policies to manage all aspects of credit risk.

The tables below represent the maximum credit risk exposure, without taking account of any collateral held. The exposures set out below are based on net carrying amounts as reported in the Interim Statement of Financial Position.

(a) Maximum exposure to credit risk

	Unaudited Dec 2015 $000
Finance receivables	2,928,601
Cash and cash equivalents	31,879
Investments	269,769
Derivative financial assets	365
Other financial assets	6,433
Total on balance sheet credit exposures	**3,237,047**

(b) Concentration of credit risk by geographic region

New Zealand:	
Auckland	779,242
Wellington	197,061
Rest of North Island	812,776
Canterbury	483,110
Rest of South Island	464,845
Australia:	
Queensland	112,707
New South Wales	187,684
Victoria	84,719
Western Australia	16,743
South Australia	17,083
Rest of Australia	10,355
Rest of the world [1]	88,350
	3,254,675
Collective provisions	(12,029)
Less acquisition fair value adjustment for present value of future losses	(5,599)
Total on balance sheet credit exposures	**3,237,047**

[1] These overseas assets are not Finance Receivables, they are Investments. These assets represent NZD-denominated investments in AA+ and higher rated securities issued by offshore supranational agencies ("Kauri Bonds"). These securities are part of the liquid asset portfolio the banking group holds for managing liquidity risk

12 Credit risk (continued)

(c) Concentration of credit risk by industry sector

	Unaudited Dec 2015 $000
Agriculture	570,735
Forestry and Fishing	41,392
Mining	15,406
Manufacturing	85,934
Finance & Insurance	317,254
Wholesale trade	43,196
Retail trade	221,483
Households	1,430,424
Property and Business services	397,514
Transport and storage	22,086
Other	109,251
	3,254,675
Collective provisions	(12,029)
Fair value adjustment for present value of future losses	(5,599)
Total on balance sheet credit exposures	**3,237,047**

(d) Credit exposure to individual counterparties

At 31 December 2015 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 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.

(e) Other assets under administration

Other assets under administration are any loans, not being individually impaired or 90 days or more past due, where the customer is in any form of voluntary or involuntary administration, including receivership, liquidation, bankruptcy or statutory management. As at 31 December 2015, the banking group had $2.76 million of assets under administration (December 2014: $1.90 million; June 2015: $2.48 million).

13 Asset quality

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.

Notes to the Interim Financial Statements

For the six months ended 31 December 2015

13 Asset quality (continued)

(a) Finance Receivables by credit risk concentration

	Corporate			Residential	All Other	Total
	Rural $000	Property $000	Other $000	$000	$000	$000
Unaudited - Dec 2015						
Neither at least 90 days past due or impaired	594,837	-	881,113	832,154	591,350	2,899,454
At least 90 days past due	3,931	261	12,755	536	3,724	21,207
Individually impaired	13,706	4,138	9,113	222	-	27,179
Restructured	62	-	698	-	2,475	3,235
Fair value adjustment for present value of future losses	-	-	-	(5,599)	-	(5,599)
Provision for impairment	(2,153)	(1,837)	(7,401)	(2,406)	(3,078)	(16,875)
Total finance receivables	**610,383**	**2,562**	**896,278**	**824,907**	**594,471**	**2,928,601**

(b) Past due but not impaired

	Rural	Property	Other	Residential	All Other	Total
Unaudited - Dec 2015						
Less than 30 days past due	7,851	-	11,783	999	17,593	38,226
At least 30 and less than 60 days past due	5,561	-	8,743	975	3,954	19,233
At least 60 and less than 90 days past due	605	-	4,679	124	1,520	6,928
At least 90 days past due	3,931	261	12,755	536	3,724	21,207
Total past due but not impaired	**17,948**	**261**	**37,960**	**2,634**	**26,791**	**85,594**

(c) Individually impaired assets

	Rural	Property	Other	Residential	All Other	Total
Unaudited - Dec 2015						
Opening	1,562	6,854	16,982	224	-	25,622
Additions	13,267	213	4,816	-	-	18,296
Deletions	(480)	(381)	(4,780)	(2)	-	(5,643)
Write offs	(643)	(2,548)	(7,905)	-	-	(11,096)
Closing gross individually impaired assets	**13,706**	**4,138**	**9,113**	**222**	**-**	**27,179**
Less: provision for individually impaired assets	465	1,097	3,284	-	-	4,846
Total net impaired assets	**13,241**	**3,041**	**5,829**	**222**	**-**	**22,333**

(d) Provision for impaired assets

	Rural	Property	Other	Residential	All Other	Total
Unaudited - Dec 2015						
Provision for individually impaired assets						
Opening individual impairment	817	3,258	11,136	-	-	15,211
Impairment loss for the period						
- charge for the period	291	387	53	-	-	731
- write offs	(643)	(2,548)	(7,905)	-	-	(11,096)
Closing individual impairment	**465**	**1,097**	**3,284**	**-**	**-**	**4,846**
Provision for collectively impaired assets						
Opening collective impairment	1,356	1,356	3,232	1,763	2,494	10,201
Impairment loss for the period						
- charge / (credit) for the period	372	(618)	2,505	643	1,977	4,879
- recoveries	-	2	133	-	-	135
- write offs	(40)	-	(1,753)	-	(1,393)	(3,186)
Closing collective impairment	**1,688**	**740**	**4,117**	**2,406**	**3,078**	**12,029**
Total provision for impairment	**2,153**	**1,837**	**7,401**	**2,406**	**3,078**	**16,875**

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For the six months ended 31 December 2015

14 Liquidity risk

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

	Unaudited Dec 2015 $000
Cash and cash equivalents	31,879
Investments	262,478
Undrawn committed bank facilities	90,000
Total liquidity	**384,357**

The banking group has securitised bank facilities of $350 million in relation to the ABCP Trust, which matures on 3 August 2016.

Contractual liquidity profile of financial assets and liabilities

The following tables present the banking group's financial assets and liabilities by relevant maturity groupings based upon contractual maturity date. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows. As a result, the amounts in the tables below may differ to the amounts reported on the balance sheet.

The contractual cash flows presented below may differ significantly from actual cash flows. This occurs as a result of future actions by the banking group and its counterparties, such as early repayments or refinancing of term loans and borrowings. Deposits and other public borrowings include customer savings deposits and transactional accounts, which are at call. History demonstrates that such accounts provide a stable source of long term funding for the banking group.

The banking group does not manage its liquidity risk on a contractual liquidity basis.

	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
Unaudited - Dec 2015							
Financial assets							
Cash and cash equivalents	31,879	-	-	-	-	-	31,879
Investments	-	34,933	12,075	128,522	118,056	7,291	300,877
Finance receivables	-	490,039	197,149	552,922	973,565	3,509,400	5,723,075
Finance receivables - securitised	-	87,009	67,793	136,029	19,379	-	310,210
Derivative financial assets	-	365	-	-	-	-	365
Other financial assets	-	6,433	-	-	-	-	6,433
Total financial assets	**31,879**	**618,779**	**277,017**	**817,473**	**1,111,000**	**3,516,691**	**6,372,839**
Financial liabilities							
Borrowings	728,056	1,077,945	499,705	175,375	74,438	-	2,555,519
Borrowings - securitised	-	258,819	-	-	-	-	258,819
Derivative financial liabilities	-	5,277	-	-	-	-	5,277
Other financial liabilities	-	18,467	-	-	-	-	18,467
Total financial liabilities	**728,056**	**1,360,508**	**499,705**	**175,375**	**74,438**	**-**	**2,838,082**
Net financial assets / (liabilities)	**(696,177)**	**(741,729)**	**(222,688)**	**642,098**	**1,036,562**	**3,516,691**	**3,534,757**
Unrecognised loan commitments	(102,801)	-	-	-	-	-	(102,801)
Undrawn committed bank facilities	90,000	-	-	-	-	-	90,000

The undrawn committed bank facilities totalling $90 million are available to be drawn down on demand. To the extent drawn, $90 million is contractually repayable on 3 August 2016.

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For the six months ended 31 December 2015

15 Interest rate risk

Contractual repricing analysis

The interest rate risk profile of financial assets and liabilities that follows has been prepared on the basis of maturity or next repricing date, whichever is earlier.

	0-3 Months $000	3-6 Months $000	6-12 Months $000	1-2 Years $000	2+ Years $000	Non-interest bearing $000	Total $000
Unaudited - Dec 2015							
Financial assets							
Cash and cash equivalents	31,801	-	-	-	-	78	31,879
Investments	100,443	3,702	3,122	65,035	90,176	7,291	269,769
Finance receivables	1,989,848	94,359	152,395	227,820	189,475	371	2,654,268
Finance receivables - securitised	39,857	35,772	59,622	81,746	57,336	-	274,333
Derivative financial assets	365	-	-	-	-	-	365
Other financial assets	6,433	-	-	-	-	-	6,433
Total financial assets	**2,168,747**	**133,833**	**215,139**	**374,601**	**336,987**	**7,740**	**3,237,047**
Financial liabilities							
Borrowings	1,495,268	310,728	499,708	175,377	74,438	-	2,555,519
Borrowings - securitised	258,819	-	-	-	-	-	258,819
Derivative financial liabilities	5,277	-	-	-	-	-	5,277
Other financial liabilities	18,467	-	-	-	-	-	18,467
Total financial liabilities	**1,777,831**	**310,728**	**499,708**	**175,377**	**74,438**	**-**	**2,838,082**
Effect of derivatives held for risk management	250,021	(25,695)	(51,511)	(90,532)	(82,283)	-	-
Net financial assets / (liabilities)	**640,937**	**(202,590)**	**(336,080)**	**108,692**	**180,266**	**7,740**	**398,965**

16 Concentrations of funding

(a) Concentration of funding by industry

	Unaudited Dec 2015 $000
Finance	736,326
Other	2,078,012
Total borrowings	**2,814,338**

(b) Concentration of funding by geographical area

Auckland	493,285
Wellington	352,564
Rest of North Island	512,248
Canterbury	789,993
Rest of South Island	209,628
Overseas	456,620
Total borrowings	**2,814,338**

Other Disclosures

17 Significant subsidiaries

As at 31 December 2015 the banking group includes the following controlled entities.

Significant subsidiaries / Joint arrangements	Nature of business	Proportion of ownership interest and voting power held		
		Dec 2015	Dec 2014	Jun 2015
Heartland Bank Limited	Financial services	N/A	100%	100%
VPS Properties Limited	Investment property holding company	100%	100%	100%
Heartland HER Holdings Limited	Holding company	100%	100%	100%
New Sentinel Limited	Financial services	100%	100%	100%
Australian Seniors Finance Pty Limited	Financial services	100%	100%	100%
MARAC Insurance Limited	Insurance services	100%	50%	50%

On 31 December 2015, Pre-amalgamated Heartland Bank was amalgamated, by way of short form amalgamation, with its ultimate parent, Heartland New Zealand Limited. Refer to reporting entity note for further details.

On 17 July 2015, the bank acquired the remaining 50% of MARAC Insurance Limited for $2.3 million. A loss on acquisition of $339k was recognised during the year ended 30 June 2015. MARAC Insurance Limited was previously a joint arrangement accounted for using the equity method.

18 Structured entities

(a) *Heartland Cash and Term PIE Fund*

Investments of Heartland Cash and Term PIE Fund are represented as follows:

	Unaudited Dec 2015 $000	Unaudited Dec 2014 $000	Audited Jun 2015 $000
Deposits	71,698	45,239	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 will have no recourse to these assets. ABCP Trust's material assets and liabilities are represented as follows:

	Unaudited Dec 2015 $000	Unaudited Dec 2014 $000	Audited Jun 2015 $000
Cash and cash equivalents - securitised	9,991	11,472	5,553
Finance receivables - securitised	274,333	322,508	277,614
Borrowings - securitised	(258,819)	(303,558)	(258,630)
Derivative financial assets - securitised	120	679	59
Derivative financial liabilities - securitised	(2,001)	(365)	(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 Dec 2015 $000	Unaudited Dec 2014 $000	Audited Jun 2015 $000
Cash and cash equivalents	5,837	2,557	1,207
Finance receivables - Home equity release loans	422,706	391,485	424,445
Borrowings - CBA	(373,678)	(349,126)	(372,333)
Derivative financial liabilities	(2,754)	(3,857)	(3,608)

19 Capital adequacy

The banking group is subject to regulation by the RBNZ. The RBNZ has set minimum regulatory capital requirements for banks that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision. The resulting Basel II and III requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by the banking group.

The bank's Conditions of Registration prescribes minimum capital adequacy ratios calculated in accordance with the Capital Adequacy Framework (Standardised Approach) BS2A.

The banking group has adopted the Basel II standardised approach per RBNZ BS2A to calculate its regulatory requirements. Basel II is made up of the following three Pillars:

- Pillar 1 sets out the minimum capital requirements for credit, market and operational and compliance risks.
- Pillar 2 is designed to ensure that banks have adequate capital to support all risks (not just those set out under Pillar 1 above) and is enforced through the requirement for supervisory review.
- Pillar 3 outlines the requirements for adequate and transparent disclosure.

Basel III was developed in order to strengthen the regulation, supervision and risk management of the banking sector. The measures aim to improve the banking sector's ability to absorb shocks arising from financial and economic stress; improve risk management and governance; and strengthen banks' transparency and disclosures. The requirements that impact capital are as follows:

- The level of capital required to be held by banks increased through the introduction of new minimum capital requirements for Common Equity Tier 1 (CET1) capital, Additional Tier 1 (AT1) capital and Total capital as a percentage of risk-weighted-assets (RWA's).
- A capital conservation buffer held over and above the minimum capital ratio requirements used to absorb losses during periods of financial and economic stress.
- A counter-cyclical capital buffer be held and to be used at the RBNZ's discretion, to assist in attaining the macro-prudential goal of protecting the banking sector from periods of extraordinary excess aggregate credit growth.
- Strengthen the calculation of RWAs, particularly in respect of counterparty credit risk.

The Basel III requirements have not affected the banking group's minimum capital requirements as the banking group's Conditions of Registration prescribe minimum capital requirements higher than the Basel III requirements.

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the banking group as at 31 December 2015.

Internal Capital Adequacy Assessment Process (ICAAP)

The banking group has an ICAAP which complies with the requirements in 'Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")' BS12 and is in accordance with its Conditions of Registration.

The Board has overall responsibility for ensuring the banking group has adequate capital in relation to its risk profile and establishes minimum internal capital levels and limits above the regulatory minimum. The banking group has established a Capital Management Policy (CMP) to determine minimum capital levels for tier one and total capital under Basel III and in accordance with its Conditions of Registration. The documented process ensures that the banking group has sufficient available capital to meet minimum capital requirements, even in stressed events. It describes the risk profile of the banking group and the risk appetite and tolerances under which it operates, and assesses the level of capital held against the material risks of the banking group (both Pillar One and Pillar Two).

The ICAAP identifies the additional capital required to be held against other material risks, being concentration risk, strategic / business risk, reputational risk, regulatory risk and model risk.

Compliance with minimum capital levels is monitored by the Asset and Liability Committee and reported to the Board monthly. The ICAAP and CMP is reviewed annually by the Board.

19 Capital adequacy (continued)

(a) Capital ratios

	Unaudited Dec 2015 $000
Tier 1 capital	
Common Equity Tier 1 (CET1) capital	
Paid up ordinary shares issued by the bank plus related share premium	418,141
Retained earnings (net of appropriations)	66,500
Accumulated other comprehensive income and other disclosed reserves	1,047
Less deductions from CET1 capital	
Intangible assets	(54,314)
Deferred tax assets	(5,315)
Hedging reserve	1,538
Defined benefit superannuation fund asset	(513)
Total CET1 capital	**427,084**
Additional Tier 1 capital	
Nil	-
Total Tier 1 capital	**427,084**
Tier 2 capital	
Subordinated Bond	1,455
Total Tier 2 capital	**1,455**
Total capital	**428,539**

(b) Capital structure

Ordinary shares

In accordance with BS2A, ordinary share capital is classified as CET1 capital and is not subject to phase-out from eligibility as capital under the Reserve Bank of New Zealand's Basel III transitional arrangements. The ordinary shares have no par value. Each ordinary share of the bank carries the right to vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the bank in the event of liquidation.

Reserves

Available for sale reserve — The available for sale reserve comprises the changes in the fair value of available for sale securities, net of tax. These changes are recognised in profit or loss as other income when the asset is either derecognised or impaired.

Hedging reserve — The hedging reserve comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

Defined benefit reserve — The defined benefit plan reserve represents the excess of the fair value of the assets of the defined benefit superannuation plan over the net present value of the defined benefit obligations.

Retained earnings

Retained earnings is the accumulated profit or loss that has been retained in the banking group.

Subordinated Bond

Heartland's 2018 Subordinated Bonds (the bonds) constitute Tier 2 capital of the banking group. The bonds had an issue period from 12 July 2013 to 15 December 2013 and have a maturity date of 15 December 2018. The bonds pay quarterly interest in arrears at a rate of 6.5% per annum, provided the bank will be solvent immediately after the payment is made. The bank may elect to repay the bonds prior to 15 December 2018 if a regulatory event or tax event occurs and provided it will be solvent immediately after the repayment and the Reserve Bank has consented to the repayment. The bonds are subordinated to all other general liabilities of the banking group and are denominated in New Zealand dollars.

If the Reserve Bank or a Statutory Manager requires the bank to write down the principal amount and/or the interest on the bonds, the bonds will be written down and could be reduced to zero to comply with the Reserve Bank's loss absorbency requirements. The bank has not had any defaults of principal, interest or other breaches with respect to these bonds.

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19 Capital adequacy (continued)

(c) Credit risk

(i) On-balance-sheet exposures

	Total exposure $000	Risk weighting %	Risk weighted exposure $000	Capital requirement per BS2A $000
Unaudited - Dec 2015				
Cash	78	0%	-	-
Multilateral development banks (0% risk graded as per BS2A)	36,928	0%	-	-
Multilateral development banks (all others not defined in BS2A)	42,490	20%	8,498	680
Banks (AA- and above)	120,746	20%	24,149	1,932
Banks (BBB- and above)	24,478	50%	12,239	979
Public sector entities (AA- and above)	54,090	20%	10,818	865
Corporate (AA- and above)	6,954	20%	1,391	111
Corporate (A- and above)	8,083	50%	4,042	323
Corporate (BBB- and above)	510	100%	510	41
Welcome Home Loans - loan to value ratio (LVR) <= 90%[1]	7,713	35%	2,700	216
Welcome Home Loans - LVR 90% >= 100%[1]	2,803	50%	1,402	112
Welcome Home Loans - LVR > 100%[1]	600	100%	600	48
Residential mortgages <= 80% LVR	798,866	35%	279,603	22,368
Residential mortgages 80 <= 90% LVR	3,092	50%	1,546	124
Residential mortgages 90 <= 100% LVR	2,772	75%	2,079	166
Residential mortgages 100%+ LVR	4,203	100%	4,203	336
Property Investment Mortgage Loan <=80% LVR	4,100	40%	1,640	131
Past due residential mortgages	758	100%	758	61
Other past due assets - provision 20%+	8,906	100%	8,906	712
Other past due assets - provision < 20%	35,525	150%	53,288	4,263
Equity Holdings	7,291	400%	29,164	2,333
Other assets	2,114,908	100%	2,114,908	169,193
Non risk weighted assets	58,604	0%	-	-
Total on balance sheet exposures	**3,344,498**		**2,562,444**	**204,994**

(ii) Off-balance sheet exposures

	Total exposure $000	Credit conversion Factor $000	Credit equivalent amount $000	Risk weighting %	Risk weighted exposure $000	Capital requirement per BS2A $000
Unaudited - Dec 2015						
Off balance sheet exposures						
Direct credit substitute	5,179	100%	5,179	100%	5,179	414
Performance-related contingency	7,945	50%	3,973	100%	3,973	318
Other commitments where original maturity is more than one year	102,801	50%	51,401	100%	51,401	4,112
Other commitments where original maturity is less than or equal to one year	118,621	20%	23,724	100%	23,724	1,898
Market related contracts: [2]						
Interest rate contracts	269,935	0.5%	1,350	20%	270	22
Interest rate contracts	7,305	0.0%	-	20%	-	-
Total off balance sheet exposures	**511,786**		**85,627**		**84,547**	**6,764**

[1] The LVR classification above is calculated in line with the banking group's Pillar 1 Capital requirement which includes capital relief for Welcome Home loans that are guaranteed by the Crown.

[2] The credit equivalent amount for market related contracts was calculated using the current exposure method.

19 Capital adequacy (continued)

(d) Additional mortgage information - LVR range

	On balance sheet exposures	Off balance sheet exposures[1]	Total exposures
	$000	$000	$000
Unaudited - Dec 2015			
Does not exceed 80%	802,888	2,437	805,325
Exceeds 80% and not 90%	11,642	-	11,642
Exceeds 90%	10,377	34	10,411
Total exposures	**824,907**	**2,471**	**827,378**

At 31 December 2015, of the balance of "Exceeds 90%" above, $3.4 million relates to Welcome Home loans, whose credit risk is mitigated by the Crown.

(e) Reconciliation of mortgage related amounts

	NOTE	Unaudited Dec 2015 $000
Loans and advances - loans with residential mortgages	13(a)	824,907
On balance sheet residential mortgage exposures subject to the standardised approach		**824,907**
Off balance sheet mortgage exposures subject to the standardised approach		2,471
Total residential exposures subject to the standardised approach		**827,378**

(f) Credit risk mitigation

As at 31 December 2015 the banking group has $11.1 million of Welcome Home Loans, whose credit risk is mitigated by the Crown. Other than this the banking group does not have any exposures covered by eligible collateral, guarantees and credit derivatives.

(g) Operational Risk

	Implied risk weighted exposure	Aggregate capital charge
	$000	$000
Operational risk	180,085	14,407

(h) Market risk

		Implied risk weighted exposure	Aggregate capital charge
		$000	$000
Market risk end-of-period capital charge	Interest rate risk only	94,148	7,532
Market risk peak end-of-day capital charge	Interest rate risk only	94,148	7,532
Market risk end-of-period capital charge	Foreign currency risk only	41,928	3,354
Market risk peak end-of-day capital charge	Foreign currency risk only	41,928	3,354

Peak end of day aggregate capital charge at the end of the period is derived by following the risk methodology for measuring capital requirements within Part 10 of the standardised approach. Peak end of day aggregate capital charge is derived by determining the maximum end of month capital charge over the reporting period. Based on the portfolio of the banking group's risk exposures, it is considered by management that the difference between end of month aggregate capital charge and end of day aggregate capital charge is insignificant.

[1] Off balance sheet exposures means unutilised limits.

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19 Capital adequacy (continued)

(i) Total capital requirements

	Total exposure after credit risk mitigation	Risk weighted exposure or implied risk weighted exposure	Total capital requirement per BS2A
	$000	$000	$000
Unaudited - Dec 2015			
Total credit risk			
On balance sheet	3,344,498	2,562,444	204,994
Off balance sheet	511,786	84,547	6,764
Operational risk	n/a	180,085	14,407
Market risk	n/a	136,076	10,886
Total	n/a	**2,963,152**	**237,051**

The implied risk weighted exposure for Operational and Market risk calculated per BS2A assumes a capital requirement of 8%, this is in-line with the banks Conditions of Registration.

(j) Capital ratios

	Unaudited Dec 2015 %	Unaudited Dec 2014[1] %
Capital ratios compared to minimum ratio requirements		
Common Equity Tier 1 capital expressed as a percentage of total risk weighted exposures	14.41%	13.68%
Minimum Common Equity Tier 1 capital as per Conditions of Registration	4.50%	10.00%
Tier 1 capital expressed as a percentage of total risk weighted exposures	14.41%	13.68%
Minimum Tier 1 capital as per Conditions of Registration	6.00%	12.00%
Total capital expressed as a percentage of total risk weighted exposures	14.46%	13.76%
Minimum Total capital as per Conditions of Registration	8.00%	12.00%
Buffer ratio	6.46%	1.68%
Buffer ratio requirement	2.50%	N/A

(k) Solo capital adequacy

Solo capital adequacy		
Common Equity Tier 1 capital expressed as a percentage of total risk weighted exposures	15.96%	15.72%
Minimum Common Equity Tier 1 capital as per Conditions of Registration	4.50%	10.00%
Tier 1 capital expressed as a percentage of total risk weighted exposures	15.96%	15.72%
Minimum Tier 1 capital as per Conditions of Registration	6.00%	12.00%
Total capital expressed as a percentage of total risk weighted exposures	16.01%	15.81%
Minimum Total capital as per Conditions of Registration	8.00%	12.00%

(l) 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 December 2015, the banking group has made an internal capital allocation of $60.3 million (December 2014: nil; June 2015: $68.7 million) to cover these risks.

[1] The capital ratios as at 31 December 2014 are the ratios previously disclosed for the registered bank at that date, Pre-amalgamated Heartland Bank.

20 Insurance business, securitisation, funds management and 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 $7.33 million, which is 0.22% 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 other material changes to the bank's involvement in securitisation, funds management and other fiduciary activities since the reporting date of the previous disclosure statement.

21 Contingent liabilities and commitments

	Unaudited Dec 2015 $000	Unaudited Dec 2014 $000	Audited Jun 2015 $000
Letters of credit, guarantee commitments and performance bonds	13,124	9,527	14,844
Total contingent liabilities	**13,124**	**9,527**	**14,844**
Undrawn facilities available to customers	102,801	124,384	116,217
Conditional commitments to fund at future dates	118,621	126,193	108,037
Total commitments	**221,422**	**250,577**	**224,254**

As at 31 December 2015 there are no undrawn lending commitments to counterparties for whom drawn balances are classified as individually impaired (December 2014: nil; June 2015: nil).

22 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.

Independent auditor's review report

To the shareholders of Heartland Bank Limited

We have completed a review of the half year disclosure statement of Heartland Bank Limited (the "bank") and its controlled entities (the "banking group") on pages 21 to 44 which comprise the interim financial statements prepared and disclosed in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and supplementary information prescribed in schedules 3, 5, 7, 9, 13, 16 and 18 of the Order.

The interim financial statements comprise the interim statement of financial position as at 31 December 2015, and the interim statements of comprehensive income, changes in equity and cash flows for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information.

Directors' responsibilities

The directors of the bank are responsible for the preparation and fair presentation of the half year disclosure statement, which includes interim financial statements prepared in accordance with clause 25 of the Order and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

They are also responsible for the preparation of supplementary information in the half year disclosure statement which fairly stated the matters to which it relates in accordance with Schedules 3, 5, 7, 9, 13, 16 and 18 of the Order.

Our responsibilities

Our responsibility is to express a conclusion on the half year disclosure statement, which includes interim financial statements disclosed in accordance with Clause 25 of the Order, and supplementary information disclosed in accordance with schedules 3, 5, 7, 9, 13, 16 and 18 of the Order, based on our review.

We are responsible for reviewing the interim financial statements (excluding the supplementary information) in order to report to you whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with the NZ IAS 34 *Interim Financial Reporting*.

We are responsible for reviewing the supplementary information (excluding the supplementary information relating to capital adequacy) in order to report to you whether, in our opinion, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with schedules 3, 5, 7, 13, 16 and 18 of the Order.

We are responsible for reviewing the supplementary information relating to capital adequacy in order to state whether, on the basis of the procedures described below, anything has come to our attention that cause us to believe that the information disclosed in accordance with schedule 9 is not in all material respects prepared in accordance with the bank's conditions of registration and disclosed in accordance with schedule 9 of the Order.

KPMG

We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410"). A review of a half year disclosure statement in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the half year disclosure statement.

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

As the auditor of the bank, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

This report is made solely to the bank's shareholders. Our review work has been undertaken so that we might state to the bank's shareholders those matters we are required to state to them in the independent auditor's review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the bank's shareholders, for our review work, this report or any of the opinions we have formed.

Conclusion

We have examined the interim financial statements and supplementary information and based on our review nothing has come to our attention that causes us to believe that:

- the interim financial statements (excluding the supplementary information disclosed in accordance with schedules 3, 5, 7, 9, 13, 16 and 18 of the Order) of the banking group do not present fairly, in all material respects, the financial position of the banking group as at 31 December 2015, and of its financial performance and its cash flows for the six month period ended on that date, in accordance with NZ IAS 34;

- the supplementary information (excluding supplementary information relating to capital adequacy) disclosed in accordance with schedules 3, 5, 7, 13, 16 and 18 of the Order, does not fairly state the matters to which it relates in accordance with those schedules; and

- the supplementary information relating to capital adequacy disclosed in accordance with schedule 9 of the Order, is not, in all material respects prepared in accordance with the bank's conditions of registration and disclosed in accordance with schedule 9 of the Order.

KPMG

23 February 2016
Auckland

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Directors

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Jeffrey Greenslade	Chief Executive Officer
Nicola Greer	Director
John Harvey	Director
Bruce Irvine	Director
Graham Kennedy	Director
Chris Mace	Director
Greg Tomlinson	Director

Executives

Laura Byrne	Chief Strategy Advisor
Michael Drumm	General Counsel
Chris Flood	Head of Banking
Jeffrey Greenslade	Chief Executive Officer
Richard Lorraway	Chief Risk Officer
Rochelle Moloney	Head of Corporate Communications
Simon Owen	Chief Financial Officer

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