HEARTLAND
BANK

Disclosure Statement

For the nine months ended 31 March 2017

CONTENTS

GENERAL INFORMATION

This Disclosure Statement has been issued by Heartland Bank Limited (the bank) and its subsidiaries (the banking group) for the nine months ended 31 March 2017 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order). The financial statements of the bank for the nine months ended 31 March 2017 form part of, and should be read in conjunction with, this Disclosure Statement.

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

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

GUARANTEE ARRANGEMENTS

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

DIRECTORS

As at the date this Disclosure Statement was signed, the Directors of the bank are:

Ellen F Comerford

Jeffrey K Greenslade

Edward J Harvey

Bruce R Irvine

Graham R Kennedy

Christopher R Mace

Geoffrey T Ricketts

Vanessa C M Stoddart

Gregory R Tomlinson

Nicola Greer retired from the Board effective 25 July 2016. Vanessa Stoddart was appointed to the Board effective 3 October 2016 and Ellen Comerford was appointed to the Board effective 1 January 2017.

CONDITIONS OF REGISTRATION

These conditions apply on and after 1 October 2016.

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

1. That—

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

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

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

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

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

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

   For the purposes of this condition of registration, -

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

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

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

1A. That—

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration, -

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

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

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

CONDITIONS OF REGISTRATION (CONTINUED)

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

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

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

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

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

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

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

   For the purposes of this condition of registration,—

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

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

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

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

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

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

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

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

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

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

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

   (d) an alternate director,—

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

      (ii) for an independent director must be independent;

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

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

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

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

CONDITIONS OF REGISTRATION (CONTINUED)

For the purposes of this condition of registration,—

"independent,"—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CONDITIONS OF REGISTRATION (CONTINUED)

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

For the purposes of this condition,—

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

"SPV" means a person—

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

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

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

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

14. That—

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

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

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

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

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

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

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

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

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

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

(i) all liabilities are frozen in full; and

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

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

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

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

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

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

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

16. That the bank has an Implementation Plan that—

(a) is up-to-date; and

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

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

CONDITIONS OF REGISTRATION (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

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

In these conditions of registration,—

"banking group"—

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

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

In conditions of registration 19 to 21,—

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated October 2016:

"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of March 2017.

PENDING PROCEEDINGS OR ARBITRATION

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

CREDIT RATINGS

As at the date of signing this Disclosure Statement, the bank's credit rating issued by Fitch Australia Pty Ltd (Fitch Ratings) was BBB stable. This BBB credit rating was issued on 10 October 2016 and is applicable to long term unsecured obligations payable in New Zealand, in New Zealand dollars.

OTHER MATERIAL MATTERS

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

DIRECTORS' STATEMENTS

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

1. As at the date on which this Disclosure Statement is signed:
   (a) the Disclosure Statement contains all the information that is required by the Order; and
   (b) the Disclosure Statement is not false or misleading.

2. During the nine months ended 31 March 2017:
   (a) the bank complied with all Conditions of Registration;
   (b) credit exposures to connected persons were not contrary to the interests of the banking group; and
   (c) the bank had systems in place to monitor and control adequately material risks of the banking group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 17 May 2017 and has been signed by all Directors.

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

G. R. Kennedy

J. K. Greenslade

C. R. Mace

E. F. Comerford

V. C. M. Stoddart

E. J. Harvey

G. R. Tomlinson

B. R. Irvine

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 31 March 2017

	NOTE	Unaudited 9 mths to Mar 2017 $000	Unaudited 9 mths to Mar 2016 $000	Audited 12 mths to Jun 2016 $000
Interest income	2	205,206	199,648	265,475
Interest expense	2	85,694	90,946	118,815
Net interest income		**119,512**	**108,702**	**146,660**
Operating lease income		5,368	6,806	8,869
Operating lease expenses		3,992	4,771	6,230
Net operating lease income		**1,376**	**2,035**	**2,639**
Lending and credit fee income		2,391	2,619	3,339
Other income		2,567	3,870	4,923
Net operating income		**125,846**	**117,226**	**157,561**
Selling and administration expenses	3	52,880	53,549	69,872
Profit before impaired asset expense and income tax		**72,966**	**63,677**	**87,689**
Impaired asset expense	4	10,837	8,652	13,501
Profit before income tax		**62,129**	**55,025**	**74,188**
Income tax expense		17,275	15,445	20,024
Profit for the period		**44,854**	**39,580**	**54,164**
Other comprehensive income				
Items that are (or may be) reclassified subsequently to profit or loss:				
Effective portion of changes in fair value of cash flow hedges, net of income tax		1,011	(1,090)	(708)
Movement in available for sale reserve, net of income tax		(765)	61	(208)
Movement in foreign currency translation reserve, net of income tax		2,353	(461)	(4,047)
Items that will not be reclassified to profit or loss:				
Movement in defined benefit reserve, net of income tax		(84)	(31)	(93)
Other comprehensive income/ (loss) for the period, net of income tax		**2,515**	**(1,521)**	**(5,056)**
Total comprehensive income for the period		**47,369**	**38,059**	**49,108**
Earnings per share from continuing operations				
Basic earnings per share	5	9c	8c	11c
Diluted earnings per share	5	9c	8c	11c

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

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

INTERIM STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 March 2017

	NOTE	Share Capital $000	Treasury Shares Reserve $000	Employee Benefits Reserve $000	Foreign Currency Translation Reserve $000	Available For Sale Reserve $000	Defined Benefit Reserve $000	Hedging Reserve $000	Retained Earnings $000	Total Equity $000
Unaudited - Mar 2017										
Balance at 1 July 2016		**421,377**	**(2,612)**	**3,878**	**(1,816)**	**962**	**1**	**(2,260)**	**78,811**	**498,341**
Total comprehensive income for the period										
Profit for the period		-	-	-	-	-	-	-	44,854	44,854
Total other comprehensive income / (loss)		-	-	-	2,353	(765)	(84)	1,011	-	2,515
Total comprehensive income / (loss) for the period		**-**	**-**	**-**	**2,353**	**(765)**	**(84)**	**1,011**	**44,854**	**47,369**
Contributions by and distributions to owners										
Dividends paid	8	-	-	-	-	-	-	-	(41,977)	(41,977)
Dividend reinvestment plan	8	5,276	-	-	-	-	-	-	-	5,276
Issue of share capital	8	40,003	-	-	-	-	-	-	-	40,003
Transaction costs associated with capital raise		(521)	-	-	-	-	-	-	-	(521)
Share based payments		-	-	740	-	-	-	-	-	740
Shares vested		1,813	-	(1,813)	-	-	-	-	-	-
Total transactions with owners		**46,571**	**-**	**(1,073)**	**-**	**-**	**-**	**-**	**(41,977)**	**3,521**
Balance at 31 March 2017		**467,948**	**(2,612)**	**2,805**	**537**	**197**	**(83)**	**(1,249)**	**81,688**	**549,231**

	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 - Mar 2016										
Balance at 1 July 2015		**413,917**	**(272)**	**2,200**	**2,231**	**1,170**	**94**	**(1,552)**	**62,337**	**480,125**
Total comprehensive income for the period										
Profit for the period		-	-	-	-	-	-	-	39,580	39,580
Total other comprehensive (loss) / income		-	-	-	(461)	61	(31)	(1,090)	-	(1,521)
Total comprehensive (loss) / income for the period		**-**	**-**	**-**	**(461)**	**61**	**(31)**	**(1,090)**	**39,580**	**38,059**
Contributions by and distributions to owners										
Dividends paid	8	-	-	-	-	-	-	-	(37,690)	(37,690)
Dividend reinvestment plan	8	4,119	-	-	-	-	-	-	-	4,119
Share based payments		-	-	1,391	-	-	-	-	-	1,391
Shares vested		160	50	(210)	-	-	-	-	-	-
Total transactions with owners		**4,279**	**50**	**1,181**	**-**	**-**	**-**	**-**	**(37,690)**	**(32,180)**
Balance at 31 March 2016		**418,196**	**(222)**	**3,381**	**1,770**	**1,231**	**63**	**(2,642)**	**64,227**	**486,004**

	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
Audited - Jun 2016										
Balance at 1 July 2015		**413,917**	**(272)**	**2,200**	**2,231**	**1,170**	**94**	**(1,552)**	**62,337**	**480,125**
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	-	-	54,164	54,164
Total other comprehensive (loss)		-	-	-	(4,047)	(208)	(93)	(708)	-	(5,056)
Total comprehensive (loss) / income for the year		**-**	**-**	**-**	**(4,047)**	**(208)**	**(93)**	**(708)**	**54,164**	**49,108**
Contributions by and distributions to owners										
Dividends paid	8	-	-	-	-	-	-	-	(37,690)	(37,690)
Dividend reinvestment plan	8	7,300	-	-	-	-	-	-	-	7,300
Share based payments		-	-	1,888	-	-	-	-	-	1,888
Shares vested		160	50	(210)	-	-	-	-	-	-
Treasury shares acquired		-	(2,390)	-		-	-	-	-	(2,390)
Total transactions with owners		**7,460**	**(2,340)**	**1,678**	**-**	**-**	**-**	**-**	**(37,690)**	**(30,892)**
Balance at 30 June 2016		**421,377**	**(2,612)**	**3,878**	**(1,816)**	**962**	**1**	**(2,260)**	**78,811**	**498,341**

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

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	NOTE	Unaudited Mar 2017 $000	Unaudited Mar 2016 $000	Audited Jun 2016 $000
Assets				
Cash and cash equivalents		40,424	26,845	84,154
Investments		285,018	231,179	236,435
Investment properties		6,285	11,044	8,384
Finance receivables	6	3,454,772	3,016,260	3,113,957
Operating lease vehicles		20,363	25,530	24,557
Other assets		13,546	16,419	14,871
Intangible assets		67,655	55,351	57,755
Deferred tax asset		8,388	6,452	7,068
Total assets		**3,896,451**	**3,389,080**	**3,547,181**
Liabilities				
Borrowings	7	3,283,062	2,839,849	2,999,987
Current tax liabilities		5,857	1,326	6,754
Dividend payable		17,375	16,567	-
Trade and other payables		40,926	45,334	42,099
Total liabilities		**3,347,220**	**2,903,076**	**3,048,840**
Equity				
Share capital		465,336	417,974	418,765
Retained earnings and reserves		83,895	68,030	79,576
Total equity		**549,231**	**486,004**	**498,341**
Total equity and liabilities		**3,896,451**	**3,389,080**	**3,547,181**

Total interest earning and discount bearing assets	3,768,273	3,274,044	3,427,117
Total interest and discount bearing liabilities	3,277,394	2,846,521	3,005,853

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

INTERIM STATEMENT OF CASH FLOWS

For the nine months ended 31 March 2017

	NOTE	Unaudited 9 mths to Mar 2017 $000	Unaudited 9 mths to Mar 2016 $000	Audited 12 mths to Jun 2016 $000
Cash flows from operating activities				
Interest received		191,288	191,816	251,814
Operating lease income received		5,104	6,915	9,468
Lending, credit fees and other income received		5,892	7,422	7,940
Operating inflows		**202,284**	**206,153**	**269,222**
Payments to suppliers and employees		49,049	57,208	79,661
Interest paid		86,151	98,716	131,378
Taxation paid		19,252	20,240	20,297
Operating outflows		**154,452**	**176,164**	**231,336**
Net cash flows from operating activities before changes in operating assets and liabilities		**47,832**	**29,989**	**37,886**
Proceeds from sale of operating lease vehicles		6,183	7,002	7,933
Purchase of operating lease vehicles		(5,126)	(6,263)	(8,187)
Net movement in finance receivables		(336,740)	(154,469)	(251,734)
Net movement in deposits		288,955	80,390	186,120
Total cash provided from / (applied to) operating activities		**1,104**	**(43,351)**	**(27,982)**
Cash flows from investing activities				
Net proceeds from sale of investment properties		2,099	13,502	16,492
Proceeds from sale of office fit-out, equipment and intangibles		-	354	784
Net decrease in investments		-	106,453	98,480
Total cash provided from investing activities		**2,099**	**120,309**	**115,756**
Purchase of office fit-out, equipment and intangible assets		11,386	8,820	12,700
Capital expenditure on investment properties		-	-	24
Net increase in investments		44,848	-	-
Purchase of equity investment		4,500	2,300	2,300
Total cash applied to investing activities		**60,734**	**11,120**	**15,024**
Net cash flows (applied to) / from investing activities		**(58,635)**	**109,189**	**100,732**
Cash flows applied to financing activities				
Increase in share capital	8	40,003	-	-
Net increase in wholesale funding		-	-	1,637
Total cash provided from financing activities		**40,003**	**-**	**1,637**
Dividends paid	8	18,764	17,004	30,390
Transaction costs associated with capital raising		522	-	-
Net decrease in wholesale funding		6,916	62,146	-
Total cash applied to financing activities		**26,202**	**79,150**	**30,390**
Net cash flows applied to / (from) financing activities		**13,801**	**(79,150)**	**(28,753)**
Net (decrease) / increase in cash held		**(43,730)**	**(13,312)**	**43,997**
Opening cash and cash equivalents		84,154	37,012	37,012
Cash impact of business acquisition (MARAC Insurance Limited)		-	3,145	3,145
Closing cash and cash equivalents		**40,424**	**26,845**	**84,154**

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

INTERIM STATEMENT OF CASH FLOWS

For the nine months ended 31 March 2017

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

		Unaudited 9 mths to Mar 2017 $000	Unaudited 9 mths to Mar 2016 $000	Audited 12 mths to Jun 2016 $000
Profit for the period		**44,854**	**39,580**	**54,164**
Add non-cash items included in net profit before taxation:				
Depreciation and amortisation expense	3	1,480	1,591	2,153
Depreciation on lease vehicles		3,596	4,360	5,695
Capitalised net interest income		(13,400)	(14,556)	(25,548)
Impaired asset expense	4	10,837	8,652	13,501
Total non-cash items		**2,513**	**47**	**(4,199)**
Add / (less) movements in operating assets and liabilities:				
Finance receivables		(336,740)	(154,469)	(251,734)
Operating lease vehicles		598	108	(254)
Other assets		3,341	(3,064)	(2,446)
Disposal of property, plant and equipment and intangibles		-	132	(322)
Current tax		(588)	(6,553)	(1,125)
Derivative financial instruments revaluation		(1,860)	(826)	(1,338)
Deferred tax (benefit) / expense		(1,320)	1,302	686
Deposits		288,955	80,390	186,120
Other liabilities		1,351	2	(7,534)
Total movements in operating assets and liabilities		**(46,263)**	**(82,978)**	**(77,947)**
Net cash flows from / (applied to) operating activities		**1,104**	**(43,351)**	**(27,982)**

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

Basis of reporting

Reporting entity

The interim financial statements presented are the consolidated financial statements for Heartland Bank Limited (the bank) and its subsidiaries (the banking group).

As at 31 March 2017, Heartland Bank Limited is a listed public company incorporated in New Zealand under the Companies Act 1993, a registered bank under the Reserve Bank of New Zealand Act 1989 and a FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013.

Basis of preparation

The interim financial statements presented here are for the following periods:
- 9 month period ended 31 March 2017 - Unaudited
- 9 month period ended 31 March 2016 - Unaudited
- 12 month period ended 30 June 2016 - Audited

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

These interim financial statements have been prepared on a going concern basis in accordance with historical cost unless stated otherwise. The accounting policies applied by the banking group in these 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 2016.

Certain comparative information has been restated to comply with the current period presentation.

Performance

1 Segmental analysis

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

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

Operating segments

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

Household	Providing both a comprehensive range of financial services to New Zealand families – including term, transactional and savings based deposit accounts together with mortgage lending (residential and reverse mortgage), motor vehicle finance and consumer finance – as well as reverse mortgage lending and other financial services to Australian families.
Business	Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized 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.

Comparative information has been restated to be consistent with the current reporting period.

1 Segmental analysis (continued)

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

	Household	Business	Rural	Admin & Support	Total
	$000	$000	$000	$000	$000
Unaudited - 9 months ended 31 March 2017					
Net interest income	65,313	33,351	21,021	(173)	119,512
Net other income	3,625	1,372	123	1,214	6,334
Net operating income	**68,938**	**34,723**	**21,144**	**1,041**	**125,846**
Selling and administration expenses	11,236	5,986	3,159	32,499	52,880
Profit / (loss) before impaired asset expense and income tax	**57,702**	**28,737**	**17,985**	**(31,458)**	**72,966**
Impaired asset expense	7,786	2,796	255	-	10,837
Profit / (loss) before income tax	**49,916**	**25,941**	**17,730**	**(31,458)**	**62,129**
Income tax expense	-	-	-	17,275	17,275
Profit / (loss) for the period	**49,916**	**25,941**	**17,730**	**(48,733)**	**44,854**
Total assets	1,866,204	968,788	646,428	415,031	**3,896,451**
Total liabilities	-	-	-	3,347,220	**3,347,220**
Unaudited - 9 months ended 31 March 2016					
Net interest income	58,521	30,496	19,454	231	108,702
Net other income	6,116	1,580	100	728	8,524
Net operating income	**64,637**	**32,076**	**19,554**	**959**	**117,226**
Selling and administration expenses	15,194	6,810	3,265	28,280	53,549
Profit / (loss) before impaired asset expense and income tax	**49,443**	**25,266**	**16,289**	**(27,321)**	**63,677**
Impaired asset expense	4,571	3,546	535	-	8,652
Profit / (loss) before income tax	**44,872**	**21,720**	**15,754**	**(27,321)**	**55,025**
Income tax expense	-	-	-	15,445	15,445
Profit / (loss) for the period	**44,872**	**21,720**	**15,754**	**(42,766)**	**39,580**
Total assets	1,671,473	873,726	507,635	336,246	**3,389,080**
Total liabilities	-	-	-	2,903,076	**2,903,076**
Audited - 12 months ended 30 June 2016					
Net interest income	79,320	41,061	26,111	168	146,660
Net other income	6,752	1,921	152	2,076	10,901
Net operating income	**86,072**	**42,982**	**26,263**	**2,244**	**157,561**
Selling and administration expenses	17,995	9,015	4,351	38,511	69,872
Profit / (loss) before impaired asset expense and income tax	**68,077**	**33,967**	**21,912**	**(36,267)**	**87,689**
Impaired asset expense	7,161	3,381	2,959	-	13,501
Profit / (loss) before income tax	**60,916**	**30,586**	**18,953**	**(36,267)**	**74,188**
Income tax expense	-	-	-	20,024	20,024
Profit / (loss) for the year	**60,916**	**30,586**	**18,953**	**(56,291)**	**54,164**
Total assets	1,687,232	907,205	552,461	400,283	**3,547,181**
Total liabilities	-	-	-	3,048,840	**3,048,840**

2 Net interest income

	Unaudited 9 mths to Mar 2017 $000	Unaudited 9 mths to Mar 2016 $000	Audited 12 mths to Jun 2016 $000
Interest income			
Cash and cash equivalents	672	629	771
Investments	6,344	8,303	10,203
Finance receivables	198,190	190,716	254,501
Total interest income	**205,206**	**199,648**	**265,475**
Interest expense			
Retail deposits	64,622	65,934	85,955
Bank and securitised borrowings	19,407	23,907	31,232
Net interest expense on derivative financial instruments	1,665	1,105	1,628
Total interest expense	**85,694**	**90,946**	**118,815**
Net interest income	**119,512**	**108,702**	**146,660**

3 Selling and administration expenses

	Unaudited 9 mths to Mar 2017 $000	Unaudited 9 mths to Mar 2016 $000	Audited 12 mths to Jun 2016 $000
Personnel expenses	29,846	29,875	39,051
Directors' fees	549	592	743
Superannuation	437	520	748
Audit and review of financial statements[1]	331	350	436
Other assurance services paid to auditor[2]	32	23	43
Other fees paid to auditor[3]	114	96	107
Depreciation - property, plant and equipment	1,027	725	1,081
Amortisation - intangible assets	453	866	1,072
Operating lease expense as a lessee	1,582	1,795	2,281
Legal and professional fees	1,332	1,862	2,352
Other operating expenses	17,177	16,845	21,958
Total selling and administration expenses	**52,880**	**53,549**	**69,872**

4 Impaired asset expense

	NOTE	Unaudited 9 mths to Mar 2017 $000	Unaudited 9 mths to Mar 2016 $000	Audited 12 mths to Jun 2016 $000
Non-securitised				
Individually impaired expense		2,839	707	1,072
Collectively impaired expense		6,550	7,197	11,186
Total non-securitised impaired asset expense		**9,389**	**7,904**	**12,258**
Securitised				
Individually impaired (benefit)		-	(9)	(9)
Collectively impaired expense		1,448	757	1,252
Total securitised impaired asset expense		**1,448**	**748**	**1,243**
Total				
Individually impaired expense		2,839	698	1,063
Collectively impaired expense		7,998	7,954	12,438
Total impaired asset expense	13(b)	**10,837**	**8,652**	**13,501**

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

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

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

5 Earnings per share

Basic and diluted earnings were 9c per share for the 9 months to 31 March 2017 (9 months to 31 March 2016: 8c per share; 12 months to 30 June 2016: 11c per share). Basic earnings has been calculated based on the profit for the 9 months to 31 March 2017 of $44,854,000 (9 months to 31 March 2016: $39,580,000; 12 months to 30 June 2016: $54,164,000), and a weighted average number of shares on issue of 488,666,861 (9 months to 31 March 2016: 472,366,780; 30 June 2016: 473,359,905).

Financial Position

6 Finance receivables

	NOTE	Unaudited Mar 2017 $000	Unaudited Mar 2016 $000	Audited Jun 2016 $000
Non-securitised				
Neither at least 90 days past due nor impaired		3,239,069	2,725,629	2,785,927
At least 90 days past due		37,958	18,878	20,070
Individually impaired		21,849	32,760	33,751
Restructured assets		3,628	3,302	3,281
Gross finance receivables		**3,302,504**	**2,780,569**	**2,843,029**
Less provision for impairment		23,276	17,414	19,936
Less fair value adjustment for present value of future losses		4,124	5,289	4,987
Total non-securitised finance receivables		**3,275,104**	**2,757,866**	**2,818,106**
Securitised				
Neither at least 90 days past due nor impaired		178,224	257,668	295,166
At least 90 days past due		2,878	1,803	1,897
Individually impaired		14	13	13
Gross finance receivables		**181,116**	**259,484**	**297,076**
Less provision for impairment		1,448	1,090	1,225
Total securitised finance receivables	17	**179,668**	**258,394**	**295,851**
Total				
Neither at least 90 days past due nor impaired		3,417,293	2,983,297	3,081,093
At least 90 days past due		40,836	20,681	21,967
Individually impaired		21,863	32,773	33,764
Restructured assets		3,628	3,302	3,281
Gross finance receivables		**3,483,620**	**3,040,053**	**3,140,105**
Less provision for impairment		24,724	18,504	21,161
Less fair value adjustment for present value of future losses		4,124	5,289	4,987
Total finance receivables		**3,454,772**	**3,016,260**	**3,113,957**

7 Borrowings

	NOTE	Unaudited Mar 2017 $000	Unaudited Mar 2016 $000	Audited Jun 2016 $000
Deposits		2,572,203	2,177,843	2,282,876
Subordinated bond		3,379	3,378	3,378
Bank borrowings		535,964	408,705	429,304
Securitised borrowings	17	171,516	249,923	284,429
Total borrowings		**3,283,062**	**2,839,849**	**2,999,987**

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

Securitised borrowings held by investors in Heartland ABCP Trust 1 (ABCP Trust) rank equally with each other and are secured over the securitised assets of that trust. Securitised borrowings comprise notes issued by ABCP Trust and drawings under the ABCP Trust's bank facilities. The ABCP Trust has bank facilities of $200 million (March 2016: $350 million; June 2016: $350 million) which mature on 2 February 2018.

The banking group has an Australian bank facility provided by Commonwealth Bank of Australia (CBA bank facility) totalling $600 million, with $456 million drawn (March 2016: $392 million drawn; June 2016: $379 million drawn). The CBA bank facility is secured over the shares in Australian Seniors Finance Pty Limited (ASF) and the assets of the ASF group (comprising ASF, the ASF Settlement Trust and the Seniors Warehouse Trust). The CBA bank facility has a maturity date of 30 September 2019.

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

8 Share capital and dividends

	Unaudited Mar 2017 000	Unaudited Mar 2016 000	Audited Jun 2016 000
Issued shares			
Opening balance	476,469	469,890	469,890
Shares issued during the period	32,860	212	213
Dividend reinvestment plan	3,573	3,711	6,366
Closing balance	**512,902**	**473,813**	**476,469**

On 15 December 2016, the bank issued 13,698,630 fully paid new ordinary shares at $1.46 per share. On 15 March 2017, the bank issued 13,700,681 fully paid new ordinary shares at $1.46 per share. Other shares issued during the period relate to staff share schemes.

Under the dividend reinvestment plan the bank issued 3,573,104 new shares at $1.4766 per share on 7 October 2016 (March 2016: 3,711,076 new shares at $1.1100 per share on 2 October 2015; June 2016: 3,711,076 new shares at $1.1100 per share on 2 October 2015 and 2,655,142 new shares at $1.1980 per share on 5 April 2016).

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

(i) Dividends

The banking group paid total dividends of $24.0 million (5 cents per share) (March 2016: $21.1 million (4.5 cents per share); June 2016: $37.7 million (8 cents per share)).

The banking group declared a dividend of $17.9 million (3.5 cents per share) (March 2016: $16.6 million (4.5 cents per share); June 2016: $nil). This dividend was paid on 7 April 2017.

9 Related party transactions and balances

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

Transactions with key management personnel

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

	Unaudited 9 mths to Mar 2017 $000	Unaudited 9 mths to Mar 2016 $000	Audited 12 mths to Jun 2016 $000
Finance receivables	138	1,434	1,428
Borrowings - deposits	(24,495)	(4,669)	(26,526)
Interest income	5	79	104
Interest expense	(591)	(343)	(460)

10 Fair value

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

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (derived from prices).

- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

(a) Financial instruments measured at fair value

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

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

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

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

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

Derivative items
Interest rate swaps are classified as held for trading and are recognised in the financial statements at fair value. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are determined on the basis of discounted cash flow analysis using observable market prices and adjustments for counterparty credit spreads (Level 2 under the fair value hierarchy).

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

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Unaudited - Mar 17				
Assets				
Investments	273,227	-	11,791	285,018
Finance receivables	-	15,315	-	15,315
Total Assets	**273,227**	**15,315**	**11,791**	**300,333**
Liabilities				
Derivative liabilities held for risk management	-	2,847	-	2,847
Total Liabilities	**-**	**2,847**	**-**	**2,847**
Unaudited - Mar 16				
Assets				
Investments	223,888	-	7,291	231,179
Finance receivables	-	23,518	-	23,518
Derivative assets held for risk management	-	60	-	60
Total Assets	**223,888**	**23,578**	**7,291**	**254,757**
Liabilities				
Derivative liabilities held for risk management	-	6,672	-	6,672
Total Liabilities	**-**	**6,672**	**-**	**6,672**

10 Fair value (continued)

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

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

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

(b) Financial instruments not measured at fair value

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

	Unaudited Total Fair Value Mar 2017 $000	Unaudited Total Carrying Value Mar 2017 $000	Unaudited Total Fair Value Mar 2016 $000	Unaudited Total Carrying Value Mar 2016 $000	Audited Total Fair Value Jun 2016 $000	Audited Total Carrying Value Jun 2016 $000
Financial Assets						
Cash and cash equivalents	40,424	40,424	26,845	26,845	84,154	84,154
Finance receivables	3,249,309	3,259,789	2,730,268	2,734,348	2,792,936	2,796,222
Finance receivables - securitised	180,462	179,668	259,959	258,394	297,371	295,851
Other financial assets	3,364	3,364	6,600	6,600	5,452	5,452
Total financial assets	**3,473,559**	**3,483,245**	**3,023,672**	**3,026,187**	**3,179,913**	**3,181,679**
Financial Liabilities						
Borrowings	3,116,230	3,111,546	2,604,776	2,589,926	2,727,417	2,715,558
Borrowings - securitised	171,516	171,516	249,923	249,923	284,429	284,429
Other financial liabilities	36,457	36,457	36,060	36,060	21,995	21,995
Total financial liabilities	**3,324,203**	**3,319,519**	**2,890,759**	**2,875,909**	**3,033,841**	**3,021,982**

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

Risk Management

11 Risk management policies

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

12 Concentrations of credit risk to individual counterparties

At 31 March 2017 the banking group did not have any period end or peak end-of-day credit exposures over 10% of equity to individual counterparties (not being members of groups of closely related counterparties) or groups of closely related counterparties (excluding central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or any bank with a long-term credit rating of A- or A3 or above, or its equivalent, and connected persons).

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

13 Asset quality

Asset quality of finance receivables

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

Corporate

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

	Corporate		Residential	All Other	Total
	Rural	Other			
	$000	$000	$000	$000	$000
(a) End of period balances					
Unaudited - Mar 2017					
Gross impaired assets					
Individually impaired	1,054	20,809	-	-	21,863
Restructured	50	813	-	2,765	3,628
Total impaired assets	**1,104**	**21,622**	**-**	**2,765**	**25,491**
Provision for individually impaired assets	1,108	5,169	270	408	6,955
Net impaired assets	**(4)**	**16,453**	**(270)**	**2,357**	**18,536**
Provision for collectively impaired assets	**3,643**	**6,036**	**3,560**	**4,530**	**17,769**
At least 90 days past due but not impaired	**17,306**	**11,554**	**598**	**11,378**	**40,836**

(b) Charges to Interim Statement of Comprehensive Income

	Rural	Other	Residential	All Other	Total
Unaudited - 9 months ended 31 Mar 2017					
Individually impaired assets expense	496	2,073	270	-	2,839
Collectively impaired assets expense	393	995	516	6,094	7,998
Total impaired asset expense	**889**	**3,068**	**786**	**6,094**	**10,837**

14 Liquidity risk

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

	Unaudited Mar 2017 $000
Cash and cash equivalents	40,424
Investments	273,227
Undrawn committed bank facilities	28,484
Total liquidity	**342,135**

Undrawn committed bank facilities relates to the securitised bank facility totalling $200 million (March 2016: $350 million; June 2016: $350 million) in relation to the ABCP Trust maturing on 2 February 2018.

Other Disclosures

15 Capital adequacy

(a) Capital Ratios

	Unaudited Mar 2017 %
Capital ratios compared to minimum ratio requirements	
Common Equity Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.15%
Minimum Common Equity Tier 1 Capital as per Conditions of Registration	4.50%
Tier 1 Capital expressed as a percentage of total risk weighted exposures	13.15%
Minimum Tier 1 Capital as per Conditions of Registration	6.00%
Total Capital expressed as a percentage of total risk weighted exposures	13.19%
Minimum Total Capital as per Conditions of Registration	8.00%
Buffer ratio	5.15%
Buffer ratio requirement	2.50%

(b) Capital

	Unaudited Mar 2017 $000
Tier 1 Capital	
Common Equity Tier 1 Capital	548,694
Less deductions from Common Equity Tier 1 Capital	(75,199)
Total Common Equity Tier 1 Capital	**473,495**
Additional Tier 1 Capital	-
Total Tier 1 Capital	**473,495**
Tier 2 Capital	
Subordinated Bond	970
Foreign Currency Translation Reserve	537
Less deductions from Tier 2 Capital	-
Total Capital	**475,002**

15 Capital adequacy (continued)

(c) Pillar 1 capital requirements

	Pillar 1 capital requirement $000
Unaudited - Mar 2017	
On balance sheet exposures	
Residential mortgages (including past due)	37,527
Non property investment mortgage loan	2,256
Property investment mortgage loan	829
Corporate	-
Public sector entities	1,214
Multilateral development banks and other international organisations	983
Claims on banks	2,813
Other	206,111
Total on balance sheet exposures	**251,733**
Other capital requirements	
Off balance sheet credit exposures	6,708
Operational risk	16,793
Market risk	12,858
Total other capital requirements	**36,359**
Total Pillar 1 capital requirement	**288,092**

(d) Additional mortgage information

	On balance sheet exposures $000	Off balance sheet exposures $000	Total exposures $000
Unaudited - Mar 2017			
Residential mortgages by loan to value ratio (LVR):			
Does not exceed 80%	952,860	1,387	954,247
Exceeds 80% and not 90%	14,313	-	14,313
Exceeds 90% [1]	21,986	163	22,149
Total exposures	**989,159**	**1,550**	**990,709**

In the nine months to 31 March 2017, the bank has no new mortgage lending in respect of property-investment residential mortgage loans with an LVR of more than 60%.

(e) Other material risks

In addition to the material risks included in the calculation of the capital ratios, the banking group has identified other material risks to be included in the capital allocation (being concentration risk, strategic / business risk, reputational risk, regulatory and model risk). As at 31 March 2017, the banking group has made an internal capital allocation of $99.2 million (March 2016: $64.0 million) to cover these risks.

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

Insurance business

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

The banking group's aggregate amount of insurance business comprises the total consolidated assets of MARAC Insurance of $8.3 million, which is 0.21% of the total consolidated assets of the banking group.

Marketing and distribution of insurance products

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

Securitisation, funds management and other fiduciary activities

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

[1] Of the balance of "Exceeds 90%" above, $3.3 million relates to Welcome Home loans, whose credit risk is mitigated by the Crown.

17 Structured entities

(a) *Heartland Cash and Term PIE Fund*

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

	Unaudited Mar 2017 $000	Unaudited Mar 2016 $000	Audited Jun 2016 $000
Deposits	88,038	72,298	80,527

(b) *Heartland ABCP Trust 1*

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

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

	Unaudited Mar 2017 $000	Unaudited Mar 2016 $000	Audited Jun 2016 $000
Cash and cash equivalents - securitised	18,292	15,672	15,208
Finance receivables - securitised	179,668	258,394	295,851
Borrowings - securitised	(171,516)	(249,923)	(284,429)
Derivative financial liabilities - securitised	(1,299)	(3,329)	(2,833)

During the quarter ended 31 March 2017, the bank facility in relation to ABCP Trust was reduced by $150m and $94m of finance receivables were sold from ABCP Trust to the bank.

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

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

	Unaudited Mar 2017 $000	Unaudited Mar 2016 $000	Audited Jun 2016 $000
Cash and cash equivalents	11,538	4,681	2,503
Finance receivables	512,896	447,550	434,688
Borrowings	(456,482)	(392,423)	(379,299)
Derivative financial liabilities	(887)	(2,510)	(2,083)

18 Contingent liabilities and commitments

	Unaudited Mar 2017 $000	Unaudited Mar 2016 $000	Audited Jun 2016 $000
Letters of credit, guarantee commitments and performance bonds	11,671	12,156	12,873
Total contingent liabilities	**11,671**	**12,156**	**12,873**
Undrawn facilities available to customers	79,287	139,156	147,903
Conditional commitments to fund at future dates	126,882	126,500	114,855
Total commitments	**206,169**	**265,656**	**262,758**

As at 31 March 2017 there are no undrawn lending commitments to counterparties for whom drawn balances are classified as individually impaired (March 2016: nil; June 2016: nil).

19 Events after the reporting date

On 7 April 2017 the bank issued 2,000 subordinated unsecured convertible notes (Notes) with a nominal value of A$10,000 per Note. Approximately 72% of the face value of these Notes will be recognised as Tier 2 Capital, a type of regulatory capital, in April 2017.

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